

# Financial Management



Throughout 2005, the Bank continued penetrating international capital markets with the purpose of diversifying its funding sources. Likewise, financial conditions for lines of credit with existent sources were consolidated, extended and improved. New agreements for resources were signed to support special projects requiring credits under special conditions, and for cases of great relevance for poverty reduction, environment, MSMEs, competitiveness and regional integration, through the implementation of a strategy aimed at procuring resources at better rates and terms to meet the expectations of the regional market.

## Financial Statement

In a regional macroeconomic environment of moderate performances, the financial activities of the Bank show excellent results, not only reinforcing the soundness of the Institution, but also the progression made in the achievement of its Mission.

To December 31, 2005, **total assets reached US\$3,783.0 million, an increase by US\$323.8 million or 9.4%** compare to the figures of 2004, explained largely by an increase in the loan portfolio.

**Gross loan portfolio closed at US\$3,178.7 million that is US\$389.3 million above or a 14.0% increase** with regards to the previous year.

Liabilities, on the other side, were US\$2,335.5 million, a US\$255.5 million (12.3%) increased compared to last year's balance, propelled by procurements through bond issuances and the use of the commercial paper program.

The **Bank's Equity** was strengthened throughout 2005, reaching **US\$1,447.5 million**, which represents a 5% (US\$68.3 million) growth compared to figures in 2004. This increase was generated essentially by net profits of the exercise attaining US\$56.6 million and by the capital contribution of Spain (AAA) paying its first quota of paid-in capital as non regional member of the Bank.

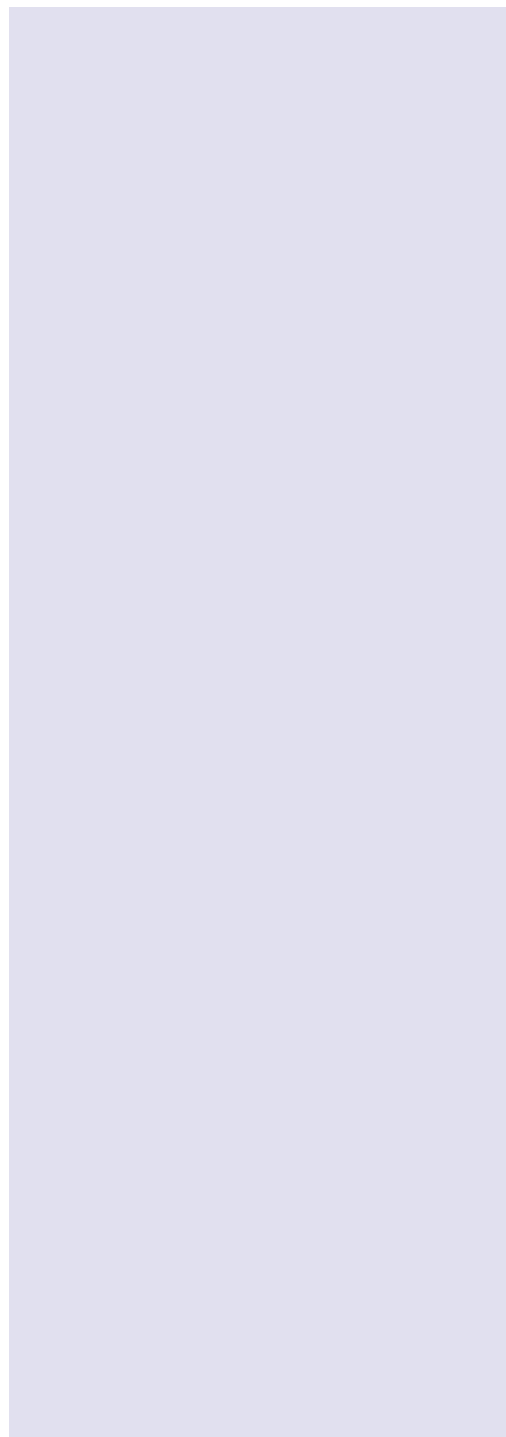
Reserves against possible losses in loans amounted to US\$121.7 million, from which US\$70.2 million for the public sector and US\$51.5 million for the private sector.

## Income Statement

Net profits displayed a continuous increasing trend. In fact, net financial income generated was US\$103.0 million, 11.4% above last year, which facilitated the coverage of provisions for loans by US\$12.3 million, operational expenses by US\$33.6 million (a 16.3% reduction with respect to 2004), as well as the approval of special contributions including the amount of US\$6.4 million to strengthen the FETS fund. **Net profits reached US\$56.6 million**, slightly above the 2004 figure, closing fiscal year 2005 with 3.98% net profit rate.

## Situation of the Bank's Obligations

At the end of the 2005 exercise, the net balance of CABEI's debt increased, attaining US\$2,273.8 million, an increase of US\$242.3 million or 11.9% compared to the debt reported at the closing of 2004. This has brought about a slight increase of the index from 1.38 times in 2004 to 1.47 times in 2005.



**CABEI's Indebtedness by Funding Source**  
**As of December 31, 2005**  
**In US\$ million**

SOURCE	Outstanding Balance	
	2005	2004
<b>I External Financing</b>		
<b>A. Credit Lines</b>		
Banking Advances	136.0	108.0
Japan Bank for International Cooperation (JBIC)	123.8	175.7
Inter-American Development Bank (IADB)	107.5	120.4
Société Générale	87.1	109.8
NORDEA BANK – Nordic Countries	78.3	86.0
Mexico – CABEI Cooperation Agreements	70.9	62.8
U.S. Agency for International Development (US-AID)	54.0	61.5
Deutsche Bank, S. A. E. (Spain)	45.8	7.3
KfW - Germany	41.8	37.0
European Investment Bank (EIB)	33.6	27.9
Instituto de Crédito Oficial- Spain	30.0	31.8
Nordic Investment Bank	30.0	30.0
German Cooperation for Investment and Development (DEG)	17.4	24.6
The OPEC Fund for International Development	15.0	15.0
Eksportfinans-Addendum II	14.0	18.0
EXIMBANK Republic of China	10.2	13.1
DANIDA-UNIBANK	6.3	10.8
ABN Amro Bank	3.0	5.0
Wachovia Bank – US Eximbank	2.7	4.0
ICDF China/ICBC- Micro, Small and Medium Enterprise	2.1	3.1
Banco Nacional de Comercio Exterior, S.N.C., Mexico	1.6	2.9
Banco de Com. Ext. de Colombia (Bancoldex)	1.4	1.6
HypoVereinsbank AG	1.2	1.5
Fortis Bank	1.2	1.5
Export Development Canada (EDC)	0.1	0.2
Hibernia National Bank – USA	0.1	0.2
BICE – Argentina	0.1	0.1
International Commercial Bank of China	0.0	17.9
Nordbanken AB (publ) – Sweden	0.0	1.5
Lloyds Bank PLC (England)	0.0	0.7
<b>Subtotal</b>	<b>915.2</b>	<b>979.9</b>
<b>B. Security Placements</b>		
Bonds	698.7	539.2
AID Guaranties	53.9	61.6
Commercial Paper Program	198.1	0.0
<b>Subtotal</b>	<b>950.7</b>	<b>600.8</b>
<b>External Financing Total</b>	<b>1,865.9</b>	<b>1,580.7</b>
<b>II Regional Financing</b>		
Certificates of Deposit	369.2	399.1
Regional Bonds Payable	50.0	50.0
Central Bank	0.1	0.4
<b>Regional Financing Total</b>	<b>419.3</b>	<b>449.5</b>
Adjustments on Hedging Operations	(11.4)	3.9
<b>Grand Total</b>	<b>2,273.8</b>	<b>2,034.1</b>

## Contracting External Resources

During this exercise, CABEI was able to contract new resources by US\$1,033.6 million, to continue financing socioeconomic development in Central America. US\$699.2 million are medium and long-term resources, and US\$334.4 million come from the issuance and placement of securities in international capital markets.

Following is a detail of these new contracts:

### Resources Contracted Fiscal Year 2005 In US\$ million

Source Type / Financial Institution	Amount
<b>A. Medium and Long Term Resources</b>	<b>699.2</b>
<b>Development Agencies / Governments</b>	<b>415.6</b>
Government of Mexico	415.6
<b>Export Credit (OECD)</b>	<b>283.6</b>
Bancomext – Mexico	50.0
BANESTO – Spain	50.0
NORDEA – Sweden	83.6
JBIC – Japan	100.0
<b>B. Securities Issue</b>	<b>334.4</b>
U.S.A.	200.0
Costa Rica	75.0
Singapore	59.4
<b>Total</b>	<b>1,033.6</b>

## CABEI Rating Continues Improving

In 2005, the Bank consolidated and upgraded its investment rating, as a result of the strong financial and political support from its member countries, the opening to incorporate new members (as non-regional member and beneficiary countries), total completion of its participation in the HIPC initiative, as well as its financial strength and the quality of its assets, among other aspects.

In May, and as a result of a continuous process aimed at improving institutional performance, CABEI obtained from Moody's Investor Service rating agency, an upgrade in its credit rating from **Baa1** to **A2** for long-term debt, and from P-2 to P-1 for short-term debt, both with a stable outlook.

CABEI obtained this rating due to the fundamental improvement of the medium-term credit profile of the bank, resulting, on one hand from the official incorporation of Spain as a non-regional member, and on the other, from having successfully completed its participation of debt relief for Nicaragua and Honduras within the Highly Indebted Poor Countries Initiative (HIPC).

This new rating will endow the institution with greater soundness and financial autonomy, and in turn influence its access to a broader range of resources in international capital markets; consequently, it will also allow the Bank to improve the terms and volume of operations in favour of its users and fulfilment of its own Mission.

Standard & Poor's agency confirmed its ratings for CABEI, remaining as **BBB** for long-term and **A2** for short-term, with a stable perspective. Likewise, In December, Fitch Ratings maintained the Bank's ratings at **BBB+** for long-term and F2 for short-term. Additionally, the ratings for national risks of the bank remained the same.

The following chart summarizes the Institution's ratings.

**CABEI Ratings**  
As at December 31, 2005

<b>International Rating</b>			
<b>Concept</b>	<b>Moody's Investors Service</b>	<b>Fitch Ratings</b>	<b>Standard &amp; Poor's</b>
<b>Long Term – Foreign Currency</b>	A2	BBB+	BBB
<b>Short Term – Foreign Currency</b>	P-1	F2	A2
<b>Outlook</b>	Stable	Stable	Stable
<b>National Rating</b>			
<b>Concept</b>	<b>Fitch Taiwan</b>	<b>Fitch Central America</b>	<b>Equilibrium (El Salvador)</b>
<b>Long Term – Foreign Currency</b>	A-	AAA	AAA
<b>Short Term – Foreign Currency</b>	n/a	F1+	n/a

## Participation in International Capital Markets

In January 2005 CABEI issued bonds by the amount of US\$200.0 million in New York, with the support of the Citigroup Global Markets Inc., and Bear, Stearns & Co. In Addition, in July, CABEI went again to the capital markets, this time with a historical issuance in Singapore by US\$59.4 million (Singapore New Dollar 100.0 million), the first Latin American issuance in this country. Likewise, bonds were issued in Costa Rica by US\$75.0 million, integrated in two issuances in local currency and one in US dollars.

# Participating in Strategic Investments

## Risk Capital Closed Funds

### Profund International

This Fund was established with the purpose of broadening and scaling-up operations of regulated and efficient financial institutions, whose main market is micro-credit in Latin America and the Caribbean, through the investment in equity and in quasi-capital instruments. The fund amounts to US\$22.6 million, where CABEI contribution is US\$3.0 million (13%). Profund managing achieves returns of approximately 7%, with an excellent impact on the development of the microfinance industry in Latin America.

### ProBanco

This fund was established with the objective of strengthening the Central American and Panama financial sector, providing resources for equity and added value to promising bank according to commercial terms. This is a US\$26.6 million fund and the Bank participates with US\$10.0 million. According to estimates, the fund's yield will be approximately 15%.

### Latin American Infrastructure Fund (LAIF)

This Fund was established with the purpose of investing in shares, quasi-capital and convertible debt instruments of Latin American and the Caribbean infrastructure projects. The size of LAIF is US\$1,013.0 million from which CABEI committed US\$15.0 million (1.5%). The investment period of this fund ended in 2001 and now is in the investment sales process. It is expected that the fund will be totally disinvested by 2007.

### Central American Investment Facility (CAIF)

The purpose of establishing this fund was to invest in common shares of small and medium-sized export-oriented enterprises in Central America and Panama. CAIF's current size is US\$26.3 million, of which CABEI's share is US\$6.0 million (23%).

## Open and Mutual Funds

### CABEI Central American Fund

Established with the purpose of strengthening capital markets in the Central American region, this Fund invests in US dollars fixed income instruments (bonds), issued by public and private companies and institutions established in member countries of the Bank. The yield of this fund in 2005 was 7.30% and new investors were attracted, thus contributing to promote an investment culture in the region. This fund is listed in the Costa Rica Exchange and has an AAA3 (cri) 2 of the Risk Rating Society. Efforts continue to conclude listing processes in the Salvadoran and Guatemalan Stock Exchanges.

## Other Investments

### Inter-American Corporation for Infrastructure Financing (CIFI)

CIFI was created to promote and finance Latin American and the Caribbean infrastructure projects through long-term subordinated debt, loan guarantees, leasing and project financing. CIFI's initial capital was US\$54.5 million, from which CABEI contributed US\$5 million.

## Participation in Investment Funds

As at December 31, 2005

In US\$ million

Private Capital Closed Funds	Authorized Capital by CABEI	Capital Disbursed by CABEI
Latin American Infrastructure Fund (LAIF)	15.0	14.0
Central American Investment Facility (CAIF)	6.0	6.0
Profund International, S.A.	3.0	3.0
Bank Capitalization Fund (ProBanco)	10.0	8.7
Open Funds or Mutuals		Net Present Value
CABEI Central American Fund	50.0	65.9
Other Investment		
Interamerican Corporation for Infrastructure Financing (CIFI)	5.0	5.0