

BASE PROSPECTUS

US\$4,000,000,000
Central American Bank for Economic Integration
Medium-Term Note Program

Under its Medium-Term Note Program (the “Program”), Central American Bank for Economic Integration (“CABEI”) may from time to time issue its Medium-Term Notes (the “Notes”) as specified in a supplement to this Base Prospectus (a “Final Terms”). The aggregate principal amount of all Notes will not exceed US\$4,000,000,000 (or the equivalent thereof in other currencies or composite currencies), subject to increase.

The terms of the Notes, which in each case will be specified in a Final Terms, may differ from those described herein. Notes may be denominated in U.S. dollars, Japanese ¥, euro, a currency of a Founding Member (as defined below), or other currencies or composite currencies, as specified in the applicable Final Terms. If Notes are to be denominated in a composite currency, the applicable Final Terms will establish the mechanism for determining the value of such composite currency. Any date of payment or amount payable in respect of principal, interest or premium payable on the Notes may be determined by reference to specified currency, security, commodity, interest rate and/or other indices or formulas and/or other measures, instruments or events as specified in the relevant Final Terms. Subject to certain exceptions, payments on the Notes will be made without deduction for, or on account of, any withholding taxes imposed by or within the Founding Members. See “Terms and Conditions of the Notes—Additional Amounts”.

Interest on fixed rate notes and floating rate notes will be payable on the dates specified in the applicable Final Terms and at maturity. Zero coupon notes generally will not bear interest. Unless otherwise specified in the applicable Final Terms, Notes will not be subject to redemption at the option of CABEI.

See “Investment Considerations” beginning on page 11 of this Base Prospectus for a discussion of certain factors to be considered in connection with an investment in the Notes.

Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange for trading on the Euro MTF market. Notes issued under the Program may be listed on one or more stock exchanges or may be unlisted as specified in the applicable Final Terms. This Base Prospectus replaces and supersedes the Base Prospectus dated October 21, 2013. This Base Prospectus is valid for a period of one year (12 months) from the date hereof.

This Base Prospectus does not comprise a base prospectus for the purposes of Article 5(4) of the Prospectus Directive 2003/71/EC (as amended). Pursuant to Article 1(2)(b) of the Prospectus Directive, no offer of the Notes will be subject to the prospectus requirements of the Prospectus Directive as a result of CABEI’s status as a public international body of which one or more Member States of the European Economic Area is a member.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and are being offered and sold in the United States only to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. For a description of certain restrictions on transfers of the Notes, see “Terms and Conditions of the Notes”, “Offering and Sale” and “Notice to Investors”.

Offers to purchase Notes may be solicited, on a reasonable efforts basis, from time to time on behalf of CABEI by the Agents referred to in “Offering and Sale”. Notes also may be sold to the Agents for their own account at negotiated discounts or commissions for resale to other purchasers. CABEI reserves the right to sell Notes directly on its own behalf in certain circumstances or to or through other brokers or dealers. CABEI reserves the right to withdraw, cancel or modify the offering of the Notes contemplated hereby without notice. No termination date for the offering of the Notes has been established. CABEI or any Agent may reject any offer made to or through it in whole or in part. See “Offering and Sale”.

You should rely only on the information contained or incorporated by reference in this Base Prospectus. CABEI has not authorized anyone to provide you with different information. CABEI is not making an offer of the Notes in any state where the offer is not permitted. You should not assume that the information contained in this Base Prospectus is accurate as of any date other than the date on the front of this Base Prospectus.

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CABEI has made all reasonable inquiries and confirms that, to the best of its knowledge, the information contained herein with regard to CABEI and the Notes is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Base Prospectus are honestly held and that there are no other facts the omission of which would make this Base Prospectus as a whole or any of the information or the expression of any of these opinions or intentions misleading. CABEI accepts responsibility accordingly.

This Base Prospectus has been prepared by CABEI solely for use in connection with the proposed offering of the Notes.

The Agents make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus. Nothing contained in this Base Prospectus is, or shall be relied

upon as, a promise or representation by the Agents as to the past or future. The Agents assume no responsibility for the accuracy or completeness of any of the information contained herein (financial, legal or otherwise).

Neither the U.S. Securities and Exchange Commission, any state securities commission nor any other U.S. regulatory authority, has approved or disapproved the Notes, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Base Prospectus. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective investors must rely on their own examination of CABEI and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this Base Prospectus as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

This Base Prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information and all such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to CABEI or the Agents. CABEI accepts responsibility for the information contained in this Base Prospectus and it takes the responsibility for the correct reproduction and extraction of the information.

The distribution of this Base Prospectus and the offering and sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by CABEI and the Agents to inform themselves about, and to observe, any such restrictions. For a further description of certain restrictions on the offering and sale of the Notes, see “Terms and Conditions of Notes”, “Offering and Sale” and “Notice to Investors”. This Base Prospectus does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Base Prospectus, as completed by the final terms in relation thereto, is for distribution only to persons who: (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”); (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order; (iii) are outside the United Kingdom; or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This Base Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Base Prospectus relates, as completed by the Final Terms in relation thereto, is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by a Final Terms may only do so: (i) in circumstances in which no obligation arises for CABEI or any Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State, such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and CABEI has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither CABEI nor any Agent have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for CABEI or any Agent to publish or supplement a prospectus for such offer. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- any interim financial statements of CABEI (whether audited or unaudited) that become publicly available subsequent to the annual and interim financial statements included herein from time to time; and
- all amendments and supplements to this Base Prospectus prepared by CABEI from time to time and filed with the Luxembourg Stock Exchange;

provided, however, that any statement contained in this Base Prospectus or in any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The documents incorporated by reference in, and forming part of, this Base Prospectus, except for future filings, may be obtained free of charge at the offices of the Luxembourg listing and paying agent and are also available through the Luxembourg Stock Exchange’s website at <http://www.bourse.lu>. CABEI’s audited financial statements as of December 31, 2013 and December 31, 2012 are included in this Base Prospectus.

CABEI has undertaken, in connection with the listing of the Notes on the Luxembourg Stock Exchange, that if there shall occur any adverse change in the business or financial position of CABEI or any change in the information set out under “Terms and Conditions of the Notes” that is material in the context of issuance under the Program, CABEI will prepare or procure the preparation of any amendment or supplement to this Base Prospectus for use in connection with any subsequent issue by CABEI of Notes to be listed on the Luxembourg Stock Exchange.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

As a multilateral organization, CABEI is a legal entity under public international law. The majority of its assets and those of its governors, directors and executive officers, all of whom are non-residents of the United States, are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States on CABEI or on such persons with respect to matters arising under U.S. federal securities laws, or to enforce in the Member Countries (as defined below) judgments obtained against CABEI or such persons in U.S. courts, including actions predicated upon the civil liability provisions of such U.S. federal securities laws. In the Member Countries, both recognition and enforcement of court judgments with respect to civil liability provisions of U.S. federal securities laws are governed by local laws.

CABEI has appointed CT Corporation System as its authorized agent upon which process may be served in any action instituted in any U.S. federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, arising out of or based upon the fiscal agency agreement governing the Notes. See “Terms and Conditions of the Notes—Jurisdiction, Consent to Service and Enforceability”.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including statements regarding future events or prospects and certain statements under the headings “Summary”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” are forward-looking statements. Statements that include the words “aim”, “may”, “will”, “expect”, “anticipate”, “believe”, “future”, “continue”, “hope”, “estimate”, “plan”, “intend”, “should”, “shall” or the negative or other variations thereof, as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. CABEI has based these forward-looking statements on management’s current views with respect to future events and financial performance. These views reflect the best judgment of CABEI’s executives, but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in CABEI’s forward-looking statements and from past results, performance or achievements. Important factors that could cause CABEI’s actual results to differ materially from those in the forward-looking statements include, among others:

- CABEI’s business could be affected by future adverse economic or political conditions in the Founding Members as well as in the Beneficiary Countries once such countries are eligible to borrow from CABEI. See “Capital Structure-Non-Regional Members and Beneficiary Countries”; and
- CABEI could be adversely affected by currency devaluations, exchange controls or any ratings downgrade.

PRESENTATION OF FINANCIAL INFORMATION

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

CABEI prepares its financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”).

Figures set forth in this Base Prospectus may have been rounded. Accordingly, totals may not be the sum of their components.

SUMMARY

The Notes will be offered from time to time in varying amounts and will have varying terms, which for each Note will be described in the related Final Terms to this Base Prospectus and may differ from the terms described herein. For each particular Note, the description of the Notes included in this Base Prospectus will be supplemented, and to the extent inconsistent herewith will be superseded, by the description of such Note in the applicable Final Terms.

Issuer	Central American Bank for Economic Integration.
Fiscal Agent, Registrar and Transfer Agent	Deutsche Bank Trust Company Americas.
New York Paying Agent.....	Deutsche Bank Trust Company Americas.
London Paying and Transfer Agent.....	Deutsche Bank AG London.
Luxembourg Paying Agent and Transfer Agent	Deutsche Bank Luxembourg S.A.
Luxembourg Listing Agent.....	Banque Internationale à Luxembourg, Société Anonyme.
Aggregate Amount	Not to exceed an aggregate initial principal amount of US\$4,000,000,000 (or the equivalent thereof in other currencies or composite currencies), subject to increase by CABEI as provided in the Fiscal Agency Agreement (as defined below).
Fiscal Agency Agreement.....	The Notes will be issued under the Fiscal Agency Agreement, dated as of April 2, 2003, as amended on March 8, 2007, April 15, 2009 and October 17, 2013 (the “Fiscal Agency Agreement”), among CABEI and Deutsche Bank Trust Company Americas, as Fiscal Agent, Registrar and Transfer Agent and New York Paying Agent, Deutsche Bank Luxembourg S.A., as Paying Agent and Transfer Agent in Luxembourg, and Deutsche Bank AG London, as Paying Agent and Transfer Agent in London.
The Offering	Notes are being offered to non-U.S. persons (as defined in Regulation S under the Securities Act) in offshore transactions in reliance on Regulation S, and in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act.
Minimum Denominations	Registered Notes (as herein defined) will be issued in minimum denominations of US\$10,000 and integral multiples of US\$1,000 in excess thereof (or the equivalent thereof in a Specified Currency, as defined below), or in such other denominations as may be specified in the applicable Final Terms. Bearer Notes (as herein defined) will be issued in denominations as specified in the applicable Final Terms. Unless otherwise permitted by then current laws, regulations and directives, Notes denominated in Japanese ¥ will be in minimum denominations of ¥1,000,000.
Maturities.....	Subject to compliance with all relevant laws, regulations and directives, Notes may have any maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body, however called) or any laws or regulations applicable to the relevant currency or currencies.

Issue Price.....	Notes may be issued at their nominal amount or at a discount to or premium to their nominal amount, as specified in the relevant Final Terms.
Specified Currencies.....	Notes may be denominated in U.S. dollars, Japanese ¥, euro, a currency of a Founding Member, or any other currency or composite currencies as may be specified in the applicable Final Terms, subject in all cases to compliance with all applicable legal and regulatory requirements as well as all applicable requirements of the Luxembourg Stock Exchange.
Issuance in Series.....	The Notes will be issued in series (each, a “Series”). The Notes of each Series will have identical terms (except for the issue date, the issue price or the first interest payment date), including, but not limited to, terms with respect to currency, denomination, interest, interest payment dates, and maturity.
Interest Rates and Other Terms	Interest, if any, will be paid at a fixed rate or at a floating rate determined by reference to one or more Base Rates (as defined below), which may be adjusted by a Spread and/or a Spread Multiplier, as specified in the applicable Final Terms. Zero Coupon Notes will be issued at a discount from the principal amount payable at maturity thereof, and, unless otherwise specified in the applicable Final Terms, holders of Zero Coupon Notes will not receive periodic payments of interest thereon. The Notes may also be issued as Indexed Notes, any date of payment of which, and/or the principal of and any premium and interest on which, may be determined by reference to specified currency, security, commodity, interest rate and/or other indices or formulas and/or other measures, instruments or events as specified in the applicable Final Terms.
Interest Payments.....	Interest on Fixed Rate Notes and Floating Rate Notes will be paid semi-annually on the dates set forth in the applicable Final Terms and at maturity. Zero Coupon Notes generally will not bear interest.
Taxation.....	Subject to certain limitations, all payments in respect of the Notes will be made without deduction for, or on account of, any withholding taxes imposed by or within the Founding Members, as provided in the Notes, except as otherwise required by law. Subject to specified exceptions and limitations, CABEI will pay Additional Amounts in the event of the imposition of such taxes. See “Terms and Conditions of the Notes—Additional Amounts”.
Negative Pledge	The Notes will have the benefit of a Negative Pledge as described in “Terms and Conditions of the Notes—Negative Pledge”.
Redemption.....	The Notes will not be redeemable at the option of CABEI prior to maturity, except as otherwise specified in the applicable Final Terms. The Notes will not be redeemable at the option of the holders thereof, except as otherwise specified in the applicable Final Terms.
Status of Notes.....	The Notes will constitute general, direct, unconditional, unsecured and unsubordinated obligations of CABEI and will rank <i>pari passu</i> without any preference among themselves with

all other present and future unsecured and unsubordinated indebtedness of CABEL. See “Terms and Conditions of the Notes—Status”.

Form, Denomination and Registration of Notes.

Notes may be issued in registered form, without interest coupons (“Registered Notes” or a “Registered Note”), or in bearer form, with or without interest coupons (“Bearer Notes” or a “Bearer Note”).

Except as otherwise may be specified in the applicable Final Terms, Bearer Notes will initially be represented only in the form of one or more temporary Bearer Notes in global form without interest coupons attached (each, a “Temporary Global Bearer Note”), which will be deposited with a common depositary in London for the accounts of Euroclear System (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). Interests in a Temporary Global Bearer Note will be exchangeable, in whole or in part, for interests in a permanent global Bearer Note (a “Global Note”) on or after the Exchange Date (as defined below) therefor, and after the requisite certifications as to non-U.S. beneficial ownership have been provided as described herein. Such certification will also be required before any interest will be paid in respect of any such beneficial interest. Interests in a Temporary Global Bearer Note or Global Note will only be exchangeable for definitive Bearer Notes if so specified in the relevant Final Terms and in accordance with the terms of the relevant Temporary Global Bearer Note or Global Note. See “Certain Provisions Relating to the Forms of the Notes—Global Notes”.

Except as otherwise may be specified in the applicable Final Terms, Registered Notes of the same Series and of like tenor sold in offshore transactions in reliance on Regulation S will be represented by a Registered Note in global form (a “Regulation S Global Note”), which will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company (“DTC”) in New York, New York or a common depositary in London, in each case for the accounts of the Euroclear and Clearstream, Luxembourg. Prior to the 40th day after the completion of the distribution (as certified to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche (the “Exchange Date”), beneficial interests in the related Regulation S Global Note may be held only by non-U.S. persons, unless transfer and delivery are made through a Restricted Global Note (as defined below) of the same Series and of like tenor in accordance with the requirements referred to below.

Except as otherwise may be specified in the applicable Final Terms, Registered Notes of the same Series and of like tenor that are sold to a qualified institutional buyer within the meaning of Rule 144A under the Securities Act will be represented by a Registered Note in global form (a “Restricted Global Note”), which will be deposited with a custodian for and registered in the name of a nominee of DTC in New York, New York.

Euroclear, Clearstream, Luxembourg or DTC, as the case may be, will credit the account of each of its participants with the principal amount of Notes that are represented by a Regulation S Global Note or a Restricted Global Note and are being purchased by or through such participant. Beneficial interests in any such Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Euroclear and Clearstream, Luxembourg. Except in limited circumstances, definitive Notes will not be issued in exchange for beneficial interests in any such Global Note. See “Certain Provisions Relating to the Forms of the Notes—Global Notes”.

A holder of a beneficial interest in a Global Note deposited with DTC that wishes to transfer such interest in reliance upon an exemption from the registration requirements of the Securities Act other than the exemption provided by Rule 144A, Regulation S or Rule 144 (if available) may be required under applicable DTC procedures to exchange such interest for a definitive Note prior to transfer. In particular, under DTC procedures currently in effect, DTC does not permit a holder of a Note that is not a qualified institutional buyer as defined under Rule 144A to hold its interest in a Restricted Global Note (as defined below) through DTC.

Each Restricted Global Note will bear a Securities Act legend. Neither any Restricted Global Note nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in such legend. In addition, no beneficial interest in a Restricted Global Note may be transferred to a person that takes delivery thereof through a Regulation S Global Note of the same Series and of like tenor unless the transferor provides the Registrar (as named in “Terms and Conditions of the Notes—General”) with a written certification regarding compliance with certain of such transfer restrictions. A transfer of a beneficial interest in a Regulation S Global Note to a person that takes delivery through a Restricted Global Note of the same Series and of like tenor, if (but only if) made prior to the applicable 40th day referred to above, also requires certification as to compliance with certain transfer restrictions. See “Notice to Investors”, “Terms and Conditions of the Notes—Form, Denomination and Registration” and “Offering and Sale”.

Events of Default	For a description of certain events that will permit acceleration of the principal of the Notes of a particular Series (together with any interest and Additional Amounts accrued and unpaid thereon), see “Terms and Conditions of the Notes—Default; Acceleration of Maturity”.
Settlement	Unless otherwise stated in the applicable Final Terms, settlement for each sale of a Note will be made in immediately available funds five Business Days (as defined below) after the applicable trade date.
Governing Law	The Notes will be governed by, and interpreted in accordance with, the laws of the State of New York.

Selling Restrictions.....	There are restrictions on the sale of Notes and the distribution of offering material in various jurisdictions. See “Offering and Sale”.
Transfer Restrictions.....	There are restrictions on the transfer of Registered Notes sold pursuant to Rule 144A or Regulation S under the Securities Act. See “Notice to Investors”.
Clearing Systems	Euroclear and Clearstream, Luxembourg for Bearer Notes; Euroclear, Clearstream, Luxembourg and DTC for Registered Notes; or any other clearing system as may be specified in the relevant Final Terms.
Listing.....	Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange for trading on the Euro MTF market. Notes issued under the Program may be listed on one or more stock exchanges or may be unlisted as specified in the relevant Final Terms. This Base Prospectus is valid for a period of one year (12 months) from the date hereof.
Final Terms.....	Each particular issuance of Notes will be the subject of a Final Terms that, for the purposes of that issuance only, supplements the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular issuance of Notes are the Terms and Conditions of the Notes as supplemented, amended or replaced by the relevant Final Terms.

INVESTMENT CONSIDERATIONS

CABEI's financial condition, results of operations and ability to repay the Notes could be adversely affected by adverse economic or political conditions in the Founding Members and Beneficiary Countries.

CABEI's loans receivable are and will be the direct or guaranteed obligations of public and private sector obligors located in the Founding Members (see "Central American Bank for Economic Integration") or any country that is or becomes a Beneficiary Country (see "Capital Structure—Non-Regional Members and Beneficiary Countries"). The ability of such obligors to repay those loans is and will be substantially dependent on economic and political conditions prevailing from time to time in the countries of their respective residences. Accordingly, adverse economic or political conditions in the Founding Members and the Beneficiary Countries may adversely affect the ability of CABEI's public and private sector obligors to meet their payment obligations to CABEI which may in turn have an adverse effect on CABEI's financial condition, results of operations and ability to make payments on the Notes when due.

CABEI could be adversely affected by exchange controls or currency devaluations.

CABEI's loans are predominantly denominated in U.S. dollars. Some of its borrowers, however, do not or may not generate U.S. dollars, or have or may have limited access to U.S. dollars. Therefore, the ability of such borrowers to repay their loans in U.S. dollars is dependent on the availability of U.S. dollars at the central bank of the country in which they are located and on such borrowers generating sufficient local currency to purchase the U.S. dollars that are so available. CABEI cannot give any assurances that such country would not impose exchange controls or devalue its currency in a manner that would adversely affect the ability of CABEI's borrowers to repay their loans, or that such potential failure to repay would not adversely affect CABEI's financial condition and results of operations or its ability to make payments on the Notes when due.

The market price of the Notes could be affected by political, economic, social and other developments in emerging market countries.

The Founding Members, certain actual and potential Non-Regional Members and certain actual and potential Beneficiary Countries are generally considered by international investors to be "emerging market countries". From time to time, adverse economic developments, such as the Mexican peso devaluation in 1994, have led to a general decline in trading prices of securities of issuers located in Latin America and other emerging market countries, including securities similar to the Notes, due to investors' generalized concerns about the region or about emerging market countries. In addition, the impact of hostilities or political unrest in other emerging market countries could affect international trade, commodity prices and general conditions in those countries. As a result, political, economic, social and other developments in other emerging market countries could have an adverse economic effect on the market value and liquidity of the Notes.

It may be difficult to enforce civil liabilities against CABEI or its directors and executive officers.

As a multilateral organization, CABEI is a legal entity under public international law. The majority of its assets and those of its governors, directors and executive officers, all of whom are non-residents of the United States, are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States on CABEI or on such persons with respect to matters arising under U.S. federal securities laws, or to enforce outside the United States judgments obtained against CABEI or such persons in U.S. courts, including actions predicated upon the civil liability provisions of such U.S. federal securities laws. In the Member Countries and in potential Non-Regional Member Countries and potential Beneficiary Countries, both recognition and enforcement of court judgments with respect to civil liability provisions of U.S. federal securities laws are solely governed by local laws.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Central American Bank for Economic Integration, CABEI, was established in 1960 as a legal entity under public international law pursuant to the *Convenio Constitutivo del Banco Centroamericano de Integración Económica*, dated December 13, 1960 (as amended, the “Constitutive Agreement”), an international treaty among the Republics of Guatemala, El Salvador, Honduras and Nicaragua. The Republic of Costa Rica became a party to the Constitutive Agreement in 1963.

CABEI’s mission, as set forth in its Constitutive Agreement, is to promote the economic integration and balanced economic development of the Central American countries and the economic integration of Beneficiary Countries with the Central American countries. Its principal business activity consists of making loans, predominantly denominated in U.S. dollars, to public and private sector borrowers in the Founding Members in furtherance of its mission. CABEI is also authorized by virtue of amendments to its Constitutive Agreement and internal regulations to make loans to public and private sector borrowers in any country (including a Non-Regional Member) that becomes a Beneficiary Country following compliance with the procedures established by CABEI as a condition to becoming a Beneficiary Country. See “Capital Structure—Non-Regional Members and Beneficiary Countries”.

CABEI also invests in funds that make debt or equity investments in public and private sector entities principally in the Founding Members and is responsible for implementing various development programs in the Founding Members. CABEI views its fund investment activities as a minor portion of its overall business and does not foresee any significant increase in such activities in the future.

CABEI’s headquarters is located in Tegucigalpa, M.D.C. Honduras, C.A. and it maintains country offices in each of the Founding Members.

The Constitutive Agreement provides that CABEI’s Board of Governors (the “Board of Governors”) is CABEI’s highest authority and that CABEI’s Board of Directors (the “Board of Directors”) is responsible for setting the policies and directing the business of CABEI.

CABEI obtains funds for its operations from a number of sources, including banks, multilateral financial institutions and purchasers of its certificates of deposit, U.S. commercial paper and privately and publicly placed debt securities. See “Business—Financial Debt”.

CABEI’s obligations are not guaranteed by the present Member Countries and will not be guaranteed by any future Non-Regional Members or Beneficiary Countries nor are they in any other manner responsible for those obligations.

CABEI does not have any subsidiaries.

LEGAL STATUS OF CABEL

CABEL is a legal entity under public international law created under the Constitutive Agreement. It has its own legal personality, which permits it to enter into contracts, acquire and dispose of property and take legal action. The Constitutive Agreement has been ratified by the legislature in each of the Founding Members.

CABEL has been granted the following privileges and immunities in the territory of the Member Countries:

- CABEL's assets and property are immune from confiscation, seizure, attachment, detention, auction, adjudication or any other form of seizure or taking in the absence of final judgment;
- CABEL's assets and property are considered public international property and are immune from search, requisition, confiscation, expropriation or any other form of seizure or taking by executive or legislative action and free from restrictions, regulations, controls or moratoria of any nature;
- CABEL, its income, property and other assets, as well as the operations and transactions it carries out pursuant to the Constitutive Agreement, are exempt from taxation and from all customs duties or other charges of a similar nature imposed by Member Countries and are not subject to regulation by the central banks of the Member Countries (including reserve requirements and restrictions on convertibility and transferability of currency); and
- No tax or lien may be levied on any obligation or security issued by CABEL, including any dividend or interest thereon.

CABEL will be granted at least the same privileges and immunities in the territory of any country that becomes a Non-Regional Member or a Beneficiary Country.

ADJUSTED RATIO OF EARNINGS TO FIXED CHARGES

The following table shows CABEL's adjusted ratio of earnings to fixed charges for the fiscal years ended December 31, 2013, 2012 and 2011.

Fiscal year ended December 31,		
2013	2012	2011
1.59	1.47	1.54

In the calculation of the adjusted ratios of earnings to fixed charges, "earnings" consist of the sum of the following:

- financial income, and
- other non-interest income.

"Fixed charges" consist of the sum of the following:

- financial expense,
- provision for loan losses, and
- operating expense other than Special Projects (includes administrative expense and other non-interest expense). "Special Projects" means amounts granted to private and public sector institutions that are recorded as expenses in the period granted.

USE OF PROCEEDS

CABEI intends to use the net proceeds from the sale of the Notes for general purposes in the ordinary course of its business.

CAPITALIZATION

The following table sets forth the capitalization of CABEI at December 31, 2013. Except as disclosed herein, there has been no material change in CABEI's capitalization since that date. This table should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements of CABEI included in this Base Prospectus.

	December 31, 2013
	(in thousands of U.S. dollars)
Debt	
Loans payable	1,158,260
Commercial paper programs	284,894
Bonds payable	3,199,154
Total debt ⁽¹⁾	4,642,308
Equity	
Paid-in capital	620,031
Special capital contributions	7,250
Accumulated other comprehensive income	(10,441)
Retained earnings	118,189
General reserve	1,532,866
Total equity	2,267,895
Total ⁽¹⁾	6,910,203

(1) Excludes certificates of deposit and certificates of investment totaling approximately US\$384.523 million as of December 31, 2013.

CAPITAL STRUCTURE

General

CABEI was established in 1960 as a legal entity under public international law pursuant to the *Convenio Constitutivo del Banco Centroamericano de Integración Económica*, dated December 13, 1960 (as amended, the “Constitutive Agreement”), an international treaty among Guatemala, El Salvador, Honduras and Nicaragua. Costa Rica became a party to the Constitutive Agreement in 1963. At December 31, 2013, these five countries (collectively, the “Founding Members”) owned 51% of the authorized capital of CABEI.

The balance of CABEI’s subscribed and Paid-in Capital, amounted to US\$3,959.5 million and US\$620.0 million, respectively, at December 31, 2013, and is owned by CABEI’s Founding Members and the United Mexican States, the Republic of China (Taiwan), the Republic of Argentina, the Republic of Colombia, and the Kingdom of Spain (collectively, the “Non-Regional Members”), and the Republic of Panama and the Dominican Republic (collectively, the “Non-Founding Regional Members” and together with the Founding Members and Non-Regional Members, the “Member Countries”).

On September 15, 2012, several amendments to CABEI’s Constitutive Agreement came into effect, which modified CABEI’s capital structure and, since October 16, 2012, CABEI’s authorized capital increased from US\$2,000 million to US\$5,000 million, of which US\$2,550.0 million is held by the Founding Members and US\$2,450.0 million is held by the Non-Founding Regional Members and Non-Regional Members. CABEI’s outstanding shares are structured into two main series: Series “A” shares, which are available only to the Founding Members, composed of up to 255,000 shares, each with a face value of US\$10 thousand; and Series “B” shares, which are available only to Non-Founding Regional Members and Non-Regional Members, composed of up to 245,000 shares, each with a face value of US\$10 thousand.

As of December 31, 2013, the Founding Members have subscribed for US\$2,550.0 million from the total amount of shares into equal parts, and the Non-Founding Regional Members and Non-Regional Members have subscribed for US\$1,409.5 million; the remaining US\$1,040.6 million is available for subscription.

Series “E” certificates are also issued to Series “A” and Series “B” shareholders, each with a face value of US\$10 thousand, to recognize the retained earnings attributable to their capital contributions to CABEI. These certificates do not grant voting rights and may not be transferred. Series “E” certificates may be used by Series “A” and “B” shareholders to pay, in whole or in part, amounts due for the subscription of new shares of non-subscribed authorized capital stock made available by CABEI. Series “E” certificates not used to subscribe for new shares of stock will become part of CABEI’s general reserve.

CABEI’s Constitutive Agreement requires that Callable Capital be the equivalent of 75% Subscribed Capital. The Constitutive Agreement also requires that the Member Countries, at CABEI’s request when authorized by the Board of Governors, pay all or a portion of their Callable Capital to CABEI when needed to satisfy obligations of CABEI in respect of indebtedness incurred or guaranties issued by CABEI. Such payments would be required to be made ratably in accordance with the Member Countries’ Callable Capital and pursuant to a schedule determined by the Board of Governors.

While CABEI has never requested that the Member Countries pay part or all of their Callable Capital and has no current plans to do so as it expects to service its indebtedness and guaranties without needing to make such a request.

The following table sets forth CABEL's capital structure as of December 31, 2013.

Capital of CABEL

	December 31, 2013			
	Subscribed/ Unsubscribed Capital	Callable Subscribed Capital	Subscribed Payable ⁽¹⁾	Paid-in Capital
	(in thousands of U.S. dollars)			
Subscribed Capital				
<u>Founding Members:</u>				
Guatemala	510,000	382,500	127,500	73,125
El Salvador	510,000	382,500	127,500	73,125
Honduras	510,000	382,500	127,500	91,250
Nicaragua	510,000	382,500	127,500	91,250
Costa Rica	510,000	382,500	127,500	73,125
Subtotal	2,550,000	1,912,500	637,500	401,875
<u>Non-Regional Members and Non-Founding Regional Members:</u>				
<u>Non-Regional Members:</u>				
Republic of China (Taiwan)	500,000	375,000	125,000	51,563
Mexico	306,250	229,687	76,563	53,593
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	19,800
Subtotal	1,294,250	970,687	323,563	189,356
<u>Non-Founding Regional Members:</u>				
Dominican Republic	57,600	43,200	14,400	14,400
Panama	57,600	43,200	14,400	14,400
Subtotal	115,200	86,400	28,800	28,800
Non-Regional Members and Non-Founding Regional Members Subtotal	1,409,450	1,057,087	352,363	218,156
Subscribed capital and paid-in capital, subtotal	3,959,450	2,969,587	989,863	620,031
Unsubscribed Capital				
Non-Regional Members and Non-Founding Regional Members	1,040,550			
	5,000,000			

(1) Includes paid and unpaid capital installments.

As a result of the new subscription of shares for the year ended December 31, 2013, the following Founding Members and Non-Regional Members made the following capital payments.

	December 31, 2013		
	Cash	Series “E” Certificates	Total
	(in thousands of U.S. dollars)		
Capital payments			
Founding Members			
Guatemala.....	2,500	15,625	18,125
El Salvador	2,500	15,625	18,125
Honduras.....	2,500	15,625	18,125
Nicaragua.....	2,500	15,625	18,125
Costa Rica.....	2,500	15,625	18,125
	12,500	78,125	90,625
Non-Regional Members			
Republic of China (Taiwan)	1,838	12,225	14,063
Mexico.....	3,002	19,966	22,968
Colombia	2,563	2,837	5,400
	7,403	35,028	42,431
	19,903	113,153	133,056

The following chart sets forth the long-term foreign currency ratings assigned to the Member Countries by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P's") and Fitch's Ratings ("Fitch's") as of September 11, 2014, the most recent practicable date. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice. Each rating should be evaluated independently of any other rating.

	Moody's	S&P's	Fitch's
<u>Founding Members:</u>			
Guatemala	Ba1	BB	BB
El Salvador	Ba3	BB-	BB-
Honduras	B3	B	NR
Nicaragua	B3	NR	NR
Costa Rica	Baa3	BB	BB+
<u>Non-Regional Members:</u>			
Mexico	A3	BBB+	BBB+
Republic of China (Taiwan).....	Aa3	AA-	A+
Argentina.....	Ca	SDu	C
Colombia.....	Baa3	BBB	BBB-
Spain	Baa2	BBB	BBB+
<u>Non-Founding Regional Members:</u>			
Dominican Republic.....	B1	B+	B
Panama	A2	BBB	BBB

Non-Regional Members and Beneficiary Countries

In 2004, the Board of Governors, pursuant to amendments to the Constitutive Agreement, approved certain modifications to the internal regulation governing the process by which a country may become a Non-Regional Member and the internal regulation governing the process by which a country may become a Beneficiary Country. Beneficiary Country status will allow public and private sector entities of the Beneficiary Country to borrow from CABEI to finance projects that promote the economic integration of the Beneficiary Countries with the Central American countries. A country (including a Beneficiary Country) may apply to become a Non-Regional Member following compliance with the procedures established by CABEI as a condition to becoming a Non-Regional

Member. Likewise, a country (including a Non-Regional Member) may apply to become a Beneficiary Country following compliance with the procedures established by CABEI as a condition to becoming a Beneficiary Country.

A Beneficiary Country will not be required to subscribe for CABEI's capital as do the Founding Members and Non-Regional Members. A Beneficiary Country will be obligated to make special contributions to CABEI's capital in accordance with applicable regulations of CABEI and in amounts that will be determined by the Board of Governors. Such special contributions will be included in CABEI's net worth. Beneficiary Countries will not be granted a right to vote, but may participate and be heard at meetings of the Board of Directors and the Board of Governors of CABEI.

As of the date hereof, CABEI's Non-Regional Members consist of the United Mexican States, the Republic of China (Taiwan), the Republic of Argentina, the Republic of Colombia and the Kingdom of Spain. CABEI's Beneficiary Countries consist of the Dominican Republic, the Republic of Panama, the Republic of Argentina, the Republic of Colombia, and Belize, as of the date hereof. In addition, CABEI's Non-Founding Regional Members as of the date hereof are the Dominican Republic and the Republic of Panama.

On April 26, 2013, CABEI's Board of Governors approved the creation of a seven-member committee to consider the Republic of Panama's request to become a Founding Member. As of the date hereof, the committee's review process is ongoing. In addition, CABEI has considered the possibility of increasing its capital through the addition of various Non-Regional Member countries to its capital structure.

SELECTED FINANCIAL INFORMATION

The tables below present selected income statement and balance sheet data of CABEL derived from CABEL's financial statements for the fiscal years ended December 31, 2013, 2012 and 2011 ("Fiscal 2013", "Fiscal 2012", and "Fiscal 2011", respectively), prepared in conformity with U.S. GAAP.

The figure opposite each line item that reflects a total may not equal the sum of the figures that precede it in the relevant table because the table may not include all items that comprise such total.

The following data should be read in conjunction with CABEL's financial statements and the notes thereto included in this Base Prospectus along with Management's Report Regarding the Effectiveness of Internal Control Over Financial Reporting, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial data included in this Base Prospectus.

Total financial income for the fiscal years ended December 31, 2013, 2012 and 2011 and realized gains on securities available for sale are included in other operating income.

Income statement data

	Fiscal year ended December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Financial income			
Public sector loans	235,151	228,155	212,171
Private sector loans	62,817	69,408	55,676
Marketable securities ⁽¹⁾	14,267	20,064	12,551
Due from banks.....	1,443	1,416	1,639
Total financial income	313,678	319,043	282,037
Financial expenses			
Loans payable ⁽²⁾	32,442	39,914	42,449
Bonds payable.....	84,505	85,779	72,831
Commercial paper programs	2,993	3,775	5,443
Certificates of deposit and investment	2,867	13,222	15,373
Total financial expenses	122,807	142,690	136,096
Net financial income.....	190,871	176,353	145,941
Provision for loan losses.....	2,065	743	14,989
Provision for losses on preinvestment studies and contingencies	1,026	0	0
Total provisions for credit losses	3,091	743	14,989
Net financial income after provision for credit losses	187,780	175,610	130,952
Other operating income (expenses)			
Management and other services fees.....	1,594	1,562	2,548
Supervision and audit fees	405	314	298
Dividends from equity investments	0	1,675	171
Realized gain on securities available for sale.....	4	18	332
Gain on sale of equity investments	2,281	0	0
(Loss) income on equity investments.....	(730)	(2,832)	2,649
Loss on foreclosed assets	(174)	(12,117)	(68)
Foreign exchange losses.....	(1,198)	(1,393)	(260)
Other operating income (expenses), net.....	241	308	(554)
Total other operating income (expenses), net.....	2,423	(12,465)	5,116

	Fiscal year ended December 31,		
	2013	2012	2011
Administrative expenses			
Salaries and employee benefits	24,843	24,330	21,921
Other administrative expenses	13,189	13,125	11,017
Depreciation and amortization	3,667	3,250	2,988
Total administrative expenses.....	41,699	40,705	35,926
Income, before special contributions and valuation of derivative financial instruments and debt	148,504	122,440	100,142
Special contributions and other ⁽³⁾	(11,377)	(17,063)	(3,667)
Income, before valuation of derivative financial instruments and debt.....	137,127	105,377	96,475
Valuation of derivative financial instruments and debt	(18,938)	(2,395)	6,655
Net income.....	118,189	102,982	103,130

(1) Includes realized gains on investment funds.

(2) CABEI may obtain loans and credit facilities from international commercial banks and other development banks. As of December 31, 2013, CABEI had available long- and short-term committed and non-committed lines of credit from international commercial banks, development banks and institutions totaling US\$1,405.3 million, of which approximately US\$1,008.2 million was on a non-committed basis. CABEI also has in effect a global commercial paper program in the amount of up to US\$1 billion and a regional commercial paper program in the amount of US\$200 million.

(3) Special contributions are amounts granted to private and public sector institutions and are recorded as expenses in the period made. On October 29, 1999, CABEI's Board of Governors approved the formation of the Special Fund for the Social Transformation of Central America ("FETS"). FETS was established by CABEI to make loans on concessionary terms. The assets, liabilities, revenues and expenses of FETS are not included in CABEI's balance sheet and income statement. During Fiscal 2013 and 2011, CABEI did not contribute to FETS. During Fiscal 2012, CABEI contributed US\$11.709 million to FETS.

Balance sheet data

	At December 31,		
	2013	2012	2011
(in thousands of U.S. dollars)			
Assets			
Cash and due from banks	12,217	36,800	22,717
Interest-bearing deposits with banks.....	706,672	711,211	639,120
Securities available for sale.....	1,276,588	1,024,986	907,748
Loans.....	5,395,376	5,483,783	5,165,599
Less allowance for loan losses ⁽¹⁾	(159,134)	(168,351)	(178,291)
Net loans	5,236,242	5,315,432	4,987,308
Accrued interest receivable.....	58,123	58,439	55,539
Property and equipment, net	34,400	35,230	33,494
Derivative financial instruments	151,072	259,846	231,610
Equity investments	30,833	42,048	39,546
Other assets	31,092	21,721	35,729
Total assets	7,537,239	7,505,713	6,952,811
Liabilities			
Loans payable	1,158,260	1,441,399	1,309,855
Bonds payable.....	3,199,154	2,940,292	2,572,201

	At December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Commercial paper programs	284,894	384,868	285,707
Certificates of deposit	383,497	351,218	489,502
Certificates of investment	1,026	1,117	1,474
Accrued interest payable	28,337	30,468	28,288
Derivative financial instruments	193,135	178,399	206,286
Other liabilities	21,041	36,289	31,247
Total liabilities	5,269,344	5,364,050	4,924,560
Equity			
Paid-in capital (Authorized capital US\$5,000 million)	620,031	486,975	450,725
Special capital contributions	7,250	7,250	7,250
Accumulated other comprehensive (loss)/income ...	(10,441)	1,419	(4,011)
Retained earnings	118,189	102,982	103,130
General reserve ⁽²⁾	1,532,866	1,543,037	1,471,157
Total equity	2,267,895	2,141,663	2,028,251
Total liabilities and equity	7,537,239	7,505,713	6,952,811

(1) The allowance for loan losses to private sector borrowers was US\$44.576 million, US\$57.577 million, and US\$76.356 million at December 31, 2013, December 31, 2012, and December 31, 2011, respectively. The allowance for loan losses to public sector borrowers was US\$114.558 million, US\$110.774 million, and US\$101.935 million at December 31, 2013, December 31, 2012, and December 31, 2011, respectively.

(2) Reflects accumulated net earnings.

Operating Data

	Fiscal year ended December 31,		
	2013	2012	2011
	(expressed as a percentage)		
Profitability			
Return on average assets ⁽¹⁾	1.57	1.42	1.54
Return on average equity ⁽²⁾	5.36	4.94	5.21
Asset Quality			
Overdue loans receivable/loans receivable	0.07	0.31	0.57
Liquidity			
Loans receivable/total assets	71.58	73.06	74.30
Loans receivable/total liabilities	102.39	102.23	104.89
Capital adequacy			
Equity/total assets	30.09	28.53	29.17
Equity/total liabilities	43.04	39.93	41.19
Equity/total risk-weighted assets (plus swaps) ⁽³⁾ ...	39.11	36.20	36.66
Operational efficiency ⁽⁴⁾	0.58	0.60	0.57

(1) For any particular year, consists of net income for the fiscal year divided by the average of total assets at the end of the previous fiscal year and the end of the current fiscal year.

(2) For any particular year, consists of net income for the fiscal year divided by the average of total equity at the end of the previous fiscal year and the end of the current fiscal year.

- (3) Calculated pursuant to CABEI's internal policies and according to the guidelines of the Bank for International Settlements ("BIS"). See "Business—Capital Adequacy and Leverage".
- (4) For any particular year, consists of administrative expenses for the current fiscal year, divided by the average earning assets at the end of the previous year and the end of the current year. Administrative expenses consist of the sum of salaries and employee benefits, depreciation and amortization, and other administrative expenses for the fiscal year. Earning assets consist of interest-bearing deposits with banks, marketable securities and net loans receivable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with “Selected Financial Information” and with CABEI’s financial statements and the other financial data included in this Base Prospectus. CABEI prepares its financial statements in conformity with U.S. GAAP. This section contains forward-looking statements that involve risks and uncertainties. CABEI’s actual results may differ materially from the results that the forward-looking statements express or imply.

Overview

CABEI’s principal business activity consists of granting loans, predominantly denominated in U.S. dollars, to public and private sector borrowers in the Founding Members. In addition, CABEI recently began to approve loans in countries (including Non-Regional Members) that have become Beneficiary Countries. See “Capital Structure—Non-Regional Members and Beneficiary Countries”. CABEI also invests in funds that make debt or equity investments in public and private sector entities principally in the Founding Members and is responsible for implementing various development programs in the Founding Members.

CABEI’s income is derived principally from the lending activities described above, as well as from marketable securities and deposits with banks. CABEI views its fund investment activities as a minor portion of its overall business and does not foresee any significant increase in such activities in the future.

CABEI considers other regional multilateral development banks and international and regional commercial banks to be its principal competitors and seeks to strengthen its position as a leader in the sustainable development of the Central American countries by providing competitive interest rate and loan terms to its public and private sector borrowers.

Of CABEI’s loans receivable of US\$5,395.376 million at December 31, 2013, approximately 77% (US\$4,127.863 million) represented loans to public sector borrowers and approximately 23% (US\$1,267.513 million) represented loans to private sector borrowers compared to approximately 60% (US\$2,584.124 million) and 40% (US\$1,730.903 million), respectively, of CABEI’s loans receivable of US\$4,315.027 million at December 31, 2008. In 2013, CABEI continued to shift its loan disbursement activity to the public sector, while decreasing its disbursement of loans to the private sector.

From December 31, 2008 through December 31, 2013, CABEI’s loans receivable grew at a compound annual rate of approximately 4.57%. During the period, CABEI’s public sector loans receivable grew at a compound annual rate of approximately 9.82%, while private sector loans receivable decreased at a compound annual rate of 6.04%.

During Fiscal 2013, 2012, and 2011, CABEI has managed the volatility in the interest rate environment by targeting a constant net interest margin.

CABEI’s financial expense includes interest on loans payable, bonds payable, commercial paper and certificates of deposit and investment in securities.

CABEI expects that its provision for loan losses will increase approximately US\$13.5 million, or 8.5%, for the fiscal year ended December 31, 2014, as compared to Fiscal 2013, as a result of Moody’s and Fitch’s downgrades of international debt ratings during Fiscal 2014.

Results of Operations

Fiscal years ended December 31, 2013 and December 31, 2012

Financial income. CABEI’s total financial income decreased by US\$5.365 million (1.7%) to US\$313.678 million in Fiscal 2013 from US\$319.043 million in Fiscal 2012 as a result of an aggregate decrease of income from

private sector loans of US\$6.591 million (9.5%) from US\$69.408 million for Fiscal 2012 to US\$62.817 million for Fiscal 2013, which was attributable to a decrease of US\$54.474 million (4.1%) in the private sector loan portfolio to US\$1,267.513 million for Fiscal 2013 from US\$1,321.987 million for Fiscal 2012. This decrease was substantially offset by an increase of US\$6.996 million (3.1%) in financial income from public sector loans to US\$235.151 million for Fiscal 2013 from US\$228.155 million for Fiscal 2012, primarily as a result of an increase in penalties collected from prepayments on public sector loans of US\$3.616 million. During Fiscal 2012, CABEL did not record significant prepayment penalties on public sector loans.

CABEL's total financial income also decreased as a result of a decrease of US\$6.573 million in realized gains on investment funds to US\$5.569 million in Fiscal 2013 from US\$12.142 million in Fiscal 2012.

Financial expenses. CABEL's total financial expenses decreased by US\$19.883 million (13.9%) to US\$122.807 million in Fiscal 2013 from US\$142.690 million in Fiscal 2012. This was primarily attributable to an aggregate decrease in interest expense on loans payable and certificates of deposit and investment of US\$17.827 million (33.5%) to US\$35.309 million in Fiscal 2013 from US\$53.136 million in Fiscal 2012, which was due to (i) a decrease in the loans payable portfolio of US\$283.139 million (19.6%) to US\$1,158.260 million in Fiscal 2013 from US\$1,441.399 million in Fiscal 2012 and (ii) the redemption of the Social Benefit Fund's certificates of deposit in November 2012. These certificates were placed in US dollars and accrued interest at an annual rate of 7.00%.

Provision for loan losses. CABEL's provision for loan losses increased by US\$1.322 million to US\$2.065 million in Fiscal 2013 from US\$0.743 million in Fiscal 2012. This increase was the result of an increase of US\$6.377 million in the allowance for private sector loans, which was partially offset by a decrease of US\$5.055 million in provisions for public sector loans. The increase in the allowance for private sector loans was a result of an increase in the internal credit risk rating of certain impaired loans, while the decrease in the allowance for public sector loans was a result of a decrease in the public sector loan portfolio, primarily in connection with the prepayment of US\$243.868 million by one CABEL's customers and the reversal of its respective provision, which amounted to US\$5.110 million.

Provision for losses on preinvestment studies and contingencies. During Fiscal 2013, CABEL recorded an allowance for losses on preinvestment studies and contingencies of US\$1.026 million, of which US\$1.021 million corresponds to contingent commitments and US\$0.005 million corresponds to preinvestment studies. There was no recorded allowance during Fiscal 2012.

Administrative expenses. CABEL's administrative expenses increased by US\$0.994 million (2.4%) to US\$41.699 million in Fiscal 2013 from US\$40.705 million in Fiscal 2012. This increase was primarily attributable to a US\$0.513 million increase in salaries and employee benefits to US\$24.843 million in Fiscal 2013 from US\$24.330 million in Fiscal 2012, due to an increase in CABEL's workforce.

Other operating income (expenses). CABEL's other operating income (expenses), which includes management and other services fees, supervision and audit fees, dividends from equity investments, income (loss) on equity investments and the loss on foreclosed assets, increased by US\$14.888 million to US\$2.423 million in Fiscal 2013 from US\$(12.465) million in Fiscal 2012. The increase in other operating income is the result of a decrease in the loss on foreclosed assets of US\$11.943 million to US\$0.174 million in Fiscal 2013 from US\$12.117 million in Fiscal 2012, as there was no severe deterioration in the valuation of CABEL's foreclosed assets during Fiscal 2013. This increase was also the result of a decrease on the loss on equity investments combined with the gain on sale of equity investments of US\$4.383 million to US\$1.551 million in Fiscal 2013 from US\$(2.832) million in Fiscal 2012.

Special contributions and other. CABEL's special contributions and other decreased by US\$5.686 million to US\$11.377 million in Fiscal 2013 from US\$17.063 million in Fiscal 2012. This decrease was the result of CABEL making no special contribution to FETS. In Fiscal 2013, this decrease was partially offset by an increase of US\$7.240 million to CABEL's special contribution to the Social Benefit Fund to US\$7.908 million in Fiscal 2013 from US\$0.668 million in Fiscal 2012.

Valuation of derivative financial instruments and debt. CABEL's income from changes in valuation of derivative financial instruments and debt decreased US\$16.543 million to US\$(18.938) million in Fiscal 2013 from

US\$(2.395) million in Fiscal 2012. This decrease was attributable to changes in the mark-to-market valuation of CABEI's cash flow hedges, cross-currency swaps, interest rate swaps, credit default swaps, and credit risk valuation adjustment for counterparties under netting agreements in the amount of US\$(2.609) million, US\$(10.622) million, US\$(0.995) million, US\$(2.479) million, and US\$0.162 million, respectively. All of CABEI's derivative financial instruments are held to maturity.

Net income. CABEI's net income increased by US\$15.207 million to US\$118.189 million in Fiscal 2013 from US\$102.982 million in Fiscal 2012.

Fiscal years ended December 31, 2012 and December 31, 2011

Financial income. CABEI's total financial income increased by US\$37.006 million (13.1%) to US\$319.043 million in Fiscal 2012 from US\$282.037 million in Fiscal 2011 as a result of an aggregate increase of income from loans of US\$29.716 million (11.1%) from US\$267.847 million for Fiscal 2011 to US\$297.563 million for Fiscal 2012 in public and private sector loans. When disaggregated, this increase was attributable to (i) a US\$15.984 million (7.5%) increase in financial income from public sector loans due to an increase in the public sector loan portfolio of US\$331.078 million (8.6%) to US\$4,161.796 million in Fiscal 2012 from US\$3,830.718 million in Fiscal 2011 and (ii) an increase in financial income of US\$13.732 million (24.7%) from private sector loans to US\$69.408 million in Fiscal 2012 from US\$55.676 million in Fiscal 2011, which was due to an increase in market interest rates.

CABEI's total financial income was also positively affected by an increase of US\$7.679 million from realized gains on investment funds to US\$12.142 million in Fiscal 2012 from US\$4.463 million in Fiscal 2011.

Financial expenses. CABEI's total financial expenses increased by US\$6.594 million (4.8%) to US\$142.690 million in Fiscal 2012 from US\$136.096 million in Fiscal 2011. This was primarily attributable to an increase in interest expense on bonds payable of US\$12.948 million (17.8%) to US\$85.779 million in Fiscal 2012 from US\$72.831 million in Fiscal 2011 due to a year over year increase of US\$368 million (14.31%) in the amount outstanding of bonds payable from US\$2,572 million to US\$2,940 million. This increase was partially offset by a decrease of US\$6.354 million (10%) in financial expense on loans payable and other liabilities, commercial paper programs and certificates of deposit and investment to US\$56.911 million in Fiscal 2012 from US\$63.265 million in Fiscal 2011.

Provision for loan losses. CABEI's provision for loan losses decreased by US\$14.246 million to US\$0.743 million in Fiscal 2012 from US\$14.989 million in Fiscal 2011. This decrease was the result of a decrease of US\$18.042 million in the allowance for private sector loans, partially offset by an increase of US\$3.796 million in the allowance for public sector loans. The increase in the allowance for public sector loans was a result of an increase in the public sector loan portfolio, while the decrease in the allowance for private sector loans was a result of a decrease in the private sector loan portfolio, particularly the sale of two private sector loans and the release of their respective provisions, which amounted to US\$7.121 million.

Administrative expenses. CABEI's administrative expenses increased by US\$4.779 million (13.3%) to US\$40.705 million in Fiscal 2012 from US\$35.926 million in Fiscal 2011. This increase was primarily attributable to a US\$3.271 million increase in non-recurring administrative expenses, which include employee performance bonuses and maintenance expenses on foreclosed assets, to US\$4.910 million in Fiscal 2012 from US\$1.639 million in Fiscal 2011.

Other operating income (expenses). CABEI's other operating income (expenses), which includes management and other services fees, supervision and audit fees, dividends from equity investments, income (loss) on equity investments and the loss on foreclosed assets, decreased by US\$17.581 million to US\$(12.465) million in Fiscal 2012 from US\$5.116 million in Fiscal 2011. The decrease in other operating income is the result of an increase in the loss on foreclosed assets of US\$12.049 million to US\$12.117 million in Fiscal 2012 from US\$0.068 million in Fiscal 2011 as a result of the severe deterioration in the amount of US\$12.213 million in the actuarial valuation of one of CABEI's foreclosed assets and a loss on equity investments of US\$5.481 million to US\$(2.832) million in Fiscal 2012 compared with a gain on equity investments of US\$2.649 million in Fiscal 2011.

Special contributions and other. CABEI's special contributions and other increased by US\$13.396 million to US\$17.063 million in Fiscal 2012 from US\$3.667 million in Fiscal 2011 as a result of CABEI's Board of Governors authorizing a special contribution to FETS in the amount of US\$11.709 million in December 2012. There was no special contribution to FETS in Fiscal 2011.

Valuation of derivative financial instruments and debt. CABEI's income from changes in valuation of derivative financial instruments and debt decreased US\$9.050 million to a loss of US\$(2.395) million in Fiscal 2012 from a gain of US\$6.655 million in Fiscal 2011. This decrease was attributable to changes in the mark-to-market valuation of CABEI's cash flow hedges, cross-currency swaps, interest rate swaps and credit default swaps in the amount of US\$1.460 million, US\$(9.388) million, US\$(3.635) million and US\$2.513 million, respectively. All of CABEI's derivative financial instruments are held to maturity.

Net income. CABEI's net income decreased by US\$0.148 million to US\$102.982 million in Fiscal 2012 from US\$103.130 million for Fiscal 2011.

Balance sheet

At December 31, 2013, CABEI's total assets, total liabilities and equity were US\$7.537 billion, US\$5.269 billion and US\$2.268 billion, respectively, compared to US\$7.506 billion, US\$5.364 billion and US\$2.142 billion, respectively, at December 31, 2012, and US\$6.953 billion, US\$4.925 billion and US\$2.028 billion, respectively, at December 31, 2011.

Asset quality

Overdue loans

At December 31, 2013, the total amount of CABEI's overdue loan installments (including overdue principal installments of non-accrual loans) was US\$3.817 million compared to US\$17.062 million at December 31, 2012 and US\$29.442 million at December 31, 2011. All overdue loans in Fiscal 2013, 2012 and 2011 were loans granted to private sector borrowers.

See "Business—Asset quality".

Non-accrual loans

At December 31, 2013, the total principal amount of CABEI's non-accrual loans was US\$33.547 million, or 0.62% of CABEI's loans receivable at that date, compared to US\$57.159 million, or 1.04% of CABEI's loans receivable, at December 31, 2012, and US\$29.943 million, or 0.58% of CABEI's loans receivable, at December 31, 2011. All non-accrual loans in Fiscal 2013, 2012 and 2011 were loans granted to private sector borrowers.

See "Business—Asset quality".

Loan write-offs and provisions for loan losses

According to CABEI's policy, management decides to write off against the allowance when a loan's outstanding balance has been deemed uncollectible. CABEI normally makes a 100% provision for these loans. During Fiscal 2013, 2012, and 2011, CABEI wrote off US\$11.560 million, US\$16.345 million and US\$38.459 million of loans, respectively, all of which were made to private sector borrowers. For Fiscal 2013, 2012, and 2011, CABEI recorded provisions in the amount of US\$2.065 million, US\$0.743 million and US\$14.989 million, respectively.

Liquidity and Capital Resources

CABEI generates cash primarily from:

- payments to it of interest and from other operating activities,
- payments to it of principal, and
- financing, including sales of debt securities and loans from banks and multilateral lending institutions.

CABEI's principal uses of cash are:

- payments by it of principal and interest,
- loan disbursements by it, and
- operating expenses.

CABEI's policy is to have liquid assets at least equal to its anticipated gross cash requirements for the next six months.

CABEI's current investment policy, established by the Board of Directors on February 10, 2010, requires that at least 75% of its liquid assets be held in the form of investment grade obligations rated A- or better. At December 31, 2013, 85% of CABEI liquid assets were invested in investment grade obligations rated A- or better, compared to 84% at December 31, 2012, and compared to 86% at December 31, 2011.

CABEI's conservative investment policy emphasizes liquidity over yield. On February 10, 2010, the Board of Directors, through CABEI's investment policy, established three years as the maximum average weighted duration for its fixed income portfolio with a four-year maximum modified duration for individual securities at the time of acquisition and required that those securities be readily marketable. At December 31, 2013, the average duration of the securities included in CABEI's investment portfolio was approximately 1.29 years.

Operating activities

CABEI's cash provided by operating activities decreased by US\$1.326 million (1.0%) to US\$127.514 million for Fiscal 2013 from US\$128.840 million for Fiscal 2012. This decrease was primarily due to a decrease in (i) other liabilities, (ii) loss on foreclosed assets, and (iii) accrued interest payable of US\$34.478 million to US\$(16.334) million for Fiscal 2013 from US\$18.144 million for Fiscal 2012. This decrease was partially offset by an increase in the valuation of derivative financial instruments and debt of US\$16.543 million to US\$18.938 million for Fiscal 2013 from US\$2.395 million for Fiscal 2012.

CABEI's cash provided by operating activities increased by US\$16.475 million (14.7%) to US\$128.840 million for Fiscal 2012 from US\$112.365 million for Fiscal 2011. This increase was primarily due to an increase in (i) the loss on foreclosed assets, (ii) valuation of derivative financial instruments and debt, (iii) accrued interest payable, and (iv) loss on equity investments and other liabilities of US\$35.116 million to US\$23.371 million for Fiscal 2012 from US\$(11.745) million for Fiscal 2011. This increase was partially offset by a decrease in the provision for loan losses and an increase in accrued interest receivable, which in aggregate represented a decrease of US\$19.888 million to US\$(2.156) million for Fiscal 2012 from US\$17.732 million for Fiscal 2011.

Investing activities

CABEI's cash used in investing activities decreased by US\$241.765 million (49.0%) to US\$251.998 million for Fiscal 2013 from US\$493.763 million for Fiscal 2012 primarily due to (i) an increase in collections of loans receivable, (ii) a decrease on interest-bearing deposits with banks, and (iii) an increase on proceeds from sales and redemptions of securities available for sale of US\$550.625 million (27.2%) to US\$2,577.782 million for Fiscal 2013 from US\$2,027.157 million for Fiscal 2012. This decrease was partially offset by the purchase of securities available for sale and an increase in derivative financial instruments of US\$306.305 million (28.4%) to US\$1,386.004 million for Fiscal 2013 from US\$1,079.699 million for Fiscal 2012.

CABEI's cash used in investing activities increased by US\$15.096 million (3.2%) to US\$493.763 million for Fiscal 2012 from US\$478.667 million for Fiscal 2011 primarily due to an increase in (i) the purchase of securities available for sale, (ii) interest-bearing deposits with banks, and (iii) disbursements of loans receivable of US\$658.869 million (33.7%) to US\$2,614.079 million for Fiscal 2012 from US\$1,955.210 million for Fiscal 2011. This increase was substantially offset by proceeds from sales and redemptions of securities available for sale, collections of loans receivable and a decrease in derivative financial instruments of US\$635.130 million (42.5%) to US\$2,128.964 million for Fiscal 2012 from US\$1,493.834 million for Fiscal 2011.

Financing activities

CABEI's cash provided by financing activities decreased by US\$280.113 million (73.7%) to US\$99.922 million for Fiscal 2013 from US\$380.035 million for Fiscal 2012. This decrease was primarily attributable to (i) an increase on repayment of loans payable, (ii) a decrease on proceeds from loans payable, (iii) a decrease in commercial paper programs, and (iv) an increase on repayment of bonds payable, which in aggregate represented a decrease of US\$744.287 million to US\$849.612 million for Fiscal 2013 from US\$105.325 million for Fiscal 2012. This increase was partially offset by the increase in proceeds from issuance of bonds payable and an increase in certificates of deposit of US\$449.005 million (93.4%) to US\$929.722 million for Fiscal 2013 from US\$480.717 million for Fiscal 2012.

CABEI's cash provided by financing activities increased by US\$20.998 million (5.8%) to US\$380.035 million for Fiscal 2012 from US\$359.037 million for Fiscal 2011. This increase was primarily attributable to (i) proceeds from loans payable, proceeds from issuance of bonds, an increase on commercial paper programs and a decrease on repayment of bonds, which in aggregate represented an increase of US\$373.935 million (64.6%) to US\$953.149 million for Fiscal 2012 from US\$579.214 million for Fiscal 2011. This increase was partially offset by the increase in repayment of loans and a decrease in certificates of deposit of US\$357.599 million (162.4%) to US\$577.757 million for Fiscal 2012 from US\$220.158 million for Fiscal 2011.

Quantitative and qualitative disclosures about market risk

Market risk represents the risk of loss that may affect CABEI's financial position, results of operations or cash flows due to adverse changes in financial markets. CABEI is exposed to market risk with respect to interest rates and foreign currency exchange fluctuations. These fluctuations can alter CABEI's financing, loan and investment costs, as well as its income from loans.

CABEI reduces its sensitivity to interest rate risk by effectively extending its loans and funding itself on a floating rather than a fixed interest rate basis. At December 31, 2013, approximately 78.7% of CABEI's loans receivable were priced on the basis of the London Interbank Offered Rate (LIBOR) or other interest rates that were generally subject to adjustment at least every three months and, in substantially all cases, at least every six months. The liabilities of CABEI that funded these loans were also contracted at, or swapped into, floating interest rates. When CABEI makes loans at fixed interest rates, it attempts to obtain the corresponding funding on a fixed interest rate basis or, alternatively, to hedge the risk.

CABEI requires that counterparties with which it enters into swap agreements be rated "A" or better by a U.S. nationally recognized rating agency. At December 31, 2013, CABEI was a party to swap agreements with an aggregate notional amount of US\$2.805 billion.

CABEI seeks, to the extent possible under prevailing market conditions, to match the maturities of its liabilities to the maturities of its loan portfolio. At December 31, 2013, the weighted average life of CABEI's loan portfolio was 5.6 years and the weighted average life of its financial liabilities was 4.1 years.

Management expects that the weighted average life of CABEI's liabilities will increase gradually as a result of its strategy of increasing CABEI's presence in the international and regional bond market as market conditions permit. CABEI's management also expects the weighted average life of CABEI's financial assets to increase gradually as a result of CABEI's strategy of increasing the weighted average life of its liabilities, which will enable longer-term financing to its public sector borrowers.

At December 31, 2013, approximately 98.6% of CABEI's assets and 55.9% of its liabilities were denominated in U.S. dollars, with the remainder of its liabilities denominated principally in Mexican pesos, Swiss francs, Colombian pesos, Euros, Thai bahts, Japanese ¥, and currencies of Founding Members and others, which were generally swapped into U.S. dollars. After giving effect to swaps, approximately 99.7% of CABEI's liabilities were denominated in U.S. dollars and substantially all of the balance was denominated in the currencies of the Founding Members.

CABEI does not trade derivatives for its own account. Under CABEI's asset-liability management and hedging & derivative financial instruments policies (see "Business—Financial Policies"), CABEI enters into swap agreements to hedge interest rate and currency risks or to provide hedges to its clients taking a neutral position. CABEI may also use derivatives to manage its credit exposure.

CABEI continuously reevaluates the above risks and will engage in interest rate, exchange rate and credit risk hedging transactions when management deems such transactions to be appropriate.

BUSINESS

Mission and focus

CABEI's mission, as set forth in its Constitutive Agreement, is to promote the economic integration and the balanced economic development of the Central American countries and the economic integration of Beneficiary Countries with the Central American countries. To implement its mission, CABEI is required by the Constitutive Agreement to focus on infrastructure projects, long-term investments in industries of a regional nature and of interest to the Central American market, investments in the agricultural sector that improve exploitation, industrial modernization and expansion, services for the region's development, social development, the conservation of natural resources and the environment, and studies related to the foregoing.

General

CABEI's principal business activity consists of making loans, predominantly denominated in U.S. dollars, to public and private sector borrowers in the Founding Members. CABEI is also authorized to make loans to public and private sector borrowers in countries (including Non-Regional Members) that become Beneficiary Countries. See "Capital Structure—Non-Regional Members and Beneficiary Countries". Unless the context otherwise requires, references in this Base Prospectus to CABEI's lending, fund investment and other business activities being conducted solely in the Founding Members should be understood to refer also to those activities being carried out in any country that becomes a Beneficiary Country. CABEI also invests in funds that make debt or equity investments in public and private sector entities principally in the Founding Members and is responsible for implementing various development programs in the Founding Members.

CABEI's income is derived principally from the lending activities described above as well as from marketable securities and deposits with banks. CABEI views its fund investment activities as a minor portion of its overall business and does not foresee any significant increase in such activities in the future.

To comply with the requirements of the Constitutive Agreement and to achieve financially acceptable operating results, CABEI targets borrowers and projects that have a relative competitive advantage or that will fill a pressing need. In addition, CABEI targets projects that emphasize environmentally sustainable development.

The following table sets forth the amount of income derived from those sources for the fiscal years ended December 31, 2013, 2012 and 2011.

Principal sources of CABEI's income

	Fiscal year ended December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Loans	297,968	297,563	267,847
Marketable securities and deposits with banks	15,710	21,480	14,190
Total	313,678	319,043	282,037

Lending

CABEI lends exclusively to public and private sector borrowers organized under the laws of, or qualified to do business in, the Founding Members. CABEI may also make loans to public and private sector borrowers organized under the laws of, or qualified to do business in, any country that becomes a Beneficiary Country. CABEI's lending was primarily to public sector borrowers prior to 1992, the year CABEI made a strategic decision to increase its lending to private sector borrowers. Of CABEI's loans receivable of US\$5,395.376 million at December 31, 2013, approximately 77% (US\$4,127.863 million) represented loans to public sector borrowers and approximately 23% (US\$1,267.513 million) represented loans to private sector borrowers compared to approximately 60% (US\$2,584.124 million) and 40% (US\$1,730.903 million), respectively, of CABEI's loans receivable of US\$4,315.027 million at December 31, 2008.

Consistent with its strategy, CABEI continued to shift its loan disbursement activity to the public sector, while decreasing its disbursement of loans to the private sector. During 2013, CABEI wrote off US\$11.560 million in private sector loans deemed to be uncollectible. CABEI collected loan prepayments of US\$488.410 million in 2013, of which US\$454.446 million (93%) corresponded to loans granted to the public sector. CABEI's 2013 loan portfolio includes a greater share of public sector loans compared against its portfolio in 2012 and CABEI expects its loan portfolio to continue to consist predominantly of loans to public sector borrowers.

The following table sets forth the amount of income derived from CABEI's public sector and private sector lending activities for the fiscal years ended December 31, 2013, 2012 and 2011.

Financial income from public sector and private sector loans

	Fiscal year ended December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Public sector	235,151	228,155	212,171
Private sector	62,817	69,408	55,676
Total.....	297,968	297,563	267,847

Public sector lending

CABEI generally finances specific projects or programs developed by the Founding Members' or Beneficiary Countries' central governments or state-owned autonomous or decentralized entities, *provided* that such projects or programs meet CABEI's internal regulations. CABEI generally requires a sovereign guarantee of payment or collectability for public sector debt. See "—Credit Policies and Credit Approval Procedures and Controls". Loans to state-owned institutions, or loans without a sovereign guarantee to institutions with state participation representing the majority of their capital structure, are limited to 20% or less of CABEI's equity. CABEI does not lend on a concessionary basis (except under programs or projects sponsored and funded with resources from other institutions). The Board of Governors of CABEI has established FETS, a fund that it intends to use for concessionary lending. The assets, liabilities and equity of FETS are not consolidated in CABEI's financial statements. See "—Fund Administration".

Preferred creditor status

Because of the importance of CABEI in the economic development of the Founding Members and CABEI's policy of not lending to any public sector borrower or guarantor that is in arrears on a loan from or a guarantee to CABEI, CABEI believes that the Founding Members and public sector borrowers within the Founding Members will attempt to meet their obligations to CABEI even if they are not meeting their obligations to other creditors (CABEI refers to this as "preferred creditor status"). See "—Financial Policies".

In practice, CABEI has been treated as "more preferred" than other creditors that also enjoy preferred creditor status and that lend to public sector borrowers in the Central American region. For example, during the 1980s, certain Central American governments continued making payments to CABEI notwithstanding that such governments were defaulting on obligations to other multilateral lenders.

As CABEI's portfolio consists predominantly of loans to public sector borrowers, the majority of its loan portfolio benefits and will continue to benefit in the medium term from CABEI's preferred creditor status.

Private sector lending

CABEI lends directly to corporate entities and to intermediary private financial institutions who onlend to private sector borrowers. During the fiscal years ended December 31, 2013, 2012 and 2011, approximately 55%, 51% and 50%, respectively, of CABEI's private sector loans were disbursed to private intermediary financial institutions for lending, where its remaining private sector loans were disbursed directly to corporate borrowers. CABEI channels funds to private sector borrowers through a revolving global credit line awarded to intermediary

financial institutions to increase efficiency, promote the development of the financial sector and increase the likelihood of repayment as the intermediary financial institution remains liable to CABEI, rather than the ultimate borrower.

While CABEI may not require an intermediary financial institution to provide collateral to CABEI at the time of the closing of a loan by CABEI to such intermediary, it reserves the right to require such intermediary to provide collateral during the life of the loan. CABEI requires its direct private sector borrowers to provide collateral generally in the form of fixed assets, stock, and/or fiduciary guarantees. See “—Credit Policies and Credit Approval Procedures and Controls”.

CABEI’s maximum risk exposure to an intermediary financial institution is determined by that institution’s internal credit risk rating and supervision structure, and CABEI’s financing is capped by the institution’s available equity. CABEI’s exposure in a single private sector client must not exceed 5% of CABEI’s total private sector loan portfolio, and the five largest exposures must not exceed 30% of CABEI’s total private sector loan portfolio.

CABEI’s participation in project finance private sector loans must not exceed 60% of the total loan. The borrower must participate with a minimum of 30% of the total proposed investment with any remaining amount obtained through other lenders.

Loans receivable

The following table sets forth CABEI’s loans receivable by country of borrower at December 31, 2013, 2012 and 2011.

Loans receivable by country of borrower

	December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Guatemala.....	1,255,491	1,254,270	1,242,910
El Salvador	915,666	866,788	843,209
Honduras.....	1,230,006	1,060,020	931,740
Nicaragua.....	612,428	546,802	490,396
Costa Rica.....	1,101,639	1,533,325	1,527,925
Dominican Republic	263,601	194,418	102,345
Panama	12,483	27,701	26,574
Belize.....	4,062	459	500
	5,395,376	5,483,783	5,165,599
Allowance for loan losses.....	(159,134)	(168,351)	(178,291)
Total.....	5,236,242	5,315,432	4,987,308

The following table sets forth CABEI’s public sector loans receivable by country of borrower at December 31, 2013, 2012 and 2011.

Public sector loans receivable by country of borrower

	December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Guatemala.....	1,037,483	1,020,377	1,030,110
El Salvador	846,246	790,437	747,005
Honduras.....	960,693	784,004	632,266
Nicaragua.....	320,588	261,480	230,885
Costa Rica.....	695,190	1,110,621	1,087,607

Dominican Republic	263,601	194,418	102,345
Belize	4,062	459	500
	4,127,863	4,161,796	3,830,718
Allowance for loan losses	(114,558)	(110,774)	(101,935)
Total.....	4,013,305	4,051,022	3,728,783

The following table sets forth CABEI's private sector loans receivable by country of borrower at December 31, 2013, 2012 and 2011.

Private sector loans receivable by country of borrower

	December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Guatemala.....	218,008	233,893	212,800
El Salvador	69,420	76,351	96,204
Honduras.....	269,313	276,016	299,474
Nicaragua.....	291,840	285,322	259,511
Costa Rica.....	406,449	422,704	440,318
Panama	12,483	27,701	26,574
	1,267,513	1,321,987	1,334,881
Allowance for loan losses	(44,576)	(57,577)	(76,356)
Total.....	1,222,937	1,264,410	1,258,525

The following table sets forth CABEI's loans receivable by economic sector in which the ultimate borrower is engaged at December 31, 2013, 2012 and 2011.

Loans receivable by economic sector of ultimate borrower

	December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Infrastructure / Construction.....	1,773,330	1,577,463	1,475,825
Electricity, gas and water supply	1,151,533	1,391,628	1,278,223
Multi-sector	925,821	838,221	764,495
Monetary intermediation	769,186	806,810	818,417
Social and health services.....	154,859	165,202	144,608
Real estate activities	132,227	117,220	113,131
Manufacturing industry	128,700	94,285	75,429
Wholesale and retail trade	92,232	79,543	37,341
Transport, storage and communications	87,261	198,585	232,929
Agro-industry	85,643	76,714	88,143
Hotels and restaurants.....	58,622	74,768	62,531
Education and training.....	30,275	27,178	29,557
Other social, community and personal services	4,428	6,012	6,980
Fisheries.....	1,259	159	1,990
Mining and quarrying	0	29,995	36,000
Total	5,395,376	5,483,783	5,165,599

The following table sets forth the approximate amount at December 31, 2013 of CABEI's loans receivable maturing during the indicated fiscal years.

Maturities of loans receivable

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 and thereafter</u>	<u>Total</u>
	(in thousands of U.S. dollars)					
Principal payable in	1,042,336	543,912	438,794	391,017	2,979,317	5,395,376

The following table sets forth CABEI's loans receivable by currency after giving effect to related swap transactions at December 31, 2013, 2012 and 2011.

Loans receivable by currency

	<u>December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands of U.S. dollars)		
US\$	5,298,010	5,344,902	4,984,210
Currencies of Founding Members	91,183	132,221	173,186
Euro	6,183	6,660	7,260
Japanese ¥	0	0	943
	5,395,376	5,483,783	5,165,599
Allowance for loan losses	(159,134)	(168,351)	(178,291)
Total	<u>5,236,242</u>	<u>5,315,432</u>	<u>4,987,308</u>

The following table sets forth CABEI's 20 largest borrowers at December 31, 2013. At that date, loans to these borrowers represented 77.37% of CABEI's loans receivable of approximately US\$5,395 million.

20 Largest borrowers

	At December 31, 2013 aggregate exposure (in thousands of U.S. dollars)
Republic of Guatemala (GTM).....	1,010,445
Republic of Honduras (HND).....	941,235
Republic of Nicaragua (NIC).....	287,511
Government of The Dominican Republic (DOM).....	263,950
Instituto Costarricense de Electricidad (CR)	254,446
Republic of El Salvador (SLV).....	207,733
Central Reserve Bank of El Salvador (SLV)	200,000
Fideicomiso Inversiones Corporación Salvadoreña (FINCORS) (SLV)	150,000
Banco Popular y de Desarrollo Comunal (CR).....	127,000
Empresa Propietaria de la Red, S.A. (CR).....	101,886
Comisión Ejecutiva Hidroeléctrica (SLV).....	100,384
Autopistas del Sol, S.A. (CR).....	87,692
FOVIAL (SLV)	80,194
Banco G&T Continental (GTM)	66,250
Consorcio Eólico Amayo S.A. (NIC)	57,243
Banco Nacional de Costa Rica (CR).....	50,761
Energía Eólica de Honduras, S.A. (HND)	50,076
Republic of Costa Rica (CR)	48,016
Sightfull y Marina de Guacalito (NIC)	45,090
Hidroeléctrica Xacbal, S.A. (GTM).....	44,317
Total	<u>4,174,229</u>

The following table shows CABEI's five largest private sector borrowers in each Founding Member at December 31, 2013.

Largest Private Sector Borrowers

	At December 31, 2013 aggregate exposure (in thousands of U.S. dollars)
Guatemala:	
Banco G&T Continental.....	66,250
Hidroeléctrica Xacbal, S.A.....	44,317
Sociedad Chabil Utzaj	22,125
Banco Industrial, S.A.	14,999

Corporación G&T Continental	14,583
Sub-total	162,274
El Salvador:	
Federación de Cajas de Crédito	12,405
Taca International Airlines, S.A.	10,222
CREDIQ, S.A. de C.V.	9,354
Caja de Crédito de San Vicente	5,481
Caja de Crédito de Santiago Nonualco	3,963
Sub-total	41,425
Honduras:	
Energía Eólica de Honduras, S.A.	50,076
Banco América Central Honduras, S.A.	35,890
Banco Financiera Comercial Hondureña, S.A.	33,372
Banco Financiera Centroamericana, S.A.	22,880
Sociedad Hidroeléctrica Olanchana, S.A. de C.V.	12,003
Sub-total	154,221
Nicaragua:	
Consorcio Eólico Amayo S.A.	57,243
Sightfull y Marina de Guacalito	45,090
Polaris Energy Nicaragua, S.A.	31,873
Banco de la Producción, S.A.	30,235
Hidropantasma, S.A.	24,965
Sub-total	189,406
Costa Rica:	
Autopistas del Sol, S.A.	87,692
Banco Internacional de Costa Rica (BICSA), S.A.	42,500
Banco BAC San José, S.A.	39,035
Banco Promérica, S.A.	34,277
Compañía Inversionista Las Brisas, S.A.	32,534
Sub-total	236,038
Total	783,364

Financial debt

CABEI raises funds for its operations almost exclusively outside the Founding Members. CABEI has traditionally obtained loans and credit lines from multilateral development banks, government-sponsored lenders, export credit agencies and commercial banks. CABEI has also funded itself through the issuance of certificates of deposit and investment. In addition, since 1997 CABEI's funding policy has been both to diversify its funding sources and achieve a more market-oriented approach by raising funds in the financial markets through the issuance of global and regional commercial paper, along with the public or private issuance of bonds in the United States of America, Central American countries, Republic of China (Taiwan), Singapore, Hong Kong, Japan, Republic of Colombia, Switzerland, Germany and the United Mexican States.

CABEI has never defaulted on the payment of principal of, or premium or interest on, any debt security it has issued, and it has always met all of its debt obligations on a timely basis.

The following chart sets forth the sources of CABEI's financial debt at December 31, 2013, 2012 and 2011.

Sources of financial debt

	December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars)		
Loans payable ⁽¹⁾	1,158,260	1,441,399	1,309,855
Commercial paper programs	284,894	384,868	285,707
Bonds payable	3,199,154	2,940,292	2,572,201
Certificates of deposit and investment	384,523	352,335	490,976
Total	5,026,831	5,118,894	4,658,739

(1) CABEI may obtain loans and credit facilities from international commercial banks and other development banks. As of December 31, 2013, CABEI had available long- and short-term committed and non-committed lines of credit from international commercial banks, development banks and institutions totaling US\$1,405.34 million, of which approximately US\$1,008.15 million was on a non-committed basis. CABEI also has in effect a global commercial paper program in the amount of up to US\$1 billion and a regional commercial paper program in the amount of US\$200 million.

The following table sets forth CABEI's loans payable, commercial paper, bonds payable and certificates of deposit as a percentage of CABEI's total financial debt at December 31, 2013, 2012 and 2011.

Breakdown of financial debt

	December 31,		
	2013	2012	2011
Loans payable	23%	28%	28%
Commercial paper programs	6%	8%	6%
Bonds payable	63%	57%	55%
Certificates of deposit and investment	8%	7%	11%
Total	100%	100%	100%

The following table sets forth the sources of CABEL's loans payable at December 31, 2013.

Sources of loans payable

Source	December 31, 2013 (in thousands of U.S. dollars)
<i>Government sponsored lenders and export credit agencies</i>	
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	201,304
Kreditanstalt für Wiederaufbau (KfW)	205,814
Promotion and Participation for Economic Cooperation (PROPARCO)..	67,060
Japan Bank for International Cooperation (JBIC).....	62,350
Instituto de Crédito Oficial, Spain (ICO).....	32,886
Oesterreichische Entwicklungsbank AG (OeEB)	41,372
US Agency for International Development (USAID).....	13,095
The International Cooperation and Development Fund (Taiwan ICDF) ..	13,613
Loans guaranteed by USAID	6,059
Subtotal	643,553
<i>Commercial banks</i>	
Bank of China (BoC)	7,782
Standard Chartered Bank	36,883
Citibank, N.A.	10,000
Royal Bank of Scotland P.L.C.	5,000
Mizuho Corporate Bank, Ltd.	29,669
Mercantil Commercebank, N.A.	25,000
Commerzbank AG	10,000
BNP Paribas Fortis.....	20,625
Nordea Bank	15,778
Deutsche Bank, S.A.E.....	7,241
Nordea Bank (Funded Participation Agreement).....	8,701
Fortis Bank SA/NV, Belgium	9,095
Bank Leumi Le-Israel	3,928
Société Générale	2,330
Subtotal	192,032
<i>Multilateral development banks</i>	
European Investment Bank	219,379
Nordic Investment Bank	48,700
Inter-American Development Bank (IDB).....	33,794
The OPEC Fund for International Development.....	20,802
Subtotal	322,675
Total loans payable	1,158,260

The following table sets forth the types of CABEI's bonds payable at December 31, 2013.

Types of Bonds Payable at December 31, 2013

Type	Amount	Outstanding amount as of December 31, 2013 (in millions of U.S. dollars)	Maturity	Coupon
THB Bonds. First issuance	THB 2,374 million	78.708	December 2017	5.97%
THB Bonds. Second issuance	THB 1,000 million	30.601	February 2014	3.85%
THB Bonds. Third issuance	THB 865 million	26.971	February 2016	4.51%
THB Bonds. Fourth issuance	THB 1,235 million	39.040	February 2021	4.88%
COP Bonds. First issuance	COP 460 billion	235.110	September 2015	IPC plus 2.30%
COP Bonds. Second issuance	COP 150 billion	78.530	March 2014	9.99%
COP Bonds. Third issuance	COP 100 billion	59.414	March 2019	10.69%
DOP Bonds. First issuance	DOP 740 million	17.793	December 2014	12%
MXN MTN Series 11	MXN 1,500 million	114.647	June 2014	91-days MXN TIIE + 0.10%
MXN MTN Series 12	MXN 100 million	10.571	May 2018	8.30%
MXN MTN Series 13	MXN 100 million	8.516	May 2018	4.15%
MXN MTN Series 16	MXN 350 million	37.254	August 2020	4.44%
CRC MTN Series 19	CRC 26 billion	52.100	January 2014	TBP Rate
US\$ MTN Series 20	US\$ 25 million	24.664	June 2019	6.8%
US\$ MTN Series 21	US\$ 500 million	499.639	September 2014	5.375%
MXN MTN Series 23	MXN 700 million	55.864	August 2020	28-days MXN TIIE + 0.65%
CRC MTN Series 24	CRC 11 billion	20.537	November 2017	TBP Rate
US\$ MTN Series 25	US\$ 25 million	25.000	December 2020	4.15%
UYU MTN Series 27	UYU 1 billion	35.511	November 2016	Harp Index
JPY MTN Series 28	JPY 10 billion	101.900	July 2023	2.41%
US\$ MTN Series 29	US\$ 67.6 million	67.600	August 2021	Step-up
BRL MTN Series 30	BRL 90 million	28.578	November 2016	ELN Basket
MXN MTN Series 31	MXN 1.5 billion	114.407	February 2015	28-days MXN TIIE + 0.15%
US\$ MTN Series 32	USD 250 million	248.065	February 2017	3.875%
MXN MTN Series 33	MXN 1.5 billion	114.425	February 2015	28-days MXN TIIE + 0.15%
US\$ MTN Series 34	US\$ 25 million	24.463	April 2027	4.290%
MXN MTN Series 35	MXN 1.325 billion	100.681	December 2016	5.00%
EUR MTN Series 36	EUR 21.5 million	29.620	August 2032	4.00%

US\$ MTN Series 37	US\$ 50 million	50.000	August 2042	Zero-Coupon
US\$ MTN Series 38	US\$ 50 million	50.000	November 2027	4.00%
CHF MTN Series 39	CHF 150 million	167.062	February 2020	1.50%
US\$ MT N Series 40	US\$ 20 million	20.000	April 2038	4.50%
CNY MTN Series 41	CNY 500 million	81.700	April 2016	3.20%
EUR MTN Series 42	EUR 50 million	61.594	April 2033	3.25%
US\$ MTN Series 43	US\$ 55 million	55.000	November 2018	4.75%
MXN MTN Series 44	MXN 2 billion	151.268	November 2016	28-days MXN TIE + 0.10%
CHF MTN Series 45	CHF 130 million	144.068	December 2016	0.625%
CHF MTN Series 46	CHF 145 million	161.776	December 2019	1.50%

Since December 31, 2013, CABEI has issued the following bonds payable:

Type	Amount	Outstanding amount as of June 30, 2014 (in millions of U.S. dollars)	Maturity	Coupon
EUR MTN Series 47	EUR 75 million	90,971	February 2034	2.769
CHF MTN Series 48	CHF 180 million	212,056	February 2022	1.875
Schuldschein Bonds. First issuance	EUR 35 million	45,937	May 2029	3.00
EUR MTN Series 49	EUR 35 million	--	August 2039	3.00
MXN MTN Series 50	MXN 2 billion	--	July 2018	28-days MXN TIE -0.05%

The following table sets forth the principal categories of holders of CABEI's certificates of deposit at December 31, 2013.

Sources of certificates of deposit and investment

<u>Source</u>	<u>At December 31, 2013</u> <u>(in thousands of U.S.</u> <u>dollars)</u>
Central Banks	348,907
Private financial institutions	13,625
Other	21,991
Total.....	<u>384,523</u>

The following table sets forth the approximate principal amount at December 31, 2013 of each type of CABEI's financial debt maturing during the indicated fiscal years.

Principal maturities of financial debt

	<u>Fiscal year ended December 31,</u>					
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 and</u> <u>thereafter</u>	<u>Total</u>
	<u>(in thousands of U.S. dollars)</u>					
Loans payable	186,886	178,921	82,244	84,180	626,029	1,158,260
Commercial paper programs (Global and Regional).....	284,894	-	-	-	-	284,894
Bonds payable	793,309	463,943	568,776	347,310	1,025,816	3,199,154
Certificates of deposit and investment ⁽¹⁾	372,335	5,804	2,183	1,809	2,392	384,523
Total	1,637,424	648,668	653,203	433,299	1,654,237	5,026,831

⁽¹⁾ No certificates of deposit mature after 2018.

Financial Policies

Key financial policies established by the Board of Directors are summarized below.

Liquidity: CABEI's policy is to have liquid assets at least equal to its anticipated gross cash requirements for the next six months. Liquid assets are composed of cash due from banks, interest-bearing deposits with banks, and securities available for sale. In addition, the dynamic cumulative liquidity gap must be positive for each defined bucket for a period of one year. CABEI generally does not hold currency of Founding Members in amounts greater than those required to meet its operating expenses in those currencies.

Investment in liquid assets: CABEI's investment policy requires that at least 75% of its liquid assets be held in the form of investment grade obligations rated A- or better. CABEI may only hold up to a maximum of 25% of the balance of its liquid assets in non-investment grade securities, subject to minimum standards prescribed by CABEI's Institutional Risk Division, which are approved by its Asset and Liability Committee. Additionally, all issuers in which CABEI invests are previously analyzed by CABEI's Institutional Risk Division and approved by the Asset and Liability Committee.

Concentration: With the purpose of managing concentration risk, CABEI limits the maximum exposure per corporate issuer to 10% of its Fixed Income Portfolio and 3.5% of its Total Investment Portfolio.

Market Risk: CABEI manages the risk of its Fixed Income Portfolio with a daily VaR measure. The VaR limit is approved by the Board of Directors and monitored by CABEI's Institutional Risk Division on a daily basis.

Duration: CABEI's investment policy requires that each fixed income security in which it invests has a modified duration not exceeding four years at the time of acquisition. Additionally, the securities in its fixed income portfolio cannot have a weighted average duration exceeding three years.

Interest rates: CABEI sets interest rates on its loans on the basis of numerous factors, including its cost of funds, the particular risks of the relevant loans, the more general risks inherent in the borrowers' markets, and a reasonable return on its capital. It is CABEI's policy that such interest rates should not introduce distortions in the borrowers' markets and must be determined in accordance with prevailing rates in international markets and those applied by international credit institutions. CABEI requires a minimum risk-adjusted return on capital for each private sector counterparty.

Allowance for loan losses: CABEI's internal policy for the allowance for loan losses of public and private sector loans establishes that the allowance must be estimated based on net exposure, probability of default, and loss given default. The probability of default for each country will be determined according to the country risk rating and sovereign probability of default measures provided by international credit rating agencies. The probability of default for each private sector counterparty will be determined pursuant to the country risk rating for the country where the borrower is located, the counterparty's internal risk rating and corporate probability of defaults provided by international credit rating agencies. In accordance with CABEI's policy on the allowance for loan losses of private sector loans, CABEI's management has developed procedures that reflect the credit risk assessment considering all available information to determine whether the reserve for loan losses is adequate.

CABEI maintains an allowance for private sector loan losses based on an analysis of the loan portfolio, delinquencies and other general conditions (general allowance), and an evaluation of each individual loan and whether such loan is impaired (specific allowance).

The allowance for loan losses is estimated by CABEI's management through a provision for loan losses charged to earnings. Allowance for loan losses are written off against the outstanding balance when CABEI's management believes and confirms its uncollectibility. Subsequent recoveries, if any, are credited to CABEI's provision for loan losses.

The allowance for loan losses is evaluated regularly by CABEI's management. This evaluation is inherently subjective as it requires estimates that are susceptible to revisions over time.

Arrears: CABEI makes no disbursement to any borrower or guarantor (public or private sector) that is in arrears on a loan from or a guarantee to CABEI.

Non-accrual loans: CABEI classifies a loan to a public sector borrower as "non-accrual" if it is more than 180 days in arrears on principal or interest on such loan. CABEI classifies a loan to a private sector borrower as "non-accrual" if it is more than 90 days in arrears on principal or interest on such loan. 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.

Indebtedness: CABEI's policy is that its indebtedness may not exceed three times its equity.

Capital Adequacy: CABEI's policy is that asset growth should maintain a capital adequacy ratio equal to or greater than 35%, in accordance with Basel I. Also, CABEI requires that its capital adequacy be more than 38%.

Exchange rate risk: CABEI limits its exchange rate risk exposure by restricting currency mismatches. As such, currency mismatches for a currency of a Founding Member country may not exceed +/-10% of equity, while currency gaps for any other currency may not exceed +/-0.4% of equity. CABEI achieves this end by making substantially all of its loans in U.S. dollars and raising substantially all of its funding in U.S. dollars or in currencies swapped into U.S. dollars. CABEI also monitors and manages the risk of FX exposures with a daily VaR measure.

The VaR limit is approved by the Board of Directors and monitored by CABEL's Institutional Risk Division on a daily basis.

Interest rate risk: CABEL limits interest rate risk in its operations. CABEL restricts its interest rate risk by limiting its projected one year net interest income sensitivity to less than 0.50% of its equity, for a 100 basis point movement of market interest rates.

Portfolio Management and Exposure: CABEL's loan portfolio may not exceed 3.5 times CABEL's equity. Its net risk weighted exposure from any single Founding Member country may not exceed either CABEL's equity or 30% of CABEL's total exposure. CABEL also limits the projected future exposure considering undisbursed loans and collections for 12 month periods.

In addition, CABEL's net exposure from any single public sector borrower is limited to 30% of CABEL's total public sector exposure. Its net exposure from public sector banks without sovereign guarantee may not exceed 12% of CABEL's equity and CABEL's net exposure to state-owned companies or partially state-owned companies without sovereign guarantee may not exceed 20% of CABEL's equity. Additionally, its net exposure from any single private sector borrower or group of related private sector borrowers is limited to 5% of CABEL's equity, or up to 10% for wholly regulated financial groups. CABEL also limits the projected future exposure for its public and private sector loan portfolios.

Hedging & Derivatives Financial Instruments: CABEL may enter into derivatives contracts for the sole purpose of hedging its activities and to offer them as a service to its clients. The policy provides that CABEL may only enter into derivatives contracts with investment grade counterparties or eligible institutions below investment grade under collateral agreements. Nevertheless, the current practice is to enter into transactions with institutions rated at least A. CABEL monitors its counterparty risk with derivatives counterparties through limits, which include replacement cost of operations (considering collateral and thresholds) and potential future exposure. The credit risk in derivatives operations is mitigated with netting and collateral agreements that are approved by the Asset and Liability Committee. CABEL's derivatives exposures are monitored and reported by the Institutional Risk Division to the Asset and Liability Committee and the Board on a monthly basis.

Credit policies and credit approval procedures and controls

CABEL's key credit policies and credit approvals are established by the Executive President with the approval of the Board of Directors. CABEL's credit policies establish the framework for lending and the guidelines for credit granting activities. CABEL reviews its credit policies periodically, to assure that they are sufficiently flexible to meet changes in (i) the applicable laws and regulations of the Member and Beneficiary Countries, (ii) the market conditions, and (iii) CABEL's financial situation, resource channeling capacity and institutional strategy.

Credit policies

CABEL's key credit policies are summarized below:

Public sector loans guarantees. CABEL generally requires a sovereign guarantee in loans to public sector borrowers.

Collateral and covenants for private sector loans:

Financial intermediaries: While CABEL may not require an intermediary financial institution to provide collateral to CABEL at the time of closing of a global credit line, CABEL reserves the right to require such institution to provide collateral during the life of the line.

Direct loans: In general, CABEL requires private sector borrowers to provide collateral having a value of at least 100% of the principal amount of the loan. The collateral is generally in the form of fixed assets, stock, and/or fiduciary guarantees and a haircut is assessed pursuant to internal policies and guidelines that take into consideration potential losses and recovery expenses. CABEL also requires that private sector

borrowers comply with financial covenants established during the structuring and approval process of the loan.

Additional requirements for direct loans:

- CABEI requires that private sector borrowers be organized under the laws of or qualified to do business in the host country and that the loans provided be invested in the Founding Members. CABEI imposes similar requirements with respect to private sector borrowers in Non-Founding Beneficiary Countries; however, the programs, projects or other operations financed in the Beneficiary Country should contribute to the economic and social development and integration of the Founding Members.

Limitations on loans: CABEI maintains different lending limits based on a borrower's country, sector, institution, economic group, etc. CABEI sets limits on loan approval and disbursement amounts based on several variables, including, among others, a borrower's country of operation, sector in which the borrower operates, type of borrower entity, and the aggregate exposure of the borrower's economic group to CABEI. In accordance with internal policies and guidelines, such as CABEI's exclusion list and code of ethics, CABEI does not finance activities related to gaming, the production of war materials, activities that involve any form of forced labor and/or child exploitation or activities that do not comply with CABEI's environmental policy or with the environmental regulations of the host country.

Credit approval procedures and controls:

CABEI's credit approval procedures are conducted through its country offices in each of the five Founding Members, or in the case of Beneficiary Countries, at CABEI's headquarters. CABEI conducts extensive due diligence on the applicant borrower and the project for which lending is sought. The due diligence covers the technical, market, financial, economic, legal, corporate governance, money laundering compliance, social and environmental aspects of the applicant borrower and the project. CABEI also examines the project's sponsor, and management's integrity, experience, and success rate in similar projects, its financial resources and capability to ensure a successful project.

The credit analysis is performed by the Credit Division's team (functional division independent of the division that originates the credit proposal) and will determine the project's viability, from both a financial and credit risk point of view. The opinion of CABEI's Credit Division is binding on the department that originates the credit proposal.

Upon completion of the credit analysis, a credit proposal is sent to the Sectors and Countries Division Manager for his approval, and then relayed to the Credit Committee, which is comprised of the following voting members: (i) the Executive Vice President (chair); (ii) the Sectors and Countries Division Manager; (iii) the Credit Division Manager; (iv) the Finance Manager; and (v) the Institutional Risk Division Manager. The Head of the Legal Affairs Office is a member of the Credit Committee and can participate in discussions, but has no vote. The Credit Committee has a Secretary appointed by CABEI's Executive Vice President.

The Credit Committee discusses the credit proposal, and if the Committee agrees on the proposal, the proposal is recommended to the Executive President, who then submits it to the Board of Directors which then votes to approve the credit. In addition, the Executive President may approve lines of credit which are valued at or below US\$1 million for financial institutions. If a loan is approved, and the conditions from earlier negotiations are satisfied, CABEI and the borrower will enter into an agreement. The funds are disbursed under the terms of the agreement that has been executed by all the parties.

Once funds have been disbursed, CABEI monitors its investments closely, as well as its requirement that all debtors follow best practices on transparency and procurement. CABEI consults periodically with the client and visits the enterprise or project as necessary. In private sector operations, CABEI monitors any information that may materially affect the project or enterprise in which it has invested, including any annual financial statements audited by independent public accountants. CABEI monitors its loans until they are fully repaid, performing periodic

reviews, including formally twice a year, on both the qualitative and quantitative aspects of each private sector loan and public sector loan without a sovereign guarantee. For such reviews, CABEL uses risk ratings that are based on CABEL's Internal Credit Risk Rating System in order to provide a report on the asset quality of CABEL's loans. As a result of these periodic revisions, an internal rating is assigned to each loan or project in order to specify the levels of provisioning for the individual projects. The rating system adopts international credit standards that require that banks identify repayment risks and manage such risk. CABEL's risk rating system consists of an eight-point scale.

On an annual basis, an international and independent risk management consulting firm reviews CABEL's portfolio.

Asset quality

CABEL classifies a loan as overdue whenever payment is not made on its due date. It charges interest on the overdue payment from the due date and immediately suspends disbursements on all loans to the borrower or guarantor that is in arrears on a loan from or a guarantee to CABEL. The entire principal amount of a loan is placed in non-accrual status when any payment, including principal, interest, fees or other charges in respect of the loan, is more than 90 days overdue, in the case of a loan to a private sector borrower, or more than 180 days overdue, in the case of a loan to a public sector borrower. Interest and other charges on non-accrual loans are included in income only to the extent that payments have actually been received by CABEL.

At December 31, 2013, the total amount of CABEL's overdue loan installments (including overdue principal installments of non-accrual loans) was US\$3.817 million, or 0.07% of CABEL's loans receivable at that date, compared to US\$17.062 million, or 0.31% of CABEL's loans receivable at December 31, 2012 and US\$29.442 million, or 0.57% of CABEL's loans receivable, at December 31, 2011. All overdue loans in Fiscal 2013, 2012 and 2011 were loans granted to private sector borrowers.

At December 31, 2013, the total principal amount of CABEL's non-accrual loans was US\$33.547 million, or 0.62% of CABEL's loans receivable at that date, compared to US\$57.159 million, or 1.04% of CABEL's loans receivable at December 31, 2012 and US\$29.943 million, or 0.58% of CABEL's loans receivable, at December 31, 2011. All non-accrual loans in Fiscal 2013, 2012 and 2011 were loans granted to private sector borrowers.

In Fiscal 2013, US\$1.284 million of overdue interest and other charges in respect of non-accrual loans was excluded from CABEL's interest income compared to US\$5.079 million for Fiscal 2012 and US\$5.461 million for Fiscal 2011. In Fiscal 2013, CABEL wrote-off US\$11.560 million of loans compared to US\$16.345 million in Fiscal 2012 and US\$38.459 million for Fiscal 2011. All of these loan write-offs were made to private sector borrowers.

The following table shows CABEL's loans receivable, overdue loan principal, non-accrual loans, loans written off, allowance for loan losses and the percentage which each of them represents of CABEL's loans receivable at December 31, 2013, 2012 and 2011.

Loans receivable, non-accrual loans and others

	Fiscal year ended December 31,		
	2013	2012	2011
	(in thousands of U.S. dollars except percentages)		
Loans receivable	5,395,376	5,483,783	5,165,599
Total amount of overdue loan installments	3,817	17,062	29,442
Non-accrual loans	33,547	57,159	29,943
Loans written off (net)	11,560	16,345	38,459
Allowance for loan losses	159,134	168,351	178,291
Overdue loan principal as a percentage of loans receivable	0.07%	0.31%	0.57%
Non-accrual loans as a percentage of loans receivable	0.62%	1.04%	0.58%
Loans written off (net) as a percentage of loans receivable	0.21%	0.30%	0.74%
Allowance for loan losses as a percentage of loans receivable	2.95%	3.07%	3.45%

The following table shows the changes of CABEI's allowance for loan losses for the fiscal years ended December 31, 2013, 2012 and 2011.

	Fiscal year ended December 31,								
	2013			2012			2011		
	Sector			Sector			Sector		
	Private	Public	Total	Private	Public	Total	Private	Public	Total
	(in thousands of U.S. dollars)								
At beginning of fiscal year	57,577	110,774	168,351	76,356	101,935	178,291	103,385	96,892	200,277
Loans written off, net	(11,560)	0	(11,560)	(16,345)	0	(16,345)	(38,459)	0	(38,459)
Recoveries	278	0	278	5,662	0	5,662	1,484	0	1,484
(Reversal of provision) provision of the year, net of releases	(1,719)	3,784	2,065	(8,096)	8,839	743	9,946	5,043	14,989
At fiscal year end	44,576	114,558	159,134	57,577	110,774	168,351	76,356	101,935	178,291

Capital Adequacy and Leverage

CABEI believes it has a strong capital base. CABEI's policies require that its equity represent at least 35% of its total risk weighted assets (defined in accordance with BIS I methodology). At December 31, 2013, this ratio stood at 39.11% compared to 36.20% at December 31, 2012 and 36.66% at December 31, 2011. Like most other multilateral institutions and pursuant to its Constitutive Agreement, CABEI does not pay dividends.

CABEI's equity at December 31, 2013 was US\$2,268 billion, or 30.09% of total assets, compared to US\$2.142 billion at December 31, 2012, or 28.53% of total assets and US\$2,028 billion at December 31, 2011, or 29.17% of total assets.

CABEI believes that its capital levels provide a substantial cushion against unforeseen losses. Additionally, CABEI's capital base is in U.S. dollars and not the local currencies of its Member Countries. Historically, Member Countries were allowed to contribute capital in local currencies, *provided* that the value was

maintained in U.S. dollar terms. However, since October 23, 2002, any new capital contributions, including amounts required to be made as a result of a call on callable capital must be made in U.S. dollars. Therefore, CABEL's capital base does not suffer from any depreciation associated with the Central American currencies.

Litigation

CABEL is involved in routine litigation and other proceedings in the ordinary course of business. CABEL does not believe that the proceedings pending against it are likely to have a material effect on its business or results of operations.

Employees

The following table sets forth the number of employees (including management) and independent contractors employed by CABEL at December 31, 2013, 2012 and 2011.

Employees and Independent Contractors

	December 31,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Employees	296	293	288
Independent contractors.....	38	34	34

CABEL's management believes that the salaries and other benefits of its professional staff are competitive and that the local support staff is paid at levels above the prevailing local rates. Although CABEL is not subject to local labor laws, it provides its employees with benefits and safeguards at least equivalent to those required under the law of the country where they normally work and reside. CABEL offers technical and professional training opportunities through courses and seminars in the Founding Members and abroad for its employees. Management considers its relationship with CABEL's employees to be good. There is no employee union and there have been no strikes in the history of CABEL.

MANAGEMENT

Board of Governors

Under the Constitutive Agreement, CABEI is governed by its Board of Governors. Each Member Country is entitled to appoint one Governor and an alternate who acts in place of the relevant Governor in his or her absence. All of CABEI's powers are vested in its Board of Governors.

The following table lists the members of the Board of Governors as of the date hereof.

Board of Governors

<u>Appointed by</u>	<u>Name and Title</u>	<u>Position in Nominating Country</u>
Guatemala	Governor: Dorval José M. Carías Samayoa	Minister of Public Finance
	Alternate: Sergio de la Torre Gimeno	Minister of Economy
El Salvador	Governor: Carlos Enrique Cáceres Chávez	Minister of Treasury
	Alternate: Tharsis Salomón López Guzmán	Minister of Economy
Honduras	Governor: Wilfredo Rafael Cerrato Rodríguez	Minister of Finance
	Alternate: Marlon Tábor Muñoz	President of the Central Bank of Honduras
Nicaragua	Governor: Iván Acosta Montalván	Minister of Treasury and Public Credit
	Alternate: Leonardo Ovidio Reyes Ramírez	President of the Central Bank of Nicaragua
Costa Rica	Governor: Helio Fallas Venegas	Minister of Treasury
	Alternate: Olivier Castro Pérez	President of the Central Bank of Costa Rica
Mexico	Governor: Luis Videgaray Caso	Secretary of Treasury and Public Credit
	Alternate: Fernando Aportela Rodríguez	Under-Secretary of Treasury and Public Credit
Republic of China (Taiwan)	Governor: Sheng-Ford Chang	Minister of Finance
	Alternate: Tzung-Ta Yen	Political Governor of the Central Bank of the Republic of China
Argentina	Governor: Axel Kicillof	Minister of Economy and Finance
	Alternate: Juan Carlos Fábrega	President of the Central Bank of Argentina
Colombia	Governor: Mauricio Cárdenas Santa María	Minister of Treasury and Public Credit
	Alternate: Andrés Restrepo Montoya	Technical Vice-Minister of the Ministry of Treasury and Public Credit
Spain	Governor: Luis de Guindos	Minister of Treasury

Appointed by	Name and Title	Position in Nominating Country
The Dominican Republic	Alternate: Fernando Jiménez Latorre	Secretary of Economy
	Governor: Simón Lizardo Mezquita	Secretary of Treasury
	Alternate: Héctor Valdez Albizu	Governor of the Central Bank of The Dominican Republic
Panama	Governor: Dulcidio De La Guardia	Minister of Economy and Finance
	Alternate: Iván Alexei Zarak Arias	Vice-Minister of Economy

The Board of Governors has elected Mr. Wilfredo Rafael Cerrato Rodríguez to serve as President of the Board of Governors from April 2014 until the next Board of Governors' ordinary meeting which is expected to take place during the first half of 2015.

The Board of Directors is responsible for setting the policies and directing the business of CABEL. The Board of Directors consists of one Director from each Founding Member country and, pursuant to the terms of the Constitutive Agreement, up to four Directors elected by the Governors of the Non-Regional Members. The Directors from both the Founding Members and the Non-Regional Members are elected for three-year terms. Directors are full-time employees of CABEL. The business address for the Directors is P.O. Box 772, Tegucigalpa, M.D.C., Honduras, C.A.

The following table sets forth as of the date hereof the names of the members of the Board of Directors appointed by each Member Country:

Board of Directors

Appointed by	Name
Guatemala	Oscar Humberto Pineda Robles
El Salvador	Guillermo Enrique Funes Cartagena
Honduras	Tania Joselina Lobo Alonzo
Nicaragua	Silvio Conrado Gómez
Costa Rica	Federico Ruzicka Rica
Mexico and Panama (Director)	Omar Antonio Francisco Martínez Villada
Mexico and Panama (Alternate Director)	Alcibiades García Vega
Republic of China (Taiwan)	Chiew Chang
Spain	Fernando Cardesa García
Argentina and Colombia (Director)	Víctor Eduardo Fabiano
Argentina and Colombia (Alternate Director)	Alonso Acosta Osío

Management

Pursuant to the Constitutive Agreement, the Board of Governors appoints an Executive President for a five-year term. The Executive President is elected on the basis of a competitive process for a five-year term and may be reelected for one additional five-year term. The Executive President nominates an Executive Vice President for appointment by the Board of Directors. While the Executive President is required to be a citizen of a Founding Member, the Executive Vice President need not be a citizen of a Founding Member. The Executive President and the Executive Vice President are required to be of different nationalities. The Executive President appoints the balance of CABEL's senior management.

Pursuant to Article 15 of the Constitutive Agreement, the Board of Directors created the following five divisions to manage CABEL, each of which is or is to be headed by a manager appointed by the Executive President subject to the approval of the Board of Directors:

Financial Division;
Sectors and Countries Division;
Credit Division;
Institutional Risk Division; and
Operations and Technology Division.

CABEL's country offices in the Founding Member countries report through the Manager of the Sectors and Countries Division to the Executive President, while the Legal Affairs Office, the Strategic and Programming Office, the Compliance Office, the Social Benefit Fund, the Institutional Relations Office and the Human Resources Office report directly to the Executive President.

In addition to the divisions and departments described above, CABEL also has an Internal Auditing Department that reports directly to the Board of Directors and a Comptroller who reports directly to the Board of Governors.

The following table sets forth the names and titles of certain members of CABEL's management as of the date hereof.

<u>Name</u>	<u>Position</u>
Nick Rischbieth Glöe	Executive President
Alejandro Rodríguez Zamora	Executive Vice President
Hernán Danery Alvarado	Chief Financial Officer
Francisco Cornejo Párraga	Operations and Technology Manager
Diego Marcelo Fiorito Meoli	Institutional Risk Division Manager
Julio Eduardo Martínez Bichara	Head of the Legal Affairs Office
Manuel Torres Lezama	Sectors and Countries Division Manager (<i>a.i.</i>)
Héctor Guillermo Quiñonez Gutiérrez	Credit Division Manager

Set forth below is a brief biographical description of certain of CABEL's executives.

Nick Rischbieth Glöe was appointed as Executive President of CABEL, commencing on December 1, 2008. He received his bachelor's degree in economics from Rice University, a master's degree in business administration from Washington University, and a doctorate in finance from the Institute of Money and Capital Markets, University

of Hamburg, Germany. Prior to joining CABEL, Mr. Rischbieth was vice-president in the new issues and underwriting division and, subsequently, in the international financial markets division of Dresdner Bank AG, Frankfurt. Prior to his appointment as Executive President, Mr. Rischbieth was CABEL's Acting Executive President, Executive Vice-President, Chief Financial Officer and Treasurer. Mr. Rischbieth is a member of several boards of open-end investment funds.

Alejandro Rodríguez Zamora was appointed as Executive Vice President on January 18, 2010. He received his graduate degree in law from the University of Costa Rica and a masters of law in common law studies (LLM) from Georgetown University Law Center. As of June 4, 2012, Mr. Rodríguez was also appointed as the Countries and Projects Division Manager *a.i.* Prior to joining CABEL, Mr. Rodríguez worked as General Legal Counsel of the Costa Rican Stock Exchange. Prior to his appointment as Executive Vice President, Mr. Rodríguez was CABEL's General Legal Counsel. Since 1999, Mr. Rodríguez has been a member of the Board of Directors of the CABEL Central American Fund, a limited liability open-end investment company incorporated in Ireland. In addition, since 2004, Mr. Rodríguez has been a member of the Board of Directors of the North American Income Fund, a limited liability open-end investment company incorporated in Ireland.

Hernán Danery Alvarado was appointed as Chief Financial Officer of CABEL on February 1, 2009. He received his bachelor's degree in Accounting from Universidad Nacional Autónoma de Honduras, a master's degree in Business Administration from Universidad Católica de Honduras. Prior to become CFO, Mr. Alvarado was Chief of Asset and Liability Management of the Financial Division of CABEL. Prior to his appointment as Chief Financial Officer, Mr. Alvarado was CABEL's Acting Chief Financial Officer.

Francisco Cornejo Párraga was appointed as Operations and Technology Manager on April 21, 2014. He received his bachelor's degree in Industrial Engineering from Universidad Católica de El Salvador and a master's degree in Business Administration majoring in Finance from INCAE Business School. Prior to joining CABEL, Mr. Cornejo worked for Sysbanc as Country Manager & Partner, and also worked for Citibank and Banco Uno.

Diego Marcelo Fiorito Meoli was appointed as Institutional Risk Division Manager on September 1, 2011. He received his bachelor's degree in Economics from the Universidad Católica Argentina and holds a master's degree in Finance from the Universidad de San Andrés, Argentina and a master's degree in Business Administration from Hult International Business School, Boston, USA. Additionally, he holds international finance and risk certifications (Chartered Financial Analyst – CFA and Financial Risk Manager - FRM). Prior to becoming CABEL's Institutional Risk Division Manager, Mr. Fiorito was appointed as Head of the Assets and Liabilities Department and served as Deputy Risk Division Manager. Prior to joining CABEL, he served as Vice President of Treasury and of Market Risk at Bladex, Panama.

Julio Eduardo Martínez Bichara was appointed as Head of CABEL's Legal Affairs Office on March 1, 2013. He received his graduate degree in law and a master's degree in business administration from the Universidad Centroamericana José Simeón Cañas in San Salvador, Republic of El Salvador and a master's degree in international trade law from the Universitat de Barcelona, Barcelona, Spain. Prior to his appointment as Head of the Legal Affairs Office, Mr. Martínez was appointed as Legal Counsel for CABEL's Country Office located in El Salvador and later was appointed as the Structured Transactions Legal Coordinator at CABEL's main headquarters. Prior to joining CABEL, Mr. Martínez worked at B&M Abogados and for Banco Uno, S.A. (Grupo Financiero Uno).

Manuel Torres Lezama was appointed as the acting interim Sectors and Countries Division Manager on May 13, 2014. He received his bachelor's degree in Economics from Universidad Nacional Autónoma de Nicaragua and a master's degree in Environmental and Natural Resources Economics from the Universidad de los Andes, Colombia. Prior to becoming acting interim Sectors and Countries Division Manager, Mr. Torres served as Head of CABEL's Projects Formulation Department.

Héctor Guillermo Quiñonez Gutiérrez was appointed as Credit Division Manager on March 19, 2013. He received his bachelor's degree in business administration from Universidad del Rosario in the Republic of Colombia and a master's degree in international business and business administration, and a post-graduate degree in AC finance from Southern New Hampshire University. Prior to his appointment as Credit Division Manager of CABEL, he served as the Chief Executive Officer of Scotiabank Colombia.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Final Terms, will be applicable to and, subject further to simplification by deletion of non-applicable provisions, will be attached to or endorsed on, the Notes in global form and the Notes in definitive form (if any) issued in exchange for the relevant Global Note(s), details of the relevant Notes being shown on the relevant Notes and in the applicable Final Terms.

The Final Terms relating to each Note will describe the following items (each term is as defined below or in the Fiscal Agency Agreement): (i) the Specified Currency with respect to such Note (and, if such Specified Currency is other than U.S. dollars, certain other terms relating to such Note); (ii) the price (expressed as a percentage of the principal amount thereof) at which such Note will be issued; (iii) the date on which such Note will be issued; (iv) the date on which such Note will mature; (v) whether such Note is a Fixed Rate Note or a Floating Rate Note; (vi) if such Note is a Fixed Rate Note, the rate per annum at which such Note will bear interest, if any, and the interest payment date or dates; (vii) if such Note is a Floating Rate Note, the Interest Rate Basis for such Floating Rate Note, which will be such interest rate formula as is set forth in such Final Terms, and, if applicable, the Calculation Agent, the Index Maturity, the Spread or Spread Multiplier, the Maximum Rate, the Minimum Rate, the Initial Interest Rate, the Interest Payment Dates, the Regular Record Dates, the Calculation Dates, the Interest Determination Dates and the Interest Reset Dates with respect to such Floating Rate Note; (viii) whether such Note is an Original Issue Discount Note, and if so, the yield to maturity; (ix) whether such Note is an Indexed Note, and if so, the principal amount thereof payable at maturity, or the amount of interest payable on an interest payment date, as determined by reference to any applicable index, in addition to certain other information relating to the Indexed Note; (x) whether such Note may be redeemed at the option of CABEI or repaid at the option of the Holder, prior to Stated Maturity and, if so, the provisions relating to such redemption or repayment; and (xi) any other terms of such Note not inconsistent with the provisions of the Fiscal Agency Agreement.

(1) General

This Note is one of a duly authorized issue of Medium-Term Notes issued and to be issued pursuant to a Fiscal Agency Agreement, dated as of April 2, 2003, as amended on March 8, 2007, April 15, 2009 and October 17, 2013 (the “Fiscal Agency Agreement”), among CABEI and Deutsche Bank Trust Company Americas, as Fiscal Agent, Registrar, Transfer Agent (“Fiscal Agent”, “Registrar” and “Transfer Agent”, which terms include any successor as Fiscal Agent or Registrar or Transfer Agent under the Fiscal Agency Agreement), and Paying Agent in New York, Deutsche Bank Luxembourg S.A. as Paying Agent and Transfer Agent in Luxembourg and Deutsche Bank AG London as Paying Agent and Transfer Agent in London. These Terms and Conditions, as amended or supplemented by the provisions contained in the applicable Final Terms, are fully incorporated into this Note by reference and shall for all purposes have the same effect as if set forth herein. Terms used but not defined herein shall have the meanings assigned to them in the Fiscal Agency Agreement, and such defined terms are incorporated herein by reference. Copies of the Fiscal Agency Agreement are available for inspection at the principal office of the Fiscal Agent at Deutsche Bank Trust Company Americas, Corporate Trust & Agency Services, 60 Wall Street, MS# NYC03-0914, New York, New York 10005 (the “Corporate Trust Office”), and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, at the office of the Paying Agent hereinafter named in Luxembourg. The Holders (as defined in Section 3 hereof) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement that are applicable to them. Unless the context otherwise requires, references in these Terms and Conditions to the “Notes” apply generally to the Notes and, to the extent not inconsistent with the applicable Final Terms, this Note.

Notes may be issued under the Fiscal Agency Agreement from time to time in separate series (each such series of Notes being hereinafter referred to as a “Series” or the “Notes of a Series”). The Notes of each Series will have identical terms (except for the issue date, the issue price or the first interest payment date), including, but not limited to, terms with respect to currency, denomination, interest rate, interest payment dates and maturity, except that each Series may include Registered Notes (as herein defined) and Bearer Notes (as herein defined). The Notes of all Series are limited to an aggregate initial principal amount of US\$4,000,000,000 (or its equivalent in another currency or composite currency), subject to increase by CABEI as provided in the Fiscal Agency Agreement if in

the future it so determines for any reason. Except for such aggregate limit, there is no limit on the amount of Notes that may be issued in any particular Series.

CABEI may, in its discretion, sell additional notes from time to time in one or more offerings (the “Additional Notes”). Any Additional Notes issued by CABEI will be part of the same series as the Notes. The Notes and the Additional Notes will have the same ranking, interest rate, maturity and other terms and will be treated as a single series of notes under the Fiscal Agency Agreement. The Additional Notes will be fungible for trading purposes with, and will bear the same Common Code and ISIN Number, as the Notes.

This Note will mature on the date specified in the applicable Final Terms (“Stated Maturity”). Upon the Stated Maturity, CABEI will be required to repay 100% of the outstanding principal amount thereof (or, in the case of Zero Coupon Notes, Original Issue Discount Notes, Currency Indexed Notes or Indexed Notes, 100% of the amount due and payable upon maturity), unless the applicable Final Terms with respect to such Notes otherwise specifies.

This Note is denominated in either U.S. dollars or in such other currency or composite currency (“Specified Currency”) as may be specified on the face hereof and in the applicable Final Terms. Notes denominated in a Specified Currency other than the U.S. dollar are hereinafter referred to as “Foreign Currency Notes”. Purchasers of Notes are required to pay for such Notes by delivery of the requisite amount of the Specified Currency to an Agent, unless other arrangements have been made. Unless otherwise specified in the applicable Final Terms, payments on each Foreign Currency Note (other than Notes held through DTC with respect to which certain elections have not been made) will be made in the applicable Specified Currency in the country issuing the Specified Currency (or, in the case of euro, in a city in which banks have access to the TARGET System (as herein defined)), *provided* that, at the election of the holder thereof and in certain circumstances at the option of CABEI, payments on a Foreign Currency Note may be made in U.S. dollars.

Notes are sold in individual issues of Notes having such interest rate or interest rate formula, if any, Stated Maturity and date of original issuance as shall be set forth in the applicable Final Terms.

Unless otherwise indicated in the applicable Final Terms, this Note, unless it is a Zero Coupon Note, Currency Indexed Note or Indexed Note, will bear interest at a fixed rate or at a rate (the “Base Rate”) determined by reference to the Commercial Paper Rate, the Prime Rate, LIBOR, the Treasury Rate, the CD Rate or the Federal Funds Rate, as adjusted by the Spread and/or Spread Multiplier (each as defined in Section 4 hereof), if any, applicable to such Note, or any other rate as set forth in the applicable Final Terms. This Note has been issued as a Zero Coupon Note if so indicated in the applicable Final Terms. A Zero Coupon Note is a Note that is issued at a discount from the principal amount payable at maturity thereof and which will not bear interest, unless otherwise specified in the Final Terms.

This Note has been issued as an Original Issue Discount Note if so indicated in the applicable Final Terms. In general, an Original Issue Discount Note is a Note, including any Zero Coupon Note, that is issued at a price lower than the principal amount thereof, and which provides that upon redemption or acceleration of the maturity thereof, the amount payable to the Holder of such Note will be determined in accordance with the terms of such Note, but will be an amount that is less than the amount payable at the Stated Maturity of such Note.

This Note may be issued as a Currency Indexed Note, the principal amount of which is payable at or prior to maturity and any interest on which and/or any premium on which will be determined by the difference between the currency or composite currency in which such Note is denominated and another currency or composite currency or by reference to any currency index or indices, in each case as set forth in the applicable Final Terms. This Note may also be issued as other (non-Currency) Indexed Notes, the principal amount of which is payable at or prior to maturity, any interest on which and/or any premium on which will be determined by reference to the difference in the prices of specified securities, commodities or interest rates or securities, commodities, interest rates or other indices, in each case as set forth in the applicable Final Terms.

Unless otherwise specified in the applicable Final Terms, this Note will not be redeemable prior to maturity at the option of CABEI. Unless otherwise specified in the applicable Final Terms, this Note will not be repayable prior to maturity at the option of the Holder of the Note.

(2) Form, Denomination and Registration

Notes may be issued in registered form without interest coupons (“Registered Notes” or a “Registered Note”) or in bearer form, with or without interest coupons (“Bearer Notes” or a “Bearer Note”) as specified in the applicable Final Terms.

Except as otherwise specified in the applicable Final Terms and with respect to Notes denominated in Japanese ¥, Registered Notes may be issued only in minimum denominations of (i) if denominated in U.S. dollars, US\$10,000 and integral multiples of US\$1,000 in excess thereof or (ii) if denominated other than in U.S. dollars, the amount of the Specified Currency for such Note equivalent to US\$10,000 and integral multiples of US\$1,000 in excess thereof, at the noon buying rate in The City of New York for cable transfers in such Specified Currency certified by the Federal Reserve Bank of New York or, in the event the Federal Reserve Bank of New York does not certify a noon buying rate for such Specified Currency, at the rate quoted or published by the relevant central bank as the rate for buying such Specified Currency (or, in the case of euro, the European Central Bank Frankfurt).

Bearer Notes may be issued in denominations as specified in the applicable Final Terms.

Unless otherwise permitted by then current laws, regulations and directives, Notes denominated in Japanese ¥ will be in minimum denominations of ¥1,000,000.

CABEI will at all times, for as long as any Notes are outstanding, appoint and maintain one or more Paying Agents (any of which may be the Fiscal Agent), each of which will be authorized in writing by CABEI to pay the principal of (and premium, if any) or interest on any Note on behalf of CABEI and will have an office or agency (a “Paying Agency Office”) in a specified city (a “Place of Payment”) where the Notes may be presented or surrendered for payment and where notices, designations or requests in respect of payments with respect to the Notes may be served (*provided* that interest on any Bearer Note shall be payable only outside the United States and its possessions, as defined under Section 5 below). CABEI reserves the right to vary or terminate the appointment of any Paying Agent or to appoint additional or other Paying Agents or to approve any change in the office through which any Paying Agent acts, *provided* that for so long as any Notes are outstanding, there shall at all times be a Paying Agency Office in Western Europe (which, for so long as any Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, shall include an office or agency in Luxembourg) and for so long as any Registered Notes are outstanding, there shall at all times be a Paying Agency Office in The City of New York.

CABEI shall maintain for so long as any Notes are outstanding transfer agents (each, a “Transfer Agent”) where the Notes may be surrendered for registration of transfer or exchange. CABEI has initially appointed the Corporate Trust Office of the Fiscal Agent in The City of New York, the London office of the Fiscal Agent and the Luxembourg Paying Agent as its Transfer Agents. CABEI shall cause each Transfer Agent to act as a Notes registrar and shall cause to be kept at the office of each Transfer Agent a register in which, subject to such reasonable regulations as it may prescribe, CABEI shall provide for the registration of Notes and registration of transfers and exchanges of Notes. CABEI reserves the right to vary or terminate the appointment of any Transfer Agent or to appoint additional or other Transfer Agents or to approve any change in the office through which any Transfer Agent acts, *provided* that for so long as any Notes are outstanding there shall at all times be a Transfer Agent in Western Europe (which, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, shall include an office or agency in Luxembourg), and, for so long as any Registered Notes are outstanding, there shall at all times be a Transfer Agent in The City of New York.

(3) Transfer; Exchange

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, the transfer of a Registered Note is registrable on the aforementioned registers upon surrender of such Note at any Transfer Agent duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to CABEI duly executed by, the registered Holder thereof or his attorney duly authorized in writing. Upon such surrender of such Note for registration of transfer, CABEI shall execute, and the Fiscal Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes, dated the date of authentication thereof, of any authorized denominations and of a like aggregate principal amount.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the registered Holder upon request confirmed in writing, Registered Notes of a Series may be exchanged for Registered Notes of such Series of any authorized denominations and of a like tenor, form and aggregate principal amount upon surrender of the Registered Notes to be exchanged at the office of any Transfer Agent. Whenever any Registered Notes are so surrendered for exchange, CABEL shall execute, and the Fiscal Agent shall authenticate and deliver, the Registered Notes that the registered Holder making the exchange is entitled to receive. Any registration of transfer or exchange will be effected upon the Transfer Agent or the Fiscal Agent, as the case may be, being satisfied with the documents of title and identity of the person making the request and subject to such reasonable regulations as CABEL may from time to time agree with the Transfer Agents and the Fiscal Agent.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the Holder of a Bearer Note, Bearer Notes of a Series may be exchanged for Bearer Notes of such Series of any authorized denominations and of a like aggregate principal amount, tenor and form and upon surrender of the Notes to be exchanged, together with all unmatured Coupons and all matured Coupons in default appertaining to such Note, at the office of any Transfer Agent in Western Europe. If the Holder of a Bearer Note is unable to produce any such unmatured Coupon or Coupons or matured Coupon in default, such exchange may be effected if the Bearer Notes are accompanied by payment in funds acceptable to CABEL in an amount equal to the face amount of such missing Coupon or Coupons, or the surrender of such missing Coupon or Coupons may be waived in writing by CABEL and the Fiscal Agent if there be furnished to them such security or indemnity as they may require to save each of them and each other agent of CABEL hereunder harmless. Whenever any Notes are so surrendered for exchange, CABEL shall execute, and the Fiscal Agent shall authenticate and deliver, the Notes that the Holder making the exchange is entitled to receive. Any exchange will be subject to such reasonable regulations as CABEL may from time to time agree with the Transfer Agents and the Fiscal Agent.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the Holder of a Bearer Note upon request confirmed in writing, Bearer Notes may be exchanged for Registered Notes of any authorized denominations and of a like aggregate principal amount and tenor upon surrender of the Bearer Notes to be exchanged, together with all unmatured Coupons and all matured Coupons in default appertaining thereto, at the office of any Transfer Agent in Western Europe. If the Holder of a Bearer Note is unable to produce any such unmatured Coupon or Coupons or matured Coupons in default, such exchange may be effected if the Bearer Notes are accompanied by payment in funds acceptable to CABEL in an amount equal to the face amount of such missing Coupon or Coupons, or the surrender of such missing Coupon or Coupons may be waived in writing by CABEL and the Fiscal Agent if there be furnished to them such security or indemnity as they may require to save each of them and each other agent of CABEL hereunder harmless. Notwithstanding the foregoing, if a Bearer Note is surrendered in exchange for a Registered Note (i) after the close of business on the Regular Record Date (as herein defined) next preceding an Interest Payment Date and before the opening of business on such Interest Payment Date, or (ii) after the close of business on any special record date for the payment of defaulted interest and before the opening of business on the relevant proposed date of payment of such defaulted interest, such Bearer Notes shall be surrendered without the Coupon relating to such Interest Payment Date or proposed date of payment, as the case may be, and the interest payable on such Interest Payment Date or proposed date of payment shall not be payable in respect of the Registered Note issued in exchange for such Bearer Note, but will be payable only to the Holder of such Coupon upon presentation and surrender thereof when due.

Registered Notes may not be exchanged for Bearer Notes.

In the event of a redemption of the Notes of a Series in part, CABEL shall not be required (i) to register the transfer of or exchange of any Note of such Series during a period beginning at the opening of business 15 days before, and continuing until, the date notice is given identifying the Notes to be redeemed, or (ii) to register the transfer of or exchange of any Notes of such Series, or portion thereof, called for redemption except the unredeemed portion of any Note redeemed in part.

All Notes of a Series issued upon any registration of transfer or exchange of Notes shall be the valid obligations of CABEL, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. No service charge shall be made for any registration of transfer or exchange, but CABEL may require payment of a sum sufficient to cover any tax or other governmental charge

payable in connection therewith, other than an exchange in connection with a partial redemption of a Note not involving any registration of transfer.

Title to Bearer Notes and Coupons shall pass by delivery. CABEL, the Fiscal Agent and any agent of CABEL or the Fiscal Agent may treat the Holder of a Bearer Note, the Holder of a Coupon and, prior to due presentment of a Registered Note for registration of transfer, the person in whose name a Registered Note is registered as the absolute owner thereof for all purposes, whether or not such Note or Coupon be overdue, and neither CABEL, the Fiscal Agent nor any such agent of either shall be affected by notice to the contrary.

For all purposes under the Notes and the Fiscal Agency Agreement, the “Holder” of any Note is the person in whose name such Note is registered, in the case of a Registered Note, or the bearer of such Note, in the case of a Bearer Note.

(4) Interest Rate

Unless otherwise specified in the applicable Final Terms, each Note, other than a Zero Coupon Note, will bear interest from its date of issue or from the most recent Interest Payment Date (or, if such Note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the calendar day following the most recent Regular Record Date) to which interest on such Note has been paid or duly provided for at the fixed rate per annum, or at the rate per annum determined pursuant to the interest rate formula, stated therein and in the applicable Final Terms until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at maturity as specified under “Payment of Principal and Interest”.

Each Note, other than a Zero Coupon Note, will bear interest at either (i) a fixed rate (a “Fixed Rate Note”) or (ii) a variable rate determined by reference to an interest rate basis (a “Floating Rate Note”), which may be adjusted by adding or subtracting the Spread and/or multiplying by the Spread Multiplier (each term as defined below). A Floating Rate Note may also have either or both of the following: (i) a maximum numerical interest rate limitation, or ceiling, on the rate at which interest may accrue during any interest period (a “Maximum Rate”) and (ii) a minimum numerical interest rate limitation, or floor, on the rate at which interest may accrue during any interest period (a “Minimum Rate”). The “Spread” is the number of basis points specified in the applicable Final Terms as being applicable to the interest rate for such Note and the “Spread Multiplier” is the percentage specified in the applicable Final Terms as being applicable to the interest rate for such Note. “Market Day” means any day that is a Business Day in The City of New York and London. Unless otherwise specified in the applicable Final Terms, the term “Business Day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is (i) not a day on which banking institutions in the relevant location generally are obligated by law or executive order to close, and (ii) if this Note is denominated in a Specified Currency other than U.S. dollars, not a day on which banking institutions are authorized or obligated by law or executive order to close in the financial center of the country issuing the Specified Currency (except in the case of euro, in which case “Business Day” shall not include any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (“TARGET”) System is not operating). “Index Maturity” means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Final Terms. The calculation agent, which will calculate the interest rate basis with respect to any particular issue of Floating Rate Notes (the “Calculation Agent”), will be specified in the applicable Final Terms.

In addition to any Maximum Rate that may be applicable to any Floating Rate Note pursuant to the above provisions, the interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by U.S. law of general application. Under present New York law the maximum rate of interest is 25% per annum on a simple interest basis, with certain exceptions. The limit may not be applicable to Floating Rate Notes in which US\$4,000,000 or more has been invested.

The applicable Final Terms relating to a Fixed Rate Note will designate a fixed rate of interest per annum payable on such Fixed Rate Note. Interest on Fixed Rate Notes will be paid semi-annually (unless otherwise specified in the applicable Final Terms) and at maturity.

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the rate of interest, such interest being payable in arrears on each Interest Payment Date as adjusted in accordance with the applicable day count fraction.

The applicable Final Terms relating to a Floating Rate Note will designate an interest rate basis (the “Interest Rate Basis”) for such Floating Rate Note. The Interest Rate Basis for each Floating Rate Note will be: (i) the Commercial Paper Rate, in which case such Note will be a Commercial Paper Rate Note; (ii) the Prime Rate, in which case such Note will be a Prime Rate Note; (iii) LIBOR, in which case such Note will be a LIBOR Note; (iv) the Treasury Rate, in which case such Note will be a Treasury Rate Note; (v) the CD Rate, in which case such Note will be a CD Rate Note; (vi) the Federal Funds Rate, in which case such Note will be a Federal Funds Rate Note; or (vii) such other interest rate formula as is set forth in such Final Terms. The applicable Final Terms for a Floating Rate Note will specify the Interest Rate Basis and, if applicable, the Calculation Agent, the Index Maturity, the Spread or Spread Multiplier, the Initial Interest Rate, the Maximum Rate, the Minimum Rate, the Interest Payment Dates, the Regular Record Dates, the Calculation Dates, the Interest Determination Dates, the Interest Reset Period and the Interest Reset Dates with respect to such Note (each term as defined below or in such Note).

The rate of interest on each Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually, annually or otherwise as specified in the applicable Final Terms (each such period, an “Interest Reset Period”). Unless otherwise specified in the applicable Final Terms, the interest reset date (the “Interest Reset Date”) will be, in the case of Floating Rate Notes that reset daily, each Market Day; in the case of Floating Rate Notes (other than Treasury Rate Notes) that reset weekly, the Wednesday of each week; in the case of Treasury Rate Notes that reset weekly, the Tuesday of each week, except as provided below; in the case of Floating Rate Notes that reset monthly, the third Wednesday of each month; in the case of Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December; in the case of Floating Rate Notes that reset semi-annually, the third Wednesday of two months of each year that are six-months apart as specified in the applicable Final Terms; and in the case of Floating Rate Notes that reset annually, the third Wednesday of one month of each year as specified in the applicable Final Terms; *provided* that the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the Initial Interest Rate (as set forth in the applicable Final Terms). If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Market Day with respect to such Floating Rate Note, the Interest Reset Date for such Floating Rate Note shall be postponed to the next day that is a Market Day with respect to such Floating Rate Note, except that, in the case of a LIBOR Note, if such Market Day is in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding Market Day.

The Fiscal Agent shall notify the Luxembourg Stock Exchange of the Interest Payment Dates, the applicable interest rate and the amount of interest payable on each Interest Payment Date for Notes of each Series to be listed on such Exchange by no later than (a) in the case of Fixed Rate Notes, the date of the applicable Final Terms or (b) in the case of Floating Rate Notes, the beginning of the relevant Interest Reset Period relating to such Notes.

Unless otherwise specified in the applicable Final Terms, Interest Determination Dates will be as set forth below. The Interest Determination Date pertaining to an Interest Reset Date for (i) a Commercial Paper Rate Note (the “Commercial Paper Rate Interest Determination Date”), (ii) a Prime Rate Note (the “Prime Rate Interest Determination Date”), (iii) a LIBOR Note (the “LIBOR Interest Determination Date”), (iv) a CD Rate Note (the “CD Rate Interest Determination Date”) and (v) a Federal Funds Rate Note (the “Federal Funds Rate Interest Determination Date”) will be the second Market Day preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note (the “Treasury Rate Interest Determination Date”) will be the day of the week in which such Interest Reset Date falls on which Treasury Bills would normally be auctioned. Treasury Bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Rate Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week. If an auction date shall fall on any Interest Reset Date for a Treasury Rate Note, then such Interest Reset Date shall instead be the first Market Day immediately following such auction date.

Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next Interest Reset Date with respect to such Floating Rate Note.

The Calculation Agent will, for each Interest Period, as soon as practicable after 11:00 A.M. (New York time) on the Interest Determination Date therefor, determine the interest rate therefor and calculate the amount of interest payable on each US\$1,000 (or the equivalent thereof in the Specified Currency) (the “Minimum Multiple”) face amount of the Notes for such Interest Period. The amount of interest payable in respect of the Notes in the face amount equal to the Minimum Multiple for any Interest Period (the “Interest Amount”) shall be calculated by (A) applying the rate of interest for such Interest Period to the outstanding principal amount of a Note having a face amount equal to the Minimum Multiple, (B) multiplying such amount by the actual number of days in such Interest Period, (C) dividing by 360 and (D) rounding as specified in the following paragraph. The amount of interest payable in respect of any Fixed Rate Note issued in Renminbi for any Interest Period shall be equal to the product of the Rate of Interest, the Interest Amount, and the Day Count Fraction, rounding the resulting figure to the nearest CNY0.01 and in accordance with the succeeding paragraph, and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Fixed Rate Note divided by the Interest Amount. Unless otherwise specified in the applicable Final Terms, “Interest Period” means the period beginning on (and including) the date of original issuance of a Note and ending on (but excluding) the first Interest Payment Date thereafter and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date; *provided* that with respect to any overdue amount hereunder, the first Interest Period therefor shall commence on the day on which such amount was due and payable hereunder and end on the seventh calendar day thereafter, and thereafter each Interest Period for such overdue amount shall commence on the date of the expiration of the preceding Interest Period for such amount and end on the date one month thereafter; and *provided further* that, if at least three Business Days prior to the end of any Interest Period for such overdue amount Cabei notifies the Fiscal Agent in writing that Cabei intends to pay such overdue amount on a date prior to the date on which the next succeeding Interest Period for such overdue amount would otherwise end, then the next succeeding Interest Period shall end on the date specified in such notice, provided that such overdue amount is paid on such date.

All percentages resulting from any calculations referred to herein will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward, e.g., 8.763235% (or .08763235) being rounded to 8.76324% (or .0876324), and all U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upward) or in the case of currencies other than U.S. dollars to the nearest one-hundredth of a unit.

Commercial Paper Rate Notes

Each Commercial Paper Rate Note will bear interest at the interest rates calculated with reference to the Commercial Paper Rate and the Spread and/or Spread Multiplier, if any, specified in such Commercial Paper Rate Note and the applicable Final Terms and will be payable on the dates specified on the face of such Commercial Paper Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a Commercial Paper Rate Interest Determination Date will be the tenth calendar day after such Commercial Paper Rate Interest Determination Date or, if any such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Commercial Paper Rate” means, with respect to any Interest Reset Date, the Money Market Yield (calculated as described below) of the per annum rate (quoted on a bank discount basis) for the relevant Commercial Paper Rate Interest Determination Date for commercial paper having the specified Index Maturity as published by the Board of Governors of the Federal Reserve System in “Statistical Release H.15(519), Selected Interest Rates” or any successor publication of the Board of Governors of the Federal Reserve System (“H.15(519)”) under the heading “Commercial Paper—Nonfinancial”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the Commercial Paper Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be the Money Market Yield of the arithmetic mean of the offered per annum rates (quoted on a bank discount basis), as of 11:00 A.M., New York City time, on such Commercial Paper Rate Interest Determination Date, of three leading dealers of commercial paper in The City of New York selected by the Calculation Agent for commercial

paper of the specified Index Maturity placed for an industrial company whose bond rating is “AA”, or the equivalent, from a U.S. nationally recognized rating agency; *provided* that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Commercial Paper Rate with respect to such Interest Reset Date will be the Commercial Paper Rate in effect on such Commercial Paper Rate Interest Determination Date.

“Money Market Yield” shall be a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\frac{D \times 360}{360 - (D \times M)}$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the period for which interest is being calculated.

Prime Rate Notes

Each Prime Rate Note will bear interest at the interest rates calculated with reference to the Prime Rate and the Spread and/or Spread Multiplier, if any, specified in such Prime Rate Note and the applicable Final Terms, and will be payable on the dates specified on the face of such Prime Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a Prime Rate Interest Determination Date will be the tenth day after such Prime Rate Interest Determination Date or, if any such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Prime Rate” means, with respect to any Interest Reset Date, the rate set forth for the relevant Prime Rate Interest Determination Date in H.15(519) under the heading “Bank Prime Loan”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the Prime Rate with respect to such Interest Reset Date will be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the display designated as page “NYMF” on the Reuters Monitor Money Rates Service (or such other page as may replace the NYMF page on that service for the purpose of displaying prime rates or base lending rates of major U.S. banks) (“Reuters Screen NYMF Page”) as such bank’s prime rate or base lending rate as in effect for such Prime Rate Interest Determination Date as quoted on the Reuters Screen NYMF Page on such Prime Rate Interest Determination Date. If fewer than four such rates appear on the Reuters Screen NYMF Page on such Prime Rate Interest Determination Date, the Prime Rate with respect to such Interest Reset Date will be the arithmetic mean of the prime rates or base lending rates (quoted on the basis of the actual number of days in the year divided by 360) as of the close of business on such Prime Rate Interest Determination Date by three major banks in The City of New York selected by the Calculation Agent; *provided* that if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Prime Rate with respect to such Interest Reset Date will be the Prime Rate in effect on such Prime Rate Interest Determination Date.

LIBOR Notes

Each LIBOR Note will bear interest at the interest rates calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any, specified in such LIBOR Note and the applicable Final Terms, and will be payable on the dates specified on the face of such LIBOR Note and in the applicable Final Terms, unless otherwise specified.

The applicable Final Terms will specify whether LIBOR will be determined on the basis of the rates appearing on the Reuters Screen LIBO Page or Telerate Page 3750 (each as defined below) or another method. If neither LIBOR Reuters (as defined below) nor another method is specified in the applicable Final Terms, LIBOR will be determined as if LIBOR Telerate (as defined below) had been specified. LIBOR with respect to any Interest Reset Date will be determined by the Calculation Agent in accordance with the following provisions:

- (a) On the relevant LIBOR Interest Determination Date, LIBOR will be determined on the basis of the offered rates for deposits in U.S. dollars having the specified Index Maturity, commencing on the second Market Day immediately following such LIBOR Interest Determination Date, that appear as of 11:00 A.M., London time, on such LIBOR Interest Determination Date on (A) the Reuters Screen LIBO Page (“LIBOR Reuters”) or (B) Telerate Page 3750 (“LIBOR Telerate”), as applicable. If the applicable Final Terms specifies LIBOR Reuters and if at least two offered rates appear on the Reuters Screen LIBO Page, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the offered rates as determined by the Calculation Agent. If fewer than two offered rates appear on the Reuters Screen LIBO Page or if no rate appears on Telerate Page 3750, then LIBOR with respect to such Interest Reset Date will be determined as described in (b) below. “Reuters Screen LIBO Page” means the display designated as page “LIBO” on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks). “Telerate Page 3750” means the display designated as page “3750” on the Dow Jones Telerate Service (or such other page as may replace the “3750” page on that service or such other service or services as may be nominated by the British Bankers’ Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).
- (b) With respect to a LIBOR Interest Determination Date on which fewer than two offered rates for the applicable Index Maturity appear on the Reuters Screen LIBO Page or no rate for the applicable Index Maturity appears on the Telerate Screen Page 3750, as applicable and as described in (a) above, LIBOR will be determined on the basis of the rates at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date at which deposits in U.S. dollars having the specified Index Maturity are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent commencing on the second Market Day immediately following such LIBOR Interest Determination Date and in a principal amount equal to an amount of not less than \$1,000,000 that in the Calculation Agent’s judgment is representative for a single transaction in such market at such time (a “Representative Amount”). The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York City time, on such LIBOR Interest Determination Date by three major banks in The City of New York, selected by the Calculation Agent, for loans in U.S. dollars to leading European banks having the specified Index Maturity commencing on the second Market Day immediately following such LIBOR Interest Determination Date and in a Representative Amount; *provided* that if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, LIBOR with respect to such Interest Reset Date will be the LIBOR in effect on such LIBOR Interest Determination Date.

Treasury Rate Notes

Each Treasury Rate Note will bear interest at the interest rates calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any, specified in such Treasury Rate Note and the applicable Final Terms, and will be payable on the dates specified on the face of such Treasury Rate Note and in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, the “Calculation Date” with respect to a Treasury Rate Interest Determination Date will be the tenth day after such Treasury Rate Interest Determination Date or, if any such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Treasury Rate” means, with respect to any Interest Reset Date, the rate for the auction on the relevant Treasury Rate Interest Determination Date of direct obligations of the United States (“Treasury Bills”) having the specified Index Maturity as published in H.15(519) under the heading “U.S. Government Securities/Treasury Bills/Auction High” or, if not so published by 3:00 P.M., New York City time, on the relevant Calculation Date, the auction average rate (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) for such auction as otherwise announced by the U.S. Department of the Treasury. In the event that the results of such auction of Treasury Bills having the specified Index Maturity are not published or reported as provided above by 3:00 P.M., New York City

time, on such Calculation Date, or if no such auction is held during such week, then the Treasury Rate shall be the rate set forth in H.15(519) for the relevant Treasury Rate Interest Determination Date for the specified Index Maturity under the heading “U.S. Government Securities/Treasury Bills/Secondary Market”. In the event such rate is not so published by 3:00 P.M., New York City time, on the relevant Calculation Date, the Treasury Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates as of approximately 3:30 P.M., New York City time, on such Treasury Rate Interest Determination Date, of three primary U.S. government securities dealers in The City of New York selected by the Calculation Agent for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity; *provided* that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Treasury Rate with respect to such Interest Reset Date will be the Treasury Rate in effect on such Treasury Rate Interest Determination Date.

CD Rate Notes

Each CD Rate Note will bear interest at the interest rates calculated with reference to the CD Rate and the Spread and/or Spread Multiplier, if any, specified in such CD Rate Note and the applicable Final Terms, and will be payable on the dates specified on the face of such CD Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a CD Rate Interest Determination Date will be the tenth day after such CD Rate Interest Determination Date or, if such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “CD Rate” means, with respect to any Interest Reset Date, the rate for the relevant CD Rate Interest Determination Date for negotiable certificates of deposit having the specified Index Maturity as published in H.15(519) under the heading “CDs (Secondary Market)”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the CD Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be the arithmetic mean of the secondary market offered rates, as of 10:00 A.M., New York City time, on such CD Rate Interest Determination Date, of three leading nonbank dealers of negotiable U.S. dollar certificates of deposit in The City of New York selected by the Calculation Agent for negotiable certificates of deposit of major U.S. money market banks with a remaining maturity closest to the specified Index Maturity in a denomination of US\$5,000,000; *provided* that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the CD Rate with respect to such Interest Reset Date will be the CD Rate in effect on such CD Rate Interest Determination Date.

Federal Funds Rate Notes

Each Federal Funds Rate Note will bear interest at the interest rates calculated with reference to the Federal Funds Rate and the Spread and/or Spread Multiplier, if any, specified in such Federal Funds Rate Note and the applicable Final Terms and will be payable on the dates specified on the face of such Federal Funds Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a Federal Funds Rate Interest Determination Date will be the tenth day after such Federal Funds Rate Interest Determination Date or, if such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Federal Funds Rate” means, with respect to any Interest Reset Date, the rate on the relevant Federal Funds Rate Interest Determination Date for Federal Funds as published in H.15(159) under the heading “Federal Funds (effective)”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the Federal Funds Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be the arithmetic mean of the rates, as of 9:00 A.M., New York City time, on such Federal Funds Rate Interest Determination Date, for the last transaction in overnight Federal Funds arranged by each of three leading brokers of Federal Funds transactions in The City of New York selected by the Calculation Agent; *provided* that if fewer than three brokers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Federal Funds Rate with respect to such Interest Reset Date will be the Federal Funds Rate in effect on such Federal Funds Rate Interest Determination Date.

(5) Payment of Principal and Interest

For so long as the Fiscal Agent is acting as a Paying Agent hereunder, CABEL shall provide to the Fiscal Agent on or prior to the close of business on the Business Day in New York, New York, prior to each date on which interest, if any, is to be paid (each, an “Interest Payment Date”), any redemption date and the maturity date of the Notes (or, if any such date is not a Market Day, on the Business Day prior to the Market Day next succeeding such date), in immediately available funds such amount as is necessary (with any amounts then held by the Fiscal Agent and available for the purpose) to pay any interest on, the redemption price of and accrued interest (if the redemption date is not an Interest Payment Date) on, and the principal of (and premium, if any, on) the Notes due and payable on such Interest Payment Date, redemption date or maturity date, as the case may be. The Fiscal Agent shall apply the amounts so paid to it to the payment of such interest, redemption price and principal (and premium, if any) in accordance with the terms of the Fiscal Agency Agreement and the Notes.

Any monies paid by CABEL to the Fiscal Agent for the payment of the principal of (or premium, if any) or any interest on any Notes and remaining unclaimed at the end of two years after such principal (or premium, if any) or interest shall have become due and payable (whether at maturity, upon call for redemption or otherwise) shall then be repaid to CABEL along with any interest accrued on such monies, and upon such repayment all liability of the Fiscal Agent with respect thereto shall cease, without, however, limiting in any way any obligation CABEL may have to pay the principal of (and premium, if any) and any interest on this Note as the same shall become due.

Unless otherwise specified in the applicable Final Terms, payments of principal, premium (if any) and any interest on the Notes will be made in the applicable Specified Currency; *provided* that payments of principal, premium (if any) and interest on any Foreign Currency Note will be made in U.S. dollars (i) if such Foreign Currency Note is held in the book-entry settlement system of DTC, (ii) at the option of the Holder thereof under the procedures described in the fourth and fifth paragraphs under this Section 5, and (iii) at the option of CABEL in the case of imposition of exchange controls or other circumstances beyond the control of CABEL as described in the penultimate paragraph under this Section 5.

No payment of principal (or premium, if any) or any interest in respect of a Bearer Note shall be made at an office or agency of CABEL in the United States or its possessions and no check in payment thereof which is mailed shall be mailed to an address in the United States or its possessions, nor shall any transfer made in lieu of payment by check be made to an account maintained by the payee with a bank in the United States or its possessions. Notwithstanding the foregoing, such payments may be made at an office or agency located in the United States or its possessions if such payments are to be made in U.S. dollars and if payment of the full amount so payable at each office of the Fiscal Agent and of each Paying Agent outside the United States and its possessions appointed and maintained pursuant to the Fiscal Agency Agreement is illegal or effectively precluded because of the imposition of exchange controls or other similar restrictions on the full payment or receipt of such amount in U.S. dollars. As used herein, the term “United States” means the United States of America (including the States thereof and the District of Columbia) and its “possessions” include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

Unless otherwise specified in the applicable Final Terms, and except as provided in the next paragraph, payments of principal, premium (if any) and any interest with respect to any Foreign Currency Note will be made in U.S. dollars if the registered Holder of such Note on the relevant Regular Record Date or at maturity, as the case may be, has transmitted a written request for such payment in U.S. dollars to the Fiscal Agent in New York City on or prior to such Regular Record Date or the date 15 days prior to maturity, as the case may be. Such request may be in writing (mailed or hand delivered) or by facsimile transmission. Any such request made with respect to any Foreign Currency Note by a registered Holder will remain in effect with respect to any further payments of principal, premium (if any) and any interest with respect to such Foreign Currency Note payable to such Holder, unless such request is revoked on or prior to the relevant Regular Record Date or the date 15 days prior to maturity, as the case may be.

The U.S. dollar amount to be received by a Holder of a Foreign Currency Note who elects to receive payment in U.S. dollars or who holds through the book-entry settlement system of DTC will be determined by the Exchange Rate Agent (as defined below) based upon the highest bid quotation in The City of New York received by such Exchange Rate Agent as of 11:00 A.M., New York City time, on the second Business Day next preceding the

applicable payment date from three recognized foreign exchange dealers selected by the Exchange Rate Agent (one of which may be the Exchange Rate Agent) for the purchase by the quoting dealer of the Specified Currency for U.S. dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to all holders of Foreign Currency Notes electing to receive U.S. dollar payments or holding through the book-entry settlement system of DTC and at which the applicable dealer commits to execute a contract. If three such bid quotations are not available on the second Business Day preceding the date of payment of principal, premium (if any) or any interest with respect to any Foreign Currency Note, such payment will be made in the Specified Currency. All currency exchange costs associated with any payment in U.S. dollars on any such Foreign Currency Note will be borne by the Holder thereof by deductions from such payment, such currency exchange being effected on behalf of the Holder by the Exchange Rate Agent. The exchange rate agent with respect to any particular issue of Notes (the “Exchange Rate Agent”) will be specified in the applicable Final Terms.

Interest with respect to any Registered Notes will be payable to the person in whose name such Note is registered at the close of business on the Regular Record Date next preceding each Interest Payment Date; *provided* that interest payable at maturity will be payable to the person to whom principal shall be payable (which in the case of any U.S. Global Note or International Global Note will be the depositary with respect to such Note or a nominee of such depositary). The Interest Payment Dates for a Fixed Rate Note will be the dates specified on the face of such Note and in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, the first payment of interest on any Note originally issued between a Regular Record Date and an Interest Payment Date with respect to such Note will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner on such next succeeding Regular Record Date. Unless otherwise indicated in the applicable Final Terms, the “Regular Record Date” with respect to any Registered Note shall be the date 15 calendar days prior to each Interest Payment Date, whether or not such date shall be a Business Day.

Interest with respect to any Global Note will be payable against presentation of the Global Note at the offices of a Paying Agent located outside the United States and its possessions. Each of the persons shown on the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system as being a beneficial owner of an interest in a Global Note must look solely to the relevant clearing system for such beneficial owner’s share of each payment made by CABEI to the bearer of the Global Note.

Interest with respect to any Note in definitive bearer form will be payable against presentation and surrender of the appropriate coupon at the offices of a Paying Agent located outside the United States and its possessions.

Unless otherwise indicated in the applicable Final Terms and except as provided below, interest will be payable, in the case of Floating Rate Notes that reset daily, weekly or monthly, on the third Wednesday of each month (as indicated in the applicable Final Terms); in the case of Floating Rate Notes that reset quarterly, on the third Wednesday of March, June, September and December of each year; in the case of Floating Rate Notes that reset semi-annually, on the third Wednesday of the two months of each year specified in the applicable Final Terms; and in the case of Floating Rate Notes that reset annually, on the third Wednesday of the month specified in the applicable Final Terms, and in each case, at maturity.

Payments of interest on any Fixed Rate Note or Floating Rate Note with respect to any Interest Payment Date will include interest accrued to but excluding such Interest Payment Date; *provided* that, unless otherwise specified in the applicable Final Terms, if the Interest Reset Dates with respect to any Floating Rate Note in registered form are daily or weekly, interest payable on such Note on any Interest Payment Date, other than interest payable on the date on which principal on any such Note is payable, will include interest accrued to but excluding the day following the next preceding Regular Record Date.

With respect to a Floating Rate Note, accrued interest from the date of issue or from the last date to which interest has been paid is calculated by multiplying the face amount of such Floating Rate Note by an accrued interest factor. Such accrued interest factor is computed by adding the interest factor calculated for each day from the date of issue, or from the last date to which interest has been paid to but excluding the date for which accrued interest is being calculated. Unless otherwise specified in the applicable Final Terms, the interest factor (expressed as a decimal) for each such day is computed by dividing the interest rate (expressed as a decimal) applicable to such date by 360, in the case of Commercial Paper Rate Notes, Prime Rate Notes, LIBOR Notes, CD Rate Notes or Federal

Funds Rate Notes, or by the actual number of days in the year, in the case of Treasury Rate Notes. Unless otherwise specified in the applicable Final Terms, interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months.

Unless otherwise specified in the applicable Final Terms, if any Interest Payment Date other than the Maturity Date for any Floating Rate Note would otherwise be a day that is not a Business Day in London and The City of New York, such Interest Payment Date shall be the next day that is a Business Day in London and The City of New York, except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date shall be the next preceding Business Day in London and The City of New York. Unless otherwise specified in the applicable Final Terms, if the Maturity Date for any Fixed Rate Note or Floating Rate Note or the Interest Payment Date for any Fixed Rate Note falls on a day which is not a Business Day in London and The City of New York, payment of principal, premium (if any) and interest with respect to such Note will be paid on the next succeeding Business Day in London and The City of New York with the same force and effect as if made on such date and no interest on such payment will accrue from and after such date.

Payments of principal of (and premium, if any) and any interest due with respect to a Registered Note at maturity to be paid in U.S. dollars shall be made in immediately available funds against surrender of such Note at the Corporate Trust Office of the Fiscal Agent in the Borough of Manhattan, The City of New York or at such other offices or agencies as Cabei may designate and at the offices of such other Paying Agents as Cabei shall have appointed pursuant to the Fiscal Agency Agreement. Payments of interest on such Note to be paid in U.S. dollars other than at maturity shall be made by check mailed on or before the due date of such payment to the person entitled thereto at such person's address appearing on the register of such Note or by wire transfer to an account maintained by the payee with a bank located in the Borough of Manhattan, The City of New York, if such registered Holder so elects by giving written notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the date of the payments to be obtained, of such election and of the account to which payments are to be made. Payments of principal of (and premium, if any) or any interest on such Note to be made in U.S. dollars may be made, in the case of a registered Holder of at least the minimum principal amount of such Notes specified in the applicable Final Terms (which minimum amount, if no such minimum is so specified, will be deemed to be US\$1,000,000), by wire transfer to a U.S. dollar account maintained by the payee with a bank in the Borough of Manhattan, The City of New York or in Western Europe, *provided* that such registered Holder so elects by giving written notice to the Fiscal Agent or a Paying Agent designating such account no later than 30 days immediately preceding the relevant interest payment date (or such other date as the Fiscal Agent may accept in its discretion). Unless such designation is revoked, any such designation made by such Holder with respect to such Notes shall remain in effect with respect to any future payments with respect to such Notes payable to such Holder.

Principal of (and premium, if any, on) a Bearer Note shall be payable by check or wire transfer upon presentation and surrender of such Note at an office of a Paying Agent located outside the United States and its possessions, or at such other offices or agencies located outside the United States and its possessions as Cabei shall have appointed for the purpose pursuant to the Fiscal Agency Agreement. Such Paying Agents shall initially be Deutsche Bank AG London in London and Deutsche Bank Luxembourg S.A. in Luxembourg. Interest on such Note shall be payable by check or wire transfer to the Holder of each Coupon appertaining to such Note in the amount determined in accordance with such Coupon, on or after the due date of such payment as set forth in such Coupon, upon presentation and surrender thereof at the offices of the Paying Agents set forth on the reverse of such Coupon or at such other offices or agencies located outside the United States and its possessions as Cabei shall have appointed pursuant to the Fiscal Agency Agreement.

Unless otherwise specified in the applicable Final Terms, payments of interest and principal (and premium, if any) with respect to any Note to be made in a Specified Currency other than U.S. dollars will be made by wire transfer to such account with a bank located in the country issuing the Specified Currency (or, with respect to Notes denominated in euro, in a city in which banks have access to the TARGET System) or other jurisdiction acceptable to Cabei and the Paying Agent as shall have been designated in writing on or prior to the relevant Regular Record Date preceding the Interest Payment Date or 15 days preceding the Stated Maturity, as the case may be, by the Holder (registered Holder, if a Registered Note) of such Note on the relevant Regular Record Date or maturity, *provided* that, in the case of payment of principal, premium (if any) and any interest due at such maturity, the Note (and any Coupons appertaining thereto, if a Bearer Note) is presented to the Paying Agent in time for the Paying

Agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate written information with the Paying Agent at the Paying Agency Office in the Place of Payment and, unless revoked in writing, any such designation made with respect to any Note by a Holder (registered Holder, if a Registered Note) will remain in effect with respect to any further payments with respect to such Note payable to such Holder. If a payment with respect to any such Note cannot be made by wire transfer because the required written designation has not been received by the Paying Agent on or before the requisite date or for any other reason, CABEL will cause a notice to be mailed to the Holder of such Note at its registered address requesting a designation pursuant to which such wire transfer can be made and, upon the Paying Agent's receipt of such a written designation, such payment will be made within five Business Days of such receipt. CABEL will pay any administrative costs imposed by banks in connection with making payments by wire transfer but, except as otherwise specified in the applicable Final Terms, any tax, assessment or governmental charge imposed upon payments will be borne by the holders of the Notes in respect of which payments are made.

Unless otherwise specified in the applicable Final Terms, Foreign Currency Notes will provide that, in the event of an official redenomination of the Specified Currency, the obligations of CABEL with respect to payments on such Foreign Currency Notes shall, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

All determinations referred to above made by the Exchange Rate Agent shall be at its sole discretion (except to the extent expressly provided herein or in the applicable Final Terms that any determination is subject to approval by CABEL) and, in the absence of manifest error, shall be conclusive for all purposes and binding on holders of the Notes and CABEL, and the Exchange Rate Agent shall have no liability therefor.

Unless otherwise specified in the applicable Final Terms, if the principal of, premium (if any) or interest on any Note is payable other than in U.S. dollars and such Specified Currency is not available for purposes of such payment, due to the imposition of exchange controls or other circumstances beyond the control of CABEL, or is no longer used by the government of the country issuing such currency or for settlement of transactions by public institutions of or within the international banking community, CABEL will be entitled to satisfy its obligations to the Holder of such Note by making such payment in U.S. dollars on the basis of the Exchange Rate for such Specified Currency determined on the second Business Day prior to the applicable payment date or, if the Exchange Rate is then not available, on the basis of the most recently available Exchange Rate. Any payment made under such circumstances in U.S. dollars where the required payment is in other than U.S. dollars will not constitute an Event of Default under the Notes. The applicable Final Terms will identify the Calculation Agent that will calculate the amounts payable with respect to any Currency Indexed Note.

Payment of U.S. Dollar Equivalent

Notwithstanding anything to the contrary herein, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy any payment on the Notes when due, in whole or in part, in Renminbi in Hong Kong, the Issuer may, on giving irrevocable notice to the holders of the Notes not less than five nor more than 30 Business Days prior to the relevant payment date, settle any such payment, in whole or in part, in U.S. dollars on that payment date at the U.S. Dollar Equivalent of the amount that was otherwise payable in Renminbi. In such event, the Issuer will make payments in respect of the Notes in U.S. dollars, as determined in its discretion, (1) by wire transfer to a U.S. dollar-denominated account maintained by the relevant holders with a bank in New York City as such account shall have been provided to the Registrar and appears on the security register or (2) in the form of U.S. dollar-denominated checks drawn on a bank in New York City by mailing the checks payable to or upon the written order of the relevant holders to the addresses of those holders as they appear in the security register; *provided* that, if any date for payment in respect of the Notes is not a Business Day, the holders thereof will not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

Any such payment made in U.S. dollars in accordance with these provisions will constitute valid payment in full and will not constitute a default in respect of the Notes.

“CNY Dealer” means an independent foreign exchange dealer of international repute active in the Renminbi exchange market in Hong Kong.

“Determination Business Day” means any day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong, London and in New York City.

“Determination Date” means the day which is two Determination Business Days before the relevant payment date.

“Governmental Authority” means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong.

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“Illiquidity” means the general Renminbi exchange market in Hong Kong becomes illiquid and, as a result of which, the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest or principal, in whole or in part, in respect of the Notes as determined by the Issuer in good faith and in a commercially reasonable manner following consultation with two CNY Dealers.

“Inconvertibility” means the occurrence of any event that makes it impossible for the Issuer to convert any Renminbi amount due in respect of the Notes from or into U.S. dollars in the general Renminbi exchange market in Hong Kong, except if such impossibility is due solely to the failure by the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority, unless such law, rule or regulation is enacted on or after the date of these Final Terms and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation.

“Non-transferability” means the occurrence of any event that makes it impossible for the Issuer to deliver Renminbi between accounts inside Hong Kong or from an account outside Hong Kong to an account inside Hong Kong, or vice versa, except if such impossibility is due solely to the failure by the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority, unless such law, rule or regulation is enacted or becomes effective on or after the date of these Final Terms and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation.

“Spot Rate” means the spot CNY/U.S. dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in Hong Kong for settlement in two Determination Business Days, as determined by the Calculation Agent at or around 11:00 a.m. (Hong Kong time) on the Determination Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a nondeliverable basis by reference to Reuters Screen Page TRADNDF. If neither of the foregoing rates is available, the Calculation Agent will determine the Spot Rate at or around 11:00 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuters Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

“U.S. Dollar Equivalent” means the Renminbi amount converted into U.S. dollars using the Spot Rate for the relevant Determination Date.

The Issuer will provide notice to the relevant Fiscal Agent and each paying agent of any such payment of U.S. Dollar Equivalent. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the foregoing provisions by the Issuer or the Calculation Agent will (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, each other agent under the Fiscal Agency Agreement and all holders of the Notes, as applicable.

(6) Currency Indexed Notes

CABEI may from time to time offer Notes (“Currency Indexed Notes”), (i) the principal amount of which is payable at or prior to the Stated Maturity, (ii) the amount of interest payable on which and/or (iii) any premium payable with respect to which, are determined by the difference between the rate of exchange of the Specified Currency and the other currency or composite currency specified as the Indexed Currency (the “Indexed Currency”) or by reference to some other currency index or indices, in each case as set forth in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, Holders of Currency Indexed Notes will be entitled to receive a principal amount in respect of such Currency Indexed Notes exceeding the amount designated as the face amount of such Currency Indexed Notes in the applicable Final Terms (the “Face Amount”) if, at the Stated Maturity, the rate at which the Specified Currency can be exchanged for the Indexed Currency is greater than the rate of such exchange designated as the Base Exchange Rate, expressed in units of the Indexed Currency per one unit of the Specified Currency in the applicable Final Terms (the “Base Exchange Rate”), and will only be entitled to receive a principal amount in respect of such Currency Indexed Notes less than the Face Amount of such Currency Indexed Notes, if, at the Stated Maturity, the rate at which the Specified Currency can be exchanged for the Indexed Currency is less than such Base Exchange Rate. A description of the currency index or indices, information as to the relative historical value of the applicable Specified Currency against the applicable Indexed Currency, any currency and/or exchange controls applicable to such Specified Currency or Indexed Currency and any additional tax consequences to Holders may be set forth in the applicable Final Terms. The applicable Final Terms will identify the Calculation Agent that will calculate the amounts payable with respect to any Currency Indexed Note.

Unless otherwise specified in the applicable Final Terms, the term “Exchange Rate Day” shall mean any day that is a Business Day in The City of New York and, if the Specified Currency or Indexed Currency is other than the U.S. dollar, in the principal financial center of the country of such Specified Currency or Indexed Currency or, if the Specified Currency or Indexed Currency is the euro, a day on which the TARGET system is operating.

Unless otherwise specified in the applicable Final Terms, interest and/or any premium will be payable by CABEI in the Specified Currency based on the Face Amount of the Currency Indexed Notes and at the rate and times and in the manner set forth herein and in the applicable Final Terms.

(7) Other Indexed Notes

CABEI may also from time to time offer Notes (“Indexed Notes”), as to which the dates of payment of principal, interest and other amounts, the amount of any such payment or the rate at which any such payment is calculated or any other term is determined with reference to securities of one or more issuers; one or more commodities; any other financial, economic or other measure or instrument or event, including the occurrence or non-occurrence of any event or circumstance; or one or more indices or baskets of the items described above. The applicable Final Terms relating to such Indexed Note will set forth information about the relevant index, about how amounts that are to become payable will be determined by reference to the price or value of that index, about the other terms of such Indexed Notes, and about the terms on which the Note may be settled physically or in cash. The applicable Final Terms will also identify the Calculation Agent that will calculate the amounts payable with respect to the Indexed Note, will set forth any additional tax consequences to the Holder of such Note, and may set forth a description of certain risks associated with investment in such Note and other information relating to such Note.

(8) Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), CABEI will not cause or permit to be created on any of its property or assets any mortgage, pledge or other lien or charge as security for any bonds, notes or other evidence of indebtedness for money borrowed heretofore or hereafter issued or assumed by CABEI or for any guarantee heretofore or hereafter issued by CABEI for any bonds, notes or other evidence of indebtedness for money borrowed issued or assumed by others (other than “permitted liens” as defined below), unless the Notes shall be secured by such mortgage, pledge or other lien or charge equally and ratably with such other bonds, notes, other evidences of indebtedness or guarantees issued or assumed by CABEI.

For purposes of this Section 8, “permitted liens” means:

- (a) mortgages, pledges and other liens securing bonds, notes, other evidence of indebtedness and guarantees issued or assumed by CABEL that do not exceed US\$10 million (or its foreign currency equivalent) at any time outstanding and that do not in the aggregate materially detract from the value of the property or assets subject thereto or materially impair the use of such property or assets in the business of CABEL;
- (b) mortgages, pledges and other liens securing reimbursement obligations under letters of credit and similar documents given in the ordinary course of business and that do not support the payment of bonds, notes or other evidence of indebtedness for money borrowed or guarantees of such bonds, notes or other evidence of indebtedness; and
- (c) liens securing obligations under hedge agreements entered into in the ordinary course of business.

For purposes of this Section 8, “hedge agreements” means: any swap agreement, cap agreement, collar agreement, futures contract, forward contract, option contract or similar agreement or arrangement designed to protect against or mitigate the effect of fluctuations in interest rates or foreign exchange and entered into as bona fide hedges and not for speculative purposes.

(9) Redemption and Repayment

The Notes will not be subject to any sinking fund. Unless a Redemption Commencement Date is specified in the applicable Final Terms, the Notes will not be redeemable or repayable prior to their Stated Maturity. If a Redemption Commencement Date is so specified with respect to any Note, the applicable Final Terms will also specify one or more redemption prices (expressed as a percentage of the principal amount of such Note) (“Redemption Prices”) and the redemption period or periods (“Redemption Periods”) during which such Redemption Prices will apply. Unless otherwise specified in the applicable Final Terms, any such Note will be redeemable, in whole or in part, at the option of CABEL, on or after such specified Redemption Commencement Date, at the specified Redemption Price applicable to the Redemption Period during which such Note is to be redeemed, together with any interest accrued to the redemption date. If not so redeemed, the Notes shall be paid on the Stated Maturity.

In the event that CABEL exercises its option to redeem any Note in the circumstances referred to above, CABEL will, unless otherwise provided in the applicable Final Terms, give written notice to the Fiscal Agent of the principal amount of such Note to be redeemed not less than 30 days prior to the optional redemption date. In the case of a partial redemption of the Notes of a Series, the Notes to be redeemed shall be selected by the Fiscal Agent by such method as the Fiscal Agent shall deem fair and appropriate. All notices of redemption will be made in the name and at the expense of CABEL and will be given in the manner described below under “Notices”.

CABEL or any instrumentality thereof may at any time purchase Notes in the open market or otherwise at any price.

(10) Additional Amounts

Any and all payments by CABEL in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by any Member Country or any political subdivisions or authorities thereof or therein having power to tax (“Taxes”), unless CABEL is compelled by law to deduct or withhold such Taxes. In such event, CABEL shall make such withholding or deduction, make payment of the amount so withheld or deducted to the appropriate governmental authority and forthwith pay such additional amounts (“Additional Amounts”) as may be necessary in order to ensure that the net amounts receivable by the Holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest that would have been receivable in respect of the Notes in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable in respect of any Note to or on behalf of a Holder or beneficial owner of a Note who is liable for such Taxes:

- (a) by reason of such Holder or beneficial owner having some connection with any taxing jurisdiction other than the mere holding of such Note or the receipt of principal or interest in respect thereof;
- (b) by reason of the failure of the Holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with any taxing jurisdiction of the Holder or beneficial owner of a Note or any interest therein or rights in respect thereof, if compliance is required by CABEL or by such taxing jurisdiction as a precondition to exemption from all or any part of such deduction or withholding;
- (c) by reason of the failure of such Holder to present such Holder's Note or Coupon for payment (where such presentation is required) within 30 days after the relevant payment is first made available for payment to the Holder;
- (d) by reason of any tax, duty, assessment or other governmental charge imposed by any unit of the federal or a state government of the United States;
- (e) by reason of any tax, duty, assessment or other governmental charge that is payable other than by deduction or withholding from a payment on a Note;
- (f) by reason of any estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, duty, assessment or governmental charge;
- (g) by reason of withholding or deduction imposed on a payment to an individual that is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (h) by reason of withholding or deduction imposed on a payment to an individual who would have been able to avoid such withholding or deduction by presenting the relevant Notes for payment to another Paying Agent in a European Union member state not obliged to withhold or deduct;
- (i) by reason of withholding or deduction imposed on or in respect of any Note pursuant to sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), any successor law or regulation implementing or complying with, or introduced in order to conform to, such sections or any intergovernmental agreement or any agreement entered into pursuant to section 1471(b)(1) of the Code; or
- (j) by reason of any combination of the taxes, duties, assessments or other governmental charges described above;

nor shall any Additional Amounts be payable to a Holder of a Note that is a fiduciary or partnership or other than a sole beneficial owner of such payment to the extent that a beneficiary or settlor of such fiduciary or partnership or beneficial owner would not have been entitled to such Additional Amounts had such beneficiary, settlor or other beneficial owner been the Holder of such Note.

Except as specifically provided above, CABEL shall not be required to make any payment with respect to any tax, assessment or other governmental charge imposed by any government or any political subdivision or taxing authority thereof or therein. Whenever in a Note there is a reference, in any context, to the payment of the principal of (or premium, if any, on) or interest on, or in respect of, any Note, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section 10 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section 10, and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

(11) Status

The Notes will constitute general, direct, unconditional, unsecured and unsubordinated obligations of CABEL and will rank *pari passu* without any preference among themselves with all other present and future unsecured and unsubordinated indebtedness of CABEL.

(12) Default; Acceleration of Maturity

In case one or more of the following events (herein referred to as “Events of Default”) shall have occurred and be continuing:

- (a) CABEL shall fail to pay any principal of or premium, if any, or interest on any of the Notes of a Series when due, and such failure shall continue for 30 days; or
- (b) CABEL shall fail duly to perform any other material obligation contained in the Notes of a Series or (with respect to the Notes of a Series) the Fiscal Agency Agreement, and such failure shall continue for 90 days after written notice thereof shall have been given to CABEL with a copy to the Fiscal Agent by any holder of the Notes of such Series; or
- (c) CABEL shall fail to pay any amount in excess of US\$10,000,000 (or the equivalent thereof in any other currency or currencies) of principal or interest or premium in respect of any indebtedness incurred, assumed or guaranteed by CABEL as and when such amount becomes due and payable and such failure continues until the expiration of any applicable grace period; or
- (d) the acceleration of any indebtedness incurred or assumed by CABEL with an aggregate principal amount in excess of US\$10,000,000 (or the equivalent thereof in any other currency or currencies) by the holder or holders thereof;

then any Note may, by written notice addressed by the holder thereof to CABEL and delivered to CABEL and the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount (or, in the case of Zero Coupon Notes, Original Issue Discount Notes, Currency Indexed Notes or Indexed Notes, at the amount due and payable upon maturity) together with accrued interest without further action or formality, unless prior to receipt of such notice by CABEL all Events of Default in respect of such Note shall have been cured. If all such Events of Default shall have been cured following such declaration, such declaration may be rescinded by any such holder with respect to any such previously accelerated Note upon delivery of written notice of such rescission to the CABEL and the Fiscal Agent.

(13) Notices

Notices to Holders of Notes issued in registered form will be given by mail to the Holders of such Notes at their registered addresses as recorded in the Note Register. In addition, if and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, such notices will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and/or in a daily newspaper of general circulation in Luxembourg (expected to be the *Luxemburger Wort*). If publication as aforesaid is not practicable, notices will be validly given if made in accordance with the rules of the Luxembourg Stock Exchange. Any such notice shall be deemed to have been given on the later of the date of such publication and the date of mailing.

With respect to Notes issued in bearer form, all notices will be deemed to have been duly given if published at least once (i) in a leading daily newspaper in the English language of general circulation in London, England and (ii) if such Notes are listed on the Luxembourg Stock Exchange, on the website of the Luxembourg Stock Exchange and/or in a daily newspaper of general circulation in Luxembourg. It is expected that any such publication by newspaper will be made in the *Financial Times* and the *Luxemburger Wort*. Any notice published in a newspaper as aforesaid shall be deemed to have been given on the date of such publication, or if published more than once, on the date of the first such publication. Any notice published on the website of the Luxembourg Stock Exchange shall be

deemed to have been given on the date of such publication. If publication as aforesaid is not practicable, notices will be validly given if made in accordance with the rules of the Luxembourg Stock Exchange.

Notwithstanding the foregoing, so long as a Temporary Global Bearer Note or a Permanent Global Bearer Note representing Notes of a Series is held on behalf of Euroclear and Clearstream, Luxembourg, there may be substituted for such publication on the website of the Luxembourg Stock Exchange or in such newspapers the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the Holders of interests in the relevant Temporary Global Bearer Note or Permanent Global Bearer Note; *provided* that, so long as the Notes are listed on the Luxembourg Stock Exchange, substitution of publication may only be made if permitted by the rules of the Luxembourg Stock Exchange. Neither the failure to give notice nor any defect in any notice given to any particular Holder of a Note shall affect the sufficiency of any notice with respect to other Notes.

(14) Purchase of Notes by CABEL

CABEL may at any time purchase any of the Notes in any manner and at any price. Any Note so purchased by CABEL (including upon any redemption) shall be promptly surrendered to the Fiscal Agent for cancellation and shall not be reissued or resold.

(15) Meetings of Holders, Modification and Waiver

Upon (i) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the Holders of not less than a simple majority in aggregate principal amount of the Notes of a Series then outstanding represented at a meeting of holders held in accordance with the provisions of Section 11 of the Fiscal Agency Agreement (or of such other percentage as may be set forth in the text of this Note with respect to the action being taken), or (ii) with the written consent of the owners of a simple majority in aggregate principal amount of the Notes of a Series then outstanding (or of such other percentage as may be set forth in the text of such Note with respect to the action being taken), CABEL may modify, amend or supplement the terms of the Notes of such Series or, insofar as respects the Notes of such Series, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Notes of such Series to be made, given or taken by Holders of Notes of such Series; *provided* that no such action may, without the consent or the affirmative vote of the Holder of each Note of a Series affected thereby, (a) change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the Notes of such Series, (b) reduce the principal amount of the Notes of such Series, the portion of such principal amount that is payable upon acceleration of the maturity of the Notes of such Series, the interest rate thereon or the premium payable upon redemption thereof, (c) change the currency of principal of (or premium, if any) or interest on the Notes of such Series, (d) shorten the period during which CABEL is not permitted to redeem the Notes of such Series, or permit CABEL to redeem the Notes of such Series if, prior to such action, CABEL is not permitted so to do, (e) reduce the proportion of the principal amount of the Notes of such Series, the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Notes of such Series or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, or (f) change the obligation of CABEL to pay Additional Amounts in respect of the Notes of such Series.

CABEL may, without the vote or consent of any Holder of the Notes of a Series, amend the Fiscal Agency Agreement or the Notes of such Series for the purpose of (a) adding to the covenants of CABEL, for the benefit of the holders of Notes of such Series, (b) surrendering any right or power conferred upon CABEL, (c) securing the Notes of such Series pursuant to the requirements of the Notes of such Series or otherwise, (d) curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the Notes of such Series, or (e) amending the Fiscal Agency Agreement or the Notes of such Series in any manner that CABEL may determine and that shall not materially adversely affect the interests of the Holders of the Notes of such Series.

(16) Replacement of Notes and Coupons

If any mutilated Note or a Note with a mutilated Coupon appurtenant to it is surrendered to the Fiscal Agent, CABEL shall execute, and the Fiscal Agent shall authenticate and deliver in exchange therefor, a new Note of

like tenor and principal amount, bearing a number not contemporaneously outstanding, with Coupons corresponding to the Coupons, if any, appurtenant to the surrendered Note.

If there be delivered to CABEL and the Fiscal Agent (i) evidence to their satisfaction of the destruction, loss or theft of any Note or Coupon, and (ii) such security or indemnity as may be required by them to save each of them and any agent of each of them harmless, then, in the absence of notice to CABEL or the Fiscal Agent that such Note or Coupon has been acquired by a bona fide purchaser, CABEL shall execute, and upon its request the Fiscal Agent shall authenticate and deliver in lieu of any such destroyed, lost or stolen Note or in exchange for the Note to which such Coupon appertains (with all appurtenant Coupons not destroyed, lost or stolen), a new Note of like tenor or principal amount and bearing a number not contemporaneously outstanding, with Coupons corresponding to the Coupons, if any, appertaining to such destroyed, lost or stolen Note or to the Note to which such destroyed, lost or stolen Coupon appertains.

Upon the issuance of any new Note under this Section 16, CABEL may require the payment of a sum sufficient to cover any stamp or other tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and the expenses of the Fiscal Agent) connected therewith.

Every new Note with its Coupons, if any, issued pursuant to this Section 16 in lieu of any destroyed, lost or stolen Note, or in exchange for a Note to which a destroyed, lost or stolen Coupon appertains, shall constitute an original additional contractual obligation of CABEL, whether or not the destroyed, lost or stolen Note and its Coupons, if any, or the destroyed, lost or stolen Coupon shall be at any time enforceable by anyone.

Any new Bearer Note delivered pursuant to this Section 16 shall be dated the date of its authentication. Any new Registered Note delivered pursuant to this Section 16 shall be so dated that neither gain nor loss in interest shall result from such exchange.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes or Coupons.

(17) Judgment Currency

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the Holder of this Note in one currency into another currency, CABEL and each Holder agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such Holder could purchase the first currency with such other currency in The City of New York on the date of entry of the final judgment.

To the fullest extent that they may effectively do so, CABEL and each Holder agree that the obligation of CABEL in respect of any sum payable by it to the Holder of this Note shall, notwithstanding any judgment in a currency (the "judgment currency") other than that in which such sum is denominated in accordance with the applicable provisions of this Note (the "Note currency"), be discharged only to the extent that on the Business Day following receipt by such Holder of this Note of any sum adjudged to be so due in the judgment currency, such Holder of this Note may in accordance with normal banking procedures purchase the Note currency with the judgment currency; if the amount of the Note currency so purchased is less than the sum originally due to the Holder of this Note in the Note currency (determined in the manner set forth in the preceding paragraph), CABEL agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Holder of this Note against such loss, and if the amount of the Note currency so purchased exceeds the sum originally due to the Holder of this Note such Holder agrees to remit to CABEL such excess, *provided* that such Holder shall have no obligation to remit any such excess as long as CABEL shall have failed to pay such Holder any obligations due and payable under this Note, in which case such excess may be applied to such obligations of CABEL hereunder in accordance with the terms hereof.

(18) Jurisdiction, Consent to Service and Enforceability

CABEI hereby irrevocably submits to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan, The City of New York in respect of any action arising out of or based on the Notes of a Series that may be brought by the Holder of any such Note, irrevocably waives any objection that it may have to the venue of any such court in respect of any such action and, to the extent permitted by law, irrevocably waives and agrees not to plead any immunity to the jurisdiction of any such court to which it may otherwise be entitled (including sovereign immunity and immunity to post-judgment attachment and execution but not to prejudgment attachment) in any such action; *provided* that, except as provided under Article 29 of the Constitutive Agreement, the revenues, assets and property of CABEI located in any Founding Member country are not subject to execution or attachment. CABEI has appointed CT Corporation System, presently at 111 Eighth Avenue, New York, New York 10011, as its authorized agent (“Authorized Agent”) upon whom process may be served in any such action that may be instituted in any state or federal court in the Borough of Manhattan, The City of New York. Such appointment shall be irrevocable until all amounts in respect of the principal of (and premium, if any) and interest due and to become due on or in respect of all the Notes of this Series have been paid to the Fiscal Agent, except that if, for any reason, CT Corporation System ceases to be able to act as Authorized Agent or no longer has an address in The City of New York, CABEI will appoint another person in the Borough of Manhattan, The City of New York, as such Authorized Agent. CABEI will take any and all action, including the filing of any and all documents and instruments that may be necessary to continue such appointment or appointments in full force and effect as aforesaid. Upon receipt of such service of process, the Authorized Agent shall advise CABEI promptly at its address specified in Section 13 of the Fiscal Agency Agreement. Service of process upon the Authorized Agent at the address indicated above, or at such other address in the Borough of Manhattan, The City of New York as the Authorized Agent shall specify by written notice given by it to the Fiscal Agent shall be deemed, in every respect, effective service of process upon CABEI.

(19) Further Issues

CABEI may from time to time without the consent of the Holders of Notes of a Series create and issue further Notes of such Series either having the same terms and conditions as such Notes in all respects (or in all respects except for the first payment of interest on them or the issue price).

(20) Governing Law

This Note will be governed by, and interpreted in accordance with, the laws of the State of New York.

FORM OF FINAL TERMS

Final Terms No.

Final Terms Dated []

[LOGO]
US\$4,000,000,000
Central American Bank for Economic Integration
[Title of Notes] under the
Medium-Term Note Program

[Agent Name(s)]

This Final Terms supplements the Base Prospectus, dated [_____], 201__, relating to the Central American Bank for Economic Integration's Medium Term Notes (the "Base Prospectus"), and should be read in conjunction with the Base Prospectus. Terms used but not defined herein have the same meaning as in the Base Prospectus.

Unless the context otherwise requires, references to the "Terms and Conditions" herein are to the Terms and Conditions of the Notes set out in the Base Prospectus.

[Include whichever of the following apply:]

- | | | |
|----|---|---|
| 1. | Series number: | [] |
| 2. | (a) Aggregate principal amount: | [] |
| | (b) Stated Maturity: | [] |
| 3. | (a) Issue date: | [] |
| | (b) Issue price: | [generally, % of principal amount] |
| | (c) Trade date: | [] |
| | (d) Settlement date: | [] |
| 4. | Authorized denomination(s) (See Section 2 of the Terms and Conditions): | [] |
| 5. | Specified Currency: | [] |
| 6. | Interest/payment basis: | [Fixed Rate Notes/Floating Rate Notes/Zero Coupon Notes/Indexed Notes/Currency Indexed Notes] |
| 7. | Fixed Rate Notes: | [] |
| | (a) Fixed Rate of interest: | []% per annum |
| | (b) Interest payment date(s): | [semi-annually on ____ and ____ of each year, beginning ____ and at maturity] |
| | (c) Other terms for computing interest: | [] |

8. Floating Rate Notes: []
- (a) Interest Rate Basis: [Commercial Paper Rate/Prime Rate/LIBOR/Treasury Rate/CD Rate/Federal Funds Rate/other interest rate formula (provide details)]
- (b) Spread and/or Spread Multiplier: [+/- __ basis points] []% per annum
- (c) If LIBOR Notes, Relevant Screen Page: [Reuters Screen LIBO Page/Telerate Screen Page 3750/Other]
- (d) Interest Determination Dates: []
- (e) Minimum Rate of interest: []% per annum
- (f) Maximum Rate of interest: []% per annum
- (g) Calculation Agent: []
- (h) Initial Interest Rate: []
- (i) Interest Payment Dates: []
- (j) Regular Record Dates: []
- (k) Calculation Dates: []
- (l) Index Maturity: []
- (m) Interest Reset Period: []
- (n) Interest Reset Dates: []
9. Zero Coupon Notes: []
- (a) Formula/basis of determining amount payable at maturity: []
10. Currency Indexed Notes/Indexed Notes: []
- (a) Face Amount: []
- (b) Indexed Currency; Base Exchange Rate (units of Indexed Currency per one unit of Specified Currency): []
- (c) Index/formula for determining dates of payments, amounts payable, rates and other terms: []
- (d) Party responsible for calculating the principal and/or interest due: []
- (e) Provisions where calculation by reference to index and/or formula is impossible and/or impracticable: []
- (f) Description of applicable index or formula: []
- (g) Information regarding historical exchange rate of Indexed Currency against Specified Currency and any applicable exchange controls: []

- (h) Any tax consequences to holder of Notes: ☐
- (i) Special risks associated with Notes: ☐
11. Foreign Currency Notes: ☐
- (a) Exchange Rate Agent: ☐
- (b) Exchange Rate: ☐
12. Original Issue Discount Note: ☐ [Yes/No]
- (a) Total amount of OID: per [\$] 1,000 principal amount]
- (b) Yield to maturity: ☐
- (c) Method used to determine yield: ☐
- (d) Initial accrual period of OID: per [\$] 1,000 principal amount]
- (e) Formula/basis for determining amount payable upon redemption or acceleration of maturity: ☐
13. Redemption at CABEL's and/or Noteholders' option — [Yes/No], if yes: [specify]
- (a) Redemption Commencement Date: ☐
- (b) Redemption price(s): [% of principal amount]
- (c) Redemption period(s): ☐
14. Details of the relevant stabilizing Agent, if any: ☐
15. Additional selling restrictions: [give details]
16. Other terms or special conditions or modifications: ☐
17. Applicable definition of Business Day (if different from that set out in the Terms and Conditions): ☐
18. As applicable: ☐
- Euroclear and Clearstream, Luxembourg common code: ☐
- CUSIP number: ☐
- ISIN number: ☐
19. Notes to be listed on the Luxembourg Stock Exchange: ☐ [Yes/No]
20. Notes to be traded on the Euro MTF market: ☐ [Yes/No]
21. Form of Notes: [Registered Notes/Bearer Notes] [Represented by: Temporary Global Note/Permanent Global Note/Restricted Global Note/U.S. Global Note/Regulation S Global Note/International Global Note/Certificated Notes]

22. Depositary: [DTC/Common Depositary]
23. Net proceeds []
24. Intended use of proceeds of the Notes (if other than general purposes): []
25. Method of distribution (syndicated/non-syndicated): []
26. Name(s) of the Agent(s) or syndicates of dealer(s) that are to offer and sell the Notes to be issued: []

Responsibility

CABEI accepts responsibility for the information contained in this Final Terms, which, when read together with the Base Prospectus referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of CABEI:

By: _____
Duly authorized signatory

CERTAIN PROVISIONS RELATING TO THE FORMS OF THE NOTES

Global Notes

U.S. Global Notes

Registered Notes of the same Series and of like tenor may be represented, in whole or in part, by a Note in global form that is deposited with or on behalf of a depository located in the United States (a “U.S. Depository”) or a nominee thereof, for credit to the respective accounts of beneficial owners of the Notes represented thereby (a “U.S. Global Note”). U.S. Global Notes are subject to special restrictions and procedures set forth in the Fiscal Agency Agreement.

Notes of the same Series and like tenor that are sold in offshore transactions in reliance on Regulation S may be issued in the form of a U.S. Global Note in registered form without interest coupons (each, a “Regulation S Global Note”), which will be registered in the name of DTC, as U.S. Depository, or a nominee of DTC, and deposited with the Fiscal Agent, at its New York office, as custodian for DTC. Prior to the 40th day after the completion of the distribution (as certified in writing to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche, beneficial interests in the related Regulation S Global Note may be held only by non-U.S. persons, unless delivery is made through a Restricted Global Note (as defined below) of the same Series and of like tenor in accordance with the certification requirements described below.

Notes of the same Series and like tenor that are sold in reliance on Rule 144A may be represented by a single U.S. Global Note in registered form without interest coupons (each, a “Restricted Global Note”), which will be deposited with the Fiscal Agent, at its New York office, as custodian for DTC and registered in the name of DTC, as U.S. Depository, or a nominee of DTC. A Restricted Global Note (and any Notes issued in exchange therefor) is subject to certain restrictions on transfer set forth in the Fiscal Agency Agreement. Prior to the 40th day after the completion of the distribution (as certified in writing to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche represented by a Regulation S Global Note, a beneficial interest therein may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note of the same Series and like tenor, but only upon receipt by the Fiscal Agent of a written certification from the transferor (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States (a “Restricted Global Note Certificate”). On and after such 40th day, such written certification requirement will no longer apply to such transfers. Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note of the same Series and of like tenor, whether before, on or after such 40th day, but only upon receipt by the Fiscal Agent of a written certification from the transferor (in the form(s) provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or (if available) Rule 144 under the Securities Act (a “Regulation S Global Note Certificate”) and that, if (but only if) such transfer occurs prior to such 40th day, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg for the account of non-U.S. persons. Any beneficial interest in a U.S. Global Note that is transferred to a person who takes delivery in the form of an interest in another U.S. Global Note of the same Series and of like tenor will, upon transfer, cease to be an interest in such U.S. Global Note and become an interest in such other U.S. Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other U.S. Global Note for as long as it remains such an interest.

Upon the issuance of a U.S. Global Note, DTC or its custodian will credit, on its internal system, the respective principal amounts of the individual beneficial interests represented by such U.S. Global Note to the accounts of persons who have accounts with the U.S. Depository. Such accounts initially will be designated by or on behalf of the participating Agents (or, if none, CABEL). Ownership of beneficial interests in a U.S. Global Note will be limited to persons who have accounts with DTC or persons who hold interests through participants. Ownership of beneficial interests in the U.S. Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered holder of a U.S. Global Note, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such U.S. Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Unless DTC notifies CABEL that it is unwilling or unable to continue as depositary for such Note, or ceases to be a “Clearing Agency” registered under the U.S. Securities and Exchange Act of 1934 (the “Exchange Act”), or an Event of Default has occurred and is continuing with respect to such Note, owners of beneficial interests in such U.S. Global Note will not be entitled to have any portions of such U.S. Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of such U.S. Global Note (or any Notes represented thereby) under the Fiscal Agency Agreement or the Notes. In addition, no beneficial owner of an interest in a U.S. Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the Fiscal Agency Agreement referred to herein and, if applicable, those of Euroclear and Clearstream, Luxembourg).

Investors may also hold their interests in a Regulation S Global Note through Clearstream, Luxembourg or Euroclear, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Beginning 40 days after the completion of the distribution (as certified in writing to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche represented by such Regulation S Global Note, investors may also hold such interests through organizations other than Clearstream, Luxembourg and Euroclear that are participants in the DTC system. Clearstream, Luxembourg and Euroclear will hold interests in a Regulation S Global Note on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in customers’ securities accounts in the depositaries’ names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

Payments of the principal of and any premium, interest, Additional Amounts, if any, and other amounts on any U.S. Global Note will be made to DTC or its nominee as the registered owner thereof. None of CABEL, the Fiscal Agent and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a U.S. Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

CABEL expects that DTC or its nominee, upon receipt of any payment in respect of a U.S. Global Note held by it or its nominee, will immediately credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such U.S. Global Note as shown on the records of DTC or its nominee. CABEL also expects that payments by participants to owners of beneficial interests in a U.S. Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in street name. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in accordance with DTC’s procedures and will be settled in same-day funds. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a U.S. Global Note to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a U.S. Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels or Luxembourg time). Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction

meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in any U.S. Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions directly to the depositories for Clearstream, Luxembourg or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant purchasing an interest in a U.S. Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear and Clearstream, Luxembourg) immediately following the DTC settlement date and such credit of any transactions in interests in a U.S. Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream, Luxembourg participant on such day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of securities by or through a Euroclear participant or a Clearstream, Luxembourg participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the Business Day following settlement in DTC.

DTC has advised CABEL that it will take any action permitted to be taken by a holder of a U.S. Global Note (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in such U.S. Global Note are credited and only in respect of such portion of the aggregate principal amount of such U.S. Global Note as to which such participant or participants has or have given such direction. However, if there is an Event of Default (as defined under “Terms and Conditions of the Notes—Default; Acceleration of Maturity”) under a U.S. Global Note, DTC will exchange such U.S. Global Note for legended Notes in definitive form, which it will distribute to its participants. DTC has advised CABEL that, with respect to any Foreign Currency Note that is held in the name of DTC or its nominee, it will elect to have all payments of principal and any premium and interest on such Foreign Currency Note made in U.S. dollars, unless notified by a participant through which an interest in such Foreign Currency Note is held that it elects to receive such payment of principal or any premium or interest in the relevant foreign currency. Holders of Foreign Currency Notes that are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in the relevant foreign currency may be made.

DTC has advised CABEL as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the U.S. Global Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of CABEL, the Fiscal Agent, any Paying Agent and the Registrar will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

International Global Notes

Registered Notes or Bearer Notes of the same Series and of like tenor may be represented, in whole or in part, by a Registered Note or a Bearer Note, as the case may be, in global form that is deposited with or on behalf of a depository located outside the United States and its possessions (a “Common Depository”) or a nominee thereof, for credit to the respective accounts of beneficial owners of the Notes represented thereby (or to such other accounts as they may direct), *provided* that all such accounts are maintained at or through Euroclear or Clearstream,

Luxembourg (an “International Global Note”). International Global Notes are subject to special restrictions and procedures set forth in the Fiscal Agency Agreement.

Investors may hold their interests in an International Global Note through Euroclear or Clearstream, Luxembourg, or such other clearing systems as specified in the relevant final terms, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Each International Global Note will be deposited with the Common Depositary which will be the registered holder or bearer, as the case may be, of such Note on behalf of Euroclear or Clearstream, Luxembourg.

As long as the Common Depositary, or its nominee, is the registered holder of an International Global Note in registered form, or the bearer of an International Global Note in bearer form, the Common Depositary or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such International Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Except as described under “—Bearer Notes”, owners of beneficial interests in an International Global Note will not be entitled to have any portions of such International Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of such International Global Note (or any Notes represented thereby) under the Fiscal Agency Agreement or the Notes. In addition, no beneficial owner of an interest in an International Global Note will be able to transfer that interest except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg (in addition to those under the Fiscal Agency Agreement referred to herein and, if applicable as indicated below, those of DTC).

Payments of the principal of and any premium, interest, Additional Amounts, if any, and other amounts on any International Global Notes will be made to Euroclear or Clearstream, Luxembourg, as the case may be, or its nominee as the registered owner or bearer thereof, as the case may be. None of CABEL, the Fiscal Agent and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in an International Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

CABEL expects that each of Euroclear and Clearstream, Luxembourg, upon receipt of any payment in respect of an International Global Note held by a Common Depositary or its nominee, will immediately credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such International Global Note as shown on the records of Euroclear or Clearstream, Luxembourg, as the case may be. CABEL also expects that payments by participants to owners of beneficial interests in an International Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in street name. Such payments will be the responsibility of such participants.

If all Notes represented by an International Global Note are offered and sold pursuant to Regulation S, such International Global Note may be designated, in the applicable Final Terms, as a Regulation S Global Note. In such event, the procedures for transfer of beneficial interests in Regulation S Global Notes and Restricted Global Notes described above under “—U.S. Global Notes”, may, if so specified in the applicable Final Terms, apply to such International Global Note and any Restricted Global Note of the same Series and of like tenor, with such modification as may be specified therein, subject in all cases to the restrictions described below under “—Bearer Notes” regarding exchanges and deliveries of Bearer Notes.

In any such case, the considerations discussed above under “—U.S. Global Notes” regarding settlement and transfer, including cross-market transfers, through DTC may be relevant.

Except as otherwise may be specified in the applicable Final Terms, CABEL will appoint (i) Deutsche Bank Trust Company Americas as its Fiscal Agent, Registrar, New York Paying Agent and Transfer Agent, (ii) Deutsche Bank Luxembourg S.A. as its Luxembourg Paying Agent and Transfer Agent and (iii) Deutsche Bank AG London as its Paying Agent and Transfer Agent in London, if applicable, of the Notes. In such capacities, the Fiscal Agent will be responsible for, among other things, (i) maintaining a record of the aggregate principal amount of Notes represented by each U.S. Global Note and International Global Note, (ii) accepting Notes for exchange and, if applicable, registration of transfer, (iii) ensuring that payments in respect of Notes received by the Fiscal Agent from

CABEI are duly paid to the holders and (iv) forwarding to CABEI any notices received by the Fiscal Agent from holders.

Unless otherwise specified in the applicable Final Terms under its current rules, if DTC requires that a beneficial owner of Notes held in the book-entry settlement system of DTC denominated in a Specified Currency other than U.S. dollars electing to receive payments of principal, premium (if any) or interest on this Note in the Specified Currency must notify the DTC participant through which its interest is held on or prior to the applicable Regular Record Date, in the case of a payment of interest, and on or prior to the sixteenth day prior to the Stated Maturity (in the case of Fixed Rate Notes or Original Issue Discount Notes) or the final Interest Payment Date (in the case of Floating Rate Notes) in the case of principal or premium, if any, of such beneficial owner's election to receive such payment in such currency. Such DTC participant must notify DTC of such election (a) to receive all, or the specified portion, of such payment in the Specified Currency and (b) its instructions for wire transfer of such payment to a Specified Currency account or accounts prior to the third Business Day after such Regular Record Date or 12 days prior to the payment of principal. DTC will notify the Fiscal Agent of such election on or prior to the fifth Business Day after such Regular Record Date or the 10th Business Day prior to the payment date for the payment of principal. If complete instructions are received by a DTC participant, DTC, and the Fiscal Agent, on or prior to such dates, the Fiscal Agent shall use such instructions to pay such DTC participant directly. In the case of a beneficial owner of interests in a Regulation S Global Note, such owner electing to receive payments of principal, premium (if any) and any interest on such Note in such Specified Currency must notify Euroclear or Clearstream, Luxembourg at least seven days prior to the Regular Record Date, in the case of a payment of interest, and at least 18 days prior to the Stated Maturity or the final Interest Payment Date, in the case of a payment of principal or premium (if any).

Certificated Notes

If a U.S. Depositary is at any time unwilling or unable to continue as a depositary for a U.S. Global Note and a substitute U.S. Depositary is not appointed, CABEI will issue, in exchange for beneficial interests in such U.S. Global Note, definitive Registered Notes of the same Series and of like tenor and having an equal principal amount. In addition, if so indicated in the applicable Final Terms, Temporary Global Bearer Notes (as defined below) may be exchangeable for definitive Notes upon satisfaction of certain requirements as described below. Beneficial interests in a global Registered Note and definitive Registered Notes will not be exchangeable for beneficial interests in a Temporary Global Bearer Note or a Permanent Global Bearer Note (as defined below) or for definitive Bearer Notes. In all cases, certificates for Notes delivered in exchange for any global Note or beneficial interests therein will be registered in the name (if such Notes are Registered Notes), and issued in any approved denominations, requested by the depositary.

In the case of certificates for Notes issued in exchange for any Restricted Global Note, such certificates will bear the legend referred to under "Notice to Investors" in the version of this Base Prospectus used in connection with sales of the Notes made in reliance on Rule 144A (unless CABEI determines otherwise in accordance with applicable law). The holder of a definitive Registered Note may transfer such Note, subject to compliance with the provisions of such legend, by surrendering it at (i) the office or agency maintained by CABEI for such purpose in The City of New York, which initially will be the office of the Fiscal Agent, or (ii) the office of any Transfer Agent appointed by CABEI. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, CABEI will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to CABEI such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by CABEI that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any Note in definitive form may be transferred to a person who takes delivery in the form of an interest in any U.S. Global Note, the transferor will be required to provide the Fiscal Agent with a Restricted Global Note Certificate or a Regulation S Global Note Certificate, as the case may be.

Bearer Notes

Bearer Notes will initially be represented only in the form of one or more Bearer Notes in temporary global form without interest coupons attached (each, a "Temporary Global Bearer Note"), which will be deposited with or on behalf of a Common Depositary, for credit to the respective accounts of the beneficial owners of such Notes (or

to such other accounts as they may direct), *provided* that all such accounts must be maintained at or through Euroclear or Clearstream, Luxembourg. Notwithstanding the foregoing, if indicated in the applicable Final Terms, Bearer Notes with a maturity not exceeding one year from the date of issue may initially be represented by one or more Bearer Notes in permanent global form without interest coupons attached (each, a “Permanent Global Bearer Note”). Bearer Notes will be subject to certain requirements and restrictions imposed by the U.S. federal tax laws and regulations. See “Limitations on Issuance of Bearer Notes”.

Temporary Global Bearer Notes will be exchangeable for definitive Bearer Notes, interests in a Permanent Global Bearer Note or definitive Registered Notes, as specified in the applicable Final Terms; *provided* that no Temporary Global Bearer Note or portion thereof may be exchanged for any definitive Bearer Note or an interest in a Permanent Global Bearer Note until (A) on or after the 40th day after the issuance of such Temporary Global Bearer Note (the “Exchange Date”) and (B) with respect to each beneficial interest in the portion of such Temporary Global Bearer Note to be exchanged, (i) the participant in Euroclear or Clearstream, Luxembourg, as the case may be, through which such beneficial interest is held has delivered to Euroclear or Clearstream, Luxembourg, as the case may be, an Owner Tax Certification (as defined below), and (ii) Euroclear or Clearstream, Luxembourg, as the case may be, has delivered to the Fiscal Agent a Depository Tax Certification in the form required by the Fiscal Agency Agreement.

No interest payable in respect of any beneficial interest in a Temporary Global Bearer Note will be paid until the certification requirements described above have been satisfied with respect to such beneficial interest. Delivery of the Owner Tax Certification by a participant in Euroclear or Clearstream, Luxembourg shall constitute an irrevocable instruction by such participant to Euroclear or Clearstream, Luxembourg, as the case may be, to exchange on the applicable Exchange Date, the beneficial interest covered by such certificate for such definitive Bearer Notes or interest in a Permanent Global Bearer Note as such participant may specify consistent with the Fiscal Agency Agreement and the applicable Final Terms.

As described above, no payment will be made on any Temporary Global Bearer Note and no exchange of a beneficial interest in a Temporary Global Bearer Note for a definitive Bearer Note or an interest in a Permanent Global Bearer Note may occur until the person entitled to receive such interest or Bearer Note furnishes written certification (an “Owner Tax Certification”), in the form required by the Fiscal Agency Agreement and Schedule E thereof, to the effect that such person (i) is not a U.S. person (as defined below under “Limitations on Issuance of Bearer Notes”), (ii) is a foreign branch of a U.S. financial institution purchasing for its own account or for resale, or is a U.S. person who acquired the Note through such a financial institution and who holds the Note through such financial institution on the date of certification, *provided* in either case that such financial institution certifies that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended (the “Code”) and the U.S. Treasury regulations thereunder, or (iii) is a financial institution holding for purposes of resale during the restricted period (as defined in U.S. Treasury regulations Section 1.163-5(c)(2)(i)(D)(7)). A financial institution described in clause (iii) of the preceding sentence (whether or not also described in clause (i) or (ii)) must certify that it has not acquired the Note for purposes of resale directly or indirectly to a U.S. person or to a person within the United States or its possessions.

The following legend will appear on all Temporary Global Bearer Notes, Permanent Global Bearer Notes and definitive Bearer Notes and any coupons with respect thereto: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in the legend provide that, with certain exceptions, a U.S. taxpayer will not be permitted to deduct any loss, and will not be eligible for capital gain treatment with respect to any gain, realized on a sale, exchange or redemption of a Bearer Note or Coupon.

LIMITATIONS ON ISSUANCE OF BEARER NOTES

In compliance with U.S. federal income tax laws and Treasury regulations, Bearer Notes (including Temporary Global Bearer Notes), other than Bearer Notes with a maturity not exceeding one year from the date of issue, may not be offered or sold during the restricted period (as defined in U.S. Treasury regulations Section 1.163-5(c)(2)(i)(D)(7)) within the United States or its possessions or to U.S. persons (each as defined below) other than to an office located outside the United States or its possessions of a U.S. financial institution within the meaning of U.S. Treasury regulations Section 1.163-5(c)(2)(i)(D)(6), purchasing for its own account or for resale or for the account of certain customers, that provides a certificate stating that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Code and the U.S. Treasury regulations thereunder, or to certain other persons described in U.S. Treasury regulations Section 1.163-5(c)(2)(i)(D)(1)(iii)(B). Moreover, such Bearer Notes may not be delivered within the United States or its possessions in connection with their sale during the restricted period. No Bearer Note (other than a Temporary Global Bearer Note) may be delivered, nor may interest be paid on any Bearer Note until receipt by CABEL of (i) a Depositary Tax Certification in the case of Temporary Global Bearer Notes or (ii) an Owner Tax Certification in all other cases as described above under “Certain Provisions Relating to the Forms of the Notes—Bearer Notes”.

As used herein, “U.S. person” means a citizen or resident of the United States, a U.S. partnership and certain non-U.S. partnerships, a corporation created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source, or a trust if a U.S. court can exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust; and “United States” means the United States of America (including the states thereof and the District of Columbia) and “possessions” of the United States include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

IMPORTANT TAX CONSIDERATIONS

The following is a general description of certain tax considerations relating to the Notes, but is not a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United States and the Member Countries of acquiring, owning and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This description is based upon laws as in effect on the date of this Base Prospectus, all of which are subject to change, possibly with retroactive effect.

United States Taxation

This section describes the material U.S. federal income tax considerations related to the acquisition, ownership and disposition of Notes issued under the Program, subject to the limitations set forth below. This section applies only to U.S. Holders (as defined below) who acquire Notes in an offering pursuant to the Program and who hold such Notes as capital assets for U.S. federal income tax purposes. This section does not apply to a U.S. Holder who is a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a bank or other financial institution,
- an insurance company,
- a tax-exempt organization,
- a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks,
- a person that owns Notes as part of a straddle, conversion transaction or other integration transaction for U.S. federal income tax purposes,
- a U.S. Holder (as defined below) whose functional currency for U.S. federal income tax purposes is not the U.S. dollar,
- a partnership (or any entity or arrangement treated as a partnership) for U.S. federal income tax purposes, or
- a taxpayer liable for the alternative minimum tax.

If a partnership (including for this purpose any entity or any arrangement treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of the Notes, the treatment of a partner in the partnership generally will depend upon the status of the partner and upon the activities of the partnership. A U.S. Holder that is a partnership and partners in such partnership should consult their tax advisors regarding the U.S. federal income tax treatment of holding and disposing of Notes.

This section addresses Notes that are due to mature 30 years or less from the date on which they are originally issued. The U.S. federal income tax consequences of owning Notes that are due to mature more than 30 years from their date of original issue will be discussed in an applicable Final Terms. This section is based on the Code, its legislative history, existing and proposed U.S. Treasury regulations promulgated under the Code, published Internal Revenue Service (the “IRS”) rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis.

Prospective purchasers are advised to consult their own tax advisor concerning the consequences of owning Notes in their particular circumstances under the Code and the laws of any other taxing jurisdiction.

This section does not discuss the Medicare tax on net investment income. Further, this section does not discuss Bearer Notes. Prior to investing in Bearer Notes, prospective investors who would be U.S. Holders should consult with their U.S. tax advisor concerning an investment in Bearer Notes and the limitations under U.S. federal income tax law.

As used herein, the term “U.S. Holder” means a beneficial owner of a Note that is:

- an individual who is a citizen or resident of the United States,
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia,
- an estate whose income is subject to U.S. federal income tax regardless of its source, or
- a trust if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

This subsection does not address the U.S. federal income tax consequences applicable to investors who are not U.S. Holders. Such investors should consult their own tax advisors.

Payments of Interest

General. Except as described below in the case of interest on an Original Issue Discount Note that is not qualified stated interest (as defined below under “—Original Issue Discount—General”) and in the case of short-term Notes, a U.S. Holder will be taxed on any interest on Notes held by such U.S. Holder and any Additional Amounts paid with respect to any withholding taxes on such Notes, including withholding tax on payments of such Additional Amounts, whether payable in U.S. dollars or a foreign currency, as ordinary income at the time the U.S. Holder receives the interest or when it accrues, depending on the U.S. Holder’s method of accounting for tax purposes. Thus, a U.S. Holder may be required to report income in an amount greater than the actual amount of interest it receives on the Notes if payments on the Notes are subject to withholding tax.

Interest and Additional Amounts, if any, paid by CABEI on Notes and original issue discount (“OID”), if any, accrued with respect to such Notes (as described below under “—Original Issue Discount”) is income from sources outside the United States for U.S. foreign tax credit purposes and typically will constitute “passive category income” for purposes of computing the U.S. foreign tax credit allowable to a U.S. Holder. In lieu of claiming a credit, U.S. Holders may elect to deduct foreign income taxes in computing their U.S. federal taxable income, *provided* the U.S. Holder does not elect to credit any foreign income taxes paid or accrued for the relevant taxable year. The rules relating to foreign tax credits are complex, and U.S. Holders should consult their own tax advisors with regard to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to their particular situations.

Cash Basis Taxpayers. If a U.S. Holder is a taxpayer that uses the cash receipts and disbursements method of accounting for U.S. federal income tax purposes and receives an interest payment and any Additional Amount that is denominated in, or determined by reference to, a foreign currency, such U.S. Holder must recognize income equal to the U.S. dollar value of the interest payment and the Additional Amount, if any, based on the exchange rate in effect on the date of receipt, regardless of whether the U.S. Holder actually converts the payment into U.S. dollars at such time.

Accrual Basis Taxpayers. If a U.S. Holder is a taxpayer that uses an accrual method of accounting for U.S. federal income tax purposes, such U.S. Holder may determine the amount of income that it recognizes with respect to an interest payment and any Additional Amount denominated in, or determined by reference to, a foreign

currency by using one of two methods. Under the first method, such U.S. Holder will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

Under the second method, a U.S. Holder would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if the U.S. Holder receives a payment of interest within five Business Days of the last day of its accrual period or taxable year, it may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that it actually receives the interest payment. If such U.S. Holder elects the second method, that method will apply to all debt instruments that such U.S. Holder holds at the beginning of the first taxable year to which the election applies and to all debt instruments that such U.S. Holder subsequently acquires. A U.S. Holder may not revoke this election without the consent of the IRS.

When a U.S. Holder actually receives an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of its Note) denominated in, or determined by reference to, a single foreign currency for which such U.S. Holder accrued an amount of income, such U.S. Holder will recognize ordinary income or loss measured by the difference, if any, between the exchange rate that such U.S. Holder used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether such U.S. Holder actually converts the payment into U.S. dollars at such time.

Special rules may apply to Notes with interest denominated in, or determined by reference to, multiple foreign currencies. The U.S. federal income tax consequences of such Notes will be described in the applicable Final Terms.

Original Issue Discount

General. If a U.S. Holder owns a Note, other than a short-term note with a term of one year or less, it will be treated as an Original Issue Discount Note with OID if the amount by which the Note's stated redemption price at maturity exceeds its issue price is more than a *de minimis* amount. Generally, a Note's issue price will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. A Note's stated redemption price at maturity is the total of all payments provided by the Note that are not payments of qualified stated interest. Generally, an interest payment on a Note is qualified stated interest if it is one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate, with certain exceptions for lower rates paid during some periods, applied to the outstanding principal amount of the Note. There are special rules for Floating Rate Notes that are discussed under "—Floating Rate Notes".

In general, a Note does not have OID if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of $\frac{1}{4}$ of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to its maturity from its original issue date. A U.S. Holder's Note will have *de minimis* OID if the amount of the excess is less than the *de minimis* amount. If a Note has *de minimis* OID, such U.S. Holder must include the *de minimis* amount in income as capital gain as stated principal payments are made on the Note, unless such U.S. Holder makes the election described below under "—Election to Treat All Interest as Original Issue Discount".

Generally, a U.S. Holder must include OID in income before receiving cash attributable to that income. The amount of OID that a U.S. Holder must include in income is calculated using a constant-yield method, and generally a U.S. Holder will include increasingly greater amounts of OID in income over the term of its Notes. More specifically, a U.S. Holder can calculate the amount of OID that it must include in income by adding the daily portions of OID with respect to its Original Issue Discount Note for each day during the taxable year or portion of the taxable year that it holds its Original Issue Discount Note. The daily portion is determined by allocating to each day in any accrual period a pro rata portion of the OID allocable to that accrual period. A U.S. Holder may select an accrual period of any length with respect to its Original Issue Discount Note and such U.S. Holder may vary the length of each accrual period over the term of its Original Issue Discount Note. However, no accrual period may be

longer than one year and each scheduled payment of interest or principal on the Original Issue Discount Note must occur on either the first or final day of an accrual period.

A U.S. Holder can determine the amount of OID allocable to an accrual period by:

- multiplying its Original Issue Discount Note's adjusted issue price at the beginning of the accrual period by such Note's yield to maturity, and then
- subtracting from this figure the sum of the payments of qualified stated interest on such Note allocable to the accrual period.

A U.S. Holder must determine the Original Issue Discount Note's yield to maturity on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. Further, a U.S. Holder determines its Original Issue Discount Note's adjusted issue price at the beginning of any accrual period by:

- adding its Original Issue Discount Note's issue price and any accrued OID for each prior accrual period, and then
- subtracting any payments previously made on such Original Issue Discount Note that were not qualified stated interest payments.

In determining the amount of OID allocable to an accrual period, if an interval between payments of qualified stated interest on a U.S. Holder's Note contains more than one accrual period, then, when such U.S. Holder determines the amount of OID allocable to an accrual period, it must allocate the amount of qualified stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, pro rata to each accrual period in the interval based on their relative lengths. In addition, a U.S. Holder must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. A U.S. Holder may compute the amount of OID allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

The amount of OID allocable to the final accrual period is equal to the difference between:

- the amount payable at the maturity of the U.S. Holder's Note, other than any payment of qualified stated interest, and
- the adjusted issue price of the U.S. Holder's Note as of the beginning of the final accrual period.

Acquisition Premium. If a U.S. Holder purchases a Note for an amount that is less than its stated redemption price at maturity as of the purchase date but that is greater than its adjusted issue price, as described above, the excess is acquisition premium. If a U.S. Holder does not make the election described below under “— Election to Treat All Interest as Original Issue Discount”, then the U.S. Holder must reduce the daily portions of OID includible in income for a taxable year by the portion of the excess properly allocable to that year.

Election to Treat All Interest as Original Issue Discount. A U.S. Holder may elect to include in gross income all interest that accrues on a Note held by it using the constant-yield method described above, with the modifications described below. For purposes of this election, interest will include stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. In applying the constant-yield method pursuant to this election:

- the issue price of such Note will equal the U.S. Holder's cost,
- the issue date of such Note will be the date the U.S. Holder acquired it, and

- no payments on such Note will be treated as payments of qualified stated interest.

Generally, this election will apply only to the Note for which it is made; however, if a Note has amortizable bond premium or market discount, the U.S. Holder will be deemed to have made an election that applies to other debt instruments held by such Holder. A U.S. Holder may not revoke any election to apply the constant-yield method to all interest on a Note or the deemed elections with respect to amortizable bond premium or market discount Notes without the consent of the IRS.

Foreign Currency Original Issue Discount Notes. If an Original Issue Discount Note is also a Foreign Currency Note, a U.S. Holder must determine OID for any accrual period on its Original Issue Discount Note in the foreign currency and then translate the amount of OID into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under “—U.S. Holders—Payments of Interest”. Such U.S. Holder may recognize ordinary income or loss when it receives an amount attributable to OID in connection with a payment of interest or the sale or retirement of such Note.

Pre-Issuance Accrued Interest.

An election may be made to decrease the issue price of a Note by the amount of pre-issuance accrued interest if:

- a portion of the initial purchase price of such Note is attributable to pre-issuance accrued interest,
- the first stated interest payment on such Note is to be made within one year of such Note’s issue date, and
- the payment will equal or exceed the amount of pre-issuance accrued interest.

If this election is made, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on such Note.

Notes Subject to Certain Contingencies Including Optional Redemption.

If a Note provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies, other than those that are disregarded as remote or incidental, and the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Note, a U.S. Holder must determine the yield and maturity of such Note by assuming that the payments will be made according to the payment schedule, if any, that is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, other than because of a mandatory sinking fund, a U.S. Holder must recognize income on a Note in accordance with special rules that govern the treatment of contingent payment debt obligations. If relevant, these rules will be discussed in the applicable Final Terms.

Notwithstanding the general rules for determining yield and maturity, if a Note is subject to contingencies, and either a U.S. Holder or CABEI has an unconditional option or options that, if exercised, would require payments to be made on such Note under an alternative payment schedule or schedules, then:

- in the case of an option or options that CABEI may exercise, CABEI will be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on such Note, and
- in the case of an option or options that a U.S. Holder may exercise, the U.S. Holder will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on such Note.

If both a U.S. Holder and Cabei hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised. A U.S. Holder may determine the yield on a Note held by it for the purposes of those calculations by using any date on which such Note may be redeemed or repurchased as the maturity date and the amount payable on the date that it chooses in accordance with the terms of such Note as the principal amount payable at maturity.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules, then except to the extent that a portion of a Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, a U.S. Holder must redetermine the yield and maturity of such Note by treating such Note as having been retired and reissued on the date of the change in circumstances for an amount equal to such Note's adjusted issue price on that date.

Floating Rate Notes.

A Floating Rate Note will constitute a variable rate debt instrument ("VRDI") if:

- such Floating Rate Note's issue price does not exceed the total noncontingent principal payments by more than the lesser of:
 1. 1.5 percent multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or
 2. 15 percent of the total noncontingent principal payments; and
- such Floating Rate Note provides for stated interest, compounded or paid at least annually, only at:
 1. one or more qualified floating rates,
 2. a single fixed rate and one or more qualified floating rates,
 3. a single objective rate, or
 4. a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A Floating Rate Note provides for stated interest at a qualified floating rate if:

- variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which such Floating Rate Note is denominated; or
- the rate is equal to such a rate multiplied by either (x) a fixed multiple that is greater than 0.65 but not more than 1.35 or (y) a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate; and
- the value of the rate on any date during the term of such Floating Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If such Floating Rate Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of such Floating Rate Note, the qualified floating rates together constitute a single qualified floating rate.

A Floating Rate Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of such Floating Rate Note or are not reasonably expected to significantly affect the yield on such Floating Rate Note.

A Floating Rate Note provides for stated interest at a single objective rate if:

- the rate is not a qualified floating rate,
- the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of CABEI or a related party, and
- the value of the rate on any date during the term of such Floating Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A Floating Rate Note will not provide for stated interest at an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of such Floating Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of such Floating Rate Note's term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate; and
- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

A Floating Rate Note will also provide for stated interest at a single qualified floating rate or an objective rate if interest on such Floating Rate Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of such Floating Rate Note that do not differ by more than 0.25 percentage points; or
- the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

Commercial Paper Rate Notes, Prime Rate Notes, LIBOR Notes, Treasury Rate Notes, CD Rate Notes, and Federal Funds Rate Notes generally will be treated as VRDIs under these rules. In some circumstances, however, such Notes may be subject to special rules governing "contingent payment debt instruments", in which case the U.S. federal income tax consequences will be described in the applicable Final Terms.

In general, if a Floating Rate Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period with interest payable at least annually, all stated interest on such Floating Rate Note is qualified stated interest. Thus, such a Floating Rate Note will generally not be issued with OID unless the Floating Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified de minimis amount. The amount of OID on such a Floating Rate Note is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield reasonably expected for such Floating Rate Note.

If a Floating Rate Note constitutes a VRDI but does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period, a U.S. Holder generally must determine the interest and OID accruals on such Floating Rate Note by:

- determining a fixed rate substitute for each variable rate provided under such Floating Rate Note,
- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,

- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and
- adjusting for actual variable rates during the applicable accrual period.

When a U.S. Holder determines the fixed rate substitute for each variable rate provided under a Floating Rate Note, it generally will use the value of each variable rate as of the issue date of such Note or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on such Floating Rate Note.

If a Floating Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate (other than at a single fixed rate for an initial period as described above), a U.S. Holder generally must determine interest and OID accruals by using the method described in the previous paragraph. However, a Floating Rate Note will be treated, for purposes of the first three steps of the determination, as if such Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of such Floating Rate Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

Short-Term Notes.

In general, if a U.S. Holder is an individual or other cash basis U.S. Holder of a short-term Note, such U.S. Holder is not required to accrue OID for the purposes of the rules relating to debt obligations with a term of less than one year for U.S. federal income tax purposes unless it elects to do so (although it is possible that it may be required to include any stated interest in income as it receives it). If a U.S. Holder is an accrual basis taxpayer, a taxpayer in a special class, including, but not limited to, a regulated investment company, common trust fund, or a certain type of pass-through entity, or a cash basis taxpayer who so elects, such U.S. Holder will be required to accrue OID on short-term Notes on either a straight-line basis or under the constant-yield method, based on daily compounding. If a U.S. Holder is not required and does not elect to include OID in income currently, any gain such U.S. Holder realizes on the sale or retirement of its short-term Note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless such U.S. Holder makes an election to accrue the OID under the constant-yield method, through the date of sale or retirement. However, if a U.S. Holder is not required and does not elect to accrue OID on its short-term Notes, such U.S. Holder will be required to defer deductions for interest on borrowings allocable to its short-term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a short-term Note are included in the short-term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a short-term Note as if the short-term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the short-term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market Discount

A U.S. Holder will be treated as if it purchased a Note, other than a short-term Note, at a market discount, and such Note will be a market discount Note if:

- (i) in the case of a Note that is not an Original Issue Discount Note, the Note is purchased for less than its stated redemption price at maturity as determined above under “—Original Discount—General”, or
- (ii) in the case of an Original Issue Discount Note, the Note is purchased for less than its revised issue price (i.e., its issue price increased by the aggregate amount of OID includible in income before the Original Issue Discount Note was acquired by such U.S. Holder and decreased by the aggregate

amount of all payments previously made on the Note other than payments of qualified stated interest); and

- the difference between such Note's stated redemption price at maturity or, in the case of an Original Issue Discount Note, its revised issue price, and the price the relevant U.S. Holder paid for such Note is an amount that is equal to or greater than 1/4 of 1 percent of its stated redemption price at maturity or revised issue price multiplied by the number of complete years to maturity remaining after the U.S. Holder acquired the Note.

If this difference is less than such amount, the difference constitutes *de minimis* market discount, and the rules discussed below are not applicable to the relevant U.S. Holder.

A U.S. Holder must treat any gain it recognizes on the maturity or disposition of a market discount Note (including the receipt of any payment on a Note that is not qualified stated interest) as ordinary income to the extent of the accrued market discount on such Note on a straight-line basis or by using a constant-yield method. Alternatively, such U.S. Holder may elect to include market discount in income currently over the life of such Note on a straight-line basis or by using a constant-yield method. If a U.S. Holder makes this election, it will apply to all debt instruments with market discount that a U.S. Holder acquires on or after the first day of the first taxable year to which the election applies. A U.S. Holder may not revoke this election without the consent of the IRS. If a U.S. Holder owns a market discount Note and does not make this election, it will generally be required to defer deductions for interest on borrowings allocable to such Note in an amount not exceeding the accrued market discount on such Note until the maturity or taxable disposition of such Note.

A U.S. Holder will accrue market discount on its market discount Note on a straight-line basis unless it elects to accrue market discount using a constant-yield method. If a U.S. Holder makes this election, such election will apply only to the Note with respect to which it is made and the U.S. Holder may not revoke it.

With respect to a Foreign Currency Note, market discount is determined in the applicable foreign currency. In the case of a U.S. Holder who does not elect current inclusion, accrued market discount is translated into U.S. dollars at the spot rate on the date of disposition. No part of such accrued market discount is treated as exchange gain or loss. In the case of a U.S. Holder who elects current inclusion, the amount currently includible in income for a taxable year is the U.S. dollar value of the market discount that has accrued during such accrual period (or portion thereof within the U.S. Holder's taxable year), determined by translating such market discount at the average rate of exchange for the period or periods during which it accrued. Such an electing U.S. Holder will recognize exchange gain or loss with respect to accrued market discount under the same rules as apply to accrued interest on a Foreign Currency Note received by a Holder on the accrual basis. See "—Payments of Interest—Accrual Basis Taxpayer" as applicable to Notes that are not Original Issue Discount Notes.

Notes Purchased at a Premium

If a U.S. Holder purchases a Note for an amount in excess of its principal amount, the U.S. Holder may elect to treat the excess as amortizable bond premium. If the U.S. Holder makes this election, the U.S. Holder will reduce the amount required to be included in its taxable income each year with respect to interest on such Note by the amount of amortizable bond premium allocable to that year, based on such Note's yield to maturity. If such Note is a Foreign Currency Note, the relevant U.S. Holder will compute its amortizable bond premium in units of the foreign currency and its amortizable bond premium will reduce its interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time the relevant U.S. Holder's amortized bond premium offsets interest income and the time of the acquisition of such Note is generally taxable as ordinary income or loss. If a U.S. Holder makes an election to amortize bond premium, the election will apply to all debt instruments (other than debt instruments the interest on which is excludible from gross income for U.S. federal income tax purposes) that such person holds at the beginning of the first taxable year to which the election applies or that such person thereafter acquires, and such U.S. Holder may not revoke it without the consent of the IRS. See also "—Original Issue Discount—Election to Treat All Interest as Original Issue Discount".

Purchase, Sale, Exchange and Retirement of the Notes

A U.S. Holder's tax basis in a Note will generally be the U.S. dollar cost, as defined below, of such Note, adjusted by:

- adding any OID, market discount, *de minimis* OID and *de minimis* market discount previously included in income with respect to such Note, and then
- subtracting any payments on such Note that are not qualified stated interest payments and any amortizable bond premium applied to reduce interest on such Note.

If a U.S. Holder purchases a Note with foreign currency, the U.S. dollar cost of such Note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if a U.S. Holder is a cash basis taxpayer, or an accrual basis taxpayer if the U.S. Holder so elects, and the Note is traded on an established securities market, as defined in the applicable U.S. Treasury regulations, the U.S. dollar cost of such Note will be the U.S. dollar value of the purchase price on the settlement date in respect of the Note purchased.

A U.S. Holder will generally recognize gain or loss on the sale, exchange, retirement or other taxable disposition of such Note equal to the difference between the amount such U.S. Holder realized on the sale, exchange, retirement or other taxable disposition and its tax basis in such Note. If such Note is sold, retired or otherwise disposed of for an amount in foreign currency, the amount the relevant U.S. Holder realizes will be the U.S. dollar value of such amount on:

- the date payment is received, if such U.S. Holder is a cash basis taxpayer and the relevant Notes are not traded on an established securities market, as defined in the applicable U.S. Treasury regulations,
- the date of disposition, if such U.S. Holder is an accrual basis taxpayer, or
- the settlement date for the sale, if it is a cash basis taxpayer, or an accrual basis taxpayer that so elects, and the relevant Notes are traded on an established securities market, as defined in the applicable U.S. Treasury regulations.

A U.S. Holder will recognize capital gain or loss when it sells, retires or otherwise disposes of a Note held by it, except to the extent:

- described above under “—Original Issue Discount—Short-Term Notes” or “—Market Discount”,
- the amount realized is attributable to accrued but unpaid interest,
- the rules governing contingent payment debt obligations apply,
- attributable to changes in exchange rates as described below, or
- otherwise specified in the applicable Final Terms.

Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note will be long-term capital gain or loss if the U.S. Holder's holding period in the Note exceeds one year. Certain non-corporate U.S. Holders (including individuals), under current law, may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as derived from U.S. sources for purposes of the U.S. foreign tax credit. Consequently, in the case of a gain from the sale, exchange, retirement or other taxable disposition of a Note that is subject to a foreign income tax, the U.S. Holder may not be able to benefit from the foreign tax credit for the tax unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for such tax if the U.S. Holder elects to deduct (rather

than credit) all foreign income taxes paid or accrued during the taxable year. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

A U.S. Holder must treat any portion of the gain or loss that it recognizes on the sale, exchange, retirement or other taxable disposition of a Note as ordinary income or loss to the extent attributable to changes in exchange rates. However, the amount of any exchange gain or loss to be realized is limited to the amount of the total gain or loss realized on the transaction.

Exchange of Amounts in Other Than U.S. Dollars

If a U.S. Holder receives foreign currency as interest on a Note held by it or on sale, retirement or other taxable disposition of a Note held by it, the tax basis of such U.S. Holder in the foreign currency will equal its U.S. dollar value when the interest is received or at the time of the sale, retirement or other taxable disposition. If a U.S. Holder purchases foreign currency, it generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of such purchase. If such U.S. Holder sells or disposes of a foreign currency, including if such U.S. Holder uses such foreign currency to purchase Notes or exchange such foreign currency for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

Reportable Transaction Disclosure Statement

Pursuant to U.S. Treasury regulations, a U.S. Holder that recognizes a foreign exchange loss on the sale or exchange of the Notes may be required to disclose the transaction as a “reportable transaction” on IRS Form 8886 (or a suitable substitute) in the event the loss equals at least US\$50,000 in a single year if the U.S. Holder is an individual or trust, or higher amounts for certain other Holders. Additionally, a U.S. Holder that recognizes a loss on the sale or exchange of the Notes may be required to disclose the transaction as a reportable transaction in the event the loss equals at least US\$2,000,000 in any single taxable year (or US\$4,000,000 in any combination of taxable years) if the U.S. Holder is an individual, S corporation or a trust, or generally higher amounts if the U.S. Holder is any other type of holder. A U.S. Holder should consult with its tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of Notes.

Indexed Notes and Other Notes

The applicable Final Terms will discuss any special U.S. federal income tax provisions with respect to Notes the payments on which are determined by reference to any index and other Notes that are subject to special U.S. federal income tax rules governing contingent payment debt obligations, as well as with respect to any Notes providing for the periodic payment of principal over the life of the Note.

Fungible Issue

CABEI may, without the consent of the Holders of outstanding Notes, issue Additional Notes with identical terms. These Additional Notes, even if treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as separate issue for U.S. federal income tax purposes. In such a case, the Additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the Additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the Additional Notes are not otherwise distinguishable from the original Notes.

Information Reporting and Backup Withholding

If you are a non-corporate U.S. Holder, information reporting requirements, on IRS Form 1099, generally will apply to:

- payments of principal, interest (including OID, if any) and premium (if any) on a Note within the United States, including payments made by wire transfer from outside the United States to an account you maintain in the United States; and

- the payment of the proceeds from the sale of the Note effected at a U.S. office of a broker.

Additionally, U.S. backup withholding tax will apply to such payments if you are a non-corporate U.S. Holder that:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that you have failed to report all interest and dividends required to be shown on your U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Backup withholding is not additional tax. Amounts withheld may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

In addition, U.S. Holders should be aware that recently enacted legislation imposes new reporting requirements with respect to the holding of certain foreign financial assets, including debt of foreign issuers, if the aggregate value of all of such assets exceeds US\$50,000. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our Notes and the application of the recently enacted legislation to their particular situation.

Member Country Taxation

In accordance with its Constitutive Agreement which has been ratified by the legislature in each of the Founding Members, CABEL is exempt from all types of taxes levied by each of the Member Countries on its income, property and other assets, and on operations it carries out pursuant to its Constitutive Agreement and no tax or lien may be levied on any obligation or security issued by CABEL, including any dividend or interest thereon.

Payments of principal and interest in respect of the Notes to a non-resident of the Member Countries will therefore not be subject to taxation in any of the Member Countries, nor will any withholding for tax of any of the Member Countries be required on any such payments to any Holder of Notes. In the event of the imposition of withholding taxes by any of the Member Countries, CABEL has undertaken to pay Additional Amounts in respect of any payments subject to such withholding, subject to certain exemptions, as described under Section 10 (Additional Amounts) of the Terms and Conditions of the Notes.

El Salvador Taxation

The following is a general discussion of Salvadoran tax considerations. The discussion is based upon the tax laws of El Salvador as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Salvadoran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, El Salvador.

Under current Salvadoran law, payments of principal and interest on the Notes to Holders are not subject to taxation in El Salvador. Holding a Note will not by itself subject a Holder to any tax in El Salvador.

Costa Rican Taxation

The following is a general discussion of Costa Rican tax considerations. The discussion is based upon the tax laws of Costa Rica as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Costa Rican tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Costa Rica.

Under current Costa Rican law, payments of principal and interest on the Notes to Holders are not subject to taxation in Costa Rica. Holding a Note will not by itself subject a Holder to any tax in Costa Rica.

Guatemalan Taxation

The following is a general discussion of Guatemalan tax considerations. The discussion is based upon the tax laws of Guatemala as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Guatemalan tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Guatemala.

Under current Guatemalan law, payments of principal and interest on the Notes to Holders are not subject to taxation in Guatemala. Holding a Note will not by itself subject a Holder to any tax in Guatemala.

Honduran Taxation

The following is a general discussion of Honduran tax considerations. The discussion is based upon the tax laws of Honduras as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Honduran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Honduras.

Under current Honduran law, payments of principal and interest on the Notes to Holders are not subject to taxation in Honduras. Holding a Note will not by itself subject a Holder to any tax in Honduras.

Nicaraguan Taxation

The following is a general discussion of Nicaraguan tax considerations. The discussion is based upon the tax laws of Nicaragua as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Nicaraguan tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Nicaragua.

Under current Nicaraguan law, payments of principal and interest on the Notes to Holders are not subject to taxation in Nicaragua. Holding a Note will not by itself subject a Holder to any tax in Nicaragua.

European Union Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “Savings Directive”), European Union member states (each, a “Member State”) are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Luxembourg and Austria have instead opted to operate a withholding system in relation to such payments (unless during that period they elect otherwise) deducting tax rates rising over time to 35%. The transitional period is to terminate following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted, or have agreed to adopt, similar measures (either provision of information or transitional withholding with effect from the same date).

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

OFFERING AND SALE

Notes may be sold from time to time by CABEL to or through certain financial institutions (the “Agents”). The arrangements under which the Notes may from time to time be agreed to be sold by CABEL to or through the Agents are set out in the Distribution Agreement dated April 2, 2003, as amended (the “Distribution Agreement”) between CABEL and Salomon Smith Barney Inc. (now Citigroup Global Markets Inc.). The Distribution Agreement provides for the resignation or termination of appointment of the Agents and for the appointment of additional or other Agents either generally in respect of the Program or in relation to a particular tranche of Notes. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Agent, the commissions or other agreed deductibles (if any) which are payable or allowable by CABEL in respect of such purchase and the form of any indemnity to the Agent against certain liabilities in connection with the offer and sale of the relevant Notes.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

The Agents have agreed and each further Agent appointed under the Program will be required to agree that, except as permitted by the Distribution Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Fiscal Agent by the relevant Agent, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Agent to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restriction on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Distribution Agreement provides that the Agents may, directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of Notes within the United States in reliance on Rule 144A only to a “qualified institutional buyer”, or “QIB”, within the meaning of Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of such Notes within the United States by any dealer that is not participating in the offering of such Notes may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

In connection with an offering of Notes, the Agent may purchase and sell the Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Agent in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes; and short positions created by the Agent involve the sale by the Agent of a greater number of Notes than it is required to purchase from the Issuer in the offering. The Agent also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the securities sold in the offering may be reclaimed by the Agent if such Notes are repurchased by the Agent in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time subject to the following paragraph. These transactions may be effected in the over-the-counter market or otherwise.

In connection with the offering of any tranche of Notes, the person appointed as stabilizing agent (or persons acting on its behalf) may over-allot Notes or effect transactions with a view to supporting the market price

of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the person appointed as stabilizing agent (or persons acting on its behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which CABEL received the proceeds of the issue, or no later than 60 days after the date of allotment of the relevant notes, whichever is the earlier.

This Base Prospectus has been prepared by CABEL for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons and for the resale of the Notes in the United States and for the listing of Notes on the Luxembourg Stock Exchange. CABEL and the Agent reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the number of Notes which may be offered pursuant to Rule 144A. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than a QIB within the meaning of Rule 144A to whom an offer has been made directly by the Agent or an affiliate of the Agent. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorized and any disclosure without the prior written consent of CABEL of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

United Kingdom

Each Agent has represented, warranted and agreed, and each further Agent appointed under the Program will be required to represent, warrant and agree, that (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”); (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to CABEL; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

This Base Prospectus as completed by the final terms in relation thereto is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This Base Prospectus as completed by the final terms in relation thereto is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Base Prospectus as completed by the final terms in relation thereto relates is available only to relevant persons and will be engaged in only with relevant persons.

Any investor purchasing the notes is solely responsible for ensuring that any offer or resale of Notes it purchases occurs in compliance with applicable laws and regulations.

No action has been or will be taken in any jurisdiction by the Agent or CABEL that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus, or any part thereof including any Final Terms, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where

action for that purpose is required. The Agent has agreed and each further Agent appointed under the Program will be required to agree that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Notes or has in its possession or distributes this Base Prospectus, or any part thereof including any Final Terms, or any such other material, in all cases at its own expense. The Agent has agreed and each further Agent appointed under the Program will be required to agree that it will also ensure that no obligations are imposed on CABEI in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of CABEI). CABEI will have no responsibility for, and the Agent has agreed and each further Agent appointed under the Program will be required to agree that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Agent is authorized to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Base Prospectus, including the applicable Final Terms, and any other information or document supplied.

Selling restrictions may be modified by the agreement of CABEI and the relevant Agents. Any such modification will be set out in the Final Terms issued in respect of the Notes to which it relates or in a supplement to this Base Prospectus.

CABEI has agreed to indemnify the Agent against certain liabilities, including liabilities under U.S. federal and state securities laws, or to contribute to payments that the Agent may be required to make in respect of any of those liabilities.

The Agent or its affiliates have performed certain investment banking, commercial banking or advisory services for CABEI from time to time for which they have received customary fees and expenses. The Agent or its affiliates may, from time to time, engage in transactions with or perform services for CABEI in the ordinary course of business.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of Notes.

Rule 144A Notes

Each purchaser of the Notes offered and sold in reliance on Rule 144A (“Rule 144A”) under the Securities Act and each owner of any beneficial interest therein will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S (“Regulation S”) under the Securities Act are used herein as defined therein):

- (1) It (i) is a qualified institutional buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A, (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer, as the case may be, and (iv) is not acquiring such Notes with a view to any resale or distribution thereof other than in accordance with the restrictions set forth below.
- (2) It understands that the Notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (i) so long as the Note is eligible for resale pursuant to Rule 144A, to a person who the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with all applicable securities laws of the states of the United States.
- (3) It understands that the Notes will be represented by a Restricted Global Note. Before any interest in a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the fiscal agent with a written certification (in the form provided in the fiscal agency agreement) as to compliance with the transfer restrictions referred to in clause (2)(ii) or (2)(iii) above.
- (4) The Notes will bear a legend to the following effect, unless CABEL determines otherwise in compliance with applicable law:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) SO LONG AS THE NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTE, REPRESENTS AND AGREES THAT IT SHALL NOTIFY THE PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THIS LEGEND MAY BE REMOVED SOLELY AT THE DISCRETION AND AT THE DIRECTION OF THE ISSUER.

Regulation S Notes

Each purchaser of Registered Notes offered outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of CABEI or a person acting on behalf of such affiliate.

(2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

(3) It understands that such Notes, unless otherwise determined by CABEI in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

THIS LEGEND MAY BE REMOVED SOLELY AT THE DISCRETION AND AT THE DIRECTION OF THE ISSUER.

(4) The Issuer, the Registrar, the Agent and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(5) It understands that the Notes offered in reliance on Regulation S will be represented by the Regulation S Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(6) Delivery of the Notes may be made against payment therefor on or about a date which will occur more than three Business Days after the date of pricing of the Notes. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three Business Days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding Business Day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three Business Days after the date of pricing of the Notes, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding Business Day should consult their own advisor.

VALIDITY OF THE NOTES

The validity under New York law of the notes will be passed upon for CABEL by Shearman & Sterling LLP, New York, New York. Certain legal matters governed by the Constitutive Agreement will be passed on by the Head of CABEL's Legal Affairs Office.

INDEPENDENT AUDITORS

THE FINANCIAL STATEMENTS OF CABEL AS OF DECEMBER 31, 2013, 2012 AND 2011 AND FOR THE YEARS THEN ENDED INCLUDED IN THIS BASE PROSPECTUS AND THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AS OF DECEMBER 31, 2013 HAVE BEEN AUDITED BY KPMG, INDEPENDENT AUDITORS, AS STATED IN THEIR REPORTS APPEARING HEREIN.

GENERAL INFORMATION

1. The Program, the issuance of the Notes and the execution of all documents in connection therewith have been authorized by a resolution of the Board of Directors dated August 27, 2002, as amended by resolutions of the Board of Directors dated June 28, 2006, February 24, 2009 and September 25, 2013.

2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Bearer Notes, together with the relevant ISIN Code or CUSIP number for the Registered Notes, will be contained in the Final Terms relating thereto. In addition, CABEI will make an application with respect to any Notes of a Registered Series to be accepted for trading in book-entry form by DTC. Acceptance by DTC of each tranche of a Registered Series will be confirmed in the applicable Final Terms.

3. Except as disclosed or provided herein, there has been no significant adverse change in the financial position of CABEI since December 31, 2013.

4. So long as any Notes are listed on the Luxembourg Stock Exchange, CABEI will maintain a Paying Agent and a Transfer Agent in Luxembourg. CABEI has appointed Deutsche Bank Luxembourg S.A. as Paying Agent and Transfer Agent in Luxembourg. CABEI has appointed Banque Internationale à Luxembourg, Société Anonyme as its Listing Agent in Luxembourg. CABEI has also appointed Deutsche Bank Trust Company Americas as Fiscal Agent, Registrar, Paying Agent and Transfer Agent in The City of New York and Deutsche Bank AG London as its Paying Agent and Transfer Agent in London. CABEI reserves the right to vary such appointment.

5. CABEI is involved in routine litigation and other proceedings in the ordinary course of business. CABEI does not believe that the proceedings pending against it are likely to have a material adverse effect on its business or results of operations.

6. So long as Notes are outstanding and listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, CABEI will make available copies of its Constitutive Agreement, latest annual report, annual financial statements and any six month interim financial statements, as well as this Base Prospectus and any supplements to this Base Prospectus, each Final Terms and the Fiscal Agency Agreement at the specified office of the Paying Agent in Luxembourg during normal business hours.

7. In connection with the offering, the Agents are not acting for anyone other than CABEI and will not be responsible to anyone other than CABEI for providing the protections afforded to their clients nor for providing advice in relation to the offering.

THE FOUNDING MEMBERS

Certain sections of the following information have been extracted from publicly available sources. CABEI believes that the information is accurate but it has not independently verified it.

Selected Demographic and Economic Data

The following table presents selected demographic and economic data for the Founding Members for the last ten years.

	<u>Guatemala</u>	<u>El Salvador</u>	<u>Honduras</u>	<u>Nicaragua</u>	<u>Costa Rica</u>
Population⁽¹⁾ (in millions)					
2013.....	15.5	6.3	8.1	6.1	4.8
2012.....	15.1	6.3	7.9	6.1	4.7
2011.....	14.7	6.3	7.8	6.0	4.6
2010.....	14.4	6.2	7.6	5.9	4.5
2009.....	14.0	6.2	7.5	5.7	4.5
2008.....	13.7	6.2	7.3	5.7	4.4
2007.....	13.4	6.1	7.2	5.6	4.3
2006.....	13.0	6.1	7.0	5.6	4.3
2005.....	12.7	6.1	6.9	5.5	4.2
2004.....	12.4	6.1	6.8	5.4	4.2
2003.....	12.1	6.0	6.6	5.4	4.1
Life expectancy at birth⁽²⁾ (years)					
2013.....	n.a.	n.a.	n.a.	n.a.	n.a.
2012.....	72.0	72.0	73.0	74.0	80.0
2011.....	71.0	72.0	73.0	74.0	79.0
2010.....	71.0	72.0	73.0	74.0	79.0
2009.....	71.0	71.0	73.0	73.0	79.0
2008.....	70.0	71.0	72.0	73.0	79.0
2007.....	70.0	71.0	72.0	73.0	79.0
2006.....	71.0	71.0	72.0	72.0	79.0
2005.....	70.0	71.0	71.0	72.0	78.0
2004.....	69.0	70.0	71.0	71.0	78.0
2003.....	69.0	70.0	71.0	71.0	78.0
GDP⁽³⁾ (US\$ in billions)					
2013.....	53.9	24.3	18.9	11.2	49.6
2012.....	50.4	23.8	18.4	10.6	45.4
2011.....	47.7	23.1	17.7	9.9	41.2
2010.....	41.3	21.4	15.8	8.9	36.3
2009.....	37.7	20.7	14.6	8.4	29.4
2008.....	39.1	21.4	13.9	8.5	29.8
2007.....	34.1	20.1	12.4	7.5	26.3
2006.....	30.2	18.6	10.9	6.8	22.5
2005.....	27.2	17.1	9.8	6.3	20.0
2004.....	24.0	15.8	8.9	5.8	18.6
2003.....	21.9	15.0	8.2	5.3	17.5

	<u>Guatemala</u>	<u>El Salvador</u>	<u>Honduras</u>	<u>Nicaragua</u>	<u>Costa Rica</u>
GDP per capita⁽¹⁾					
(US\$ in thousands)					
2013	3.5	3.9	2.3	1.8	10.4
2012	3.3	3.8	2.3	1.7	9.8
2011	3.2	3.7	2.3	1.6	9.0
2010	2.9	3.4	2.1	1.4	8.0
2009	2.7	3.3	1.9	1.4	6.6
2008	2.9	3.5	1.9	1.5	6.8
2007	2.6	3.3	1.7	1.3	6.1
2006	2.3	3.0	1.5	1.2	5.3
2005	2.1	2.8	1.4	1.1	4.7
2004	1.9	2.6	1.3	1.1	4.5
2003	1.8	2.5	1.2	1.0	4.3
Net reserves⁽³⁾					
(US\$ in billions)					
2013	7.3	2.7	3.1	1.8	7.3
2012	6.7	3.2	2.6	1.7	6.9
2011	6.2	2.5	2.8	1.7	4.8
2010	6.0	2.9	2.7	1.6	4.6
2009	5.2	3.0	2.1	1.4	4.1
2008	4.7	2.5	2.5	1.0	3.8
2007	4.3	2.2	2.5	1.0	4.1
2006	4.1	1.9	2.6	0.9	3.1
2005	3.8	1.8	2.2	0.5	2.3
2004	3.5	1.9	1.8	0.5	1.9
2003	2.9	1.9	1.3	0.3	1.8
Consumer Price Index Annual Growth Rate⁽³⁾					
(Percent (%))					
2013	4.4	0.8	4.9	5.7	3.7
2012	3.5	0.8	5.4	6.6	4.6
2011	6.2	5.1	5.6	8.0	4.7
2010	5.4	2.1	6.5	9.2	5.8
2009	(0.3)	(0.2)	3.0	0.9	4.1
2008	9.4	5.5	10.8	13.8	13.9
2007	8.8	4.9	8.9	16.9	10.8
2006	5.8	4.9	5.3	9.5	9.4
2005	8.6	4.3	7.8	9.6	14.1
2004	9.2	5.4	9.2	9.3	13.1
2003	5.9	2.5	6.8	6.5	9.9
Exports of Goods (f.o.b.)⁽³⁾					
(US\$ in billions)					
2013	10.1	5.5	3.9	4.6	11.6
2012	10.0	5.3	4.4	4.6	11.4
2011	10.4	5.3	3.9	4.0	10.4
2010	8.5	4.5	2.7	3.1	9.4
2009	7.2	3.9	2.3	2.4	8.8
2008	7.7	4.6	2.9	2.5	9.5
2007	6.9	4.0	2.5	2.3	9.3
2006	6.0	3.7	2.1	2.0	8.2
2005	5.4	3.4	1.8	1.6	7.0

	<u>Guatemala</u>	<u>El Salvador</u>	<u>Honduras</u>	<u>Nicaragua</u>	<u>Costa Rica</u>
2004.....	5.0	3.3	1.5	1.4	6.3
2003.....	4.5	3.1	1.3	1.0	6.1
Import of Goods (c.i.f.)⁽³⁾					
(US\$ in billions)					
2013.....	17.5	10.8	9.2	7.2	18.0
2012.....	17.0	10.3	9.4	7.2	17.6
2011.....	16.6	10.0	9.0	6.5	16.2
2010.....	13.8	8.4	7.1	5.1	13.6
2009.....	11.5	7.3	6.1	4.2	11.4
2008.....	14.5	9.8	8.8	5.1	15.4
2007.....	13.6	8.8	7.2	4.4	13.0
2006.....	11.9	7.8	5.6	3.7	11.6
2005.....	10.5	6.8	4.9	3.2	9.8
2004.....	9.5	6.3	3.9	2.6	8.3
2003.....	8.1	5.8	3.2	2.2	7.7

(1) Source: World Economic Outlook Database, April 2014, IMF.

(2) Sources: World Development Indicators Data Base.

(3) Source: Secretaría Ejecutiva del Consejo Monetario Centroamericano-SIMAFIR Macroeconomic Database.

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI)

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**CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION**

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Central American Bank for Economic Integration (the "Bank"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central American Bank for Economic Integration as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other matter

We also have audited in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Bank's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2014, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

KPMG

March 14, 2014
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)

	2013	2012
<u>Assets</u>		
Cash and due from banks (note 4)	12,217	36,800
Interest-bearing deposits with banks (note 5)	706,672	711,211
Securities available for sale (note 6)	1,276,588	1,024,986
Loans	5,395,376	5,483,783
Less: Allowance for loan losses	(159,134)	(168,351)
Net loans (note 7)	5,236,242	5,315,432
Accrued interest receivable (note 8)	58,123	58,439
Property and equipment, net (note 9)	34,400	35,230
Derivative financial instruments (note 19)	151,072	259,846
Equity investments (note 10)	30,833	42,048
Other assets (note 11)	31,092	21,721
Total assets	7,537,239	7,505,713
<u>Liabilities</u>		
Loans payable (153,566 in 2013 and 103,142 in 2012, measured at fair value) (note 12)	1,158,260	1,441,399
Bonds payable (2,142,949 in 2013 and 1,629,083 in 2012, measured at fair value) (note 13.a)	3,199,154	2,940,292
Commercial paper programs (note 13.b)	284,894	384,868
Certificates of deposit (note 14)	383,497	351,218
Certificates of investment	1,026	1,117
Accrued interest payable (note 15)	28,337	30,468
Derivative financial instruments (note 19)	193,135	178,399
Other liabilities (note 16)	21,041	36,289
Total liabilities	5,269,344	5,364,050
<u>Equity</u>		
Paid-in capital (note 17.a)	620,031	486,975
Special capital contributions (note 17.b)	7,250	7,250
Retained earnings	118,189	102,982
General reserve	1,532,866	1,543,037
Accumulated other comprehensive (loss) income (note 22)	(10,441)	1,419
Total equity	2,267,895	2,141,663
Total liabilities and equity	7,537,239	7,505,713

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income

Years ended December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



	December 31	
	2013	2012
Financial income		
Public sector loans	235,151	228,155
Private sector loans	62,817	69,408
Marketable securities	8,698	7,922
Due from banks	1,443	1,416
Realized gains on investment funds	5,569	12,142
Total financial income	313,678	319,043
Financial expenses		
Loans payable	32,442	39,914
Bonds payable	84,505	85,779
Commercial paper programs	2,993	3,775
Certificates of deposit and investment	2,867	13,222
Total financial expenses	122,807	142,690
Net financial income	190,871	176,353
Provision for loan losses (note 7)	2,065	743
Provision for losses on preinvestment studies and contingencies	1,026	0
Total provisions for credit losses	3,091	743
Net financial income, after provisions for credit losses	187,780	175,610
Other operating income (expenses)		
Management and other service fees	1,594	1,562
Supervision and audit fees	405	314
Dividends from equity investments	0	1,675
Realized gain on securities available for sale	4	18
Gain on sale of equity investments	2,281	0
Loss on equity investments	(730)	(2,832)
Loss on foreclosed assets	(174)	(12,117)
Foreign exchange loss, net	(1,198)	(1,393)
Other operating income	241	308
Total other operating income (expenses), net	2,423	(12,465)
Administrative expenses		
Salaries and employee benefits	24,843	24,330
Other administrative expenses	12,021	11,714
Depreciation and amortization	3,667	3,250
Other	1,168	1,411
Total administrative expenses	41,699	40,705
Income, before special contributions and valuation of derivative financial instruments and debt	148,504	122,440
Special contributions and other (note 23)	(11,377)	(17,063)
Income, before valuation of derivative financial instruments and debt	137,127	105,377
Valuation of derivative financial instruments and debt	(18,938)	(2,395)
Net income	118,189	102,982

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income

Years ended December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



	December 31	
	2013	2012
Net income	118,189	102,982
Other comprehensive (loss) income:		
Unrealized (loss) gain on securities available for sale, net	(7,558)	18,784
Reclassification adjustments for net realized gains		
included in earnings (note 22)	(5,573)	(12,160)
Subtotal - securities available for sale	(13,131)	6,624
Effective portion of cash flow hedging derivatives	(162)	245
Reclassification adjustments for net realized losses		
included in earnings (note 19)	559	359
Subtotal - cash flow hedging derivatives	397	604
Retirement plans, pensions and other social benefits:		
Change in actuarial loss (note 21)	874	(1,798)
Other comprehensive (loss) income	(11,860)	5,430
Comprehensive income	106,329	108,412

See accompanying notes to financial statements.



Statements of Changes in Equity

Years ended December 31, 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	102,982	0	0	102,982
Other comprehensive income	0	0	0	0	5,430	5,430
Comprehensive income	0	0	102,982	0	5,430	108,412
Capital contributions, in cash (note 17.a)	5,000	0	0	0	0	5,000
Capital payments through series "E" certificates (note 17.a)	31,250	0	0	(31,250)	0	0
Transfer to general reserve	0	0	(103,130)	103,130	0	0
Balance as of December 31, 2012	486,975	7,250	102,982	1,543,037	1,419	2,141,663
Net income	0	0	118,189	0	0	118,189
Other comprehensive loss	0	0	0	0	(11,860)	(11,860)
Comprehensive income (loss)	0	0	118,189	0	(11,860)	106,329
Capital contributions, in cash (note 17.a)	19,903	0	0	0	0	19,903
Capital payments through series "E" certificates (note 17.a)	113,153	0	0	(113,153)	0	0
Transfer to general reserve	0	0	(102,982)	102,982	0	0
Balance as of December 31, 2013	620,031	7,250	118,189	1,532,866	(10,441)	2,267,895

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows

Years ended December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



	December 31	
	2013	2012
Cash flows from operating activities		
Net income	118,189	102,982
Items to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,667	3,250
Provisions for credit losses	3,091	743
Gain on sale of equity investments	(2,281)	0
Loss on equity investments	730	2,832
Loss on foreclosed assets	174	12,117
Foreign exchange losses, net	1,198	1,393
Valuation of derivative financial instruments and debt	18,938	2,395
Decrease (increase) in accrued interest receivable	316	(2,899)
(Decrease) increase in accrued interest payable	(2,131)	2,182
Net (decrease) increase in other liabilities	(14,377)	3,845
Net cash provided by operating activities	127,514	128,840
Cash flows from investing activities		
Net decrease (increase) in interest-bearing deposits with banks	4,496	(72,067)
Purchase of securities available for sale	(1,330,593)	(1,109,439)
Proceeds from sales and redemptions of securities available for sale	1,058,636	997,928
Purchase of property and equipment	(2,942)	(4,987)
Net (increase) decrease in derivative financial instruments	(55,411)	29,740
Disbursements of loans receivable	(1,444,017)	(1,432,573)
Collections of loans receivable	1,514,650	1,101,296
Returns of equity investments, net of capital contributions	12,765	(5,334)
Net (increase) decrease in other assets	(9,582)	1,673
Net cash used in investing activities	(251,998)	(493,763)
Cash flows from financing activities		
Capital contributions	19,903	5,000
Proceeds from loans payable	379,410	572,135
Repayment of loans payable	(656,318)	(439,473)
Net (decrease) increase in commercial paper programs	(99,974)	99,161
Proceeds from issuance of bonds	897,443	619,001
Repayment of bonds payable	(472,730)	(337,148)
Net increase (decrease) in certificates of deposit	32,279	(138,284)
Net decrease in certificates of investment	(91)	(357)
Net cash provided by financing activities	99,922	380,035
Effect of exchange rate fluctuations on cash held	(21)	(1,029)
Cash and due from banks at beginning of year	36,800	22,717
Cash and due from banks at end of year	12,217	36,800
Net (decrease) increase in cash and cash equivalents	(24,583)	14,083
Supplemental information		
Cash paid for interest during the year	124,940	140,508
Net unrealized changes in securities available for sale	(13,131)	6,624
Net unrealized changes in cash flow hedging derivatives	397	604
Changes in retirement plans, pensions and other social benefits (note 21)	874	(1,798)
Assets acquired in satisfaction of loans	9,231	0

See accompanying notes to financial statements.



(1) Origin and Nature of the Bank

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

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

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC), by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS) and by the Social Benefit Fund (SBF). These funds are regulated by their own by-laws and are independent and separate from the Bank, although they are managed by the Bank. These financial statements include, solely, the assets, liabilities and operations of the Bank. The equity relating to the other aforementioned funds has been disclosed in notes 20 and 21.

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

(2) Summary of Significant Accounting Policies

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

A summary of significant accounting policies is as follows:

(a) 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).

(b) Cash and equivalents

Cash and cash equivalents represent the amounts included in cash and due from banks, which are due at the Bank’s request.

(2) Summary of Significant Accounting Policies, continued

(c) Fair value measurements

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

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

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

- Level 1 - Assets and liabilities for which the identical item is traded on an active exchange.
- Level 2 - Assets and liabilities valued based on observable market assumptions for similar instruments, 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*".



(2) Summary of Significant Accounting Policies, continued

ASU 2011-04 creates a common definition of fair value for US GAAP and IFRS and aligned the measurement and disclosure requirements.

It also 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.

(d) *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 (loss) income until they are realized and reclassified to the statement of income.

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

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

(2) Summary of Significant Accounting Policies, continued

Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

The Bank has not experienced other-than-temporary impairment during the years ended December 31, 2013 and 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.

(e) *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 any other beneficiary country, 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.

The Bank reviews its credit risk concentration policies annually. The significant parameters applicable to the concentration of credit risk are described as follows:

- The total of its loan portfolio cannot exceed 3.5 times the Bank's equity.
- The Bank's equity should be maintained at a level not lower than 35%.
- 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 single borrower, whether such borrower is a country, a public or mixed institution, a natural or legal entity of the private sector.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.
- 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.

(2) Summary of Significant Accounting Policies, continued

(f) 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 represent each country in which the loans are granted to these sectors. During 2013, the Bank modified its criteria for the identification of classes. The Bank considered that direct or intermediated loans are not classes for disclosure purposes since there is no significant difference in the measurement and assessment criteria of risk management for these types of loans.

Public Sector

Public sector loans are granted to governments and government-owned entities of the founding members and non-founding regional 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.

For the public sector, the Bank determines the nature and level of exposure to credit risk according to the country risk rating provided by international credit rating agencies (Standard & Poor's, Fitch Ratings and Moody's).

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*Private Sector*

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:

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

- Special mention: Loans that 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 that 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.
- Doubtful: Loans that 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. This level comprises loans deemed uncollectible or with a value too low to warrant being in the Bank's books.

(2) Summary of Significant Accounting Policies, continued

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

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

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

The Bank provides permanent monitoring of the credit quality of the loan portfolio at least once a year based on market information such as country risk rating and probability of default provided by international credit rating agencies. In addition, the Bank assesses the quality of its loan portfolio and the adequacy of the allowance for loan losses through independent third parties.

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 not been recorded.

Troubled Debt Restructurings (TDRs)

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. The modifications to the contractual terms of the loans could consist of concessions such as interest rate reductions, principal discounts, forbearance of loan installments, extension of loan term, and other modifications in order to mitigate possible economic losses.

(2) Summary of Significant Accounting Policies, continued

A restructured loan has generally been in non-accrual status at the time of the modification. Once the borrower complies with the new terms of the restructured loan for a reasonable period of time and if the remaining balance of the restructured loan is considered collectible, the restructured loan could return to accrual status.

Use of Loan Provisions

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

(g) 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.

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; at that moment, the loan is returned to accrual status. The Bank charges off loans when they are deemed as uncollectible.

(h) 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.

The Bank depreciates property and equipment using the straight-line method over the estimated useful life of each type of asset, except land.

The estimated useful life of property and equipment is as follows:

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

(2) Summary of Significant Accounting Policies, continued

(i) 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).

The derivative financial instruments have inherent market and credit risks. The inherent market risk on a financial instrument is the potential fluctuation in the interest rate, currency exchange rate and other factors, and it is a function of the type of product, the volume of the transactions, the tenor and other terms of each contract and the underlying volatility. The inherent credit risk is the counterparty's possible non-compliance in the transaction when the value of a collateral is not adequate to recover the balance due.

The Bank minimizes the credit risk in derivative financial instruments through transactions with highly qualified counterparties with a credit rating of "A" (or equivalent) or better.

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 or liability, or an unrecognized firm commitment (fair value hedge); (b) hedge of the exposure to variability of cash flows of a recognized asset or 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, as applicable.

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 and debt 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 other comprehensive (loss) 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 (loss) 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 of the hedged risk. 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 derivative remain in accumulated other comprehensive (loss) income 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 (loss) 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 enters into 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 and debt 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.

It is the Bank's policy to recognize in its balance sheet, the gross amounts of its financial instruments, including derivatives, eligible for offsetting.

(j) *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 the entity's 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.

(2) Summary of Significant Accounting Policies, continued

(k) 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.

Subsequent to 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).

(l) 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 accumulated other comprehensive (loss) income, 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.

(m) 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.

(n) 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.

(o) 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.

(2) Summary of Significant Accounting Policies, continued

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

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

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

Issue costs for debt measured at fair value are expensed at the moment of issuance while those related to debt carried at amortized cost are deferred and amortized using a method that approximates to the effective interest method, over the term of the respective debt instrument.

(p) Donations received and contributions granted

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

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

(q) Endorsements, guarantees granted, commitments and contingencies

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

To achieve its 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 policies on credit risk concentration limits to CABEI's borrowers.

(2) Summary of Significant Accounting Policies, continued

- 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.

Bank endorsements and guarantees issued are contingencies to the Bank to guarantee the performance of borrowers to third parties. A guarantee is considered a contingency when the borrower incurs the underlying financial obligation, and are called when the borrower defaults and the beneficiary executes the guarantee.

The Bank issues guarantees and can require counterguarantees from debtor. The Bank would be required to perform under its guarantees if the payments guaranteed were not made by the debtor and the guaranteed party called the guarantee by demanding payment from the Bank. In the event that a guarantee of a debtor is called, the Bank has the contractual right to require payment from the debtor that has provided the counterguarantee to the Bank.

Loan commitments represent agreements to disburse loans to borrowers at a future date. Such commitments are recognized on the date a loan is disbursed. These commitments have fixed expiration dates and in some cases the commitments expire without disbursing the loans; as such, the total amount committed does not necessarily represent required future cash flows.

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 credit 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, which is presented as other liabilities in the balance sheets.

A credit default swap (CDS) is a financial swap agreement where the Bank will compensate the counterparty in the event of default on a loan or other credit event. These derivative financial instruments are recognized at fair value in the balance sheets.

The credit risk to the Bank in these agreements are essentially the same as the credit risk in loans to borrowers.

Standby and commercial letters of credit represent conditional obligations of the Bank which guarantee the performance of a borrower to a third party or exporters.

(2) Summary of Significant Accounting Policies, continued

(r) Use of estimates

To prepare its financial statements in conformity with US GAAP, the Bank's management relies on certain estimates and assumptions that have an impact on the amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements, and the amounts reported in income and expenses during the reporting period. 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 available for sale and derivative financial instruments, valuation of foreclosed assets, valuation of liabilities measured at fair value, and the status of contingencies.

(s) Segment reporting

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

(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 the asset or liability.

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.

Management establishes the policies and methodologies for the valuation of financial instruments. These policies and methodologies are applied to determine, at least quarterly, the valuations of financial instruments. These valuations and their changes are reviewed with the same frequency.

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

(3) Fair Values and Fair Value Option, continued

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, on 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 future 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 future 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 future cash flows or the value of collateral, where applicable. This fair value does not represent a current indicator of an exit price.

- Equity investments: The Bank's equity investments in other entities are non-marketable; hence, they do not have available market price quotations. The majority of these entities are special purpose entities or entities in which the Bank has no control or significant influence (note 10). Currently, it is impracticable to determine the fair value of these investments without incurring in excessive cost.

(3) Fair Values and Fair Value Option, continued

- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data. Furthermore, since June 30, 2013, the Bank approved the new internal methodology for determining CABEI's and its counterparties' credit risk in the valuation of derivative financial instruments (note 19).
- Loans and bonds payable: Fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Those yield curves are adjusted to incorporate the Bank's credit risk spread. This fair value does not represent a current indicator of an exit price. Since June 30, 2013, the Bank approved the new internal methodology for the valuation of its debt instruments, which includes, among other inputs, the Bank's credit risk.

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 future 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 future cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Contingent commitments: The fair value of these financial instruments is based on the counterparty credit risk.

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

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(3) Fair Values and Fair Value Option, continued

Securities available for sale	Fair value	Valuation technique	2013	Range
			Unobservable assumptions	
Corporate	695	Discounted cash flows	Basis points spread (bp)	50 bp

Securities available for sale	Fair value	Valuation technique	2012	Range
			Unobservable assumptions	
Corporate	21,102	Discounted cash flows	Basis points spread (bp)	50 bp
		Discounted cash flows	Credit default swaps (CDS)	180bp to 190bp

With regards to the measurement's sensitivity, it is considered that for 2012, an increase (decrease) in the credit spread would not result in a significantly larger or smaller change in the fair value of the instrument.

(ii) Recurring Fair Value Measurements

The following tables present the assets and liabilities valued at their fair value on a recurring basis as of December 31, 2013 and 2012, classified according to the fair value hierarchy:

	Level 1	Level 2	Level 3	2013
<u>Assets</u>				
Securities available for sale	102,635	1,173,258	695	1,276,588
Derivative financial instruments	0	151,072	0	151,072
<u>Liabilities</u>				
Loans payable	0	153,566	0	153,566
Bonds payable	0	2,142,949	0	2,142,949
Derivative financial instruments	0	193,135	0	193,135

	Level 1	Level 2	Level 3	2012
<u>Assets</u>				
Securities available for sale	75,046	928,838	21,102	1,024,986
Derivative financial instruments	0	259,846	0	259,846
<u>Liabilities</u>				
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 years ended December 31, 2013 and 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.

(3) Fair Values and Fair Value Option, continued

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 years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Balance at January 1	21,102	30,437
Gains (losses) included in:		
Net income	0	0
Other comprehensive (loss) income	(407)	665
Amortizations	(20,000)	(10,000)
Transfers in and/or out of Level 3	0	0
Balance at December 31	<u>695</u>	<u>21,102</u>

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

(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 years ended December 31, 2013 and 2012, there were no transfers between Levels 1 and 2.

(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 future 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.

(3) Fair Values and Fair Value Option, continued

The following table presents the fair value measurements of assets that are measured at fair value on a nonrecurring basis and the decrease in fair value which has been included in the statement of income for the years ended December 31, 2013 and 2012:

Level 3	2013		2012	
	Fair Value	Decrease	Fair Value	Decrease
Loans	64,849	(4,971)	83,521	(1,054)
Foreclosed assets	27,471	(174)	18,652	(12,117)
	<u>92,320</u>	<u>(5,145)</u>	<u>102,173</u>	<u>(13,171)</u>

(vi) Fair value option

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

The Bank has elected to measure at fair value the financial liabilities in a currency other than the U.S. 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 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 periodically reviews its credit margin in every market in which it operates.

For the years ended December 31, 2013 and 2012, for loans payable, the Bank recorded gains of 6,698 and losses of 2,872, respectively, in the statement of income. For the years ended December 31, 2013 and 2012, for bonds payable, the Bank recorded gains of 98,548 and losses of 101,180, respectively, in the statement of income. These gains and losses are 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.

(3) Fair Values and Fair Value Option, continued

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

The difference between the fair value of the instruments elected for application of ASC 825-10-25 and the unpaid principal balances of such instruments as of December 31, 2013 and 2012 is as follows:

	2013			2012		
	Fair value	Amortized cost	Excess (deficit)	Fair value	Amortized cost	Excess (deficit)
Loans payable	153,566	166,368	(12,802)	103,142	109,246	(6,104)
Bonds payable	2,142,949	2,127,197	15,752	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 its financial instruments. Minor changes in the assumptions used might have a significant impact on the estimates of current values.

The estimated fair values of the Bank's financial instruments as of December 31, 2013 and 2012 are as follows:

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and due from banks	12,217	12,217	36,800	36,800
Interest-bearing deposits with banks	706,672	706,672	711,211	711,211
Securities available for sale	1,276,588	1,276,588	1,024,986	1,024,986
Loans, net	5,236,242	5,312,133	5,315,432	5,494,218
Accrued interest receivable	58,123	58,123	58,439	58,439
Derivative financial instruments	151,072	151,072	259,846	259,846
Liabilities				
Loans payable	1,158,260	1,142,389	1,441,399	1,479,079
Bonds payable	3,199,154	3,227,020	2,940,292	3,044,582
Commercial paper programs	284,894	285,047	384,868	385,361
Certificates of deposit	383,497	383,619	351,218	351,706
Certificates of investment	1,026	1,026	1,117	1,117
Accrued interest payable	28,337	28,337	30,468	30,468
Derivative financial instruments	193,135	193,135	178,399	178,399

As of December 31, 2013 and 2012, loans payable include 1,004,694 and 1,338,257, respectively, which are recognized at amortized cost, whose fair value has been estimated at 988,823 and 1,375,937, respectively. Likewise, as of the aforementioned dates, bonds payable include 1,056,205 and 1,311,209, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,084,071 and 1,415,499, respectively.

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(4) Cash and Due from Banks

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

	2013	2012
Currencies of the founding countries	6,964	4,951
U.S. dollar	4,583	30,130
Other currencies	670	1,719
	<u>12,217</u>	<u>36,800</u>

(5) Interest-bearing Deposits with Banks

Interest bearing deposits usually are time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, face value approximates market value.

As of December 31, 2013 and 2012, their carrying amounts are 706,672 and 711,211, respectively. Their carrying amounts are set in currencies other than those of the founding countries.

(6) Securities Available for Sale

The amortized cost of securities available for sale, unrealized gross gains and losses recognized in accumulated other comprehensive (loss) income, the effect of hedging transactions and fair value of securities available for sale, as of December 31, 2013 and 2012 are as follows:

2013					
Securities available for sale ¹ :	Amortized cost	Unrealized Gross Losses	Unrealized gross gains	Effect of hedging transactions	Fair value
Sovereign	265,637	(714)	141	5,783	270,847
Supranational	57,659	(209)	23	0	57,473
Corporate	826,565	(5,001)	987	0	822,551
Investment funds	130,461	(4,744)	0	0	125,717
	<u>1,280,322</u>	<u>(10,668)</u>	<u>1,151</u>	<u>5,783</u>	<u>1,276,588</u>

2012					
Securities available for sale ¹ :	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
	<u>1,008,364</u>	<u>(3,910)</u>	<u>7,524</u>	<u>13,008</u>	<u>1,024,986</u>

¹ The entirety of securities available for sale as of December 31, 2013 and 2012 is denominated in U.S. dollars.

(6) Securities Available for Sale, continued

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

For the years ended December 31, 2013 and 2012, the realized gross gain was 5,573 and 12,160, respectively. There was no realized gross loss during the same years.

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

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

2013					
Securities available for sale:	Less than 12 months		12 months or longer		Total
	Fair value	Unrealized	Fair value	Unrealized	
		gross losses		gross losses	
Sovereign	107,256	(690)	21,692	(24)	(714)
Supranational	38,342	(206)	7,083	(3)	(209)
Corporate	292,207	(4,625)	61,057	(376)	(5,001)
Investment funds	130,461	(4,744)	0	0	(4,744)
	<u>568,266</u>	<u>(10,265)</u>	<u>89,832</u>	<u>(403)</u>	<u>(10,668)</u>
2012					
Securities available for sale:	Less than 12 months		12 months or longer		Total
	Fair value	Unrealized	Fair value	Unrealized	
		gross losses		gross losses	
Sovereign	11,964	(57)	25,261	(53)	(110)
Corporate	153,258	(3,173)	37,741	(627)	(3,800)
	<u>165,222</u>	<u>(3,230)</u>	<u>63,002</u>	<u>(680)</u>	<u>(3,910)</u>

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. As of December 31, 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. Therefore, 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.

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(6) Securities Available for Sale, continued

As of December 31, 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.

	Years				
	Within 1	After 1 but within 5	After 5 but within 10	After 10	Total
Amortized cost	428,154	821,303	0	30,865	1,280,322

(7) Loans

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

	2013			2012		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Guatemala	1,037,483	218,008	1,255,491	1,020,377	233,893	1,254,270
El Salvador	846,246	69,420	915,666	790,437	76,351	866,788
Honduras	960,693	269,313	1,230,006	784,004	276,016	1,060,020
Nicaragua	320,588	291,840	612,428	261,480	285,322	546,802
Costa Rica	695,190	406,449	1,101,639	1,110,621	422,704	1,533,325
Dominican Republic	263,601	0	263,601	194,418	0	194,418
Panama	0	12,483	12,483	0	27,701	27,701
Belize	4,062	0	4,062	459	0	459
Subtotal	4,127,863	1,267,513	5,395,376	4,161,796	1,321,987	5,483,783
Allowance for loan losses	(114,558)	(44,576)	(159,134)	(110,774)	(57,577)	(168,351)
Loans, net	4,013,305	1,222,937	5,236,242	4,051,022	1,264,410	5,315,432

A detail of loans, by maturity, as of December 31, 2013, is as follows:

Past due	Years						Total
	Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5	
3,817	1,038,519	543,912	438,794	391,017	360,812	2,618,505	5,395,376

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(7) Loans, continued

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

	2013	2012
Infrastructure and construction	1,773,330	1,577,463
Electricity, gas and water supply	1,151,533	1,391,628
Multi-sector	925,821	838,221
Monetary intermediation	769,186	806,810
Social and health services	154,859	165,202
Real estate and rental activities	132,227	117,220
Manufacturing	128,700	94,285
Wholesale and retail trade	92,232	79,543
Transportation, storage and communications	87,261	198,585
Agro-industry	85,643	76,714
Hotels and restaurants	58,622	74,768
Education and training	30,275	27,178
Other social, community and personal services	4,428	6,012
Fisheries	1,259	159
Mining and quarrying	0	29,995
	<u>5,395,376</u>	<u>5,483,783</u>

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

	2013	2012
U.S. dollar	5,298,010	5,344,902
Currencies from Central American countries	91,183	132,221
Euro	6,183	6,660
	<u>5,395,376</u>	<u>5,483,783</u>

For the years ended December 31, 2013 and 2012, the weighted average yield on loans, after considering swap contracts when applicable, was 5.51% and 5.57% per annum, respectively.

The aging analysis of the installment balances in arrears from loans to the private sector is as follows:

	2013					2012				
	01-30	31-60	61-90	More than 90	Total	01-30	31-60	61-90	More than 90	Total
Guatemala	0	0	0	0	0	0	0	292	619	911
El Salvador	0	0	0	0	0	0	0	0	2,553	2,553
Honduras	0	0	0	0	0	0	0	0	0	0
Nicaragua	0	0	0	960	960	0	0	0	0	0
Costa Rica	0	0	0	2,857	2,857	1,128	723	0	11,747	13,598
	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,817</u>	<u>3,817</u>	<u>1,128</u>	<u>723</u>	<u>292</u>	<u>14,919</u>	<u>17,062</u>

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(7) Loans, continued

The following tables present impaired loans to the private sector as of December 31, 2013 and 2012:

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	24,245	0	778	25,477	256	1,355
Nicaragua	960	960	960	992	99	0
Costa Rica	61,065	2,857	19,683	65,111	1,107	2,629
	<u>86,270</u>	<u>3,817</u>	<u>21,421</u>	<u>91,580</u>	<u>1,462</u>	<u>3,984</u>
Impaired loans with accrual status	<u>52,723</u>	<u>0</u>	<u>9,399</u>	<u>57,127</u>	<u>178</u>	<u>3,082</u>
Impaired loans with non-accrual status	<u>33,547</u>	<u>3,817</u>	<u>12,022</u>	<u>34,453</u>	<u>1,284</u>	<u>902</u>
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
	<u>111,428</u>	<u>15,935</u>	<u>27,907</u>	<u>125,382</u>	<u>5,436</u>	<u>3,443</u>
Impaired loans with accrual status	<u>54,269</u>	<u>0</u>	<u>9,189</u>	<u>59,904</u>	<u>357</u>	<u>1,861</u>
Impaired loans with non-accrual status	<u>57,159</u>	<u>15,935</u>	<u>18,718</u>	<u>65,478</u>	<u>5,079</u>	<u>1,582</u>

(7) Loans, continued

As of December 31, 2013 and 2012, interest on non-accrual loans of 1,284 and 5,079, respectively, was not recorded as income because it had not been collected. As of December 31, 2013 and 2012, the principal of the loans that generated such interest corresponds to loans to the private sector of 33,547 and 57,159, respectively.

As of December 31, 2013 and 2012, there are no installments from loans to the public sector in arrears.

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

The credit quality of public sector loans based on risk ratings assigned by credit rating agencies as of December 31, 2013 and 2012 is as follows:

	2013	2012
BB+ / BB / BB-	2,578,919	2,921,435
B+ / B / B-	1,544,882	1,239,902
CCC+ / CCC / CCC-	4,062	0
CC / C / D	0	459
	<u>4,127,863</u>	<u>4,161,796</u>

The credit quality of private sector loans based on risk ratings described in note 2 (f), as of December 31, 2013 and 2012 is the following:

2013					
Private Sector	Normal	Special Mention	Substandard	Doubtful	Total
Guatemala	187,267	6,496	22,745	1,500	218,008
El Salvador	64,834	4,411	175	0	69,420
Honduras	252,650	16,663	0	0	269,313
Nicaragua	280,494	7,192	3,194	960	291,840
Costa Rica	345,388	0	0	61,061	406,449
Panama	12,483	0	0	0	12,483
	<u>1,143,116</u>	<u>34,762</u>	<u>26,114</u>	<u>63,521</u>	<u>1,267,513</u>

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
	<u>1,091,785</u>	<u>111,386</u>	<u>70,691</u>	<u>34,507</u>	<u>13,618</u>	<u>1,321,987</u>

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(7) Loans, continued

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

The changes in the allowance for loan losses as of December 31, 2013 and 2012 are as follows:

	2013			2012		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
As of January 1	110,774	57,577	168,351	101,935	76,356	178,291
(Reversal of) provision	3,784	(1,719)	2,065	8,839	(8,096)	743
Recoveries	0	278	278	0	5,662	5,662
Loan write-offs	0	(11,560) ²	(11,560)	0	(16,345)	(16,345)
As of December 31	114,558	44,576	159,134	110,774	57,577	168,351

The following table presents the allowance and recorded investment, as of December 31, 2013 and 2012:

	2013			2012		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Loans Measured Individually						
Specific allowance	0	21,421	21,421	0	27,907	27,907
Recorded investment	0	86,270	86,270	0	111,428	111,428
Loans Measured Collectively						
Generic allowance	114,558	23,155	137,713	110,774	29,670	140,444
Recorded investment	4,127,863	1,152,670	5,280,533	4,161,796	1,183,729	5,345,525
Loans Without an Allowance						
Recorded investment	0	28,573	28,573	0	26,830	26,830
Total						
Allowance	114,558	44,576	159,134	110,774	57,577	168,351
Recorded investment	4,127,863	1,267,513	5,395,376	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.

² For the year ended December 31, 2013, loan write-offs include a balance of 4,062 which mainly corresponds to loan related items which were recorded as foreclosed assets.

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(7) Loans, continued

The changes in the balance of restructured loans for the years ended December 31, 2013 and 2012 are the following:

	<u>2013</u>	<u>2012</u>
At January 1	22,840	20,554
Capitalized interests	135	2,286
Troubled debt restructurings	3,298	0
Partial write-offs	(617)	0
Recoveries	(1,411)	0
At December 31	<u>24,245</u>	<u>22,840</u>

The balances of restructured loans and write-offs for the aforementioned years fully correspond to loans to the private sector. As of December 31, 2013 and 2012, the number of restructured loans is 3 and 2, respectively. For the year ended December 31, 2013, the balance of the loan prior to its restructuring was 3,329.

As of December 31, 2013 and 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.

(8) Accrued Interest Receivable

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

	<u>2013</u>	<u>2012</u>
On loans	52,970	54,279
On securities available for sale	4,946	4,065
On interest-bearing deposits with banks	207	95
	<u>58,123</u>	<u>58,439</u>

(9) Property and Equipment, Net

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

	<u>2013</u>	<u>2012</u>
Vehicles	1,757	1,793
Buildings	29,737	31,391
Computer equipment and software	23,555	23,137
Installations	15,061	12,051
Office furniture and equipment	5,739	5,756
	<u>75,849</u>	<u>74,128</u>
Less accumulated depreciation	<u>(45,146)</u>	<u>(42,586)</u>
	30,703	31,542
Land	3,697	3,688
	<u>34,400</u>	<u>35,230</u>

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(10) Equity Investments

Equity investments as of December 31, 2013 and 2012 which do not have a market value are as follows:

Name	Equity Participation	Financial Statements	Equity	2013	2012
Shares					
Corporación Interamericana para el Financiamiento de Infraestructura, S. A. Proba L.P. ³	9.26%	09/30/2013	90,520	5,000	5,000
Darby - Pro-Banco Fund II, L. P.	38.06%	12/24/2012	(35)	0	11
Garantías y Servicios, Sociedad de Garantía, S. A. de C. V.	33.33%	09/30/2013	14,981	4,989	2,962
Banco Popular Covelco, S. A.	24.48%	12/31/2013	6,995	1,145	1,145
Eólico Valle Central, S. A. ⁴	19.56%	09/30/2013	18,656	3,640	3,780
Other	60.00%	09/30/2012	0	0	15,473
Subtotal shares				108	112
				14,882	28,483
Participations					
Central American Mezzanine Infrastructure Fund L.P. (CAMIF) ⁵	38.24%	09/30/2013	46,468	14,218	9,853
AIG – GE Capital Latin American Infrastructure Fund, L. P.	1.48%	09/30/2011	4,082	60	60
Central American Renewable Energy and Cleaner Production Facility (CAREC) ⁵	41.67%	09/30/2013	7,533	1,673	3,652
Subtotal participations				15,951	13,565
				30,833	42,048

(11) Other Assets

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

	2013	2012
Foreclosed assets, net of fair value adjustments	27,471	18,652
Accounts receivable	3,199	2,715
Other	422	354
	31,092	21,721

As of December 31, 2013 and 2012, the balance of foreclosed assets is 27,471 and 18,652, respectively, net of a fair value adjustment of 22,867 and 22,478, respectively.

³ This entity was dissolved in January 2013.

⁴ Given that the Bank has no control over Eólico Valle Central, S.A., the investment in this entity is not subject to consolidation. The totality of the investment was reimbursed in 2013.

⁵ CAMIF and CAREC are carried at amortized cost due to the fact that the Bank has no significant influence over these entities.

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(12) Loans Payable

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

	2013	2012
European Investment Bank	219,379	84,278
Kreditanstalt Für Wiederaufbau (K.F.W.)	205,814	196,893
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	201,304	199,024
Promotion et Participation pour la Coopération (PROPARCO)	67,060	67,060
Japan Bank for International Cooperation	62,350	42,100
Nordic Investment Bank	48,700	55,881
Oesterreichische Entwicklungsbank AG (OeEB)	41,372	18,764
Standard Chartered Bank	36,883	87,000
Inter-American Development Bank (IDB)	33,794	41,356
Instituto de Crédito Oficial de España	32,886	29,290
Mizuho Corporate Bank, Ltd.	29,669	36,483
Mercantil Commercebank, N.A.	25,000	30,000
The OPEC Fund for International Development	20,802	22,554
BNP Paribas Fortis	20,625	21,711
Nordea Bank	15,778	17,401
The International Cooperation and Development Fund (TaiwanICDF)	13,613	14,286
U.S. Agency for International Development (USAID)	13,095	15,334
Citibank, N.A.	10,000	85,000
Commerzbank AG	10,000	24,950
Fortis Bank SA/NV, Belgium	9,095	9,688
Nordea Bank (Funded Participation Agreement)	8,701	10,072
Bank of China (BoC)	7,782	100,840
Deutsche Bank, A.G.	7,241	15,915
Loans guaranteed by USAID	6,059	8,432
Royal Bank of Scotland P.L.C.	5,000	44,800
Bank Leumi – Le Israel	3,928	8,241
Société Générale, New York	2,330	3,883
Other financial institutions	0	150,163
	<u>1,158,260</u>	<u>1,441,399</u>

Maturities of loans payable as of December 31, 2013 are as follows:

	Years					
	Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5
Balance	<u>186,886</u>	<u>178,921</u>	<u>82,244</u>	<u>84,180</u>	<u>115,054</u>	<u>510,975</u>
						<u>1,158,260</u>

For the years ended December 31, 2013 and 2012, the weighted average cost on loans payable, after considering swap contracts when applicable, was 2.53% and 3.03% per annum, respectively.

As of December 31, 2013, loans payable at fixed and variable rates are 491,232 and 667,028, respectively. As of December 31, 2012, loans payable at fixed and variable rates are 572,894 and 868,505, respectively.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

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(Expressed in thousands of U.S. dollars)



(13) Bonds Payable and Commercial Paper Programs

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

<u>Currency</u>	<u>2013</u>	<u>2012</u>
U.S. dollars	1,064,431	1,188,139
Mexican pesos	707,633	567,659
Swiss francs	472,906	167,655
Colombian pesos	373,054	391,855
Thailand bahts	175,320	192,765
Yen	101,900	127,822
Euros	91,214	32,024
Yuan	81,700	0
Costa Rican colones	72,637	73,139
Uruguayan pesos	35,511	37,616
Reais	28,578	34,625
Dominican pesos	17,793	19,243
New Taiwan dollars	0	68,717
Quetzales	0	25,309
	<u>3,222,677</u>	<u>2,926,568</u>
Fair value adjustment	<u>(23,523)</u>	<u>13,724</u>
	<u>3,199,154</u>	<u>2,940,292</u>

Maturities of bonds payable as of December 31, 2013 are as follows:

	<u>Years</u>					
	<u>Up to 1</u>	<u>After 1 but</u>	<u>After 2 but</u>	<u>After 3 but</u>	<u>After 4 but</u>	<u>Total</u>
		<u>within 2</u>	<u>within 3</u>	<u>within 4</u>	<u>within 5</u>	
Balance	<u>793,309</u>	<u>463,943</u>	<u>568,776</u>	<u>347,310</u>	<u>74,087</u>	<u>3,199,154</u>

For the years ended December 31, 2013 and 2012, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 2.85% and 3.15% per annum, respectively.

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Notes to Financial Statements as of December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



(13) Bonds Payable and Commercial Paper Programs, continued

(b) CABEI has the following commercial paper programs:

	2013			
	Authorized Program Size	Amount Issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program in USD	500,000	274,749	0.56%	Up to 3 months
Commercial Paper – Regional Program in Costa Rican colones (CRC)	200,000	10,145	7.87%	Up to 6 months
	<u>700,000</u>	<u>284,894</u>		
	2012			
	Authorized Program Size	Amount Issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program in USD	500,000	374,945	0.64%	Up to 3 months
Commercial Paper – Regional Program in Costa Rican colones (CRC)	200,000	9,923	8.61%	Up to 6 months
	<u>700,000</u>	<u>384,868</u>		

(14) Certificates of Deposit

Certificates of deposit as of December 31, 2013 and 2012, are placed in the following entities:

	2013	2012
Central Banks	348,907	282,072
Private financial institutions	13,625	43,006
Other	20,965	26,140
	<u>383,497</u>	<u>351,218</u>

As of December 31, 2013, the contractual maturities are as follows:

	Years					
	Up to 6 months	After 6 months but within 1 year	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5
Balance	<u>334,237</u>	<u>38,034</u>	<u>5,737</u>	<u>2,126</u>	<u>1,703</u>	<u>1,660</u>
						<u>383,497</u>

For the years ended December 31, 2013 and 2012, the weighted average costs on certificates of deposit are as follows:

	2013	2012
Deposits in U.S. dollars	0.55%	0.56%
Deposits in quetzales	3.11%	2.81%
Deposits in lempiras	8.63%	6.00%
Deposits in Costa Rican colones	8.45%	9.25%

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(15) Accrued Interest Payable

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

	2013	2012
On bonds payable	22,727	23,597
On loans payable	5,061	6,004
On certificates of deposit	474	762
On commercial paper	75	105
	<u>28,337</u>	<u>30,468</u>

(16) Other Liabilities

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

	2013	2012
Other creditors	5,615	3,471
Financial cooperation to founding countries	4,433	6,872
Bonuses and supplemental compensation	2,814	3,654
Technical assistance	2,762	2,773
Transitory deposits	1,775	4,306
Provision for contingencies	1,021	0
Other provisions	1,697	1,706
Actuarial deficit of Social Benefit Fund (note 21)	924	1,798
FETS special contribution payable (note 23)	0	11,709
	<u>21,041</u>	<u>36,289</u>

(17) Equity

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

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

As of December 31, 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 for subscription. The Bank's shares will not accrue interest or dividends and they may not be pledged or taxed.

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(17) Equity, continued

Series "E" certificates also exist, issued to "A" and "B" shareholders, each with a face value of 10, to recognize the retained earnings attributable to their capital contributions to the Bank through the passage of time. 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 fully 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.

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

As of December 31, 2013, the capital structure is detailed as follows:

	2013			
	Capital			
	Subscribed/ Unsubscribed	Callable subscribed	Subscribed payable in cash	Paid-in
Subscribed capital				
<u>Founding countries</u>				
Guatemala	510,000	382,500	127,500	73,125
El Salvador	510,000	382,500	127,500	73,125
Honduras	510,000	382,500	127,500	91,250
Nicaragua	510,000	382,500	127,500	91,250
Costa Rica	510,000	382,500	127,500	73,125
Subtotal founding countries	2,550,000	1,912,500	637,500	401,875
<u>Non-regional countries</u>				
Republic of China, Taiwan	500,000	375,000	125,000	51,563
Mexico	306,250	229,687	76,563	53,593
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	19,800
Subtotal non-regional countries	1,294,250	970,687	323,563	189,356
<u>Regional non-founding countries</u>				
Dominican Republic	57,600	43,200	14,400	14,400
Panama	57,600	43,200	14,400	14,400
Subtotal regional non-founding countries	115,200	86,400	28,800	28,800
Subtotal subscribed capital and paid-in capital	3,959,450	2,969,587	989,863	620,031
Unsubscribed capital				
Non-regional countries and regional non-founding countries	1,040,550			
	5,000,000			

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(17) Equity, continued

As of December 31, 2012, the capital structure is detailed as follows:

	2012			
	Capital			
	Subscribed/ Unsubscribed	Callable subscribed	Subscribed payable in cash	Paid-in
Subscribed capital				
<u>Founding countries</u>				
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 founding countries	2,550,000	1,912,500	637,500	311,250
<u>Non-regional countries</u>				
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
Subtotal non-regional countries	1,169,250	876,937	292,313	146,925
<u>Regional non-founding countries</u>				
Dominican Republic	57,600	43,200	14,400	14,400
Panama	57,600	43,200	14,400	14,400
Subtotal regional non-founding countries	115,200	86,400	28,800	28,800
Subtotal subscribed capital and paid-in capital	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			

As a result of the new subscription of shares, during 2013 and 2012, the member countries made capital payments as follows:

Capital Payments	2013			2012		
	Cash	Series "E" Certificates	Total	Cash	Series "E" Certificates	Total
<u>Founding countries</u>						
Guatemala	2,500	15,625	18,125	0	0	0
El Salvador	2,500	15,625	18,125	0	0	0
Honduras	2,500	15,625	18,125	2,500	15,625	18,125
Nicaragua	2,500	15,625	18,125	2,500	15,625	18,125
Costa Rica	2,500	15,625	18,125	0	0	0
Subtotal	12,500	78,125	90,625	5,000	31,250	36,250
<u>Non-regional countries</u>						
Republic of China, Taiwan	1,838	12,225	14,063	0	0	0
Mexico	3,002	19,966	22,968	0	0	0
Colombia	2,563	2,837	5,400	0	0	0
Subtotal	7,403	35,028	42,431	0	0	0
	19,903	113,153	133,056	5,000	31,250	36,250

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(17) Equity, continued

(b) Special capital contributions

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

As of December 31, 2013 and 2012, the Bank's special capital contributions are as follows:

	2013		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

(18) Contingent Commitments

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

	2013	2012
Subscribed credit agreements (*)	1,779,662	1,907,813
Credit default swaps	0	25,000
Endorsements and guarantees granted	48,292	12,025
Letters of credit	32,295	34,508
	1,860,249	1,979,346

(*) Includes approved and deeded agreements

The Bank's management has analyzed each commitment assumed on a case-by-case basis, based on current information and events in order to determine significant losses from these commitments.

(18) Contingent Commitments, continued

As of December 31, 2013, the maturities of endorsements and guarantees granted, and letters of credit are as follows:

	Years				
	2014	2015	2016	2020	Total
Endorsements and guarantees granted	18,266	376	10,710	18,940	48,292
Letters of credit	32,295	0	0	0	32,295

The Bank has recorded a provision for possible losses for 1,021 related to endorsements and guarantees issued (note 16).

(19) Derivative Financial Instruments and Hedging Activities

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

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.

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

	2013			
	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Fair value hedges				
Interest rate contracts	152,626	39,914	342,036	75,890
Other risk management purposes				
Foreign currency contracts	1,304,572	108,814	1,001,157	115,174
Interest rate contracts	0	0	4,350	249
	1,304,572	108,814	1,005,507	115,423
Total derivative financial instruments, gross	1,457,198	148,728	1,347,543	191,313
Effect of paid/received margin calls	0	1,870	0	1,510
Credit risk valuation adjustment for counterparties under netting agreements	0	474	0	312
	1,457,198	151,072	1,347,543	193,135

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(19) Derivative Financial Instruments and Hedging Activities, continued

	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

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 under valuation of derivative financial instruments and debt. Such income (loss) and other comprehensive income (loss) for the years ended December 31, 2013 and 2012 is presented in the following tables:

	2013			
	Income (loss)			Other comprehensive income (loss)
	Derivative instrument	Hedged financial instrument	Total	
Fair value hedges				
Interest rate contracts	(36,383)	36,383	0	0
Cash flow hedges				
Foreign currency contracts	(9,632)	9,073	(559)	397
Other risk management purposes				
Foreign currency contracts ⁶	(123,220)	0	(123,220)	0
Interest rate contracts and other	(567)	0	(567)	0
Credit risk valuation adjustment for counterparties under netting agreements	162	0	162	0
	(169,640)	45,456	(124,184)	397

⁶These contracts correspond to economic hedges for which the Bank has elected to measure at fair value the financial liabilities denominated in currencies other than the U.S. dollar (see note 3 (vi)).

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(19) Derivative Financial Instruments and Hedging Activities, continued

	2012			
	Income (loss)			Other comprehensive income (loss)
	Derivative instrument	Hedged financial instrument	Total	
Fair value hedges				
Interest rate contracts	(2,397)	2,397	0	0
Cash flow hedges				
Foreign currency contracts	2,671	(2,312)	359	604
Other risk management purposes				
Foreign currency contracts ⁷	96,701	0	96,701	0
Interest rate contracts and other	4,597	0	4,597	0
	101,572	85	101,657	604

Gains (losses) recognized in the statement of income are presented as valuation of derivative financial instruments and debt.

The Bank maintains policies for the approval of counterparties and maximum concentration limits. To measure the exposure with counterparties, the Bank considers deposits, securities and derivative counterparties. This exposure is established as the maximum limit measured with respect to the Bank's equity, according to the counterparty's risk rating. As of December 31, 2013 and 2012, the Bank is in compliance with this policy.

On June 30, 2013, the Bank approved the new methodology for determining the credit risk of CABEI and its counterparties in the valuation of derivative financial instruments, as well as the new methodology for determining credit risk in the valuation of CABEI's debt instruments. At the aforementioned date, these changes in accounting estimate had an effect of 4,539 in the statement of income.

⁷These contracts correspond to economic hedges for which the Bank has elected to measure at fair value the financial liabilities denominated in currencies other than the U.S. dollar (see note 3 (vi)).

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements as of December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



(20) Funds and Programs managed by CABEI

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the founding countries, the Bank manages independent funds and programs which are detailed below as of December 31, 2013 and 2012:

Fund/Program	Equity	
	2013 (Unaudited)	2012 (Audited)
Special Fund for the Social Transformation of Central America – FETS	73,397	72,708
Debt-Conversion Fund (Honduras-Spain)	38,166	37,596
Technical Cooperation Fund – FONTEC	21,675	20,996
Investment Trust – Dwelling Mortgage Fund	17,919	16,699
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	4,849	5,154
Program for Development of the Border Areas in Central America (former FOEXCA)	4,033	4,033
Partial credit guarantees - Finland Resources	2,712	1,313
Special Technical Cooperation Fund of Austria	1,388	1,385
Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio)	1,218	2,083
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,011	1,008
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	463	484
Single Italian Cooperation Fund (FUIC)	160	392
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	159	181
Spanish Consulting Fund	100	98
Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica	0	54
	<u>167,250</u>	<u>164,184</u>

(21) Social Benefit Fund (SBF)

The Social Benefit Fund's (the Fund or the 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, hospital medical benefits, medium term financing, and other benefits that may be granted in accordance with the financial capacity of the Fund. 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 the 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.

(21) Social Benefit Fund (SBF), continued

It also establishes that the SBF's assets will be held and managed separately from the other assets of the Bank, as a pension fund, and will be exclusively used to pay the benefits and expenses under the various benefit plans granted by the SBF.

In addition, on August 29, 2012, the Bank approved the proposed Asset Allocation Portfolio for Investments by the SBF's Social Benefit Plan and authorized a special contribution to SBF as a compensation mechanism or supplement to the yield generated by the Social Benefit Plan's investment securities portfolio in order to reach the established technical interest rate. In November 2012, the Bank redeemed the certificates of deposit due to the implementation of the Plan's new asset allocation scheme.

Although there is a periodic monitoring of the SBF's Plan benefits, the date the Bank uses to measure this obligation is December 31 of each year. The following tables show the changes in projected benefit obligation, the changes in Plan assets and the Plan position as they arise from the most recent actuarial appraisal as of December 31, 2013 and in conformity with the criteria established by currently applicable standards.

As of December 31, 2013 and 2012, the changes in projected benefit obligation, the changes in Plan assets (as if Plan assets had qualified as such since January 1, 2012) and the Plan position are detailed as follows:

	2013			
	Retirement and Pensions Plan	Life Insurance Plan	Hospital-related Medical Plan	Total
Changes in benefit obligation:				
Benefit obligation at beginning of year	129,595	8,423	12,727	150,745
Interest cost	9,072	589	0	9,661
Service cost	2,149	76	0	2,225
Paid benefits	(10,213)	(166)	(2,352)	(12,731)
Collected contributions	0	0	3,404	3,404
Actuarial gains	3,855	34	0	3,889
Benefit obligation at end of year	134,458	8,956	13,779	157,193
Changes in Plan assets:				
Fair value of Plan assets at beginning of year	114,186	26,513	12,727	153,426
Return on Plan assets	9,238	1,983	953	12,174
Employer contributions	2,203	381	1,516	4,100
Plan participants contributions	771	11	935	1,717
Paid benefits	(10,111)	(166)	(2,352)	(12,629)
Other income, net	(86)	0	0	(86)
Pensions revaluation	(388)	388	0	0
Change in fair value of securities	3,022	0	0	3,022
Fair value of Plan assets at end of year	118,835	29,110	13,779	161,724
Less assets from individual account balances	(5,455)	0	0	(5,455)
Available Plan assets at end of year	113,380	29,110	13,779	156,269
Net Plan position	(21,078)	20,154	0	(924)

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements as of December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



(21) Social Benefit Fund (SBF), continued

	2012			
	Retirement and Pensions Plan	Life Insurance Plan	Hospital-related Medical Plan	Total
Changes in benefit obligation:				
Benefit obligation at beginning of year	124,375	7,941	12,235	144,551
Interest cost	8,706	556	0	9,262
Service cost	1,958	74	0	2,032
Paid benefits	(9,654)	(231)	(2,694)	(12,579)
Collected contributions	0	0	3,186	3,186
Actuarial gains	4,210	83	0	4,293
Benefit obligation at end of year	129,595	8,423	12,727	150,745
Changes in Plan assets:				
Fair value of Plan assets at beginning of year	114,745	24,312	12,235	151,292
Return on Plan assets	8,737	1,767	879	11,383
Employer contributions	1,978	355	1,411	3,744
Plan participants contributions	708	11	896	1,615
Paid benefits	(9,532)	(231)	(2,694)	(12,457)
Other income, net	42	0	0	42
Pensions revaluation	(299)	299	0	0
Change in fair value of securities	(2,193)	0	0	(2,193)
Fair value of Plan assets at end of year	114,186	26,513	12,727	153,426
Less assets from individual account balances	(4,479)	0	0	(4,479)
Available Plan assets at end of year	109,707	26,513	12,727	148,947
Net Plan position	(19,888)	18,090	0	(1,798)

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

As of December 31, 2013 and 2012, the SBF's net Plan assets are as detailed as follows:

	2013	2012
Cash and due from banks	4,235	5,792
Securities available for sale	147,667	137,636
Subtotal	151,902	143,428
Loans	9,785	9,780
Accrued interest receivable	656	362
Other, net	(619)	(144)
	161,724	153,426

(21) Social Benefit Fund (SBF), continued*Benefits*

Retirement benefits are granted once employees and officials meet the required age and years of service; they are based on a percentage of the compensation of participants in relation to age and years of service. Voluntary retirement benefits are granted once employees and officials are separated from CABEI either voluntarily or by dismissal.

The death coverage benefit or life insurance includes: i) compensation for natural death, ii) compensation for accidental death, iii) compensation for complete and permanent disability, iv) compensation for dismemberment or loss of sight, caused by disease or accident, v) allowance for burial and related expenses and vi) compensation for time served.

Medical benefits include medical, hospital and laboratory attention to active employees and officers, retirees by disability and ordinary retirees.

Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, past experience and management's best estimate of future changes in benefits and economic conditions. Changes in these assumptions may have an impact on the cost of benefits and future obligations. At December 31, 2013 and 2012, weighted averages of the actuarial assumptions used in the estimate of the projected benefit obligation were the following:

	<u>2013</u>	<u>2012</u>
Discount rate	7 %	7 %
Salary increase rate	5 %	5 %
Estimated rate of return on assets, considering the special contributions granted by the Bank	7 %	7 %

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

The treatment of medical benefits as a defined contribution plan is based on a resolution adopted by the Bank's Board of Directors, pursuant to which the scope of the benefit is limited to the annual availability of funds of the SBF.

(21) Social Benefit Fund (SBF), continued*Contributions*

It is expected that the contributions from CABEI to the SBF during fiscal year 2014 will equal approximately 4,015 (2013: 3,841). All contributions will be paid in cash.

Future payments of estimated benefits

The following table shows the benefits that are expected to be payable based upon the same assumptions that were used to determine the projected benefit obligation as of December 31, 2013:

Planes	Years					
	2014	2015	2016	2017	2018	2019-2023
Retirement and Pensions	8,912	10,526	9,836	10,125	10,749	60,855
Life Insurance	89	626	636	678	704	3,970
Hospital related medical	2,400	2,444	2,482	2,554	2,596	13,377
	<u>11,401</u>	<u>13,596</u>	<u>12,954</u>	<u>13,357</u>	<u>14,049</u>	<u>78,202</u>

Plan Assets

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

As of December 31, 2013 and 2012, the asset allocation of SBF's investment portfolio is as follows:

Asset Allocation Objectives			
	Maximum allowed	2013	2012
Cash and due from banks	5%	3%	4%
Investment securities:			
US Treasury bonds and/or bonds issued by US Federal Government Agencies	100%	11%	34%
Securities issued by CABEI	100%	71%	34%
Central America Eurobonds and/or shares in DB-CABEI Fund	20%	0%	10%
Corporate bonds with credit rating "A" or better	50%	15%	18%

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements as of December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



(21) Social Benefit Fund (SBF), continued

Plan assets are recognized at fair value.

The following table presents the assets valued at their fair value on a recurring basis as of December 31, 2013 and 2012, classified according to the fair value hierarchy:

	Level 1	Level 2	Level 3	2013
Assets				
Cash and due from banks	4,235	0	0	4,235
Fixed income bonds:				
US Treasury bonds	17,344	0	0	17,344
Securities issued by CABEI	0	107,580	0	107,580
Corporate bonds	0	22,743	0	22,743
	<u>21,579</u>	<u>130,323</u>	<u>0</u>	<u>151,902</u>
	Level 1	Level 2	Level 3	2012
Assets				
Cash and due from banks	5,792	0	0	5,792
Fixed income bonds:				
US Treasury bonds	48,999	0	0	48,999
Securities issued by CABEI	0	48,893	0	48,893
Corporate bonds	0	25,714	0	25,714
Shares in investment funds:				
DB-CABEI Fund	0	14,030	0	14,030
	<u>54,791</u>	<u>88,637</u>	<u>0</u>	<u>143,428</u>

(22) Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive (loss) income during the years ended December 31, 2013 and 2012, is as follows:

	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 year	3,614	(397)	(1,798)	1,419
Changes for the year	(13,131)	397	874	(11,860)
At end of year	<u>(9,517)</u>	<u>0</u>	<u>(924)</u>	<u>(10,441)</u>

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements as of December 31, 2013 and 2012

(Expressed in thousands of U.S. dollars)



(22) Accumulated Other Comprehensive (Loss) Income

	2012			
	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 year	(3,010)	(1,001)	0	(4,011)
Changes for the year	6,624	604	(1,798)	5,430
At end of year	3,614	(397)	(1,798)	1,419

Reclassifications from accumulated other comprehensive (loss) income to earnings during the years ended December 31, 2013 and 2012 are as follows:

	2013	2012	Line in statement of income affected
Securities available for sale	(5,569)	(12,142)	Realized gains on investment funds
Securities available for sale	(4)	(18)	Gains on securities available for sale
Subtotal	5,573	12,160	
Cash flow hedging activities	559	359	Valuation of derivative financial instruments and debt
	(5,014)	(11,801)	

(23) Special contributions and other

Special contributions for the years ended December 31, 2013 and 2012 are detailed as follows:

	2013	2012
SBF special contribution	7,908	668
FONTEC special contribution	1,500	1,621
Financial cooperations and other	1,969	3,065
FETS special contribution (note 16)	0	11,709
	11,377	17,063

The special contributions to the SBF correspond to the supplement to the actuarial technical interest rate of 7% per annum, which are recorded as special contributions (note 21).

During 2012, the Bank accrued to the FETS a special contribution of 11,709, which is the equivalent of 10% of income before valuation of derivative financial instruments and debt, and paid such amount in January of 2013. During 2013, the Bank did not make special contributions to the FETS.



(24) Litigation

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

(25) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to March 14, 2014, date on which the financial statements were ready for their issuance, and determined that there are no additional disclosures required on other matters.



**CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION**

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)



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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

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

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

KPMG

February 28, 2013
Panama, Republic of Panama

Balance Sheets

As of December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)

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

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)



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

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)



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

See accompanying notes to financial statements.

Statements of Changes in Equity

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)



	Paid-in Capital	Special Capital Contributions	Retained Earnings	General Reserve	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance as of December 31, 2010	450,725	7,250	114,403	1,356,754	(342)	1,928,790
Net income	0	0	103,130	0	0	103,130
Net unrealized change in:						
Securities available for sale	0	0	0	0	(5,218)	(5,218)
Cash flow hedging derivatives	0	0	0	0	1,549	1,549
Comprehensive income (loss)	0	0	103,130	0	(3,669)	99,461
Transfer to general reserve	0	0	(114,403)	114,403	0	0
Balance as of December 31, 2011	450,725	7,250	103,130	1,471,157	(4,011)	2,028,251
Net income	0	0	102,982	0	0	102,982
Net unrealized change in:						
Securities available for sale	0	0	0	0	6,624	6,624
Cash flow hedging derivatives	0	0	0	0	604	604
Plan assets and benefit obligations under the Social Benefit Plan (note 21)	0	0	0	0	(1,798)	(1,798)
Comprehensive income	0	0	102,982	0	5,430	108,412
Capital contributions, in cash	5,000	0	0	0	0	5,000
Capital payments through series "E" certificates (note 17.a)	31,250	0	0	(31,250)	0	0
Transfer to general reserve	0	0	(103,130)	103,130	0	0
Balance as of December 31, 2012	486,975	7,250	102,982	1,543,037	1,419	2,141,663

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Expressed in thousands of U.S. dollars)



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

See accompanying notes to financial statements.

(1) Origin and Nature of the Bank

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

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

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC), by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS) and by the Social Benefit Fund (SBF). These funds are regulated by their own by-laws and are independent and separate from the Bank, although they are managed by the Bank. These financial statements include, solely, the assets, liabilities and operations of the Bank. The equity relating to the other aforementioned funds has been disclosed in notes 20 and 21.

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

(2) Summary of Significant Accounting Policies

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

A summary of significant accounting policies is as follows:

(a) Comparative statements

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

(b) Functional and foreign currencies

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

(2) Summary of Significant Accounting Policies, continued

(c) Cash and equivalents

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

(d) Fair value measurements

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

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

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

- Level 1 - Assets and liabilities for which the identical item is traded on an active exchange.
- Level 2 - Assets and liabilities valued based on observable market assumptions for similar instruments, market price quotations that are not active or other assumptions that are observable and can be corroborated by information available on the market for substantially the full term of the assets or liabilities.
- Level 3 - Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and consider risk premiums that a market participant would require.

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

(2) Summary of Significant Accounting Policies, continued

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS*". The ASU created a common definition of fair value for US GAAP and IFRS and aligned the measurement and disclosure requirements.

It required significant additional disclosures both of a qualitative and quantitative nature, particularly for those instruments measured at fair value that are classified in Level 3 of the fair value hierarchy.

The ASU No. 2011-04 became effective for the Bank on January 1, 2012. The adoption of ASU 2011-04 had no significant effects on the Bank's financial statements.

(e) *Securities available for sale*

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

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

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

(2) Summary of Significant Accounting Policies, continued

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

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

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

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

(f) Concentration of credit risk

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

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

- The total of its loan portfolio cannot exceed 3.5 times the Bank's equity.
- The Bank's equity should be maintained at a level not lower than 35% of total risk weighted assets.

(2) Summary of Significant Accounting Policies, continued

- The weighted exposure in any of the founding members must not exceed 100% of the Bank's equity or 30% of the Bank's total exposure. Exposure is defined as the aggregate risk assets which the Bank concentrates in a single borrower, whether such borrower is a country, a public or mixed institution, an individual or a private sector company.
- Exposure in each one of the non-founding beneficiary countries, with the status of non-regional member, will be up to the sum of the capital paid in cash plus the portion in cash of special capital contributions, multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by those countries.
- Exposure in each one of the non-founding beneficiary countries not holding a non-regional member status, will be up to the special capital contributions paid in cash multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by the founding countries.
- Exposure to a single public sector company or mixed institution with government majority ownership, with the exception of state owned banks without a sovereign guarantee, should not exceed 20% of the Bank's equity.
- Exposure to a state-run bank, with no sovereign guarantee, shall not exceed 12% of the Bank's equity.
- Exposure to a group of companies registered in any of the beneficiary countries and based on its credit rating, shall not exceed 10% of the Bank's equity. Additionally, exposure to a single enterprise within such group shall never exceed 5% of the Bank's equity.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.
- The exposure limit to a single economic sector without a sovereign guarantee is the lower of the following limits:
 - Hirschman/Herfindahl index (*), up to 12.5%
 - 30% of the portfolio
 - 1.0 times the Bank's equity

(*) Credit concentration by industry

(2) Summary of Significant Accounting Policies, continued

(g) Loans and allowance for loan losses

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

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

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

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

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

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

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

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

Management believes that this methodology reasonably reflects the estimated risk embedded in the Bank's public sector lending activities and, consequently, considers the resulting amount of the allowance for public sector loans to be adequate.

(2) Summary of Significant Accounting Policies, continued

As of December 31, 2012 and 2011, under Accounting Standards Codification (ASC) 310, there were no individually impaired public sector loans.

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

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

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

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

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

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

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

- Special mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in impairment of the loan or of the Bank's credit position at some future date.
- Substandard: Loans classified as substandard have a well-defined weakness that jeopardizes collectability of the debt. They are characterized by the distinct possibility that the Bank will incur in loss if such deficiency is not corrected.

(2) Summary of Significant Accounting Policies, continued

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

- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make loan collection in full, based on existing conditions, not probable and questionable. This level includes loans measured individually for impairment under ASC 310-10-35, including the collateral's fair value, if applicable.
- Loss: Loans that are individually measured for impairment under ASC 310-10-35, including the collateral's fair value, if applicable.

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

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

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

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

The Bank provides permanent monitoring of the credit quality of the public and private sector loan portfolio, and reviews, at least twice a year, the credit risk rating of its loan portfolio based on market information such as country risk rating and probability of default provided by international credit rating agencies.

(2) Summary of Significant Accounting Policies, continued

At least once a year, an independent assessment of the quality of the Bank's loan portfolio and the allowance for loan losses is carried out by experienced external consulting professionals or firms.

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

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

Troubled Debt Restructurings (TDRs)

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

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

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

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

(2) Summary of Significant Accounting Policies, continued

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

(h) Non-accrual loans

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

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

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

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

(i) Property and equipment

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

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

The estimated useful life of the assets is as follows:

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

(2) Summary of Significant Accounting Policies, continued

(j) Derivative financial instruments and hedging activities

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

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

The Bank also monitors, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in fair value of a derivative instrument which is highly effective and which has been designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded as valuation of derivative financial instruments in the statement of income.

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

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

(2) Summary of Significant Accounting Policies, continued

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

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

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued for cash flow hedges, any changes in fair value of the end-user derivative remain in accumulated other comprehensive income (loss) and are included in earnings of future periods when the hedged cash flows impact earnings.

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

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

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

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

(2) Summary of Significant Accounting Policies, continued

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

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

(k) Equity investments

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

(l) Foreclosed assets in satisfaction of loans

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

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

(m) Social Benefit Plan

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

(n) Taxes

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

(2) Summary of Significant Accounting Policies, continued

(o) General reserve and annual net income

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

(p) Revenue Recognition

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

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

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

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

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

(q) Donations received and contributions granted

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

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

(2) Summary of Significant Accounting Policies, continued

(r) Endorsements and guarantees granted

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

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

- Those that replace financing: generally long-term arrangements, such as bank endorsements or payment guarantees that support a financial document or credit contract which in itself secures compliance with obligations related to execution of a project. These endorsements and guarantees are granted taking into account the credit risk concentration limits to CABEI's borrowers.
- Those that do not replace financing: which are granted to support projects for the development of the Central American region and are generally short-term arrangements that are fully collateralized by liquid assets and are generally related to letters of credit and acquisitions of goods and services.

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

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

(s) Use of estimates

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

(2) Summary of Significant Accounting Policies, continued

(t) Segment reporting

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

(u) Reclassifications

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

(3) Fair Values and Fair Value Option

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

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

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

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

(i) Valuation techniques applied

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

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

(3) Fair Values and Fair Value Option, continued

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

- Investments in securities: Fair value has been calculated on the basis of the prices as quoted in the market and, in their absence, they have been calculated based on discounted cash flows using the current yields of similar securities.
- Loans, net: The fair values for fixed-rate performing loans are estimated on the basis of an analysis of discounted cash flows, using the Commercial Interest Reference Rate (CIRR) as a reference. CIRR is the official rate applied by Export Credit Agencies, as published by the Export-Import Bank of the United States of America, and is based on the rates accrued on U.S. Treasury bonds.

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

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

- Equity investments: The Bank's equity investments in other entities are non-marketable; hence, they do not have available market price quotations. The majority of these entities are special purpose entities or entities in which the Bank has no control or significant influence (see note 10). Currently, it is impracticable to determine the fair value of these investments without incurring in excessive cost.
- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data, such as observable interest rate yield curves. Counterparty and the Bank's credit risks are considered depending on fair value of each derivative (see also note 19).
- Loans and bonds payable: Fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Those yield curves are adjusted to incorporate the Bank's credit risk spread. This fair value does not represent a current indicator of an exit price.

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

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

(3) Fair Values and Fair Value Option, continued

- Commercial paper programs and certificates of deposit: The fair values are estimated on the basis of an analysis of discounted cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Contingent commitments: The fair value of these financial instruments is based on the counterparty credit risk.

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

December 31, 2012				
Assets	Fair value	Valuation technique	Unobservable assumptions	Range
Securities available for sale:				
Corporate	889	Discounted cash flows	Basis points (bp) spread	50 bp
Corporate	20,213	Discounted cash flows	Credit Default Swaps (CDS)	180 bp (6 months) and 190 bp (1 year).
	<u>21,102</u>			
December 31, 2011				
Assets	Fair value	Valuation technique	Unobservable assumptions	Range
Securities available for sale:				
Corporate	1,072	Discounted cash flows	Basis points (bp) spread	50 bp
Corporate	9,771	Discounted cash flows	Credit Default Swaps (CDS)	108 bp (6 months) and 133 bp (1 year)
Corporate	19,594	Discounted cash flows	Credit Default Swaps (CDS)	245 bp (6 months) and 344 bp (1 year)
	<u>30,437</u>			

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(3) Fair Values and Fair Value Option, continued****(ii) Recurring Fair Value Measurements**

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

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2012
<u>Assets</u>				
Securities available for sale	75,046	928,838	21,102	1,024,986
Derivative financial instruments	0	259,846	0	259,846
<u>Liabilities</u>				
Loans payable	0	103,142	0	103,142
Bonds payable	0	1,629,083	0	1,629,083
Derivative financial instruments	0	178,399	0	178,399

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

(iii) Changes in Fair Value Level 3 Category

The following tables present a roll-forward for the years ended December 31, 2012 and 2011 (including changes in fair value) of financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When an instrument is classified in Level 3, the decision is based on the importance of unobservable assumptions in determining the overall fair value. However, Level 3 instruments usually include, in addition to unobservable or Level 3 components, observable components (i.e., components that are actively traded and can be validated by external sources); therefore, gains and losses in the tables below include changes in fair value caused in part by observable factors that are part of the valuation methodology.

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(3) Fair Values and Fair Value Option, continued**

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

	Balance at January 1, 2012	Gains (losses) during the year ended December 31, 2012		Purchases, (sales), issuances or (settlements)	Transfers in and or out of Level 3	Balance as of December 31, 2012
		Included in net income	Included in other comprehensive income (loss)			
<u>Assets</u>						
Securities available for sale	30,437	0	665	(10,000)	0	21,102

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

The changes in derivative financial instruments included in net income, are presented as valuation of derivatives financial instruments.

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

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

(3) Fair Values and Fair Value Option, continued**(v) Non-Recurring Fair Value Measurements**

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

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

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

The increase (decrease) in fair value of assets recognized during the years ended December 31, 2012 and 2011, which are recognized at fair value on a non-recurring basis, for which the fair value adjustment has been included in the statement of income, is as follows:

<u>Level 3</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Loans	(1,054)	(21,218)
Foreclosed assets	(12,117)	(68)
	<u>(13,171)</u>	<u>(21,286)</u>

(vi) Fair value option

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

The Bank has elected to measure at fair value the financial liabilities in a currency other than the US dollar for which it has contracted a derivative for fair value hedging of foreign currency or interest rate fluctuations.

(3) Fair Values and Fair Value Option, continued

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

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

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

The amounts recorded in the statement of income as a result of changes in fair values of financial liabilities, for which the fair value option was elected based on the methods stated in section (i) of this note, as of December 31, 2012 and 2011 are as follows:

December 31, 2012		
	Valuation of derivative financial instruments	Total
Loans payable	(4,897)	(4,897)
Bonds payable	(2,455)	(2,455)
December 31, 2011		
	Valuation of derivative financial instruments	Total
Loans payable	1,669	1,669
Bonds payable	368	368

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

(3) Fair Values and Fair Value Option, continued

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

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

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

(vii) Fair value of financial instruments

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

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

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

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

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(4) Cash and Due from Banks**

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

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

(5) Interest-bearing Deposits with Banks

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

(6) Securities Available for Sale

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

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

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

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

(6) Securities Available for Sale, continued

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

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

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

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

December 31, 2012					
	Less than 12 months		12 months or longer		Total
	Estimated fair value	Unrealized gross losses	Estimated fair value	Unrealized gross losses	
Securities available for sale:					
Marketable securities	165,222	(3,230)	63,002	(680)	(3,910)

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

As of December 31, 2012, the Bank's management has no intention of selling the securities classified as available for sale, described in the previous table, and considers it is more likely than not, that the Bank will not have to sell the aforementioned securities before it recovers their cost.

Management in conjunction with the Asset and Liability Committee (ALCO) monitors on a regular basis the situation and the evolution of securities available for sale, including those with unrealized losses. Bank's management believes that the unrealized losses of such securities are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. The fair value is expected to recover as the securities approach their maturity date. Therefore, as of December 31, 2012, Bank's management believes the impairments presented in the table above are temporary and no other than temporary impairment has been recorded in the statements of income.

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(Expressed in thousands of U.S. dollars)

**(6) Securities Available for Sale, continued**

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

As of December 31, 2012, investment securities are classified by contractual maturities in the following table. The expected maturities may differ from contractual maturities because issuers might have the right to redeem or prepay obligations without penalty in certain cases.

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

(7) Loans

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

	<u>December 31, 2012</u>			<u>December 31, 2011</u>		
	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
Guatemala	1,020,377	233,893	1,254,270	1,030,110	212,800	1,242,910
El Salvador	790,437	76,351	866,788	747,005	96,204	843,209
Honduras	784,004	276,016	1,060,020	632,266	299,474	931,740
Nicaragua	261,480	285,322	546,802	230,885	259,511	490,396
Costa Rica	1,110,621	422,704	1,533,325	1,087,607	440,318	1,527,925
Dominican Republic	194,418	0	194,418	102,345	0	102,345
Panama	0	27,701	27,701	0	26,574	26,574
Belize	459	0	459	500	0	500
Subtotal	<u>4,161,796</u>	<u>1,321,987</u>	<u>5,483,783</u>	<u>3,830,718</u>	<u>1,334,881</u>	<u>5,165,599</u>
Allowance for loan losses	<u>(110,774)</u>	<u>(57,577)</u>	<u>(168,351)</u>	<u>(101,935)</u>	<u>(76,356)</u>	<u>(178,291)</u>
Loans, net	<u>4,051,022</u>	<u>1,264,410</u>	<u>5,315,432</u>	<u>3,728,783</u>	<u>1,258,525</u>	<u>4,987,308</u>

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(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

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

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

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

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

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

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

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(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

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

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

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

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

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

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

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

	December 31, 2012				
	01-30 days in arrears	31-60 days in arrears	61-90 days in arrears	More than 90 days in arrears	Total installments in arrears
Guatemala	0	0	292	619	911
El Salvador	0	0	0	2,553	2,553
Costa Rica	1,128	723	0	11,747	13,598
	<u>1,128</u>	<u>723</u>	<u>292</u>	<u>14,919</u>	<u>17,062</u>

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

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(Expressed in thousands of U.S. dollars)



(7) Loans, continued

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

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

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

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)



(7) Loans, continued

December 31, 2011						
Impaired Loans	Recorded Investment	Overdue principal balance	Related allowance	Average recorded investment	Accumulated interest on impaired loans	Interest income recognized
<u>With an allowance for loan losses</u>						
Guatemala	28,041	0	2,277	29,127	90	428
El Salvador	18,789	2,482	3,222	19,615	862	578
Honduras	1,767	1,025	941	1,767	229	0
Nicaragua	68	0	7	85	1	6
Costa Rica	120,138	25,727	44,396	121,489	5,193	4,070
	<u>168,803</u>	<u>29,234</u>	<u>50,843</u>	<u>172,083</u>	<u>6,375</u>	<u>5,082</u>
Impaired loans with accrual status	<u>138,860</u>	<u>2,845</u>	<u>32,681</u>	<u>142,140</u>	<u>914</u>	<u>5,082</u>
Impaired loans with non-accrual status	<u>29,943</u>	<u>26,389</u>	<u>18,162</u>	<u>29,943</u>	<u>5,461</u>	<u>0</u>

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

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

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

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(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

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

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

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

As of December 31, 2012 and 2011, the balance of intermediated loans from the public sector with a rating of BB+/BB/BB-, included in the figures presented above, is 502,181 and 454,811, respectively. As of December 31, 2012, the balance of intermediated loans from the public sector with a rating of B+/B/B-, included in the figures presented above, is 21,856. As of December 31, 2011, there are no intermediated loans from the public sector with a rating of B+/B/B-. All other loans consist of direct loans from the public sector.

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

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

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

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

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

As of December 31, 2012, the balances of intermediated loans from the private sector with ratings of normal, special mention, and substandard are 718,799, 97,151 and 275, respectively. As of December 31, 2011 the balances of intermediated loans from the private sector with ratings of normal, special mention, and substandard are 635,417, 7,153, and 424, respectively. These amounts are included in the figures presented above. All other loans consist of direct loans to the private sector.

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(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

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

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

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

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

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

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

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

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

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

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)



(8) Accrued Interest Receivable

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

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

(9) Property and Equipment, Net

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

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

(10) Equity Investments

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

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

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)



(10) Equity Investments, continued

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

(11) Other Assets

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

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

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

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

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

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Notes to Financial Statements

(Expressed in thousands of U.S. dollars)



(12) Loans Payable

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

	December 31, 2012	December 31, 2011
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	199,024	149,726
Kreditanstalt Für Wiederaufbau (K.F.W.)	196,893	190,418
Bank of China (BoC)	100,840	138,022
Standard Chartered Bank	87,000	10,000
Citibank, N.A.	85,000	30,000
European Investment Bank	84,278	45,566
Promotion et Participation pour la Coopération (PROPARCO)	67,060	67,060
Nordic Investment Bank	55,881	58,786
JP Morgan Chase Bank	49,960	50,000
Royal Bank of Scotland P.L.C.	44,800	16,875
Japan Bank for International Cooperation	42,100	30,000
Inter-American Development Bank (IDB)	41,356	48,883
HSBC Finance Corporation	40,000	0
Mizuho Corporate Bank, Ltd.	36,483	99,906
Mercantil Commercebank, N.A.	30,000	5,000
Instituto de Crédito Oficial de España	29,290	23,555
HSBC Bank USA, N.A.	25,000	25,000
Commerzbank AG	24,950	0
The OPEC Fund for International Development	22,554	4,412
BNP Paribas Fortis	21,711	0
Oesterreichische Entwicklungsbank AG (OeEB)	18,764	18,739
Nordea Bank	17,401	26,102
Deutsche Bank, A.G.	15,915	22,281
U.S. Agency for International Development (USAID)	15,334	17,507
The International and Development Cooperation Fund (Taiwan ICDF)	14,286	5,714
Nordea Bank (Funded Participation Agreement)	10,072	10,072
Bank of Taiwan, New York	10,000	10,000
The Export-Import Bank of the Republic of China (EXIM)	10,000	10,000
Fortis Bank SA/NV, Belgium	9,688	9,334
Loans guaranteed by USAID	8,432	13,691
Bank Leumi – Le Israel	8,241	12,561
Chang Hwa Commercial Bank, Ltd.	5,000	5,000
Land Bank of Taiwan	5,000	5,000
United Taiwan Bank, S.A.	5,000	5,000
Société Générale, New York	3,883	5,435
Danida-Unibank	203	406
Bank of America, N.A.	0	10,000
Bayerische Landesbank	0	80,000
HSBC Ltd., London	0	10,000
Sumitomo Mitsui Banking Corporation, New York	0	39,804
	<u>1,441,399</u>	<u>1,309,855</u>

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(Expressed in thousands of U.S. dollars)

**(12) Loans Payable, continued**

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

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

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

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

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

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(13) Bonds Payable and Commercial Paper Programs**

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

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

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

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

For the years ended as of December 31, 2012 and 2011, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 3.15% and 2.75% per annum, respectively.

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

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

(13) Bonds Payable and Commercial Paper Programs, continued

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

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

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

(14) Certificates of Deposit

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

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

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

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

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(14) Certificates of Deposit, continued

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

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

(15) Accrued Interest Payable

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

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

(16) Other Liabilities

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

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

(17) Equity

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

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

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

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

Series "E" certificates also exist, issued to "A" and "B" shareholders, each with a face value of 10. They recognize the excess of each member country's share of the Bank's equity over such member country's paid-in capital and the earnings generated through the passage of time over the capital paid in by each member. These certificates do not grant voting rights and may not be transferred. Series "E" certificates may be used by the members who are holders of "A" and "B" shares in order to pay, either completely or partially, the subscription of new shares of the unsubscribed authorized capital stock made available by the Bank. Series "E" certificates not used to subscribe for new shares of stock will become part of the Bank's general reserve.

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(17) Equity, continued

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

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

December 31, 2012				
Subscribed capital	Capital			
	Subscribed/ Unsubscribed	Callable subscribed	Subscribed payable in cash	Paid-in
<u>Founding countries</u>				
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
<u>Non-regional countries and regional non-founding countries</u>				
<u>Non-regional countries</u>				
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
<u>Regional non-founding countries</u>				
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
<u>Unsubscribed capital</u>				
Non-regional countries and regional non-founding countries	1,165,550			
	5,000,000			

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(17) Equity, continued

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

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

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

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

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(17) Equity, continued

(b) Special capital contributions

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

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

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

(18) Contingent Commitments

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Subscribed credit agreements (*)	1,907,813	1,516,362
Credit default swaps	25,000	50,000
Endorsements and guarantees granted	12,025	12,770
Letters of credit	34,508	53,797
	<u>1,979,346</u>	<u>1,632,929</u>

(*) 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.

(18) Contingent Commitments, continued

Credit default swaps represent a contingent commitment assumed by the Bank with a client, for payments to be honored by a third party, with respect to credit compliance of a specific underlying. These derivatives have been included as part of derivative financial instruments and they are carried at their fair value. Fair value for such derivative instruments amounted to 241 and 140 as of December 31, 2012 and 2011, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to occur from those contracts.

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

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

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

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

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

(19) Derivative Financial Instruments and Hedging Activities

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

(19) Derivative Financial Instruments and Hedging Activities, continued

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

Credit risk is the failure of any of the counterparties to meet the terms of the derivative contract.

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

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

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

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

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

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Notes to Financial Statements

(Expressed in thousands of U.S. dollars)



(19) Derivative Financial Instruments and Hedging Activities, continued

	December 31, 2011			
	Assets		Liabilities	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Fair value hedges				
Interest rate contracts	456,480	21,182	148,126	27,603
Cash flow hedges				
Foreign currency contracts	69,399	8,232	66,151	1,271
Other risk management purposes				
Foreign currency contracts	816,257	131,280	703,246	111,432
Credit default swaps	25,000 ⁴	317	115,000 ⁴	2,314
Interest rate contracts	165,952	70,599	107,141	63,666
	1,007,209	202,196	925,387	177,412
Total derivative financial instruments, gross	1,533,088	231,610	1,139,664	206,286
Effect of paid/received margin calls	0	0	0	0
	1,533,088	231,610	1,139,664	206,286

Income (loss) from derivative instruments used as hedges under ASC 815 has been recorded together with the income (loss) of the respective hedged financial instruments. The following chart shows such income (loss) and other comprehensive income (loss) for the years ended December 31, 2012 and 2011:

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

⁴ As of December 31, 2011, out of all credit default swaps, 90,000 are swaps on behalf of the Bank and 50,000 are swaps that represent commitments of the Bank. These swaps had a net fair value effect of 1,997.

(19) Derivative Financial Instruments and Hedging Activities, continued

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

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

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

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(20) Funds and Programs managed by CABEI**

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

Fund/Program	Equity	
	December 31, 2012 (Unaudited)	December 31, 2011 (Audited)
Special Fund for the Social Transformation of Central America – FETS	72,708	62,506
Debt-Conversion Fund (Honduras-Spain)	37,596	41,089
Technical Cooperation Fund – FONTEC	20,996	19,878
Investment Trust – Dwelling Mortgage Fund	16,699	15,854
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	5,112	5,268
Program for Development of the Border Areas in Central America (former FOEXCA)	4,033	4,033
Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio)	1,997	3,533
Special Technical Cooperation Fund of Austria	1,385	1,381
Partial credit guarantees - Finland Resources	1,311	1,316
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,008	1,005
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	484	479
Single Italian Cooperation Fund (FUIC)	392	1,106
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	181	181
Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica	54	54
Administration Trust for the execution of the Energy Efficiency Program in the industrial and commercial areas in Honduras (PESIC)	0	410
Spanish Consulting Fund	(667)	173
	<u>163,289</u>	<u>158,266</u>

(21) Social Benefit Fund (SBF)

The Social Benefit Fund's (the Fund or SBF) objective is to provide the Bank's personnel with benefits for retirement and disability pensions, voluntary retirement, compensation based on years of service, life insurance in the event of disability and death, and hospital medical benefits. The SBF is financed by contributions from beneficiaries and the Bank in accordance with the provisions of the Plan. Retirement, pension and life insurance plans are considered as defined benefit plans, whereas hospital-related medical benefit plan is considered a defined contribution plan.

On September 15, 2012, amendments to the Bank's Constitutive Agreement came into effect, upon approval by the Bank's Board of Governors on April 29, 2009, and establish the existence of the SBF with the exclusive purpose of granting to the Bank's personnel the benefits set forth in the Charter and supplementary regulations currently existing or to be issued to such effect by the Bank.

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(21) Social Benefit Fun (SBF), continued**

It also establishes that SBF's assets will be held and managed separately from the other assets of the Bank, as a pension fund, and will be exclusively used to pay the benefits and expenses under the various benefit plans granted by the SBF.

In addition, on August 29, 2012, the Bank approved the proposed Asset Allocation Portfolio for Investments by SBF's Social Benefit Plan and authorized a special contribution to SBF as a compensation mechanism or supplement to the yield generated by the Social Benefit Plan's investment securities portfolio in order to reach the established technical interest rate.

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

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

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

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(21) Social Benefit Fund (SBF), continued**

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

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

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

As of December 31, 2011, as stated in note 14, the Bank recorded a liability due to SBF under certificates of deposit for a total amount of 139,363, mainly representing the projected benefit obligation. These funds were placed in certificates issued by the SBF bearing 7% per annum. Interest expense on certificates of deposit amounted to approximately 9,705 for the year ended December 31, 2011. In November 2012, the Bank redeemed the certificates of deposit due to the implementation of the Plan's new asset allocation scheme.

Actuarial assumptions

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

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

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

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

Contributions

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

(21) Social Benefit Fund (SBF), continuedFuture payments of estimated benefits

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

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

Plan Assets

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

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

Asset Allocation Objectives

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

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(Expressed in thousands of U.S. dollars)

**(21) Social Benefit Fund (SBF), continued**

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

- Level 1 assets include investment securities for which an identical instrument is traded on an active exchange. Assets classified as Level 1 include US Treasury bonds.
- Level 2 assets consist of fixed income investment securities whose fair value is determined by applying valuation models that use observable market assumptions, such as interest rates, currency exchange rates, quoted prices for similar instruments and yield curves for similar bonds. Assets classified as Level 2 include corporate bonds and shares in investment funds. Investment securities held in investment funds are measured using a unit price per share or the net asset value (NAV) based on the instruments within the fund.
- Level 3 assets include investment securities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and consider risk premiums that a market participant would require.

The following table presents the assets valued at their fair value on a recurring basis as of December 31, 2012, classified according to the fair value hierarchy:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2012
Assets				
Cash and due from banks	5,792	0	0	5,792
Fixed income bonds:				
US Treasury bonds	48,999	0	0	48,999
Securities issued by CABEI	0	48,893	0	48,893
Corporate bonds	0	25,714	0	25,714
Shares in investment funds:				
DB-CABEI Fund	0	14,030	0	14,030
	<u>54,791</u>	<u>88,637</u>	<u>0</u>	<u>143,428</u>

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(22) Accumulated Other Comprehensive Income (Loss)**

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

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

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

(23) Special contributions and other

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

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

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

Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

**(24) Litigation**

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

(25) Related Party Transactions

The Bank, in its normal course of business, enters into transactions with related parties, including the Social Benefit Fund, officials and employees. In addition to the loans granted to the public sector as described in note 7, the following table sets forth balances and transactions with related parties as of December 31, 2012 and 2011 and for the years then ended:

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

(26) Subsequent Events

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

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September 16, 2014
