CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S.A.

Financial Statements

December 31, 2011

(With Independent Auditors' Report Thereon)

CORPORACIÓN INTERAMERICANA
PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S.A.

Table of Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Corporación Interamericana para el Financiamiento de Infraestructura, S. A.

We have audited the accompanying financial statements of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. (the Corporation), which comprise the statement of financial position as at December 31, 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporación Interamericana para el Financiamiento de Infraestructura, S. A. as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Corporation as at and for the year ended December 31, 2010, were audited by KPMG Costa Rica who expressed an unqualified opinion on those statements on February 22, 2011.

KPMG

February 23, 2012
Panama, Republic of Panama

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A.

Statement of Financial Position

December 31, 2011

(Expressed in US Dollars)

	Note	December 31, 2011	December 31, 2010
Assets			
Cash		11,831,040	14,222,410
Investment securities	5	84,064,283	52,137,016
Loans receivable, net	5	185,601,089	190,556,837
Interest receivable, net		3,163,133	2,551,914
Derivative assets held for risk management	10	0	328,277
Other assets		50,000	0
Total assets		284,709,545	259,796,454
Liabilities			
Loans payable, net	6	199,792,256	182,738,423
Interest payable		1,067,668	792,892
Other accounts payable		1,172,042	814,988
Derivative liabilities held for risk management	10	1,497,491	1,378,456
Total liabilities		203,529,457	185,724,759
Equity			
Share capital	7	54,000,001	54,000,001
Additional paid-in capital	7	85,000	85,000
Reserves		1,197,355	1,487,864
Retained earnings		25,897,732	18,498,830
Total equity		81,180,088	74,071,695
Commitments and contingencies	13		
Total liabilities and equity		284,709,545	259,796,454
Commitments and contingencies			
Unfunded risk participations	13	9,078,001	9,586,192
Loans pending disbursement	13	14,655,936	11,945,296
Undrawn balance of credit facilities	13	134,383,333	88,333,333
Notional amount on swaps	10	24,000,000	29,000,000

The notes are an integral part of these financial statements.

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A.

Statement of Comprehensive Income

For the year ended December 31, 2011

(Expressed in US Dollars)

	Note	December 31, 2011	December 31, 2010
Interest income:			
Interest on cash		108,814	85,227
Interest on investment securities		4,615,925	4,199,904
Interest on loans receivable		13,376,269	11,995,656
Total interest income		18,101,008	16,280,787
Interest expense:			
Interest on derivative instruments		(793,088)	(914,942)
Interest on loans payable		(6,309,962)	(5,069,378)
Total interest expense		(7,103,050)	(5,984,320)
Net interest income		10,997,958	10,296,467
Net income from other financial instruments at fair value through profit or loss	11	123,845	129,370
Other operating income		2,308,459	1,858,243
		2,432,304	1,987,613
Operating income		13,430,262	12,284,080
Provision for loan losses and interest receivable		1,982,706	(2,351,469)
Personnel expenses		(3,056,553)	(2,705,810)
Other administrative expenses		(2,354,728)	(1,115,610)
Net income before income tax		10,001,687	6,111,191
Income tax	9	87,454	0
Net income for the year		9,914,233	6,111,191
Other comprehensive income:			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		21,250	378,000
Net (loss) profit amount transferred to profit or loss		(811,394)	33,099
Other comprehensive (loss) income for the year		(790,144)	411,099
Total comprehensive income for the year		9,124,089	6,522,290
Earnings per share	8	0.18	0.11

The notes are an integral part of these financial statements.

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A.

Statement of Changes in Equity

For the year ended December 31, 2011

(Expressed in US Dollars)

	Notes	Share capital	Additional paid-in capital	Reserves: Fair value reserve	Reserves: Legal reserve	Reserves: Total reserves	Retained earnings	Total equity
Balance at December 31, 2009, adjusted	15	54,000,001	85,000	0	769,637	769,637	13,789,902	68,644,540
Net income for the year, adjusted	15	0	0	0	0	0	6,111,191	6,111,191
Other comprehensive income								
Net change in fair value		0	0	378,000	0	378,000	0	378,000
Net loss amount transferred to profit or loss		0	0	33,099	0	33,099	0	33,099
Total other comprehensive income for the year		0	0	411,099	0	411,099	0	411,099
Total comprehensive income for the year		0	0	411,099	0	411,099	6,111,191	6,522,290
Transactions with owners, recorded directly in equity								
Dividends distributed to equity holders	7	0	0	0	0	0	(1,095,135)	(1,095,135)
Allocation to legal reserve		0	0	0	307,128	307,128	(307,128)	0
Balance at December 31, 2010, adjusted	15	54,000,001	85,000	411,099	1,076,765	1,487,864	18,498,830	74,071,695
Net income for the year		0	0	0	0	0	9,914,233	9,914,233
Other comprehensive income								
Net change in fair value		0	0	21,250	0	21,250	0	21,250
Net loss amount transferred to profit or loss		0	0	(811,394)	0	(811,394)	0	(811,394)
Total other comprehensive income for the year		0	0	(790,144)	0	(790,144)	0	(790,144)
Total comprehensive income for the year		0	0	(790,144)	0	(790,144)	9,914,233	9,124,089
Transactions with owners, recorded directly in equity								
Dividends distributed to equity holders	7	0	0	0	0	0	(1,842,768)	(1,842,768)
Complementary tax Panama		0	0	0	0	0	(172,928)	(172,928)
Allocation to legal reserve		0	0	0	499,635	499,635	(499,635)	0
Balance at December 31, 2011		54,000,001	85,000	(379,045)	1,576,400	1,197,355	25,897,732	81,180,088

The notes are an integral part of these financial statements.

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A.

Statement of Cash Flows

For the year ended December 31, 2011

(Expressed in US Dollars)

	December 31, 2011	December 31, 2010
Cash flows from operating activities		
Net income for the year	9,914,233	6,111,191
Adjustments for:		
(Reversal) loss on allowance for loan losses and interest receivable	(1,982,706)	2,351,469
Net interest income	(10,997,958)	(10,296,467)
Net income from other financial instruments at fair value through profit or loss	(123,845)	(129,370)
Increase of other assets	(50,000)	44,557
	(3,240,276)	(1,918,620)
Other accounts payable	184,126	57,439
Interest received	16,225,181	15,241,548
Interest paid	(9,010,512)	(5,681,568)
	4,158,519	7,698,799
Loan repayments and prepayments	112,490,306	73,757,475
Loan disbursements	(105,559,261)	(85,334,558)
Net cash from (used in) operating activities	11,089,564	(3,878,284)
Cash flows from investing activities		
Proceeds from investment securities	5,984,000	10,240,000
Acquisition of investment securities	(36,618,000)	(32,966,000)
Net cash used in investing activities	(30,634,000)	(22,726,000)
Cash flows from financing activities		
Proceeds from loans payable	101,700,000	58,166,668
Repayments of loans payable	(82,704,166)	(20,608,167)
Dividends paid	(1,842,768)	(1,095,135)
Net cash from financing activities	17,153,066	36,463,366
Net (decrease) increase in cash	(2,391,370)	9,859,082
Cash at the beginning of the year	14,222,410	4,363,328
Cash at the end of the year	11,831,040	14,222,410

The notes are an integral part of these financial statements.

(1) Reporting entity

Corporación Interamericana para el Financiamiento de Infraestructura, S.A. (the Corporation) was organized on August 10, 2001 under the laws of the Republic of Costa Rica and began operations in July 2002. As of April 4, 2011, the Corporation reincorporated, as a corporation organized under the laws of Panama and therefore to continue its existence as a “sociedad anónima”, or stock corporation, under Panamanian law.

The entity was organized as a corporation. The Corporation’s business structure is based on one segment, as its main line of business is extending loans to finance infrastructure projects in Latin America. However, it also offers other services such as "Advisory & Structuring" services, which are not evaluated as a separate segment of the Corporation’s business but rather assessed in conjunction with its lending activities.

The Corporation’s main offices are located at 1100 Wilson Blvd., Suite 2950, Arlington, Virginia, 22209 USA.

The financial statements were authorized for issuance by the Audit Committee on February 23, 2012.

(2) Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except that derivative financial instruments and certain investment securities are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in U.S. dollars (US$), which is the Corporation’s functional currency.

All of the Corporation’s assets and liabilities are denominated in U.S. dollars. Additionally, shareholder contributions and ordinary shares are denominated in that currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in the following notes:

- Allowance for loan losses and interest receivable – note 5.a
- Derivatives held for risk management purposes – note 10
- Fair value of financial instruments – note 12

(e) *Changes in accounting policies*
IAS 24 (Revised 2009)
For the year ended December 31, 2011, the Corporation has adopted the amendment of IAS 24 (revised 2009) Related Party Disclosures: The amendment modify the definition of related parties.

(3) Significant accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) *Foreign currency transactions*
The Corporation's functional currency is the U.S. dollar, and all assets and liabilities are denominated in U.S. dollar. If the Corporation had assets and liabilities denominated in currencies other than the U.S. dollar, the Corporation would translate the value of such assets or liabilities to U.S. dollars at the prevailing exchange rate between the currency in which the assets or liabilities are denominated and the U.S. dollar as of the dates of the relevant statement of financial position. Transactions in foreign currency during the year are translated at the foreign exchange rate ruling at the date of the transaction. Translation gains or losses are presented in the statement of comprehensive income.

(b) *Cash and cash equivalents*
Cash and cash equivalents include currency on hand, unrestricted balances held with banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Corporation in the management of its short-term commitments.

(c) *Financial assets and financial liabilities*
(i) *Recognition*
The Corporation initially recognizes loans receivable and loans payable on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Corporation commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities carried at fair value through profit or loss) are initially recognized on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

(ii) Classification

Originated loans are loans generated by the Corporation by providing money to a debtor, other than those created with the intention of short-term profit taking.

Available-for-sale assets are financial assets that are not held for trading purposes or held to maturity.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Corporation has the intent and ability to hold to maturity.

Assets and liabilities are classified at fair value through profit or loss and changes in fair value are directly recognized in the statement of comprehensive income.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

(iv) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between two informed parties on the measurement date.

The fair value of financial instruments is based on their quoted market price, when available, at the date of the statement of financial position without any deductions for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent occurring market transactions on an arm’s length basis.

When no fair value is available for a financial instrument, its fair value is estimated based on the fair value of similar assets or liabilities. When no such assets or liabilities exist, fair value is estimated by applying valuation techniques consistent with market focus, income, and cost, provided excessive costs or efforts are not required to obtain the information necessary for their application. In all cases, fair value measurement techniques must emphasize relevant market variables, including those arising from active markets.

(vi) Derecognition

A financial asset is derecognized when the Corporation loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered. A financial liability is derecognized when it is extinguished.

(d) Derivatives held for risk management purposes and hedge accounting

Management uses derivative financial instruments as part of its operations. Those instruments are recognized at fair value in the statement of financial position.

The Corporation designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on a monthly basis, as to whether the hedging instrument is expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Derivative instruments recognized as fair value hedges hedge exposure to changes in the fair value of an asset or liability recognized in the statement of financial position, or in the fair value of an identified portion of such asset or liability that is attributable to the specific hedged risk that could affect the net gain or loss recognized in the financial statements. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in the statement of comprehensive income.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability, or of an identified portion of such asset or liability, or a firm commitment that could affect profit or loss, changes in the fair value of the hedge item that are attributable to the hedged risk are recognized in the same line item in the statement of comprehensive income as the hedged instrument.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(e) Investment securities

Investment securities are classified at the date of purchase based on management's ability and intent to sell or hold them until maturity. The Corporation classifies its investment securities as follows:

Fair value through profit or loss

Investment securities at fair value through profit or loss are financial assets and liabilities for which changes in fair value are recognized directly in the results for the year. An investment security is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition or if the Corporation manages the investments and makes purchase and sale decisions based on their fair value.

Available-for-sale

Available-for-sale securities are acquired by the Corporation with the intent to hold them for an unspecified period of time but may be sold in response to liquidity needs or changes in interest rates, exchange rates, or equity prices. Available-for-sale investment securities are financial assets not classified at fair value through profit or loss nor held-to-maturity. These securities are measured at their fair value and changes in value are recognized directly in equity.

When the fair value of investments in equity instruments cannot be reliably measured, the investments remain at cost.

Held-to-maturity

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has the intent and ability to hold to maturity.

(f) Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and originated generally by providing funds to a debtor as loans. Loans are initially measured at fair value plus the originating costs and any subsequent measurement at amortized cost utilizing the effective interest rate method, except when the Corporation elects to register the loans and advances at fair value with changes in profit or loss.

(g) Allowance for loan losses

Loans are defined as operations relating to any type of underlying instrument or document, except investment securities, whereby credit risk is assumed by the entity, either by providing or committing to provide funds or credit facilities, acquiring collection rights, or guaranteeing that third parties will honor their obligations.

In determining the allowance for loan losses, the Corporation applies its own credit risk rating system that takes into account the following: type of industry, vulnerability to foreign exchange fluctuations, competitive position, financial structure, sovereign risk, etc. The system considers the current and forecasted financial position of borrowers, their ability to pay, the quality and liquidity of collateral, and other factors that could affect repayment of principal and interest. The system is an additional tool to determine if there is any objective evidence that a financial asset or group of financial assets is impaired. The allowance for loan losses is increased when a provision for loan losses is established. The provision for loan losses is reported in the statement of comprehensive income.

Management considers that the allowance for loan losses represents a reasonable estimate of loan impairment losses incurred at each reporting date.

(h) *Other accounts payable*
Other accounts payable are carried at amortized cost.

(i) *Provisions*
A provision is recognized in the statement of financial position when the Corporation has acquired a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision made approximates settlement value; however, final amounts may vary. The estimated amount of the provision is adjusted at the date of the statement of financial position, directly affecting the statement of comprehensive income.

(j) *Income tax*
Estimated income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated statement of financial position date, and any other adjustment to tax payable in respect of previous years.

During the first quarter of the year 2011, the Corporation was not subject to income tax payments since it conducted its operations abroad and the Costa Rican tax system is based on the territoriality principle. Since April 4, 2011, the Corporation organized under the laws of Panama (see note 9).

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced. The Corporation does not present a deferred tax effect for the year ended on December 31, 2011.

(k) Income and expense recognition

(i) Interest income and expense

Interest income and expense is recognized in the statement of comprehensive income as it accrues, considering the effective yield or interest rate. Interest income and expense includes amortization of any discount or premium during the term of the instrument until its maturity.

(ii) Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. When a commission is deferred, it is recognized over the term of the loan.

Other fee and commission income is included in other operating income, arises from services provided by the Corporation, including advisory services and disbursement fees, and is recognized as the related services are performed.

Other fee and commission expense is included in other administrative expenses and relate mainly to transaction and service fees, which are expensed as the services are received.

(l) Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss, and includes all realized and unrealized fair value changes.

(m) Basic and diluted earnings per share

The Corporation presents basic and diluted earnings per share (EPS) data for its shares (see note 8).

(n) New standards and interpretations not yet adopted

At the date of the financial statements, there are standards, amendments and interpretations which are not effective for the year ended December 31, 2011 and therefore have not been applied in preparing these financial statements.

- Amendment to IAS 1 - Presentation of other comprehensive income, published on June 16, 2011. The standard is effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted.

- IFRS 9 *Financial Instruments*, published on November 12, 2009, as part of the first phase I of the IASB's comprehensive project to replace IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. Early application is permitted. The Corporation is in the process of evaluating the potential effect of this standard in their financial statements. Given the nature of the Corporation's operations, this standard is expected to have a pervasive impact on the Corporation's financial statements.

- IFRS 13 Fair Value Measurement, published on May 12, 2011, this new standard defines what is considered fair value, establishes a single framework for measuring fair value and the required disclosures. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted

(4) Balances and transactions with related parties

For the year ended December 31, 2011 the Corporation entered into transactions with parties that are considered to be related. Those transactions generated income and expenses for services rendered and were executed under the same conditions established for transactions with other customers.

- The Corporation has operating bank accounts in HSBC Bank (Panama), S. A.
- As of December 31, 2011, the Corporation has received US$68,500,000 under a long-term loan from the International Finance Corporation (IFC). Of that amount, the total of US$38,162,500 (2010: US$12,562,500) has been repaid and US$30,337,500 was outstanding. IFC owns 15.74% of the Corporation.
- As of December 31, 2011, the Corporation has received US$18,366,667 (2010: US$11,666,667) under a long-term loan from the Caribbean Development Bank (CDB). CDB owns 5.56% of the Corporation.
- As of December 31, 2011, the Corporation has received US$22,000,000 (2010: US$20,000,000) under a short-term revolving credit facility from the Central American Bank for Economic Integration (CABEI) of which US$1,250,000 was outstanding and US$20,750,000 is pending disbursement. CABEI owns 9.26% of the Corporation.
- As of December 31, 2011, the Corporation has received US$5,000,000 (2010: US$5,000,000) under a committed short-term revolving credit facility from the Inter-American Investment Corporation (IIC) of which US$1,000,000 was outstanding and US$4,000,000 is pending disbursement. IIC owns 5.56% of the Corporation.
- As of December 31, 2011, the Corporation has received US$25,000,000 under a long-term loan from the Norfund. Norfund owns 9.26% of the Corporation.
- The Corporation has an interest rate swaps with Bankia, which owns 20.37% of the Corporation.

The above items were included in the statements of financial position and of comprehensive income, and their effects are as follows:

		December 31, 2011			
Type of entity	**Relationship**	**Assets**	**Liabilities**	**Income**	**Expenses**
Legal entities	Related parties	10,778,816	76,457,992	102,361	2,398,082

		December 31, 2010			
Type of entity	**Relationship**	**Assets**	**Liabilities**	**Income**	**Expenses**
Legal entities	Related parties	13,791,354	100,837,463	84,703	2,851,424

Members of the Board of Directors have received remuneration of U$2,000 for attending meetings during the year.

As of December 31, 2011 personnel expenses include salaries and benefits paid to key executives for US$829,999 (2010: US$750,233).

In addition to employee salaries, the Corporation provides all full-time employees with the following benefits:

(a) All full-time employees are required to participate in the following insurance plans, unless proof of equivalent coverage is provided:

- Medical insurance
- Disability insurance
- Travel insurance

(b) Retirement plan contributions (Simple IRA): Employees may contribute a maximum of US$10,000 per year, while the Corporation contributes 3% of each employee's annual base salary. The Corporation makes its contributions to an independent fund manager and expenses those contributions as incurred. The Corporation has no future commitment to manage the funds contributed.

The Corporation's internal policy does not allow loans to be extended to its employees.

(5) Financial risk management

In the normal course of operations, the Corporation is exposed to different types of financial risk, which are minimized through the application of risk management policies and procedures. Those policies cover credit, liquidity, market, and operating risks.

Risk management framework

The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. For such purposes, the Board reviews and approves the Corporation's policies and has created the Credit Committee (which also serves as an Asset and Liability Committee) and the Audit Committee. Both report regularly to the Board of Directors and are comprised of members of the Board.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation and to set appropriate risk limits and controls. Risk management policies and controls are reviewed regularly to adapt to and reflect changes in market conditions and in the products and services offered. The Corporation applies periodic employee training, management standards, and internal procedures to develop a disciplined and controlled environment in which all employees understand their roles and responsibilities.

The Audit Committee monitors compliance with the Corporation's internal controls and policies and reviews the effectiveness of the risk management framework. The Audit Committee is assisted in its role by the Chief Financial Officer, who periodically reviews internal controls and procedures and reports the results to the Audit Committee.

(a) *Credit risk*

Credit risk is the risk that the debtor or issuer of a financial instrument owned by the Corporation fails to meet an obligation fully and on time in accordance with the contractual terms and conditions agreed when the Corporation acquired the financial asset. Credit risk is mainly associated with the loan and investment securities (bonds) portfolios, and is represented by the carrying amount of the assets in the statement of financial position.

Liquid portfolio

CIFI will invest its liquid portfolio to give priority to security, liquidity, and profitability, using the following criteria:

- The investment horizon is up to 1 year.
- In instruments:
  - With a minimum issue or program size of US$500 million (for insuring liquid secondary market).
  - Of issuers located in countries with a rating of at least BB+/Ba1 from one of the main rating agencies (Moody´s, S&P, Fitch)
  - Have a national rating of at least AA or an international rating of BBB-/Baa3 (long term) or F3/ P-3 (short term)
- Excluding demand deposits, the exposure to any single issuer shall not exceed 20% of CIFI's capital plus legal reserves.
- Not more than 25% of the liquid portfolio may be invested in a country with a rating lower than AA.
- All investments shall be denominated in US$ or in local currency, provided that a financial institution with an international rating of AA- can hedge against the exchange risk (e.g., currency swap)

Loan and investment securities portfolios

The investment security issue, at the time of purchase, shall have, as a minimum, a "BB-" long-term foreign currency rating from Moody's, Standard & Poor's, or Fitch. The investment securities portfolio shall not represent more than 25% of total assets. For reporting purposes, the Corporation consolidates all elements related to credit risk exposure, e.g. credit risk by economic unit, country risk, and sector risk. The Corporation shall have the firm intention to buy and hold the investment securities to maturity or for an unspecified period of time until they may be sold in response to liquidity needs according to the Contingency Liquidity Plan, as defined in its Liquidity Policy. The investment securities portfolio will not be used for speculative purposes.

As of and during the years ended December 31, 2011 the concentrations of credit risk by sectors and countries are within the limits established by the Corporation. There are no significant concentrations of credit risk by economic unit, sector, or country. The maximum exposure to credit risk is represented by the nominal amount of each financial asset.

Loans receivable and investment securities are as follows:

Loans and investment securities, net	**December 31, 2011**	**December 31, 2010**
Held-to-maturity:		
Par value	52,212,000	30,900,000
Premiums and discounts, net	2,065,033	793,016
Total held-to-maturity	54,277,033	31,693,016
Available-for-sale:		
Liquid portfolio:		
Par value	15,000,000	0
Premiums and discounts, net	306,000	0
Gains/losses, net	51,100	0
	15,357,100	0
Investment portfolio:		
Par value	13,000,000	18,000,000
Premiums and discounts, net	1,082,000	2,066,000
Unrealized gains / losses, net	348,150	378,000
	14,430,150	20,444,000
Total available-for-sale	29,787,250	20,444,000
Total investment securities	84,064,283	52,137,016
Current loans	192,618,207	199,549,252
Allowance for loan losses	(6,053,522)	(8,036,228)
Deferred income	(963,596)	(956,187)
Total loans, net	185,601,089	190,556,837
Total investments and loans	272,830,207	248,449,252
Total investments and loans, net	269,665,372	242,693,853

The loan portfolio includes the financing of project bonds totaling US$5,390,980 (2010: US$5,259,349).

The Corporation has a policy in place for granting payment extensions and for restructuring, renegotiating, and refinancing loans. Payment extensions apply only when the borrower is experiencing temporary difficulties and will be able to resume payments in the short term in accordance with the original agreement. Restructuring and refinancing are considered as part of the overall credit/risk reevaluation framework, provided that a joint and collective effort is made by all participating lenders and both owners and lenders will equally share the debt burden.

The Corporation has a derecognition policy in place that requires impaired loans to be monitored on an ongoing basis to determine the probability of their recovery, either by executing a guaranty pledged in favor of the Corporation or through financial restructuring. An impaired loan is derecognized when the Credit Committee determines the loan to be unrecoverable or decides that its valuation does not warrant continued recognition as an asset.

The Corporation has developed a Credit Risk Rating System based on the Altman Z-score method adapted to emerging markets. The method identifies certain key factors based on a company's financial performance that determine the probability of default, and combine or weight them into a quantitative score. That system also includes quantitative information and qualitative factors that affect infrastructure projects and emerging markets. The results consider relevant information such as foreign exchange risk, competition, project analysis, and country risk.

The average loan and investment portfolio risk rating remains BB as of December 31, 2011 (2010: loan and investment portfolio risk rating remains BB) based on the Corporation's standards, which are not necessarily comparable to international credit rating standards.

Portfolio risk ratings are as follows:

December 31, 2011	**Loans**		**Investment securities**	
Risk rating	**Gross**	**Net (*)**	**Nominal value**	**Fair value**
AAA / A-	17,697,368	17,415,914	0	0
BBB+ / BBB-	26,385,557	25,924,487	15,000,000	15,357,100
BB+ / BB-	90,987,830	88,920,658	46,782,000	50,382,562
B+ / B-	41,547,452	40,121,050	18,430,000	18,324,621
<= CCC+	16,000,000	14,182,576	0	0
	192,618,207	186,564,685	80,212,000	84,064,283

December 31, 2010	**Loans**		**Investment securities**	
Risk rating	**Gross**	**Net (*)**	**Nominal value**	**Fair value**
AAA / A-	14,657,778	14,437,911	0	0
BBB+ / BBB-	33,505,690	32,703,105	20,000,000	20,100,706
BB+ / BB-	64,601,957	63,274,428	23,900,000	24,838,234
B+ / B-	76,296,578	74,025,634	5,000,000	5,198,076
<= CCC+	10,487,249	7,071,946	0	0
	199,549,252	191,513,024	48,900,000	52,137,016

(*) Net of allowance for loan loss.

As of December 31, 2011, the Corporation had no impaired loans. The Board of Directors approved in September 22, 2011, the reclassification of the impaired loan of US$9,999,999 as non-impaired loan and the reduction of its provisions from 36.40% to 13.30% to be effective on December 31, 2011.

To secure some of its loans payable, the Corporation pledged to the lenders rights to cash flows derived from certain loans receivable granted by the Corporation; 75.23% of the loan and investment securities portfolios cash flows are pledged as of December 31, 2011.

Changes in the allowance for loan losses are as follows:

	December 31, 2011	December 31, 2010
Balance at beginning of year	(8,036,228)	(6,419,186)
Write-offs	0	707,187
Reversal (additional) allowance	1,982,706	(2,324,229)
Balance at end of year	(6,053,522)	(8,036,228)

Management of the Corporation generally follows the policy of requiring collateral from its customers or a corporate loan guarantee prior to formally extending and disbursing a loan. The loan portfolio is secured 96% (2010: 97%) as follows:

	December 31, 2011	December 31, 2010
Mortgage on fixed assets	76,693,678	74,097,512
Trust	35,517,633	34,829,087
Pledge	56,006,896	48,864,187
Corporate guarantor	16,400,000	34,789,474
Unsecured	8,000,000	6,968,992
	192,618,207	199,549,252

The investment securities portfolio is secured 35% (2010: 37%) as follows:

	December 31, 2011	December 31, 2010
Mortgage on fixed assets	20,430,000	10,000,000
Pledge	5,000,000	5,000,000
Corporate guarantor	3,000,000	3,000,000
Unsecured	51,782,000	30,900,000
	80,212,000	48,900,000

The Corporation classifies loans as past due when no principal or interest payments have been made by one day after the due date.

Loans and investment securities earn interest at rates ranging between 2.62% and 18% per annum (2010: 2.65% and 11.5%).

- Maximum risk by economic unit: The maximum limit of risk assumed by the Corporation with respect to individual borrowers or groups of borrowers having similar economic interests is 20% of capital plus reserves.

The concentration of the loan and investment securities portfolios in individual borrowers or groups of borrowers having similar economic interests based on capital and reserves in U.S. dollars is as follows:

% of capital & reserves	**December 31, 2011** Number of exposures	**U.S. dollars**
0 to 4.99%	8	9,140,515
5 to 9.99%	11	46,430,675
10 to 14.99%	10	69,008,469
15 to 20%	15	148,250,548
	44	272,830,207

% of capital & reserves	**December 31, 2010** Number of exposures	**U.S. dollars**
0 to 4.99%	7	12,840,866
5 to 9.99%	15	62,546,754
10 to 14.99%	8	57,320,075
15 to 20%	12	115,741,557
	42	248,449,252

- Country risk: The Corporation uses a series of classifications by country risk and gross domestic product to place countries in the following risk categories: Prime, Normal, Fair, and Restricted. Under this system, country size is irrelevant for high-risk countries and of great significance for low risk countries. Each category has a maximum credit limit on the total value of the corresponding loan portfolio. As of December 31, 2011 the Corporation complied with country risk exposure limits.

- An analysis of the concentration of credit risk for loans and investment securities at the reporting date is as follows:

	December 31, 2011	December 31, 2010
Peru	35,023,810	28,289,474
Argentina	34,286,870	33,718,689
Colombia	31,304,368	30,000,000
Panama	22,266,813	23,472,683
Brazil	17,900,000	17,058,119
Mexico	17,500,000	3,000,000
Chile	16,330,000	5,900,000
Guatemala	11,525,000	12,880,000
Ecuador	11,507,976	8,636,019
Trinidad and Tobago	10,025,000	11,950,000
Nicaragua	10,000,000	8,716,000
Spain	10,000,000	0
Dominican Republic	9,138,571	14,740,417
Belize	6,000,000	7,777,778
Jamaica	5,606,564	0
Honduras	5,375,000	13,718,992
Barbados	5,000,000	5,000,000
Luxembourg	5,000,000	0
Bolivia	4,022,224	7,642,356
Haiti	3,517,261	7,448,275
Saint Lucia	1,500,750	4,500,450
El Salvador	0	4,000,000
	272,830,207	248,449,252

- Sector risk: The Corporation limits its concentration in any sector to 50% of the corresponding country risk limit. As of December 31, 2011 the Corporation complied with sector risk exposure limits.

Investments and loans receivable by economic activity are as follows:

	December 31, 2011	**December 31, 2010**
Gas & oil	50,299,261	54,384,172
Airports and seaports	36,138,571	36,198,750
Thermo Power	33,982,413	22,009,349
Telecommunications	35,911,430	35,788,131
Co-generation (biomass)	21,675,000	17,696,644
Roads, railroads and others	19,332,757	16,247,290
Construction & engineering	25,314,634	7,290,244
Geothermal	10,000,000	8,716,000
Infrastructure conglomerates	11,500,000	8,000,000
Construction materials	11,832,800	18,108,400
Power distribution	10,000,000	6,789,474
Logistical centers and other	5,000,000	0
Hydro power (mini)	1,843,341	1,329,130
Hydro power (large)	0	10,000,000
Tourism	0	3,941,668
Water and sanitation	0	1,950,000
	272,830,207	248,449,252

(b) *Liquidity risk*

Liquidity risk arises in the general funding of the Corporation's activities. It includes both the risk of being unable to fund assets at appropriate maturities and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management of liquidity risk

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

The Treasurer receives information from management of new business units regarding liquidity needs for the next several days, weeks, and months. The Treasurer then keeps a portfolio of short-term liquid assets, largely made up of cash in banks, liquid investments in secure instruments in accordance with internal policies on liquid portfolio investment limits, and committed and available lines of credit, to ensure that the Corporation can meet expected and unexpected liquidity requirements.

The liquidity position is monitored on a regular basis and liquidity stress testing is conducted under scenarios covering both normal and more severe market conditions. All internal policies and procedures for term matching are subject to review and approval by the Board of Directors.

The Credit Committee monitors the Corporation's liquidity position by evaluating the following requirements established in the Corporation's current liquidity policy:

- Mismatches in the statement of financial position – Asset-Liability Gap Analysis
- Anticipated funding needs and strategies
- Liquidity position
- Mark to market variances
- Stress analysis of the Corporation's forecasted cash flow

As of December 31, 2011, the Corporation had US$11,831,040 in cash, US$15,357,100 in the liquid portfolio, and maintains undisbursed and available balances of committed credit facilities with financial institutions for US$100,633,333. Additionally, a total of US$33,750,000 of available but uncommitted lines of credit is pending disbursement. Finally the Corporation had US$68,707,183 in the Bond Investment Portfolio.

According to the Corporation's liquidity policies, the Corporation shall comply with the following two limits: i) Cumulative Asset-Liability gap from 1 to 365 days > 0, and ii) Probability of negative cash flow balance in 1 year≤ 1%. To apply the policy, the Asset - Liability gap analysis aggregates all contractual cash flows of on- and off-balance sheet assets and liabilities in its corresponding time band and cash flows attributed to undrawn loan commitments and borrowings are allocated to the time band in which management expects its occurrence.

The Corporation's on-balance sheet asset and liability terms are matched as follows:

December 31, 2011	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	365 days	Total
Assets							
Cash	11,831,040	0	0	0	0	0	11,831,040
Loans and investments	305,724	13,174,892	4,224,944	15,608,199	10,458,724	229,057,724	272,830,207
Accrued interest receivable	347,708	1,736,001	447,751	631,673	0	0	3,163,133
Total assets	12,484,472	14,910,893	4,672,695	16,239,872	10,458,724	229,057,724	287,824,380
Liabilities							
Loans payable	7,137,500	1,115,196	10,095,239	9,491,667	27,296,843	148,067,722	203,204,167
Accrued interest payable	310,499	24,839	580,619	151,711	0	0	1,067,668
Derivative liabilities	0	95,807	16,037	253,668	341,255	790,724	1,497,491
Total liabilities	7,447,999	1,235,842	10,691,895	9,897,046	27,638,098	148,858,446	205,769,326

December 31, 2010	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	365 Days	Total
Assets							
Cash	14,222,410	0	0	0	0	0	14,222,410
Current loans and investments	3,343,129	1,835,036	3,657,800	25,461,365	15,632,648	198,519,274	248,449,252
Accrued interest receivable	337,015	987,356	429,637	797,906	0	0	2,551,914
Derivative assets	0	(12,282)	0	(52,438)	(47,212)	440,209	328,277
Total assets	17,902,554	2,810,110	4,087,437	26,206,833	15,585,436	198,959,483	265,551,853
Liabilities							
Loans payable	26,187,500	2,635,417	12,500,000	27,239,582	31,291,667	84,354,167	184,208,333
Accrued interest payable	498,913	43,059	205,592	45,328	0	0	792,892
Derivative liabilities	0	157,797	16,201	210,617	351,031	642,810	1,378,456
Total liabilities	26,686,413	2,836,273	12,721,793	27,495,527	31,642,698	84,996,977	186,379,681

The Corporation's asset and liability terms including on-balance and off-balance sheet items are matched as follows:

December 31, 2011	Assets - cash	Loans & securities	Liabilities - debt	Gap	Cumulative gap
1 to 30 days	11,831,040	(6,302,958)	12,862,500	18,390,582	18,390,582
31 to 60 days	0	10,581,456	(2,291,667)	8,289,789	26,680,371
61 to 90 days	0	2,224,944	45,500,000	47,724,944	74,405,315
91 to 180 days	0	12,561,959	17,141,667	29,703,626	104,108,941
181 to 365 days	0	17,435,209	(43,137,180)	(25,701,971)	78,406,970
> 365 days	0	236,329,597	(233,279,487)	3,050,110	81,457,080
Total	11,831,040	272,830,207	(203,204,167)	81,457,080	

December 31, 2010	Assets - cash	Loans & securities	Liabilities - debt	Gap	Cumulative gap
1 to 30 days	14,222,410	2,392,640	(6,187,500)	10,427,550	10,427,550
31 to 60 days	0	(1,210,633)	17,364,583	16,153,950	26,581,500
61 to 90 days	0	277,883	(12,500,000)	(12,222,117)	14,359,383
91 to 180 days	0	24,934,073	(2,239,583)	22,694,490	37,053,873
181 to 365 days	0	13,521,952	(32,482,143)	(18,960,191)	18,093,682
> 365 days	0	208,533,337	(148,163,690)	60,369,647	78,463,329
Total	14,222,410	248,449,252	(184,208,333)	78,463,329	

Outstanding contractual maturities of financial liabilities are as follows:

December 31, 2011	Carrying amount*	Gross nominal inflow / (outflow)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Non-derivative liabilities							
Loans payable	203,204,167	203,204,167	7,137,500	11,210,435	36,788,510	126,902,590	21,165,132
Interest **	1,067,668	19,609,511	300,486	1,208,664	4,312,563	12,119,355	1,668,443
Derivative liabilities							
Interest rate swaps **	1,497,491	1,346,275	0	111,844	594,923	729,674	(90,166)
Total	205,769,326	224,159,953	7,437,986	12,530,943	41,695,996	139,751,619	22,743,409
December 31, 2010							
Non-derivative liabilities							
Loans payable	184,208,333	184,208,333	26,187,500	15,135,416	58,531,250	68,681,090	15,673,077
Interest **	792,892	12,237,120	578,164	605,831	2,577,191	6,072,352	2,403,582
Derivative liabilities							
Interest rate swaps **	1,378,456	1,501,989	0	173,997	561,649	1,005,951	(239,608)
Total	186,379,681	197,947,442	26,765,664	15,915,244	61,670,090	75,759,393	17,837,051

* Excludes deferred commissions

** Includes estimated interest payments at projected forward LIBOR rates

(c) Market risk

Market risk is the risk that unfavorable movements in market variables, such as interest rates, equity prices, underlying assets, foreign exchange rates, and other financial variables will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor risk exposure and to ensure that such exposure does not exceed acceptable limits, thus jeopardizing returns.

Foreign currency risk
The Corporation incurs foreign currency risk when the value of its assets and liabilities denominated in currencies other than the U.S. dollar is affected by exchange rate variations, which are recognized in the statement of comprehensive income.

As of December 31, 2011 all of the Corporation's assets and liabilities are denominated in U.S. dollars. Accordingly, no foreign currency risk is anticipated.

Interest rate risk
Interest rate risk is the risk that future cash flows and the value of underlying financial instruments will vary due to changes in market interest rates. Interest rate risk is managed by following an internal policy that limits the duration of equity to +/-1.5%. The Credit Committee is responsible for monitoring interest rate risk.

Most of the Corporation's interest-earning assets and interest-bearing liabilities are re-priced at least quarterly. As of December 31, 2011, 24% of interest-earning assets net of swaps and 9% of interest-bearing liabilities are set to re-price after six months.

The Corporation also uses interest rate derivatives to hedge some of its fixed-rate asset positions by converting them to a variable rate position in order to comply with the internal duration policy.

The following tables summarize the Corporation's exposure to interest rate risks based on duration of economic equity analysis.

December 31, 2011	Assets	Liabilities	Economic Equity
Present value	$290,397,463	($204,025,690)	$86,371,772
Duration (excluding interest rate swap)	1.21	0.71	
Notional interest rate swaps	$24,000,000		
IRS duration	(3.63)		
Duration (including interest rate swap)	0.84	0.71	0.13
Floating rate as a % total	63%	91%	
Fixed rate as a % total	33%	9%	
Hybrid rate as a % total	0%	0%	
Duration of economic equity			1.39%
POLICY LIMIT:			+/- 1.50

A change of 100 basis points in interest rates would have increased or decreased the Corporation's net economic value by US$1,197,003, which represents a change of +/-12% of net income and +/-1.47% of equity as of December 31, 2011.

The following tables summarize the Corporation's exposure to interest rate risk. Assets and liabilities are classified based on the repricing or maturity date, whichever occurs first.

December 31, 2011	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Non-sensitive	Total
Assets:								
Loans and investments	40,793,737	42,849,089	55,261,965	44,357,535	1,218,892	88,348,989	(963,595)	271,866,612
Total assets	40,793,737	42,849,089	55,261,965	44,357,535	1,218,892	88,348,989	(963,595)	271,866,612
Liabilities:								
Loans payable	30,337,500	7,500,000	107,000,000	40,000,000	0	18,366,667	(3,411,911)	199,792,256
Total liabilities	30,337,500	7,500,000	107,000,000	40,000,000	0	18,366,667	(3,411,911)	199,792,256
Total gap	10,456,237	35,349,089	(51,738,035)	4,357,535	1,218,892	69,982,322	2,448,316	72,074,356

December 31, 2010	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Non-sensitive	Total
Assets:								
Loans and investments	48,236,738	49,798,042	46,500,486	45,348,086	1,061,507	57,504,393	(956,186)	247,493,066
Total assets	48,236,738	49,798,042	46,500,486	45,348,086	1,061,507	57,504,393	(956,186)	247,493,066
Liabilities:								
Loans payable	87,937,500	13,604,166	63,000,000	8,000,000	0	11,666,667	(1,469,910)	182,738,423
Total liabilities	87,937,500	13,604,166	63,000,000	8,000,000	0	11,666,667	(1,469,910)	182,738,423
Total gap	(39,700,762)	36,193,876	(16,499,514)	37,348,086	1,061,507	45,837,726	513,724	64,754,643

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Corporation's operations and are faced by all business entities.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development of internal controls and procedures to address operational risk is assigned to the Corporation's management. The Corporation the following controls and procedures in place:

- Internal procedures for evaluating, approving, and monitoring loan operations
- Internal procedures for managing the liquid portfolio
- Internal procedures for acquiring derivative instruments
- Internal procedures for the minimum insurance requirement
- Environmental and social policies
- Compliance with internal policies and controls
- Code of conduct for employees and the Board of Directors and its Committees
- Corporate Compliance Manual to prevent illegal money laundering activities
- Acquisition of insurance to mitigate operational risk

The Audit Committee monitors compliance with the Corporation's internal policies and procedures on a regular basis.

(e) Capital management

The Corporation has a capital adequacy policy that was approved by the Board of Directors on October 22, 2009. The Corporation's capital structure is as follows:

	December 31, 2011	December 31, 2010
Tier 1 capital	81,559,133	73,660,596
Tier 2 capital	(379,045)	226,104
Total capital	81,180,088	73,886,700

	December 31, 2011	December 31, 2010
Risk weight of 0%	0	0
Risk weight of 20%	2,366,208	2,910,137
Risk weight of 50%	11,866,968	10,765,744
Risk weight of 100%	272,878,505	245,245,767
Risk weighted assets	287,111,681	258,921,648
Capital adequacy	28.27%	28.54%
Required capital adequacy (established by the Board)	15.00%	15.00%

(6) Loans payable

Loans payable, net of origination costs (commissions paid) are as follows:

	December 31, 2011	December 31, 2010
Foreign financial institutions	203,204,167	184,208,333
Deferred expense	(3,411,911)	(1,469,910)
	199,792,256	182,738,423

The effective interest rates on loans with foreign financial entities range between 1.29% and 3.84% per annum (2010: 1.54% and 4.50%).

	December 31, 2011	December 31, 2010
Loans outstanding	203,204,167	184,208,333
Undrawn balance of committed lines of credit	100,633,333	78,333,333
Undrawn balance of uncommitted lines of credit	33,750,000	10,000,000

See note 5.b. for information on outstanding contractual maturities of borrowings. The Corporation has never had any defaults of principal, interest or other breaches with respect to its loans payable.

(7) Equity

Share capital

The Corporation's share capital is comprised of 54,000,001 common shares of US$1 par value, for a total of US$54,000,001. Of that total, 34,500,001 are Class B common shares and 19,500,000 Class A preferred shares. Class A preferred shares have the same rights as common shares, except that preferred shares may only be owned by multilateral entities. All shares have the right to vote and receive dividends. The Corporation declared and paid dividends in February 2011 in an amount of US$1,842,767 or US$0.03 per share (2010: US$1,095,135 or US$0.02 per share).

The share capital is distributed as follows:

	Acquired capital	**Ownership interest**
Bankia (previously known as Caja Madrid)	11,000,001	20.37%
International Finance Corporation	8,500,000	15.74%
Central American Bank for Economic Integration	5,000,000	9.26%
HSBC Bank (Panama), S.A.	5,000,000	9.26%
Norfund	5,000,000	9.26%
Caixa Banco de Investimento	5,000,000	9.26%
Inter-American Investment Corporation	3,000,000	5.56%
Unibanco, BBA	3,000,000	5.56%
Caribbean Development Bank	3,000,000	5.56%
Finnfund	3,000,000	5.56%
Banco Pichincha CA	2,500,000	4.63%
	54,000,001	

Reserves

- *Legal reserve:*
  The Corporation allocates 5% of net income to a legal reserve, not to exceed 20% of outstanding share capital.

- *Fair value reserve:*
  The fair value reserve includes the cumulative net change in the fair value of available-for-sale securities until the securities are derecognized.

(8) Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders and a weighted average number of shares, as follows:

	December 31, 2011	December 31, 2010
Net income	9,914,232	6,111,191
Number of shares	54,000,001	54,000,001
Earnings per share	0.18	0.11

(9) Income tax

The income tax returns of the Corporation are subject to examination by the local income tax authorities for the last three (3) years, in accordance with current tax regulations.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on profits derived from foreign operations. They are also exempt from income taxes on profits derived from interest earned on deposits with banks operating in Panama, and investment securities issued by the Government of Panama and the securities listed with the National Securities Commission and traded through the Panama Stock Exchange.

By Official Gazette No.26489-A, No.8 Law was published on March 15, 2010 which amends the general rates of income tax. For Corporations in Panama, the current interest tax rate shall calculate on 25% of taxable net income.

Another amendment introduced by Law No. 8, is the replacement of the advance income tax based on estimated three games due on June 30, September 30 and 31 December 31 of each year, with a new system called monthly advance income tax, equivalent to one percent of total taxable income of each month. This advance is paid through affidavit within the first fifteen calendar days following the end of the month. The monthly advance income tax apply from January 1, 2011.

The Law No. 8 of March 15, 2010 introduced the method of taxation alleged income tax, forcing the legal person who earns income in excess of one million five hundred thousand dollars (B/.1, 500,000) must its tax base of the amount greater of: (a) the net taxable income calculated by the ordinary method established in the Tax Code and (b) the net taxable income resulting from the application, the total taxable income, the four point Sixty-seven percent (4.67%).

Juridical persons that incur losses because the tax computed under the method alleged or which by reason of the alleged application of that method, the effective rate exceeds the tax rate applicable to net taxable income under the regular method for the period fiscal concerned may request the Directorate General of Revenue will calculate the tax authorized under the ordinary method of calculation.

The Law No. 8 of March 15, 2010 took effect from 1 July 2010, however, the rates of income tax rate of juridical persons entered into effect on January 1, 2010.

Following is a reconciliation of net financial income before income tax to net taxable income:

	2011	2010
Net financial income before income tax	10,001,687	6,111,191
Foreign revenues, exempt and non-taxable, net	(21,918,736)	(18,268,400)
Costs and expenses not deductible	12,266,869	12,157,209
Net taxable income	349,818	0
Current income tax expense, estimated	87,454	0

The Corporation does not present a deferred tax effect.

(10) Derivatives held for risk management purposes

Interest rate derivatives

Management uses interest rate swaps to reduce interest rate risk on its assets (loans receivable). The Corporation reduces its credit risk in respect of those agreements by dealing with financially sound counterpart institutions.

Swap agreements acquired by the Corporation are as follows:

December 31, 2011

	Interest Rate	Maturity	Notional value	Fair value Assets	Fair value Liabilities
Non-designated derivatives held for risk management					
Caja Madrid	Variable: L+ 6M.	10/3/2012	10,000,000	0	394,532
HSBC New York	Variable: L+ 6M.	3/15/2013	1,000,000	0	44,415
			11,000,000	0	438,947
Designated fair value hedges of interest rate risk					
Goldman Sachs	Variable: L+ 6M.	8/14/2019	5,000,000	0	757,638
Goldman Sachs	Variable: L+ 6M.	5/7/2020	5,000,000	0	255,222
Goldman Sachs	Variable: L+ 6M.	8/19/2014	3,000,000	0	45,684
			13,000,000	0	1,058,544
Total derivatives................			24,000,000	0	1,497,491

December 31, 2010	Interest rate	Maturity	Notional value	Fair value Assets	Fair value Liabilities
Non-designated derivatives held for risk management					
Caja Madrid	Variable: L+ 6M.	10/3/2012	10,000,000	0	763,942
HSBC New York	Variable: L+ 6M.	3/15/2013	1,000,000	0	69,550
			11,000,000	0	833,492
Designated fair value hedges of interest rate risk					
Goldman Sachs	Variable: L+ 6M.	8/14/2019	10,000,000	0	544,964
Goldman Sachs	Variable: L+ 6M.	5/7/2020	5,000,000	307,059	0
Goldman Sachs	Variable: L+ 6M.	8/19/2014	3,000,000	21,218	0
			18,000,000	328,277	544,964
Total derivatives			29,000,000	328,277	1,378,456

The notional value of the above instruments has a specific amortization schedule over the life of the operation.

The Corporation recognized a net profit, excluding interest expense, of US$123,845 (2010: US$129,370) in the statement of comprehensive income, which was derived from the net change in fair value of those instruments and, if applicable, the fair value of the specific risk hedged.

(11) Net income from other financial instruments at fair value through profit or loss

	December 31, 2011	December 31, 2010
Derivatives held for risk management purposes:		
Interest rate swap	(687,549)	162,470
Fair value hedges:		
Interest rate risk	811,394	(33,100)
	123,845	129,370

(12) Fair value of financial instruments

The financial instruments recorded at fair value by hierarchical level are as follows:

December 31, 2011	Carrying amount	Level 1	Level 2	Level 3
Investment securities	29,787,250	29,787,250	0	0
Derivative assets	0	0	0	0
Derivative liabilities	(1,497,491)	0	(1,497,491)	0

	December 31, 2010 Carrying amount	Level 1	Level 2	Level 3
Investment securities	20,444,000	20,444,000	0	0
Derivative assets	328,277	0	328,277	0
Derivative liabilities	(1,378,456)	0	(1,378,456)	0

For assets recorded at fair value in the statement of financial position, the hierarchical levels for purposes of fair value disclosures are as follows:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of financial assets and liabilities carried at amortized cost in the statement of financial position are as follows:

	December 31, 2011	
	Carrying amount	Fair value
Cash	11,831,040	11,831,040
Investment securities	54,277,033	54,407,003
Loans receivable	192,618,207	193,972,480
Loans payable	199,792,256	204,025,690

	December 31, 2010	
	Carrying amount	Fair value
Cash	14,222,410	14,222,410
Investment securities	31,693,016	33,266,146
Loans receivable	199,549,252	200,493,801
Loans payable	182,738,423	184,209,416

The fair value of financial instruments is the amount at which the instrument could be exchanged between willing parties other than in a forced liquidation. Fair value is best determined based on quoted market prices.

Fair value estimates are made at a specific date, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given point in time. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Estimates could vary significantly if changes are made to those assumptions.

Where practicable, the following assumptions were used by management to estimate the fair value of each class of financial instrument both on and off the balance sheet:

(a) Investment securities
The fair values are based on quoted market prices.

(b) Loans receivable
The fair value of loans is determined by creating classes of loans with similar financial characteristics. The fair value of each class of loans is calculated by discounting cash flows expected until maturity, using a market discount rate that reflects the inherent credit and interest rate risks. Assumptions related to credit, cash flow, and discounted interest rate risks are determined by management based on available market information.

(c) Loans payable
The fair value of loans payable is calculated by discounting committed cash flows at current market rates for loans with similar maturities.

(13) Commitments and contingencies
In the normal course of business, the Corporation maintains off-balance sheet commitments and contingencies that involve a certain degree of credit and liquidity risk.

As of December 31, 2011, the Corporation has commitments and contingencies in the amount of US$23,733,937 corresponding to credits pending disbursement to different companies in the amount of US$14,655,936; and a commitment for an undersigned guaranty agreement in the amount of US$9,078,001 (2010: the Corporation has commitments and contingencies in the amount of US$21,531,488 corresponding to credits pending disbursement to different companies in the amount of US$11,945,296; and a commitment for an undersigned guaranty agreement in the amount of US$9,586,192).

The Corporation has access to available sources of funding in the form of lines of credit with international banks, funds and multilateral organizations, a number of which are also shareholders of the Corporation. This funding structure adds flexibility to treasury management, liquidity and reduces the Corporation's cost of funds. As of December 31, 2011, the Corporation had access to US$100,633,333 of undisbursed committed lines of credit and US$33,750,000 of undisbursed uncommitted lines of credit (2010: the Corporation had access to US$78,333,333 of undisbursed committed lines of credit and US$10,000,000 of undisbursed uncommitted lines of credit).

(14) Litigation

To management's best knowledge, the Corporation is not involved in any litigation that is likely to have a significant adverse effect on its business, financial position, or results of operations.

(15) Adjustments of priors years figures

Prior to 2011, the Corporation recorded personnel expenses - performance bonuses under the cash basis method instead of an accrual basis. The Corporation financial figures have been adjusted for the year ended on December 31, 2010.

The adjustments of the financial statement for each year are as follows:

	December 31, 2010	**December 31, 2009**
Retained earnings:		
Balance at the beginning of year, as reported	19,278,917	14,538,623
Adjusted effect in personal expenses – performance bonuses	(780,087)	(748,721)
Balance at the beginning of the year, adjusted	18,498,830	13,789,902
Net income:		
Net income for the year, as reported	6,142,557	
Net Adjusted effect in personal expenses – performance bonuses	(31,366)	
Net income for the year, adjusted	6,111,191	