CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Reports Thereon)

CABEI

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

February 28, 2017

The Management of the Central American Bank for Economic Integration (the Bank) is responsible for establishing and maintaining an effective internal control system over financial reporting. In consequence, Management has assessed the Bank's internal control over financial reporting as of December 31st, 2016. This assessment was based on the criteria for effective internal control established in the Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The internal control over financial reporting is a process designed and executed under the supervision of, the Bank's principal executives and financial officers, or persons performing similar functions, intended to provide reasonable assurance regarding the elaboration of reliable financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. An entity's internal control over financial reporting includes those norms and procedures that, (1) pertain to the maintenance of records that, at reasonably detailed level, accurately and fairly reflect the transactions and dispositions of the assets of the entity, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with the authorization of management and those charged with governance and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Based on this assessment performed, Management believes that the Bank's internal control over financial reporting is effective as of December 31st, 2016.

There are inherent limitations in assessing the effectiveness of any internal control system, which may include a human error, or the possibility to elude or override the established controls intentionally. Accordingly, even an effective internal control can provide only a reasonable assurance in respect to the financial statements preparation. Furthermore, there may be changes in certain conditions that would impact on the effectiveness of the internal control in a period of time.

KPMG Panama, an independent registered public accounting firm, has performed an integrated audit of the internal control over financial reporting in conjunction with an audit of the financial statements as of December 31st, 2016. KPMG Panama has issued an attestation report regarding the effectiveness of the Bank´s internal control over financial reporting, which states that the Bank´s internal control is effective as of that date, based on the criteria established in the Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Dr. Nick Rischbieth
Executive President

Hernan Danery Alvarado
Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

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

We have audited the effectiveness of Central American Bank for Economic Integration's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Central American Bank for Economic Integration's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management´s Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on Central American Bank for Economic Integration's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Central American Bank for Economic Integration maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of Central American Bank for Economic Integration as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, changes in equity and cash flows for the years then ended and our report dated February 28, 2017, expressed an unqualified opinion on those financial statements.

KPMG

February 28, 2017
Panama, Republic of Panama

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Central American Bank for Economic Integration (the "Bank"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central American Bank for Economic Integration as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other matter

We also have audited in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Bank's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2017, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

KPMG

February 28, 2017
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of December 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

	2016	**2015**
Assets		
Cash and demand deposits (note 4)	1,373	32,790
Interest-bearing deposits with banks (note 5)	1,505,008	1,167,671
Securities available for sale (131,351 in 2016 and 153,050 in 2015, under securities lending agreements) (note 6)	1,223,344	1,169,964
Loans, net of deferred origination fees	6,473,121	6,081,605
Less: Allowance for loan losses	(194,150)	(176,587)
Net loans (note 7)	6,278,971	5,905,018
Accrued interest receivable (note 8)	74,125	66,118
Property and equipment, net (note 9)	32,702	32,723
Derivative financial instruments (note 19)	30,724	8,148
Equity investments (note 10)	31,479	29,858
Other assets (note 11)	16,528	18,994
Total assets	9,194,254	8,431,284
Liabilities		
Loans payable (198,454 in 2016 and 105,265 in 2015, measured at fair value) (note 12)	1,334,733	1,345,842
Bonds payable (3,212,420 in 2016 and 2,833,914 in 2015, measured at fair value) (note 13.a)	3,954,654	3,467,305
Commercial paper program (note 13.b)	129,960	192,833
Certificates of deposit (note 14)	983,592	748,879
Certificates of investment	607	667
Accrued interest payable (note 15)	35,235	22,233
Derivative financial instruments (note 19)	6,545	42,887
Other liabilities (note 16)	25,993	37,419
Total liabilities	6,471,319	5,858,065
Equity		
Paid-in capital (note 17.a)	1,001,638	865,391
Special capital contributions (note 17.b)	0	7,250
General reserve	1,609,918	1,548,487
Retained earnings	115,454	159,519
Accumulated other comprehensive loss (note 22)	(4,075)	(7,428)
Total equity	2,722,935	2,573,219
Total liabilities and equity	9,194,254	8,431,284

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income

For the years ended December 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

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	December 31	
	2016	**2015**
Financial income		
Public sector loans	260,891	234,531
Private sector loans	69,722	74,280
Marketable securities	15,932	9,871
Due from banks	10,958	3,650
Realized gains on investment funds	2,511	965
Total financial income	360,014	323,297
Financial expenses		
Loans payable	24,195	21,158
Bonds payable	95,742	64,458
Commercial paper programs	732	1,812
Certificates of deposit and investment	7,678	3,529
Total financial expenses	128,347	90,957
Net financial income	231,667	232,340
Provision for loan losses (note 7)	26,858	8,381
Provision for losses on contingencies and preinvestment studies	1,129	156
Total provisions for credit losses	27,987	8,537
Net financial income, after provisions for credit losses	203,680	223,803
Other operating income (expenses)		
Financial services and other fees	1,862	2,208
Monitoring and administration fees	1,011	827
Dividends from equity investments	118	0
Realized gain (loss) on securities available for sale	13	(2,920)
Gain on sale of loans	0	141
Gain (loss) on equity investments, net	1,478	(426)
Loss on foreclosed assets, net	(1,727)	(762)
Foreign exchange loss, net	(557)	(1,153)
Other operating income (expenses)	3,078	(2,835)
Total other operating income (expenses)	5,276	(4,920)
Administrative expenses		
Salaries and employee benefits	28,006	27,922
Other administrative expenses	12,922	12,477
Depreciation and amortization	3,732	3,946
Other	1,105	1,420
Total administrative expenses	45,765	45,765
Income, before special and other contributions and valuation of derivative financial instruments and debt	163,191	173,118
Special and other contributions (note 23)	(11,724)	(25,389)
Income, before valuation of derivative financial instruments and debt	151,467	147,729
Valuation of derivative financial instruments and debt	(36,013)	11,790
Net income	115,454	159,519

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

	December 31	
	2016	**2015**
Net income	115,454	159,519
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale, net	7,371	(1,390)
Reclassification adjustments for net realized (gain) loss included in earnings (note 22)	(2,524)	1,955
Subtotal - securities available for sale	4,847	565
Retirement plans, pensions and other social benefits:		
Change in actuarial loss (note 21)	(1,494)	(6,144)
Other comprehensive income (loss)	3,353	(5,579)
Comprehensive income	118,807	153,940

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

	Paid-in Capital	Special Capital Contributions	General Reserve	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance as of December 31, 2014	731,290	7,250	1,556,720	102,859	(1,849)	2,396,270
Net income	0	0	0	159,519	0	159,519
Other comprehensive loss	0	0	0	0	(5,579)	(5,579)
Comprehensive income (loss)	0	0	0	159,519	(5,579)	153,940
Capital contributions, in cash (note 17.a)	23,009	0	0	0	0	23,009
Capital payments through series "E" certificates (note 17.a)	111,092	0	(111,092)	0	0	0
Transfer to general reserve	0	0	102,859	(102,859)	0	0
Balance as of December 31, 2015	865,391	7,250	1,548,487	159,519	(7,428)	2,573,219
Net income	0	0	0	115,454	0	115,454
Other comprehensive income	0	0	0	0	3,353	3,353
Comprehensive income	0	0	0	115,454	3,353	118,807
Capital contributions, in cash (note 17.a)	30,909	0	0	0	0	30,909
Capital payments through series "E" certificates (note 17.a)	98,088	0	(98,088)	0	0	0
Substitution of special capital contributions (note 17.b)	7,250	(7,250)	0	0	0	0
Transfer to general reserve	0	0	159,519	(159,519)	0	0
Balance as of December 31, 2016	1,001,638	0	1,609,918	115,454	(4,075)	2,722,935

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

	December 31	
	2016	**2015**
Cash flows from operating activities		
Net income	115,454	159,519
Items to reconcile net income to net cash provided by operating activities:		
Provisions for credit losses	27,987	8,537
(Gain) loss on equity investments, net	(1,478)	426
Loss on foreclosed assets, net	1,727	762
Foreign exchange losses, net	557	1,153
Depreciation and amortization	3,732	3,946
Valuation of derivative financial instruments and debt	36,013	(11,790)
Net increase in accrued interest receivable	(8,026)	(6,656)
Net increase in accrued interest payable	13,002	2,915
Net decrease in other assets	549	3,092
Net (decrease) increase in other liabilities	(12,919)	7,118
Net cash provided by operating activities	176,598	169,022
Cash flows from investing activities		
Net increase in interest-bearing deposits with banks	(337,356)	(244,225)
Purchase of securities available for sale	(679,338)	(592,352)
Proceeds from sales and redemptions of securities available for sale	629,560	570,984
Purchase of property and equipment	(3,711)	(3,264)
Net increase in margin calls and other	(172,837)	(162,087)
Disbursements of loans	(1,527,254)	(1,505,243)
Collections of loans	1,122,699	1,135,046
Capital contributions to equity investments, net of returns	(144)	(123)
Net cash used in investing activities	(968,381)	(801,264)
Cash flows from financing activities		
Capital contributions	30,909	23,009
Proceeds from loans payable	338,832	459,623
Repayment of loans payable	(339,145)	(513,282)
Net decrease in commercial paper programs	(62,874)	(94,372)
Proceeds from issuance of bonds payable	1,181,427	1,379,635
Repayment of bonds payable	(623,802)	(868,598)
Net increase in certificates of deposit	234,713	244,483
Decrease in certificates of investment	(60)	(279)
Net cash provided by financing activities	760,000	630,219
Effect of exchange rate fluctuations on cash held	366	(142)
Cash and demand deposits at beginning of year	32,790	34,955
Cash and demand deposits at end of year	1,373	32,790
Net decrease in cash and cash equivalents	(31,417)	(2,165)
Supplemental information:		
Cash paid for interest	115,345	88,042
Net unrealized changes in securities available for sale	4,847	565
Change in actuarial loss under the Social Benefits Plan (note 21)	(1,494)	(6,144)

See accompanying notes to financial statements.

(1) Origin and Nature of the Bank

The Central American Bank for Economic Integration (CABEI or the "Bank") is a financial institution under public international law, founded by the governments of Guatemala, El Salvador, Honduras and Nicaragua pursuant to the Constitutive Agreement dated December 13, 1960. In addition, on September 23, 1963, the Republic of Costa Rica was included as a founding member. Pursuant to protocol subscribed on September 2, 1989 and effective since 1992, the participation of non-regional members was allowed. The Bank commenced operations on May 31, 1961 and has its headquarters in Tegucigalpa, Honduras.

The Bank's objective is to promote the economic integration and the balanced economic and social development of the Central American region, which includes the founding countries and the non-founding regional countries.

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC), by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS) and by the Social Benefit Fund (SBF). These funds are regulated by their own by-laws and their equities are independent and separate from the Bank, although they are managed by the Bank. These financial statements include, solely, the assets, liabilities and operations of the Bank. The net assets relating to the other aforementioned funds have been disclosed in notes 20 and 21.

Furthermore, as detailed in note 20, the Bank manages third-party cooperation funds, destined to finance programs agreed with each organization, which are in line with the Bank's policies and strategies.

(2) Summary of Significant Accounting Policies

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

A summary of significant accounting policies is as follows:

(a) Functional and foreign currencies

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

(b) Cash and equivalents

For purposes of the statements of cash flows, cash and cash equivalents represent the amounts included in cash and demand deposits, which are due at the Bank's request.

(2) Summary of Significant Accounting Policies, continued

(c) Fair value measurements

For fair value measurements, the Bank uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, and for other required disclosures, the Bank considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Bank looks to active and observable markets to price identical assets and liabilities. When identical assets and liabilities are not traded in active markets, the Bank looks to market observable data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to derive a fair value measurement. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

When considering the assumptions from market participants in fair value measurements, the hierarchy distinguishes between observable and unobservable assumptions, which are categorized in one of the following levels:

- Level 1 - Assets and liabilities for which the identical item is traded on an active exchange.
- Level 2 - Assets and liabilities valued based on observable market assumptions for similar instruments, price quotations from markets that are not active or other assumptions that are observable and can be corroborated by information available on the market for substantially the full term of the assets or liabilities.
- Level 3 - Assets and liabilities for which significant valuation assumptions are not readily observable in the market; instruments valued based on the best available data, some of which is internally-developed, and consider risk premiums that a market participant would require.

As stated in note 3, the Bank has elected the fair value measurement for certain assets and liabilities which do not require such measurement.

(d) Securities available for sale

Marketable securities are classified as available for sale and recorded at fair value, with unrealized gains and losses being excluded from net income and reported as a separate component of equity under accumulated other comprehensive loss until they are realized and reclassified to the statement of income.

(2) Summary of Significant Accounting Policies, continued

CABEI shall maintain at least 80% of its total investment securities portfolio in deposits with banks and bonds placed by issuers holding an international rating of “A” or better, and a maximum of 20% in unrated or below “A” (including A-, A, A+) rated securities.

Full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Bank intends to sell or would more-likely-than-not be required to sell, absent of any unforeseen significant changes in circumstances, before the expected recovery of the amortized cost basis is recognized in earnings as a realized loss.

For debt securities that management has no intent to sell and believes that it more likely-than-not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in accumulated other comprehensive loss. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected using the Bank’s cash flow projections.

A decline in the market value of any security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. To determine whether an impairment is other-than-temporary, the Bank considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimate of cash flows expected to be collected.

Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

The Bank has not experienced other-than-temporary impairment during the years ended December 31, 2016 and 2015.

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

Premiums and discounts are recognized as an adjustment to yield over the contractual term of the security using a method that approximates to the effective interest method. If prepayment occurs on a security, any premium or discount on the value is recognized as an adjustment to yield in the period in which the prepayment occurs.

(2) Summary of Significant Accounting Policies, continued

The Bank engages in securities lending agreements of up to 20% of its securities portfolio. Counterparties provide the same lent titles or other titles with equivalent characteristics, as collateral. The entirety of the securities portfolio in custody by the counterparty is eligible for the program. For this program, CABEI earns a fee which is recorded in other operating income. The Bank's securities custodian guarantees and manages the transactions made under the program, and performs daily valuations of the securities lent under the program to ensure there is sufficient collateral to guarantee the securities lent by CABEI.

Securities under lending agreements are reported at fair value. The securities transferred under security lending agreements have not met the accounting criteria for treatment as a sale. The Bank maintains, at all times, the right to sell the securities under lending agreements and to terminate the loans. Therefore, securities transferred under security lending agreements are retained as assets on the balance sheet.

(e) Concentration of credit risk

In compliance with its objective and financial policies, the Bank grants loans and guarantees to companies, both public and private, established in the founding countries or in any other beneficiary country, 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 countries and regional non-founding countries.

The Bank annually reviews its credit risk concentration policies. The significant parameters applicable to the concentration of credit risk are described as follows:

- The total of its loan portfolio cannot exceed 3.5 times the Bank's equity.
- The Bank's equity adequacy should be maintained at a level not lower than 35%.
- The risk weighted exposure in any of the founding countries must not exceed 100% of the Bank's equity or 30% of the Bank's total accumulated exposure. Exposure is defined as the aggregate risk weighted assets which the Bank concentrates in a single borrower, whether such borrower is a country, a public or mixed institution, an individual or a legal entity of the private sector.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.
- Exposure to a single public sector company or mixed institution with government majority ownership, without a sovereign guarantee, shall not exceed 20% of the Bank's equity.

(f) Loans and allowance for loan losses

Loans are stated at the outstanding principal balance less the allowance for loan losses and deferred origination fees on loans. Interest income is recognized on the accrual basis according to the contractual terms of the loans.

(2) Summary of Significant Accounting Policies, continued

The accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for loan losses. In addition, it defines a class as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for risk evaluation.

The Bank's loan portfolio segments are public sector and private sector. The classes for public and private sector loans represent each country in which the loans are granted to these sectors.

Public Sector

Loans to the public sector are granted to the governments of member countries, to local and municipal governments of member countries, to public institutions, to entities, institutions and / or companies whose capital structure has a majority share participation of the State or other public entities, either directly or indirectly, as well as to entities that develop a public interest project, whose economic ownership or control is by the State or in which there are direct and enforceable financial commitments by the State in order to ensure the financial balance of such project.

In accordance with the internal policy for the Allowance or Provision for Loans to the Public Sector, the allowance must be estimated based on each of the credit operations net exposure, probability of default and severity of loss.

For the public sector, the Bank determines the nature and level of exposure to credit risk, according to the risk rating assigned to each country by international credit rating agencies (Standard & Poor's, Fitch Ratings and Moody's), the available market information on the probability of default provided by international credit rating agencies, the effective maturity of each operation (average term) and whether or not the operation has a sovereign guarantee.

Given that the Bank holds preferred creditor status for the loans with solidarity sovereign guarantee, this factor is considered in order to adjust the probabilities of default with respect to market information. To determine the parameters applied for severity of loss, the Bank considers Basel II recommendations.

In addition, a methodology is established in order to determine the adjustment to the probabilities of default of the public sector considering that the preferred creditor status is better determined with the multilateral debt ratio, which measures multilateral debt as a percentage of a country's total external debt, and with the external debt stock as a percentage of gross national income. Lastly, severity of loss is included according to the type of debt, senior or subordinate.

(2) Summary of Significant Accounting Policies, continued

For public sector loans without solidarity sovereign guarantee of the State, the allowance is determined based on the Allowance for Losses of Private Sector Loans Policy. Thus way, the assignment of provisions to public sector loans without solidarity sovereign guarantee is consistent with the changes in risk perception expressed in the internal credit risk rating system (Sistema de Calificación de Riesgo – SRC), with probabilities of default from the private sector.

Management believes that this methodology reasonably reflects the estimated risk embedded in the Bank's public sector lending activities and, consequently, considers the resulting amount of the allowance for public sector loans to be adequate.

Private Sector

Loans to the private sector are granted mainly to companies in the member countries, as well as to entities, institutions and / or companies whose capital structure has a majority share participation of the private sector, either directly or indirectly. In these loans, CABEI obtains the guarantees which deems appropriate, such as mortgages, pledges, bank guarantees and credit default swaps.

In accordance with the internal policy for the Allowance for Losses of Private Sector Loans, the Bank's management has developed policies and procedures that reflect the credit risk assessment considering all available information to determine whether the reserve for loan losses is adequate.

When appropriate, this assessment includes monitoring qualitative and quantitative trends including changes in levels of arrears, criticized loans, and non-accrual loans.

In developing this assessment, the Bank uses estimates and judgment in order to assess the credit risk based on an internal credit risk rating system (SCR), which has eight levels:

Rating	Definition
From SCR-1 to SCR-4	Normal
SCR-5	Special Mention
SCR-6	Substandard
SCR-7	Doubtful
SCR-8	Loss

- Special mention: Loans that have a potential weakness to meet the debt service that deserves management's close attention. If left uncorrected, this potential weakness may result in impairment of the loan or of the Bank's credit position at some future date.

(2) Summary of Significant Accounting Policies, continued

- Substandard: Loans that have a well-defined weakness that jeopardizes collectability of the debt. They are characterized by the distinct possibility that the Bank will incur in loss if such deficiency is not corrected. When it is determined that a loan is impaired, it is measured for impairment under Accounting Standards Codification (ASC) 310-10-35, including the collateral's fair value, if applicable.
- Doubtful: Loans whose weaknesses are so severe that the total loan recovery, based on current conditions, is unlikely and questionable. This level includes loans measured individually for impairment under ASC 310-10-35, including the collateral's fair value, if applicable.
- Loss: Loans that are individually measured for impairment under ASC 310-10-35, including the collateral's fair value, if applicable. This level comprises loans deemed uncollectible or with a value too low to warrant being in the Bank's books.

Changes in the allowance for loan losses are estimated based on several factors including, but not limited to, an analytical review of loan loss experience in relation to the outstanding balance of loans, an ongoing review of problematic or non-accrual loans, the overall quality of the loan portfolio and the adequacy of collateral, the evaluation of independent experts, and management's view on the impact of current economic conditions of the country of origin of each loan in the outstanding loan portfolio.

Loan installments are considered in arrears the moment there is a default in their effective date of payment. A 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 in accordance with the contractual terms of the loan.

Factors considered by management in determining impairment include payment record, collateral value and the probability of collecting scheduled principal and interest payments when due. A loan is also considered impaired if its terms are modified in a troubled-debt restructuring.

The Bank continuously monitors the credit quality of the loan portfolio by making revisions at least twice a year, based on market information such as country risk rating and probabilities of default provided by international credit rating agencies.

In addition, the Bank assesses the quality of its loan portfolio and the adequacy of the allowance for loan losses through independent third parties.

(2) Summary of Significant Accounting Policies, continued

When the ultimate collectability of the outstanding principal balance of an impaired loan is in doubt, all cash collections are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are recorded as recoveries of any amounts charged off, and then to interest income, to the extent any interest has not been recorded.

Troubled Debt Restructurings (TDRs)

Restructured loans are impaired loans for which the original contractual terms have been modified to provide terms that are less than those the Bank would be willing to accept for new loans with similar risks given the deteriorating financial condition of the borrower. The modifications to the contractual terms of the loans could consist of concessions such as interest rate reductions, principal discounts, forbearance of loan installments, extension of loan term, and other modifications in order to minimize possible economic losses.

A restructured loan has generally been in non-accrual status at the time of the modification.

Once the borrower complies with the new terms of the restructured loan for a reasonable period and if the remaining balance of the restructured loan is considered collectible, the restructured loan could return to accrual status.

Use of Allowance

Loan losses are written off against the allowance when management confirms partial or full inability to collect the loan balances. Subsequent loan recoveries, if any, increase the allowance for loan losses in the balance sheet.

(g) Non-accrual loans

In accordance with the Bank's policies, interest recognition on all loan installments is discontinued when they are 90 days or more in arrears on principal and/or interest based on contractual terms, for private sector loans, and when they are 180 days or more in arrears for public sector loans.

Loans for which the recognition of interest income has been discontinued are designated as non-accruing. All interest accrued but not collected on loans classified as non-accrual is reversed against financial income. Subsequent collections are accounted for on a cash basis, until qualifying to return to accrual status.

Interest on non-accrual loans for which the original conditions have been modified, are recorded on a cash basis until the debtor demonstrates for a reasonable period of time, its ability to repay the loan according to the contractual terms of the loan; at which time, the loan is returned to accrual status. The Bank charges off loans when they are deemed as uncollectible.

(2) Summary of Significant Accounting Policies, continued

(h) Property and equipment

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

The Bank depreciates property and equipment using the straight-line method over the estimated useful life of each type of asset, except land.

The estimated useful life of property and equipment is as follows:

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

(i) Derivative financial instruments and hedging activities

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

The derivative financial instruments have inherent market and credit risks. The inherent market risk on a financial instrument is the potential fluctuation in the interest rate, currency exchange rate or other factors, and it is a function of the type of product, the volume of the transactions, the tenor and other terms of each contract and the underlying volatility.

The inherent credit risk is the counterparty's possible non-compliance in the transaction when the value of a collateral is not adequate to recover the balance due.

The Bank minimizes the credit risk in derivative financial instruments through transactions with highly qualified counterparties with a credit rating of "A" (or equivalent) or better, and the master netting agreements with its derivatives counterparties.

Some derivative instruments acquired by the Bank are designated as: (a) hedge of the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment (fair value hedge); (b) hedge of the exposure to variability of cash flows of a recognized asset or liability, or forecasted transaction (cash flow hedge), or (c) hedge of foreign currency fair value or cash flows (foreign currency hedge).

(2) Summary of Significant Accounting Policies, continued

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 prospectively and retrospectively, 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 monitors, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items, or to specific firm commitments or forecasted transactions, as applicable.

Changes in fair value of a derivative instrument that has been designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded as valuation of derivative financial instruments and debt in the statement of income.

Changes in fair value of a derivative instrument that is highly effective and which has been designated and qualifies as a cash flow hedge are recorded in other comprehensive (loss) income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

Changes in fair value of a derivative instrument that is highly effective and has been designated and qualifies as a foreign-currency hedge are recorded in either income or other comprehensive (loss) income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge, respectively.

The ineffective portion of the change in the fair value of a derivative instrument that qualifies as either a fair value hedge or a cash flow hedge is reported in the statement of income.

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

(2) Summary of Significant Accounting Policies, continued

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust the hedged asset or liability for changes in fair value of the hedged risk. 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 for cash flow hedges, any changes in fair value of the derivative remain in accumulated other comprehensive (loss) income and are included in earnings of future periods when the hedged cash flows impact earnings.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in the statement of income.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Bank continues to carry the derivative on the balance sheet at its fair value with subsequent changes in fair value included in the statement of income, and gains and losses that were accumulated in other comprehensive (loss) income are immediately recognized in the statement of income.

In all other situations in which hedge accounting is discontinued, the Bank continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in the statement of income.

In addition, the Bank also enters into derivatives that although being used as economic hedges of risk they do not qualify for hedge accounting in accordance with the guidelines of ASC 815 *“Derivatives and Hedging”*.

Changes to the fair values of these derivatives are recorded as valuation of derivative financial instruments and debt in the statement of income.

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

It is the Bank’s policy to recognize in its balance sheet, the offset amounts of its financial instruments, including derivatives.

(2) Summary of Significant Accounting Policies, continued

(j) Equity investments

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

(k) Foreclosed assets in satisfaction of loans

Foreclosed real estate acquired in satisfaction of loans is held for sale and is initially recorded at fair value less cost to sell of the real estate at the date of foreclosure, establishing a new cost basis.

Subsequent to foreclosure, management carries on periodic assessments and these properties are carried at the lower of cost or fair value less estimated costs to sell based on recent appraised values. Income and expenses associated to holding these properties in portfolio and the changes to the related valuation allowance are recorded as other operating income (expenses).

(l) Social Benefit Plan

The funded status of the Bank's Social Benefit Plan (the Plan) is recognized on the balance sheet. The funded status is measured as the difference between the fair value of Plan assets and the projected benefit obligation. Overfunded benefit plans, where the fair value of Plan assets exceeds the projected benefit obligation, are aggregated and recorded as assets under the Social Benefit Plan while under-funded benefit plans, where the projected benefit obligation exceeds the fair value of Plan assets, are aggregated and recorded as liabilities under the Social Benefit Plan. The Bank recognizes the projected benefit obligation considering future service cost based on an actuarial study performed annually by an independent actuary. Actuarial gains and losses are recognized as a component of accumulated other comprehensive (loss) income, as a separate component of equity.

(m) Taxes

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

(n) General reserve and annual net income

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

The general reserve is reduced through the use of "E" series certificates by the members who are holders of "A" and "B" shares in order to pay, the subscription of new shares of the unsubscribed authorized share capital made available by the Bank.

(2) Summary of Significant Accounting Policies, continued

(o) Revenue and expense recognition

Revenue is recognized when the earnings process is complete and collectability is assured.

Loan origination fees are deferred and recognized in earnings over the term of the related loans as an adjustment to yield. Fees related to loan syndication are recognized when the Bank has concluded all the required services. Asset management fees, measured by the amount of assets managed at a particular date, are accrued as earned. Fees on endorsements and guarantees granted and other commitments are amortized using the straight-line method over the term of these instruments.

Interest expense is recognized under the effective interest method. Fees expense is recognized when the related service is received. Transaction costs are recognized when incurred.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to net earnings.

Issue costs for debt measured at fair value are expensed at the moment of issuance while those related to debt carried at amortized cost are deferred and amortized using a method that approximates to the effective interest method, over the term of the respective debt instrument.

(p) Donations received and contributions granted

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

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

(q) Endorsements, guarantees granted, commitments and contingencies

The main objective of the endorsements and guarantees granted by the Bank is to support the regional banking systems. In addition, such off-balance sheet arrangements support the development and integration projects of the Central American region to expand and diversify the banking services offered by CABEI so that its customers may have access to a broad range of services and low financial costs in developing their projects.

(2) Summary of Significant Accounting Policies, continued

To achieve its objective, the Bank grants two main types of endorsements and guarantees:

- Those that replace financing: generally long-term arrangements, such as bank endorsements or payment guarantees that support a financial document or credit contract which in itself secures compliance with obligations related to execution of a project. These endorsements and guarantees are granted taking into account the policies on credit risk concentration limits to CABEI's borrowers.

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

Bank endorsements and guarantees issued are contingencies to the Bank to guarantee the performance of borrowers to third parties. A guarantee is considered a contingency when the borrower incurs the underlying financial obligation, and are called when the borrower defaults and the beneficiary executes the guarantee.

The Bank issues guarantees and can require counterguarantees from debtor. The Bank would be required to perform under its guarantees if the payments guaranteed were not made by the debtor and the guaranteed party called the guarantee by demanding payment from the Bank. In the event that a guarantee of a debtor is called, the Bank has the contractual right to require payment from the debtor that has provided the counterguarantee to the Bank.

Loan commitments represent agreements to disburse loans to borrowers at a future date. Such commitments are recognized on the date a loan is disbursed. These commitments have fixed expiration dates and in some cases the commitments expire without disbursing the loans; as such, the total amount committed does not necessarily represent required future cash flows.

The Bank also estimates probable losses related to off-balance sheet commitments such as endorsements and guarantees granted and contractual commitments to disburse loans.

Off-balance sheet commitments are subject to individual credit reviews and are analyzed and segregated by risk according to the internal risk rating system of the Bank. These risk classifications, together with an analysis of current economic conditions, trends in performance and any other relevant information, result in the estimation of the allowance for off-balance sheet commitments (over contingent commitments), which is presented as other liabilities in the balance sheet.

(2) Summary of Significant Accounting Policies, continued

A credit default swap (CDS) is a financial swap agreement where the Bank will compensate the counterparty in the event of default on a loan or other credit event. These derivative financial instruments are recognized at fair value in the balance sheet.

The credit risk to the Bank in these agreements is essentially the same as the credit risk in loans to borrowers.

Standby and commercial letters of credit represent conditional obligations of the Bank which guarantee the performance of a borrower to a third party or exporters.

(r) Use of estimates

To prepare its financial statements in conformity with US GAAP, the Bank's management relies on certain estimates and assumptions that have an impact on the amounts of reported assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements, and the amounts reported in income and expenses during the reporting period. Actual results could differ from such estimates. Material estimates that are particularly susceptible to significant change in the near term relate mainly to the determination of the allowance for loan losses, valuation of securities available for sale and derivative financial instruments, valuation of foreclosed assets, valuation of liabilities measured at fair value, valuation of projected benefit obligations, and the status of contingencies.

(s) Segment reporting

Management has determined that the Bank has only one reportable segment since it does not manage or report internally its operations to evaluate performance or allocate resources based on a determination of the contributions to net income of individual operations.

(t) Accounting policy changes

As of December 31, 2016, CABEI adopted the policy of offsetting derivative financial instruments based on ASC 210-20-45, which establishes that the right to offset the positions of assets and liabilities in the balance sheet exists, when each and all of the following conditions are met:

- Each of two parties owes the other determinable amounts.
- The reporting party has the right to set off the amount owed with the amount owed by the other party.
- The reporting party intends to set off.
- The right of setoff is enforceable at law.

(Expressed in thousands of U.S. dollars)

(2) Summary of Significant Accounting Policies, continued

In addition, this new accounting policy is covered under ASC 815-10-45 which indicates that an entity may offset the fair value amounts recognized for derivative financial instruments and the fair value amounts recognized by the obligation to deliver cash collateral (delivered), or the right to claim cash collateral (received), which arises from derivative instruments recognized at fair value with the same counterparty under a master netting agreement.

The comparative financial statements as of December 31, 2015, have been modified to apply retrospectively the change in accounting policy. As of December 31, 2016 and 2015, the following items in the balance sheets were affected by the change in the accounting policy.

Balance Sheets
As of December 31, 2016

	Presentation of Derivative Financial Instruments by their		
	Offset Amounts (Offsetting)	**Gross Amounts (No Offseting)**	**Effect of Change in Accounting Policy**
Assets:			
Derivative financial instruments	30,724	503,568	472,844
Liabilities:			
Derivative financial instruments	6,545	479,389	472,844

As of December 31, 2015

	Previously Reported by Their Gross Amounts (No Offsetting)	**Adjusted Offset Amounts (Offsetting)**	**Effect of Change in Accounting Policy**
Assets:			
Derivative financial instruments	389,860	8,148	381,712
Liabilities:			
Derivative financial instruments	424,599	42,887	381,712

(u) Uniformity

The figures for financial services ad other fees and monitoring and administration fees of 2015, presented in other operating income (expenses) in the statement of income, were modified for comparative purposes with the figures of 2016.

(3) Fair Values and Fair Value Option

Bank's management has established a process for determining fair value. The fair value is primarily based on quoted market prices when available. If market prices or quotations are not available, fair value is determined based on internally developed models that primarily use as input, information independently obtained of market or market parameters, including but not limited to yield curves, interest rates, debt prices, foreign currency exchange rates and credit curves.

However, in situations where there is little or no activity in the market for an asset or liability at the measurement date, the fair value measurement reflects the Bank's own judgments about assumptions that market participants would use in pricing the asset or liability.

The assumptions are developed by the Bank based on the best information available in the circumstances, including expected cash flows, discount rates appropriately adjusted for risk and the availability of observable and unobservable inputs.

Management establishes the policies and methodologies for the valuation of financial instruments. These policies and methodologies are applied to determine, at least quarterly, the valuation of financial instruments. Such valuation and its changes are reviewed with the same frequency.

The methods described above can generate fair value estimates that are not indicative of net realizable value or that do not reflect future values.

Furthermore, while the Bank believes that its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

(i) Valuation techniques applied

A significant portion of the Bank's assets and liabilities are short-term financial instruments, with maturity of less than one year, and/or with floating interest rates.

These short-term instruments and/or with floating rates are considered to have a fair value equivalent to their recorded value as of the date of the financial statements. The foregoing applies to cash and demand deposits, interest-bearing deposits with banks, loans receivable issued at floating interest rates and accrued interest receivable and payable.

(3) Fair Values and Fair Value Option, continued

For assets and liabilities recognized, on a recurring or non-recurring basis (including those for which the fair value option has been elected), or disclosed at fair value, the Bank uses the following valuation techniques:

- Securities available for sale: Fair value has been calculated on the basis of the prices as quoted in the market and, in their absence, they have been calculated based on discounted future cash flows using the current yields of similar securities.

- Loans, net: The fair values for fixed-rate, unhedged performing loans are estimated on the basis of an analysis of discounted future cash flows, using the Commercial Interest Reference Rate (CIRR) as a reference. CIRR is the official rate applied by Export Credit Agencies, as published by the Export-Import Bank of the United States of America, and is based on the rates accrued on U.S. Treasury bonds.

  The fair values of non-accrual loans are estimated on the basis of discounted future cash flows or the value of collateral, where applicable. This fair value does not represent a current indicator of an exit price.

- Equity investments: The Bank's equity investments in other entities are non-marketable; hence, they do not have available market price quotations. The majority of these entities are special purpose entities or entities in which the Bank has no control or significant influence (note 10). Currently, it is impracticable to determine the fair value of these investments without incurring in excessive cost.

- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data. Furthermore, the Bank determines CABEI's and its counterparties' credit risk in the valuation of derivative financial instruments (note 19).

- Loans and bonds payable: Fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Those yield curves are adjusted to incorporate the Bank's credit risk spread. This fair value does not represent a current indicator of an exit price. The Bank includes its own credit risk and exchange rate, among other inputs, in the valuation of its debt instruments.

  The fair values for fixed-rate, unhedged loans payable are estimated on the basis of an analysis of discounted cash flows, using the CIRR as a reference.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

The fair values for fixed-rate, unhedged bonds payable issued in U.S. dollars, are estimated on the basis of an analysis of discounted future cash flows, based on the 10-year swap rate reported by Bloomberg.

- Commercial paper programs and certificates of deposit: The fair values are estimated on the basis of an analysis of discounted future cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.

- Contingent commitments: The fair value of these financial instruments is based on the counterparty credit risk.

The following tables present the valuation techniques and significant unobservable components used to determine the fair value of recurring and non-recurring assets and liabilities in the balance sheets classified as Level 3 as of December 31, 2016 and 2015; the sensitivity of such inputs in the measurement, is not considered of relative importance.

	2016			
Securities available for sale	**Fair value**	**Valuation technique**	**Unobservable assumptions**	**Range**
Corporate	100	Discounted cash flows	Basis points spread (bp)	50 bp

	2015			
Securities available for sale	**Fair value**	**Valuation technique**	**Unobservable assumptions**	**Range**
Corporate	296	Discounted cash flows	Basis points spread (bp)	50 bp

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

(ii) Recurring Fair Value Measurements

The following tables present the assets and liabilities valued at their fair value on a recurring basis as of December 31, 2016 and 2015, classified according to the fair value hierarchy:

	Level 1	Level 2	Level 3	Total 2016
Assets				
Securities available for sale	184,689	1,038,555	100	1,223,344
Derivative financial instruments	0	30,724	0	30,724
Liabilities				
Loans payable	0	198,454	0	198,454
Bonds payable	0	3,212,420	0	3,212,420
Derivative financial instruments	0	6,545	0	6,545

	Level 1	Level 2	Level 3	Total 2015
Assets				
Securities available for sale	274,844	894,824	296	1,169,964
Derivative financial instruments	0	8,148	0	8,148
Liabilities				
Loans payable	0	105,265	0	105,265
Bonds payable	0	2,833,914	0	2,833,914
Derivative financial instruments	0	42,887	0	42,887

(iii) Changes in Fair Value Level 3 Category

The following table presents a roll-forward for years ended December 31, 2016 and 2015 (including changes in fair value) of financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When an instrument is classified in Level 3, the decision is based on the importance of unobservable assumptions in determining the overall fair value.

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

Changes in fair values of the instruments classified in Level 3 that occurred during the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Balance at beginning of year	296	493
Gains (losses) included in:		
Net income	0	0
Other comprehensive income	4	3
Amortizations	(200)	(200)
Transfers in and/or out of Level 3	0	0
Balance at end of year	100	296

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

The effect in net income is presented as realized gain on securities available for sale.

(iv) Transfers between Fair Value Level 1 and Level 2 Categories

The Bank's accounting policies include the recognition of transfers between levels of the fair value hierarchy at the date of any event or change in circumstances that caused the transfer. During the years ended December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

(v) Non-Recurring Fair Value Measurements

The Bank holds non-financial assets that are measured at fair value. Some non-financial assets that are not measured at fair value on a recurring basis are subject to fair value adjustments in certain circumstances. These assets include those assets that are available for sale (at time of initial recognition or further impairment), some loans that are reduced to fair value of collateral, when considering their present impairment; and other non-financial long-lived assets when determined to be impaired.

Fair value for loans is estimated using the discounted future cash flows method or the value of collateral, when applicable. The fair values of foreclosed assets are estimated using the fair value of the foreclosed asset less costs to sell, which does not differ significantly from its maximum and best use.

The following table presents the fair value measurements of assets that are measured at fair value on a nonrecurring basis and the decrease in fair value, which has been included in the statement of income for the years ended December 31, 2016 and 2015:

	2016		2015	
Level 3	**Fair Value**	**Decrease**	**Fair Value**	**Decrease**
Loans	29,175	(7,890)	82,323	(1,268)
Foreclosed assets	12,152	(1,727)	13,879	(762)
	41,327	(9,617)	96,202	(2,030)

(vi) Fair value option

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

The Bank has elected to measure at fair value the financial liabilities in a currency other than the U.S. dollar for which it has contracted a derivative for fair value hedging of foreign currency or interest rate fluctuations. For such liabilities up to December 31, 2007 the Bank had used hedge accounting.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

The principal purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank's earnings generated by the use of hedge accounting, considering that both the financial liabilities and the related hedging instruments are generally maintained until maturity. Consequently, the Bank has discontinued hedge accounting for these transactions. The Bank has elected not to apply the option to measure at fair value other financial liabilities, as they do not produce volatility in the statement of income.

Changes in the fair value of financial liabilities result from changes in interest rates, foreign exchange rates and the Bank's credit risk spread. The Bank periodically reviews its credit margin in every market in which it operates.

For the years ended December 31, 2016 and 2015, for loans payable at fair value, the Bank recorded gains and losses of 105 and 888, respectively, in the statement of income. For the years ended December 31, 2016 and 2015, for bonds payable at fair value, the Bank recorded gains of 35,386 and 166,438, respectively, in the statement of income.

These gains and losses are a result of changes in fair values of financial liabilities, for which the fair value option was elected based on the methods stated in section (i) of this note; they are presented as valuation of derivative financial instruments and debt, in the statement of income.

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

The difference between the fair value of the instruments elected for application of ASC 825-10-25 and the unpaid principal balances of such instruments as of December 31, 2016 and 2015 is as follows:

	2016			2015		
	Fair value	**Amortized cost**	**Decrease**	**Fair value**	**Amortized cost**	**Decrease**
Loans payable	198,454	232,697	(34,243)	105,265	128,113	(22,848)
Bonds payable	3,212,420	3,568,529	(356,109)	2,833,914	3,165,928	(332,014)

(vii) Fair value of financial instruments

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

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

The estimated fair values of the Bank's financial instruments as of December 31, 2016 and 2015 are as follows:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and demand deposits	1,373	1,373	32,790	32,790
Interest-bearing deposits with banks	1,505,008	1,505,008	1,167,671	1,167,671
Securities available for sale	1,223,344	1,223,344	1,169,964	1,169,964
Loans, net	6,278,971	6,319,464	5,905,018	5,947,498
Accrued interest receivable	74,125	74,125	66,118	66,118
Derivative financial instruments	30,724	30,724	8,148	8,148
Liabilities				
Loans payable	1,334,733	1,319,042	1,345,842	1,328,509
Bonds payable	3,954,654	3,958,562	3,467,305	3,478,525
Commercial paper program	129,960	130,282	192,833	192,955
Certificates of deposit	983,592	984,675	748,879	749,564
Certificates of investment	607	607	667	667
Accrued interest payable	35,235	35,235	22,233	22,233
Derivative financial instruments	6,545	6,545	42,887	42,887

As of December 31, 2016 and 2015, loans payable include 1,136,279 and 1,240,577, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,120,588 and 1,223,244, respectively. Likewise, as of the aforementioned dates, bonds payable include 742,234 and 633,391, respectively, which are recognized at amortized cost, whose fair value has been estimated at 746,142 and 644,611, respectively.

(4) Cash and Demand Deposits

As of December 31, 2016 and 2015, cash and demand deposits are composed by currency, as follows:

	2016	2015
Currencies of the founding countries	168	837
U.S. dollar	1,163	31,712
Other currencies	42	241
	1,373	32,790

(5) Interest-bearing Deposits with Banks

Interest bearing deposits usually are time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, face value approximates market value.

As of December 31, 2016 and 2015, their carrying amounts are 1,505,008 and 1,167,671, respectively. These carrying amounts are set in currencies other than those of the founding countries.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale

The amortized cost of securities available for sale, unrealized gross losses and gains recognized in accumulated other comprehensive income (loss), the effect of hedging transactions and fair value of securities available for sale, as of December 31, 2016 and 2015 are as follows:

	2016				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair value**
Sovereign	823,010	(2,200)	250	10,155	831,215
Supranational	121,784	(881)	71	0	120,974
Corporate	132,997	(44)	11	0	132,964
Investment funds	135,816	0	2,375	0	138,191
	1,213,607	(3,125)	2,707	10,155	1,223,344

	2015				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair Value**
Sovereign	675,791	(1,200)	38	11,399	686,028
Supranational	69,110	(94)	0	0	69,016
Corporate	285,635	(1,015)	37	0	284,657
Investment funds	133,294	(3,031)	0	0	130,263
	1,163,830	(5,340)	75	11,399	1,169,964

The effect of hedging transactions represents the portion of the unrealized gain or loss attributable to the risk covered in those securities by derivatives designated as fair value hedges. This effect is recognized in earnings.

For the years ended December 31, 2016 and 2015, the realized gross gain was 2,524 and 965, respectively. For the years ended December 31, 2016 and 2015, the Bank recorded a realized loss of 0 and 2,920, respectively, due to a change in its intention to sell securities available for sale.

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

[1] The entirety of securities available for sale as of December 31, 2016 and 2015 is denominated in U.S. dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

As of December 31, 2016 and 2015, the fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

	2016				
	Less than 12 months		12 months or longer		
Securities available for sale:	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses	Total
Sovereign	226,748	(1,950)	215,086	(250)	(2,200)
Supranational	74,093	(876)	13,999	(5)	(881)
Corporate	0	0	72,354	(44)	(44)
	300,841	(2,826)	301,439	(299)	(3,125)

	2015				
	Less than 12 months		12 months or longer		
Securities available for sale:	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses	Total
Sovereign	165,604	(263)	318,602	(937)	(1,200)
Supranational	0	0	59,028	(94)	(94)
Corporate	2,003	(1)	192,983	(1,014)	(1,015)
Investment funds	130,263	(3,031)	0	0	(3,031)
	297,870	(3,295)	570,613	(2,045)	(5,340)

Bank’s management believes that the unrealized losses of such securities are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. As of December 31, 2016, the Bank’s management has no intention of selling the securities classified as available for sale, described in the previous table, and considers it is more likely than not, that the Bank will not have to sell the aforementioned securities before it recovers their cost. Therefore, Bank’s management believes the impairments presented in the table above are temporary and no other than temporary impairment has been recorded in the statements of income.

The criteria considered in determining if a loss is other than temporary include: the length of time during which the fair value has been below the amortized cost, the severity of the impairment, the cause of the impairment and the financial condition of the issuer, and CABEI´s ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery.

CABEI’s review for impairment generally consists of: identification and assessment of the securities with possible impairment indicators, and individual assessment of securities whose fair value is less than the amortized cost for a security.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

As of December 31, 2016, investment securities are classified by contractual maturities in the following table. The expected maturities may differ from contractual maturities because issuers might have the right to redeem or prepay obligations without penalty in certain cases.

	Years				
	Within 1	**After 1 but within 5**	**After 5 but within 10**	**After 10**	**Total**
Amortized cost	692,854	450,095	0	70,658	1,213,607

(7) Loans

Considering the financial policies described in note 2 (e), CABEI has no significant concentrations of credit risk with any individual borrower or group of affiliated borrowers. A detail of loans, as of December 31, 2016 and 2015, is as follows:

	2016			2015		
	Public sector	**Private sector**	**Total**	**Public sector**	**Private sector**	**Total**
Guatemala	1,082,578	123,777	1,206,355	1,078,456	185,835	1,264,291
El Salvador	949,334	102,225	1,051,559	836,112	126,078	962,190
Honduras	1,014,216	304,721	1,318,937	985,538	340,895	1,326,433
Nicaragua	603,142	277,086	880,228	498,760	294,564	793,324
Costa Rica	1,157,066	281,489	1,438,555	1,060,829	359,417	1,420,246
Dominican Republic	219,509	0	219,509	236,150	0	236,150
Panama	0	163,076	163,076	0	66,873	66,873
Belize	11,569	0	11,569	12,098	0	12,098
Colombia	183,333	0	183,333	0	0	0
Subtotal	5,220,747	1,252,374	6,473,121	4,707,943	1,373,662	6,081,605
Allowance for loan losses	(134,567)	(59,583)	(194,150)	(117,850)	(58,737)	(176,587)
Loans, net	5,086,180	1,192,791	6,278,971	4,590,093	1,314,925	5,905,018

A detail of loans, by maturity, as of December 31, 2016, is as follows:

	Years						
Past due	**Up to 1**	**After 1 but within 2**	**After 2 but within 3**	**After 3 but within 4**	**After 4 but within 5**	**After 5**	**Total**
238	897,991	638,475	609,104	546,690	505,447	3,275,176	6,473,121

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

A detail of loans, by economic activity segment, as of December 31, 2016 and 2015, is as follows:

	2016	2015
Construction	2,405,998	2,083,772
Supply of electricity, gas, steam, and air conditioning	1,710,607	1,578,122
Multi-sector	921,727	911,361
Financial and insurance activities	390,822	508,828
Human health care and social assistance	205,366	202,641
Water supply; sewage disposal, waste management, and decontamination	150,121	107,415
Wholesale and retail	127,241	173,749
Agriculture, ranching, forestry, and fishing	113,439	102,830
Information and communication	104,444	100,811
Manufacturing industry	99,199	89,343
Professional, scientific and technical activities	73,396	68,858
Lodging activities and food services	43,735	36,121
Transportation and storage	43,576	31,767
Real estate	30,287	32,601
Education	26,103	21,536
Arts, entertainment and recreational activities	16,115	15,108
Administrative services and support activities	10,936	14,621
Other services	9	2,121
	6,473,121	6,081,605

A detail of loans, by currency, as of December 31, 2016 and 2015, is as follows:

	2016	2015
U.S. dollar	6,426,862	6,024,837
Currencies from Central American countries	43,028	53,095
Euro	3,231	3,673
	6,473,121	6,081,605

For the years ended December 31, 2016 and 2015, the weighted average yield on loans, after considering swap contracts when applicable, was 5.34% and 5.26% per annum, respectively.

As of December 31, 2016 and 2015, the aging analysis, in days, of the installment balances in arrears from loans to the private sector is as follows:

	2016					2015				
	01-30	31-60	61-90	More than 90	Total	01-30	31-60	61-90	More than 90	Total
Guatemala	0	0	0	0	0	0	8	10	806	824
Costa Rica	24	46	3	165	238	0	0	0	0	0
Panama	0	0	0	0	0	48	0	0	0	48
	24	46	3	165	238	48	8	10	806	872

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The following tables present impaired loans to the private sector as of December 31, 2016 and 2015:

2016

Impaired loans	Recorded investment	Overdue principal balance	Related allowance	Average recorded investment for the year	Accumulated interest on impaired loans	Collected interest on impaired loans
With an allowance for loan losses						
Guatemala	9,517	0	161	14,976	16	1,122
Honduras	143	0	143	221	3	34
Costa Rica	1,405	238	914	1,448	118	42
Panama	25,310	0	5,981	24,791	45	0
	36,375	238	7,199	41,436	182	1,198
Impaired loans with accrual status	33,291	0	5,981	38,078	54	966
Impaired loans with non-accrual status	3,084	238	1,218	3,358	128	232

2015

Impaired loans	Recorded investment	Overdue principal balance	Related allowance	Average recorded investment for the year	Accumulated interest on impaired loans	Collected interest on impaired loans
With an allowance for loan losses						
Guatemala	19,374	824	1,972	21,254	522	1,437
Honduras	300	0	300	400	6	62
Nicaragua	24,493	0	4,623	26,313	81	1,842
Costa Rica	28,569	0	1,388	31,139	28	2,485
Panama	24,098	48	6,228	24,224	373	939
	96,834	872	14,511	103,330	1,010	6,765
Impaired loans with accrual status	93,014	48	12,239	99,248	494	6,525
Impaired loans with non-accrual status	3,820	824	2,272	4,082	516	240

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of December 31, 2016 and 2015, there are no installments from loans to the public sector in arrears.

As of December 31, 2016 and 2015, under ASC 310, there were no individually impaired public sector loans.

Public sector loans based on risk ratings assigned by credit rating agencies as of December 31, 2016 and 2015 is as follows:

	2016	2015
BBB+ / BBB / BBB-	183,333	0
BB+ / BB / BB-	2,459,153	2,139,285
B+ / B / B-	2,566,692	2,556,560
CCC+ / CCC / CCC-	11,569	12,098
	5,220,747	4,707,943

Private sector loans based on risk ratings described in note 2 (f), as of December 31, 2016 and 2015 is the following:

	2016					
Private Sector	Normal	Special Mention	Substandard	Doubtful	Loss	Total
Guatemala	110,366	3,894	9,517	0	0	123,777
El Salvador	100,294	1,868	64	0	0	102,226
Honduras	256,869	6,016	41,693	0	143	304,721
Nicaragua	250,907	2,800	23,379	0	0	277,086
Costa Rica	251,599	2,756	25,729	1,405	0	281,489
Panama	137,765	0	25,310	0	0	163,075
	1,107,800	17,334	125,692	1,405	143	1,252,374

	2015					
Private Sector	Normal	Special Mention	Substandard	Doubtful	Loss	Total
Guatemala	161,920	4,541	17,759	115	1,500	185,835
El Salvador	123,199	2,784	95	0	0	126,078
Honduras	333,073	7,522	0	0	300	340,895
Nicaragua	263,728	4,260	26,576	0	0	294,564
Costa Rica	330,055	793	28,569	0	0	359,417
Panama	42,775	0	24,098	0	0	66,873
	1,254,750	19,900	97,097	115	1,800	1,373,662

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

Changes in the allowance for loan losses for the years ended December 31, 2016 and 2015 are as follows:

	2016			2015		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
At beginning of year	117,850	58,737	176,587	111,448	56,092	167,540
Provision	16,717	10,141	26,858	6,402	1,979	8,381
Recoveries	0	1,773	1,773	0	666	666
Loan write-offs	0	(11,068)	(11,068)	0	0	0
At end of year	134,567	59,583	194,150	117,850	58,737	176,587

The following table presents the allowance and recorded investment, as December 31, 2016 and 2015:

	2016			2015		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Loans Measured Individually						
Specific allowance	0	7,199	7,199	0	14,511	14,511
Recorded investment	0	36,374	36,374	0	96,834	96,834
Loans Measured Collectively						
Generic allowance	134,567	52,384	186,951	117,850	44,226	162,076
Recorded investment	5,220,747	1,182,129	6,402,876	4,707,943	1,242,401	5,950,344
Loans Without Allowance						
Recorded investment	0	33,871	33,871	0	34,427	34,427
Total						
Allowance	134,567	59,583	194,150	117,850	58,737	176,587
Recorded investment	5,220,747	1,252,374	6,473,121	4,707,943	1,373,662	6,081,605

Recorded investment means the loan exposure amount reported on the Bank's balance sheet, net of partial write-offs.

Changes in the balance of restructured loans for the years ended December 31, 2016 and 2015 are the following:

	2016	2015
At beginning of year	70,772	50,362
Troubled debt restructurings, due to modification of term and interest rate	24,624	25,891
Interest capitalization	665	0
Partial write-offs	(1,500)	0
Recoveries	(10,626)	(5,481)
At end of year	83,935	70,772

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The balances of restructured loans and write-offs for the aforementioned years fully correspond to loans to the private sector. As of December 31, 2016 and 2015, the number of restructured loans is 5 for both periods. For the years ended December 31, 2016 and 2015, the balance of the loans prior to their restructuring was 24,103 and 27,057, respectively.

As of December 31, 2016 and 2015, the installments in arrears from restructured loans amount to 0 and 748, respectively. The installments in arrears are considered in the individual impairment assessment of each restructured loan. At those dates, there are no commitments to make additional disbursements for impaired loans or troubled debt restructurings.

(8) Accrued Interest Receivable

Accrued interest receivable as of December 31, 2016 and 2015 is detailed as follows:

	2016	2015
On loans	66,296	59,659
On securities available for sale	5,336	5,462
On interest-bearing deposits with banks	2,493	997
	74,125	66,118

(9) Property and Equipment, Net

Property and equipment as of December 31, 2016 and 2015 are detailed as follows:

	2016	2015
Buildings	29,057	29,334
Computer equipment and software	23,033	21,331
Installations	16,947	16,249
Office furniture and equipment	5,580	5,339
Vehicles	2,356	2,347
	76,973	74,600
Less accumulated depreciation and amortization	(48,968)	(45,574)
	28,005	29,026
Land	4,697	3,697
	32,702	32,723

(Expressed in thousands of U.S. dollars)

(10) Equity Investments

Equity investments as of December 31, 2016 and 2015 which do not have a market value are as follows:

Name	Equity Participation	Financial Statements	Equity	2016	2015
Shares					
Corporación Interamericana para el Financiamiento de Infraestructura, S. A.	11.34%	09/30/2016	86,298	5,000	5,000
Darby - Pro-Banco Fund II, L. P.	33.30%	09/30/2016	17,879	5,954	4,094
Garantías y Servicios, Sociedad de Garantía, S. A. de C. V.	24.03%	09/30/2016	7,651	1,145	1,145
Banco Popular Covelo, S. A.	19.56%	10/31/2016	19,701	3,464	3,640
Other				25	88
Subtotal shares				15,588	13,967

Name	Equity Participation	Financial Statements	Equity	2016	2015
Participations					
Central American Mezzanine Infrastructure Fund L.P. (CAMIF)[2]	38.53%	09/30/2016	75,098	14,218	14,218
Central American Renewable Energy and Cleaner Production Facility (CAREC)[2]	41.67%	09/30/2016	4,130	1,673	1,673
Subtotal participations				15,891	15,891
				31,479	29,858

(11) Other Assets

Other assets as of December 31, 2016 and 2015 are detailed as follows:

	2016	2015
Foreclosed assets, net of fair value adjustments	12,152	13,879
Accounts receivable	3,830	2,850
Fees paid in advance	524	1,678
Other	22	587
	16,528	18,994

As of December 31, 2016 and 2015, the balance of foreclosed assets is 12,152 and 13,879, respectively, net of fair value adjustments of 10,693 and 11,241, respectively.

[2]CAMIF and CAREC are carried at amortized cost due to the fact that the Bank has no significant influence over these entities.

(Expressed in thousands of U.S. dollars)

(12) Loans Payable

Loans payable as of December 31, 2016 and 2015 are as follows:

	2016	2015
European Investment Bank	230,869	238,604
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	205,729	218,668
Citibank, N.A.	149,390	150,000
Kreditanstalt für Wiederaufbau (KfW)	148,190	165,786
Mizuho Bank, Ltd.	108,750	130,000
Agence Française de Développement	98,810	0
HSBC Finance Corporation	50,000	50,000
Nordic Investment Bank	46,047	53,251
Japan Bank for International Cooperation	43,645	49,880
Mizuho Bank, Ltd., New York Branch	40,000	40,000
Nordea Bank	34,232	33,472
The Export Import Bank of Korea	32,652	0
Oesterreichische Entwicklungsbank AG (OeEB)	32,056	33,113
Instituto de Crédito Oficial de España	25,528	31,625
Commerzbank AG	25,000	49,800
BNP Paribas Fortis	18,409	21,058
Inter-American Development Bank (IDB)	10,875	18,447
The OPEC Fund for International Development	10,726	13,790
U.S. Agency for International Development (USAID)	8,536	9,679
The International Cooperation and Development Fund (TaiwanICDF)	7,342	8,974
Fortis Bank SA/NV, Belgium	6,118	6,673
Loans guaranteed by USAID	1,829	3,047
Standard Chartered Bank	0	19,975
	1,334,733	1,345,842

The maturity structure of loans payable as of December 31, 2016 is as follows:

	Years						
	Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5	Total
Balance	298,275	290,018	90,267	86,878	85,775	483,520	1,334,733

For the years ended December 31, 2016 and 2015, the weighted average cost on loans payable, after considering swap contracts when applicable, was 1.98% and 1.63% per annum, respectively.

As of December 31, 2016, loans payable at fixed and variable rates are 507,428 and 827,305, respectively. As of December 31, 2015, loans payable at fixed and variable rates are 445,997 and 899,845, respectively.

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Program

(a) Bonds payable as of December 31, 2016 and 2015, per currency composition, are as follows:

Currency	2016	2015
Swiss francs	1,298,913	1,107,077
U.S. dollars	734,367	616,242
Mexican pesos	502,868	681,083
Yuan	406,262	271,180
Euros	304,694	235,206
Yen	181,769	177,244
Norwegian kroner	114,651	0
Thailand bahts	106,175	131,722
South African rands	72,507	0
Australian dollars	52,872	0
Costa Rican colones	46,762	47,987
Nuevos soles	45,370	43,538
Turkish lira	40,174	50,062
Colombian pesos	36,593	36,183
Uruguayan pesos	0	29,592
Brazilian reais	0	20,339
	3,943,977	3,447,455
Fair value adjustment	10,677	19,850
	3,954,654	3,467,305

Maturities of bonds payable as of December 31, 2016 are as follows:

	Years						
	Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5	Total
Balance	388,555	420,692	623,613	569,776	681,162	1,270,856	3,954,654

For the years ended December 31, 2016 and 2015, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 2.43% and 1.97% per annum, respectively.

(Expressed in thousands of U.S. dollars)

(13) Bonds Payable and Commercial Paper Program, continued

(b) As of December 31, 2016 and 2015, CABEI has the following commercial paper program:

	2016			
	Authorized Program Size	**Outstanding Amount**	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	1,000,000	129,960	0.66%	Up to 3 months
	1,000,000	129,960		

	2015			
	Authorized Program Size	**Outstanding Amount**	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	1,000,000	192,833	0.40%	Up to 3 months
	1,000,000	192,833		

(14) Certificates of Deposit

Certificates of deposit as of December 31, 2016 and 2015, are placed in the following entities:

	2016	**2015**
Central Banks	639,940	397,508
Public financial institutions	210,553	177,949
Private financial institutions	109,360	22,554
Multilateral institutions	6,537	133,917
Other	17,202	16,951
	983,592	748,879

As of December 31, 2016, the maturity of certificates of deposit is as follows:

			Years				
	Up to 6 months	**After 6 months but within 1 year**	**After 1 but within 2**	**After 2 but within 3**	**After 3 but within 4**	**After 4 but within 5**	**Total**
Balance	859,982	109,490	876	3,061	6,103	4,080	983,592

For the years ended December 31, 2016 and 2015, the weighted average cost on certificates of deposit was 0.90% and 0.55% per annum, respectively.

(Expressed in thousands of U.S. dollars)

(14) Certificates of Deposit, continued

For the years ended December 31, 2016 and 2015, the weighted average cost on certificates of deposit, by currency, is as follows:

	2016	2015
Deposits in U.S. dollars	0.75%	0.39%
Deposits in quetzales	3.65%	3.67%
Deposits in Costa Rican colones	5.53%	6.58%

(15) Accrued Interest Payable

Accrued interest payable as of December 31, 2016 and 2015 is as follows:

	2016	2015
On bonds payable	28,404	18,416
On loans payable	4,121	2,708
On certificates of deposit	2,710	1,109
	35,235	22,233

(16) Other Liabilities

Other liabilities as of December 31, 2016 and 2015 are as follows:

	2016	2015
Other creditors	6,697	5,621
Financial cooperation to founding countries	4,260	4,390
Deficit of assets over actuarial liabilities of Social Benefit Fund (note 21)	3,684	2,190
Bonuses and supplemental compensation	3,290	2,855
Technical assistance	3,014	2,933
Provision for contingencies (note 18)	2,587	1,448
Transitory deposits	541	1,593
Deferred fees over contingent commitments (note 18)	55	50
FETS special contribution payable	0	13,345
Other provisions	1,865	2,994
	25,993	37,419

(17) Equity

(a) Authorized, Subscribed, and Paid-in Capital

The Bank’s authorized capital is 5,000,000, divided into 2,550,000 for founding countries and 2,450,000 for non-founding regional countries and non-regional countries. The issuance of shares shall be carried out in accordance to the following parameters: Series “A” shares, which are available only to founding countries, composed of up to 255,000 shares, each with a face value of 10; and Series “B” shares, which are available only to non-founding regional countries and non-regional countries, composed of up to 245,000 shares, each with a face value of 10. The “A” and “B” series shares will at all times represent the Bank’s entire authorized capital.

(17) Equity, continued

In addition, there will be a Series "C" shares, issued in favor of the holders of the "A" and "B" series shares with a face value of zero, which will have the purpose of aligning the equity value of the shares with their nominal value and will be issued as the result of a periodic assignment process, as regulated and approved by the Board of Governors. The "C" series shares will be assigned in a proportional manner to the number of "A," "B," and "C" series shares of each shareholder. The "C" series shares cannot be used as payment to subscribe "A" or "B" series shares and will not generate callable capital.

As of December 31, 2016, the founding countries have subscribed 2,550,000 from the total number of shares into equal parts, and the non-founding regional countries and non-regional countries have subscribed 1,635,850; the remaining 814,150 is available for subscription.

The Bank's shares will not accrue interest or dividends and they may not be pledged or taxed.

Series "E" certificates are issued in favor of "A" and "B" shareholders, each with a face value of 10, to recognize the retained earnings attributable to their capital contributions to the Bank through the passage of time. These certificates do not grant voting rights and may not be transferred. Series "E" certificates may be used by the members who are holders of "A" and "B" shares in order to pay, either fully or partially, the subscription of new shares of the unsubscribed authorized share capital made available by the Bank. Series "E" certificates not used to subscribe for new shares of stock will become part of the Bank's general reserve.

The Bank's authorized capital is divided into shares of callable capital and shares payable in cash. The equivalent to 3,750,000 corresponds to callable capital and the equivalent to 1,250,000 corresponds to capital payable in cash.

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

As of December 31, 2016, the capital structure is detailed as follows:

	2016			
	Capital			
Subscribed capital	**Subscribed/ Unsubscribed**	**Callable subscribed**	**Subscribed payable in cash**	**Paid-in**
Founding countries				
Guatemala	510,000	382,500	127,500	127,500
El Salvador	510,000	382,500	127,500	127,500
Honduras	510,000	382,500	127,500	127,500
Nicaragua	510,000	382,500	127,500	127,500
Costa Rica	510,000	382,500	127,500	127,500
Subtotal founding countries	2,550,000	1,912,500	637,500	637,500
Non-founding regional countries				
Dominican Republic	58,600	43,950	14,650	14,650
Panama	256,000	192,000	64,000	26,987
Belize	25,000	18,750	6,250	6,250
Subtotal non-founding regional countries	339,600	254,700	84,900	47,887
Non-regional countries				
Republic of China, Taiwan	500,000	375,000	125,000	117,188
Mexico	306,250	229,687	76,563	76,563
Spain	200,000	150,000	50,000	50,000
Argentina	145,000	108,750	36,250	36,250
Colombia	145,000	108,750	36,250	36,250
Subtotal non-regional countries	1,296,250	972,187	324,063	316,251
Subtotal subscribed capital and paid-in capital	4,185,850	3,139,387	1,046,463	1,001,638
Unsubscribed capital				
Non-founding regional countries and non-regional countries	814,150			
	5,000,000			

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

As of December 31, 2015, the capital structure is detailed as follows:

	2015			
	Capital			
Subscribed capital	**Subscribed/ Unsubscribed**	**Callable subscribed**	**Subscribed payable in cash**	**Paid-in**
Founding countries				
Guatemala	510,000	382,500	127,500	109,375
El Salvador	510,000	382,500	127,500	91,250
Honduras	510,000	382,500	127,500	127,500
Nicaragua	510,000	382,500	127,500	127,500
Costa Rica	510,000	382,500	127,500	109,375
Subtotal founding countries	2,550,000	1,912,500	637,500	565,000
Non-founding regional countries				
Dominican Republic	57,600	43,200	14,400	14,400
Panama	57,600	43,200	14,400	14,400
Subtotal non-founding regional countries	115,200	86,400	28,800	28,800
Non-regional countries				
Republic of China, Taiwan	500,000	375,000	125,000	95,313
Mexico	306,250	229,687	76,563	65,078
Spain	200,000	150,000	50,000	50,000
Argentina	144,000	108,000	36,000	30,600
Colombia	144,000	108,000	36,000	30,600
Subtotal non-regional countries	1,294,250	970,687	323,563	271,591
Subtotal subscribed capital and paid-in capital	3,959,450	2,969,587	989,863	865,391
Unsubscribed capital				
Non-founding regional countries and non-regional countries	1,040,550			
	5,000,000			

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

As a result of the new subscription of shares and amendments to the Constitutive Agreement, during the years ended December 31, 2016 and 2015, the member countries made capital payments as follows:

	2016				2015		
Capital Payments	**Cash**	**Series "E" Certificates**	**Special Capital Contributions[3]**	**Total**	**Cash**	**Series "E" Certificates**	**Total**
Founding countries							
Guatemala	2,500	15,625	0	18,125	2,500	15,625	18,125
El Salvador	5,000	31,250	0	36,250	2,500	15,625	18,125
Honduras	0	0	0	0	2,500	15,625	18,125
Nicaragua	0	0	0	0	2,500	15,625	18,125
Costa Rica	2,500	15,625	0	18,125	2,500	15,626	18,126
Sub-total	10,000	62,500	0	72,500	12,500	78,126	90,626
Non-founding regional countries							
Dominican Republic	0	0	250	250	0	0	0
Panama	12,289	48	250	12,587	0	0	0
Belize	0	0	6,250	6,250	0	0	0
Sub-total	12,289	48	6,750	19,087	0	0	0
Non-regional countries							
Republic of China, Taiwan	2,860	19,015	0	21,875	2,860	19,015	21,875
Mexico	1,502	9,983	0	11,485	0	0	0
Argentina	1,695	3,705	250	5,650	5,086	11,114	16,200
Colombia	2,563	2,837	250	5,650	2,563	2,837	5,400
Sub-total	8,620	35,540	500	44,660	10,509	32,966	43,475
	30,909	98,088	7,250	136,247	23,009	111,092	134,101

(b) Special capital contributions

CABEI's Constitutive Agreement also considers the incorporation of non-founding beneficiary countries. Those countries are linked to the Bank through subscription of an association agreement and through special capital contributions, and may be entitled to receive loans, guarantees and any other operations from the Bank.

As of December 31, 2016 and 2015, the Bank's special capital contributions are as follows:

	2016		2015	
	Subscribed	**Paid**	**Subscribed**	**Paid**
Beneficiary countries with non-regional country status				
Argentina	0	0	1,000	250
Colombia	0	0	1,000	250
Subtotal	0	0	2,000	500
Beneficiary countries with non-founding regional country status				
Dominican Republic	0	0	1,000	250
Panama	0	0	1,000	250
Subtotal	0	0	2,000	500
Beneficiary countries				
Belize	0	0	25,000	6,250
	0	0	29,000	7,250

[3] When amendments to the Bank's Constitutive Agreement came into effect, special capital contributions made by non-founding regional countries and non-regional countries in order to obtain the status of beneficiary country were substituted by "B" series shares of the Bank's authorized capital.

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

(c) Additional matters

Amendments to the Constitutive Agreement and related regulations

On February 12, 2015, CABEI's Board of Governors adopted certain amendments to the Bank's Constitutive Agreement and related regulations, in order to consolidate the preferred creditor status, members' support to the Bank, as well as to continue strengthening the capital base, promote a greater diversification of CABEI's loan portfolio and establish a governance structure that reflects its alignment with the Central American Integration System (SICA). In compliance with the requirements laid down in the Constitutive Agreement in force, the Legislative Assembly of the Republic of Costa Rica approved such amendments, by enacting "Law No.9350 Amendments to the Constitutive Agreement of CABEI," which became effective under Costa Rican law once it was published in the Official Journal *La Gaceta* on March 8, 2016; consequently, on the same date, the Bank made official communication to all of its members. The aforementioned amendments came into effect on June 9, 2016, three months after the date of such official communication.

Capital subscription

In response to the aforementioned amendments, on February 12, 2016, CABEI's Board of Governors approved the requests made by the Republic of Panama and the Dominican Republic, to increase their participation in the share capital of the Bank by 197,400 each, amounting to a total subscription of 255,000 for each country. Hence, the Republic of Panama and the Dominican Republic will increase their participation in the share capital of the Bank, through a subscription of capital that will generate new capital paid in cash to CABEI for an aggregate amount of 98,243, which is to be received over a 4-year term.

On November 9, 2016, the Bank carried out the transformation of Belize's special capital contributions into "B" series shares, thereby granting Belize the status of a non-founding regional member. Consequently, as of that date, Belize has a subscription of 2,500 "B" series shares, with a nominal value of 10 each, amounting to 25,000, of which 6,250 corresponds to capital payable in cash and 18,750 corresponds to callable capital.

(18) Contingent Commitments

As of December 31, 2016 and 2015, balances of contingent commitments are as follows:

	2016	2015
Subscribed credit agreements (*)	2,718,767	2,681,882
Endorsements and guarantees granted	275,903	52,306
Letters of credit	29,210	21,453
	3,023,880	2,755,641

(*) Includes approved and deeded agreements

(Expressed in thousands of U.S. dollars)

(18) Contingent Commitments, continued

The Bank's management has analyzed each commitment assumed on a case-by-case basis, based on current information and events in order to determine significant losses from these commitments.

As of December 31, 2016, the maturities of endorsements and guarantees granted, and letters of credit are as follows:

	Years				
	2017	**2018**	**2020**	**2029**	**Total**
Endorsements and guarantees granted	200,006	0	18,940	56,957	275,903
Letters of credit	27,710	1,500	0	0	29,210

As of December 31, 2016 and 2015, the Bank has recorded deferred fees over contingent commitments for 55 and 50, respectively, which have been recorded as other liabilities in the balance sheet (note 16).

As of December 31, 2016 and 2015, the Bank has recorded a provision for possible losses of 2,587 and 1,448, respectively, related to endorsements and guarantees issued (note 16).

(19) Derivative Financial Instruments and Hedging Activities

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

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

The Bank maintains policies for the approval of counterparties and maximum concentration limits. To measure the exposure with counterparties, the Bank considers deposits, securities and derivative counterparties. This exposure is established as the maximum limit measured with respect to the Bank's equity, according to the counterparty's risk rating. As of December 31, 2016 and 2015, the Bank is in compliance with this policy.

The Bank's derivatives are subject to enforceable master netting agreements with its counterparties. These legally enforceable master netting arrangements give the Bank the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

(Expressed in thousands of U.S. dollars)

(19) Derivative Financial Instruments and Hedging Activities, continued

As of December 31, 2016 and 2015, the face value of derivative financial instruments is as follows:

	2016		2015	
	Assets Face Value	Liabilities Face Value	Assets Face Value	Liabilities Face Value
Fair value hedges				
Interest rate and other contracts	202,685	363,153	339,577	207,403
Other risk management purposes				
Foreign currency contracts	161,615	3,175,017	265,111	2,620,736
Total derivative financial instruments, face value	364,300	3,538,170	604,688	2,828,139

The following tables present information about the offsetting of derivative financial instruments as of December 31, 2016 and 2015, when CABEI adopted the policy of offsetting derivative assets and liabilities with each counterparty in the balance sheet.

	2016		2015	
	Assets Fair Value	Liabilities Fair Value	Assets Fair Value	Liabilities Fair Value
Fair value hedges				
Interest rate and other contracts	33,369	35,857	58,404	53,857
Other risk management purposes				
Foreign currency contracts	4,707	443,427	2,035	369,884
Subtotal derivative financial instruments	38,076	479,284	60,439	423,741
Cash collateral paid / received	465,290	0	328,662	830
Subtotal derivative financial instruments, by gross amounts	503,366	479,284	389,101	424,571
Less: Master netting agreements	(38,076)	(38,076)	(60,439)	(60,439)
Less: Offsetting cash collateral paid / received	(434,768)	(434,768)	(321,273)	(321,273)
Credit risk valuation adjustment for counterparties under netting agreements	202	105	759	28
Total derivative financial instruments presented in the balance sheet, by offset amounts	30,724	6,545	8,148	42,887

(Expressed in thousands of U.S. dollars)

(19) Derivative Financial Instruments and Hedging Activities, continued

Income (loss) from derivative instruments used as hedges under ASC 815 has been recorded together with the income (loss) of the respective hedged financial instruments under valuation of derivative financial instruments and debt.

Such (loss) income and other comprehensive (loss) income for the years ended December 31, 2016 and 2015 is presented in the following tables:

	2016			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate and other contracts	(7,035)	7,035	0	0
Undesignated economic hedges				
Foreign currency contracts[4]	(70,870)	0	(70,870)	0
Credit risk valuation adjustment for counterparties under netting agreements	(634)	0	(634)	0
	(78,539)	7,035	(71,504)	0

	2015			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate and other contracts	6,127	(6,127)	0	0
Undesignated economic hedges				
Foreign currency contracts[4]	(153,825)	0	(153,825)	0
Credit risk valuation adjustment	65	0	65	0
	(147,633)	(6,127)	(153,760)	0

(Losses) gains recognized in the statement of income are presented as valuation of derivative financial instruments and debt.

[4] These contracts correspond to economic hedges for which the Bank has elected to measure at fair value the financial liabilities denominated in currencies other than the U.S. dollar (note 3 (vi)).

(Expressed in thousands of U.S. dollars)

(20) Funds and Programs managed by CABEI

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the founding countries, the Bank manages independent funds and programs which are detailed below as of December 31, 2016 and 2015:

	Net Assets	
Fund/Program	**2016 (Unaudited)**	**2015 (Audited)**
Special Fund for the Social Transformation of Central America – FETS	107,236	104,676
Honduras - Spain Fund, Phase II	44,431	0
Technical Cooperation Fund – FONTEC	22,913	22,639
Investment Trust – Dwelling Mortgage Fund	22,807	21,064
Debt-Conversion Fund (Honduras-Spain)	22,161	28,062
Program for Development of the Border Areas in Central America (former FOEXCA)	4,033	4,033
Accelerating Fund investments in Renewable Energy in Central America (ARECA)	3,048	3,931
Partial credit guarantees - Finland Resources	2,348	2,341
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	509	701
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	290	372
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	108	108
Regional Project Fund of Central American Markets for the Biodiversity-(CAMBio)	30	30
Special Technical Cooperation Fund of Austria	0	456
	229,914	188,413

(21) Social Benefit Fund (SBF)

The Social Benefit Fund's (the Fund or the SBF) objective is to provide the Bank's personnel with benefits for retirement and disability pensions, voluntary retirement, compensation based on years of service, life insurance in the event of disability and death, hospital medical benefits, medium term financing, and other benefits that may be granted in accordance with the financial capacity of the Fund. The SBF is financed by contributions from beneficiaries and the Bank in accordance with the provisions of the Plans. Retirement, pension and life insurance plans are considered as defined benefit plans, whereas the hospital-related medical benefit plan is considered a defined contribution plan.

The SBF exists with the exclusive purpose of granting to the Bank's personnel the benefits set forth in the Charter and supplementary regulations currently existing or to be issued to such effect by the Bank.

It also establishes that the SBF's assets will be held and managed separately from the other assets of the Bank, as a pension fund, and will exclusively be used to pay the benefits and expenses under the various benefit plans granted by the SBF.

(Expressed in thousands of U.S. dollars)

(20) Social Benefit Fund (SBF), continued

The Bank pays a special contribution to SBF as a compensation mechanism or supplement to the yield generated by the Social Benefit Plan's investment securities portfolio in order to reach the established technical interest rate, which is currently 7%.

Although there is a periodic monitoring of SBF's Plan benefits, the date the Bank uses to measure this obligation is December 31 of each year. The following table shows the net periodic benefit cost for the years ended December 31, 2016 and 2015 in conformity with the criteria established by currently applicable standards:

	2016	2015
Net periodic benefit cost components		
Interest cost	11,759	11,285
Service cost	5,189	5,032
Return on Plan assets	(11,281)	(11,057)
Net periodic benefit cost	5,667	5,260

The following tables show the changes in projected benefit obligation, the changes in Plan assets and the Plan position as they arise from the most recent actuarial appraisal as of December 31, 2016 and in conformity with the criteria established by currently applicable standards.

As of December 31, 2016 and 2015, the changes in projected benefit obligation, the changes in Plan assets and the Plan position are detailed as follows:

	2016			
	Retirement and Pension Plan	Life Insurance Plan	Hospital-related Medical Plan	Total
Changes in benefit obligation:				
Benefit obligation at beginning of year	141,546	10,033	16,409	167,988
Interest cost	9,908	702	1,149	11,759
Service cost	2,314	87	2,788	5,189
Paid benefits	(10,121)	(273)	(2,636)	(13,030)
Actuarial losses	1,857	36	0	1,893
Benefit obligation at end of year	145,504	10,585	17,710	173,799
Changes in Plan assets:				
Fair value of Plan assets at beginning of year	114,063	35,325	16,409	165,797
Return on Plan assets	7,599	2,515	1,167	11,281
Employer contributions	1,537	428	1,701	3,666
Plan participants contributions	518	12	1,069	1,599
Paid benefits	(10,046)	(273)	(2,636)	(12,955)
Other expenses, net	(20)	0	0	(20)
Pensions revaluation	(734)	734	0	0
Change in fair value of securities	747	0	0	747
Fair value of Plan assets at end of year	113,664	38,741	17,710	170,115
Net Plan position	(31,840)	28,156	0	(3,684)

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

	2015			
	Retirement and Pension Plan	**Life Insurance Plan**	**Hospital-related Medical Plan**	**Total**
Changes in benefit obligation:				
Benefit obligation at beginning of year	136,773	9,527	14,912	161,212
Interest cost	9,574	667	1,044	11,285
Service cost	2,208	82	2,742	5,032
Paid benefits	(9,568)	(282)	(2,289)	(12,139)
Actuarial losses	2,559	39	0	2,598
Benefit obligation at end of year	141,546	10,033	16,409	167,988
Changes in Plan assets:				
Fair value of Plan assets at beginning of year	118,139	32,142	14,912	165,193
Return on Plan assets	7,567	2,380	1,110	11,057
Employer contributions	1,569	415	1,651	3,635
Plan participants contributions	539	12	1,025	1,576
Paid benefits	(9,466)	(282)	(2,289)	(12,037)
Other income, net	(68)	0	0	(68)
Pensions revaluation	(660)	660	0	0
Change in fair value of securities	(3,558)	0	0	(3,558)
Fair value of Plan assets at end of year	114,062	35,327	16,409	165,798
Net Plan position	(27,484)	25,294	0	(2,190)

As of December 31, 2016 and 2015, the SBF's net Plan assets are detailed as follows:

	2016	**2015**
Cash and due from banks	2,179	2,572
Securities available for sale	161,848	156,200
Subtotal	164,027	158,772
Loans	13,740	13,606
Accrued interest receivable	1,062	1,015
Other, net	(60)	60
	178,769	173,453
Less: Assets from individual account balances	(8,654)	(7,655)
Net assets	170,115	165,798

Benefits

Retirement benefits are granted once employees and officials meet the required age and years of service; they are based on a percentage of the compensation of participants in relation to age and years of service. Voluntary retirement benefits are granted once employees and officials are separated from CABEI either voluntarily or by dismissal.

The death coverage benefit or life insurance includes: i) compensation for natural death, ii) compensation for accidental death, iii) compensation for complete and permanent disability, iv) compensation for dismemberment or loss of sight, caused by disease or accident, v) allowance for burial and related expenses and vi) compensation for time served.

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

Medical benefits include medical, hospital and laboratory attention to active employees and officers, retirees by disability and ordinary retirees.

Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, the established technical interest rate, past experience and management's best estimate of future changes in benefits and economic conditions. Changes in these assumptions may have an impact on the cost of benefits and future obligations. At December 31, 2016 and 2015, weighted averages of the actuarial assumptions used in the estimate of the projected benefit obligation were the following:

	2016	**2015**
Discount rate	7 %	7 %
Salary increase rate	5 %	5 %
Estimated rate of return on assets, considering the special contributions granted by the Bank	7 %	7 %

Medical benefits have been considered as a defined contribution plan, for which the mathematical reserve is derived from the accumulated balance of the reserves recognized for accounting purposes corresponding to the medical benefit plan.

The treatment of medical benefits as a defined contribution plan is based on a resolution adopted by the Bank's Board of Directors, pursuant to which the scope of the benefit is limited to the annual availability of funds of the SBF.

Contributions

It is expected that the contributions from CABEI to the SBF during fiscal year 2017 will equal approximately 9,525 (2016: 9,643). All contributions will be paid in cash.

Future payments of estimated benefits

The following table shows the benefits that are expected to be payable based upon the same assumptions that were used to determine the projected benefit obligation as of December 31, 2016:

	Years					
Planes	**2017**	**2018**	**2019**	**2020**	**2021**	**2022-2026**
Retirement and Pensions	10,441	11,576	13,783	13,267	12,094	62,451
Life Insurance	68	816	855	883	867	4,872
Hospital related medical	2,396	2,418	2,443	2,493	2,574	13,693
	12,905	14,810	17,081	16,643	15,535	81,016

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

Plan Assets

The purpose of the Plan's Asset Allocation Investments Portfolio scheme is to maintain a diversified portfolio of asset classes in order to preserve the assets and generate income, and to achieve an appropriate growth level, based on a return adjusted by the determined risk tolerance, with the intention of attaining the technical rate necessary to meet the Social Benefit Plan's obligations. SBF's investment policies specify the appropriate asset classes for the Plan, asset allocation guides, and the procedures for monitoring investment performance. The Plan's resources must be invested in securities from money and capital markets, in accordance to SBF's Charter, the Bank's Investment Policies and other applicable regulations.

As of December 31, 2016 and 2015, the asset allocation of SBF's investment portfolio is as follows:

Asset Allocation Objectives

	Maximum allowed	2016	2015
Cash and due from banks	5%	1%	2%
Investment securities:			
US Treasury bonds and/or bonds issued by US Federal Government Agencies	100%	5%	5%
Securities issued by CABEI	100%	66%	69%
Corporate bonds with credit rating "A" or better	50%	27%	24%

Plan assets are recognized at fair value (note 3).

The following table presents the assets valued at their fair value on a recurring basis as of December 31, 2016 and 2015, classified according to the fair value hierarchy:

	Level 1	Level 2	Level 3	2016
Assets				
Cash and due from banks	2,179	0	0	2,179
Fixed income bonds:				
US Treasury bonds	8,742	0	0	8,742
Securities issued by CABEI	0	108,818	0	108,818
Corporate bonds	0	44,288	0	44,288
	10,921	153,106	0	164,027

	Level 1	Level 2	Level 3	2015
Assets				
Cash and due from banks	2,572	0	0	2,572
Fixed income bonds:				
US Treasury bonds	8,705	0	0	8,705
Securities issued by CABEI	0	108,769	0	108,769
Corporate bonds	0	38,726	0	38,726
	11,277	147,495	0	158,772

(Expressed in thousands of U.S. dollars)

(22) Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss during the years ended December 31, 2016 and 2015, is as follows:

	2016		
	Securities available for sale	**Actuarial losses under the Social Benefit Plan**	**Accumulated other comprehensive (loss) income**
At beginning of year	(5,265)	(2,163)	(7,428)
Changes for the year	4,847	(1,494)	3,353
At end of year	(418)	(3,657)	(4,075)

	2015		
	Securities available for sale	**Actuarial gains (losses) under the Social Benefit Plan**	**Accumulated other comprehensive loss**
At beginning of year	(5,830)	3,981	(1,849)
Changes for the year	565	(6,144)	(5,579)
At end of year	(5,265)	(2,163)	(7,428)

Reclassifications from accumulated other comprehensive loss to earnings during the years ended December 31, 2016 and 2015, are as follows:

	2016	**2015**	**Line in statement of income affected**
Securities available for sale	(2,511)	(965)	Realized gains on investment funds
Securities available for sale	(13)	2,920	Realized gain (loss) on securities available for sale
	(2,524)	1,955	

(23) Special and other contributions

Special and other contributions for the years ended December 31, 2016 and 2015 are detailed as follows:

	2016	**2015**
FETS special contribution (note 16)	0	13,345
SBF special contribution	5,092	4,980
FONTEC special contribution	3,000	2,500
Financial cooperation and other	3,632	4,564
	11,724	25,389

The special contributions to the SBF correspond to the supplement to the actuarial technical interest rate of 7% per annum, which are recorded as special contributions (note 21).

(24) Litigation

The Bank is involved in claims and legal actions derived from its normal course of business. According to the Bank's management's best knowledge, the final outcome of those events will not originate an adverse material effect on its financial position, results of operations or liquidity.

(25) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to February 28, 2017, date on which the financial statements were ready for their issuance, and determined that there are no additional disclosures required on other matters.