CABEI

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Financial Statements

June 30, 2018

(With Independent Auditors' Review Reports Thereon)

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Executive President, Board of Directors and
The Board of Governors of
Banco Centroamericano de Integración Económica

Report on the Financial Statements

We have reviewed the accompanying Balance Sheet of Banco Centroamericano de Integración Económica (the Bank) as of June 30, 2018, and the statements of income, comprehensive income, changes in equity and cash flows for the six months period ended as of June 30, 2018.

Management's Responsibility on the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of the interim financial information in accordance with generally accepted accounting principles 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 generally accepted accounting principles in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with generally accepted auditing standards 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 to persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards 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 modification that should be made to the accompanying interim financial information for it to be in accordance with generally accepted accounting principles in the United States of America.

Ernst + Young

Mexico City, Mexico;
October 8, 2018

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of June 30, 2018 and December 31, 2017

(Expressed in thousands of U.S. dollars)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Cash and demand deposits (note 4)	9,392	3,692
Interest-bearing deposits with banks (note 5)	1,834,945	1,824,056
Securities available for sale (321,612 in 2018 and 127,417 in 2017, under securities lending agreements) (note 6)	1,355,158	1,159,546
Loans, net of deferred origination fees	7,088,830	6,834,829
Less: Allowance for loan losses	(205,013)	(292,261)
Net loans (note 7)	6,883,817	6,542,568
Accrued interest receivable (note 8)	86,925	82,811
Property and equipment, net (note 9)	31,783	32,128
Derivative financial instruments (note 18)	43,259	24,066
Equity investments	30,450	30,510
Other assets (note 10)	22,304	21,382
Total assets	10,298,033	9,720,759
Liabilities		
Loans payable (222,791 in 2018 and 236,209 in 2017, measured at fair value) (note 11)	1,123,249	1,255,209
Bonds payable (4,248,368 in 2018 and 3,852,882 in 2017, measured at fair value) (note 12.a)	4,854,431	4,472,414
Commercial paper programs (note 12.b)	24,965	40,833
Certificates of deposit (note 13)	1,196,032	1,047,698
Certificates of investment	499	560
Accrued interest payable (note 14)	53,067	41,035
Derivative financial instruments (note 18)	6,703	5,796
Other liabilities (note 15)	28,676	26,606
Total liabilities	7,287,622	6,890,151
Equity		
Paid-in capital (note 16)	1,046,463	1,046,463
General reserve	1,819,780	1,718,400
Retained earnings	176,859	101,380
Accumulated other comprehensive loss (note 21)	(32,691)	(35,635)
Total equity	3,010,411	2,830,608
Total liabilities and equity	10,298,033	9,720,759

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, 2018 and 2017

(Expressed in thousands of U.S. dollars)

CABEI

	June 30	
	2018	**2017**
Financial income		
Public sector loans	156,939	138,910
Private sector loans	35,549	36,057
Marketable securities	10,398	8,423
Due from banks	17,557	9,876
Realized gains on investment funds	1,597	1,864
Total financial income	222,040	195,130
Financial expenses		
Loans payable	15,865	14,255
Bonds payable	74,611	56,289
Commercial paper programs	309	606
Certificates of deposit and investment	11,381	5,946
Total financial expenses	102,166	77,096
Net financial income	119,874	118,034
(Reversal of) provision for loan losses (note 7)	(87,316)	77,248
(Reversal of) provision for losses on contingencies	(245)	686
Total (reversal of) provisions for credit losses	(87,561)	77,934
Net financial income, after (reversal of) provisions for credit losses	207,435	40,100
Other operating income (expenses)		
Financial services and other fees	524	2,221
Monitoring and administration fees	550	461
Dividends from equity investments	485	0
Foreign exchange (loss) gain, net	(467)	225
Other operating income	771	1,129
Total other operating income, net	1,863	4,036
Administrative expenses		
Salaries and employee benefits	14,902	13,822
Other administrative expenses	6,197	5,964
Depreciation and amortization	1,774	1,662
Other	276	223
Total administrative expenses	23,149	21,671
Income, before special and other contributions and valuation of derivative financial instruments and debt	186,149	22,465
Special and other contributions (note 22)	(3,038)	(3,380)
Income, before valuation of derivative financial instruments and debt	183,111	19,085
Valuation of derivative financial instruments and debt	(6,252)	38,456
Net income	176,859	57,541

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, 2018 and 2017

(Expressed in thousands of U.S. dollars)

CABEI

	June 30	
	2018	**2017**
Net income	176,859	57,541
Other comprehensive loss:		
Unrealized (loss) gain on securities available for sale, net	(7,044)	5,492
Reclassification adjustments for net realized gains included in earnings (note 21)	(1,597)	(1,864)
Subtotal - securities available for sale	(8,641)	3,628
Change in credit risk of debt instruments at fair value (note 2.t)	11,902	(38,408)
Reclassification of net profit realized by maturity of debt in operations at fair value (note 21)	(317)	0
Subtotal - change in credit risk of debt instruments at fair value (note 2.t)	11,585	(38,408)
Other comprehensive loss	2,944	(34,780)
Comprehensive income	179,803	22,761

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, 2018 and 2017

(Expressed in thousands of U.S. dollars)

CABEI

	Paid-in Capital	General Reserve	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
Balance as of December 31, 2016 (audited)	1,001,638	1,609,918	133,044	(21,665)	2,722,935
Net income	0	0	57,541	0	57,541
Other comprehensive loss	0	0	0	(34,780)	(34,780)
Comprehensive income (loss)	0	0	57,541	(34,780)	22,761
Capital contributions, in cash (note 16)	13,292	0	0	0	13,292
Capital payments through series "E" certificates (note 16)	6,857	(6,857)	0	0	0
Transfer to general reserve	0	115,454	(115,454)	0	0
Balance as of June 30, 2017 (unaudited)	1,021,787	1,718,515	75,131	(56,445)	2,758,988
Balance as of December 31, 2017 (audited)	1,046,463	1,718,400	101,380	(35,635)	2,830,608
Net income	0	0	176,859	0	176,859
Other comprehensive income	0	0	0	2,944	2,944
Comprehensive income	0	0	176,859	2,944	179,803
Transfer to general reserve	0	101,380	(101,380)	0	0
Balance as of June 30, 2018 (unaudited)	1,046,463	1,819,780	176,859	(32,691)	3,010,411

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, 2018 and 2017

(Expressed in thousands of U.S. dollars)

CABEI

	June 30	
	2018	**2017**
Cash flows from operating activities		
Net income	176,859	57,541
Items to reconcile net income to net cash provided by operating activities:		
(Reversal of) provisions for credit losses	(87,561)	77,934
Foreign exchange losses (gains), net	467	(225)
Depreciation and amortization	1,774	1,662
Valuation of derivative financial instruments and debt	6,252	(38,456)
Net increase in accrued interest receivable	(4,121)	(2,674)
Net increase in accrued interest payable	12,031	1,614
Net increase in other assets	(982)	(1,249)
Net increase (decrease) in other liabilities	2,313	(232)
Net cash provided by operating activities	107,032	95,915
Cash flows from investing activities		
Net increase in interest-bearing deposits with banks	(10,889)	(467,586)
Purchases of securities available for sale	(688,636)	(546,589)
Proceeds from sales and redemptions of securities available for sale	479,604	411,291
Purchase of property and equipment	(1,429)	(836)
Net (increase) decrease in margin calls	(215,648)	328,788
Disbursements of loans receivable	(858,700)	(445,451)
Collections of loans receivable	603,443	583,197
Capital returns (contributions) to equity investments, net of contributions (returns)	60	(9)
Net cash used in investing activities	(692,195)	(137,195)
Cash flows from financing activities		
Capital contributions	0	13,292
Proceeds from loans payable	56,429	167,869
Repayments of loans payable	(180,511)	(285,642)
Net decrease in commercial paper programs	(15,868)	(87,347)
Proceeds from issuance of bonds payable	783,041	492,808
Repayment of bonds payable	(200,360)	(251,915)
Net increase (decrease) in certificates of deposit	148,334	(5,815)
Decrease in certificates of investment	(61)	(22)
Net cash provided by financing activities	591,004	43,228
Effect of exchange rate fluctuations on cash held	(141)	72
Cash and demand deposits at beginning of period	3,692	1,373
Cash and demand deposits at end of period	9,392	3,393
Net increase in cash and cash equivalents	5,700	2,020
Supplemental information		
Cash paid for interest	90,134	75,481
Net unrealized changes in securities available for sale	(8,641)	3,628

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 Central American region, which includes the founding member countries and the non-founding regional member countries.

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC) 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 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, 2018 and for the six-month periods ended June 30, 2018 and 2017, 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, 2017 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.

(2) Summary of Significant Accounting Policies, continued

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

The Bank has not experienced other-than-temporary impairment during the six-month periods ended June 30, 2018 and 2017.

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

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

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 entities, both public and private, established in the beneficiary member countries, that meet the financial needs of projects and programs that contribute to the development of the Central American region, which includes the founding countries and regional non-founding countries.

(2) Summary of Significant Accounting Policies, continued

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

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

(f) Loans and allowance for loan losses

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

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.

(2) Summary of Significant Accounting Policies, continued

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

For the public sector 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.

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 and the Basel severity of loss in case of default.

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 borrowers 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.

(2) Summary of Significant Accounting Policies, continued

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

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

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

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

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

(2) Summary of Significant Accounting Policies, continued

For the determination of the allowance for loan losses, credit risk ratings based on the SCR and the risk definitions by the credit rating agencies are taken into consideration, so that each of the levels on the SCR correspond to one or more risk levels established by the credit rating agencies. The probability of default for each of the levels on the SCR is calculated considering the corporate default probabilities from each credit rating agency. Finally, the severity of loss appropriate to the type of debt, whether senior or subordinate, is introduced.

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

Loan installments are considered in arrears the moment there is a default in their effective date of payment. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due in accordance with the contractual terms of the loan.

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

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

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

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.

(2) Summary of Significant Accounting Policies, continued

Troubled Debt Restructurings (TDRs)

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

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

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

Use of Allowance

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

(g) Non-accrual loans

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

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

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

(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.

(2) Summary of Significant Accounting Policies, continued

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).

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 delivery of collateral 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.

(2) Summary of Significant Accounting Policies, continued

This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

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

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

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

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

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

(2) Summary of Significant Accounting Policies, continued

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust the hedged asset or liability for changes in fair value of the hedged risk. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability.

When hedge accounting is discontinued for cash flow hedges, any changes in fair value of the derivative remain in accumulated other comprehensive loss and are included in earnings of future periods when the hedged cash flows impact earnings.

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

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies, continued

(j) Equity investments

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

(k) Foreclosed assets in satisfaction of loans

Foreclosed real estate acquired in satisfaction of loans is held for sale and is initially recorded at fair value less cost to sell of the real estate at the date of foreclosure. Any excess of the recorded investment in the loan over the fair value of the asset is recognized as a loss in the statements of income.

After 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).

(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, 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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(2) Summary of Significant Accounting Policies, continued

(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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

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, 2017, CABEI adopted the accounting policy related to Accounting Standards Update (ASU) No. 2016-01, "Financial Instruments - General: Recognition and Measurement of Financial Assets and Financial Liabilities ", which establishes that changes in fair value attributable to the credit risk of a specific financial instrument, when the Fair Value Option has been chosen for financial liabilities, must be recognized separately in other comprehensive income (loss) in the balance sheet, instead of in the statement of income.

(Expressed in thousands of U.S. dollars)

(2) Summary of Significant Accounting Policies, continued

The accounting regulations establish that the entity must present separately in other comprehensive income (loss), the portion of the total change in the fair value of a liability that results from a change in the credit risk of a specific instrument. The entity may consider the portion of the total change in fair value that excludes the amount resulting from a change in a market risk basis, such as a risk-free rate or a benchmark interest rate, that results in a change in the credit risk of a specific instrument. The entity must apply the method consistently for financial liabilities.

If the liability is settled before its maturity, the accumulated gains and losses due to these changes will be reclassified from other comprehensive income (loss) to the statement of income.

The following items in the balance sheets as of December 31, 2017 and income statement for the six-month period ended June 30, 2018, were affected by the change:

	Presentation of Change in Credit Risk of Debt Instruments at Fair Value		
	Without Change in Accounting Policy	With Change in Accounting Policy	Effect of Change in Accounting Policy
Balance Sheets			
As of December 31, 2017			
Equity			
Retained earnings	86,919	101,380	14,461
Accumulated other comprehensive loss	(21,174)	(35,635)	(14,461)
Statements of Income			
As of December 31, 2017			
Valuation of derivative financial instruments and debt	(26,190)	(11,729)	(14,461)
Net income	69,329	83,790	14,461

(Expressed in thousands of U.S. dollars)

(2) Summary of Significant Accounting Policies, continued

For comparative purposes, the figures of the statement of income for the semester ended on June 30, 2017, the results of the change in the accounting policy, as follows:

	Presentation of Change in Credit Risk of Debt Instruments at Fair Value		
Statement of Income For the six-month period ended June 30, 2017	**Without Change in Accounting Policy**	**With Change in Accounting Policy**	**Effect of Change in Accounting Policy**
Valuation of derivative financial instruments and debt	48	38,456	38,408
Net income	19,133	57,541	38,408

(u) Uniformity

The figures for the Statements of Income, of Comprehensive Income, of Changes in Equity and of Cash Flows for the six-month period ended June 30, 2017, were modified for comparative purposes to show the effect due to changes in credit risk of debt instruments at fair value. For the six-month period ended June 30, 2017, such effect represented an increase of 38,408 in the accounts of valuation of derivative financial instruments and debt and net income presented in the statement of income (see note 2.t).

(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 are available. If market prices or quotations are not available, fair value is determined based on internally developed models that primarily use as input, information independently obtained of market or market parameters, including but not limited to yield curves, interest rates, debt prices, foreign currency exchange rates and credit curves.

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

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

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

(3) Fair Values and Fair Value Option, continued

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 interest 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, loans payable in U.S. dollars 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-rates performing loans and without hedge 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.

- Equity investments: The Bank's equity investments in other entities are non-marketable; hence, they do not have available market price quotations. Most 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).

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

- 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 at fixed-rates and without hedge are estimated based on an analysis of discounted cash flows, using the CIRR as a reference.

  The fair values for bonds payable issued in U.S. dollars, at fixed-rates and without hedge, 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 interest 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.

As of June 30, 2018 and December 31, 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 financial assets and liabilities valued at their fair value on a recurring basis as of June 30, 2018 and December 31, 2017, classified according to the fair value hierarchy:

	Level 1	Level 2	Total 2018
Assets			
Securities available for sale	173,156	1,182,002	1,355,158
Derivative financial instruments	0	43,259	43,259
Liabilities			
Loans payable	0	222,791	222,791
Bonds payable	0	4,248,368	4,248,368
Derivative financial instruments	0	6,703	6,703

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

	Level 1	Level 2	Total 2017
Assets			
Securities available for sale	144,075	1,015,471	1,159,546
Derivative financial instruments	0	24,066	24,066
Liabilities			
Loans payable	0	236,209	236,209
Bonds payable	0	3,852,882	3,852,882
Derivative financial instruments	0	5,796	5,796

(iii) Changes in Fair Value Level 3 Category

The following table presents a roll-forward for year ended December 31, 2017 (including changes in fair value) of financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When an instrument is classified in Level 3, the decision is based on the importance of unobservable assumptions in determining the overall fair value.

Level 3 instruments usually include, in addition to unobservable or Level 3 components, observable components (i.e., components that are actively traded and can be validated in external sources); therefore, gains and losses in the tables below include changes in fair value partially caused 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 year ended December 31, 2017 are as follows:

	2017
Balance at beginning of period	100
Amortizations	(100)
Balance at end of period	0

For the six-month period ended June 30, 2018, the Bank does not present movements of financial assets and liabilities categorized within Level 3.

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, 2018 and year ended December 31, 2017, there were no transfers between Levels 1 and 2.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

(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, the value of collateral, or the observed market value of the loan, when applicable. This fair value does not represent a current indicator of an exit price. The fair values of foreclosed assets are estimated using the fair value of the foreclosed asset less costs to sell, which does not differ significantly from its maximum and best use.

The following table presents the fair value measurements of assets that are measured at fair value on a nonrecurring basis and the increase in fair value, which has been included in the statement of income for the six-month periods ended June 30, 2018 and year ended December 31, 2017:

	2018		2017	
Level 3	**Fair Value**	**Increase**	**Fair Value**	**Increase**
Loans, net	43,614	943	23,772	860
Foreclosed assets, net	12,152	0	12,152	0
	55,766	943	35,924	860

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

The main purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank's earnings generated by using 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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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, 2018 and 2017, for loans payable at fair value, the Bank recorded gains and losses of 4,979 and 14,690, respectively, in the statement of income. For the six-month periods ended June 30, 2018 and 2017, for bonds payable at fair value, the Bank recorded gains and losses of 182,441 and 235,407, respectively, in the statement of income.

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

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

As of June 30, 2018 and December 31, 2017, 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 is as follows:

	2018			2017		
	Fair Value	Amortized Cost	Decrease	Fair Value	Amortized Cost	Decrease
Loans payable	222,791	234,267	(11,476)	236,209	238,934	(2,725)
Bonds payable	4,248,368	4,554,692	(306,324)	3,852,882	3,968,633	(115,751)

(vii) Fair Value of Financial Instruments

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

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

As of June 30, 2018 and December 31, 2017, the estimated fair values of the Bank's financial instruments are as follows:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and demand deposits	9,392	9,392	3,692	3,692
Interest-bearing deposits with banks	1,834,945	1,834,945	1,824,056	1,824,056
Securities available for sale	1,355,158	1,355,158	1,159,546	1,159,546
Loans, net	6,883,817	6,877,589	6,542,568	6,564,017
Accrued interest receivable	86,925	86,925	82,811	82,811
Derivative financial instruments	43,259	43,259	24,066	24,066
Liabilities				
Loans payable	1,123,249	1,098,280	1,255,209	1,236,737
Bonds payable	4,854,431	4,854,923	4,472,414	4,473,685
Commercial paper programs	24,965	25,028	40,833	41,082
Certificates of deposit	1,196,032	1,096,017	1,047,698	1,048,089
Certificates of investment	499	499	560	560
Accrued interest payable	53,067	53,067	41,035	41,035
Derivative financial instruments	6,703	6,703	5,796	5,796

As of June 30, 2018 and December 31, 2017, loans payable include 900,458 and 1,019,000, respectively, which are recognized at amortized cost, whose fair value has been estimated at 875,489 and 1,000,528, respectively. Likewise, as of the aforementioned dates, bonds payable include 606,555 and 619,532, respectively, which are recognized at amortized cost, whose fair value has been estimated at 607,119 and 620,803, respectively.

(4) Cash and Demand Deposits

As of June 30, 2018 and December 31, 2017, cash and demand deposits are composed by currency, as follows:

	2018	2017
U.S. dollar	5,500	3,345
Currencies of the founding countries	594	260
Other currencies	3,298	87
	9,392	3,692

(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, 2018 and December 31, 2017, their carrying amounts are 1,834,945 and 1,824,056, respectively. These carrying amounts are set in currencies other than those of the founding countries.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale

The amortized cost of securities available for sale, unrealized gross losses and gains recognized in accumulated other comprehensive loss, the effect of hedging transactions and fair value of securities available for sale, as of June 30, 2018 and December 31, 2017 are as follows:

	2018				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair value**
Sovereign	736,300	(5,346)	161	5,774	736,889
Supranational	383,785	(3,706)	110	0	380,189
Corporate	95,098	0	0	0	95,098
Investment funds	142,584	0	398	0	142,982
	1,357,767	(9,052)	669	5,774	1,355,158

	2017				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair Value**
Sovereign	563,911	(3,215)	39	10,552	571,287
Supranational	369,550	(1,993)	87	0	367,644
Corporate	73,982	(274)	0	0	73,708
Investment funds	141,297	0	5,610	0	146,907
	1,148,740	(5,482)	5,736	10,552	1,159,546

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, 2018 and 2017, the realized gross gain was 1,597 and 1,864, respectively. There was no realized gross loss during the six-month periods ended June 30, 2018 and 2017.

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

[1] The entirety of securities available for sale as of June 30, 2018 and December 31, 2017 is denominated in U.S. dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

As of June 30, 2018 and December 31, 2017, the fair values and unrealized gross losses on securities available for sale that have been in continuous unrealized gross losses position are as follows:

	2018				
	Less than 12 months		12 months or longer		
Securities available for sale:	**Fair value**	**Unrealized gross losses**	**Fair value**	**Unrealized gross losses**	**Total**
Sovereign	136,647	(1,577)	356,957	(3,769)	(5,346)
Supranational	29,565	(499)	213,496	(3,207)	(3,706)
	166,212	(2,076)	570,453	(6,976)	(9,052)

	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	176,793	(964)	305,925	(2,251)	(3,215)
Supranational	161,054	(1,083)	83,812	(910)	(1,993)
Corporate	0	0	23,765	(274)	(274)
	337,847	(2,047)	413,502	(3,435)	(5,482)

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, 2018, the Bank's management has no intention of selling the securities classified as available for sale, described in the previous table, and considers it is more likely than not, that the Bank will not have to sell the aforementioned securities before it recovers their cost. Therefore, Bank's management believes the impairments presented in the table above are temporary and no other than temporary impairment has been recorded in the statements of income.

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

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

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

A summary of the securities available for sale as of June 30, 2018, in accordance with the contractual maturities, is presented 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	726,719	560,458	0	70,590	1,357,767

(7) Loans

Considering the financial policy described in note 2 (e), CABEI complies with its concentration limits of credit risk. A detail of loans, as of June 30, 2018 and December 31, 2017, is as follows:

	2018			2017		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Guatemala	1,003,961	115,868	1,119,829	1,012,599	88,783	1,101,382
El Salvador	1,116,676	75,081	1,191,757	1,080,642	80,041	1,160,683
Honduras	1,075,881	342,147	1,418,028	1,074,731	285,923	1,360,654
Nicaragua	772,583	278,054	1,050,637	703,945	261,396	965,341
Costa Rica	1,216,223	214,536	1,430,759	1,165,127	205,139	1,370,266
Dominican Republic	209,521	0	209,521	236,183	0	236,183
Panama	100,000	244,675	344,675	100,000	208,851	308,851
Belize	10,245	0	10,245	10,687	0	10,687
Colombia	183,575	0	183,575	183,494	0	183,494
Mexico	127,299	0	127,299	134,787	0	134,787
Argentina	2,505	0	2,505	2,501	0	2,501
Subtotal	5,818,469	1,270,361	7,088,830	5,704,696	1,130,133	6,834,829
Allowance for loan losses	(154,258)	(50,755)	(205,013)	(236,081)	(56,180)	(292,261)
Loans, net	5,664,211	1,219,606	6,883,817	5,468,615	1,073,953	6,542,568

As of June 30, 2018, a detail of loans, by maturity, is as follows:

Years						
Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5	Total
1,329,265	689,272	640,155	575,660	553,464	3,301,014	7,088,830

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2018 and December 31, 2017, a detail of loans, by economic activity segment is as follows:

	2018	2017
Construction	2,539,382	2,463,427
Supply of electricity, gas, steam, and air conditioning	1,880,605	1,938,671
Multi-sector	860,256	870,695
Financial and insurance activities	509,625	353,685
Wholesale and retail	302,567	297,694
Human health care and social assistance	219,844	212,657
Water supply; sewage disposal, waste management, and decontamination	172,393	173,621
Agriculture, ranching, forestry, and fishing	147,409	134,381
Professional, scientific and technical activities	116,539	76,322
Manufacturing industry	112,729	75,455
Information and communication	77,985	84,731
Transportation and storage	38,705	41,082
Lodging activities and food services	37,090	38,393
Education	25,600	25,667
Real estate	23,845	24,436
Arts, entertainment and recreational activities	12,435	13,634
Administrative services and support activities	7,163	7,707
Public administration and social security plans	4,658	2,571
	7,088,830	6,834,829

As of June 30, 2018 and December 31, 2017, a detail of loans, by currency, is as follows:

	2018	2017
U.S. dollar	6,995,422	6,802,098
Currencies from Central American countries	91,141	30,056
Euro	2,267	2,675
	7,088,830	6,834,829

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, the weighted average yield on loans, after considering swap contracts when applicable, was 5.54% and 5.46% per annum, respectively.

As of June 30, 2018 and December 31, 2017, there are no installments from loans to the public or private sector in arrears.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2018 and December 31, 2017, the following tables present impaired loans to the private sector:

2018

Impaired loans	Recorded investment	Overdue principal balance	Allowance Balance	Annual average recorded investment on impaired loans	Accumulated interest on impaired loans	Interest income collected on impaired loans
With an allowance for loan losses						
Honduras	26,233	0	4,225	27,462	551	0
Costa Rica	975	0	373	1,156	1	32
Panama	24,265	0	3,261	25,163	79	855
	51,473	0	7,859	53,781	631	887
Impaired loans with accrual status	51,473	0	7,859	53,781	631	887

2017

Impaired loans	Recorded investment	Overdue principal balance	Allowance Balance	Annual average recorded investment on impaired loans	Accumulated interest on impaired loans	Interest income collected on impaired loans
With an allowance for loan losses						
Guatemala	2,451	0	37	5,662	1	444
Costa Rica	1,184	0	399	1,473	1	105
Panama	25,041	0	4,468	25,437	77	669
	28,676	0	4,904	32,572	79	1,218
Impaired loans with accrual status	28,676	0	4,904	32,572	79	1,218

As of June 30, 2018 and December 31, 2017, there were no impaired loans with non-accrual status.

As of June 30, 2018 and December 31, 2017, under accounting standard ASC 310, there were no individually impaired public sector loans.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2018 and December 31, 2017, the credit quality of public sector loans, sovereign and non-sovereign, based on risk ratings assigned by credit rating agencies is as follows:

	2018	2017
BBB+ / BBB / BBB-	410,874	418,281
BB+ / BB / BB-	2,220,184	2,413,909
B+ / B / B-	3,187,411	1,791,864
CCC+ / CCC / CCC-	0	1,080,642
	5,818,469	5,704,696

As of June 30, 2018 and December 31, 2017, the credit quality of private sector loans based on risk ratings described in note 2 (f), is the following:

	2018			
Private Sector	Normal	Special Mention	Substandard	Total
Guatemala	113,429	2,439	0	115,868
El Salvador	73,621	1,460	0	75,081
Honduras	278,307	37,607	26,233	342,147
Nicaragua	231,590	46,463	0	278,053
Costa Rica	189,436	281	24,820	214,537
Panama	194,247	26,163	24,265	244,675
	1,080,630	114,413	75,318	1,270,361

	2017			
Private Sector	Normal	Special Mention	Substandard	Total
Guatemala	79,143	7,189	2,451	88,783
El Salvador	78,427	1,614	0	80,041
Honduras	218,825	67,098	0	285,923
Nicaragua	237,277	24,119	0	261,396
Costa Rica	179,167	352	25,620	205,139
Panama	156,932	26,878	25,041	208,851
	949,771	127,250	53,112	1,130,133

As of June 30, 2018 and December 31, 2017, there are no loans from the private sector in doubtful or loss category.

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, the movement in the provision for loan losses is as follows:

	2018			2017		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
At beginning of period	236,081	56,180	292,261	134,567	59,583	194,150
(Reversal of) provision	(81,823)	(5,493)	(87,316)	101,514	(2,767)	98,747
Recoveries	0	70	70	0	829	829
Loan write-offs	0	(2)	(2)	0	(1,465)	(1,465)
At end of period	154,258	50,755	205,013	236,081	56,180	292,261

As June 30, 2018 and December 31, 2017, the balances of provision and recorded investment are presented below:

	2018			2017		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Loans Measured Individually						
Specific allowance	0	7,859	7,859	0	4,904	4,904
Recorded investment	0	51,473	51,473	0	28,676	28,676
Loans Measured Collectively						
Generic allowance	154,258	42,896	197,154	236,081	51,276	287,357
Recorded investment	5,818,469	1,185,421	7,003,890	5,704,696	1,068,510	6,773,206
Loans Without an Allowance						
Recorded investment	0	33,467	33,467	0	32,947	32,947
Total						
Allowance	154,258	50,755	205,013	236,081	56,180	292,261
Recorded investment	5,818,469	1,270,361	7,088,830	5,704,696	1,130,133	6,834,829

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

For the six-month period ended June 30, 2018 and year ended December 31, 2017, the movement in the balance of restructured loans is the following:

	2018	2017
At beginning of period	75,131	83,935
Troubled debt restructurings, due to modification of term and interest rate	0	1,253
Interest capitalization	0	494
Recoveries	(5,037)	(10,551)
At end of period	70,094	75,131

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

The balances of restructured loans and write-offs for the aforementioned periods fully correspond to loans to the private sector. As of June 30, 2018 and December 31, 2017, the number of restructured loans is 4 and 5, respectively. For the six-month period ended June 30, 2018, there were no restructured loans. During the year ended December 31, 2017, the balance of the loans prior to their restructuring was 26,571.

As of June 30, 2018 and December 31, 2017, there are no arrears of restructured loans. 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

As of June 30, 2018 and December 31, 2017, accrued interest receivable is detailed as follows:

	2018	2017
On loans	74,550	71,273
On interest-bearing deposits with banks	7,272	6,548
On securities available for sale	5,103	4,990
	86,925	82,811

(9) Property and Equipment, Net

As of June 30, 2018 and December 31, 2017, property and equipment are detailed as follows:

	2018	2017
Buildings	29,992	29,992
Computer equipment and software	22,213	22,408
Installations	18,117	17,479
Office furniture and equipment	5,799	5,696
Vehicles	2,660	2,563
	78,781	78,138
Less accumulated depreciation and amortization	(51,695)	(50,707)
	27,086	27,431
Land	4,697	4,697
	31,783	32,128

(10) Other Assets

As of June 30, 2018 and December 31, 2017, other assets are detailed as follows:

	2018	2017
Foreclosed assets, net of fair value adjustments	12,152	12,152
Accounts receivable	8,706	8,380
Fees paid in advance	1,427	835
Other	19	15
	22,304	21,382

(Expressed in thousands of U.S. dollars)

(10) Other Assets, continued

As of June 30, 2018 and December 31, 2017, 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

As of June 30, 2018 and December 31, 2017, loans payable are as follows:

	2018	**2017**
European Investment Bank	212,358	219,272
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	183,667	191,021
Kreditanstalt für Wiederaufbau (KfW)	131,600	145,432
Agence Française de Développement	110,780	115,928
The Export Import Bank of Korea	84,831	89,821
Citibank, N.A.	75,000	150,000
Oesterreichische Entwicklungsbank AG (OeEB)	65,173	36,330
Instituto de Crédito Oficial de España	46,816	31,378
Nordic Investment Bank	40,818	37,238
Mizuho Bank, Ltd., New York Branch	40,000	40,000
Japan Bank for International Cooperation	34,293	37,410
Nordea Bank	28,209	30,216
Wells Fargo	24,000	24,000
BNP Paribas Fortis	14,436	15,761
U.S. Agency for International Development (USAID)	6,756	7,358
The OPEC Fund for International Development	6,129	7,661
Mizuho Bank, Ltd.	6,000	61,000
Fortis Bank SA/NV, Belgium	5,839	6,377
The International Cooperation and Development Fund (TaiwanICDF)	4,894	5,519
Inter-American Development Bank (IDB)	1,650	2,875
Loans guaranteed by USAID	0	612
	1,123,249	1,255,209

Maturities of loans payable as of June 30, 2018 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**
Balances	275,649	99,845	99,017	96,188	87,972	464,578	1,123,249

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, the weighted average cost on loans payable, after considering swap contracts when applicable, was 2.77% and 2.39% per annum, respectively.

As of June 30, 2018, loans payable at fixed and variable rates are 462,950 and 660,299, respectively. As of December 31, 2017, loans payable at fixed and variable rates are 494,975 and 760,234, respectively.

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Program

a) As of June 30, 2018 and December 31, 2017, bonds payable are as follows:

Currency	2018	2017
Swiss francs	1,511,771	1,346,229
Mexican pesos	759,384	636,355
U.S. dollars	601,586	601,535
Euros	337,020	354,960
Yuan	628,427	456,193
Yen	241,960	187,755
Norwegian kroner	185,674	186,145
Uruguayan pesos	172,645	196,213
Australian dollars	132,798	139,464
South African rands	100,061	111,556
Hong Kong dollars	49,703	51,450
Thailand bahts	39,859	40,979
Colombian pesos	35,135	35,428
Turkish lira	29,280	37,276
Costa Rican colones	24,651	24,540
Nuevos soles	0	47,803
	4,849,954	4,453,881
Fair value adjustment	4,477	18,533
	4,854,431	4,472,414

Maturities of bonds payable as of June 30, 2018 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
Balances	317,220	929,464	614,103	944,614	676,574	1,372,456	4,854,431

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 3.20% and 2.72% per annum, respectively.

b) As of June 30, 2018 and December 31, 2017, CABEI has the following commercial paper programs:

	2018			
	Authorized Program Size	Amount Issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program in USD	500,000	24,965	2.27%	Up to 3 months
Commercial Paper - Regional Program in Costa Rican colones (CRC)	200,000	0	0.00%	Up to 6 months
	700,000	24,965		

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Program, continued

	2017			
	Authorized Program Size	Amount Issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program in USD	500,000	24,943	1.01%	Up to 3 months
Commercial Paper - Regional Program in Costa Rican colones (CRC)	200,000	15,890	5.56%	Up to 6 months
	700,000	40,833		

(13) Certificates of Deposit

As of June 30, 2018 and December 31, 2017, certificates of deposit are as follows:

	2018	2017
Central Banks	748,335	682,775
Public financial institutions	190,316	140,000
Private financial institutions	144,202	102,041
Multilateral institutions	95,026	105,000
Other	18,153	17,882
	1,196,032	1,047,698

As of June 30, 2018, 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
Balances	1,058,713	122,758	4,194	3,560	2,736	4,071	1,196,032

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, the weighted average cost on certificates of deposit was 2.02% and 1.34% per annum, respectively.

For the six-month period ended June 30,2018 and the year ended December 31, 2017, the weighted average cost on certificates of deposit, by currency, is as follows:

	2018	2017
Deposits in U.S. dollars	1.94%	1.33%
Deposits in Costa Rican colones	6.44%	3.34%
Deposits in quetzales	2.49%	3.55%
Deposits in lempiras	5.93%	0.00%

(Expressed in thousands of U.S. dollars)

(14) Accrued Interest Payable

As of June 30, 2018 and December 31, 2017, accrued interest payable is as follows:

	2018	2017
On bonds payable	42,970	32,574
On loans payable	4,699	3,833
On certificates of deposit	5,398	4,203
On commercial paper	0	425
	53,067	41,035

(15) Other Liabilities

As of June 30, 2018 and December 31, 2017, the other liabilities are detailed below:

	2018	2017
Other creditors	11,919	6,844
Financial cooperation to founding countries	3,972	5,166
Deficit of assets over actuarial liabilities of Social Benefit Fund (note 20)	3,866	3,866
Technical assistance	3,157	3,125
Bonuses and supplemental compensation	2,784	3,382
Transitory deposits	1,845	1,195
Provision for contingencies (note 17)	969	1,214
Deferred fees over contingent commitments (note 17)	18	64
Other provisions	146	1,750
	28,676	26,606

(16) Equity

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.

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, 2018 and December 31, 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.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

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.

As of June 30, 2018 and December 31, 2017, the capital structure of the Bank is detailed as follows:

	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	39,325
Panama	256,000	192,000	64,000	39,325
Belize	25,000	18,750	6,250	6,250
Subtotal non-founding regional countries	537,000	402,750	134,250	84,900
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	1,046,463
Unsubscribed capital				
Non-founding regional and non-regional countries	616,750			
	5,000,000			

(Expressed in thousands of U.S. dollars)

(17) Equity, continued

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

Capital Payments	Cash	Series "E" Certificates	Total
Non-Founding Regional Countries			
Dominican Republic	12,271	66	12,337
Sub-total	12,271	66	12,337
Non-Regional Countries			
Republic of China, Taiwan	1,021	6,791	7,812
Sub-total	1,021	6,791	7,812
	13,292	6,857	20,149

For the six-month period ended June 30, 2018, member countries did not make capital payments.

(17) Contingent Commitments

As of June 30, 2018 and December 31, 2017, contingent commitments are as follows:

	2018	2017
Subscribed credit agreements (*)	3,067,380	2,438,903
Endorsements and guarantees granted	69,709	73,587
Letters of credit	3,542	22,847
	3,140,631	2,535,337

(*) Includes approved and deeded agreements

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, 2018, are as follows:

	Years				
	2018	2019	2020	2029	Total
Endorsements and guarantees granted	1,041	30	14,205	54,433	69,709
Letters of credit	3,342	200	0	0	3,542

(Expressed in thousands of U.S. dollars)

(17) Contingent Commitments

As of June 30, 2018 and December 31, 2017, the Bank has recorded deferred fees over contingent commitments for 18 and 64, respectively, which have been recorded as other liabilities in the balance sheet (note 15).

As of June 30, 2018 and December 31, 2017, the Bank has recorded a provision for possible losses of 969 and 1,214, 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 and foreign exchange rates. 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, 2018 and December 31, 2017, 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 oblige the counterparty to deliver securities as collateral and 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.

As of June 30, 2018 and December 31, 2017, the face value of derivative financial instruments is as follows:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	Face Value	Face Value	Face Value	Face Value
Fair value hedges				
Interest rate and other contracts	469,215	204,090	519,215	160,727
Other risk management purposes				
Foreign currency contracts	1,114,286	3,317,178	1,511,571	2,430,152
Total derivative financial instruments, face value	1,583,501	3,521,268	2,030,786	2,590,879

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

CABEI adopted the accounting policy of offsetting derivative financial instruments, which establishes that the right to offset the positions of assets and liabilities in the balance sheet exists, when conditions, according to accounting regulations, are met.

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

The following tables present information about the offsetting of derivative financial instruments as of June 30, 2018 and December 31, 2017.

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	Fair Value	Fair Value	Fair Value	Fair Value
Fair value hedges				
Interest rate and other contracts	22,492	25,250	33,418	27,281
Other risk management purposes				
Foreign currency contracts	21,430	408,212	89,843	282,824
Subtotal derivative financial instruments	43,922	433,462	123,261	310,105
Cash collateral paid / received	426,240	0	258,160	53,090
Subtotal derivative financial instruments, by gross amounts	470,162	433,462	381,421	363,195
Less: Master netting agreements	(43,921)	(43,921)	(72,030)	(72,030)
Less: Offsetting cash collateral paid / received	(383,015)	(383,015)	(285,457)	(285,457)
Credit risk valuation adjustment for counterparties under netting agreements	33	177	132	88
Total derivative financial instruments presented in the balance sheet, by offset amounts	43,259	6,703	24,066	5,796

The income (loss) of derivative instruments used as hedges, under ASC 815, has been recorded together with the income (loss) of the respective financial instruments hedged in the valuation account of derivative financial instruments and debt presented in the statement of income.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

For the six-month period ended June 30, 2018 and the year ended December 31, 2017, such income (loss) and other comprehensive loss of derivative financial instruments, is presented as follow:

	2018			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive loss
Fair value hedges				
Interest rate and other contracts	(8,895)	8,895	0	0
Undesignated economic hedges				
Foreign currency contracts[3]	(193,802)	0	(193,802)	0
Credit risk valuation adjustment on derivative financial instruments	(188)	0	(188)	0
Realized gains on credit risk component on debt at fair value	318	0	318	0
	(202,567)	8,895	(193,672)	0

	2017			
	Income (loss)			
	Derivative instrument	Hedged financial instrument	Total	Other comprehensive 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 on derivative financial instruments	310	0	310	0
	292,975	(4,422)	288,553	0

Income (loss) recognized in the statement of income is 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, 2018 and December 31, 2017:

Fund/Program	Net Assets 2018 (Unaudited)	Net Assets 2017 (Audited)
Special Fund for the Social Transformation of Central America – FETS	97,508	103,233
Honduras - Spain Fund, Phase II	60,285	54,599
Investment Trust – Dwelling Mortgage Fund	25,014	24,822
Technical Cooperation Fund – FONTEC	19,868	20,862
Debt-Conversion Fund (Honduras-Spain)	8,521	11,724
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)	2,700	2,734
Partial credit guarantees - Finland Resources	2,403	2,384
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	251	248
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	63	63
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	23	23
	220,669	224,725

(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, which is currently 7%.

Although there is a periodic monitoring of SBF's Plan benefits, the date used by the Bank to measure this obligation is December 31 of each year. The following table shows the net periodic benefit cost for the six-month periods ended June 30, 2018 and 2017, in conformity with the criteria established by currently applicable standards:

	2018	2017
Net periodic benefit cost components		
Interest cost	6,249	6,083
Service cost	2,653	2,655
Return on Plan assets	(3,168)	(3,275)
Net periodic benefit cost	5,734	5,463

Contributions

All contributions from CABEI are paid in cash. For the six-month periods ended June 30, 2018 and 2017, the Bank has recorded 2,417 and 2,314, respectively, in ordinary contributions, and, 2,461 and 2,533, 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

For the six-month periods ended June 30, 2018 and 2017, accumulated other comprehensive loss, is as follows:

	2018			
	Securities available for sale	**Actuarial gains under the Social Benefit Plan**	**Change in credit risk of debt instruments at fair value**	**Accumulated other comprehensive loss**
At beginning of period	254	(3,838)	(32,051)	(35,635)
Changes for the period	(8,641)	0	11,585	2,944
At end of period	(8,387)	(3,838)	(20,466)	(32,691)

(Expressed in thousands of U.S. dollars)

(21) Accumulated Other Comprehensive Loss, continued

	2017			
	Securities available for sale	Actuarial gains under the Social Benefit Plan	Change in credit risk of debt instruments at fair value	Accumulated other comprehensive loss
At beginning of period	(418)	(3,657)	(17,590)	(21,665)
Changes for the period	3,628	0	(38,408)	(34,780)
At end of period	3,210	(3,657)	(55,998)	(56,445)

For the six-month periods ended June 30, 2018 and 2017, reclassifications from accumulated other comprehensive loss to earnings are as follows:

	2018	2017	Line in statement of income affected
Securities available for sale	(1,597)	(1,864)	Realized gains on investment funds
Derivative Financial Instruments and Debt	(318)	0	Valuation of derivative financial instruments and debt
	(1,915)	(1,864)	

(22) Special and other contributions

For the six-month periods ended June 30, 2018 and 2017, special contributions and other are detailed as follows:

	2018	2017
SBF special contribution	2,461	2,533
Financial cooperation and other	577	847
	3,038	3,380

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 October 8, 2018, date on which the financial statements were ready for their issuance, and the following were identified:

- On July 11, 2018, the Republic of Cuba acquired the status of a non-regional member, once it complied with the terms and conditions established in the "Capitalization Regulations" and the "Regulations for the Admission of Extra-Regional Members of the BCIE". On that date, the Republic of Cuba made the payment corresponding to the first installment of capital for 3,125. Consequently, as of this date, the Republic of Cuba has a participation of 5,000 Series "B" shares, with a nominal value of 10 each, making a total of 50,000, of which 12,500 corresponds to a capital payable and 37,500 corresponds to capital required.

- On February 28, 2018, the Board of Governors accepted the Republic of Korea as a non-regional member, with a subscription of 45,000 series “B” shares equivalent to 450,000. Currently, steps are being taken to carry out its incorporation in compliance with the terms and conditions set forth in the regulations of CABEI.