



**CENTRAL AMERICAN BANK  
FOR ECONOMIC INTEGRATION  
Ordinary Capital Fund**

**Financial Statements  
(Unaudited)**

June 30, 2011

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**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



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## **INDEPENDENT ACCOUNTANTS' REPORT**

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

We have reviewed the accompanying balance sheet of Central American Bank for Economic Integration – Ordinary Capital Fund (the Bank) as of June 30, 2011, and the related statements of income, comprehensive income, changes in equity, and cash flows for the six-month periods ended June 30, 2011 and 2010. This interim financial information is the responsibility of the Bank's management.

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

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

The financial statements for the year ended December 31, 2010 were audited by us and we expressed an unqualified opinion on them in our report dated February 28, 2011, but we have not performed any audit procedures since that date.

August 31, 2011  
Panama, Republic of Panama

KPMG

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Balance Sheets (Unaudited)**

As of June 30, 2011 and December 31, 2010

(Expressed in thousands of U.S. dollars)

	<b>June 30, <u>2011</u></b>	<b>December 31, <u>2010</u></b>
<b><u>Assets</u></b>		
Cash and due from banks (note 4)	45,095	29,917
Interest-bearing deposits with banks (note 5)	758,946	799,328
Securities available for sale (note 6)	657,398	657,550
Loans	4,805,125	4,837,994
Less: Allowance for loan losses	<u>(186,077)</u>	<u>(200,277)</u>
Net loans (note 7)	<u>4,619,048</u>	<u>4,637,717</u>
Accrued interest receivable (note 8)	57,183	57,525
Property and equipment, net (note 9)	28,433	27,484
Derivative financial instruments (note 18)	269,513	213,955
Equity investments	34,948	25,804
Other assets (note 10)	<u>17,521</u>	<u>18,485</u>
<b>Total assets</b>	<b><u>6,488,085</u></b>	<b><u>6,467,765</u></b>
<b><u>Liabilities</u></b>		
Loans payable (note 11)	1,138,141	1,190,426
Bonds payable (note 12.a)	2,653,301	2,610,360
Commercial paper program (note 12.b)	174,109	201,695
Certificates of deposit (note 13)	376,773	398,418
Certificates of investment	1,487	1,494
Accrued interest payable (note 14)	26,946	31,698
Derivative financial instruments (note 18)	89,280	75,320
Other liabilities (note 15)	<u>30,485</u>	<u>29,564</u>
<b>Total liabilities</b>	<b><u>4,490,522</u></b>	<b><u>4,538,975</u></b>
<b><u>Equity</u></b>		
Paid-in capital (note 16.a)		
(authorized capital 2,000,000)	450,725	450,725
Special capital contributions (note 16.a)	7,250	7,250
Retained earnings	66,192	114,403
General reserve	1,471,157	1,356,754
Accumulated other comprehensive income (note 21)	<u>2,239</u>	<u>(342)</u>
<b>Total equity</b>	<b><u>1,997,563</u></b>	<b><u>1,928,790</u></b>
<b>Total liabilities and equity</b>	<b><u>6,488,085</u></b>	<b><u>6,467,765</u></b>

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

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Statements of Income (Unaudited)**

Six-month periods ended June 30, 2011 and 2010

(Expressed in thousands of U.S. dollars)

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
<b>Financial income</b>		
Public sector loans	100,003	98,764
Private sector loans	30,579	35,840
Marketable securities	4,173	4,324
Realized gains on investment funds	3,082	4,771
Due from banks	899	748
<b>Total financial income</b>	<u>138,736</u>	<u>144,447</u>
<b>Financial expenses</b>		
Loans payable and other liabilities	21,600	19,430
Bonds payable	34,843	36,933
Commercial paper programs	2,345	2,008
Certificates of deposit and investment	8,830	8,645
<b>Total financial expenses</b>	<u>67,618</u>	<u>67,016</u>
<b>Net financial income</b>	71,118	77,431
(Release of) provision for loan losses	<u>(2,763)</u>	<u>35,275</u>
<b>Net financial income after (release of) provision for loan losses</b>	<u>73,881</u>	<u>42,156</u>
<b>Other operating income (expenses)</b>		
Management fee	708	5,470
Supervision and audit fees	250	751
Dividends from equity investments	170	192
Gain on sale of securities available for sale	228	195
Adjustment to venture capital investments	1,660	(1,502)
Market value adjustment of swap transactions and other financial instruments	6,542	(7,534)
Adjustment to foreclosed and other assets	3	0
Foreign exchange gains (losses)	264	693
Other income (expenses)	(558)	337
<b>Total other operating income (expenses)</b>	<u>9,267</u>	<u>(1,398)</u>
<b>Administrative expenses</b>		
Salaries and employee benefits	10,745	9,981
Other administrative expenses	3,832	3,423
Depreciation	1,514	1,953
Other administrative expenses	152	151
<b>Total administrative expenses</b>	<u>16,243</u>	<u>15,508</u>
<b>Earnings, before other expenses</b>	66,905	25,250
<b>Other expenses</b>		
Special contributions	627	879
Allowance for technical assistance and other	86	83
<b>Total other expenses</b>	<u>713</u>	<u>962</u>
<b>Net income</b>	<u><u>66,192</u></u>	<u><u>24,288</u></u>

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

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**CABEI**

**Statements of Comprehensive Income (Unaudited)**

Six-month periods ended June 30, 2011 and 2010

(Expressed in thousands of U.S. dollars)

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	<u>2011</u>	<u>June 30,</u> <u>2010</u>
<b>Net income</b>	<u>66,192</u>	<u>24,288</u>
Other comprehensive income:		
Unrealized gain on securities available for sale, net	3,866	6,785
Reclassification adjustments for net realized gains included in earnings	<u>(3,310)</u>	<u>(4,966)</u>
Subtotal - securities available for sale	556	1,819
Unrealized gain (loss) from cash flow hedging derivatives, net	<u>2,025</u>	<u>(3,365)</u>
Other comprehensive gain (loss)	<u>2,581</u>	<u>(1,546)</u>
<b>Comprehensive income</b>	<u><u>68,773</u></u>	<u><u>22,742</u></u>

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

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Statements of Changes in Equity (Unaudited)**

Six-month periods ended June 30, 2011 and 2010

(Expressed in thousands of U.S. dollars)

	<u>Paid-in Capital</u>	<u>Special Capital Contributions</u>	<u>Retained Earnings</u>	<u>General Reserve</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Equity</u>
<b>Balance as of December 31, 2009</b>	447,125	5,688	70,626	1,286,128	3,023	1,812,590
Net income	0	0	24,288	0	0	24,288
Transfer to general reserve	0	0	(70,626)	70,626	0	0
Net unrealized change in:						
Gain on securities available for sale	0	0	0	0	1,819	1,819
Loss from cash flow hedging derivatives	0	0	0	0	(3,365)	(3,365)
Comprehensive income						22,742
Contributions during the year	3,600	0	0	0	0	3,600
Special capital contributions	0	1,562	0	0	0	1,562
<b>Balance as of June 30, 2010</b>	<u>450,725</u>	<u>7,250</u>	<u>24,288</u>	<u>1,356,754</u>	<u>1,477</u>	<u>1,840,494</u>
<b>Balance as of December 31, 2010</b>	450,725	7,250	114,403	1,356,754	(342)	1,928,790
Net income	0	0	66,192	0	0	66,192
Transfer to general reserve	0	0	(114,403)	114,403	0	0
Net unrealized change in:						
Gain on securities available for sale	0	0	0	0	556	556
Gain from cash flow hedging derivatives	0	0	0	0	2,025	2,025
Comprehensive income						68,773
<b>Balance as of June 30, 2011</b>	<u>450,725</u>	<u>7,250</u>	<u>66,192</u>	<u>1,471,157</u>	<u>2,239</u>	<u>1,997,563</u>

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

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Statements of Cash Flows (Unaudited)**

Six-month periods ended June 30, 2011 and 2010

(Expressed in thousands of U.S. dollars)

	<u>2011</u>	<u>June 30,</u> <u>2010</u>
<b>Cash flows from operating activities</b>		
Net income	66,192	24,288
Items to reconcile net income to net cash provided by operating activities:		
Depreciation	1,514	1,953
(Release of) provision for loan losses	(2,763)	35,275
Adjustment to venture capital investments	(1,660)	1,502
Foreign exchange gains	(264)	(693)
Market value adjustment of swap transactions and other financial instruments	(6,542)	7,534
Decrease (increase) in accrued interest receivable	1,195	(3,567)
Decrease in accrued interest payable	(5,604)	(1,930)
<b>Net cash provided by operating activities</b>	<u>52,068</u>	<u>64,363</u>
<b>Cash flows from investing activities</b>		
Net increase in interest-bearing deposits with banks	40,510	(57,788)
Purchase of securities available for sale	(157,288)	0
Proceeds from sales, redemptions and amortization of securities available for sale	158,588	74,848
Purchase of property and equipment	(2,464)	(1,272)
Net decrease (increase) in derivative financial instruments	6,230	(8,986)
Disbursements of loans receivable	(492,841)	(594,772)
Collections of loans receivable	502,046	454,971
Venture capital investments, net of capital returns	(7,484)	(3,089)
Net decrease in other assets	968	7,938
Net increase in other liabilities	927	437
<b>Net cash provided by (used in) investing activities</b>	<u>49,192</u>	<u>(127,713)</u>
<b>Cash flows from financing activities</b>		
Net decrease in loans payable	(51,034)	(47,676)
Net (decrease) increase in commercial paper program	(27,587)	52,919
Net decrease in bonds payable	(26,610)	(46,493)
Net decrease in certificates of investment	(5)	(374)
Net (decrease) increase in certificates of deposit	(21,645)	90,550
Margin call on derivatives portfolio	40,538	0
Capital contributions	0	3,600
Special capital contributions	0	1,562
<b>Net cash (used in) provided by financing activities</b>	<u>(86,343)</u>	<u>54,088</u>
<b>Effect of exchange rate fluctuations on cash held</b>	<u>261</u>	<u>(563)</u>
Cash and due from banks at beginning of period	29,917	57,303
Cash and due from banks at end of period	45,095	47,477
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>15,178</u>	<u>(9,826)</u>
<b>Supplemental information</b>		
Cash paid for interest during period	<u>72,369</u>	<u>68,946</u>
Changes in unrealized net gain on securities available for sale	<u>556</u>	<u>1,819</u>
Changes in unrealized gain (loss) from cash flow hedging derivatives	<u>2,025</u>	<u>(3,365)</u>

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



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(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. Pursuant to the Constitutive Agreement, as a financial institution of the Economic Integration Program and through its sector investment policy, the Bank acts as both a development financing institution and a Central American institution for economic promotion and execution.

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

The Bank’s Ordinary Capital Fund includes the funds and programs whose capital integrates the Bank’s equity.

The activities of the Bank’s Ordinary Capital fund are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC) and by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS). These two funds are regulated by their own by-laws and are independent and separate from Ordinary Capital Fund of the Bank, although they are managed by the Bank.

These financial statements include, solely, the assets, liabilities and operations of the Bank’s Ordinary Capital Fund. Certain financial information relating to the other aforementioned funds has been disclosed in note 19.

**(2) Summary of Significant Accounting Policies**

The Bank’s accounting policies and financial information are in accordance with accounting principles generally accepted in the United States of America (US GAAP). The financial statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to fairly present the Ordinary Capital Fund’s results of operations, financial position and cash flows. Certain information and note disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted. While management believes that the disclosures presented are adequate to make information not misleading, it is suggested that these financial statements be read in conjunction with the audited financial statements of the Bank and notes thereto at December 31, 2010 and for the year then ended.



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

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

*(a) Comparative statements*

For comparison purposes, the June 30, 2011 balance sheet is presented together with that corresponding to December 31, 2010. The related statements of income, comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2011 are presented together with those corresponding to the same period of the prior year.

*(b) Functional and foreign currencies*

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

*(c) Cash and equivalents*

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

*(d) Fair value*

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

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

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



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Bank considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

When possible, the Bank looks to active and observable markets to price identical assets and liabilities. When identical assets and liabilities are not traded in active markets, the Bank looks to market observable data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to derive a fair value measurement. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

*(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.

The Bank conducts periodic reviews in order to determine if events or economic situations have occurred that indicate other-than-temporary impairment on securities with unrealized losses. Recognition of other-than-temporary impairment on debt securities occurs when any of the following conditions are met: (1) the Bank does not expect to collect the amortized cost of the security, (2) the Bank has the intention of selling the security, or (3) it is more likely than not that the Bank will be obligated to sell the security before it recovers its amortized cost.

If the first condition is met, but the Bank has no intention of selling and it is not more-likely-than-not that the Bank will be obligated to sell the security before its amortized cost is recovered, the Bank must record the difference between the amortized cost of the security and its recoverable value in the statement of income and the difference between its recoverable value and its fair value in other comprehensive income. If the second or third condition is met, then the Bank records the total difference between amortized cost and fair value in the statement of income as incurred losses.

Decreases in fair value on securities available for sale below their cost and considered to be other-than-temporary, are presented in the statement of income as realized losses.

The Bank has not experienced other-than-temporary impairment during the sixth-month period ended June 30, 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.

**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

Premiums and discounts are recognized as an adjustment to yield over the term of the security using 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 members or in beneficiary countries, as well as to non-regional financial institutions that operate in Central America, in order to meet the needs of development and integration programs and projects in the founding members.

In accordance with such policies, the Bank avoids concentration of its loan portfolio in individual countries or in a small group of countries, as well as in sectors that tend to be negatively affected by market conditions or technological changes. The parameters have been established in relation to the Bank's equity, defined as paid-in capital, reserves and retained earnings. Significant parameters are as follows:

- The total of its loan portfolio cannot exceed 3.5 times the Bank's equity.
- The Bank's equity should be maintained at a level not lower than 35% of total risk weighted assets.
- The weighted exposure in any of the founding members must not exceed 100% of the Bank's equity or 30% of the Bank's total risk assets. Exposure is defined as the aggregate risk assets which the Bank concentrates in a single borrower, whether such borrower is a country, a public or mixed institution, an individual or a private sector company.
- Exposure in each one of the non-founding beneficiary countries, with the status of extra-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 an extra-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 public majority ownership, with the exception of state owned banks without a sovereign guarantee, should not exceed 20% of the Bank's equity.

**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

- 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 quality, shall not exceed 10% of the Bank's equity. Additionally, exposure to a single enterprise within such group shall never exceed 5% of the Bank's equity.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.
- The exposure limit to a single economic sector without a sovereign guarantee is the lower of the following limits:
  - Hirschman/Herfindahl index (\*), up to 12.5%
  - 30% of the portfolio
  - 1.0 times the Bank's equity.

(\*) Credit concentration by industry

**(g) *Loans and allowance for loan losses***

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

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

A private sector 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 according to the amortization schedule established in the contractual terms of the loan. Factors considered by management in determining impairment include payment status, 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 the restructuring of a loan with problems. 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 as the deteriorating financial condition of the borrower. Interest on these loans is accrued at the renegotiated rates.



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

On December 15, 2010, the new Regulation for the Allowance for Loan Losses Policy for Private Sector Loans was approved under the Board of Directors Resolution DI-170/2010. In accordance with this Regulation, 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. 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. Increases 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 receivable, 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.

Prior to December 15, 2010, allowances for private sector loans were determined based on an assessment of each individual loan by applying an internal credit risk rating scale that assigned specific allowance percentages to each credit risk category.

Public sector loans are granted to governments and autonomous entities of the founding members and non-funding 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.

The Bank establishes an allowance for public sector loans that takes the individual risk of the borrowing countries into consideration. This methodology includes the calculation 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. This probability is adjusted for CABEI's preferred creditor status. Additionally, this methodology takes into consideration the risk of public sector loans not covered by sovereign guarantee as well as the remaining maturity of operations. Management believes that this methodology reasonably reflects the estimated risk embedded in the Bank's public sector lending activities and, consequently, considers the resulting amount of the allowance for public sector loans to be adequate. As of June 30, 2011 and December 31, 2010, there were no impaired public sector loans.

The allowances for loan losses are established through estimates of possible losses, which are recognized in income for the period in which they are incurred and disclosed as a separate line item deducting loans receivable. 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 statement of income. Management assesses the balance of the allowance for loan losses on a regular basis.



Notes to Financial Statements (Unaudited)

(Expressed in thousands of U.S. dollars)

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(2) **Summary of Significant Accounting Policies, continued**

(h) *Non-accrual loans*

In accordance with the Bank's policies, interest recognition for private sector loans is discontinued when reasonable doubt exists as to full, timely collection of principal or interest, or when loans are 90 days or more in arrears on principal and/or interest based on contractual terms. Interest recognition for public sector loans is discontinued when they become 180 days or more past due based on contractual terms. 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. Collections are accounted for on the cash method thereafter, until qualifying to return to accrual status. When borrowers demonstrate over an extended 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 collectability of principal balances is not probable.

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

(i) *Property and equipment*

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

Depreciation is provided by using the straight-line method over the estimated useful life of each type of asset. The estimated useful life of the assets is as follows:

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

(j) *Foreclosed assets*

Foreclosed real estate 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, 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 expenses.

(k) *Taxes*

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



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

*(l) General reserve and annual net income*

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

*(m) Revenue Recognition*

Revenue is recognized when the earnings process is complete and collectability is assured. Specifically, asset management fees, measured by assets at a particular date, are accrued as earned. Supervision and audit fees are recognized when the transaction is complete. Commission expenses are recorded when the related revenue is recognized. Transaction-related expenses are recognized as incurred.

*(n) Derivative instruments and hedging activities*

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

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

This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally 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.

**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

Changes in fair value of a derivative instrument which is highly effective and which has been designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded as other operating income (expenses) in the statement of income. Changes in fair value of a derivative instrument that is highly effective and which has been designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in fair value of a derivative instrument that is highly effective and has been designated and qualifies as a foreign-currency hedge are recorded in either income or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. The ineffective portion of the change in the fair value of a derivative instrument that qualifies as either a fair value hedge or a cash flow hedge is reported in the statement of income.

The Bank discontinues hedge accounting when it is determined that the derivative instrument is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; the derivative expires, is sold, terminated, or exercised; the hedged asset or liability expires, is sold, terminated, or exercised; the derivative is not designated 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 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.

**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(2) Summary of Significant Accounting Policies, continued**

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

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

*(o) Equity investments*

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

*(p) Donations received and contributions granted*

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

Contributions granted by the Bank's Ordinary Capital Fund 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.

*(q) Endorsements and guarantees granted*

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



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(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.

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 of the Bank. These risk classifications, together with an analysis of current economic conditions, trends in performance and any other relevant information, result in the estimation of the allowance for off-balance sheet commitments.

*(r) Use of estimates*

To prepare its financial statements, the Bank's management relies on certain assumptions and estimates that have an impact on the amounts of assets and liabilities, the disclosure of contingencies, and related income or expense at the date of the financial statements. 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 derivatives instruments and the status of contingencies. The current economic environment has increased the degree of uncertainty associated with these estimates and assumptions.

*(s) Reclassifications*

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

**(3) Fair Value**

The Bank's management has established a process for determining fair value. The fair value is based primarily 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 obtained independently of market or market parameters, including but not limited to yield curves, interest rates, debt prices, exchange rates of foreign currency 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.



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(3) Fair Value, continued**

The assets and liabilities valued at their fair value on a recurring basis as of June 30, 2011 and December 31, 2010 are as follows:

<u>June 30, 2011</u>	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at June 30, 2011
<u>Assets</u>				
Securities available for sale	85,293	531,315	40,790	657,398
Derivative financial instruments	0	269,513	0	269,513
<u>Liabilities</u>				
Loans payable	0	25,080	0	25,080
Bonds payable	0	1,514,179	0	1,514,179
Derivative financial instruments	0	86,157	3,123	89,280

<u>December 31, 2010</u>	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance at December 31, 2010
<u>Assets</u>				
Securities available for sale	100,695	516,621	40,234	657,550
Derivative financial instruments	0	213,955	0	213,955
<u>Liabilities</u>				
Loans payable	0	65,054	0	65,054
Bonds payable	0	1,330,138	0	1,330,138
Derivative financial instruments	0	71,304	4,016	75,320

(i) Valuation techniques applied:

- Investments in securities: Fair value has been calculated on the basis of the prices as quoted in the market and, in their absence, they have been calculated based on discounted cash flows using the current yields of similar securities.
- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data, such as observable interest rate yield curves. Counterparty and the Bank's credit risks are considered depending on fair value of each derivative (see also note 18).
- 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.

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(3) Fair Value, continued**

The Bank's accounting policies include the recognition of transfers between levels of the fair value hierarchy at the date of any event or change in circumstances that caused the transfer. During the six-month periods ended June 30, 2011 and 2010, there were no transfers between levels 1, 2 and 3.

The following tables present a roll-forward for the periods ended June 30, 2011 and December 31, 2010 (including changes in fair value) of financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When an instrument is classified at Level 3, the decision is based on the importance of unobservable assumptions in determining the overall fair value.

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

Changes in fair values of the instruments classified in Level 3 that occurred during the periods ended June 30, 2011 and December 31, 2010 are as follows:

	<b>Gains (losses) during the six-month period ended on June 30, 2011</b>					<b>Balance at June 30, 2011</b>
	<b>Balance at January 1, 2011</b>	<b>Included in net income</b>	<b>Included in other comprehensive income (loss)</b>	<b>Purchases, (sales), issuances or (settlements)</b>	<b>Transfers in and / or out of Level 3</b>	
<b>Assets</b>						
Securities available for sale	40,234	0	556	0	0	40,790
<b>Liabilities</b>						
Derivative financial instruments	4,016	(893)	0	0	0	3,123

	<b>Gains (losses) during the year ended December 31, 2010</b>					<b>Balance at December 31, 2010</b>
	<b>Balance at January 1, 2010</b>	<b>Included in net income</b>	<b>Included in other comprehensive income (loss)</b>	<b>Purchases, (sales), issuances or (settlements)</b>	<b>Transfers in and / or out of Level 3</b>	
<b>Assets</b>						
Securities available for sale	55,209	0	(14,975)	0	0	40,234
<b>Liabilities</b>						
Derivative financial instruments	3,674	342	0	0	0	4,016



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(3) Fair Value, continued**

*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.

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

	<u>Level 3</u>
Loans	80,801
Foreclosed assets	4,031
	<u>84,832</u>

The increase (decrease) in fair value of assets recognized at June 30, 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>
Loans	3,930
Foreclosed assets	3
	<u>3,933</u>

(ii) Fair value option

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

The Bank has elected to measure at fair value the financial liabilities in a currency other than the US dollar for which it has contracted a derivative for fair value hedging of foreign currency and interest rate fluctuations. For such liabilities up to December 31, 2007 the Bank had used hedge accounting. The principal purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank's income 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.



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(3) Fair Value, continued**

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

The Bank's credit risk spread for the periods ended June 30, 2011 and 2010 has not changed. Consequently, there has been no variation in the fair value due to such input.

The amounts recorded in the statement of income as a result of changes in fair values of financial liabilities, for which the fair value option was elected, as of June 30, 2011 and 2010 are as follows:

<b>2011</b>		
	<b>Other operating income (expenses) – Fair value adjustment</b>	<b>Total</b>
Loans payable	2,243	2,243
Bonds payable	27	27

  

<b>2010</b>		
	<b>Other operating income (expenses) – Fair value adjustment</b>	<b>Total</b>
Loans payable	281	281
Bonds payable	(1,896)	(1,896)

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

The difference between the fair value of the instruments elected for application of ASC 825-10-25 and the unpaid principal balances of such instruments for the years ended June 30, 2011 and 2010 is as follows:

<b>2011</b>			
	<b>Fair value</b>	<b>Unpaid principal balances</b>	<b>Excess (Deficit)</b>
Loans payable	25,080	31,345	(6,265)
Bonds payable	1,514,179	1,318,981	195,198



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(3) Fair Value, continued**

	<b>2010</b>		
	<b>Fair value</b>	<b>Unpaid principal balances</b>	<b>Excess (Deficit)</b>
Loans payable	44,419	56,202	11,783
Bonds payable	1,043,044	993,437	(49,607)

(iii) Fair value of financial instruments

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

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

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

- Loans receivable, net: The fair values for fixed-rate loans are estimated on the basis of an analysis of discounted cash flows, using the Commercial Interest Reference Rate (CIRR) as a reference. This rate 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: Given that they do not have a readily available market value, Bank's management estimates that the carrying amount approximates fair value, considering that the carrying amount does not exceed equity participation in the investee.
- Loans payable: The fair values for loans are estimated on the basis of an analysis of discounted cash flows, using the CIRR as a reference. This fair value does not represent a current indicator of an exit price.

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(3) Fair Value, continued**

- Bonds payable: The fair value is estimated on the basis of an analysis of discounted cash flows, based on current bank rates for multilateral organizations.
- Commercial paper program: The fair values are estimated on the basis of an analysis of discounted cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Certificates of deposit: Fair values are estimated on the basis of an analysis of discounted cash flows, based on the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Contingent commitments: The fair value of these financial instruments is based on the counterparty credit risk.

The estimated fair values of the Bank's financial instruments as of June 30, 2011 and December 31, 2010 are as follows:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<b><u>Assets</u></b>				
Cash and due from banks	45,095	45,095	29,917	29,917
Interest-bearing deposits with banks	758,946	758,946	799,328	799,328
Securities available for sale	657,398	657,398	657,550	657,550
Loans, net	4,619,048	4,694,624	4,637,717	4,770,934
Accrued interest receivable	57,183	57,183	57,525	57,525
Derivative financial instruments	269,513	269,513	213,955	213,955
Equity investments	34,948	34,948	25,804	25,804
<b><u>Liabilities</u></b>				
Loans payable	1,138,141	1,143,124	1,190,426	1,233,585
Bonds payable	2,653,301	2,734,138	2,610,360	2,674,862
Commercial paper program	174,109	173,355	201,695	202,168
Certificates of deposit	376,773	382,819	398,418	403,374
Certificates of investment	1,487	1,487	1,494	1,494
Accrued interest payable	26,946	26,946	31,698	31,698
Derivative financial instruments	89,280	89,280	75,320	75,320

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(4) Cash and Due from Banks**

At June 30, 2011 and December 31, 2010, cash and due from banks is composed as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Currencies of the founding members	11,936	3,952
US dollar	32,276	24,297
Other currencies	883	1,668
	<u>45,095</u>	<u>29,917</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 June 30, 2011 and December 31, 2010, these carrying amounts are set in currencies other than those of the founding member countries.

**(6) Securities Available for Sale**

The amortized cost, gross unrealized gains and losses, adjustments to hedging transactions and estimated fair value of securities available for sale, as of June 30, 2011 and December 31, 2010 are as follows:

<u>Securities available for sale</u>	<u>Amortized cost</u>	<u>June 30, 2011</u>		<u>Adjustments to hedging transactions</u>	<u>Estimated fair value</u>
		<u>Unrealized gross losses</u>	<u>Unrealized gross gains</u>		
Marketable securities	537,688	(6,302)	2,591	5,428	539,405
Investment funds	111,518	0	6,475	0	117,993
	<u>649,206</u>	<u>(6,302)</u>	<u>9,066</u>	<u>5,428</u>	<u>657,398</u>

  

<u>Securities available for sale</u>	<u>Amortized cost</u>	<u>December 31, 2010</u>		<u>Adjustments to hedging transactions</u>	<u>Estimated fair value</u>
		<u>Unrealized gross losses</u>	<u>Unrealized gross gains</u>		
Marketable securities	542,130	(6,858)	2,951	4,835	543,058
Investment funds	108,377	0	6,115	0	114,492
	<u>650,507</u>	<u>(6,858)</u>	<u>9,066</u>	<u>4,835</u>	<u>657,550</u>

Sales and repayments of securities available for sale during the six-month periods ended June 30, 2011 and 2010 amounted to 158,588 and 74,848, respectively. For the six-month periods ended June 30, 2011 and 2010, the realized gross gain was 3,310 and 4,996, respectively. There was no realized gross loss during the six-month periods ended June 30, 2011 and 2010.

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



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(6) Securities Available for Sale, continued**

At June 30, 2011 and December 31, 2010, the estimated fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

<u>Securities available for sale:</u>	<u>June 30, 2011</u>				<u>Total</u>
	<u>Less than 12 months</u>		<u>12 months or longer</u>		
	<u>Estimated fair value</u>	<u>Unrealized gross losses</u>	<u>Estimated fair value</u>	<u>Unrealized gross losses</u>	
Marketable securities	<u>161,496</u>	<u>(4,715)</u>	<u>88,763</u>	<u>(1,587)</u>	<u>(6,302)</u>

  

<u>Securities available for sale:</u>	<u>December 31, 2010</u>				<u>Total</u>
	<u>Less than 12 months</u>		<u>12 months or longer</u>		
	<u>Estimated fair value</u>	<u>Unrealized gross losses</u>	<u>Estimated fair value</u>	<u>Unrealized gross losses</u>	
Marketable securities	<u>151,888</u>	<u>(3,941)</u>	<u>146,531</u>	<u>(2,917)</u>	<u>(6,858)</u>

The Bank's policy establishes that at least 75% of its total investment securities should be in deposits with banks and bonds placed by issuers holding an international rating of "A" (or its equivalent) or better, granted by an internationally recognized rating agency.

At June 30, 2011, the Bank's management has no intention of selling the securities classified as available for sale, described in the previous table, and considers it is more likely than not, that the Bank will not have to sell the aforementioned securities before it recovers their cost. Management in conjunction with the Asset and Liability Committee (ALCO) monitors on a regular basis the situation and the evolution of securities available for sale, including those with unrealized losses.

The Bank's management believes that the unrealized losses of such securities at June 30, 2011 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, Bank's management believes the impairments presented in the table above as temporary and no other than temporary impairment has been recorded in the statements of income.

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(6) Securities Available for Sale, continued**

As of June 30, 2011, 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>	<u>Estimated fair value</u>
Due within one year	317,787	321,286
After one but within five years	288,977	288,247
After five but within ten years	5,241	4,774
After ten years	<u>37,173</u>	<u>43,091</u>
	<u>649,178</u>	<u>657,398</u>

**(7) Loans**

CABEI has no significant concentrations of credit risk with any individual borrower or groups of borrowers. A detail of loans, by sector and country as of June 30, 2011 and December 31, 2010, is as follows:

	<u>June 30, 2011</u>			<u>December 31, 2010</u>		
	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>	<u>Public sector</u>	<u>Private sector</u>	<u>Total</u>
Guatemala	777,119	284,063	1,061,182	777,386	336,301	1,113,687
El Salvador	730,716	120,598	851,314	735,404	128,449	863,853
Honduras	596,746	295,406	892,152	537,557	272,623	810,180
Nicaragua	212,308	243,788	456,096	203,757	262,402	466,159
Costa Rica	1,068,016	383,779	1,451,795	1,115,742	400,415	1,516,157
Dominican Republic	72,990	0	72,990	50,000	0	50,000
Panama	0	19,096	19,096	0	17,458	17,458
Belize	500	0	500	500	0	500
Subtotal	<u>3,458,395</u>	<u>1,346,730</u>	<u>4,805,125</u>	<u>3,420,346</u>	<u>1,417,648</u>	<u>4,837,994</u>
Allowance for loan losses	<u>(98,820)</u>	<u>(87,257)</u>	<u>(186,077)</u>	<u>(96,892)</u>	<u>(103,385)</u>	<u>(200,277)</u>
Loans, net	<u>3,359,575</u>	<u>1,259,473</u>	<u>4,619,048</u>	<u>3,323,454</u>	<u>1,314,263</u>	<u>4,637,717</u>

The Bank maintains an operation as a financial intermediary for 189,053, as of June 30, 2011, this transaction amounts to 155,629. This amount is recorded in the financial statements as a loan receivable from the Costa Rican Electricity Institute, and as a loan payable to the Bank of China. Contractually, the Bank is not subject to risk of loss of its asset or liability position, related to this transaction (see note 11).



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

A detail of loans, by economic activity segment, as of June 30, 2011 and December 31, 2010, is as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Infrastructure / construction	1,473,315	1,407,283
Electricity, gas and water supply	1,264,651	1,173,938
Monetary intermediation	724,564	806,151
Multi-sector	508,241	519,087
Transport, storage and communications	254,630	275,002
Social and health services	157,802	165,851
Real estate activities	115,771	119,967
Agro-industry	75,785	69,084
Manufacturing	67,966	131,712
Hotels and restaurants	51,072	54,269
Mining and quarrying	39,000	42,000
Education and training	33,923	38,395
Wholesale and retail trade	26,811	20,243
Other social, community and personal services	8,364	9,285
Fisheries	2,037	4,134
Extraterritorial organizations and agencies	1,193	1,593
	<u>4,805,125</u>	<u>4,837,994</u>

A detail of loans, by maturity, as of June 30, 2011, is as follows:

Past due	44,685
Up to 1 year	530,959
After one but within two years	113,341
After two but within three years	192,902
After three but within four years	384,733
After four but within five years	253,756
After five years	<u>3,284,749</u>
	<u>4,805,125</u>

A detail of loans, by currency, as of June 30, 2011 and December 31, 2010, is as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
U.S. dollar	4,629,476	4,618,752
Currencies from Central American countries	165,350	208,363
Euro	8,488	8,186
Yen	1,811	2,693
	<u>4,805,125</u>	<u>4,837,994</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(7) Loans, continued**

As of June 30, 2011 and December 31, 2010, the weighted average interest rate on loans receivable, after considering swap contracts when applicable, was 5.45% and 5.96% per annum, respectively. Loans at fixed and floating rates are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Loans at fixed rates	1,081,069	1,128,544
Loans at floating rates	3,724,056	3,709,450
	<u>4,805,125</u>	<u>4,837,994</u>

As of June 30, 2011 and December 31, 2010, in accordance with the Bank's policies, interest on non-accrual loans of 10,752 and 12,878, respectively, was not recorded as income because it had not been collected. As of June 30, 2011 and December 31, 2010, the principal of the loans that generated such interest amounted to 144,860 and 155,264, respectively, and related exclusively to private sector borrowers.

The following table presents information on impaired private sector loans as of June 30, 2011 and December 31, 2010:

<u>Impaired loans</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Impaired loans, all with allowance for loan losses	175,337	212,387
Average impaired loans	193,862	220,755
Allowance related to impaired loans	60,241	63,002
Accrued interest on impaired loans	8,771	11,489
Interest income recognized on a cash basis	1,021	4,061

The changes in the allowance for loan losses during the periods ended June 30, 2011 and December 31, 2010 are as follows:

	<u>Six-month period ended on June 30, 2011</u>			<u>Year ended on December 31, 2010</u>		
	<u>Sector</u>			<u>Sector</u>		
	<u>Public</u>	<u>Private</u>	<u>Total</u>	<u>Public</u>	<u>Private</u>	<u>Total</u>
Balance, beginning of period	96,892	103,385	200,277	85,041	118,157	203,198
Provision (release)	1,928	(4,691)	(2,763)	11,851	3,579	15,430
Loan write-offs	0	(11,437)	(11,437)	0	(18,351)	(18,351)
Balance, end of period	<u>98,820</u>	<u>87,257</u>	<u>186,077</u>	<u>96,892</u>	<u>103,385</u>	<u>200,277</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(8) Accrued Interest Receivable**

Accrued interest receivable as of June 30, 2011 and December 31, 2010 is detailed as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
On loans	53,759	54,281
On securities available for sale	3,328	3,020
On interest-bearing deposits with banks	96	224
	<u>57,183</u>	<u>57,525</u>

**(9) Property and Equipment, Net**

Property and equipment at June 30, 2011 and December 31, 2010 are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Vehicles	1,500	1,580
Buildings	28,369	27,153
Computer equipment	21,493	20,637
Installations	9,008	9,574
Office equipment and furniture	5,384	5,356
	<u>65,754</u>	<u>64,300</u>
Less accumulated depreciation	(39,911)	(39,406)
	<u>25,843</u>	<u>24,894</u>
Land	2,590	2,590
	<u>28,433</u>	<u>27,484</u>

**(10) Other Assets**

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

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Accounts receivable	2,393	3,158
Pre-investment studies	7,876	7,949
Foreclosed assets	4,031	3,661
Prepaid expenses	2,353	3,037
Supplies	138	142
Other	730	538
	<u>17,521</u>	<u>18,485</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

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**(10) Other Assets, continued**

Foreclosed assets as of June 30, 2011 and December 31, 2010 are located in the following countries:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Nicaragua	5,508	5,508
El Salvador	4,787	4,787
Guatemala	2,461	2,461
Honduras	1,830	1,830
Costa Rica	370	6
	<u>14,956</u>	<u>14,592</u>
Fair value adjustment	<u>(10,925)</u>	<u>(10,931)</u>
	<u>4,031</u>	<u>3,661</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(11) Loans Payable**

Loans payable as of June 30, 2011 and December 31, 2010 are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Bank of China (BoC)	155,629	172,619
Financial Support Agreement Mexico - CABEI	136,185	118,032
Kreditanstalt Für Wiederaufbau (K.F.W.), Germany	116,638	124,889
Bayerische Landesbank	80,000	126,531
Mizuho Corporate Bank, Ltd.	79,641	86,780
Promotion et Participation pour la Coopération (PROPARCO)	67,060	67,060
Nordic Investment Bank	60,238	61,690
Inter-American Development Bank (IDB)	52,826	56,490
European Investment Bank	46,662	27,154
Sumitomo Mitsui Banking Corporation, New York	39,933	39,907
Nordea Bank	30,452	34,802
Deutsche Bank, A.G.	25,464	28,646
Royal Bank of Scotland P.L.C.	25,000	15,000
U.S. Agency for International Development (USAID)	19,312	21,787
Oesterreichische Entwicklungsbank AG (OeEB)	18,726	18,714
Nordea Bank (Funded Participation Agreement)	18,411	26,531
Loans guaranteed by USAID	16,797	19,877
Instituto de Crédito Oficial de España	16,342	22,052
HSBC Ltd., London	15,000	5,000
Bank Leumi – Le Israel	14,720	16,878
Standard Chartered Bank	12,500	12,500
BAC Florida Bank	10,000	10,000
Bank of Taiwan, New York	10,000	10,000
The Export-Import Bank of the Republic of China (EXIM)	10,000	10,000
Bank of America	10,000	0
Fortis Bank	7,163	1,569
The China Council for International Cooperation on Environment and Development	6,429	7,143
Société Générale, New York	6,212	6,989
The OPEC Fund for International Development	5,294	6,177
Banco Mercantil de Venezuela	5,000	5,000
Land Bank of Taiwan	5,000	5,000
United Taiwan Bank, S.A.	5,000	5,000
Bank SinoPac	5,000	5,000
Chang Hwa Commercial Bank, Ltd.	5,000	5,000
Danida-Unibank	507	609
Deutsche Investitions – Und Entwicklungsgesellschaft - mbH (DEG)	0	10,000
	<u>1,138,141</u>	<u>1,190,426</u>

The Bank maintains an operation as a financial intermediary for 189,053; as of June 30, 2011, this transaction amounts to 155,629. This amount is recorded in the financial statements as a loan receivable from the Costa Rican Electricity Institute, and as a loan payable to the Bank of China. Contractually, the Bank is not subject to risk of loss of its asset or liability position, related to this transaction (see note 7).



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(11) Loans Payable, continued**

Maturities of loans payable as of June 30, 2011 are as follows:

Up to 1 year	230,588
After 1 but within 2 years	105,372
After 2 but within 3 years	81,355
After 3 but within 4 years	229,671
After 4 but within 5 years	83,989
After 5 years	407,166
	<u>1,138,141</u>

As of June 30, 2011 and December 31, 2010, the weighted average interest rate on loans payable, after considering swap contracts when applicable, was 3.72% and 3.95% per annum, respectively.

Loans payable at fixed and floating rates as of June 30, 2011 and December 31, 2010 are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Loans payable at fixed rates	527,754	546,589
Loans payable at floating rates	610,387	643,837
	<u>1,138,141</u>	<u>1,190,426</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(12) Bonds Payable and Commercial Paper Program**

(a) Bonds payable as of June 30, 2011 and December 31, 2010, are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
MTN - USD issuance	2009	2014	500,000	500,000
COP issuance	2006	2015	281,714	240,663
MTN - USD issuance	2005	2012	199,905	199,824
MTN - USD issuance	2003	2013	199,846	199,803
MTN - CHF issuance	2010	2013	183,322	165,324
MTN - MXN issuance	2007	2014	127,202	120,524
NTD issuance	2006	2011	121,527	118,764
MTN - HKD issuance	2006	2011	97,643	99,257
COP issuance	2009	2014	90,228	85,185
THB issuance	2007	2017	81,442	84,663
MTN – MXN issuance	2010	2020	65,811	62,555
MTN – MXN issuance	2007	2012	63,768	60,442
MTN – MXN issuance	2007	2012	63,655	60,322
COP issuance	2009	2019	56,680	51,698
NTD issuance	2009	2013	51,948	60,631
USD regional issuance	2001	2011	50,000	50,000
JPY issuance	2006	2011	49,819	49,571
THB issuance	2011	2021	36,315	0
MTN – MXN issuance	2008	2020	34,398	32,334
THB issuance	2011	2014	32,481	0
MTN – CRC issuance	2009	2014	30,858	30,203
THB issuance	2011	2016	27,997	0
MTN – GTQ issuance	2010	2013	25,739	24,958
USD issuance	2010	2020	25,000	25,000
MTN – USD issuance	2009	2019	24,509	24,479
MTN – CRC issuance	2010	2017	22,626	22,205
MTN – CRC issuance	2009	2014	20,980	20,605
DOP issuance	2009	2014	20,719	21,617
NTD issuance	2009	2013	17,316	16,842
MTN – MXN issuance	2008	2018	10,641	10,021
MTN – MXN issuance	2008	2018	9,477	8,933
MTN – HNL issuance	2008	2011	5,292	5,292
MTN – USD issuance	2006	2011	0	15,000
NTD issuance	2009	2011	0	64,000
NTD issuance	2009	2011	0	50,525
			2,628,858	2,581,240
Fair value adjustment on hedging activities			24,443	29,120
			2,653,301	2,610,360

As of June 30, 2011 and December 31, 2010, the weighted average interest rates on bonds payable, after considering swap contracts when applicable, were 2.68% and 3.01% 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 S&P and Moody's, respectively.

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(12) Bonds Payable and Commercial Paper Program, continued**

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

The costs and contractual maturities as of June 30, 2011 and 2009 are as follows:

	<b>June 30, 2011</b>		
	<b>Amount issued</b>	<b>Annual Average Cost</b>	<b>Contractual Maturity</b>
Commercial Paper – Global Program USD	113,942	0.45%	Up to 3 months
Commercial Paper – Regional Program Costa Rican Colones (CRC)	60,167	6.98%	Up to 6 months

  

	<b>December 31, 2010</b>		
	<b>Amount issued</b>	<b>Annual Average Cost</b>	<b>Contractual Maturity</b>
Commercial Paper – Global Program USD	142,622	0.72%	Up to 3 months
Commercial Paper – Regional Program CRC	59,073	8.45%	Up to 6 months

**(13) Certificates of Deposit**

Certificates of deposit as of June 30, 2011 and December 31, 2010 are as follows:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Social Benefit Fund (note 21)	138,655	137,540
Central Banks	100,253	80,126
Public financial institutions	49,102	63,800
Private financial institutions	46,088	72,087
Debt-conversion fund (Honduras- Spain)	22,152	24,384
Other public institutions	5,892	5,892
The Institute of Nutrition of Central America and Panama	0	427
Other	14,631	14,162
	<b>376,773</b>	<b>398,418</b>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(13) Certificates of Deposit, continued**

At June 30, 2011, the contractual maturities are as follows:

Up to 6 months	350,574
From 6 months to 1 year	10,684
After 1 year to 2 years	2,117
After 2 years to 3 years	4,103
After 3 years to 4 years	5,103
After 4 years to 5 years	4,192
	<u>376,773</u>

At June 30, 2011 and December 2010, the weighted average interest rates on certificates of deposit and investment are as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Deposits in US dollars <sup>1</sup>	0.82%	0.93%
Deposits in US dollars - Social Benefit Fund	7.00%	7.00%
Deposits in Costa Rican Colones	7.94%	8.72%
Deposits in Quetzales	2.54%	6.06%
Deposits in Lempiras	5.67%	5.63%

<sup>1</sup> Excludes deposits belonging to the Social Benefit Fund.

**(14) Accrued Interest Payable**

Accrued interest payable as of June 30, 2011 and December 31, 2010 is as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
On bonds payable	16,953	22,336
On loans payable	5,655	5,884
On certificates of deposit	4,338	3,478
	<u>26,946</u>	<u>31,698</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(15) Other liabilities**

Other liabilities as of June 30, 2011 and December 31, 2010 are as follows:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Monetary deposits	9,789	8,646
Other creditors	7,152	5,941
Financial cooperation to founding countries	5,652	5,674
Transitory deposits	2,926	2,820
Technical assistance	2,771	2,844
Bonus and supplemental compensation	1,920	2,224
Other accruals	275	1,415
	<u>30,485</u>	<u>29,564</u>

**(16) Equity**

(a) Paid-in capital

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

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

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

- The authorized capital will be 5,000,000: each founding country will equally subscribe for 2,550,000, whereas 2,450,000 will be available to extra-regional countries and non-founding regional partners;
- Composed of two series of stock: Series "A" reserved for founding countries, and Series "B" reserved for non-founding regional partners and extra-regional partners;
- Series "E" certificates will be issued in the name of "A" and "B" shareholders, which shall evidence the retained earnings attributable to capital contributions made by the Banks' shareholders from time to time (see note 17.b). These certificates will not carry voting rights and will be non-transferable.

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(16) Equity, continued**

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

In order to implement the new capital structure, the Board of Governors approved an amendment to the Bank's Constitutive Agreement. This amendment will become effective three months after the Bank has given official notice thereof to all its partners. The amendment must be previously ratified by the Congresses of the Republic of Costa Rica and the Republic of Colombia, in view of a reservation made by these countries regarding the Constitutive Agreement's amendment procedure. To this date, the Bank has not received the communication of ratification.

As of June 30, 2011 and December 31, 2010, the nominal value of the Bank's capital is as follows:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Shares</u>		<u>Shares</u>	
<u>Subscribed shares of</u>	<u>Subscribed</u>	<u>Paid</u>	<u>Subscribed</u>	<u>Paid</u>
<u>Founding countries</u>				
Guatemala	204,000	55,000	204,000	55,000
El Salvador	204,000	55,000	204,000	55,000
Honduras	204,000	55,000	204,000	55,000
Nicaragua	204,000	55,000	204,000	55,000
Costa Rica	204,000	55,000	204,000	55,000
Sub-total	<u>1,020,000</u>	<u>275,000</u>	<u>1,020,000</u>	<u>275,000</u>
<u>Non-regional countries</u>				
Spain	200,000	50,000	200,000	50,000
Republic of China, Taiwan	150,000	37,500	150,000	37,500
Mexico	122,500	30,625	122,500	30,625
Argentina	57,600	14,400	57,600	14,400
Colombia	57,600	14,400	57,600	14,400
Dominican Republic	57,600	14,400	57,600	14,400
Panama	57,600	14,400	57,600	14,400
Sub-total	<u>702,900</u>	<u>175,725</u>	<u>702,900</u>	<u>175,725</u>
	<u>1,722,900</u>	<u>450,725</u>	<u>1,722,900</u>	<u>450,725</u>
<u>Unsubscribed shares</u>				
Non-regional countries	<u>277,100</u>	<u>0</u>	<u>277,100</u>	<u>0</u>
	<u>2,000,000</u>	<u>450,725</u>	<u>2,000,000</u>	<u>450,725</u>

CABEI's Constitutive Agreement also considers the incorporation of Beneficiary Countries, which obtain borrowings and guarantees, interpretation and arbitration, when they make special capital contributions that increase the Bank's equity. Those special capital contributions are composed of paid-in contributions and callable contributions, under requirement of payment. Under the special paid-in contributions, each Beneficiary Country receives Certificates of Contribution, which do not grant voting rights, but grants the right to speak at the Directors and Governors' meetings.

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(16) Equity, continued**

As of June 30, 2011 and December 31, 2010, the Bank's special capital contributions are as follows:

	<u>June 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Subscribed</u>	<u>Paid</u>	<u>Subscribed</u>	<u>Paid</u>
Argentina	1,000	250	1,000	250
Colombia	1,000	250	1,000	250
Belize	25,000	6,250	25,000	6,250
Dominican Republic	1,000	250	1,000	250
Panama	1,000	250	1,000	250
	<u>29,000</u>	<u>7,250</u>	<u>29,000</u>	<u>7,250</u>

**(b) Issuance of Series "E" certificates**

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

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

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 stock capital made available by the Bank. Series "E" certificates not used to subscribe for new shares of stock will become part of the Bank's General Reserve.

**(17) Contingent Commitments**

As of June 30, 2011 and December 31, 2010, balances of contingent commitments are as follows:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Subscribed credit agreements (*)	1,450,145	1,599,526
Credit default swaps	50,000	50,000
Endorsements and guarantees granted	13,000	11,584
Letters of credit and bank acceptances	40,735	533
	<u>1,553,880</u>	<u>1,661,643</u>

(\*) Includes approved and deeded agreements



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(17) Contingent Commitments, continued**

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

Credit default swaps represent a contingent commitment assumed by the Bank with a client, for payments to be honored by a third party, with respect to credit compliance of a specific underlying. These derivatives have been included as part of derivative financial instruments and they are carried at their fair value. Fair value for such derivative instruments amounted to (1,232) and (1,722) as of June 30, 2011 and December 31, 2010, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to occur.

Endorsements and guarantees granted are contingent commitments assumed by the Bank to guarantee compliance by its customers with commitments to a third party. The credit risk implied in these commitments is essentially the same as that implied in granting loan facilities to clients. The Bank's management has analyzed each commitment assumed on a case-by-case basis, based on current information and events. As of June 30, 2011 and December 31, 2010, no significant losses have arisen, or were expected to arise, from these commitments.

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

At June 30, 2011 and December 31, 2010, the maturities of the guarantees granted, credit default swaps and letters of credit and bank acceptances are as follows:

<u>Maturity</u>	<u>June 30, 2011</u>		
	<u>Guarantees granted</u>	<u>Credit default swaps</u>	<u>Letters of credit and bank acceptances</u>
2011	309	0	150
2012	1,605	25,000	22,527
2013	376	25,000	0
2014	0	0	18,058
2016	10,710	0	0
	<u>13,000</u>	<u>50,000</u>	<u>40,735</u>

<u>Maturity</u>	<u>December 31, 2010</u>		
	<u>Guarantees granted</u>	<u>Credit default swaps</u>	<u>Letters of credit and bank acceptances</u>
2011	624	0	533
2012	250	25,000	0
2013	0	25,000	0
2016	10,710	0	0
	<u>11,584</u>	<u>50,000</u>	<u>533</u>

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(18) Derivative Financial Instruments and Hedging Activities**

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

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

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative instrument is positive, the counterparty owes the Bank, which creates credit risk for the Bank. When the fair value of a derivative instrument is negative, the Bank owes the counterparty and, therefore, it does not have related credit risk. 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 Bank has adopted the amendments to ASC 815 "Disclosures of Derivative Instruments" for disclosures about derivatives and hedging activities.

The following table presents the notional amount and the fair value of derivative instruments as of June 30, 2011 and December 31, 2010:

	<u>June 30, 2011</u>			
	<u>Assets</u>		<u>Liabilities</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
<b><u>Hedging transactions according to ASC 815</u></b>				
Interest rate agreements	455,400	25,073	153,451	18,085
Foreign currency agreements	73,243	12,283	0	0
	<u>528,643</u>	<u>37,356</u>	<u>153,451</u>	<u>18,085</u>
<b><u>Other risk management purposes</u></b>				
Foreign currency agreements	1,179,745	232,157	339,915	25,821
Credit risk agreements	0	0	140,000 <sup>1</sup>	1,232
Interest rate agreements	0	0	80,249	3,604
	<u>1,179,745</u>	<u>232,157</u>	<u>560,164</u>	<u>30,657</u>
Margin calls	<u>0</u>	<u>0</u>	<u>40,538</u>	<u>40,538</u>
Total derivative instruments	<u>1,708,388</u>	<u>269,513</u>	<u>754,153</u>	<u>89,280</u>



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(18) Derivative Financial Instruments and Hedging Activities, continued**

	<u>December 31, 2010</u>			
	Assets		Liabilities	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
<b><u>Hedging transactions according to ASC 815</u></b>				
Interest rate agreements	455,400	30,975	195,454	20,508
Foreign currency agreements	195,992	22,368	0	0
	<u>651,392</u>	<u>53,343</u>	<u>195,454</u>	<u>20,508</u>
<b><u>Other risk management purposes</u></b>				
Foreign currency agreements	1,036,691	160,612	347,433	48,418
Credit risk agreements	0	0	140,000 <sup>1</sup>	1,722
Interest rate agreements	0	0	80,250	4,672
	<u>1,036,691</u>	<u>160,612</u>	<u>567,683</u>	<u>54,812</u>
Total derivative instruments	<u>1,688,083</u>	<u>213,955</u>	<u>763,137</u>	<u>75,320</u>

<sup>1</sup> As of June 30, 2011 and December 31, 2010, 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. Both had a fair value effect of 1,232 and 1,722, respectively.

The income (loss) from derivative instruments used as hedges under ASC 815 has been recorded together with the income (loss) of the respective hedged financial instruments. The following chart shows such income (loss) and the other comprehensive income (loss) as of June 30, 2011 and 2010:

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

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(18) Derivative Financial Instruments and Hedging Activities, continued**

	<b>2010</b>			<b>Other comprehensive income / (loss)</b>
	<b>Income (loss) for the year</b>			
	<b>Derivative instrument</b>	<b>Hedged financial instrument</b>	<b>Total</b>	
<b><u>Fair value hedges</u></b>				
Interest rate agreements	(5,471)	5,471	0	0
<b><u>Cash flow hedges</u></b>				
Foreign currency agreements	(111)	4,499	4,388	(3,365)
			<u>4,388</u>	<u>(3,365)</u>

**(19) Funds or Programs managed by CABEI**

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the founding members, CABEI manages funds or programs separate and independent from the Ordinary Capital Fund. These are described below:

<b>Fund</b>	<b>Equity (Unaudited)</b>	
	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Special Fund for the Social Transformation of Central America – FETS	64,168	67,299
Debt-conversion fund (Honduras-Spain)	46,072	28,999
Technical Cooperation Fund – FONTEC	19,835	19,878
Investment Trust – Dwelling Mortgage Fund	15,440	14,511
Guarantee trust administration – CISA	9,545	9,476
Program for Development of the Border Areas in Central America (former FOEXCA)	3,570	2,603
Single Italian Cooperation Fund (FUIC)	1,137	1,735
Partial credit guarantees - Finland Resources	1,456	1,335
Special Technical Cooperation Fund of Austria	1,378	1,376
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,004	1,002
Administration Trust for the execution of the Energy Efficiency Program in the industrial and commercial areas in Honduras (PESIC)	571	584
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	187	196
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	517	538
Trust for the Institute of Nutrition of Central America and Panama	432	432
Spanish Consulting Fund	412	910
Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio)	(250)	(40)
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	201	200
Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica	54	54
World's Savior Foundation Fund (FUSALMO-Fondo Fundación Salvador del Mundo) – Sports Centers	4	4
	<u>165,733</u>	<u>151,092</u>



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(20) Social Benefit Fund (SBF)**

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

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

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

As of June 30, 2011 and December 31, 2010, as stated in note 13, the Bank recorded a liability due to the SBF under certificates of deposit for a total amount of 138,655 and 137,540, respectively, mainly representing the projected benefit obligation. These funds were placed in certificates issued by the SBF bearing 7% per annum. Interest expense on certificates of deposit amounted to approximately 4,853 and 4,735 during the six-month periods ended June 30, 2011 and 2010, respectively.

**(21) Accumulated Other Comprehensive Income**

Accumulated other comprehensive income as of June 30, 2011 and 2010, is as follows:

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

**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION**  
**Ordinary Capital Fund**



**Notes to Financial Statements (Unaudited)**

(Expressed in thousands of U.S. dollars)

**(21) Accumulated Other Comprehensive Income, continued**

	<u>June 30, 2010</u>		<u>Accumulated other comprehensive income</u>
	<u>Cash flow hedging activities</u>	<u>Securities available for sale</u>	
At beginning of period	(4,226)	7,249	3,023
Changes for the period	<u>(3,365)</u>	<u>1,819</u>	<u>(1,546)</u>
At end of period	<u>(7,591)</u>	<u>9,068</u>	<u>(1,477)</u>

**(22) Litigation**

The Bank's Ordinary Capital Fund 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 in its financial condition, results of operations or liquidity.

**(23) Related Party Transactions**

The Bank in the normal course of business enters into transactions with related parties, including principal officers and directors. The following table sets forth balances and transactions with related parties as of June 30, 2011 and 2010 and for the six-month periods ended:

	<u>2011</u>	<u>2010</u>
<b><u>Assets</u></b>		
Loans	15,580	14,931
Accrued interest receivable and other accounts receivables	11	5
<b><u>Liabilities</u></b>		
Certificates of deposits	3,079	3,297
Accrued interest payable and other liabilities	0	2
Interest income and other income	235	226
Interest expense and other operating expenses	64	65

**(24) Subsequent Events**

The Bank has evaluated subsequent events as of the date of the balance sheet up to August 31, 2011, date on which the financial statements were ready for their publication, and determined that there are no additional disclosures required on other matters.