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CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

Condensed Financial Statements

June 30, 2020 and December 31, 2019

(With Independent Auditors' Review Report Thereon)

Table of Contents

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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 condensed balance sheet of Central American Bank for Economic Integration (the "Bank") as of June 30, 2020, and the related condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2020 and 2019 (the "interim financial information").

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.

Independent 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, 2020 and for the six-month periods ended June 30, 2020 and 2019, for it to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

We draw your attention to Note 1 to the accompanying interim financial statements, which describes certain operational and financial statement impacts of the COVID-19 pandemic. Our opinion has not been modified in relation to this issue.

Deloitte.

Other matter

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

Report on Balance Sheet as of December 31, 2019

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the Bank as of December 31, 2019, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended; and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2020. In our opinion, the accompanying condensed balance sheet of the Bank as of December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Rony Emmanuel García Dorantes
Mexico City, Mexico
October 12, 2020

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Condensed Balance Sheets

As of June 30, 2020 and December 31, 2019

(Expressed in thousands of U.S. dollars)

	June 30, 2020	December 31, 2019
Assets		
Cash and demand deposits (note 4)	24,940	30,570
Interest-bearing deposits with banks (note 5)	3,338,074	2,132,810
Securities available for sale (229,758 in 2020 and 237,818 in 2019, under securities lending agreements) (note 6)	1,760,386	1,771,734
Loans, net of deferred origination fees	7,805,114	7,704,290
Less: Allowance for loan losses	(242,165)	(246,629)
Net loans (note 7)	7,562,949	7,457,661
Accrued interest receivable (note 8)	80,431	93,736
Property and equipment, net (note 9)	33,686	34,024
Derivative financial instruments (note 18)	40,953	18,879
Equity investments	29,513	29,333
Other assets (note 10)	42,685	41,842
Total assets	12,913,617	11,610,589
Liabilities		
Loans payable (277,889 in 2020 and 290,412 in 2019, measured at fair value) (note 11)	1,130,072	1,159,994
Bonds payable (4,272,027 in 2020 and 4,482,142 in 2019, measured at fair value) (note 12.a)	6,441,641	5,511,953
Commercial paper programs (note 12.b)	94,872	59,412
Certificates of deposit (note 13)	1,498,136	1,327,076
Certificates of investment	256	282
Accrued interest payable (note 14)	36,037	52,421
Derivative financial instruments (note 18)	6,677	1,360
Other liabilities (note 15)	49,113	55,091
Total liabilities	9,256,804	8,167,589
Equity		
Paid-in capital (note 16)	1,130,188	1,102,063
General reserve	2,342,132	2,113,680
Retained earnings	92,878	228,452
Accumulated other comprehensive income (loss) (note 21)	91,615	(1,195)
Total equity	3,656,813	3,443,000
Total liabilities and equity	12,913,617	11,610,589

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Condensed Statements of Income

For the six-month periods ended June 30, 2020 and 2019

(Expressed in thousands of U.S. dollars)

	June 30	
	2020	**2019**
Financial income		
Public sector loans	160,022	178,216
Private sector loans	36,498	47,092
Marketable securities	16,007	21,749
Due from banks	13,388	21,823
Realized gain on investment funds	2,305	4,099
Total financial income	228,220	272,979
Financial expenses		
Loans payable	13,561	20,875
Bonds payable	75,350	101,044
Commercial paper programs	585	354
Certificates of deposit and investment	11,870	18,678
Total financial expenses	101,366	140,951
Net financial income	126,854	132,028
Reversal of provision for loan losses (note 7)	(4,464)	(1,635)
Provision for (reversal of) losses on contingencies	194	(399)
Total reversal of provisions for credit losses	(4,270)	(2,034)
Net financial income, after reversal of provisions for credit losses	131,124	134,062
Other operating income (expenses)		
Financial services and other fees	631	940
Monitoring and administration fees	757	670
Gain (loss) on equity investment, net	180	(1,270)
Dividends from equity investments	0	346
Loss on foreclosed assets, net	0	(434)
Foreign exchange (loss) gain, net	(200)	309
Other operating income	485	1,764
Total other operating income, net	1,853	2,325
Administrative expenses		
Salaries and employee benefits	16,144	16,286
Other administrative expenses	6,381	5,984
Depreciation and amortization	2,348	2,058
Other	342	291
Total administrative expenses	25,215	24,619
Income, before special and other contributions and valuation of derivative financial instruments and debt	107,762	111,768
Special and other contributions (note 22)	(16,560)	(2,750)
Income, before valuation of derivative financial instruments and debt	91,202	109,018
Valuation of derivative financial instruments and debt	1,676	11,478
Net income	92,878	120,496

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Condensed Statements of Comprehensive Income

For the six-month periods ended June 30, 2020 and 2019

(Expressed in thousands of U.S. dollars)

	June 30	
	2020	**2019**
Net income	92,878	120,496
Other comprehensive income:		
Unrealized gain on securities available for sale, net	15,655	23,100
Reclassification adjustments for net realized gains included in earnings (note 21)	(2,305)	(4,099)
Subtotal - securities available for sale	13,350	19,001
Change in credit risk of debt instruments at fair value (note 3(vi))	72,453	(36,076)
Reclassification of net gain (loss) realized by maturity of debt in operations at fair value (note 21)	1,745	(83)
Subtotal - change in credit risk of debt instruments at fair value (note 21)	74,198	(36,159)
Retirement plans, pensions and other social benefits:		
Change in actuarial gain (note 20)	5,262	0
Other comprehensive income (loss)	92,810	(17,158)
Comprehensive income	185,688	103,338

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Condensed Statements of Changes in Equity

For the six-month periods ended June 30, 2020 and 2019

(Expressed in thousands of U.S. dollars)

	Paid-in Capital	General Reserve	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balances at the beginning of 2019 (audited)	1,074,263	1,819,667	294,127	10,205	3,198,262
Net income	0	0	120,496	0	120,496
Other comprehensive loss	0	0	0	(17,158)	(17,158)
Comprehensive income (loss)	0	0	120,496	(17,158)	103,338
Transfer to general reserve	0	294,127	(294,127)	0	0
Balances as of June 30, 2019 (unaudited)	1,074,263	2,113,794	120,496	(6,953)	3,301,600
Balances at the beginning of 2020 (audited)	1,102,063	2,113,680	228,452	(1,195)	3,443,000
Net income	0	0	92,878	0	92,878
Other comprehensive income	0	0	0	92,810	92,810
Comprehensive income	0	0	92,878	92,810	185,688
Capital contributions, in cash (note 16.b)	28,125	0	0	0	28,125
Transfer to general reserve	0	228,452	(228,452)	0	0
Balances as of June 30, 2020 (unaudited)	1,130,188	2,342,132	92,878	91,615	3,656,813

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

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Condensed Statements of Cash Flows

For the six-month periods ended June 30, 2020 and 2019

(Expressed in thousands of U.S. dollars)

	June 30	
	2020	**2019**
Cash flows from operating activities		
Net income	92,878	120,496
Items to reconcile net income to net cash provided by operating activities:		
Reversal of provision for loan losses	(4,270)	(2,034)
Valuation of derivative financial instruments and debt	(1,676)	(11,478)
Depreciation and amortization	2,348	2,058
(Gain) loss on equity investment, net	(180)	1,270
Loss on foreclosed assets, net	0	434
Foreign exchange losses (gains), net	200	(309)
Reversal of provision against claims and legal actions	0	(1,317)
Net decrease in accrued interest receivable	13,324	566
Net (decrease) increase in accrued interest payable	(16,384)	1,663
Net decrease (increase) in other assets	4,418	(1,336)
Net decrease in other liabilities	(6,169)	(11)
Net cash provided by operating activities	84,489	110,002
Cash flows from investing activities		
Net increase in interest-bearing deposits with banks	(1,205,263)	(204,722)
Purchases of securities available for sale	(790,912)	(1,058,066)
Proceeds from sales and redemptions of securities available for sale	828,154	1,018,743
Purchases of property and equipment	(2,009)	(1,062)
Net (increase) decrease in margin calls and other on derivative financial instruments	(3,416)	136,902
Disbursements of loans receivable	(1,066,752)	(1,182,583)
Collections of loans receivable	966,833	976,834
Capital returns to equity investments, net of contributions	0	24
Net cash used in investing activities	(1,273,365)	(313,930)
Cash flows from financing activities		
Capital contributions	28,125	0
Proceeds from loans payable	231,743	22,889
Repayments of loans payable	(271,227)	(155,041)
Net increase (decrease) in commercial paper programs	35,461	(4)
Proceeds from issuance of bonds payable	1,453,890	533,410
Repayments of bonds payable	(465,673)	(44,655)
Net decrease in certificates of deposit	(26)	(43)
Net increase (decrease) in certificates of investment	171,059	(166,226)
Net cash provided by financing activities	1,183,352	190,330
Effect of exchange rate fluctuations on cash held	(106)	(74)
Cash and demand deposits at beginning of year	30,570	38,078
Cash and demand deposits at end of period	24,940	24,406
Net decrease in cash and cash equivalents	(5,630)	(13,672)
Supplemental information of cash flows		
Cash paid for interest	117,750	139,289
Net gains on unrealized changes in securities available for sale	13,350	19,001

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

(1) Origin and Nature of the Bank

The Central American Bank for Economic Integration (hereinafter 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 19 and 20.

Furthermore, as detailed in note 19, the Bank manages third-party cooperation funds, destined to finance programs agreed with each organization, which are in line with the Bank's policies and strategies.

Relevant event of the period

In December 2019, a new strain of coronavirus, called SARS-CoV-2, was reported causing the COVID-19 disease. In January 2020, the coronavirus spread to other countries, including Latin America, and on March 11, 2020, the World Health Organization declared that the spread of COVID-19 had turned into a global pandemic. The spread of COVID-19 has resulted in a global and regional economic slowdown, and efforts to contain the spread of this coronavirus have intensified, including closures ordered by government authorities. The outbreak and the preventive and protective actions that governments have taken regarding the coronavirus have resulted in a period of business interruption and reduction of operations. As an immediate response, CABEI has evaluated and prioritized its activities that have required financial support from its partners and clients, to strengthen the capacities of its operations to handle the current situation. The resulting financial impacts have been reasonably estimated at this time, therefore, due to its financial structure, it is not expected to significantly affect the operations of CABEI, and the fulfillment of the activities intended.

(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, 2020 and for the six-month periods ended June 30, 2020 and 2019, 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, 2019 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.

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.

(2) Summary of Significant Accounting Policies, continued

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 level in the 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.
- 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 income (loss) until they are realized and reclassified to the Statement of income.

(2) Summary of Significant Accounting Policies, continued

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

Full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Bank intends to sell or would more-likely-than-not be required to sell, absent of any unforeseen significant changes in circumstances, before the expected recovery of the amortized cost basis is recognized in earnings as 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 income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected using the Bank’s cash flow projections.

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

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

The Bank has not experienced other-than-temporary impairment during the six-month periods ended June 30, 2020 and 2019.

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.

(2) Summary of Significant Accounting Policies, continued

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

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

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

(e) Concentration of credit risk

In compliance with its objective and financial policies, the Bank grants loans and guarantees to entities, both public and private, established in the beneficiary member countries, that meet the financial needs of projects and programs that contribute to the development of the Central American region, which includes the founding countries and regional non-founding countries.

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.

(2) Summary of Significant Accounting Policies, continued

- Exposure to a single public sector company or mixed institution with government majority ownership, without a sovereign guarantee, shall not exceed 20% of the Bank's equity.

(f) Loans and allowance for loan losses

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

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

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

Public Sector

Loans to the public sector are granted to the governments of member countries, to local and municipal governments of member countries, to central banks 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 and loans granted to central banks, 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.

(2) Summary of Significant Accounting Policies, continued

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 reasonableness.

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.

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.

(2) Summary of Significant Accounting Policies, continued

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, 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.

- 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.

For the determination of the allowance for loan losses, credit risk ratings based on the internal Credit risk rating system and the risk definitions by the Credit Rating Agencies are taken into consideration, so that each of the levels on the internal Credit risk rating system 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.

(2) Summary of Significant Accounting Policies, continued

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.

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.

(2) Summary of Significant Accounting Policies, continued

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.

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

(2) Summary of Significant Accounting Policies, continued

(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 hedges from an economic perspective, have not been designated as hedges for accounting purposes. The Bank enters into these derivative instruments for the purpose of hedging 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 (loss), the portion of the total change in the fair value of a liability that results from a change in the credit risk of a specific instrument.

The inherent credit risk is the counterparty's possible non-compliance in the delivery of collateral to recover the balance due.

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

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"*.

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

CABEI 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 an 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

Equity investments in other entities have been recognized at cost, less impairment, except those recorded at fair value, whose changes are reported in the Income statement under (loss) gain on equity investments.

Equity investments that do not have readily determinable fair values are reported at cost. The Bank has determined that it is impractical to estimate the fair value of these investments reported at cost. These investments are evaluated quarterly and when impairment is determined, the balance of the investment is decreased, and the amount of the impairment is recognized as other operating expense. When the impartment in the investment is identified and considered as other than temporary, the investment in participations is written off and the impaired value becomes the new cost base.

(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. Maintenance expenses associated to holding these properties in portfolio and the changes to the related valuation allowance are recorded as other administrative expenses and other operating expenses, respectively.

(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 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 income (loss), as a separate component of equity.

(m) Taxes

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

(2) Summary of Significant Accounting Policies, continued

(n) General reserve and annual net income

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

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

(o) Revenue and expense recognition

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 classified 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 a method that approximates the effective interest 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 operating 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.

(2) Summary of Significant Accounting Policies, continued

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

(q) Endorsements, guarantees granted, commitments and contingencies

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

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

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

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

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.

(2) Summary of Significant Accounting Policies, continued

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

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

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

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

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

(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 operating segment, since it does not internally manage or report the results of operations at levels other than the Bank's financial statements to assess performance or allocate its resources based on the contribution of individual operations to the net income of the Bank.

(2) Summary of Significant Accounting Policies, continued

(t) Consistency

The accounting policies as of June 30, 2020 and for the six-month period ended June 30, 2020, are consistent with those applied as of December 31, 2019 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, the valuation of derivative financial instruments.

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 financial assets and liabilities are short-term financial instruments, with maturity of less than one year, and/or with floating interest rates.

(3) Fair Values and Fair Value Option, continued

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:

- 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: they are recognized as cost, less impairment, except for those that are reported at fair value. None of the equity investments in other entities in which the Bank has investments are negotiable and, consequently, have no price quotes available in the market. These entities are of special purpose and are entities in which the Bank has no control or significant influence. For those recorded at cost, it is currently impractical to determine the fair value of these investments without incurring an excessive cost, and for those recorded at fair value, the measurement is based on the practical expedient using the net asset value per share (or equivalent) from the investee´s financial information, given that the investee´s assets and liabilities are registered at fair value.

- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data. Furthermore, the Bank determines CABEI's and its counterparties' credit risk in the valuation of derivative financial instruments (note 18).

(3) Fair Values and Fair Value Option, continued

- 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 not hedges, 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.

- 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, 2020 and December 31, 2019, the Bank has not recurring fair value measurements categorized within Level 3 of the fair value hierarchy.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

(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, 2020 and December 31, 2019, classified according to the fair value hierarchy:

	Level 1	Level 2	Total 2020
Assets			
Securities available for sale	311,300	1,449,086	1,760,386
Derivative financial instruments	0	40,953	40,953
Liabilities			
Loans payable	0	277,889	277,889
Bonds payable	0	4,272,027	4,272,027
Derivative financial instruments	0	6,677	6,677

	Level 1	Level 2	Total 2019
Assets			
Securities available for sale	256,854	1,514,880	1,771,734
Derivative financial instruments	0	18,879	18,879
Liabilities			
Loans payable	0	290,412	290,412
Bonds payable	0	4,482,142	4,482,142
Derivative financial instruments	0	1,360	1,360

(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.

(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, 2020 and the year ended December 31, 2019, there were no transfers between Levels 1 and 2.

(v) Non-Recurring Fair Value Measurements

Some assets held by the Bank 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 equity investments in other entities registered at fair value measured using a convenient practice and other long-lived non-financial assets when determined to show impairment.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

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 fair value of equity investment in other entities is estimated based on the value of net assets per share and does not require classification in the fair value hierarchy.

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, 2020 and the year ended December 31, 2019:

	2020		2019	
	Fair Value	Decrease	Fair Value	Decrease
Loans, net	40,072	(6,044)	48,392	7,358
Equity investment	5,682	180	5,502	1,427
Foreclosed assets, net	11,648	0	11,648	434
	57,402	(5,864)	65,542	9,219

As of June 30, 2020 and December 31, 2019, loans receivable and foreclosed assets included in the table above are categorized within Level 3 of the fair value hierarchy.

(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, considering that both the financial liabilities and the related hedging instruments are generally maintained until maturity.

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.

(Expressed in thousands of U.S. dollars)

(3) Fair Values and Fair Value Option, continued

For the six-month periods ended June 30, 2020 and 2019, for loans payable at fair value, the Bank recorded gains and losses of 103,558 and 111,846, respectively, in the statement of income. For bonds payable at fair value, for the six-month periods ended June 30, 2020 and 2019, the Bank recorded losses of 9,169 and 9,086, 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, 2020 and December 31, 2019, 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:

	2020			2019		
	Fair value	Amortized cost	Decrease	Fair value	Amortized cost	Decrease
Loans payable	277,889	285,813	(7,924)	290,412,	291,171	(759)
Bonds payable	4,272,027	4,534,838	(262,811)	4,482,142	4,585,275	(103,133)

For the six-month periods ended June 30, 2020 and 2019, 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 income of 72,453 and loss of 36,076, respectively, which are presented in other comprehensive income (loss).

(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, 2020 and December 31, 2019, the estimated fair values of the Bank's financial instruments are as follows:

	2020		2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash and demand deposits	24,940	24,940	30,570	30,570
Interest-bearing deposits with banks	3,338,074	3,338,074	2,132,810	2,132,810
Securities available for sale	1,760,386	1,760,386	1,771,734	1,771,734
Loans, net	7,562,949	7,623,989	7,457,661	7,482,284
Accrued interest receivable	80,431	80,431	93,736	93,736
Derivative financial instruments	40,953	40,953	18,879	18,879
Liabilities				
Loans payable	1,130,072	1,135,488	1,159,994	1,148,146
Bonds payable	6,441,641	6,471,727	5,511,953	5,519,588
Commercial paper programs	94,872	94,839	59,412	59,476
Certificates of deposit	1,498,136	1,500,051	1,327,076	1,329,821
Certificates of investment	256	256	282	282
Accrued interest payable	36,037	36,037	52,421	52,421
Derivative financial instruments	6,677	6,677	1,360	1,360

As of June 30, 2020 and December 31, 2019, loans payable include 852,183 and 869,582, respectively, which are recognized at amortized cost, whose fair value has been estimated at 857,599 and 857,734, respectively. Likewise, as of the aforementioned dates, bonds payable include 2,169,614 and 1,029,811, respectively, which are recognized at amortized cost, whose fair value has been estimated at 2,199,700 and 1,037,446, respectively.

(4) Cash and Demand Deposits

As of June 30, 2020 and December 31, 2019, cash and demand deposits are composed by currency, as follows:

	2020	2019
U.S. dollar	14,770	33,631
Currencies of the founding countries	2,881	834
Other currencies	7,289	3,613
	24,940	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, 2020 and December 31, 2019, their carrying amounts are 3,338,074 and 2,132,810, respectively. All 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 income (loss), the effect of hedging transactions and fair value of securities available for sale, as of June 30, 2020 and December 31, 2019 are as follows:

	2020				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair value**
Sovereign	1,140,553	(8)	25,511	27,452	1,193,508
Supranational	365,270	0	4,556	0	369,826
Investment funds	183,745	0	1,025	0	184,770
Corporate	12,282	0	0	0	12,282
	1,701,850	(8)	31,092	27,452	1,760,386

	2019				
Securities available for sale[1]:	**Amortized cost**	**Unrealized gross losses**	**Unrealized gross gains**	**Effect of hedging transactions**	**Fair Value**
Sovereign	1,160,069	(222)	8,805	14,906	1,183,558
Supranational	383,419	(123)	923	0	384,220
Investment funds	181,480	0	8,352	0	189,832
Corporate	14,124	0	0	0	14,124
	1,739,092	(345)	18,080	14,906	1,771,734

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, 2020 and 2019, the realized gross gain was 2,305 and 4,099, respectively. There was no realized gross loss during the six-month periods ended June 30, 2020 and 2019.

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

As of June 30, 2020 and December 31, 2019, the fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

	2020				
	Less than 12 months		12 months or longer		
Securities available for sale:	**Fair Value**	**Unrealized gross losses**	**Fair value**	**Unrealized gross losses**	**Total**
Sovereign	0	0	12,937	(6)	(6)
	0	0	12,937	(6)	(6)

[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

	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	48,380	(180)	86,958	(42)	(222)
Supranational	33,130	(88)	62,341	(35)	(123)
	81,510	(268)	149,299	(77)	(345)

Bank's management believes that the unrealized losses of such securities are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. As of June 30, 2020, 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, 2020, 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	994,858	636,492	0	70,500	1,701,850

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, 2020 and December 31, 2019, is as follows:

	2019			2019		
	Public sector	Private sector	Total	Public sector	Private sector	Total
Guatemala	814,970	154,090	969,060	859,551	176,814	1,036,365
El Salvador	1,204,505	104,389	1,308,894	1,120,704	111,257	1,231,961
Honduras	1,178,516	344,467	1,522,983	1,106,131	365,010	1,471,141
Nicaragua	1,180,894	215,399	1,396,293	1,118,074	251,273	1,369,347
Costa Rica	1,196,688	197,183	1,393,871	1,244,489	191,166	1,435,655
Dominican Republic	280,194	64,950	345,144	352,502	84,934	437,436
Panama	319,914	260,981	580,895	181,758	238,384	420,142
Belize	11,887	0	11,887	12,326	0	12,326
Colombia	176,220	0	176,220	182,566	0	182,566
Mexico	97,346	0	97,346	104,834	0	104,834
Argentina	2,521	0	2,521	2,517	0	2,517
Subtotal	6,463,655	1,341,459	7,805,114	6,285,452	1,418,838	7,704,290
Allowance for loan losses	(181,437)	(60,728)	(242,165)	(189,011)	(57,618)	(246,629)
Loans, net	6,282,218	1,280,731	7,562,949	6,096,441	1,361,220	7,457,661

As of June 30, 2020, 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
2,109	1,725,145	850,076	885,257	676,718	817,707	2,848,102	7,805,114

As of June 30, 2020 and December 31, 2019, a detail of loans, by economic activity segment is as follows:

	2020	2019
Construction	2,970,863	2,901,767
Supply of electricity, gas, steam, and air conditioning	1,676,741	1,719,496
Multi-sector	660,083	706,597
Financial and insurance activities	623,720	641,936
Wholesale and retail	488,006	503,202
Agriculture, ranching, forestry, and fishing	406,019	393,034
Human health care and social assistance	244,186	227,581
Water supply; sewage disposal, waste management, and decontamination	166,801	171,559
Information and communication	160,591	83,549
Professional, scientific and technical activities	157,175	71,174
Manufacturing industry	83,209	105,232
Transportation and storage	43,088	46,957
Lodging activities and food services	29,500	31,361
Education	27,586	22,356
Real estate	23,814	22,066
Other services	15,913	14,735
Public administration and social security plans	14,686	26,649
Arts, entertainment and recreational activities	8,943	9,481
Administrative services and support activities	4,190	5,558
	7,805,114	7,704,290

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

As of June 30, 2020 and December 31, 2019, a detail of loans, by currency, is as follows:

	2020	2019
U.S. dollar	7,764,908	7,537,980
Currencies from Central American countries	39,262	165,056
Euro	944	1,254
	7,805,114	7,704,290

For the six-month period ended June 30, 2020 and the year ended December 31, 2019, the weighted average yield on loans, after considering swap contracts when applicable, was 5.16% and 5.81% per annum, respectively.

As of June 30, 2020 and December 31, 2019, the balance and the number of days in arrears of non-performing loan installments of the private sector are detailed as follows:

	2020					2019				
	01-30	31-60	61-90	More than 90	Total	01-30	31-60	61-90	More than 90	Total
Honduras	1,087	918	0	0	2,005	0	0	0	0	0
Nicaragua	0	0	0	0	0	125	0	0	450	575
Costa Rica	35	35	34	0	104	0	0	0	0	0
	1,122	953	34	0	2,109	125	0	0	450	575

As of June 30, 2020 and December 31, 2019, there are no installments from loans the public sector in arrears.

As of June 30, 2020 and December 31, 2019, the following tables present impaired loans to the private sector:

2020						
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	23,091	250	7,790	23,421	424	462
Nicaragua	19,044	0	8,467	20,026	38	636
Costa Rica	244	104	164	364	1	5
Panama	21,085	0	6,971	22,046	49	687
	63,464	354	23,392	65,857	512	1,790
Impaired loans with accrual status	62,651	354	22,638	65,034	509	1,772
Impaired loans with non-accrual status	813	0	754	823	3	18

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

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	23,325	0	5,616	29,993	40	2,703
Nicaragua	20,128	575	6,693	20,756	112	1,238
Costa Rica	348	0	51	798	1	34
Panama	21,939	0	4,988	28,526	67	1,722
	65,740	575	17,348	80,073	220	5,697
Impaired loans with accrual status	64,915	0	16,596	78,945	160	5,692
Impaired loans with non-accrual status	825	575	752	1,128	60	5

As of June 30, 2020 and December 31, 2019, there were no individually impaired loans to public sector.

As of June 30, 2020 and December 31, 2019, 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	**2020**	**2019**
BBB+ / BBB / BBB-	593,480	469,158
BB+ / BB / BB-	1,095,164	1,212,053
B+ / B / B-	4,772,490	4,601,724
CCC+ / CCC / CCC-	2,521	2,517
	6,463,655	6,285,452

As of June 30, 2020 and December 31, 2019, the credit quality of private sector loans based on risk ratings described in note 2 (f), is the following:

	2020				
Private Sector	**Normal**	**Special Mention**	**Substandard**	**Loss**	**Total**
Guatemala	154,091	0	0	0	154,091
El Salvador	103,359	1,030	0	0	104,389
Honduras	273,356	16,021	55,090	0	344,467
Nicaragua	179,484	16,871	18,231	813	215,399
Costa Rica	175,523	118	21,541	0	197,182
Dominican Republic	64,950	0	0	0	64,950
Panama	216,489	23,407	21,085	0	260,981
	1,167,252	57,447	115,947	813	1,341,459

(Expressed in thousands of U.S. dollars)

(7) Loans, continued

	2029				
Private Sector	**Normal**	**Special Mention**	**Substandard**	**Loss**	**Total**
Guatemala	175,546	1,268	0	0	176,814
El Salvador	110,128	1,129	0	0	111,257
Honduras	309,545	153	55,312	0	365,010
Nicaragua	212,349	18,796	19,303	825	251,273
Costa Rica	168,603	148	22,415	0	191,166
Dominican Republic	84,934	0	0	0	84,934
Panama	192,398	24,047	21,939	0	238,384
	1,253,503	45,541	118,969	825	1,418,838

For the six-month periods ended June 30, 2020 and 2019, the movement in the provision for loan losses are as follows:

	2020			2019		
	Sector			Sector		
	Public	**Private**	**Total**	**Public**	**Private**	**Total**
At beginning of period	189,011	57,618	246,629	191,071	57,792	248,863
(Reversal of) provision for loan losses	(7,574)	3,110	(4,464)	(5,103)	3,468	(1,635)
Recoveries	0	0	0	0	41	41
At end of period	181,437	60,728	242,165	185,968	61,301	247,269

As June 30, 2020 and December 31, 2019, the balances of provision and recorded investment are presented below:

	2020			2019		
	Public Sector	**Private Sector**	**Total**	**Public Sector**	**Private Sector**	**Total**
Loans Measured Individually						
Specific allowance	0	23,392	23,392	0	17,348	17,348
Recorded investment	0	63,464	63,464	0	65,740	65,740
Loans Measured Collectively						
Generic allowance	181,437	37,336	218,773	189,011	40,270	229,281
Recorded investment	6,463,655	1,245,496	7,709,151	6,285,452	1,320,228	7,605,680
Loans Without an Allowance						
Recorded investment	0	32,499	32,499	0	32,870	32,870
Total						
Allowance	181,437	60,728	242,165	189,011	57,618	246,629
Recorded investment	6,463,655	1,341,459	7,805,114	6,285,452	1,418,838	7,704,290

(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, 2020 and 2019, the movement in the balance of restructured loans are the following:

	2020	2019
At beginning of period	104,810	67,646
Troubled debt restructurings, due to modification of term and interest rate	825	24,050
Recoveries	(4,426)	(2,922)
At end of period	101,209	88,774

The restructured loan balances for the six-month periods ended June 30, 2020 and 2019 correspond to private sector loans. During the six-month periods ended June 30, 2020 and 2019, the loan balance before restructuring was 825 and 24,556 respectively. As of June 30, 2020 and 2019, the number of restructured loans amounts to 7 and 5, respectively.

As of June 30, 2020 and December 31, 2019, past due installments corresponding to restructured loans amount to 354 and 0, respectively. The installments in arrears are considered in the individual impairment assessment of each restructured loan. At those dates, there are no commitments to make additional disbursements for impaired loans or troubled debt restructurings.

(8) Accrued Interest Receivable

As of June 30, 2020 and December 31, 2019, accrued interest receivable is detailed as follows:

	2020	2019
On loans	70,303	79,720
On securities available for sale	7,417	7,972
On interest-bearing deposits with banks	2,711	6,044
	80,431	93,736

(9) Property and Equipment, Net

As of June 30, 2020 and December 31, 2019, property and equipment are detailed as follows:

	2020	2019
Buildings	29,992	29,992
Computer equipment and software	27,126	28,565
Installations	19,452	19,272
Office furniture and equipment	5,840	5,787
Vehicles	2,604	2,743
	85,014	86,359
Less accumulated depreciation and amortization	(56,025)	(57,032)
	28,989	29,327
Land	4,697	4,697
	33,686	34,024

(Expressed in thousands of U.S. dollars)

(10) Other Assets

As of June 30, 2020 and December 31, 2019, the balance of other assets is detailed as follows:

	2020	2019
Surplus of assets over actuarial liabilities of Social Benefit Fund	13,245	7,983
Advances to suppliers	13,209	14,123
Foreclosed assets, net of fair value adjustments	11,648	11,648
Accounts receivable	3,697	7,196
Fees paid in advance	857	857
Other	29	35
	42,685	41,842

As of June 30, 2020 and December 31, 2019, the balance of foreclosed assets is 11,648, net of fair value adjustments of 11,066.

(11) Loans Payable

As of June 30, 2020 and December 31, 2019, loans payable are as follows:

	2020	2019
Agence Française de Développement	221,133	227,811
Kreditanstalt für Wiederaufbau (KfW)	192,376	158,099
European Investment Bank	177,739	186,974
Instituto de Crédito Oficial de España	156,126	83,552
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)	154,250	161,605
Citibank, N.A.	100,000	75,000
Oesterreichische Entwicklungsbank AG (OeEB)	30,000	30,000
Nordic Investment Bank	25,105	28,557
Japan Bank for International Cooperation	21,823	24,940
Nordea Bank	20,178	22,186
The International Cooperation and Development Fund (TaiwanICDF)	11,166	12,415
Fortis Bank SA/NV, Belgium	9,139	10,464
U.S. Agency for International Development (USAID)	5,628	5,916
BNP Paribas Fortis	4,376	4,756
Inter-American Development Bank (IDB)	1,033	1,187
Mizuho Bank, Ltd.	0	100,000
Wells Fargo	0	25,000
The OPEC Fund for International Development	0	1,532
	1,130,072	1,159,994

As of June 30, 2020 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	222,516	129,294	119,392	109,287	106,712	442,871	1,130,072

(Expressed in thousands of U.S. dollars)

(11) Loans Payable, continued

For the six-month period ended June 30, 2020 and the year ended December 31, 2019, the weighted average cost on loans payable, after considering swap contracts when applicable, was 2.48% and 3.24% per annum, respectively.

As of June 30, 2020, loans payable at fixed and variable rates are 592,075 and 537,997, respectively. As of December 31, 2019, loans payable at fixed and variable rates are 572,368 and 587,626, respectively.

(12) Bonds Payable and Commercial Paper Program

a) As of June 30, 2020 and December 31, 2019, bonds payable are as follows:

Currency	2020	2019
United States of America Dollars	2,087,906	989,034
Swiss francs	1,521,498	1,503,702
Mexican pesos	815,847	960,838
Yuan	437,189	446,701
Euros	284,119	296,252
Yen	241,787	243,145
Uruguayan pesos	212,699	228,363
Norwegian kroner	175,604	174,979
Costa Rican colones	145,214	149,629
Australian dollars	131,943	136,248
Colombian pesos	92,143	106,069
South African rands	79,354	98,425
Hong Kong dollars	53,368	51,701
Bahts	40,719	43,120
Swedish kroner	20,715	22,130
New Zealand dollars	19,980	21,013
	6,360,085	5,471,349
Fair value adjustment	81,556	40,604
	6,441,641	5,511,953

As of June 30, 2020 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	565,703	1,170,317	1,033,611	636,463	1,913,038	1,122,509	6,441,641

For the six-month period ended June 30, 2020 and the year ended December 31, 2019, the weighted average cost on bonds payable, after considering swap contracts when applicable, was 2.76% and 3.73% per annum, respectively.

(Expressed in thousands of U.S. dollars)

(12) Bonds Payable and Commercial Paper Program

b) As of June 30, 2020 and December 31, 2019, CABEI has the following commercial paper programs:

	2020			
	Authorized Program Size	**Amount Issued**	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	500,000	94,872	1.48%	Up to 3 months
Commercial Paper – Regional Program in CRC	200,000	0	0.00%	Up to 6 months
	700,000	94,872		

	2019			
	Authorized Program Size	**Amount Issued**	**Annual Average Cost**	**Contractual Maturity**
Commercial Paper – Global Program in USD	500,000	59,412	2.40%	Up to 3 months
Commercial Paper – Regional Program in CRC	200,000	0	0.00%	Up to 6 months
	700,000	59,412		

(13) Certificates of Deposit

As of June 30, 2020 and December 31, 2019, certificates of deposit are as follows:

	2020	**2019**
Central banks	783,002	799,236
Private financial institutions	455,898	241,168
Public financial institutions	217,046	224,178
Multilateral institutions	0	15,000
Other	42,190	47,494
	1,498,136	1,327,076

As of June 30, 2020, 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	1,476,823	5,213	2,403	3,943	5,078	4,676	1,498,136

For the six-month period ended June 30, 2020 and the year ended December 31, 2019, the weighted average cost on certificates of deposit was 1.71% and 2.86% per annum, respectively.

(Expressed in thousands of U.S. dollars)

(13) Certificates of Deposit

For the six-month period ended June 30, 2020 and the year ended December 31, 2019, the weighted average cost on certificates of deposit, by currency, is as follows:

	2020	2019
Deposits in USD	1.34%	2.44%
Deposits in CRC	6.90%	6.15%
Deposits in lempiras	6.79%	6.90%

(14) Accrued Interest Payable

As of June 30, 2020 and December 31, 2019, accrued interest payable is as follows:

	2020	2019
On bonds payable	30,414	40,893
On loans payable	3,545	4,412
On certificates of deposit	2,078	7,116
	36,037	52,421

(15) Other Liabilities

As of June 30, 2020 and December 31, 2019, the other liabilities are detailed below:

	2020	2019
Non-refundable financial cooperation's to be disbursed	23,761	24,180
Other creditors	17,462	20,212
Bonuses and supplemental compensation	3,619	4,047
Provision technical assistance	3,003	2,877
Provision for contingencies (note 17)	888	694
Transitory deposits	202	311
Other provisions	178	2,770
	49,113	55,091

(16) Equity

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

The Bank's authorized capital is 7,000,000, divided into 3,570,000 for founding countries and 3,430,000 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 357,000 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 343,000 shares, each with a face value of 10. The "A" and "B" Series shares will at all times represent the Bank's entire authorized capital.

In addition, there will be a Series "C" shares, issued in favor of the holders of the "A" and "B" Series shares with a face value of zero, which will have the purpose of aligning the equity value of the shares with their nominal value and will be issued as the result of a periodic assignment process, as regulated and approved by the Board of Governors.

(16) Equity, continued

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, 2020, the founding countries have subscribed 3,570,000 from the total number of shares into equal parts, and the non-founding regional countries and non-regional countries have subscribed 3,114,050; the remaining 315,950 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 5,250,000 corresponds to callable capital and the equivalent to 1,750,000 corresponds to capital payable in cash.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

As of June 30, 2020, the capital structure of the Bank is detailed as follows:

	2020			
	Capital			
Subscribed capital	**Subscribed/ Unsubscribed**	**Callable subscribed**	**Subscribed payable in cash**	**Paid-in**
Founding countries				
Guatemala	714,000	535,500	178,500	127,500
El Salvador	714,000	535,500	178,500	127,500
Honduras	714,000	535,500	178,500	127,500
Nicaragua	714,000	535,500	178,500	127,500
Costa Rica	714,000	535,500	178,500	127,500
Subtotal founding countries	3,570,000	2,677,500	892,500	637,500
Non-founding regional countries				
Dominican Republic	358,400	268,800	89,600	64,000
Panama	358,400	268,800	89,600	64,000
Belize	25,000	18,750	6,250	6,250
Subtotal non-founding regional countries	741,800	556,350	185,450	134,250
Non-regional countries				
Republic of China, Taiwan	700,000	525,000	175,000	125,000
Republic of Korea	630,000	472,500	157,500	28,125
Mexico	306,250	229,687	76,563	76,563
Spain	280,000	210,000	70,000	50,000
Argentina	203,000	152,250	50,750	36,250
Colombia	203,000	152,250	50,750	36,250
Cuba[2]	50,000	37,500	12,500	6,250
Subtotal non-regional countries	2,372,250	1,779,187	593,063	358,438
Subtotal subscribed capital and paid-in capital	6,684,050	5,013,037	1,671,013	1,130,188
Unsubscribed capital				
Non-regional countries and regional non-founding countries	315,950			
	7,000,000			

[2] The capital payments of the Republic of Cuba are made in euros.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

As of December 31, 2019, the capital structure of the Bank is detailed as follows:

	2019			
	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	64,000
Panama	256,000	192,000	64,000	64,000
Belize	25,000	18,750	6,250	6,250
Subtotal non-founding regional countries	537,000	402,750	134,250	134,250
Non-regional countries				
Republic of China, Taiwan	500,000	375,000	125,000	125,000
Republic of Korea	450,000	337,500	112,500	0
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[2]	50,000	37,500	12,500	6,250
Subtotal non-regional countries	1,796,250	1,347,187	449,063	330,313
Subtotal subscribed capital and paid-in capital	4,883,250	3,662,437	1,220,813	1,102,063
Unsubscribed capital				
Non-regional countries and regional non-founding countries	116,750			
	5,000,000			

[2] The capital payments of the Republic of Cuba are made in euros.

(Expressed in thousands of U.S. dollars)

(16) Equity, continued

(b) Subscribed capital

On April 20, 2020, once the subscription of shares by the founding countries was formalized, the increase in the Bank's authorized capital by 2,000,000 came into effect, taking the authorized capital from 5,000,000 to 7,000,000, of which the founding countries subscribed the equivalent to 51%, through Series "A" shares, an amount that amounts to 1,020,000, with the remaining 49% being available to non-founding regional countries and non-regional countries, through Series "B" shares, for 980,000.

On June 2, 2020, non-founding regional countries and non-regional countries subscribed Series "B" shares for 780,800, receiving responses from the republics of Panama, the Dominican Republic, China (Taiwan), Korea, Spain, Argentina and Colombia, who subscribed capital additional as follows:

Subscribed capital	Subscribed Capital	Callable subscribed	Subscribed payable in cash
Non-founding regional countries			
Dominican Republic	102,400	76,800	25,600
Panama	102,400	76,800	25,600
Sub-total of non-founding regional countries	204,800	153,600	51,200
Non-regional countries			
Republic of China, Taiwan	200,000	150,000	50,000
Republic of Korea	180,000	135,000	45,000
Spain	80,000	60,000	20,000
Argentina	58,000	43,500	14,500
Colombia	58,000	43,500	14,500
Sub-total of non-regional countries	576,000	432,000	144,000
Total Subscribed capital	780,800	585,600	195,200

On December 31, 2019, the "Protocol of Accession of the Republic of Korea to the Agreement Establishing the Central American Bank for Economic Integration" entered into full force and effect, once the Republic of Korea informed the Bank of compliance with the constitutional and legal requirements of the Republic of Korea to become a non-regional countries. Consequently, as of said date, the Republic of Korea has a share of 45,000 Series "B" shares, with a nominal value of 10 each, making a total of 450,000, of which 112,500 correspond to payable capital and 337,500 corresponds to callable capital.

(c) Capital Payments

On January 10, 2020, the Republic of Korea made the payment of 28,125 corresponding to the first capital contribution. For the six-month period ended June 30, 2019, no contributions from member countries were recorded.

(Expressed in thousands of U.S. dollars)

(17) Contingent Commitments

As of June 30, 2020 and December 31, 2019, balances of contingent commitments are as follows:

	2020	2019
Subscribed credit agreements (*)	4,225,646	3,219,121
Endorsements and guarantees granted	48,189	53,032
Letters of credit	29,283	13,954
	4,303,118	3,286,107

(*) 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, 2020 the maturities of endorsements and guarantees granted, and letters of credit, are as follows:

	Years			
	2020	2021	2029	Total
Endorsements and guarantees granted	3,588	65	44,536	48,189
Letters of credit	12,783	16,500	0	29,283

As of June 30, 2020 and December 31, 2019, the Bank does not maintain deferred commission balances for contingent commitments.

As of June 30, 2020 and December 31, 2019, the Bank maintains a provision for possible losses of 888 and 694, respectively, in relation to the guarantees and guarantees granted and letters of credit, which has been recorded as other liabilities in the Balance sheet (note 15).

(18) Derivative Financial Instruments and Hedging Activities

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

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

The Bank maintains policies for the approval of counterparties and maximum limits per counterparty. To measure the exposure with counterparties, the Bank establishes a maximum limit measured with respect to the counterparty's credit quality. As of June 30, 2020 and December 31, 2019, the Bank is in compliance with this policy.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

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, 2020 and December 31, 2019, the face value of derivative financial instruments is as follows:

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
	Face Value	Face Value	Face Value	Face Value
Economic hedges				
Interest rate and other contracts	700,332	1,137,452	614,330	480,499
Other risk management purposes				
Foreign currency contracts	2,000,223	2,199,586	1,937,304	2,473,762
Total derivative financial instruments, face value	2,700,555	3,337,038	2,551,634	2,954,261

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.

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

The following tables present information about the offsetting of derivative financial instruments as of June 30, 2020 and December 31, 2019:

	2020		2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	Fair Value	**Fair Value**	**Fair Value**	**Fair Value**
Fair value hedges				
Interest rate and other contracts	124,862	71,382	55,892	30,918
Other risk management purposes				
Foreign currency contracts	127,153	383,924	84,850	250,582
Subtotal derivative financial instruments	252,015	455,306	140,742	281,500
Cash collateral paid / received	280,339	42,800	171,450	13,130
Subtotal derivative financial instruments, by gross amounts	532,354	498,106	312,192	294,630
Less: Master netting agreements	(204,250)	(204,250)	(123,317)	(123,317)
Less: Offsetting cash collateral paid / received	(287,237)	(287,237)	(170,010)	(170,010)
Credit risk valuation adjustment for counterparties under netting agreements	86	58	14	57
Total derivative financial instruments presented in the balance sheet, by offset amounts	40,953	6,677	18,879	1,360

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

(Expressed in thousands of U.S. dollars)

(18) Derivative Financial Instruments and Hedging Activities, continued

For the six-month period ended June 30, 2020 and 2019, such income (loss) and other comprehensive income (loss) of derivative financial instruments are, is presented as follow:

	2020		
	Income (loss)		
	Derivative instrument	Hedged financial instrument	Total
Fair value hedges			
Interest rate and other contracts	28,506	(28,506)	0
Undesignated economic hedges			
Foreign currency contracts[3]	(91,038)	0	(91,038)
Credit risk valuation adjustment on derivative financial instruments	70	0	70
Realized loss, credit risk component on debt at fair value	(1,745)	0	(1,745)
	(64,207)	(28,506)	(92,713)

	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[3]	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

(Loss) income recognized in the Statement of income is presented as valuation of derivative financial instruments and debt.

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

(Expressed in thousands of U.S. dollars)

(19) Funds and Programs managed by CABEI

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the founding countries, and non-founding regional countries, the Bank manages independent funds and programs which are detailed below as of June 30, 2020 and December 31, 2019:

Fund/Program	Net Assets 2020 (Unaudited)	Net Assets 2019 (Audited)
Honduras - Spain Fund, Phase II	78,762	77,861
Investment Trust – Dwelling Mortgage Fund	27,114	26,436
Technical Cooperation Fund – FONTEC	18,379	18,209
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)	2,510	2,550
Technical Assistance Fund for Regional Integration Projects (FATPIR)	2,324	0
Trust for Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children	91	88
Korea Development Co-Financing Facility for Central America	80	47
Development of an Energy Efficiency Market in Lighting, Air Conditioning and Refrigerators in Costa Rica	154	0
	133,447	129,224

(20) Social Benefit Fund (SBF)

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

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

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

(Expressed in thousands of U.S. dollars)

(20) Social Benefit Fund (SBF), continued

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

Although there is a periodic monitoring of SBF's Plan benefits, the date 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 period ended June 30, 2020 and the year ended December 31, 2019 in conformity with the criteria established by currently applicable standards:

	2020	2019
Net periodic (benefit) cost components		
Interest cost	4,588	4,437
Service cost	972	1,061
Return on Plan assets	(6,539)	(5,182)
Net periodic (benefit) cost	(979)	316

Contributions

All contributions from CABEI are paid in cash. For the six-month periods ended June 30, 2020 and 2019, the Bank has recorded ordinary contributions for 2,618 and 2,532, respectively, and special contributions to supplement the actuarial technical interest rate of 7% for 2,591 and 2,519, respectively. The aforementioned contributions are included in administrative expenses and special contributions, respectively.

(21) Accumulated Other Comprehensive Income (Loss)

For the six-month periods ended June 30, 2020 and 2019, accumulated other comprehensive income (loss), is as follows:

	2020			
	Securities available for sale	Actuarial gains under the Social Benefit Plan	Change in credit risk of debt instruments at fair value	Accumulated other comprehensive income (loss)
At beginning of period	17,734	8,011	(26,940)	(1,195)
Changes for the period	13,350	5,262	74,198	92,810
At end of period	31,084	13,273	47,258	91,615

	2019			
	Securities available for sale	Actuarial (losses) gains under the Social Benefit Plan	Change in credit risk of debt instruments at fair value	Accumulated other comprehensive income (loss)
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	14,308	3,358	(24,619)	(6,953)

(Expressed in thousands of U.S. dollars)

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

For the six-month periods ended June 30, 2020 and 2019, reclassifications from accumulated other comprehensive income (loss) to earnings are as follows:

	2020	2019	Line in statement of income affected
Securities available for sale	(2,305)	(4,099)	Realized gains on investment funds
Derivative Financial Instruments and Debt	1,745	(83)	Valuation of derivative financial instruments and debt
	560	(4,182)	

(22) Special and other contributions

For the six-month periods ended June 30, 2020 and 2019, special contributions and other are detailed as follows:

	2020	2019
SBF special contribution	2,591	2,519
Financial cooperation and other	13,969	231
	16,560	2,750

The special contributions to the SBF correspond to the supplement to the actuarial technical interest rate of 7% per annum, which are recorded as special contributions (note 20).

(23) Litigation

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

(24) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to October 12, 2020, date on which the financial statements were ready for their issuance, and the following was identified:

a) On July 31, 2020, according to the availability of shares to be subscribed, the Dominican Republic, the Republic of China (Taiwan) and Argentina subscribed Series "B" shares for 152,500. The foregoing based on CABEI's Capitalization Regulations. The subscription by country is detailed below:

Subscribed capital	Subscribed Capital	Callable subscribed	Subscribed payable in cash
Non-founding regional countries			
Dominican Republic	20,000	15,000	5,000
Sub-total of non-founding regional countries	20,000	15,000	5,000
Non-regional countries			
Republic of China, Taiwan	76,250	57,187	19,063
Argentina	56,250	42,187	14,063
Sub-total of non-regional countries	132,500	99,374	33,126
Total Subscribed capital	152,500	114,374	38,126

(24) Subsequent Events

b) On September 3, 2020, CABEI's Board of Governors authorized the Argentine Republic's request to increase its participation in the Bank's share capital by 4,655 Series “B” shares, equivalent to 46,550. Currently, steps are being taken to carry out the legislative process that would allow the authorization of the subscription.