

# Credit Programs, Financing Mechanisms and Policies

# CABEI Main Credit Initiatives

## **Power Generation**

To promote production and rational use of energy, emphasizing the use of renewable natural resources, with participation of the private sector.

## **Irrigation, Drainage and Soil Conservation**

To promote regional development of the agriculture sector through support provided to achieve an increase in productivity and production through a better use and preservation of soils and water, and through small and medium-sized irrigation systems and the introduction of modern production techniques.

## **Support Infrastructure**

To establish or expand physical support infrastructure (roads, ports, airports, energy and telecommunications) for productive activities of the export sector to enhance production competitiveness in this area and generate an appropriate environment for the free movement of goods and persons.

## **Export of Non -Traditional Products**

To encourage and increase exports of non-traditional products, contributing to the creation of new production and marketing units, or through the consolidation and extension of the existing ones.

## **Tourism Sector**

To sponsor the tourism sector, supporting its holistic and sustainable development to make the cultural, archeological patrimony and biodiversity as well as the natural beauties of the region known to the world, and to promote the development of small and cottage industries within this sector.

## **Industrial Reactivation and Reconversion**

To transform facilities and processes of manufacturing enterprises in order to increase productivity of resources and production competitiveness, both at the local and foreign markets, thus, enhancing employment and real salary levels of the population.

## **Agroenterprises**

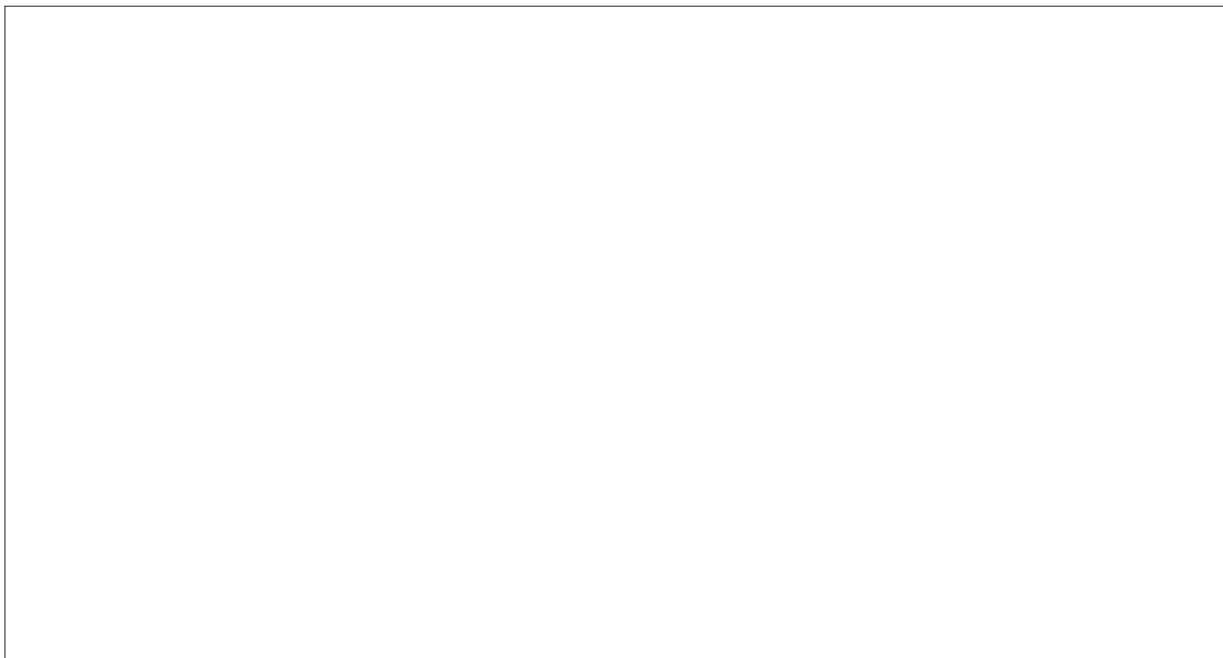
To foster the creation, use of modern methods and strengthening of agro-enterprises to increase the added value of agriculture products, diminish unemployment index, use modern marketing systems for agriculture products and contribute to the improvement of the balance of payments of every country.

## **Sustainable Development**

To assist the execution of credit and technical assistance projects of the Social Development Program; Social Investment against Poverty; Micro, Small and Medium Enterprise in Central America, in strategic alliance with the countries of the European Union and the International Development Cooperation Fund (ICDF) of the Republic of China; Financing of the Municipal Infrastructure (PROMUNI) and other activities that will contribute to improve the living standards of the Central American Population.

## **International Trade**

To grant short-term credits to finance export and import operations.



# Lending Criteria and Mechanisms

## General Principles

Pursuant to its institutional Strategy, and focusing on the strategic themes of poverty reduction, regional integration and the competitive insertion of the Central American countries into the global economy, CABEI grants financing for operations and activities aimed at promoting and strengthening sustainable economic and social development in the Central American region and in beneficiary member countries.

It offers products and financial services in a timely, expeditious, efficient, competitive and market oriented manner, assuring the highest client service standards.

The Bank procures resources from international financial markets, and intermediates or manages resources from international agents, which are used to provide diverse, high added value services that structured according to client requirements and market opportunities.

## Clients

CABEI finances central government and public sector enterprises and institutions operations, with or without sovereign guarantees. It also finances natural or legal persons of the private sector, or duly established mixed companies from both productive and financial sectors of founding member countries or any other beneficiary country.

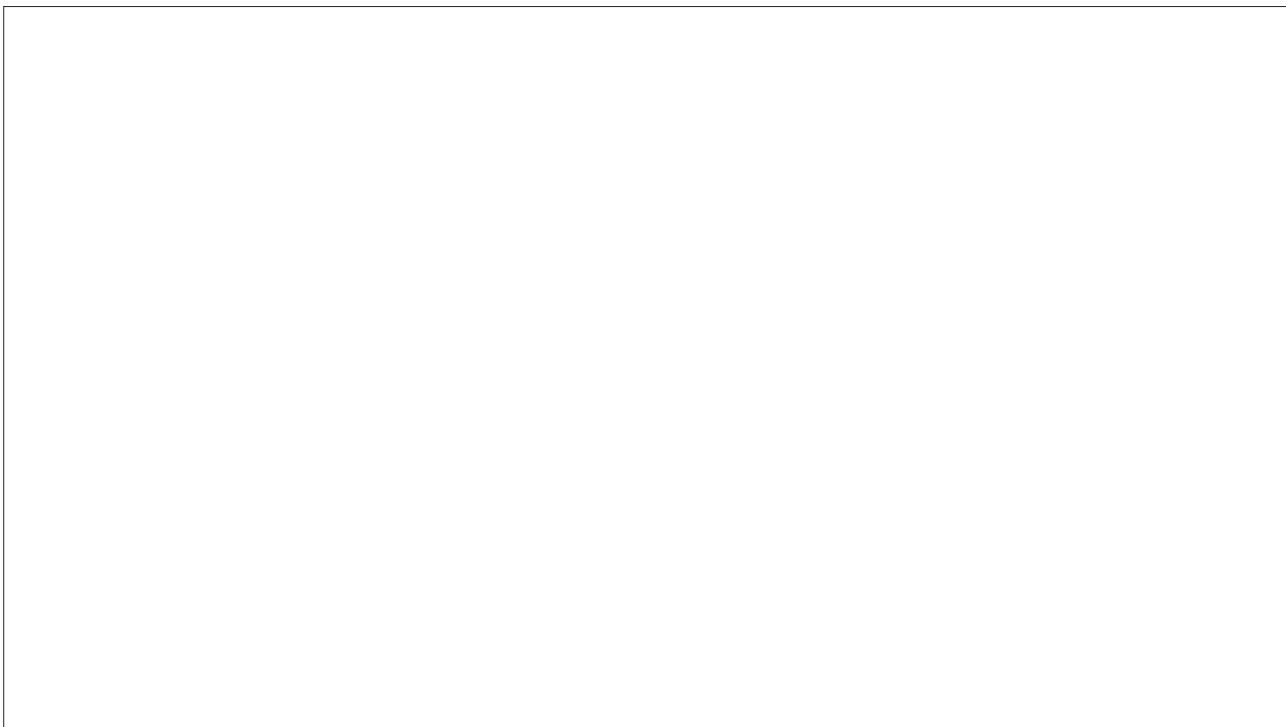
International financial institutions operating in Central America, as well as prime financial institutions established outside founding and beneficiary countries also have access to funding, provided that resources are used to finance Central American enterprises with a majority of Central American equity, but whose programs, projects and/or investments are outside the founding member countries as a support to their exports.

In the event a company requesting a loan has a legal entity status and is compliant with private law regulations and more than 50% of its shares are State controlled, such company shall be considered as public sector.

## Eligibility Criteria

In general, credit subjects are eligible if they comply with following objectives:

- e Their operations benefit and promote sustainable economic and social development of the Central American region in particular, and the beneficiary countries, falling in line with CABEI strategic objectives and themes.
- e Comply with legal, environmental and social requirements and objectives established by both the country and CABEI.
- e Satisfy CABEI credit, goods and services Procurement and asset laundry policies.



## Financing Participation

The Bank can offer the total amount of resources needed to finance a particular public sector program, project or operation, within the limits of individual loan and exposure of each country.

The maximum amount of credit to a financial institution is determined in terms of the entity's equity and according to collaterals, such as assignment of mortgage portfolio or others, to the Bank's satisfaction.

In operations with non-financial private sector enterprises, the client must participate by financing a certain share of the investment proposal with its own resources. CABEI will establish the client's contribution in financial resources according to the characteristics of the project, the industrial sector and the development phase of the client's operations.

## Products and Services

The Bank works directly with its clients or through financial institutions that can grant sub-loans to beneficiaries. In both cases the Bank can operate as single lender, in syndication or co-funding with other financial institutions. To finance these different operations, the use and destiny of resources should be clearly established.

CABEI's credit operations are performed essentially under the following modalities:

- k Loans
- k Leasing
- k Co-signing and guarantees
- k Technical Cooperation
- k Investment banking and financial advisory

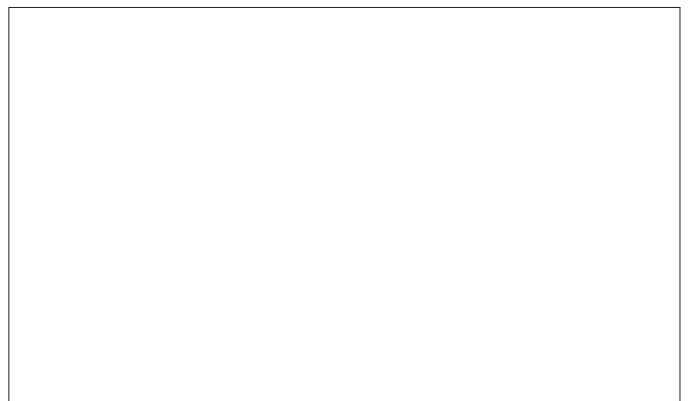
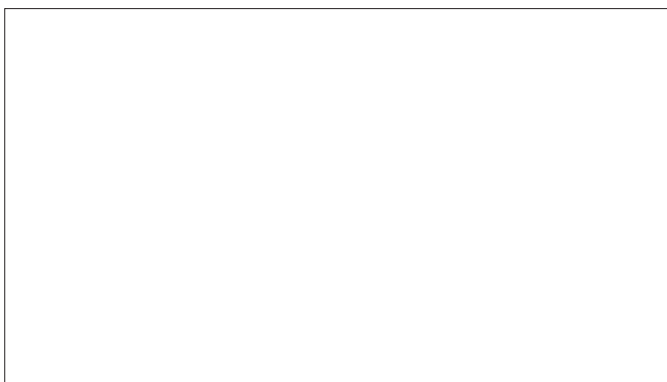
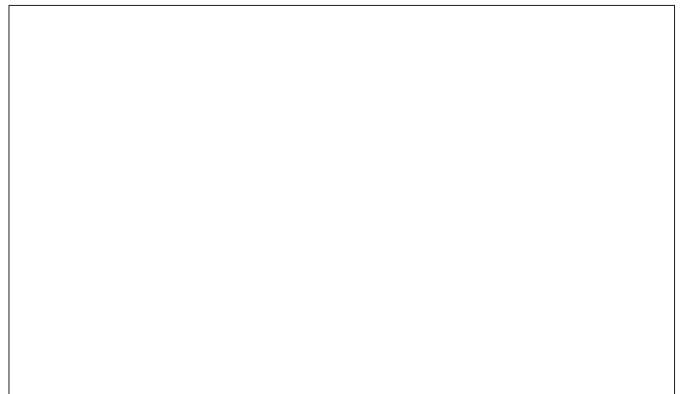
## Loans

The Bank's chief mechanisms to finance eligible investment, operations and economic activities programs and projects are short-term (up to 12 months), medium-term (from 1 to 5 years), and long-term (more than 5 years) loans; as well as lines of credit to finance foreign trade operations and working capital for enterprises and financial institutions

CABEI operates as a second tier bank when granting lines of credit for public and private financial institutions that channel these resources to the final beneficiaries from the different productive sectors, mostly to micro, small and medium-sized enterprises (MSME).

CABEI can, among others, grant loans or take upon the responsibility of paying or refunding previous obligations, purchase portfolio from eligible financial institutions and grant subordinated medium and long-term loans.

CABEI participates in co-financed credit operations with the purpose of benefiting its clients by increasing financial flows for public and private investments. It could be cofinancier with other multilateral or development institutions, with the regional banking system or with international commercial banking systems.



## **Leasing**

CABEI can act as leaser and channel financing for project infrastructure through financial or operative leasing schemes.

## **Co-signing and guarantees**

Co-signing and guarantees for governments, enterprises and financial institutions to back-up credit operations granted by other sources and for security placement operations.

## **Technical Cooperation**

Technical cooperation is granted as non-reimbursable, reimbursable or contingent recovery financing, depending on the nature and purposes of the operation. Technical cooperation operations are directed to support capacity building and modernization of institutions in the countries to allow them to adapt to competitiveness procedures, use of new technologies or adjustment of existing ones, development and integration of the region's capital markets; to promote export supply and investments; environment protection and high social impact community programs, both productive and integration-oriented, among others.

## **Investment Bank and Financial Advisory**

CABEI supports its clients as a financial agent in order to manage other institutions' financial operations, structure debt issuance and finance syndicated loans of third parties through project finance transactions customized to fit the clients' requirements and solve their financing needs.

# **Financial Policies and their Compliance**

## **Liquidity**

The currency liquidity level to meet disbursement commitments with free availability resources, debt service, administrative and working capital expenses is determined based upon i) requirements of net cash for the three next fiscal years; or ii) the equivalent to six (6) months of the above mentioned obligations, whichever is highest.

As of December 31, 2005, the level of liquidity was 6.18 months, in compliance with the policy.

## **Investments**

The Bank will maintain a minimum of 75% of its liquid resources in qualified institutions, principally in "investment grade" securities and 25% in non-rated securities.

At the closing of the 2005 Fiscal Year, 80.63% of currency liquid investments were placed in Institutions with an A or higher rating.

## **Active Loan Interest Rates**

Interest rates of the Bank shall appropriately reflect fund procurement and management costs and will include a reasonable spread on capital return. They should be reviewed on a quarterly basis.

During the Fiscal Year, the Bank maintained its interest rates in harmony with the local market, attaining a positive financial spread as a result of its operations.

## **Loan Reserves**

Reserves are established in line with the loan portfolio assessment in accordance with widely accepted international criteria in risk rating issues, taking into account the differences of the portfolio and the sovereign risk, other public sector entities risk, and private sector risk.

At the closing of the Fiscal Year, Reserves were established based on the portfolio rating and accounting standards generally accepted in the United States of America (USGAAP) according to which, operations are registered in the Bank.

## **Arrears**

The Bank will not carry out any disbursements if a borrower is in arrears. Likewise, a public sector loan is declared in a non-accrual status when there is a arrears of over 180 days; and in the case of the private sector when the arrears is over 90 days. Interests of these loans are registered as Profits when perceived by the Bank.

As of December 31, 2005, the public sector and intermediary financial institutions arrears amounted to zero, representing 90.4% of the total loan portfolio of CABEI. Private Sector default amounted 0.49% of the total portfolio. These points the high standard observed by the Bank during every credit process.

## **Indebtedness**

Maximum indebtedness of the Bank shall not exceed three (3) times its equity; the latter defined as paid capital, reserves and profits. It will be measured by the Total Debt/Equity coefficient, which shall not exceed 3:1.

At the closing of the Fiscal Year, this coefficient was 1.47:4 times, demonstrating the Bank's soundness, and the capability to increase its leverage, if necessary.

**Exchange Risk**

The Bank will not assume any exchange risk resulting from its operations, except in the case of special local currency programs approved by the Board of Directors, where risk will be covered through an interest rate. This special portfolio shall not go above 7% of the total loan portfolio of the Bank.

As of December 31, 2005, the special portfolio only represented 4.2%.

**Exposure**

The total loan portfolio of the Bank shall not exceed the equivalent to 3.5 times its Equity. Exposure in each founding member countries shall not exceed its Equity nor represent more than 25% of total exposure. The Bank's exposure in one enterprise or state or mixed institution shall not exceed 20% of the Equity of the Bank. The Bank's exposure in one enterprise, related enterprises or institution with a non-sovereign risk shall not exceed 5% of its Equity. Exposure of the Bank in a group of related enterprises or economic group shall not exceed 8%.

Exposure parameters by country and institutions were met in the 2005 Fiscal Year.

**Capital Adjustment**

The coefficient Capital/Weighted Assets by Risk shall be above 35%. To weight asset risks, the coefficients of the Committee on Bank Regulations and Basel Supervision practices will be used.

As of December 31, 2005 this ratio was 44.9%.

