CABEI

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Financial Statements

June 30, 2017

(With Independent Auditors' Review Report Thereon)

CABEI

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INDEPENDENT AUDITORS' REVIEW REPORT

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

Report on the Financial Statements

We have reviewed the accompanying balance sheet of Central American Bank for Economic Integration (the "Bank") as of June 30, 2017, and the related statements of income, comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2017 and 2016.

Management's Responsibility

The Bank's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information in order for it to be in conformity with accounting principles generally accepted in the United States of America.

Report on Balance Sheet as of December 31, 2016

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the Bank as of December 31, 2016, and the related statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2017.

KPMG

September 22, 2017
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of June 30, 2017 and December 31, 2016

(Expressed in thousands of U.S. dollars)

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Assets		
Cash and demand deposits (note 4)	3,393	1,373
Interest-bearing deposits with banks (note 5)	1,972,598	1,505,008
Securities available for sale (155,360 in 2017 and 131,351 in 2016, under securities lending agreements) (note 6)	1,363,130	1,223,344
Loans, net of deferred origination fees	6,332,565	6,473,121
Less: Allowance for loan losses	(269,958)	(194,150)
Net loans (note 7)	6,062,607	6,278,971
Accrued interest receivable (note 8)	76,792	74,125
Property and equipment, net (note 9)	31,875	32,702
Derivative financial instruments (note 18)	6,450	30,724
Equity investments	31,488	31,479
Other assets (note 10)	17,795	16,528
Total assets	9,566,128	9,194,254
Liabilities		
Loans payable (213,171 in 2017 and 198,454 in 2016, measured at fair value) (note 11)	1,231,410	1,334,733
Bonds payable (3,807,901 in 2017 and 3,212,420 in 2016, measured at fair value) (note 12.a)	4,473,797	3,954,654
Commercial paper programs (note 12.b)	42,612	129,960
Certificates of deposit (note 13)	977,777	983,592
Certificates of investment	586	607
Accrued interest payable (note 14)	36,850	35,235
Derivative financial instruments (note 18)	18,345	6,545
Other liabilities (note 15)	25,763	25,993
Total liabilities	6,807,140	6,471,319
Equity		
Paid-in capital (note 16.a)	1,021,787	1,001,638
General reserve	1,718,515	1,609,918
Retained earnings	19,133	115,454
Accumulated other comprehensive loss (note 21)	(447)	(4,075)
Total equity	2,758,988	2,722,935
Total liabilities and equity	9,566,128	9,194,254

See accompanying notes to financial statements and the independent auditors' review report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income (Unaudited)

For the six-month periods ended June 30, 2017 and 2016

(Expressed in thousands of U.S. dollars)

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	June 30	
	2017	**2016**
Financial income		
Public sector loans	138,910	126,054
Private sector loans	36,057	34,290
Marketable securities	8,423	7,415
Due from banks	9,876	4,260
Realized gains on investment funds	1,864	1,022
Total financial income	195,130	173,041
Financial expenses		
Loans payable	14,255	11,105
Bonds payable	56,289	42,544
Commercial paper programs	606	462
Certificates of deposit and investment	5,946	3,312
Total financial expenses	77,096	57,423
Net financial income	118,034	115,618
Provision for (reversal of) loan losses (note 7)	77,248	(16,995)
Provision for losses on contingencies and preinvestment studies	686	76
Total provisions for (reversal of) credit losses	77,934	(16,919)
Net financial income, after provisions for (reversal of) credit losses	40,100	132,537
Other operating income (expenses)		
Financial services and other fees	2,221	459
Monitoring and administration fees	461	407
Realized gain on securities available for sale	0	4
Gain on equity investments, net	0	1,550
Foreign exchange gain (loss), net	225	(337)
Other operating income	1,129	1,043
Total other operating income, net	4,036	3,126
Administrative expenses		
Salaries and employee benefits	13,822	13,421
Other administrative expenses	5,964	5,550
Depreciation and amortization	1,662	1,929
Other	223	219
Total administrative expenses	21,671	21,119
Income, before special and other contributions and valuation of derivative financial instruments and debt	22,465	114,544
Special and other contributions (note 22)	(3,380)	(4,778)
Income, before valuation of derivative financial instruments and debt	19,085	109,766
Valuation of derivative financial instruments and debt	48	17,107
Net income	19,133	126,873

See accompanying notes to unaudited financial statements and the independent auditors' review report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income (Unaudited)

For the six-month periods ended June 30, 2017 and 2016

(Expressed in thousands of U.S. dollars)

	June 30	
	2017	**2016**
Net income	19,133	126,873
Other comprehensive income:		
Unrealized gain on securities available for sale, net	5,492	12,090
Reclassification adjustments for net realized gains included in earnings (note 21)	(1,864)	(1,026)
Subtotal - securities available for sale	3,628	11,064
Other comprehensive income	3,628	11,064
Comprehensive income	22,761	137,937

See accompanying notes to unaudited financial statements and the independent auditors' review report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Equity (Unaudited)

For the six-month periods ended June 30, 2017 and 2016

(Expressed in thousands of U.S. dollars)

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	Paid-in Capital	Special Capital Contributions	General Reserve	Retained Earnings	Accumulated Other Comprehensive Gains (Loss)	Total Equity
Balance as of December 31, 2015 (audited)	865,391	7,250	1,548,487	159,519	(7,428)	2,573,219
Net income	0	0	0	126,873	0	126,873
Other comprehensive income	0	0	0	0	11,064	11,064
Comprehensive income	0	0	0	126,873	11,064	137,937
Capital contributions, in cash (note 16.a)	7,586	0	0	0	0	7,586
Capital payments through series "E" certificates (note 16.a)	35,236	0	(35,236)	0	0	0
Transfer of special capital contributions to general reserve (note 16.b)	1,000	(1,000)	0	0	0	0
Transfer to general reserve	0	0	159,519	(159,519)	0	0
Balance as of June 30, 2016 (unaudited)	909,213	6,250	1,672,770	126,873	3,636	2,718,742
Balance as of December 31, 2016 (audited)	1,001,638	0	1,609,918	115,454	(4,075)	2,722,935
Net income	0	0	0	19,133	0	19,133
Other comprehensive income	0	0	0	0	3,628	3,628
Comprehensive income	0	0	0	19,133	3,628	22,761
Capital contributions, in cash (note 16.a)	13,292	0	0	0	0	13,292
Capital payments through series "E" certificates (note 16.a)	6,857	0	(6,857)	0	0	0
Transfer to general reserve	0	0	115,454	(115,454)	0	0
Balance as of June 30, 2017 (unaudited)	1,021,787	0	1,718,515	19,133	(447)	2,758,988

See accompanying notes to unaudited financial statements and the independent auditors' review report.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows (Unaudited)

For the six-month periods ended June 30, 2017 and 2016

(Expressed in thousands of U.S. dollars)

	June 30	
	2017	**2016**
Cash flows from operating activities		
Net income	19,133	126,873
Items to reconcile net income to net cash provided by operating activities:		
Provisions for (reversal of) credit losses	77,934	(16,919)
Gain on equity investments, net	0	(1,550)
Foreign exchange (gains) losses, net	(225)	337
Depreciation and amortization	1,662	1,929
Valuation of derivative financial instruments and debt	(48)	(17,107)
Increase in accrued interest receivable	(2,674)	(757)
Increase in accrued interest payable	1,614	5,193
Net (increase) decrease in other assets	(1,249)	275
Net decrease in other liabilities	(232)	(14,583)
Net cash provided by operating activities	95,915	83,691
Cash flows from investing activities		
Net increase in interest-bearing deposits with banks	(467,586)	(339,919)
Purchases of securities available for sale	(546,589)	(344,987)
Proceeds from sales and redemptions of securities available for sale	411,291	357,641
Purchase of property and equipment	(836)	(224)
Net increase in margin calls and other	328,788	90,286
Disbursements of loans receivable	(445,451)	(622,959)
Collections of loans receivable	583,197	589,127
Capital contributions to equity investments, net of returns	(9)	(292)
Net cash used in investing activities	(137,195)	(271,327)
Cash flows from financing activities		
Capital contributions	13,292	7,586
Proceeds from loans payable	167,869	7,550
Repayments of loans payable	(285,642)	(188,362)
Net decrease in commercial paper programs	(87,347)	(52,903)
Proceeds from issuance of bonds payable	492,808	502,306
Repayment of bonds payable	(251,915)	(194,189)
Net (decrease) increase in certificates of deposit	(5,815)	94,760
Decrease in certificates of investment	(22)	(34)
Net cash provided by financing activities	43,228	176,714
Effect of exchange rate fluctuations on cash held	72	(25)
Cash and demand deposits at beginning of period	1,373	32,790
Cash and demand deposits at end of period	3,393	21,843
Net increase (decrease) in cash and cash equivalents	2,020	(10,947)
Supplemental information		
Cash paid for interest during the year	75,481	52,231
Net unrealized changes in securities available for sale	3,628	11,064

See accompanying notes to unaudited financial statements and the independent auditors' review report.

(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 integration and balanced economic and social development of the founding member 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 19 and 20.

Furthermore, as detailed in note 19, 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).

The unaudited financial statements as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016, include all adjustments, consisting of normal recurring accruals, that we considered necessary to fairly present the Bank's financial position, results of operations, and cash flows. Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted in these interim financial statements, in accordance with accounting principles applicable to interim financial information; therefore, it is suggested that these financial statements be read in conjunction with the audited financial statements of the Bank and notes thereto at December 31, 2016 and for the year then ended.

The results of operations during interim periods are not necessarily indicative of the results that can be expected for the full year.

(2) Summary of Significant Accounting Policies, continued

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.

(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.

(2) Summary of Significant Accounting Policies, continued

- 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.

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.

(2) Summary of Significant Accounting Policies, continued

The Bank has not experienced other-than-temporary impairment during the six-month periods ended June 30, 2017 and 2016.

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. 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.

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 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%.

(2) Summary of Significant Accounting Policies, continued

- 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.

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.

(2) Summary of Significant Accounting Policies, continued

For the public sector with solidarity sovereign guarantee, 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 to adjust the probabilities of default with respect to market information. To determine the parameters applied for severity of loss, the Bank considers the loss given default under Basel recommendations; these parameters are reviewed annually to determine their reasonability. Lastly, severity of loss is included according to the type of debt, senior or subordinate.

In addition, a methodology is established 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.

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. This way, the assignment of provisions is consistent with 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, cession of cash flows, assets in trust, 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.

(2) Summary of Significant Accounting Policies, continued

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.
- 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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

(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, except land, under the straight-line method, estimating the number of years of useful life 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).

(2) Summary of Significant Accounting Policies, continued

The Bank considers derivative financial instruments with hedging purposes only. 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).

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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

(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. Any excess of the recorded investment in the loan over the fair value of the asset received less costs to sell is a loss.

Subsequent to foreclosure, management carries on periodic assessments and these properties are carried at 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).

(2) Summary of Significant Accounting Policies, continued

(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.

(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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(u) Uniformity

The accounting policies as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016, are consistent with those applied as of December 31, 2016 and for the year then ended.

(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.

(3) Fair Values and Fair Value Option, continued

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.

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:

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

- Loans, net: The fair values for fixed-rate 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.

(3) Fair Values and Fair Value Option, continued

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. 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 18).

- 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 loans payable are estimated on the basis of an analysis of discounted cash flows, using the CIRR as a reference.

  The fair values for bonds payable 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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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; 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

As of June 30, 2017, the Bank does not maintain assets and liabilities classified within Level 3 of the fair value hierarchy.

(ii) Recurring Fair Value Measurements

The following tables present the assets and liabilities valued at their fair value on a recurring basis as of June 30, 2017 and December 31, 2016, classified according to the fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total 2017**
Assets				
Securities available for sale	224,881	1,138,249	0	1,363,130
Derivative financial instruments	0	6,450	0	6,450
Liabilities				
Loans payable	0	213,171	0	213,171
Bonds payable	0	3,807,901	0	3,807,901
Derivative financial instruments	0	18,345	0	18,345

	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

(iii) Changes in Fair Value Level 3 Category

The following table presents a roll-forward for the six-month period ended June 30, 2017 and the year ended December 31, 2016 (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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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 six-month period ended June 30, 2017 and the years ended December 31, 2016 are as follows:

	2017	**2016**
Balance at beginning of period	100	296
Gains (losses) included in:		
Net income	0	0
Other comprehensive income	0	4
Amortizations	(100)	(200)
Transfers in and/or out of Level 3	0	0
Balance at end of period	0	100

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 six-month period ended June 30, 2017 and the year ended December 31, 2016, 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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

The following table presents the fair value measurements of assets that are measured at fair value on a nonrecurring basis and the increase or decrease in fair value, which has been included in the statement of income for the six-month period ended June 30, 2017 and the year ended December 31, 2016:

	2017		2016	
Level 3	**Fair Value**	**Decrease**	**Fair Value**	**Decrease**
Loans	27,422	(657)	29,175	(7,890)
Foreclosed assets	12,152	0	12,152	(1,727)
	39,574	(657)	41,327	(9,617)

(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.

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 six-month periods ended June 30, 2017 and 2016, for loans payable at fair value, the Bank recorded losses of 17,474 and 5,432, respectively, in the statement of income. For the six-month periods ended June 30, 2017 and 2016, for bonds payable at fair value, the Bank recorded losses of 271,031 and 108,729, 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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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 June 30, 2017 and December 31, 2016 is as follows:

	2017			2016		
	Fair value	Amortized cost	Deficit	Fair value	Amortized cost	Excess (deficit)
Loans payable	213,171	229,940	(16,769)	198,454	232,697	(34,243)
Bonds payable	3,807,901	3,892,980	(85,079)	3,212,420	3,568,529	(356,109)

(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.

The estimated fair values of the Bank's financial instruments as of June 30, 2017 and December 31, 2016 are as follows:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and demand deposits	3,393	3,393	1,373	1,373
Interest-bearing deposits with banks	1,972,598	1,972,598	1,505,008	1,505,008
Securities available for sale	1,363,130	1,363,130	1,223,344	1,223,344
Loans, net	6,062,607	6,092,649	6,278,971	6,319,464
Accrued interest receivable	76,792	76,792	74,125	74,125
Derivative financial instruments	6,450	6,450	30,724	30,724
Liabilities				
Loans payable	1,231,410	1,214,315	1,334,733	1,319,042
Bonds payable	4,473,797	4,475,788	3,954,654	3,958,562
Commercial paper programs	42,612	42,833	129,960	130,282
Certificates of deposit	977,777	977,665	983,592	984,675
Certificates of investment	586	586	607	607
Accrued interest payable	36,850	36,850	35,235	35,235
Derivative financial instruments	18,345	18,345	6,545	6,545

As of June 30, 2017 and December 31, 2016, loans payable include 1,018,239 and 1,136,279, respectively, which are recognized at amortized cost, whose fair value has been estimated at 1,001,144 and 1,120,588, respectively. Likewise, as of the aforementioned dates, bonds payable include 665,896 and 742,234 respectively, which are recognized at amortized cost, whose fair value has been estimated at 667,887 and 746,142, respectively.

(Expressed in thousands of U.S. dollars)

(4) Cash and Demand Deposits

As of June 30, 2017 and December 31, 2016, cash and demand deposits are composed by currency, as follows:

	2017	2016
Currencies of the founding countries	464	168
U.S. dollar	2,714	1,163
Other currencies	215	42
	3,393	1,373

(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 June 30, 2017 and December 31, 2016, their carrying amounts are 1,972,598 and 1,505,008, respectively. These carrying amounts are set in currencies other than those of the founding countries.

(6) Securities Available for Sale

The amortized cost of securities available for sale, unrealized gross losses and gains recognized in accumulated other comprehensive loss, the effect of hedging transactions and fair value of securities available for sale, as of June 30, 2017 and December 31, 2016 are as follows:

	2017				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair value**
Sovereign	779,529	(1,926)	120	11,013	788,736
Supranational	411,765	(788)	172	0	411,149
Corporate	19,913	(11)	10	0	19,912
Investment funds	137,700	0	5,633	0	143,333
	1,348,907	(2,725)	5,935	11,013	1,363,130

	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

[1] The entirety of securities available for sale as of June 30, 2017 and December 31, 2016 is denominated in U.S. dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

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 six-month periods ended June 30, 2017 and 2016, the realized gross gain was 1,864 and 1,026, respectively. There was no realized gross loss during the six-month periods ended June 30, 2017 and 2016.

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

As of June 30, 2017 and December 31, 2016, the fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

	2017				
	Less than 12 months		12 months or longer		
Securities available for sale:	**Fair value**	**Unrealized gross losses**	**Fair value**	**Unrealized gross losses**	**Total**
Sovereign	224,231	(1,377)	322,562	(549)	(1,926)
Supranational	176,574	(787)	6,999	(1)	(788)
Corporate	0	0	9,916	(11)	(11)
	400,805	(2,164)	339,477	(561)	(2,725)

	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)

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 June 30, 2017, 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.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

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.

As of June 30, 2017, 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	654,723	623,548	0	70,636	1,348,907

(7) Loans

Considering the financial policy 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 June 30, 2017 and December 31, 2016, is as follows:

	2017			**2016**		
	Public sector	**Private sector**	**Total**	**Public sector**	**Private sector**	**Total**
Guatemala	1,038,502	105,208	1,143,710	1,082,578	123,777	1,206,355
El Salvador	971,435	88,176	1,059,611	949,334	102,225	1,051,559
Honduras	1,026,387	287,564	1,313,951	1,014,216	304,721	1,318,937
Nicaragua	627,798	258,326	886,124	603,142	277,086	880,228
Costa Rica	1,136,051	192,470	1,328,521	1,157,066	281,489	1,438,555
Dominican Republic	207,846	0	207,846	219,509	0	219,509
Panama	0	198,260	198,260	0	163,076	163,076
Belize	11,128	0	11,128	11,569	0	11,569
Colombia	183,414	0	183,414	183,333	0	183,333
Subtotal	5,202,561	1,130,004	6,332,565	5,220,747	1,252,374	6,473,121
Allowance for loan losses	(206,065)	(63,893)	(269,958)	(134,567)	(59,583)	(194,150)
Loans, net	4,996,496	1,066,111	6,062,607	5,086,180	1,192,791	6,278,971

A detail of loans, by maturity, as of June 30, 2017, 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**
348	855,391	636,690	619,145	542,396	500,805	3,177,790	6,332,565

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

A detail of loans, by economic activity segment, as of June 30, 2017 and December 31, 2016, is as follows:

	2017	2016
Construction	2,398,768	2,405,998
Supply of electricity, gas, steam, and air conditioning	1,688,713	1,710,607
Multi-sector	881,367	921,727
Financial and insurance activities	338,101	390,822
Human health care and social assistance	209,815	205,366
Water supply; sewage disposal, waste management, and decontamination	157,553	150,121
Wholesale and retail	141,822	127,241
Agriculture, ranching, forestry, and fishing	104,242	113,439
Information and communication	93,199	104,444
Manufacturing industry	91,242	99,199
Professional, scientific and technical activities	67,077	73,396
Transportation and storage	42,314	43,576
Lodging activities and food services	39,789	43,735
Real estate	29,151	30,287
Education	25,214	26,103
Arts, entertainment and recreational activities	14,875	16,115
Administrative services and support activities	9,263	10,936
Public administration and social security plans	60	0
Other services	0	9
	6,332,565	6,473,121

A detail of loans, by currency, as of June 30, 2017 and December 31, 2016, is as follows:

	2017	2016
U.S. dollar	6,295,665	6,426,862
Currencies from Central American countries	33,696	43,028
Euro	3,204	3,231
	6,332,565	6,473,121

For the six-month period ended June 30, 2017 and the year ended December 31, 2016, the weighted average yield on loans, after considering swap contracts when applicable, was 5.44% and 5.34% per annum, respectively.

As of June 30, 2017 and December 31, 2016, the aging analysis, in days, of the installment balances in arrears from loans is as follows:

	2017					2016				
	01-30	31-60	61-90	More than 90	Total	01-30	31-60	61-90	More than 90	Total
Guatemala	28	0	0	0	28	0	0	0	0	0
El Salvador	320	0	0	0	320	0	0	0	0	0
Costa Rica	0	0	0	0	0	24	46	3	165	238
	348	0	0	0	348	24	46	3	165	238

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2017 and December 31, 2016, installments from loans to the public sector in arrears amounted to 320 and 0, respectively.

The following tables present impaired loans to the private sector as of June 30, 2017 and December 31, 2016:

2017						
Impaired loans	**Recorded investment**	**Overdue principal balance**	**Related allowance**	**Average recorded investment**	**Accumulated interest on impaired loans**	**Interest income recognized**
With an allowance for loan losses						
Guatemala	6,772	28	1,017	10,745	7	76
Costa Rica	1,253	0	351	2,228	18	37
Panamá	25,818	0	5,053	25,244	46	0
	33,843	28	6,421	38,217	71	113
Impaired loans with accrual status	32,548	0	6,380	36,717	65	37
Impaired loans with non-accrual status	1,295	28	41	1,500	6	76

2016						
Impaired loans	**Recorded investment**	**Overdue principal balance**	**Related allowance**	**Average recorded investment**	**Accumulated interest on impaired loans**	**Interest income recognized**
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
Panamá	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

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2017 and December 31, 2016, under ASC 310, there were no individually impaired public sector loans.

The credit quality of public sector loans based on risk ratings assigned by credit rating agencies as of June 30, 2017 and December 31, 2016 is as follows:

	2017	2016
BBB+ / BBB / BBB-	183,414	183,333
BB+ / BB / BB-	2,382,399	2,459,153
B+ / B / B-	1,665,313	2,566,692
CCC+ / CCC / CCC-	971,435	11,569
	5,202,561	5,220,747

The credit quality of private sector loans based on risk ratings described in note 2 (f), as of June 30, 2017 and December 31, 2016 is the following:

	2017					
Private Sector	**Normal**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**	**Total**
Guatemala	95,058	3,378	6,772	0	0	105,208
El Salvador	86,403	1,773	0	0	0	88,176
Honduras	216,957	70,608	0	0	0	287,565
Nicaragua	233,177	2,450	22,699	0	0	258,326
Costa Rica	165,680	452	26,337	0	0	192,469
Panama	172,443	0	25,817	0	0	198,260
	969,718	78,661	81,625	0	0	1,130,004

	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

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

Changes in the allowance for loan losses for the six-month period ended June 30, 2017 and the year ended December 31, 2016 are as follows:

	2017			2016		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
At beginning of period	134,567	59,583	194,150	117,850	58,737	176,587
Provision	71,498	5,750	77,248	16,717	10,141	26,858
Recoveries	0	26	26	0	1,773	1,773
Loan write-offs	0	(1,466)	(1,466)	0	(11,068)	(11,068)
At end of period	206,065	63,893	269,958	134,567	59,583	194,150

The following table presents the allowance and recorded investment, as June 30, 2017 and December 31, 2016:

	2017			2016		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Loans Measured Individually						
Specific allowance	0	6,421	6,421	0	7,199	7,199
Recorded investment	0	33,843	33,843	0	36,374	36,374
Loans Measured Collectively						
Generic allowance	206,065	57,472	263,537	134,567	52,384	186,951
Recorded investment	5,202,561	1,062,909	6,265,470	5,220,747	1,182,129	6,402,876
Loans Without an Allowance						
Recorded investment	0	33,252	33,252	0	33,871	33,871
Total						
Allowance	206,065	63,893	269,958	134,567	59,583	194,150
Recorded investment	5,202,561	1,130,004	6,332,565	5,220,747	1,252,374	6,473,121

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 six-month period ended June 30, 2017 and the year ended December 31, 2016 are the following:

	2017	2016
At beginning of period	83,935	70,772
Troubled debt restructurings, due to modification of term and interest rate	0	24,624
Interest capitalization	494	665
Partial write-offs	0	(1,500)
Recoveries	(4,055)	(10,626)
At end of period	80,374	83,935

(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 June 30, 2017 and December 31, 2016, the number of restructured loans is 5 for both periods. For the six-month period ended June 30, 2017 and the year ended December 31, 2016, the balance of the loans prior to their restructuring was 25,608 and 24,103, respectively.

As of June 30, 2017 and December 31, 2016, the installments in arrears from restructured loans amount to 28 and 0, 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 June 30, 2017 and December 31, 2016 is detailed as follows:

	2017	2016
On loans	68,096	66,296
On securities available for sale	4,521	5,336
On interest-bearing deposits with banks	4,175	2,493
	76,792	74,125

(9) Property and Equipment, Net

Property and equipment as of June 30, 2017 and December 31, 2016 are detailed as follows:

	2017	2016
Buildings	29,986	29,057
Computer equipment and software	21,531	23,033
Installations	17,009	16,947
Office furniture and equipment	5,580	5,580
Vehicles	2,290	2,356
	76,396	76,973
Less accumulated depreciation and amortization	(49,218)	(48,968)
	27,178	28,005
Land	4,697	4,697
	31,875	32,702

(Expressed in thousands of U.S. dollars)

(10) Other Assets

Other assets as of June 30, 2017 and December 31, 2016 are detailed as follows:

	2017	2016
Foreclosed assets, net of fair value adjustments	12,152	12,152
Accounts receivable	4,781	3,830
Fees paid in advance	835	524
Other	27	22
	17,795	16,528

As of June 30, 2017 and December 31, 2016, the balance of foreclosed assets is 12,152 for both periods, net of fair value adjustments of 10,693 for both periods.

(11) Loans Payable

Loans payable as of June 30, 2017 and December 31, 2016 are as follows:

	2017	2016
European Investment Bank	225,068	230,869
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	198,375	205,729
Kreditanstalt für Wiederaufbau (KfW)	141,703	148,190
Citibank, N.A.	109,000	149,390
Agence Française de Développement	107,629	98,810
The Export Import Bank of Korea	94,811	32,652
Mizuho Bank, Ltd.	55,000	108,750
Nordic Investment Bank	41,642	46,047
Japan Bank for International Cooperation	40,527	43,645
Mizuho Bank, Ltd., New York Branch	40,000	40,000
Oesterreichische Entwicklungsbank AG (OeEB)	34,698	32,056
Standard Chartered Bank	33,000	0
Nordea Bank	32,224	34,232
Instituto de Crédito Oficial de España	22,851	25,528
BNP Paribas Fortis	17,085	18,409
The OPEC Fund for International Development	9,194	10,726
U.S. Agency for International Development (USAID)	7,922	8,536
Inter-American Development Bank (IDB)	6,552	10,875
The International Cooperation and Development Fund (TaiwanICDF)	6,526	7,342
Fortis Bank SA/NV, Belgium	6,353	6,118
Loans guaranteed by USAID	1,250	1,829
Other financial institutions	0	75,000
	1,231,410	1,334,733

(Expressed in thousands of U.S. dollars)

(11) Loans Payable, continued

Maturities of loans payable as of June 30, 2017 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	297,341	170,325	97,197	92,498	90,031	484,018	1,231,410

For the six-month period ended June 30, 2017 and the year ended December 31, 2016, the weighted average cost on loans payable, after considering swap contracts when applicable, was 2.28% and 1.98% per annum, respectively.

As of June 30, 2017, loans payable at fixed and variable rates are 496,577 and 734,833, respectively. As of December 31, 2016, loans payable at fixed and variable rates are 507,428 and 827,305, respectively.

(12) Bonds Payable and Commercial Paper Program

(a) Bonds payable as of June 30, 2017 and December 31, 2016, are as follows:

Currency	2017	2016
Swiss francs	1,371,138	1,298,913
Mexican pesos	578,293	502,868
U.S. dollars	651,484	734,367
Yuan	434,972	406,262
Euros	327,470	304,694
Uruguayan pesos	205,120	0
Yen	190,208	181,769
Norwegian kroner	181,449	114,651
Australian dollars	106,951	52,872
Thailand bahts	110,853	106,175
South African rands	79,484	72,507
Hong Kong dollars	52,541	0
Nuevos soles	47,639	45,370
Costa Rican colones	44,789	46,762
Turkish lira	40,542	40,174
Colombian pesos	35,464	36,593
	4,458,397	3,943,977
Fair value adjustment	15,400	10,677
	4,473,797	3,954,654

Maturities of bonds payable as of June 30, 2017 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	319,871	332,508	983,199	422,412	914,680	1,501,127	4,473,797

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Program, continued

For the six-month period ended June 30, 2017 and the year ended December 31, 2016, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 2.71% and 2.43% per annum, respectively.

(b) As of June 30, 2017 and December 31, 2016, CABEI has the following commercial paper programs:

	2017			
	Authorized Program Size	**Amount Issued**	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	1,000,000	24,978	0.87%	Up to 3 months
Commercial Paper - Regional Program in Costa Rican colones (CRC)	200,000	17,634	5.05%	Up to 6 months
	1,200,000	42,612		

	2016			
	Authorized Program Size	**Amount Issued**	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	1,000,000	129,960	0.66%	Up to 3 months
Commercial Paper - Regional Program in Costa Rican colones (CRC)	200,000	0	0.00%	Up to 6 months
	1,200,000	129,960		

(13) Certificates of Deposit

Certificates of deposit as of June 30, 2017 and December 31, 2016, are as follows:

	2017	**2016**
Central Banks	579,696	639,940
Public financial institutions	168,000	210,553
Private financial institutions	109,456	109,360
Multilateral institutions	103,000	6,537
Other	17,625	17,202
	977,777	983,592

As of June 30, 2017, the contractual maturities are 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	747,310	215,924	1,924	4,650	4,890	3,079	977,777

(Expressed in thousands of U.S. dollars)

(13) Certificates of Deposit, continued

For the six-month period ended June 30, 2017 and the year ended December 31, 2016, the weighted average cost on certificates of deposit was 1.15% and 0.90% per annum, respectively.

For the six-month period ended June 30, 2017 and the year ended December 31, 2016, the weighted average cost on certificates of deposit, by currency, is as follows:

	2017	2016
Deposits in U.S. dollars	1.14%	0.75%
Deposits in Costa Rican colones	3.40%	5.53%
Deposits in quetzales	3.52%	3.65%

(14) Accrued Interest Payable

Accrued interest payable as of June 30, 2017 and December 31, 2016 is as follows:

	2017	2016
On bonds payable	29,820	28,404
On loans payable	3,832	4,121
On certificates of deposit	2,821	2,710
On commercial paper	377	0
	36,850	35,235

(15) Other Liabilities

Other liabilities as of June 30, 2017 and December 31, 2016 are as follows:

	2017	2016
Other creditors	7,661	6,697
Deficit of assets over actuarial liabilities of Social Benefit Fund	3,684	3,684
Financial cooperation to founding countries	3,660	4,260
Provision for contingencies (note 17)	3,273	2,587
Technical assistance	3,069	3,014
Bonuses and supplemental compensation	2,664	3,290
Transitory deposits	1,503	541
Deferred fees over contingent commitments (note 17)	96	55
Other provisions	153	1,865
	25,763	25,993

(16) 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.

(16) 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 June 30, 2017, 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 1,833,250; the remaining 616,750 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 to “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)

(16) Equity, continued

As of June 30, 2017, the capital structure is detailed as follows:

	2017			
	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	256,000	192,000	64,000	26,987
Panama	256,000	192,000	64,000	26,987
Belize	25,000	18,750	6,250	6,250
Subtotal non-founding regional countries	537,000	402,750	134,250	60,224
Non-regional countries				
Republic of China, Taiwan	500,000	375,000	125,000	125,000
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	324,063
Subtotal subscribed capital and paid-in capital	4,383,250	3,287,437	1,095,813	1,021,787
Unsubscribed capital				
Non-regional countries and regional non-founding countries	616,750			
	5,000,000			

(Expressed in thousands of U.S. dollars)

(16) 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-regional countries and regional non-founding countries	814,150			
	5,000,000			

As a result of the new subscription of shares and amendments to the Constitutive Agreement, during the six-month periods ended June 30, 2017 and 2016, the member countries made capital payments as follows:

	2017			2016			
Capital Payments	**Cash**	**Series "E" Certificates**	**Total**	**Cash**	**Series "E" Certificates**	**Special Capital Contributions[2]**	**Total**
Founding countries							
El Salvador	0	0	0	2,500	15,625	0	18,125
Sub-total	0	0	0	2,500	15,625	0	18,125
Non-founding regional countries							
Dominican Republic	12,271	66	12,337	0	0	250	250
Panama	0	0	0	0	0	250	250
Sub-total	12,271	66	12,337	0	0	500	500
Non-regional countries							
Republic of China, Taiwan	1,021	6,791	7,812	1,021	6,791	0	7,812
Mexico	0	0	0	1,502	9,983	0	11,485
Argentina	0	0	0	0	0	250	250
Colombia	0	0	0	2,563	2,837	250	5,650
Sub-total	1,021	6,791	7,812	5,086	19,611	500	25,197
	13,292	6,857	20,149	7,586	35,236	1,000	43,822

[2] Correspond to special capital contributions prior to the date post in observance of the amendments to the Bank's Constitutive Agreement.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

(b) 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. This capital subscription process generates cash payments for CABEI for an aggregate amount of 98,243 to be received over the course of 4 years. Consequently, the Republic of Panama and the Dominican Republic made the payment of their first share of capital in cash in September 2016 and May 2017, respectively, so that the capital subscribed by both countries becomes effective.

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.

(17) Contingent Commitments

As of June 30, 2017 and December 31, 2016, balances of contingent commitments are as follows:

	2017	2016
Subscribed credit agreements (*)	2,668,268	2,718,767
Endorsements and guarantees granted	228,322	275,903
Letters of credit	11,024	29,210
	2,907,614	3,023,880

(*) Includes approved and deeded agreements

(Expressed in thousands of U.S. dollars)

(17) 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.

The maturities of endorsements and guarantees granted, and letters of credit as of June 30, 2017, are as follows:

	Years				
	2017	**2018**	**2020**	**2029**	**Total**
Endorsements and guarantees granted	150,000	0	18,940	59,382	228,322
Letters of credit	3,287	7,737	0	0	11,024

As of June 30, 2017 and December 31, 2016, the Bank has recorded deferred fees over contingent commitments for 96 and 55, respectively, which have been recorded as other liabilities in the balance sheet (note 15).

As of June 30, 2017 and December 31, 2016, the Bank has recorded a provision for possible losses of 3,273 and 2,587, respectively, related to endorsements and guarantees issued (note 15).

(18) 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 liquidity risks.

The Bank maintains policies for the approval of counterparties and maximum limits per counterparty. To measure the exposure with counterparties, the Bank establishes a maximum limit measured with respect to the counterparty's credit quality. As of June 30, 2017 and December 31, 2016, 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)

(18) Derivative Financial Instruments and Hedging Activities, continued

As of June 30, 2017 and December 31, 2016, the face value of derivative financial instruments is as follows:

	2017		2016	
	Assets Face Value	Liabilities Face Value	Assets Face Value	Liabilities Face Value
Fair value hedges				
Interest rate and other contracts	504,685	225,518	202,685	363,153
Other risk management purposes				
Foreign currency contracts	1,522,738	2,316,996	161,615	3,175,017
Total derivative financial instruments, face value	2,027,423	2,542,514	364,300	3,538,170

The following tables present information about the offsetting of derivative financial instruments as of June 30, 2017 and December 31, 2016, when CABEI adopted the policy of offsetting derivative assets and liabilities with each counterparty in the balance sheet.

	2017		2016	
	Assets Fair Value	Liabilities Fair Value	Assets Fair Value	Liabilities Fair Value
Fair value hedges				
Interest rate and other contracts	35,302	33,367	33,369	35,857
Other risk management purposes				
Foreign currency contracts	94,789	245,266	4,707	443,427
Subtotal derivative financial instruments	130,091	278,633	38,076	479,284
Cash collateral paid / received	204,960	68,720	465,290	0
Subtotal derivative financial instruments, by gross amounts	335,051	347,353	503,366	479,284
Less: Master netting agreements	(71,799)	(71,799)	(38,076)	(38,076)
Less: Offsetting cash collateral paid / received	(257,212)	(257,212)	(434,768)	(434,768)
Credit risk valuation adjustment for counterparties under netting agreements	410	3	202	105
Total derivative financial instruments presented in the balance sheet, by offset amounts	6,450	18,345	30,724	6,545

(Expressed in thousands of U.S. dollars)

(18) 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 income (loss) and other comprehensive income (loss) for the six-month period ended June 30, 2017 and 2016, is presented as follow:

	2017			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate and other contracts	4,422	(4,422)	0	0
Undesignated economic hedges				
Foreign currency contracts[3]	288,243	0	288,243	0
Credit risk valuation adjustment for counterparties under netting agreements	310	0	310	0
	292,975	(4,422)	288,553	0

	2016			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive income (loss)
Fair value hedges				
Interest rate and other contracts	15,576	(15,576)	0	0
Undesignated economic hedges				
Foreign currency contracts[3]	131,985	0	131,985	0
Credit risk valuation adjustment	(717)	0	(717)	0
	146,844	(15,576)	131,268	0

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

[3] 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)

(19) 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 June 30, 2017 and December 31, 2016:

Fund/Program	Net Assets 2017 (Unaudited)	2016 (Audited)
Special Fund for the Social Transformation of Central America – FETS	100,798	107,236
Honduras - Spain Fund, Phase II	46,521	44,431
Investment Trust – Dwelling Mortgage Fund	24,137	22,807
Technical Cooperation Fund – FONTEC	23,224	22,913
Debt-Conversion Fund (Honduras-Spain)	16,732	22,161
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)	2,993	3,066
Partial credit guarantees - Finland Resources	2,365	2,348
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	218	509
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	294	290
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	89	108
Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio)	30	30
	221,434	229,932

(20) 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.

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 tables show the net periodic benefit cost for the six-month periods ended as of June 30, 2017 and 2016 in conformity with the criteria established by currently applicable standards:

	2017	2016
Net periodic benefit cost components		
Interest cost	6,083	5,880
Service cost	2,655	2,584
Return on Plan assets	(3,275)	(2,884)
Net periodic benefit cost	5,463	5,580

Contributions

All contributions from CABEI are paid in cash. For the six-month periods ended June 30, 2017 and 2016, the Bank has recorded 2,314 and 2,248, respectively, in ordinary contributions, and, 2,533 and 2,521, respectively, in special contributions to supplement the actuarial technical interest rate of 7%. The aforementioned contributions are included in administrative expenses and special contributions, respectively.

(21) Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss during the six-month periods ended June 30, 2017 and 2016, is as follows:

	2017		
	Securities available for sale	Actuarial losses under the Social Benefit Plan	Accumulated other comprehensive (loss) income
At beginning of period	(418)	(3,657)	(4,075)
Changes for the period	3,628	0	3,628
At end of period	3,210	(3,657)	(447)

	2016		
	Securities available for sale	Actuarial gains under the Social Benefit Plan	Accumulated other comprehensive (loss) income
At beginning of period	(5,265)	(2,163)	(7,428)
Changes for the period	11,064	0	11,064
At end of period	5,799	(2,163)	3,636

(Expressed in thousands of U.S. dollars)

(21) Accumulated Other Comprehensive Loss, continued

Reclassifications from accumulated other comprehensive income to earnings during the six-month periods ended June 30, 2017 and 2016, are as follows:

	2017	2016	Line in statement of income affected
Securities available for sale	(1,864)	(1,022)	Realized gains on investment funds
Securities available for sale	0	(4)	Realized income on securities available for sale
	(1,864)	(1,026)	

(22) Special and other contributions

Special contributions and other for the six-month periods ended June 30, 2017 and 2016 are detailed as follows:

	2017	2016
SBF special contribution	2,533	2,521
FONTEC special contribution	0	1,500
Financial cooperation and other	847	757
	3,380	4,778

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 20).

(23) 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 result of these actions will not originate an adverse material effect on its financial position, results of operations or liquidity.

(24) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to September 22, 2017, date on which the financial statements were ready for their issuance, and the following was identified:

On April 27, 2017, the Board of Governors accepted the Republic of Cuba as an extra-regional member, with a subscription of 5,000 Series "B" shares equivalent to 50,000. At the moment, steps are being taken to carry out its incorporation in compliance with the terms and conditions set forth in the regulations of CABEI.