

BASE PROSPECTUS

US\$2,500,000,000
Central American Bank for Economic Integration
Medium-Term Note Program

Under its Medium-Term Note Program (the “Program”), Central American Bank for Economic Integration (“CABEI”) may from time to time issue its Medium-Term Notes (the “Notes”) as specified in a supplement to this Base Prospectus (a “Final Terms”). The aggregate principal amount of all Notes will not exceed US\$2,500,000,000 (or the equivalent thereof in other currencies or composite currencies), subject to increase.

The terms of the Notes, which in each case will be specified in a Final Terms, may differ from those described herein. Notes may be denominated in U.S. dollars, Japanese ¥, euro, a currency of a Founding Member, or other currencies or composite currencies, as specified in the applicable Final Terms. If Notes are to be denominated in a composite currency, the applicable Final Terms will establish the mechanism for determining the value of such composite currency. Any date of payment or amount payable in respect of principal, interest or premium payable on the Notes may be determined by reference to specified currency, security, commodity, interest rate and/or other indices or formulas and/or other measures, instruments or events as specified in the relevant Final Terms. Subject to certain exceptions, payments on the Notes will be made without deduction for or on account of any withholding taxes imposed by or within the Founding Members. See “Terms and Conditions of the Notes—Additional Amounts”.

Interest on fixed rate notes and floating rate notes will be payable on the dates specified in the applicable Final Terms and at maturity. Zero coupon notes generally will not bear interest. Unless otherwise specified in the applicable Final Terms, Notes will not be subject to redemption at the option of CABEI.

See “Investment Considerations” beginning on page 11 of this Base Prospectus for a discussion of certain factors to be considered in connection with an investment in the Notes.

Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange for trading on the Euro MTF market. Notes issued under the Program may be listed on one or more stock exchanges or may be unlisted as specified in the applicable Final Terms. This Base Prospectus replaces and supersedes the Base Prospectus dated June 25, 2010. This Base Prospectus is valid for a period of one year (12 months) from the date hereof.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws and are being offered and sold in the United States only to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. For a description of certain restrictions on transfers of the Notes, see “Terms and Conditions of the Notes”, “Offering and Sale” and “Notice to Investors”.

Offers to purchase Notes may be solicited, on a reasonable efforts basis, from time to time on behalf of CABEI by the Agents referred to in “Offering and Sale”. Notes also may be sold to the Agents for their own account at negotiated discounts or commissions for resale to other purchasers. CABEI reserves the right to sell Notes directly on its own behalf in certain circumstances or to or through other brokers or dealers. CABEI reserves the right to withdraw, cancel or modify the offering of the Notes contemplated hereby without notice. No termination date for the offering of the Notes has been established. CABEI or any Agent may reject any offer made to or through it in whole or in part. See “Offering and Sale”.

July 12, 2011

You should rely only on the information contained in or incorporated by reference in this Base Prospectus. CABEI has not authorized anyone to provide you with different information. CABEI is not making an offer of the Notes in any state where the offer is not permitted. You should not assume that the information contained in this Base Prospectus is accurate as of any date other than the date on the front of this Base Prospectus.

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CABEI has made all reasonable inquiries and confirms that, to the best of its knowledge, the information contained herein with regard to CABEI and the Notes is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Base Prospectus are honestly held and that there are no other facts the omission of which would make this Base Prospectus as a whole or any of the information or the expression of any of these opinions or intentions misleading. CABEI accepts responsibility accordingly.

This Base Prospectus has been prepared by CABEI solely for use in connection with the proposed offering of the Notes.

The Agents make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Base Prospectus. Nothing contained in this Base Prospectus is, or shall be relied upon as, a promise or representation by the Agents as to the past or future. The Agents have not independently

verified any of the information contained herein (financial, legal or otherwise) and assume no responsibility for the accuracy or completeness of any such information.

Neither the U.S. Securities and Exchange Commission, any state securities commission nor any other U.S. regulatory authority, has approved or disapproved the Notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Base Prospectus. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective investors must rely on their own examination of CABEI and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this Base Prospectus as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

This Base Prospectus is an advertisement and not a prospectus for the purposes of the Prospectus Directive and any offer of Notes will only be made in accordance with the relevant exemptions provided for by article 3(2) of the Prospectus Directive.

This Base Prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information and all such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to CABEI or the Agents.

The distribution of this Base Prospectus and the offering and sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by CABEI and the Agents to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the Notes, see "Terms and Conditions of Notes", "Offering and Sale" and "Notice to Investors". This Base Prospectus does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- the most recent Annual Report of CABEI;

- any interim financial statements of CABEI (whether audited or unaudited) that become publicly available subsequent to the annual and interim financial statements included herein from time to time; and
- all amendments and supplements to this Base Prospectus prepared by CABEI from time to time and filed with the Luxembourg Stock Exchange;

provided, however, that any statement contained in this Base Prospectus or in any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The documents incorporated by reference in, and forming part of, this Base Prospectus, except for future filings, may be obtained free of charge at the offices of the Luxembourg listing and paying agent and are also available over the Internet at the Luxembourg Stock Exchange's website at <http://www.bourse.lu>. CABEI's audited financial statements as of December 31, 2010 and December 31, 2009 are included in this Base Prospectus.

CABEI has undertaken, in connection with the listing of the Notes on the Luxembourg Stock Exchange, that if there shall occur any adverse change in the business or financial position of CABEI or any change in the information set out under "Terms and Conditions of the Notes" that is material in the context of issuance under the Program, CABEI will prepare or procure the preparation of any amendment or supplement to this Base Prospectus for use in connection with any subsequent issue by CABEI of Notes to be listed on the Luxembourg Stock Exchange.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

As a multilateral organization, CABEI is a legal entity under public international law. The majority of its assets and those of its governors, directors and executive officers, all of whom are non-residents of the United States, are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States on CABEI or on such persons with respect to matters arising under U.S. federal securities laws, or to enforce in Member Countries (as defined herein) judgments obtained against CABEI or such persons in U.S. courts, including actions predicated upon the civil liability provisions of such U.S. federal securities laws. In the Member Countries, both recognition and enforcement of court judgments with respect to civil liability provisions of U.S. federal securities laws are governed by local laws.

CABEI has appointed CT Corporation System as its authorized agent upon which process may be served in any action instituted in any U.S. federal or state court having subject matter jurisdiction in the Borough of Manhattan, The City of New York, arising out of or based upon the fiscal agency agreement governing the Notes. See "Terms and Conditions of the Notes—Jurisdiction, Consent to Service and Enforceability".

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including statements regarding future events or prospects and certain statements under the headings "Summary", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", are forward-looking statements. Statements that include the words "aim", "may", "will", "expect", "anticipate", "believe", "future", "continue", "hope", "estimate", "plan", "intend", "should", "shall" or the negative or other variations thereof, as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. CABEI has based these forward-looking statements on management's current views with respect to future events and financial performance. These views reflect the best judgment of CABEI's executives, but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in CABEI's forward-looking statements and from past results, performance or achievements. Important factors that could cause CABEI's actual results to differ materially from those in the forward-looking statements include, among others:

- CABEI's business could be affected by future adverse economic or political conditions in the Founding Members as well as in the Beneficiary Countries once such countries are eligible to borrow from CABEI; and
- CABEI could be adversely affected by currency devaluations or exchange controls.

PRESENTATION OF FINANCIAL INFORMATION

CABEI's functional currency is the U.S. dollar. CABEI's assets and liabilities denominated in currencies other than the U.S. dollar are translated to U.S. dollars at the prevailing exchange rate between such currency and the U.S. dollar as of the dates of the relevant financial statements, and CABEI's income and expenses earned or incurred in currencies other than the U.S. dollar are translated to U.S. dollars at the prevailing exchange rates at the time of the relevant transaction.

CABEI prepares its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Figures set forth in this Base Prospectus may have been rounded. Accordingly, totals may not be the sum of their components.

SUMMARY

The Notes will be offered from time to time in varying amounts and will have varying terms, which for each Note will be described in the related Final Terms to this Base Prospectus and may differ from the terms described herein. For each particular Note, the description of the Notes included in this Base Prospectus will be supplemented, and to the extent inconsistent herewith will be superseded, by the description of such Note in the applicable Final Terms.

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| Issuer | Central American Bank for Economic Integration. |
| Fiscal Agent, Registrar and Transfer Agent | Deutsche Bank Trust Company Americas. |
| New York Paying Agent..... | Deutsche Bank Trust Company Americas. |
| London Paying and Transfer Agent..... | Deutsche Bank AG London. |
| Luxembourg Paying Agent and Transfer Agent | Deutsche Bank Luxembourg S.A. |
| Luxembourg Listing Agent..... | Dexia Banque Internationale à Luxembourg. |
| Aggregate Amount | Not to exceed an aggregate initial principal amount of US\$2,500,000,000 (or the equivalent thereof in other currencies or composite currencies), subject to increase by CABEI as provided in the Fiscal Agency Agreement (as defined below). |
| Fiscal Agency Agreement..... | The Notes will be issued under the Fiscal Agency Agreement, dated as of April 2, 2003, as amended (the “Fiscal Agency Agreement”), among CABEI and Deutsche Bank Trust Company Americas, as Fiscal Agent, Registrar and Transfer Agent and New York Paying Agent, Deutsche Bank Luxembourg S.A., as Paying Agent and Transfer Agent in Luxembourg, and Deutsche Bank AG London as Paying Agent and Transfer Agent in London. |
| The Offering | Notes are being offered to non-U.S. persons (as defined in Regulation S under the Securities Act) in offshore transactions in reliance on Regulation S, and in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act. |
| Minimum Denominations | Registered Notes (as herein defined) will be issued in minimum denominations of US\$10,000 and integral multiples of US\$1,000 in excess thereof (or the equivalent thereof in the Specified Currency, as defined below), or in such other denominations as may be specified in the applicable Final Terms. Bearer Notes (as herein defined) will be issued in denominations as specified in the applicable Final Terms. Unless otherwise permitted by then current laws, regulations and directives, Notes denominated in Japanese ¥ will be in minimum denominations of ¥1,000,000. |
| Maturities..... | Subject to compliance with all relevant laws, regulations and directives, Notes may have any maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body, however called) or any laws or regulations applicable to the relevant currency or currencies. |
| Issue Price..... | Notes may be issued at their nominal amount or at a discount to or premium to their nominal amount, as specified in the relevant |

Final Terms.

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| Specified Currencies..... | Notes may be denominated in U.S. dollars, Japanese ¥, euro, a currency of a Founding Member, or any other currency as may be specified in the applicable Final Terms, subject in all cases to compliance with all applicable legal and regulatory requirements as well as all applicable requirements of the Luxembourg Stock Exchange. |
| Issuance in Series..... | The Notes will be issued in series (each, a “Series”). The Notes of each Series will have identical terms (except for the issue date, the issue price or the first interest payment date), including, but not limited to, terms with respect to currency, denomination, interest, interest payment dates, and maturity. |
| Interest Rates and Other Terms | Interest, if any, will be paid at a fixed rate or at a floating rate determined by reference to one or more Base Rates, which may be adjusted by a Spread and/or a Spread Multiplier, as specified in the applicable Final Terms. Zero Coupon Notes will be issued at a discount from the principal amount payable at maturity thereof, and, unless otherwise specified in the applicable Final Terms, holders of Zero Coupon Notes will not receive periodic payments of interest thereon. The Notes may also be issued as Indexed Notes, any date of payment of which, and/or the principal of and any premium and interest on which, may be determined by reference to specified currency, security, commodity, interest rate and/or other indices or formulas and/or other measures, instruments or events as specified in the applicable Final Terms. |
| Interest Payments..... | Interest on Fixed Rate Notes and Floating Rate Notes will be paid semi-annually on the dates set forth in the applicable Final Terms and at maturity. Zero Coupon Notes generally will not bear interest. |
| Taxation..... | Subject to certain limitations, all payments in respect of the Notes will be made without deduction for or on account of any withholding taxes imposed by or within the Founding Members, as provided in the Notes, except as otherwise required by law. Subject to specified exceptions and limitations, CABEI will pay Additional Amounts in the event of the imposition of such taxes. See “Terms and Conditions of the Notes—Additional Amounts”. |
| Negative Pledge..... | The Notes will have the benefit of a Negative Pledge as described in “Terms and Conditions of the Notes—Negative Pledge”. |
| Redemption..... | The Notes will not be redeemable at the option of CABEI prior to maturity, except as otherwise specified in the applicable Final Terms. The Notes will not be redeemable at the option of the holders thereof, except as otherwise specified in the applicable Final Terms. |
| Status of Notes..... | The Notes will constitute general, direct, unconditional, unsecured and unsubordinated obligations of CABEI and will rank <i>pari passu</i> without any preference among themselves with all other present and future unsecured and unsubordinated indebtedness of CABEI. See “Terms and Conditions of the |

Notes—Status”.

Form, Denomination and Registration of Notes .

Notes may be issued in registered form, without interest coupons (“Registered Notes” or a “Registered Note”), or in bearer form, with or without interest coupons (“Bearer Notes” or a “Bearer Note”).

Except as otherwise may be specified in the applicable Final Terms, Bearer Notes will initially be represented only in the form of one or more temporary Bearer Notes in global form without interest coupons attached (each, a “Temporary Global Bearer Note”), which will be deposited with a common depository in London for the accounts of Euroclear and Clearstream, Luxembourg. Interests in a Temporary Global Bearer Note will be exchangeable, in whole or in part, for interests in a permanent global bearer Note (a “Global Note”) on or after the Exchange Date (as defined below) therefor, and after the requisite certifications as to non-U.S. beneficial ownership have been provided as described herein. Such certification will also be required before any interest will be paid in respect of any such beneficial interest. Interests in a Temporary Global Bearer Note or Global Note will only be exchangeable for Definitive Bearer Notes if so specified in the relevant Final Terms and in accordance with the terms of the relevant Temporary Global Bearer Note or Global Note. See “Certain Provisions Relating to the Forms of the Notes—Global Notes”.

Except as otherwise may be specified in the applicable Final Terms, Registered Notes of the same Series and of like tenor sold in offshore transactions in reliance on Regulation S will be represented by a Registered Note in global form (a “Regulation S Global Note”), which will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company (“DTC”) in New York, New York or a common depository in London, in each case for the accounts of the Euroclear System (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). Prior to the 40th day after the completion of the distribution (as certified to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche (the “Exchange Date”), beneficial interests in the related Regulation S Global Note may be held only by non-U.S. persons, unless transfer and delivery are made through a Restricted Global Note of the same Series and of like tenor in accordance with the requirements referred to below.

Except as otherwise may be specified in the applicable Final Terms, Registered Notes of the same Series and of like tenor that are sold to a qualified institutional buyer within the meaning of Rule 144A under the Securities Act will be represented by a Registered Note in global form (a “Restricted Global Note”), which will be deposited with a custodian for and registered in the name of a nominee of DTC in New York, New York.

Euroclear, Clearstream, Luxembourg or DTC, as the case may be, will credit the account of each of its participants with the principal amount of Notes that are represented by a Regulation S Global Note or a Restricted Global Note and are being

purchased by or through such participant. Beneficial interests in any such Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Euroclear and Clearstream, Luxembourg. Except in limited circumstances, definitive Notes will not be issued in exchange for beneficial interests in any such Global Note. See “Certain Provisions Relating to the Forms of the Notes—Global Notes”.

A holder of a beneficial interest in a Global Note deposited with DTC that wishes to transfer such interest in reliance upon an exemption from the registration requirements of the Securities Act other than the exemption provided by Rule 144A, Regulation S or Rule 144 (if available) may be required under applicable DTC procedures to exchange such interest for a definitive Note prior to transfer. In particular, under DTC procedures currently in effect, DTC does not permit a holder of a Note that is not a qualified institutional buyer as defined under Rule 144A to hold its interest in a Restricted Global Note (as defined below) through DTC.

Each Restricted Global Note will bear a Securities Act legend. Neither any Restricted Global Note nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in such legend. In addition, no beneficial interest in a Restricted Global Note may be transferred to a person that takes delivery thereof through a Regulation S Global Note of the same Series and of like tenor unless the transferor provides the Registrar (as named in “Terms and Conditions of the Notes—General”) with a written certification regarding compliance with certain of such transfer restrictions. A transfer of a beneficial interest in a Regulation S Global Note to a person that takes delivery through a Restricted Global Note of the same Series and of like tenor, if (but only if) made prior to the applicable 40th day referred to above, also requires certification as to compliance with certain transfer restrictions. See “Notice to Investors”, “Terms and Conditions of the Notes—Form, Denomination and Registration” and “Offering and Sale”.

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| Events of Default..... | For a description of certain events that will permit acceleration of the principal of the Notes of a particular Series (together with any interest and Additional Amounts accrued and unpaid thereon), see “Terms and Conditions of the Notes—Default; Acceleration of Maturity”. |
| Settlement..... | Unless otherwise stated in the applicable Final Terms, settlement for each sale of a Note will be made in immediately available funds five business days after the applicable trade date. |
| Governing Law..... | The Notes will be governed by, and interpreted in accordance with, the laws of the State of New York. |
| Selling Restrictions..... | There are restrictions on the sale of Notes and the distribution of offering material in various jurisdictions. See “Offering and Sale”. |
| Transfer Restrictions..... | There are restrictions on the transfer of Registered Notes sold |

pursuant to Rule 144A or Regulation S under the Securities Act. See “Notice to Investors”.

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| Clearing Systems | Euroclear and Clearstream, Luxembourg for Bearer Notes; Euroclear, Clearstream, Luxembourg and DTC for Registered Notes; or any other clearing system as may be specified in the relevant Final Terms. |
| Listing | Application has been made to list the Notes issued under the Program on the Luxembourg Stock Exchange for trading on the Euro MTF market. Notes issued under the Program may be listed on one or more stock exchanges or may be unlisted as specified in the relevant Final Terms. This Base Prospectus is valid for a period of one year (12 months) from the date hereof. |
| Final Terms | Each particular issuance of Notes will be the subject of a Final Terms that, for the purposes of that issuance only, supplements the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular issuance of Notes are the Terms and Conditions of the Notes as supplemented, amended or replaced by the relevant Final Terms. |

INVESTMENT CONSIDERATIONS

CABEI's financial condition, results of operations and ability to repay the Notes could be adversely affected by adverse economic or political conditions in the Founding Members and Beneficiary Countries.

CABEI's loans receivable are and will be the direct or guaranteed obligations of public and private sector obligors located in the Founding Members (see "Central American Bank for Economic Integration") or any country that is or becomes a Beneficiary Country (see "Capital Structure—Non-Regional Members and Beneficiary Countries"). The ability of such obligors to repay those loans is and will be substantially dependent on economic and political conditions prevailing from time to time in the countries of their respective residences. Accordingly, adverse economic or political conditions in the Founding Members and the Beneficiary Countries may adversely affect the ability of CABEI's public and private sector obligors to meet their payment obligations to CABEI which may in turn have an adverse effect on CABEI's financial condition, results of operations and ability to make payments on the Notes when due.

CABEI could be adversely affected by exchange controls or currency devaluations.

CABEI's loans are predominantly denominated in U.S. dollars. Some of its borrowers, however, do not or may not generate U.S. dollars, or have or may have limited access to U.S. dollars. Therefore, the ability of such borrowers to repay their loans in U.S. dollars is dependent on the availability of U.S. dollars at the central bank of the country in which they are located and on such borrowers generating sufficient local currency to purchase the U.S. dollars that are so available. CABEI cannot give any assurances that such country would not impose exchange controls or devalue its currency in a manner that would adversely affect the ability of CABEI's borrowers to repay their loans, or that such potential failure to repay would not adversely affect CABEI's financial condition and results of operations or its ability to make payments on the Notes when due.

The market price of the Notes could be affected by economic developments in emerging market countries.

The Founding Members, certain actual and potential Non-Regional Members and certain actual and potential Beneficiary Countries are generally considered by international investors to be "emerging market countries". From time to time, adverse economic developments, such as the Mexican peso devaluation in 1994, have led to a general decline in trading prices of securities of issuers located in Latin America and other emerging market countries, including securities similar to the Notes, due to investors' generalized concerns about the region or about emerging market countries. As a result, political, economic, social and other developments in other emerging market countries could have an adverse economic effect on the market value and liquidity of the Notes.

It may be difficult to enforce civil liabilities against CABEI or its directors and executive officers.

As a multilateral organization, CABEI is a legal entity under public international law. The majority of its assets and those of its governors, directors and executive officers, all of whom are non-residents of the United States, are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States on CABEI or on such persons with respect to matters arising under U.S. federal securities laws, or to enforce outside the United States judgments obtained against CABEI or such persons in U.S. courts, including actions predicated upon the civil liability provisions of such U.S. federal securities laws. In the Member Countries and in potential Non-Regional Member Countries and potential Beneficiary Countries, both recognition and enforcement of court judgments with respect to civil liability provisions of U.S. federal securities laws are solely governed by local laws.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Central American Bank for Economic Integration, CABEI, was established in 1960 as a legal entity under public international law pursuant to the *Convenio Constitutivo del Banco Centroamericano de Integración Económica*, dated December 13, 1960 (as amended, the “Constitutive Agreement”), an international treaty among Guatemala, El Salvador, Honduras and Nicaragua. Costa Rica became a party to the Constitutive Agreement in 1963.

CABEI’s mission, as set forth in its Constitutive Agreement, is to promote the economic integration and balanced economic development of the Central American countries and the economic integration of Beneficiary Countries with the Central American countries. Its principal business activity consists of making loans, predominantly denominated in U.S. dollars, to public and private sector borrowers in the Founding Members in furtherance of its mission. CABEI is also authorized by virtue of amendments to its Constitutive Agreement and internal regulations to make loans to public and private sector borrowers in any country (including a Non-Regional Member) that becomes a Beneficiary Country following compliance with the procedures established by CABEI as a condition to becoming a Beneficiary Country. See “Capital Structure—Non-Regional Members and Beneficiary Countries”.

CABEI also invests in funds that make debt or equity investments in public and private sector entities principally in the Founding Members and is responsible for implementing various development programs in the Founding Members. CABEI views its fund investment activities as a minor portion of its overall business and does not foresee any significant increase in such activities in the future.

CABEI’s headquarters are located at Tegucigalpa, M.D.C. Honduras, C.A. and it maintains regional offices in each of the Founding Members.

The Constitutive Agreement provides that CABEI’s Board of Governors (the “Board of Governors”) is CABEI’s highest authority and that CABEI’s Board of Directors (the “Board of Directors”) is responsible for setting the policies and directing the business of CABEI.

CABEI obtains funds for its operations from a number of sources, including banks, multilateral financial institutions and purchasers of its certificates of deposit, U.S. commercial paper and privately and publicly placed debt securities. See “Business—Financial Debt”.

CABEI’s obligations are not guaranteed by the present Member Countries and will not be guaranteed by any future Non-Regional Members or Beneficiary Countries nor are they in any other manner responsible for those obligations.

LEGAL STATUS OF CABEI

CABEI is a legal entity under public international law created under the Constitutive Agreement. It has its own legal personality, which permits it to enter into contracts, acquire and dispose of property and take legal action. The Constitutive Agreement has been ratified by the legislature in each of the Founding Members.

- CABEI has been granted the following privileges and immunities in the territory of the Member Countries:
 - CABEI's assets and property are immune from confiscation, seizure, attachment, detention, auction, adjudication or any other form of seizure or taking in the absence of final judgment;
 - CABEI's assets and property are considered public international property and are immune from search, requisition, confiscation, expropriation or any other form of seizure or taking by executive or legislative action and free from restrictions, regulations, controls or moratoria of any nature;
 - CABEI, its income, property and other assets, as well as the operations and transactions it carries out pursuant to the Constitutive Agreement, are exempt from taxation and from all customs duties or other charges of a similar nature imposed by Member Countries and are not subject to regulation by the central banks of the Member Countries (including reserve requirements and restrictions on convertibility and transferability of currency); and
 - No tax or lien may be levied on any obligation or security issued by CABEI, including any dividend or interest thereon.

CABEI will be granted at least the same privileges and immunities in the territory of any country that becomes a Non-Regional Member or a Beneficiary Country.

RATIO OF EARNINGS TO FIXED CHARGES

The following table shows CABEI's adjusted ratio of earnings to fixed charges for the fiscal years ended December 31, 2010, 2009 and 2008.

| Fiscal year ended December 31, | | |
|---------------------------------------|-------------|-------------|
| 2010 | 2009 | 2008 |
| 1.61 | 1.35 | 1.38 |

In the calculation of the ratios of earnings to fixed charges, "earnings" consist of the aggregate of the following:

- interest and fee income, and
- other non-interest income.

"Fixed charges" consist of the aggregate of the following:

- interest and fee expense,
- provision for loan losses, and
- operating expense other than special projects (includes administrative expense and other non-interest expense).

USE OF PROCEEDS

CABEI intends to use the net proceeds from the sale of the Notes for general purposes in the ordinary course of its business.

CAPITALIZATION

The following table sets forth the capitalization of CABEI at December 31, 2010. Except as disclosed herein, there has been no material change in CABEI's capitalization since that date. This table should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements of CABEI included in this Base Prospectus.

| | December 31, 2010 |
|--|---------------------------------------|
| | (in thousands of U.S. dollars) |
| Debt ⁽¹⁾ | |
| Loans payable | 1,190,426 |
| Commercial paper program | 201,695 |
| Bonds payable | 2,610,360 |
| Total debt | <u>4,002,481</u> |
| Equity | |
| Paid-in capital | 450,725 |
| Special contributions to equity | 7,250 |
| Accumulated other comprehensive income | (342) |
| Earnings for fiscal year 2010 | 114,403 |
| General reserve | 1,356,754 |
| Total equity | <u>1,928,790</u> |
| Total ⁽¹⁾ | <u>5,931,271</u> |

(1) Excludes certificates of deposit and certificates of investment totaling approximately US\$399.9 million.

CAPITAL STRUCTURE

General

CABEI was established in 1960 as a legal entity under public international law pursuant to the *Convenio Constitutivo del Banco Centroamericano de Integración Económica*, dated December 13, 1960 (as amended, the “Constitutive Agreement”), an international treaty among Guatemala, El Salvador, Honduras and Nicaragua. Costa Rica became a party to the Constitutive Agreement in 1963. At December 31, 2010, these five countries (collectively, the “Founding Members”) owned 51% of the authorized capital of CABEI and 61.01% of the Paid-in Capital of CABEI. The balance of CABEI’s subscribed and Paid-in Capital, amounted to US\$702.9 million and US\$175.7 million, respectively, and is owned by Mexico, Republic of China (Taiwan), Argentina, Colombia, Spain, the Republic of Panama and the Dominican Republic (collectively, the “Non-Regional Members” and, together with the Founding Members, the “Member Countries”). See “Capital Structure”.

The difference between a Member Country’s “Subscribed Capital” (the capital of CABEI for which it has subscribed) and, except as explained in the footnotes to the table below, its “Paid-in Capital” (the Subscribed Capital for which it has paid) is referred to as such Member Country’s “Callable Capital”. The Constitutive Agreement requires the Member Countries, at CABEI’s request when authorized by the Board of Governors, to pay all or a portion of their Callable Capital to CABEI when needed to satisfy obligations of CABEI in respect of indebtedness incurred or guaranties issued by CABEI. Such payments would be required to be made ratably in accordance with the Member Countries’ Callable Capital and pursuant to a schedule determined by the Board of Governors.

The following table sets forth the Member Countries’ Subscribed, Paid-in and Callable Capital at December 31, 2010.

Capital of CABEI

| | December 31, 2010 | | |
|--|--------------------------------------|---------------------------------------|------------------------------------|
| | Subscribed Capital ⁽²⁾ | Paid-in Capital ^{(1) (2)} | Callable Capital ⁽²⁾ |
| | (in thousands of U.S. dollars) | | |
| Founding Members: | | | |
| Guatemala..... | 204,000 | 55,000 | 153,000 |
| El Salvador..... | 204,000 | 55,000 | 153,000 |
| Honduras..... | 204,000 | 55,000 | 153,000 |
| Nicaragua..... | 204,000 | 55,000 | 153,000 |
| Costa Rica..... | 204,000 | 55,000 | 153,000 |
| | 1,020,000 | 275,000 | 765,000 |
| Non-Regional Members: | | | |
| Mexico..... | 122,500 | 30,625 | 91,875 |
| Republic of China (Taiwan)..... | 150,000 | 37,500 | 112,500 |
| Argentina..... | 57,600 | 14,400 | 43,200 |
| Colombia..... | 57,600 | 14,400 | 43,200 |
| Spain..... | 200,000 | 50,000 | 150,000 |
| Dominican Republic..... | 57,600 | 14,400 | 43,200 |
| Panama..... | 57,600 | 14,400 | 43,200 |
| | 702,900 | 175,725 | 527,175 |
| Total..... | 1,722,900 | 450,725 | 1,292,175 |
| Unsubscribed shares of non-regional countries..... | 277,100 | - | - |
| Total..... | 2,000,000 | 450,725 | 1,500,000 |

- (1) Each of the Founding Members has made a payment of US\$4 million in excess of its required payment. Such overpayment does not reduce the amount of each Founding Member’s Callable Capital.
- (2) Does not reflect the callable and/or paid-in portions, as applicable, of the special contribution required to become a Beneficiary Country. See “Capital Structure— Non-Regional Members and Beneficiary Countries”.

While CABEI has never requested that the Member Countries pay part or all of their Callable Capital and has no current plans to do so as it expects to service its indebtedness and guaranties without needing to make such a request, CABEI can give no assurance that any or all Member Countries would comply with any such request that CABEI might make.

The following chart sets forth the long-term foreign currency ratings assigned to the Member Countries by Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Group (“S&P”) and Fitch’s Ratings (“Fitch”) at December 31, 2010. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice. Each rating should be evaluated independently of any other rating.

| | <u>Moody’s</u> | <u>S&P</u> | <u>Fitch</u> |
|----------------------------------|----------------|----------------|--------------|
| Founding Members: | | | |
| Guatemala | Ba1 | BB | BB+ |
| El Salvador | Ba1 | BB | BB |
| Honduras | B2 | B | NR |
| Nicaragua | B3 | NR | NR |
| Costa Rica | Baa3 | BB | BB |
| Non-Regional Members: | | | |
| Mexico | Baa1 | BBB | BBB |
| Republic of China (Taiwan) | Aa3 | AA- | A+ |
| Argentina | B3 | B | B |
| Colombia | Ba1 | BBB- | BB+ |
| Spain | Aa1- | AA | AA+ |
| Dominican Republic | B1 | B | B |
| Panama | Baa3 | BBB- | BBB- |

Non-Regional Members and Beneficiary Countries

In August 2004, the Board of Governors, pursuant to amendments to the Constitutive Agreement, approved certain modifications to the internal regulation governing the process by which a country may become a Non-Regional Member and the internal regulation governing the process by which a country may become a Beneficiary Country. Beneficiary Country status will allow public and private sector entities of the Beneficiary Country to borrow from CABEI to finance projects that promote the economic integration of the Beneficiary Countries with the Central American countries. A country (including a Beneficiary Country) may apply to become a Non-Regional Member following compliance with the procedures established by CABEI as a condition to becoming a Non-Regional Member. Likewise, a country (including a Non-Regional Member) may apply to become a Beneficiary Country following compliance with the procedures established by CABEI as a condition to becoming a Beneficiary Country.

A Beneficiary Country will not be required to subscribe for CABEI’s capital as do the Founding Members and Non-Regional Members. A Beneficiary Country will be obligated to make special contributions to CABEI’s capital in accordance with applicable regulations of CABEI and in amounts that will be determined by the Board of Governors. Such special contributions will be included in CABEI’s net worth. Beneficiary Countries will not be granted a right to vote, but may participate and be heard at meetings of the Board of Directors and the Board of Governors of CABEI.

As of December 31, 2010, CABEI’s Non-Regional Members consisted of the United Mexican States, the Republic of China (Taiwan), the Republic of Argentina, the Republic of Colombia, the Kingdom of Spain, the

Republic of Panama and the Dominican Republic, and CABEL's Beneficiary Countries consisted of the Republic of Argentina, the Republic of Colombia, the Republic of Panama, the Dominican Republic and Belize.

SELECTED FINANCIAL INFORMATION

The tables below present selected income statement, balance sheet and operating data of CABEL derived from CABEL's financial statements for the fiscal years ended December 31, 2010, 2009 and 2008 ("Fiscal 2010, 2009 and 2008", respectively), prepared in conformity with U.S. GAAP. CABEL's financial statements for the fiscal year ended December 31, 2010 were audited by KPMG LLP. CABEL's financial statements for the fiscal years ended December 31, 2009 and 2008 were audited by Deloitte & Co. S.R.L.

The figure opposite each line item that reflects a total may not equal the sum of the figures that precede it in the relevant table because the table may not include all items that comprise such total.

The following data should be read in conjunction with CABEL's financial statements and the notes thereto included in this Base Prospectus, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial data included in this Base Prospectus.

Total interest and fee income for the fiscal years ended December 31, 2010, 2009 and 2008 and realized gains on securities available for sale are included in other operating income.

Income statement data

| | Fiscal year ended December 31, | | |
|---|--------------------------------|---------|---------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Interest and fee income | | | |
| Public sector loans | 202,308 | 182,808 | 159,225 |
| Private sector loans | 70,767 | 83,387 | 118,663 |
| Investment securities ⁽¹⁾ | 20,021 | 17,876 | 19,785 |
| Due from banks | 1,741 | 1,777 | 11,486 |
| Total interest and fee income | 294,837 | 285,848 | 309,159 |
| Interest and fee expenses | | | |
| Loans payable and other liabilities | 40,973 | 37,708 | 54,244 |
| Bonds payable | 72,838 | 70,660 | 77,390 |
| Commercial paper program | 5,214 | 1,066 | 5,601 |
| Certificates of deposit and investment | 18,559 | 23,080 | 25,557 |
| Securities sold under repurchase agreements | - | - | - |
| Total interest and fee expenses | 137,584 | 132,514 | 162,792 |
| Net interest and fee income | 157,253 | 153,334 | 146,367 |
| Provision for loan losses | 15,430 | 49,454 | 21,836 |
| Net interest and fee income after provision for loan losses | 141,823 | 103,880 | 124,531 |
| Administrative expenses | | | |
| Salaries and employee benefits | 20,724 | 21,264 | 21,920 |
| Other administrative expenses | 10,271 | 9,683 | 9,226 |
| Depreciation | 3,404 | 3,974 | 3,890 |
| Other expenses | 427 | 457 | 157 |
| Total administrative expenses | 34,826 | 35,378 | 35,193 |
| Other operating income | | | |
| Administration fee | 8,327 | 2,528 | 7,689 |
| Dividends from equity investments | 192 | 483 | 1,038 |

Fiscal year ended December 31,

| | 2010 | 2009 | 2008 |
|--|-------------|-------------|-------------|
| Realized gains on securities available for sale ⁽¹⁾ | 147 | - | - |
| Audit and supervision fees | 2,030 | 2,386 | 2,232 |
| Other income..... | - | 824 | 6,557 |
| Foreign exchange gains/(losses) | 1,701 | - | - |
| MTM Swap Operations..... | 272 | 15,452 | (6,187) |
| Total other operating income..... | 12,669 | 21,673 | 11,329 |
| Other operating expenses | | | |
| Adjustments to investment of risk capital..... | 1,384 | 1,592 | 1,867 |
| Other financial expenses..... | 799 | - | 1,425 |
| Adjustment on foreclosed and other assets | 598 | 203 | - |
| Foreign exchange losses/(gains) | - | 4,292 | 2,307 |
| Adjustment on securities available for sale..... | - | 4,834 | 5,087 |
| Total other operating expenses..... | 2,781 | 10,921 | 10,686 |
| Other expenses | | | |
| Special contributions ⁽²⁾ | 2,308 | 8,593 | 6,641 |
| Technical assistance and other expenses..... | 174 | 35 | 49 |
| Total other expenses, net | 2,482 | 8,628 | 6,690 |
| Net income..... | 114,403 | 70,626 | 83,291 |

Balance sheet data

| | At December 31, | | |
|---|---------------------------------------|-------------|-------------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Assets | | | |
| Cash and due from banks | 29,917 | 57,303 | 33,659 |
| Interest-bearing deposits in banks..... | 799,328 | 639,760 | 561,010 |
| Investment securities | | | |
| Securities available for sale..... | 657,550 | 678,644 | 468,819 |
| Loans receivable | 4,837,994 | 4,363,773 | 4,315,027 |
| Less allowance for loan losses ⁽³⁾ | (200,277) | (203,198) | (162,277) |
| Loans receivable, net | 4,637,717 | 4,160,575 | 4,152,750 |
| Interest receivable | 57,525 | 56,007 | 56,400 |
| Property, furniture and equipment | 27,484 | 27,108 | 28,703 |
| Derivative financial instruments | 213,955 | 125,346 | 114,679 |
| Equity investments | 25,804 | 19,605 | 12,601 |
| Other assets | 18,485 | 13,002 | 22,756 |
| Total assets | 6,467,765 | 5,777,350 | 5,451,377 |
| Liabilities | | | |
| Loans payable | 1,190,426 | 951,773 | 1,113,886 |
| Bonds payable..... | 2,610,360 | 2,377,468 | 1,702,303 |
| Commercial paper program | 201,695 | 115,498 | 57,736 |
| Certificates of deposit | 398,418 | 353,036 | 654,372 |

| | At December 31, | | |
|---|--------------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Certificates of investment | 1,494 | 1,874 | 2,673 |
| Interest payable | 31,698 | 32,242 | 29,857 |
| Derivative financial instruments | 75,320 | 101,312 | 149,625 |
| Other liabilities | 29,564 | 31,557 | 32,503 |
| Total liabilities | 4,538,975 | 3,964,760 | 3,742,955 |
| Equity | | | |
| Paid-in capital | | | |
| (Authorized capital 2,000 million) | 450,725 | 447,125 | 427,425 |
| Special contributions to equity | 7,250 | 5,688 | 5,625 |
| Accumulated comprehensive (loss)/income | (342) | 3,023 | (10,755) |
| Retained earnings | 114,403 | 70,626 | 83,291 |
| General reserve ⁽⁴⁾ | 1,356,754 | 1,286,127 | 1,202,836 |
| Total equity | 1,928,790 | 1,812,589 | 1,708,422 |
| Total liabilities and equity | 6,467,765 | 5,777,350 | 5,451,377 |

- (1) Earnings generated from Realized Gains on Securities available for Sale are included in line item Interest and Fee Income on Investment Securities.
- (2) Special contributions are amounts granted to private and public sector institutions and are recorded as expenses in the period made. The assets, liabilities, revenues and expenses of FETS are not included in CABEI's financial statements.
- (3) The allowance for loan losses to private sector borrowers was US\$103.4 million, US\$118.2 million, and US\$70.8 million at December 31, 2010, 2009 and 2008, respectively. The allowance for loan losses to public sector borrowers was US\$96.9 million, US\$85.0 million and US\$91.5 million at December 31, 2010, 2009 and 2008, respectively.
- (4) Reflects accumulated net earnings.

| | Fiscal year ended December 31, | | |
|---|--------------------------------|--------|--------|
| | 2010 | 2009 | 2008 |
| | (expressed as a percentage) | | |
| Operating Data | | | |
| Profitability | | | |
| Return on average assets ⁽¹⁾ | 1.87 | 1.26 | 1.60 |
| Return on average equity ⁽¹⁾ | 6.12 | 4.01 | 4.98 |
| Asset Quality | | | |
| Overdue loans receivable/loans receivable | 0.99 | 0.78 | 0.41 |
| Liquidity | | | |
| Loans receivable/total assets | 74.80 | 75.53 | 79.15 |
| Loans receivable/total liabilities | 106.59 | 110.06 | 115.28 |
| Capital adequacy | | | |
| Equity/total assets | 29.82 | 31.37 | 31.34 |
| Equity/total liabilities | 42.49 | 45.72 | 45.64 |
| Equity/total risk-weighted assets (plus swaps) ⁽²⁾ | 37.40 | 39.3 | 38.34 |
| Operational efficiency ⁽³⁾ | 0.61 | 0.63 | 0.68 |

-
- (1) For any particular year, consists of net income for the fiscal year divided by the average of total assets or total equity (as applicable) at the end of the previous fiscal year and the end of the current fiscal year.
 - (2) Calculated pursuant to CABEI's internal policies and according to the guidelines of the Bank for International Settlements ("BIS"). See "Business—Capital Adequacy and Leverage".
 - (3) Consists of the sum of salaries and employee benefits, depreciation and amortization and other administrative expenses for the fiscal year divided by the average of the value of earning assets at the end of the previous year and the end of the current year. Earning assets consist of interest-bearing deposits in banks, investment securities and loans receivable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Financial Information" and with CABEI's financial statements and the other financial data included in this Base Prospectus. CABEI prepares its financial statements in conformity with U.S. GAAP. This section contains forward-looking statements that involve risks and uncertainties. CABEI's actual results may differ materially from the results that the forward-looking statements express or imply.

Overview

CABEI's principal business activity consists of making loans, predominantly denominated in U.S. dollars, to public and private sector borrowers in the Founding Members. In addition, CABEI recently began to approve loans in countries (including Non-Regional Members) that have become Beneficiary Countries. See "Capital Structure—Non-Regional Members and Beneficiary Countries". CABEI also invests in funds that make debt or equity investments in public and private sector entities principally in the Founding Members and is responsible for implementing various development programs in the Founding Members.

CABEI's income is derived principally from the lending activities described above, as well as from investment securities and deposits with banks. CABEI views its fund investment activities as a minor portion of its overall business and does not foresee any significant increase in such activities in the future.

CABEI considers other regional multilateral development banks and international and regional commercial banks to be its principal competitors and seeks to strengthen its position as a leader in the sustainable development of the Central American countries by providing competitive interest rate and loan terms to its public and private sector borrowers.

Of CABEI's loans receivable of US\$4,837.99 million at December 31, 2010, approximately 71% (US\$3,420.346 million) represented loans to public sector borrowers and approximately 29% (US\$1,417.648 million) represented loans to private sector borrowers (compared to approximately 60% (US\$1,900.15 million) and 40% (US\$1,278.58 million), respectively, of CABEI's loans receivable of US\$3,178.73 million at December 31, 2005). In 2010, CABEI continued to shift its loan disbursement activity to the public sector, while decreasing its disbursement of loans to the private sector. As a result of this continuing shift, a larger percentage of CABEI's net income is derived from the public sector in 2010 when compared to 2009.

From December 31, 2005 through December 31, 2010, CABEI's loans receivable grew at a compound annual rate of approximately 8.76%. During the period, CABEI's public and private sector loans receivable grew at compound annual rates of approximately 12.48% and 2.09%, respectively.

During Fiscal 2010, 2009, and 2008, CABEI has managed the volatility in the interest rate environment by targeting a constant net interest margin.

CABEI's interest and fee expense includes interest on loans payable, bonds payable, commercial paper, certificates of deposit and investments in securities.

Results of Operations

Fiscal years ended December 31, 2010 and December 31, 2009

Interest and fee income. CABEI's total interest and fee income increased by US\$8.989 million (3.1%) from US\$285.848 million in Fiscal 2009 to US\$294.837 million in Fiscal 2010. Total interest and fee income was positively affected by a year on year growth in the loan portfolio of 10.9% resulting in an increase in CABEI's interest income from loans of US\$6.880 million (2.6%) from US\$266.195 million for Fiscal 2009 to US\$273.075 million for Fiscal 2010. Despite generally lower interest rates on loans, total interest and fee income was also

positively affected by an increase of US\$2.145 million (12.0%) in interest income on investment securities from US\$17.876 million for Fiscal 2009 to US\$20.021 million for Fiscal 2010.

Interest and fee expenses. CABEI's total interest and fee expenses increased by US\$5.07 million (3.8%) from US\$132.514 million in Fiscal 2009 to US\$137.584 million in Fiscal 2010. This was primarily attributable to a year on year increase of 14.5% in total liabilities during this period.

Provision for loan losses. CABEI's provision for loan losses decreased by US\$34.024 million (68.8%) from US\$49.454 million in Fiscal 2009 to US\$15.430 million in Fiscal 2010. This decrease was the result of a decrease of US\$52.3 million in the allowance for private sector loans, partially offset by an increase of US\$18.3 million in the allowance for public sector loans. The decrease in the allowance for private sector loans was the result of an improvement in the internal rating system for the loans in this portfolio. The increase in the allowance for public sector loans was the result of the growth in the public sector loan portfolio. Additionally, the decrease in provision for loan losses was a result of over-provisioning in 2009 at the height of the global economic crisis in 2009. CABEI has experienced a reversal in provisioning during the last fiscal year.

Administrative expenses. CABEI's administrative expenses decreased slightly by US\$0.550 million (1.6%) from US\$35.378 million in Fiscal 2009 to US\$34.826 million in Fiscal 2010.

Other operating income. CABEI's other operating income, which includes administrative fees, management fees, supervision and audit fees, market value adjustments of swap transactions and other financial instruments and dividends from equity investments, decreased by US\$9.004 million (41.5%) from US\$21.673 million in Fiscal 2009 to US\$12.669 million in Fiscal 2010. The decrease in other operating income is the result of a decrease of market value adjustments of swap transaction and other financial instruments in the amount of US\$15.180 million (229.4%) from US\$15.452 million in Fiscal 2009 to US\$0.272 million in Fiscal 2010. This result was partially offset by an increase in administrative fees of US\$5.799 million (98.2%) from US\$2.528 million in Fiscal 2009 to US\$8.327 million in Fiscal 2010.

Other operating expenses. CABEI's other operating expenses decreased by US\$8.140 million (74.5%) from US\$10.921 million in Fiscal 2009 to US\$2.781 million in Fiscal 2010. This result was primarily attributable to a loss of US\$9.126 million reported on foreign exchange loss and securities available for sale in 2009 while no loss was reported in 2010.

Net income. CABEI's net income increased by US\$43.777 million (62%) from US\$70.626 million for Fiscal 2009 to US\$114.403 million in Fiscal 2010.

Fiscal years ended December 31, 2009 and December 31, 2008

Interest and fee income. CABEI's total interest and fee income decreased by US\$23.311 million (7.5%) from US\$309.159 million for Fiscal 2008 to US\$285.848 million for Fiscal 2009. Total interest and fee income was negatively affected by a decrease in global interest rates resulting in a decrease in CABEI's interest income from bank deposits and investment securities of US\$11.618 million (37.15%) from US\$31.271 million for Fiscal 2008 to US\$19.653 million for Fiscal 2009. The effect of the global economic crisis on CABEI's Beneficiary Member's economies caused a decrease in the growth rate of CABEI's loan portfolio from 9.3% for Fiscal 2008 to 1.1% in Fiscal 2009. Such decrease in the growth rate of CABEI's loan portfolio, along with falling interest rates, contributed to a decrease of US\$11.693 million (4.2%) in its interest income from public and private sector loans from US\$277.89 million for Fiscal 2008 to US\$266.20 million for Fiscal 2009.

Interest and fee expenses. CABEI's total interest and fee expenses decreased by US\$30.278 million (18.6%) from US\$162.792 million for Fiscal 2008 to US\$132.514 million for Fiscal 2009. This was primarily attributable to a decrease in global interest rates during the relevant period.

Provision for loan losses. CABEI's provision for loan losses increased by US\$27.618 million (126.5%) from US\$21.836 million for Fiscal 2008 to US\$49.454 million for Fiscal 2009. This increase was attributable to the negative effects on approximately twelve loans in the tourism, manufacturing and agro-industry sectors, which were

primarily caused by the political instability in Honduras during Fiscal 2009 that led to the ouster of President Jose Manuel Zelaya during Fiscal 2009, as well as the global economic crisis during Fiscal 2009. An administrative unit of CABEL is assisting in the management of these distressed loans.

Administrative expenses. CABEL's administrative expenses increased slightly by US\$0.185 million (0.5%) from US\$35.193 million for Fiscal 2008 to US\$35.378 million for Fiscal 2009 as no major changes have been effected in CABEL's organization or operations for Fiscal 2009 compared to Fiscal 2008.

Other operating income. CABEL's other operating income, which includes administrative fees, management fees, supervision and audit fees, market value adjustments of swap transactions and other financial instruments and dividends from equity investments, increased by US\$12.463 million (110%) from US\$11.329 million for Fiscal 2008 to US\$23.792 million for Fiscal 2009 primarily as a result of mark-to-market swap transactions in the amount of US\$21.639 million, an income of US\$15.452 million for Fiscal 2009 compared to an expense of US\$6.187 million for Fiscal 2008. Such increase was partially offset by a decrease in dividends from equity investments, administration fees and other income in the amount of US\$9.330 million (61%), from US\$15.284 million for Fiscal 2008 to US\$5.943 million for Fiscal 2009.

Other operating expenses. CABEL's other operating expenses increased by US\$2.354 million (22%) from US\$10.686 million for Fiscal 2008 to US\$13.040 million for Fiscal 2009, substantially as a result of an increase in service charges and other fees and foreign exchange losses of US\$2.679 million (72%) from US\$3.732 million for Fiscal 2008 to US\$6.411 million for Fiscal 2009.

Net income. CABEL's net income decreased by US\$12.665 million (15%) from US\$83.291 million for Fiscal 2008 to US\$70.626 million for Fiscal 2009.

Balance sheet

At December 31, 2010, CABEL's total assets, total liabilities and equity were US\$6.468 billion, US\$4.539 billion and US\$1.929 billion, respectively, compared to US\$5.777 billion, US\$3.965 billion and US\$1.812 billion, respectively, at December 31, 2009 and US\$5.451 billion, US\$3.743 billion and US\$1.708 billion, respectively, at December 31, 2008.

Asset quality

Overdue loans

At December 31, 2010, the total principal amount of CABEL's overdue loans was US\$47.901 million (all for private sector loans) compared to US\$33.916 million (all for private sector loans) at December 31, 2009 and US\$17.676 million (all for private sector loans) at December 31, 2008.

See "Business—Asset quality".

Non-accrual loans

At December 31, 2010, the total principal amount of CABEL's non-accrual loans was US\$155.264 million (all private sector loans), or 3.2% of CABEL's loans receivable at that date, compared to (i) US\$127.411 million (all private sector loans), or 2.9% of CABEL's loans receivable, at December 31, 2009 and (ii) US\$25.909 million (all private sector loans), or 0.6% of CABEL's loans receivables at December 31, 2008.

See "Business—Asset quality".

Loan write-offs and recoveries

According to CABEL's policy, management decides to write off against the allowance when the uncollectibility of a loan's outstanding balance has been confirmed. CABEL normally makes a 100% reserve for

these loans. During Fiscal 2010 and Fiscal 2009, CABEL wrote off US\$18.351 million and US\$8.533 million of loans, respectively, all of which were made to private sector borrowers. During Fiscal 2008, CABEL did not write off any loans. For Fiscal 2010, CABEL booked recoveries of loans written off in the amount of US\$45.304 million. For Fiscal 2009 and 2008, CABEL booked recoveries for loans written off in the amount of US\$31.938 million and US\$15.747 million, respectively.

Liquidity and Capital Resources

CABEL generates cash primarily from:

- payments to it of interest and from other operating activities,
- payments to it of principal, and
- financing, including sales of debt securities and loans from banks and multilateral lending institutions.

CABEL's principal uses of cash are:

- payments by it of principal and interest,
- loan disbursements by it, and
- operating expenses.

CABEL seeks to ensure adequate liquidity by maintaining liquid assets in currencies of countries other than the Founding Members at least equal to the higher of its anticipated net cash requirements for the next three fiscal years and its anticipated gross cash requirements for the next six months.

CABEL's new investment policy, established by the Board of Directors on February 10, 2010, requires that at least 75% of its liquid assets be held in the form of investment grade obligations rated A- or better. At December 31, 2010, 89% of CABEL liquid assets were invested in investment grade obligations rated A- or better compared to 90% at December 31, 2009 and 87% at December 31, 2008.

CABEL's conservative investment policy emphasizes liquidity over yield. On February 10, 2010, the Board of Directors, through CABEL's investment policy, established three years as the maximum average duration of the securities that CABEL may acquire and required that those securities be readily marketable. At December 31, 2010, the average duration of the securities included in CABEL's investment portfolio was approximately 0.82 years.

Operating activities

CABEL's cash provided in operating activities increased by US\$11.233 million (9.6%) from US\$117.264 million for Fiscal 2009 to US\$128.497 million for Fiscal 2010. This increase was primarily attributable to an increase in Net Earnings and a reduction of market value adjustments of swap transactions and other financial instruments of US\$58.957 million (106.9%) from US\$55.174 million for Fiscal 2009 to US\$114.131 million for Fiscal 2010. This increase was partially offset by a decrease of provision for loan losses, a foreign exchange gain, a decrease in interest receivable and an increase in interest payable of US\$47.544 million (84.1%) from US\$56.524 million for Fiscal 2009 to US\$8.980 million for Fiscal 2010.

CABEL's cash provided in operating activities increased by US\$29.665 million (33.3%) from US\$87.959 million in Fiscal 2008 to US\$117.624 million in Fiscal 2009. This was primarily due to increased cash provided to constitute provisions for loan losses, as well as an increase in foreign exchange loss, other liabilities and a decrease in other assets of US\$64.801 million (524%) from cash used of US\$12.363 million for Fiscal 2008 to US\$52.438 million for Fiscal 2009. This result was partially offset by cash used in the adjustment of hedging transactions in the amount of US\$21.639 million from US\$6.187 million for Fiscal 2008 to US\$15.452 million for Fiscal 2009.

Investing activities

CABEI's cash used in investing activities increased by US\$118.563 million (34.4%) from US\$344.433 million in Fiscal 2009 to US\$462.996 million in Fiscal 2010 primarily due to an increase in cash used for deposits in banks and loans receivable of US\$316.665 million (208.9%) from US\$151.572 million for Fiscal 2009 to US\$468.237 million for Fiscal 2010. This was partially offset by a net decrease in cash used in securities available for sale of US\$222.318 million (109.3%) from US\$203.450 million of cash used for Fiscal 2009 to US\$18.868 million of cash provided for Fiscal 2010.

CABEI's cash used in investing activities decreased by US\$73.569 million (17.6%) from US\$418.002 million in Fiscal 2008 to US\$344.433 million in Fiscal 2009 due to a smaller net increase in loans receivable of US\$287.144 million (80%) from US\$359.966 million for Fiscal 2008 to US\$72.822 million for Fiscal 2009. This result was partially offset by a net increase in securities available for sale from US\$17.609 million for Fiscal 2008 to US\$206.136 million for Fiscal 2009.

Financing activities

CABEI's cash provided by financing activities increased by US\$55.727 million (22.1%) from US\$251.745 million in Fiscal 2009 to US\$307.472 million in Fiscal 2010. This increase was due primarily to a net increase of cash provided by loans payable, commercial paper and certificates of deposit, in the amount of US\$605.685 million (150.0%) from US\$403.848 million of cash used for Fiscal 2009 to US\$201.837 million of cash provided for Fiscal 2010. This result was partially offset by a net decrease of cash provided by bonds payable of US\$535.776 million (84.2%) from US\$636.630 million of cash provided for Fiscal 2009 to US\$100.854 million of cash provided for Fiscal 2010.

CABEI's cash provided by financing activities decreased by US\$108.393 million (30%) from US\$360.138 million in Fiscal 2008 to US\$251.745 million in Fiscal 2009. Such decrease was due primarily to a net decrease of cash provided by loans payable, certificates of deposit and certificates of investment in the amount of US\$610.596 million (412%) from US\$148.186 million for Fiscal 2008 to US\$462.410 million for Fiscal 2009. This effect was partially offset through cash provided by a net increase of US\$503.765 million (240%) from US\$210.327 million for Fiscal 2008 to US\$714.092 million for Fiscal 2009 in commercial paper program, bonds payable and paid in capital.

Quantitative and qualitative disclosures about market risk

Market risk represents the risk of loss that may affect CABEI's financial position, results of operations or cash flows due to adverse changes in financial markets. CABEI is exposed to market risk with respect to interest rates and foreign currency exchange fluctuations. These fluctuations can alter CABEI's financing, loan and investment costs, as well as its income from loans.

CABEI reduces its sensitivity to interest rate risk by effectively extending its loans and funding itself on a floating rather than a fixed interest rate basis. At December 31, 2010, approximately 76.7% of CABEI's loans receivable were priced on the basis of the London Interbank Offered Rate (LIBOR) or other interest rates that were generally subject to adjustment at least every three months and, in substantially all cases, at least every six months. The liabilities of CABEI that funded these loans were also contracted at, or swapped into, floating interest rates. When CABEI makes loans at fixed interest rates, it attempts to obtain the corresponding funding on a fixed interest rate basis or, alternatively, to hedge the risk.

CABEI requires that counterparties with which it enters into swap agreements be rated "A" or better by a U.S. nationally recognized rating agency. At December 31, 2010, CABEI was a party to swap agreements with an aggregate notional amount of US\$2.451 billion.

CABEI seeks, to the extent possible under prevailing market conditions, to match the maturities of its liabilities to the maturities of its loan portfolio. At December 31, 2010, the weighted average life of CABEI's loan portfolio was 5.5 years and the weighted average life of its financial liabilities was 2.9 years.

Management expects that the weighted average life of CABEL's liabilities will increase gradually as a result of its strategy of increasing CABEL's presence in the international and regional bond market as market conditions permit. Management of CABEL also expects the weighted average life of CABEL's financial assets to increase gradually as a result of CABEL's strategy of increasing the weighted average life of its liabilities, which will enable longer-term financing to its public sector borrowers.

At December 31, 2010, approximately 97% of CABEL's assets and 61% of its liabilities were denominated in U.S. dollars, with the remainder of its liabilities denominated principally in euro, Japanese ¥, new Taiwan dollars, Singapore dollars, Hong Kong dollars and currencies of Founding Members and others, which were generally swapped into U.S. dollars. After giving effect to swaps, approximately 96% of CABEL's liabilities were denominated in U.S. dollars and substantially all of the balance was denominated in the currencies of the Founding Members.

CABEL does not trade derivatives for its own account. Under CABEL's asset-liability management and hedging & derivative financial instruments (see "Business—Financial Policies") policies, it enters into swap agreements to hedge interest rate and currency risks or to provide hedge to its clients taking a neutral position. Under the new investment policy, CABEL may also use derivatives to manage its credit exposure, including selling coverage in circumstances where CABEL wants to take on additional exposure in a particular country.

CABEL continuously reevaluates the above risks and will engage in interest rate, exchange rate and credit risk hedging transactions when management deems such transactions to be appropriate.

BUSINESS

Mission and focus

CABEI’s mission, as set forth in its Constitutive Agreement, is to promote the economic integration and the balanced economic development of the Central American countries and the economic integration of Beneficiary Countries with the Central American countries. To implement its mission, CABEI is required by the Constitutive Agreement to focus on infrastructure projects, long-term investments in industries of a regional nature and of interest to the Central American market, investments in the agricultural sector that improve exploitation, industrial modernization and expansion, services for the region’s development, social development, the conservation of natural resources and the environment, and studies related to the foregoing.

General

CABEI’s principal business activity consists of making loans, predominantly denominated in U.S. dollars, to public and private sector borrowers in the Founding Members. CABEI is also authorized to make loans to public and private sector borrowers in countries (including Non-Regional Members) that become Beneficiary Countries. See “Capital Structure—Non Regional Members and Beneficiary Countries”. Unless the context otherwise requires, references in this Base Prospectus to CABEI’s lending, fund investment and other business activities being conducted solely in the Founding Members should be understood to refer also to those activities being carried out in any country that becomes a Beneficiary Country. CABEI also invests in funds that make debt or equity investments in public and private sector entities principally in the Founding Members and is responsible for implementing various development programs in the Founding Members.

CABEI’s income is derived principally from the lending activities described above as well as from investment securities and deposits with banks. CABEI views its fund investment activities as a minor portion of its overall business and does not foresee any significant increase in such activities in the future.

To comply with the requirements of the Constitutive Agreement and to achieve financially acceptable operating results, CABEI targets borrowers and projects that have a relative competitive advantage or that will fill a pressing need. In addition, CABEI targets projects that emphasize environmentally sustainable development.

The following table sets forth the amount of income derived from those sources for the fiscal years ended December 31, 2010, 2009 and 2008.

Principal sources of CABEI’s income

| | Fiscal year ended December 31, | | |
|--|--------------------------------|---------|---------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Loans | 273,075 | 266,195 | 277,888 |
| Investment securities and deposits with banks .. | 21,762 | 19,653 | 31,271 |
| Dividends from equity investments | 192 | 483 | 1,038 |
| Total..... | 295,029 | 286,331 | 310,197 |

Lending

CABEI lends exclusively to public and private sector borrowers organized under the laws of, or qualified to do business in, the Founding Members. CABEI may also make loans to public and private sector borrowers organized under the laws of, or qualified to do business in, any country that becomes a Beneficiary Country. CABEI’s lending was primarily to public sector borrowers prior to 1992, the year CABEI made a strategic decision to increase its lending to private sector borrowers. Of CABEI’s loan portfolio of US\$4,837.994 million at December 31, 2010, approximately US\$3,420.346 million, or 71%, represented obligations of public sector borrowers and approximately US\$1,417.648 million, or 29%, represented obligations of private sector borrowers. In

comparison, of CABEI's loans receivable of US\$3,178.731 million at December 31, 2005, approximately US\$1,900.150 million, or 60%, represented obligations of public sector borrowers and approximately US\$1,278.581 million, or 40%, represented obligations of private sector borrowers.

In 2010, CABEI continued to shift its loan disbursement activity to the public sector, while decreasing its disbursement of loans to the private sector. As a result of this continuing shift, a larger percentage of CABEI's net income is derived from the public sector in 2010 when compared to 2009. CABEI expects its loan portfolio to continue to consist predominantly of loans to public sector borrowers.

The following table sets forth the amount of income derived from CABEI's public sector and private sector lending activities for the fiscal years ended December 31, 2010, 2009 and 2008.

Interest and fee income from public sector and private sector loans

| | Fiscal year ended December 31, | | |
|----------------------|--------------------------------|---------|---------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Public sector | 202,308 | 182,808 | 159,225 |
| Private sector | 70,767 | 83,387 | 118,663 |
| Total..... | 273,075 | 266,195 | 277,888 |

Public sector lending

CABEI generally finances specific projects developed by governments of the Founding Members or their autonomous entities or by governments of the Beneficiary Countries or their autonomous entities, *provided* that the relevant projects or programs meet CABEI's internal regulations. CABEI generally requires a sovereign guarantee of payment or collectability for public sector debt. See “—Credit Policies and Credit Approval Procedures and Controls”.

CABEI does not lend on a concessionary basis (except under programs or projects sponsored and funded with resources from other institutions). The Board of Governors of CABEI has established the Special Fund for the Social Transformation of Central America “FETS”, a fund that it intends to use for concessionary lending. The assets, liabilities and equity of FETS are not consolidated in CABEI's financial statements. See “—Fund Administration”.

Preferred creditor status

Because of the importance of CABEI in the economic development of the Founding Members and CABEI's policy of not lending to any public sector borrower or guarantor that is in arrears on a loan from or a guarantee to CABEI, CABEI believes that the Founding Members and public sector borrowers within the Founding Members will attempt to meet their obligations to CABEI even if they are not meeting their obligations to other creditors (CABEI refers to this as “preferred creditor status”). See “—Financial Policies”.

In practice, CABEI has been treated as “more preferred” than other creditors that also enjoy preferred creditor status and that lend to public sector borrowers in the Central American region. For example, during the 1980's, certain Central American governments continued making payments to CABEI notwithstanding that such governments were defaulting on obligations to other multilateral lenders.

As CABEI's portfolio consists predominantly of loans to public sector borrowers, the majority of its loan portfolio benefits and will continue to benefit in the medium term from CABEI's preferred creditor status.

Private sector lending

During the fiscal years ended December 31, 2010, 2009 and 2008, CABEI made approximately 47%, 48% and 58% respectively, of its private sector loans to intermediary financial institutions for lending to the ultimate private sector borrowers and made its remaining private sector loans directly to borrowers. CABEI channels financing to ultimate private sector borrowers through intermediary financial institutions for reasons of efficiency and because doing so makes the intermediary rather than the ultimate borrower liable for repayment of CABEI’s loan.

While CABEI may not require an intermediary financial institution to provide collateral to CABEI at the time of the closing of a loan by CABEI to such intermediary, it reserves the right to require such intermediary to provide collateral during the life of the loan. CABEI requires its direct private sector borrowers to provide collateral generally in the form of fixed assets, stock, real estate or trust funds. See “—Credit Policies and Credit Approval Procedures and Controls”.

In respect of direct lending to a borrower that is established in a Member Country, CABEI will generally provide up to 70% of the total cost of the project investment, *provided* that at least 30% of such cost is provided in the form of equity by the borrower.

Loans receivable

The following table sets forth CABEI’s loans receivable by country of borrower at December 31, 2010, 2009 and 2008.

Loans receivable by country of borrower

| | December 31, | | |
|--------------------------------|--------------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Guatemala..... | 1,113,687 | 1,080,648 | 1,173,805 |
| El Salvador..... | 863,853 | 900,911 | 875,156 |
| Honduras..... | 810,180 | 667,216 | 800,269 |
| Nicaragua..... | 466,159 | 453,533 | 471,054 |
| Costa Rica..... | 1,516,157 | 1,201,225 | 984,997 |
| Dominican Republic..... | 50,000 | 46,295 | - |
| Panama..... | 17,458 | 13,945 | 9,746 |
| Belize..... | 500 | - | - |
| | 4,837,994 | 4,363,773 | 4,315,027 |
| Allowance for loan losses..... | (200,277) | (203,198) | (162,277) |
| Total..... | 4,637,717 | 4,160,575 | 4,152,750 |

The following table sets forth CABEI’s public sector loans receivable by country of borrower at December 31, 2010, 2009 and 2008.

Public sector loans receivable by country of borrower

| | December 31, | | |
|------------------|--------------------------------|---------|---------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Guatemala..... | 777,386 | 709,346 | 714,571 |
| El Salvador..... | 735,404 | 758,927 | 715,781 |
| Honduras..... | 537,557 | 389,752 | 377,551 |
| Nicaragua..... | 203,757 | 170,906 | 166,247 |

| | | | |
|--------------------------------|-----------|-----------|-----------|
| Costa Rica..... | 1,115,742 | 828,788 | 609,974 |
| Dominican Republic..... | 50,000 | 46,295 | - |
| Belize..... | 500 | - | - |
| | 3,420,346 | 2,904,014 | 2,584,124 |
| Allowance for loan losses..... | (96,892) | (85,041) | (91,505) |
| Total..... | 3,323,454 | 2,818,973 | 2,492,619 |

The following table sets forth CABEI's private sector loans receivable by country of borrower at December 31, 2010, 2009 and 2008.

Private sector loans receivable by country of borrower

| | December 31, | | |
|--------------------------------|--------------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Guatemala..... | 336,301 | 371,302 | 459,234 |
| El Salvador..... | 128,449 | 141,984 | 159,375 |
| Honduras..... | 272,623 | 277,464 | 422,718 |
| Nicaragua..... | 262,402 | 282,627 | 304,807 |
| Costa Rica..... | 400,415 | 372,437 | 375,023 |
| Panama..... | 17,458 | 13,945 | 9,746 |
| | 1,417,648 | 1,459,759 | 1,730,903 |
| Allowance for loan losses..... | (103,385) | (118,157) | (70,772) |
| Total..... | 1,314,263 | 1,341,602 | 1,660,131 |

The following table sets forth CABEI's loans receivable by economic sector in which the ultimate borrower is engaged at December 31, 2010, 2009 and 2008.

Loans receivable by economic sector of ultimate borrower

| | December 31, | | |
|--|--------------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Infrastructure / Construction..... | 1,407,283 | 1,389,474 | 1,233,982 |
| Electricity, gas and water supply..... | 1,173,938 | 1,032,556 | 743,280 |
| Monetary intermediation..... | 806,151 | 728,388 | 1,018,054 |
| Multi-sector..... | 519,087 | 440,778 | 454,509 |
| Social and health services..... | 165,851 | 183,648 | 201,464 |
| Manufacturing industry..... | 131,712 | 153,761 | 216,633 |
| Transport, storage and communications..... | 275,002 | 125,413 | 135,134 |
| Agro-industry..... | 69,084 | 79,418 | 30,584 |
| Hotels and restaurants..... | 54,269 | 57,388 | 65,139 |
| Real estate activities..... | 119,967 | 49,769 | 41,596 |
| Mining and quarrying..... | 42,000 | 48,000 | 54,068 |
| Education and training..... | 38,395 | 32,779 | 37,365 |
| Wholesale and retail trade..... | 20,243 | 26,392 | 46,941 |
| Other social, community and personal services..... | 9,285 | 10,773 | 29,957 |
| Fisheries..... | 4,134 | 4,654 | 5,571 |
| Extraterritorial organizations and agencies.. | 1,593 | 582 | 750 |

| | | | |
|-------|-----------|-----------|-----------|
| Total | 4,837,994 | 4,363,773 | 4,315,027 |
|-------|-----------|-----------|-----------|

The following table sets forth the approximate amount at December 31, 2010 of CABEI's loans receivable maturing during the indicated fiscal years.

Maturities of loans receivable

| | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter |
|---------------------------|--------------------------------|---------|---------|---------|---------------------|
| | (in thousands of U.S. dollars) | | | | |
| Principal payable in | 871,792 | 613,143 | 449,017 | 562,854 | 2,293,287 |

The following table sets forth CABEI's loans receivable by currency after giving effect to related swap transactions at December 31, 2010, 2009 and 2008.

Loans receivable by currency

| | December 31, | | |
|--------------------------------------|--------------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| US\$ | 4,618,752 | 4,192,696 | 4,047,230 |
| Euro | 8,186 | 10,037 | 9,547 |
| Japanese ¥ | 2,693 | 3,958 | 5,670 |
| Currencies of founding members | 208,363 | 157,082 | 252,561 |
| Other currencies | - | - | 19 |
| | 4,837,994 | 4,363,773 | 4,315,027 |
| Allowance for loan losses | (200,277) | (203,198) | (162,277) |
| Total | 4,637,717 | 4,160,575 | 4,152,750 |

The following table sets forth CABEI's 20 largest borrowers at December 31, 2010. At that date, loans to these borrowers represented 69.46% of CABEI's loans receivable of approximately US\$4,838 million.

20 Largest borrowers

| | At December 31, 2010 aggregate exposure |
|---|--|
| | (in thousands of U.S. dollars) |
| Republic of Guatemala | 739,719 |
| Instituto Costarricense de Electricidad | 621,750 |
| Republic of Honduras | 527,038 |
| Republic of El Salvador | 164,815 |
| Republic of Nicaragua | 162,001 |
| Fideicomiso Inversiones Corporativas de El Salvador | 150,000 |
| Central Reserve Bank of El Salvador | 130,000 |
| Consejo Nacional de Vialidad | 111,750 |
| Comisión Ejecutiva Hidroeléctrica | 98,148 |
| Autopistas del Sol, S.A. | 83,960 |
| FOVIAL | 74,975 |
| Consorcio Eólico Amayo, S.A. | 68,353 |
| Caja Costarricense de Seguro Social | 62,750 |
| Banco Popular y de Desarrollo Comunal | 62,168 |
| Empresa Propietaria de la Red, S.A. | 54,226 |
| Hidroeléctrica Xacbal, S.A. | 52,949 |
| Republic of Costa Rica | 52,345 |
| Government of The Dominican Republic | 50,000 |
| Termo Puerto Ltda. de C.V. | 46,730 |
| Banco GT Continental | 46,563 |
| Total | <u>3,360,240</u> |

The following table shows CABEI's five largest private sector borrowers in each Founding Member at December 31, 2010.

Largest private sector borrowers

| | At December 31, 2010 aggregate exposure |
|-----------------------------|--|
| | (in thousands of U.S. dollars) |
| Guatemala: | |
| Hidroeléctrica Xacbal, S.A. | 52,949 |
| Banco G & T Continental | 46,563 |
| Banco Industrial S.A. | 40,000 |
| Corporación G&T Continental | 39,583 |

| | |
|---|-----------------------|
| Ingenio Magdalena, S.A. | 37,120 |
| Sub-total | <u>216,215</u> |
| El Salvador: | |
| Termo Puerto LTDA. DE C.V. | 46,730 |
| TACA International Airlines | 14,253 |
| CREDIQ, S.A. DE C.V. | 11,073 |
| Federación de Cajas de Crédito | 9,035 |
| Banco Promerica S.A. | 5,596 |
| Sub-total | <u>86,687</u> |
| Honduras: | |
| Energía Renovable S.A. DE C.V. | 35,755 |
| FICOHSA | 34,792 |
| Proyecto Termoeléctrico Luz y Fuerza de San | 31,815 |
| BAC BAMER | 28,371 |
| Banco del País S.A. | 14,991 |
| Sub-total | <u>145,724</u> |
| Nicaragua: | |
| Consorcio Eólico Amayo S.A. | 68,353 |
| Polaris Energy de Nicaragua S.A. | 26,142 |
| Banco de la Producción, S.A. | 24,950 |
| Banco de Finanzas S.A. | 20,681 |
| Banco LAFISE Bancentro S.S.A. | 19,489 |
| Sub-total | <u>159,614</u> |
| Costa Rica: | |
| Autopistas del Sol, S.A. | 83,960 |
| Compañía Inversionista Las Brisas | 41,228 |
| Ticofrut, S.A. | 40,000 |
| Banco Improsa S.A. | 34,454 |
| CIFI Corp. Interamericana | 27,500 |
| Sub-total | <u>227,142</u> |
| Total | <u><u>835,383</u></u> |

Financial debt

CABEI raises funds for its operations almost exclusively outside the Founding Members. CABEI has traditionally obtained loans and credit lines from multilateral development banks, government-sponsored lenders, export credit agencies and commercial banks. CABEI has also funded itself through the issuance of certificates of deposit and investment certificates. In addition, since 1997 CABEI's funding policy has been both to diversify its funding sources and achieve a more market-oriented approach by raising funds in the financial markets through the issuance of global and regional commercial paper, along with the issuance of bonds in the United States of America, Central American countries, Republic of China (Taiwan), Singapore, Hong Kong, Japan, Republic of Colombia and the United Mexican States.

CABEI has never defaulted on the payment of principal of, or premium or interest on, any debt security it has issued, and it has always met all of its debt obligations on a timely basis.

The following chart sets forth the sources of CABEI's financial debt at December 31, 2010, 2009 and 2008.

Sources of financial debt

| | December 31, | | |
|--|--------------------------------|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars) | | |
| Loans payable ⁽¹⁾ | 1,190,426 | 951,773 | 1,113,886 |
| Commercial paper program | 201,695 | 115,498 | 57,736 |
| Bonds payable | 2,610,360 | 2,377,468 | 1,702,303 |
| Certificates of deposit and investment | 398,418 | 353,036 | 654,372 |
| Total | 4,400,899 | 3,797,775 | 3,528,297 |

(1) CABEI may obtain loans and credit facilities from international commercial banks and other development banks. As of December 31, 2010, CABEI had long and short term committed and non-committed lines of credit from international commercial banks, development banks and institutions totaling US\$2.4 billion. CABEI also has in effect a global commercial paper program in the amount of US\$500 million and a regional commercial paper program in the amount of US\$100 million, which will be upsized to US\$200 million this year.

The following table sets forth CABEI's loans payable, commercial paper, bonds payable and certificates of deposit as a percentage of CABEI's total financial debt at December 31, 2010, 2009 and 2008.

Breakdown of financial debt

| | December 31, | | |
|--|--------------|------|------|
| | 2010 | 2009 | 2008 |
| Loans payable | 27% | 25% | 32% |
| Commercial paper program | 5% | 3% | 2% |
| Bonds payable | 59% | 63% | 48% |
| Certificates of deposit and investment | 9% | 9% | 18% |
| Total | 100% | 100% | 100% |

The following table sets forth the sources of CABEI's loans payable at December 31, 2010.

Sources of loans payable

| <u>Source</u> | <u>December 31, 2010 (in thousands of U.S. dollars)</u> |
|--|---|
| <i>Government sponsored lenders and export credit agencies</i> | |
| Kreditanstalt für Wiederaufbau (KfW) | 124,889 |
| Promotion and Participation for Economic Cooperation (PROPARCO)... | 67,060 |
| Instituto de Crédito Oficial, Spain (ICO)..... | 22,052 |
| Agency for International Development (AID)..... | 21,787 |
| German Corporation of Investment and Development (DEG)..... | 10,000 |
| The Export-Import Bank of the Republic of China (EXIM)..... | 10,000 |
| The OPEC Fund for International Development..... | 6,177 |
| Land Bank of Taiwan..... | 5,000 |
| Danish Cooperation Agency (DANIDA/Unibank)..... | 609 |
| Subtotal | 267,574 |
| <i>Commercial banks</i> | |
| Bank of China (BoC) | 172,619 |
| Bayerische Landesbank..... | 126,531 |
| Mizuho Corporate Bank, Ltda | 86,780 |
| Nordbanken Ab (Nordea)..... | 61,333 |
| Sumitomo Mitsui Banking Corporation, New York | 39,907 |
| Deutsche Bank, S.A.E..... | 28,646 |
| USAID Guarantee..... | 19,877 |
| Bank Leumi, Israel..... | 16,878 |
| Royal Bank of Scotland P.L.C. | 15,000 |
| Standard Chartered Bank | 12,500 |
| Bank of Taiwan, New York | 10,000 |
| BAC Florida..... | 10,000 |
| Société Générale | 6,989 |
| Banco Mercantil de Venezuela | 5,000 |
| United Taiwan Bank S.A. | 5,000 |
| Bank SinoPac..... | 5,000 |
| Chang Hwa Commercial Bank, Ltd. | 5,000 |
| HSBC Ltd., London | 5,000 |
| Fortis Bank..... | 1,569 |
| Subtotal | 633,629 |
| <i>Multilateral development banks</i> | |
| Nordic Investment Bank | 61,690 |
| Inter-American Development Bank (IADB)..... | 56,490 |
| European Investment Bank | 27,154 |
| OESTERREICHISCHE ENTWICKLUNGSBANK AG (OeEB) | 18,714 |
| The China Council for International Cooperation on Environment and Development..... | 7,143 |
| Subtotal | 171,191 |
| <i>Governments</i> | |
| Mexico..... | 118,032 |
| Total loans payable..... | 1,190,426 |

The following table sets forth the types of CABEI's bonds payable at December 31, 2010.

Types of Bonds Payable and Senior Notes at December 31, 2010

| Type | Amount | Outstanding amount in US\$ (in millions) | Maturity | Coupon |
|-----------------------------|---------------------------|--|----------------|------------------------------|
| Regional bonds | US\$50 million | 50.000 | December 2011 | Three-month Libor plus 0.75% |
| US\$ MTN Series 1 | US\$200 million | 199.803 | April 2013 | 6.75% |
| US\$ MTN Series 4 | US\$200 million | 199.824 | January 2012 | 4.875% |
| COP Bonds. First issuance | COP 460 billion | 240.663 | September 2015 | IPC plus 2.30% |
| US\$ MTN Series 7 | US\$25 million | 15.000 | April 2011 | Six-month Libor |
| NTD Bonds. Fourth issuance | Taiwan dollar 3.5 billion | 118.764 | October 2011 | 2.08% |
| HK\$ MTN Series 8 | HK\$750 million | 99.257 | November 2011 | 4.80% |
| JPY Samurai Bonds | JPY 4 billion | 49.571 | December 2011 | 1.84% |
| MXP MTN Series 9 | MXP 750 million | 60.442 | January 2012 | 91-days MXN-TIIE |
| MXP MTN Series 10 | MXP 750 million | 60.322 | February 2012 | 91-days MXN-TIIE-5 bps |
| MXP MTN Series 11 | MXP 1,500 million | 120.524 | June 2014 | 91-days MXN-TIIE-10 bps |
| THB Bonds | THB 2,374 million | 84.663 | December 2017 | 5.97% |
| MXP MTN Series 12 | MXP 100 million | 10.021 | May 2018 | 8.30% |
| MXP MTN Series 13 | MXP 100 million | 8.933 | May 2018 | 4.15% |
| MXP MTN Series 15 | MXP 350 million | 32.334 | August 2020 | 4.44% |
| HNL MTN Series 16 | HNL 100 million | 5.292 | September 2011 | 181 day Bills-40 bps |
| NTD Bonds. Sixth issuance | Taiwan Dollar 1.8 billion | 50.525 | January 2011 | 2.60% |
| NTD Bonds. Seventh issuance | Taiwan Dollar 1.9 billion | 64.000 | January 2011 | 2.60% |
| CRC MTN Series 18 | CRC 10.4 billion | 20.605 | January 2014 | TBP Rate |
| NTD Bonds. Eighth issuance | Taiwan Dollar 1.5 billion | 60.631 | February 2013 | 2.70% |
| NTD Bonds. Ninth issuance | Taiwan Dollar 500 million | 16.842 | February 2013 | 2.70% |
| COP Bonds. Second issuance | COP 150 billion | 85.185 | March 2014 | 9.99% |
| COP Bonds. Third issuance | COP 100 billion | 51.698 | March 2019 | 10.69% |
| CRC MTN Series 19 | CRC 15.6 billion | 30.203 | June 2014 | TBP Rate |
| US\$ MTN Series 20 | US\$25 million | 24.479 | June 2019 | 6.8% |
| US\$ MTN Series 21 | US\$500 million | 500.000 | September 2014 | 5.375% |
| DOP Bonds. First issuance | DOP 740 million | 21.617 | December 2014 | 12% |

Since December 31, 2009, CABEI has issued the following bonds payable.

| <u>Type</u> | <u>Amount</u> | <u>Issued amount in US\$ (in millions)</u> | <u>Maturity</u> | <u>Coupon</u> |
|--------------------|-----------------|--|-----------------|-----------------------------|
| GTQ MTN Series 22 | GTQ 200 million | 24.958 | June 2013 | 6.75% |
| MXN MTN Series 23 | MXN 700 million | 62.555 | August 2020 | 28-days MXN- TIIE-65 bps |
| CRC MTN Series 24 | CRC 11 billion | 22.205 | November 2017 | TBP Rate |
| US\$ MTN Series 25 | US\$25 million | 25.000 | December 2020 | 4.75% |
| CHF MTN Series 26 | CHF 150 million | 165.324 | December 2013 | 2.25% |

The following table sets forth the principal categories of holders of CABEI's certificates of deposit at December 31, 2010.

Sources of certificates of deposit and investments

| <u>Source</u> | <u>December 31, 2010</u> <u>(in thousands of U.S. dollars)</u> |
|--|---|
| Societal Benefit Fund | 137,540 |
| Central Banks (Honduras and Nicaragua) | 80,126 |
| Private financial institutions | 72,087 |
| Public financial institutions | 63,800 |
| Debt-conversion fund (Honduras – Spain) | 24,384 |
| Other public institutions (Public pension funds, social services institutions and decentralized public institutions) | 5,892 |
| The Institute of Nutrition of Central America and Panama | 427 |
| Others | 14,162 |
| Total..... | <u>398,418</u> |

The following table sets forth the approximate principal amount at December 31, 2010 of each type of CABEI's financial debt maturing during the indicated fiscal years.

Principal maturities of financial debt

| | Fiscal year ended December 31, | | | | |
|--|---------------------------------------|-------------|-------------|-------------|----------------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter |
| | (in thousands of U.S. dollars) | | | | |
| Loan payable | 197,561 | 191,719 | 63,400 | 183,094 | 554,652 |
| Commercial paper program | 201,695 | - | - | - | - |
| Bonds payable | 452,409 | 320,588 | 467,558 | 778,134 | 562,551 |
| Certificates of deposit and investment | 382,922 | 2,117 | 2,117 | 5,089 | 6,173 |

Financial Policies

Key financial policies established by the Board of Directors are summarized below.

Liquidity. CABEI's policy is to have liquid assets at least equal to its anticipated gross cash requirements for the next six months. In order to be counted as liquid assets, such securities are required to mature within one year from the date of their acquisition or be readily marketable. CABEI generally does not hold currency of Founding Members in amounts greater than those required to meet its operating expenses in those currencies. In addition, the dynamic cumulative liquidity gap must be positive for each defined bucket for a period of one year.

Investment in liquid assets. CABEI's investment policy requires that at least 75% of its liquid assets be held in the form of investment grade obligations. CABEI may only hold the balance of its liquid assets in non investment grade securities to the extent they are traded in a secondary market or subject to repurchase commitments that CABEI deems to be satisfactory.

Duration. CABEI's investment policy requires that each security in which it invests have a modified duration not exceeding four years at the time of acquisition and that the securities in its investment portfolio not have an average weighted modified duration exceeding three years.

Interest rates. CABEI sets interest rates on its loans on the basis of numerous factors, including its cost of funds, the particular risks of the relevant loans, the more general risks inherent in the borrowers' markets, and a reasonable return on its capital. It is CABEI's policy that such interest rates should not introduce distortions in the borrowers' markets and must be determined in accordance with prevailing rates in international markets and those applied by international credit institutions. In most cases, CABEI reviews interest rates at least quarterly.

Allowance for loan losses. CABEI maintains a general allowance for public sector loans based on an analysis of the sovereign risk of the borrower countries. Sovereign risk analysis takes into account the probability of default given by the Export Credit Agencies' risk premium assigned to the borrower countries and the recognition of CABEI's preferred creditor status.

CABEI maintains an allowance for private sector loan losses based on an analysis of the loan portfolio, delinquencies and other general conditions (general allowance), and an evaluation of each individual loan and whether such loan is impaired (specific allowance).

The allowance for loan losses is estimated by CABEI's management through a provision for loan losses charged to earnings. Allowance for loan losses are written off against the outstanding balance when CABEI's management believes and confirms its uncollectibility. Subsequent recoveries, if any, are credited to earnings.

The allowance for loan losses is evaluated regularly by CABEI's management. This evaluation is inherently subjective as it requires estimates that are susceptible to revisions over time.

Arrears. CABEI makes no disbursement to any borrower or guarantor (public or private sector) that is in arrears on a loan from or a guarantee to CABEI.

Non-accrual loans. CABEI classifies as "non-accrual" a loan to a public sector borrower that is more than 180 days in arrears on principal or interest on such loan or to a private sector borrower that is more than 90 days in arrears on principal or interest on such loan. CABEI takes interest on non-accrual loans into income when it is paid.

Indebtedness. CABEI's policy is that its indebtedness may not exceed three times its equity.

Exchange rate risk. CABEI limits its exchange rate risk exposure by restricting currency positions or gaps. As such, currency gaps for a currency of a Founding Member country may not exceed 10% of equity, while currency gaps for any other currency may not exceed 0.4% of equity. CABEI achieves this end by making substantially all its loans in U.S. dollars and raising substantially all of its funding in U.S. dollars or in currencies swapped into U.S. dollars.

Interest rate risk. CABEI limits interest rate risk in its operations. CABEI complies with this policy by extending substantially all its loans on the basis of the same interest rate benchmarks that are applicable to its funding (including through the use of interest rate swaps).

Portfolio Management and Exposure. CABEI's loans receivable may not exceed 3.5 times its equity. Its loans receivable from borrowers in any single Founding Member may not exceed either CABEI's equity or 30% of CABEI's country risk weighted net exposure. In addition, CABEI's loans receivable from any single public sector borrower, except for public banks without a sovereign guarantee, are limited to 20% of CABEI's equity, and its loans receivable from any single private sector borrower or group of related private sector borrowers are limited to 10% of CABEI's equity. Public banks without a sovereign guarantee are limited to 12% of CABEI's equity.

Hedging & Derivatives Financial Instruments. CABEI may enter into derivatives contracts for the sole purpose of hedging and to offer them as a service to its clients. The policy provides that CABEI may only enter into derivatives contracts with investment grade counterparties or eligible institutions below investment grade under collateral agreements. Nevertheless, the current practice is to enter into transactions with institutions rated at least A.

Credit policies and credit approval procedures and controls

CABEI's key credit policies and credit approval procedures and controls are established by the Board of Directors. CABEI's credit policies establish the framework for lending and the guidelines for credit granting activities. CABEI reviews its credit policies periodically, to assure that they are sufficiently flexible to meet changing conditions within its service area.

Credit policies

CABEI's key credit policies are summarized below:

Public sector loans guarantees. CABEI generally requires a sovereign guarantee in loans to public sector borrowers.

Collateral and covenants for private sector loans.

Financial intermediaries: While CABEI may not require an intermediary financial institution to provide collateral to CABEI at the time of closing of a loan, CABEI reserves the right to require such institution to provide collateral during the life of the loan.

Direct loans: In general, CABEI requires private sector borrowers to provide collateral having a value of at least 100% of the principal amount of the loan. The collateral is generally in the form of fixed assets, and a haircut is assessed pursuant to internal policies and guidelines that take into consideration potential losses and recovery expenses. CABEI also requires that private sector borrowers comply with financial covenants established in the structuring and approval process of the loan.

Additional requirements for direct loans.

- In direct lending to a borrower that is established in a Member Country or a Beneficiary Country, CABEI will generally provide up to 60% of the total cost of the total project investment, provided in each case that at least 30% of such cost is provided in the form of equity.
- CABEI requires that private sector borrowers be organized under the laws of or qualified to do business in the host country and that the loans provided be invested in the Founding Members. CABEI imposes similar requirements with respect to private sector borrowers in Non-Founding Beneficiary Countries; however, the programs, projects or other operations financed in the Beneficiary Country should contribute to the economic and social development and integration of the Founding Members.

Limitations on loans. In accordance with internal policies and guidelines, CABEI excludes from its lending activities loans to finance gaming, the production of war materials, activities that involve any form of forced labor and/or child exploitation or activities that do not comply with CABEI's environmental policy or with the environmental regulations of the host country.

Credit approval procedures and controls

CABEI's credit approval procedures are conducted through its regional offices in each of the five Founding Members. CABEI conducts extensive due diligence on the applicant borrower and the project for which lending is sought. The due diligence covers technical, market, financial, economic, legal, corporate governance, money laundering compliance, social and environmental aspects of the applicant borrower and the project. CABEI also examines the integrity, experience, success record, financial resources, and competence of the project sponsors and management.

Typically, an appraisal team consists of a business officer, a credit officer and legal counsel with knowledge of the legal systems in the respective countries where the project is located. This process entails extensive discussions with the sponsors of the project and a review by CABEI's Evaluation Office, which is responsible for independently

analyzing the project's impact on environmental, social and developmental issues. CABEI's Risk Management division issues a binding opinion of the credit, which is then returned to the regional office.

Upon completion of these discussions, an operations proposal is sent to the Countries and Projects Division Manager for his approval, and then relayed to the Credit Committee, which is comprised of: (i) the Executive Vice President (chair); (ii) the Countries and Projects Division Manger; (iii) the Products and Programs for Development Division Manager; and (iv) the Risk Division Manager. The Credit Committee discusses the operations proposal, and if approved by the Credit Committee, the operations proposal is sent to the President, who submits it to the Board of Directors which then votes to approve the credit. In addition, the President may approve lines of credit which are valued at or below US\$1 million. If the investment is approved, and the conditions from earlier negotiations are satisfied, CABEI and the borrower will enter into an agreement. The funds are disbursed under the terms of the agreement that has been executed by all the parties.

Once funds have been disbursed, CABEI monitors its investments closely, as well as its requirement that all debtors follow best practices on transparency and procurement. CABEI consults periodically with the client and visits the enterprise or project as necessary. In private sector operations, CABEI monitors any information that may materially affect the project or enterprise in which it has invested, including any annual financial statements audited by independent public accountants. CABEI monitors its loans until they are fully repaid.

CABEI uses project ratings that are based on CABEI's Internal Credit Risk Rating System in order to provide a report on the asset quality of CABEI's loans in the private sector, as well as loans granted to public sector borrowers without sovereign guarantee. The rating system adopts international credit standards that require that banks identify repayment risks and manage such risk. CABEI's risk rating system consists of an eight-point scale. On an annual basis, an international and independent risk management consulting firm reviews CABEI's portfolio.

The following items are monitored routinely and are reviewed formally at least twice a year: (1) the overall quality of the portfolio; (2) the impact of significant new events; (3) the risk rating of individual projects; and (4) the levels of specific provisioning for individual projects.

Asset quality

CABEI classifies a loan as overdue whenever payment is not made on its due date. It charges interest on the overdue payment from the due date and immediately suspends disbursements on all loans to the borrower or guarantor that is in arrears on a loan from or a guarantee to CABEI. The entire principal amount of a loan is placed in non-accrual status when collection or recovery is doubtful as determined by the Countries and Projects Division or when any payment, including principal, interest, fees or other charges in respect of the loan, is more than 90 days overdue, in the case of a loan to a private sector borrower, or more than 180 days overdue, in the case of a loan to a public sector borrower. Interest and other charges on non-accrual loans are included in income only to the extent that payments have actually been received by CABEI.

At December 31, 2010, the total principal amount of CABEI's overdue loans (including overdue principal of non-accrual loans) was US\$47.901 million, or 0.99% of CABEI's loans receivable at that date, compared to US\$33.916 million, or 0.78% of CABEI's loans receivable at December 31, 2009 and US\$17.676 million, or 0.41% of CABEI's loans receivable, at December 31, 2008.

At December 31, 2010, the total principal amount of CABEI's non-accrual loans was US\$155.264 million, or 3.21% of CABEI's loans receivable at that date, compared to US\$127.411 million, or 2.92% of CABEI's loans receivable at December 31, 2009 and US\$25.909 million, or 0.60% of CABEI's loans receivable, at December 31, 2008. In Fiscal 2010, US\$12.878 million of overdue interest and other charges in respect of non-accrual loans was excluded from CABEI's interest income compared to US\$8.163 million for Fiscal 2009 and US\$7.564 million for Fiscal 2008. In Fiscal 2010, CABEI wrote off US\$18.351 million of loans compared to US\$8.533 million in Fiscal 2009, all of which were made to private sector borrowers. In Fiscal 2008, CABEI did not write off any loans.

The following table shows CABEL's loans receivable, overdue loan principal, non-accrual loans, loans written off, allowance for loan losses and the percentage which each of them represents of CABEL's loans receivable at December 31, 2010, 2009 and 2008.

Loans receivable, non-accrual loans and others

| | Fiscal year ended December 31, | | |
|---|--|-----------|-----------|
| | 2010 | 2009 | 2008 |
| | (in thousands of U.S. dollars except percentages) | | |
| Loans receivable | 4,837,994 | 4,363,773 | 4,315,027 |
| Overdue loan principal | 47,901 | 33,916 | 17,676 |
| Non-accrual loans | 155,264 | 127,411 | 25,909 |
| Loans written off (Net) | 18,351 | 8,533 | - |
| Allowance for loan losses | 200,277 | 203,198 | 162,277 |
| Overdue loan principal as a percentage of loans receivable | 0.99% | 0.78% | 0.41% |
| Non-accrual loans as a percentage of loans receivable | 3.21% | 2.92% | 0.60% |
| Loans written off as a percentage of loans receivable | 0.38% | 0.20% | 0.00% |
| Allowance for loan losses as a percentage of loans receivable | 4.14% | 4.66% | 3.76% |

The following tables show the changes of CABEL's allowance for loan losses for the fiscal years ended December 31, 2010, 2009 and 2008.

| | Fiscal year ended December 31, | | | | | | | | |
|--------------------------------------|---------------------------------------|---------|----------|----------|----------|----------|---------|---------|----------|
| | 2010 | | | 2009 | | | 2008 | | |
| | Sector | | Total | Sector | | Total | Sector | | Total |
| Private | Public | Private | | Public | Private | | Public | | |
| | (in thousands of U.S. dollars) | | | | | | | | |
| At beginning of fiscal year | 118,157 | 85,041 | 203,198 | 70,772 | 91,505 | 162,277 | 60,160 | 80,281 | 140,441 |
| Recoveries | (40,362) | (4,942) | (45,304) | (11,238) | (20,700) | (31,938) | (9,557) | (6,190) | (15,747) |
| Loans written off, net | (18,351) | - | (18,351) | (8,533) | - | (8,533) | - | - | - |
| Provision (credit) of the year | 43,941 | 16,793 | 60,734 | 67,156 | 14,236 | 81,392 | 20,169 | 17,414 | 37,583 |
| At fiscal year end | 103,385 | 96,892 | 200,277 | 118,157 | 85,041 | 203,198 | 70,772 | 91,505 | 162,277 |

Capital Adequacy and Leverage

CABEL believes it has a strong capital base, with a risk adjusted capital ratio (Bank for International Settlements ("BIS") methodology) of 37.40% at December 31, 2010.

CABEL's equity at December 31, 2010 was US\$1.928 billion, or 29.82% of total assets, compared to US\$1.812 billion at December 31, 2009, or 31.37% of total assets and US\$1.708 billion at December 31, 2008, or 31.34% of total assets. CABEL believes that its capital levels provide a substantial cushion against unforeseen losses. Additionally, CABEL's capital base is in U.S. dollars and not the local currencies of its Member Countries. Historically, Member Countries were allowed to contribute capital in local currencies *provided* that the value was maintained in U.S. dollar terms. However, since October 23, 2002, any new capital contributions, including

amounts required to be made as a result of a call on callable capital, must be made in U.S. dollars. Therefore, CABEL's capital base does not suffer from any depreciation associated with the Central American currencies.

CABEL's policies require that its equity represent at least 35% of its total risk weighted assets (defined in accordance with BIS methodology). Central American risk (including but not limited to CABEL's entire loan portfolio) is weighted at 100% for the purposes of this calculation, a requirement that is stricter than BIS requirements. At December 31, 2010, this ratio stood at 37.40% compared to 39.27% at December 31, 2009 and 38.34% at December 31, 2008, and reflected the high level of low risk-weighted assets in which CABEL maintains its liquidity. Like most other multilateral institutions and pursuant to its Constitutive Agreement, CABEL does not pay dividends.

Litigation

CABEL is involved in routine litigation and other proceedings in the ordinary course of business. CABEL does not believe that the proceedings pending against it are likely to have a material adverse effect on its business or results of operations.

Employees

The following table sets forth the number of employees (including management) and independent contractors employed by CABEL at December 31, 2010, 2009 and 2008.

Employees and Independent Contractors

| | December 31, | | |
|------------------------------|---------------------|--------------------|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Employees | 290 | 279 | 304 |
| Independent contractors..... | 28 | 32 | 19 |

CABEL's management believes that the salaries and other benefits of its professional staff are competitive and that the local support staff is paid at levels above the prevailing local rates. Although CABEL is not subject to local labor laws, it provides its employees with benefits and safeguards at least equivalent to those required under the law of the country where they normally work and reside. CABEL offers technical and professional training opportunities through courses and seminars in the Founding Members and abroad for its employees. Management considers its relationship with CABEL's employees to be good. There is no employee union and there have been no strikes in the history of CABEL.

MANAGEMENT

Board of Governors

Under the Constitutive Agreement, CABEI is governed by its Board of Governors. Each Member Country is entitled to appoint one Governor and an alternate who acts in place of the relevant Governor in his or her absence. All of CABEI's powers are vested in its Board of Governors.

The following table lists the members of the Board of Governors as of the date hereof.

Board of Governors

| <u>Appointed by</u> | <u>Name and Title</u> | <u>Position in Nominating Country</u> |
|----------------------------|--|---|
| Guatemala | Governor: Alfredo del Cid Pinillos | Minister of Public Finance |
| | Alternate: Luis Antonio Velásquez | Minister of Economy |
| El Salvador | Governor: Carlos Enrique Cáceres Chávez | Minister of Treasury |
| | Alternate: Héctor Dada Hirezi | Minister of Economy |
| Honduras | Governor: William Chong Wong | Minister of Finance |
| | Alternate: María Elena Mondragón Ordóñez | President of the Central Bank of Honduras |
| Nicaragua | Governor: Alberto José Guevara | Minister of Treasury and Public Credit |
| | Alternate: Antenor Rosales Bolaños | President of the Central Bank of Nicaragua |
| Costa Rica | Governor: Fernando Herrero Acosta | Minister of Treasury |
| | Alternate: Rodrigo Bolaños Zamora | President of the Central Bank of Costa Rica |
| Mexico | Governor: Ernesto Javier Cordero Arroyo | Secretary of Treasury and Public Credit |
| | Alternate: Gerardo Rodríguez Regordosa | Under-Secretary of Treasury and Public Credit |
| Republic of China (Taiwan) | Governor: Fai-Nan Perng | Governor of the Central Bank of the Republic of China |
| | Alternate: Ming-Chung Tseng | Administrative Vice-Minister of the Ministry of Finance |
| Argentina | Governor: Amado Boudou | Minister of Economy and Finance |
| | Alternate: Mercedes Marcó del Pont | President of the Central Bank of Argentina |
| Colombia | Governor: Juan Carlos Echeverry Garzón | Minister of Treasury and Public Credit |
| | Alternate: Rodrigo Suescun Melo | Technical Vice-Minister of the Ministry of Treasury and Public Credit |
| Spain | Governor: Elena Salgado Méndez | Minister of Treasury |
| | Alternate: José Manuel Campa Fernández | Secretary of Economy |

| <u>Appointed by</u> | <u>Name and Title</u> | <u>Position in Nominating Country</u> |
|------------------------|-------------------------------------|--|
| The Dominican Republic | Governor: Daniel Toribio | Secretary of Treasury |
| | Alternate: Héctor Valdez Albizu | Governor of the Central Bank of the Dominican Republic |
| Panama | Governor: Alberto Vallarino Clément | Minister of Economy and Finance |
| | Alternate: Frank de Lima Gercich | Vice-Minister of Economy |

The Board of Governors has elected Mr. Alfredo del Cid Pinillos to serve as President of the Board of Governors from June 2011 until the next Board of Governors' ordinary meeting which is expected to take place during the first half of 2012.

The Board of Directors is responsible for setting the policies and directing the business of CABEL. The Board of Directors consists of one Director from each Founding Member country and, pursuant to the terms of the Constitutive Agreement, up to four Directors elected by the Governors of the Non-Regional Members. The Directors from both the Founding Members and the Non-Regional Members are elected for three-year terms. Directors are full-time employees of CABEL.

The following table sets forth as of the date hereof the names of the members of the Board of Directors appointed by each Member Country:

Board of Directors

| <u>Appointed by</u> | <u>Name</u> |
|--|---------------------------------------|
| Guatemala | Erick Haroldo Coyoy Echeverria |
| El Salvador | Guillermo Enrique Funes Cartagena |
| Honduras | Tania Joselina Lobo Alonzo |
| Nicaragua | Silvio Conrado Gómez |
| Costa Rica | Jorge Walter Bolaños |
| Mexico and Panama (Director) | David Topete Salmorán |
| Mexico and Panama (Alternate Director) | Alcibiades García Vega |
| Republic of China (Taiwan) | Li-chien Kuo |
| Spain | Victor Suanzes Fernández de Salamanca |
| Argentina and Colombia (Director) | Victor Eduardo Fabiano |
| Argentina and Colombia (Alternate Director) | Alonso Acosta Osío |

Management

Pursuant to the Constitutive Agreement, the Board of Governors appoints an Executive President for a five-year term. The Executive President is elected on the basis of a competitive process for a five-year term and may be reelected for one additional five-year term. The Executive President nominates an Executive Vice President for appointment by the Board of Directors. While the Executive President is required to be a citizen of a Founding Member, the Executive Vice President need not be a citizen of a Founding Member. The Executive President and the Executive Vice President are required to be of different nationalities. The Executive President appoints the balance of CABEL's senior management.

Pursuant to Article 15 of the Constitutive Agreement, the Board of Directors created the following five divisions to manage CABEL⁽¹⁾, each of which is or is to be headed by a manager appointed by the Executive President subject to the approval of the Board of Directors:

Financial Division;
Countries and Projects Division;
Products and Programs for Development Division;
Risk Division; and
Operations and Technology Division.

(1) On June 24, 2009, CABEL's Board of Directors approved a new basic structure that consists of the five divisions stated above.

CABEL's regional offices in the Founding Member countries report through the Manager of the Countries and Projects Division to the Executive President, while the Office of the General Legal Counsel, the Chief Economist's Office, the Institutional Relations Department and the Human Resources Department report directly to the Executive President.

In addition to the divisions and departments described above, CABEL also has an Internal Auditing Department that reports directly to the Board of Directors and a Comptroller who reports directly to the Board of Governors.

The following table sets forth the names and titles of certain members of CABEL's management as of the date hereof.

| <u>Name</u> | <u>Position</u> |
|----------------------------|-----------------------------------|
| Nick Rischbieth Glöe | Executive President |
| Alejandro Rodríguez Zamora | Executive Vice President |
| Hernán Danery Alvarado | Financial Manager |
| Jorge Mario Soto Balcárcel | Operations and Technology Manager |
| Lizzeth Villatoro de Soto | General Legal Counsel |

In addition to the management positions listed above, the management team also includes the position of Products and Programs for Development Manager and Risk Division Manager, each of which is currently in the process of being filled.

Set forth below is a brief biographical description of certain of CABEL's executives.

Nick Rischbieth Glöe was appointed as Executive President of CABEL, commencing on December 1, 2008. He received his bachelor's degree in economics from Rice University, a master's degree in business administration from Washington University, and a doctorate in finance from the Institute of Money and Capital Markets, University

of Hamburg, Germany. Prior to joining CABEI, Mr. Rischbieth was vice-president in the new issues and underwriting division and, subsequently, in the international financial markets division of Dresdner Bank AG, Frankfurt. Prior to his appointment as Executive President, Mr. Rischbieth was CABEI's Acting Executive President, Executive Vice-President, Chief Financial Officer and Treasurer. Mr. Rischbieth is a member of several boards of open-end investment funds.

Alejandro Rodríguez Zamora was appointed as Executive Vice-President on January 18, 2010. He received his graduate degree in law from the University of Costa Rica and a masters of law in common law studies (LLM) from Georgetown University Law Center. Prior to joining CABEI, Mr. Rodríguez worked as General Legal Counsel of the Costa Rican Stock Exchange. Prior to his appointment as Executive Vice-President, Mr. Rodríguez was CABEI's General Legal Counsel. Since 1999, Mr. Rodríguez has been a member of the Board of Directors of the CABEI Central American Fund, a limited liability open-end investment company incorporated in Ireland. In addition, since 2004, Mr. Rodríguez has been a member of the Board of Directors of the North American Income Fund, a limited liability open-end investment company incorporated in Ireland.

Hernán Danery Alvarado was appointed as Chief Financial Officer of CABEI on February 1, 2009. He received his bachelor's degree in Accounting from Universidad Nacional Autónoma de Honduras, a master's degree in Business Administration from Universidad Católica de Honduras. Prior to become CFO, Mr. Alvarado was Chief of Asset and Liability Management in the Financial Division of CABEI. Prior to his appointment as Chief Financial Officer, Mr. Alvarado was CABEI's Acting Chief Financial Officer.

Lizzeth Villatoro de Soto was appointed as General Legal Counsel of CABEI on December 1, 2010. She received her law degree and master's degree in Business Law from Universidad Nacional Autónoma de Honduras. She also holds a Legal Letters Masters Degree (LL.M) in Intellectual Property from the University of Torino, Italy, in conjunction with the World Intellectual Property Organization, and a Post-graduate Degree in Legal Aspects of International Business from the INCAE-Georgetown University. Prior to joining CABEI, Ms. Villatoro was the Legal Director and Corporate Secretary of Grupo Financiero HSBC Honduras.

Jorge Mario Soto Balcárcel was appointed as Operations and Technology Manager on June 20, 2011. He received his Bachelor's Degree in Information Systems Management from the Universidad de Francisco Marroquín de Guatemala. Mr. Balcárcel also holds a Masters Degree in Business Administration from INCAE Business School in Managua, Nicaragua. Prior to joining CABEI, he held the positions of E-Business Manager, Technology Manager and Special Projects Manager of Grupo Financiero G&T Continental in Guatemala. He also worked as General Manager of Engage, a banking software developer company from the Grupo Financiero G&T Continental.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the applicable Final Terms, will be applicable to and, subject further to simplification by deletion of non-applicable provisions, will be attached to or endorsed on, the Notes in global form and the Notes in definitive form (if any) issued in exchange for the relevant Global Note(s), details of the relevant Notes being shown on the relevant Notes and in the applicable Final Terms.

The Final Terms relating to each Note will describe the following items (each term is as defined herein or in the Fiscal Agency Agreement): (i) the Specified Currency with respect to such Note (and, if such Specified Currency is other than U.S. dollars, certain other terms relating to such Note); (ii) the price (expressed as a percentage of the principal amount thereof) at which such Note will be issued; (iii) the date on which such Note will be issued; (iv) the date on which such Note will mature; (v) whether such Note is a Fixed Rate Note or a Floating Rate Note; (vi) if such Note is a Fixed Rate Note, the rate per annum at which such Note will bear interest, if any, and the interest payment date or dates; (vii) if such Note is a Floating Rate Note, the Interest Rate Basis for such Floating Rate Note, which will be such interest rate formula as is set forth in such Final Terms, and, if applicable, the Calculation Agent, the Index Maturity, the Spread or Spread Multiplier, the Maximum Rate, the Minimum Rate, the Initial Interest Rate, the Interest Payment Dates, the Regular Record Dates, the Calculation Dates, the Interest Determination Dates and the Interest Reset Dates with respect to such Floating Rate Note; (viii) whether such Note is an Original Issue Discount Note, and if so, the yield to maturity; (ix) whether such Note is an Indexed Note, and if so, the principal amount thereof payable at maturity, or the amount of interest payable on an interest payment date, as determined by reference to any applicable index, in addition to certain other information relating to the Indexed Note; (x) whether such Note may be redeemed at the option of CABEI or repaid at the option of the Holder, prior to Stated Maturity and, if so, the provisions relating to such redemption or repayment; and (xi) any other terms of such Note not inconsistent with the provisions of the Fiscal Agency Agreement.

(1) General

This Note is one of a duly authorized issue of Medium-Term Notes issued and to be issued pursuant to a Fiscal Agency Agreement, dated as of April 2, 2003, as amended (the “Fiscal Agency Agreement”), among CABEI and Deutsche Bank Trust Company Americas, as Fiscal Agent, Registrar, Transfer Agent (“Fiscal Agent”, “Registrar” and “Transfer Agent”, which terms include any successor as Fiscal Agent or Registrar or Transfer Agent under the Fiscal Agency Agreement), and Paying Agent in New York, Deutsche Bank Luxembourg S.A. as Paying Agent and Transfer Agent in Luxembourg and Deutsche Bank AG London as Paying Agent and Transfer Agent in London. These Terms and Conditions, as amended or supplemented by the provisions contained in the applicable Final Terms, are fully incorporated into this Note by reference and shall for all purposes have the same effect as if set forth herein. Terms used but not defined herein shall have the meanings assigned to them in the Fiscal Agency Agreement, and such defined terms are incorporated herein by reference. Copies of the Fiscal Agency Agreement are available for inspection at the principal office of the Fiscal Agent at Deutsche Bank Trust Company Americas, Corporate Trust & Agency Services, 60 Wall Street, MS# NYC03-0914, New York, New York 10005 (the “Corporate Trust Office”), and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, at the office of the Paying Agent hereinafter named in Luxembourg. The Holders (as defined in Section 3 hereof) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement that are applicable to them. Unless the context otherwise requires, references in these Terms and Conditions to the “Notes” apply generally to the Notes and, to the extent not inconsistent with the applicable Final Terms, this Note.

Notes may be issued under the Fiscal Agency Agreement from time to time in separate series (each such series of Notes being hereinafter referred to as a “Series” or the “Notes of a Series”). The Notes of each Series will have identical terms (except for the issue date, the issue price or the first interest payment date), including, but not limited to, terms with respect to currency, denomination, interest rate, interest payment dates and maturity, except that each Series may include Registered Notes (as herein defined) and Bearer Notes (as herein defined). The Notes of all Series are limited to an aggregate initial principal amount of US\$2,500,000,000 (or its equivalent in another currency or composite currency), subject to increase by CABEI as provided in the Fiscal Agency Agreement if in

the future it so determines for any reason. Except for such aggregate limit, there is no limit on the amount of Notes that may be issued in any particular Series.

CABEI may, in its discretion, sell additional notes from time to time in one or more offerings (the “Additional Notes”). Any Additional Notes issued by CABEI will be part of the same series as the Notes. The Notes and the Additional Notes will have the same ranking, interest rate, maturity and other terms and will be treated as a single series of notes under the Fiscal Agency Agreement. The Additional Notes will be fungible for trading purposes with, and will bear the same Common Code and ISIN Number, as the Notes.

This Note will mature on the date specified in the applicable Final Terms (“Stated Maturity”). Upon the Stated Maturity, CABEI will be required to repay 100% of the outstanding principal amount thereof (or, in the case of Zero Coupon Notes, Original Issue Discount Notes, Currency Indexed Notes or Indexed Notes, 100% of the amount due and payable upon maturity), unless the applicable Final Terms with respect to such Notes otherwise specifies.

This Note is denominated in either U.S. dollars or in such other currency or composite currency (“Specified Currency”) as may be specified on the face hereof and in the applicable Final Terms. Notes denominated in a Specified Currency other than the U.S. dollar are hereinafter referred to as “Foreign Currency Notes”. Purchasers of Notes are required to pay for such Notes by delivery of the requisite amount of the Specified Currency to an Agent, unless other arrangements have been made. Unless otherwise specified in the applicable Final Terms, payments on each Foreign Currency Note (other than Notes held through DTC with respect to which certain elections have not been made) will be made in the applicable Specified Currency in the country issuing the Specified Currency (or, in the case of euro, in a city in which banks have access to the TARGET System (as herein defined)), *provided* that, at the election of the holder thereof and in certain circumstances at the option of CABEI, payments on a Foreign Currency Note may be made in U.S. dollars.

Notes are sold in individual issues of Notes having such interest rate or interest rate formula, if any, Stated Maturity and date of original issuance as shall be set forth in the applicable Final Terms.

Unless otherwise indicated in the applicable Final Terms, this Note, unless it is a Zero Coupon Note, Currency Indexed Note or Indexed Note, will bear interest at a fixed rate or at a rate (the “Base Rate”) determined by reference to the Commercial Paper Rate, the Prime Rate, LIBOR, the Treasury Rate, the CD Rate or the Federal Funds Rate, as adjusted by the Spread and/or Spread Multiplier (each as defined in Section 4 hereof), if any, applicable to such Note, or any other rate as set forth in the applicable Final Terms. This Note has been issued as a Zero Coupon Note if so indicated in the applicable Final Terms. A Zero Coupon Note is a Note that is issued at a discount from the principal amount payable at maturity thereof and which will not bear interest, unless otherwise specified in the Final Terms.

This Note has been issued as an Original Issue Discount Note if so indicated in the applicable Final Terms. In general, an Original Issue Discount Note is a Note, including any Zero Coupon Note, that is issued at a price lower than the principal amount thereof, and which provides that upon redemption or acceleration of the maturity thereof, the amount payable to the Holder of such Note will be determined in accordance with the terms of such Note, but will be an amount that is less than the amount payable at the Stated Maturity of such Note.

This Note may be issued as a Currency Indexed Note, the principal amount of which is payable at or prior to maturity and any interest on which and/or any premium on which will be determined by the difference between the currency or composite currency in which such Note is denominated and another currency or composite currency or by reference to any currency index or indices, in each case as set forth in the applicable Final Terms. This Note may also be issued as other (non-Currency) Indexed Notes, the principal amount of which is payable at or prior to maturity, any interest on which and/or any premium on which will be determined by reference to the difference in the prices of specified securities, commodities or interest rates or securities, commodities, interest rates or other indices, in each case as set forth in the applicable Final Terms.

Unless otherwise specified in the applicable Final Terms, this Note will not be redeemable prior to maturity at the option of CABEI. Unless otherwise specified in the applicable Final Terms, this Note will not be repayable prior to maturity at the option of the Holder of the Note.

(2) Form, Denomination and Registration

Notes may be issued in registered form without interest coupons (“Registered Notes” or a “Registered Note”) or in bearer form, with or without interest coupons (“Bearer Notes” or a “Bearer Note”) as specified in the applicable Final Terms.

Except as otherwise specified in the applicable Final Terms and with respect to Notes denominated in Japanese ¥, Registered Notes may be issued only in minimum denominations of (i) if denominated in U.S. dollars, US\$10,000 and integral multiples of US\$1,000 in excess thereof or (ii) if denominated other than in U.S. dollars, the amount of the Specified Currency for such Note equivalent to US\$10,000 and integral multiples of US\$1,000 in excess thereof, at the noon buying rate in The City of New York for cable transfers in such Specified Currency certified by the Federal Reserve Bank of New York or, in the event the Federal Reserve Bank of New York does not certify a noon buying rate for such Specified Currency, at the rate quoted or published by the relevant central bank as the rate for buying such Specified Currency (or, in the case of euro, the European Central Bank Frankfurt).

Bearer Notes may be issued in denominations as specified in the applicable Final Terms.

Unless otherwise permitted by then current laws, regulations and directives, Notes denominated in Japanese ¥ will be in minimum denominations of ¥1,000,000.

CABEI will at all times, for as long as any Notes are outstanding, appoint and maintain one or more Paying Agents (any of which may be the Fiscal Agent), each of which will be authorized in writing by CABEI to pay the principal of (and premium, if any) or interest on any Note on behalf of CABEI and will have an office or agency (a “Paying Agency Office”) in a specified city (a “Place of Payment”) where the Notes may be presented or surrendered for payment and where notices, designations or requests in respect of payments with respect to the Notes may be served (*provided* that interest on any Bearer Note shall be payable only outside the United States and its possessions, as defined under Section 5 below). CABEI reserves the right to vary or terminate the appointment of any Paying Agent or to appoint additional or other Paying Agents or to approve any change in the office through which any Paying Agent acts, *provided* that for so long as any Notes are outstanding, there shall at all times be a Paying Agency Office in Western Europe (which, for so long as any Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, shall include an office or agency in Luxembourg) and for so long as any Registered Notes are outstanding, there shall at all times be a Paying Agency Office in The City of New York.

CABEI shall maintain for so long as any Notes are outstanding transfer agents (each, a “Transfer Agent”) where the Notes may be surrendered for registration of transfer or exchange. CABEI has initially appointed the Corporate Trust Office of the Fiscal Agent in The City of New York, the London office of the Fiscal Agent and the Luxembourg Paying Agent as its Transfer Agents. CABEI shall cause each Transfer Agent to act as a Notes registrar and shall cause to be kept at the office of each Transfer Agent a register in which, subject to such reasonable regulations as it may prescribe, CABEI shall provide for the registration of Notes and registration of transfers and exchanges of Notes. CABEI reserves the right to vary or terminate the appointment of any Transfer Agent or to appoint additional or other Transfer Agents or to approve any change in the office through which any Transfer Agent acts, *provided* that for so long as any Notes are outstanding there shall at all times be a Transfer Agent in Western Europe (which, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange shall so require, shall include an office or agency in Luxembourg), and, for so long as any Registered Notes are outstanding, there shall at all times be a Transfer Agent in The City of New York.

(3) Transfer; Exchange

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, the transfer of a Registered Note is registrable on the aforementioned registers upon surrender of such Note at any Transfer Agent duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to CABEI duly executed by, the registered Holder thereof or his attorney duly authorized in writing. Upon such surrender of such Note for registration of transfer, CABEI shall execute, and the Fiscal Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes, dated the date of authentication thereof, of any authorized denominations and of a like aggregate principal amount.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the registered Holder upon request confirmed in writing, Registered Notes of a Series may be exchanged for Registered Notes of such Series of any authorized denominations and of a like tenor, form and aggregate principal amount upon surrender of the Registered Notes to be exchanged at the office of any Transfer Agent. Whenever any Registered Notes are so surrendered for exchange, CABEI shall execute, and the Fiscal Agent shall authenticate and deliver, the Registered Notes that the registered Holder making the exchange is entitled to receive. Any registration of transfer or exchange will be effected upon the Transfer Agent or the Fiscal Agent, as the case may be, being satisfied with the documents of title and identity of the person making the request and subject to such reasonable regulations as CABEI may from time to time agree with the Transfer Agents and the Fiscal Agent.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the Holder of a Bearer Note, Bearer Notes of a Series may be exchanged for Bearer Notes of such Series of any authorized denominations and of a like aggregate principal amount, tenor and form and upon surrender of the Notes to be exchanged, together with all unmatured Coupons and all matured Coupons in default appertaining to such Note, at the office of any Transfer Agent in Western Europe. If the Holder of a Bearer Note is unable to produce any such unmatured Coupon or Coupons or matured Coupon in default, such exchange may be effected if the Bearer Notes are accompanied by payment in funds acceptable to CABEI in an amount equal to the face amount of such missing Coupon or Coupons, or the surrender of such missing Coupon or Coupons may be waived in writing by CABEI and the Fiscal Agent if there be furnished to them such security or indemnity as they may require to save each of them and each other agent of CABEI hereunder harmless. Whenever any Notes are so surrendered for exchange, CABEI shall execute, and the Fiscal Agent shall authenticate and deliver, the Notes that the Holder making the exchange is entitled to receive. Any exchange will be subject to such reasonable regulations as CABEI may from time to time agree with the Transfer Agents and the Fiscal Agent.

Subject to the restrictions set forth herein and in the Fiscal Agency Agreement, at the option of the Holder of a Bearer Note upon request confirmed in writing, Bearer Notes may be exchanged for Registered Notes of any authorized denominations and of a like aggregate principal amount and tenor upon surrender of the Bearer Notes to be exchanged, together with all unmatured Coupons and all matured Coupons in default appertaining thereto, at the office of any Transfer Agent in Western Europe. If the Holder of a Bearer Note is unable to produce any such unmatured Coupon or Coupons or matured Coupons in default, such exchange may be effected if the Bearer Notes are accompanied by payment in funds acceptable to CABEI in an amount equal to the face amount of such missing Coupon or Coupons, or the surrender of such missing Coupon or Coupons may be waived in writing by CABEI and the Fiscal Agent if there be furnished to them such security or indemnity as they may require to save each of them and each other agent of CABEI hereunder harmless. Notwithstanding the foregoing, if a Bearer Note is surrendered in exchange for a Registered Note (i) after the close of business on the Regular Record Date (as herein defined) next preceding an Interest Payment Date and before the opening of business on such Interest Payment Date, or (ii) after the close of business on any special record date for the payment of defaulted interest and before the opening of business on the relevant proposed date of payment of such defaulted interest, such Bearer Notes shall be surrendered without the Coupon relating to such Interest Payment Date or proposed date of payment, as the case may be, and the interest payable on such Interest Payment Date or proposed date of payment shall not be payable in respect of the Registered Note issued in exchange for such Bearer Note, but will be payable only to the Holder of such Coupon upon presentation and surrender thereof when due.

Registered Notes may not be exchanged for Bearer Notes.

In the event of a redemption of the Notes of a Series in part, CABEI shall not be required (i) to register the transfer of or exchange of any Note of such Series during a period beginning at the opening of business 15 days before, and continuing until, the date notice is given identifying the Notes to be redeemed, or (ii) to register the transfer of or exchange of any Notes of such Series, or portion thereof, called for redemption except the unredeemed portion of any Note redeemed in part.

All Notes of a Series issued upon any registration of transfer or exchange of Notes shall be the valid obligations of CABEI, evidencing the same debt, and entitled to the same benefits, as the Notes surrendered upon such registration of transfer or exchange. No service charge shall be made for any registration of transfer or exchange, but CABEI may require payment of a sum sufficient to cover any tax or other governmental charge

payable in connection therewith, other than an exchange in connection with a partial redemption of a Note not involving any registration of transfer.

Title to Bearer Notes and Coupons shall pass by delivery. CABEL, the Fiscal Agent and any agent of CABEL or the Fiscal Agent may treat the Holder of a Bearer Note, the Holder of a Coupon and, prior to due presentment of a Registered Note for registration of transfer, the person in whose name a Registered Note is registered as the absolute owner thereof for all purposes, whether or not such Note or Coupon be overdue, and neither CABEL, the Fiscal Agent nor any such agent of either shall be affected by notice to the contrary.

For all purposes under the Notes and the Fiscal Agency Agreement, the “Holder” of any Note is the person in whose name such Note is registered, in the case of a Registered Note, or the bearer of such Note, in the case of a Bearer Note.

(4) Interest Rate

Unless otherwise specified in the applicable Final Terms, each Note, other than a Zero Coupon Note, will bear interest from its date of issue or from the most recent Interest Payment Date (or, if such Note is a Floating Rate Note and the Interest Reset Period is daily or weekly, from the calendar day following the most recent Regular Record Date) to which interest on such Note has been paid or duly provided for at the fixed rate per annum, or at the rate per annum determined pursuant to the interest rate formula, stated therein and in the applicable Final Terms until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at maturity as specified under “Payment of Principal and Interest”.

Each Note, other than a Zero Coupon Note, will bear interest at either (i) a fixed rate (a “Fixed Rate Note”) or (ii) a variable rate determined by reference to an interest rate basis (a “Floating Rate Note”), which may be adjusted by adding or subtracting the Spread and/or multiplying by the Spread Multiplier (each term as defined below). A Floating Rate Note may also have either or both of the following: (i) a maximum numerical interest rate limitation, or ceiling, on the rate at which interest may accrue during any interest period (a “Maximum Rate”) and (ii) a minimum numerical interest rate limitation, or floor, on the rate at which interest may accrue during any interest period (a “Minimum Rate”). The “Spread” is the number of basis points specified in the applicable Final Terms as being applicable to the interest rate for such Note and the “Spread Multiplier” is the percentage specified in the applicable Final Terms as being applicable to the interest rate for such Note. “Market Day” means any day that is a Business Day in The City of New York and London. Unless otherwise specified in the applicable Final Terms, the term “Business Day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is (i) not a day on which banking institutions in the relevant location generally are obligated by law or executive order to close, and (ii) if this Note is denominated in a Specified Currency other than U.S. dollars, not a day on which banking institutions are authorized or obligated by law or executive order to close in the financial center of the country issuing the Specified Currency (except in the case of euro, in which case “Business Day” shall not include any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (“TARGET”) System is not operating). “Index Maturity” means, with respect to a Floating Rate Note, the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable Final Terms. The calculation agent, which will calculate the interest rate basis with respect to any particular issue of Floating Rate Notes (the “Calculation Agent”), will be specified in the applicable Final Terms.

In addition to any Maximum Rate that may be applicable to any Floating Rate Note pursuant to the above provisions, the interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by U.S. law of general application. Under present New York law the maximum rate of interest is 25% per annum on a simple interest basis, with certain exceptions. The limit may not be applicable to Floating Rate Notes in which US\$2,500,000 or more has been invested.

The applicable Final Terms relating to a Fixed Rate Note will designate a fixed rate of interest per annum payable on such Fixed Rate Note. Interest on Fixed Rate Notes will be paid semi-annually (unless otherwise specified in the applicable Final Terms) and at maturity.

The applicable Final Terms relating to a Floating Rate Note will designate an interest rate basis (the “Interest Rate Basis”) for such Floating Rate Note. The Interest Rate Basis for each Floating Rate Note will be:

(i) the Commercial Paper Rate, in which case such Note will be a Commercial Paper Rate Note; (ii) the Prime Rate, in which case such Note will be a Prime Rate Note; (iii) LIBOR, in which case such Note will be a LIBOR Note; (iv) the Treasury Rate, in which case such Note will be a Treasury Rate Note; (v) the CD Rate, in which case such Note will be a CD Rate Note; (vi) the Federal Funds Rate, in which case such Note will be a Federal Funds Rate Note; or (vii) such other interest rate formula as is set forth in such Final Terms. The applicable Final Terms for a Floating Rate Note will specify the Interest Rate Basis and, if applicable, the Calculation Agent, the Index Maturity, the Spread or Spread Multiplier, the Initial Interest Rate, the Maximum Rate, the Minimum Rate, the Interest Payment Dates, the Regular Record Dates, the Calculation Dates, the Interest Determination Dates, the Interest Reset Period and the Interest Reset Dates with respect to such Note (each term as defined herein or in such Note).

The rate of interest on each Floating Rate Note will be reset daily, weekly, monthly, quarterly, semi-annually, annually or otherwise as specified in the applicable Final Terms (each such period, an “Interest Reset Period”). Unless otherwise specified in the applicable Final Terms, the interest reset date (the “Interest Reset Date”) will be, in the case of Floating Rate Notes that reset daily, each Market Day; in the case of Floating Rate Notes (other than Treasury Rate Notes) that reset weekly, the Wednesday of each week; in the case of Treasury Rate Notes that reset weekly, the Tuesday of each week, except as provided below; in the case of Floating Rate Notes that reset monthly, the third Wednesday of each month; in the case of Floating Rate Notes that reset quarterly, the third Wednesday of March, June, September and December; in the case of Floating Rate Notes that reset semi-annually, the third Wednesday of two months of each year that are six-months apart as specified in the applicable Final Terms; and in the case of Floating Rate Notes that reset annually, the third Wednesday of one month of each year as specified in the applicable Final Terms; *provided* that the interest rate in effect from the date of issue to the first Interest Reset Date with respect to a Floating Rate Note will be the Initial Interest Rate (as set forth in the applicable Final Terms). If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Market Day with respect to such Floating Rate Note, the Interest Reset Date for such Floating Rate Note shall be postponed to the next day that is a Market Day with respect to such Floating Rate Note, except that, in the case of a LIBOR Note, if such Market Day is in the next succeeding calendar month, such Interest Reset Date shall be the immediately preceding Market Day.

The Fiscal Agent shall notify the Luxembourg Stock Exchange of the Interest Payment Dates, the applicable interest rate and the amount of interest payable on each Interest Payment Date for Notes of each Series to be listed on such Exchange by no later than (a) in the case of Fixed Rate Notes, the date of the applicable Final Terms or (b) in the case of Floating Rate Notes, the beginning of the relevant Interest Reset Period relating to such Notes.

Unless otherwise specified in the applicable Final Terms, Interest Determination Dates will be as set forth below. The Interest Determination Date pertaining to an Interest Reset Date for (i) a Commercial Paper Rate Note (the “Commercial Paper Rate Interest Determination Date”), (ii) a Prime Rate Note (the “Prime Rate Interest Determination Date”), (iii) a LIBOR Note (the “LIBOR Interest Determination Date”), (iv) a CD Rate Note (the “CD Rate Interest Determination Date”) and (v) a Federal Funds Rate Note (the “Federal Funds Rate Interest Determination Date”) will be the second Market Day preceding such Interest Reset Date. The Interest Determination Date pertaining to an Interest Reset Date for a Treasury Rate Note (the “Treasury Rate Interest Determination Date”) will be the day of the week in which such Interest Reset Date falls on which Treasury Bills would normally be auctioned. Treasury Bills are usually sold at auction on the Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, except that such auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is so held on the preceding Friday, such Friday will be the Treasury Rate Interest Determination Date pertaining to the Interest Reset Date occurring in the next succeeding week. If an auction date shall fall on any Interest Reset Date for a Treasury Rate Note, then such Interest Reset Date shall instead be the first Market Day immediately following such auction date.

Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next Interest Reset Date with respect to such Floating Rate Note.

The Calculation Agent will, for each Interest Period, as soon as practicable after 11:00 A.M. (New York time) on the Interest Determination Date therefor, determine the interest rate therefor and calculate the amount of interest payable on each US\$1,000 (or the equivalent thereof in the Specified Currency) (the “Minimum Multiple”)

face amount of the Notes for such Interest Period. The amount of interest payable in respect of the Notes in the face amount equal to the Minimum Multiple for any Interest Period (the “Interest Amount”) shall be calculated by (A) applying the rate of interest for such Interest Period to the outstanding principal amount of a Note having a face amount equal to the Minimum Multiple, (B) multiplying such amount by the actual number of days in such Interest Period, (C) dividing by 360 and (D) rounding as specified in the following paragraph. Unless otherwise specified in the applicable Final Terms, “Interest Period” means the period beginning on (and including) the date of original issuance of a Note and ending on (but excluding) the first Interest Payment Date thereafter and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date; *provided* that with respect to any overdue amount hereunder, the first Interest Period therefor shall commence on the day on which such amount was due and payable hereunder and end on the seventh calendar day thereafter, and thereafter each Interest Period for such overdue amount shall commence on the date of the expiration of the preceding Interest Period for such amount and end on the date one month thereafter; and *provided further* that, if at least three Business Days prior to the end of any Interest Period for such overdue amount CABEI notifies the Fiscal Agent in writing that CABEI intends to pay such overdue amount on a date prior to the date on which the next succeeding Interest Period for such overdue amount would otherwise end, then the next succeeding Interest Period shall end on the date specified in such notice, provided that such overdue amount is paid on such date.

All percentages resulting from any calculations referred to herein will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward, e.g., 8.763235% (or .08763235) being rounded to 8.76324% (or .0876324), and all U.S. dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upward) or in the case of currencies other than U.S. dollars to the nearest one-hundredth of a unit.

Commercial Paper Rate Notes

Each Commercial Paper Rate Note will bear interest at the interest rates calculated with reference to the Commercial Paper Rate and the Spread and/or Spread Multiplier, if any, specified in such Commercial Paper Rate Note and the applicable Final Terms and will be payable on the dates specified on the face of such Commercial Paper Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a Commercial Paper Rate Interest Determination Date will be the tenth calendar day after such Commercial Paper Rate Interest Determination Date or, if any such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Commercial Paper Rate” means, with respect to any Interest Reset Date, the Money Market Yield (calculated as described below) of the per annum rate (quoted on a bank discount basis) for the relevant Commercial Paper Rate Interest Determination Date for commercial paper having the specified Index Maturity as published by the Board of Governors of the Federal Reserve System in “Statistical Release H.15(519), Selected Interest Rates” or any successor publication of the Board of Governors of the Federal Reserve System (“H.15(519)”) under the heading “Commercial Paper—Nonfinancial”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the Commercial Paper Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be the Money Market Yield of the arithmetic mean of the offered per annum rates (quoted on a bank discount basis), as of 11:00 A.M., New York City time, on such Commercial Paper Rate Interest Determination Date, of three leading dealers of commercial paper in The City of New York selected by the Calculation Agent for commercial paper of the specified Index Maturity placed for an industrial company whose bond rating is “AA”, or the equivalent, from a U.S. nationally recognized rating agency; *provided* that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Commercial Paper Rate with respect to such Interest Reset Date will be the Commercial Paper Rate in effect on such Commercial Paper Rate Interest Determination Date.

“Money Market Yield” shall be a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\frac{D \times 360}{360 - (D \times M)}$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the period for which interest is being calculated.

Prime Rate Notes

Each Prime Rate Note will bear interest at the interest rates calculated with reference to the Prime Rate and the Spread and/or Spread Multiplier, if any, specified in such Prime Rate Note and the applicable Final Terms, and will be payable on the dates specified on the face of such Prime Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a Prime Rate Interest Determination Date will be the tenth day after such Prime Rate Interest Determination Date or, if any such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Prime Rate” means, with respect to any Interest Reset Date, the rate set forth for the relevant Prime Rate Interest Determination Date in H.15(519) under the heading “Bank Prime Loan”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the Prime Rate with respect to such Interest Reset Date will be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the display designated as page “NYMF” on the Reuters Monitor Money Rates Service (or such other page as may replace the NYMF page on that service for the purpose of displaying prime rates or base lending rates of major U.S. banks) (“Reuters Screen NYMF Page”) as such bank’s prime rate or base lending rate as in effect for such Prime Rate Interest Determination Date as quoted on the Reuters Screen NYMF Page on such Prime Rate Interest Determination Date. If fewer than four such rates appear on the Reuters Screen NYMF Page on such Prime Rate Interest Determination Date, the Prime Rate with respect to such Interest Reset Date will be the arithmetic mean of the prime rates or base lending rates (quoted on the basis of the actual number of days in the year divided by 360) as of the close of business on such Prime Rate Interest Determination Date by three major banks in The City of New York selected by the Calculation Agent; *provided* that if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Prime Rate with respect to such Interest Reset Date will be the Prime Rate in effect on such Prime Rate Interest Determination Date.

LIBOR Notes

Each LIBOR Note will bear interest at the interest rates calculated with reference to LIBOR and the Spread and/or Spread Multiplier, if any, specified in such LIBOR Note and the applicable Final Terms, and will be payable on the dates specified on the face of such LIBOR Note and in the applicable Final Terms, unless otherwise specified.

The applicable Final Terms will specify whether LIBOR will be determined on the basis of the rates appearing on the Reuters Screen LIBO Page or Telerate Page 3750 (each as defined below) or another method. If neither LIBOR Reuters (as defined below) nor another method is specified in the applicable Final Terms, LIBOR will be determined as if LIBOR Telerate (as defined below) had been specified. LIBOR with respect to any Interest Reset Date will be determined by the Calculation Agent in accordance with the following provisions:

- (a) On the relevant LIBOR Interest Determination Date, LIBOR will be determined on the basis of the offered rates for deposits in U.S. dollars having the specified Index Maturity, commencing on the second Market Day immediately following such LIBOR Interest Determination Date, that appear as of 11:00 A.M., London time, on such LIBOR Interest Determination Date on (A) the Reuters Screen LIBO Page (“LIBOR Reuters”) or (B) Telerate Page 3750 (“LIBOR Telerate”), as applicable. If the applicable Final Terms specifies LIBOR Reuters and if at least two offered rates appear on the Reuters Screen LIBO Page, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the offered rates as determined by the Calculation Agent. If fewer than two offered rates appear on the Reuters Screen LIBO Page or if no rate appears on Telerate Page 3750, then LIBOR with respect to such Interest Reset Date will be determined as described in (b) below. “Reuters Screen LIBO Page” means the display designated as page “LIBO” on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks). “Telerate Page 3750” means the display designated as page “3750” on the Dow Jones Telerate Service (or such other page as may replace the “3750” page on

that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

- (b) With respect to a LIBOR Interest Determination Date on which fewer than two offered rates for the applicable Index Maturity appear on the Reuters Screen LIBO Page or no rate for the applicable Index Maturity appears on the Telerate Screen Page 3750, as applicable and as described in (a) above, LIBOR will be determined on the basis of the rates at approximately 11:00 A.M., London time, on such LIBOR Interest Determination Date at which deposits in U.S. dollars having the specified Index Maturity are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent commencing on the second Market Day immediately following such LIBOR Interest Determination Date and in a principal amount equal to an amount of not less than \$1,000,000 that in the Calculation Agent's judgment is representative for a single transaction in such market at such time (a "Representative Amount"). The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR with respect to such Interest Reset Date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York City time, on such LIBOR Interest Determination Date by three major banks in The City of New York, selected by the Calculation Agent, for loans in U.S. dollars to leading European banks having the specified Index Maturity commencing on the second Market Day immediately following such LIBOR Interest Determination Date and in a Representative Amount; *provided* that if fewer than three banks selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, LIBOR with respect to such Interest Reset Date will be the LIBOR in effect on such LIBOR Interest Determination Date.

Treasury Rate Notes

Each Treasury Rate Note will bear interest at the interest rates calculated with reference to the Treasury Rate and the Spread and/or Spread Multiplier, if any, specified in such Treasury Rate Note and the applicable Final Terms, and will be payable on the dates specified on the face of such Treasury Rate Note and in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, the "Calculation Date" with respect to a Treasury Rate Interest Determination Date will be the tenth day after such Treasury Rate Interest Determination Date or, if any such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, "Treasury Rate" means, with respect to any Interest Reset Date, the rate for the auction on the relevant Treasury Rate Interest Determination Date of direct obligations of the United States ("Treasury Bills") having the specified Index Maturity as published in H.15(519) under the heading "U.S. Government Securities/Treasury Bills/Auction High" or, if not so published by 3:00 P.M., New York City time, on the relevant Calculation Date, the auction average rate (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) for such auction as otherwise announced by the U.S. Department of the Treasury. In the event that the results of such auction of Treasury Bills having the specified Index Maturity are not published or reported as provided above by 3:00 P.M., New York City time, on such Calculation Date, or if no such auction is held during such week, then the Treasury Rate shall be the rate set forth in H.15(519) for the relevant Treasury Rate Interest Determination Date for the specified Index Maturity under the heading "U.S. Government Securities/Treasury Bills/Secondary Market". In the event such rate is not so published by 3:00 P.M., New York City time, on the relevant Calculation Date, the Treasury Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be a yield to maturity (expressed as a bond equivalent, on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) of the arithmetic mean of the secondary market bid rates as of approximately 3:30 P.M., New York City time, on such Treasury Rate Interest Determination Date, of three primary U.S. government securities dealers in The City of New York selected by the Calculation Agent for the issue of Treasury Bills with a remaining maturity closest to the specified Index Maturity; *provided* that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Treasury Rate with respect to such Interest Reset Date will be the Treasury Rate in effect on such Treasury Rate Interest Determination Date.

CD Rate Notes

Each CD Rate Note will bear interest at the interest rates calculated with reference to the CD Rate and the Spread and/or Spread Multiplier, if any, specified in such CD Rate Note and the applicable Final Terms, and will be payable on the dates specified on the face of such CD Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a CD Rate Interest Determination Date will be the tenth day after such CD Rate Interest Determination Date or, if such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “CD Rate” means, with respect to any Interest Reset Date, the rate for the relevant CD Rate Interest Determination Date for negotiable certificates of deposit having the specified Index Maturity as published in H.15(519) under the heading “CDs (Secondary Market)”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the CD Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be the arithmetic mean of the secondary market offered rates, as of 10:00 A.M., New York City time, on such CD Rate Interest Determination Date, of three leading nonbank dealers of negotiable U.S. dollar certificates of deposit in The City of New York selected by the Calculation Agent for negotiable certificates of deposit of major U.S. money market banks with a remaining maturity closest to the specified Index Maturity in a denomination of US\$5,000,000; *provided* that if fewer than three dealers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the CD Rate with respect to such Interest Reset Date will be the CD Rate in effect on such CD Rate Interest Determination Date.

Federal Funds Rate Notes

Each Federal Funds Rate Note will bear interest at the interest rates calculated with reference to the Federal Funds Rate and the Spread and/or Spread Multiplier, if any, specified in such Federal Funds Rate Note and the applicable Final Terms and will be payable on the dates specified on the face of such Federal Funds Rate Note and in the applicable Final Terms. Unless otherwise indicated in the applicable Final Terms, the “Calculation Date” pertaining to a Federal Funds Rate Interest Determination Date will be the tenth day after such Federal Funds Rate Interest Determination Date or, if such day is not a Market Day, the next succeeding Market Day.

Unless otherwise indicated in the applicable Final Terms, “Federal Funds Rate” means, with respect to any Interest Reset Date, the rate on the relevant Federal Funds Rate Interest Determination Date for Federal Funds as published in H.15(159) under the heading “Federal Funds (effective)”. In the event that such rate is not published prior to 3:00 P.M., New York City time, on the relevant Calculation Date, then the Federal Funds Rate with respect to such Interest Reset Date shall be calculated by the Calculation Agent and shall be the arithmetic mean of the rates, as of 9:00 A.M., New York City time, on such Federal Funds Rate Interest Determination Date, for the last transaction in overnight Federal Funds arranged by each of three leading brokers of Federal Funds transactions in The City of New York selected by the Calculation Agent; *provided* that if fewer than three brokers selected as aforesaid by the Calculation Agent are quoting as mentioned in this sentence, the Federal Funds Rate with respect to such Interest Reset Date will be the Federal Funds Rate in effect on such Federal Funds Rate Interest Determination Date.

(5) Payment of Principal and Interest

For so long as the Fiscal Agent is acting as a Paying Agent hereunder, CABEI shall provide to the Fiscal Agent on or prior to the close of business on the Business Day in New York, New York, prior to each date on which interest, if any, is to be paid (each, an “Interest Payment Date”), any redemption date and the maturity date of the Notes (or, if any such date is not a Market Day, on the Business Day prior to the Market Day next succeeding such date), in immediately available funds such amount as is necessary (with any amounts then held by the Fiscal Agent and available for the purpose) to pay any interest on, the redemption price of and accrued interest (if the redemption date is not an Interest Payment Date) on, and the principal of (and premium, if any, on) the Notes due and payable on such Interest Payment Date, redemption date or maturity date, as the case may be. The Fiscal Agent shall apply the amounts so paid to it to the payment of such interest, redemption price and principal (and premium, if any) in accordance with the terms of the Fiscal Agency Agreement and the Notes.

Any monies paid by CABEI to the Fiscal Agent for the payment of the principal of (or premium, if any) or any interest on any Notes and remaining unclaimed at the end of two years after such principal (or premium, if any) or interest shall have become due and payable (whether at maturity, upon call for redemption or otherwise) shall then be repaid to CABEI along with any interest accrued on such monies, and upon such repayment all liability of the Fiscal Agent with respect thereto shall cease, without, however, limiting in any way any obligation CABEI may have to pay the principal of (and premium, if any) and any interest on this Note as the same shall become due.

Unless otherwise specified in the applicable Final Terms, payments of principal, premium (if any) and any interest on the Notes will be made in the applicable Specified Currency; *provided* that payments of principal, premium (if any) and interest on any Foreign Currency Note will be made in U.S. dollars (i) if such Foreign Currency Note is held in the book-entry settlement system of DTC, (ii) at the option of the Holder thereof under the procedures described in the fourth and fifth paragraphs under this Section 5, and (iii) at the option of CABEI in the case of imposition of exchange controls or other circumstances beyond the control of CABEI as described in the penultimate paragraph under this Section 5.

No payment of principal (or premium, if any) or any interest in respect of a Bearer Note shall be made at an office or agency of CABEI in the United States or its possessions and no check in payment thereof which is mailed shall be mailed to an address in the United States or its possessions, nor shall any transfer made in lieu of payment by check be made to an account maintained by the payee with a bank in the United States or its possessions. Notwithstanding the foregoing, such payments may be made at an office or agency located in the United States or its possessions if such payments are to be made in U.S. dollars and if payment of the full amount so payable at each office of the Fiscal Agent and of each Paying Agent outside the United States and its possessions appointed and maintained pursuant to the Fiscal Agency Agreement is illegal or effectively precluded because of the imposition of exchange controls or other similar restrictions on the full payment or receipt of such amount in U.S. dollars. As used herein, the term "United States" means the United States of America (including the States thereof and the District of Columbia) and its "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

Unless otherwise specified in the applicable Final Terms, and except as provided in the next paragraph, payments of principal, premium (if any) and any interest with respect to any Foreign Currency Note will be made in U.S. dollars if the registered Holder of such Note on the relevant Regular Record Date or at maturity, as the case may be, has transmitted a written request for such payment in U.S. dollars to the Fiscal Agent in New York City on or prior to such Regular Record Date or the date 15 days prior to maturity, as the case may be. Such request may be in writing (mailed or hand delivered) or by facsimile transmission. Any such request made with respect to any Foreign Currency Note by a registered Holder will remain in effect with respect to any further payments of principal, premium (if any) and any interest with respect to such Foreign Currency Note payable to such Holder, unless such request is revoked on or prior to the relevant Regular Record Date or the date 15 days prior to maturity, as the case may be.

The U.S. dollar amount to be received by a Holder of a Foreign Currency Note who elects to receive payment in U.S. dollars or who holds through the book-entry settlement system of DTC will be determined by the Exchange Rate Agent (as defined below) based upon the highest bid quotation in The City of New York received by such Exchange Rate Agent as of 11:00 A.M., New York City time, on the second Business Day next preceding the applicable payment date from three recognized foreign exchange dealers selected by the Exchange Rate Agent (one of which may be the Exchange Rate Agent) for the purchase by the quoting dealer of the Specified Currency for U.S. dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to all holders of Foreign Currency Notes electing to receive U.S. dollar payments or holding through the book-entry settlement system of DTC and at which the applicable dealer commits to execute a contract. If three such bid quotations are not available on the second Business Day preceding the date of payment of principal, premium (if any) or any interest with respect to any Foreign Currency Note, such payment will be made in the Specified Currency. All currency exchange costs associated with any payment in U.S. dollars on any such Foreign Currency Note will be borne by the Holder thereof by deductions from such payment, such currency exchange being effected on behalf of the Holder by the Exchange Rate Agent. The exchange rate agent with respect to any particular issue of Notes (the "Exchange Rate Agent") will be specified in the applicable Final Terms.

Interest with respect to any Registered Notes will be payable to the person in whose name such Note is registered at the close of business on the Regular Record Date next preceding each Interest Payment Date; *provided* that interest payable at maturity will be payable to the person to whom principal shall be payable (which in the case of any U.S. Global Note or International Global Note will be the depository with respect to such Note or a nominee of such depository). The Interest Payment Dates for a Fixed Rate Note will be the dates specified on the face of such Note and in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, the first payment of interest on any Note originally issued between a Regular Record Date and an Interest Payment Date with respect to such Note will be made on the Interest Payment Date following the next succeeding Regular Record Date to the registered owner on such next succeeding Regular Record Date. Unless otherwise indicated in the applicable Final Terms, the “Regular Record Date” with respect to any Registered Note shall be the date 15 calendar days prior to each Interest Payment Date, whether or not such date shall be a Business Day.

Interest with respect to any Global Note will be payable against presentation of the Global Note at the offices of a Paying Agent located outside the United States and its possessions. Each of the persons shown on the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system as being a beneficial owner of an interest in a Global Note must look solely to the relevant clearing system for such beneficial owner’s share of each payment made by CABEI to the bearer of the Global Note.

Interest with respect to any Note in definitive bearer form will be payable against presentation and surrender of the appropriate coupon at the offices of a Paying Agent located outside the United States and its possessions.

Unless otherwise indicated in the applicable Final Terms and except as provided below, interest will be payable, in the case of Floating Rate Notes that reset daily, weekly or monthly, on the third Wednesday of each month (as indicated in the applicable Final Terms); in the case of Floating Rate Notes that reset quarterly, on the third Wednesday of March, June, September and December of each year; in the case of Floating Rate Notes that reset semi-annually, on the third Wednesday of the two months of each year specified in the applicable Final Terms; and in the case of Floating Rate Notes that reset annually, on the third Wednesday of the month specified in the applicable Final Terms, and in each case, at maturity.

Payments of interest on any Fixed Rate Note or Floating Rate Note with respect to any Interest Payment Date will include interest accrued to but excluding such Interest Payment Date; *provided* that, unless otherwise specified in the applicable Final Terms, if the Interest Reset Dates with respect to any Floating Rate Note in registered form are daily or weekly, interest payable on such Note on any Interest Payment Date, other than interest payable on the date on which principal on any such Note is payable, will include interest accrued to but excluding the day following the next preceding Regular Record Date.

With respect to a Floating Rate Note, accrued interest from the date of issue or from the last date to which interest has been paid is calculated by multiplying the face amount of such Floating Rate Note by an accrued interest factor. Such accrued interest factor is computed by adding the interest factor calculated for each day from the date of issue, or from the last date to which interest has been paid to but excluding the date for which accrued interest is being calculated. Unless otherwise specified in the applicable Final Terms, the interest factor (expressed as a decimal) for each such day is computed by dividing the interest rate (expressed as a decimal) applicable to such date by 360, in the case of Commercial Paper Rate Notes, Prime Rate Notes, LIBOR Notes, CD Rate Notes or Federal Funds Rate Notes, or by the actual number of days in the year, in the case of Treasury Rate Notes. Unless otherwise specified in the applicable Final Terms, interest on Fixed Rate Notes will be computed on the basis of a 360-day year of twelve 30-day months.

Unless otherwise specified in the applicable Final Terms, if any Interest Payment Date other than the Maturity Date for any Floating Rate Note would otherwise be a day that is not a Business Day in London and The City of New York, such Interest Payment Date shall be the next day that is a Business Day in London and The City of New York, except that, in the case of a LIBOR Note, if such Business Day is in the next succeeding calendar month, such Interest Payment Date shall be the next preceding Business Day in London and The City of New York. Unless otherwise specified in the applicable Final Terms, if the Maturity Date for any Fixed Rate Note or Floating Rate Note or the Interest Payment Date for any Fixed Rate Note falls on a day which is not a Business Day in London and The City of New York, payment of principal, premium (if any) and interest with respect to such Note

will be paid on the next succeeding Business Day in London and The City of New York with the same force and effect as if made on such date and no interest on such payment will accrue from and after such date.

Payments of principal of (and premium, if any) and any interest due with respect to a Registered Note at maturity to be paid in U.S. dollars shall be made in immediately available funds against surrender of such Note at the Corporate Trust Office of the Fiscal Agent in the Borough of Manhattan, The City of New York or at such other offices or agencies as CABEI may designate and at the offices of such other Paying Agents as CABEI shall have appointed pursuant to the Fiscal Agency Agreement. Payments of interest on such Note to be paid in U.S. dollars other than at maturity shall be made by check mailed on or before the due date of such payment to the person entitled thereto at such person's address appearing on the register of such Note or by wire transfer to an account maintained by the payee with a bank located in the Borough of Manhattan, The City of New York, if such registered Holder so elects by giving written notice to the Fiscal Agent, not less than 15 days (or such fewer days as the Fiscal Agent may accept at its discretion) prior to the date of the payments to be obtained, of such election and of the account to which payments are to be made. Payments of principal of (and premium, if any) or any interest on such Note to be made in U.S. dollars may be made, in the case of a registered Holder of at least the minimum principal amount of such Notes specified in the applicable Final Terms (which minimum amount, if no such minimum is so specified, will be deemed to be US\$1,000,000), by wire transfer to a U.S. dollar account maintained by the payee with a bank in the Borough of Manhattan, The City of New York or in Western Europe, *provided* that such registered Holder so elects by giving written notice to the Fiscal Agent or a Paying Agent designating such account no later than 30 days immediately preceding the relevant interest payment date (or such other date as the Fiscal Agent may accept in its discretion). Unless such designation is revoked, any such designation made by such Holder with respect to such Notes shall remain in effect with respect to any future payments with respect to such Notes payable to such Holder.

Principal of (and premium, if any, on) a Bearer Note shall be payable by check or wire transfer upon presentation and surrender of such Note at an office of a Paying Agent located outside the United States and its possessions, or at such other offices or agencies located outside the United States and its possessions as CABEI shall have appointed for the purpose pursuant to the Fiscal Agency Agreement. Such Paying Agents shall initially be Deutsche Bank AG London in London and Deutsche Bank Luxembourg S.A. in Luxembourg. Interest on such Note shall be payable by check or wire transfer to the Holder of each Coupon appertaining to such Note in the amount determined in accordance with such Coupon, on or after the due date of such payment as set forth in such Coupon, upon presentation and surrender thereof at the offices of the Paying Agents set forth on the reverse of such Coupon or at such other offices or agencies located outside the United States and its possessions as CABEI shall have appointed pursuant to the Fiscal Agency Agreement.

Unless otherwise specified in the applicable Final Terms, payments of interest and principal (and premium, if any) with respect to any Note to be made in a Specified Currency other than U.S. dollars will be made by wire transfer to such account with a bank located in the country issuing the Specified Currency (or, with respect to Notes denominated in euro, in a city in which banks have access to the TARGET System) or other jurisdiction acceptable to CABEI and the Paying Agent as shall have been designated in writing on or prior to the relevant Regular Record Date preceding the Interest Payment Date or 15 days preceding the Stated Maturity, as the case may be, by the Holder (registered Holder, if a Registered Note) of such Note on the relevant Regular Record Date or maturity, *provided* that, in the case of payment of principal, premium (if any) and any interest due at such maturity, the Note (and any Coupons appertaining thereto, if a Bearer Note) is presented to the Paying Agent in time for the Paying Agent to make such payments in such funds in accordance with its normal procedures. Such designation shall be made by filing the appropriate written information with the Paying Agent at the Paying Agency Office in the Place of Payment and, unless revoked in writing, any such designation made with respect to any Note by a Holder (registered Holder, if a Registered Note) will remain in effect with respect to any further payments with respect to such Note payable to such Holder. If a payment with respect to any such Note cannot be made by wire transfer because the required written designation has not been received by the Paying Agent on or before the requisite date or for any other reason, CABEI will cause a notice to be mailed to the Holder of such Note at its registered address requesting a designation pursuant to which such wire transfer can be made and, upon the Paying Agent's receipt of such a written designation, such payment will be made within five Business Days of such receipt. CABEI will pay any administrative costs imposed by banks in connection with making payments by wire transfer but, except as otherwise specified in the applicable Final Terms, any tax, assessment or governmental charge imposed upon payments will be borne by the holders of the Notes in respect of which payments are made.

Unless otherwise specified in the applicable Final Terms, Foreign Currency Notes will provide that, in the event of an official redenomination of the Specified Currency, the obligations of CABEI with respect to payments on such Foreign Currency Notes shall, in all cases, be deemed immediately following such redenomination to provide for payment of that amount of the redenominated Specified Currency representing the amount of such obligations immediately before such redenomination.

All determinations referred to above made by the Exchange Rate Agent shall be at its sole discretion (except to the extent expressly provided herein or in the applicable Final Terms that any determination is subject to approval by CABEI) and, in the absence of manifest error, shall be conclusive for all purposes and binding on holders of the Notes and CABEI, and the Exchange Rate Agent shall have no liability therefor.

Unless otherwise specified in the applicable Final Terms, if the principal of, premium (if any) or interest on any Note is payable other than in U.S. dollars and such Specified Currency is not available for purposes of such payment, due to the imposition of exchange controls or other circumstances beyond the control of CABEI, or is no longer used by the government of the country issuing such currency or for settlement of transactions by public institutions of or within the international banking community, CABEI will be entitled to satisfy its obligations to the Holder of such Note by making such payment in U.S. dollars on the basis of the Exchange Rate for such Specified Currency determined on the second Business Day prior to the applicable payment date or, if the Exchange Rate is then not available, on the basis of the most recently available Exchange Rate. Any payment made under such circumstances in U.S. dollars where the required payment is in other than U.S. dollars will not constitute an Event of Default under the Notes. The applicable Final Terms will identify the Calculation Agent that will calculate the amounts payable with respect to any Currency Indexed Note.

(6) Currency Indexed Notes

CABEI may from time to time offer Notes (“Currency Indexed Notes”), (i) the principal amount of which is payable at or prior to the Stated Maturity, (ii) the amount of interest payable on which and/or (iii) any premium payable with respect to which, are determined by the difference between the rate of exchange of the Specified Currency and the other currency or composite currency specified as the Indexed Currency (the “Indexed Currency”) or by reference to some other currency index or indices, in each case as set forth in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, Holders of Currency Indexed Notes will be entitled to receive a principal amount in respect of such Currency Indexed Notes exceeding the amount designated as the face amount of such Currency Indexed Notes in the applicable Final Terms (the “Face Amount”) if, at the Stated Maturity, the rate at which the Specified Currency can be exchanged for the Indexed Currency is greater than the rate of such exchange designated as the Base Exchange Rate, expressed in units of the Indexed Currency per one unit of the Specified Currency in the applicable Final Terms (the “Base Exchange Rate”), and will only be entitled to receive a principal amount in respect of such Currency Indexed Notes less than the Face Amount of such Currency Indexed Notes, if, at the Stated Maturity, the rate at which the Specified Currency can be exchanged for the Indexed Currency is less than such Base Exchange Rate. A description of the currency index or indices, information as to the relative historical value of the applicable Specified Currency against the applicable Indexed Currency, any currency and/or exchange controls applicable to such Specified Currency or Indexed Currency and any additional tax consequences to Holders may be set forth in the applicable Final Terms. The applicable Final Terms will identify the Calculation Agent that will calculate the amounts payable with respect to any Currency Indexed Note.

Unless otherwise specified in the applicable Final Terms, the term “Exchange Rate Day” shall mean any day that is a Business Day in The City of New York and, if the Specified Currency or Indexed Currency is other than the U.S. dollar, in the principal financial center of the country of such Specified Currency or Indexed Currency or, if the Specified Currency or Indexed Currency is the euro, a day on which the TARGET system is operating.

Unless otherwise specified in the applicable Final Terms, interest and/or any premium will be payable by CABEI in the Specified Currency based on the Face Amount of the Currency Indexed Notes and at the rate and times and in the manner set forth herein and in the applicable Final Terms.

(7) Other Indexed Notes

CABEI may also from time to time offer Notes (“Indexed Notes”), as to which the dates of payment of principal, interest and other amounts, the amount of any such payment or the rate at which any such payment is calculated or any other term is determined with reference to securities of one or more issuers; one or more commodities; any other financial, economic or other measure or instrument or event, including the occurrence or non-occurrence of any event or circumstance; or one or more indices or baskets of the items described above. The applicable Final Terms relating to such Indexed Note will set forth information about the relevant index, about how amounts that are to become payable will be determined by reference to the price or value of that index, about the other terms of such Indexed Notes, and about the terms on which the Note may be settled physically or in cash. The applicable Final Terms will also identify the Calculation Agent that will calculate the amounts payable with respect to the Indexed Note, will set forth any additional tax consequences to the Holder of such Note, and may set forth a description of certain risks associated with investment in such Note and other information relating to such Note.

(8) Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), CABEI will not cause or permit to be created on any of its property or assets any mortgage, pledge or other lien or charge as security for any bonds, notes or other evidence of indebtedness for money borrowed heretofore or hereafter issued or assumed by CABEI or for any guarantee heretofore or hereafter issued by CABEI for any bonds, notes or other evidence of indebtedness for money borrowed issued or assumed by others (other than “permitted liens” as defined below), unless the Notes shall be secured by such mortgage, pledge or other lien or charge equally and ratably with such other bonds, notes, other evidences of indebtedness or guarantees issued or assumed by CABEI.

For purposes of this Section 8, “permitted liens” means:

- (a) mortgages, pledges and other liens securing bonds, notes, other evidence of indebtedness and guarantees issued or assumed by CABEI that do not exceed US\$10 million (or its foreign currency equivalent) at any time outstanding and that do not in the aggregate materially detract from the value of the property or assets subject thereto or materially impair the use of such property or assets in the business of CABEI;
- (b) mortgages, pledges and other liens securing reimbursement obligations under letters of credit and similar documents given in the ordinary course of business and that do not support the payment of bonds, notes or other evidence of indebtedness for money borrowed or guarantees of such bonds, notes or other evidence of indebtedness; and
- (c) liens securing obligations under hedge agreements entered into in the ordinary course of business.

For purposes of this Section 8, “hedge agreements” means: any swap agreement, cap agreement, collar agreement, futures contract, forward contract, option contract or similar agreement or arrangement designed to protect against or mitigate the effect of fluctuations in interest rates or foreign exchange and entered into as bona fide hedges and not for speculative purposes.

(9) Redemption and Repayment

The Notes will not be subject to any sinking fund. Unless a Redemption Commencement Date is specified in the applicable Final Terms, the Notes will not be redeemable or repayable prior to their Stated Maturity. If a Redemption Commencement Date is so specified with respect to any Note, the applicable Final Terms will also specify one or more redemption prices (expressed as a percentage of the principal amount of such Note) (“Redemption Prices”) and the redemption period or periods (“Redemption Periods”) during which such Redemption Prices will apply. Unless otherwise specified in the applicable Final Terms, any such Note will be redeemable, in whole or in part, at the option of CABEI, on or after such specified Redemption Commencement Date, at the specified Redemption Price applicable to the Redemption Period during which such Note is to be

redeemed, together with any interest accrued to the redemption date. If not so redeemed, the Notes shall be paid on the Stated Maturity.

In the event that CABEI exercises its option to redeem any Note in the circumstances referred to above, CABEI will, unless otherwise provided in the applicable Final Terms, give written notice to the Fiscal Agent of the principal amount of such Note to be redeemed not less than 30 days prior to the optional redemption date. In the case of a partial redemption of the Notes of a Series, the Notes to be redeemed shall be selected by the Fiscal Agent by such method as the Fiscal Agent shall deem fair and appropriate. All notices of redemption will be made in the name and at the expense of CABEI and will be given in the manner described below under “Notices”.

CABEI or any instrumentality thereof may at any time purchase Notes in the open market or otherwise at any price.

(10) Additional Amounts

Any and all payments by CABEI in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by any Founding Member or Non-Regional Member or any political subdivisions or authorities thereof or therein having power to tax (“Taxes”), unless CABEI is compelled by law to deduct or withhold such Taxes. In such event, CABEI shall make such withholding or deduction, make payment of the amount so withheld or deducted to the appropriate governmental authority and forthwith pay such additional amounts (“Additional Amounts”) as may be necessary in order to ensure that the net amounts receivable by the Holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest that would have been receivable in respect of the Notes in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable in respect of any Note to or on behalf of a Holder or beneficial owner of a Note who is liable for such Taxes:

- (a) by reason of such Holder or beneficial owner having some connection with any taxing jurisdiction other than the mere holding of such Note or the receipt of principal or interest in respect thereof;
- (b) by reason of the failure of the Holder or beneficial owner to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with any taxing jurisdiction of the Holder or beneficial owner of a Note or any interest therein or rights in respect thereof, if compliance is required by CABEI or by such taxing jurisdiction as a precondition to exemption from all or any part of such deduction or withholding;
- (c) by reason of the failure of such Holder to present such Holder’s Note or Coupon for payment (where such presentation is required) within 30 days after the relevant payment is first made available for payment to the Holder;
- (d) by reason of any tax, duty, assessment or other governmental charge imposed by any unit of the federal or a state government of the United States;
- (e) by reason of any tax, duty, assessment or other governmental charge that is payable other than by deduction or withholding from a payment on a Note;
- (f) by reason of any estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, duty, assessment or governmental charge;
- (g) by reason of withholding or deduction imposed on a payment to an individual that is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive;

- (h) by reason of withholding or deduction imposed on a payment to an individual who would have been able to avoid such withholding or deduction by presenting the relevant Notes for payment to another Paying Agent in a European Union member state not obliged to withhold or deduct; or
- (i) by reason of any combination of the taxes, duties, assessments or other governmental charges described above;

nor shall any Additional Amounts be payable to a Holder of a Note that is a fiduciary or partnership or other than a sole beneficial owner of such payment to the extent that a beneficiary or settlor of such fiduciary or partnership or beneficial owner would not have been entitled to such Additional Amounts had such beneficiary, settlor or other beneficial owner been the Holder of such Note.

Except as specifically provided above, CABEI shall not be required to make any payment with respect to any tax, assessment or other governmental charge imposed by any government or any political subdivision or taxing authority thereof or therein. Whenever in a Note there is a reference, in any context, to the payment of the principal of (or premium, if any, on) or interest on, or in respect of, any Note, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section 10 to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section 10, and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

(11) Status

The Notes will constitute general, direct, unconditional, unsecured and unsubordinated obligations of CABEI and will rank *pari passu* without any preference among themselves with all other present and future unsecured and unsubordinated indebtedness of CABEI.

(12) Default; Acceleration of Maturity

In case one or more of the following events (herein referred to as “Events of Default”) shall have occurred and be continuing:

- (a) CABEI shall fail to pay any principal of or premium, if any, or interest on any of the Notes of a Series when due, and such failure shall continue for 30 days; or
- (b) CABEI shall fail duly to perform any other material obligation contained in the Notes of a Series or (with respect to the Notes of a Series) the Fiscal Agency Agreement, and such failure shall continue for 90 days after written notice thereof shall have been given to CABEI with a copy to the Fiscal Agent by any holder of the Notes of such Series; or
- (c) CABEI shall fail to pay any amount in excess of US\$10,000,000 (or the equivalent thereof in any other currency or currencies) of principal or interest or premium in respect of any indebtedness incurred, assumed or guaranteed by CABEI as and when such amount becomes due and payable and such failure continues until the expiration of any applicable grace period; or
- (d) the acceleration of any indebtedness incurred or assumed by CABEI with an aggregate principal amount in excess of US\$10,000,000 (or the equivalent thereof in any other currency or currencies) by the holder or holders thereof;

then any Note may, by written notice addressed by the holder thereof to CABEI and delivered to CABEI and the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount (or, in the case of Zero Coupon Notes, Original Issue Discount Notes, Currency Indexed Notes or Indexed Notes, at the amount due and payable upon maturity) together with accrued interest without further action or formality, unless prior to receipt of such notice by CABEI all Events of Default in respect of such Note shall have been cured. If all such Events of Default shall have been cured following such declaration, such

declaration may be rescinded by any such holder with respect to any such previously accelerated Note upon delivery of written notice of such rescission to the CABEI and the Fiscal Agent.

(13) Notices

Notices to Holders of Notes issued in registered form will be given by mail to the Holders of such Notes at their registered addresses as recorded in the Note Register. In addition, if and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, such notices will be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) and/or in a daily newspaper of general circulation in Luxembourg (expected to be the *Luxemburger Wort*). If publication as aforesaid is not practicable, notices will be validly given if made in accordance with the rules of the Luxembourg Stock Exchange. Any such notice shall be deemed to have been given on the later of the date of such publication and the date of mailing.

With respect to Notes issued in bearer form, all notices will be deemed to have been duly given if published at least once (i) in a leading daily newspaper in the English language of general circulation in London, England and (ii) if such Notes are listed on the Luxembourg Stock Exchange, on the website of the Luxembourg Stock Exchange and/or in a daily newspaper of general circulation in Luxembourg. It is expected that any such publication by newspaper will be made in the *Financial Times* and the *Luxemburger Wort*. Any notice published in a newspaper as aforesaid shall be deemed to have been given on the date of such publication, or if published more than once, on the date of the first such publication. Any notice published on the website of the Luxembourg Stock Exchange shall be deemed to have been given on the date of such publication. If publication as aforesaid is not practicable, notices will be validly given if made in accordance with the rules of the Luxembourg Stock Exchange.

Notwithstanding the foregoing, so long as a Temporary Global Bearer Note or a Permanent Global Bearer Note representing Notes of a Series is held on behalf of Euroclear and Clearstream, Luxembourg, there may be substituted for such publication on the website of the Luxembourg Stock Exchange or in such newspapers the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the Holders of interests in the relevant Temporary Global Bearer Note or Permanent Global Bearer Note; *provided* that, so long as the Notes are listed on the Luxembourg Stock Exchange, substitution of publication may only be made if permitted by the rules of the Luxembourg Stock Exchange. Neither the failure to give notice nor any defect in any notice given to any particular Holder of a Note shall affect the sufficiency of any notice with respect to other Notes.

(14) Purchase of Notes by CABEI

CABEI may at any time purchase any of the Notes in any manner and at any price. Any Note so purchased by CABEI (including upon any redemption) shall be promptly surrendered to the Fiscal Agent for cancellation and shall not be reissued or resold.

(15) Meetings of Holders, Modification and Waiver

Upon (i) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the Holders of not less than a simple majority in aggregate principal amount of the Notes of a Series then outstanding represented at a meeting of holders held in accordance with the provisions of Section 11 of the Fiscal Agency Agreement (or of such other percentage as may be set forth in the text of this Note with respect to the action being taken), or (ii) with the written consent of the owners of a simple majority in aggregate principal amount of the Notes of a Series then outstanding (or of such other percentage as may be set forth in the text of such Note with respect to the action being taken), CABEI may modify, amend or supplement the terms of the Notes of such Series or, insofar as respects the Notes of such Series, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Notes of such Series to be made, given or taken by Holders of Notes of such Series; *provided* that no such action may, without the consent or the affirmative vote of the Holder of each Note of a Series affected thereby, (a) change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the Notes of such Series, (b) reduce the principal amount of the Notes of such Series, the portion of such principal amount that is payable upon acceleration of the maturity of the Notes of such Series, the interest rate thereon or the premium payable upon redemption thereof, (c) change the currency of principal of (or premium, if any) or interest on the Notes of such Series, (d) shorten the period during which CABEI is not permitted to redeem

the Notes of such Series, or permit CABEL to redeem the Notes of such Series if, prior to such action, CABEL is not permitted so to do, (e) reduce the proportion of the principal amount of the Notes of such Series, the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Notes of such Series or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, or (f) change the obligation of CABEL to pay Additional Amounts in respect of the Notes of such Series.

CABEL may, without the vote or consent of any Holder of the Notes of a Series, amend the Fiscal Agency Agreement or the Notes of such Series for the purpose of (a) adding to the covenants of CABEL, for the benefit of the holders of Notes of such Series, (b) surrendering any right or power conferred upon CABEL, (c) securing the Notes of such Series pursuant to the requirements of the Notes of such Series or otherwise, (d) curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the Notes of such Series, or (e) amending the Fiscal Agency Agreement or the Notes of such Series in any manner that CABEL may determine and that shall not materially adversely affect the interests of the Holders of the Notes of such Series.

(16) Replacement of Notes and Coupons

If any mutilated Note or a Note with a mutilated Coupon appurtenant to it is surrendered to the Fiscal Agent, CABEL shall execute, and the Fiscal Agent shall authenticate and deliver in exchange therefor, a new Note of like tenor and principal amount, bearing a number not contemporaneously outstanding, with Coupons corresponding to the Coupons, if any, appurtenant to the surrendered Note.

If there be delivered to CABEL and the Fiscal Agent (i) evidence to their satisfaction of the destruction, loss or theft of any Note or Coupon, and (ii) such security or indemnity as may be required by them to save each of them and any agent of each of them harmless, then, in the absence of notice to CABEL or the Fiscal Agent that such Note or Coupon has been acquired by a bona fide purchaser, CABEL shall execute, and upon its request the Fiscal Agent shall authenticate and deliver in lieu of any such destroyed, lost or stolen Note or in exchange for the Note to which such Coupon appertains (with all appurtenant Coupons not destroyed, lost or stolen), a new Note of like tenor or principal amount and bearing a number not contemporaneously outstanding, with Coupons corresponding to the Coupons, if any, appertaining to such destroyed, lost or stolen Note or to the Note to which such destroyed, lost or stolen Coupon appertains.

Upon the issuance of any new Note under this Section 16, CABEL may require the payment of a sum sufficient to cover any stamp or other tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and the expenses of the Fiscal Agent) connected therewith.

Every new Note with its Coupons, if any, issued pursuant to this Section 16 in lieu of any destroyed, lost or stolen Note, or in exchange for a Note to which a destroyed, lost or stolen Coupon appertains, shall constitute an original additional contractual obligation of CABEL, whether or not the destroyed, lost or stolen Note and its Coupons, if any, or the destroyed, lost or stolen Coupon shall be at any time enforceable by anyone.

Any new Bearer Note delivered pursuant to this Section 16 shall be dated the date of its authentication. Any new Registered Note delivered pursuant to this Section 16 shall be so dated that neither gain nor loss in interest shall result from such exchange.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes or Coupons.

(17) Judgment Currency

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the Holder of this Note in one currency into another currency, CABEL and each Holder agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking

procedures such Holder could purchase the first currency with such other currency in The City of New York on the date of entry of the final judgment.

To the fullest extent that they may effectively do so, CABEL and each Holder agree that the obligation of CABEL in respect of any sum payable by it to the Holder of this Note shall, notwithstanding any judgment in a currency (the “judgment currency”) other than that in which such sum is denominated in accordance with the applicable provisions of this Note (the “Note currency”), be discharged only to the extent that on the business day following receipt by such Holder of this Note of any sum adjudged to be so due in the judgment currency, such Holder of this Note may in accordance with normal banking procedures purchase the Note currency with the judgment currency; if the amount of the Note currency so purchased is less than the sum originally due to the Holder of this Note in the Note currency (determined in the manner set forth in the preceding paragraph), CABEL agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Holder of this Note against such loss, and if the amount of the Note currency so purchased exceeds the sum originally due to the Holder of this Note such Holder agrees to remit to CABEL such excess, *provided* that such Holder shall have no obligation to remit any such excess as long as CABEL shall have failed to pay such Holder any obligations due and payable under this Note, in which case such excess may be applied to such obligations of CABEL hereunder in accordance with the terms hereof.

(18) Jurisdiction, Consent to Service and Enforceability

CABEL hereby irrevocably submits to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan, The City of New York in respect of any action arising out of or based on the Notes of a Series that may be brought by the Holder of any such Note, irrevocably waives any objection that it may have to the venue of any such court in respect of any such action and, to the extent permitted by law, irrevocably waives and agrees not to plead any immunity to the jurisdiction of any such court to which it may otherwise be entitled (including sovereign immunity and immunity to post-judgment attachment and execution but not to prejudgment attachment) in any such action; *provided* that, except as provided under Article 29 of the Constitutive Agreement, the revenues, assets and property of CABEL located in any Founding Member country are not subject to execution or attachment. CABEL has appointed CT Corporation System, presently at 111 Eighth Avenue, New York, New York 10011, as its authorized agent (“Authorized Agent”) upon whom process may be served in any such action that may be instituted in any state or federal court in the Borough of Manhattan, The City of New York. Such appointment shall be irrevocable until all amounts in respect of the principal of (and premium, if any) and interest due and to become due on or in respect of all the Notes of this Series have been paid to the Fiscal Agent, except that if, for any reason, CT Corporation System ceases to be able to act as Authorized Agent or no longer has an address in The City of New York, CABEL will appoint another person in the Borough of Manhattan, The City of New York, as such Authorized Agent. CABEL will take any and all action, including the filing of any and all documents and instruments that may be necessary to continue such appointment or appointments in full force and effect as aforesaid. Upon receipt of such service of process, the Authorized Agent shall advise CABEL promptly at its address specified in Section 13 of the Fiscal Agency Agreement. Service of process upon the Authorized Agent at the address indicated above, or at such other address in the Borough of Manhattan, The City of New York as the Authorized Agent shall specify by written notice given by it to the Fiscal Agent shall be deemed, in every respect, effective service of process upon CABEL.

(19) Further Issues

CABEL may from time to time without the consent of the Holders of Notes of a Series create and issue further Notes of such Series either having the same terms and conditions as such Notes in all respects (or in all respects except for the first payment of interest on them or the issue price).

(20) Governing Law

This Note will be governed by, and interpreted in accordance with, the laws of the State of New York.

FORM OF FINAL TERMS

Final Terms No.

Final Terms Dated []

[LOGO]
US\$2,500,000,000
Central American Bank for Economic Integration
[Title of Notes] under the
Medium-Term Note Program

[Agent Name(s)]

This Final Terms supplements the Base Prospectus, dated [_____], 201__, relating to the Central American Bank for Economic Integration's Medium Term Notes (the "Base Prospectus"), and should be read in conjunction with the Base Prospectus. Terms used but not defined herein have the same meaning as in the Base Prospectus.

Unless the context otherwise requires, references to the "Terms and Conditions" herein are to the Terms and Conditions of the Notes set out in the Base Prospectus.

[Include whichever of the following apply:]

- 1. Series number: []
- 2. (a) Aggregate principal amount: []
(b) Stated Maturity: []
- 3. (a) Issue date: []
(b) Issue price: [generally, % of principal amount]
(c) Trade date: []
(d) Settlement date: []
- 4. Authorized denomination(s) (See Section 2 of the Terms and Conditions): []
- 5. Specified Currency: []
- 6. Interest/payment basis: [Fixed Rate Notes/Floating Rate Notes/Zero Coupon Notes/Indexed Notes/Currency Indexed Notes]
- 7. Fixed Rate Notes: []
 - (a) Fixed Rate of interest: []% per annum
 - (b) Interest payment date(s): [semi-annually on ___ and ___ of each year, beginning ___ and at maturity]
 - (c) Other terms for computing interest: []

8. Floating Rate Notes: []
- (a) Interest Rate Basis: [Commercial Paper Rate/Prime Rate/LIBOR/Treasury Rate/CD Rate/Federal Funds Rate/other interest rate formula (provide details)]
- (b) Spread and/or Spread Multiplier: [+/- __ basis points] []% per annum
- (c) If LIBOR Notes, Relevant Screen Page: [Reuters Screen LIBO Page/Telerate Screen Page 3750/Other]
- (d) Interest Determination Dates: []
- (e) Minimum Rate of interest: []% per annum
- (f) Maximum Rate of interest: []% per annum
- (g) Calculation Agent: []
- (h) Initial Interest Rate: []
- (i) Interest Payment Dates: []
- (j) Regular Record Dates: []
- (k) Calculation Dates: []
- (l) Index Maturity: []
- (m) Interest Reset Period: []
- (n) Interest Reset Dates: []
9. Zero Coupon Notes: []
- (a) Formula/basis of determining amount payable at maturity: []
10. Currency Indexed Notes/Indexed Notes: []
- (a) Face Amount: []
- (b) Indexed Currency; Base Exchange Rate (units of Indexed Currency per one unit of Specified Currency): []
- (c) Index/formula for determining dates of payments, amounts payable, rates and other terms: []
- (d) Party responsible for calculating the principal and/or interest due: []
- (e) Provisions where calculation by reference to index and/or formula is impossible and/or impracticable: []
- (f) Description of applicable index or formula: []
- (g) Information regarding historical exchange rate of Indexed Currency against Specified Currency and any applicable exchange controls: []

- (h) Any tax consequences to holder of Notes:
- (i) Special risks associated with Notes:
11. Foreign Currency Notes:
- (a) Exchange Rate Agent:
- (b) Exchange Rate:
12. Original Issue Discount Note: [Yes/No]
- (a) Total amount of OID: per [\$] 1,000 principal amount]
- (b) Yield to maturity:
- (c) Method used to determine yield:
- (d) Initial accrual period of OID: per [\$] 1,000 principal amount]
- (e) Formula/basis for determining amount payable upon redemption or acceleration of maturity:
13. Redemption at CABEI's and/or Noteholders' option — [Yes/No], if yes: [specify]
- (a) Redemption Commencement Date:
- (b) Redemption price(s): [% of principal amount]
- (c) Redemption period(s):
14. Details of the relevant stabilizing Agent, if any:
15. Additional selling restrictions: [give details]
16. Other terms or special conditions or modifications:
17. Applicable definition of Business Day (if different from that set out in the Terms and Conditions):
18. As applicable:
- Euroclear and Clearstream, Luxembourg common code:
- CUSIP number:
- ISIN number:
19. Notes to be listed on the Luxembourg Stock Exchange: [Yes/No]
20. Notes to be traded on the Euro MTF market: [Yes/No]
21. Form of Notes: [Registered Notes/Bearer Notes] [Represented by: Temporary Global Note/Permanent Global Note/Restricted Global Note/U.S. Global Note/Regulation S Global Note/International Global Note/Certificated Notes]

22. Depository: [DTC/Common Depository]
23. Net proceeds []
24. Intended use of proceeds of the Notes (if other than general purposes): []
25. Method of distribution (syndicated/non-syndicated): []
26. Name(s) of the Agent(s) or syndicates of dealer(s) that are to offer and sell the Notes to be issued: []

Responsibility

CABEI accepts responsibility for the information contained in this Final Terms, which, when read together with the Base Prospectus referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of CABEI:

By: _____
Duly authorized signatory

CERTAIN PROVISIONS RELATING TO THE FORMS OF THE NOTES

Global Notes

U.S. Global Notes

Registered Notes of the same Series and of like tenor may be represented, in whole or in part, by a Note in global form that is deposited with or on behalf of a depository located in the United States (a “U.S. Depository”) or a nominee thereof, for credit to the respective accounts of beneficial owners of the Notes represented thereby (a “U.S. Global Note”). U.S. Global Notes are subject to special restrictions and procedures set forth in the Fiscal Agency Agreement.

Notes of the same Series and like tenor that are sold in offshore transactions in reliance on Regulation S may be issued in the form of a U.S. Global Note in registered form without interest coupons (each, a “Regulation S Global Note”), which will be registered in the name of DTC, as U.S. Depository, or a nominee of DTC, and deposited with the Fiscal Agent, at its New York office, as custodian for DTC. Prior to the 40th day after the completion of the distribution (as certified in writing to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche, beneficial interests in the related Regulation S Global Note may be held only by non-U.S. persons, unless delivery is made through a Restricted Global Note (as defined below) of the same Series and of like tenor in accordance with the certification requirements described below.

Notes of the same Series and like tenor that are sold in reliance on Rule 144A may be represented by a single U.S. Global Note in registered form without interest coupons (each, a “Restricted Global Note”), which will be deposited with the Fiscal Agent, at its New York office, as custodian for DTC and registered in the name of DTC, as U.S. Depository, or a nominee of DTC. A Restricted Global Note (and any Notes issued in exchange therefor) is subject to certain restrictions on transfer set forth in the Fiscal Agency Agreement. Prior to the 40th day after the completion of the distribution (as certified in writing to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche represented by a Regulation S Global Note, a beneficial interest therein may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note of the same Series and like tenor, but only upon receipt by the Fiscal Agent of a written certification from the transferor (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States (a “Restricted Global Note Certificate”). On and after such 40th day, such written certification requirement will no longer apply to such transfers. Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note of the same Series and of like tenor, whether before, on or after such 40th day, but only upon receipt by the Fiscal Agent of a written certification from the transferor (in the form(s) provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or (if available) Rule 144 under the Securities Act (a “Regulation S Global Note Certificate”) and that, if (but only if) such transfer occurs prior to such 40th day, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg for the account of non-U.S. persons. Any beneficial interest in a U.S. Global Note that is transferred to a person who takes delivery in the form of an interest in another U.S. Global Note of the same Series and of like tenor will, upon transfer, cease to be an interest in such U.S. Global Note and become an interest in such other U.S. Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other U.S. Global Note for as long as it remains such an interest.

Upon the issuance of a U.S. Global Note, DTC or its custodian will credit, on its internal system, the respective principal amounts of the individual beneficial interests represented by such U.S. Global Note to the accounts of persons who have accounts with the U.S. Depository. Such accounts initially will be designated by or on behalf of the participating Agents (or, if none, CABEL). Ownership of beneficial interests in a U.S. Global Note will be limited to persons who have accounts with DTC or persons who hold interests through participants. Ownership of beneficial interests in the U.S. Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered holder of a U.S. Global Note, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such U.S. Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Unless DTC notifies CABEI that it is unwilling or unable to continue as depository for such Note, or ceases to be a “Clearing Agency” registered under the U.S. Securities and Exchange Act of 1934 (the “Exchange Act”), or an Event of Default has occurred and is continuing with respect to such Note, owners of beneficial interests in such U.S. Global Note will not be entitled to have any portions of such U.S. Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of such U.S. Global Note (or any Notes represented thereby) under the Fiscal Agency Agreement or the Notes. In addition, no beneficial owner of an interest in a U.S. Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the Fiscal Agency Agreement referred to herein and, if applicable, those of Euroclear and Clearstream, Luxembourg).

Investors may also hold their interests in a Regulation S Global Note through Clearstream, Luxembourg or Euroclear, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Beginning 40 days after the completion of the distribution (as certified in writing to the Fiscal Agent by the relevant Agent) of Notes constituting an identifiable tranche represented by such Regulation S Global Note, investors may also hold such interests through organizations other than Clearstream, Luxembourg and Euroclear that are participants in the DTC system. Clearstream, Luxembourg and Euroclear will hold interests in a Regulation S Global Note on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in customers’ securities accounts in the depositories’ names on the books of DTC. Investors may hold their interests in a Restricted Global Note directly through DTC, if they are participants in such system, or indirectly through organizations which are participants in such system.

Payments of the principal of and any premium, interest, Additional Amounts, if any, and other amounts on any U.S. Global Note will be made to DTC or its nominee as the registered owner thereof. None of CABEI, the Fiscal Agent and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a U.S. Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

CABEI expects that DTC or its nominee, upon receipt of any payment in respect of a U.S. Global Note held by it or its nominee, will immediately credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such U.S. Global Note as shown on the records of DTC or its nominee. CABEI also expects that payments by participants to owners of beneficial interests in a U.S. Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in street name. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in accordance with DTC’s procedures and will be settled in same-day funds. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a U.S. Global Note to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a U.S. Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels or Luxembourg time). Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction

meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in any U.S. Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions directly to the depositories for Clearstream, Luxembourg or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant purchasing an interest in a U.S. Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear and Clearstream, Luxembourg) immediately following the DTC settlement date and such credit of any transactions in interests in a U.S. Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream, Luxembourg participant on such day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of securities by or through a Euroclear participant or a Clearstream, Luxembourg participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised CABEI that it will take any action permitted to be taken by a holder of a U.S. Global Note (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in such U.S. Global Note are credited and only in respect of such portion of the aggregate principal amount of such U.S. Global Note as to which such participant or participants has or have given such direction. However, if there is an Event of Default (as defined under “Terms and Conditions of the Notes—Default; Acceleration of Maturity”) under a U.S. Global Note, DTC will exchange such U.S. Global Note for legended Notes in definitive form, which it will distribute to its participants. DTC has advised CABEI that, with respect to any Foreign Currency Note that is held in the name of DTC or its nominee, it will elect to have all payments of principal and any premium and interest on such Foreign Currency Note made in U.S. dollars, unless notified by a participant through which an interest in such Foreign Currency Note is held that it elects to receive such payment of principal or any premium or interest in the relevant foreign currency. Holders of Foreign Currency Notes that are registered in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in the relevant foreign currency may be made.

DTC has advised CABEI as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the U.S. Global Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of CABEI, the Fiscal Agent, any Paying Agent and the Registrar will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

International Global Notes

Registered Notes or Bearer Notes of the same Series and of like tenor may be represented, in whole or in part, by a Registered Note or a Bearer Note, as the case may be, in global form that is deposited with or on behalf of a depository located outside the United States and its possessions (a “Common Depository”) or a nominee thereof, for credit to the respective accounts of beneficial owners of the Notes represented thereby (or to such other accounts as they may direct), *provided* that all such accounts are maintained at or through Euroclear or Clearstream,

Luxembourg (an “International Global Note”). International Global Notes are subject to special restrictions and procedures set forth in the Fiscal Agency Agreement.

Investors may hold their interests in an International Global Note through Euroclear or Clearstream, Luxembourg, or such other clearing systems as specified in the relevant final terms, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Each International Global Note will be deposited with the Common Depositary which will be the registered holder or bearer, as the case may be, of such Note on behalf of Euroclear or Clearstream, Luxembourg.

As long as the Common Depositary, or its nominee, is the registered holder of an International Global Note in registered form, or the bearer of an International Global Note in bearer form, the Common Depositary or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such International Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Except as described under “—Bearer Notes”, owners of beneficial interests in an International Global Note will not be entitled to have any portions of such International Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of such International Global Note (or any Notes represented thereby) under the Fiscal Agency Agreement or the Notes. In addition, no beneficial owner of an interest in an International Global Note will be able to transfer that interest except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg (in addition to those under the Fiscal Agency Agreement referred to herein and, if applicable as indicated below, those of DTC).

Payments of the principal of and any premium, interest, Additional Amounts, if any, and other amounts on any International Global Notes will be made to Euroclear or Clearstream, Luxembourg, as the case may be, or its nominee as the registered owner or bearer thereof, as the case may be. None of CABEL, the Fiscal Agent and any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in an International Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

CABEL expects that each of Euroclear and Clearstream, Luxembourg, upon receipt of any payment in respect of an International Global Note held by a Common Depositary or its nominee, will immediately credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such International Global Note as shown on the records of Euroclear or Clearstream, Luxembourg, as the case may be. CABEL also expects that payments by participants to owners of beneficial interests in an International Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in street name. Such payments will be the responsibility of such participants.

If all Notes represented by an International Global Note are offered and sold pursuant to Regulation S, such International Global Note may be designated, in the applicable Final Terms, as a Regulation S Global Note. In such event, the procedures for transfer of beneficial interests in Regulation S Global Notes and Restricted Global Notes described above under “—U.S. Global Notes”, may, if so specified in the applicable Final Terms, apply to such International Global Note and any Restricted Global Note of the same Series and of like tenor, with such modification as may be specified therein, subject in all cases to the restrictions described below under “—Bearer Notes” regarding exchanges and deliveries of Bearer Notes.

In any such case, the considerations discussed above under “—U.S. Global Notes” regarding settlement and transfer, including cross-market transfers, through DTC may be relevant.

Except as otherwise may be specified in the applicable Final Terms, CABEL will appoint (i) Deutsche Bank Trust Company Americas as its Fiscal Agent, Registrar, New York Paying Agent and Transfer Agent, (ii) Deutsche Bank Luxembourg S.A. as its Luxembourg Paying Agent and Transfer Agent and (iii) Deutsche Bank AG London as its Paying Agent and Transfer Agent in London, if applicable, of the Notes. In such capacities, the Fiscal Agent will be responsible for, among other things, (i) maintaining a record of the aggregate principal amount of Notes represented by each U.S. Global Note and International Global Note, (ii) accepting Notes for exchange and, if applicable, registration of transfer, (iii) ensuring that payments in respect of Notes received by the Fiscal Agent from

CABEI are duly paid to the holders and (iv) forwarding to CABEI any notices received by the Fiscal Agent from holders.

Unless otherwise specified in the applicable Final Terms under its current rules, if DTC requires that a beneficial owner of Notes held in the book-entry settlement system of DTC denominated in a Specified Currency other than U.S. dollars electing to receive payments of principal, premium (if any) or interest on this Note in the Specified Currency must notify the DTC participant through which its interest is held on or prior to the applicable Regular Record Date, in the case of a payment of interest, and on or prior to the sixteenth day prior to the Stated Maturity (in the case of Fixed Rate Notes or Original Issue Discount Notes) or the final Interest Payment Date (in the case of Floating Rate Notes) in the case of principal or premium, if any, of such beneficial owner's election to receive such payment in such currency. Such DTC participant must notify DTC of such election (a) to receive all, or the specified portion, of such payment in the Specified Currency and (b) its instructions for wire transfer of such payment to a Specified Currency account or accounts prior to the third Business Day after such Regular Record Date or 12 days prior to the payment of principal. DTC will notify the Fiscal Agent of such election on or prior to the fifth Business Day after such Regular Record Date or the 10th Business Day prior to the payment date for the payment of principal. If complete instructions are received by a DTC participant, DTC, and the Fiscal Agent, on or prior to such dates, the Fiscal Agent shall use such instructions to pay such DTC participant directly. In the case of a beneficial owner of interests in a Regulation S Global Note, such owner electing to receive payments of principal, premium (if any) and any interest on such Note in such Specified Currency must notify Euroclear or Clearstream, Luxembourg at least seven days prior to the Regular Record Date, in the case of a payment of interest, and at least 18 days prior to the Stated Maturity or the final Interest Payment Date, in the case of a payment of principal or premium (if any).

Certificated Notes

If a U.S. Depository is at any time unwilling or unable to continue as a depository for a U.S. Global Note and a substitute U.S. Depository is not appointed, CABEI will issue, in exchange for beneficial interests in such U.S. Global Note, definitive Registered Notes of the same Series and of like tenor and having an equal principal amount. In addition, if so indicated in the applicable Final Terms, Temporary Global Bearer Notes (as defined below) may be exchangeable for definitive Notes upon satisfaction of certain requirements as described below. Beneficial interests in a global Registered Note and definitive Registered Notes will not be exchangeable for beneficial interests in a Temporary Global Bearer Note or a Permanent Global Bearer Note (as defined below) or for definitive Bearer Notes. In all cases, certificates for Notes delivered in exchange for any global Note or beneficial interests therein will be registered in the name (if such Notes are Registered Notes), and issued in any approved denominations, requested by the depository.

In the case of certificates for Notes issued in exchange for any Restricted Global Note, such certificates will bear the legend referred to under "Notice to Investors" in the version of this Base Prospectus used in connection with sales of the Notes made in reliance on Rule 144A (unless CABEI determines otherwise in accordance with applicable law). The holder of a definitive Registered Note may transfer such Note, subject to compliance with the provisions of such legend, by surrendering it at (i) the office or agency maintained by CABEI for such purpose in The City of New York, which initially will be the office of the Fiscal Agent, or (ii) the office of any Transfer Agent appointed by CABEI. Upon the transfer, exchange or replacement of Notes bearing the legend, or upon specific request for removal of the legend on a Note, CABEI will deliver only Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to CABEI such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by CABEI that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any Note in definitive form may be transferred to a person who takes delivery in the form of an interest in any U.S. Global Note, the transferor will be required to provide the Fiscal Agent with a Restricted Global Note Certificate or a Regulation S Global Note Certificate, as the case may be.

Bearer Notes

Bearer Notes will initially be represented only in the form of one or more Bearer Notes in temporary global form without interest coupons attached (each, a "Temporary Global Bearer Note"), which will be deposited with or on behalf of a Common Depository, for credit to the respective accounts of the beneficial owners of such Notes (or

to such other accounts as they may direct), *provided* that all such accounts must be maintained at or through Euroclear or Clearstream, Luxembourg. Notwithstanding the foregoing, if indicated in the applicable Final Terms, Bearer Notes with a maturity not exceeding one year from the date of issue may initially be represented by one or more Bearer Notes in permanent global form without interest coupons attached (each, a “Permanent Global Bearer Note”). Bearer Notes will be subject to certain requirements and restrictions imposed by the U.S. federal tax laws and regulations. See “Limitations on Issuance of Bearer Notes”.

Temporary Global Bearer Notes will be exchangeable for definitive Bearer Notes, interests in a Permanent Global Bearer Note or definitive Registered Notes, as specified in the applicable Final Terms; *provided* that no Temporary Global Bearer Note or portion thereof may be exchanged for any definitive Bearer Note or an interest in a Permanent Global Bearer Note until (A) on or after the 40th day after the issuance of such Temporary Global Bearer Note (the “Exchange Date”) and (B) with respect to each beneficial interest in the portion of such Temporary Global Bearer Note to be exchanged, (i) the participant in Euroclear or Clearstream, Luxembourg, as the case may be, through which such beneficial interest is held has delivered to Euroclear or Clearstream, Luxembourg, as the case may be, an Owner Tax Certification (as defined below), and (ii) Euroclear or Clearstream, Luxembourg, as the case may be, has delivered to the Fiscal Agent a Depository Tax Certification in the form required by the Fiscal Agency Agreement.

No interest payable in respect of any beneficial interest in a Temporary Global Bearer Note will be paid until the certification requirements described above have been satisfied with respect to such beneficial interest. Delivery of the Owner Tax Certification by a participant in Euroclear or Clearstream, Luxembourg shall constitute an irrevocable instruction by such participant to Euroclear or Clearstream, Luxembourg, as the case may be, to exchange on the applicable Exchange Date, the beneficial interest covered by such certificate for such definitive Bearer Notes or interest in a Permanent Global Bearer Note as such participant may specify consistent with the Fiscal Agency Agreement and the applicable Final Terms.

As described above, no payment will be made on any Temporary Global Bearer Note and no exchange of a beneficial interest in a Temporary Global Bearer Note for a definitive Bearer Note or an interest in a Permanent Global Bearer Note may occur until the person entitled to receive such interest or Bearer Note furnishes written certification (an “Owner Tax Certification”), in the form required by the Fiscal Agency Agreement and Schedule E thereof, to the effect that such person (i) is not a U.S. person (as defined below under “Limitations on Issuance of Bearer Notes”), (ii) is a foreign branch of a U.S. financial institution purchasing for its own account or for resale, or is a U.S. person who acquired the Note through such a financial institution and who holds the Note through such financial institution on the date of certification, *provided* in either case that such financial institution certifies that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended (the “Code”) and the U.S. Treasury Regulations thereunder, or (iii) is a financial institution holding for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)). A financial institution described in clause (iii) of the preceding sentence (whether or not also described in clause (i) or (ii)) must certify that it has not acquired the Note for purposes of resale directly or indirectly to a U.S. person or to a person within the United States or its possessions.

The following legend will appear on all Temporary Global Bearer Notes, Permanent Global Bearer Notes and definitive Bearer Notes and any coupons with respect thereto: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in the legend provide that, with certain exceptions, a U.S. taxpayer will not be permitted to deduct any loss, and will not be eligible for capital gain treatment with respect to any gain, realized on a sale, exchange or redemption of a Bearer Note or Coupon.

LIMITATIONS ON ISSUANCE OF BEARER NOTES

In compliance with U.S. federal income tax laws and Treasury Regulations, Bearer Notes (including Temporary Global Bearer Notes), other than Bearer Notes with a maturity not exceeding one year from the date of issue, may not be offered or sold during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)) within the United States or its possessions or to U.S. persons (each as defined below) other than to an office located outside the United States or its possessions of a U.S. financial institution within the meaning of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6), purchasing for its own account or for resale or for the account of certain customers, that provides a certificate stating that it agrees to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Code and the U.S. Treasury Regulations thereunder, or to certain other persons described in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(1)(iii)(B). Moreover, such Bearer Notes may not be delivered within the United States or its possessions in connection with their sale during the restricted period. No Bearer Note (other than a Temporary Global Bearer Note) may be delivered, nor may interest be paid on any Bearer Note until receipt by CABEL of (i) a Depository Tax Certification in the case of Temporary Global Bearer Notes or (ii) an Owner Tax Certification in all other cases as described above under “Certain Provisions Relating to the Forms of the Notes—Bearer Notes”.

As used herein, “U.S. person” means a citizen or resident of the United States, a U.S. partnership and certain non-U.S. partnerships, a corporation created or organized in the United States or under the laws of the United States, any State thereof or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source, or a trust if a U.S. court can exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust; and “United States” means the United States of America (including the States thereof and the District of Columbia) and “possessions” of the United States include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

IMPORTANT TAX CONSIDERATIONS

The following is a general description of certain tax considerations relating to the Notes, but is not a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United States and the Member Countries of acquiring, owning and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This description is based upon laws as in effect on the date of this Base Prospectus, all of which are subject to change, possibly with retroactive effect.

Any discussion of the U.S. federal income tax issues set forth in this Base Prospectus was written to support the promotion and marketing of the transactions described herein. Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

United States Taxation

This section describes the material U.S. federal income tax considerations related to the acquisition, ownership and disposition of Notes issued under the Program, subject to the limitations set forth below. This section applies only to Holders who acquire Notes in an offering pursuant to the Program and who hold such Notes as capital assets for U.S. federal income tax purposes. This section does not apply to a Holder who is a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings,
- a financial institution,
- an insurance company,
- a tax-exempt organization,
- a person that owns Notes that are a hedge or that are hedged against interest rate or currency risks,
- a person that owns Notes as part of a straddle, conversion transaction or other integration transaction for U.S. federal income tax purposes,
- a person whose functional currency for U.S. federal income tax purposes is not the U.S. dollar,
- a partnership (or any entity treated as a partnership) for U.S. federal income tax purposes, or
- a taxpayer liable for the alternative minimum tax.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of the Notes, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. A Holder that is a partnership and partners in such partnership should consult their tax advisors regarding the U.S. federal income tax treatment of holding and disposing of Notes.

This section addresses Notes that are due to mature 30 years or less from the date on which they are originally issued. The U.S. federal income tax consequences of owning Notes that are due to mature more than 30 years from their date of original issue will be discussed in an applicable Final Terms. This section is based on the Code, its legislative history, existing and proposed U.S. Treasury Regulations promulgated under the Code,

published Internal Revenue Service (the “IRS”) rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Prospective purchasers are advised to consult their own tax advisor concerning the consequences of owning Notes in their particular circumstances under the Code and the laws of any other taxing jurisdiction.

Further, this section does not discuss Bearer Notes. Prior to investing in Bearer Notes, prospective investors who would be U.S. Holders should consult with their U.S. tax advisor concerning an investment in Bearer Notes and the limitations under U.S. federal income tax law.

U.S. Holders

This subsection describes the U.S. federal income tax consequences to a U.S. Holder. A person is a U.S. Holder if they are a beneficial owner of a Note and are:

- an individual who is a citizen or resident of the United States,
- a corporation created or organized in the United States or under the laws of the United States, any State thereof or the District of Columbia,
- an estate whose income is subject to U.S. federal income tax regardless of its source, or
- a trust if a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

This subsection does not address the U.S. federal income tax consequences applicable to investors who are not U.S. Holders. Such investors should consult their own tax advisors.

Payments of Interest

General. Except as described below in the case of interest on an Original Issue Discount Note that is not qualified stated interest (as defined below under “—Original Issue Discount—General”) and in the case of short-term Notes, a U.S. Holder will be taxed on any interest on Notes held by such Holder and any Additional Amounts paid with respect to any withholding taxes on such Notes, including withholding tax on payments of such Additional Amounts, whether payable in U.S. dollars or a foreign currency, as ordinary income at the time the U.S. Holder receives the interest or when it accrues, depending on the U.S. Holder’s method of accounting for tax purposes. Thus, a U.S. Holder may be required to report income in an amount greater than the actual amount of interest it receives on the Notes if payments on the Notes are subject to withholding tax.

Interest and Additional Amounts, if any, paid by CABEI on Notes and original issue discount (“OID”), if any, accrued with respect to such Notes (as described below under “—Original Issue Discount”) is income from sources outside the United States for U.S. foreign tax credit purposes and typically will constitute “passive category income” for purposes of computing the U.S. foreign tax credit allowable to a U.S. Holder. In lieu of claiming a credit, U.S. Holders may elect to deduct foreign income taxes in computing their U.S. federal taxable income, provided the U.S. Holder does not elect to credit any foreign income taxes paid or accrued for the relevant taxable year. The rules relating to foreign tax credits are complex, and U.S. Holders should consult their own tax advisors with regard to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to their particular situations.

Cash Basis Taxpayers. If a U.S. Holder is a taxpayer that uses the cash receipts and disbursements method of accounting for U.S. federal income tax purposes and receives an interest payment and any Additional Amount that is denominated in, or determined by reference to, a foreign currency, such U.S. Holder must recognize income equal to the U.S. dollar value of the interest payment and the Additional Amount, if any, based on the exchange rate in effect on the date of receipt, regardless of whether the U.S. Holder actually converts the payment into U.S. dollars at such time.

Accrual Basis Taxpayers. If a U.S. Holder is a taxpayer that uses an accrual method of accounting for U.S. federal income tax purposes, such U.S. Holder may determine the amount of income that it recognizes with respect to an interest payment and any Additional Amount denominated in, or determined by reference to, a foreign currency by using one of two methods. Under the first method, such U.S. Holder will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

Under the second method, a U.S. Holder would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if the U.S. Holder receives a payment of interest within five business days of the last day of its accrual period or taxable year, it may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that it actually receives the interest payment. If such U.S. Holder elects the second method, that method will apply to all debt instruments that such U.S. Holder holds at the beginning of the first taxable year to which the election applies and to all debt instruments that such U.S. Holder subsequently acquires. A U.S. Holder may not revoke this election without the consent of the IRS.

When a U.S. Holder actually receives an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of its Note) denominated in, or determined by reference to, a single foreign currency for which such U.S. Holder accrued an amount of income, such U.S. Holder will recognize ordinary income or loss measured by the difference, if any, between the exchange rate that such U.S. Holder used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether such U.S. Holder actually converts the payment into U.S. dollars at such time.

Special rules may apply to Notes with interest denominated in, or determined by reference to, multiple foreign currencies. The U.S. federal income tax consequences of such Notes will be described in the applicable Final Terms.

Original Issue Discount

General. If a U.S. Holder owns a Note, other than a short-term note with a term of one year or less, it will be treated as an Original Issue Discount Note with OID if the amount by which the Note's stated redemption price at maturity exceeds its issue price is more than a *de minimis* amount. Generally, a Note's issue price will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. A Note's stated redemption price at maturity is the total of all payments provided by the Note that are not payments of qualified stated interest. Generally, an interest payment on a Note is qualified stated interest if it is one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate, with certain exceptions for lower rates paid during some periods, applied to the outstanding principal amount of the Note. There are special rules for Floating Rate Notes that are discussed under "—Floating Rate Notes."

In general, a Note does not have OID if the amount by which its stated redemption price at maturity exceeds its issue price is less than the *de minimis* amount of $\frac{1}{4}$ of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to its maturity from its original issue date. A U.S. Holder's Note will have *de minimis* OID if the amount of the excess is less than the *de minimis* amount. If a Note has *de minimis* OID, such U.S. Holder must include the *de minimis* amount in income as capital gain as stated principal payments are made on the Note, unless such U.S. Holder makes the election described below under "—Election to Treat All Interest as Original Issue Discount."

Generally, a U.S. Holder must include OID in income before receiving cash attributable to that income. The amount of OID that a U.S. Holder must include in income is calculated using a constant-yield method, and generally a U.S. Holder will include increasingly greater amounts of OID in income over the term of its Notes. More specifically, a U.S. Holder can calculate the amount of OID that it must include in income by adding the daily portions of OID with respect to its Original Issue Discount Note for each day during the taxable year or portion of the taxable year that it holds its Original Issue Discount Note. The daily portion is determined by allocating to each

day in any accrual period a pro rata portion of the OID allocable to that accrual period. A U.S. Holder may select an accrual period of any length with respect to its Original Issue Discount Note and such U.S. Holder may vary the length of each accrual period over the term of its Original Issue Discount Note. However, no accrual period may be longer than one year and each scheduled payment of interest or principal on the Original Issue Discount Note must occur on either the first or final day of an accrual period.

A U.S. Holder can determine the amount of OID allocable to an accrual period by:

- multiplying its Original Issue Discount Note's adjusted issue price at the beginning of the accrual period by such Note's yield to maturity, and then
- subtracting from this figure the sum of the payments of qualified stated interest on such Note allocable to the accrual period.

A U.S. Holder must determine the Original Issue Discount Note's yield to maturity on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. Further, a U.S. Holder determines its Original Issue Discount Note's adjusted issue price at the beginning of any accrual period by:

- adding its Original Issue Discount Note's issue price and any accrued OID for each prior accrual period, and then
- subtracting any payments previously made on such Original Issue Discount Note that were not qualified stated interest payments.

In determining the amount of OID allocable to an accrual period, if an interval between payments of qualified stated interest on a U.S. Holder's Note contains more than one accrual period, then, when such U.S. Holder determines the amount of OID allocable to an accrual period, it must allocate the amount of qualified stated interest payable at the end of the interval, including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval, pro rata to each accrual period in the interval based on their relative lengths. In addition, a U.S. Holder must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. A U.S. Holder may compute the amount of OID allocable to an initial short accrual period by using any reasonable method if all other accrual periods, other than a final short accrual period, are of equal length.

The amount of OID allocable to the final accrual period is equal to the difference between:

- the amount payable at the maturity of the U.S. Holder's Note, other than any payment of qualified stated interest, and
- the adjusted issue price of the U.S. Holder's Note as of the beginning of the final accrual period.

Acquisition Premium. If a U.S. Holder purchases a Note for an amount that is less than its stated redemption price at maturity as of the purchase date but that is greater than its adjusted issue price, as described above, the excess is acquisition premium. If a U.S. Holder does not make the election described below under "— Election to Treat All Interest as Original Issue Discount", then the U.S. Holder must reduce the daily portions of OID includible in income for a taxable year by the portion of the excess properly allocable to that year.

Election to Treat All Interest as Original Issue Discount. A U.S. Holder may elect to include in gross income all interest that accrues on a Note held by it using the constant-yield method described above, with the modifications described below. For purposes of this election, interest will include stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. In applying the constant-yield method pursuant to this election:

- the issue price of such Note will equal the U.S. Holder's cost,

- the issue date of such Note will be the date the U.S. Holder acquired it, and
- no payments on such Note will be treated as payments of qualified stated interest.

Generally, this election will apply only to the Note for which it is made; however, if a Note has amortizable bond premium or market discount, the U.S. Holder will be deemed to have made an election that applies to other debt instruments held by such Holder. A U.S. Holder may not revoke any election to apply the constant-yield method to all interest on a Note or the deemed elections with respect to amortizable bond premium or market discount Notes without the consent of the IRS.

Foreign Currency Original Issue Discount Notes. If an Original Issue Discount Note is also a Foreign Currency Note, a U.S. Holder must determine OID for any accrual period on its Original Issue Discount Note in the foreign currency and then translate the amount of OID into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under “—U.S. Holders—Payments of Interest”. Such U.S. Holder may recognize ordinary income or loss when it receives an amount attributable to OID in connection with a payment of interest or the sale or retirement of such Note.

Pre-Issuance Accrued Interest.

An election may be made to decrease the issue price of a Note by the amount of pre-issuance accrued interest if:

- a portion of the initial purchase price of such Note is attributable to pre-issuance accrued interest,
- the first stated interest payment on such Note is to be made within one year of such Note’s issue date, and
- the payment will equal or exceed the amount of pre-issuance accrued interest.

If this election is made, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on such Note.

Notes Subject to Certain Contingencies Including Optional Redemption.

If a Note provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies, other than those that are disregarded as remote or incidental, and the timing and amounts of the payments that comprise each payment schedule are known as of the issue date of such Note, a U.S. Holder must determine the yield and maturity of such Note by assuming that the payments will be made according to the payment schedule, if any, that is significantly more likely than not to occur.

If there is no single payment schedule that is significantly more likely than not to occur, other than because of a mandatory sinking fund, a U.S. Holder must include income on a Note in accordance with special rules that govern the treatment of contingent payment debt obligations. If relevant, these rules will be discussed in the applicable Final Terms.

Notwithstanding the general rules for determining yield and maturity, if a Note is subject to contingencies, and either a U.S. Holder or CABEI has an unconditional option or options that, if exercised, would require payments to be made on such Note under an alternative payment schedule or schedules, then:

- in the case of an option or options that CABEI may exercise, CABEI will be deemed to exercise or not exercise an option or combination of options in the manner that minimizes the yield on such Note, and
- in the case of an option or options that a U.S. Holder may exercise, the U.S. Holder will be deemed to exercise or not exercise an option or combination of options in the manner that maximizes the yield on such Note.

If both a U.S. Holder and CABEI hold options described in the preceding sentence, those rules will apply to each option in the order in which they may be exercised. A U.S. Holder may determine the yield on a Note held by it for the purposes of those calculations by using any date on which such Note may be redeemed or repurchased as the maturity date and the amount payable on the date that it chooses in accordance with the terms of such Note as the principal amount payable at maturity.

If a contingency, including the exercise of an option, actually occurs or does not occur contrary to an assumption made according to the above rules, then except to the extent that a portion of a Note is repaid as a result of this change in circumstances and solely to determine the amount and accrual of OID, a U.S. Holder must redetermine the yield and maturity of such Note by treating such Note as having been retired and reissued on the date of the change in circumstances for an amount equal to such Note's adjusted issue price on that date.

Floating Rate Notes.

A Floating Rate Note will constitute a variable rate debt instrument ("VRDI") if:

- such Floating Rate Note's issue price does not exceed the total noncontingent principal payments by more than the lesser of:
 1. 1.5 percent multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or
 2. 15 percent of the total noncontingent principal payments; and
- such Floating Rate Note provides for stated interest, compounded or paid at least annually, only at:
 1. one or more qualified floating rates,
 2. a single fixed rate and one or more qualified floating rates,
 3. a single objective rate, or
 4. a single fixed rate and a single objective rate that is a qualified inverse floating rate.

A Floating Rate Note provides for stated interest at a qualified floating rate if:

- variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which such Floating Rate Note is denominated; or
- the rate is equal to such a rate multiplied by either (x) a fixed multiple that is greater than 0.65 but not more than 1.35 or (y) a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate; and
- the value of the rate on any date during the term of such Floating Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If such Floating Rate Note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of such Floating Rate Note, the qualified floating rates together constitute a single qualified floating rate.

A Floating Rate Note will not have a qualified floating rate, however, if the rate is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of such Floating Rate Note or are not reasonably expected to significantly affect the yield on such Floating Rate Note.

A Floating Rate Note provides for stated interest at a single objective rate if:

- the rate is not a qualified floating rate,
- the rate is determined using a single, fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of CABEI or a related party, and
- the value of the rate on any date during the term of such Floating Rate Note is set no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A Floating Rate Note will not provide for stated interest at an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of such Floating Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of such Floating Rate Note's term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate; and
- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

A Floating Rate Note will also provide for stated interest at a single qualified floating rate or an objective rate if interest on such Floating Rate Note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of such Floating Rate Note that do not differ by more than 0.25 percentage points; or
- the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

Commercial Paper Rate Notes, Prime Rate Notes, LIBOR Notes, Treasury Rate Notes, CD Rate Notes, and Federal Funds Rate Notes generally will be treated as VRDIs under these rules. In some circumstances, however, such Notes may be subject to special rules governing "contingent payment debt instruments," in which case the U.S. federal income tax consequences will be described in the applicable Final Terms.

In general, if a Floating Rate Note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period with interest payable at least annually, all stated interest on such Floating Rate Note is qualified stated interest. Thus, such a Floating Rate Note will generally not be issued with OID unless the Floating Rate Note is issued at a "true" discount (i.e., at a price below the note's stated principal amount) in excess of a specified de minimis amount. The amount of OID on such a Floating Rate Note is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield reasonably expected for such Floating Rate Note.

If a Floating Rate Note constitutes a VRDI but does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period, a U.S. Holder generally must determine the interest and OID accruals on such Floating Rate Note by:

- determining a fixed rate substitute for each variable rate provided under such Floating Rate Note,
- constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,

- determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and
- adjusting for actual variable rates during the applicable accrual period.

When a U.S. Holder determines the fixed rate substitute for each variable rate provided under a Floating Rate Note, it generally will use the value of each variable rate as of the issue date of such Note or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on such Floating Rate Note.

If a Floating Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate (other than at a single fixed rate for an initial period as described above), a U.S. Holder generally must determine interest and OID accruals by using the method described in the previous paragraph. However, a Floating Rate Note will be treated, for purposes of the first three steps of the determination, as if such Note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of such Floating Rate Note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

Short-Term Notes.

In general, if a U.S. Holder is an individual or other cash basis U.S. Holder of a short-term Note, such U.S. Holder is not required to accrue OID, as specially defined below for the purposes of the rules relating to debt obligations with a term of less than one year, for U.S. federal income tax purposes unless it elects to do so (although it is possible that it may be required to include any stated interest in income as it receives it). If a U.S. Holder is an accrual basis taxpayer, a taxpayer in a special class, including, but not limited to, a regulated investment company, common trust fund, or a certain type of pass-through entity, or a cash basis taxpayer who so elects, such U.S. Holder will be required to accrue OID on short-term Notes on either a straight-line basis or under the constant-yield method, based on daily compounding. If a U.S. Holder is not required and does not elect to include OID in income currently, any gain such U.S. Holder realizes on the sale or retirement of its short-term Note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless such U.S. Holder makes an election to accrue the OID under the constant-yield method, through the date of sale or retirement. However, if a U.S. Holder is not required and does not elect to accrue OID on its short-term Notes, such U.S. Holder will be required to defer deductions for interest on borrowings allocable to its short-term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a short-term Note are included in the short-term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a short-term Note as if the short-term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the short-term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market Discount

A U.S. Holder will be treated as if it purchased a Note, other than a short-term Note, at a market discount, and such Note will be a market discount Note if:

- (i) in the case of a Note that is not an Original Issue Discount Note, the Note is purchased for less than its stated redemption price at maturity as determined above under “—Original Discount—General”, or
- (ii) in the case of an Original Issue Discount Note, the Note is purchased for less than its revised issue price (i.e., its issue price increased by the aggregate amount of OID includible in income before the Original Issue Discount Note was acquired by such U.S. Holder and decreased by the aggregate

amount of all payments previously made on the Note other than payments of qualified stated interest); and

- the difference between such Note's stated redemption price at maturity or, in the case of an Original Issue Discount Note, its revised issue price, and the price the relevant U.S. Holder paid for such Note is an amount that is equal to or greater than 1/4 of 1 percent of its stated redemption price at maturity or revised issue price multiplied by the number of complete years to maturity remaining after the U.S. Holder acquired the Note.

If this difference is less than such amount, the difference constitutes *de minimis* market discount, and the rules discussed below are not applicable to the relevant U.S. Holder.

A U.S. Holder must treat any gain it recognizes on the maturity or disposition of a market discount Note (including the receipt of any payment on a Note that is not qualified stated interest) as ordinary income to the extent of the accrued market discount on such Note on a straight-line basis or by using a constant-yield method. Alternatively, such U.S. Holder may elect to include market discount in income currently over the life of such Note on a straight-line basis or by using a constant-yield method. If a U.S. Holder makes this election, it will apply to all debt instruments with market discount that a U.S. Holder acquires on or after the first day of the first taxable year to which the election applies. A U.S. Holder may not revoke this election without the consent of the IRS. If a U.S. Holder owns a market discount Note and does not make this election, it will generally be required to defer deductions for interest on borrowings allocable to such Note in an amount not exceeding the accrued market discount on such Note until the maturity or taxable disposition of such Note.

A U.S. Holder will accrue market discount on its market discount Note on a straight-line basis unless it elects to accrue market discount using a constant-yield method. If a U.S. Holder makes this election, such election will apply only to the Note with respect to which it is made and the U.S. Holder may not revoke it.

With respect to a Foreign Currency Note, market discount is determined in the applicable foreign currency. In the case of a U.S. Holder who does not elect current inclusion, accrued market discount is translated into U.S. dollars at the spot rate on the date of disposition. No part of such accrued market discount is treated as exchange gain or loss. In the case of a U.S. Holder who elects current inclusion, the amount currently includible in income for a taxable year is the U.S. dollar value of the market discount that has accrued during such accrual period (or portion thereof within the U.S. Holder's taxable year), determined by translating such market discount at the average rate of exchange for the period or periods during which it accrued. Such an electing U.S. Holder will recognize exchange gain or loss with respect to accrued market discount under the same rules as apply to accrued interest on a Foreign Currency Note received by a Holder on the accrual basis. See “—Payments of Interest—Accrual Basis Taxpayer” as applicable to Notes that are not Original Issue Discount Notes.

Notes Purchased at a Premium

If a U.S. Holder purchases a Note for an amount in excess of its principal amount, the U.S. Holder may elect to treat the excess as amortizable bond premium. If the U.S. Holder makes this election, the U.S. Holder will reduce the amount required to be included in its taxable income each year with respect to interest on such Note by the amount of amortizable bond premium allocable to that year, based on such Note's yield to maturity. If such Note is a Foreign Currency Note, the relevant U.S. Holder will compute its amortizable bond premium in units of the foreign currency and its amortizable bond premium will reduce its interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time the relevant U.S. Holder's amortized bond premium offsets interest income and the time of the acquisition of such Note is generally taxable as ordinary income or loss. If a U.S. Holder makes an election to amortize bond premium, the election will apply to all debt instruments (other than debt instruments the interest on which is excludible from gross income for U.S. federal income tax purposes) that such person holds at the beginning of the first taxable year to which the election applies or that such person thereafter acquires, and such U.S. Holder may not revoke it without the consent of the IRS. See also “—Original Issue Discount—Election to Treat All Interest as Original Issue Discount”.

Purchase, Sale and Retirement of the Notes

A U.S. Holder's tax basis in a Note will generally be the U.S. dollar cost, as defined below, of such Note, adjusted by:

- adding any OID or market discount, *de minimis* OID and *de minimis* market discount previously included in income with respect to such Note, and then
- subtracting any payments on such Note that are not qualified stated interest payments and any amortizable bond premium applied to reduce interest on such Note.

If a U.S. Holder purchases a Note with foreign currency, the U.S. dollar cost of such Note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if a U.S. Holder is a cash basis taxpayer, or an accrual basis taxpayer if the U.S. Holder so elects, and the Note is traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, the U.S. dollar cost of such Note will be the U.S. dollar value of the purchase price on the settlement date in respect of the Note purchased.

A U.S. Holder will generally recognize gain or loss on the sale, retirement or other taxable disposition of such Note equal to the difference between the amount such U.S. Holder realized on the sale, retirement or other taxable disposition and its tax basis in such Note. If such Note is sold, retired or otherwise disposed of for an amount in foreign currency, the amount the relevant U.S. Holder realizes will be the U.S. dollar value of such amount on:

- the date payment is received, if such U.S. Holder is a cash basis taxpayer and the relevant Notes are not traded on an established securities market, as defined in the applicable U.S. Treasury Regulations,
- the date of disposition, if such U.S. Holder is an accrual basis taxpayer, or
- the settlement date for the sale, if it is a cash basis taxpayer, or an accrual basis taxpayer that so elects, and the relevant Notes are traded on an established securities market, as defined in the applicable U.S. Treasury Regulations.

A U.S. Holder will recognize capital gain or loss when it sells, retires or otherwise disposes of a Note held by it, except to the extent:

- described above under “—Original Issue Discount—Short-Term Notes” or “—Market Discount”,
- the amount realized is attributable to accrued but unpaid interest,
- the rules governing contingent payment debt obligations apply,
- attributable to changes in exchange rates as described below, or
- otherwise specified in the applicable Final Terms.

Any capital gain or loss recognized on the sale, retirement or other taxable disposition of a Note will be long-term capital gain or loss if the U.S. Holder's holding period in the Note exceeds one year. Certain non-corporate U.S. Holders (including individuals), under current law, may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code. Gain or loss realized by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be treated as derived from U.S. sources for purposes of the U.S. foreign tax credit.

A U.S. Holder must treat any portion of the gain or loss that it recognizes on the sale, retirement or other taxable disposition of a Note as ordinary income or loss to the extent attributable to changes in exchange rates.

However, the amount of any exchange gain or loss to be realized is limited to the amount of the total gain or loss realized on the transaction.

Exchange of Amounts in Other Than U.S. Dollars

If a U.S. Holder receives foreign currency as interest on a Note held by it or on sale, retirement or other taxable disposition of a Note held by it, the tax basis of such U.S. Holder in the foreign currency will equal its U.S. dollar value when the interest is received or at the time of the sale, retirement or other taxable disposition. If a U.S. Holder purchases foreign currency, it generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of such purchase. If such U.S. Holder sells or disposes of a foreign currency, including if such U.S. Holder uses such foreign currency to purchase Notes or exchange such foreign currency for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

Reportable Transaction Disclosure Statement

Pursuant to U.S. Treasury Regulations, a U.S. Holder that recognizes a foreign exchange loss on the sale or exchange of the Notes may be required to disclose the transaction as a “reportable transaction” on IRS Form 8886 (or a suitable substitute) in the event the loss exceeds US\$50,000 in a single year if the U.S. Holder is an individual or trust, or higher amounts for certain other Holders. Additionally, a U.S. Holder that recognizes a loss on the sale or exchange of the Notes may be required to disclose the transaction as a reportable transaction in the event the loss exceeds US\$2,000,000 in any single taxable year (or US\$4,000,000 in any combination of taxable years) if the U.S. Holder is an individual, S corporation or a trust, or generally higher amounts if the U.S. Holder is any other type of holder. A U.S. Holder should consult with its tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of Notes.

Indexed Notes and Other Notes

The applicable Final Terms will discuss any special U.S. federal income tax provisions with respect to Notes the payments on which are determined by reference to any index and other Notes that are subject to special U.S. federal income tax rules governing contingent payment debt obligations, as well as with respect to any Notes providing for the periodic payment of principal over the life of the Note.

Fungible Issue

CABEI may, without the consent of the Holders of outstanding Notes, issue Additional Notes with identical terms. These Additional Notes, even if treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as separate issue for U.S. federal income tax purposes. In such a case, the Additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the Additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the Additional Notes are not otherwise distinguishable from the original Notes.

Information Reporting and Backup Withholding

If you are a non-corporate U.S. Holder, information reporting requirements, on IRS Form 1099, generally will apply to:

- payments of principal, interest (including OID, if any) and premium (if any) on a Note within the United States, including payments made by wire transfer from outside the United States to an account you maintain in the United States; and
- the payment of the proceeds from the sale of the Note effected at a U.S. office of a broker.

Additionally, U.S. backup withholding tax will apply to such payments if you are a non-corporate U.S. Holder that:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that you have failed to report all interest and dividends required to be shown on your U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Backup withholding is not additional tax. Amounts withheld may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

In addition, U.S. Holders should be aware that recently enacted legislation imposes new reporting requirements with respect to the holding of certain foreign financial assets, including debt of foreign issuers, if the aggregate value of all of such assets exceeds US\$50,000. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our Notes and the application of the recently enacted legislation to their particular situation.

Member Country Taxation

In accordance with its Constitutive Agreement which has been ratified by the legislature in each of the Founding Members, CABEI is exempt from all types of taxes levied by each of the Member Countries on its income, property and other assets, and on operations it carries out pursuant to its Constitutive Agreement and no tax or lien may be levied on any obligation or security issued by CABEI, including any dividend or interest thereon.

Payments of principal and interest in respect of the Notes to a non-resident of the Member Countries will therefore not be subject to taxation in any of the Member Countries, nor will any withholding for tax of any of the Member Countries be required on any such payments to any Holder of Notes. In the event of the imposition of withholding taxes by any of the Member Countries, CABEI has undertaken to pay Additional Amounts in respect of any payments subject to such withholding, subject to certain exemptions, as described under Section 10 (Additional Amounts) of the Terms and Conditions of the Notes.

El Salvador Taxation

The following is a general discussion of Salvadoran tax considerations. The discussion is based upon the tax laws of El Salvador as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Salvadoran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, El Salvador.

Under current Salvadoran law, payments of principal and interest on the Notes to Holders are not subject to taxation in El Salvador. Holding a Note will not by itself subject a Holder to any tax in El Salvador.

Costa Rican Taxation

The following is a general discussion of Costa Rican tax considerations. The discussion is based upon the tax laws of Costa Rica as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Costa Rican tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Costa Rica.

Under current Costa Rican law, payments of principal and interest on the Notes to Holders are not subject to taxation in Costa Rica. Holding a Note will not by itself subject a Holder to any tax in Costa Rica.

Guatemalan Taxation

The following is a general discussion of Guatemalan tax considerations. The discussion is based upon the tax laws of Guatemala as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Salvadoran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Guatemala.

Under current Guatemalan law, payments of principal and interest on the Notes to Holders are not subject to taxation in Guatemala. Holding a Note will not by itself subject a Holder to any tax in Guatemala.

Honduran Taxation

The following is a general discussion of Honduran tax considerations. The discussion is based upon the tax laws of Honduras as in effect on the date of this Base Prospectus, which are subject to change. Prospective investors should consult their own tax advisors with respect to Honduran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Honduras.

Under current Honduran law, payments of principal and interest on the Notes to Holders are not subject to taxation in Honduras. Holding a Note will not by itself subject a Holder to any tax in Honduras.

European Union Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “Savings Directive”), European Union member states (each, a “Member State”) are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Luxembourg and Austria have instead opted to operate a withholding system in relation to such payments (unless during that period they elect otherwise) deducting tax rates rising over time to 35%. The transitional period is to terminate following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted, or have agreed to adopt, similar measures (either provision of information or transitional withholding with effect from the same date).

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

OFFERING AND SALE

Notes may be sold from time to time by CABEL to or through certain financial institutions (the “Agents”). The arrangements under which the Notes may from time to time be agreed to be sold by CABEL to or through the Agents are set out in the Distribution Agreement dated April 2, 2003, amended on March 8, 2007 (the “Distribution Agreement”) between CABEL and Salomon Smith Barney Inc. (now Citigroup Global Markets Inc.). The Distribution Agreement provides for the resignation or termination of appointment of the Agents and for the appointment of additional or other Agents either generally in respect of the Program or in relation to a particular tranche of Notes. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Agent, the commissions or other agreed deductibles (if any) which are payable or allowable by CABEL in respect of such purchase and the form of any indemnity to the Agent against certain liabilities in connection with the offer and sale of the relevant Notes.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury Regulations. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder.

The Agents have agreed and each further Agent appointed under the Program will be required to agree that, except as permitted by the Distribution Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Fiscal Agent by the relevant Agent, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Agent to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restriction on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Distribution Agreement provides that the Agents may, directly or through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of Notes within the United States in reliance on Rule 144A only to a “qualified institutional buyer”, or “QIB”, within the meaning of Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of such Notes within the United States by any dealer that is not participating in the offering of such Notes may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

In connection with an offering of Notes, the Agent may purchase and sell the Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the Agent in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes; and short positions created by the Agent involve the sale by the Agent of a greater number of Notes than it is required to purchase from the Issuer in the offering. The Agent also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the securities sold in the offering may be reclaimed by the Agent if such Notes are repurchased by the Agent in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Notes, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

In connection with the offering of any tranche of Notes in the United Kingdom, the person appointed as stabilizing agent (or persons acting on its behalf) may over-allot Notes (*provided* that, in the case of any series of Notes to be admitted to trading on the Luxembourg Stock Exchange, the aggregate principal amount of Notes allotted does not exceed 105 percent of the aggregate principal amount of Notes of the relevant series) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the person appointed as stabilizing agent (or persons acting on its behalf) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which the issuer received the proceeds of the issue, or no later than 60 days after the date of allotment of the relevant notes.

This Base Prospectus has been prepared by CABEI for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons and for the resale of the Notes in the United States and for the listing of Notes on the Luxembourg Stock Exchange. CABEI and the Agent reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the number of Notes which may be offered pursuant to Rule 144A. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than a QIB within the meaning of Rule 144A to whom an offer has been made directly by the Agent or an affiliate of the Agent. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorized.

and any disclosure without the prior written consent of CABEI of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

This Base Prospectus has been prepared on the basis that, except to the extent sub-paragraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area (“EEA”) which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of securities. Accordingly any person making or intending to make any offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, *provided* that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor the Agents have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Agent to publish or supplement a prospectus for such offer. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

European Economic Area

In relation to each Relevant Member State, each Agent has represented and agreed, and each further Agent appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public of such Notes in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “Non-exempt Offer”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, *provided* that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;

(b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100, or if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the applicable lead Agent for the particular series of Notes offered for any such offer;

- (e) at any time if the denomination per unit of Notes being offered amounts to at least €50,000;
- (f) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (f) above shall require the Issuer or any Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this section, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

The Agent has represented, warranted and agreed, and each further Agent appointed under the Program will be required to represent, warrant and agree, that (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”); (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

This Base Prospectus as completed by the final terms in relation thereto is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This Base Prospectus as completed by the final terms in relation thereto is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Base Prospectus as completed by the final terms in relation thereto relates is available only to relevant persons and will be engaged in only with relevant persons.

Any investor purchasing the notes is solely responsible for ensuring that any offer or resale of Notes it purchases occurs in compliance with applicable laws and regulations.

No action has been or will be taken in any jurisdiction by the Agent or CABEI that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus, or any part thereof including any Final Terms, or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. The Agent has agreed and each further Agent appointed under the Program will be required to agree that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells, or delivers Notes or has in its possession or distributes this Base Prospectus, or any part

thereof including any Final Terms, or any such other material, in all cases at its own expense. The Agent has agreed and each further Agent appointed under the Program will be required to agree that it will also ensure that no obligations are imposed on CABEI in any such jurisdiction as a result of any of the foregoing actions (except to the extent that such actions are the actions of CABEI). CABEI will have no responsibility for, and the Agent has agreed and each further Agent appointed under the Program will be required to agree that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it may make any acquisition, offer, sale or delivery.

No Agent is authorized to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Base Prospectus, including the applicable Final Terms, and any other information or document supplied.

Selling restrictions may be modified by the agreement of CABEI and the relevant Agents. Any such modification will be set out in the Final Terms issued in respect of the Notes to which it relates or in a supplement to this Base Prospectus.

CABEI has agreed to indemnify the Agent against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the Agent may be required to make in respect of any of those liabilities.

The Agent or its affiliates have performed certain investment banking, commercial banking or advisory services for CABEI from time to time for which they have received customary fees and expenses. The Agent or its affiliates may, from time to time, engage in transactions with or perform services for CABEI in the ordinary course of business.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of Notes.

Rule 144A Notes

Each purchaser of the Notes offered and sold in reliance on Rule 144A (“Rule 144A”) under the Securities Act and each owner of any beneficial interest therein will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S (“Regulation S”) under the Securities Act are used herein as defined therein):

- (1) It (i) is a qualified institutional buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A, (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer, as the case may be, and (iv) is not acquiring such Notes with a view to any resale or distribution thereof other than in accordance with the restrictions set forth below.
- (2) It understands that the Notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (i) so long as the Note is eligible for resale pursuant to Rule 144A, to a person who the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with all applicable securities laws of the states of the United States.
- (3) It understands that the Notes will be represented by a Restricted Global Note. Before any interest in a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, the transferor will be required to provide the fiscal agent with a written certification (in the form provided in the fiscal agency agreement) as to compliance with the transfer restrictions referred to in clause (2)(ii) or (2)(iii) above.
- (4) The Notes will bear a legend to the following effect, unless CABEI determines otherwise in compliance with applicable law:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) SO LONG AS THE NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTE, REPRESENTS AND AGREES THAT IT SHALL NOTIFY THE PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THIS LEGEND MAY BE REMOVED SOLELY AT THE DISCRETION AND AT THE DIRECTION OF THE ISSUER.

Regulation S Notes

Each purchaser of Registered Notes offered outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of CABEI or a person acting on behalf of such affiliate.

(2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

(3) It understands that such Notes, unless otherwise determined by CABEI in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

THIS LEGEND MAY BE REMOVED SOLELY AT THE DISCRETION AND AT THE DIRECTION OF THE ISSUER.

(4) The Issuer, the Registrar, the Agent and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(5) It understands that the Notes offered in reliance on Regulation S will be represented by the Regulation S Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(6) Delivery of the Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Notes. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own advisor.

VALIDITY OF THE NOTES

The validity under New York law of the notes will be passed upon for CABEI by Shearman & Sterling LLP, New York, New York. Certain legal matters governed by the Constitutive Agreement will be passed on by the General Legal Counsel of CABEI.

INDEPENDENT AUDITORS

The financial statements of CABEI as of December 31, 2010 and for the year then ended included in this Base Prospectus have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein, which report expresses an unqualified opinion on the financial statements. The financial statements of CABEI as of December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008 included in this Base Prospectus have been audited by Deloitte & Co. S.R.L., independent auditors, as stated in their report appearing herein, which report expresses an unqualified opinion on the financial statements.

GENERAL INFORMATION

1. The Program, the issuance of the Notes and the execution of all documents in connection therewith has been authorized by a resolution of the Board of Directors dated August 27, 2002, as amended by a resolution of the Board of Directors dated June 28, 2006 and February 24, 2009.

2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Bearer Notes, together with the relevant ISIN Code or CUSIP number for the Registered Notes, will be contained in the Final Terms relating thereto. In addition, CABEI will make an application with respect to any Notes of a Registered Series to be accepted for trading in book-entry form by DTC. Acceptance by DTC of each tranche of a Registered Series will be confirmed in the applicable Final Terms.

3. Except as disclosed or provided herein, there has been no significant change in the financial position of CABEI since December 31, 2010.

4. So long as any Notes are listed on the Luxembourg Stock Exchange, CABEI will maintain a Paying Agent and a Transfer Agent in Luxembourg. CABEI has appointed Deutsche Bank Luxembourg S.A. as Paying Agent and Transfer Agent in Luxembourg. CABEI has appointed Dexia Banque Internationale à Luxembourg as its Listing Agent in Luxembourg. CABEI has also appointed Deutsche Bank Trust Company Americas as Fiscal Agent, Registrar, Paying Agent and Transfer Agent in The City of New York and Deutsche Bank AG London as its Paying Agent and Transfer Agent in London. CABEI reserves the right to vary such appointment.

5. CABEI is involved in routine litigation and other proceedings in the ordinary course of business. CABEI does not believe that the proceedings pending against it are likely to have a material adverse effect on its business or results of operations.

6. So long as Notes are outstanding and listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require, CABEI will make available copies of its by-laws, latest annual report, annual financial statements and any six month interim financial statements, as well as this Base Prospectus and any supplements to this Base Prospectus, each Final Terms and the Fiscal Agency Agreement at the specified office of the Paying Agent in Luxembourg during normal business hours.

THE FOUNDING MEMBERS

Certain sections of the following information have been extracted from publicly available sources. CABEI believes that the information is accurate but it has not independently verified it.

Selected Demographic and Economic Data

The following table presents selected demographic and economic data for the Founding Members for the last 10 years.

| | <u>Guatemala</u> | <u>El Salvador</u> | <u>Honduras</u> | <u>Nicaragua</u> | <u>Costa Rica</u> |
|---|------------------|--------------------|-----------------|------------------|-------------------|
| Population (in millions)⁽¹⁾ | | | | | |
| 2010 | 14.4 | 5.9 | 7.8 | 6.3 | 4.8 |
| 2009 | 14.0 | 5.8 | 7.8 | 6.3 | 4.6 |
| 2008 | 13.7 | 5.8 | 7.7 | 6.2 | 4.5 |
| 2007 | 13.4 | 5.7 | 7.5 | 6.1 | 4.4 |
| 2006 | 13.0 | 5.7 | 7.3 | 5.9 | 4.3 |
| 2005 | 12.7 | 5.7 | 7.2 | 5.8 | 4.3 |
| 2004 | 12.4 | 5.6 | 7.0 | 5.6 | 4.2 |
| 2003 | 12.0 | 5.6 | 6.9 | 5.5 | 4.1 |
| 2002 | 11.8 | 5.6 | 6.7 | 5.3 | 4.0 |
| 2001 | 11.5 | 5.5 | 6.6 | 5.2 | 3.9 |
| | | | | | |
| Life expectancy at birth (years)⁽²⁾ | | | | | |
| 2010 | 70.9 | 73.4 | 70.6 | 71.9 | 79.0 |
| 2009 | 70.3 | 72.3 | 70.4 | 71.5 | 79.0 |
| 2008 | n.a | n.a | n.a | n.a | n.a |
| 2007 | n.a | n.a | n.a | n.a | n.a |
| 2006 | n.a | n.a | n.a | n.a | n.a |
| 2005 | n.a | n.a | n.a | n.a | n.a |
| 2004 | 67.6 | 71.1 | 68.1 | 70.0 | 78.3 |
| 2003 | 67.3 | 70.9 | 67.8 | 69.7 | 78.2 |
| 2002 | 65.7 | 70.6 | 68.8 | 69.4 | 78.0 |
| 2001 | 66.5 | 70.0 | 69.4 | 69.1 | 76.0 |
| | | | | | |
| GDP (US\$ in billions)⁽¹⁾ | | | | | |
| 2010 | 41.2 | 21.7 | 15.3 | 6.4 | 35.8 |
| 2009 | 37.3 | 21.1 | 14.3 | 6.1 | 29.3 |
| 2008 | 39.1 | 22.1 | 13.9 | 6.2 | 29.8 |
| 2007 | 34.1 | 22.3 | 12.3 | 5.6 | 26.2 |
| 2006 | 30.2 | 18.7 | 10.8 | 5.2 | 22.5 |
| 2005 | 27.2 | 17.2 | 9.7 | 4.9 | 20.0 |
| 2004 | 23.9 | 15.8 | 8.8 | 4.5 | 18.6 |
| 2003 | 21.9 | 15.0 | 8.1 | 4.1 | 17.5 |
| 2002 | 20.8 | 14.3 | 7.8 | 4.0 | 16.8 |
| 2001 | 18.7 | 13.8 | 7.6 | 4.1 | 16.4 |

| | | | | | |
|--|-------|-------|------|------|------|
| GDP per capita⁽¹⁾ | | | | | |
| (US\$ in thousands) | | | | | |
| 2010 | 2.8 | 3.7 | 2.0 | 1.1 | 7.4 |
| 2009 | 2.6 | 3.6 | 1.9 | 1.1 | 6.3 |
| 2008 | 2.9 | 3.8 | 1.9 | 1.0 | 6.6 |
| 2007 | 2.6 | 3.5 | 1.7 | 0.9 | 5.9 |
| 2006 | 2.3 | 3.3 | 1.5 | 0.9 | 5.2 |
| 2005 | 2.1 | 3.0 | 1.3 | 0.9 | 4.7 |
| 2004 | 1.9 | 2.8 | 1.2 | 0.8 | 4.4 |
| 2003 | 1.8 | 2.7 | 1.2 | 0.7 | 4.3 |
| 2002 | 1.8 | 2.6 | 1.1 | 0.7 | 4.2 |
| 2001 | 1.6 | 2.5 | 1.1 | 0.8 | 4.2 |
| | | | | | |
| Net reserves⁽³⁾ | | | | | |
| (US\$ in billions) | | | | | |
| 2010 | 6.0 | 2.9 | 2.7 | 1.6 | 4.6 |
| 2009 | 5.2 | 2.9 | 2.1 | 1.4 | 4.1 |
| 2008 | 4.7 | 2.5 | 2.5 | 1.1 | 3.8 |
| 2007 | 4.3 | 2.2 | 2.5 | 1.1 | 4.1 |
| 2006 | 4.0 | 1.9 | 2.6 | 0.9 | 3.1 |
| 2005 | 3.8 | 1.8 | 2.3 | 0.5 | 2.3 |
| 2004 | 3.5 | 1.9 | 2.0 | 0.4 | 1.9 |
| 2003 | 2.9 | 1.9 | 1.4 | 0.3 | 1.8 |
| 2002 | 2.4 | 1.6 | 1.5 | 0.3 | 1.5 |
| 2001 | 2.3 | 1.7 | 1.4 | 0.2 | 1.3 |
| | | | | | |
| Consumer Price Index Annual Growth Rate⁽¹⁾ | | | | | |
| Percent (%) | | | | | |
| 2010 | 5.4 | 2.1 | 6.5 | 9.2 | 5.8 |
| 2009 | (0.3) | (0.2) | 9.4 | 9.4 | 9.4 |
| 2008 | 9.4 | 5.5 | 10.8 | 13.8 | 13.9 |
| 2007 | 8.7 | 4.9 | 8.9 | 16.9 | 10.8 |
| 2006 | 5.8 | 4.9 | 5.3 | 9.5 | 9.4 |
| 2005 | 8.6 | 4.3 | 7.7 | 9.6 | 14.0 |
| 2004 | 9.2 | 5.4 | 9.2 | 9.3 | 14.1 |
| 2003 | 5.9 | 2.5 | 6.8 | 6.5 | 9.9 |
| 2002 | 6.3 | 2.8 | 8.1 | 3.9 | 9.7 |
| 2001 | 8.9 | 1.4 | 8.8 | 4.8 | 11.0 |
| | | | | | |
| Exports of Goods (f.o.b.)⁽³⁾ | | | | | |
| (US\$ in billions) | | | | | |
| 2010 | 8.5 | 4.5 | 2.7 | 3.1 | 9.3 |
| 2009 | 7.2 | 3.8 | 2.3 | 2.3 | 8.8 |
| 2008 | 7.7 | 4.5 | 2.9 | 2.8 | 9.5 |
| 2007 | 6.9 | 3.9 | 2.5 | 2.5 | 9.3 |
| 2006 | 6.0 | 3.7 | 2.0 | 2.0 | 8.2 |
| 2005 | 5.4 | 3.4 | 1.8 | 1.6 | 7.0 |
| 2004 | 5.0 | 3.3 | 1.5 | 1.4 | 6.3 |
| 2003 | 4.4 | 3.1 | 1.3 | 1.0 | 6.1 |
| 2002 | 4.1 | 3.0 | 1.3 | 0.9 | 5.3 |
| 2001 | 3.8 | 2.9 | 1.3 | 0.9 | 5.0 |

| Import of Goods (c.i.f.)⁽³⁾ | | | | | |
|---|--------|-------|-------|-------|--------|
| (US\$ in billions) | | | | | |
| 2010 | (13.8) | (8.5) | (7.1) | (5.1) | (13.6) |
| 2009 | (11.5) | (7.2) | (6.1) | (4.2) | (11.4) |
| 2008 | (14.5) | (9.7) | (8.8) | (5.1) | (15.4) |
| 2007 | (13.6) | (8.7) | (7.2) | (4.4) | (12.9) |
| 2006 | (11.9) | (7.7) | (5.6) | (3.7) | (11.5) |
| 2005 | (10.5) | (6.7) | (4.8) | (3.1) | (9.8) |
| 2004 | (9.5) | (6.3) | (3.9) | (2.6) | (8.3) |
| 2003 | (8.1) | (5.7) | (3.2) | (2.1) | (7.6) |
| 2002 | (7.6) | (5.2) | (2.9) | (2.0) | (7.2) |
| 2001 | (6.9) | (5.0) | (2.9) | (1.9) | (5.6) |

(1) Source: World Economic Outlook Database, April 2011, IMF.

(2) Sources: The United Nations Human Development Indicators produced by the Human Development Report Office of the United Nations; the Inter-American Development Bank's Annual Reports; the World Development Indicators Data Base; and the World Factbook (2002, 2003 and 2004).

(3) Source: SECMCA 2011.

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**CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
(CABEI)**

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**CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION**

Financial Statements

December 31, 2010

(With Independent Auditors' Report Thereon)



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

February 28, 2011

The management of the Central American Bank for Economic Integration (the Bank) is responsible for establishing and maintaining effective internal control over financial reporting. Management has evaluated the Bank's internal control over financial reporting using the criteria for effective internal control established in the Internal Control-Integrated Framework used by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria).

Management has assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010, defining internal control as a process designed by, or under the supervision of, the Bank's principal executive and principal financial officers, or persons performing similar functions, and effected by the Bank's Management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, at reasonably detailed level, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with the authorization of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2010.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of established controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

The Bank's financial statements as of December 31, 2010 have been audited by KPMG in Panama, an independent registered public accounting firm. In addition, KPMG in Panama has issued an independent and favorable opinion on the Bank's internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Nick Rischbieth".

Nick Rischbieth
Executive President

A handwritten signature in black ink, appearing to read "Hernan Danery Alvarado".

Hernan Danery Alvarado
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Executive President, Board of Directors and Board of Governors

Central American Bank for Economic Integration
Tegucigalpa, Honduras

We have audited the effectiveness of Central American Bank for Economic Integration's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Central American Bank for Economic Integration's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report Regarding The Effectiveness of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Central American Bank for Economic Integration's internal control over financial reporting based on our audit.

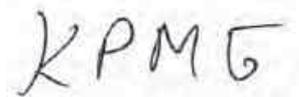
We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain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

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

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

In our opinion, Central American Bank for Economic Integration maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Central American Bank for Economic Integration as of December 31, 2010 and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended and our report dated February 28, 2011 expressed an unqualified opinion.



February 28, 2011
Panama, Republic of Panama

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Central American Bank for Economic Integration (the Bank) as of December 31, 2010, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central American Bank for Economic Integration as of December 31, 2009, were audited by other auditors whose report dated February 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central American Bank for Economic Integration as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.

We also have audited in accordance with attestation standards established by the American Institute of Certified Public Accountants and in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2011, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

KPMG

February 28, 2011
Panama, Republic of Panama

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Balance Sheets

As of December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

| | <u>2010</u> | <u>2009</u> |
|--|-------------------------|-------------------------|
| <u>Assets</u> | | |
| Cash and due from banks (note 4) | 29,917 | 57,303 |
| Interest-bearing deposits with banks (note 5) | 799,328 | 639,760 |
| Securities available for sale (note 6) | 657,550 | 678,644 |
| Loans | 4,837,994 | 4,363,773 |
| Less: Allowance for loan losses | -200,277 | -203,198 |
| Net loans (note 7) | <u>4,637,717</u> | <u>4,160,575</u> |
| Accrued interest receivable (note 8) | 57,525 | 56,007 |
| Property and equipment, net (note 9) | 27,484 | 27,108 |
| Derivative financial instruments (note 19) | 213,955 | 125,346 |
| Equity investments (note 10) | 25,804 | 19,605 |
| Other assets (note 11) | 18,485 | 13,002 |
| Total assets | <u><u>6,467,765</u></u> | <u><u>5,777,350</u></u> |
| <u>Liabilities</u> | | |
| Loans payable (note 12) | 1,190,426 | 951,773 |
| Bonds payable (note 13.a) | 2,610,360 | 2,377,468 |
| Commercial paper program (note 13.b) | 201,695 | 115,498 |
| Certificates of deposit (note 14) | 398,418 | 353,036 |
| Certificates of investment | 1,494 | 1,874 |
| Accrued interest payable (note 15) | 31,698 | 32,242 |
| Derivative financial instruments (note 19) | 75,320 | 101,312 |
| Other liabilities (note 16) | 29,564 | 31,557 |
| Total liabilities | <u>4,538,975</u> | <u>3,964,760</u> |
| <u>Equity</u> | | |
| Paid-in capital (note 17.a) | | |
| (authorized capital 2,000,000) | 450,725 | 447,125 |
| Special capital contributions (note 17.a) | 7,250 | 5,688 |
| Retained earnings | 114,403 | 70,626 |
| General reserve | 1,356,754 | 1,286,128 |
| Accumulated other comprehensive income (note 22) | -342 | 3,023 |
| Total equity | <u>1,928,790</u> | <u>1,812,590</u> |
| Total liabilities and equity | <u><u>6,467,765</u></u> | <u><u>5,777,350</u></u> |

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Statements of Income

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

| | <u>December 31,</u> | |
|--|---------------------|----------------|
| | <u>2010</u> | <u>2009</u> |
| Financial income | | |
| Public sector loans | 202,308 | 182,808 |
| Private sector loans | 70,767 | 83,387 |
| Marketable securities | 8,448 | 11,216 |
| Due from banks | 1,741 | 1,777 |
| Realized gains on investment funds | 11,573 | 6,660 |
| Total financial income | <u>294,837</u> | <u>285,848</u> |
| Financial expenses | | |
| Loans payable and other liabilities | 40,973 | 37,708 |
| Bonds payable | 72,838 | 70,660 |
| Commercial paper program | 5,214 | 1,066 |
| Certificates of deposit and investment | 18,559 | 23,080 |
| Total financial expenses | <u>137,584</u> | <u>132,514</u> |
| Net financial income | 157,253 | 153,334 |
| Provision for loan losses | 15,430 | 49,454 |
| Net financial income after provision for loan losses | <u>141,823</u> | <u>103,880</u> |
| Administrative expenses | | |
| Salaries and employee benefits | 20,724 | 21,264 |
| Other administrative expenses | 10,271 | 9,683 |
| Depreciation | 3,404 | 3,974 |
| Other administrative expenses | 427 | 457 |
| Total administrative expenses | <u>34,826</u> | <u>35,378</u> |
| Other operating income (expenses) | | |
| Management fee | 8,327 | 2,528 |
| Supervision and audit fee | 2,030 | 2,386 |
| Dividends from equity investments | 192 | 483 |
| Adjustment to foreclosed and other assets | -598 | -203 |
| Gain (loss) on sale of securities available for sale | 147 | -4,834 |
| Adjustment to venture capital investments | -1,384 | -1,592 |
| Market value adjustment of swap transactions and other financial instruments | 272 | 15,452 |
| Foreign exchange gains (losses) | 1,701 | -4,292 |
| Other income (expenses) | -799 | 824 |
| Total other operating expenses, net | <u>9,888</u> | <u>10,752</u> |
| Earnings, before other expenses | 116,885 | 79,254 |
| Other expenses | | |
| Special contributions | 2,308 | 8,593 |
| Allowance for technical assistance and other | 174 | 35 |
| Total other expenses | <u>2,482</u> | <u>8,628</u> |
| Net income | <u>114,403</u> | <u>70,626</u> |

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Statements of Comprehensive Income

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

| | <u>December 31,</u> | |
|---|-----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> |
| Net income | <u>114,403</u> | <u>70,626</u> |
| Other comprehensive income: | | |
| Unrealized gain on securities available for sale, net | 6,679 | 18,714 |
| Reclassification adjustments for net realized (gains) | | |
| included in earnings | <u>-11,720</u> | <u>-2,572</u> |
| Subtotal - securities available for sale | -5,041 | 16,142 |
| Unrealized gain (loss) from cash flow hedging derivatives | <u>1,676</u> | <u>-2,364</u> |
| Other comprehensive (loss) gain | <u>-3,365</u> | <u>13,778</u> |
| Comprehensive income | <u><u>111,038</u></u> | <u><u>84,404</u></u> |

See accompanying notes to financial statements.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Statements of Changes in Equity

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

| | <u>Paid-in Capital</u> | <u>Special Capital Contributions</u> | <u>Retained Earnings</u> | <u>General Reserve</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Total Equity</u> |
|---|----------------------------|--|------------------------------|----------------------------|---|-------------------------|
| Balance as of December 31, 2008 | 427,425 | 5,625 | 83,291 | 1,202,837 | (10,755) | 1,708,423 |
| Net income | 0 | 0 | 70,626 | 0 | 0 | 70,626 |
| Net unrealized change in: | | | | | | |
| Gain on securities available for sale | 0 | 0 | 0 | 0 | 16,142 | 16,142 |
| Loss from cash flow hedging derivatives | 0 | 0 | 0 | 0 | (2,364) | (2,364) |
| Comprehensive income | | | | | | 84,404 |
| Transfer to general reserve | 0 | 0 | (83,291) | 83,291 | 0 | 0 |
| Contributions during the year | 19,700 | 0 | 0 | 0 | 0 | 19,700 |
| Special capital contributions | 0 | 63 | 0 | 0 | 0 | 63 |
| Balance as of December 31, 2009 | 447,125 | 5,688 | 70,626 | 1,286,128 | 3,023 | 1,812,590 |
| Net income | 0 | 0 | 114,403 | 0 | 0 | 114,403 |
| Net unrealized change in: | | | | | | |
| Loss on securities available for sale | 0 | 0 | 0 | 0 | (5,041) | (5,041) |
| Gain from cash flow hedging derivatives | 0 | 0 | 0 | 0 | 1,676 | 1,676 |
| Comprehensive income | | | | | | 111,038 |
| Transfer to general reserve | 0 | 0 | (70,626) | 70,626 | 0 | 0 |
| Contributions during the year | 3,600 | 0 | 0 | 0 | 0 | 3,600 |
| Special capital contributions | 0 | 1,562 | 0 | 0 | 0 | 1,562 |
| Balance as of December 31, 2010 | 450,725 | 7,250 | 114,403 | 1,356,754 | (342) | 1,928,790 |

See accompanying notes to financial statements.



Statements of Cash Flows

Years ended December 31, 2010 and 2009

(Expressed in thousands of U.S. dollars)

| | <u>December 31,</u> | |
|--|---------------------|-----------------|
| | <u>2010</u> | <u>2009</u> |
| Cash flows from operating activities | | |
| Net income | 114,403 | 70,626 |
| Items to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,404 | 3,974 |
| Provision for loan losses | 15,430 | 49,454 |
| Adjustment to foreclosed assets | 598 | 0 |
| Adjustment to venture capital investments | 1,384 | 1,592 |
| Foreign exchange (gains) losses | -1,701 | 4,292 |
| Market value adjustment of swap transactions and other financial instruments | -272 | -15,452 |
| (Increase) decrease in accrued interest receivable | -3,260 | 393 |
| (Decrease) increase in accrued interest payable | -1,489 | 2,385 |
| Net cash provided by operating activities | <u>128,497</u> | <u>117,264</u> |
| Cash flows from investing activities | | |
| Net increase in interest-bearing deposits with banks | -159,634 | -78,750 |
| Purchase of securities available for sale | -228,110 | -554,275 |
| Proceeds from sales of securities available for sale | 246,978 | 350,825 |
| Purchase of property and equipment | -3,781 | -2,379 |
| Net decrease in derivative financial instruments | 5,904 | 12,753 |
| Disbursements of loans receivable | -1,156,507 | -1,266,454 |
| Collections of loans receivable | 847,904 | 1,193,632 |
| Venture capital investments, net of capital returns | -7,583 | 0 |
| Net (increase) decrease in other assets | -6,080 | 2,185 |
| Net decrease in other liabilities | -2,087 | -1,970 |
| Net cash used in investing activities | <u>-462,996</u> | <u>-344,433</u> |
| Cash flows from financing activities | | |
| Net increase (decrease) in loans payable | 70,258 | -160,275 |
| Net increase in commercial paper program | 86,197 | 57,762 |
| Net increase in bonds payable | 100,854 | 636,630 |
| Net decrease in certificates of investment | -381 | -799 |
| Net increase (decrease) in certificates of deposit | 45,382 | -301,336 |
| Capital contributions | 3,600 | 19,700 |
| Special capital contributions | 1,562 | 63 |
| Net cash provided by financing activities | <u>307,472</u> | <u>251,745</u> |
| Effect of exchange rate fluctuations on cash held | <u>-359</u> | <u>-932</u> |
| Cash and due from banks at beginning of year | 57,303 | 33,659 |
| Cash and due from banks at end of year | 29,917 | 57,303 |
| Net (decrease) increase in cash and cash equivalents | <u>-27,386</u> | <u>23,644</u> |
| Supplemental information | | |
| Cash paid for interest during period | <u>138,128</u> | <u>130,129</u> |
| Changes in unrealized net (loss) gain on securities available for sale | <u>-5,041</u> | <u>16,142</u> |
| Changes in unrealized gain (loss) from cash flow hedging derivatives | <u>1,676</u> | <u>-2,364</u> |
| Assets acquired in satisfaction of loans | <u>0</u> | <u>1,013</u> |

See accompanying notes to financial statements.



Notes to Financial Statements

(Expressed in thousands of U.S. dollars)

(1) Origin and Nature of the Bank

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

The Bank’s objective is to promote the integration and economic and social development of the Founding Members.

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC) and by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS). These two funds are regulated by their own by-laws and are independent and separate from the Bank, although they are administrated by the Bank. These financial statements include, solely, the assets, liabilities and operations of the Bank. Certain financial information relating to those funds has been disclosed in note 20.

(2) Summary of Significant Accounting Policies

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

A summary of significant accounting policies is as follows:

(a) Comparative statements

The financial statements as of December 31, 2010 are presented together with those corresponding to December 31, 2009, for comparison purposes.

(b) 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).

(c) Cash and equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent the amounts included in cash and due from banks.



(2) Summary of Significant Accounting Policies, continued

(d) Fair value

The Bank determines the fair value of financial and nonfinancial instruments recorded in a recurring and non-recurring basis using the provisions set forth by the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820 "*Fair Value Measurements and Disclosures*", which establishes a framework for determining fair value and includes specific disclosures. Depending on the nature of the asset or liability, the Bank uses various valuation techniques and assumptions to determine fair value.

The three levels of the fair value hierarchy are described below:

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

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

(e) 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

The Bank conducts periodic reviews in order to determine if events or economic situations have occurred that indicate other-than-temporary impairment on securities with unrealized losses. Recognition of other-than-temporary impairment on debt securities occurs when any of the following conditions are met: (1) the Bank does not expect to collect the amortized cost of the security, (2) the Bank has the intention of selling the security, or (3) it is more likely than not that the Bank will be obligated to sell the security before it recovers its amortized cost.

If the first condition is met, but the Bank has no intention of selling and it is unlikely that the Bank will be obligated to sell the security before its amortized cost is recovered, the Bank must record the difference between the amortized cost of the security and its recoverable value in the statement of income and the difference between its recoverable value and its fair value in other comprehensive income. If the second or third condition is met, then the Bank records the total difference between amortized cost and fair value in the statement of income as incurred losses.

The Bank has not experienced other-than-temporary impairment during the years ended December 31, 2010 and 2009.

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

Premiums and discounts are recognized as an adjustment to yield over the term of the security using 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.

(f) Concentration of credit risk

In compliance with its objective and financial policies, the Bank grants loans and guarantees to individuals and companies, both public and private, established in the founding members or in beneficiary countries, as well as to non-regional financial institutions that operate in Central America, in order to meet the needs of development and integration programs and projects in the founding members.

**(2) Summary of Significant Accounting Policies, continued**

In accordance with such policies, the Bank avoids concentration of its loan portfolio in individual countries or in a small group of countries, as well as in sectors that tend to be negatively affected by market conditions or technological changes. The parameters have been established in relation to the Bank's equity, defined as paid-in capital, reserves and retained earnings. Significant parameters are as follows:

- The total of its loan portfolio cannot exceed 3.5 times the Bank's equity.
- The Bank's equity should be maintained at a level not lower than 35% of total risk weighted assets.
- The weighted exposure in any of the founding members must not exceed 100% of the Bank's equity or 30% of the Bank's total risk assets. Exposure is defined as the aggregate risk assets which the Bank concentrates in a single borrower, whether such borrower is a country, a public or mixed institution, an individual or a private sector company.
- Exposure in each one of the non-founding beneficiary countries, with the status of extra-regional member, will be up to the sum of the capital paid in cash plus the portion in cash of special capital contributions, multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by those countries.
- Exposure in each one of the non-founding beneficiary countries not holding an extra-regional member status, will be up to the special capital contributions paid in cash multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by the founding countries.
- Exposure to a single public sector company or mixed institution with public majority ownership, with the exception of state owned banks without a sovereign guarantee, should not exceed 20% of the Bank's equity.
- Exposure to a state-run bank, with no sovereign guarantee, shall not exceed 12% of the Bank's equity.
- Exposure to a group of companies registered in any of the beneficiary countries and based on its credit rating, shall not exceed 10% of the Bank's equity. Additionally, exposure to a single enterprise within such group shall never exceed 5% of the Bank's equity.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's equity.

(2) Summary of Significant Accounting Policies, continued



Notes to Financial Statements

- The exposure limit to a single economic sector without a sovereign guarantee is the lower of the following limits:
 - Hirschman/Herfindahl index (*), up to 12.5%
 - 30% of the portfolio
 - 1.0 times the Bank's equity

(*) Credit concentration by industry

(g) *Loans and allowance for loan losses*

Loans are stated at the unearned principal balance. Interest income is recognized on the accrual basis according to the contractual terms of the loans.

Loans to the private sector are mainly granted through eligible financial institutions of the region and, in the case of direct co-financed loans, CABEI obtains such collateral as it considers appropriate including: mortgages, bank pledges, financial guarantees and credit default swaps.

A private sector 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 according to the amortization schedule established in the contractual terms of the loan. Factors considered by management in determining impairment include payment status, 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 the restructuring of a loan with problems. When the ultimate collectibility 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 been disallowed. Restructured loans are 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 as the deteriorating financial condition of the borrower. Interest on these loans is accrued at the renegotiated rates.

(2) Summary of Significant Accounting Policies, continued



On December 15, 2010, the new Regulation for the Allowance for Loan Losses Policy for Private Sector Loans was approved under the Board of Directors Resolution DI-170/2010. In accordance with this Regulation, the Bank's management has developed policies and procedures that reflect the credit risk assessment considering all available information to determine whether the reserve for loan losses is adequate. When appropriate, this assessment includes monitoring qualitative and quantitative trends including changes in levels of arrears, criticized loans, and non-accrual loans. In developing this assessment, the Bank uses estimates and judgment in order to assess the credit risk. Depending on changes in circumstances, future assessments of credit risk could cause actual results to differ materially from the estimates, which could cause an increase or decrease in the allowance for loan losses. Increases 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 receivable, 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.

Prior to December 15, 2010, allowances for private sector loans were determined based on an assessment of each individual loan by applying an internal credit risk rating scale that assigned specific allowance percentages to each credit risk category.

Public sector loans are granted to governments and autonomous entities of the founding members and non-funding beneficiary countries under a sovereign guarantee of the respective country. In duly qualified cases, the Bank requires a generic guarantee of the borrower that covers the loan in full.

CABEI establishes an allowance for public sector loans that takes the individual risk of the borrowing countries into consideration. This methodology includes the calculation of the probability of default based on the credit insurance percentage assigned by Export Credit Agencies (ECA's) to credit transactions in the borrowing countries. This probability is adjusted for CABEI's preferred creditor status. Additionally, this methodology takes into consideration the risk of public sector loans not covered by sovereign guarantee as well as the remaining maturity of operations. 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. As of December 31, 2010 and 2009, there were no impaired public sector loans.

(2) Summary of Significant Accounting Policies, continued



Notes to Financial Statements

The allowances for loan losses are established through estimates of possible losses, which are charged to income in the year they are incurred and disclosed as a separate line item deducting loans receivable. Loan losses are written off against the allowance when management confirms full or partial inability to collect the loan balances. Subsequent recoveries, if any, are credited to the provision for loan losses in the statement of income. Management assesses its allowance for loan losses on a regular basis.

(h) *Non-accrual loans*

In accordance with the Bank's policies, interest recognition for loans is discontinued when reasonable doubt exists as to full, timely collection of principal or interest, or when loans are 90 days or more in arrears on principal and/or interest based on contractual terms. However, interest recognition for public sector loans is discontinued when they become 180 days or more past due based on contractual terms. 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 interest income. Collections are accounted for on the cash method thereafter, until qualifying to return to accrual status. When borrowers demonstrate over an extended period the ability to repay a loan in accordance with the contractual terms of a loan classified as non – accrual, the loan is returned to accrual status. The Bank charges off loans when collectibility of principal balances is not probable.



Interest on loans for which the original conditions have been modified are recorded on a cash basis until they have a normal performance for a reasonable period.

(i) *Property and equipment*

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

Depreciation is provided by using the straight-line method over the estimated useful life of each type of asset. The estimated useful life of the assets is as follows:

| | <u>Years</u> |
|-----------------------------|--------------|
| Buildings | 40 |
| Facilities and improvements | 10 |
| Furniture and equipment | 10 and 5 |
| Vehicles | 4 |
| Hardware and software | 3, 5 and 10 |

(2) Summary of Significant Accounting Policies, continued



Notes to Financial Statements

(j) *Foreclosed assets*

Foreclosed real estate is held for sale and is initially recorded at the lower of the related loan balance or the fair value less cost to sell of the real estate at the date of foreclosure, establishing a new cost basis. After foreclosure, these properties are carried at the lower of cost or fair value less estimated costs to sell based on recent appraised values. Costs and expenses associated to holding these properties in portfolio and the changes to the related valuation allowance are recorded as other operating expenses.

(k) *Taxes*

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

(l) *General reserve and annual net income*

According to the Constitutive Agreement, the general reserve is increased by the total annual net income.

(m) *Revenue Recognition*

Revenue is recognized when the earnings process is complete and collectability is assured. Specifically, asset management fees, measured by assets at a particular date, are accrued as earned. Supervision and audit fees are recognized when the transaction is complete. Commission expenses are recorded when the related revenue is recognized. Transaction-related expenses are recognized as incurred.

(n) *Derivative instruments and hedging activities*

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

**(2) Summary of Significant Accounting Policies, continued**

Some derivative instruments acquired by the Bank are designated as: (a) hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (“fair value hedge”); (b) hedge of the exposure to variability of cash flows of a recognized asset, liability or forecasted transaction (“cash flow hedge”) or (c) hedge of foreign currency fair value or cash flows (“foreign currency hedge”). For all hedging transactions, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, the assessment of hedge transaction’s effectiveness in hedging the exposure attributable to the hedged risk, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally monitors, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in fair value of a derivative instrument which is highly effective and which has been designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded as other operating income (expenses) in the statement of income. Changes in fair value of a derivative instrument that is highly effective and which has been designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in fair value of a derivative instrument that is highly effective and has been designated and qualifies as a foreign-currency hedge are recorded in either income or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. The ineffective portion of the change in the fair value of a derivative instrument that qualifies as either a fair value hedge or a cash flow hedge is reported in the statement of income.

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

**(2) Summary of Significant Accounting Policies, continued**

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in the statement of income.

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

In addition, the Bank also contracts derivatives that although being used as hedges of risk they do not qualify for hedge accounting in accordance with the guidelines of ASC 815 "Accounting for Derivatives and Hedging Activities". Changes to the fair values of these derivatives are recorded as other operating income (expenses) in the statement of income.

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

(o) *Equity investments*

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

(p) *Donations received and contributions granted*

Donations are recorded as other income when they are received, unless the donations are received with donor-imposed conditions, whereby they are registered 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 are presented as part of special contributions in the statement of income.

(q) Endorsements and guarantees granted

The main objective of the endorsements and guarantees granted by the Bank is to support the regional banking systems, and the development and integration of the Central American region and to expand and diversify the banking services offered by CABEI in order that its customers may have access to a broader range of services and lower financial costs in developing their projects.

In furtherance of this 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 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.

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 reviews are analyzed and segregated by risk according to the internal risk rating 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.

(r) Use of estimates

To prepare its financial statements, the Bank's management relies on certain assumptions and estimates that have an impact on the amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements. 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 and derivatives instruments and the status of contingencies. The current economic environment has increased the degree of uncertainty associated with these estimates and assumptions.



Notes to Financial Statements

(2) Summary of Significant Accounting Policies, continued*(s) Reclassifications*

When necessary, certain reclassifications of prior year figures have been made to conform with current year presentation.

(3) Fair Value

The Bank's management has established a process for determining fair value. The fair value is based primarily 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 obtained independently of market or market parameters, including but not limited to yield curves, interest rates, debt prices, exchange rates of foreign currency and credit curves. However, in situations where there is little or no activity in the market for the 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 assets or liabilities. 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.

The methods described above can generate estimates of fair value 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.

The assets and liabilities valued at their fair value on a recurrent basis as of December 31, 2010 and 2009 are as follows:

| <u>December 31, 2010</u> | <u>Quoted prices in active markets for identical assets (Level 1)</u> | <u>Significant other observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> | <u>December 31, 2010</u> |
|----------------------------------|---|--|--|------------------------------|
| <u>Assets</u> | | | | |
| Securities available for sale | 100,695 | 516,621 | 40,234 | 657,550 |
| Derivative financial instruments | 0 | 213,955 | 0 | 213,955 |
| <u>Liabilities</u> | | | | |
| Loans payable | 0 | 65,054 | 0 | 65,054 |
| Bonds payable | 0 | 1,330,138 | 0 | 1,330,138 |
| Derivative financial instruments | 0 | 71,304 | 4,016 | 75,320 |



(3) Fair Value, continued

| <u>December 31, 2009</u> | <u>Quoted prices in active markets for identical assets (Level 1)</u> | <u>Significant other observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> | <u>December 31, 2009</u> |
|----------------------------------|---|--|--|------------------------------|
| <u>Assets</u> | | | | |
| Securities available for sale | 168,248 | 455,187 | 55,209 | 678,644 |
| Derivative financial instruments | 0 | 125,346 | 0 | 125,346 |
| <u>Liabilities</u> | | | | |
| Loans payable | 0 | 65,205 | 0 | 65,205 |
| Bonds payable | 0 | 1,052,701 | 0 | 1,052,701 |
| Derivative financial instruments | 0 | 97,638 | 3,674 | 101,312 |

(i) Valuation techniques applied:

- 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 cash flows using the current yields of similar securities.
- Derivative financial instruments: Fair values have been determined on the basis of valuation models that use parameters constructed from market data, such as observable interest rate yield curves. Counterparty and the Bank's credit risks are considered depending on fair value of each derivative (see also note 19).
- Loans and bonds payable: Fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Those yield curves are adjusted to incorporate the Bank's credit risk spread.

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 2010, there were no transfers between levels 1, 2 and 3. In 2009, 3,674 were reclassified to Level 3 for certain government bonds and certain derivative instruments for which currently there are no available observable market assumptions.

The following tables present a roll-forward for the year ended December 31, 2010 and 2009 (including changes in fair value) of financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When an instrument is classified at Level 3, the decision is based on the importance of unobservable assumptions in determining fair value total. However, Level 3 instruments usually include, in addition to unobservable or Level 3, observable components (ie, components that are actively traded and can be validated by external sources); therefore, gains and losses in the tables below include changes in fair value caused in part by observable factors that are part of the valuation methodology.



Notes to Financial Statements

(3) Fair Value, continued

Changes in fair values of the instruments classified in Level 3 that occurred during the years ended December 31, 2010 and 2009 are as follow:

| | Balance at January 1, 2010 | Gains (losses) of 2010 | | Purchases, (sales), issuances or (settlements) | Transfers in and / or out of Level 3 | Balance at December 31, 2010 |
|-------------------------------------|----------------------------------|------------------------------|--|---|--|------------------------------------|
| | | Included in net income | Included in other comprehensive income (loss) | | | |
| <u>Assets</u> | | | | | | |
| Securities available for sale | 55,209 | 0 | (14,975) | 0 | 0 | 40,234 |
| <u>Liabilities</u> | | | | | | |
| Derivative financial instruments | 3,674 | 342 | 0 | 0 | 0 | 4,016 |

| | Balance at January 1, 2009 | Gains (losses) of 2009 | | Purchases, (sales), issuances or (settlements) | Transfers in and / or out of Level 3 | Balance at December 31, 2009 |
|-------------------------------------|----------------------------------|------------------------------|--|---|--|------------------------------------|
| | | Included in net income | Included in other comprehensive income (loss) | | | |
| <u>Assets</u> | | | | | | |
| Securities available for sale | 54,869 | 0 | 540 | (200) | 0 | 55,209 |
| <u>Liabilities</u> | | | | | | |
| Derivative financial instruments | 0 | 0 | 0 | 0 | 3,674 | 3,674 |

Non-recurring Fair Value Measurements

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



Notes to Financial Statements

(3) Fair Value, continued

The following table presents fair value measurements of assets that are measured at fair value on a nonrecurring basis at December 31, 2010:

| | <u>Level 3</u> |
|-------------------|----------------|
| Loans | 92,667 |
| Foreclosed assets | 3,661 |
| | <u>96,328</u> |

The increase (decrease) in fair value of assets recognized at December 31, 2010, which are recognized at fair value on a non-recurring basis, for which the fair value adjustment has been included in the statement of income, is as follows:

| | |
|-------------------|----------------|
| Loans | (4,136) |
| Foreclosed assets | (598) |
| | <u>(4,734)</u> |

(ii) Fair value option

Guideline of ASC 825-10-25 refers to *Fair Value Option* which allows the option to choose to measure at fair value certain financial assets and liabilities that do not require such measurement. Once the option has been chosen 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 chosen to measure at fair value the financial liabilities in a currency other than the US dollar for which it has contracted a derivative as fair value hedge for foreign currency and interest rate fluctuations. For such liabilities up to December 31, 2007 the Bank had used hedge accounting. The principal purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank's income generated by the use of the hedge accounting, considering that both the financial liabilities and the related hedging instruments are generally maintained until maturity. Consequently, the Bank has discontinued the hedge accounting for these transactions. The Bank has also chosen not to apply the option to measure at fair value other financial liabilities, as they do not produce volatility in the statement of income.

Changes in the fair value of financial liabilities result from changes in interest rates, foreign exchange rates and the Bank's credit risk spread.



Notes to Financial Statements

(3) Fair Value, continued

The Bank's credit risk spread for the years ended December 31, 2010 and 2009 has not changed. Consequently, there has been no variation in the fair value due to such input.

The amounts recorded in the statements of income as a result of changes in fair values of financial liabilities, for which the fair value option was elected, as of December 31, 2010 and 2009 are as follows:

| 2010 | | |
|---------------|--|--------------|
| | Other operating income (expenses) – Fair value adjustment | Total |
| Loans payable | 5,175 | 5,175 |
| Bonds payable | 475 | 475 |

| 2009 | | |
|---------------|--|--------------|
| | Other operating income (expenses) – Fair value adjustment | Total |
| Loans payable | 1,257 | 1,257 |
| Bonds payable | 20,617 | 20,617 |

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

The difference between the fair value of the instruments chosen for application of ASC 825-10-25 and the unpaid principal balances of such instruments for the years ended December 31, 2010 and 2009 is as follows:

| 2010 | | | |
|---------------|-------------------|--------------------------------------|-----------------------------|
| | Fair value | Unpaid principal balances | Excess (Deficit) |
| Loans payable | 65,054 | 78,596 | (13,542) |
| Bonds payable | 1,330,138 | 1,218,017 | 112,121 |

| 2009 | | | |
|---------------|-------------------|--------------------------------------|---------------|
| | Fair value | Unpaid principal balances | Excess |
| Loans payable | 65,205 | 64,615 | 590 |
| Bonds payable | 1,052,701 | 1,048,886 | 3,815 |

(a) Fair value of financial instruments

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

(3) Fair Value, continued



Notes to Financial Statements

A significant portion of the Bank's assets and liabilities are short-term financial instruments, with maturity of less than one year, and/or with floating interest rates. These short-term instruments and/at floating rates are considered to have a fair value equivalent to their recorded value as of the date of the financial statements. The foregoing applies to cash and due from banks, interest-bearing deposits in banks, loans receivable and payable and bonds issued with floating interest rates and accrued interest receivable and payable.

For the principal financial instruments with maturity greater than one year and/at fixed rates that have not been adjusted to fair value, the following methods and assumptions were used to determine the fair value of main financial instruments:

- Loans receivable, net: The fair values for loans at fixed interest rates are estimated on the basis of an analysis of the discounted cash flows, using the Commercial Interest Reference Rate (CIRR) as a reference. This rate is the official rate applied by Export Credit Agencies, as published by the Export-Import Bank of the United States of America, and is based on the rates accrued on U.S. Treasury bonds. The fair values of non-accrual loans are estimated on the basis of the discounted cash flows or the value of the collateral, where applicable. This fair value does not represent a current indicator of an exit price.
- Equity investments: Given that they do not have a readily available market value, the Bank's management estimates that the carrying amount approximates fair value, considering that the carrying amount does not exceed equity participation in the investee.
- Loans payable: The fair values for loans are estimated on the basis of an analysis of the discounted cash flows, using the CIRR as a reference. This fair value does not represent a current indicator of an exit price.
- Bonds payable: The fair value is estimated on the basis of an analysis of the discounted cash flows, based on current bank rates for multilateral organizations.
- Commercial paper program: The fair values are estimated on the basis of an analysis of the discounted cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Certificates of deposit: Fair values are estimated on the basis of an analysis of the discounted cash flows, based on the rates of the most recent transactions agreed upon with the Bank prior to each year-end.

(3) Fair Value, continued

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Notes to Financial Statements

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

The estimated fair values of the Bank's financial instruments as of December 31, 2010 and December 31, 2009 are as follows:

| <u>Assets</u> | <u>December 31, 2010</u> | | <u>December 31, 2009</u> | |
|------------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Carrying amount</u> | <u>Fair value</u> | <u>Carrying amount</u> | <u>Fair value</u> |
| Cash and due from banks | 29,917 | 29,917 | 57,303 | 57,303 |
| Interest-bearing deposits in banks | 799,328 | 799,328 | 639,760 | 639,760 |
| Securities available for sale | 657,550 | 657,550 | 678,644 | 678,644 |
| Loans, net | 4,637,717 | 4,770,934 | 4,160,575 | 4,243,287 |
| Accrued interest receivable | 57,525 | 57,525 | 56,007 | 56,007 |
| Derivative financial instruments | 213,955 | 213,955 | 125,346 | 125,346 |
| Equity investments | 25,804 | 25,804 | 19,605 | 21,277 |
| Total | <u>6,421,796</u> | <u>6,555,013</u> | <u>5,737,240</u> | <u>5,821,624</u> |
| | | | | |
| <u>Liabilities</u> | | | | |
| Loans payable | 1,190,426 | 1,233,585 | 951,773 | 970,820 |
| Bonds payable | 2,610,360 | 2,674,862 | 2,377,468 | 2,419,695 |
| Commercial paper program | 201,695 | 202,168 | 115,498 | 115,498 |
| Certificates of deposit | 398,418 | 403,374 | 353,036 | 358,307 |
| Certificates of investment | 1,494 | 1,494 | 1,874 | 1,874 |
| Accrued interest payable | 31,698 | 31,698 | 32,242 | 32,242 |
| Derivative financial instruments | 75,320 | 75,320 | 101,312 | 101,312 |
| Total | <u>4,509,411</u> | <u>4,622,501</u> | <u>3,933,203</u> | <u>3,999,748</u> |

(4) Cash and Due from Banks

At December 31, 2010 and December 31, 2009, cash and due from banks is composed as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|------------------------------------|--------------------------|--------------------------|
| Currencies of the founding members | 3,952 | 3,479 |
| US dollar | 24,297 | 52,642 |
| Other currencies | 1,668 | 1,182 |
| Total | <u>29,917</u> | <u>57,303</u> |

(5) Interest-bearing Deposits with Banks

Interest bearing deposits are normally time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, face value approximates market value. As of December 31, 2010 and 2009, these carrying amounts are set in currencies other than those of the founding member countries.



Notes to Financial Statements

(6) Securities Available for Sale

The amortized cost, gross unrealized gains and losses, adjustments to hedging transactions and estimated fair value of securities available for sale, as of December 31, 2010 and 2009 are as follows:

| <u>Securities available for sale</u> | <u>Amortized cost</u> | <u>December 31, 2010</u> | | | <u>Estimated fair value</u> |
|--|---------------------------|--|---------------------------------------|--|-------------------------------------|
| | | <u>Unrealized gross losses</u> | <u>Unrealized gross gains</u> | <u>Adjustments to hedging transactions</u> | |
| Marketable securities | 542,130 | (6,858) | 2,951 | 4,835 | 543,058 |
| Investment funds | 108,377 | 0 | 6,115 | 0 | 114,492 |
| Total | <u>650,507</u> | <u>(6,858)</u> | <u>9,066</u> | <u>4,835</u> | <u>657,550</u> |

| <u>Securities available for sale</u> | <u>Amortized cost</u> | <u>December 31, 2009</u> | | | <u>Estimated fair value</u> |
|--|---------------------------|--|---------------------------------------|--|-------------------------------------|
| | | <u>Unrealized gross losses</u> | <u>Unrealized gross gains</u> | <u>Adjustments to hedging transactions</u> | |
| Marketable securities | 509,848 | (4,529) | 3,128 | 4,706 | 513,153 |
| Investment funds | 96,881 | 0 | 8,650 | 0 | 105,531 |
| Commercial paper | 59,960 | 0 | 0 | 0 | 59,960 |
| Total | <u>666,689</u> | <u>(4,529)</u> | <u>11,778</u> | <u>4,706</u> | <u>678,644</u> |

For the years ended December 31, 2010 and 2009, the realized gross gain was 11,720 and 6,660, respectively. For the year ended December 31, 2009, the realized gross loss was 4,834; there was no realized gross loss during the year ended December 31, 2010.

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

At December 31, 2010 and 2009, the estimated fair values and unrealized losses on securities available for sale that have been in continuous unrealized loss position are as follows:

| <u>Securities available for sale:</u> | <u>December 31, 2010</u> | | | | <u>Total</u> |
|---|-------------------------------------|--|-------------------------------------|--|----------------|
| | <u>Less than 12 months</u> | | <u>12 months or longer</u> | | |
| | <u>Estimated fair value</u> | <u>Unrealized gross losses</u> | <u>Estimated fair value</u> | <u>Unrealized gross losses</u> | |
| Marketable securities | <u>151,888</u> | <u>(3,941)</u> | <u>146,531</u> | <u>(2,917)</u> | <u>(6,858)</u> |

(6) Securities Available for Sale, continued

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| <u>Securities available for sale:</u> | December 31, 2009 | | | | <u>Total</u> |
|---|-------------------------------------|--|-------------------------------------|--|----------------|
| | <u>Less than 12 months</u> | | <u>12 months or longer</u> | | |
| | <u>Estimated fair value</u> | <u>Unrealized gross losses</u> | <u>Estimated fair value</u> | <u>Unrealized gross losses</u> | |
| Marketable securities | <u>180,728</u> | <u>(2,900)</u> | <u>35,023</u> | <u>(1,629)</u> | <u>(4,529)</u> |

The Bank's policy establishes that at least 75% of its total investment securities should be in deposits in banks and bonds placed by issuers holding an international rating of "A" (or its equivalent) or better, granted by an internationally recognized rating agency.

At December 31, 2010, 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. Management in conjunction with the Asset and Liability Committee (ALCO) monitors on a regular basis the situation and the evolution of securities available for sale, including those with unrealized losses. The Bank's management believes that the unrealized losses of such securities at December 31, 2010 are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. The fair value is expected to recover as the securities approach their maturity date. Therefore, Bank's management believes the impairments presented in the table above as temporary and no other than temporary impairment has been recorded in the statements of income.

Sales and repayments of securities available for sale during the years ended December 31, 2010 and 2009 amounted to 246,978 and 350,825, respectively.

As of December 31, 2010, investment securities are classified by contractual maturities in the following table. The expected maturities may differ from contractual maturities because issuers might have the right to redeem or prepay obligations without penalty in certain cases.

| | <u>Amortized cost</u> | <u>Estimated fair value</u> |
|---------------------------------|---------------------------|---------------------------------|
| Due within one year | 376,544 | 379,151 |
| After one but within five years | 224,539 | 224,113 |
| After five but within ten years | 10,360 | 9,446 |
| After ten years | 39,064 | 44,840 |
| Total | <u>650,507</u> | <u>657,550</u> |



Notes to Financial Statements

(7) Loans

CABEI has no significant concentrations of credit risk with any individual borrower or groups of borrowers. A detail of loans, by sector and country as of December 31, 2010 and 2009, is as follows:

| | December 31, 2010 | | | December 31, 2009 | | |
|---------------------------|-------------------|----------------|-----------|-------------------|----------------|-----------|
| | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Guatemala | 777,386 | 336,301 | 1,113,687 | 709,346 | 371,302 | 1,080,648 |
| El Salvador | 735,404 | 128,449 | 863,853 | 758,927 | 141,984 | 900,911 |
| Honduras | 537,557 | 272,623 | 810,180 | 389,752 | 277,464 | 667,216 |
| Nicaragua | 203,757 | 262,402 | 466,159 | 170,906 | 282,627 | 453,533 |
| Costa Rica | 1,115,742 | 400,415 | 1,516,157 | 828,788 | 372,437 | 1,201,225 |
| Dominican Republic | 50,000 | 0 | 50,000 | 46,295 | 0 | 46,295 |
| Panama | 0 | 17,458 | 17,458 | 0 | 13,945 | 13,945 |
| Belize | 500 | 0 | 500 | 0 | 0 | 0 |
| Subtotal | 3,420,346 | 1,417,648 | 4,837,994 | 2,904,014 | 1,459,759 | 4,363,773 |
| Allowance for loan losses | (96,892) | (103,385) | (200,277) | (85,041) | (118,157) | (203,198) |
| Loans, net | 3,323,454 | 1,314,263 | 4,637,717 | 2,818,973 | 1,341,602 | 4,160,575 |

The Bank maintains an operation as a financial intermediary for 189,053, as of December 31, 2010 this transaction amounts to 172,619. This amount is recorded in the financial statements as a loan receivable from the Costa Rican Electricity Institute, and as a loan payable to the Bank of China. Contractually, the Bank is not subject to risk of loss of its asset or liability position, related to this transaction (see note 12).

A detail of loans, by economic activity segment, as of December 31, 2010 and December 31, 2009, is as follows:

| | December 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------|
| Infrastructure / construction | 1,407,283 | 1,389,474 |
| Electricity, gas and water supply | 1,173,938 | 1,032,556 |
| Monetary intermediation | 806,151 | 728,388 |
| Multi-sector | 519,087 | 440,778 |
| Transport, storage and communications | 275,002 | 125,413 |
| Social and health services | 165,851 | 183,648 |
| Manufacturing | 131,712 | 153,761 |
| Real estate activities | 119,967 | 49,769 |
| Agro-industry | 69,084 | 79,418 |
| Hotels and restaurants | 54,269 | 57,388 |
| Mining and quarrying | 42,000 | 48,000 |
| Education and training | 38,395 | 32,779 |
| Wholesale and retail trade | 20,243 | 26,392 |
| Other social, community and personal services | 9,285 | 10,773 |
| Fisheries | 4,134 | 4,654 |
| Extraterritorial organizations and agencies | 1,593 | 582 |
| Total | 4,837,994 | 4,363,773 |



(7) Loans, continued

A detail of loans, by maturity, as of December 31, 2010, is as follows:

| | |
|-----------------------------------|------------------|
| Past due | 47,901 |
| Up to 1 year | 871,792 |
| After one but within two years | 613,143 |
| After two but within three years | 449,017 |
| After three but within four years | 562,854 |
| After four but within five years | 332,975 |
| After five years | 1,960,312 |
| Total | <u>4,837,994</u> |

A detail of loans, by currency, as of December 31, 2010 and 2009, is as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--|------------------------------|------------------------------|
| U.S. dollar | 4,618,752 | 4,192,696 |
| Currencies from Central American countries | 208,363 | 157,082 |
| Euro | 8,186 | 10,037 |
| Yen | 2,693 | 3,958 |
| Total | <u>4,837,994</u> | <u>4,363,773</u> |

As of December 31, 2010 and 2009, the weighted average interest rate on loans receivable, after considering swap contracts when applicable, was 5.96% and 6.19% per annum, respectively.

Loans at fixed and floating rates are as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|-------------------------|------------------------------|------------------------------|
| Loans at fixed rates | 1,128,544 | 1,059,847 |
| Loans at floating rates | <u>3,709,450</u> | <u>3,303,926</u> |
| | <u>4,837,994</u> | <u>4,363,773</u> |

As of December 31, 2010 and 2009, in accordance with the Bank's policies, interest on non-accrual loans of 12,878 and 8,163, respectively, was not recorded as income because it had not been collected. As of December 31, 2010 and 2009, the principal of the loans that generated such interest amounted to 155,264 and 127,411, respectively, and related exclusively to private sector borrowers.



Notes to Financial Statements

(7) Loans, continued

The following table presents information on impaired private sector loans as of December 31, 2010 and 2009:

| <u>Impaired loans</u> | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--|------------------------------|------------------------------|
| Impaired loans, all with allowance for loan losses | 212,387 | 229,122 |
| Average impaired loans | 220,755 | 139,379 |
| Allowance related to impaired loans | 63,002 | 80,154 |
| Accrued interest on impaired loans | 11,489 | 8,035 |
| Interest income recognized on a cash basis | 4,061 | 3,728 |

The changes in the allowance for loan losses during the years ended December 31, 2010 and 2009 are as follows:

| | <u>December 31, 2010</u> | | | <u>December 31, 2009</u> | | |
|----------------------------|--------------------------|---------------|----------------|--------------------------|---------------|----------------|
| | <u>Sector</u> | | | <u>Sector</u> | | |
| | <u>Private</u> | <u>Public</u> | <u>Total</u> | <u>Private</u> | <u>Public</u> | <u>Total</u> |
| Balance, beginning of year | 118,157 | 85,041 | 203,198 | 70,772 | 91,505 | 162,277 |
| Provision | 43,941 | 16,793 | 60,734 | 67,156 | 14,236 | 81,392 |
| Recoveries | (40,362) | (4,942) | (45,304) | (11,238) | (20,700) | (31,938) |
| Loan write-offs | (18,351) | 0 | (18,351) | (8,533) | 0 | (8,533) |
| Balance, end of year | <u>103,385</u> | <u>96,892</u> | <u>200,277</u> | <u>118,157</u> | <u>85,041</u> | <u>203,198</u> |

(8) Accrued Interest Receivable

Accrued interest receivable as of December 31, 2010 and 2009 is detailed as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---|------------------------------|------------------------------|
| On loans | 54,281 | 53,248 |
| On securities available for sale | 3,020 | 2,686 |
| On interest-bearing deposits with banks | 224 | 73 |
| Total | <u>57,525</u> | <u>56,007</u> |

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(9) Property and Equipment, Net

Property and equipment at December 31, 2010 and 2009 are as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--------------------------------|------------------------------|------------------------------|
| Vehicles | 1,580 | 1,219 |
| Buildings | 27,153 | 25,399 |
| Computer equipment | 20,637 | 19,842 |
| Installations | 9,574 | 9,676 |
| Office equipment and furniture | 5,356 | 4,891 |
| | <u>64,300</u> | <u>61,027</u> |
| Less accumulated depreciation | <u>(39,406)</u> | <u>(36,509)</u> |
| | 24,894 | 24,518 |
| Land | 2,590 | 2,590 |
| Total | <u>27,484</u> | <u>27,108</u> |

(10) Equity Investments

Equity investments as of December 31, 2010 and 2009 which do not have a market value are as follows:

| Name | Issuer Data (Unaudited) | | | | | | December 31, 2010 | December 31, 2009 |
|---|-------------------------|----------------------|---------|--------|---------------|-----------------|-------------------|-------------------|
| | Equity Participation | Financial Statements | Capital | Equity | Income (loss) | | | |
| Partnerships | | | | | | | | |
| Central American Mezzanine Infrastructure Fund L.P. (CAMIF) | 38.24% | 30/09/2010 | - | 5,722 | - | 2,768 | 3,121 | |
| AIG – GE Capital Latin American Infrastructure Fund, L.P. | 1.48% | 30/09/2010 | - | 5,415 | (560) | 80 | 695 | |
| Central American Renewable Energy and Cleaner Production Facility (CAREC) | 41.67% | 30/09/2010 | - | 4,887 | (413) | 2,036 | 2,190 | |
| | | | | | | <u>Subtotal</u> | <u>6,006</u> | |
| Shares | | | | | | | | |
| Corporación Interamericana para el Financiamiento de Infraestructura, S. A. | 9.26% | 30/09/2010 | 54,000 | 72,154 | 4,057 | 5,000 | 5,000 | |
| Darby - Pro-Banco Fund II, L.P. Garantías y Servicios, Sociedad de Garantía, S. A. de C. V. | 33.33% | 30/09/2010 | 13,746 | 13,746 | (1,416) | 4,582 | 4,441 | |
| Banco Popular Coveló, S. A. | 26.79% | 31/10/2010 | 4,387 | 5,911 | 159 | 1,145 | 1,145 | |
| Eólico Valle Central, S. A. | 19.56% | 31/12/2010 | 23,386 | 20,056 | 19 | 3,922 | 2,000 | |
| Other | 60.00% | 30/09/2010 | 10,193 | 10,222 | - | 6,116 | 836 | |
| | | | | | | 155 | 177 | |
| | | | | | | <u>Subtotal</u> | <u>13,599</u> | |
| | | | | | | <u>Total</u> | <u>19,605</u> | |

**(11) Other Assets**

Other assets as of December 31, 2010 and 2009 are composed as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|------------------------|------------------------------|------------------------------|
| Accounts receivable | 3,158 | 1,874 |
| Pre-investment studies | 7,949 | 7,800 |
| Foreclosed assets | 3,661 | 1,799 |
| Prepaid expenses | 3,037 | 606 |
| Supplies | 142 | 166 |
| Other | 538 | 757 |
| Total | <u>18,485</u> | <u>13,002</u> |

Foreclosed assets as of December 31, 2010 and 2009 are located in the following countries:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|-----------------------|------------------------------|------------------------------|
| Nicaragua | 5,508 | 5,508 |
| El Salvador | 4,787 | 4,787 |
| Guatemala | 2,461 | 0 |
| Honduras | 1,830 | 1,830 |
| Costa Rica | 6 | 6 |
| | <u>14,592</u> | <u>12,131</u> |
| Fair value adjustment | (10,931) | (10,332) |
| Total | <u>3,661</u> | <u>1,799</u> |

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Notes to Financial Statements



(12) Loans Payable

Loans payable as of December 31, 2010 and 2009 are as follows:

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Bank of China (BoC) | 172,619 | 0 |
| Bayerische Landesbank | 126,531 | 130,600 |
| Kreditanstalt Für Wiederaufbau (K.F.W.), Germany | 124,889 | 125,012 |
| Financial Support Agreement Mexico - CABEL | 118,032 | 77,817 |
| Mizuho Corporate Bank, Ltd. | 86,780 | 28,559 |
| Promotion et Participation pour la Cooperation (PROPARCO) | 67,060 | 0 |
| Nordic Investment Bank | 61,690 | 54,595 |
| Inter-American Development Bank (IDB) | 56,490 | 66,832 |
| Sumitomo Mitsui Banking Corporation, New York | 39,907 | 0 |
| Nordea Bank | 34,802 | 43,503 |
| Deutsche Bank, A.G. | 28,646 | 35,012 |
| European Investment Bank | 27,154 | 18,287 |
| Nordea Bank (Funded Participation Agreement) | 26,531 | 40,768 |
| Instituto de Crédito Oficial de España | 22,052 | 18,517 |
| U.S. Agency for International Development (USAID) | 21,787 | 27,099 |
| Loans guaranteed by USAID | 19,877 | 26,890 |
| Oesterreichische Entwicklungsbank AG (OeEB) | 18,714 | 18,689 |
| Bank Leumi – Le Israel | 16,878 | 21,195 |
| Royal Bank of Scotland P.L.C. | 15,000 | 20,000 |
| Standard Chartered Bank | 12,500 | 95,000 |
| Deutsche Investitions – Und Entwicklungsgesellschaft - mbH (DEG) | 10,000 | 10,000 |
| BAC Florida Bank | 10,000 | 0 |
| Bank of Taiwan, New York | 10,000 | 0 |
| The Export-Import Bank of the Republic of China (EXIM) | 10,000 | 0 |
| The China Council for International Cooperation on Environment and Development | 7,143 | 8,571 |
| Société Générale, New York | 6,989 | 8,542 |
| The Opec Fund for International Development | 6,177 | 7,941 |
| Banco Mercantil de Venezuela | 5,000 | 25,000 |
| Land Bank of Taiwan | 5,000 | 0 |
| United Taiwan Bank, S.A. | 5,000 | 0 |
| Bank SinoPac | 5,000 | 0 |
| Chang Hwa Commercial Bank, Ltd. | 5,000 | 0 |
| HSBC Ltd., London | 5,000 | 0 |
| Fortis Bank | 1,569 | 0 |
| Danida-Unibank | 609 | 970 |
| Japan Bank for International Cooperation | 0 | 12,374 |
| Banque Nationale de Paris, New York | 0 | 30,000 |
| Total | 1,190,426 | 951,773 |

The Bank maintains an operation as a financial intermediary for 189,053; as of December 31, 2010, this transaction amounts to 172,619. This amount is recorded in the financial statements as a loan receivable from the Costa Rican Electricity Institute, and as a loan payable to the Bank of China. Contractually, the Bank is not subject to risk of loss of its asset or liability position, related to this transaction (see note 7).



(12) Loans Payable, continued

The maturities of the loans payable as of December 31, 2010 are as follows:

| | |
|-----------------------------------|------------------|
| Up to 1 year | 197,561 |
| After one but within two years | 191,719 |
| After two but within three years | 63,400 |
| After three but within four years | 183,094 |
| After four but within five years | 174,846 |
| After five years | 379,806 |
| Total | <u>1,190,426</u> |

As of December 31, 2010 and 2009, the weighted average interest rate on loans payable, after considering swap contracts when applicable, was 3.95% and 3.68% per annum, respectively.

Loans payable at fixed and floating rates as of December 31, 2010 and December 31, 2009 are as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---------------------------------|------------------------------|------------------------------|
| Loans payable at fixed rates | 546,589 | 393,910 |
| Loans payable at floating rates | <u>643,837</u> | <u>557,863</u> |
| Total | <u>1,190,426</u> | <u>951,773</u> |

**(13) Bonds Payable and Commercial Paper Program**

(a) Bonds payable as of December 31, 2010 and 2009, are as follows:

| | Issue Date | Maturity Date | December 31, 2010 | December 31, 2009 |
|-----------------------|---------------|---|----------------------|----------------------|
| MTN - USD issuance | 2009 | 2014 | 500,000 | 497,715 |
| COP issuance | 2006 | 2015 | 240,663 | 224,702 |
| MTN - USD issuance | 2005 | 2012 | 199,824 | 199,513 |
| MTN - USD issuance | 2003 | 2013 | 199,803 | 198,999 |
| MTN - CHF issuance | 2010 | 2013 | 165,324 | 0 |
| MTN - MXN issuance | 2007 | 2014 | 120,524 | 114,144 |
| NTD issuance | 2006 | 2011 | 118,764 | 110,085 |
| MTN - HKD issuance | 2006 | 2011 | 99,257 | 102,156 |
| COP issuance | 2009 | 2014 | 85,185 | 70,353 |
| THB issuance | 2007 | 2017 | 84,663 | 73,912 |
| NTD issuance | 2009 | 2011 | 64,000 | 58,865 |
| MTN - MXN issuance | 2010 | 2020 | 62,555 | 0 |
| NTD issuance | 2009 | 2013 | 60,631 | 46,533 |
| MTN - MXN issuance | 2007 | 2012 | 60,442 | 57,283 |
| MTN - MXN issuance | 2007 | 2012 | 60,322 | 57,150 |
| COP issuance | 2009 | 2019 | 51,698 | 42,812 |
| NTD issuance | 2009 | 2011 | 50,525 | 55,763 |
| USD regional issuance | 2001 | 2011 | 50,000 | 50,000 |
| JPY issuance | 2006 | 2011 | 49,571 | 44,248 |
| MTN - MXN issuance | 2008 | 2020 | 32,334 | 28,067 |
| MTN - CRC issuance | 2009 | 2014 | 30,203 | 26,479 |
| USD issuance | 2010 | 2020 | 25,000 | 0 |
| MTN - GTQ issuance | 2010 | 2013 | 24,958 | 0 |
| MTN - USD issuance | 2009 | 2019 | 24,479 | 25,000 |
| MTN - CRC issuance | 2010 | 2017 | 22,205 | 0 |
| DOP issuance | 2009 | 2014 | 21,617 | 20,767 |
| MTN - CRC issuance | 2009 | 2014 | 20,605 | 17,214 |
| NTD issuance | 2009 | 2013 | 16,842 | 15,511 |
| MTN - USD issuance | 2006 | 2011 | 15,000 | 14,974 |
| MTN - MXN issuance | 2008 | 2018 | 10,021 | 8,631 |
| MTN - MXN issuance | 2008 | 2018 | 8,933 | 7,903 |
| MTN - HNL issuance | 2008 | 2011 | 5,292 | 5,292 |
| MTN - SGD issuance | 2005 | 2010 | 0 | 71,174 |
| MTN - MXN issuance | 2008 | 2010 | 0 | 57,326 |
| MTN - USD issuance | 2008 | 2010 | 0 | 5,000 |
| NTD issuance | 2008 | 2010 | 0 | 40,291 |
| | | Subtotal | 2,581,240 | 2,347,862 |
| | | Fair value adjustment on hedging activities | 29,120 | 29,606 |
| | | Total | 2,610,360 | 2,377,468 |

As of December 31, 2010 and 2009, the weighted average interest rates on bonds payable, after considering swap contracts when applicable, were 3.01% and 3.45% per annum, respectively.

(b) On May 14, 2009 CABEI launched a Global Commercial Paper Program (Global Program) with dealers from Europe and the United States. The Global Program size is 500,000, and the program was assigned A-1 and P-1 short-term ratings by S&P and Moody's, respectively.



(13) Bonds Payable and Commercial Paper Program, continued

On September 4, 2009, CABEI launched a Regional Commercial Paper Program (Regional Program), registered at the National Securities Registry of Costa Rica. The Regional Program amounts to 100,000 and received a short-term rating of F-1+(cri) by Fitch Ratings Central America.

The costs and contractual maturities as of December 31, 2010 and 2009 are as follows:

| | December 31, 2010 | | |
|---|-------------------|---------------------|----------------------|
| | Amount issued | Annual Average Cost | Contractual Maturity |
| Commercial Paper – Global Program USD | 142,622 | 0.72% | Up to 3 months |
| Commercial Paper – Regional Program CCR | 59,073 | 8.45% | Up to 6 months |

| | December 31, 2009 | | |
|---|-------------------|---------------------|----------------------|
| | Amount issued | Annual Average Cost | Contractual Maturity |
| Commercial Paper – Global Program USD | 104,758 | 1.44% | Up to 3 months |
| Commercial Paper – Regional Program CCR | 10,740 | 9.25% | Up to 6 months |

(14) Certificates of Deposit

Certificates of deposit as of December 31, 2010 and 2009 are as follows:

| | December 31, 2010 | December 31, 2009 |
|--|-------------------|-------------------|
| Social Benefit Fund (note 21) | 137,540 | 132,777 |
| Central Banks | 80,126 | 68,382 |
| Private financial institutions | 72,087 | 68,425 |
| Public financial institutions | 63,800 | 36,694 |
| Debt-conversion fund (Honduras- Spain) | 24,384 | 23,308 |
| Other public institutions | 5,892 | 10,321 |
| The Institute of Nutrition of Central America and Panama | 427 | 0 |
| Others | 14,162 | 13,129 |
| Total | <u>398,418</u> | <u>353,036</u> |

At December 31, 2010, the contractual maturities are as follows:

| | |
|---------------------------------|----------------|
| Up to six months | 346,925 |
| From six months to one year | 35,997 |
| After one year to two years | 2,117 |
| After two years to three years | 2,117 |
| After three years to five years | 5,089 |
| 5 years and thereafter | 6,173 |
| Total | <u>398,418</u> |

(14) Certificates of Deposit, continued

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



Notes to Financial Statements

At December 31, 2010 and 2009, the weighted average interest rates on certificates of deposit and investment are as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--|------------------------------|------------------------------|
| Deposits in US dollars ¹ | 0.93% | 1.03% |
| Deposits in US dollars - Social Benefit Fund | 7.00% | 7.00% |
| Deposits in Costa Rican Colones | 8.72% | 11.12% |
| Deposits in Quetzales | 6.06% | 6.14% |
| Deposits in Lempiras | 5.63% | 5.98% |

¹ Excludes deposits belonging to the Social Benefit Fund.

(15) Accrued Interest Payable

Accrued interest payable as of December 31, 2010 and 2009 is as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|----------------------------|------------------------------|------------------------------|
| On bonds payable | 22,336 | 24,043 |
| On loans payable | 5,884 | 5,722 |
| On certificates of deposit | 3,478 | 2,477 |
| Total | <u>31,698</u> | <u>32,242</u> |

(16) Other liabilities

Other liabilities as of December 31, 2010 and 2009 are as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---|------------------------------|------------------------------|
| Monetary deposits | 8,646 | 8,893 |
| Other creditors | 5,941 | 3,621 |
| Financial cooperation to founding countries | 5,674 | 3,351 |
| Technical assistance | 2,844 | 2,880 |
| Transitory deposits | 2,820 | 3,056 |
| Bonus and supplemental compensation | 2,224 | 2,351 |
| Other accruals | 1,415 | 7,405 |
| Total | <u>29,564</u> | <u>31,557</u> |

(17) Equity



Notes to Financial Statements

(a) Paid-in capital

The Bank's authorized capital is 2,000,000, consisting of 200,000 registered shares with a face value of 10 per share. Of this capital, the founding members have subscribed shares in equal parts for a total amount of 1,020,000, and the non-regional members may subscribe up to a total amount of 980,000, of which 702,900 have already been subscribed.

The Constitutive Agreement was modified under a protocol adopted in Managua, Nicaragua, by the Central American countries in 1989. It became effective on January 20, 1992, and was subsequently modified on February 6, 2003. The protocol authorized the inclusion of non-regional countries as members of the Bank and modified its capital structure.

On April 29, 2009, the Board of Governors approved the principles that will govern the Bank's capital structure:

- The authorized capital will be 5,000,000: each founding country will equally subscribe for 2,550,000, whereas 2,450,000 will be available to extra-regional countries and non-founding regional partners;
- Composed of two series of stock: Series "A" reserved for founding countries, and Series "B" reserved for non-founding regional partners and extra-regional partners;
- Series "E" certificates will be issued in the name of "A" and "B" shareholders, which shall evidence the retained earnings attributable to capital contributions made by the Banks' shareholders from time to time (see note 17.b). These certificates will not carry voting rights and will be non-transferable.

For purposes of the capital increase approved on the aforementioned date, the Board of Governors approved the newly subscribed shares to be required from series "A" and "B" shares, a cash payment and its remainder through the use of series "E" certificates. Those partners who do not hold enough series "E" certificates to cover this payment may supplement it with additional cash funds.

In order to implement the new capital structure, the Board of Governors approved an amendment to the Bank's Constitutive Agreement. This amendment will become effective three months after the Bank has given official notice thereof to all its partners. The amendment must be previously ratified by the Congresses of the Republic of Costa Rica and the Republic of Colombia, in view of a reservation made by these countries regarding the Constitutive Agreement's amendment procedure. To this date, the Bank has not received the communication of ratification.

(17) **Equity, continued**

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements



As of December 31, 2010 and 2009, the nominal value of Bank's capital is as follows:

| <u>Subscribed shares of</u> | <u>December 31, 2010</u> | | <u>December 31, 2009</u> | |
|-------------------------------|--------------------------|----------------|--------------------------|----------------|
| | <u>Subscribed</u> | <u>Paid</u> | <u>Subscribed</u> | <u>Paid</u> |
| <u>Founding countries</u> | | | | |
| Guatemala | 204,000 | 55,000 | 204,000 | 55,000 |
| El Salvador | 204,000 | 55,000 | 204,000 | 55,000 |
| Honduras | 204,000 | 55,000 | 204,000 | 55,000 |
| Nicaragua | 204,000 | 55,000 | 204,000 | 55,000 |
| Costa Rica | 204,000 | 55,000 | 204,000 | 55,000 |
| Sub-total | <u>1,020,000</u> | <u>275,000</u> | <u>1,020,000</u> | <u>275,000</u> |
| <u>Non-regional countries</u> | | | | |
| Spain | 200,000 | 50,000 | 200,000 | 50,000 |
| Republic of China, Taiwan | 150,000 | 37,500 | 150,000 | 37,500 |
| Mexico | 122,500 | 30,625 | 122,500 | 30,625 |
| Argentina | 57,600 | 14,400 | 57,600 | 14,400 |
| Colombia | 57,600 | 14,400 | 57,600 | 14,400 |
| Dominican Republic | 57,600 | 14,400 | 57,600 | 14,400 |
| Panama | 57,600 | 14,400 | 57,600 | 10,800 |
| Sub-total | <u>702,900</u> | <u>175,725</u> | <u>702,900</u> | <u>172,125</u> |
| Subtotal | <u>1,722,900</u> | <u>450,725</u> | <u>1,722,900</u> | <u>447,125</u> |
| <u>Unsubscribed shares</u> | | | | |
| Non-regional countries | 277,100 | 0 | 277,100 | 0 |
| Total | <u>2,000,000</u> | <u>450,725</u> | <u>2,000,000</u> | <u>447,125</u> |

CABEI's Constitutive Agreement also considers the incorporation of Beneficiary Countries, which obtain borrowings and guarantees, interpretation and arbitration, when they make special capital contributions that increase the Bank's equity. Those special capital contributions are divided in paid-in contributions and callable contributions, under requirement of payment. Under the special paid-in contributions, each Beneficiary Country receives Certificates of Contribution, which do not grant voting rights, but grants the right to speak at the Directors and Governors' meetings.

As of December 31, 2010 and 2009, the Bank's special capital contributions are as follows:

| | <u>December 31, 2010</u> | | <u>December 31, 2009</u> | |
|--------------------|--------------------------|--------------|--------------------------|--------------|
| | <u>Subscribed</u> | <u>Paid</u> | <u>Subscribed</u> | <u>Paid</u> |
| Argentina | 1,000 | 250 | 1,000 | 250 |
| Colombia | 1,000 | 250 | 1,000 | 250 |
| Belize | 25,000 | 6,250 | 25,000 | 4,688 |
| Dominican Republic | 1,000 | 250 | 1,000 | 250 |
| Panama | 1,000 | 250 | 1,000 | 250 |
| Total | <u>29,000</u> | <u>7,250</u> | <u>29,000</u> | <u>5,688</u> |

(17) Equity, continued



Notes to Financial Statements

(b) Issuance of Series “E” certificates

On September 8, 2005, the Board of Governors approved the accounting method for retained earnings, which consists on the issuance of general reserve certificates in order to recognize the excess of each member country’s share of the Bank’s equity over such member country’s paid-in capital and the earnings generated through the time over the paid-in capital of each member. Under Resolution AG 8/2009 adopted by the Board of Governors, such Certificates are to be converted into Series “E” Certificates.

The issue of Series “E” Certificates is based on the average number of shares held by each member every year, weighted by their holding time and amount thereof. The cut-off date for allocating the Series “E” certificates was December 31, 2007.

Series “E” certificates may be used by the members who are holders of “A” and “B” shares in order to pay, either completely or partially, the subscription of new shares of the unsubscribed authorized stock 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.

(18) Contingent Commitments

As of December 31, 2010 and 2009, balances of contingent commitments are as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--|------------------------------|------------------------------|
| Subscribed credit agreements (*) | 1,599,526 | 1,230,437 |
| Credit default swaps | 50,000 | 70,000 |
| Endorsements and guarantees granted | 11,584 | 11,383 |
| Letters of credit and bank acceptances | 533 | 4,584 |
| Total | <u>1,661,643</u> | <u>1,316,604</u> |

(*) Includes approved and deeded agreements

Credit agreements represent commitments to grant loans to customers at a future date. Such agreements are recorded as commitments until the date of disbursement. These agreements have fixed expiration dates and, in some cases, expire without any disbursements having been made. Therefore, the total committed amount does not necessarily represent future cash requirements.

Credit default swaps represent a contingent commitment assumed by the Bank with a client, for payments to be honored by a third party, with respect to credit compliance of an specific underlying. These derivatives have been included as part of derivative financial instruments and they are carried at their market value. Market value for such derivative instruments amounted to (1,722) and (494) as of December 31, 2010 and 2009, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to occur.

(18) Contingent Commitments, continued



Notes to Financial Statements

Endorsements and guarantees granted are contingent commitments assumed by the Bank to guarantee compliance by its customers with commitments to a third party. The credit risk implied in these commitments is essentially the same as that implied in granting loan facilities to clients. The Bank's management has analyzed each commitment assumed on a case-by-case basis, based on current information and events. As of December 31, 2010 and 2009, no significant losses have arisen, or were expected to arise, from these commitments.

Letters of credit and bank acceptances represent contingent commitments assumed by the Bank; in the event of nonpayment to exporters by importers (CABEI customers), the Bank assumes the payment commitment.

At December 31, 2010 and 2009, the maturities of the guarantees granted, credit default swaps and letters of credit and bank acceptances are as follows:

| Maturity | December 31, 2010 | | |
|----------|--------------------|----------------------|--|
| | Guarantees granted | Credit default swaps | Letters of credit and bank acceptances |
| 2011 | 624 | 0 | 533 |
| 2012 | 250 | 25,000 | 0 |
| 2013 | 0 | 25,000 | 0 |
| 2016 | 10,710 | 0 | 0 |
| Total | 11,584 | 50,000 | 533 |

| Maturity | December 31, 2009 | | |
|----------|--------------------|----------------------|--|
| | Guarantees granted | Credit default swaps | Letters of credit and bank acceptances |
| 2010 | 50 | 20,000 | 4,584 |
| 2011 | 373 | 0 | 0 |
| 2012 | 250 | 25,000 | 0 |
| 2013 | 0 | 25,000 | 0 |
| 2016 | 10,710 | 0 | 0 |
| Total | 11,383 | 70,000 | 4,584 |

(19) Derivative Financial Instruments and Hedging Activities

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

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



Notes to Financial Statements

(19) Derivative Financial Instruments and Hedging Activities, continued

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative instrument is positive, the counterparty owes the Bank, which creates credit risk for the Bank. When the fair value of a derivative instrument is negative, the Bank owes the counterparty and, therefore, it does not have related credit risk. The Bank minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is "A" (or its equivalent) or better.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates or foreign exchange rates. The Bank enters into derivative instruments based on its expectations that they will vary in a manner such that they will compensate the change in the value of the instrument to be hedged.

The Bank has adopted the amendments to ASC 815 disclosures about derivatives and hedging activities.

The following table presents the notional amount and the fair value of derivative instruments as of December 31, 2010 and 2009:

| | <u>December 31, 2010</u> | | | |
|---|----------------------------|-----------------------|----------------------------|-------------------|
| | <u>Assets</u> | | <u>Liabilities</u> | |
| | <u>Notional Amount</u> | <u>Fair Value</u> | <u>Notional Amount</u> | <u>Fair Value</u> |
| <u>Hedging transactions according to ASC 815</u> | | | | |
| Interest rate agreements | 455,400 | 30,975 | 195,454 | 20,508 |
| Foreign currency agreements | 195,992 | 22,368 | 0 | 0 |
| | <u>651,392</u> | <u>53,343</u> | <u>195,454</u> | <u>20,508</u> |
| <u>Other risk management purposes</u> | | | | |
| Foreign currency agreements | 1,036,691 | 160,612 | 347,433 | 48,418 |
| Credit risk agreements— sold | 0 | 0 | 140,000 | 1,722 |
| Interest rate agreements | 0 | 0 | 80,250 | 4,672 |
| | <u>1,036,691</u> | <u>160,612</u> | <u>567,683</u> | <u>54,812</u> |
| Total derivative instruments | <u>1,688,083</u> | <u>213,955</u> | <u>763,137</u> | <u>75,320</u> |

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to Financial Statements



(19) Derivative Financial Instruments and Hedging Activities, continued

| | <u>December 31, 2009</u> | | | |
|---|----------------------------|-----------------------|----------------------------|-------------------|
| | <u>Assets</u> | | <u>Liabilities</u> | |
| | <u>Notional Amount</u> | <u>Fair Value</u> | <u>Notional Amount</u> | <u>Fair Value</u> |
| <u>Hedging transactions according to ASC 815</u> | | | | |
| Interest rate agreements | 430,400 | 31,934 | 204,696 | 17,039 |
| Foreign currency agreements | 293,359 | 19,851 | 0 | 0 |
| | <u>723,759</u> | <u>51,785</u> | <u>204,696</u> | <u>17,039</u> |
| <u>Other risk management purposes</u> | | | | |
| Foreign currency agreements | 770,149 | 73,560 | 378,822 | 79,535 |
| Credit risk agreements– sold | 20,000 | 1 | 50,000 | 495 |
| Interest rate agreements | 0 | 0 | 80,249 | 4,243 |
| | <u>790,149</u> | <u>73,561</u> | <u>509,071</u> | <u>84,273</u> |
| Total derivative instruments | <u>1,513,908</u> | <u>125,346</u> | <u>713,767</u> | <u>101,312</u> |

The income (loss) from derivative instruments used as hedges under ASC 815 has been recorded together with the income (loss) of the respective hedged financial instruments. The following chart shows such income (loss) and the other comprehensive income (loss) as of December 31, 2010 and 2009:

| | <u>2010</u> | | | <u>Other comprehensive income / (loss)</u> |
|---------------------------------|-----------------------------------|--|--------------|--|
| | <u>Income (loss) for the year</u> | | | |
| | <u>Derivative instrument</u> | <u>Hedged financial instrument</u> | <u>Total</u> | |
| <u>Fair value hedges</u> | | | | |
| Interest rate agreements | (6,189) | 6,189 | 0 | 0 |
| <u>Cash flow hedges</u> | | | | |
| Foreign currency agreements | 4,278 | (3,343) | 935 | 1,676 |
| Total | | | <u>935</u> | <u>1,676</u> |
| | <u>2009</u> | | | <u>Other comprehensive income / (loss)</u> |
| | <u>Income (loss) for the year</u> | | | |
| | <u>Derivative instrument</u> | <u>Hedged financial instrument</u> | <u>Total</u> | |
| <u>Fair value hedges</u> | | | | |
| Interest rate agreements | 16,516 | (16,516) | 0 | 0 |
| <u>Cash flow hedges</u> | | | | |
| Foreign currency agreements | 7,479 | (3,255) | 4,224 | (2,364) |
| Total | | | <u>4,224</u> | <u>(2,364)</u> |



Notes to Financial Statements

(20) Funds or Programs managed by CABEL

In its role as a multilateral financial institution and promoter of both the economic integration and balanced economic and social development of the beneficiary countries, CABEL manages the funds or programs described below:

| Fund | Equity (Unaudited) | |
|---|--------------------|-------------------|
| | December 31, 2010 | December 31, 2009 |
| Special Fund for the Social Transformation of Central America - FETS | 67,299 | 69,075 |
| Debt-conversion fund (Honduras-Spain) | 28,999 | 31,442 |
| Technical Cooperation Fund - FONTEC | 19,878 | 19,983 |
| Investment Trust – Dwelling Mortgage Fund | 14,511 | 12,719 |
| Guarantee trust administration - CISA | 9,476 | 9,570 |
| Program of Development for the Border Areas in Central America (former FOEXCA) | 2,603 | 11,498 |
| Single Italian Cooperation Fund (FUIC) | 1,735 | 1,866 |
| Special Technical Cooperation Fund of Austria | 1,376 | 1,372 |
| Partial credit guarantees - Finland Resources | 1,335 | 0 |
| Taiwan International Cooperation and Development Fund (ICDF) - Fund for Consulting Service | 1,002 | 1,000 |
| Spanish Consulting Fund | 910 | 2,151 |
| Administration Trust for the execution of the Energy Efficiency Program in the industrial and commercial areas in Honduras (PESIC) | 584 | 619 |
| Trust of Administration, Attention, Rehabilitation, Training, and Prevention of Burnt Children | 538 | 537 |
| Trust for the Institute of Nutrition of Central America and Panama | 432 | 429 |
| Taiwan ICDF - Technical Assistance Fund, Credit Program for Education | 200 | 0 |
| Accelerating Fund investments in Renewable Energy in Central America (ARECA) | 196 | 176 |
| Trust for Management of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica | 54 | 155 |
| World's Savior Foundation Fund (FUSALMO-Fondo Fundación Salvador del mundo) – Sports Centers | 4 | 502 |
| Trust for the Administration of Funds donated by the Republic of China, Taiwan to the Ministry of Security of Costa Rica and Trust for the Administration of funds donated by the Republic of China, Taiwan to the National Intelligence and Security Direction of Costa Rica | 0 | 266 |
| Regional Project Fund of Central American Markets for the Biodiversity- (CAMBio) | (40) | 133 |
| Total | 151,092 | 163,493 |

(21) Social Benefit Fund (SBF)

The SBF operates in accordance with the regulations issued by CABEL's Board of Directors. It has its own management board and its 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, and hospital medical benefits. The SBF is financed by contributions from beneficiaries and the Bank in accordance with the provisions of the Plan. Retirement plan, pension plan and life insurance are considered as a defined benefit plan, whereas hospital-related medical benefits are considered a defined contribution plan.



Notes to Financial Statements

(21) Social Benefit Fund (SBF), continued

All the contributions made by the Bank and all assets and income of the SBF are property of the Bank; according to the SBF's bylaws, they are not segregated from the Bank's assets and liabilities even though they are to be used solely to pay benefits. Nevertheless, since the SBF is not a separate legal entity from the Bank and its assets are not adequately restricted, they may not be recorded as off-balance sheet items. However, for practical purposes its assets are not consolidated on CABE's balance sheet because the assets of the SBF, represented by certificates of deposit, would be offset against the Bank's liability in the same amount, which in turn, is not significantly different from the projected benefit obligation.

On April 29, 2009, CABE's Board of Governors decided to amend its Constitutive Agreement (see effective date in note 17) to ratify that the Bank will have a Social Benefit Fund as a distinct fund separate from its general assets. The SBF is created 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. The SBF's assets will be held and managed separately from the other assets of the Bank, as a pension fund, and will be exclusively used to pay the benefits and expenses under the various benefit plans granted by the SBF.

As of December 31, 2010 and 2009, as stated in note 14, the Bank recorded a liability due to the SBF under certificates of deposit for a total amount of 137,540 and 132,777, respectively, representing principally the projected benefit obligation. These funds were placed in certificates issued by the SBF bearing 7% per annum. Interest expense on certificates of deposit amounted to approximately 9,628 and 8,929 during the years ended December 31, 2010 and 2009, respectively.

(22) Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2010 and 2009, is as follows:

| | <u>December 31, 2010</u> | | Accumulated other comprehensive loss |
|----------------------|---|--|---|
| | <u>Cash flow hedging activities</u> | <u>Securities available for sale</u> | |
| At beginning of year | (4,226) | 7,249 | 3,023 |
| Changes for the year | 1,676 | (5,041) | (3,365) |
| At end of period | <u>(2,550)</u> | <u>2,208</u> | <u>(342)</u> |
| | <u>December 31, 2009</u> | | Accumulated other comprehensive income |
| | <u>Cash flow hedging activities</u> | <u>Securities available for sale</u> | |
| At beginning of year | (1,862) | (8,893) | (10,755) |
| Changes for the year | (2,364) | 16,142 | 13,778 |
| At end of year | <u>(4,226)</u> | <u>7,249</u> | <u>3,023</u> |



(23) Litigation

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

(24) Subsequent Events

The Bank has evaluated subsequent events as of the date of the balance sheet up to February 28, 2011, date on which the financial statements were ready for their publication, and determined that there are no additional disclosures required on other matters.

**CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION**

**COMPARATIVE
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009 AND 2008
WITH THE
INDEPENDENT AUDITORS' REPORT**





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

February 26, 2010

The management of the Central American Bank for Economic Integration (the Bank) is responsible for establishing and maintaining an effective internal control over financial reporting. Management has evaluated the Bank's internal control over financial reporting using the criteria for effective internal control established in the Internal Control-Integrated Framework used by the Committee of Sponsoring of the Treadway Commission (COSO criteria).

Management has assessed the effectiveness of the Bank's internal control over financial reporting, being internal control a process designed by, or under the supervision of, the Bank's principal executive and principal financial officers, or persons performing similar functions, and effected by the Bank's Management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2009.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of established controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The Bank's financial statements as of December 31, 2009 have been audited by Deloitte and Co. S. de R.L., and independent registered public accounting firm. In addition, Deloitte & Co. S. de R.L has issued an independent and favourable Opinion on the Bank's internal control over financial reporting.

Handwritten signature of Nick Rischbieth in black ink.

Nick Rischbieth
Executive President

Handwritten signature of Hernan Danery Alvarado in black ink.

Hernan Danery Alvarado
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Executive President, Board of Directors and Board of Governors of
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
Tegucigalpa, Honduras

We have audited the internal control over financial reporting of CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI) as of December 31, 2009, based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

We have also audited, in accordance with the standards established by the American Institute of Certified Public Accountants (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the financial statements as of and for the fiscal year ended December 31, 2009 of the Bank, and our report dated February 26, 2010, expressed an unqualified opinion thereon.

Deloitte & Co. S.R.L.

February 26, 2010

INDEPENDENT AUDITORS' REPORT

To the Executive President, Board of Directors and Board of Governors of
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION
Tegucigalpa, Honduras

We have audited the accompanying balance sheets of CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION as of December 31, 2009 and 2008, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards established by the American Institute of Certified Public Accountants (United States), and in accordance with the audit standards of the Public Company Accounting Oversight Board (United States). Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the fairness of the significant estimates made by the Bank's Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements referred above present fairly, in all material respects, the financial position of CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards established by the American Institute of Certified Public Accountants (United States), and in accordance with the audit standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of December 31, 2009, based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria) and our report dated February 26, 2010 expressed an unqualified opinion on the Bank's internal control over financial reporting.

Deloitte & Co. S.R.L.

February 26, 2010



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Balance sheets

As of December 31, 2009 and 2008
(Expressed in thousands of U.S. dollars)

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|---|--------------------------|--------------------------|
| <u>Assets</u> | | |
| Cash and due from banks (note 4) | 57,303 | 33,659 |
| Interest-bearing deposits in banks (note 5) | 639,760 | 561,010 |
| Investment securities (note 6): | | |
| Securities available for sale | 681,330 | 468,819 |
| Loans receivable | 4,363,773 | 4,315,027 |
| Less allowance for loan losses | (203,198) | (162,277) |
| Loans receivable, net (note 7) | <u>4,160,575</u> | <u>4,152,750</u> |
| Interest receivable (note 8) | 53,321 | 56,400 |
| Property, furniture and equipment (note 9) | 27,108 | 28,703 |
| Derivative financial instruments (note 19) | 125,346 | 114,679 |
| Equity investments (note 10) | 19,605 | 12,601 |
| Other assets (note 11) | <u>13,002</u> | <u>22,756</u> |
| Total assets | <u>5,777,350</u> | <u>5,451,377</u> |
| <u>Liabilities</u> | | |
| Loans payable (note 12) (65,205 and 139,113 at fair value at December 31, 2009 and 2008) | 951,773 | 1,113,886 |
| Bonds payable (note 13 a) (1,052,701 and 923,579 at fair value at December 31, 2009 and 2008) | 2,377,468 | 1,702,303 |
| Commercial paper program (note 13 b) | 115,498 | 57,736 |
| Certificates of deposit and saving (note 14 a) | 353,036 | 654,372 |
| Certificates of investment (note 14 b) | 1,874 | 2,673 |
| Interest payable (note 15) | 32,242 | 29,857 |
| Derivative financial instruments (note 19) | 101,312 | 149,625 |
| Other liabilities (note 16) | <u>31,558</u> | <u>32,503</u> |
| Total liabilities | <u>3,964,761</u> | <u>3,742,955</u> |
| <u>Equity</u> | | |
| Paid-in capital (note 17 a) | | |
| (Authorized capital 2,000,000) | 447,125 | 427,425 |
| Special contributions to equity (note 17 a) | 5,688 | 5,625 |
| Accumulated other comprehensive income / (loss) (note 22) | 3,023 | (10,755) |
| Retained earnings | 70,626 | 83,291 |
| General reserve | <u>1,286,127</u> | <u>1,202,836</u> |
| Total equity | <u>1,812,589</u> | <u>1,708,422</u> |
| Total liabilities and equity | <u>5,777,350</u> | <u>5,451,377</u> |

The accompanying Notes 1 to 23 are an integral part of these financial statements.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Income

For the fiscal years ended December 31, 2009 and 2008
(Expressed in thousands of U.S. dollars)

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|---|--------------------------|--------------------------|
| Interest and fee Income | | |
| Public sector loans | 182,808 | 159,225 |
| Private sector loans | 83,387 | 118,663 |
| Investment securities | 17,876 | 19,785 |
| Due from banks | 1,777 | 11,486 |
| Total interest and fee income | <u>285,848</u> | <u>309,159</u> |
| Interest and fee expense | | |
| Loans payable and other liabilities | 37,708 | 54,244 |
| Bonds payable | 70,660 | 77,390 |
| Commercial paper program | 1,066 | 5,601 |
| Certificates of deposit and investment | 23,080 | 25,557 |
| Total interest and fee expenses | <u>132,514</u> | <u>162,792</u> |
| Net interest and fee income | 153,334 | 146,367 |
| Provision for loan losses | 49,454 | 21,836 |
| Net interest and fee income after provision for loan losses | 103,880 | 124,531 |
| Administrative expense | | |
| Salaries and employee benefits | 21,264 | 21,920 |
| Other administrative expenses | 9,683 | 9,226 |
| Depreciation | 3,974 | 3,890 |
| Other expenses | 457 | 157 |
| Total administrative expenses | <u>35,378</u> | <u>35,193</u> |
| Other operating income | | |
| Market value adjustment of swap transactions and other financial instruments | 15,452 | (6,187) |
| Administration fee | 2,528 | 7,689 |
| Other income | 2,943 | 6,557 |
| Audit and supervision fee | 2,386 | 2,232 |
| Dividends from equity investments | 483 | 1,038 |
| Total other operating income | <u>23,792</u> | <u>11,329</u> |
| Other operating expense | | |
| Adjustment on securities available for sale | 4,834 | 5,087 |
| Foreign exchange losses | 4,292 | 2,307 |
| Adjustment to investments risk capital | 1,592 | 1,867 |
| Other financial expenses | 2,119 | 1,425 |
| Adjustment on foreclosed and other assets | 203 | - |
| Total other operating expenses | <u>13,040</u> | <u>10,686</u> |
| Earning | 79,254 | 89,981 |
| Other expenses | | |
| Special contributions | 8,593 | 6,641 |
| Technical assistance and other expenses | 35 | 49 |
| Total other expenses | <u>8,628</u> | <u>6,690</u> |
| Net income | <u>70,626</u> | <u>83,291</u> |

The accompanying Notes 1 to 23 are an integral part of these financial statements.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Comprehensive Income
For the fiscal years ended December 31, 2009 and 2008
(Expressed in thousands of U.S. dollars)

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|---|--------------------------|--------------------------|
| Net income | 70,626 | 83,291 |
| Other comprehensive income / (loss): | | |
| Unrealized gain / (loss) on securities available for sale, net | 18,714 | (22,750) |
| Reclassification adjustment for net realized (gains) / losses included in earnings | | |
| | <u>(2,572)</u> | <u>2,136</u> |
| Subtotal – Securities available for sale | 16,142 | (20,614) |
| (Loss) / gain from cash flow hedge | (2,364) | 1,331 |
| Other comprehensive gain / (loss) | <u>13,778</u> | <u>(19,283)</u> |
| Comprehensive income | <u>84,404</u> | <u>64,008</u> |

The accompanying Notes 1 to 23 are an integral part of these financial statements.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Changes in Stockholders' Equity
 For the fiscal years ended December 31, 2009 and 2008
 (Expressed in thousands of U.S. dollars)

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|--------------------------|
| Paid-in capital | | |
| At beginning of fiscal year | 427,425 | 420,225 |
| Increase for the fiscal year | <u>19,700</u> | <u>7,200</u> |
| At end of fiscal year | <u>447,125</u> | <u>427,425</u> |
| Accumulated other comprehensive income | | |
| At beginning of fiscal year | (10,755) | 8,528 |
| Net change in other comprehensive income | <u>13,778</u> | <u>(19,283)</u> |
| At end of fiscal year | <u>3,023</u> | <u>(10,755)</u> |
| Retained earnings | | |
| At beginning of fiscal year | 83,291 | 80,773 |
| Transfer to general reserve | (83,291) | (80,773) |
| Net income for the fiscal year | <u>70,626</u> | <u>83,291</u> |
| At end of fiscal year | <u>70,626</u> | <u>83,291</u> |
| General reserve | | |
| At beginning of fiscal year | 1,202,836 | 1,122,063 |
| Transfer from retained earnings | <u>83,291</u> | <u>80,773</u> |
| At end of fiscal year | <u>1,286,127</u> | <u>1,202,836</u> |
| Special contributions | | |
| At beginning of fiscal year | 5,625 | 4,000 |
| Contributions of the fiscal year | <u>63</u> | <u>1,625</u> |
| At end of fiscal year | <u>5,688</u> | <u>5,625</u> |
| Total stockholders' equity | <u>1,812,589</u> | <u>1,708,422</u> |

The accompanying Notes 1 to 23 are an integral part of these financial statements.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Statements of Cash Flows

For the fiscal years ended December 31, 2009 and 2008
(Expressed in thousands of U.S. dollars)

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|--------------------------|
| Cash flows from operating activities | | |
| Net income for the fiscal year | 70,626 | 83,291 |
| Items to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,974 | 3,890 |
| Provision for loan losses | 49,454 | 21,836 |
| Adjustment to investments risk capital | 1,592 | 1,867 |
| Adjustment on securities available for sale | - | 5,087 |
| Foreign exchange loss | 4,292 | 2,307 |
| Other income | - | (4,703) |
| Market value adjustment of swap transactions and other financial instruments | (15,452) | 6,187 |
| Decrease / (increase) in interest receivable | 3,079 | (974) |
| Net (increase) in other assets | (1,823) | (18,383) |
| Increase / (decrease) in interest payable | 2,385 | (5,383) |
| Net (decrease) in other liabilities | (4,949) | (7,063) |
| Net cash provided by operating activities | <u>113,178</u> | <u>87,959</u> |
| Cash flows from investing activities | | |
| Net increase in interest-bearing deposits in banks | (78,750) | (71,809) |
| Sales and repayments of securities available for sale | 350,825 | 198,972 |
| Acquisition of securities available for sale | (556,961) | (181,363) |
| Increase in property, furniture and equipment | (2,379) | (3,078) |
| Net Increase / (decrease) in derivative financial instruments | 12,753 | (4,321) |
| Disbursements of loans receivable | (1,266,454) | (1,668,445) |
| Collections of loans receivable | 1,193,632 | 1,308,479 |
| Net increase in other liabilities | 4,008 | 2,353 |
| Net decrease in other assets | 2,979 | 1,210 |
| Net cash used in investing activities | <u>(340,347)</u> | <u>(418,002)</u> |
| Cash flows from financing activities | | |
| Net increase / (decrease) in loans payable | (160,275) | 39,695 |
| Net increase in commercial paper program | 57,762 | 23,813 |
| Net increase in bonds payable | 636,630 | 179,314 |
| Net decrease in certificates of investment | (799) | (39,926) |
| Net (decrease) / increase in certificates of deposits and saving | (301,336) | 148,417 |
| Capital contributions | 19,700 | 7,200 |
| Special contributions to equity | 63 | 1,625 |
| Net cash provided by financing activities | <u>251,745</u> | <u>360,138</u> |
| Effect of exchange rate fluctuations on cash | <u>(932)</u> | <u>(2,697)</u> |
| Cash at beginning of fiscal year | 33,659 | 6,261 |
| Cash at end of fiscal year | <u>57,303</u> | <u>33,659</u> |
| Net increase in cash and equivalents | <u>23,644</u> | <u>27,398</u> |
| <u>Supplemental information</u> | | |
| Cash interests payments | 130,129 | 168,175 |
| Unrealized net gain / (losses) on securities available for sale | 16,142 | (20,614) |
| Writte off loans transferred to foreclosed assets | 1,013 | - |

The accompanying Notes 1 to 23 are an integral part of these financial statements.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

(1) Origin and Nature of the Bank

The Central American Bank for Economic Integration (CABEI or the Bank) is a legal financial institution under public international law, founded by the governments of Guatemala, El Salvador, Honduras and Nicaragua pursuant to the Constitutive Agreement dated as of December 13, 1960. 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 began operations on May 31, 1961 and has its headquarters in Tegucigalpa, Honduras. Pursuant to the Constitutive Agreement, as a financial institution of the Economic Integration Program and through its sector investment policy, the Bank acts as both a development financing institution and a Central American institution for economic promotion.

The Bank's objective is to promote the integration and economic and social development of the Founding Members.

The activities of the Bank are complemented by the activities carried out by the Technical Cooperation Fund (Fondo de Cooperación Técnica – FONTEC) and by the Special Fund for the Social Transformation of Central America (Fondo Especial para la Transformación Social en Centroamérica – FETS). These two Funds are regulated by their own by-laws and are independent and separate from the Bank, though they are run by the Bank's Management. These financial statements include, solely, the assets, liabilities and operations of the Bank. With respect to the financial information regarding the above-mentioned funds, a brief description has been included in note 20.

(2) Summary of material accounting policies

(a) Applicable accounting principles

The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America.

(b) Comparative statements

The financial statements as of December 31, 2009 are presented together with those corresponding to December 31, 2008, for comparison purposes.

(c) Treatment of 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 as of the date of the financial statements. Foreign currency gains and losses resulting from updating such exchange rate for the assets and liabilities denominated in currencies other than the U.S. dollar are presented under Other operating income or other operating expense for each fiscal year, as appropriate.

(d) Cash and equivalents

For the purpose of the Statements of Cash Flows, cash and equivalents represent the amounts included in cash and due from banks.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

(e) Investment securities

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 until they are realized and included in the statement of income for the fiscal year.

Other equity securities without a readily determinable market value are recorded at cost and are adjusted to reflect declines in value.

Interest income on investment securities is recorded using the accrual method. Discounts and premiums are recognized as interest income using the accrued yield method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of investment securities below their cost, which are deemed to be other than temporary, are recorded as a loss in the Statements of Income.

The Bank participates in a securities lending program. This program consists in lending certain securities in exchange for a premium that the securities borrower has to pay. Under the terms of the securities lending program, CABEI requires collateral of a greater value than the fair value of the loaned securities. The Bank maintains effective control of the loaned securities during the term of the transactions given that it may be able to redeem the subject loan prior to its maturity. At the loan’s maturity, the investment company returns the securities lent, similar securities or cash. The Bank’s management believes these transactions bear low risk.

(f) Concentration of credit risk

In compliance with its objective and financial policies, the Bank grants loans and guarantees to individuals and companies, both public and private, established in the founding members or in beneficiary countries, as well as to non-regional financial institutions that operate in Central America, in order to meet the needs of development and integration programs and projects in the founding members.

In accordance with such policies, the Bank avoids concentration of its loan portfolio in individual countries or in a small group of countries, as well as in sectors that tend to be negatively affected by market conditions or technological changes. The parameters have been established in relation to the Bank’s equity, defined as paid-in capital, reserves and earnings. Significant parameters are as follows:

- The total of its loan portfolio cannot exceed 3.5 times the Bank’s equity.
- The Bank’s equity should be maintained at a level not lower than 35% of total risk weighted assets.
- The weighted exposure in any of the founding members must not exceed 100% of the Bank’s equity or 30% of the Bank’s total risk assets. Exposure is defined as the aggregate risk assets which the Bank concentrates in a single borrower, whether such borrower is a country, a public or mixed institution, an individual or a private sector company.
- Exposure in each one of the non-founding beneficiary countries, with the status of extra-regional member, will be up to the sum of the capital paid in cash plus the portion in cash of the special contribution to equity, multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by those countries.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

- Exposure in each one of the non-founding beneficiary countries not holding an extra-regional member status, will be up to the special contribution to equity paid in cash multiplied by the factor that results from dividing the loan portfolio of the founding countries by the capital paid by the founding countries.
- Exposure to a single public sector company or mixed institution with public majority ownership, with the exception of state owned banks without a sovereign guarantee, should not exceed 20% of the Bank's stockholders' equity.
- Exposure to a state-run bank, with no sovereign guarantee, shall not exceed 12% of the Bank's stockholders' equity.
- Exposure to a group of companies registered in any of the beneficiary countries and based on its credit rating, shall not exceed 10% of the Bank's shareholders' equity. Additionally, exposure to a single enterprise within such group shall never exceed 5% of the Bank's stockholders' equity.
- Exposure to a single enterprise or private bank shall not exceed 5% of the Bank's shareholders' equity.
- The exposure limit to a single economic sector without a sovereign guarantee is the lower of the following limits:
 - Hirschman/Herfindahl index (*), up to 12.5%
 - 30% of the portfolio
 - 1.0 times the Bank's equity

(*) Credit concentration per industry.

(g) Loans and allowance for loan losses

Loans are stated at the unearned principal balance. Interest income is recognized on the accrual basis according to the contractual terms of the loans.

Loans to the private sector are granted mainly through eligible financial institutions of the region and, in the case of direct co-financed loans, CABEI obtains such collateral as it considers appropriate including: mortgages, bank pledges, financial guarantees and credit default swaps.

A private sector 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 according to the amortization plan established in the contractual terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Loans which experience insignificant payment delay generally are not classified as impaired. Management determines the significance of payment delay on a case-by-case basis, taking into consideration all the circumstances related to the loan and the borrower, including the length of the delay, the reasons for the arrears, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Most of these impaired loans are classified in sub-standard or lower categories and therefore already have a specific provision allocated to them. Impairment is measured by reference to the present value of expected future cash flows, discounted at the loan's original interest rate or to the fair value of any collateral. If the valuation of the impaired loan is less than the recorded investment in the loan, the Bank recognizes the



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

impairment by creating a specific allowance for loan losses with a corresponding charge to the provision for loan losses or by adjusting an existing allowance for the impaired loan with a corresponding charge or credit to the provision.

Public sector loans are granted to governments and autonomous entities of the founding members and non-funding beneficiary countries with a sovereign guarantee of the respective country. In duly qualified cases, the Bank requires a generic guarantee of the borrower that covers 100% of the loan amount.

CABEI establishes an allowance for public sector loans that takes the individual risk of the borrowing countries into consideration. This methodology includes the calculation of the probability of default based on the credit insurance percentage assigned by Export Credit Agencies (ECA's) to credit transactions in the borrowing countries. This probability is adjusted for CABEI's preferred creditor status. Additionally, this methodology takes into consideration the risk of public sector loans that do not have a sovereign guarantee as well as the remaining maturity of operations. Management believes that this methodology reasonably reflects the estimated risk embedded in the Bank's public sector lending activities and therefore considers the resulting amount of allowances for public sector loans to be adequate. As of December 31, 2009 and December 31, 2008, there were no impaired public sector loans.

The allowances for loan losses are established through estimates of possible losses, which are charged to income in the fiscal year they are incurred and disclosed as a separate line item under Loans receivable. Loan losses are written off against the allowance when management confirms the inability to collect the loan balances. Subsequent recoveries, if any, are credited to provision for loan losses in the statement of income. The allowance for loan losses is assessed on a regular basis by management.

(h) Non-accrual loans

Loans are classified as having non-accrual status, in the case of private sector loans, when they become delinquent by more than 90 days and in the case of public sector loans, when they become delinquent by more than 180 days in accordance with the Bank's policy regarding classification of loans and the establishment of allowances for loan losses. All interest accrued but not collected on loans that are classified as having non-accrual status is reversed against interest income. Past due interest on non-accrual loans is recognized as income in the period in which CABEI receives satisfactory payment of non-accrued overdue interest.

Interests on loans for which the original conditions have been modified are recorded on a cash basis until the loans perform normally for a reasonably extended period (see Note 7). Such period is typically 90 days.

(i) Property, furniture and equipment

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

Depreciation is computed in accordance with the straight-line method.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

The estimated useful life of the assets is as follows:

| | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 40 |
| Facilities | 10 |
| Furniture and equipment | 10 and 5 |
| Vehicles | 4 |
| Hardware and software | 3, 5 and 10 |

(j) Foreclosed assets

Assets acquired through, or in lieu of, loan settlements are initially recorded at fair value at the date of settlement, establishing a new cost basis. Subsequent to settlement, valuations are periodically performed by management and the assets are recorded at the lower of cost or fair value less estimated costs of sale. Income and expenses from operations and changes in the valuation are included in the statement of income.

(k) Taxes

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

(l) General reserve and annual net income

According to the Constitutive Agreement, the general reserve is increased by the total annual net income.

(m) Derivative instruments and hedging activities

All derivatives are recognized on the balance sheet at their fair values, and are classified as assets or liabilities based on the fair value of each derivative (debit or credit).

Certain derivatives contracted by the Bank are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or a foreign-currency fair-value or cash flow hedge (foreign currency hedge). For all hedging transactions, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, the assessment of hedge transaction's effectiveness in hedging the exposure attributable to the hedged risk, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally monitors, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The changes in the fair value of a derivative which is highly effective and which is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded under other operating income/expense in the statement of income. Changes in the fair value of a derivative that is highly effective and which is designated and qualifies as a cash-flow hedge are recorded in accumulated other comprehensive income to the extent that the derivative



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective and are designated and qualify as foreign-currency hedge are recorded in either income or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. The ineffective portion of the change in the fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in the statement of income.

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

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and ceases to adjust the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in the statement of income.

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

In addition, the Bank also contracts derivatives that although being used as hedges of risk they do not classify for hedge accounting in accordance with the guidelines of ASC 815 Accounting for Derivatives and Hedging Activities (ASC 815). Changes to the fair values of these derivatives are recorded in "Other operating income / other operating expense" of the statement of income.

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

(n) Equity investments

Equity investments have been valued at cost, which is lower than the fair value. Fair value is calculated on the basis of the equity of each company, as shown in its most recent available financial statements.

(o) Donations received and contributions granted

Donations are recorded as other income when they are received, unless the donations are received with donor-imposed conditions, whereby they are registered as a liability until the



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conditions have been satisfied in all material respects or the donor has explicitly waived the conditions.

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

(p) Endorsement and guarantees granted

The main objective of the endorsements and guarantees granted by the Bank is to support the regional banking systems and the development and integration of the Central American region and to expand and diversify the banking services offered by CABEI so that its customers may have access to a broader range of services and lower financial costs in developing their projects. (See note 18).

In furtherance of this 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 itself secures compliance with obligations related to execution of a project. These endorsements and guarantees are granted taking into account the credit risk concentration limits to CABEI's borrowers (See note 2.f);

- those that do not replace financing: 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.

(q) Use of estimates

To prepare its financial statements, the Bank's management relies on certain assumptions and estimates that have an impact on the amount of the assets and liabilities, the disclosure of contingencies at the date of the financial statements and the amounts of the results generated during the reporting fiscal years. The final results may differ from such estimates. The estimates that may have significant variations in the short-term are mainly related to the loan loss provisions, the measurement at fair value of financial instruments and actuarial assumptions used to measure liabilities related to pension plans.

(3) Fair values

(a) Measurement of fair values

Guideline of ASC 820 Fair Value Measurements and Disclosures (ASC 820) defines that fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Such standard also establishes a scheme for determining fair values.

The fair value is more accurately reflected through a quoted market price, if available. If a quoted market price is not available, fair value will be based on the quoted market price of a financial instrument with similar characteristics, the present value of estimated future cash flows or other valuation techniques, which are significantly affected by the assumptions used.



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i. Fair value hierarchy measured on a recurring basis

In accordance with the guidelines of ASC 820, the Bank has categorized its financial instruments in three fair value levels on the basis of the information hierarchy used for determining such instruments:

- Level 1: The information used to determine the fair values comes from market quotations of identical instruments in active markets.
- Level 2: The information used to determine the fair values includes: market quotations of similar instruments in active markets, market quotations of similar or identical instruments in non-active markets or valuation models that use information derived from or observed in market data.
- Level 3: The information used to determine the fair value cannot be observed and it is significant to determine such values. Such information requires the Bank's management to make significant judgments and estimates.

Whenever the information used to determine the fair values includes more than one information level, in accordance with the previously defined hierarchy, the fair value has been categorized at the lowest level that is significant for its determination.

The assets and liabilities valued at their fair value on a recurrent basis as of December 31, 2009 and 2008 are as follows:

| <u>December 31, 2009</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------------|----------------|----------------|----------------|--------------|
| <u>Assets</u> | | | | |
| Investment securities | 168,248 | 457,873 | 55,209 | 681,330 |
| Derivative financial instruments | - | 125,346 | - | 125,346 |
| <u>Liabilities</u> | | | | |
| Loans payable | - | 65,205 | - | 65,205 |
| Bonds payable | - | 1,052,701 | - | 1,052,701 |
| Derivative financial instruments | - | 97,638 | 3,674 | 101,312 |

| <u>December 31, 2008</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------------|----------------|----------------|----------------|--------------|
| <u>Assets</u> | | | | |
| Investment securities | 248,589 | 165,361 | 54,869 | 468,819 |
| Derivative financial instruments | - | 114,679 | - | 114,679 |
| <u>Liabilities</u> | | | | |
| Loans payable | - | 139,113 | - | 139,113 |
| Bonds payable | - | 923,579 | - | 923,579 |
| Derivative financial instruments | - | 149,625 | - | 149,625 |



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Valuation techniques applied:

- Investments in securities: fair value has been calculated on the basis of the prices as quoted in the market and in the absence of such, they have been calculated based on discounted cash flows using the current yields of similar securities.
- Derivative financial instruments: fair values have been determined on the basis of valuation models that use parameters constructed from market data, such as the yield curve of interest rate. Another factor taken into account is the counterparty and the Bank's credit risks according to whether the fair value of the derivative is positive or negative (See also note 19).
- Loans and bonds payable: fair values are determined through the use of valuation models based on interest rate yield curves constructed from market data. Said yield curves also take into consideration the Bank's credit spread.

Changes in fair values of the instruments classified in Level 3 that occurred during the fiscal years ended December 31, 2009 and 2008 are the following:

| | Carrying amount at January 1, 2009 | Gains / (losses) of fiscal year | | | Purchases, (sales), issuances or (settlements) | Transfer in and / or out of level 3 | Carrying amount at December 31, 2009 |
|-----------------------------------|------------------------------------|---------------------------------|---|-------|--|-------------------------------------|--------------------------------------|
| | | Included in net income | Included in other comprehensive income / (loss) | | | | |
| <u>Assets</u> | | | | | | | |
| Investment securities | 54,869 | - | 540 | (200) | - | - | 55,209 |
| <u>Liabilities</u> | | | | | | | |
| Derivatives financial instruments | - | - | - | - | 3,674 | - | 3,674 |

| | Carrying amount at January 1, 2008 | Gains / (losses) of fiscal year | | | Purchases, (sales), issuances or (settlements) | Transfer in and / or out of level 3 | Carrying amount at December 31, 2008 |
|-----------------------|------------------------------------|---------------------------------|---|-------|--|-------------------------------------|--------------------------------------|
| | | Included in net income | Included in other comprehensive income / (loss) | | | | |
| <u>Assets</u> | | | | | | | |
| Investment securities | 55,447 | - | (378) | (200) | - | - | 54,869 |

ii. Fair value option

Guideline of ASC 825-10-25 Financial Instruments allows the option to choose to measure at fair value certain financial assets and liabilities that do not require such measurement. Once the option has been chosen it becomes irrevocable. The standard also requires that changes to the fair value of these financial assets and liabilities be recorded in the income statement of the fiscal year.

The Bank has chosen to measure at fair value the financial liabilities in a currency other than US dollars for which it has contracted a derivative as fair value hedge for foreign currency and interest rate fluctuations. For such liabilities up to December 31, 2007 the Bank has used hedge accounting. The principal purpose for applying ASC 825-10-25 is to reduce the volatility of the Bank's income generated by the use of the hedge accounting under ASC 815, considering that



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both the financial liabilities and the hedge instruments related to them are generally maintained until maturity. Consequently, the Bank has discontinued the hedge accounting for these transactions. The Bank has also chosen not to apply the option to measure at fair value other financial liabilities as they do not produce volatility in the income statement.

Changes in the fair value of financial liabilities results from changes in interest rates, foreign exchange rates and the Bank's credit spread rate.

The Bank's credit spread for the fiscal years ended December 31, 2009 and 2008 has not changed. Consequently, there has been no variation in the fair value due to such variable.

The amounts recorded in the statement of income as a result of changes in fair values as of December 31, 2009 and 2008 are as follows:

| December 31, 2009 | | |
|-------------------|---|---------|
| | Other operating income / (expense) – Market value adjustment of swap transactions and other financial instruments | Total |
| Loans payable | 1,257 | 1,257 |
| Bonds payable | 20,617 | 20,617 |
| December 31, 2008 | | |
| | Other operating income / (expense) – Market value adjustment of swap transactions and other financial instruments | Total |
| Loans payable | (1,012) | (1,012) |
| Bonds payable | (9,511) | (9,511) |

Interest and fees generated by these liabilities were calculated on an accrued basis in accordance with the contract terms of each transaction and were recorded as expenses for interest and fees in the statement of income.

The difference between the fair value of the instruments chosen for application of ASC 825-10-25 and the unpaid principal balances of such instruments is as follows:

| December 31, 2009 | | | |
|-------------------|------------|------------------------------|--------|
| | Fair value | Unpaid principal Balances | Loss |
| Loans payable | 65,205 | 64,615 | 590 |
| Bonds payable | 1,052,701 | 1,048,886 | 3,815 |
| December 31, 2008 | | | |
| | Fair value | Unpaid principal Balances | Loss |
| Loans payable | 139,113 | 137,266 | 1,847 |
| Bonds payable | 923,579 | 899,147 | 24,432 |



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(b) Fair value of financial instruments

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments and the estimated fair value of financial instruments with off-balance sheet risks.

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

A significant portion of the Bank's assets and liabilities are short-term financial instruments, with maturity of less than one year, and/or with floating interest rates. These short-term instruments at floating rates are considered to have a fair value equivalent to their recorded value as of the date of the financial statements. The foregoing applies to cash and due from banks, interest-bearing deposits in banks, loans and bonds issued with floating interest rates and interest receivable and payable.

The following methods and assumptions were used to determine the fair value of financial instruments maturing within more than one year and with fixed interest rates which were not booked at their fair value:

- Loans receivable, net: the fair values for loans at fixed interest rates are estimated on the basis of an analysis of the discounted cash flows, using the Commercial Interest Reference Rate (CIRR) as a reference. This rate is the official rate applied by export credit agencies, as published by the Export-Import Bank of the United States of America, and is based on the rates accrued on U.S. Treasury bonds. The fair values of non-accrual loans are estimated on the basis of the discounted cash flows or the value of the collateral, where applicable.
- Equity investments: given that they do not have a readily market value, the Bank's management estimates that the carrying amount approximates fair value. For those cases in which the carrying amount differs significantly from the equity method, the latter has been considered in estimating fair value.
- Loans payable: the fair values for loans are estimated on the basis of an analysis of the discounted cash flows, using the CIRR as a reference.
- Commercial paper program: the fair values are estimated on the basis of an analysis of the discounted cash flows, using as a reference the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Bonds payable: the fair value is estimated on the basis of an analysis of the discounted cash flows, based on current bank rates for multilateral organizations.
- Certificates of deposit and saving: fair values are estimated on the basis of an analysis of the discounted cash flows, based on the rates of the most recent transactions agreed upon with the Bank prior to each year-end.
- Certificates of investment: as set forth in note 14.b, as of December 31, 2009 and December 31, 2008, CIV's bear interest at 3% per annum and, accordingly, their fair value is the same as their carrying amount.

The estimated fair values of the bank's financial instruments as of December 31, 2009 and December 31, 2008 are as follows:



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| | December 31, 2009 | | December 31, 2008 | |
|------------------------------------|-------------------|------------------|-------------------|------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Assets</u> | | | | |
| Cash and due from banks | 57,303 | 57,303 | 33,659 | 33,659 |
| Interest-bearing deposits in banks | 639,760 | 639,760 | 561,010 | 561,010 |
| Securities available for sale | 681,330 | 681,330 | 468,819 | 468,819 |
| Loans receivable, net | 4,160,575 | 4,243,287 | 4,152,750 | 4,234,441 |
| Interest receivable | 53,321 | 53,321 | 56,400 | 56,400 |
| Derivative financial instruments | 125,346 | 125,346 | 114,679 | 114,679 |
| Equity investments | 19,605 | 21,277 | 12,601 | 12,601 |
| Total | <u>5,737,240</u> | <u>5,817,304</u> | <u>5,399,918</u> | <u>5,481,609</u> |
| <u>Liabilities</u> | | | | |
| Loans payable | 951,773 | 970,820 | 1,113,886 | 1,134,140 |
| Bonds payable | 2,377,468 | 2,419,695 | 1,702,303 | 1,702,175 |
| Commercial paper program | 115,498 | 115,498 | 57,736 | 57,736 |
| Certificates of deposit and saving | 353,036 | 358,307 | 654,372 | 659,009 |
| Certificates of investment | 1,874 | 1,874 | 2,673 | 2,673 |
| Interest payable | 32,242 | 32,242 | 29,857 | 29,857 |
| Derivative financial instruments | 101,312 | 101,312 | 149,625 | 149,625 |
| Total | <u>3,933,203</u> | <u>3,999,748</u> | <u>3,710,452</u> | <u>3,735,215</u> |

(4) Cash and due from banks

As of December 31, 2009 and December 31, 2008, the cash and due from banks were as follows:

| | December 31, 2009 | December 31, 2008 |
|------------------------------------|-------------------|-------------------|
| Currencies of the founding members | 3,479 | 19,103 |
| US Dollars | 52,642 | 4,929 |
| Other currencies | 1,182 | 9,627 |
| Total | <u>57,303</u> | <u>33,659</u> |

(5) Interest-bearing deposits in banks

The deposits are normally time deposits with terms of up to three months, renewable with respect to the term and interest rate; accordingly, the face value approximates the market value. As of December 31, 2009 and December 31, 2008 these carrying amounts are set in currencies other than those of the member countries.

(6) Investment Securities

The amortized cost of investment securities and their approximate fair values, as of December 31, 2009 and December 31, 2008 are as follows:



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| Securities available for Sale | December 31, 2009 | | | | | | |
|-------------------------------|-------------------|-------------------------|------------------------|-------------------------------------|----------------------|----------------|-----------------|
| | Amortized cost | Unrealized gross losses | Unrealized gross gains | Adjustments on hedging transactions | Estimated fair value | Realized gains | Realized losses |
| Marketable securities | 512,534 | (4,529) | 3,128 | 4,706 | 515,839 | 746 | (4,834) |
| Investment funds | 96,881 | - | 8,650 | - | 105,531 | 6,660 | - |
| Commercial paper | 59,960 | - | - | - | 59,960 | - | - |
| Total | 669,375 | (4,529) | 11,778 | 4,706 | 681,330 | 7,406 | (4,834) |

| Securities available for Sale | December 31, 2008 | | | | | | |
|-------------------------------|-------------------|-------------------------|------------------------|-------------------------------------|----------------------|----------------|-----------------|
| | Amortized cost | Unrealized Gross Losses | Unrealized Gross Gains | Adjustments on hedging transactions | Estimated fair value | Realized gains | Realized losses |
| Marketable securities | 373,004 | (10,841) | 2,361 | 14,587 | 379,111 | 1,634 | (5,786) |
| Investment funds | 90,121 | (413) | - | - | 89,708 | 2,216 | - |
| Total | 463,125 | (11,254) | 2,361 | 14,587 | 468,819 | 3,850 | (5,786) |

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

As of December 31, 2009 and December 31, 2008, the estimated fair values and unrealized losses on securities available for sale that have maintained unrealized gross losses are as follows:

| | December 31, 2009 | | | | | |
|--------------------------------|---|-------------------------|--|-------------------------|----------------------|-------------------------|
| | Less than 12 months of accumulated losses | | 12 months or greater of accumulated losses | | | |
| | Time to maturity | | | | | |
| | Less than 12 months | | 12 months or longer | | | |
| Securities available for sale: | Estimated fair value | Unrealized Gross Losses | Estimated fair value | Unrealized gross losses | Estimated fair value | Unrealized Gross Losses |
| Marketable securities | 180,728 | (2,900) | - | - | 37,709 | (1,629) |
| Total | 180,728 | (2,900) | - | - | 37,709 | (1,629) |

| | December 31, 2008 | | | | | |
|--------------------------------|---|-------------------------|--|-------------------------|----------------------|-------------------------|
| | Less than 12 months of accumulated losses | | 12 months or greater of accumulated losses | | | |
| | Time to maturity | | | | | |
| | Less than 12 months | | 12 months or longer | | | |
| Securities available for sale: | Estimated fair value | Unrealized gross losses | Estimated fair value | Unrealized gross losses | Estimated fair value | Unrealized gross losses |
| Marketable securities | 167,912 | (2,315) | - | - | 25,764 | (8,526) |
| Investment funds | 89,708 | (413) | - | - | - | - |
| Total | 257,620 | (2,728) | - | - | 25,764 | (8,526) |



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The Bank's policy establishes that at least 75% of its total investment securities should be in deposits in banks and bonds issued by issuers holding an international rating of "A" (or its equivalent) or better, granted by an internationally recognized rating agency.

A decrease in the fair value is recognized as other than temporary when it is probable that the book value of the investment will not be fully recovered. CABEI's Assets & Liabilities Committee (ALCO) assesses on a regular basis the situation and the evolution of securities available for sale, including those with unrealized losses. When evaluating the probability of not recovering the book value of the investment, the Bank analyzes the severity of the decline in its fair value, the volatility in the security's quotation, the period of time the investment was underwater, the financial health of the issuer, and the intention and the ability of the Bank to hold such investments until its market price would be recovered or until maturity, among other analysis. As of December 31, 2009 and as of December 31, 2008, the ALCO has concluded that unrealized losses on securities available for sale at those dates are temporary and the credit risk associated is no significant.

Sales and repayments of securities available for sale during fiscal years ended December 31, 2009 and December 31, 2008 amounted to 350,825 and 198,972, respectively.

As of December 31, 2009 and December 31, 2008, investment securities are classified by contractual maturities as follows:

| | December 31, 2009 | | December 31, 2008 | |
|---------------------------------|-------------------|----------------------|-------------------|----------------------|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| Due within one year | 329,845 | 336,416 | 238,438 | 237,156 |
| After one but within five years | 274,818 | 277,750 | 145,436 | 144,190 |
| After five but within ten years | 20,597 | 19,607 | 31,039 | 25,898 |
| After ten years | 44,115 | 47,557 | 48,212 | 61,575 |
| Total | 669,375 | 681,330 | 463,125 | 468,819 |

As of December 31, 2009 the Bank has no investment securities loaned pursuant to secure lending transactions, while as of December 31, 2008 the investments loaned under this modality totaled 3,270.

(7) Loans Receivable

CABEI has no significant concentrations of credit risk with any individual borrower or groups of borrowers, taking into account the credit risk concentration policies described in note 2.f.

The list of loans receivable, by sector and country as of December 31, 2009 and December 31, 2008, is as follows:



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| | December 31, 2009 | | | December 31, 2008 | | |
|---------------------------|-------------------|------------------|------------------|-------------------|------------------|------------------|
| | Public sector | Private sector | Total | Public sector | Private sector | Total |
| Guatemala | 709,346 | 371,302 | 1,080,648 | 714,571 | 459,234 | 1,173,805 |
| El Salvador | 758,927 | 141,984 | 900,911 | 715,781 | 159,375 | 875,156 |
| Honduras | 389,752 | 277,464 | 667,216 | 377,551 | 422,718 | 800,269 |
| Nicaragua | 170,906 | 282,627 | 453,533 | 166,247 | 304,807 | 471,054 |
| Costa Rica | 828,788 | 372,437 | 1,201,225 | 609,974 | 375,023 | 984,997 |
| Dominican Republic | 46,295 | - | 46,295 | - | - | - |
| Panama | - | 13,945 | 13,945 | - | 9,746 | 9,746 |
| | <u>2,904,014</u> | <u>1,459,759</u> | <u>4,363,773</u> | <u>2,584,124</u> | <u>1,730,903</u> | <u>4,315,027</u> |
| Allowance for loan losses | (85,041) | (118,157) | (203,198) | (91,505) | (70,772) | (162,277) |
| Loans receivable, net | <u>2,818,973</u> | <u>1,341,602</u> | <u>4,160,575</u> | <u>2,492,619</u> | <u>1,660,131</u> | <u>4,152,750</u> |

The list of loans receivable, by economic activity segment, as of December 31, 2009 and December 31, 2008, is as follows:

| | | December 31, 2009 | | December 31, 2008 | |
|---|-----|-------------------|-------------|-------------------|-------------|
| Infrastructure / Construction | (a) | 1,389,474 | 32% | 1,233,982 | 28% |
| Electricity, gas and water supply | | 1,032,556 | 23% | 743,280 | 16% |
| Monetary intermediation | | 728,388 | 16% | 1,018,054 | 23% |
| Multi-sector | | 440,778 | 10% | 454,509 | 10% |
| Social and health services | | 183,648 | 4% | 201,464 | 5% |
| Manufacturing industry | | 153,761 | 3% | 216,633 | 5% |
| Transport, storage and communications | | 125,413 | 2% | 135,134 | 3% |
| Agro-industry | | 79,418 | 2% | 30,584 | 1% |
| Hotels and restaurants | | 57,388 | 1% | 65,139 | 2% |
| Real estate | | 49,769 | 1% | 41,596 | 1% |
| Mining and quarrying | | 48,000 | 1% | 54,068 | 1% |
| Education | | 32,779 | 1% | 37,365 | 1% |
| Wholesale and retail trade | | 26,392 | 1% | 46,941 | 1% |
| Other social and community activities | (b) | 10,773 | 1% | 29,957 | 1% |
| Fishing | | 4,654 | 1% | 5,571 | 1% |
| Extraterritorial organizations and agencies | | 582 | 1% | 750 | 1% |
| Total | | <u>4,363,773</u> | <u>100%</u> | <u>4,315,027</u> | <u>100%</u> |

(a) This line includes loans granted to employees of the Bank for the purchase of homes, for terms of up to 20 years. These loans accrue interest at rates ranging from 2.50% to 5.44% per annum for housing loans denominated in U.S. dollars, and from 8% to 12% per annum for loans denominated in Central American currencies. As of December 31, 2009 and December 31, 2008, the balances under these two headings amounted to 25,157 and 22,994, respectively.

(b) This line includes loans granted to employees of the Bank for uses such as higher education tuition expenses, purchase of personal computers, etc., for terms of up to 15 years. These loans accrue interest at rates of 2.5% per annum for loans denominated in U.S. dollars and rates ranging from 8% to 10% per annum for loans granted in Central American currencies, except for loans granted for the purchase of personal computers, whose financial cost is zero. As of December 31, 2009 and December 31, 2008, the balances under these headings amounted to 951 and 1,035, respectively.



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The list of loans receivable, by maturity, as of December 31, 2009 and December 31, 2008, is as follows:

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|-------------------|--------------------------|--------------------------|
| Past due | 33,916 | 17,676 |
| Up to 1 year | 713,068 | 978,434 |
| From 1 to 2 years | 528,894 | 530,267 |
| From 2 to 3 years | 426,357 | 404,869 |
| From 3 to 4 years | 369,215 | 366,537 |
| From 4 to 5 years | 463,742 | 306,886 |
| More than 5 years | 1,828,581 | 1,710,358 |
| Total | <u>4,363,773</u> | <u>4,315,027</u> |

The list of loans receivable, by currency, as of December 31, 2009 and December 31, 2008, is as follows:

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|--------------------------|
| U.S. dollar | 4,192,696 | 4,047,230 |
| Currencies from Central-American countries | 157,082 | 252,561 |
| Euro | 10,037 | 9,547 |
| Yen | 3,958 | 5,670 |
| Other currencies | - | 19 |
| Total | <u>4,363,773</u> | <u>4,315,027</u> |

As of December 31, 2009 and December 31, 2008, the weighted average interest rates on loans receivable were 5.85% and 6.65% per annum, respectively, considering the effect of swaps, if applicable.

Loans receivable at fixed and floating rates are as follows:

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|------------------------------------|--------------------------|--------------------------|
| Loans receivable at fixed rates | 1,059,847 | 960,809 |
| Loans receivable at floating rates | 3,303,926 | 3,354,218 |
| Total | <u>4,363,773</u> | <u>4,315,027</u> |

As of December 31, 2009 and December 31, 2008, in accordance with the Bank's policies, interest on non-accrual loans of 8,163 and 7,564, respectively, was not recorded as income because it had not been collected. As of December 31, 2009 and December 31, 2008, the principal of the loans that generated such interest amounted to 127,411 and 25,909, respectively, and related exclusively to private sector borrowers.

The following table presents information on impaired private sector loans as of December 31, 2009 and December 31, 2008:

| Impaired loans | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|--------------------------|
| Impaired loans without allowance for loan losses | - | - |
| Impaired loans with allowance for loan losses | 229,122 | 49,636 |
| Allowance related to impaired loans | 80,154 | 18,143 |
| Accrued interest on impaired loans | 8,035 | 3,476 |
| Interest received on impaired loans | 3,728 | 1,993 |



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The changes in the allowance for loan losses as of December 31, 2009 and December 31, 2008 are as follows:

| | December 31, 2009 | | | December 31, 2008 | | |
|---------------------------------|-------------------|---------------|----------------|-------------------|---------------|----------------|
| | Sector | | Total | Sector | | Total |
| | Private | Public | | Private | Public | |
| At beginning of fiscal year | 70,772 | 91,505 | 162,277 | 60,160 | 80,281 | 140,441 |
| Provision for fiscal year | 67,156 | 14,236 | 81,392 | 20,169 | 17,414 | 37,583 |
| Recoveries for fiscal year | (11,238) | (20,700) | (31,938) | (9,557) | (6,190) | (15,747) |
| Loan write-offs for fiscal year | (8,533) | - | (8,533) | - | - | - |
| At end of fiscal year | <u>118,157</u> | <u>85,041</u> | <u>203,198</u> | <u>70,772</u> | <u>91,505</u> | <u>162,277</u> |

(8) Interest receivable

The detail of interest receivable as of December 31, 2009 and December 31, 2008 is as follows:

| | December 31, 2009 | December 31, 2008 |
|---------------------------------------|-------------------|-------------------|
| On loans | 53,248 | 56,284 |
| On interest-bearing deposits in banks | 73 | 116 |
| Total | <u>53,321</u> | <u>56,400</u> |

(9) Property, furniture and equipment

Property, furniture and equipment as of December 31, 2009 and December 31, 2008 are as follows:

| | December 31, 2009 | December 31, 2008 |
|--------------------------------|-------------------|-------------------|
| Vehicles | 1,219 | 1,795 |
| Buildings | 25,399 | 25,135 |
| Computer equipment | 19,842 | 18,725 |
| Installations | 9,676 | 9,580 |
| Office equipment and furniture | 4,891 | 4,919 |
| Depreciable assets | <u>61,027</u> | <u>60,154</u> |
| Land | 2,590 | 2,590 |
| Subtotal | <u>63,617</u> | <u>62,744</u> |
| Less accumulated depreciation | <u>(36,509)</u> | <u>(34,041)</u> |
| Total | <u>27,108</u> | <u>28,703</u> |

During the fiscal years ended December 31, 2009 and 2008, the depreciation charged to expenses amounted to 3,683 and 3,599, respectively.

(10) Equity Investments

Equity investments as of December 31, 2009 and December 31, 2008 which do not have a market value are as follows:



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Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

| Name | Investment | Issuer Data | | | | December 31, 2009 | December 31, 2008 |
|---|------------|----------------------|---------|--------|-----------------|----------------------|----------------------|
| | | Financial statements | Capital | Equity | Income / (loss) | | |
| Investments | | | | | | | |
| Central American Mezzanine Infrastructure Fund LP (CAMIF) | 72.73% | - | - | - | - | 3,121 | - |
| Latin American Infrastructure Fund Energy and Cleaner Production Facility (CAREC) | 1.48% | 09/30/09 | - | 51,044 | 19,557 | 695 | 2,288 |
| | 41.67% | 09/30/09 | - | 5,255 | (109) | 2,190 | 1,422 |
| | | | | | | <u>6,006</u> | <u>3,710</u> |
| Shares | | | | | | | |
| Corporación Interamericana Financiamiento Infraestructura | 9.25% | 06/30/09 | 54,085 | 67,086 | 1,536 | 5,000 | 5,000 |
| Banco Popular Covelco | 11.76% | 07/31/09 | 17,000 | 15,475 | (624) | 2,000 | 2,000 |
| Sociedad de Garantía Recíproca Pro-Banco II | 28.25% | 05/31/09 | 4,326 | 5,492 | 62 | 1,145 | 1,145 |
| Eólico Valle Central | 33.33% | 09/30/09 | - | 12,575 | (1,160) | 4,441 | 243 |
| | 60.00% | 12/31/08 | 1,035 | 980 | (55) | 836 | 478 |
| Other | | | | | | 177 | 25 |
| | | | | | | <u>13,599</u> | <u>8,891</u> |
| | | | | | | <u>19,605</u> | <u>12,601</u> |

(11) Other assets

The balance of other assets as of December 31, 2009 and December 31, 2008 is as follows:

| | December 31, 2009 | December 31, 2008 |
|---------------------------|-------------------|-------------------|
| Accounts receivable | 1,874 | 1,924 |
| Pre-investment studies | 7,800 | 6,926 |
| Foreclosed assets | 1,799 | 989 |
| Prepaid expenses | 606 | 1,008 |
| Supplies | 166 | 156 |
| Assets under construction | - | 10,703 |
| Other | 757 | 1,050 |
| Total | <u>13,002</u> | <u>22,756</u> |

Foreclosed assets as of December 31, 2009 and December 31, 2008 are located in the following countries:

| | December 31, 2009 | December 31, 2008 |
|-----------------------|-------------------|-------------------|
| Nicaragua | 5,508 | 5,508 |
| El Salvador | 4,787 | 4,787 |
| Honduras | 1,830 | 818 |
| Costa Rica | 6 | 6 |
| | <u>12,131</u> | <u>11,119</u> |
| Fair value adjustment | (10,332) | (10,130) |
| Total | <u>1,799</u> | <u>989</u> |

(12) Loans payable

Loans payable as of December 31, 2009 and December 31, 2008 are as follows:



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| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|--------------------------|
| BAYERISCHE LANDESBANK | 130,600 | 176,915 |
| KREDITANSTALT FÜR WIEDERAUFBAU (K.F.W.) GERMANY | 125,012 | 129,537 |
| STANDARD CHARTERED BANK | 95,000 | 10,000 |
| MEXICO-CABEI FINANCIAL COOPERATION AGREEMENT | 77,817 | 63,738 |
| INTER-AMERICAN DEVELOPMENT BANK (I.D.B.) | 66,832 | 76,803 |
| NORDIC INVESTMENT BANK | 54,595 | 57,500 |
| NORDEA BANK | 43,503 | 59,020 |
| NORDEA BANK (FUNDED PARTICIPATION AGREEMENT) | 40,768 (i) | 46,831 |
| DEUTSCHE BANK, A.G. | 35,012 | 31,378 |
| BANQUE NATIONALE DE PARIS, PANAMA | 30,000 | 30,000 |
| MIZUHO CORPORATE BANK, LTDA. | 28,559 | 42,837 |
| AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.) | 27,099 | 32,894 |
| LOANS SECURED BY THE AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D. GUARANTEES) | 26,890 | 34,062 |
| BANCO MERCANTIL, VENEZUELA | 25,000 | 25,000 |
| BANK LEUMI, ISRAEL | 21,195 | - |
| ROYAL BANK OF SCOTLAND P.L.C. | 20,000 | 35,000 |
| JAPAN BANK FOR INTERNATIONAL COOPERATION | 12,374 | 38,947 |
| OESTERREICHISCHE ENTWICKLUNGSBANK AG (OeEB) | 18,689 | - |
| INSTITUTO DE CREDITO OFICIAL, SPAIN | 18,517 | 20,725 |
| EUROPEAN INVESTMENT BANK | 18,287 | 21,426 |
| GERMAN CORPORATION FOR INVESTMENT AND DEVELOPMENT (DEG) | 10,000 | 11,328 |
| THE CHINA COUNCIL FOR INTERNATIONAL COOPERATION ON ENVIRONMENT AND DEVELOPMENT | 8,571 | 10,000 |
| SOCIETE GENERALE | 8,542 | 14,010 |
| THE OPEC FUND FOR INTERNATIONAL DEVELOPMENT | 7,941 | 9,706 |
| DANIDA-UNIBANK | 970 | 1,489 |
| DRESDNER BANK LATEINAMERIKA | - | 35,000 |
| LANDESBANK BADEN – WÜERTTEMBERG | - | 60,000 |
| CREDIT SUISSE | - | 25,000 |
| HYPOVEREINSBANK | - | 10,000 |
| THE EXPORT-IMPORT BANK OF THE REPUBLIC OF CHINA | - | 2,500 |
| EKSPORTFINANS | - | 2,000 |
| OTHER INSTITUTIONS | - | 240 |
| Total | <u>951,773</u> | <u>1,113,886</u> |

- (i) Include debt that will be settled using the funds obtained from collection of the lease payments under a lease contract entered into with Instituto Costarricense de Electricidad, the residual value of which amounted to 32,060 as of December 31, 2009, and was included under loans receivable.

The maturities of the loans payable as of December 31, 2009 and December 31, 2008 are as follows:

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|-------------------|--------------------------|--------------------------|
| Up to 1 year | 215,248 | 377,451 |
| From 1 to 2 years | 246,550 | 144,640 |
| From 2 to 3 years | 148,940 | 165,419 |
| From 3 to 4 years | 94,298 | 142,836 |
| From 4 to 5 years | 61,023 | 69,259 |
| More than 5 years | 185,714 | 214,281 |
| Total | <u>951,773</u> | <u>1,113,886</u> |



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(Expressed in thousands of U.S. dollars)

As of December 31, 2009 and December 31, 2008, the weighted average interest rate on loans payable was 2.95% and 4.22% per annum, respectively, considering the effect of swaps, if applicable.

Loans payable at fixed and floating rates as of December 31, 2009 and December 31, 2008 are as follows:

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|---------------------------------|--------------------------|--------------------------|
| Loans payable at fixed rates | 393,910 | 602,060 |
| Loans payable at floating rates | 557,863 | 511,826 |
| Total | <u>951,773</u> | <u>1,113,886</u> |

(13) Bonds payable and commercial paper program

(a) Bonds payable as of December 31, 2009 and December 31, 2008, are as follows:

| | <u>Year of Issue</u> | <u>Maturity</u> | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|-----------------|------------------------------|------------------------------|
| Regional bonds (US\$) | 2001 | 2011 | 50,000 | 50,000 |
| MTN – First issuance (US\$) | 2003 | 2013 | 198,999 | 198,698 |
| MTN – Fourth issuance (US\$) | 2005 | 2012 | 199,513 | 199,279 |
| MTN – Sixth issuance (SG\$) | 2005 | 2010 | 71,174 | 69,575 |
| Bonds payable in COP – First issuance | 2006 | 2015 | 224,702 | 204,168 |
| MTN – Seventh issuance (US\$) | 2006 | 2011 | 14,974 | 24,954 |
| Bonds payable in NT\$ - Fourth issuance | 2006 | 2011 | 110,085 | 108,373 |
| MTN – Eighth issuance (HK\$) | 2006 | 2011 | 102,156 | 103,255 |
| Bonds payable in JPY - First issuance | 2006 | 2011 | 44,248 | 111,947 |
| MTN – Ninth issuance (MXP) | 2007 | 2012 | 57,283 | 54,533 |
| MTN – Tenth issuance (MXP) | 2007 | 2012 | 57,150 | 54,458 |
| MTN – Eleventh issuance (MXP) | 2007 | 2014 | 114,144 | 108,470 |
| Bonds payable in THB - First issuance | 2007 | 2017 | 73,912 | 81,361 |
| MTN – Twelfth issuance (MXP) | 2008 | 2018 | 8,631 | 7,822 |
| MTN – Thirteenth issuance (MXP) | 2008 | 2018 | 7,903 | 7,560 |
| MTN – Fourteenth issuance (MXP) | 2008 | 2010 | 57,326 | 54,316 |
| MTN – Fifteenth issuance (MXP) | 2008 | 2020 | 28,067 | 26,694 |
| MTN – Sixteenth issuance (HNL) | 2008 | 2011 | 5,292 | 5,293 |
| MTN – Seventeenth issuance (US\$) | 2008 | 2010 | 5,000 | 15,000 |
| Bonds payable in NT\$ - Fifth issuance | 2008 | 2010 | 40,291 | 39,586 |
| Bonds payable in NT\$ - Sixth issuance | 2009 | 2011 | 55,763 | - |
| Bonds payable in NT\$ - Seventh issuance | 2009 | 2011 | 58,865 | - |
| MTN – Eighteenth issuance (CRC) | 2009 | 2014 | 17,214 | - |
| Bonds payable in NT\$ - Eighth issuance | 2009 | 2013 | 46,533 | - |
| Bonds payable in NT\$ - Ninth issuance | 2009 | 2013 | 15,511 | - |
| Bonds payable in COP – Second issuance | 2009 | 2014 | 70,353 | - |
| Bonds payable in COP – Third issuance | 2009 | 2019 | 42,812 | - |
| MTN – Nineteenth issuance (CRC) | 2009 | 2014 | 26,479 | - |
| MTN – Twentieth issuance (US\$) | 2009 | 2019 | 25,000 | - |
| MTN – Twenty First issuance (US\$) | 2009 | 2014 | 497,715 | - |
| Bonds payable in DOP – First issuance | 2009 | 2014 | 20,767 | - |
| Bonds payable in NT\$ - Third issuance | 2004 | 2009 | - | 106,577 |
| MTN – Fifth issuance (US\$) | 2005 | 2009 | - | 25,000 |
| Bonds payable – Second private issuance (US\$) | 2002 | 2009 | - | 12,961 |
| Subtotal | | | <u>2,347,862</u> | <u>1,669,880</u> |
| Fair value adjustment on hedging activities | | | 29,606 | 32,423 |
| Total | | | <u>2,377,468</u> | <u>1,702,303</u> |



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In December 2009 the Bank placed bonds in the Dominican Republic's capital market, amounting to 740,000 thousands of Dominican pesos, with 5-year maturity, accruing at fixed interest rate of 12%. Simultaneously, the Bank has entered into a cross currency swap exchanging flows into U.S. dollars and LIBOR-based rate.

As of December 31, 2009 and December 31, 2008, the weighted average interest rates on bonds payable were 5.5% and 5.52% per annum, respectively, considering the effect of swaps, when applicable.

- (b) On May 14, 2009 CABEI launched a Global Commercial Paper Program with dealers from Europe and the United States. The total program size is 500,000, and the program was assigned A-1 and P-1 short-term ratings by S&P and Moody's, respectively. As of December 31, 2009, 104,758 were issued under this program, at an annual average cost of 0.58%. Maturities are generally shorter than 6 months.

As of December 31, 2008, 57,736 were issued under a previous U.S. Commercial Paper Program, and its annual cost was 2.42%.

As of September 4, 2009, CABEI launched a Regional Commercial Paper Program, registered in the National Securities Registry of Costa Rica. The Program amounts to 100,000 and received a short-term rating of F-1 + (cri) by Fitch Ratings Central America. At December 31, 2009, 10,740 (CRC 6 billion) were issued under this Program, with an annual rate set flat at the Basic Lending Rate (Tasa Básica Pasiva) and maturing in 6 months at inception.

(14) Certificates of deposit, savings and investment

- (a) Certificates of deposit and savings as of December 31, 2009 and December 31, 2008 were value at cost and are as follows:

| | December 31, 2009 | December 31, 2008 |
|--|----------------------|-------------------|
| Social Benefit Fund (note 21) | 132,777 | 129,435 |
| Private financial institutions | 68,425 | 190,841 |
| Republic of Costa Rica | 36,694 | 55,992 |
| Republic of Nicaragua | 34,004 | - |
| Republic of El Salvador | 34,000 | 34,000 |
| Debt-conversion fund (Honduras- Spain) (note 20.b) | 23,308 | 21,789 |
| CABEI's certificates of deposit (*) | 12,889 | - |
| Republic of Honduras | 6,132 | 175,367 |
| Republic of Guatemala | 4,807 | 396 |
| Special Fund for the Social Transformation of Central America (note 20.a) | - | 28,300 |
| Special Fund of Technical Cooperation (note 20.a) | - | 18,252 |
| Total | <u>353,036</u> | <u>654,372</u> |

- (*) CABEI's Certificates of Deposit (CDBs) were originated pursuant to Board of Directors Resolution No. 238/2008, who authorized, effective as from January 1, 2009, the launch of a savings program for active employees, pensioners and retirees of CABEI, denominated in U.S. dollars. As of December 31, 2009, placements under this program accrued interest at rates ranging from 4.50% to 5.50%, for 6-month, 1-year and 5-year terms.



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The contractual maturities and the weighted average interest rates as of December 31, 2009 and December 31, 2008 are as follows:

| Maturity | December 31, 2009 | | December 31, 2008 | |
|-------------------------|-------------------|-------|-------------------|-------|
| | Amount | Rate | Amount | Rate |
| Up to 6 months | 274,653 | 4.02% | 484,814 | 3.04% |
| From 6 months to 1 year | 64,062 | 8.24% | 126,121 | 7.00% |
| From 1 to 2 years | 4,475 | 6.50% | 33,600 | 9.46% |
| From 2 to 3 years | 2,117 | 2.21% | 4,545 | 6.50% |
| More than 3 years | 7,729 | 2.21% | 5,292 | 6.12% |
| Total | <u>353,036</u> | | <u>654,372</u> | |

- (b) As of December 31, 2009 and December 31, 2008 balances for Certificates of Investment (CIVs) were 1,874 and 2,673, respectively, related to deposits whose beneficiaries were former employees, retirees and heirs of the Bank, are either demand deposits or 20-year deposits at depositor's discretion, and bearing interest at 3% per annum.

(15) Interest payable

Interest payable as of December 31, 2009 and December 31, 2008 are as follows:

| | December 31, 2009 | December 31, 2008 |
|-----------------------------|----------------------|-------------------|
| On bonds payable (*) | 24,043 | 16,609 |
| On loans payable (**) | 5,722 | 10,184 |
| On certificates of deposit | 2,477 | 3,054 |
| On commercial paper program | - | 10 |
| Total | <u>32,242</u> | <u>29,857</u> |

(*) 7,932 and 2,051 correspond to bonds payable valued at fair value at 31 December 2009 and 2008, respectively.

(**) 348 and 3,064 correspond to loans payable valued at fair value at 31 December 2009 and 2008, respectively

(16) Other liabilities

Other liabilities as of December 31, 2009 and December 31, 2008, were as follows:

| | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Other creditors | 12,514 | 17,067 |
| Financial cooperation to founding countries provision | 3,351 | 4,743 |
| Transitory deposits | 3,056 | 3,084 |
| Technical assistance provision | 2,880 | 2,869 |
| Provisions for bonus and supplemental compensation | 2,351 | 2,255 |
| Other provisions | 7,401 | 2,480 |
| Other special contributions | 5 | 5 |
| Total | <u>31,558</u> | <u>32,503</u> |



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(17) Equity

(a) Paid-in capital

The Bank's authorized capital is 2,000,000, consisting of 200,000 registered shares with a face value of 10 each. Of this capital, the founding members have subscribed shares in equal parts for a total amount of 1,020,000, and the non-regional members may subscribe up to a total amount of 980,000, of which 702,900 have already been subscribed.

The Constitutive Agreement was modified by a protocol adopted in Managua, Nicaragua, by the Central American countries in 1989, which was entered into on January 20, 1992, and was subsequently modified on February 6, 2003. The protocol authorized the inclusion of non-regional countries as members of the Bank and modified its capital structure.

On April 29, 2009, the Board of Governors approved the principles that will govern the Bank's capital structure:

- the authorized capital will be 5,000,000: each founding country will ratably subscribe for 2,550,000, whereas 2,450,000 will be available to extra-regional countries and non-founding regional partners;
- structure composed of two series of stock: Series "A" reserved for founding countries, and Series "B" reserved for non-founding regional partners and extra-regional partners;
- Series "E" certificates will be issued in the name of "A" and "B" shareholders, which shall evidence the retained earnings attributable to capital contributions made by them in the Bank from time to time (note 17.b). These certificates will not carry voting rights and will be non-assignable.

For purposes of the capital increase approved on that date, the Board of Governors approved to require from the series "A" and "B" newly subscribed shares, a cash payment and its supplement through the use of series "E" certificates. Those partners who do not hold enough series "E" certificates for covering this payment may supplement it with fresh cash funds.

In order to implement the new capital structure, the Board of Governors approved an amendment to the Bank's Constitutive Agreement. This amendment will become effective three months after the Bank has given official notice thereof to all its partners. To such end, the amendment must be previously ratified by the Congresses of the Republic of Cost Rica and the Republic of Colombia, in view of a reservation made by those countries regarding the Constitutive Agreement's amendment procedure. As of to date, the bank has not received the communication of ratification.



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As of December 31, 2009 and December 31, 2008, the Bank's capital was as follows:

| | December 31, 2009 | | December 31, 2008 | |
|-------------------------------|-------------------|----------------|-------------------|----------------|
| | <u>Shares</u> | | <u>Shares</u> | |
| | <u>Subscribed</u> | <u>Paid</u> | <u>Subscribed</u> | <u>Paid</u> |
| <u>Founding countries</u> | | | | |
| Guatemala | 204,000 | 55,000 | 204,000 | 55,000 |
| El Salvador | 204,000 | 55,000 | 204,000 | 55,000 |
| Honduras | 204,000 | 55,000 | 204,000 | 55,000 |
| Nicaragua | 204,000 | 55,000 | 204,000 | 55,000 |
| Costa Rica | 204,000 | 55,000 | 204,000 | 55,000 |
| Sub-total | <u>1,020,000</u> | <u>275,000</u> | <u>1,020,000</u> | <u>275,000</u> |
| <u>Non-regional countries</u> | | | | |
| Spain | 200,000 | 50,000 | 200,000 | 37,500 |
| China | 150,000 | 37,500 | 150,000 | 37,500 |
| Mexico | 122,500 | 30,625 | 122,500 | 30,625 |
| Argentina | 57,600 | 14,400 | 57,600 | 14,400 |
| Colombia | 57,600 | 14,400 | 57,600 | 14,400 |
| Dominican Republic | 57,600 | 14,400 | 57,600 | 10,800 |
| Panama | 57,600 | 10,800 | 57,600 | 7,200 |
| Sub-total | <u>702,900</u> | <u>172,125</u> | <u>702,900</u> | <u>152,425</u> |
| Total | <u>1,722,900</u> | <u>447,125</u> | <u>1,722,900</u> | <u>427,425</u> |
| Unsubscribed shares of | | | | |
| Non-regional countries | <u>277,100</u> | <u>-</u> | <u>277,100</u> | <u>-</u> |
| | <u>2,000,000</u> | <u>447,125</u> | <u>2,000,000</u> | <u>427,425</u> |

CABEI's Constitutive Agreement also considers the incorporation of Beneficiary Countries, which obtain borrowings and guarantees, interpretation and arbitration, when they make special contributions that increase the Bank's equity. Those special contributions are divided in paid-in contributions and callable contributions, under requirement of payment. Under the special paid-in contributions, each Beneficiary Country receive Certificates of Contribution, which do not have voting rights, but allow the right to speak at Directors' and Governors' meetings.

As of December 31, 2009 and December 31, 2008, the Bank's special contributions were as follows:

| | December 31, 2009 | | December 31, 2008 | |
|--------------------|-------------------|----------------|-------------------|--------------|
| | <u>Subscribed</u> | <u>Paid</u> | <u>Subscribed</u> | <u>Paid</u> |
| Argentina | 1,000 | 250 | 1,000 | 250 |
| Colombia | 1,000 | 250 | 1,000 | 250 |
| Belize | 25,000 | 4,687.5 | 25,000 | 4,687.5 |
| Dominican Republic | 1,000 | 250 | 1,000 | 187.5 |
| Panama | 1,000 | 250 | 1,000 | 250 |
| Total | <u>29,000</u> | <u>5,687.5</u> | <u>29,000</u> | <u>5,625</u> |

(b) Issuance of Series "E" certificates

On September 8, 2005, the Board of Governors approved an accounting method for retained earnings, which consists of the issuance of general reserve certificates in order to recognize the excess of each member country's share of the Bank's equity over such member country's paid-in capital and the earnings generated through the time over the paid-in capital of each member. Resolution AG 8/2009



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adopted by the Board of Governors ordered such Certificates to be converted into Series “E” Certificates.

The procedure for determining the issue of those Certificates is based on the average number of shares held by each member every year, weighted by the time and amount thereof. The cut-off date for allocating the series “E” certificates was December 31, 2007.

Series “E” certificates may be used by the members who are holders of “A” and “B” shares to pay, either fully or in part, the subscription of new shares of the unsubscribed authorized stock capital made available by the Bank. Series “E” certificates not used to subscribe for new shares of stock will form part of the Bank’s General Reserve.

(18) Contingent commitments

As of December 31, 2009 and December 31, 2008, balances of contingent commitments are as follows:

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|--------------------------|--------------------------|
| Subscribed credit agreements (*) | 1,230,437 | 1,384,812 |
| Credit default swap | 70,000 | 75,000 |
| Endorsements and guarantees granted | 11,383 | 18,217 |
| Letters of credit and bank acceptances | 4,584 | 54,283 |
| Total | <u>1,316,604</u> | <u>1,532,312</u> |

(*) In addition, as of December 31, 2009 and December 31, 2008 there were credit agreement pending subscription for 1,139,245 and 710,513, respectively.

Credit agreements represent commitments to grant loans to customers at a future date. Such agreements are recorded as commitments until the date of disbursement. These agreements have fixed expiration dates and, in some cases, expire without any disbursements having been made. Therefore, the total committed amount does not necessarily represent future cash requirements. The Bank assesses the creditworthiness of each customer on a case-by-case basis.

Credit default swaps represent a contingent commitment assumed by the Bank with a client, for payments to be honored by a third party. These derivatives have been included in the line item Derivative financial instruments and they are carried at their market values for (494) and 728 as of December 31, 2009 and December 31, 2008, respectively. In addition, as of such dates, no material losses have been incurred, and neither are they expected to be incurred, in connection with these agreements.

Endorsements and guarantees granted are contingent commitments assumed by the Bank to guarantee compliance by its customers with commitments to a third party. The credit risk implied in these commitments is essentially the same as that implied in granting loan facilities to clients. The Bank’s management has analyzed each commitment assumed on a case-by-case basis, based on current information and events. As of December 31, 2009 and December 31, 2008, no significant losses have arisen, nor were expected to arise, from these commitments.

Letters of credit and bank acceptances represent contingent commitments assumed by the Bank; in the event of nonpayment to exporters by importers (CABEI customers), the Bank assumes the payment commitment.

As of December 31, 2009 and December 31, 2008, the maturities of the guarantees granted, credit default swaps and letters of credit and bank acceptances are as follows:



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Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)

(Expressed in thousands of U.S. dollars)

| Maturity | December 31, 2009 | | |
|----------|--------------------|----------------------|--|
| | Guarantees granted | Credit default swaps | Letters of credit and bank acceptances |
| 2010 | 50 | 20,000 | 4,584 |
| 2011 | 373 | - | - |
| 2012 | 250 | 25,000 | - |
| 2013 | - | 25,000 | - |
| 2016 | 10,710 | - | - |
| Total | 11,383 | 70,000 | 4,584 |

| Maturity | December 31, 2008 | | |
|----------|--------------------|----------------------|--|
| | Guarantees granted | Credit default swaps | Letters of credit and bank acceptances |
| 2009 | 6,500 | 25,000 | 54,283 |
| 2010 | 153 | - | - |
| 2011 | 604 | - | - |
| 2012 | 250 | 25,000 | - |
| 2013 | - | 25,000 | - |
| 2016 | 10,710 | - | - |
| Total | 18,217 | 75,000 | 54,283 |

(19) Derivative financial instruments and hedging activities

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

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

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative instrument is positive, the counterparty owes the Bank, which creates credit risk for the Bank. When the fair value of a derivative instrument is negative, the Bank owes the counterparty and, therefore, it does not have related credit risk. The Bank minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is "A" (or its equivalent) or better.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates or foreign exchange rates. The Bank enters into derivative instruments based on its expectations that they will vary in a manner such that they will compensate the change in the value of the instrument to be hedged.

As from January 1, 2009, the Bank has adopted the amendments to FASB disclosure about derivatives and hedging activities (ASC 815). This standard does not require the disclosure of comparative information in the fiscal year of its adoption.

The following table presents the notional amount and the fair value of derivative instruments as of December 31, 2009 and December 31, 2008:



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Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)

(Expressed in thousands of U.S. dollars)

| | Assets | | Liabilities | |
|--|------------------|----------------|-----------------|----------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| <u>Hedging transactions according to ASC 815</u> | | | | |
| Interest rate agreements | 430,400 | 31,934 | 204,696 | 17,039 |
| Foreign currency agreements | 293,359 | 19,851 | - | - |
| Subtotal as of December 31, 2009 | <u>723,759</u> | <u>51,785</u> | <u>204,696</u> | <u>17,039</u> |
| Subtotal as of December 31, 2008 | <u>616,387</u> | <u>51,977</u> | <u>240,835</u> | <u>41,227</u> |
| | | | | |
| <u>Other risk management purposes</u> | | | | |
| Foreign currency agreements (*) | 770,149 | 73,560 | 378,822 | 79,535 |
| Credit risk agreements- sold | 20,000 | 1 | 50,000 | 495 |
| Interest rate agreements | - | - | 80,249 | 4,243 |
| Subtotal as of December 31, 2009 | <u>790,149</u> | <u>73,561</u> | <u>509,071</u> | <u>84,273</u> |
| Subtotal as of December 31, 2008 | <u>702,744</u> | <u>62,702</u> | <u>513,918</u> | <u>108,398</u> |
| | | | | |
| Total as of December 31, 2009 | <u>1,513,908</u> | <u>125,346</u> | <u>717,767</u> | <u>101,312</u> |
| Total as of December 31, 2008 | <u>1,319,131</u> | <u>114,679</u> | <u>754,753</u> | <u>149,625</u> |

(*) Principally, agreements used as fair value hedge that do not qualify for hedge accounting treatment under ASC 815 guidelines.

The income / (loss) from derivative instruments used as hedge under ASC 815 have been recorded together with the income / (loss) of the respective hedged financial instruments. The following chart shows such income / (loss) and the other comprehensive income / (loss) as of December 31, 2009:

| | Income / (loss) of fiscal year | | | Other comprehensive income / (loss) |
|-----------------------------|--------------------------------|-----------------------------|--------------|-------------------------------------|
| | Derivative instrument | Hedged financial instrument | Total | |
| <u>Fair value hedge</u> | | | | |
| Interest rate agreements | 16,516 | (16,516) | - | - |
| | | | | |
| <u>Cashflow hedge</u> | | | | |
| Foreign currency agreements | 7,479 | (3,255) | 4,224 | (2,364) |
| Total | | | <u>4,224</u> | <u>(2,364)</u> |

The following chart shows the income / (loss) from derivative instruments held for other risk management purposes for the fiscal year ended December 31, 2009, recorded under other operating expenses:

| | |
|------------------------------------|-----------------|
| Foreign currency agreements | (11,162) |
| Credit risk agreements – purchased | 288 |
| Credit risk agreements- sold | (1,222) |
| Interest rate agreements | (1,450) |
| Total | <u>(10,646)</u> |



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Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

(20) Funds or 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 beneficiary countries, CABEI manages the funds or programs described below:

(a) Funds in which CABEI makes contributions

- Technical Cooperation Fund (FONTEC) was created by CABEI's Board of Governors as an independent and separate equity from the Bank's equity. Its objective is to integrate the Bank's programming processes, fulfillment processes and administration of technical cooperation resources to strengthen its ability to prepare and implement projects promoting Central American integration and development. The Fund also considers initiatives related to the studies and preparation of publications geared towards the dissemination of information about Central America.

The Fund grants three types of loans: repayable, non-repayable and contingently repayable. It offers also an option of repayment through direct funding for the conduct of any requisite pre-investment studies for financing private sector investments.

According to the By-laws of the Fund, its financial statements are presented separately from the Bank's. As a result, the Bank's management believes that all conditions are met in order to consider and record this Fund as an independent entity from Bank's equity.

Fund's balance sheet and income statement are as follows:

| | December 31, 2009 (unaudited) | December 31, 2008 (audited)(***) |
|--|-------------------------------------|--|
| <u>Financial situation</u> | | |
| Due from banks | 302 | - |
| Interest-bearing deposits in banks | - | 18,252 (*) |
| Securities available for sale | 14,926 | - |
| Loans receivable, net | 213 | - |
| Interest receivable | 34 | - |
| Other receivable (**) | 5,116 | 4,213 |
| Total assets | <u>20,591</u> | <u>22,465</u> |
| Accounts payable | - | 325 |
| Total liabilities | <u>-</u> | <u>325</u> |
| Earned surplus | 22,140 | 24,443 |
| Unrealized losses on securities available for sale | (6) | - |
| Losses for the fiscal year | (1,543) | (2,303) |
| Total equity | <u>20,591</u> | <u>22,140</u> |
| Total liabilities and equity | <u>20,591</u> | <u>22,465</u> |



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
(Expressed in thousands of U.S. dollars)

| | December 31, 2009 (unaudited) | December 31, 2008 (audited)(***) |
|--|-------------------------------------|--|
| <u>Income from operations</u> | | |
| Interest and fee income | 193 | 599 |
| Donations received | 438 | - |
| Provision for loan losses | (213) | - |
| Negotiation support for the United Customs Association | (1,477) | (2,674) |
| Central America and EU association agreement | (438) | - |
| Strategic pre-disbursement programmes | - | (148) |
| Other programs and projects | (46) | (80) |
| Net loss for the year | <u>(1,543)</u> | <u>(2,303)</u> |

(*) These figures include certificates of deposit invested in CABEI and mentioned in Note 14.a.

(**) Two types of funding are included under this line: a) Cooperation for pre-investment studies: this type of funding is used for the conduct of the studies required previous to an investment which will be subsequently financed by CABEI in the private sector. These funds shall be repaid by the borrower to FONTEC in the terms previously agreed in each case, irrespective of whether the project has been deemed feasible or not; and b) Loans to the public sector subject to a contingent repayment clause: these are advances for financing the technical and feasibility studies required to determine the soundness of projects that are highly likely to be consummated and to be subsequently financed by CABEI. Should these studies show that the project is feasible, the loan shall be repaid by the beneficiary to FONTEC. If the studies show, instead, that the project is not feasible, any amounts lent shall be written off as expenses by FONTEC.

(***) Independent auditor's report was issued with unqualified opinion.

During the fiscal year ended December 31, 2009 the contribution made by CABEI to FONTEC was 438, while it has committed an additional contribution of 1,312. In addition, during the fiscal year ended December 31, 2008, CABEI made no contributions to FONTEC. As of December 31, 2009 and December 31, 2008, the cumulative contributions made by CABEI amounted to 32,639 and 32,201, respectively.

- Special Fund for the Social Transformation of Central America (FETS) was created by CABEI's Board of Governors, as an independent and separate equity from the Bank. Its objectives consist of financing programs and projects as part of the efforts made for the social transformation of the region, which are aimed at beneficiary countries that develop programs declared eligible by the Bank for this purpose.

There are various sources of funding, including without limitation, donations, soft loans and issuance of securities. The Fund may also receive contributions made by the Bank in accordance with resolutions adopted by the Board of Directors.

The Fund's resources are managed by the Bank in accordance with the policies laid down for such purpose and the conditions agreed upon with the contributor entities in the respective agreements entered into with CABEI, with an overarching principle that they must meet the objectives established by the Fund.

According to the Fund's by-laws, the accounting records are to be kept separate from those of the Bank. As a result, the Bank's management believes that all conditions are met in order to consider and record this Fund as an independent entity from Bank's equity.



CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

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(Expressed in thousands of U.S. dollars)

Fund's balance sheet and income statement are as follows:

| | December 31, 2009 (unaudited) | December 31, 2008 (audited)(***) |
|--|-------------------------------------|--|
| <u>Financial situation</u> | | |
| Non interest-bearing deposits in banks | 380 | 354 |
| Interest-bearing deposits in banks | 8,000 | 31,900 (*) |
| Securities available for sale | 28,344 | - |
| Loans receivable, net (**) | 49,027 | 46,236 |
| Interest receivable | 447 | 243 |
| Other receivable | - | 109 |
| Total assets | <u>86,198</u> | <u>78,842</u> |
| Loans payable | 1,630 | 1,881 |
| Accounts payable | 15,493 | 6,961 |
| Total liabilities | <u>17,123</u> | <u>8,842</u> |
| Earned surplus | 70,000 | 72,719 |
| Unrealized losses on securities available for sale | (12) | - |
| Loss of fiscal year | (913) | (2,719) |
| Total equity | <u>69,075</u> | <u>70,000</u> |
| Total liabilities and equity | <u>86,198</u> | <u>78,842</u> |
| <u>Income statement</u> | | |
| Interest and fee income | 1,739 | 2,303 |
| Recovery of / (Provision for) loan losses | 468 | (401) |
| Other operating expenses, net | (159) | (179) |
| Non-reimbursement subsidies and financial assistance | (2,961) | (4,442) |
| Net loss for the year | <u>(913)</u> | <u>(2,719)</u> |

(*) These figures include certificates of deposit invested in CABEI and mentioned in Note 14.a.

(**) To be granted, loans must be applied to programs and projects within the framework of the social transformation endeavors of Central American countries. These loans rely on the sovereign guarantee of the borrowing nation.

(***) Independent auditor's report was issued with unqualified opinion.

During the fiscal years ended December 31, 2009 and December 31, 2008, CABEI has not contributed to FETS. As of such dates, the accumulated contributions made by CABEI are 54,720.

In addition to the above-mentioned funds, CABEI makes contributions to the Social Benefit Fund (SBF) (See note 21).

(b) Funds in which CABEI acts as manager

As of December 31, 2009, funds managed by the Bank, with independent equities, are as follows:

| Fund | Equity |
|--|--------|
| World's Savior Foundation Fund (FUSALMO-Fondo Fundación Salvador del mundo) – Sports Centers | 502 |



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For the fiscal years ended December 31, 2009 (see note 2.b)
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| Fund | Equity |
|---|--------|
| Spanish Consulting Fund | 2,151 |
| Investment Trust – Dwelling Mortgage Fund | 12,719 |
| Single Italian Cooperation Fund (FUIC) | 1,866 |
| Debt-conversion fund (Honduras-Spain) | 31,442 |
| Program of Development for the Border Areas in Central America (former FOEXCA) | 11,498 |
| Trust of Administration, Attention, Rehabilitation, Training and Prevention of Burnt Children | 537 |
| Administration Trust for the execution of the Energy Efficiency Program in the industrial and commercial areas in Honduras (PESIC) | 619 |
| Trust for the Administration of funds donated by the Republic of China, Taiwan to the Ministry of Housing of Costa Rica | 155 |
| Trust for the Administration of Funds donated by the Republic of China, Taiwan to the Ministry of Security of Costa Rica and Trust for the Administration of funds donated by the Republic of China, Taiwan to the National Intelligence and Security Direction of Costa Rica | 266 |
| Regional Project Fund of Central American Markets for the Biodiversity-(CAMBio) | 133 |
| Trust for the Institute of Nutrition of Panama and Central America | 429 |
| Accelerating Fund investments in Renewable Energy in Central America (ARECA) | 176 |
| Technical Cooperation Fund of Austria | 1,372 |
| Guarantee trust administration - CISA | 9,570 |
| Taiwan – ICDF Fund for Consulting Service | 1,000 |

(21) Social Benefit Fund (SBF)

SBF operates in accordance with the regulations issued by CABEI's Board of Directors. It is managed by its own Management Board and its 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 and hospital medical benefits. This fund is financed by contributions from beneficiaries and the Bank in accordance with the provisions of the Plan. Retirement plan, pension plan and life insurance are considered as defined benefit plan, whereas hospital-related medical benefits are considered defined contribution plan.

Assets

As provided in SBF's bylaws, although all the contributions made by the Bank and all assets and income of SBF are owned by the Bank, they are segregated from the Bank's other assets and liabilities and are to be used solely to pay benefits. Nevertheless, since SBF is not a separate legal entity from the Bank and its assets are not adequately restricted, they may not be recorded as off-balance sheet items. However, its assets are not consolidated on CABEI's balance sheet because the assets of SBF represented by certificates of deposit would be offset against the Bank's liabilities for the same items, which in turn, is not significantly different from the projected benefits obligation.

On April 29, 2009, CABEI's Board of Governors decided to amend its Constitutive Agreement (see effective date in note 17) to ratify that the Bank will have a Social Benefit Fund as a distinct fund separate from its general assets. The SBF is created 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. The Fund's assets are held and managed separately from the other assets of the Bank, as a pension fund, and will be used exclusively to pay the benefits and expenses under the various benefit plans granted by such Fund.



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Notes to financial statements

For the fiscal years ended December 31, 2009 (see note 2.b)
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As of December 31, 2009 and December 31, 2008, as explained in note 14.a, the Bank recorded a liability to SBF under certificates of deposit for a total amount of 132,777 and 129,435, respectively, representing most of SBF's assets. These funds were placed in certificates issued by the Bank with the coupon of 7% per annum, and had an income of 8,929 and 8,909 during the fiscal years ended December 31, 2009 and 2008, respectively.

SBF's benefit obligations are reviewed periodically on June 30 and December 31 of each year. On these dates, the Bank measures these obligations. The following tables show the changes in projected benefits obligation, the changes in assets and the plan position as they arise from the most recent actuarial appraisal as of December 31, 2009 and in conformity with the criteria established by currently applicable laws and regulations, as well as the figures as of December 31, 2009 and December 31 2008, presented comparatively, if applicable.

Projected benefit obligations and plan position

| | December 31, 2009 (unaudited) | December 31, 2008 |
|--|----------------------------------|-------------------|
| Changes in the benefit obligation | | |
| Benefit obligation at beginning of fiscal year | 132,578 | 129,715 |
| Cost of service | 2,615 | 3,348 |
| Cost of interest | 8,619 | 8,483 |
| Collected contributions (*) | 2,773 | 2,741 |
| Actuarial loss | 1,783 | 303 |
| Paid benefits | (11,309) | (12,012) |
| Benefit obligation at end of fiscal year | <u>137,059</u> | <u>132,578</u> |
| Changes in plan assets | | |
| Value of plan assets at beginning of fiscal year | 139,533 | 135,970 |
| Return on plan assets | 9,578 | 9,542 |
| Employer contributions | 3,412 | 3,645 |
| Plan participants contributions | 1,570 | 1,480 |
| Paid benefits | (11,309) | (12,012) |
| Other income, net | (49) | 908 |
| Value of plan assets at end of fiscal year | <u>142,735</u> | <u>139,533</u> |
| Individual account balances | <u>(2,419)</u> | <u>(2,196)</u> |
| Plan position | <u>3,257</u> | <u>4,759</u> |

(*) Relates to medical benefits (see actuarial assumptions)

As of December 31, 2009 and December 31, 2008, SBF's net assets are as follows:

| | December 31, 2009 (unaudited) | December 31, 2008 (audited) (*) |
|---------------------------------|----------------------------------|------------------------------------|
| Net assets | | |
| Cash and due from banks | 649 | 1,068 |
| CABEI's certificates of deposit | 132,777 | 129,435 |
| Loans to personnel | 9,354 | 9,236 |
| Interests receivable | 387 | 444 |
| Other accounts (payable), net | (432) | (650) |
| Total | <u>142,735</u> | <u>139,533</u> |

(*) Independent auditor's report was issued with unqualified opinion.



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Periodic pension cost

The following table summarizes the changes in the periodic cost of projected benefits associated with the SBF during the fiscal years ended December 31, 2009 and 2008:

| | Fiscal year ended December 31, 2009 | | |
|----------------|-------------------------------------|----------------|--------|
| | Retirement and pensions | Life insurance | Total |
| Service cost | 2,538 | 77 | 2,615 |
| Interest cost | 8,139 | 480 | 8,619 |
| Actuarial loss | 1,624 | 159 | 1,783 |
| Periodic cost | 12,301 | 716 | 13,017 |

| | Fiscal year ended December 31, 2008 | | |
|--------------------------|-------------------------------------|----------------|--------|
| | Retirement and pensions | Life insurance | Total |
| Service cost | 3,277 | 71 | 3,348 |
| Interest cost | 8,030 | 453 | 8,483 |
| Actuarial (gains) / loss | (1,261) | 1,564 | 303 |
| Periodic cost | 10,046 | 2,088 | 12,134 |

Actuarial assumptions

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

| | December 31, 2009 | December 31, 2008 |
|------------------------------------|-------------------|-------------------|
| Discount rate (market rate) | 7 % | 7 % |
| Salary increase rate | 5 % | 5 % |
| Estimated rate of return on assets | 7 % | 7 % |

The discount rate used is derived from a theoretical portfolio in which the Bank might invest its assets in compliance with current investment policy, consisting of bonds rated as "investment grade" or "AA" by the main international credit rating agencies. The annual return rate expected on assets reflects the return rate of the certificates of deposit that the Bank paid to the SBF as from January 1, 2007.

Medical benefits have been considered as a defined contribution plan, for which the mathematical reserve is derived from the accumulated balance of the reserves for accounting purposes corresponding to the medical benefit plan. The treatment as a defined contribution plan is based on a resolution adopted by the Bank's Board of Directors, pursuant to which the scope of the benefit is restricted to the annual cash and cash equivalents of SBF.

Contributions

It is expected that the contributions from CABEI to SBF during fiscal year 2010 will equal approximately 3,450. All contributions will be paid in cash.



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Future payments of estimated benefits

The following table shows the benefits that are expected to be payable during each of the next five years, and the aggregate benefits that are expected to be payable during the following five years, based upon the same assumptions that were used to determine the projected benefit obligations as of December 31, 2009:

| Year | Benefits |
|-----------|----------|
| 2010 | 9,155 |
| 2011 | 10,163 |
| 2012 | 10,532 |
| 2013 | 10,526 |
| 2014 | 10,731 |
| 2015–2019 | 61,957 |

(22) Accumulated other comprehensive income / (loss)

Accumulated other comprehensive income / (loss) as of December 31, 2009 and December 31, 2008, is as follows:

| | December 31, 2009 | | |
|-----------------------------|------------------------------|-------------------------------|--|
| | Cash flow hedging activities | Securities available for sale | Accumulated other comprehensive income |
| At beginning of fiscal year | (1,862) | (8,893) | (10,755) |
| Changes in the fiscal year | (2,364) | 16,142 | 13,778 |
| At end of fiscal year | (4,226) | 7,249 | 3,023 |
| | December 31, 2008 | | |
| | Cash flow hedging activities | Securities available for sale | Accumulated other comprehensive loss |
| At beginning of fiscal year | (3,193) | 11,721 | 8,528 |
| Changes in the fiscal year | 1,331 | (20,614) | (19,283) |
| At end of fiscal year | (1,862) | (8,893) | (10,755) |

(23) New accounting pronouncements

In June 2009, there was a revision to the accounting standard for the consolidation of variable interest entities. The revision eliminates the exemption for qualifying special purpose entities, requires a new qualitative approach for determining whether a reporting entity should consolidate a variable interest entity, and changes the requirement of when to reassess whether a reporting entity should consolidate a variable interest entity. The standard is effective beginning on January 1, 2010 and the Bank does not expect the impact of the adoption to be material on the financial statements.

In January 2010, the FASB issued ASU 2010-06 that requires new disclosures related to fair value measurements and clarifies existing disclosure requirements about the level of disaggregation, inputs and valuation techniques. Specifically, reporting entities now must disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the



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reasons for the transfers. In addition, in the reconciliation for Level 3 fair value measurements, a reporting entity should present separately information about purchases, sales, issuances and settlements. This guidance will be effective for the Bank on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements, which will be effective for the Bank on January 1, 2011. This guidance will not have a material impact on the financial statements.

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Central American Bank for Economic Integration

Medium-Term Note Program



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BASE PROSPECTUS

July 12, 2011
