CABEI

CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

Interim Financial Statements

June 30, 2019 and December 31, 2018

(With Independent Auditors' Review Report Thereon)

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Independent auditors' review report To the Executive President and Directors of Central American Bank for Economic Integration

Report on Interim Financial Information

We have reviewed the accompanying interim balance sheet of Central American Bank for Economic Integration (the "Bank") as of June 30, 2019, and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2019 (the "interim financial information"). The interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period ended June 30, 2018 were reviewed by other independent auditors whose report dated October 8, 2018, stated in their conclusion that based on their review, they were not aware of any material modifications that should be made to those interim statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. The interim balance sheet of the Bank as of December 31, 2018, (and the related interim statements of income, comprehensive income, changes in equity and cash flows for the year then ended (not presented herein)), were audited by other independent auditors whose report dated March 13, 2019, expressed an unmodified opinion on those statements.

Management's Responsibility for the Interim Financial Information

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

Auditors' Responsibility

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

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the interim financial information as of June 30, 2019 and for the six-month period ended June 30, 2019, for it to be in accordance with accounting principles generally accepted in the United States of America.

Other matter

The accompanying interim financial statements have been translated to English for the convenience of users.

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Member of Deloitte Touche Tohmatsu Limited

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Mexico City, Mexico
December 16, 2019

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CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance Sheets

As of June 30, 2019 and December 31, 2018

(Expressed in thousands of U.S. dollars)

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets		
Cash and demand deposits (note 4)	24,406	38,078
Interest-bearing deposits with banks (note 5)	1,898,683	1,693,961
Securities available for sale (245,515 in 2019 and 307,773 in 2018, under securities lending agreements) (note 6)	1,732,322	1,667,147
Loans, net of deferred origination fees	7,698,424	7,487,365
Less: Allowance for loan losses	(247,269)	(248,863)
Net loans (note 7)	7,451,155	7,238,502
Accrued interest receivable (note 8)	96,104	96,619
Property and equipment, net (note 9)	32,808	33,804
Derivative financial instruments (note 19)	25,188	25,451
Equity investments	29,763	31,056
Other assets (note 10)	26,616	25,738
Total assets	11,317,045	10,850,356
Liabilities		
Loans payable (246,327 in 2019 and 237,269 in 2018, measured at fair value) (note 11)	1,205,010	1,321,411
Bonds payable (4,858,366 in 2019 and 4,223,197 in 2018, measured at fair value) (note 12.a)	5,531,108	4,893,452
Commercial paper programs (note 12.b)	24,958	24,961
Certificates of deposit (note 13)	1,132,202	1,298,428
Certificates of investment	429	471
Accrued interest payable (note 14)	61,425	59,763
Derivative financial instruments (note 19)	8,700	268
Other liabilities (note 15)	52,930	53,340
Total liabilities	8,016,762	7,652,094
Equity		
Paid-in capital (note 16)	1,074,263	1,074,263
General reserve	2,113,794	1,819,667
Retained earnings	119,179	294,127
Accumulated other comprehensive (loss) income (note 22)	(6,953)	10,205
Total equity	3,300,283	3,198,262
Total liabilities and equity	11,317,045	10,850,356

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, 2019 and 2018

(Expressed in thousands of U.S. dollars)

CABEI

	June 30	
	2019	**2018**
Financial income		
Public sector loans	178,216	156,939
Private sector loans	47,092	35,549
Marketable securities	21,749	10,398
Due from banks	21,823	17,557
Realized gain on investment funds	4,099	1,597
Total financial income	272,979	222,040
Financial expenses		
Loans payable	20,875	15,865
Bonds payable	101,044	74,611
Commercial paper programs	354	309
Certificates of deposit and investment	18,678	11,381
Total financial expenses	140,951	102,166
Net financial income	132,028	119,874
Reversal of provision for loan losses (note 7)	(1,635)	(87,316)
Reversal of provision for losses on contingencies	(399)	(245)
Total reversal of provisions for credit losses	(2,034)	(87,561)
Net financial income, after reversal of provisions for credit losses	134,062	207,435
Other operating income (expenses)		
Financial services and other fees	940	524
Monitoring and administration fees	670	550
Dividends from equity investments	346	485
Loss on equity investments, net	(1,270)	0
Loss on foreclosed assets, net	(434)	0
Foreign exchange gain (loss), net	309	(467)
Other operating income	447	771
Total other operating income, net	1,008	1,863
Administrative expenses		
Salaries and employee benefits	16,286	14,902
Other administrative expenses	5,984	6,197
Depreciation and amortization	2,058	1,774
Other	291	276
Total administrative expenses	24,619	23,149
Income, before special and other contributions and valuation of derivative financial instruments and debt	110,451	186,149
Special and other contributions (note 23)	(2,750)	(3,038)
Income, before valuation of derivative financial instruments and debt	107,701	183,111
Valuation of derivative financial instruments and debt	11,478	(6,252)
Net income	119,179	176,859

See accompanying notes to 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, 2019 and 2018

(Expressed in thousands of U.S. dollars)

CABEI

	June 30	
	2019	**2018**
Net income	119,179	176,859
Other comprehensive (loss) income:		
Unrealized gain (loss) on securities available for sale, net	23,100	(7,044)
Reclassification adjustments for net realized gains included in earnings (note 22)	(4,099)	(1,597)
Subtotal - securities available for sale	19,001	(8,641)
Change in credit risk of debt instruments at fair value (note 3(vi))	(36,076)	11,902
Reclassification of net gain realized by maturity of debt in operations at fair value (note 22)	(83)	(317)
Subtotal - change in credit risk of debt instruments at fair value (note 22)	(36,159)	11,585
Other comprehensive (loss) income	(17,158)	2,944
Comprehensive income	102,021	179,803

See accompanying notes to 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, 2019 and 2018

(Expressed in thousands of U.S. dollars)

	Paid-in Capital	General Reserve	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balances at the beginning of 2018 (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
Balances as of June 30, 2018 (unaudited)	1,046,463	1,819,780	176,859	(32,691)	3,010,411
Balances at the beginning of 2019 (audited)	1,074,263	1,819,667	294,127	10,205	3,198,262
Net income	0	0	119,179	0	119,179
Other comprehensive loss	0	0	0	(17,158)	(17,158)
Comprehensive income (loss)	0	0	119,179	(17,158)	102,021
Transfer to general reserve	0	294,127	(294,127)	0	0
Balances as of June 30, 2019 (unaudited)	1,074,263	2,113,794	119,179	(6,953)	3,300,283

See accompanying notes to 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, 2019 and 2018

(Expressed in thousands of U.S. dollars)

	June 30	
	2019	**2018**
Cash flows from operating activities		
Net income	119,179	176,859
Items to reconcile net income to net cash provided by operating activities:		
Reversal of provision for loan losses	(2,034)	(87,561)
Impairment on equity investments, net	1,270	0
Loss on foreclosed assets, net	434	0
Foreign exchange (gains) losses, net	(309)	467
Depreciation and amortization	2,058	1,774
Valuation of derivative financial instruments and debt	(11,478)	6,252
Net decrease (increase) in accrued interest receivable	566	(4,121)
Net increase in accrued interest payable	1,663	12,031
Net increase in other assets	(1,336)	(982)
Net (decrease) increase in other liabilities	(11)	2,313
Net cash provided by operating activities	110,002	107,032
Cash flows from investing activities		
Net increase in interest-bearing deposits with banks	(204,722)	(10,889)
Purchases of securities available for sale	(1,058,066)	(688,636)
Proceeds from sales and redemptions of securities available for sale	1,018,743	479,604
Purchases of property and equipment	(1,062)	(1,429)
Net decrease (increase) in margin calls and other on derivative financial instruments	136,902	(215,648)
Disbursements of loans receivable	(1,182,583)	(858,700)
Collections of loans receivable	976,834	603,443
Capital returns to equity investments, net of contributions	24	60
Net cash used in investing activities	(313,930)	(692,195)
Cash flows from financing activities		
Proceeds from loans payable	22,889	56,429
Repayments of loans payable	(155,041)	(180,511)
Net decrease in commercial paper programs	(4)	(15,868)
Proceeds from issuance of bonds payable	533,410	783,041
Repayments of bonds payable	(44,655)	(200,360)
Net (decrease) increase in certificates of deposit	(43)	148,334
Net decrease in certificates of investment	(166,226)	(61)
Net cash provided by financing activities	190,330	591,004
Effect of exchange rate fluctuations on cash held	(74)	(141)
Cash and demand deposits at beginning of year	38,078	3,692
Cash and demand deposits at end of year	24,406	9,392
Net increase in cash and cash equivalents	(13,672)	5,700
Supplemental information of cash flows		
Cash paid for interest	139,289	90,134
Net unrealized changes in securities available for sale	19,001	(8,641)

See accompanying notes to 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 economic integration and the 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 (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 20 and 21.

Furthermore, as detailed in note 20, the Bank manages third-party cooperation funds, destined to finance programs agreed with each organization, which are in line with the Bank's policies and strategies. Effective November 30, 2018, the assets, liabilities and equity of the Special Fund for Social Transformation of Central America (FETS) were integrated into the Bank's balance sheet (note 17).

(2) Summary of Significant Accounting Policies

Explanation for translation into English – The accompanying financial statements have been translated from Spanish into English for the convenience of users.

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, 2019 and for the six-month periods ended June 30, 2019 and 2018, include all adjustments, consisting of normal recurring accruals, that the Bank Administration considers necessary to fairly present the Bank's financial position, financial performance, 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, 2018 and for the year then ended and its explanatory notes.

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 cash 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 input of the highest hierarchy 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 there are price quotes in active markets for identical items.

(2) Summary of Significant Accounting Policies, continued

- Level 2 - Assets and liabilities valued based on observable market assumptions for the entire term of the assets and liabilities that include: price quotes for similar instruments in active markets; price quotes for identical or similar instruments in markets that are not active; assumptions other than price quotes that are observable or assumptions that can be corroborated by market information.
- Level 3 - Assets and liabilities for which the relevant assumptions of the valuation are not observable in the market; instruments valued using the best available information to measure the fair value of the asset or liability.

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) income 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 other operating expenses.

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) income. 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.

(2) Summary of Significant Accounting Policies, continued

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

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

The Bank has not experienced other-than-temporary impairment during the six-month periods ended June 30, 2019 and 2018.

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 settlement date basis, are determined using the specific identification method and are presented as other operating income (expenses). When the Bank realized gains on investment funds are presented under realized gain on investment funds, 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.

(2) Summary of Significant Accounting Policies, continued

(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.

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.

(2) Summary of Significant Accounting Policies, continued

Public Sector

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

In accordance with the Policy for the Allowance 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 of each operation.

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 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 severity of loss according to Basel default.

(2) Summary of Significant Accounting Policies, continued

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.

In accordance with the 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

- Normal: Current loans, whose borrowers have a credit quality level from superior to acceptable.
- 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.

(2) Summary of Significant Accounting Policies, continued

- 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.

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 Credit Rating Agencies.

(2) Summary of Significant Accounting Policies, continued

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

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

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

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

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

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-interest 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.

(2) Summary of Significant Accounting Policies, continued

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.

(h) Property and equipment

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

The Bank depreciates property and equipment, except land, under the straight-line method, estimating the number of years of useful life as follows:

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

(i) Derivative financial instruments and hedging activities

The Bank records the derivative financial instruments at their fair value in the balance sheet, regardless of the purpose or intention of their contracting. The accounting for changes in the fair value of derivative financial instruments varies, depending on whether the derivative is considered a hedge for accounting purposes and if the hedging instrument is considered as a fair value or cash flow hedge.

The derivative financial instruments maintained by the Bank, although considered effective coverage from an economic perspective, have not been designated as a hedge for accounting purposes. The Bank signs-off these derivative instruments for the purpose of covering the market risks that it maintains in its investment and debt portfolios. Therefore, these derivatives are recognized in the balance sheet at their fair value and changes in their fair value are recognized in the valuation account of derivative financial instruments and debt in the income statement simultaneously with the change in fair value. of the underlying assets or liabilities. Likewise, the Bank separately presents in other comprehensive income (losses), 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 inherent credit risk is the counterparty’s possible non-compliance in the delivery of collateral to recover the balance due.

(2) Summary of Significant Accounting Policies, continued

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.

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.

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”*.

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.

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 (note 3(vi)).

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.

(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) income, as a separate component of equity.

(m) Taxes

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

(n) General reserve and annual net income

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

(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

Financial income is recognized in accordance with the terms of the loan agreements, 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 in the accounts of monitoring and administration fess and financial services and other fees in other operating income. 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) Consistency

The accounting policies as of June 30, 2019 and the six-month periods ended June 30, 2019 and 2018, are consistent with those applied as of December 31, 2018 and for the year ended on that date.

(3) Fair Values and Fair Value Option

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

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

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

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

The methods described above can generate fair value estimates that are not indicative of net realizable value or that do not reflect future values. Furthermore, while the Bank believes that its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

(i) Valuation techniques applied

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

These short-term instruments and/or with floating 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 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:

(3) Fair Values and Fair Value Option, continued

- 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 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 19).

- Loans and bonds payable: Fair values for loans and bonds payable and with hedge 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 no hedge, are estimated on the basis of 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 no hedge, are estimated on the basis of an analysis of discounted future cash flows, based on the 10 years swap rate reported by Bloomberg.

  The financial liabilities, which are not valued at fair value, are recorded at amortized cost.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

- 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, 2019 and December 31, 2018, the Bank does not maintain assets and liabilities classified within Level 3 of the fair value hierarchy.

(ii) Recurring Fair Value Measurements

The following table presents the assets and liabilities valued at their fair value on a recurring basis as of June 30, 2019 and December 31, 2018, classified according to the fair value hierarchy:

	Level 1	Level 2	Total 2019
Assets			
Securities available for sale	266,463	1,465,859	1,732,322
Derivative financial instruments	0	25,188	25,188
Liabilities			
Loans payable	0	246,327	246,327
Bonds payable	0	4,858,366	4,858,366
Derivative financial instruments	0	8,700	8,700

	Level 1	Level 2	Total 2018
Assets			
Securities available for sale	234,195	1,432,952	1,667,147
Derivative financial instruments	0	25,451	25,451
Liabilities			
Loans payable	0	237,269	237,269
Bonds payable	0	4,223,197	4,223,197
Derivative financial instruments	0	268	268

(iii) Changes in Fair Value Level 3 Category

When an instrument is classified in Level 3, the decision is based on the significance of unobservable assumptions in determining the overall fair value.

For the six-month period ended June 30, 2019 and the year ended December 31. 2018, the Bank does not present financial assets and liabilities categorized within Level 3.

(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, 2019 and year ended December 31, 2018, 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 period ended June 30, 2019 and year ended December 31, 2018:

	2019		2018	
Level 3	**Fair Value**	**Increase/ Decrease**	**Fair Value**	**Increase**
Loans, net	53,044	4,593	41,242	1,868
Foreclosed assets, net	11,648	(504)	12,152	0
	64,692	4,089	53,394	1,868

(vi) Fair Value Option

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

The Bank has elected to measure at fair value the financial liabilities in a currency other than the U.S. dollar for which it has contracted a derivative for fair value hedging of foreign currency or interest rate fluctuations.

The principal purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank’s earnings generated by the use of hedge accounting, considering that both the financial liabilities and the related hedging instruments are generally maintained until maturity.

(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, 2019 and 2018, for loans payable at fair value, the Bank recorded gains and losses of 111,846 and 4,979, respectively, in the statement of income. For bonds payable at fair value, for the six-month periods ended June 30, 2019 and 2018, the Bank recorded losses of 9,086 and 182,441, 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, 2019 and December 31, 2018, 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:

	2019			2018		
	Fair value	Amortized cost	Increase/ Decrease	Fair value	Amortized cost	Decrease
Loans payable	246,327	240,914	5,413	237,269	245,580	(8,311)
Bonds payable	4,858,366	5,028,108	(169,742)	4,223,197	4,536,223	(313,026)

For the six-month periods ended June 30, 2019 and 2018, for changes in the fair value attributable to the credit risk of debt instruments, when the Fair Value Option has been chosen for financial liabilities, the Bank recorded loss of 36,076 and income of 11,902, respectively, which are presented in other comprehensive (loss) income.

(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, 2019 and December 31, 2018, the estimated fair values of the Bank's financial instruments are as follows:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and demand deposits	24,406	24,406	38,078	38,078
Interest-bearing deposits with banks	1,898,683	1,898,683	1,693,961	1,693,961
Securities available for sale	1,732,322	1,732,322	1,667,147	1,667,147
Loans, net	7,451,155	7,460,606	7,238,502	7,225,081
Accrued interest receivable	96,104	96,104	96,619	96,619
Derivative financial instruments	25,188	25,188	25,451	25,451
Liabilities				
Loans payable	1,205,010	1,186,409	1,321,411	1,294,210
Bonds payable	5,531,108	5,538,900	4,893,452	4,898,592
Commercial paper programs	24,958	24,949	24,961	24,937
Certificates of deposit	1,132,202	1,134,237	1,298,428	1,300,103
Certificates of investment	429	429	471	471
Accrued interest payable	61,425	61,425	59,763	59,763
Derivative financial instruments	8,700	8,700	268	268

As of June 30, 2019 and December 31, 2018, loans payable include 958,683 and 1,084,142, respectively, which are recognized at amortized cost, whose fair value has been estimated at 940,082 and 1,056,941, respectively. Likewise, as of the aforementioned dates, bonds payable include 672,742 and 670,255, respectively, which are recognized at amortized cost, whose fair value has been estimated at 680,534 and 675,395, respectively.

(4) Cash and Demand Deposits

As of June 30, 2019 and December 31, 2018, cash and demand deposits are composed by currency, as follows:

	2019	2018
U.S. dollar	18,717	33,631
Currencies of the founding countries	1,730	834
Other currencies	3,959	3,613
	24,406	38,078

(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, 2019 and December 31, 2018, their carrying amounts are 1,898,683 and 1,693,961, respectively. All of these balances are denominated in United States dollars.

(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) income, the effect of hedging transactions and fair value of securities available for sale, as of June 30, 2019 and December 31, 2018 are as follows:

	2019				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair value**
Sovereign	1,059,562	(644)	8,099	14,049	1,081,066
Supranational	478,950	(427)	867	0	479,390
Corporate	17,460	0	0	0	17,460
Investment funds	147,992	0	6,414	0	154,406
	1,703,964	(1,071)	15,380	14,050	1,732,322

	2018				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair Value**
Sovereign	1,019,909	(3,228)	1,675	7,200	1,025,556
Supranational	347,084	(2,380)	350	0	345,054
Corporate	153,878	0	0	0	153,878
Investment funds	143,769	(1,110)	0	0	142,659
	1,664,640	(6,718)	2,025	7,200	1,667,147

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.

For the six-month periods ended June 30, 2019 and 2018, the realized gross gain was 4,099 and 1,597, respectively. There was no realized gross loss during the six-month periods ended June 30, 2019 and 2018.

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

As of June 30, 2019 and December 31, 2018, the fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

	2019				
	Less than 12 months		**12 months or longer**		
Securities available for sale:	**Fair Value**	**Unrealized gross losses**	**Fair value**	**Unrealized gross losses**	**Total**
Sovereign	72,044	(132)	206,889	(512)	(644)
Supranational	14,973	(17)	151,843	(410)	(427)
	87,017	(149)	358,732	(922)	(1,071)

[1] The entirety of securities available for sale is denominated in U.S. dollars.

(Expressed in thousands of U.S. dollars)

(6) Securities Available for Sale, continued

	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	38,219	(146)	398,577	(3,082)	(3,228)
Supranational	29,654	(315)	207,652	(2,065)	(2,380)
Investment funds	142,659	(1,110)	0	0	(1,110)
	210,532	(1,571)	606,229	(5,147)	(6,718)

Bank's management believes that the unrealized losses of such securities are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. As of December 31, 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.

A summary of the securities available for sale as of June 30, 2019, in accordance with the contractual maturities, is presented in the following table:

	Years				
	Within 1	**After 1 but within 5**	**After 5 but within 10**	**After 10**	**Total**
Amortized cost	1,035,513	597,906	0	70,545	1,703,964

The expected maturities may differ from contractual maturities because issuers might have the right to redeem or prepay obligations without penalty in certain cases.

(Expressed in thousands of U.S. dollars)

(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, 2019 and December 31, 2018, is as follows:

	2019			2018		
	Public sector	**Private sector**	**Total**	**Public sector**	**Private sector**	**Total**
Guatemala	912,105	119,388	1,031,493	956,028	109,930	1,065,958
El Salvador	1,122,108	110,514	1,232,622	1,091,406	75,779	1,167,185
Honduras	1,106,056	313,086	1,419,142	1,093,629	320,631	1,414,260
Nicaragua	1,047,312	248,411	1,295,723	1,001,443	251,987	1,253,430
Costa Rica	1,266,915	166,422	1,433,337	1,166,353	172,334	1,338,687
Dominican Republic	331,424	111,399	442,823	345,605	106,360	451,965
Panama	199,446	332,502	531,948	184,500	292,202	476,702
Belize	12,765	0	12,765	13,204	0	13,204
Colombia	183,736	0	183,736	183,655	0	183,655
Mexico	112,322	0	112,322	119,810	0	119,810
Argentina	2,513	0	2,513	2,509	0	2,509
Subtotal	6,296,702	1,401,722	7,698,424	6,158,142	1,329,223	7,487,365
Allowance for loan losses	(185,968)	(61,301)	(247,269)	(191,071)	(57,792)	(248,863)
Loans, net	6,110,734	1,340,421	7,451,155	5,967,071	1,271,431	7,238,502

As of June 30, 2019, a detail of loans, by maturity, is as follows:

	Years						
Past due	**Up to 1**	**After 1 but within 2**	**After 2 but within 3**	**After 3 but within 4**	**After 4 but within 5**	**After 5**	**Total**
723	1,470,432	822,841	773,554	708,116	615,157	3,307,601	7,698,424

As of June 30, 2019 and December 31, 2018, a detail of loans, by economic activity segment is as follows:

	2019	**2018**
Construction	2,731,109	2,605,266
Supply of electricity, gas, steam, and air conditioning	1,888,110	1,859,895
Multi-sector	758,785	808,402
Financial and insurance activities	610,226	639,145
Wholesale and retail	523,825	504,032
Agriculture, ranching, forestry, and fishing	366,047	252,284
Human health care and social assistance	221,819	229,078
Water supply; sewage disposal, waste management, and decontamination	168,491	172,053
Manufacturing industry	112,996	117,532
Professional, scientific and technical activities	91,116	80,540
Information and communication	64,445	71,212
Transportation and storage	33,442	35,965
Lodging activities and food services	33,045	33,644
Public administration and social security plans	29,398	12,352
Education	26,691	24,834
Real estate	22,728	23,289
Arts, entertainment and recreational activities	10,058	11,214
Administrative services and support activities	6,093	6,628
	7,698,424	7,487,365

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2019 and December 31, 2018, a detail of loans, by currency, is as follows:

	2019	2018
U.S. dollar	7,554,412	7,357,269
Currencies from Central American countries	142,421	128,173
Euro	1,591	1,923
	7,698,424	7,487,365

For the six-month period ended June 30, 2019 and year ended December 31, 2018, the weighted average yield on loans, after considering swap contracts when applicable, was 5.88% and 5.71% per annum, respectively.

As of June 30, 2019 and December 31, 2018, the balance and the number of days in arrears of non-performing loan installments of the private sector are detailed as follows:

	2019					2018				
	01-30	31-60	61-90	More than 90	Total	01-30	31-60	61-90	More than 90	Total
El Salvador	0	0	0	0	0	9	0	0	0	9
Nicaragua	523	0	75	125	723	0	0	0	0	0
	523	0	75	125	723	9	0	0	0	9

As of June 30, 2019 and December 31, 2018, there are no installments from loans the public sector in arrears.

As of June 30, 2019 and December 31, 2018, the following tables present impaired loans to the private sector:

2019						
Impaired loans	Recorded investment	Overdue principal balance	Related allowance	Average recorded investment on impaired loans	Accumulated interest on impaired loans	Interest income recognized on impaired loans
With an allowance for loan losses						
Honduras	23,808	0	6,115	25,279	32	1,540
Nicaragua	20,547	723	6,231	18,133	79	440
Costa Rica	557	0	170	870	1	20
Panama	22,715	0	2,067	23,999	64	901
	67,627	723	14,583	68,281	176	2,901
Impaired loans with accrual status	66,802	398	13,896	67,091	147	2,896
Impaired loans with non-accrual status	825	325	687	1,190	29	5

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	2018					
Impaired loans	**Recorded investment**	**Overdue principal balance**	**Related allowance**	**Average recorded investment on impaired loans**	**Accumulated interest on impaired loans**	**Interest income recognized on impaired loans**
With an allowance for loan losses						
Honduras	24,778	0	5,685	26,007	534	1,100
Nicaragua	1,013	0	506	1,269	7	13
Costa Rica	766	0	254	975	1	58
Panama	23,490	0	2,358	24,387	76	1,856
	50,047	0	8,803	52,638	618	3,027
Impaired loans with accrual status	50,047	0	8,803	52,638	618	3,027

As of June 30, 2019 and December 31, 2018, there were no individually impaired loans to public sector.

As of June 30, 2019 and December 31, 2018, the credit quality of public sector loans, sovereign and non-sovereign, based on risk ratings assigned by Credit Rating Agencies is as follows:

Risk Rating	**2019**	**2018**
BBB+ / BBB / BBB-	495,504	487,965
BB+ / BB / BB-	1,243,529	1,301,633
B+ / B / B-	4,557,669	4,368,544
	6,296,702	6,158,142

As of June 30, 2019 and December 31, 2018, the credit quality of private sector loans based on risk ratings described in note 2 (f), is the following:

	2019				
Private Sector	**Normal**	**Special Mention**	**Substandard**	**Loss**	**Total**
Guatemala	117,748	1,640	0	0	119,388
El Salvador	109,283	1,232	0	0	110,515
Honduras	256,231	33,046	23,808	0	313,085
Nicaragua	206,611	21,252	19,722	825	248,410
Costa Rica	142,947	190	23,285	0	166,422
Dominican Republic	111,399	0	0	0	111,399
Panama	285,042	24,746	22,715	0	332,503
	1,229,261	82,106	89,530	825	1,401,722

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	2018			
Private Sector	Normal	Special Mention	Substandard	Total
Guatemala	107,921	2,009	0	109,930
El Salvador	74,445	1,334	0	75,779
Honduras	260,703	35,150	24,778	320,631
Nicaragua	209,360	41,614	1,013	251,987
Costa Rica	148,047	232	24,055	172,334
Dominican Republic	106,360	0	0	106,360
Panama	243,255	25,457	23,490	292,202
	1,150,091	105,796	73,336	1,329,223

For the six-month periods ended June 30, 2019 and 2018, the movement in the provision for loan losses are as follows:

	2019			2018		
	Sector			Sector		
	Public	Private	Total	Public	Private	Total
At beginning of period	191,071	57,792	248,863	236,081	56,180	292,261
Provision (reversal of) for losses	(5,103)	3,468	(1,635)	(81,823)	(5,493)	(87,316)
Recoveries	0	41	41	0	70	70
Loan write-offs	0	0	0	0	(2)	(2)
At end of period	185,968	61,301	247,269	154,258	50,755	205,013

As June 30, 2019 and December 31, 2018, the balances of provision and recorded investment are presented below:

	2019			2018		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Loans Measured Individually						
Specific allowance	0	14,583	14,583	0	8,803	8,803
Recorded investment	0	67,627	67,627	0	50,047	50,047
Loans Measured Collectively						
Generic allowance	185,968	46,718	232,686	191,071	48,989	240,060
Recorded investment	6,296,702	1,300,035	7,596,737	6,158,142	1,245,750	7,403,892
Loans Without an Allowance						
Recorded investment	0	34,060	34,060	0	33,426	33,426
Total						
Allowance	185,968	61,301	247,269	191,071	57,792	248,863
Recorded investment	6,296,702	1,401,722	7,698,424	6,158,142	1,329,223	7,487,365

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

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

For the six-month periods ended June 30, 2019 and 2018, the movement in the balance of restructured loans are the following:

	2019	2018
At beginning of period	67,646	75,131
Troubled debt restructurings, due to modification of term and interest rate	24,050	0
Recoveries	(2,922)	(5,037)
At end of period	88,774	70,094

The balances of restructured loans and write-offs for the aforementioned periods fully correspond to loans to the private sector. As of June 30, 2019 and 2018, the number of restructured loans is 5 and 4, respectively. During the six-month period ended June 30, 2019, the balance of the loans prior to their restructuring was 24,556. During the six-month period ended June 30, 2018, there were no restructured loans.

As of June 30, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, accrued interest receivable is detailed as follows:

	2019	2018
On loans	83,809	84,671
On securities available for sale	6,824	6,465
On interest-bearing deposits with banks	5,471	5,483
	96,104	96,619

(9) Property and Equipment, Net

As of June 30, 2019 and December 31, 2018, property and equipment are detailed as follows:

	2019	2018
Buildings	29,993	29,994
Computer equipment and software	26,271	25,648
Installations	18,802	18,402
Office furniture and equipment	5,815	5,812
Vehicles	2,689	2,752
	83,570	82,608
Less accumulated depreciation and amortization	(55,459)	(53,501)
	28,111	29,107
Land	4,697	4,697
	32,808	33,804

(Expressed in thousands of U.S. dollars)

(10) Other Assets

As of June 30, 2019 and December 31, 2018, the balance of other assets is detailed as follows:

	2019	2018
Foreclosed assets, net of fair value adjustments	11,648	12,152
Accounts receivable	10,634	9,270
Surplus of assets over actuarial liabilities of Social Benefit Fund (note 20)	3,330	3,330
Fees paid in advance	966	966
Other	38	20
	26,616	25,738

As of June 30, 2019 and December 31, 2018, the balance of foreclosed assets is 11,648 and 12,152 for both periods, net of fair value adjustments of 11,066 and 10,693 for both periods.

(11) Loans Payable

As of June 30, 2019 and December 31, 2018, loans payable are as follows:

	2019	2018
European Investment Bank	196,208	205,442
Agence Française de Développement	178,084	166,133
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	168,958	176,313
Kreditanstalt für Wiederaufbau (KfW)	142,797	140,283
Mizuho Bank, Ltd.	100,000	106,000
Instituto de Crédito Oficial de España	87,079	78,594
Citibank, N.A.	75,000	150,000
The Export Import Bank of Korea	74,851	79,841
Nordic Investment Bank	32,009	36,413
Oesterreichische Entwicklungsbank AG (OeEB)	30,000	30,000
Japan Bank for International Cooperation	28,058	31,175
Wells Fargo	25,000	49,000
Nordea Bank	24,193	26,201
The International Cooperation and Development Fund (TaiwanICDF)	13,664	14,913
Fortis Bank SA/NV, Belgium	11,788	13,112
U.S. Agency for International Development (USAID)	6,200	6,480
BNP Paribas Fortis	5,176	5,418
The OPEC Fund for International Development	4,603	4,597
Inter-American Development Bank (IDB)	1,342	1,496
	1,205,010	1,321,411

As of June 30, 2019 maturities of loans payable are as follows:

	Years						
	Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5	Total
Balance	304,734	108,396	114,170	104,863	94,191	478,656	1,205,010

(Expressed in thousands of U.S. dollars)

(11) Loans Payable, continued

For the six-month period ended June 30, 2019 and year ended December 31, 2018, the weighted average cost on loans payable, after considering swap contracts when applicable, was 3.41% and 3.25% per annum, respectively.

As of June 30, 2019, loans payable at fixed and variable rates are 526,276 and 678,734, respectively. As of December 31, 2018, loans payable at fixed and variable rates are 524,816 and 796,595, respectively.

(12) Bonds Payable and Commercial Paper Program

a) As of June 30, 2019 and December 31, 2018, bonds payable are as follows:

Currency	2019	2018
Swiss francs	1,643,712	1,419,957
Mexican pesos	950,210	667,154
United States of America Dollars (USD)	634,014	658,966
Yuan	627,051	610,750
Euros	363,049	332,648
Yen	248,066	242,346
Uruguayan pesos	197,234	161,695
Norwegian kroner	179,553	172,101
Australian dollars	141,824	125,789
Costa Rican colones (CRC)	136,554	125,298
Colombian pesos	110,166	134,377
South African rands	98,348	95,429
Hong Kong dollars	52,238	50,288
Bahts	42,192	40,214
Turkish lira	24,339	25,758
Swedish kroner	23,012	0
New Zealand dollars	21,014	19,612
	5,492,576	4,882,382
Fair value adjustment	38,532	11,070
	5,531,108	4,893,452

As of June 30, 2019 maturities of bonds payable are as follows:

	Years						
	Up to 1	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	After 5	Total
Balance	930,840	626,276	1,212,980	722,044	627,909	1,411,059	5,531,108

For the six-month period ended June 30, 2019 and year ended December 31, 2018, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 3.95% and 3.49% per annum, respectively.

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Program, continued

b) As of June 30, 2019 and December 31, 2018, CABEI has the following commercial paper programs:

	2019			
	Authorized Program Size	Amount Issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program in USD	500,000	24,958	2.84%	Up to 3 months
Commercial Paper – Regional Program in CRC	200,000	0	0.00%	Up to 6 months
	700,000	24,958		

	2018			
	Authorized Program Size	Amount Issued	Annual Average Cost	Contractual Maturity
Commercial Paper – Global Program in USD	500,000	24,961	2.37%	Up to 3 months
Commercial Paper – Regional Program in CRC	200,000	0	0.00%	Up to 6 months
	700,000	24,961		

(13) Certificates of Deposit

As of June 30, 2019 and December 31, 2018, certificates of deposit are as follows:

	2019	2018
Central banks	723,906	649,304
Public financial institutions	215,714	305,091
Private financial institutions	149,042	138,332
Multilateral institutions	17,100	186,000
Other	26,440	19,701
	1,132,202	1,298,428

As of June 30, 2019, the contractual maturities are as follows:

			Years				
	Up to 6 months	After 6 months but within 1 year	After 1 but within 2	After 2 but within 3	After 3 but within 4	After 4 but within 5	Total
Balance	1,056,519	60,506	3,069	2,498	4,036	5,574	1,132,202

For the six-month period ended June 30, 2019 and year ended December 31, 2018, the weighted average cost on certificates of deposit was 2.90% and 2.29% per annum, respectively.

(Expressed in thousands of U.S. dollars)

(13) Certificates of Deposit, continued

For the six-month period ended June 30, 2019 and year ended December 31, 2018, the weighted average cost on certificates of deposit, by currency, is as follows:

	2019	2018
Deposits in USD	2.57%	2.08%
Deposits in CRC	6.04%	6.01%
Deposits in quetzales	0.00%	2.49%
Deposits in lempiras	6.77%	7.00%

(14) Accrued Interest Payable

As of June 30, 2019 and December 31, 2018, accrued interest payable is as follows:

	2019	2018
On bonds payable	51,044	48,182
On loans payable	5,427	5,442
On certificates of deposit	4,954	6,139
	61,425	59,763

(15) Other Liabilities

As of June 30, 2019 and December 31, 2018, the other liabilities are detailed below:

	2019	2018
Other creditors	37,645	37,396
Financial cooperation to founding countries	5,299	5,636
Bonuses and supplemental compensation	3,654	3,593
Technical assistance	2,832	2,791
Provision for contingencies (note 18)	1,564	1,964
Transitory deposits	417	304
Deferred fees over contingent commitments (note 18)	9	21
Other provisions	193	1,635
	51,613	53,340

(16) Equity

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

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

(16) Equity, continued

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

As of June 30, 2019, 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 1,883,250; the remaining 566,750 is available for subscription.

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

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

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

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

As of June 30, 2019 and December 31, 2018, 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	51,662
Panama	256,000	192,000	64,000	51,662
Belize	25,000	18,750	6,250	6,250
Subtotal non-founding regional countries	537,000	402,750	134,250	109,574
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
Cuba	50,000	37,500	12,500	3,125
Subtotal non-regional countries	1,346,250	1,009,687	336,563	327,188
Subtotal subscribed capital and paid-in capital	4,433,250	3,324,937	1,108,313	1,074,263
Unsubscribed capital				
Non-regional countries and regional non-founding countries	566,750			
	5,000,000			

(16) Equity, continued

(b) Capital Payments

For the six-month periods ended June 30, 2019 and 2018, the member countries did not make capital payments.

(c) Capital Subscription

On July 11, 2018, the Republic of Cuba acquired the status of an extra-regional partner, 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.

(17) Integration of the Special Fund for the Social Transformation of Central America (FETS) into the Ordinary Capital of the Bank

Due to the economic-financial situation of the eligible countries under the Heavily Indebted Poor Countries Initiative (HIPC) has improved and, as a result, the applicable external financing policies have been modified, the purpose for which FETS was created has been fulfilled. Consequently, through Resolution No. AG-10/2018 of April 26, 2018, the Bank's Governors Board approved the proposal to integrate FETS into the Bank's ordinary capital.

The Resolution came into effect on August 22, 2018, once the amendment to Article 6 of the CABEI Constitutive Agreement, which established that the FETS existed within the Bank as an independent patrimony and separated from the general bank's patrimony and used to create a special window to finance, in concessional terms, programs and projects that are framed within the efforts of social transformation of the Central American region, destined to the founding countries that developed programs declared eligible by the Bank for this purpose.

In this way, the effective integration date of FETS into the Bank's ordinary capital is November 30, 2018, with which, as of that date, the FETS's financial figures became part of the Bank's balance sheet.

(Expressed in thousands of U.S. dollars)

(17) Integration of the Special Fund for the Social Transformation of Central America (FETS) into the Ordinary Capital of the Bank, continued

As of November 30, 2018, a summary of the financial figures of the FETS transferred to the Bank's financial statements is presented below:

Balance Sheets
As of November 30, 2018

Assets	
Cash and demand deposits	2,141
Interest-bearing deposits with banks	61,703
Net loans	42,103
Accrued interest receivable	687
Other assets	4
Total assets	106,638
Liabilities	
Loans payable	10,835
Accrued interest payable	14
Other liabilities	25,179
Total liabilities	36,028
Equity	
Retained earnings	70,610
Total equity	70,610
Total liabilities and equity	**106,638**

(18) Contingent Commitments

As of June 30, 2019 and December 31, 2018, balances of contingent commitments are as follows:

	2019	**2018**
Subscribed credit agreements (*)	2,974,539	3,238,566
Endorsements and guarantees granted	60,416	61,959
Letters of credit	68,415	72,563
	3,103,370	3,373,088

(*) 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.

As of June 30, 2019 the maturities of endorsements and guarantees granted, and letters of credit, are as follows:

	Years			
	2019	**2020**	**2029**	**Total**
Endorsements and guarantees granted	1,355	7,102	51,959	60,416
Letters of credit	55,825	12,590	0	68,415

(Expressed in thousands of U.S. dollars)

(18) Contingent Commitments, continued

As of June 30, 2019 and December 31, 2018, the Bank maintains balances of deferred fees over contingent commitments for 9 and 21, respectively, which have been recorded as other liabilities in the balance sheet (note 15).

As of June 30, 2019 and December 31, 2018, the Bank maintains a provision for possible losses of 1,564 and 1,964, respectively, related to endorsements and guarantees issued (note 15).

(19) Derivative Financial Instruments and Hedging Activities

The Bank's primary objective in using derivative instruments is to reduce its risk exposure to changes in interest rates 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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, the face value of derivative financial instruments is as follows:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	Face Value	Face Value	Face Value	Face Value
Fair value hedges				
Interest rate and other contracts	339,595	407,323	494,214	179,090
Other risk management purposes				
Foreign currency contracts	1,713,989	3,255,573	658,616	3,398,391
Total derivative financial instruments, face value	2,053,584	3,662,896	1,152,830	3,577,481

(Expressed in thousands of U.S. dollars)

(19) 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.

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, 2019 and December 31, 2018:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	Fair Value	Fair Value	Fair Value	Fair Value
Fair value hedges				
Interest rate and other contracts	56,181	32,670	26,318	23,656
Other risk management purposes				
Foreign currency contracts	78,156	305,491	20,158	379,533
Subtotal derivative financial instruments	134,337	338,161	46,476	403,189
Cash collateral paid / received	235,440	15,240	382,070	0
Subtotal derivative financial instruments, by gross amounts	369,777	353,401	428,546	403,189
Less: Master netting agreements	(118,300)	(118,300)	(46,476)	(46,476)
Less: Offsetting cash collateral paid / received	(226,405)	(226,405)	(356,627)	(356,627)
Credit risk valuation adjustment for counterparties under netting agreements	116	4	8	182
Total derivative financial instruments presented in the balance sheet, by offset amounts	25,188	8,700	25,451	268

(Expressed in thousands of U.S. dollars)

(19) Derivative Financial Instruments and Hedging Activities, continued

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.

For the six-month periods ended June 30, 2019 and 2018, such income (loss) and other comprehensive (loss) income of derivative financial instruments are, is presented as follow:

	2019		
	Income (loss)		
	Derivative instrument	Hedged financial instrument	Total
Fair value hedges			
Interest rate and other contracts	31,346	(31,346)	0
Undesignated economic hedges			
Foreign currency contracts[2]	132,041	0	132,041
Credit risk valuation adjustment on derivative financial instruments	286	0	286
Realized loss, credit risk component on debt at fair value	83	0	83
	163,756	(31,346)	132,410

	2018		
	Income (loss)		
	Derivative instrument	Hedged financial instrument	Total
Fair value hedges			
Interest rate and other contracts	(8,895)	8,895	0
Undesignated economic hedges			
Foreign currency contracts[2]	(193,802)	0	(193,802)
Credit risk valuation adjustment on derivative financial instruments	(188)	0	(188)
Realized loss, credit risk component on debt at fair value	318	0	318
	(202,567)	8,895	(193,672)

Income (loss) recognized in the statement of income is presented as valuation of derivative financial instruments and debt.

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

(Expressed in thousands of U.S. dollars)

(20) Funds and Programs managed by CABEI

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the founding countries, and non-founding regional countries, the Bank manages independent funds and programs which are detailed below as of June 30, 2019 and December 31, 2018:

Fund/Program	Net Assets 2019 (Unaudited)	Net Assets 2018 (Audited)
Honduras - Spain Fund, Phase II	72,341	63,325
Investment Trust – Dwelling Mortgage Fund	25,665	24,872
Technical Cooperation Fund – FONTEC	19,558	21,752
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)	2,621	2,666
Partial credit guarantees - Finland Resources	2,463	2,438
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	123	126
Korea Development Co-Financing Facility for Central America	73	41
Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service	23	23
Debt-Conversion Fund (Honduras-Spain)	0	8,088
Taiwan ICDF - Technical Assistance Fund, Credit Program for Education	0	45
	126,900	127,409

(21) Social Benefit Fund (SBF)

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

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

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

(Expressed in thousands of U.S. dollars)

(21) Social Benefit Fund (SBF), continued

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

Although there is a periodic monitoring of SBF's Plan benefits, the date the Bank uses to measure this obligation is December 31 of each year. The following table shows the net periodic benefit cost for the six-month periods ended June 30, 2019 and 2018, in conformity with the criteria established by currently applicable standards:

	2019	2018
Net periodic benefit cost components		
Interest cost	4,437	6,249
Service cost	1,061	2,653
Return on Plan assets	(5,182)	(3,168)
Net periodic benefit cost	316	5,734

Contributions

All contributions from CABEI are paid in cash. For the six-month periods ended June 30, 2019 and 2018, the Bank has recorded ordinary contributions for 2,532 and 2,417, respectively, and special contributions to supplement the actuarial technical interest rate of 7% for 2,519 and 2,461, respectively. The aforementioned contributions are included in administrative expenses and special contributions, respectively.

(22) Accumulated Other Comprehensive (Loss) Income

For the six-month periods ended June 30, 2019 and 2018, accumulated other comprehensive (loss) income, is as follows:

	2019			
	Securities available for sale	**Actuarial gains (losses) under the Social Benefit Plan**	**Change in credit risk of debt instruments at fair value**	**Accumulated other comprehensive (loss) income**
At beginning of period	(4,693)	3,358	11,540	10,205
Changes for the period	19,001	0	(36,159)	(17,158)
At end of period	14,300	3,358	(24,619)	(6,953)

	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) income**
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)

(22) Accumulated Other Comprehensive (Loss) Income, continued

For the six-month periods ended June 30, 2019 and 2018, reclassifications from accumulated other comprehensive (loss) income to earnings are as follows:

	2019	2018	Line in statement of income affected
Securities available for sale	(4,099)	(1,597)	Realized gains on investment funds
Derivative Financial Instruments and Debt	(83)	(317)	Valuation of derivative financial instruments and debt
	(4,182)	(1,914)	

(23) Special and other contributions

For the six-month periods ended June 30, 2019 and 2018, special contributions and other are detailed as follows:

	2019	2018
SBF special contribution	2,519	2,461
Financial cooperation and other	231	577
	2,750	3,038

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

(24) Litigation

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

(25) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to December 16, 2019, date on which the financial statements were ready for their issuance, and the following was identified:

On September 18, 2019, the Moody's Investors Service Risk Rating Agency increased in one (1) scale the international long-term risk rating of CABEI, from "A1" to "Aa3"; With a stable perspective.