

# CABEI Central American Fund plc CABEI Central American Portfolio

## **Audited Financial Statements**

For the Year Ended 31 December 2006



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## **CABEI Central American Fund plc CABEI Central American Portfolio**

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# Organisation

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<b>Registered Office of the Company</b>	25/28 North Wall Quay Dublin 1 Ireland
<b>Directors of the Company</b>	Walter Dostmann (German) (Chairman)  Directors from Deutsche Asset Management Americas: Paul Schubert (American) (Resigned 9 October 2006)  Directors from Central American Bank for Economic Integration: Alejandro Rodriguez (Costa Rican) Nick Rischbieth Glöe (Honduran)  Directors from DWS Finanz-Service GmbH: Markus Kohlenbach (German)  Other Directors: Michael Greene (Irish) Per Åke Rydberg (Irish) Jaime Chavez (Honduran)
<b>Investment Manager</b>	DWS Finanz-Service GmbH Mainzer Landstrasse 178-190 60327 Frankfurt am Main Germany
<b>Administrator</b>	Bank of Ireland Securities Services Limited New Century House Mayor Street Lower International Financial Services Centre Dublin 1 Ireland
<b>Custodian</b>	The Governor and Company of the Bank of Ireland Lower Baggot Street Dublin 2 Ireland
<b>Independent Auditor</b>	KPMG 1 Harbourmaster Place International Financial Services Centre Dublin 1 Ireland
<b>Legal Advisor</b>	A&L Goodbody North Wall Quay International Financial Services Centre Dublin 1 Ireland

## Organisation (continued)

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**Secretary**

Goodbody Secretarial Limited  
North Wall Quay  
International Financial Services Centre  
Dublin 1  
Ireland

**Consultant**

PCS Global Advisory Services Associates LLC  
614 King Avenue  
City Island  
New York  
NY 10464 - 1111  
USA

**Registered No: 303448**

# Background to the Fund

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## 1. Description

CABEI Central American Fund plc, incorporated on 12 March 1999 in Dublin, Ireland with registered number 303448, is a designated, limited liability, open-ended investment company with variable capital. It is an umbrella Company entitled to issue several classes of Shares to be invested in several portfolios. The Company has issued Shares in the CABEI CENTRAL AMERICAN PORTFOLIO (the 'Portfolio'), which is the only current portfolio. The Company is administered by Bank of Ireland Securities Services Limited. DWS Finanz-Service GmbH serve as Investment Manager to the Company pursuant to an investment management agreement dated 31 December 2004. The Investment Manager, DWS Finanz-Service GmbH, is an indirect subsidiary of Deutsche Bank AG. The Portfolio is denominated in US Dollars.

The Company is domiciled in Ireland. It is authorised in Ireland as an investment company and is a designated investment Company pursuant to Section 256 of the Companies Act 1990 of Ireland and is supervised by the Financial Regulator.

## 2. Investment Objective and Policy

The Portfolio's investment objective is to generate a high real rate of return. The Portfolio seeks to achieve this objective by investing primarily in debt and related instruments and equity and related instruments issued by sovereign issuers, their agents and instrumentalities, state-owned issuers slated for privatisation, corporate issuers, supranational issuers, quasi-governmental issuers, and any other issuer deemed fit for investment by the Directors, or a committee thereof. Countries for investment will include Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Mexico, Colombia, Argentina, Panama, the Dominican Republic, Belize, Spain, and the Republic of China, and any other countries which become members of the Central American Bank for Economic Integration ("CABEI") and which are deemed fit for investment by the Directors or a committee thereof.

There will be no limit to the amount or proportion invested in the issuers of any one country. It is the goal of the Portfolio to invest the majority of its assets in Central American countries that are members of the CABEI, as market conditions warrant and within the risk/return profile of the Portfolio. There will be no restriction with respect to the currency of denomination of any of the securities mentioned above. The Portfolio may invest up to 100 per cent of its assets in securities issued or guaranteed by the CABEI. The Portfolio may invest in securities which are below investment grade and accordingly, investment in the Portfolio should not constitute a substantial portion of an investor's investment portfolio and may not be appropriate for all investors. Please see the Offering Circular for more information.

## 3. Investment Management

DWS Finanz-Service GmbH serves as Investment Manager pursuant to an investment management agreement dated 31 December 2004.

## 4. Net Asset Value

The Net Asset Value of the Portfolio is calculated daily. The Net Asset Value of the Portfolio is calculated by dividing the value of the Portfolio's Net Assets (the value of its assets less its liabilities) by the total number of Shares outstanding. All securities held by the Portfolio, for which market quotations are readily available, are valued at the closing price on the primary exchange quoted for the securities (but if bid and ask quotations are available, at the last current bid price, rather than the quoted closing price). Debt securities are valued by independent pricing services approved by the Trustees of the Portfolio. If the pricing services are unable to provide valuations, the securities are valued at the most recent bid quotation or evaluated price as applicable, obtained from a broker-dealer. Such service may use various pricing techniques, which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. All other securities and assets, for which market quotations are not readily available, are taken at probable realisation value as determined in good faith by the Directors (or by a pricing committee of Directors established for the purpose), with the approval of the Custodian, although the actual calculation may be done by other competent and responsible persons. Any assets or liabilities, initially expressed in currencies other than US Dollars, are translated into US Dollars at the closing rate of exchange quoted by a recognised pricing service. The Portfolio's Net Asset Value per Share is published five times per week in the Financial Times.

## Background to the Fund (continued)

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### 5. Issue and Repurchase of Shares

The procedures for the issue and repurchase of shares are described in detail in the revised Offering Circular dated 1 January 2005, and subsequent supplements to the Offering Circular. The Portfolio's Dealing Day is every day that is a business day in Dublin and New York.

#### Issue of Shares

Allotments of Shares are normally made with effect from a Dealing Day against applications received in Dublin by the Administrator by 9:00pm Dublin time on the preceding Business Day.

#### Repurchase of Shares

Requests for the repurchase of Shares must be received by the Administrator by 9.00pm Dublin time on a Business Day which is at least two Business Days prior to the relevant Dealing Day and will then normally be dealt with on that Dealing Day. Requests for the repurchase of Shares may be made either by facsimile or in writing to the Administrator.

### 6. Published Information

Shareholders will receive audited annual and unaudited semi-annual Reports of the Company on request. Notices of general meetings will be sent to Shareholders at least twenty-one days prior to meetings. The Net Asset Value per Share and dividend announcements, if any, are published in the Financial Times. The subscription and redemption prices may be obtained from the registered office of the Company.

A statement of changes in the composition of the portfolio during the year will be made available to Shareholders on receipt of a written request.

Past performance is not necessarily a guide to future performance. Income from the investment may fluctuate in value and in money terms. Changes in rates of exchange between currencies may cause the value of the shares to diminish or increase.

Enquiries to: Bank of Ireland Securities Services Limited  
New Century House  
Mayor Street Lower  
International Financial Services Centre  
Dublin 1  
Ireland

Tel. 353 1 670 0300

Fax. 353 1 829 0144

The above details are in summary form only and must be read in conjunction with the detailed information contained in the Offering Circular of the Portfolio.

# Investment Manager's Report for the Year Ended 31 December 2006

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The Net Asset Value per Share of the CABEI Central American Fund was up 9.05% for the 12 months ended 31 December, 2006. At the end of the annual period, the Fund had net assets of US\$ 84.49 million and a Net Asset Value of US\$ 1,543.64 per share.

## Investment Environment

Debt markets in the US, Central America, the Caribbean and South America had a choppy development in the first half of 2006, while performance improved since July last year. The US Federal Reserve Bank only hiked interest rates by another 100 basis points, ending the hiking cycle at a Fed Funds rate of 5.25%. Nevertheless, market participants became more bearish in the second quarter worrying about further rate hikes (expectations moved up to 6%). This affected bond market developments heavily: 10 year yields of US Treasuries rose 60 basis points to 5.20% by end-June. After new Fed governor Ben Bernanke changed the central bank's wording towards a more benign view, interest rate expectations were scaled back, which supported bond markets (Treasury yields in the US fell by 50 basis points in second half of 2006).

Local bonds in Mexico had a longer roller coaster ride than bonds of their northern neighbour. Yields did not rise due to uncertainty about global interest rates and a spike in risk aversion (see above), but were additionally affected by domestic politics. Local investors, especially banks, were concerned about a potential victory of leftist candidate Andrés Manuel López Obrador (AMLO) in the July presidential elections. Thus, the yield of the local 10 year Mexican Bono rose by over 150 basis points (from below 8% to above 9.5%) in the course of the election campaign. This could not even be prevented by the central bank, which lowered its target rate by another 125 basis points in 2006 (down to 7%). This rate cut was supported by a benign inflation development in Mexico, as CPI growth held up well within the central bank's target range. Relief only came after moderate candidate Felipe Calderón was finally declared winner and AMLO's street protests lost momentum. This made local yields rally down to 7.5% until year-end, thus ending up lower than they were in January. Similar moves were observed for the Mexican Peso, as foreign investors also reduced positions till June, but the currency benefited from improvement in the global market environment during the second half of 2006.

Central American sovereign debt was not able to duck the market turmoil in the second quarter of 2006, but delivered a much better performance than bonds of core markets for the year as a whole. Spreads on external debt of Costa Rica, El Salvador and Guatemala tightened by around 80 basis points on average.[1] This makes Costa Rica trading below and the other two trading on similar levels compared to those of Mexico and Panama. Bonds of the latter countries suffered more during the summer correction due to already lower spreads and higher liquidity, while external debt of Costa Rica, El Salvador and Guatemala benefited from their defensive character and stronger fundamentals. Improving external balances (due to lower oil prices) and US approval of the Dominican Republic - Central American Free Trade Agreement (DR-CAFTA) and support from massively rising remittances led to stronger economic growth in most Central American countries. Furthermore, inflation was kept in check and actually fell in most countries of the region, which allowed a balanced monetary policy, adding to the overall benign economic picture.

\*In 2006, the Costa Rican economy regained momentum with strong exports but also robust domestic demand being the main drivers of growth. Besides, inflation surprisingly declined to roughly 9.4% at year-end. The budget deficit also saw significant reduction in 2006 mainly due to substantially rising revenues and continued capital spending restraint. Fiscal reform did not pass congress in 2006, neither was DR-CAFTA ratified. However, the government is optimistic about an agreement in early 2007. Finally, the central bank replaced its 22-year-old crawling peg exchange rate regime with a system of crawling exchange rate bands. In the first weeks of operation, the colon stayed close to the floor of the band.

# Investment Manager's Report for the Year Ended 31 December 2006

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\*In the Dominican Republic, President Leonel Fernández entered the second half of his term in office in a much stronger position after his Partido de la Dominicana (PLD) won a majority in both houses of parliament at last May's elections. Economic growth surprised to the upside in 2006, primarily driven by workers' remittances heavily underpinning private consumption. Due to fiscal slippage, the government missed the IMF target of a balanced budget. Concerning the external sector, the current account deficit widened significantly due to imports rebounding from depressed levels. The Dominican Republic enjoyed positive rating dynamics in the course of the year with Fitch upgrading the country from B- to B, S&P placing a positive outlook on its B rating and Moody's putting Dominican Republic on review for a possible upgrade.

\*The economy of El Salvador recorded its highest rate of expansion in a decade with growth reaching 4.2% year-on-year in 2006. Construction activity related to infrastructure that was affected by Hurricane Stan and the financial services sector were the main drivers of growth. The country's "maquila" sector faced increased competition from China. Public debt remained at a manageable 40% of GDP. At the March 2006 congressional elections, no party gained a majority, thus forcing President Saca to rely on negotiations and compromises in order to implement his policy program and reforms.

\*In 2006, Guatemala experienced stronger than expected growth with exports and private consumption underpinned by workers' remittances driving the outcome. Reaching 20% of GDP, Guatemala's public debt ratio was the lowest in the Central American region. After failing to meet its inflation target (4-6%) for two consecutive years, Banco de Guatemala successfully managed to bring down inflation to 5.5% year-on-year in 2006. The budget balance also surprised to the upside with the fiscal deficit coming in at 1.6% of GDP, thus significantly outperforming the official target.

\*Last year, Nicaragua experienced a slowdown in economic growth to 2.5% year-on-year. Political uncertainty ahead of the presidential elections in November 2006 dampened investment spending and private consumption. The large trade deficit posed a severe drag on the current account deficit. However, the country managed to steadily accumulate foreign exchange reserves. External debt dropped markedly due to substantial debt relief from the IMF, World Bank, Paris Club, IADB and CABEL.

\*In Panama, real GDP expanded by 8% year-on-year, heavily benefiting from buoyant global trade. The referendum on expanding the Panama Canal received a resounding approval rate, significantly strengthening the government's standing. Strong fiscal performance led to a decrease in the country's budget to roughly 2% of GDP. However, public debt remained at elevated levels, reaching 64% of GDP which is high compared to BB rated peers.

Elsewhere, Argentina enjoyed strong growth last year, supported by brisk private consumption due to higher employment levels and real earnings. Inflation saw a moderation in 2006, down to 9.8% from 12.3% the year before. The Argentine Peso remained fundamentally undervalued on the back of continued aggressive reserve accumulation by the central bank. A fiscal surplus of roughly 1.7% of GDP was the outcome of another year of strong fiscal performance. In addition, the country experienced positive rating dynamics with Fitch raising Argentina's foreign currency rating to B last August, and S&P revising its rating from B to B+ in October. Concerning Colombia, growth accelerated significantly to about 5.9% year-on-year. The central bank managed to bring down inflation to 4.4% at year-end, thus well within the 4-5% target band. The budget deficit increased slightly in 2006, mainly due to the high level of non-discretionary spending. Finally, a strong acceleration in imports led to a widening of the current account deficit.

# Investment Manager's Report for the Year Ended 31 December 2006

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## Investment Strategy

The Fund's absolute returns for the annual period were very strong. This was supported by a short duration strategy in the first half of 2006 compared to its benchmark, a modified Bear Stearns Central America / Caribbean Bond Index (BSCAX) [2]. Absence of investment in Mexican local bonds during this market's turmoil was also supportive for the Fund's absolute return. Duration was increased since July 2006, as the Investment Manager regarded fears on US interest rate expectations as exaggerated. This led to strong gains throughout the second half of 2006, when risk aversion fell and spreads on external debt tightened massively. The duration was not changed significantly later on, as sound fundamentals and positive technical factors were further supporting Central American bond markets.

Throughout the year, the Fund held a significant position in external debt of El Salvador. This country registered very high economic growth, supported by external trade and remittances. Political stability and a clear financing outlook also influenced external bonds in a positive way. The Fund also continued to hold a reasonable position in Guatemala for quite a while, as the country's external debt is remarkably low and economic development remains on a positive track. The position was reduced in the fourth quarter, as markets did not feel comfortable with the restructuring of banking system. Furthermore, politics are on the agenda, which also weighs on bonds. The positions in bonds of Argentina and Dominican Republic were held as a diversification investment and to benefit from higher spreads, which tightened significantly due to improvements in these countries. Positions in Mexican external debt, especially in the state-owned energy company Pemex, were also held throughout the year, while investments in the local bond market were only made on a tactical basis due to political volatility. Bonds from Nicaragua were taken as an investment into further improvements of the country, especially as their specific feature of steady amortization makes this an attractive, shorter dated investment.

As of 29 December, 2006, the Fund had an average modified duration of 6.80 years.[3] The Fund's average maturity stood at 13.27 years. The Fund held a total of 21 securities and the average rating of these securities was BB, as rated by Standard & Poor's. At the end of the annual period, approximately 77.3% of the Fund's total assets were invested in securities from founding members of CABEI, namely in Costa Rica, El Salvador, Guatemala, and Nicaragua. Approximately 5.9% of the Portfolio's Assets were invested in securities from CABEI extra-regional members, namely Mexico. Approximately 6.3% was invested in securities from Panama, 2.1% in securities from Argentina and around 2.8% in securities from the Dominican Republic. At the end of December, the Portfolio also held a relatively high 5.6% of net assets in cash.

## Investment Outlook

We think that the impact from the global environment should be neutral to slightly positive throughout the year, although volatility might increase in global financial markets. Bond markets should be supported by the fact that expectations for interest rate policy in core markets (US, Europe) are already cautious, hardly expecting any monetary easing in 2007. Global liquidity should also hold up well, which will be supportive for higher-yielding assets especially sovereign bonds of countries with further fundamental improvement.

Concerning the outlook for the region, the positive developments experienced in 2006 are expected to continue this year, with some country-specific concerns in place though. In terms of growth drivers, trade flows are expected to strengthen in most countries as a result of DR-CAFTA and bilateral trade agreements, while strongly rising workers' remittances will continue to underpin private consumption.

Apart from that, domestic investment will also increase due to regional projects, such as the Panama Canal expansion and tourism-related construction activity in a number of countries.

# Investment Manager's Report for the Year Ended 31 December 2006

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Though not so much dominated by political events as 2006, some elections are also scheduled for this year. While presidential elections in Argentina are likely to proceed smoothly, political tensions are expected to increase in Guatemala ahead of presidential, congressional and municipal elections in November. With regard to Costa Rica, the key issue for 2007 will be the ratification and implementation of DR-CAFTA. In Mexico, President Calderón will face a number of challenges in implementing reforms due to a weak mandate, a minority position in congress and the opposition of PRD.

Overall, we remain very positive on the region, overweighting Central America on the back of strong fundamentals and no new sovereign issuance of foreign-currency denominated debt to be expected in 2007.

We remain convinced that active management of a diversified Central American debt portfolio offers attractive total return opportunities.

**On behalf of the Investment Manager,  
DWS Finanz-Service GmbH**

**Dr. Nicolas Schlotthauer, CEFA  
Portfolio Manager**

[1] The sovereign bond spread is the difference in yield between dollar-denominated sovereign bonds and US Treasury bonds with similar duration. The sovereign bond spread is measured by the Bear Stearns Central America / Caribbean Bond Index (BSCAX), which tracks total returns for dollar-denominated sovereign debt instruments of ten countries in Central America and the Caribbean.

[2] The modified Bear Stearns BSCAX index used as the Fund's benchmark is composed 73.31% for the founding member countries of the Central American Bank of Economic Integration (CABEI), 22.72% for non-regional CABEI members and 3.97% for regional non-member countries.

[3] Modified duration is the percentage price change of a security or portfolio for a given change in yield: The higher the modified duration of a security or portfolio, the higher its sensitivity to yield changes

# Director's Report

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The Directors present herewith the Annual Report and audited Financial Statements for the year ended 31 December 2006.

## **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Company Financial Statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Company's Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing each of the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Acts 1963 to 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts 1963 to 2006.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

## **Principal Activities**

The Company has been approved by the Irish Financial Regulator as an investment company pursuant to Part XIII of the Companies Act, 1990. Please refer to the Investment Objective and Policy section on page 3.

## **Results, Activities and Future Developments**

The results for the year and the appropriation thereof are set out in the Income Statement on page 14. A detailed review of the business and future developments is contained in the Investment Manager's Report on pages 5 to 8. The Investment Manager's Report on pages 5 to 8 contains a review of the factors which contributed to the performance for the year. The Directors do not anticipate any changes in the structure or investment objective.

## **Fair Value Regulations and Modernisation Directive**

It is the opinion of the Board of Directors that the information required by the Modernisation Directive and Fair Value Directive and European Communities Regulation 2004, is contained in the Investment Manager's Report on pages 5 to 8.

## **Risk Management objectives and policies**

The main risks arising from the Company's financial instruments are market, currency, interest rate, price, liquidity and counterparty credit risks as given in note 13 on pages 23 to 25.

## **Events since the year end**

There have been no significant events affecting the Company since the year end.

# Director's Report (Continued)

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## Dividends

The Directors do not recommend the payment of a dividend.

## Substantial Shareholdings

Central American Bank for Economic Integration had an interest of 91.35% (2005: 87.86%) in the Shares of the Company at 31 December 2006.

## Directors and Secretary

The Directors who held office during the year under review were:

Alejandro Rodriguez (Costa Rican)  
Jaime Chavez (Honduran)  
Markus Kohlenbach (German)  
Michael Greene (Irish)  
Nick Rischbieth Glöe (Honduran)  
Paul Schubert (American) (Resigned 9 October 2006)  
Per Åke Rydberg (Irish)  
Walter Dostmann (German) (Chairman)

## Directors' Interests in Shares and Contracts

Walter Dostmann holds one subscriber share. None of the Directors other than those listed above who held office at 31 December 2006, had any interests in the Shares of the Company at that date or at any time during the financial year.

## Transactions Involving Directors

There are no contracts or arrangements of any significance in relation to the business of the Company in which the Directors or Company Secretary had any interest as defined in the Companies Act, 1990 at any time during the year.

## Accounting Records

The Directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to the books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The Books of Account of the Company are maintained at:

Bank of Ireland Securities Services Limited  
New Century House  
Mayor Street Lower  
International Financial Services Centre  
Dublin 1  
Ireland

## Auditor

In accordance with Section 160(2) of the Companies Act 1963, KPMG, Chartered Accountants will continue in office.

## ON BEHALF OF THE BOARD OF DIRECTORS

Michael Greene  
Director

Per Åke Rydberg  
Director

22 March 2007

# Statement of Custodian's Responsibilities

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The Companies Act, 1990 (“the Act”) requires the custodian to take reasonable care so as to ensure that the Company is managed by the Directors in accordance with the Act and the Memorandum and Articles of Association. In particular the Custodian must:

- satisfy itself on a continuing basis on reasonable grounds and report that the Company has been managed in accordance with the limitations imposed on the investment and borrowing powers of the Company and custodian by the Memorandum and Articles of Association and the Act;
- take into its custody or under its control, the assets of the Company and hold them in trust for the Shareholders in accordance with the Memorandum and Articles of Association and the Act; and
- satisfy itself that the valuation of the Shares of the Company and that the sale, issue, repurchase and redemption of Shares of the Company are being carried out in accordance with the Memorandum and Articles of Association and the Act.

To enable the Custodian to fulfil its responsibilities under the Act and the Memorandum and Articles of Association, the custodian is required to keep proper financial records.

## **Custodian's Report**

The Governor and Company of the Bank of Ireland, as Custodian to the CABEI Central American Fund plc has enquired into the conduct of the Company for the year ended 31 December 2006.

In our opinion, the Company was managed, in all material respects, throughout the year in accordance with the provisions of Part XIII of the Companies Act, 1990 and the Memorandum and the Articles of Association.

In particular, the Company was managed, in all material respects, in accordance with the limitations imposed on the investment and borrowing powers of the Company, by the Memorandum and the Articles of Association and the Act.

**The Governor & Company of the Bank of Ireland**  
**22 March 2007**

# Independent Auditors Report to the Shareholders of CABEI Central American Fund plc

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We have audited the Financial Statements of the CABEI Central American Fund plc for the year ended 31 December 2006 which comprise the Income Statement, Balance Sheet, the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares and the related notes on pages 17 to 25. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's Shareholders, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's Shareholders those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective Responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities on page 9.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2006. We also report to you whether, in our opinion, proper books of account have been kept by the Company; and whether the information given in the Directors' Report is consistent with the Financial Statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company's Financial Statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Directors' Report, the Custodian's Report, and the Investment Manager's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

# **Independent Auditors Report to the Shareholders of CABEI Central American Fund plc (Continued)**

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## **Opinion**

In our opinion:

- the Financial Statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended;
  
- the Financial Statements have been properly prepared in accordance with the Companies Acts 1963 to 2006.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Financial Statements are in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the Financial Statements.

**KPMG**  
**Chartered Accountants and Registered Auditors**  
**1 Harbourmaster Place**  
**Dublin**  
**Ireland**

**22 March 2007**

# Income Statement

	Notes	Year ended 31 December 2006 USD	Year ended 31 December 2005 USD
Net Investment Income	2	8,515,407	6,778,867
Operating Expenses	3	(1,572,608)	(1,542,569)
<b>Net Operating Income</b>		<b>6,942,799</b>	<b>5,236,298</b>
<b>Increase in Net Assets resulting from Operations</b>		<b>6,942,799</b>	<b>5,236,298</b>
<b>Increase in Net Assets transferred to Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders</b>		<b>6,942,799</b>	<b>5,236,298</b>

There are no recognised gains or losses arising in the year other than the increase in Net Assets Attributable to Shareholders of the Fund. In arriving at the results of the financial year, all amounts above relate to continuing operations.

The accompanying notes form an integral part of the Financial Statements.

## ON BEHALF OF THE BOARD OF DIRECTORS

Michael Greene

**Director:**

Per Åke Rydberg

**Director:**

**22 March 2007**

# Balance Sheet

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	Notes	As at 31 December 2006 USD	As at 31 December 2005 USD
<b>ASSETS</b>			
Cash Deposits		4,635,052	6,730,796
Debtors	4	81,566	357,758
Financial assets at fair value through profit or loss		80,413,272	73,996,322
<b>Total Assets</b>		<b>85,129,890</b>	<b>81,084,876</b>
<b>LIABILITIES</b>			
Accrued Expenses	5	(638,753)	(526,534)
<b>Net Assets Attributable to holders of Redeemable Participating Shares</b>	7	<b>84,491,137</b>	<b>80,558,342</b>

The accompanying notes form an integral part of the Financial Statements.

## ON BEHALF OF THE BOARD OF DIRECTORS

Michael Greene

**Director:**

Per Åke Rydberg

**Director:**

**22 March 2007**

## Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders

	Year ended 31 December 2006 USD	Year ended 31 December 2005 USD
<b>Net Assets Attributable to Redeemable Participating Shareholders at beginning of year</b>	80,558,342	70,542,124
Amounts received on issue of Shares	24,530,569	23,223,749
Amounts paid on redemption of Shares	(27,540,573)	(18,443,829)
(Decrease)/Increase in Net Assets resulting from Share transactions	(3,010,004)	4,779,920
Increase in Net Assets resulting from operations (page 14)	6,942,799	5,236,298
<b>Net increase in shareholders' funds</b>	3,932,795	10,016,218
<b>Net Assets Attributable to Redeemable Participating Shareholders at end of year</b>	84,491,137	80,558,342

The accompanying notes form an integral part of the Financial Statements.

# Notes to the Financial Statements as at 31 December 2006

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## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of preparation

These Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in Ireland comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

The information required by Financial Reporting Standard (FRS) No. 3 "Reporting Financial Performance", to be included in a statement of total recognised Gains and Losses, and a Reconciliation of Movements in Shareholders Funds is, in the opinion of the Directors, contained in the Income Statement and Statement of Changes in Net Assets Attributable to Redeemable Participating Shareholders on pages 14 and 16.

All references to Net Assets throughout this document refer to Net Assets Attributable to Holders of Redeemable Participating Shares, unless otherwise stated.

The Financial Statements are prepared in US Dollars.

### b) Investments

#### (i) Classification and Recognition

Financial assets that are classified as loans and receivables include deposits and accounts receivable. Financial liabilities that are not at fair value through profit or loss include accounts payable and financial liabilities arising on Redeemable Shares.

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading. These include futures and liabilities from short sales of financial instruments included as financial derivative instruments on the Balance Sheet. All derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held-for-trading. All derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities held-for-trading.
- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes and which may be sold.

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument, and all significant rights and access to the benefits from the assets, and the exposure to the risks inherent in those benefits, are transferred to the Fund. The

# Notes to the Financial Statements as at 31 December 2006 (continued)

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### b) Investments (Continued)

#### (i) Classification and Recognition (Continued)

Fund derecognises financial assets and financial liabilities when all such benefits and risks are transferred from the Fund.

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses, arising from changes in fair value of the financial assets or financial liabilities, are recorded.

#### (ii) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Income Statement.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment, if any.

Financial liabilities, arising from the Redeemable Shares issued by the Fund, are carried at the redemption amount representing the Investors' right to a residual interest in the Fund's Assets.

The fair value of financial instruments is based on their quoted market prices at the Balance Sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Fair values for unquoted equity investments are estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives, that are not exchange traded, is estimated at the amount that the Fund would receive or pay to terminate the contract at the Balance Sheet date, taking into account current market conditions (volatility, appropriate yield curve) and the current creditworthiness of the counterparties. Realised gains and losses on investment disposals are calculated using the average cost method.

#### **Guatemala Electrical Trust Note**

The Guatemala Electrical Trust Notes should trade at a reasonable spread above the Republic of Guatemala, given current liquidity conditions for Emerging Markets corporate debt and the bond's relatively small issue size. This yield is steadily monitored and set by the fund's pricing committee. The price for Guatemala Electrical Trust Notes is derived using a yield-to-price calculation based on the bond's premium over the Republic of Guatemala 2013 bond. Pricing and yield information for the Guatemala Electrical Trust Notes is updated on each valuation date of the Fund.

#### **Nicaragua BPI**

The bond is valued at spread over Libor due to lack of market liquidity. This procedure incorporates both the average country risk of Latin American sovereign issuers and the lower rating and lower liquidity of Nicaraguan BPIs. The yield of the security is derived as the sum of four elements, thereby taking into account all important valuation factors.

# Notes to the Financial Statements as at 31 December 2006 (continued)

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## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### b) Investments (Continued)

#### (iii) Specific Instruments

Cash comprises current deposits with banks. The measurement of deposits are amortised cost. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

### c) Cash Flow Statement

The Company has availed of the exemption available to open-ended investment funds under FRS 1 not to prepare a Cash Flow Statement.

### d) Income and Operating Expenses

All income and expenses are recognised in the Income Statement on an accruals basis.

The Company is responsible for all normal operating expenses including audit fees, stamp and other duties and charges incurred on the acquisition and realisation of investments.

### e) Derivative Instruments

Changes in the value of the derivatives are recognised as gains and losses by marking to market on a daily basis to reflect the value of the derivative at the end of each day's trading. They are valued at the settlement price established each day on which they are traded, and the Company's investment therein, representing unrealised gain or loss on the contracts, is included in the Income Statement.

### f) Redeemable Participating Shares

Redeemable Participating Shares are redeemable at the Shareholder's option and are classified as financial liabilities. Any distributions on these preference shares are recognized in the Income Statement as finance costs.

### g) Foreign Exchange

The functional currency of the Fund is US Dollar. The Directors have determined that this reflects the Fund's primary economic environment as the majority of the Fund's Net Assets Attributable to Holders of Redeemable Participating Shares, are in US Dollar.

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit and loss are recognised together with other changes in the fair value. Included in the Income Statement line item, Net Foreign Exchange Gain/Loss, are net foreign exchange gains and losses on monetary financial assets and liabilities other than those classified at fair value through profit or loss.

Assets and liabilities denominated in foreign currencies, other than the currency of the Fund, have been translated at the rate of exchange ruling at 31 December 2006. Transactions in foreign currencies are translated into US Dollars at the exchange rate ruling at the date of the transaction. Gains and losses on foreign exchange transactions are recognised in the Income Statement in determining the result for the year.

## Notes to the Financial Statements as at 31 December 2006 (continued)

### g) Foreign Exchange (Continued)

The following exchange rates were used to convert investments, assets and liabilities to the base currency of the Fund (USD):

	<b>31 December 2006</b>	<b>31 December 2005</b>
EUR	0.7583	0.8478
MXN	10.8269	10.6372
	<b>Year ended 31 December 2006 USD</b>	<b>Year ended 31 December 2005 USD</b>
<b>2. NET INVESTMENT INCOME</b>		
Bank Interest	189,486	116,373
Gain on Investments	8,335,631	7,241,421
Loss on Futures	(14,250)	(560,708)
Net Currency Gain/(Loss)	4,540	(18,219)
	<u>8,515,407</u>	<u>6,778,867</u>
<b>3. OPERATING EXPENSES</b>		
Investment Management Fees	657,585	608,082
Admin/Custody/Transfer Agency Fees	114,650	101,884
Distribution Fees *	(89,785)	174,318
Performance Fees	356,742	235,940
Auditors' Fees	28,228	26,932
Directors' Expenses	38,188	28,963
Directors' Fees	89,067	16,149
Legal - Fund Organisation & Related Business	100,381	106,000
Legal - Administrative & General Legal Support	68,470	58,008
Other Legal Expenses	14,346	15,113
Printing/Publishing	19,944	27,177
Marketing Expenses	44,625	31,821
Consultancy Fees	119,440	109,401
Directors' Liability Insurance	25,990	28,481
Other Sundry Expenses	9,631	(2,583)
Over Accrual of VAT Rebate	(24,894)	(23,117)
	<u>1,572,608</u>	<u>1,542,569</u>

\* The Distribution agreement between CABEI Central American Fund Plc and SDI was terminated on 8 November 2005. Included in the figure of USD 89,785 is a settlement refund of USD 93,540 and two fees paid to Interfin Sociedad de Fondos de Inversion S.A. amounting to USD 3,755.

## Notes to the Financial Statements as at 31 December 2006 (continued)

	As at 31 December 2006 USD	As at 31 December 2005 USD
<b>4. DEBTORS</b>		
Accrued Deposit Interest	2,377	1,930
Subscriptions of Units awaiting Settlement	29,080	-
Sale of Securities awaiting Settlement	-	302,419
Prepaid Insurance	25,689	23,655
VAT Rebate Receivable	24,420	29,754
	<u>81,566</u>	<u>357,758</u>
<b>5. CREDITORS (amounts falling due within one year)</b>		
Investment Management Fees Payable	55,257	55,000
Performance Fee Payable	356,742	235,940
Legal - Fund Organisation & Related Business Payable	33,412	33,333
Legal - Administrative & General Legal Support Payable	28,111	16,667
Other Expenses Payable	165,231	84,344
Amount due to Broker	-	101,250
	<u>638,753</u>	<u>526,534</u>
<b>6. SHARE CAPITAL</b>		

### Subscriber Shares - Equity

The Company has equity share capital of EUR40,000 divided into 40,000 Subscriber Shares of EUR1 each (of which EUR10,005.25 has been paid up and which are beneficially owned by the Investment Manager). The Subscriber Shares do not form part of the Net Asset Value of the Company.

They are thus disclosed in the Financial Statements by way of this note only. In the opinion of the Directors, this disclosure reflects the nature of the Company's investment business. The Holders of Subscriber Shares are entitled to one vote only in respect of all their Subscriber Shares.

### Redeemable Participating Shares - Liabilities

The Company has 500,000,000,000 Shares of no par value initially designated as unclassified Shares.

The Participating Shares are classified as liabilities, in accordance with Financial Reporting Standard 25 (FRS 25), as they are redeemable at the request of the Holders. The Shares are available as fully paid Redeemable Participating Shares of the Company. They carry voting rights. The Share issued by the Company are freely transferable and entitled to participate equally in the profits and dividends of the Company and in its Net Assets upon liquidation. The Shares carry no preferential or pre-emptive rights and are entitled to one vote each at all meetings of the relevant class of Shareholders. All Shares rank pari-passu.

## Notes to the Financial Statements as at 31 December 2006 (continued)

### 6. SHARE CAPITAL (Continued)

Shares in Issue	As at 31 December 2006	As at 31 December 2005
<b>NUMBER OF SHARES</b>		
<b>Issued and Fully Paid</b>		
Balance at beginning of year	56,912	53,459
Issued during year	16,755	16,752
Redeemed during year	(18,932)	(13,299)
Total number of Shares in issue at year end	<u>54,735</u>	<u>56,912</u>

### 7. NET ASSET VALUE

As at 31 December 2006	<b>USD</b> 84,491,137
As at 31 December 2005	80,558,342
As at 31 December 2004	70,542,124

### NET ASSET VALUE PER UNIT

As at 31 December 2006	1,543.64
As at 31 December 2005	1,415.49
As at 31 December 2004	1,319.56

### 8. FEES

The Investment Manager shall be entitled to receive an Investment Management fee from the Company, payable monthly in arrears of 0.824 per cent (2005: 0.825 per cent), per annum, of the average daily Net Asset Value of the Portfolio.

The Investment Manager may also collect a Performance Fee of 20% of the Net Asset Value's percentage out-performance of the Hurdle Rate during the relevant year. The 'Hurdle Rate' is a 12 month Libor plus 200 basis points per annum return of the Net Asset Value at the beginning of the relevant year, adjusted for subscriptions and redemptions on a time apportioned basis.

The Custodian shall be entitled to a fee which is accrued daily and paid monthly in arrears at an annual rate ranging from 0.02 per cent to 0.35 per cent of Net Asset Value for the assets held, subject to a minimum monthly fee of US\$1,500. The Administrator shall be entitled to a fee which is accrued daily and paid monthly in arrears at an annual rate of 0.1 per cent of Net Assets for the first US\$100 million of net assets and 0.07% of the Net Asset Value in excess thereof, subject to a minimum monthly fee of US\$5,000 as applicable.

### 9. EFFICIENT PORTFOLIO MANAGEMENT

The Investment Manager may utilise derivatives and other techniques and instruments (including, but not limited to, options, swaps, futures and forwards) whether the intention of providing protection against risks of gaining exposure to certain markets, sectors or securities, or otherwise of increasing the return on the Assets of the Portfolio. Such derivatives and other techniques and instruments will only be used for efficient portfolio management purposes in accordance with the conditions and limits laid down by the Financial Regulator. The Investment Manager may also, when facilities become available in the relevant markets, lend the Portfolio securities and/or purchase securities subject to repurchase agreements.

During the year, the Fund did not invest in any futures. However, in previous years, the Fund has used futures to hedge against market price movement. The loss on futures of USD 14,250 in the Income Statement was a result of closing off of the futures margin account with the Counterparty. The Counterparty for the futures contracts that expired during the year was Deutsche Bank Securities Inc.

## 10. RELATED PARTY TRANSACTIONS

Financial Reporting Standard 8 "Related Party Transactions" (FRS 8) requires the disclosure of information relating to material transactions with parties who are deemed to be related to the reporting entity.

Related parties include the Investment Manager who is listed on page 1. Amounts earned by the Investment Manager are disclosed in Note 3 on page 20.

The Central American Bank for Economic Integration (CABEI) is the majority Shareholder with a 91.35% holding in the Fund at year end. It is also the Placement Agent. Alejandro Rodriguez and Nick Rischbieth Gloe, Directors of the Fund, are also Directors of CABEI. Walter Dostmann (Company Chairman) holds one subscriber share.

## 11. TAXATION

The Company will not be liable for tax in respect of its income and gains, other than on the occurrence of a chargeable event. A chargeable event includes any distribution or any redemption or transfer of Shares.

A chargeable event does not include:

- i) Any transactions in relation to Redeemable Participating Shares held in a recognised clearing system as designated by order of the Revenue Commissioners of Ireland; or
- ii) An exchange of Redeemable Participating Shares representing one Sub-fund for another Sub-fund of the Company; or
- iii) An exchange of Redeemable Participating Shares arising on a qualifying amalgamation or reconstruction of the Company with another fund.

A chargeable event will not occur in respect of Redeemable Participating Shareholders who are neither resident nor ordinarily resident in Ireland and who have provided the Company with a relevant declaration to that effect.

In the absence of an appropriate declaration, the Company will be liable for Irish tax on the occurrence of a chargeable event.

Capital gains, dividends and interest received may be subject to withholding taxes imposed by the country of origin and such taxes may not be recoverable by the Company or its Shareholders.

## 12. SOFT COMMISSION ARRANGEMENTS

There are no soft commission arrangements affecting this Fund during the year.

## 13. FINANCIAL INSTRUMENTS

The Fund's investment activities expose it to the various types of risk which are associated with the financial instruments and markets in which it invests. The following summary is not intended to be a comprehensive summary of all risks and Investors should refer to the Prospectus for a more detailed discussion of the risks inherent in investing in the Fund.

### (a) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund may employ efficient portfolio management techniques as described in note 9 to provide a degree of protection against market price falls. The Investment Manager considers the asset allocation of the Portfolio in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund's investment objective.

Details of the Fund's Investment Portfolio at the Balance Sheet date are disclosed in the Schedule of Investments.

# Notes to the Financial Statements as at 31 December 2006 (continued)

## 13. FINANCIAL INSTRUMENTS (Continued)

### (b) Credit Risk

Financial assets which potentially expose the Fund to credit risk consist principally of the credit risk of the underlying investments and, to a lesser extent, in cash balances and deposits with, and receivables from, brokers. The extent of the Fund's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Fund's Balance Sheet. The Fund will be exposed to a credit risk on parties with whom it trades and will also bear the risk of settlement default. The Fund minimises concentration of credit risk by undertaking transactions with a large number of counterparties on recognised and reputable exchanges.

The total credit split (as per the Composite Rating) is as follows:

	%		%
B-	3.01	BBB	6.29
B+	2.20	BBB-	6.37
BB	47.86	Not Rated	5.07
BB+	29.20		

### (c) Foreign Currency Risk

The Fund may invest in securities denominated in currencies other than its reporting currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner which has an adverse affect on the value of that portion of the Fund's Assets which are denominated in currencies other than its own currency. The following sets out the Fund's exposure to foreign currency risk at 31 December 2006 and comparatives for 31 December 2005.

	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>Currency</b>	<b>Total USD</b>	<b>Total USD</b>
Mexican Peso	68,966	25,540
Euro	(77,776)	(662)
	<u>(8,810)</u>	<u>24,878</u>

### (d) Interest Rate Risk

The Fund invests in fixed interest securities that earn interest. Any change to the interest rates relevant for particular securities may result in the Investment Manager being unable to secure similar returns on the expiry of contract or the sale of securities.

In addition, changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held. In general, if interest rates rise, the value of the fixed interest securities will decline along with certain expenses calculated by reference to Assets of the Fund. A decline in interest rates will, in general, have the opposite effect.

The Fund invests in the currencies noted below at both fixed and floating rates of interest. All investments earn interest except Financial Futures.

#### Securities held

##### 31 December 2006

	<b>Fixed Rate Interest USD</b>	<b>Floating Rate Interest USD</b>	<b>Total USD</b>
US Dollar	<u>76,340,902</u>	<u>4,072,370</u>	<u>80,413,272</u>

##### 31 December 2005

	<b>Fixed Rate Interest USD</b>	<b>Floating Rate Interest USD</b>	<b>Total USD</b>
US Dollar	<u>71,643,967</u>	<u>2,352,355</u>	<u>73,996,322</u>

## Notes to the Financial Statements as at 31 December 2006 (continued)

### 13. FINANCIAL INSTRUMENTS (Continued)

#### (d) Interest Rate Risk (Continued)

	<b>Fixed Rate Financial Assets Weighed Average Interest Rate (%)</b>	<b>Fixed Rate Financial Assets Weighted Average Year for which rate is Fixed</b>
<b>31 December 2006</b>	8.24	13.71
<b>31 December 2005</b>	8.67	10.56

The weighted average interest rate and the weighted average years to maturity is calculated by reference to the market value of the fixed rate financial assets.

The maturity profile of the Company's interest bearing financial assets and liabilities at 31 December 2006 and 31 December 2005 was:

	<b>Within one year</b>	<b>One to five years</b>	<b>Over five years</b>
<b>31 December 2006</b>	-	18,174,403	62,238,869
<b>31 December 2005</b>	-	12,815,614	61,180,708

#### (e) Liquidity Risk

The Fund's Assets comprise mainly realisable securities, which can be readily sold. The main liability of the Fund is the redemption of any Shares that Investors wish to sell.

#### (f) Fair Values of Financial Assets and Financial Liabilities

All of the financial assets of the Fund are held at fair value. Please refer to Note 1(b) on pages 17 to 19 for the definition of Fair Value. Realised gains and losses on financial assets are disclosed in the Income Statement on page 14.

### 14. PORTFOLIO CHANGES

A full listing of the Portfolio Changes for the year is available, upon request, at no cost from the Investment Manager. A list of the largest purchases and sales for the Fund is shown on page 28.

### 15. COMPARATIVE FIGURES

The comparative figures are for the twelve months to 31 December 2005.

### 16. POST BALANCE SHEET EVENTS

There have been no events subsequent to the year end, which, in the opinion of the Directors of the Company, may have had an impact on the financial statements for the year ended 31 December 2006.

### 17. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved by the board on 22 March 2007.

## Schedule of Investments as at 31 December 2006

Holding	Investment	Value USD	% of Fund
<b>USD - DENOMINATED SECURITIES</b>			
<b>Government Fixed - 77.59% (2005 - 75.88%)</b>			
1,800,000	7% Argentina (Republic of) 12/09/2013	1,769,562	2.09
8,000,000	8.11% Costa Rica (Republic of) 01/02/2012	8,961,468	10.61
2,000,000	8.05% Costa Rica (Republic of) 31/01/2013	2,241,002	2.65
4,300,000	9.995% Costa Rica (Republic of) 01/08/2020	5,784,246	6.85
2,000,000	9.5% Dominican Republic 27/09/2011	2,414,317	2.86
6,000,000	8.5% El Salvador (Republic of) 25/07/2011	6,878,216	8.14
3,000,000	7.75% El Salvador (Republic of) 24/01/2023	3,576,791	4.23
2,700,000	7.625% El Salvador (Republic of) 21/09/2034	3,161,409	3.75
8,600,000	7.65% El Salvador (Republic of) 15/06/2035	9,833,633	11.64
4,000,000	10.25% Guatemala (Republic of) 08/11/2011	4,809,500	5.69
3,200,000	9.25% Guatemala (Republic of) 01/08/2013	3,861,488	4.57
4,000,000	8.125% Guatemala (Republic of) 06/10/2034	4,685,638	5.55
1,500,000	5.625% Mexico (United Mexican States) 15/01/2017	1,542,050	1.83
590,000	6.375% Mexico (United Mexican States) 16/01/2013	637,876	0.75
750,000	7.25% Panama (Republic of) 15/03/2015	829,007	0.98
3,400,000	9.375% Panama (Republic of) 16/01/2023	4,562,587	5.40
		<b>65,548,790</b>	<b>77.59</b>
<b>Government Variable - 4.82% (2005 - 2.92%)</b>			
4,000,000	Nicaragua (Republic of) FRN 01/02/2011 (i)	4,072,370	4.82
		<b>4,072,370</b>	<b>4.82</b>
<b>Corporate Fixed - 12.76% (2005 - 13.05%)</b>			
2,500,000	8.5% Citco Trustees Cayman 21/12/2014 (i)	2,802,793	3.31
5,000,000	6.75% MMG Fiduciary 01/02/2016	5,115,157	6.05
1,700,000	7.75% Pemex Project Funding 29/09/2049	1,772,143	2.10
1,000,000	7.375% Pemex Project Funding 15/12/2014	1,102,019	1.30
		<b>10,792,112</b>	<b>12.76</b>
<b>USD - DENOMINATED SECURITIES - TOTAL</b>		<b>80,413,272</b>	<b>95.17</b>

(i) Securities are priced using pricing methods described in Note 1 (b) (ii)

## Schedule of Investments as at 31 December 2006 (continued)

	Value USD	% of Fund
<b>TOTAL VALUE OF INVESTMENTS</b> (Cost: USD 74,683,601)	<b>80,413,272</b>	<b>95.17</b>
<b>CASH*</b>	<b>4,635,052</b>	<b>5.49</b>
<b>OTHER NET LIABILITIES**</b>	<b>(557,187)</b>	<b>(0.66)</b>
<b>TOTAL VALUE OF FUND</b>	<b>84,491,137</b>	<b>100.00</b>

\* All cash holdings are held with the Governor & Company of the Bank of Ireland.

\*\* Other Net Liabilities are made up of the Debtors figure (note 4) less the Creditors figure (note 5).  
Also please refer to the Balance Sheet on page 15.

### Analysis of Total Assets

	% of Total Assets
Transferable securities	95.17
Other Net Assets	4.83
	<b>100.00</b>

## Schedule of Portfolio Changes for the year ended 31 December 2006 (Unaudited)

<b>Largest Purchases</b>		<b>Cost USD</b>
8,600,000	7.65% El Salvador (Republic of) 15/06/2035	8,814,320
5,000,000	9.25% Guatemala (Republic of) 01/08/2013	5,760,000
4,300,000	9.995% Costa Rica (Republic of) 01/08/2020	5,453,875
5,000,000	6.75% MMG Fiduciary 01/02/2016	4,975,550
4,000,000	8.125% Guatemala (Republic of) 06/10/2034	4,380,000
4,000,000	Nicaragua (Republic of) FRN 01/02/2011	3,776,804
3,000,000	8.5% El Salvador (Republic of) 25/07/2011	3,349,500
3,000,000	8.05% Costa Rica (Republic of) 31/01/2013	3,273,750
70,000,000	Depfa Bank PLC ZCP 15/06/2015	2,713,545
2,000,000	8.11% Costa Rica (Republic of) 01/02/2012	2,127,500
1,800,000	7% Argentina (Republic of) 12/09/2013	1,731,600
4,000,000	1.33% Argentina (Republic of) 31/12/2038	1,648,000
2,000,000	Argentina (Republic of) FRN 03/08/2012	1,632,000
1,400,000	8.25% El Salvador (Republic of) 10/04/2032	1,627,500
1,500,000	7.25% Panama (Republic of) 15/03/2015	1,546,125
1,500,000	5.625% Mexico (United Mexican States) 15/01/2017	1,427,250
1,000,000	9.5% Dominican Republic 27/09/2011	1,185,565
1,000,000	7.375% Pemex Project Funding 15/12/2014	1,088,080
800,000	9.375% Panama (Republic of) 23/07/2012	939,600
700,000	8.625% Dominican Republic 20/04/2027	700,000

<b>Largest Sales</b>		<b>Proceeds USD</b>
9,000,000	9.25% Guatemala (Republic of) 01/08/2013	10,332,000
4,900,000	8.25% El Salvador (Republic of) 10/04/2032	5,616,000
5,000,000	8.05% Costa Rica (Republic of ) 31/01/2013	5,432,000
3,644,609	11.58% Aes Clesa Series 28/06/2010	4,281,865
5,000,000	Argentina (Republic of) FRN 03/08/2012	3,848,600
3,060,000	8.125% Guatemala (Republic of) 06/10/2034	3,400,425
3,000,000	8.5% El Salvador (Republic of) 25/07/2011	3,277,500
2,500,000	8.625% Colombia (Republic of) 01/04/2008	2,666,000
70,000,000	Depfa Bank PLC ZCP 15/06/2015	2,648,925
2,000,000	7.25% Panama (Republic of) 15/03/2015	2,105,750
2,046,000	8.5% Guatemala (Republic of) 03/08/2007	2,090,785
1,800,000	7.75% Pemex Project Funding 29/09/2049	1,843,300
4,000,000	1.33% Argentina (Republic of) 31/12/2038	1,704,000
1,200,000	8.125% Colombia (Republic of) 21/05/2024	1,243,200
1,000,000	8.11% Costa Rica (Republic of) 01/02/2012	1,050,500
800,000	9.375% Panama (Republic of) 23/07/2012	934,400
700,000	8.625% Dominican Republic 20/04/2027	735,875
500,000	9.375% Panama (Republic of) 16/01/2023	615,000
410,000	6.375% Mexico (United Mexican States) 16/01/2013	430,500

## NOTES

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