



**CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION**

Financial Statements

December 31, 2010

(With Independent Auditors' Report Thereon)



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



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

February 28, 2011

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

Management has assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010, defining internal control as a process designed by, or under the supervision of, the Bank's principal executive and principal financial officers, or persons performing similar functions, and effected by the Bank's Management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, at reasonably detailed level, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with the authorization of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2010.

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

The Bank's financial statements as of December 31, 2010 have been audited by KPMG in Panama, an independent registered public accounting firm. In addition, KPMG in Panama has issued an independent and favorable opinion on the Bank's internal control over financial reporting.

Nick Rischbieth
Executive President

Hernan Danery Alvarado
Chief Financial Officer



KPMG
Apartado Postal 816-1089
Panamá 5, República de Panamá

Teléfono: (507) 208-0700
Fax: (507) 263-9852
Internet: www.kpmg.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the effectiveness of Central American Bank for Economic Integration's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Central American Bank for Economic Integration's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report Regarding The Effectiveness of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Central American Bank for Economic Integration's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Central American Bank for Economic Integration maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Central American Bank for Economic Integration as of December 31, 2010 and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended and our report dated February 28, 2011 expressed an unqualified opinion.

KPMG

February 28, 2011
Panama, Republic of Panama



KPMG
Apartado Postal 816-1089
Panamá 5, República de Panamá

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Fax: (507) 263-9852
Internet: www.kpmg.com

INDEPENDENT AUDITORS' REPORT

The Executive President, Board of Directors and Board of Governors

Central American Bank for Economic Integration

Tegucigalpa, Honduras

We have audited the accompanying balance sheet of Central American Bank for Economic Integration (the Bank) as of December 31, 2010, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central American Bank for Economic Integration as of December 31, 2009, were audited by other auditors whose report dated February 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central American Bank for Economic Integration as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.

We also have audited in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2011, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

KPMG

February 28, 2011
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Balance Sheets

As of December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

	<u>2010</u>	<u>2009</u>
Assets		
Cash and due from banks (note 4)	29,917	57,303
Interest-bearing deposits with banks (note 5)	799,328	639,760
Securities available for sale (note 6)	657,550	678,644
Loans	4,837,994	4,363,773
Less: Allowance for loan losses	(200,277)	(203,198)
Net loans (note 7)	<u>4,637,717</u>	<u>4,160,575</u>
Accrued interest receivable (note 8)	57,525	56,007
Property and equipment, net (note 9)	27,484	27,108
Derivative financial instruments (note 19)	213,955	125,346
Equity investments (note 10)	25,804	19,605
Other assets (note 11)	18,485	13,002
Total assets	<u><u>6,467,765</u></u>	<u><u>5,777,350</u></u>
Liabilities		
Loans payable (note 12)	1,190,426	951,773
Bonds payable (note 13.a)	2,610,360	2,377,468
Commercial paper program (note 13.b)	201,695	115,498
Certificates of deposit (note 14)	398,418	353,036
Certificates of investment	1,494	1,874
Accrued interest payable (note 15)	31,698	32,242
Derivative financial instruments (note 19)	75,320	101,312
Other liabilities (note 16)	29,564	31,557
Total liabilities	<u>4,538,975</u>	<u>3,964,760</u>
Equity		
Paid-in capital (note 17.a)		
(authorized capital 2,000,000)	450,725	447,125
Special capital contributions (note 17.a)	7,250	5,688
Retained earnings	114,403	70,626
General reserve	1,356,754	1,286,128
Accumulated other comprehensive income (note 22)	(342)	3,023
Total equity	<u>1,928,790</u>	<u>1,812,590</u>
Total liabilities and equity	<u><u>6,467,765</u></u>	<u><u>5,777,350</u></u>

See accompanying notes to financial statements.



Statements of Income

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Financial income		
Public sector loans	202,308	182,808
Private sector loans	70,767	83,387
Marketable securities	8,448	11,216
Due from banks	1,741	1,777
Realized gains on investment funds	11,573	6,660
Total financial income	<u>294,837</u>	<u>285,848</u>
Financial expenses		
Loans payable and other liabilities	40,973	37,708
Bonds payable	72,838	70,660
Commercial paper program	5,214	1,066
Certificates of deposit and investment	18,559	23,080
Total financial expenses	<u>137,584</u>	<u>132,514</u>
Net financial income	157,253	153,334
Provision for loan losses	<u>15,430</u>	<u>49,454</u>
Net financial income after provision for loan losses	<u>141,823</u>	<u>103,880</u>
Administrative expenses		
Salaries and employee benefits	20,724	21,264
Other administrative expenses	10,271	9,683
Depreciation	3,404	3,974
Other administrative expenses	427	457
Total administrative expenses	<u>34,826</u>	<u>35,378</u>
Other operating income (expenses)		
Management fee	8,327	2,528
Supervision and audit fee	2,030	2,386
Dividends from equity investments	192	483
Adjustment to foreclosed and other assets	(598)	(203)
Gain (loss) on sale of securities available for sale	147	(4,834)
Adjustment to venture capital investments	(1,384)	(1,592)
Market value adjustment of swap transactions and other financial instruments	272	15,452
Foreign exchange gains (losses)	1,701	(4,292)
Other income (expenses)	(799)	824
Total other operating expenses, net	<u>9,888</u>	<u>10,752</u>
Earnings, before other expenses	116,885	79,254
Other expenses		
Special contributions	2,308	8,593
Allowance for technical assistance and other	174	35
Total other expenses	<u>2,482</u>	<u>8,628</u>
Net income	<u>114,403</u>	<u>70,626</u>

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)



	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Net income	<u>114,403</u>	<u>70,626</u>
Other comprehensive income:		
Unrealized gain on securities available for sale, net	6,679	18,714
Reclassification adjustments for net realized (gains)		
included in earnings	<u>(11,720)</u>	<u>(2,572)</u>
Subtotal - securities available for sale	(5,041)	16,142
Unrealized gain (loss) from cash flow hedging derivatives	<u>1,676</u>	<u>(2,364)</u>
Other comprehensive (loss) gain	<u>(3,365)</u>	<u>13,778</u>
Comprehensive income	<u><u>111,038</u></u>	<u><u>84,404</u></u>

See accompanying notes to financial statements.

Statements of Changes in Equity

Years ended December 31, 2010 and 2009

(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>
Balance as of December 31, 2008	427,425	5,625	83,291	1,202,837	(10,755)	1,708,423
Net income	0	0	70,626	0	0	70,626
Net unrealized change in:						
Gain on securities available for sale	0	0	0	0	16,142	16,142
Loss from cash flow hedging derivatives	0	0	0	0	(2,364)	(2,364)
Comprehensive income						84,404
Transfer to general reserve	0	0	(83,291)	83,291	0	0
Contributions during the year	19,700	0	0	0	0	19,700
Special capital contributions	0	63	0	0	0	63
Balance as of December 31, 2009	447,125	5,688	70,626	1,286,128	3,023	1,812,590
Net income	0	0	114,403	0	0	114,403
Net unrealized change in:						
Loss on securities available for sale	0	0	0	0	(5,041)	(5,041)
Gain from cash flow hedging derivatives	0	0	0	0	1,676	1,676
Comprehensive income						111,038
Transfer to general reserve	0	0	(70,626)	70,626	0	0
Contributions during the year	3,600	0	0	0	0	3,600
Special capital contributions	0	1,562	0	0	0	1,562
Balance as of December 31, 2010	450,725	7,250	114,403	1,356,754	(342)	1,928,790

See accompanying notes to financial statements.



Statements of Cash Flows

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	114,403	70,626
Items to reconcile net income to net cash provided by operating activities:		
Depreciation	3,404	3,974
Provision for loan losses	15,430	49,454
Adjustment to foreclosed assets	598	0
Adjustment to venture capital investments	1,384	1,592
Foreign exchange (gains) losses	(1,701)	4,292
Market value adjustment of swap transactions and other financial instruments	(272)	(15,452)
(Increase) decrease in accrued interest receivable	(3,260)	393
(Decrease) increase in accrued interest payable	(1,489)	2,385
Net cash provided by operating activities	<u>128,497</u>	<u>117,264</u>
Cash flows from investing activities		
Net increase in interest-bearing deposits with banks	(159,634)	(78,750)
Purchase of securities available for sale	(228,110)	(554,275)
Proceeds from sales of securities available for sale	246,978	350,825
Purchase of property and equipment	(3,781)	(2,379)
Net decrease in derivative financial instruments	5,904	12,753
Disbursements of loans receivable	(1,156,507)	(1,266,454)
Collections of loans receivable	847,904	1,193,632
Venture capital investments, net of capital returns	(7,583)	0
Net (increase) decrease in other assets	(6,080)	2,185
Net decrease in other liabilities	(2,087)	(1,970)
Net cash used in investing activities	<u>(462,996)</u>	<u>(344,433)</u>
Cash flows from financing activities		
Net increase (decrease) in loans payable	70,258	(160,275)
Net increase in commercial paper program	86,197	57,762
Net increase in bonds payable	100,854	636,630
Net decrease in certificates of investment	(381)	(799)
Net increase (decrease) in certificates of deposit	45,382	(301,336)
Capital contributions	3,600	19,700
Special capital contributions	1,562	63
Net cash provided by financing activities	<u>307,472</u>	<u>251,745</u>
Effect of exchange rate fluctuations on cash held	<u>(359)</u>	<u>(932)</u>
Cash and due from banks at beginning of year	57,303	33,659
Cash and due from banks at end of year	29,917	57,303
Net (decrease) increase in cash and cash equivalents	<u>(27,386)</u>	<u>23,644</u>
Supplemental information		
Cash paid for interest during period	<u>138,128</u>	<u>130,129</u>
Changes in unrealized net (loss) gain on securities available for sale	<u>(5,041)</u>	<u>16,142</u>
Changes in unrealized gain (loss) from cash flow hedging derivatives	<u>1,676</u>	<u>(2,364)</u>
Assets acquired in satisfaction of loans	<u>0</u>	<u>1,013</u>

See accompanying notes to financial statements.



Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

(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 Members.

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

(2) Summary of Significant Accounting Policies

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

A summary of significant accounting policies is as follows:

(a) Comparative statements

The financial statements as of December 31, 2010 are presented together with those corresponding to December 31, 2009, for comparison purposes.

(b) Functional and foreign currencies

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

(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.



(2) Summary of Significant Accounting Policies, continued

(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.

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.



(2) Summary of Significant Accounting Policies, continued

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 unlikely 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.

The Bank has not experienced other-than-temporary impairment during the years ended December 31, 2010 and 2009.

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

Premiums and discounts are recognized as an adjustment to yield over the 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.



(2) Summary of Significant Accounting Policies, continued

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.
- Exposure to a state-run bank, with no sovereign guarantee, shall not exceed 12% of the Bank's equity.
- Exposure to a group of companies registered in any of the beneficiary countries and based on its credit rating, shall not exceed 10% of the Bank's equity. Additionally, exposure to a single enterprise within such group shall never exceed 5% of the Bank's equity.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.



(2) Summary of Significant Accounting Policies, continued

- 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 collectibility 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.



(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.

CABEI 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 December 31, 2010 and 2009, there were no impaired public sector loans.

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

The allowances for loan losses are established through estimates of possible losses, which are charged to income in the year 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 its allowance for loan losses on a regular basis.

(h) Non-accrual loans

In accordance with the Bank's policies, interest recognition for 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. However, 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 collectibility 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	10 and 5
Vehicles	4
Hardware and software	3, 5 and 10



(2) Summary of Significant Accounting Policies, continued

(j) Foreclosed assets

Foreclosed real estate 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. Costs 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 are exempt from any payment, withholding or collection of any income or duty tax.

(l) General reserve and annual net income

According to the Constitutive Agreement, the general reserve is increased by the total annual net income.

(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).



(2) Summary of Significant Accounting Policies, continued

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.

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.



(2) Summary of Significant Accounting Policies, continued

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.

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 registered as a liability until the conditions have been satisfied in all material respects or the donor has explicitly waived the conditions.



(2) Summary of Significant Accounting Policies, continued

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

(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.
- 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 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 and the disclosure of contingencies 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.



Notes to Financial Statements

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

When necessary, certain reclassifications of prior year figures have been made to conform with current year 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 estimates of fair value 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.

The assets and liabilities valued at their fair value on a recurrent basis as of December 31, 2010 and 2009 are as follows:

<u>December 31, 2010</u>	Quoted prices in active markets for identical assets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>	<u>December 31, 2010</u>
<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

**(3) Fair Value, continued**

<u>December 31, 2009</u>	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	December 31, 2009
<u>Assets</u>				
Securities available for sale	168,248	455,187	55,209	678,644
Derivative financial instruments	0	125,346	0	125,346
<u>Liabilities</u>				
Loans payable	0	65,205	0	65,205
Bonds payable	0	1,052,701	0	1,052,701
Derivative financial instruments	0	97,638	3,674	101,312

(i) Valuation techniques applied:

- (3) 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.
- (4) Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data, such as observable interest rate yield curves. Counterparty and the Bank's credit risks are considered depending on fair value of each derivative (see also note 19).
- (5) Loans and bonds payable: Fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Those yield curves are adjusted to incorporate the Bank's credit risk spread.

The 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 2010, there were no transfers between levels 1, 2 and 3. In 2009, 3,674 were reclassified to Level 3 for certain government bonds and certain derivative instruments for which currently there are no available observable market assumptions.

The following tables present a roll-forward for the year ended December 31, 2010 and 2009 (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 fair value total. However, Level 3 instruments usually include, in addition to unobservable or Level 3, observable components (ie, components that are actively traded and can be validated by external sources); therefore, gains and losses in the tables below include changes in fair value caused in part by observable factors that are part of the valuation methodology.



Notes to Financial Statements

(3) Fair Value, continued

Changes in fair values of the instruments classified in Level 3 that occurred during the years ended December 31, 2010 and 2009 are as follow:

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

	Balance at January 1, 2009	Gains (losses) of 2009		Purchases, (sales), issuances or (settlements)	Transfers in and / or out of Level 3	Balance at December 31, 2009
		Included in net income	Included in other comprehensive income (loss)			
<u>Assets</u>						
Securities available for sale	54,869	0	540	(200)	0	55,209
<u>Liabilities</u>						
Derivative financial instruments	0	0	0	0	3,674	3,674

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 when considering the present impairment of collateral, and other non-financial long-lived assets when determined to be impaired.



Notes to Financial Statements

(3) Fair Value, continued

The following table presents fair value measurements of assets that are measured at fair value on a nonrecurring basis at December 31, 2010:

	<u>Level 3</u>
Loans	92,667
Foreclosed assets	<u>3,661</u>
	<u>96,328</u>

The increase (decrease) in fair value of assets recognized at December 31, 2010, 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:

Loans	(4,136)
Foreclosed assets	<u>(598)</u>
	<u>(4,734)</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 chosen to measure at fair value the financial liabilities in a currency other than the US dollar for which it has contracted a derivative as fair value hedge for 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 the 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 chosen not to apply the option to measure at fair value other financial liabilities, as they do not produce volatility in the statement of income.

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

**(3) Fair Value, continued**

The Bank's credit risk spread for the years ended December 31, 2010 and 2009 has not changed. Consequently, there has been no variation in the fair value due to such input.

The amounts recorded in the statements of income as a result of changes in fair values of financial liabilities, for which the fair value option was elected, as of December 31, 2010 and 2009 are as follows:

2010		
	Other operating income (expenses) – Fair value adjustment	Total
Loans payable	5,175	5,175
Bonds payable	475	475

2009		
	Other operating income (expenses) – Fair value adjustment	Total
Loans payable	1,257	1,257
Bonds payable	20,617	20,617

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 interest and fee expenses in the statement of income.

The difference between the fair value of the instruments chosen for application of ASC 825-10-25 and the unpaid principal balances of such instruments for the years ended December 31, 2010 and 2009 is as follows:

2010			
	Fair value	Unpaid principal balances	Excess (Deficit)
Loans payable	65,054	78,596	(13,542)
Bonds payable	1,330,138	1,218,017	112,121

2009			
	Fair value	Unpaid principal balances	Excess
Loans payable	65,205	64,615	590
Bonds payable	1,052,701	1,048,886	3,815

(a) Fair value of financial instruments

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



(3) Fair Value, continued

A significant portion of the Bank's assets and liabilities are short-term financial instruments, with maturity of less than one year, and/or with floating interest rates. These short-term instruments and/at 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 in banks, loans receivable and payable and bonds issued with floating interest rates and accrued interest receivable and payable.

For the principal financial instruments with maturity greater than one year and/at fixed rates that have not been adjusted to fair value, the following methods and assumptions were used to determine the fair value of main financial instruments:

- Loans receivable, net: The fair values for loans at fixed interest rates are estimated on the basis of an analysis of the 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 the discounted cash flows or the value of the 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, the 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 the discounted cash flows, using the CIRR as a reference. This fair value does not represent a current indicator of an exit price.
- Bonds payable: The fair value is estimated on the basis of an analysis of the 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 the 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 the discounted cash flows, based on the rates of the most recent transactions agreed upon with the Bank prior to each year-end.



Notes to Financial Statements

(3) Fair Value, continued

- 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 December 31, 2010 and December 31, 2009 are as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<u>Assets</u>				
Cash and due from banks	29,917	29,917	57,303	57,303
Interest-bearing deposits in banks	799,328	799,328	639,760	639,760
Securities available for sale	657,550	657,550	678,644	678,644
Loans, net	4,637,717	4,770,934	4,160,575	4,243,287
Accrued interest receivable	57,525	57,525	56,007	56,007
Derivative financial instruments	213,955	213,955	125,346	125,346
Equity investments	25,804	25,804	19,605	21,277
Total	<u>6,421,796</u>	<u>6,555,013</u>	<u>5,737,240</u>	<u>5,821,624</u>
<u>Liabilities</u>				
Loans payable	1,190,426	1,233,585	951,773	970,820
Bonds payable	2,610,360	2,674,862	2,377,468	2,419,695
Commercial paper program	201,695	202,168	115,498	115,498
Certificates of deposit	398,418	403,374	353,036	358,307
Certificates of investment	1,494	1,494	1,874	1,874
Accrued interest payable	31,698	31,698	32,242	32,242
Derivative financial instruments	75,320	75,320	101,312	101,312
Total	<u>4,509,411</u>	<u>4,622,501</u>	<u>3,933,203</u>	<u>3,999,748</u>

(4) Cash and Due from Banks

At December 31, 2010 and December 31, 2009, cash and due from banks is composed as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Currencies of the founding members	3,952	3,479
US dollar	24,297	52,642
Other currencies	1,668	1,182
Total	<u style="text-align: right;">29,917</u>	<u style="text-align: right;">57,303</u>

(5) Interest-bearing Deposits with Banks

Interest bearing deposits are normally time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, face value approximates market value. As of December 31, 2010 and 2009, these carrying amounts are set in currencies other than those of the founding member countries.



Notes to Financial Statements

(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 December 31, 2010 and 2009 are as follows:

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

<u>Securities available for sale</u>	<u>Amortized cost</u>	<u>December 31, 2009</u>			<u>Estimated fair value</u>
		<u>Unrealized gross losses</u>	<u>Unrealized gross gains</u>	<u>Adjustments to hedging transactions</u>	
Marketable securities	509,848	(4,529)	3,128	4,706	513,153
Investment funds	96,881	0	8,650	0	105,531
Commercial paper	59,960	0	0	0	59,960
Total	666,689	(4,529)	11,778	4,706	678,644

For the years ended December 31, 2010 and 2009, the realized gross gain was 11,720 and 6,660, respectively. For the year ended December 31, 2009, the realized gross loss was 4,834; there was no realized gross loss during the year ended December 31, 2010.

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

At December 31, 2010 and 2009, 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>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>

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Notes to Financial Statements



(6) Securities Available for Sale, continued

<u>Securities available for sale:</u>	December 31, 2009				<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>180,728</u>	<u>(2,900)</u>	<u>35,023</u>	<u>(1,629)</u>	<u>(4,529)</u>

The Bank's policy establishes that at least 75% of its total investment securities should be in deposits in 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 December 31, 2010, 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 December 31, 2010 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.

Sales and repayments of securities available for sale during the years ended December 31, 2010 and 2009 amounted to 246,978 and 350,825, respectively.

As of December 31, 2010, 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	376,544	379,151
After one but within five years	224,539	224,113
After five but within ten years	10,360	9,446
After ten years	39,064	44,840
Total	<u>650,507</u>	<u>657,550</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 December 31, 2010 and 2009, is as follows:

	December 31, 2010			December 31, 2009		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Guatemala	777,386	336,301	1,113,687	709,346	371,302	1,080,648
El Salvador	735,404	128,449	863,853	758,927	141,984	900,911
Honduras	537,557	272,623	810,180	389,752	277,464	667,216
Nicaragua	203,757	262,402	466,159	170,906	282,627	453,533
Costa Rica	1,115,742	400,415	1,516,157	828,788	372,437	1,201,225
Dominican Republic	50,000	0	50,000	46,295	0	46,295
Panama	0	17,458	17,458	0	13,945	13,945
Belize	500	0	500	0	0	0
Subtotal	3,420,346	1,417,648	4,837,994	2,904,014	1,459,759	4,363,773
Allowance for loan losses	(96,892)	(103,385)	(200,277)	(85,041)	(118,157)	(203,198)
Loans, net	3,323,454	1,314,263	4,637,717	2,818,973	1,341,602	4,160,575

The Bank maintains an operation as a financial intermediary for 189,053, as of December 31, 2010 this transaction amounts to 172,619. 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 12).

A detail of loans, by economic activity segment, as of December 31, 2010 and December 31, 2009, is as follows:

	December 31, 2010	December 31, 2009
Infrastructure / construction	1,407,283	1,389,474
Electricity, gas and water supply	1,173,938	1,032,556
Monetary intermediation	806,151	728,388
Multi-sector	519,087	440,778
Transport, storage and communications	275,002	125,413
Social and health services	165,851	183,648
Manufacturing	131,712	153,761
Real estate activities	119,967	49,769
Agro-industry	69,084	79,418
Hotels and restaurants	54,269	57,388
Mining and quarrying	42,000	48,000
Education and training	38,395	32,779
Wholesale and retail trade	20,243	26,392
Other social, community and personal services	9,285	10,773
Fisheries	4,134	4,654
Extraterritorial organizations and agencies	1,593	582
Total	4,837,994	4,363,773



(7) Loans, continued

A detail of loans, by maturity, as of December 31, 2010, is as follows:

Past due	47,901
Up to 1 year	871,792
After one but within two years	613,143
After two but within three years	449,017
After three but within four years	562,854
After four but within five years	332,975
After five years	1,960,312
Total	<u>4,837,994</u>

A detail of loans, by currency, as of December 31, 2010 and 2009, is as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
U.S. dollar	4,618,752	4,192,696
Currencies from Central American countries	208,363	157,082
Euro	8,186	10,037
Yen	2,693	3,958
Total	<u>4,837,994</u>	<u>4,363,773</u>

As of December 31, 2010 and 2009, the weighted average interest rate on loans receivable, after considering swap contracts when applicable, was 5.96% and 6.19% per annum, respectively.

Loans at fixed and floating rates are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Loans at fixed rates	1,128,544	1,059,847
Loans at floating rates	<u>3,709,450</u>	<u>3,303,926</u>
	<u>4,837,994</u>	<u>4,363,773</u>

As of December 31, 2010 and 2009, in accordance with the Bank's policies, interest on non-accrual loans of 12,878 and 8,163, respectively, was not recorded as income because it had not been collected. As of December 31, 2010 and 2009, the principal of the loans that generated such interest amounted to 155,264 and 127,411, respectively, and related exclusively to private sector borrowers.

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(7) Loans, continued

The following table presents information on impaired private sector loans as of December 31, 2010 and 2009:

<u>Impaired loans</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Impaired loans, all with allowance for loan losses	212,387	229,122
Average impaired loans	220,755	139,379
Allowance related to impaired loans	63,002	80,154
Accrued interest on impaired loans	11,489	8,035
Interest income recognized on a cash basis	4,061	3,728

The changes in the allowance for loan losses during the years ended December 31, 2010 and 2009 are as follows:

	<u>December 31, 2010</u>			<u>December 31, 2009</u>		
	<u>Sector</u>			<u>Sector</u>		
	<u>Private</u>	<u>Public</u>	<u>Total</u>	<u>Private</u>	<u>Public</u>	<u>Total</u>
Balance, beginning of year	118,157	85,041	203,198	70,772	91,505	162,277
Provision	43,941	16,793	60,734	67,156	14,236	81,392
Releases	(40,362)	(4,942)	(45,304)	(11,238)	(20,700)	(31,938)
Loan write-offs	(18,351)	0	(18,351)	(8,533)	0	(8,533)
Balance, end of year	<u>103,385</u>	<u>96,892</u>	<u>200,277</u>	<u>118,157</u>	<u>85,041</u>	<u>203,198</u>

(8) Accrued Interest Receivable

Accrued interest receivable as of December 31, 2010 and 2009 is detailed as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
On loans	54,281	53,248
On securities available for sale	3,020	2,686
On interest-bearing deposits with banks	224	73
Total	<u>57,525</u>	<u>56,007</u>

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Notes to Financial Statements



(9) Property and Equipment, Net

Property and equipment at December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Vehicles	1,580	1,219
Buildings	27,153	25,399
Computer equipment	20,637	19,842
Installations	9,574	9,676
Office equipment and furniture	5,356	4,891
	<u>64,300</u>	<u>61,027</u>
Less accumulated depreciation	<u>(39,406)</u>	<u>(36,509)</u>
	24,894	24,518
Land	2,590	2,590
Total	<u>27,484</u>	<u>27,108</u>

(10) Equity Investments

Equity investments as of December 31, 2010 and 2009 which do not have a market value are as follows:

Name	Issuer Data (Unaudited)				December 31, 2010	December 31, 2009	
	Equity Participation	Financial Statements	Capital	Equity			Income (loss)
Partnerships							
Central American Mezzanine Infrastructure Fund L.P. (CAMIF)	38.24%	30/09/2010	-	5,722	-	2,768	3,121
AIG – GE Capital Latin American Infrastructure Fund, L.P.	1.48%	30/09/2010	-	5,415	(560)	80	695
Central American Renewable Energy and Cleaner Production Facility (CAREC)	41.67%	30/09/2010	-	4,887	(413)	2,036	2,190
						<u>Subtotal</u>	<u>6,006</u>
						4,884	2,190
Shares							
Corporación Interamericana para el Financiamiento de Infraestructura, S. A.	9.26%	30/09/2010	54,000	72,154	4,057	5,000	5,000
Darby - Pro-Banco Fund II, L.P. Garantías y Servicios, Sociedad de Garantía, S. A. de C. V.	33.33%	30/09/2010	13,746	13,746	(1,416)	4,582	4,441
Banco Popular Covelco, S. A.	26.79%	31/10/2010	4,387	5,911	159	1,145	1,145
Eólico Valle Central, S. A.	19.56%	31/12/2010	23,386	20,056	19	3,922	2,000
Other	60.00%	30/09/2010	10,193	10,222	-	6,116	836
						155	177
						<u>Subtotal</u>	<u>13,599</u>
						20,920	19,605
						<u>Total</u>	<u>25,804</u>

**(11) Other Assets**

Other assets as of December 31, 2010 and 2009 are composed as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Accounts receivable	3,158	1,874
Pre-investment studies	7,949	7,800
Foreclosed assets	3,661	1,799
Prepaid expenses	3,037	606
Supplies	142	166
Other	538	757
Total	<u>18,485</u>	<u>13,002</u>

Foreclosed assets as of December 31, 2010 and 2009 are located in the following countries:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Nicaragua	5,508	5,508
El Salvador	4,787	4,787
Guatemala	2,461	0
Honduras	1,830	1,830
Costa Rica	6	6
	<u>14,592</u>	<u>12,131</u>
Fair value adjustment	<u>(10,931)</u>	<u>(10,332)</u>
Total	<u>3,661</u>	<u>1,799</u>

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements



(12) Loans Payable

Loans payable as of December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Bank of China (BoC)	172,619	0
Bayerische Landesbank	126,531	130,600
Kreditanstalt Für Wiederaufbau (K.F.W.), Germany	124,889	125,012
Financial Support Agreement Mexico - CABEL	118,032	77,817
Mizuho Corporate Bank, Ltd.	86,780	28,559
Promotion et Participation pour la Cooperation (PROPARCO)	67,060	0
Nordic Investment Bank	61,690	54,595
Inter-American Development Bank (IDB)	56,490	66,832
Sumitomo Mitsui Banking Corporation, New York	39,907	0
Nordea Bank	34,802	43,503
Deutsche Bank, A.G.	28,646	35,012
European Investment Bank	27,154	18,287
Nordea Bank (Funded Participation Agreement)	26,531	40,768
Instituto de Crédito Oficial de España	22,052	18,517
U.S. Agency for International Development (USAID)	21,787	27,099
Loans guaranteed by USAID	19,877	26,890
Oesterreichische Entwicklungsbank AG (OeEB)	18,714	18,689
Bank Leumi – Le Israel	16,878	21,195
Royal Bank of Scotland P.L.C.	15,000	20,000
Standard Chartered Bank	12,500	95,000
Deutsche Investitions – Und Entwicklungsgesellschaft - mbH (DEG)	10,000	10,000
BAC Florida Bank	10,000	0
Bank of Taiwan, New York	10,000	0
The Export-Import Bank of the Republic of China (EXIM)	10,000	0
The China Council for International Cooperation on Environment and Development	7,143	8,571
Société Générale, New York	6,989	8,542
The Opec Fund for International Development	6,177	7,941
Banco Mercantil de Venezuela	5,000	25,000
Land Bank of Taiwan	5,000	0
United Taiwan Bank, S.A.	5,000	0
Bank SinoPac	5,000	0
Chang Hwa Commercial Bank, Ltd.	5,000	0
HSBC Ltd., London	5,000	0
Fortis Bank	1,569	0
Danida-Unibank	609	970
Japan Bank for International Cooperation	0	12,374
Banque Nationale de Paris, New York	0	30,000
Total	<u>1,190,426</u>	<u>951,773</u>

The Bank maintains an operation as a financial intermediary for 189,053; as of December 31, 2010, this transaction amounts to 172,619. 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).



(12) Loans Payable, continued

The maturities of the loans payable as of December 31, 2010 are as follows:

Up to 1 year	197,561
After one but within two years	191,719
After two but within three years	63,400
After three but within four years	183,094
After four but within five years	174,846
After five years	379,806
Total	<u>1,190,426</u>

As of December 31, 2010 and 2009, the weighted average interest rate on loans payable, after considering swap contracts when applicable, was 3.95% and 3.68% per annum, respectively.

Loans payable at fixed and floating rates as of December 31, 2010 and December 31, 2009 are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Loans payable at fixed rates	546,589	393,910
Loans payable at floating rates	<u>643,837</u>	<u>557,863</u>
Total	<u>1,190,426</u>	<u>951,773</u>

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

(a) Bonds payable as of December 31, 2010 and 2009, are as follows:

	Issue Date	Maturity Date	December 31, 2010	December 31, 2009
MTN - USD issuance	2009	2014	500,000	497,715
COP issuance	2006	2015	240,663	224,702
MTN - USD issuance	2005	2012	199,824	199,513
MTN - USD issuance	2003	2013	199,803	198,999
MTN - CHF issuance	2010	2013	165,324	0
MTN - MXN issuance	2007	2014	120,524	114,144
NTD issuance	2006	2011	118,764	110,085
MTN - HKD issuance	2006	2011	99,257	102,156
COP issuance	2009	2014	85,185	70,353
THB issuance	2007	2017	84,663	73,912
NTD issuance	2009	2011	64,000	58,865
MTN - MXN issuance	2010	2020	62,555	0
NTD issuance	2009	2013	60,631	46,533
MTN - MXN issuance	2007	2012	60,442	57,283
MTN - MXN issuance	2007	2012	60,322	57,150
COP issuance	2009	2019	51,698	42,812
NTD issuance	2009	2011	50,525	55,763
USD regional issuance	2001	2011	50,000	50,000
JPY issuance	2006	2011	49,571	44,248
MTN - MXN issuance	2008	2020	32,334	28,067
MTN - CRC issuance	2009	2014	30,203	26,479
USD issuance	2010	2020	25,000	0
MTN - GTQ issuance	2010	2013	24,958	0
MTN - USD issuance	2009	2019	24,479	25,000
MTN - CRC issuance	2010	2017	22,205	0
DOP issuance	2009	2014	21,617	20,767
MTN - CRC issuance	2009	2014	20,605	17,214
NTD issuance	2009	2013	16,842	15,511
MTN - USD issuance	2006	2011	15,000	14,974
MTN - MXN issuance	2008	2018	10,021	8,631
MTN - MXN issuance	2008	2018	8,933	7,903
MTN - HNL issuance	2008	2011	5,292	5,292
MTN - SGD issuance	2005	2010	0	71,174
MTN - MXN issuance	2008	2010	0	57,326
MTN - USD issuance	2008	2010	0	5,000
NTD issuance	2008	2010	0	40,291
		Subtotal	2,581,240	2,347,862
		Fair value adjustment on hedging activities	29,120	29,606
		Total	2,610,360	2,377,468

As of December 31, 2010 and 2009, the weighted average interest rates on bonds payable, after considering swap contracts when applicable, were 3.01% and 3.45% 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.

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

On September 4, 2009, CABEL 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.

The costs and contractual maturities as of December 31, 2010 and 2009 are as follows:

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

	December 31, 2009		
	Amount issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program USD	104,758	1.44%	Up to 3 months
Commercial Paper – Regional Program CCR	10,740	9.25%	Up to 6 months

(14) Certificates of Deposit

Certificates of deposit as of December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Social Benefit Fund (note 21)	137,540	132,777
Central Banks	80,126	68,382
Private financial institutions	72,087	68,425
Public financial institutions	63,800	36,694
Debt-conversion fund (Honduras- Spain)	24,384	23,308
Other public institutions	5,892	10,321
The Institute of Nutrition of Central America and Panama	427	0
Others	14,162	13,129
Total	<u>398,418</u>	<u>353,036</u>

At December 31, 2010, the contractual maturities are as follows:

Up to six months	346,925
From six months to one year	35,997
After one year to two years	2,117
After two years to three years	2,117
After three years to five years	5,089
5 years and thereafter	6,173
Total	<u>398,418</u>



(14) Certificates of Deposit, continued

At December 31, 2010 and 2009, the weighted average interest rates on certificates of deposit and investment are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Deposits in US dollars ¹	0.93%	1.03%
Deposits in US dollars - Social Benefit Fund	7.00%	7.00%
Deposits in Costa Rican Colones	8.72%	11.12%
Deposits in Quetzales	6.06%	6.14%
Deposits in Lempiras	5.63%	5.98%

¹ Excludes deposits belonging to the Social Benefit Fund.

(15) Accrued Interest Payable

Accrued interest payable as of December 31, 2010 and 2009 is as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
On bonds payable	22,336	24,043
On loans payable	5,884	5,722
On certificates of deposit	3,478	2,477
Total	<u>31,698</u>	<u>32,242</u>

(16) Other liabilities

Other liabilities as of December 31, 2010 and 2009 are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Monetary deposits	8,646	8,893
Other creditors	5,941	3,621
Financial cooperation to founding countries	5,674	3,351
Technical assistance	2,844	2,880
Transitory deposits	2,820	3,056
Bonus and supplemental compensation	2,224	2,351
Other accruals	1,415	7,405
Total	<u>29,564</u>	<u>31,557</u>



(17) 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.

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 Cost 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.

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Notes to Financial Statements



(17) Equity, continued

As of December 31, 2010 and 2009, the nominal value of Bank's capital is as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</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	10,800
Sub-total	<u>702,900</u>	<u>175,725</u>	<u>702,900</u>	<u>172,125</u>
Subtotal	<u>1,722,900</u>	<u>450,725</u>	<u>1,722,900</u>	<u>447,125</u>
<u>Unsubscribed shares</u>				
Non-regional countries	277,100	0	277,100	0
Total	<u>2,000,000</u>	<u>450,725</u>	<u>2,000,000</u>	<u>447,125</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 divided in 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.

As of December 31, 2010 and 2009, the Bank's special capital contributions are as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</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	4,688
Dominican Republic	1,000	250	1,000	250
Panama	1,000	250	1,000	250
Total	<u>29,000</u>	<u>7,250</u>	<u>29,000</u>	<u>5,688</u>

**(17) Equity, continued****(b) Issuance of Series "E" certificates**

On September 8, 2005, the Board of Governors approved the accounting method for retained earnings, which consists on 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 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.

(18) Contingent Commitments

As of December 31, 2010 and 2009, balances of contingent commitments are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Subscribed credit agreements (*)	1,599,526	1,230,437
Credit default swaps	50,000	70,000
Endorsements and guarantees granted	11,584	11,383
Letters of credit and bank acceptances	533	4,584
Total	<u>1,661,643</u>	<u>1,316,604</u>

(*) Includes approved and deeded agreements

Credit agreements represent commitments to grant loans to customers at a future date. Such agreements are recorded as commitments until the date of disbursement. These agreements have fixed expiration dates and, in some cases, expire without any disbursements having been made. Therefore, the total committed amount does not necessarily represent future cash 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 an specific underlying. These derivatives have been included as part of derivative financial instruments and they are carried at their market value. Market value for such derivative instruments amounted to (1,722) and (494) as of December 31, 2010 and 2009, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to occur.



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(18) Contingent Commitments, continued

Endorsements and guarantees granted are contingent commitments assumed by the Bank to guarantee compliance by its customers with commitments to a third party. The credit risk implied in these commitments is essentially the same as that implied in granting loan facilities to clients. The Bank's management has analyzed each commitment assumed on a case-by-case basis, based on current information and events. As of December 31, 2010 and 2009, 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 December 31, 2010 and 2009, the maturities of the guarantees granted, credit default swaps and letters of credit and bank acceptances are as follows:

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

Maturity	December 31, 2009		
	Guarantees granted	Credit default swaps	Letters of credit and bank acceptances
2010	50	20,000	4,584
2011	373	0	0
2012	250	25,000	0
2013	0	25,000	0
2016	10,710	0	0
Total	11,383	70,000	4,584

(19) Derivative Financial Instruments and Hedging Activities

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

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

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

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 about derivatives and hedging activities.

The following table presents the notional amount and the fair value of derivative instruments as of December 31, 2010 and 2009:

	<u>December 31, 2010</u>			
	<u>Assets</u>		<u>Liabilities</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
<u>Hedging transactions according to ASC 815</u>				
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>
<u>Other risk management purposes</u>				
Foreign currency agreements	1,036,691	160,612	347,433	48,418
Credit risk agreements– sold	0	0	140,000	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>

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(19) Derivative Financial Instruments and Hedging Activities, continued

	<u>December 31, 2009</u>			
	<u>Assets</u>		<u>Liabilities</u>	
	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Notional Amount</u>	<u>Fair Value</u>
<u>Hedging transactions according to ASC 815</u>				
Interest rate agreements	430,400	31,934	204,696	17,039
Foreign currency agreements	293,359	19,851	0	0
	<u>723,759</u>	<u>51,785</u>	<u>204,696</u>	<u>17,039</u>
<u>Other risk management purposes</u>				
Foreign currency agreements	770,149	73,560	378,822	79,535
Credit risk agreements– sold	20,000	1	50,000	495
Interest rate agreements	0	0	80,249	4,243
	<u>790,149</u>	<u>73,561</u>	<u>509,071</u>	<u>84,273</u>
Total derivative instruments	<u>1,513,908</u>	<u>125,346</u>	<u>713,767</u>	<u>101,312</u>

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 December 31, 2010 and 2009:

	<u>2010</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>	
<u>Fair value hedges</u>				
Interest rate agreements	(6,189)	6,189	0	0
<u>Cash flow hedges</u>				
Foreign currency agreements	4,278	(3,343)	935	1,676
Total			<u>935</u>	<u>1,676</u>
	<u>2009</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>	
<u>Fair value hedges</u>				
Interest rate agreements	16,516	(16,516)	0	0
<u>Cash flow hedges</u>				
Foreign currency agreements	7,479	(3,255)	4,224	(2,364)
Total			<u>4,224</u>	<u>(2,364)</u>

**(20) Funds or Programs managed by CABEL**

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

Fund	Equity (Unaudited)	
	December 31, 2010	December 31, 2009
Special Fund for the Social Transformation of Central America - FETS	67,299	69,075
Debt-conversion fund (Honduras-Spain)	28,999	31,442
Technical Cooperation Fund - FONTEC	19,878	19,983
Investment Trust – Dwelling Mortgage Fund	14,511	12,719
Guarantee trust administration - CISA	9,476	9,570
Program of Development for the Border Areas in Central America (former FOEXCA)	2,603	11,498
Single Italian Cooperation Fund (FUIC)	1,735	1,866
Special Technical Cooperation Fund of Austria	1,376	1,372
Partial credit guarantees - Finland Resources	1,335	0
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	1,002	1,000
Spanish Consulting Fund	910	2,151
Administration Trust for the execution of the Energy Efficiency Program in the industrial and commercial areas in Honduras (PESIC)	584	619
Trust of Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	538	537
Trust for the Institute of Nutrition of Central America and Panama	432	429
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	200	0
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	196	176
Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica	54	155
World's Savior Foundation Fund (FUSALMO-Fondo Fundación Salvador del mundo) – Sports Centers	4	502
Trust for the Administration of Funds donated by the Republic of China, Taiwan to the Ministry of Security of Costa Rica and Trust for the Administration of funds donated by the Republic of China, Taiwan to the National Intelligence and Security Direction of Costa Rica	0	266
Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio)	(40)	133
Total	151,092	163,493

(21) Social Benefit Fund (SBF)

The SBF operates in accordance with the regulations issued by CABEL'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.

**(21) Social Benefit Fund (SBF), continued**

All the contributions made by the Bank and all assets and income of the SBF are property of the Bank; according to the SBF's bylaws, they are not segregated from the Bank's assets and liabilities even though they are to be used solely to pay benefits. Nevertheless, since the SBF 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 effective date in note 17) 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 December 31, 2010 and 2009, as stated in note 14, the Bank recorded a liability due to the SBF under certificates of deposit for a total amount of 137,540 and 132,777, respectively, representing principally the projected benefit obligation. These funds were placed in certificates issued by the SBF bearing 7% per annum. Interest expense on certificates of deposit amounted to approximately 9,628 and 8,929 during the years ended December 31, 2010 and 2009, respectively.

(22) Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2010 and 2009, is as follows:

	<u>December 31, 2010</u>		
	<u>Cash flow hedging activities</u>	<u>Securities available for sale</u>	<u>Accumulated other comprehensive loss</u>
At beginning of year	(4,226)	7,249	3,023
Changes for the year	1,676	(5,041)	(3,365)
At end of period	<u>(2,550)</u>	<u>2,208</u>	<u>(342)</u>
		<u>December 31, 2009</u>	
	<u>Cash flow hedging activities</u>	<u>Securities available for sale</u>	<u>Accumulated other comprehensive income</u>
At beginning of year	(1,862)	(8,893)	(10,755)
Changes for the year	(2,364)	16,142	13,778
At end of year	<u>(4,226)</u>	<u>7,249</u>	<u>3,023</u>



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(23) Litigation

The Bank is involved in claims and legal actions derived from its normal course of business. According to the Bank 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.

(24) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to February 28, 2011, date on which the financial statements were ready for their publication, and determined that there are no additional disclosures required on other matters.