

**CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION**

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2005 AND 2004
WITH THE
INDEPENDENT AUDITORS' REPORT**



INDEPENDENT AUDITORS' REPORT

To the Executive President, Board of Directors and Governors' Meeting of
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
Tegucigalpa, Honduras

We have audited the accompanying balance sheets of CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI) as of December 31, 2005 and 2004, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for the fiscal years 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 audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the fairness of the significant estimates made by the Bank's 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, such financial statements referred above present fairly, in all material respects, the financial position of CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

February 10, 2006

DELOITTE & CO. S.R.L.



ROXANA M. FIASCHE
Partner



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of December 31, 2005 and 2004
(Expressed in thousands of United State dollars)

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Cash and due from banks (note 3)	4,105	8,007
Interest-bearing deposits in banks (note 4)	229,547	259,051
Investment securities (note 5):		
Securities available for sale	382,297	371,337
Loans receivable	3,178,731	2,789,441
Less allowance for loan losses	<u>(121,693)</u>	<u>(109,527)</u>
Loans receivable, net (note 6)	<u>3,057,038</u>	<u>2,679,914</u>
Interest receivable (note 7)	35,783	31,700
Property, furniture and equipment (note 8)	29,932	29,597
Derivative financial instruments (note 17)	14,931	46,679
Equity investments (note 9)	20,532	22,805
Other assets (note 10)	8,866	10,108
Total assets	<u>3,783,031</u>	<u>3,459,198</u>
<u>Liabilities</u>		
Loans payable (note 11)	972,635	1,043,604
Bonds and senior notes payable (note 12)	733,852	590,901
Commercial paper program (note 12)	198,099	-
Certificates of deposit (note 13 a)	318,046	337,340
Certificates of investments (note 13 b)	51,230	62,235
Interest payable	21,768	13,121
Derivative financial instruments (note 17)	20,047	6,220
Other liabilities (note 14)	19,861	26,551
Total liabilities	<u>2,335,538</u>	<u>2,079,972</u>
<u>Equity</u>		
Paid-in capital (note 15)		
(Authorized capital 2 billion)	384,425	371,925
Special contributions (note 15)	500	-
Other accumulated comprehensive income (note 20)	13,428	14,732
Retained earnings	56,571	56,157
General reserve	992,569	936,412
Total equity	<u>1,447,493</u>	<u>1,379,226</u>
Total liabilities and equity	<u>3,783,031</u>	<u>3,459,198</u>

The accompanying Notes 1 to 20 are an integral part of these financial statements



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income

For the fiscal years ended December 31, 2005 and 2004
(Expressed in thousands of United State dollars)

	<u>2005</u>	<u>2004</u>
Interest and fee Income		
Public sector loans	112,773	108,869
Private sector loans	74,144	51,701
Investment securities	9,881	10,573
Due from banks	11,218	5,187
Total interest and fee income	<u>208,016</u>	<u>176,330</u>
Interest and fee expense		
Loans payable and other liabilities	44,548	43,699
Bonds payable	38,952	21,161
Commercial paper program	1,326	1,034
Certificates of deposit and investment	20,228	17,932
Total interest and fee expense	<u>105,054</u>	<u>83,826</u>
Net interest and fee income	<u>102,962</u>	<u>92,504</u>
Provision for loan losses	12,264	(35)
Net interest and fee income after provision for loan losses	<u>90,698</u>	<u>92,539</u>
Administrative expense		
Salaries and employee benefits	20,348	26,771
Other administrative expenses	9,559	6,543
Depreciation and amortization	2,989	3,176
Other expenses	724	728
Total administrative expense	<u>33,620</u>	<u>37,218</u>
Other operating income		
Administration fee	2,063	1,047
Market value adjustment from swap operations (note 17)	106	-
Gain on foreclosed and other assets	342	-
Dividends from equity investments	813	1,144
Realized gains on securities available for sale (note 5)	6,673	-
Other income	785	1,591
Total other operating income	<u>10,782</u>	<u>3,782</u>
Other operating expense		
Impairment loss on equity investments	793	1,984
Market value adjustment from swap operations (note 17)	-	1,097
Other financial expenses	1,100	621
Foreign exchange loss	4,531	2,614
Realized losses on securities available for sale (note 5)	-	23
Loss on foreclosed assets	-	635
Total other operating expense	<u>6,424</u>	<u>6,974</u>
Earning	<u>61,436</u>	<u>52,129</u>
Other income / (expense)		
Special contributions	(9,123)	(15,980)
Allowance for technical assistance and others	238	(1,692)
Donations received (note 14)	4020	1,227
Interest under the agreement for the CABEI-HIPC Trust Fund-Nicaragua (note 6)	-	20,473
Total other income / (expense), net	<u>(4,865)</u>	<u>4,028</u>
Net income	<u>56,571</u>	<u>56,157</u>

The accompanying Notes 1 to 20 are an integral part of these financial statements



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income
For the fiscal years ended December 31, 2005 and 2004
(Expressed in thousands of United State dollars)

	<u>2005</u>	<u>2004</u>
Net income	56,571	56,157
Other comprehensive income / (loss):		
Net unrealized gain on securities available for sale	5,190	982
Reclassification adjustment for net realized (gains) / loss included in earnings	<u>(6,673)</u>	<u>23</u>
	(1,483)	1,005
Gain from cash flow hedge	179	138
Other comprehensive (loss) / income	<u>(1,304)</u>	<u>1,143</u>
Comprehensive income	<u>55,267</u>	<u>57,300</u>

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Stockholders' Equity
 For the fiscal years ended December 31, 2005 and 2004
 (Expressed in thousands of United State dollars)

	<u>2005</u>	<u>2004</u>
Paid-in capital		
At beginning of fiscal year	371,925	371,925
Increase for the year (note 15)	12,500	-
At end of the fiscal year	<u>384,425</u>	<u>371,925</u>
Accumulated other comprehensive income		
At beginning of fiscal year	14,732	13,589
Net change in other comprehensive income	(1,304)	1,143
At end of the fiscal year	<u>13,428</u>	<u>14,732</u>
Retained earnings		
At beginning of fiscal year	56,157	118,767
Transfer to general reserve	(56,157)	(118,767)
Net income for the fiscal year	56,571	56,157
At end of the fiscal year	<u>56,571</u>	<u>56,157</u>
General reserve		
At beginning of fiscal year	936,412	817,645
Transfer of retained earnings	56,157	118,767
At end of the fiscal year	<u>992,569</u>	<u>936,412</u>
Special contributions		
At beginning of fiscal year	-	-
Contributions of the fiscal year (note 15)	500	-
At end of the fiscal year	<u>500</u>	<u>-</u>
Total stockholders' equity	<u>1,447,493</u>	<u>1,379,226</u>

The accompanying Notes 1 to 20 are an integral part of these financial statements



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash flows

For the fiscal years ended December 31, 2005 and 2004
(Expressed in thousands of United State dollars)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income of the fiscal year	56,571	56,157
Items to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,989	3,176
Provision / (recovery) for loan losses	12,264	(35)
(Gains) / losses on foreclosed and other assets	(342)	635
Impairment loss on equity investments	793	1,984
Foreign exchange loss	3,761	2,886
Market value adjustment from swap operations	(106)	1,097
(Increase) / decrease in interest receivable	(4,083)	1,096
Net decrease in other assets	2,015	2,002
Increase in interest payable	8,647	401
Net decrease in other liabilities	(8,732)	(163)
Net cash provided by operating activities	<u>73,777</u>	<u>69,236</u>
Cash flows from investing activities		
Net decrease / (increase) in interest bearing deposits in banks	29,504	(21,066)
Net (increase) / decrease in securities available for sale	(12,443)	69,915
Increase in property, furniture and equipment	(3,324)	(4,528)
Net decrease / (increase) in derivative financial instruments	45,860	(27,735)
Disbursements of loans receivable	(1,305,108)	(1,105,526)
Collections of loans receivable	911,190	1,181,215
Net increase in other liabilities	2,042	-
Net decrease / (increase) in other liabilities	1,048	(3,789)
Net cash (used in) / provided by investing activities	<u>(331,231)</u>	<u>88,486</u>
Cash flows from financing activities		
Net decrease in loans payable	(70,969)	(142,317)
Net increase / (decrease) in commercial paper program	198,099	(64,516)
Net increase in bonds payable and senior notes	142,951	97,523
Net (decrease) / increase in certificates of investment payable	(11,005)	1,443
Increase in certificates of deposits payable	142,522	132,151
Payments of certificates of deposits payable	(161,816)	(186,899)
Net increase in other liabilities	-	3,120
Paid-in capital	12,500	-
Special contributions to equity	500	-
Net cash provided by / (used in) financing activities	<u>252,782</u>	<u>(159,495)</u>
Effect of exchange rate fluctuations on cash	<u>770</u>	<u>(272)</u>
Cash and cash equivalents at beginning of the fiscal year	8,007	10,052
Cash and cash equivalents at end of the fiscal year (note 3)	<u>4,105</u>	<u>8,007</u>
Net decrease in cash and cash equivalents	<u>(3,902)</u>	<u>(2,045)</u>
Supplemental disclosures of cash flow information		
Cash paid for interests	96,407	83,425
Unrealized (losses) / gain on securities available for sale	(1,483)	1,005
Write off loans translated to other assets	-	857

The accompanying Notes 1 to 20 are an integral part of these financial statements



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

For the fiscal years ended December 31, 2005 and 2004
(Expressed in thousands of United State dollars)

(1) Origin and Nature of the Bank

The Central American Bank for Economic Integration (CABEI or the Bank) is an international financial institution, established by law by the governments of Guatemala, El Salvador, Honduras and Nicaragua through its Constitutive Agreement dated December 13, 1960. On September 23, 1963, the Republic of Costa Rica was included as a Founding Member. Through a protocol subscribed on September 2, 1989 and in force since 1992, the participation of Non-Regional Members was allowed. The Bank began operations on May 31, 1961 and has its headquarters in Tegucigalpa, Honduras. As a financial institution of the Economic Integration Program according to the Constitutive Agreement, the Bank is both a development financing institution and a Central American institution for economic promotion through its sector investment policy.

The Bank's objective is to promote the integration and economic and social development of the Founding Members.

(2) Summary of material accounting policies

(a) Applicable accounting principles

The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America.

(b) Treatment of currencies

The Bank's functional currency is the U.S. dollar. The transactions in currencies other than the U.S. dollar are recorded at the effective exchange rates at the time of the operations. Assets and liabilities denominated in currencies other than the U.S. dollar are re-measured at the prevailing exchange rates as of the date of the financial statements. Foreign currency gains and losses from the re-measurement of assets and liabilities denominated in currencies other than the U.S. dollar are reflected under other operating income or other operating expense of the fiscal year, accordingly.

(c) Cash and cash equivalents

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

(d) Investment securities

Marketable securities, including equity securities with a readily determinable fair value, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses being excluded from net income and reported as accumulated other comprehensive income, a separate component of equity.

Equity securities without a readily determinable market value are recorded at cost and are adjusted to reflect decreases in value.

Interest income on investment securities is recorded using the accrual method. Discounts and premiums are recognized as interest income using the accrued yield method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of investment securities below their cost that are deemed to be other than temporary are reflected in statements of income as realized losses.



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(e) Concentration of credit risk in public and private sectors

In compliance with its objective and financial policies, the Bank grants loans and guaranties to individuals and companies, both public and private, established in the Founding Members or in Beneficiary Countries, as well as to non-regional financial institutions that operate in Central America in order to meet the needs of development and integration programs and projects in the Founding Members.

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

- The total of its loan portfolio may not exceed 3.5 times the Bank's equity.
- Exposure in any of the Founding Members may 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 that the Bank concentrates in a single entity, be it a country, a public or mixed entity, an individual or a private sector company.
- Exposure to a single public sector company or mixed entity may not exceed 20% of the Bank's equity. Transactions that are guaranteed by the relevant country or are secured by securities issued by the Ministry of Finance or the Central Bank of the relevant country are not included in determining such exposure, without however, affecting the maximum limit of exposure for such country.
- Exposure to a single private sector company or entity with non-sovereign risk may not exceed 5% of the Bank's equity.
- Exposure to a group of related private sector companies or to a private sector economic group may not exceed 8% of the Bank's equity.

It should be noted that on November 12, 2004, the Board of Governors accepted the Dominican Republic as a Non-regional Member and Beneficiary Country.

On December 21, 2004, the Republic of Argentina and the Republic of Colombia (current Non-Regional Members) were accepted as Beneficiary Countries of the Bank. As of the date of the issuance of these financial statements, both countries have completely fulfilled with the terms and conditions set up in interim regulation in order to receive funds, thus being eligible to receive loans.

As of August 5, 2005 and September 21, 2005, Republics of Belize and Panama, respectively, have required to be accepted as Non-regional Members and Beneficiary Countries of CABEI. The Assembly of Governors has accepted both countries in October and December 2005, respectively.

(f) Loans and allowance for loan losses

Loans are stated at the unpaid principal balance plus accrued but unpaid interest. Interest income is recognized on the accrual basis according to the contractual terms of the loans.

Loans to the private sector are granted mainly through an intermediation mechanism with eligible financial institutions of the region and, in the case of direct co-financed loans, CABEI obtains collateral (including mortgages, bank pledges, financial guarantees and credit default swaps) considered adequate and that covers the 100% of CABEI's exposure.



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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 contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all the circumstances related to the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. These deteriorated loans, in their majority, are classified in sub-standard or lower categories and therefore already have a specific provision. Impairment is measured with reference to the present value of expected future cash flows, discounted at the loan's original interest rate or to the fair value of any collateral. If the valuation of the impaired loans is less than the recorded investment in the loan, the Bank recognizes the impairment by creating a specific allowance for loan losses with a corresponding charge to the provision for loan losses or by adjusting an existing allowance for the impaired loan with a corresponding charge or credit to the provision.

Public sector loans are granted to governments and autonomous entities of the Founding Members and Beneficiary Countries with sovereign guarantee of the country and in duly qualified cases, the Bank requires the generic guarantee of the institution being financed and that covers the 100% of the granted assistance. Allowance for loan losses is evaluated on a regular basis by Management.

CABEI establishes an allowance for public sector loans that takes into consideration the individual risk of the borrowing countries. 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 differentiates the risk of public sector loans that do not have a sovereign guarantee. Management believes that this methodology reflects the estimated risk embedded in public sector lending activities and considers the resulting amount of allowances for public sector loans to be adequate. As of December 31, 2005 and 2004, there were no impaired public sector loans.

The allowances for loan losses are established through estimates of possible losses, which are included in the statements of income in the year they are incurred and are disclosed in a separate line under loans receivable. Loan losses are written-off against the allowance when Management confirms the uncollectibility of the loan balances. Subsequent recoveries, if any, are credited to the allowance for possible loan losses of the statement of income.

(g) Non-accrual loans

Loans are classified as non-accrual when they are 90 days or more past due in the case of private sector loans and 180 days or more past due in the case of public sector loans, in accordance with the Bank's policy regarding classification of loans and the establishment of allowances for loan losses. All interest accrued but not collected for loans that are placed on non-accrual status are reversed against interest income. Past due interest on non-accrual loans is recognized as income in the fiscal year during which CABEI receives satisfactory payment of non-accrued overdue interest.

Interest on loans for which the original conditions have been modified, are recorded on a cash basis until the loans perform normally for a reasonably extended period (see Note 6), usually 90 days.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

For the fiscal years ended December 31, 2005 and 2004
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(h) Property, furniture and equipment

Property, furniture and equipment are recorded at cost less accumulated depreciation. Renewals and major improvements are capitalized, while minor replacements, repairs and maintenance which do not improve the asset or extend its remaining useful life are charged as expenses when incurred.

The Bank depreciates property, furniture and equipment, using the straight-line method.

The estimated useful life of assets is as follows:

	<u>Years</u>
Buildings	40
Facilities	10
Furniture and equipment	10 and 5
Vehicles	4
Computer equipment	3

(i) Assets acquired through loan settlements

Assets acquired through, or in lieu of, loan settlements are initially recorded at fair value at the date of settlement, establishing a new cost basis. Subsequent to settlement, valuations are periodically performed by Management and the assets are carried at the lower of carrying amount or their fair value less estimated costs of sale. Resulting income and expenses and changes in the valuation provision are included in the statements of income.

(j) Taxes

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

(k) General reserve and annual net income

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

(l) Derivative instruments and hedging activities

All derivatives are recognized on the balance sheet at their fair values, and are classified as assets or liabilities based on the fair value of each derivative (debit or credit).

Certain derivatives contracted by the Bank are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or a foreign-currency fair-value or cash flow hedge (foreign currency hedge). For all hedging transactions, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, 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 assesses, 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.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

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For the fiscal years ended December 31, 2005 and 2004

(Expressed in thousands of United State dollars)

The changes in the fair value of a derivative that is highly effective and that is 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 within other non-interest income in the statements of income. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in 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 the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges 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 fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in the statements of income.

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

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and no longer adjusts 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 statements 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 statements of income, and gains and losses that were accumulated in other comprehensive income are recognized immediately in the statements of income. In all other situations in which hedge accounting is discontinued, the Bank continues to carry the derivatives at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in the statements of income.

(m) Equity investments

Equity investments have been mainly valued by the equity method calculated on the basis of the equity of the relevant company, as shown in its last financial statements available.

(n) Donations received and contributions granted

The Bank receives donations from various international sources, including the European Union, the Agency for International Development, the Inter-American Development Bank and other entities. Donations are recorded as other income when they are received, unless the donations are received with donor-imposed conditions, in which case the donation is accounted for as a liability until the conditions have been substantially met or the donor has explicitly waived the condition.

Contributions granted to public and private sector institutions are recorded as expenses in the fiscal year in which the contributions are authorized by the Board of Directors and the related contracts are signed.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

For the fiscal years ended December 31, 2005 and 2004
(Expressed in thousands of United State dollars)

(o) Endorsement 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 so that its customers may lower the financial costs of developing their projects.

In furtherance of this objective, the Bank grants two main types of endorsements and guarantees:

- those that replace financing: these are generally long-term arrangements (such as bank endorsements or payment guarantees) that support a financial document or credit contract that itself secures compliance with obligations related to a project execution.

- those that do not replace financing: these are granted to support projects for the development of the Central American region and are generally short-term arrangements that are fully collateralized by cash or liquid assets and are generally related to letters of credit and acquisitions of goods and services.

Such endorsements and guarantees are included in the calculation of exposure limits to CABEI's borrowers (Note 2.(e)).

(p) Use of estimates

In the preparation of the financial statements, the Bank's Management relies on assumptions and estimates that have an impact on the amounts of the assets and liabilities reported as of the date of these financial statements and the amounts of the results generated during the fiscal years being reported. The final results may differ from such estimates. The estimates that are susceptible of undergoing significant variation in the short-term are mainly related to the loan loss provisions, the measurement at fair value of financial instruments and actuarial assumptions used to measure liabilities related with pension plans.

(3) Cash and due from banks

As of December 31, 2005 and 2004, the cash and due from banks were as follows:

	2005	2004
Currencies of Founding Members	615	1,041
Other currencies	3,490	6,966
Total	<u>4,105</u>	<u>8,007</u>

(4) Interest-bearing deposits in banks

The deposits are normally time deposits with terms up to three months, renewable with respect to the term and interest rate, for which the fair value approximates the market value. As of December 31, 2005 and 2004, their composition by currency is as follows:

	2005	2004
Currencies of Founding Members	11	8
Other currencies	229,536	259,043
Total	<u>229,547</u>	<u>259,051</u>



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements

For the fiscal years ended December 31, 2005 and 2004
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(5) Investment Securities

The amortized cost of investment securities and their approximate fair values, as of December 31, 2005 and 2004 are as follows:

Securities available for sale:	2005					
	Amortized	Gross Unrealized	Gross Unrealized	Adjustments	Estimated	Realized
	Cost	Losses	Gains	On Hedging Transactions	Fair Value	Gains
Private bonds	294,981	(3,786)	560	(106)	291,649	-
Investment funds	74,193	-	16,455	-	90,648	6,673
	<u>369,174</u>	<u>(3,786)</u>	<u>17,015</u>	<u>(106)</u>	<u>382,297</u>	<u>6,673</u>
Securities available for sale:	2004					
	Amortized	Gross Unrealized	Gross Unrealized	Adjustments	Estimated	Realized
	Cost	Losses	Gains	On Hedging Transactions	Fair Value	Losses
Private Bonds	289,155	(2,491)	666	(30)	287,300	23
Investment funds	67,500	-	16,537	-	84,037	-
	<u>356,655</u>	<u>(2,491)</u>	<u>17,203</u>	<u>(30)</u>	<u>371,337</u>	<u>23</u>

The gains / losses were realized considering the original cost of each fund or bond sold.

As of December 31, 2005, the detail of the estimated fair value and unrealized losses of the securities available for sale that have maintained unrealized gross losses for a period of less than 12 months and for 12 or more months, is as follows:

Securities available for sale:	Less than 12 months		More than 12 months			
	Estimated Fair Value	Unrealized Gross Losses	Time to maturity			
			Less than 12 months		More than 12 months	
			Estimated Fair Value	Unrealized Gross Losses	Estimated Fair Value	Estimated Gross Losses
Private bonds	141,762	(1,507)	30,263	(430)	61,073	(1,849)
	<u>141,762</u>	<u>(1,507)</u>	<u>30,263</u>	<u>(430)</u>	<u>61,073</u>	<u>(1,849)</u>

The Bank's policy establishes that a minimum of 75% of its total investment in bonds be in bonds issued by companies which have an international rating of "A" (or its equivalent) or higher issued by recognized rating agencies. The decrease in fair value of fixed rate bonds is attributed to changes in market interest rates and not to deterioration of the credit quality of such bonds. The Bank intends to hold such bonds until their market price is recovered or until maturity; therefore these investments are not considered impaired.

The sales and repayments of securities available for sale during the fiscal years ended as of December 31, 2005 and 2004 amounted to 143,126 and 42,282, respectively.



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As of December 31, 2005 and 2004, investment securities are classified by contractual maturities as follows:

	2005		2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
One year and less	212,564	228,271	229,212	244,969
Greater than one year to five years	129,413	127,022	125,943	124,868
Greater than five years to ten years	11,688	11,539	1,000	1,000
Greater than ten years	15,509	15,465	500	500
	<u>369,174</u>	<u>382,297</u>	<u>356,655</u>	<u>371,337</u>

(6) Loans Receivable

CABEI has no significant concentrations of credit risk with any individual borrower or groups of borrowers, taking into account the concentration of the credit risk policies described in Note 2) e). The detail of loans receivable, by sector, received guarantees and Founding Members as of December 31, 2005 and 2004 is as follows:

	2005			
	Public sector without sovereign guarantees	Public sector with sovereign guarantees	Private sector with guarantees	Total
Guatemala	11,939	316,226	305,071	633,236
El Salvador	96,616	457,365	178,830	732,811
Honduras	1,251	334,615	358,458	694,324
Nicaragua	-	185,350	157,066	342,416
Costa Rica	405,851	90,937	279,156	775,944
	<u>515,657</u>	<u>1,384,493</u>	<u>1,278,581</u>	<u>3,178,731</u>
Allowance for loan losses	<u>(22,100)</u>	<u>(48,100)</u>	<u>(51,493)</u>	<u>(121,693)</u>
Loans receivable, net	<u>493,557</u>	<u>1,336,393</u>	<u>1,227,088</u>	<u>3,057,038</u>

	2004			
	Public sector without sovereign guarantees	Public sector with sovereign guarantees	Private sector with guarantees	Total
Guatemala	10,285	311,390	224,293	545,968
El Salvador	44,611	438,748	212,257	695,616
Honduras	6,750	321,521	296,351	624,622
Nicaragua	-	178,197	102,150	280,347
Costa Rica	351,439	43,733	247,716	642,888
	<u>413,085</u>	<u>1,293,589</u>	<u>1,082,767</u>	<u>2,789,441</u>
Allowance for loan losses	<u>(17,401)</u>	<u>(45,699)</u>	<u>(46,427)</u>	<u>(109,527)</u>
Loans receivable, net	<u>395,684</u>	<u>1,247,890</u>	<u>1,036,340</u>	<u>2,679,914</u>



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As of December 31, 2005 and 2004, loans receivable by economic activity of the ultimate borrower are classified as follows:

	2005		2004	
Infrastructure	955,760	30%	974,360	35%
Financial intermediation	953,623	30%	483,111	17%
Electricity	393,045	12%	384,652	14%
Social services	207,925	7%	201,596	7%
Agro-industry	135,540	4%	37,201	1%
Transport, storage and communications	126,988	4%	147,837	5%
Multisector	114,623	4%	210,990	8%
Housing (a)	98,193	3%	127,722	5%
Industry	73,643	2%	100,037	4%
Education	62,559	2%	68,550	2%
Tourism	39,973	1%	48,245	2%
Other (b)	16,859	1%	5,140	0%
	<u>3,178,731</u>	<u>100%</u>	<u>2,789,441</u>	<u>100%</u>

(a) As of December 31, 2005 and 2004, these line items include 15,665 and 12,290, respectively, corresponding to loans granted to the personnel of the Bank for housing. The loans have a maturity of 20 years and bear interest at per annum rates of between 8% and 10% for those facilities granted in currencies of Central American countries and 2.5% for those granted in U.S. dollar.

(b) As of December 31, 2005 and 2004, these line items include 906 and 889, respectively, corresponding to loans granted to the personnel of the Bank for higher education, purchase of personal computers, etc. The loans have a maturity up to 15 years, and bear interest at per annum rates of between 8% and 10% for those facilities granted in currencies of Central American countries and 2.5% for those granted in U.S. dollar, except that facilities granted to finance the purchase of personal computers were granted with no financial cost.

As of December 31, 2005 and 2004, loan maturities are as follows:

	2005	2004
Matured	11,443	8,684
Up to 1 year	641,130	649,537
From 1 to 2 years	519,292	364,713
From 2 to 3 years	351,611	366,070
From 3 to 4 years	253,304	273,667
From 4 to 5 years	369,598	198,223
More than 5 years (a)	<u>1,032,353</u>	<u>928,547</u>
	<u><u>3,178,731</u></u>	<u><u>2,789,441</u></u>

(a) As of December 31, 2005 and 2004, these lines items include 16,571 and 13,179 respectively, corresponding to loans granted to the personnel of the Bank for higher education, purchase of personal computers and housing.



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As of December 31, 2005 and 2004, loan balances by currencies are as follows:

Currencies	2005	2004
U.S. dollar	3,036,276	2,694,030
Euros	548	790
Japanese yen	8,320	12,302
Currencies of Central American countries	133,477	82,165
Other currencies	110	154
	<u>3,178,731</u>	<u>2,789,441</u>

As of December 31, 2005, the weighted average interest rate on loans was 6.62% per annum, taking into account the effect of hedges if applicable. As of that date, the balances of fixed rate and floating rate loans receivable were 838,928 and 2,339,803, respectively.

As of December 31, 2004, the weighted average interest rate on loans was 6.15% per annum, taking into account the effect of hedges if applicable. As of that date, the balances of fixed rate and floating rate loans receivable were 1,026,797 and 1,762,644, respectively.

During the fiscal years ended December 31, 2005 and 2004, in accordance with the Bank's policies, interest on non-accrual loans of 3,847 and 3,650, respectively, was not recorded as income because it had not been collected. As of December 31, 2005 and 2004, the principal of the loans that generated such interest amounted to 15,601 and 15,906, respectively, and were the obligations of private sector borrowers.

The following table presents information on impaired private sector loans as of December 31, 2005 and 2004.

Impaired Loans	2005	2004
Impaired loans without allowance for loan losses	-	-
Impaired loans with allowance for loan losses	34,899	38,216
Allowance related to impaired loans	12,608	13,275
Accrued interest on impaired loans	3,399	3,794
Interest received on impaired loans	2,737	4,379

The evolution of the allowance for loan losses as of December 31, 2005 and 2004 is as follows:

	2005			2004		
	Sector		Total	Sector		Total
	Private	Public		Private	Public	
At beginning of year	46,427	63,100	109,527	51,748	58,122	109,870
Loan write-offs, net	(98)	-	(98)	(308)	-	(308)
Provision for the fiscal year	7,067	8,500	15,567	473	4,978	5,451
Recoveries for the fiscal year	(1,903)	(1,400)	(3,303)	(5,486)	-	(5,486)
At end of fiscal year	<u>51,493</u>	<u>70,200</u>	<u>121,693</u>	<u>46,427</u>	<u>63,100</u>	<u>109,527</u>



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HIPC Initiative

The Bank participated in the Heavily Indebted Poor Countries (HIPC) Initiative, an international effort with the backing of the Group of Seven countries (G7), the World Bank and the International Monetary Fund to address the debt-related problems of a group of countries classified as heavily indebted poor countries so that the reform efforts undertaken by such countries are not threatened by their unsustainable external debt burden. In the framework of this Initiative, all bilateral and multilateral creditors granted debt relief to the countries that have demonstrated satisfactory results in the implementation of economic policies during a long period, in order to reduce their debt burden to sustainable levels.

The Bank made its maximum debt-relief contribution with its own resources, which was granted to the Republic of Honduras and the Republic of Nicaragua.

On January 22 and 23, 2004, the Board of Directors of the World Bank and the International Monetary Fund agreed respectively that Nicaragua had reached the Completion Point within the HIPC Initiative, which made Nicaragua eligible to receive debt-relief.

On March 19, 2004, the Bank entered into the third addendum to the agreement that modified the terms of the original loans of the Republic of Nicaragua's indebtedness with the Bank and received simultaneously 228,245 from the international donor community (United States of America, Spain, European Union, Canada, Norway, Netherlands, Switzerland, Germany, Finland, Korea and Sweden), which was channeled through the HIPC-Trust Fund of the World Bank and CABEI's Special Fund for Debt Relief of Central American Countries Eligible under the HIPC Initiative. Of the amount received, 199,890 was used to repay the principal of the loans, 7,882 was applied to the repayment of accumulated interest and 20,473 was applied to the payment of other outstanding interest, thereby completing CABEI's participation in the HIPC Initiative.

On April 5, 2005, the Republic of Honduras reached its Completion Point and, as a result, became entitled to receive the complete benefits of the HIPC Initiative. This had no financial consequences on CABEI in light of the fact that the Bank had previously made from its own resources its maximum contribution to reduce the level of debt.

(7) Interest receivable

Interest receivable as of December 31, 2005 and 2004 is as follows:

<u>Interest receivable</u>	<u>2005</u>	<u>2004</u>
On loans	35,634	31,302
On interest-bearing deposits in banks	<u>149</u>	<u>398</u>
	<u>35,783</u>	<u>31,700</u>

(8) Property, furniture and equipment

Property, furniture and equipment as of December 31, 2005 and 2004, are as follows:



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	2005	2004
Vehicles	1,725	1,619
Buildings	24,912	24,851
Computer equipment	11,270	9,702
Building improvements	8,151	7,920
Office equipment and furniture	5,107	4,857
	<u>51,165</u>	<u>48,949</u>
Land	2,678	2,590
	<u>53,843</u>	<u>51,539</u>
Subtotal	53,843	51,539
Less accumulated depreciation	(23,911)	(21,942)
Total	<u><u>29,932</u></u>	<u><u>29,597</u></u>

During the fiscal years ended December 31, 2005 and 2004, the depreciation charged to expense amounted to 2,698 and 2,885, respectively.

(9) Equity Investments

Equity investments as of December 31, 2005 and 2004, which do not have fair value, are as follows:

Name	Investment	Financial Statements	Issuer Data			2005	2004
			Capital	Equity	Income / (Loss)		
Investments							
Latin American Infrastructure Fund	1.48%	09/30/05	472,980	472,980	(17,898)	7,179	7,525
Central American Investment Fund	22.78%	12/31/05	17,647	1,956	(3,090)	707	1,294
Pro-fund International SA	13.26%	06/30/05	3,834	3,422	12,747	465	412
						<u>8,351</u>	<u>9,231</u>
Shares							
Corporación Interamericana							
Financiamiento Infraestructura	9.26%	12/31/05	54,000	57,713	1,708	5,000	5,000
Pro-Banco	37.59%	06/30/05	22,189	18,509	(347)	6,011	7,404
Sociedad de Garantía Recíproca	30.91%	12/31/04	3,734	3,907	(125)	1,145	1,145
Other						25	25
						<u>12,181</u>	<u>13,574</u>
						<u><u>20,532</u></u>	<u><u>22,805</u></u>

(10) Other assets

The balance of other assets as of December 31, 2005 and 2004 is as follows:

	2005	2004
Deferred debt issuance cost	4,455	5,503
Prepaid expenses	1,333	1,624
Foreclosed assets	1,129	1,593
Accounts receivable	904	516
Other	512	331
Assets available for sale	455	455
Supplies	78	86
	<u>8,866</u>	<u>10,108</u>



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Foreclosed assets as of December 31, 2005 and 2004 are located as follows in the following countries:

	2005	2004
Nicaragua	5,508	8,077
El Salvador	4,787	4,677
Honduras	558	380
Guatemala	88	-
Costa Rica	6	6
	<u>10,947</u>	<u>13,140</u>
Allowance for losses	<u>(9,818)</u>	<u>(11,547)</u>
	<u>1,129</u>	<u>1,593</u>

(11) Loans payable

Loans payable as of December 31, 2005 and 2004 are as follows:

	2005	2004
JAPAN BANK FOR INTERNATIONAL COOPERATION	123,751	175,713
INTER-AMERICAN DEVELOPMENT BANK (I.B.D.)	107,483	120,407
SOCIETE GENERALE	87,132	109,770
NORDEA BANK	78,305	85,975
AGREEMENT FINANCIAL COOPERATION MEXICO-CABEI	70,878	62,761
AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.)	53,981	61,518
GUARANTEES GRANTED BY A.I.D.	53,908	61,646
DEUTSCHE BANK, A.G.	45,842	7,286
KREDITANSTALT FUR WIEDERAUFBAU (KFW) ALEMANIA	41,829	37,014
EUROPEAN INVESTMENT BANK	33,621	27,891
NORDIC INVESTMENT BANK	30,000	30,000
CITIBANK, N. A.	30,000	8,336
OFFICIAL CREDIT INSTITUTE OF SPAIN	29,998	31,801
BILBAO VIZCAYA BANK	28,000	-
MERCANTILE BANK OF VENEZUELA	25,000	22,324
BAYERISCHE LANDESBANK	23,000	-
STANDARD CHARTERED BANK	20,000	57,223
GERMAN CORPORATION INVESTMENT AND DEVELOPMENT	17,743	24,570
THE OPEC FUND FOR INTERNATIONAL DEVELOPMENT	15,000	15,000
EKSPORTFINANS	13,998	17,997
HYPOVEREINSBANK	11,158	-
THE EXPORT-IMPORT BANK OF REPUBLIC OF CHINA	10,199	13,096
DANIDA-UNIBANK	6,319	10,817
ABN AMRO BANK	3,000	4,999
WACHOVIA BANK, NA	2,680	13,880
INTERNATIONAL COOPERATION AND DEVELOPMENT FUND	2,053	-
SANTANDER CENTRAL HISPANIC BANK	-	5,000
THE INTERNATIONAL COMMERCIAL BANK OF CHINA	-	17,857
DRESDNER BANK LATEINAMERIKA	-	5,000
OTHER INSTITUTIONS	4,305	13,461
Subtotal	<u>969,183</u>	<u>1,041,342</u>
Fair value adjustment on interest rate hedging activities	<u>3,452</u>	<u>2,262</u>
Total	<u>972,635</u>	<u>1,043,604</u>



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The maturities of the loans payable as of December 31, 2005 and 2004 are as follows:

	2005	2004
Up to 1 year	283,635	247,803
From 1 to 2 years	134,983	147,033
From 2 to 3 years	121,614	133,457
From 3 to 4 years	91,877	115,767
From 4 to 5 years	70,269	84,390
More than 5 years	266,805	312,892
	<u>969,183</u>	<u>1,041,342</u>

As of December 31, 2005 and 2004, the weighted average interest rate on loans payable was 4.82% and 3.95% per annum, respectively, taking into account the effect of hedges, if applicable.

Loans payable at fixed and variable rates are as follows:

	2005	2004
Loans payable at fixed rates	615,154	628,110
Loans payable at floating rates	354,029	413,232
	<u>969,183</u>	<u>1,041,342</u>

(12) Bonds, senior notes payable and commercial paper program

Bonds and senior notes payable as of December 31, 2005 and 2004 are as follows:

	Year of Issue	Maturity	Dec-2005	Dec-2004
Second issue new Taiwan dollars (NT\$) (a)	1998	2005	-	109,602
Senior notes (US\$)	2001	2006	55,000	55,000
Regional bonds (US\$)	2001	2011	50,000	50,000
Senior notes (US\$)	2002	2009	52,000	65,000
Medium term notes (US\$) – first use	2003	2013	199,382	199,297
Third issue new Taiwan dollars (NT\$)	2004	2009	106,627	109,602
Medium term notes (US\$) – fourth use (b)	2005	2012	199,012	-
Medium term notes (US\$) – fifth use (c)	2005	2009	25,000	-
Singapore bond issue (d)	2005	2010	60,107	-
Subtotal			<u>747,128</u>	<u>588,501</u>
Fair value adjustment on hedging activities			(13,276)	2,400
Total			<u>733,852</u>	<u>590,901</u>

As of December 31, 2005 and 2004, the weighted average interest rate on bonds and senior notes payable was 5.64% and 4.24% per annum, respectively, taking into account the effect of hedges, if applicable.

(a) This issue was repaid in full on July 26, 2005.

(b) On January 4, 2005, the Bank issued and sold bonds for 200,000 in international capital markets. Such bonds represent the fourth issuance by the Bank under the Bank's medium-term note (MTN) program and the second offering under its MTN program in the United States and Europe. The issue was managed by Citigroup Global Markets as lead manager, and Bear Stearns & Co and Barclays Capital as co-manager. The issue was rated as Baa1 by Moody's, BBB+ by Fitch and BBB by Standard & Poors.



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Investors were top-tier quality, mainly fund managers who mainly invest in investment grade assets (56.3%) and United States of America-based banks and trusts (22.5%).

The coupon of the bond is 4.875% and the bonds were sold at 99.425% of par, resulting in an effective interest rate of 4.973% per annum. The maturity of the bonds is January 15, 2012 and interest on the bonds is payable on January and July 15 of each year.

- (c) On April 12, 2005, CABEI negotiated a credit linked note, linked to a loan granted to the Republic of Costa Rica, at the rate of six-month LIBOR plus 200 basis points with maturity on July 20, 2009. A hedging transaction entered into by the Bank reduced the effective interest rate on the credit linked note to six month LIBOR less 100 basis points.
- (d) On July 6, 2005, the Bank issued SG\$ 100,000,000 (equivalent to 59,393) of bonds maturity on July 6, 2010 in the Singapore financial market. The bonds bear interest at the rate of 2.64% per annum. A cross currency swap entered into by the Bank with Standard Chartered Bank, makes the effective interest cost of the bonds six-month LIBOR plus 35 basis points. The cash flows interchanges were agreed each six months, from January 6, 2006.

On November 14, 2005, the Bank renewed its 200,000 commercial paper program. At December 31, 2005, commercial paper aggregating 198.099 and bearing interest at 4.37% per annum was outstanding under the program, with maturity in February 2006.

On January 30, 2006, the Bank issued bonds in the Colombian capital market aggregating 460,000,000,000 Colombian pesos (equivalent to 202,376) and bearing an interest rate related to the domestic consumer prices index plus a spread of 230 basis points. Interest on the bonds is payable on March 15 and September 15 and the bonds mature on September 15, 2015. In order to hedge its currency and interest rate exposure, the Bank entered into a combined interest rate and currency swap with Colombia and Citibank under which the Bank will repay the bonds in U.S. dollar and will pay an effective interest rate of six-month U.S. LIBOR plus 15 basis points.

(13) Certificates of deposit and investment

- (a) Certificates of deposit as of December 31, 2005 and 2004 are as follows:

	2005	2004
Social Benefit Fund (Note 19)	114,665	105,067
Republic of Honduras	75,359	128,645
Special Fund for the Social Transformation of Central America (i)	50,717	51,810
Republic of Costa Rica	49,646	-
Individual and private entities	26,627	51,189
Republic of El Salvador	629	629
Republic of Guatemala	403	
	318,046	337,340

- (i) On October 29, 1999, the Governor 's Meeting of CABEI approved the constitution of the Special Fund for the Social Transformation of Central America ("FETS"). FETS is an entity that is separate from the Bank and therefore its assets, liabilities, income and expenses are not included in the current financial statements.

FETS's objective is to finance programs and projects supporting the social transformation of the region. FETS will finance its programs and projects from different funding sources, including donations, loans and contributions received from the Bank.



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The Bank has agreed to contribute 6,405 to FETS during fiscal year 2005, of which 1,185 remain undisbursed as of December 31, 2005 (Note 14).

The Bank's contributions to FETS during fiscal year ended December 31, 2004 amounted to 10,000.

The contractual maturities and the weighted average interest rate as of December 31, 2005 and 2004 are as follows:

Maturity	2005		2004	
	Amount	Rate	Amount	Rate
Up to 6 month	107,097	4.44%	229,400	2.24%
Up to 1 year	119,651	9.32%	9,655	9.56%
Up to 2 years	91,144	10.00%	7,077	10.00%
Up to 3 years	154	5.12%	91,148	10.00%
More than 3 years	-	-	60	8.73%
	<u>318,046</u>		<u>337,340</u>	

- (b) The Bank's Board of Directors determined that Certificates of Investments (CIVs) issued by the Bank would bear interest from October 1, 2005 at 3% per annum instead of at the previously announced rate (10% per annum). As of December 31, 2005 and 2004, the balances of CIVs were 4,582 and 62,235, respectively. CIVs are issued only to employees and ex-employees of the Bank, are redeemable on demand of the holders and, if not redeemed, mature 20 years after their issuance.

CABEI's Board of Directors authorized the issuance of a new instrument named CABEI's Saving Certificates (CSCs) in exchange for CIVs. As of December 31, 2005 CSCs aggregating 46,648 and maturing in September 2007 were outstanding. CSCs aggregating 25,947 were issued at an interest rate of 7.065% per annum and the balance at an interest rate of 7.26% per annum.

(14) Other liabilities

Other liabilities as of December 31, 2005 and 2004 are as follows:

	2005	2004
Special deposits	6,956	5,263
Other creditors	4,038	3,049
Other provisions	3,641	3,138
Technical assistance	3,181	6,629
FETS contribution provisions (Note 13 a)	1,185	-
Provisions for bonuses and supplemental compensation	827	782
Special contributions (i)	33	4,075
Contributions payable to SBF (Note 19)	-	3,615
	<u>19,861</u>	<u>26,551</u>

- (i) As of December 31, 2005 and 2004, the special contributions represent contributions received with donor-imposed conditions that have not been met. They are as follows:

	2005	2004
Denmark	-	3,020
Italy	-	1,000
IDB	33	55
	<u>33</u>	<u>4,075</u>



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On September 14, 2005, CABEI and the Danish Agency for Development and Cooperation (DADC) executed an agreement in relation to a contribution of 3,020 made to the Bank in 1990 for the purpose of improving its role as a regional bank and to strengthen its support of the productive and social development in Central America, thereby recognizing compliance by the Bank with the conditions originally established by the donor. Consequently, during September 2005 the Bank registered that amount as donations received within other income (expense) in the statement of income.

On October 12, 2005 the Bank recorded a donation from the Republic of Italy of 1,000 plus accrued interest of 185. These funds will be used to support the Bank's strategy related to social development and transactions related to reduction of poverty in Central America and will be managed under the framework of FETS. As a result of this transaction, the Bank recorded an income in the amount of 1,185 and established a provision on its balance sheet in the same amount to reflect the fact that the funds are destined to be used by FETS (see Note 13 a).

(15) Equity

(a) Paid-in capital

The Bank's authorized capital is US\$2 billion consisting of 200,000 shares with a face value of 10 each. Of this capital, the Founding Members subscribed shares in equal parts for a total amount of 1,020,000, and the Non-Regional Members may subscribe up to 980,000, of which 587,700 have already been subscribed.

The Constitutive Agreement was modified by a protocol subscribed by the Central American countries in Managua, Nicaragua in 1989, which entered into effect on January 20, 1992. The protocol authorized the inclusion of non-regional countries as Non-Regional Members of the Bank and modified its capital structure.

On March 5, 2004, the Kingdom of Spain, pursuant to the execution of an Agreement, subscribed 200,000 of capital; which was formally approved by the Spanish Legislative Branch and published on January 21, 2005. On March 11, 2005, the Bank received 12,500 as the first of four annual installments, equal and consecutive, as 25% cash payment in subscribed shares. The other 75% of subscribed shares is regarded as callable capital.

Additionally, in November 2004, CABEI's Board of Governors accepted the Dominican Republic as Non-Regional Member and Beneficiary Country.

In addition, pursuant to article 4 a) of CABEI's Constitutive Agreement and the Regulation to accept Beneficiary Countries, approved by the Board of Governors in its Resolution AG-11/2004 dated as of August 27, 2004, on January 28, 2005 and December 23, 2005, the Bank received from Colombia and Argentina, respectively, 250 from each country as special contribution in order to become a Beneficiary Country (see note 2.e).

As of December 31, 2005, the Bank's capital was as follows:

<u>Founding Members</u>	<u>Shares</u>	
	<u>Subscribed</u>	<u>Paid</u>
Guatemala	204,000	55,000
El Salvador	204,000	55,000
Honduras	204,000	55,000
Nicaragua	204,000	55,000
Costa Rica	204,000	55,000
Sub-total	<u>1,020,000</u>	<u>275,000</u>



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<u>Non-Regional Members</u>	<u>Subscribed</u>	<u>Paid</u>
Spain	200,000	12,500
México	122,500	30,625
China	150,000	37,500
Argentina	57,600	14,400
Colombia	57,600	14,400
Sub-total	<u>587,700</u>	<u>109,425</u>
Total	<u>1,607,700</u>	<u>384,425</u>
Unsubscribed shares of Non-Regional Members	<u>392,300</u>	<u>-</u>
	<u>2,000,000</u>	<u>384,425</u>

On October 25, 2005 the Board of Governors established formally the procedure to determine the subscription price of unissued shares that will be applicable to new subscriptions for shares. The new procedure provides that the subscription price of each share will be the product of the nominal value multiplied by the quotient of CABEI's equity divided by its paid-in capital. Founding Members will subscribe in equal amounts for at least 51% of any capital increase.

As described in Note 2) e), Belize and Panama have required to be accepted as Non-Regional Members and Beneficiary Countries. The Board of Governors accepted both countries in October and December 2005, respectively.

(b) Issuance of general reserve certificates

On September 8, 2005, the Board of Governors approved an accounting method of retained earnings, which consists in the issuance of General Reserve Certificates in order to evidence the excess of each Member Country's share of the Bank's equity over such Member Country's paid-in capital. The General Reserve Certificates will be recorded in a sub-account within the general reserve of the Bank. The General Reserve Certificates will not be transferable. Rights under the General Reserve Certificates will be exercisable only in the event of the liquidation of the Bank. The General Reserve Certificates may not be used to make payments of paid-in capital. The Bank's President approved such accounting method for allocation retained earnings for each member of the Bank.

(16) Contingent commitments

As of December 31, 2005 and 2004, balances of contingent commitments are as follows:

	<u>2005</u>	<u>2004</u>
Credit agreements subscribed	1,704,863	1,173,104
Credit default swap	25,000	25,000
Letters of credit	-	1,217
Pledges and guarantees granted	2,097	9,952
	<u>1,731,960</u>	<u>1,209,273</u>

Credit agreements subscribed represent commitments to grant loans to customers at a future date. Such financial instruments are recorded as commitments upon signing the corresponding contract and are reported in the financial statements when disbursements are made. The contracts to extend credit have fixed expiration dates and in some cases expire without making disbursement. Therefore, the total committed amount does not necessarily represent future cash requirements. The Bank assesses the loan payment capacity of each customer on a case-by-case basis.



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Credit default swap represents a contingent commitment assumed by the Bank with a client for payments to be honored by a third party. This derivative contract is registered as "Derivative Financial Instruments" at its fair value. Letters of credit, pledges and guarantees granted are contingent commitments assumed by the Bank to guarantee compliance by its clients with commitments assumed with 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 made a case-by-case analysis of each commitment assumed, based on current information and events. As of December 31, 2005 and 2004, there have not been, and there is no expectation that there will be, significant losses due to these commitments.

As of December 31, 2005 and 2004, the maturities of the guarantees are as follows:

<u>Maturity</u>	<u>2005</u>	<u>2004</u>
2005	-	51
2007	-	7,500
2010	627	627
2011	1,470	1,774
	<u>2,097</u>	<u>9,952</u>

(17) Derivative financial instruments and hedging activities

The Bank's objective in using derivative instruments is to reduce its risk exposure to changes in interest rates, currency exchange rates and credit risks. Generally, 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 currency exchange rates, the Bank exposes itself to credit and market risk.

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Bank, which creates credit risk for the Bank. When the fair value of a derivative contract 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 better.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates or currency exchange rates. The Bank enters into derivative instrument agreements 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 covered.

The following table presents the notional amount and the fair value of derivative instruments as of December 31, 2005:



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	2005		
	Notional Amount	Fair Value	
		Assets	Liabilities
Hedging			
On investment securities	18,500	106	-
On loans receivable	374,200	2,551	-
Credit default swap	25,000	-	558
On loans payable	138,769	6,359	4,235
On bonds and senior notes payable	615,687	5,246	15,254
Subtotal	1,172,156	14,262	20,047
Others			
Credit default swap	25,000	669	-
Subtotal	25,000	669	-
Total	1,197,156	14,931	20,047

During the fiscal year ended December 31, 2005, the results yielded by the inefficacy of such hedging were recognized under other operating income and amounted to 106.

The following table presents the notional amount and the fair value of derivative instruments as of December 31, 2004:

	2004		
	Notional Amount	Fair Value	
		Assets	Liabilities
Hedging			
On investment securities	3,500	30	-
On loans receivable	70,000	12	59
Credit default swap	25,000	-	608
On loans payable	194,474	25,407	603
On bonds and senior notes payable	484,202	20,500	4,950
Subtotal	777,176	45,949	6,220
Others			
Credit default swap	25,000	730	-
Subtotal	25,000	730	-
Total	802,176	46,679	6,220

During the fiscal year ended December 31, 2004, the results yielded by the inefficacy of such hedging were recognized under other operating expense and amounted to 1,097.

(18) Fair Value of Financial Instruments

The following table presents the amounts and estimated fair values of the Bank's financial instruments and the estimated fair value of financial instruments with off-balance sheet risks. The fair value of a financial instrument is defined by FAS 107 "Disclosures about fair value of financial instruments" as the amount at which the instrument could be exchanged in a current transaction between willing parties.

The estimated fair value is better shown through the market quotation value, if available. In those cases in which the market quotation value is not available, the estimate of the fair value is to be based on the market quotation of financial instruments of similar characteristics, the present value of the future cash flows expected or other valuation techniques, which are significantly affected by the assumptions adopted. Though Management applies its best judgment to estimate the current values of these financial instruments, there are weaknesses inherent in any of the valuation techniques. In addition, minor changes in the assumptions used might have a significant impact on the estimates of current values.



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A significant portion of the Bank's assets and liabilities are short-term financial instruments, with maturity terms of less than one year, and/or with variable interest rates. These short-term instruments, at variable rates are considered to have a fair value equivalent to their value as recorded as of the date of the financial statements. The foregoing applies to cash and due from banks, interest-bearing deposits in banks, loans issued at floating interest rates and interest receivable and payable.

The following methods and assumptions were used to estimate the fair value of financial instruments with a maturity date in excess of one year and fixed interest rates:

- Securities available for sale and derivative financial instruments: fair value, close to the value for accounting purposes, is calculated based on the prices quoted in the market, or, if there were no prices available, based on the discount of cash flows using current returns of similar securities.
- Loans receivables, net: The fair value of loans at fixed interest rates is estimated on the basis of the analysis of the discounted cash flow, by application of the "Commercial Interest Reference Rate" (CIRR), as reference. This rate is the official rate used for credits by Export Credit Agencies and published by the Export-Import Bank of the United States of America and it is based on the rates accrued on the US Treasury Bills. Fair values for loans in non-accrual status are estimated based on the analysis of discounted cash flows or the value of the collateral, when applicable.
- Equity investments: given that they do not have an immediate market; Management estimates that the value for accounting purposes is close to fair value.
- Loans payable: the fair values of short term loans are estimated based on the analysis of discounted cash flows, taking as a reference the rates of the most recent transactions agreed on with the Bank prior to year-end. Fair values for long-term loans are estimated based on the analysis of discounted cash flow, using the CIRR as a reference.
- Commercial paper program: the fair values are estimated using the discounted cash flow analysis, taking as a reference the rates of the most recent transactions agreed with the Bank prior to year-end.
- Bonds and senior notes payable: the fair value is estimated based on the analysis of discounted cash flows, based on current bank rates for multilateral organizations.
- Certificates of deposit: fair values are estimated based on the analysis of discounted cash flows, based on the rates of the most recent transactions agreed on with the Bank prior to year-end.
- Certificates of investments: As set forth in Note 13, at December 31, 2005 CIVs bore interest at 3% per annum, resulting in their fair value equaling their registered value. At December 31, 2005, the Bank discounted the cash flows of CSCs at the interest rate established for them in November 2005.
- Contingent commitments (credit default swaps, letters of credit and pledges and guarantees granted): the fair value of these instruments is based on the credit risks of the counterparty.



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The estimated fair values as of December 31, 2005 and 2004 are as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Assets</u>				
Cash and due from banks	4,105	4,105	8,007	8,007
Interest-bearing deposits in banks	229,547	229,547	259,051	259,051
Securities available for sale	382,297	382,297	371,337	371,337
Loans receivable, net	3,057,038	3,068,209	2,679,914	2,736,654
Interest receivable	35,783	35,783	31,700	31,700
Derivative financial instrument	14,931	14,931	46,679	46,679
Equity investment	20,532	20,532	22,805	22,805
Total	3,744,233	3,755,404	3,419,493	3,476,233
<u>Liabilities</u>				
Loans payable	972,635	954,803	1,043,604	1,045,715
Bonds and senior notes payable	733,852	733,022	590,901	592,984
Commercial paper program	198,099	190,778	-	-
Certificates of deposit	318,046	325,728	337,340	337,985
Certificates of investments	51,230	51,085	62,235	62,235
Interest payable	21,768	21,768	13,121	13,121
Derivative financial instruments	20,047	20,047	6,220	6,220
Contingent commitments	-	-	-	-
Total	2,315,677	2,297,231	2,053,421	2,058,260

(19) Social Benefit Fund

CABEI maintains a fund named Social Benefit Fund (SBF).

The SBF operates in accordance with the regulations issued by the CABEI's Board of Directors, it is managed by a management board and its objective is to provide the Bank's personnel benefits of disability and retirement pensions, voluntary retirement, and compensation based on years of service, life insurance in the event of disability and death and medical benefits. The SBF is funded by contributions from beneficiaries and the Bank in accordance with plan's regulations.

Assets

Although all the contributions made by the Bank and all the assets and income of the SBF are owned by the Bank, they are segregated from the Bank's other assets and liabilities for the purpose of being used solely to pay benefits as provided in the SBF's charter. Nevertheless, because the SBF is not a legal entity separate from the Bank and its assets are not adequately restricted and are not transferable to third parties, they may not be recorded as off-balance sheet items. However, they are not reflected on CABEI's balance sheet because the assets of the SBF represented by certificates of deposit issued by CABEI would be netted against the Bank's liabilities for the same items, which in turn, is not significantly different from the Projected Benefits Obligation.

As of December 31, 2005 and 2004, as detailed in Note 13, the Bank has recorded liabilities in favor of the SBF in the line certificates of deposit a total amount of 114,665 and 105,067, respectively (plus 252 and 250 of accrued interest at those dates included in the line interest payable) representing most of the SBF's assets. These certificates were placed at an annual rate of 10% and generated for the SBF an estimated income of 10,900 and 9,900, for the fiscal years ended December 31, 2005 and 2004, respectively. In addition, as of December 31, 2004, the Bank had recorded 3,615 as provision for contributions to be paid to the SBF, which were paid in February 2005.



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Projected benefits obligations and plan position

Although the SBF's benefit obligations are reviewed periodically, the Bank regards December 31 of each year as the date of measurement of the benefits obligations of the SBF. The following table shows the change in the projected benefits obligation, changes in assets and the plan position as a consequence of applying, and compliance with the criteria established by SFAS 87:

	<u>2005</u>
Changes in the obligation from benefits	
Obligation from benefits at the beginning of fiscal-year	115,867
Cost of service	3,681
Cost of interest	7,716
Collected contributions (*)	2,296
Actuarial income	(590)
Plan amendments	-
Paid benefits	(8,172)
Obligation from benefits at the end of fiscal-year	<u>120,798</u>
Changes in plan assets	
Value of assets at the beginning of fiscal-year	116,594
Plan assets return	11,624
Bank contributions	2,914
Plan participants contributions	1,214
Paid benefits	(8,172)
Individual accounts balances	(1,141)
Other net incomes	(647)
Value of assets at the end of fiscal-year	<u>122,386</u>
Plan position	1,588

(*) Relates to medical benefits (see actuarial assumptions)

Periodic pension cost

The following table summarizes the evolution of the cost of periodic projected benefits associated with the SBF during the fiscal year ended December 31, 2005:

	<u>Retirement and Pensions</u>	<u>Life insurance</u>	<u>Hospital Medical</u>	<u>Total</u>
Service cost	3,608	73	-	3,681
Interest cost	7,351	365	-	7,716
Plan amendments	-	-	-	-
Amortization of unrecognized prior service cost	-	-	-	-
Actuarial losses / (earnings)	(975)	332	53	(590)
Periodic cost	<u>9,984</u>	<u>770</u>	<u>53</u>	<u>10,807</u>

The service cost has been recorded in salaries and employee benefits under administrative expenses in the statement of income, whereas the interest cost has been recorded under interest and fee expense (certificates of deposit and investment) in the statement of income.



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Actuarial assumptions

The actuarial assumptions used are based on interest rates of financial markets, past experience and the best estimate by Management of future changes in benefits and economic conditions. Changes in these assumptions may have an impact on the cost of benefits and future obligations. The weighted averages of actuarial assumptions used in the estimation of the benefits obligations for the fiscal years ended December 31, 2005 and 2004 were the following:

	2005	2004
Discount interest rate (from market)	7 %	7 %
Increase salary rate	5 %	5 %
Estimated return rate over assets	10 %	10 %

The discount rate used is derived from a theoretical portfolio in which the Bank might invest its assets, in compliance with current investment policy made up of bonds rated as “Investment Grade” or AA, by the main credit rating agencies. The annual rate of return expected on such assets reflects the historical rate of return of the certificates of deposit that the Bank has paid into the SBF.

Medical benefits have been considered to be a regime of defined contributions, for which the mathematical reserve is derived from the accumulated balance of the reserves for accounting purposes corresponding to the Plan of Medical Benefits. The inclusion of this regime among defined contributions is based on a resolution adopted by the Bank’s Board of Directors, pursuant to which the scope of the benefit is restricted to the annual cash and cash equivalents of the SBF.

Contributions

It is expected that the contributions from CABEI to the SBF during fiscal year 2006 will exceed the amount of 2,650. All contributions will be paid in cash.

Future payments of estimated benefits

The following table shows the benefits which are expected to be payable during each of the next five years and the aggregate of the benefits which are expected to be payable during the following five years and is based upon the same assumptions that were used to determine the projected benefits obligations as of December 31, 2005.

2006	8,076
2007	8,980
2008	9,122
2009	10,024
2010	9,611
2011–2015	53,264

(20) Other accumulated comprehensive income

Other accumulated comprehensive income as of December 31, 2005 and 2004 is as follows:

	2005		
	Cash flow hedging activities	Securities available for sale	Other accumulated comprehensive income
At beginning of fiscal year	20	14,712	14,732
Movements of the fiscal year	179	(1,483)	(1,304)
At end of fiscal year	199	13,229	13,428



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	2004		
	Cash flow hedging activities	Securities available for sale	Other accumulated comprehensive income
At beginning of fiscal year	(118)	13,707	13,589
Movements of the fiscal year	138	1,005	1,143
At end of fiscal year	<u>20</u>	<u>14,712</u>	<u>14,732</u>