

25 YEARS LISTED ON THE NEW YORK STOCK EXCHANGE

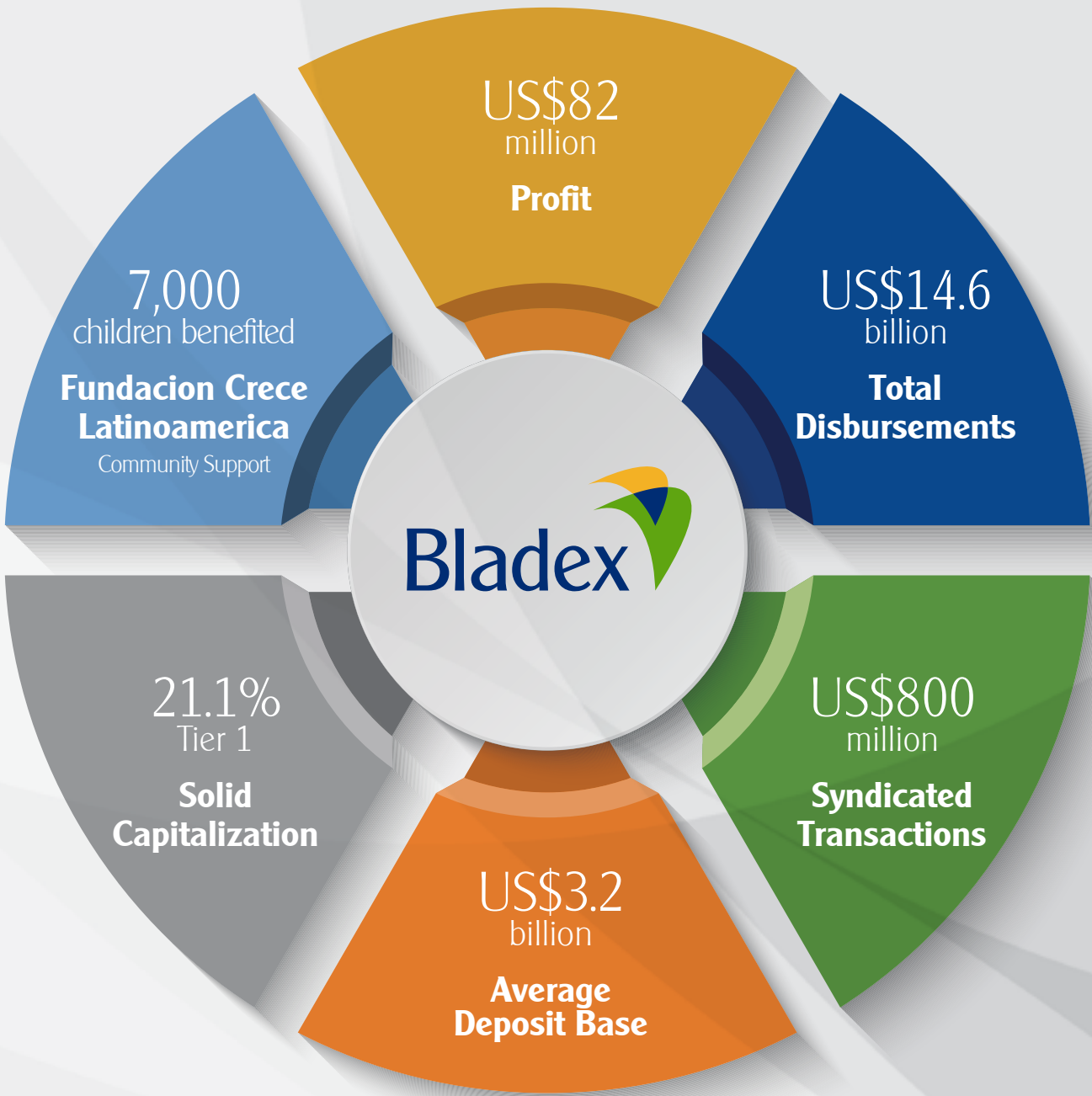
ANNUAL REPORT 2017



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MANAGEMENT HIGHLIGHTS 2017





MESSAGE TO SHAREHOLDERS

“Our vision of becoming a leading bank in the financing of foreign trade and regional integration across Latin America continues to drive our actions, and we remain committed to delivering consistent profitability amid the economic fluctuations in the Region.”

Gonzalo Menéndez Duque
Chairman of the Board of Directors

Rubens V. Amaral Jr.
Chief Executive Officer

Fellow Shareholders:

Since it was formed almost 40 years ago, Bladex has developed a strong and resilient franchise in Latin America, one of the world's most dynamic emerging markets. Our longstanding commitment to the Region has helped our clients to diversify their markets, expand their businesses and have a positive impact on their communities.

In 2017, Bladex celebrated its 25th anniversary as the first Latin American bank to list its shares on the New York Stock Exchange after an initial public offering. The listing was an important “first” for the Bank. It allowed capital from investors in the international capital markets to combine with capital from central banks in the Region to fuel the growth of the Bank's business and lay the foundation for support of foreign trade in Latin America.

Our vision of becoming a leading bank in the financing of foreign trade and regional integration across Latin America continues to drive our actions, and we remain committed to delivering consistent profitability amid the economic fluctuations in the Region. We also maintain an unrelenting focus on improving our efficiency and productivity, and on expanding our array of products and services to meet our clients' needs.

SOLID RESULTS IN A CHALLENGING BUSINESS ENVIRONMENT

Our performance in 2017 demonstrated the sustainability of our business model and our ability to continue to deliver solid results in a challenging environment, which last year included political turmoil in key countries in the Region and slower than expected economic growth, accompanied by abundant liquidity that put pressure on margins.

As we began 2018, however, economic activity in the Region was improving and the outlook for the global economy was becoming more favorable. We are convinced that Bladex is now well-positioned to maintain the positive momentum of the fourth quarter of 2017 in which we expanded our portfolio balances, grew fee income, and kept our expenses under tight control. Together, these positive factors underscore our commitment to generate increased returns to our shareholders.

FINANCIAL RESULTS

The Bank's Net Income was US\$82 million in 2017, representing a Return on Equity of 8%, down from 9.2% in 2016 because of lower average balances and lower margins. We ended the year with a solid 21.1% Tier I capital ratio



First Latin American bank to be listed on the NYSE, 1992-2017

while the net interest margin and net interest spread were 1.85% and 1.48%, respectively, below 2016 levels. Despite these pressures on our business, Bladex increased total trade finance volume by 22% to produce an annual total of US\$14.6 billion and increased fee income by 18%.

Our operating expenses were only slightly higher than the previous year, due largely to non-recurring severance expenses associated with our efforts to streamline our business model and increase efficiency throughout the organization. Without this non-recurring item our expenses for the year would have decreased 4%.

Our loan syndication and structuring business posted solid results again in 2017, contributing decisively to increased fee income and to the market perception of Bladex as a reliable and successful partner in this business line. Fee income associated with our traditional product - letters of credit – increased as well, confirming our reputation as a solid financial institution in the Region. We remain committed to further investing in these business lines to maintain our diversified revenue streams.

Ample access to funding in 2017, across diversified sources and geographies, proved again the creditworthiness that Bladex enjoys in the international capital markets. Average deposit balances increased to US\$3.2 billion from US\$3 billion in 2016 and, at the same time, the Bank held bilateral or syndicated loans with a wide network of correspondent banks, and private placements under the EMTN program, while being active in the global capital markets.

While these metrics confirm our ability to perform under economic stress, we remain committed – and believe we can achieve – the double-digit return on average equity that we have enjoyed in the past. We continue to build on our strengths and will redouble our efforts to achieve this goal, primarily through growing our fee income business areas while prudently managing credit risk.

STRONGER CREDIT QUALITY AND BALANCE SHEET

Bladex's focus on short term trade finance and disciplined approach to credit workout contributed to improved credit quality in 2017. Between

restructured transactions and credit recoveries the Bank resolved most of its problem loans and we put behind us the negative credit cycle of the last two years. We wrote off in 2017 certain exposures already fully provisioned and we increased provisions for expected credit losses by US\$9.4 million in the year.

Bladex exited 2017 with a cleaner and stronger balance sheet, thus ending the process initiated in 2016 that sought to not only improve the quality of credit, but also to strengthen the solvency of our Bank. To accomplish this, we continuously review and enhance our underwriting procedures. We are now ready to resume the growth of our credit book, and are determined to generate new exposures while preserving the credit quality of the portfolio. We continue to monitor the restructured credits and to work diligently to minimize losses.

STREAMLINING OUR OPERATING MODEL FOR GREATER EFFICIENCY

In the last quarter of the year we implemented a plan to streamline our operating model. Our objective is to improve efficiency and productivity throughout the organization, with investments already made in technology and better processes. The plan focuses on, among other areas, a more centralized management model with our Head Office providing risk management and administrative support to the representative offices, leaving them free to concentrate primarily on origination and client relationship management. The plan will certainly reduce costs but most importantly it will contribute to our goal of operational excellence and will provide greater flexibility to respond to the demands of our clients.

PLANNED CEO TRANSITION

As announced in December, we have implemented the transition plan for our Chief Executive Officer, Mr. Rubens V. Amaral Jr, who after 18 years of service to the Bank, first as a member of the Board of Directors and subsequently as Executive Vice President of Business and Chief Executive Officer, will retire in April/2018. The transition plan has enabled the new Chief Executive Officer, Mr. N. Gabriel Tolchinsky, to begin leading the decision-making processes of the organization, fully

integrate with his future team and with the Board of Directors, and to meet with our shareholders, clients and funding providers.

CORPORATE SOCIAL RESPONSABILITY

We are very proud of the work carried out by our Fundacion Crece Latinoamerica. Its efforts are a key component of our holistic view of corporate social responsibility that enables the Bank to support the communities where we operate in Latin America. Our efforts are focused on promoting education and supporting children in the most deprived communities of Latin America and contribute to their social development and progress. In 2017, we supported programs and projects in five countries of our Region, in partnership with other organizations that promote the education of children and young people at social risk. We invested a total of US\$343,000 in 12 projects, benefiting some 7,000 children and young people. Of particular note is the invaluable work done by the Committee of Volunteers of Bladex as they help the communities reached by our social programs, which underscores the commitment of our staff to our corporate values of Integrity, Commitment, Respect, Humility and Excellence.

ROBUST OUTLOOK FOR 2018 AND BEYOND

According to important economic bodies such as the World Bank and the OECD, the 2018 economic outlook for most developed countries is favorable. The World Bank in its most recent report commented that, “Global growth is expected to be sustained over the next couple of years– and even accelerate somewhat in emerging market and developing economies thanks to a rebound in commodity exporters.” According to the OECD, the developed nations are exhibiting, for the first time in the last decade, synchronized world economic growth.

We are confident that this economic momentum for 2018 and beyond bodes well for Bladex. We are now well-positioned for sustained portfolio growth through our focus on operational excellence and expansion of our client base in the trade supply chain, our strong capital base, our solid funding structure and our strengthened credit underwriting standards.

We expect to increase our commercial portfolio by around 5 to 8% in 2018, which is a significant reversal of the average reduction over recent years. At the same time, helped by operating efficiency levels that should stay below 30%, we expect to regain double-digit returns on average equity in the near future.

A COMPELLING VALUE AND PROVEN BUSINESS MODEL

We are convinced that our business model has proven its ability to deliver results and to strengthen the franchise of the Bank over many years and economic cycles. We are committed to continuous improvement of our value proposition to customers, which offers our shareholders increased returns along with an attractive dividend policy.

As your Chairman of the Board and Chief Executive Officer, we are pleased with the Bank's achievements in these past six years. We have built a stronger and more relevant franchise in Latin America for our customers and partners. We are a significant participant in the international capital markets and an organization focused on results. We are committed to the values of solid corporate governance and high ethical standards. And we are in a better position today than ever before to generate attractive returns for our shareholders and meaningfully support the communities in which we have the privilege of offering our products and services.

Today, Bladex has a more diversified revenue stream with significantly increasing fee income combined with a strong balance sheet, a culture of continuous improvement and a sharp focus on cost discipline and productivity.

We are confident that Bladex is well-positioned to continue supporting trade and regional integration well into the future. We are fully committed and focused on driving the Bank's financial performance and results to higher levels of return on equity, while maintaining the safety and soundness of our operations.

Lastly, we would like to express our deep appreciation to our clients and to you, our shareholders, for your consistent support.



Gonzalo Menéndez Duque
Chairman of the Board of Directors

Rubens V. Amaral Jr.
Chief Executive Officer

Joining the NYSE 25 years ago transformed Bladex into a more efficient and competitive banking institution.



BUSINESS CONTEXT AND PERSPECTIVES

1

Latin American Foreign Trade is growing faster than in the rest of the world

FOREIGN TRADE AND MACRO-ECONOMIC ENVIRONMENT

The IMF has estimated world GDP growth at 3.7%, in 2017, driven primarily by the dynamics of US growth, the improvements in the Euro zone, fiscal expansion in China and growing trade flows. Latin America posted 1.3% GDP growth, as the recession in Brazil came to an end, and by growth in other countries in the Region, propelled by better internal demand dynamics. This GDP growth came on the heels of weak performance by the Region in the past few years. On the political front, election results in Argentina and in Chile helped boost confidence by international investors, generating a more favorable business environment.

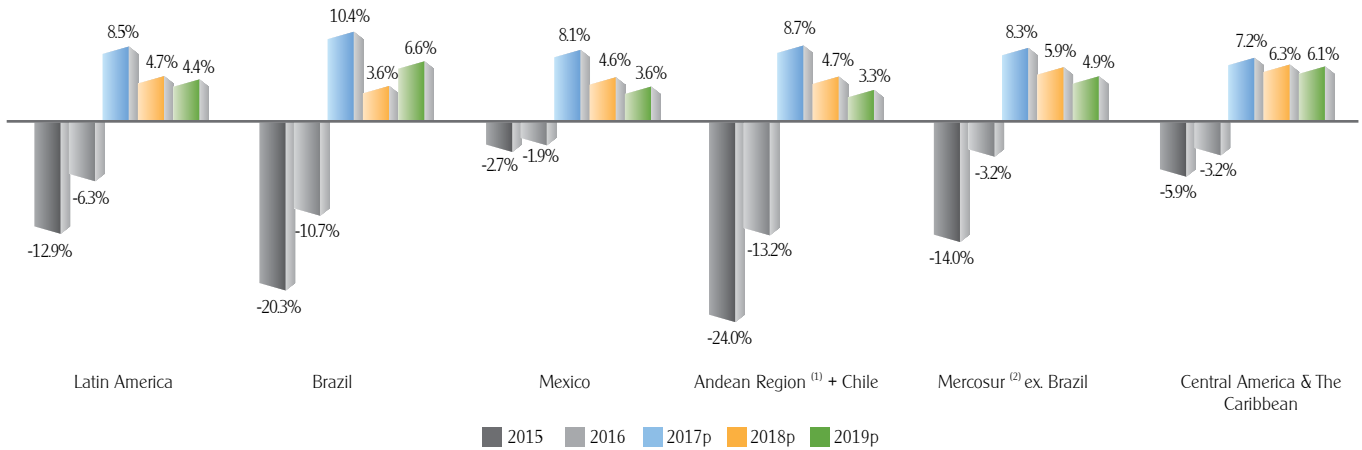
Global trade flows in goods and services posted a slight recovery, reaching 3.6%, in line with the nominal GDP growth, thanks to an increase in global demand and an improvement in the growth perspectives for developed economies. Latin America's trade flows increased to 8.6%, in 2017, from a decline of 6.3% when compared

to the previous year, mainly because of improvement in commodity prices, primarily metals and oil, and an increase in exports volume as a result of a more dynamic world economy.

As we review the details of foreign trade growth for the Region, we see positive performance by intra-regional commerce, with intra-regional exports increasing 10%, and imports by 6.5%, which confirmed the positive environment for Latin America in 2017, after years of lackluster performance.

We remain aware of the challenging environment for global and regional trade, as NAFTA, TPP, and BREXIT discussions evolve in 2018. But, as important organizations like the IMF and the OECD have pointed out recently, trade continues to be the world's engine of growth not only for the emerging economies but for the developed world as well.

Trade growth by Region

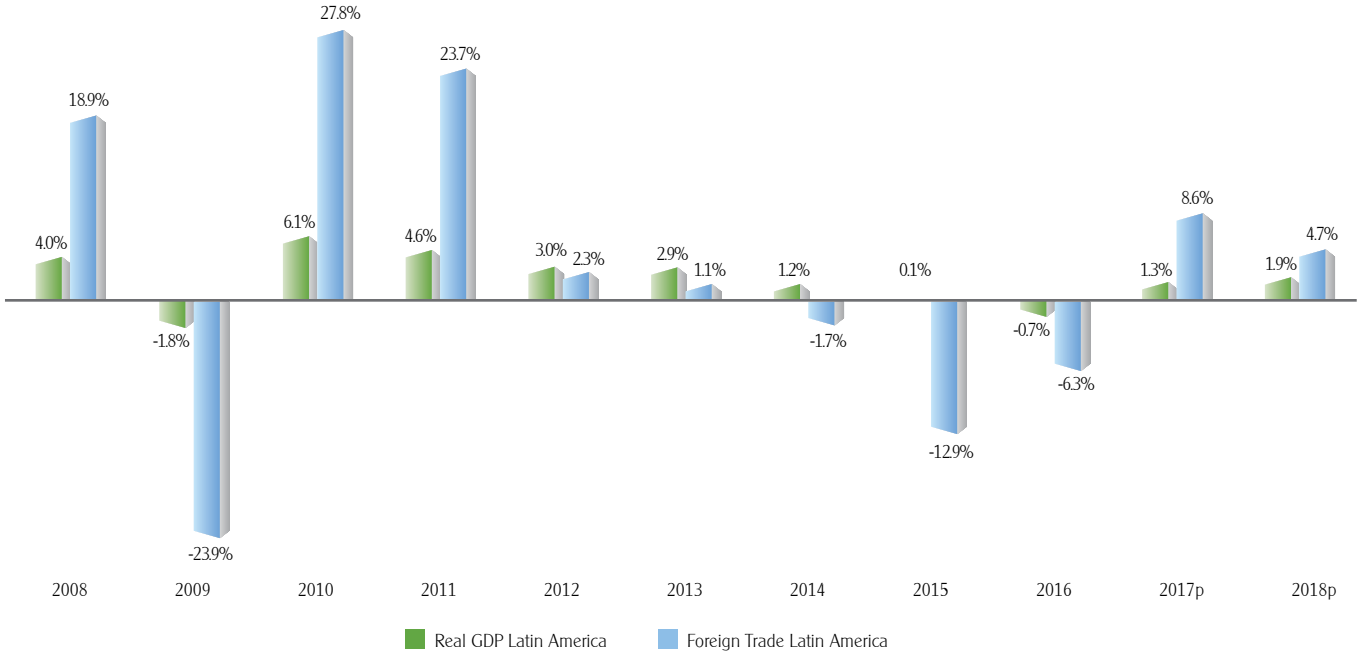


Source: International Monetary Fund, World Economic Outlook as of January, 2018.
 (1) Andean Region includes Bolivia, Colombia, Ecuador, Peru and Venezuela.
 (2) Mercosur includes Argentina, Paraguay and Uruguay.

Expectations for 2018, according to the IMF and the OECD, anticipate global economic growth of 3.9%. This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment, with a noticeable impact in the economies with large exports”, says the

IMF in its recent January/2018 WEO update. The IMF update adds that: “Risks to the outlook are broadly balanced in the near term, but remain skewed to the downside over the medium term. One notable threat to growth is a tightening of global financing terms from their current easy setting, either in the near term or later.”

Gross Domestic Product and Foreign Trade Evolution

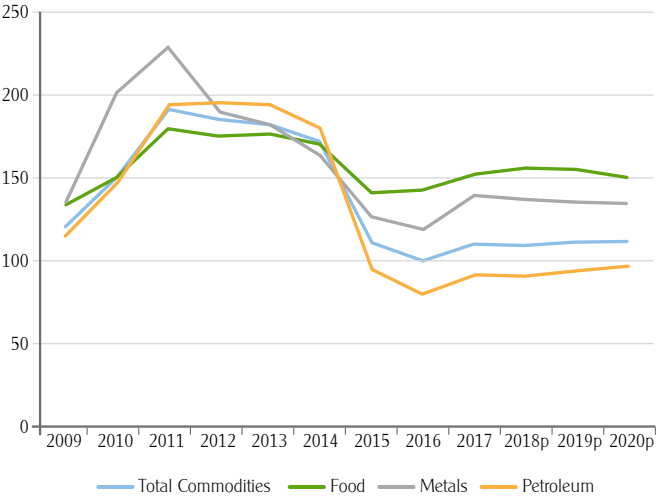


Source: International Monetary Fund, World Economic Outlook as of January, 2018.

Commodity Prices Index (2005=100)

In Latin America, economic recovery is expected to strengthen, with growth of 1.9% in 2018, primarily driven by an improved outlook for Mexico, which benefits from stronger U.S. demand, a firmer recovery in Brazil, and favorable effects of stable commodity prices and easier financing conditions on some commodity-exporting countries, as the IMF points out.

Foreign trade forecast for 2018 for Latin America continues positive, indicating that the trade flows recovery of 2017 will continue, although not as strong as it was in 2017, with a projected growth of 4.7% on more stable commodity prices and world demand. The challenge for the Region continues to be the improvement of productivity levels to achieve overtime a sustainable level of economic growth.



Source: International Monetary Fund. Commodity prices perspectives as of July, 2017



BUSINESS MANAGEMENT

2



MISSION

To provide financial solutions of excellence to financial institutions, companies and investors doing business in Latin America

VISION

To be recognized as a leading institution in supporting trade and regional integration across Latin America

Bladex persistently strives to add value to its shareholders, clients and the communities where it operates throughout Latin America

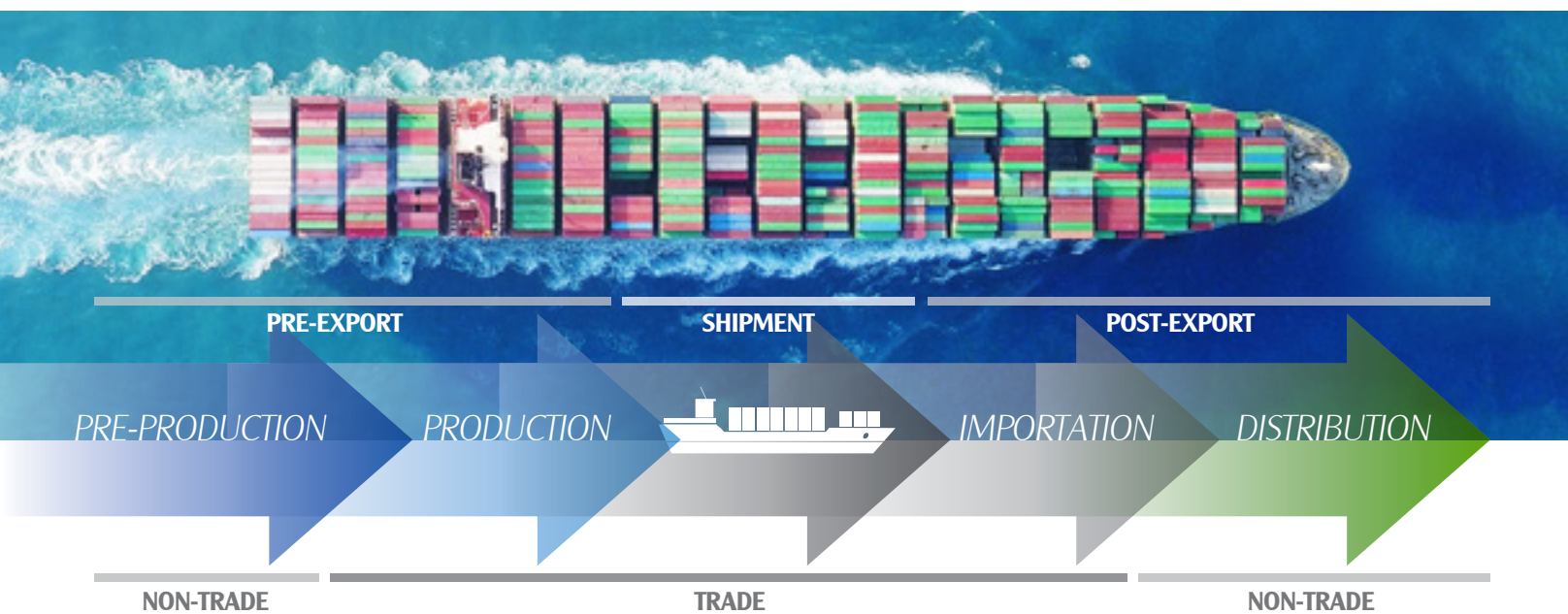
BUSINESS OBJECTIVE

Bladex's objective is to provide financial solutions of excellence to financial institutions, corporations and investors doing business in Latin America, supporting trade, growth and integration across the Region.

The Bank offers a portfolio of trade finance products and working capital loans, as well as syndicated/structured solutions tailored to the needs of its clients and special features of each market, along with treasury services. Its business model focuses on providing products and services along the entire trade finance value chain and on supporting its customers in their expansion plans, locally and regionally.

Its target client base comprises corporations that are active in foreign trade and regional expansion, as well as local and regional financial institutions active in the Region's financial markets. Bladex's focuses primarily on short-term trade finance, but the mandate to support regional integration requires medium-term financing, which are offered as bilateral or syndicated transactions. In these syndicated facilities and structured credits, Bladex aims at effectively delivering financial solutions to its clients designed to meet their needs, while offering investment opportunities to entities interested to participate in financing companies across many sectors in the Region.

COMPETITIVE ADVANTAGES ALONG THE TRADE VALUE CHAIN



As a multinational bank operating in 23 countries with an unrivaled commitment to Latin America, Bladex possesses extensive knowledge of business practices, risk and regulatory environments, accumulated over decades of doing business throughout the entire Region.

Bladex provides foreign trade solutions to a select client base of premier Latin-American financial institutions and corporations, and has developed an extensive network of correspondent banking institutions with access to the international capital markets. Bladex enjoys a preferred creditor status in many jurisdictions, being

recognized by its strong capitalization, prudent risk management, and sound corporate governance standards.

Bladex fosters a long-term relationship with clients, and it has developed over the years a reputation for excellence when responding to its clients' needs, on top of having a solid financial track record, which has reinforced its brand recognition and its franchise value in the Region, and contributes to achieve its vision of becoming the leading institution in Latin America supporting foreign trade and regional integration.

REGIONAL PRESENCE IN LATIN AMERICA

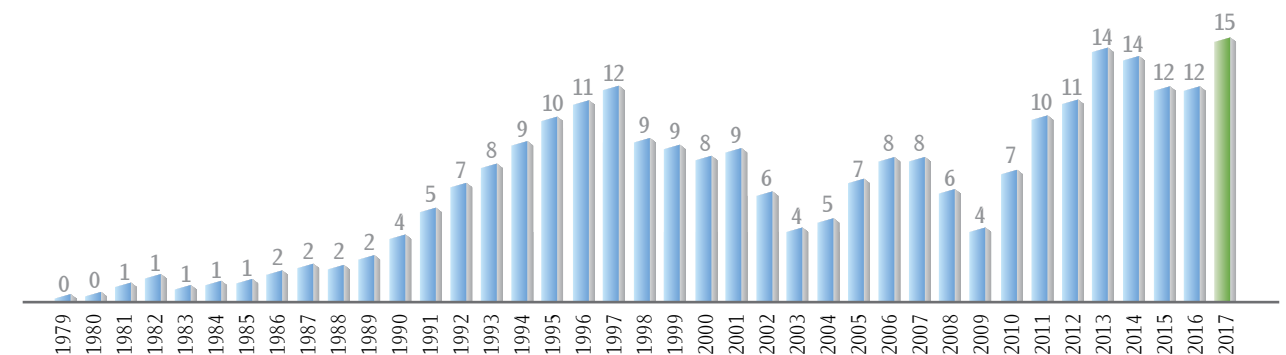
Bladex was created to support the increasing financing requirements of exporters in Latin America, and has in almost 40 years of existence consolidated its role as an important funding provider to financial institutions. The Bank decided in 2004 to increase its client base and now services corporations dealing in the Region. This decision has enabled the Bank to expand and diversify the customer base and to improve its product offering, establishing a successful business platform focused on providing value added solutions thru traditional and more structured products helping companies and investors doing business in the Region.

As Latin America countries improve their economic standing and enter a new phase of more sustainable growth, Bladex has strengthened its sales' force and streamlined its operations with more efficient processes

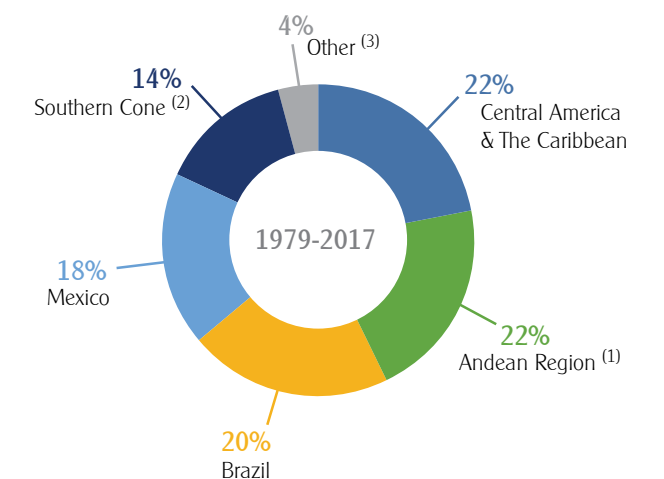
to cater to the increasing and more diversified needs of the client base. We have established a network of very efficient representative offices within the Region, in Bogota, Buenos Aires, Lima, Mexico City and Sao Paulo, and an agency in New York to be closer to the clients and better understand their financial needs. Our Head Office, located in Panama, plays a critical role in supporting this nimble structure providing the administrative and risk management support which are fundamental to achieve differentiation and provided value added solutions to our clients.

Since its inception, Bladex has disbursed credits of more than US\$258 billion, underscoring its commitment to the trade growth and development of Latin America, working diligently to become a business reference in the Region, and functioning as a very effective link between companies and banks operating in the Region.

Annual Credit Disbursements
(US\$ billion)



Accumulated Credit Disbursements
by Region



(1) Includes Bolivia, Colombia, Ecuador and Peru.
(2) Includes Argentina, Chile, Paraguay and Uruguay.
(3) Risk in countries outside the Region related to transactions carried out in the Region.

Bladex has grown stronger through the economic cycles thanks to its ability to adjust and adapt to the cycles

BUSINESS STRUCTURE

The Core business of the Bank is supported by two main business segments: Commercial and Treasury Divisions.

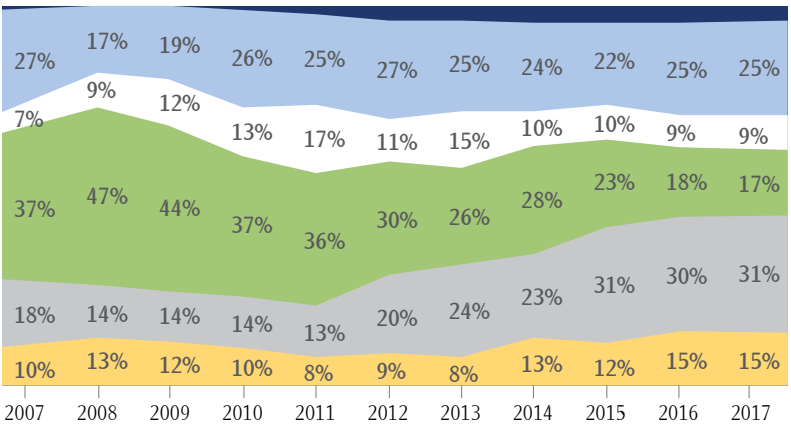
The Commercial Division focuses on the Bank's core business of traditional financial intermediation, additionally to its fee income generation transactions associated to contingencies, guarantees and syndicated loan facilities. The Bank offers an extensive array of products and services, for instance: bilateral, structured and syndicated loans, short and medium-term transactions, guarantees, commercial and stand-by letters of credit, etc.

The Treasury Division focuses on managing the Bank's investment portfolio, and the overall structure of our assets and liabilities to achieve the more efficient funding and liquidity positions for the Organization, mitigating the traditional financial risks associated

with the balance sheet, such as interest rate, liquidity, price and currency risks.

The results posted in 2017, reflect the Bank's ability to manage efficiently the two main business lines by focusing on the management of the margins in both sides of the balance sheet. With abundant liquidity in the international financial markets the Bank was able to keep the liabilities spreads under control, while managed to be more selective in generation of new assets to preserve the margins as much as possible to maximize return despite a more challenging business environment. The Bank achieved the impressive level of US\$15 billion of disbursements in the year, 22% higher than 2016. However, the commercial loan end of the period balance was down 7% to US\$6 billion, mainly because of higher level of prepayments, which in 2017 reached a record of US\$2 billion, being US\$1 billion in transactions maturing in 2018 and beyond.

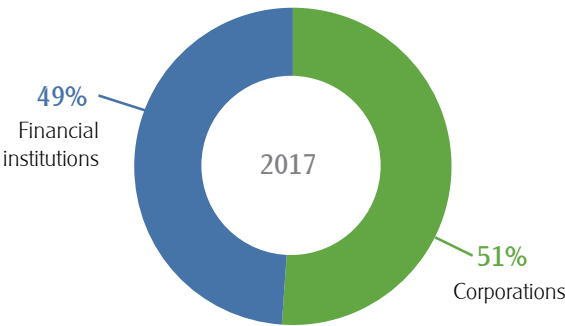
Commercial Portfolio
Geographic Mix
(2007-2017)



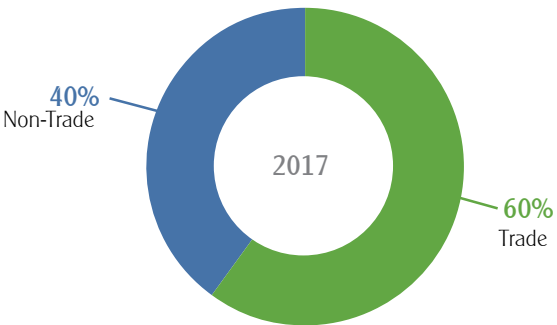
Mexico
Central America & The Caribbean
Brazil
Southern Cone
Andean Region
Other

Bladex has a diversified client base and has developed a trade finance strategy, strengthening its franchise in Latin America

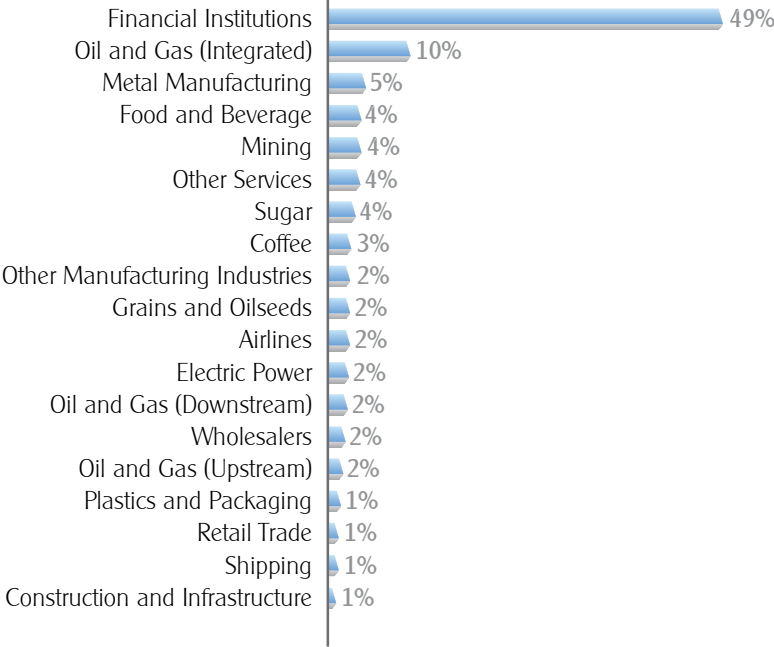
Commercial Portfolio
by Type of Client
(End-of-period)



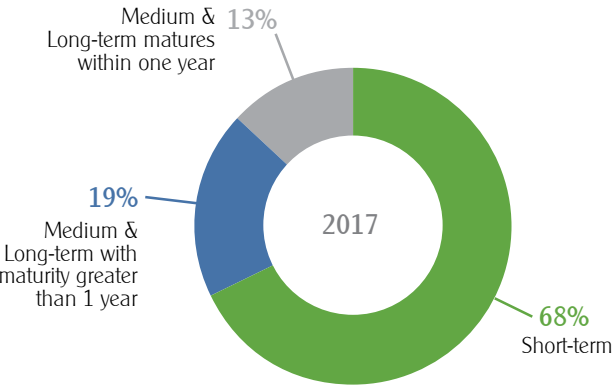
Commercial Portfolio
by type of transaction
(End-of-period)



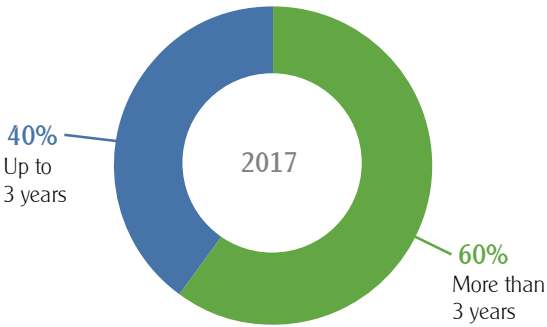
Commercial Portfolio
by Sectors
(Year-End 2017)



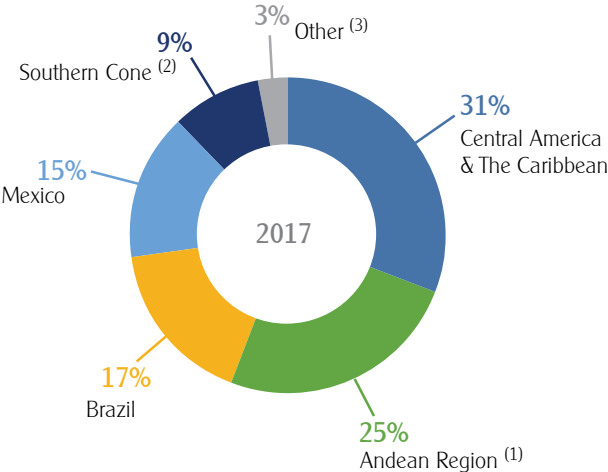
Commercial Portfolio
by Original Term
(End-of-period)



Commercial Portfolio Aging
Profile of Clients
(End-of-period)



Commercial Portfolio by Region
(End-of-period)

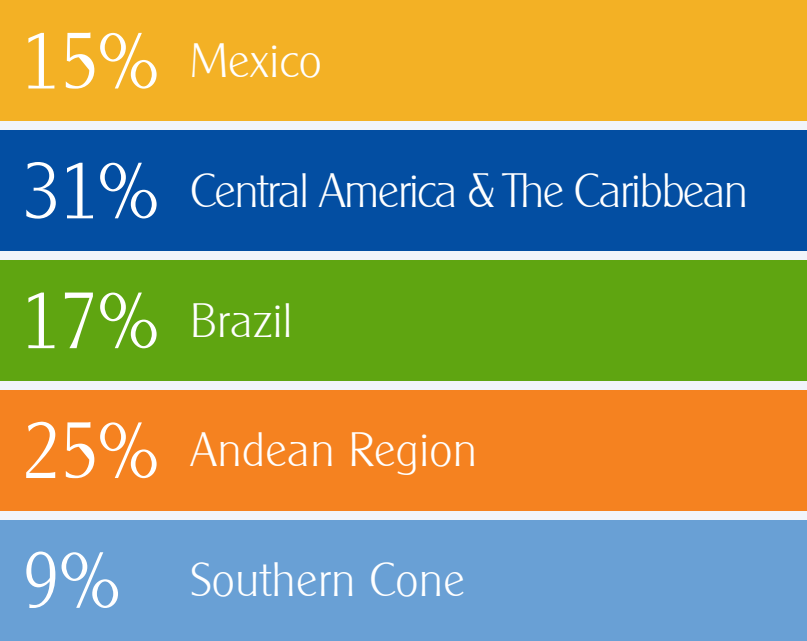


(1) Includes Bolivia, Colombia, Ecuador and Peru.
(2) Includes Argentina, Chile, Paraguay and Uruguay.
(3) Other corresponds to risk in countries outside the Region related to transactions carried out in the Region.

Focus on
long-term
relationship

Geographical diversification

(relative participation regarding the total of the commercial portfolio)



Commitment to industry and country diversification

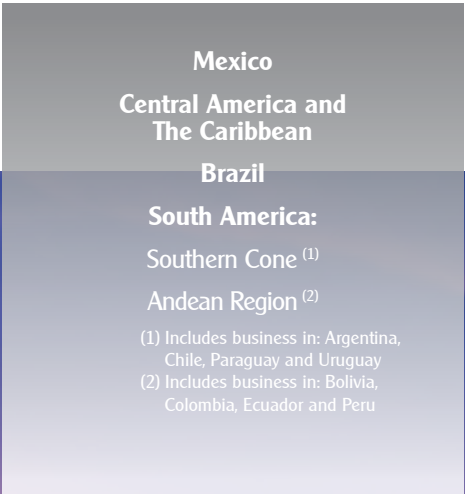
BUSINESS SEGMENTATION

Bladex's portfolio in 2017 confirmed the commitment to diversification by industries, solidifying the Bank's balance sheet. The business generated by the Bank reflected the foreign trade flows of the Region, producing a portfolio mainly focused on soft and hard commodities (energy, minerals and others) as well as other industrial sectors mainly transportation and manufacturing.

Client Base



Regions



Industry Sectors



FINANCIAL INTERMEDIATION BUSINESS

We present below the geographical segmentation of our core business of financial intermediation in: Mexico, Central America and the Caribbean, Brazil, the Southern Cone (Argentina, Chile, Paraguay and Uruguay) and the Andean Region (Bolivia, Colombia, Ecuador and Peru).

MEXICO



Closeness in attention to customers all over the national territory through our office in Mexico City

Represents 15% of total Commercial Portfolio

US\$4,586 mm

Credits disbursed
■ Trade 86% ■ Non-Trade 14%
32% of the Bank's disbursements are for Mexico

Commercial Activity*

Exports: +8.6%
Imports: +7.6%
Trade: +8.1%

Financing in local currency and US dollars

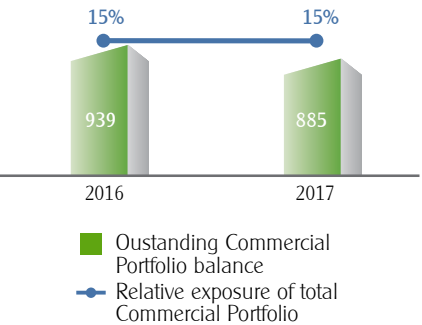
*Source: 2017 estimates according to "The Economist Intelligence Unit Country Risk Service" as of January 2018

2017 Highlights

- **Mexico** accounted for 15% of Bladex's total commercial portfolio, representing End Of the Period balances (EOP) of US\$885 million. Foreign trade balances reached 62%, with good industry diversification, except for the oil segment, which is strategic for the country.
- The downside risks associated with a NAFTA renegotiation didn't affect the country as originally expected, and the business environment in Mexico was stable throughout the year. The country continues to exhibit a higher level of financial disintermediation, with strong local capital markets and abundant supplier's financing. Overall margins were under pressure in Mexico, which impacted our revenue generation in the country.
- Early 2017 the Bank closed its office in Monterrey, centralizing the operations in the main office in Mexico City, which enabled better efficiency and increased productivity without affecting the quality of service offered to our clients.

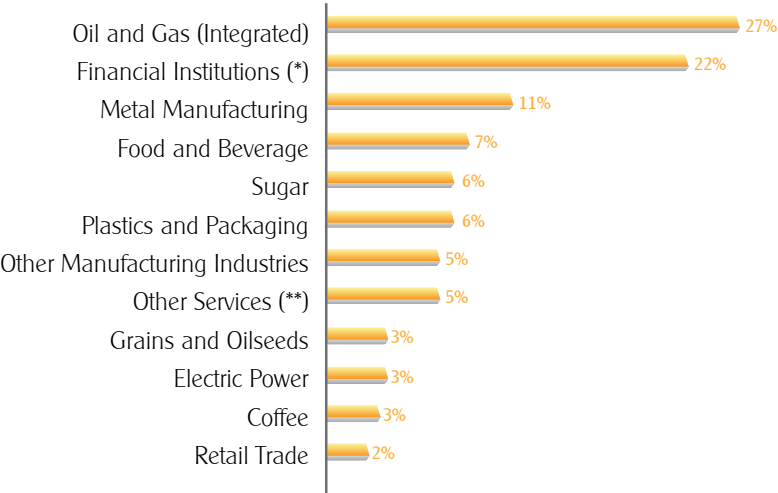
Commercial Portfolio

(Balances at the end-of-period, US\$ million)



Commercial Portfolio by Sectors

(Year-End 2017)



(*) Corresponds to financial institutions dedicated to financial leasing / factoring.
(**) Includes support activities to sectors related to construction and oil and gas.

CENTRAL AMERICA AND THE CARIBBEAN



Extensive network coverage of customers in countries in Central America and the Caribbean, through our headquarters in Panama City

Represents **31%** of total Commercial Portfolio

US\$3,867 mm

Credits disbursed

■ Trade 71% ■ Non-Trade 29%

27% of the Bank's disbursements are for Central America and The Caribbean

Commercial Activity*

Exports: +7.8%
Imports: +6.8%
Trade: +7.2%

Financing in
US dollars

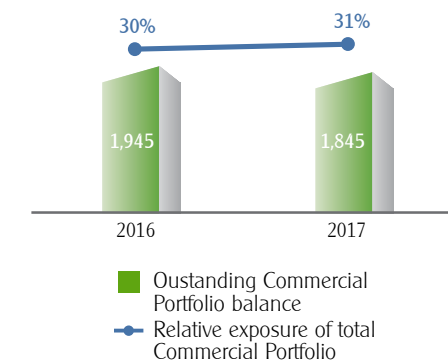
*Source: 2017 estimates according to "The Economist Intelligence Unit Country Risk Service" as of January 2018

2017 Highlights

- **Central America and the Caribbean** accounted for 31% of the Bank's total commercial portfolio, representing EOP of US\$1.8 billion, a slight decrease from the previous year, explained by abundant liquidity in US dollars and lower credit demand due to the uneven economic growth across the sub-region. The primary focus of the Bank in the Area is to support the financial institutions which represent 62% of total exposure, and the rest is well diversified within different industries.
- Trade finance balances represented 59% of the total portfolio by the year end.
- The Region has been an important source of revenue diversification with very important syndicated loan activity in 2017.

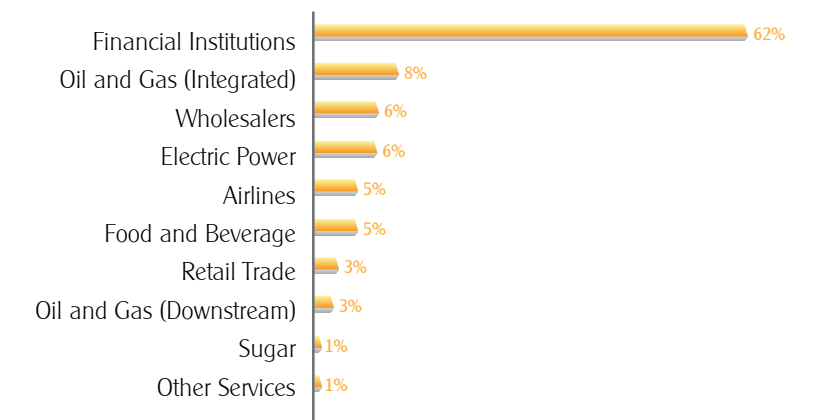
Commercial Portfolio

(Balances at the end-of-period, US\$ million)



Commercial Portfolio by Sectors

(Year-End 2017)





BRAZIL

Brazil

Closeness in attention to customers all over the national territory through our office in São Paulo

Represents 17% of total Commercial Portfolio

US\$954 mm

Credits disbursed

■ Trade 65% ■ Non-Trade 35%

7% of the Bank's disbursements are for Brazil

Commercial Activity*

Exports: +13.2%
Imports: +6.8%
Trade: +10.4%

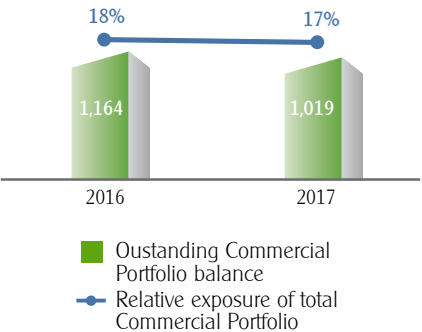
Financing in
US dollars

2017 Highlights

- In 2017 **Brazil** emerged from a two-year recession with a general positive sentiment in terms of its economic outlook and a definitive improvement in the credit cycle. We saw a pick-up in demand towards the end of the year reflecting the more favorable economic environment.
- Brazil accounted for 17% of the Bank's credit portfolio EOP: US\$1.0 billion, a slight reduction when compared to 2016. The reduced exposure to Brazil in recent years reflected the negative credit cycle in the country and our decision to maintain a diversified portfolio in Latin America with better credit quality.
- In 2017, 65% of the credit portfolio in Brazil represented trade financing, while Bladex continues to focus on trade financing transactions with financial institutions and corporations with solid fundamentals and proven competitive advantages.
- The portfolio breakdown shows 55% exposure with financial institutions and 45% with corporations reflecting the more cautious approach of Bladex in 2017. The increase in exposure to financial institutions was offset by a reduction in the exposure to sectors such as sugar, soft commodities and metals.

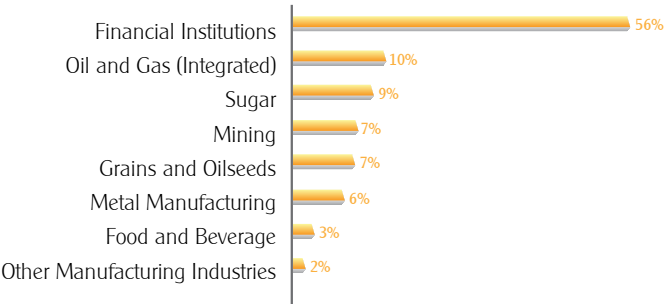
Commercial Portfolio

(Balances at the end-of-period, US\$ million)



Commercial Portfolio by Sectors

(Year-End 2017)



*Source: 2017 estimates according to "The Economist Intelligence Unit Country Risk Service" as of January 2018

ANDEAN REGION



Extensive network coverage of customers in countries of the Andean Region through our representative offices in Bogotá and Lima

Represents **25%** of total Commercial Portfolio

US\$3,808 mm

Credits disbursed

■ Trade 85% ■ Non-Trade 15%

27% of the Bank's disbursements are for the Andean Region

Commercial Activity*

Exports: +10.7%
Imports: +5.2%
Trade: +8%

Financing in
US dollars

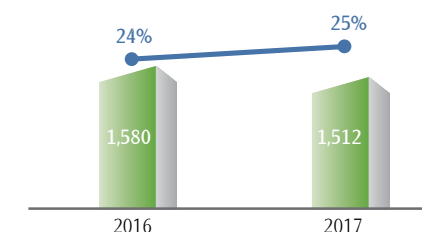
*Source: 2017 estimates according to "The Economist Intelligence Unit Country Risk Service" as of January 2018

2017 Highlights

- **Andean Region:** Bolivia, Colombia, Ecuador and Peru.
- The Andean Region accounted for 25% of total Commercial Portfolio EOP: US\$1.5 billion, same level as the previous year, with 56% in short-term trade finance.
- The more notable change in the portfolio was the reduction in the exposure to Peru offset with the increase in the exposure to Colombia. Peru's efforts to focus on local currency reduced the demand for US dollar denominated financing, while Colombia's focus on regional expansion helped the Bank to compensate the reduction in Peru.
- The portfolio breakdown shows 51% exposure to the corporate sector and 49% exposure to financial institutions.

Commercial Portfolio

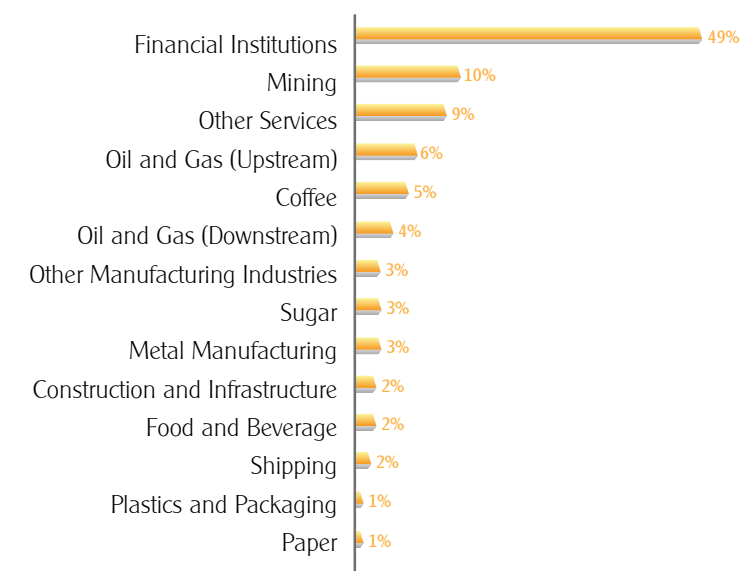
(Balances at the end-of-period, US\$ million)



■ Outstanding Commercial Portfolio balance
— Relative exposure of total Commercial Portfolio

Commercial Portfolio by Sectors

(Year-End 2017)





SOUTHERN CONE

Extensive network coverage of customers in Southern Cone countries, through our office in Buenos Aires

Represents 9% of total Commercial Portfolio

US\$1,039 mm

Credits disbursed

■ Trade 83% ■ Non-Trade 17%

7% of the Bank's disbursements are for the Southern Cone

Commercial Activity*

Exports: +6.3%
Imports: +12.2%
Trade: +9.1%

Financing in
US dollars

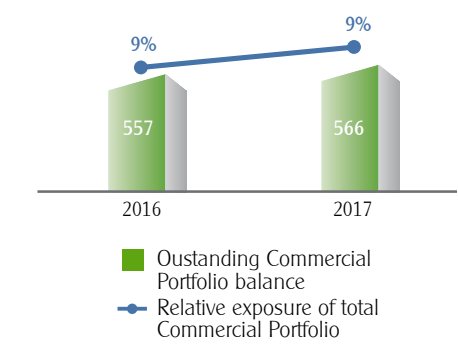
*Source: 2017 estimates according to "The Economist Intelligence Unit Country Risk Service" as of January 2018

2017 Highlights

- **Southern cone:** Argentina, Chile, Paraguay and Uruguay.
- The Southern Cone accounted for 9% of the Commercial Portfolio EOP: US\$570 million, very similar to the level of previous year. The exposure in Chile increased with financial institutions, but it was offset by slower performances in Paraguay, Uruguay and Argentina.
- The portfolio breakdown shows a 54% exposure to financial institutions and 57% short term trade finance.

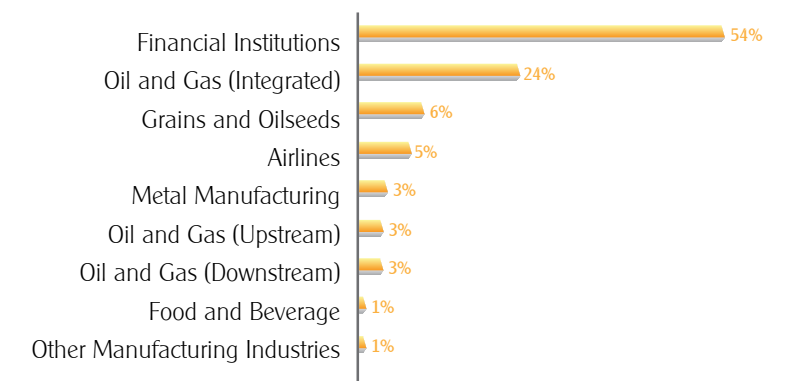
Commercial Portfolio

(Balances at the end-of-period, US\$ million)



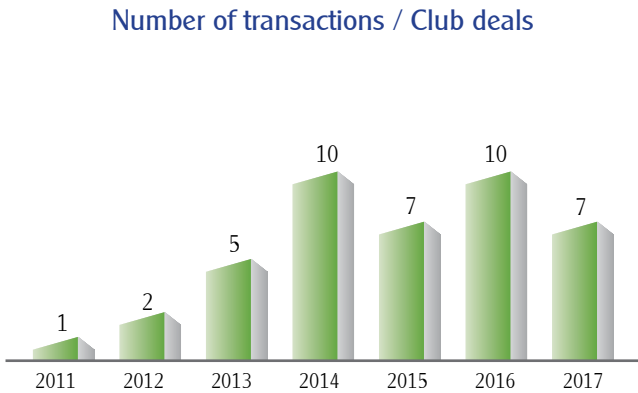
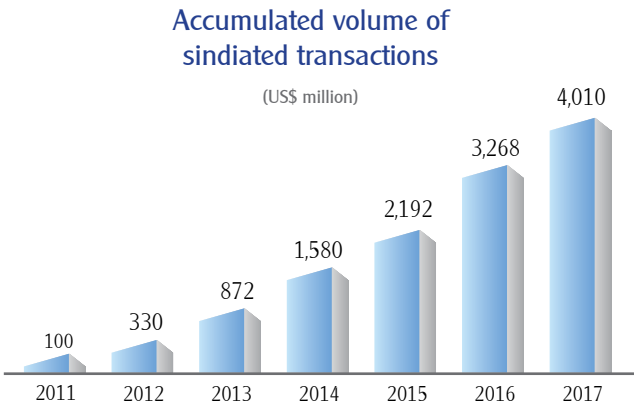
Commercial Portfolio by Sectors

(Year-End 2017)

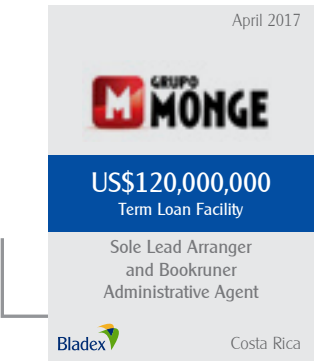


LOAN STRUCTURING AND DISTRIBUTION BUSINESS

Our syndications platform posted once again a solid performance in 2017 adding to our revenue diversification with fee income reaching US\$6.6 million. When compared to the previous year our fee income generation increased by 15%. The overall market for syndications and club deals in Latin America reached almost US\$35 billion, or 6% higher than in 2016, according to Thomson Reuters. With seven structured transactions for a total amount close to US\$800 million, in 2017, Bladex has reached, since the inception of this business, the important milestone of 42 transactions executed close to amounting to US\$4 billion, with sustainable and increasing fee income. The deals closed in 2017 demonstrate Bladex's ability to offer solutions to clients across the Region, consolidating our key role in supporting Latin American corporations and financial institutions in their growth and expansion plans.

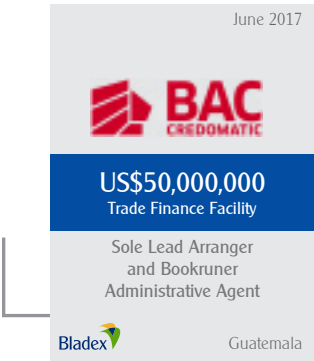


SINDICATED OR CLUB DEAL CREDITS EXECUTED IN 2017



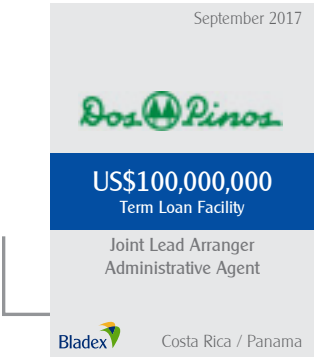
Three-Year Syndicated Credit

- This operation is the second international syndicated facility for the Monge Group.
- The funds obtained were used for refinancing existing debt, extending the Monge Group's maturity profile.
- Bladex acted as Sole Lead Arranger and Bookrunner, as well as Administrative Agent in the facility.
- The transaction attracted the attention from 15 institutions in Colombia, Central America and the Caribbean as well as in the United States, most of which represented new banking relationships for the Monge Group.
- The transaction was oversubscribed by 1.2 times, allowing the Group to upsize the amount of the facility to US\$120 million from the original of US\$100 million.



Three-Year Syndicated Credit

- This operation was the first international syndicated credit for BAC Guatemala and the second credit led by Bladex for a subsidiary of the BAC Credomatic Group.
- The proceeds from the credit were used for financing the trade portfolio of BAC Guatemala.
- The transaction was oversubscribed by 1.7 times, attracting the interest from financial institutions in Europe, Asia, Central America and the Caribbean, which represented new banking relationships for BAC Guatemala.



Five-year Structured Facility

- This transaction represents the second international structured loan for Dos Pinos.
- The funds are for refinancing the company's existing obligations.
- Bladex's contribution was for US\$33.3 million
- The Credit was structured as a Club Deal, between Bladex and two other financial entities.



Five-Year Syndicated Credit

- This operation is the second international credit facility for Favorita.
- The funds were used for refinancing an existing syndicated loan structured by Bladex in September 2015 for financing the company's expansion activities.
- The credit was 1.7 times oversubscribed, thus allowing Favorita to upsize it from the original amount of US\$61.2 million to US\$70 million.



Three-Year Syndicated Credit

- This operation is the second international syndicated facility for Unifin.
- Bladex acted as Co-Arranger and Co-Book Runner in the operation and will act as the Administrative Agent for the facility.
- The proceeds from the credit were used for refinancing Unifin's existing debt and for general corporate use.
- The transaction attracted the interest from 13 financial institutions in Central America and the Caribbean, Europe, Asia as well as in the United States, most of which represented new banking relationships for Unifin.
- The transaction was oversubscribed by 1.51 times, allowing the company to upsize the facility amount from the original US\$100 million to US\$151.5 million.



ENTERPRISE-WIDE
RISK MANAGEMENT

3

Our regional reach and very close relationship with clients are the key components for a successful risk management program



ENTERPRISE-WIDE RISK MANAGEMENT PRINCIPLES

Latin American fundamentals have improved in 2017, as the Region experienced better internal demand dynamics, associated with a more favorable external environment, moderate recovery in commodity prices, and a stable flow of capitals to the Region. Therefore, the negative credit cycle experienced in the last years is behind us, and 2018 ushers a more favorable economic and credit environment for the Region. There are still potential downside risks as important countries in the Region face general elections, with uncertain outcomes, and there still the lingering potential impacts of a more protectionist agenda in developed nations.

The industry asset quality, and particularly Bladex's, have improved in 2017 as a result of the restructuring of the non-performing portfolio, allowing charge offs of certain exposures, and important credit recoveries, resulting in a cleaner and stronger balance sheet.

During 2017 the efforts were focused primarily on:

- Concluding successfully the restructuring process of impaired loans.
- Strengthening the credit underwriting guidelines applying the lessons learned during the recent negative credit cycle.
- Hiring a Security Officer within the objective of implementing a framework to protect the Bank from the Cyber-Security risks.
- Performing a comprehensive risk assessment of the Bank's program to combat money laundering and terrorism financing.

- Expanding and enhancing the risk methodology area.
- Monitoring the compliance and effectiveness of Basel III liquidity requirements (Liquidity Coverage Ratio "LCR" and Net Stable Funding Ratio - NSFR) as well as conducting sensitivity tests associated with market risks.

The basic principles of our Risk Management Program outlined below are aligned with the Bank's strategy and incorporate best practices and the recommendations of regulators.

- A comprehensive risk management culture throughout the Organization.
- Independence of the risk management function, with proper and adequate monitoring of different units to assure proper segregation of duties and controls by opposition.
- An enterprise-wide risk approach to enable an adequate risk management process and strong internal controls structure.
- The existence of well-defined reporting lines within a governance framework that defines clearly responsibilities and ownership to adequately monitor and manage the risks within the Organization.
- Formulate the basis for the statement of Bladex's risk appetite, allowing the Bank to identify, determine, and monitor the risks that are reasonable to accept within the previously approved business strategy.

ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK

The enterprise-wide risk management framework encompasses the following functions:

- Propose the guidelines for the credit risk management process within the organization, which should be approved by the Board's Policy and Risk Assessment Committee (CPER).
- Monitor the compliance with the credit limits approved by the CPER, and by the Organization's credit committees.
 - Design and submit for the CPER's approval the methodology for credit risk management.
 - Implement the credit risk management methodology after its approval by the CPER.
 - Develop and maintain a methodology for stress testing.
 - Review any new product before offering it to clients to determine compliance with the risk appetite guidelines, according to the internal new product approval policy.
 - Develop and maintain methodologies to show impairment, forecast future recovery flows of the portfolio and establish their present values to periodically compare the fair values obtained with the book values.
 - Design and submit for the consideration of the CPER a dashboard with indicators monitoring the compliance with all the limits established by the Organization to track the different risks the Bank is exposed to.

- Assure the adequate implementation of the Three Lines of Defense approach as a key component of the Enterprise-Wide Risk Management Process, which was designed to establish the proper and adequate segregation of duties, controls by opposition, with the objective of ensuring the safety and soundness of the Bank's operations.

The areas within the Enterprise-Wide Risk Management Structure as well as the Office of the Legal Counsel and Compliance constitute the Bank's second line of defense. Jointly, these areas ensure the adequate and proper risk management process to comply with the guidelines established in the risk appetite statement, and with all the rules and regulations the Bank is subject to, in the different jurisdictions it operates.

- The reporting line of the Enterprise Risk-Wide Area is to the Chief Executive Officer (CEO) as well as to the CPER, a committee of the Board of Directors. Its objective is to ensure a comprehensive risk management process of the Bank's operating model and IT platform, as well as the financial and credit risks such as: country, credit, market and liquidity risks.
- The Office of the Legal Counsel and Compliance area reports to the CEO and to the Audit and Compliance Committee of the Board of Directors. This area primary responsibility is to implement and oversee the compliance function across the Organization, ensuring the adequacy of the "know your customer" framework on its different phases of on-boarding, monitoring transactions and assuring regulatory compliance with rules and regulations. The area's objective is to prevent suspicious activity of any form, and combat money laundering, financing of terrorism and the proliferation of weapons of mass destruction, as well as, ensure the enforcement of the sanction programs developed and administered by international and governmental organizations.

Guidelines for Underwriting Credits

The Bank has reinforced its credit underwriting standards to reflect the lessons learned during the negative credit cycle of the last two years. The Bank improved its Credit Committee structure with three different instances for credit approval: The Senior Management Credit Committee, the Board's Delegated Credit Committee and the Policy and Risk Assessment Committee – CPER. The guidelines for credit approval are in the following table:

	Members	Approval Powers
3rd Instance Risk Policy and Assessment Committee (CPER)	- The Board's of Directors Risk Policy and Assessment Committee (a minimum quorum of 3 out of 5 members) - The Bank's President and CEO - The Executive Vice-President Risk Management - The Executive Vice-President Commercial	Limits and transactions exceeding US\$ 100 million and up to the legal limit established by the Regulator for individual credits and/or economic groups.
2nd Instance The Board's Delegated Credit Committee	2 Directors that are CPER Members - The Bank's President and CEO - The Executive Vice-President Risk Management - The Executive Vice-President Commercial	Limits and transactions exceeding US\$ 50 million and up to US\$ 100 million for individual credits and/or economic groups.
1st Instance Senior Management Credit Committee	- The Bank's President and CEO - The Executive Vice-President Risk Management - The Executive Vice-President Commercial	Limits and transactions for up to US\$ 50 million for individual credits and/or economic groups.

BUSINESS RISK PROFILE

The Bank has developed a risk management approach to ensure the proper monitoring and mitigation of the risks associated with Bank's activity to ensure that the business risk profile remains within the accepted levels established by the risk appetite statement and conforms to the agreed limits therein. The main aspects of our risk management approach are:

In-depth Risk Assessment	Limit Structure, Monitoring and Control	Sensitivity Analysis
- Bladex identifies and assess all the financial and non-financial risks relevant to its activity, which incorporates among others the risk assessment of different geographies it operates, and the understanding of the clients' business model. - The Bank has established a process of continuous improvement of its risk assessment process, benefiting from constant monitoring of the different risks it is exposed to by building a database with the events and incidents that impacted the organization. This process helps to assure consistency in the risk taking within the Bank, and validates the underlying assumptions of our model to achieve the consistency and coherence desired in the risk management process.	- Changes in the risk appetite will translate into changes in the limits and controls established for the risk management process. In these cases, the Risk and the Business Divisions are responsible for observing the new limits to assure daily compliance with the risk appetite of the organization. - The establishment of the risk appetite statement is a result of specific chosen metrics and limits of tolerance, which express the maximum risk exposure that the Bank is willing to assume in quantitative and qualitative terms. - Compliance with the risk appetite guidelines is subject to ongoing monitoring. Management provides periodical reports to the Risk Assessment and Policy Committee of the Board, CPER, and to the Board of Directors about the compliance with the risk appetite guidelines and the adequacy of the business risk profile.	- Bladex has implemented sensitivity analysis to enable the Bank to identify possible impacts in its portfolio and profitability stemming from changes in the market conditions and/or macro-economic scenarios. - This approach helps the Bank to conduct "stress tests" and simulate market conditions and/or different macro-economic scenarios, which allow the Bank to be pro-active in terms of hedging strategies and other measures aimed at protecting the Bank's revenues, liquidity, and capital.

RISK CATEGORIES

Bladex has identified the risks impacting its business and operations and it has organized them into a "map of risks", identifying the main risk categories in which Bladex maintains its most significant exposures, whether current and/or potential.

The risks are classified into two categories: financial and non-financial risks. The financial risks are the ones associated with the business model

of the Bank which impact its balance sheet and income statement, namely: country risk, credit risk, market risk and liquidity risk. The non-financial risks are the ones associated with the operating model of the Bank and the regulatory environment which may impact the integrity of information, reputation of the organization, and its income statement as well: IT and Operational risks, Cybersecurity, Compliance risks (KYC, Money Laundering, Financing of Terrorism, etc.), Environmental risks, Fraud risk, etc.

Country Risk

Definition: It is defined as the inherent risk the Bank is exposed to in the different countries it operates, in the event of a country, where one client is based, implements measures that will hinder the ability of the clients to comply with their contractual obligations. These measures by a country, could be a sovereign debt default, nationalization, expropriation, or the impediment of convertibility and/or transferability of currency because of the imposition of foreign exchange controls.

Country Risk Review: The Bank has established a Country Risk Committee, which reviews and analyzes the macro-economic situation and business environment in each country the Bank operates with. The Committee meets on a quarterly basis, and reviews the business, social and political environments, the exposure to countries, and the compliance with the limits approved by the Board of Directors

for the country exposure. As result of this in-depth analysis, the Committee reaches a conclusion about whether there are any signals of deterioration in the specific country that warrants immediate action by the Bank. The Committee then presents its recommendation to the CPER, the Risk Assessment and Policy Committee of the Board, to implement the required measures, such as country risk rating reviews (upgrade or downgrade), country exposure limits (increase or decrease), types of permissible transactions (trade and non-trade), tenors (short and medium-term), etc. Unless otherwise determined all the countries should have an in-depth annual review, and as many reviews needed given the business and macro-economic environments.

Methodology: The Bank has developed its own internal rating methodology to assess country risk.

Credit Risk

Definition: The risk of the Bank incurring in losses and/or impairment of assets' values because of a borrower failing to make payments or to comply with its obligations as agreed in the respective credit agreements.

The Bank's client base mainly comprises corporations, large companies, local and regional financial institutions, and state-owned enterprises. The Bank focuses its risk assessment on a thorough analysis of the entity or economic group, which involves: the nature of the business, countries where it operates, types of products offered, length of the relationship, track record, reputation, etc.

Credit risk management process: It encompasses two main stages: On-boarding and Monitoring. The credit on-boarding process involves the activities of: identifying and analyzing the client's creditworthiness, and the approval of the terms and conditions for credit extensions. The monitoring process involves the annual credit review of existing exposures, "ad-hoc" reviews on case-by-case basis when conditions warrant, and portfolio reviews by the Credit Committees of the Bank. The goal is to maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposures within acceptable parameters. This process involves the Commercial and Risk Divisions through the Origination Committee and the Credit Management, Monitoring and Recovery Committee, and is monitored by the Board of Directors thru its Risk Assessment and Policy Committee.

Allowance for credit losses: Bladex has developed internally an "expected credit loss model" to determine the required level of provisions associated with possible expected losses for its credit portfolio. The Bank adopted in 2015 the International Financial Reporting Standards – "IFRS 9" guideline, which requires a financial institution to classify its credit exposures within three categories:

1. "Performing Loans" – In this category the provisions are calculated for the following 12 months of a transaction;

2. "Underperforming Loans" and

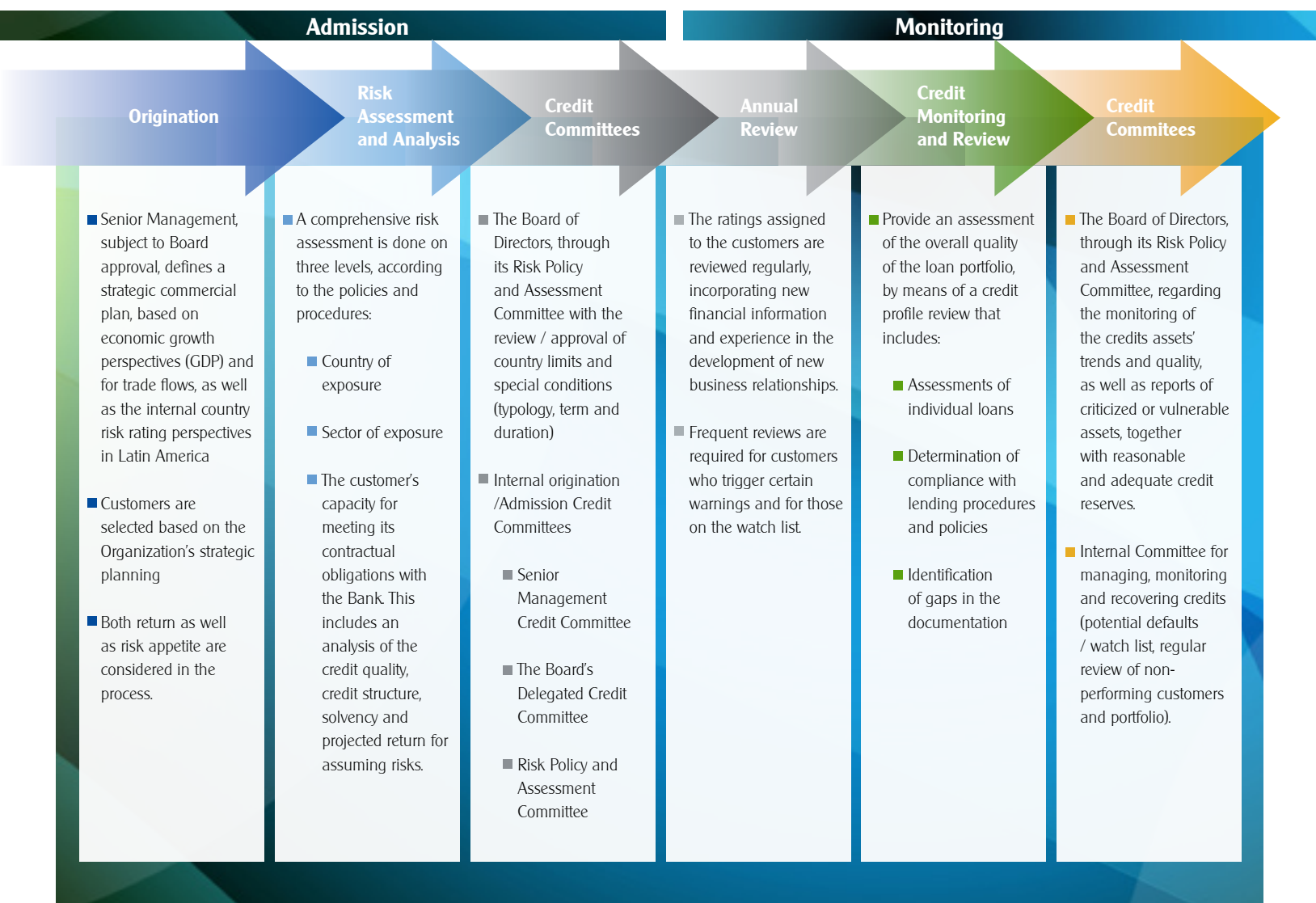
3. "Non-Performing Loans" – In these two categories the provisions are calculated for the lifetime of the transaction based on a specific analysis of the individual credit exposures.

A complementary qualitative review may result in adjustments to the level of provisions, based on forward-looking review of scenarios of potential business or credit risks not yet captured in the Bank's historical data.

Methodology: The Bank has developed an internal rating model to rate clients, counterparts and countries, allowing a pro-active risk management of limits of exposure, typology of transactions, maximum tenors, etc.

Credit Risk Cycle

The following table summarizes the credit risk management process in Bladex:



Market Risk

Definition: Market risk is the risk that the value of the Bank's assets and liabilities will decrease due to changes in market conditions impacting negatively its revenues. The risk is inherent to the financial instruments associated with the Bank's operations and activities, including: loans, investments and securities, liabilities, deposits and indebtedness, derivatives, etc. The main risks include: the interest rate risk, and the foreign exchange risk, which can impact asset prices and might produce losses for the organization.

Risk management:

- **Interest Rate Risk:** The Bank's policy requires management to manage assets and liabilities positions to reduce potential adverse impacts on net interest income due to market changes in interest rates.

The Bank manages the interest rate risk by monitoring closely the re-pricing of assets and liabilities and by entering hedges

when warranted to reduce possible negative impacts to earnings and capital.

Management conducts periodical sensitivity analysis simulating market changes in interest rates to determine the possible impacts in Net Interest Income (upwards and downwards). Additionally, the Bank tracks the limit DV01, which applies a parallel shock of 1 basis point in the interest rate curve and determines whether there is any impact in the market value of the equity.

- **Foreign Exchange (FX) Risk:** The FX risk is the risk of change in the market value of a financial instrument due to fluctuations in the FX rate of a given currency. The Bank primarily transacts in US dollar thus minimizing the exposure to this type of risk. In the case of transactions entered in currencies other than the US dollar, management is required to hedge the position eliminating the FX risk.

Liquidity Risk

Definition: Liquidity refers to the Bank's capacity to maintain adequate cash flows to fund its transactions, and to meet its obligations and commitments on a timely basis.

As established by the Bank's liquidity policy, the Bank's liquid assets are held in the form of interbank demand deposits, overnight funds, and time deposits with reputable financial institutions with an international rating of A1, P1, or F1 by at least two of the major internationally-recognized rating agencies. In addition, the Bank's liquidity policy allows for investing in negotiable money market instruments, including certificates of deposit, commercial paper, bank acceptances and other liquid instruments with maturities of up to three years.

Risk Management: The Bank monitors on a daily basis the liquidity limit – LCR – Liquidity Coverage ratio. The LCR methodology, follows the standards and guidelines recommended by the Basel Committee.

Operational Risk

Definition: Operational risk is the risk of loss arising from systems failures, human error, fraud or external events.

The occurrence of operational risks can damage the reputation of the Bank, result in regulatory sanctions, and might lead to financial losses. Bladex, as any other financial institution, is exposed to operational risks.

Risk Management: The Bank has established a sound internal controls structure to reduce the occurrence of operational risks. The internal controls framework was designed to assure proper segregation of duties, dual control, control by opposition, strict safety rules to access systems, detailed reconciliation procedures, etc. The Bank dedicates time to the training of employees, and constant evaluation of the workflows and processes to assure the efficacy of the controls. The Internal Audit audits and reviews the framework to confirm its functioning and adequacy for the risk profile of the Bank.

- The Bank's priority is to identify and mitigate such risks, regardless of the existence of any losses.
- The Bank based on its "Map of Risks" identifies the inherent risk to all the activities within the organization. The Bank has developed a series of controls to mitigate/eliminate these risks, within the Internal Controls Framework.
- The Bank encourages a culture of risk awareness by a thorough training program available to the employees.

The Bank also monitors the Net Stable Funding Ratio (NSFR) which allows the Bank to maintain a long-term funding structure.

The liquidity is further monitored thru the periodical review of:

1. Maturity distribution schedule to identify the maturity "gaps" in the different time buckets, and
2. Deposits concentration report to identify possible concentration of amounts and maturities that can impact the liquidity of the Organization.

The Bank established a Contingent Liquidity Plan, which was designed to monitor a series of indicators that could trigger a liquidity event, with possible impact to the Bank's operations, and establishes a plan of action to assure the liquidity of the organization always.

- The Bank follows the best practices to measure and assess the operational risks objectively, complying with the regulatory standards established by our primary regulator – The Superintendence of Banks, in Panama, as well as the guidelines recommended by the Basel Committee, and regulators in the different jurisdictions the Bank operates.

Additional Measures:

- **Self-assessment:** On an annual basis, the Bank conducts a self-assessment process to gauge the awareness of its employee to the risk management and internal controls processes. This assessment allows the identification and measurement of the operational risks, and an evaluation of the adequacy of the controls structure, according the type risks (low, medium, high). The results are reviewed by Senior Management and by the Board of Directors, and action plans are implemented to tackle the issues identified, and/or improve or streamline the existing controls.
- The Bank has established a repository of the events associated with operational risks, which support the ongoing process of strengthening the operations of the Bank and prevent financial losses stemming from operational risks.
- The Bank also allocates capital to cover the occurrence of operational risks according to the standard approach recommended by the Basel Committee.

Money Laundering, Financing of Terrorism, Financing of the Proliferation of Weapons of Mass Destruction

Definition: Financial institutions are required to develop and implement a sound and comprehensive compliance program to prevent money laundering, the financing of terrorism or the financing of the proliferation of weapons of mass destruction.

- **Money Laundering:** Money laundering is the criminal practice of processing ill-gotten gains, or “dirty” money, through a series of transactions; in this way, the funds are “cleaned” so that they appear to be proceeds from legal activities.
- **Financing of Terrorism:** Is any form of economic activity, help or mediation that provides financial support to the activities of terrorist groups or elements.
- **Financing of the Proliferation of Weapons of Mass Destruction:** Is any form of economic activity, help or mediation that provides financial support for buying weapons destined to indiscriminately eliminate large numbers of people and/or causing great economic and environmental damages.

Key Measures:

- Customer Risk Assessment - Within the Compliance Program, the “Know your Customer” policy determines the minimal information required from prospective clients, to allow for an in-depth due diligence of the customer prior to entering into any business relationship with the Bank
- The Due Diligence process comprises the Customer Due Diligence (CDD) for any potential new client, and the Enhanced Due Diligence (EDD) for clients where the initial review indicates a higher risk of being exposed to unusual transactions. The due diligence process focuses on understanding the client’s business, ownership structure, source and origin of funds, association with politically exposed persons - PEPs, and cross-references the customer, directors and officers with the existing sanctions programs as well as the existence of any negative news associated with them. Once this process is completed the Bank assigns a risk to the new client (Low, Medium, High) and the internal policy determines the type of monitoring that will be conducted for the transactions with the new client depending on the risk level.
- The Compliance Department, as well as the Compliance Program and the policies and procedures associated with it, are reviewed independently by the Internal Audit Department, and when

Risk Management: The Compliance department of the Bank has developed a strong and comprehensive Compliance Program to prevent Money Laundering, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction. The program set strict guidelines and standards supporting an effective and efficient compliance function focused on the key risks associated with the business of the Bank. These guidelines and standards are constantly updated to reflect the current environment as well as comply with all rules and regulations from governments, bank authorities and international best practices.

The Republic of Panama has enacted on April 27, 2015 the Law 23, and the Superintendence of Banks in Panama issued the Rules 7-2015 and 10-2015, recently adjusted by the Rule 001-2017, to strengthen the financial system in the country aligning the local requirements to the highest standards applied internationally.

In all contracts and agreements executed with clients, and third-party suppliers or service providers, Bladex incorporates specific provisions that require strict compliance with the regulations to prevent money laundering and any other financial crimes or illicit transactions.

- warranted by an independent qualified third party. In the last years, the Bank has retained an independent third party to review its US Compliance Program.
- The Compliance Department together with the Human Resources Area provide constant training sessions and programs for all the employees to reinforce the culture of managing risks adequately to prevent, detect and report any suspicious, inappropriate or unusual transaction.
- The Bank has established an anonymous system available thru its website to allow the reporting, by employees, clients or suppliers, of any suspicious activity, illegal transactions or illicit actions to prevent and detect any such actions to materialize within the organization.
- As of 2017, and according to a new regulation from the Superintendence of Banks, in Panama, the Area responsible for the Enterprise-Wide Risk management has to prepare with the Compliance Department an in-depth assessment of the Compliance Program of the Bank and present the results to the Board of Directors and the Superintendence of Banks as well.

Cyber-Security

Definition: Cybersecurity or information technology security are the procedures designed and measures implemented to protect computers, networks, programs and data from cyber-attacks, in other words, unauthorized access or attacks that are aimed for exploitation, and/or improper use of the Bank’s IT platform to gain access to the financial system.

Risk Management: The Bank has approved policies and implemented procedures defining roles and responsibilities for managing information security as part of the Information Security and Technological Risk Management Framework. These policies

and procedures are enforced throughout the organization and encompass all the relationships including the workforce, providers and suppliers as well as any other person dealing on a permanent or temporary basis with the Bank, which implies any access to data, administration resources, and information system.

Key Measures: The Bank’s Information Security Officer is responsible for enforcing and monitoring the compliance with the policies and procedures by any party with access to our systems. The Bank also engages with independent third-party reviews of its cybersecurity program.





FINANCIAL PERFORMANCE

4

2017 Profitability and Capitalization

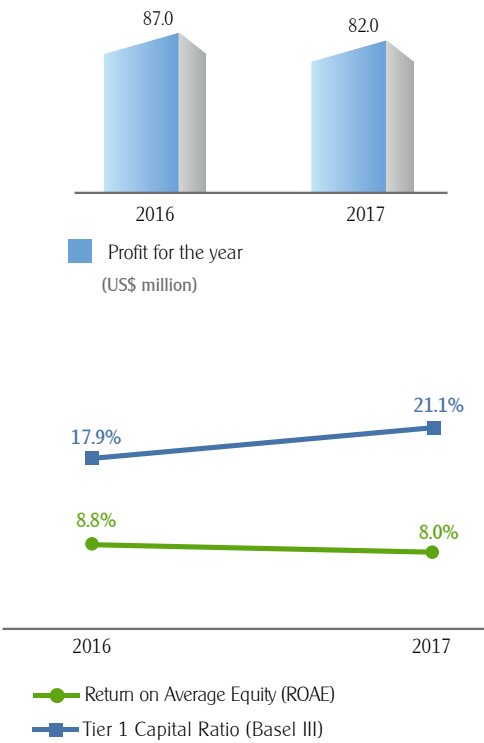
Bladex recorded a profit of US\$82 million in 2017 with a solid capitalization level of 21.1% Tier 1 Capital Ratio (Basel III methodology), resulting in an annual Return on Average Equity ("ROAE") of 8.0%.

Profit for the year was positively impacted by:

- Improved credit quality reflected in lower impairment loss from expected credit losses ("ECL").
- Strong fee income annual growth from its letters of credit business and structuring / syndication activity.
- The absence of non-core trading losses, as the Bank completely divested from its participation in investment funds during 2016.
- Decrease in recurring base of operating expenses (excluding personnel-change related expenses), continuing on the Bank's focus on efficiency through technology, processes and structure improvements.

These results were mainly offset by:

- Lower net interest income from reduced average loan balances and narrower lending spreads, as the Bank de-risked and diversified its portfolio mix, and shortened its average tenor.
- Non-recurring personnel related expenses, resulting in US\$3.2 million charges for 2017.



Profit for the year 8% RoAE

US\$82 million

Tier 1 Capital Ratio +3.2 pts.

21.1%

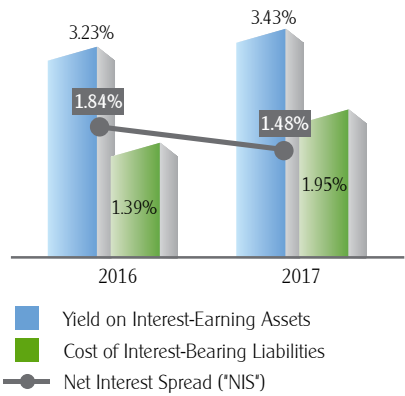
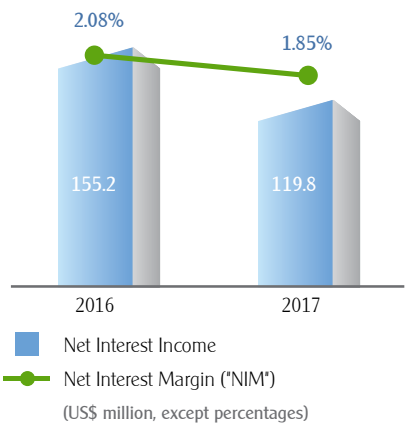
Net Interest Income ("NII")

Reduced level of NII, totaling US\$119.8 million during 2017, was mostly impacted by:

- Lower average loan volumes, as the Bank improved its portfolio risk profile by reducing unwanted exposures to certain countries, industries and clients, along with the focus toward short-term lending. In addition, high levels of USD liquidity experienced in key markets led to nearly US\$1 billion in pre-payments of loans originally scheduled to mature in 2018 and, significantly offsetting increased levels of credit disbursements throughout the year.
- Tighter lending spreads, from shortened average tenors combined with pricing pressures from increased levels of USD liquidity, while the Bank privileged adequate risk-return pricing over volume growth.

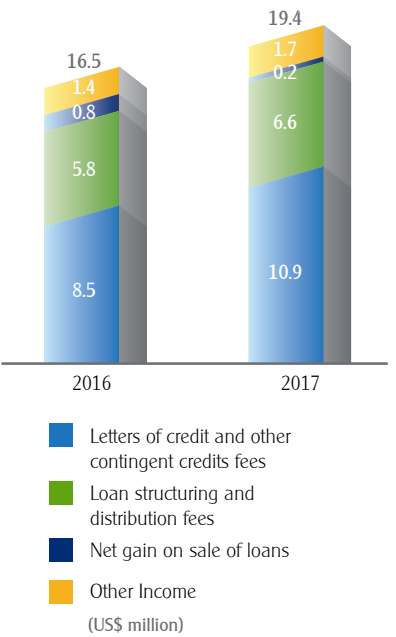
These effects were partially compensated by:

- Upward repricing on LIBOR-based market rates, which impacted both the earning-assets side and the financial liabilities side due to the Bank's short-tenor interest rate gap structure, having a net positive effect on net interest income.
- Lower funding spreads, as the Bank continued to benefit from flight to quality approach from global funding sources in a negative credit cycle for the Latin American Region.



Fees and Other Income (*)

- Upward trend in fee generation from the Bank's regional franchise of structuring and syndication reinforced by seven annual transactions resulting on fees of US\$6.6 million in 2017.
- Commissions of US\$10.9 million from letters of credit and other contingent credits experienced a solid growth, given a more diversified LC client base, congruent with the focus on deepening the Bank's participation in the trade value chain.



Fees and Other Income

US\$19.4 million

Structured syndications

7

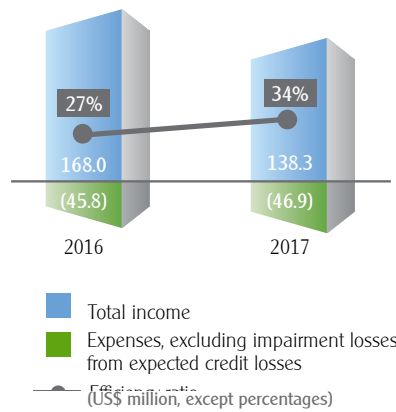
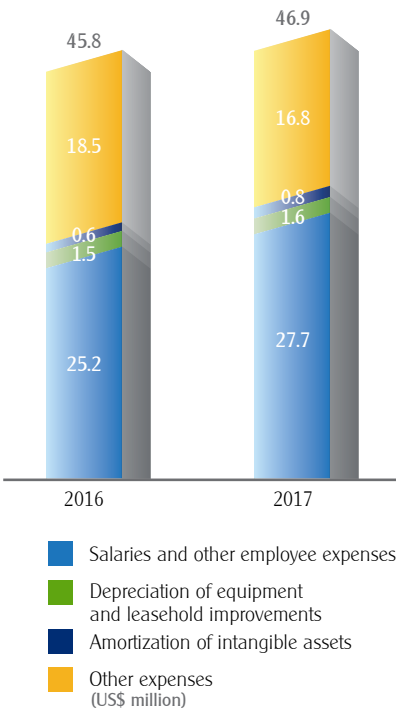
Fees from letters of credit and other

+28%

(*) Fees and Other Income includes the fee income associated with letters of credit and other contingent credits, such as guarantees and credit commitments, as well as fee income derived from loan structuring and syndication activities, together with loan intermediation and distribution activities in the primary and secondary markets.

Operating Expenses (*)

- Decrease in recurring base of operating expenses (excluding personnel-change related expenses of US\$3.2 million in 2017), reflecting a continuous focus on cost reduction and high productivity throughout the organization.
- The Bank's Efficiency Ratio reached 34% for 2017, mainly due to non-recurring operating expenses and lower total income generation year-on-year.



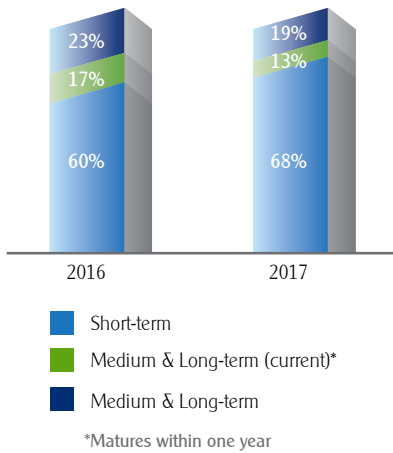
(*) Total operating expenses includes the following expenses line items of the consolidated statements of profit or loss: salaries and other employee expenses, depreciation of equipment and leasehold improvements, amortization of intangible assets, and other expenses.

Commercial Portfolio (*)

Commercial Portfolio balances at year-end 2017 reached US\$6.0 billion, while 2017 average balances reached US\$5.9 billion, both of which represented reduced levels from the prior year, mostly attributable to:

- The Bank's continuous efforts to de-risk and diversify its portfolio on certain countries, industries and clients exposures, along with its focus towards shorter tenor lending, both of which were geared to improve its portfolio credit risk profile, in the context of the negative credit cycle experienced in the Latin American Region for the last three years.
- Increased levels of credit disbursements throughout the year were greatly offset by prepayments of close to US\$1 billion of loans originally scheduled to mature beyond 2018, mainly attributable to high levels of USD liquidity in key markets where the Bank operates.

Declining trend in portfolio growth was reversed during the last quarter of 2017, on strengthened credit demand and improved economic outlook for the Region.



Credit Disbursements +22%

US\$14.6 billion

Trade Finance -6 pts.

60%

(*) The Bank's "Commercial Portfolio" includes gross loans (or the "Loan Portfolio"), loan commitments and financial guarantee contracts, such as confirmed and stand-by letters of credit, and guarantees covering commercial risk; and other assets consisting of customers' liabilities under acceptances.

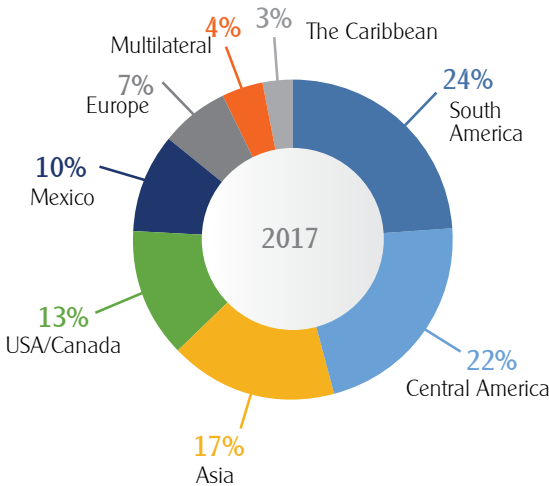
Funding Sources

- The Bank's funding is well diversified across regions, funding sources and tenors.
- Strong deposit base, with an average balance of US\$3.2 billion in 2017, representing 59% of average total funding, the majority of which comes from the Bank's central banks or designees Class A shareholders.

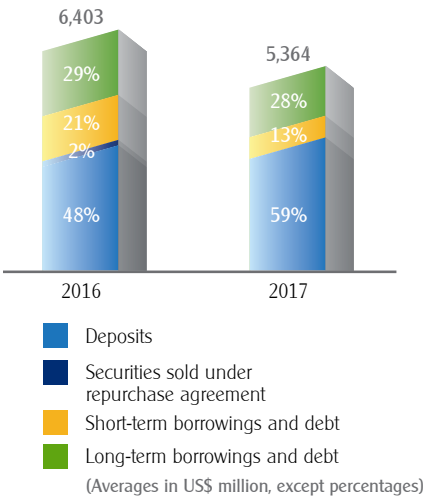
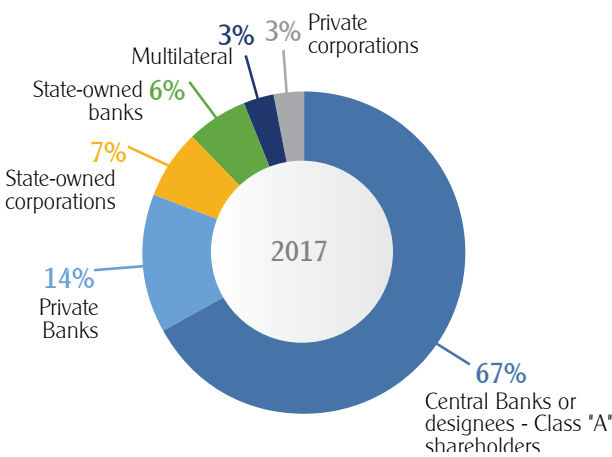
Avg. Deposits +3%

US\$3.2 billion

Funding Sources by Geography



Deposits by Type of Client



Credit Quality and Allowance for ECL ^(*)

- Improved credit quality on reduced level of Non-Performing Loan ("NPL") balances, reaching 1.07% of total loans, mostly attributable to finalized renegotiation agreements on selected credit exposures undergoing restructuring processes for the past two to three years.
- These finalized agreements led to NPL collections, write-offs against existing individually allocated reserves, and underperforming credit migrations to NPL.
- As a result of improved credit quality, the Bank recorded lower levels of allowance for ECL, still representing an ample coverage of 1.5 times NPL exposures, and 1.47% of total Commercial Portfolio exposure.

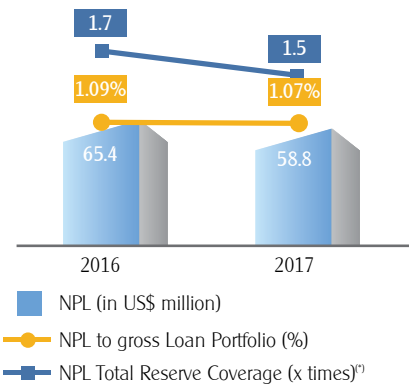
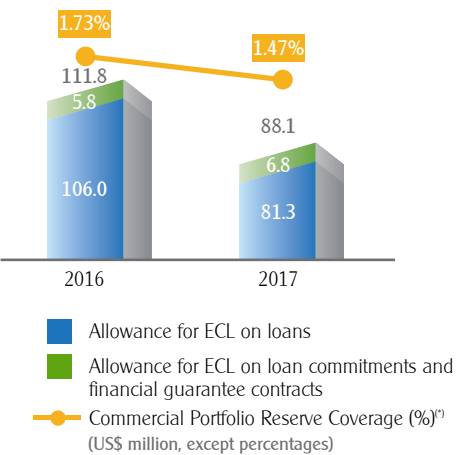
Reserve Coverage^(*) -26 bps.

1.47%

NPL to gross Loan Portfolio -2 bps.

1.07%

^(*) Reserve refers to the allowance for expected credit losses on loans, loan commitments and financial guarantee contracts.

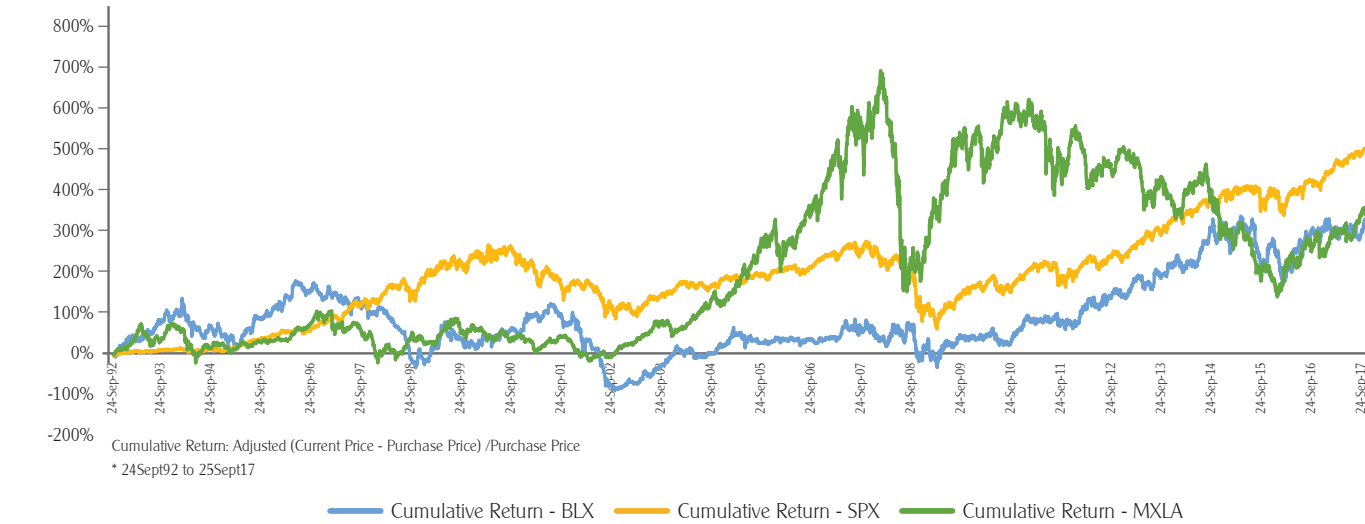


STOCK PRICE PERFORMANCE

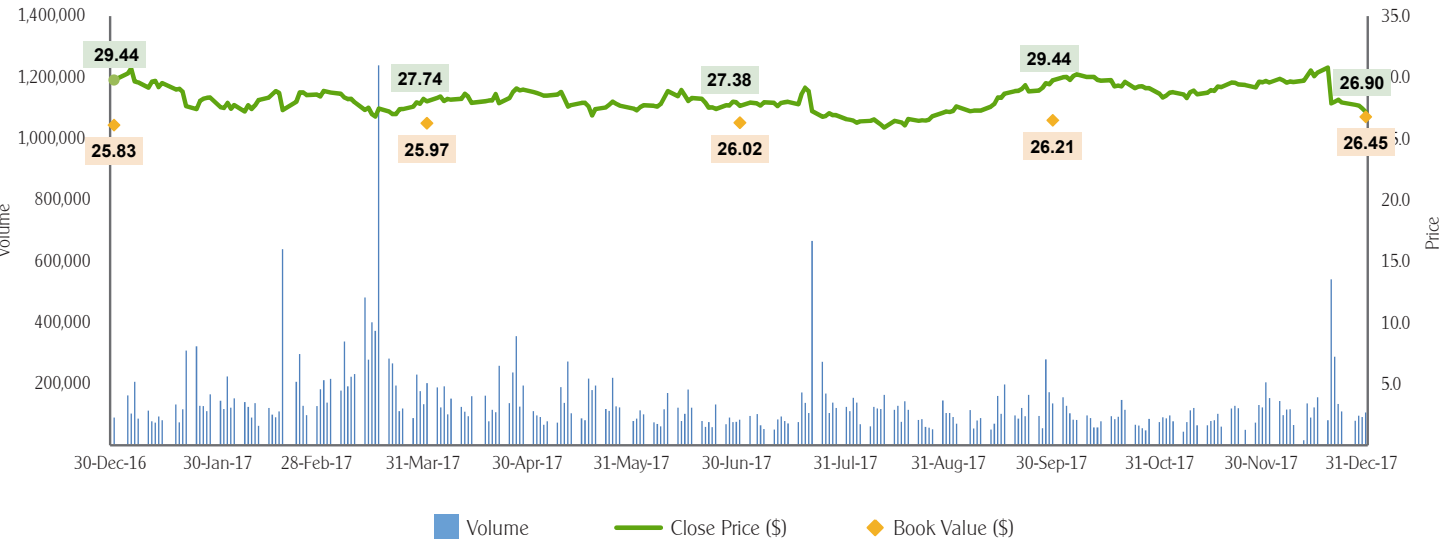
Bladex opened its capital on the New York Stock Exchange (NYSE) in 1992, four years after starting its operations in that geography through an agency, and becoming the first Latin American bank to issue capital in the US market. On its 25th anniversary, Bladex shares offered a total shareholder return of 323%, showing a strong resilience throughout the economic cycles and in line with the MSCI Emerging Markets Latin America Index (MXLA) which was revalued by 341%.

At year-end 2017, the share price closed at US\$26.90 with an average annual price and daily volume of US\$27.28 and 132,587 shares respectively. Compared to 2016, there was a variation of +11% and -20% YoY.

Bladex's Stock Price Performance (1992 - 2017) *



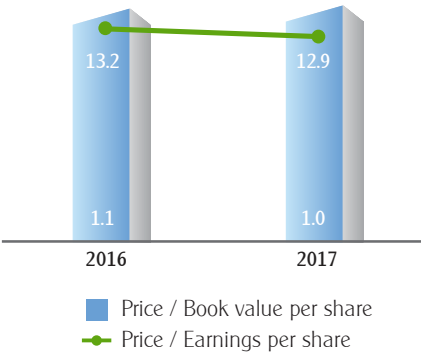
BLX's Stock Price Evolution and Volume



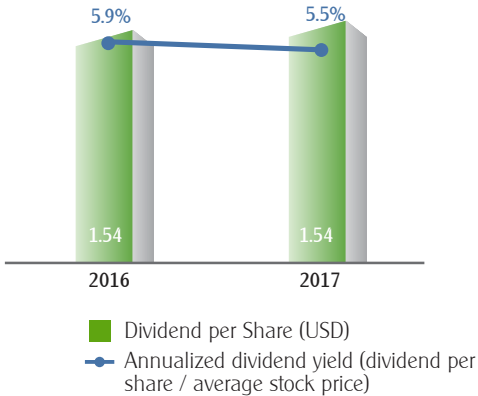
DIVIDENDS

At the end of 2017, the stock traded at 1.0x book value per share (P/BV) and 12.9 times earnings per share (P/E), compared to 1.1 P/BV and 13.2 P/E in 2016. During 2017, Bladex paid dividends amounting to US\$1.54 per share, or US\$0.385 per quarter, same level as during 2016 and 2015, underlining the Board of Directors commitment to continue its established dividend approach that reflects the Bank's core business growth and development. The dividend payments provided investors with an attractive remuneration, with an average return of 5.5%.

Per Share Valuation



Dividends



25 YEARS
BLX
LISTED
NYSE

CONSOLIDATED FINANCIAL DATA - SUMMARY

Financial Information prepared in accordance with IFRS as issued by IASB

YEAR ENDED DECEMBER 31 (In US\$ million, except percentages and per share amounts)	2017	2016
Selected Profit or Loss Statement Data		
Net interest income	119.8	155.2
Fees and commissions, net	17.5	14.3
Loss on derivative financial instruments and foreign currency exchange, net	(0.4)	(0.5)
Loss per financial instrument at fair value through profit or loss	(0.7)	(2.9)
Gain (loss) on sale of securities at fair value through OCI	0.2	(0.4)
Gain on sale of loans	0.2	0.8
Other income	1.7	1.4
Impairment loss from expected credit losses	(9.4)	(35.1)
Operating expenses ⁽¹⁾	(46.9)	(45.8)
Profit for the year	82.0	87.0
Selected Financial Position Data		
Financial instruments at fair value through OCI	25	31
Securities at amortized cost, net	69	77
Loans ("Loan Portfolio")	5,506	6,021
Commercial Portfolio ⁽²⁾	5,999	6,444
Total assets	6,268	7,181
Deposits	2,929	2,803
Short-term borrowings and debt	1,073	1,470
Long-term borrowings and debt, net	1,139	1,777
Total liabilities	5,225	6,169
Stockholders' equity	1,043	1,011
Per Common Share Data		
Basic Earnings per Share ("EPS")	2.09	2.23
Book value per common share -period end	26.45	25.83
Common shares outstanding:		
Period weighted average	39,311	39,085
Period end	39,429	39,160
Performance Ratios		
Return on Average Stockholders' Equity ("ROAE") ⁽³⁾	8.0%	8.8%
Return on Average Assets ("ROAA") ⁽⁴⁾	1.27%	1.16%
Net Interest Margin ("NIM") ⁽⁵⁾	1.85%	2.08%
Net Interest Spread ("NIS") ⁽⁶⁾	1.48%	1.84%
Efficiency Ratio ⁽⁷⁾	34%	27%
Capital, Liquidity & Credit Quality Ratios (In %)		
Tier 1 Basel III Capital Ratio ⁽⁸⁾	21.1%	17.9%
Total assets / Total stockholders' equity (times)	6.0	7.1
Liquid assets / Total assets ⁽⁹⁾	9.9%	14.0%
Liquid assets / Total deposits ⁽⁹⁾	21.1%	36.0%
Total stockholders' equity / Total assets	16.6%	14.1%
Non-performing loans to Loan Portfolio	1.07%	1.09%
Write-offs to Loan Portfolio	0.61%	0.31%
Total allowance for expected credit losses on loans at amortized cost, loan commitments and financial guarantee contracts to Commercial Portfolio	1.47%	1.73%
Total allowance for expected credit losses on loans, loan commitments and financial guarantee contracts to non-performing loans (x times)	1.5	1.7
Market Information (TICKER SYMBOL: BLX)		
Market capitalization	1,061	1,153
Closing Price	26.90	29.44
Price / Book Value (times)	1.0	1.1
Price / EPS (times)	12.9	13.2

25

YEARS

BLX

LISTED

NYSE

Notes

(1) Total operating expenses includes the following expenses line items of the consolidated statements of profit or loss: salaries and other employee expenses, depreciation of equipment and leasehold improvements, amortization of intangible assets, and other expenses.

(2) Commercial portfolio includes gross loan portfolio, customers' liabilities under acceptances, loan commitments and financial guarantees contracts (including confirmed and stand-by letters of credit, and guarantees covering commercial risk).

(3) ROAE refers to return on average stockholders' equity which is calculated on the basis of unaudited daily average balances.

(4) ROAA refers to return on average total assets which is calculated on the basis of unaudited daily average balances.

(5) NIM refers to net interest margin which constitutes to net interest income divided by the average balance of interest-earning assets.

(6) NIS refers to net interest spread which constitutes the average yield earned on interest-earning assets, less the average yield paid on interest-bearing liabilities.

(7) Efficiency Ratio refers to consolidated operating expenses as a percentage of total income.

(8) Tier 1 Capital is calculated according to Basel III capital adequacy guidelines, and is equivalent to stockholders' equity excluding certain effects such as the OCI effect of the financial instruments at fair value through OCI. Tier 1 Capital ratio is calculated as a percentage of risk-weighted assets. Risk-weighted assets are estimated based on Basel III capital adequacy guidelines.

(9) Liquid assets refer to total cash and cash equivalents, consisting of cash and due from banks, and interest-bearing deposits in banks, excluding pledged deposits and margin calls.



CORPORATE GOVERNANCE

5

Corporate Governance
reflects our commitment,
corporate responsibility
and ethical behavior
vis-à-vis our Investors

CORPORATE GOVERNANCE FRAMEWORK

Bladex's Corporate Governance framework encompasses an array of structures, processes and rules that identify and determine the rights, relationships and responsibilities of Shareholders, the Board of Directors, Senior Management, the Employees and other Stakeholders. It is based

on widely accepted regulatory standards, and on internal regulations that define the responsibilities of all actors in order to comply with the framework. These guidelines are continuously reviewed and adapted to meet current rules and regulations as well as to incorporate best practices.

External Regulations

The Bank is subject to supervision by regulatory authorities in different jurisdictions, amongst them being:

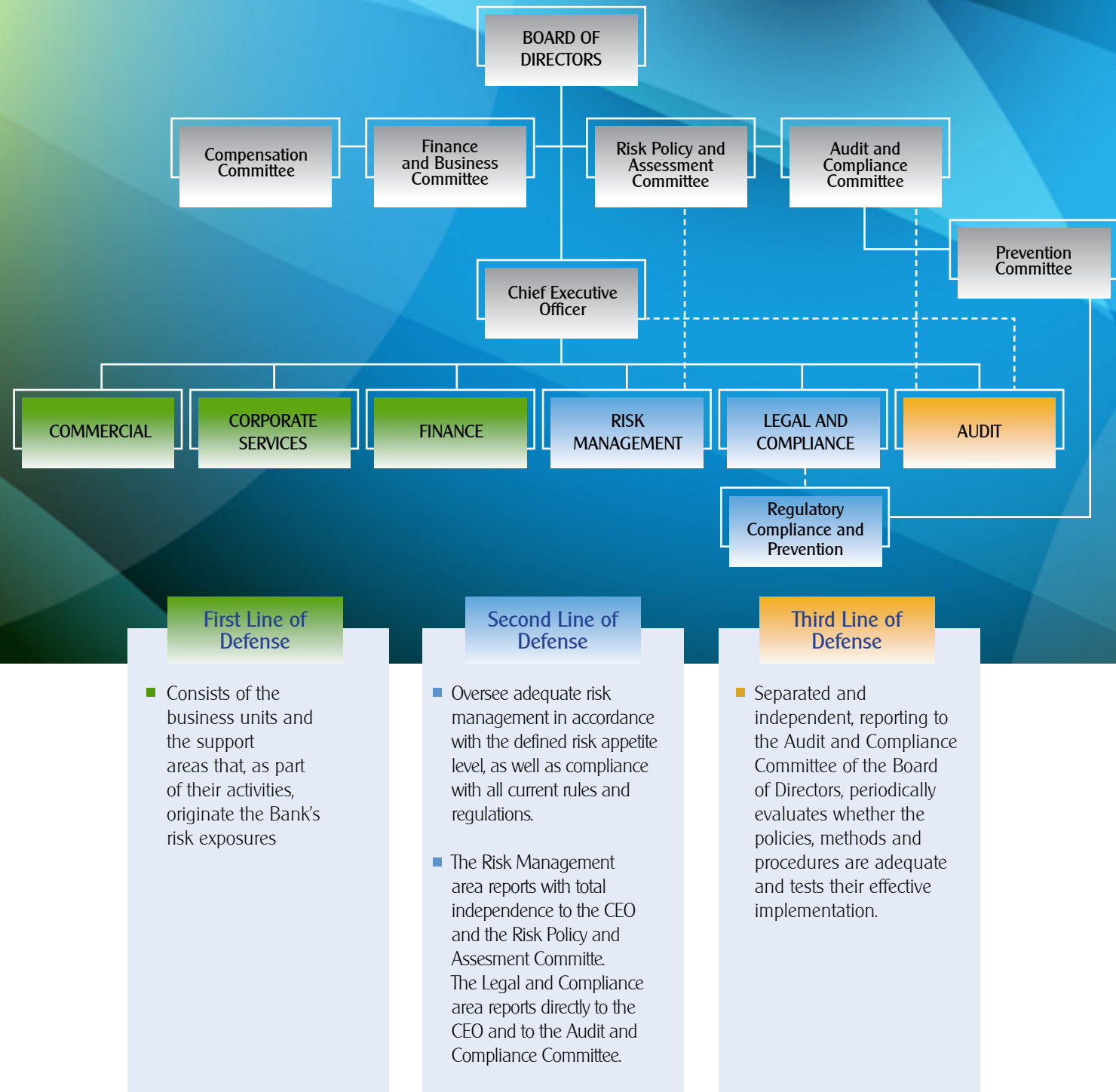
- The Superintendency of Banks of Panama (SBP)
- The Federal Reserve Bank of the United States of America (FED)
- The New York Stock Exchange (NYSE)
- The United States Securities and Exchange Commission (SEC)
- The New York State Department of Financial Services (NYSDFS)
- The Mexican National Banking and the Securities Commission (Mexico)
- The Mexican Securities Exchange
- The Superintendency of Banks, Insurance and Pension Funds of Peru
- The Financial Superintendence of Colombia
- The Central Bank of the Republic of Argentina
- The Central Bank of Brazil

Internal Regulations

The Bank follows the following corporate regulations that constitute the framework for performance and behavior of Bladex and of all its actors:

- Articles of Incorporation
- The Bank's Bylaws
- The Board of Directors Committees Charters
- Principles of Corporate Governance and determination of a Director's independence
- Code of Ethics
- Corporate Anti-Money Laundering and Combating the Financing of Terrorism Policy
- Manuals, policies, guidelines and procedures

ORGANIZATIONAL MODEL



BOARD OF DIRECTORS

The Board of Directors is composed of up to eleven members:

- Three Directors are elected by the holders of Class A common shares represented by Central Banks or other Banks where the State has a majority shareholding or other government entities, from 23 Latin American countries;
- Five Directors are elected by the holders of the Class E common shares represented by institutional and individual investors through Bladex's public listing on the NYSE;
- Two Directors are elected by the holders of all common shares, of which one of the candidates to be elected shall be the Corporation's President and Chief Executive Officer (CEO); and
- Provided that the number of issued and outstanding Class F shares is equal to or higher than fifteen percent (15%) of the total number of common shares issued and outstanding of the Corporation, the holders of the Class F common shares shall be entitled to elect one Director of the Corporation. As of December 31, 2017, the bank did not have any Class "F" shares issued and outstanding.

The Members of the Board are elected at the Bank's Annual Shareholder's Meetings and each Director serves for a term of three years. Directors can be re-elected multiple times until reaching a maximum age of 70 at the day of the election. When electing members of the Board who represent a certain class of shares of the Bank's common stock, the votes of the holders of such class of shares are counted separately. Shareholders are provided with information on Directors' qualifications and experience and such other key directorships as they may hold in other companies.

Main Function

The Board of Directors shall direct and control the business and assets of the Bank, except for those matters specifically reserved to Shareholders as established by Law, the Articles of Incorporation or the By-laws.

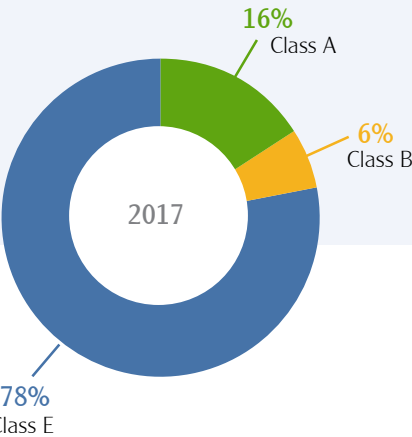
The Board of Directors may grant general or special powers of attorney to Directors, employees of the corporation, and to other employees of the Organization or other persons to transact such business and affairs within the competence of the Board as the Directors, may deem convenient to entrust to each of them.

Responsibilities

The Chairman shall act as chairman at all the meetings of the Shareholders and the Board of Directors, proposes the place and the matters to be considered at such meetings and shall cause that all sessions of the Shareholders Meetings and those of the Board of Directors are duly convened. The Chairman also handles such other matters as the Board of Directors may see fit to entrust him with. He may not hold the Office of President and CEO, Executive Vice-President – Operations and/or Executive Vice-President – Finance or the equivalents thereof, pursuant to the dispositions enacted by the SBP.

The Board evaluates and determines its optimal leadership structure so as to provide an independent oversight of the Bank.

Shareholder Composition



Board of Directors Meetings

Board meetings are held, at least, five times per year, as may be determined by the Board of Directors. For quorum the attendance of at least six Directors is required, the majority of which should be independent. Board resolutions are adopted by the affirmative vote of the majority of the Directors attending the meeting.

Remuneration

The Board of Directors, after consulting with the Compensation Committee, is responsible for approving and reviewing the compensation plans and programs for the members of the Board and its Committees. The Board of Directors will inform at the Annual Shareholders Meeting about the compensation plans adopted for the Board of Directors and its Committees. The Directors’ compensation shall consist of a portion in cash and another portion in restricted Class “E” shares.

Independence of the Board members

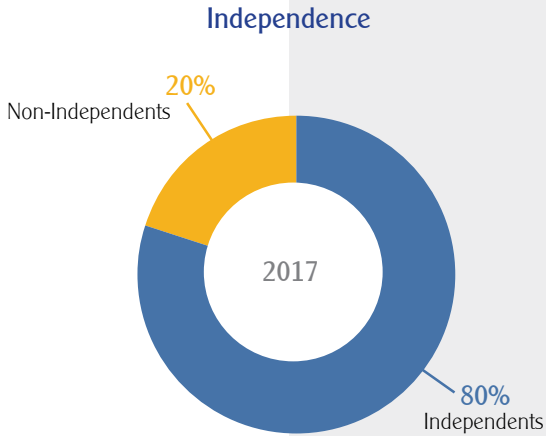
A Director is considered independent only when the Board of Directors has affirmatively determined that said Director has no material relationship with the Bank that may affect his or her independent judgment, considering the following applicable guidelines, rules and regulations:

- The Regulations enacted by the SEC under the 2002 Sarbanes-Oxley Act (SOX);
- The criteria for rating independence, as defined in Section 303A of the Manual for Companies listed on the NYSE; and
- The criteria for defining independence included in Rules No. 05-2011 and No. 05-2014, issued by the SBP.

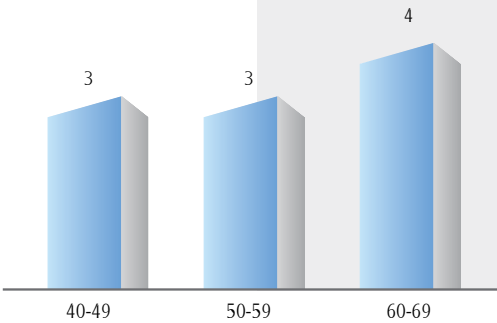
Based on the application of the above criteria, the Bank’s Board of Directors has determined that a substantial majority (eight out of ten Directors) of the Board is independent, with the Bank’s CEO, Mr. Rubens V. Amaral Jr., and Director Ricardo M. Arango, deemed non-independent.



Nationality



Independence



We strive to follow the best international practices for Corporate Governance

BOARD OF DIRECTORS

The Board of Directors includes five representatives for Class “E” shareholders, three for Class “A” shareholders and two Directors representing all Classes of shares.

Gonzalo Menéndez Duque
Chile
All Classes



Rubens V. Amaral Jr.
Brazil
All Classes

Javier González Fraga
Argentina
Class A



João Carlos de Nóbrega Pecego
Brazil
Class A

José Alberto Garzón
Colombia
Class A



Mario Covo
EE.UU.
Class E

Herminio A. Blanco
Mexico
Class E



Ricardo M. Arango
Panama
Class E

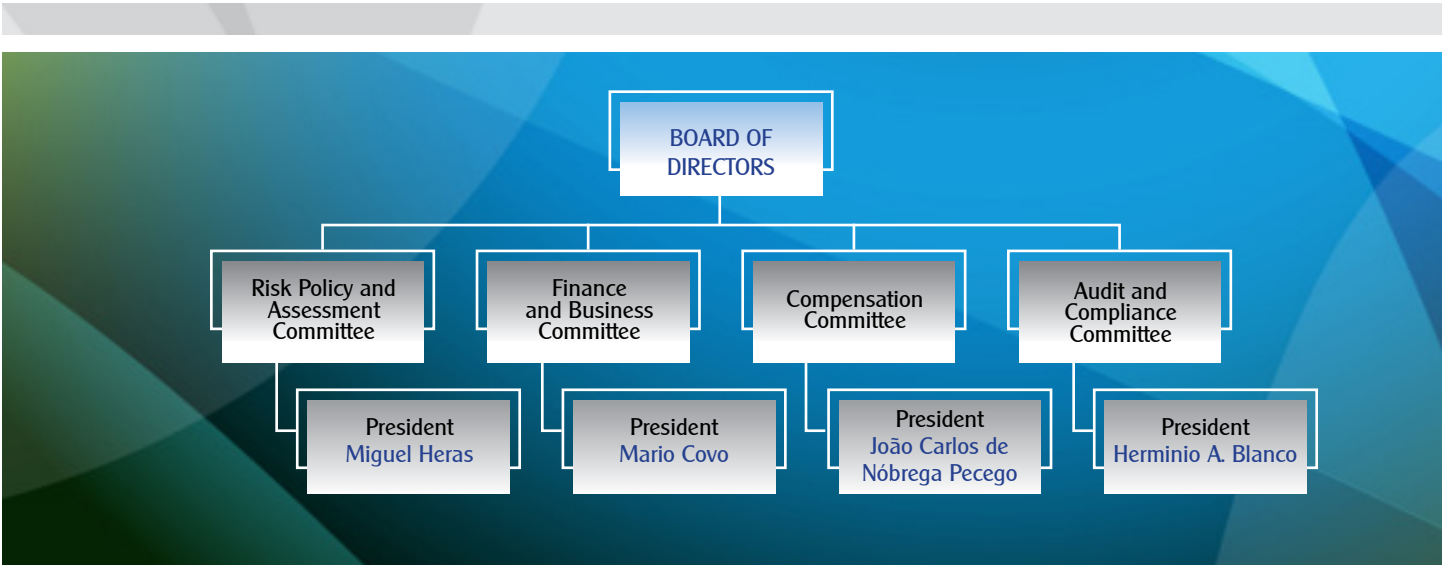
Miguel Heras
Panama
Class E



Roland Holst
Paraguay
Class E

BOARD COMMITTEES

The Bank has four standing Committees consisting of Directors and Members of the Bank's Senior Management: the Risk Policy and Assessment Committee; the Finance and Business committee; the Compensation Committee and the Audit and Compliance Committee. In 2017 new responsibilities were added to the Compensation Committee, which now includes the analysis of the performance of the Bank's operating model, processes, technology and communications.



Risk Policy and Assessment Committee

The Risk Policy and Assessment Committee is responsible for reviewing all policies related to the Bank's Enterprise Risk Management (credit, operational and market risk) and recommending them to the Board of Directors for their approval. This Committee also reviews and evaluates the exposure to risk according to the risk levels the Bank is willing to assume, depending on the Bank's Senior Management, including the quality and profile of the Bank's credit facilities, its exposure to and analysis of market risk and operational risk, taking into account the legal risk associated to the products and services provided by the Bank.

The Risk Policy and Assessment Committee is empowered to approve credit limits and facilities up to the legal limit applicable to the Bank, pursuant to such applicable regulations as may be currently in force.

The Risk Policy and Assessment Committee does its job by reviewing regular reports from the Enterprise Risk Management Area and through its interaction with the Executive Vice-President of that Area as well as with other members of the Bank's Senior Management.

Finance and Business Committee

The fundamental role of the Finance and Business Committee is to review and analyze all issues related to the development and execution of the Bank's business and its financial management, including, among other things, capital management, assets and liabilities portfolio management, liquidity management, gap management and funding, tax related matters, as well as the Bank's financial performance in general.

Compensation Committee

The Compensation Committee is responsible for submitting recommendations to the Board of Directors involving: a) the nomination for; b) the basis compensation and benefits plan for Directors, Officers, Named Executives and other Employees; c) the succession plan of Senior Management, including the Chief Executive Officer; d) the evaluation of the annual performance of the Chief Executive Officer; e) the Bank's human resources policies, its Corporate Governance and its Code of Ethics. The Committee oversees the performance operating model of the Bank focusing on the quality of processes, adequacy of the technological architecture and communications.

Audit and Compliance Committee

The purpose of the Audit and Compliance Committee is to provide assistance to the Board of Directors in fulfilling its oversight responsibilities regarding the processing of the Bank's financial information, the integrity of its financial statements, the internal control system over financial reporting, the performance of both the internal auditing process, as well as the firm of independent public auditors, the Bank's Corporate Governance, compliance with legal and regulatory requirements, the management of the Preventive and Regulatory Compliance function and receiving the reports and recommendations from the Bank's Prevention Committee thereto, as

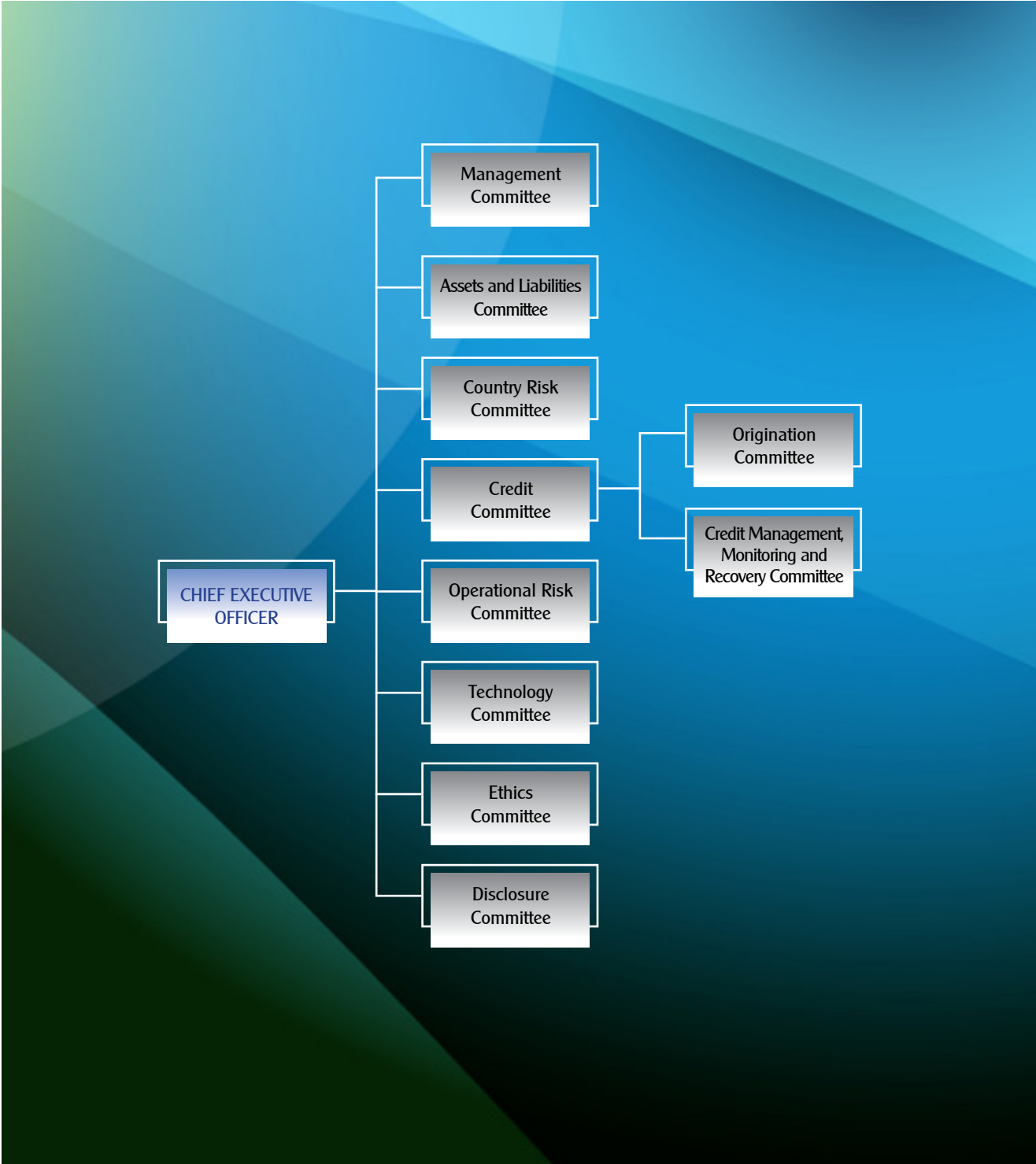
well as compliance with the Bank's Code of Ethics. The Audit and Compliance Committee, in its capacity as a Committee of the Board, is directly responsible for recommending to the shareholders the renewal or replacement of the Bank's independent auditors at the Annual Shareholders' Meeting, the compensation of the independent auditors (including the pre-approval of all audit and non-audit services) and oversight of the independent auditors, including the resolution of disagreements regarding financial reporting between the Bank's Management and the independent auditors. The Bank's independent auditors are required to report directly to the Committee.

SENIOR MANAGEMENT

		Rubens V. Amaral Jr. President and Chief Executive Officer	
N. Gabriel Tolchinsky Executive Vice-President Corporate Services			Alejandro Jaramillo Executive Vice-President Commercial
Alejandro Tizzoni Executive Vice-President Risk Management			Ana Graciela de Méndez Executive Vice-President Finance
Jorge Córdoba Executive Vice-President Auditing			Jorge Luis Real Senior Vice-President Legal Counsel and Compliance Secretary to the Board

For more information about the charters of each of the Board's of Directors Committees, please refer to our website: <http://www.bladex.com> Investor Relations / Corporate Governance / Board Committee section.

MAIN INTERNAL COMMITTEES



TRANSPARENCY AND ETHICS



Principles of Transparency

The Bank engages in the necessary efforts to accurately and timely disclose all important matters, including financial statements and Corporate Governance related aspects. The relevant financial information is disclosed to the market on a quarterly and annual basis. The Board of Directors approves the quarterly un-audited financial statements, the annual financial statements and other documents, such as the Annual Report filed with the SEC (20-F). The Bank's Disclosure Committee ensures the correct application of the principle of transparency by reviewing all documents containing relevant facts about the entity prior to their disclosure to the public.

The Bank has adopted a Code of Business Conduct and Ethics, which was revised in 2017, and which contains the internal policies and guidelines needed to fulfill the Bank's Mission, and which is designed to strengthen compliance with the laws and regulations governing business operations. The Code of Business Conduct and Ethics applies to the Board of Directors, as well as to all employees of the Bank and its Subsidiaries. The Bank's Ethics Committee is responsible for the interpretation, implementation, application and permanent evaluation of the provisions of the Bank's Code of Ethics. In addition, to implement the necessary mechanisms to disclose and promote the highest standards of behavior in the Organization. Additionally, Bladex ensures the monitoring and compliance of the ethics code through an application which provides employees, shareholders, suppliers and any other interested party with a confidential system for reporting actual or possible violations of the Code of Ethics, as well as any irregular situation related to the work or to suspicious transactions, accounting, internal auditing or internal control matters.

The following issues should be notified through this tool:

- Accounting, internal accounting controls or auditing matters
- Suspicious activities related to violations of banking and anti-money laundering regulations
- People-related matters, such as:
 - Conflicts of interest
 - Discrimination and harassment
 - Retaliation
 - Unsafe workplace conditions
 - Inappropriate use of electronic systems
 - Insider Trading
 - Forgery of contracts, reports or records



HUMAN
CAPITAL

6

VALUES

The constant efforts undertaken by Bladex for bolstering a firmly entrenched organizational culture let it provide its clients and the Region with an organization that is committed to a sustained development of Latin America. The Bank's corporate values embrace five big backbones: Integrity, Commitment, Excellence, Respect and Humility.

Integrity

Is the foundation of our Organization centered on ethical behavior that reflects honesty and transparency.

Commitment

Is the hallmark of how we work at Bladex, focused on meeting our clients' needs and creating value for our Shareholders.

Excellence

Remains our overriding goal. The pursuit of quality through creativity and innovation is present in everything we do.

Respect

Guides us in our behavior toward our co-workers, clients, Shareholders and the community.

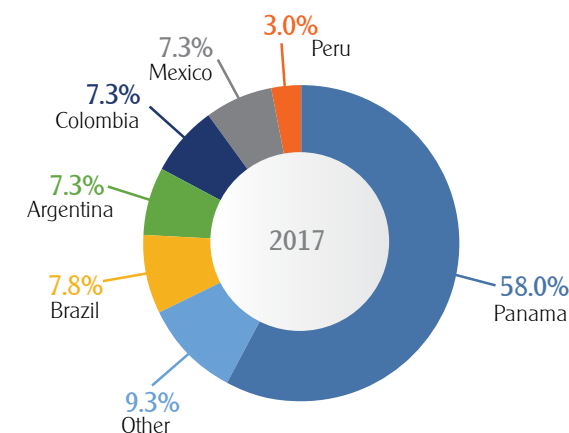
Humility

Is the bond that gives us strength, allowing us to appreciate the contribution of each member of the Organization toward the success and achievement of the Institution

Bladex has a high-level commitment with all its employees, investing in different programs that promote their comprehensive and professional development, within a strict code of values

MULTI-CULTURALISM

Bladex values diversity, with a workforce comprised of 47% men and 53% women. Multi-Culturalism is a key strength of Bladex. Our multiculturalism and diversity were embedded in our DNA, when central banks from 23 different nations agreed with the creation of our institution. Bladex over the years has valued and is committed to continuously support the diversity and multiculturalism. As of December 31, 2017, Bladex had 193 employees, representing 18 nationalities, of which 72% from Latin American countries.



PROFESSIONAL TRAINING

The Bank continuously invests in forming and valuing talent. In 2017 we completed a two-year cycle of our Leadership Program 2015-2017 which aimed at developing leadership management skills among the Bank's employees, focusing on the individual strengths as a catalyst to identify new leaders and foster a more participative role in the bank's decision making process.

Another key training initiative was the specially designed Foreign Trade training program allowing our employees to level with the current state of the art involving trade financing, as well as serving to understand better the needs of our clients, and thus provide a better service to them.

TALENT DEVELOPMENT

The Bank is very proud of promoting internal talent whenever opportunities arise in the company. The Bank has developed an evaluation process that fosters constant feedback and coaching with the objective of preparing a strong bench of talent to be deployed within the succession plan of the Organization. In 2017 the Bank filled 38% of all vacancies at different levels with internal promotions, highlighting the quality of the internal resources.

REMUNERATION

The Bank reviews and monitors the compensation and benefits programs for Senior Management and all staff. Certain aspects of the Bank's executive compensation program, such as the combination of performance-based short-term cash bonuses and performance-based long-term equity awards, reduce the likelihood of excessive risk-taking, and instead create incentives for Senior Management to work for the long-term growth of the Bank.

A variable compensation is paid every year, based on the level reached by each employee in fulfilling certain corporate objectives, previously defined by the Board of Directors, as well as department and individual ones. The variable compensation is paid in both cash and/or restricted stock units, considering that equity awards enable the Bank to meet its objectives of aligning the interest of its executives with that of its Shareholders.

Our people are the Organization's main asset and we take care of them through intercultural integration and diversification as well as boosting their competencies



SOCIAL
CAPITAL

7

Education and children, fundamental cornerstones of our social commitment. 7,000 children and young people have benefited from the projects and programs in 2017

Well aware that our Institution plays an important role as an agent of development in the communities in which we work, the work accomplished throughout 2017 by the Fundación Crece Latinoamérica, the foundation carrying out Bladex's social work, reaffirms our commitment to move education forward as an instrument of change and progress. Towards this goal, we continue to focus our efforts in providing educational and personal growth opportunities for children and young people among the most vulnerable sectors.

At our Headquarters in Panama, we continue to decisively support six organizations at national level. During this year, the Foundation continued to improve the facilities of the Marie Poussepin Educational Center (CEMP), Bladex's main project, which benefits 700 students aged 3 to 18 years old, from sectors at social risk. This included the remodeling of 12 primary level classrooms, construction of an additional high school classroom, as well as equipping two kindergarten classrooms, the primary level computer room and four high school classrooms with new furniture. To strengthen the safety of students, a new fire alarm system was installed and internal circulation was optimized by building an interconnecting hallway between the middle school building and one of the primary school buildings, as well as adding an additional stairway to the high school building.

We are convinced that successful school education is directly related to the active involvement of parents and therefore continue to sponsor the Parent Education Program implemented at the CEMP by the Association of Bankers' Wives ("Sociedad de Esposas de Banqueros"). Over 3,500 CEMP parents have graduated from the program since its implementation 10 years ago.

At the Hogar Divina Gracia shelter, which helps girls at risk, we fenced off all the property in order to provide greater security to the young people living there.



12 primary school classrooms of the CEMP were completely remodeled, including new furnishings for the pre-school area.



215 CEMP parents received their graduation diploma from the Parent School program.



Recognition accorded by Casa Esperanza to Bladex for its contribution to the improvement of the study centers located in Aguadulce and Boquete, benefiting about 300 students.



Thanks to the partnership between the Fundación Crece Latinoamérica and Unicomer, the Corazón de María School in San Salvador has a modern computer room, benefiting 700 students.



Sponsorship of 130 students in the "Soy Cambio, Competencias del Siglo XXI" ("I Am Change, 21st Century Skills") program carried out by the Fundación Monge in Costa Rica. Workshops conducted by this Foundation for the CEMP graduating students in Panama.

VOLUNTEERS IN ACTION

Each year, the Bank's employees join efforts to complement the work carried out by the Foundation through their volunteer work and contributions. During 2017, the Volunteer Committee carried out the following activities:

- 1 Sponsorship of 110 scholarships for CEMP students - Panama
- 2 Talks on financial literacy given to junior students at the CEMP
- 3 Two-day tour of Panama City for 25 boarding school students from the Community Center (CCVG) located in El Bale, province of Veraguas – Panama, as well as the delivery of audiovisual equipment, food and medications.
- Sponsorship of speech-language study for 60 kindergarten students at the CEMP
- Cultural activities for students from the Hogar Divina Gracia, El Bale Community Center and the CEMP
- Christmas party celebrations by volunteers from the Panama office for all the students from the CEMP, young people from the Hogar Divina Gracia shelter and students from the El Bale Community Center, and by volunteers from the Brazil office for children from the Fundación Brasci.



**Banco Latinoamericano
de Comercio Exterior, S.A.
and Subsidiaries**

Consolidated Financial Statements
as of December 31, 2017, 2016 and 2015

With the Independent Auditors Report

Banco Latinoamericano de Comercio Exterior, S.A.
and Subsidiaries

Consolidated Financial Statements
as of December 31, 2017, 2016 and 2015

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Deloitte, Inc.
Contadores Públicos Autorizados
RUC 16292-152-155203 D.V. 65
Torre Banco Panamá, piso 12
Avenida Boulevard y la Rotonda
Costa del Este, Panamá
Apartado 0816-01558
Panamá, Rep. de Panamá

Teléfono: (507) 303-4100
Fax: (507) 269-2386
infopanama@deloitte.com
www.deloitte.com/pa

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors of
Banco Latinoamericano de Comercio Exterior, S.A.

Opinion

We have audited the consolidated financial statements of **Banco Latinoamericano de Comercio Exterior, S.A. and Subsidiaries** ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the **Banco Latinoamericano de Comercio Exterior, S.A. and Subsidiaries** as of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year the ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Firma miembro de
Deloitte Touche Tohmatsu Limited

Deloitte

Allowance for expected credit losses on loans

See Notes 3.6 and 5.5 to the consolidated financial statements

Key audit matter

The balance of loans at amortized cost as of December 31, 2017 is US\$5,505,658 thousands, an 88% of the assets of the Bank, and the balance of allowance for expected credit losses on loans is US\$81,294 thousands.

These items were significant to our audit due to the significance of the balance of loans at amortized cost in the consolidated financial statements taken as a whole and the significant judgments and estimates required to determine the allowance.

For loans whose allowance for expected credit losses is determined on an individual basis, the identification of impairment events and the determination of the impaired balance requires the application of significant judgments by the Administration, particularly those in relation to expected cash flows. For collectively assessed loans, impairment measurement requires significant judgment and critical assumptions, in particular in determining the probability of default, the loss given default, and whether there has been a significant increase in the credit risk of the loan.

How the matter was addressed in the audit

Our procedures included:

- Test the design and implementation and operational effectiveness of the key controls on the process of loan impairment analysis.
- Involve specialists to determine that the methodology used by the Bank is appropriate under the framework of the International Financial Reporting Standards.

How the matter was addressed in the audit (continue)

- For loans evaluated individually, we performed the following:
 - i. Tested a sample of significant loans not identified as impaired and challenged Management's assumptions about its conclusion that the loan was not impaired by reprocessing the credit rating of the loan using updated credit and financial information from the loan file and taking into consideration, when available, public information showing an impairment event.
 - ii. Tested a sample of impaired loans and evaluated the impairment measurement performed by the Administration through: a) evaluating the assumptions and judgments that the Administration made to determine the value of the future cash flows that are expected to be received and (b) reprocessed the value of provisions.
- For collectively assessed loans, we performed the following:
 - i. Control and substantive tests, assisted by specialists, to validate the history of defaults and recoveries of the Bank's loan portfolio, and to test the accuracy and completeness of the information used for computation and establishment of probabilities of default and historical losses given default used in the calculation of the collective allowance for expected credit losses.
 - ii. Involved specialists to reprocess the methodology used by the Administration in determining the allowance for expected credit losses.

Deloitte

Valuation of derivative financial instruments

See Notes 3.7 and 5.6 to the consolidated financial statements.

Key audit matter

Derivative financial instruments used for hedging at December 31, 2017 amounted to an asset carrying value of US\$13,338 thousand and a liability carrying value of US\$34,943 thousand. The valuation of the derivative financial instruments of the Bank involves a degree of complexity due to the valuation techniques used and the importance of the judgments and estimates made by the Administration due to the lack of quoted market prices that can be obtained in an active market. Our audit has focused on valuation tests, including those for inclusion of collateral.

How the matter was addressed in the audit

Our audit procedures included, with the assistance of specialists in valuation of derivative financial instruments:

- Tests of design, implementation and operational effectiveness of key controls in the identification, measurement and monitoring of the risk of valuation of the Bank's derivative financial instruments, including controls on data sources, price verification and other inputs used in valuation models.
- Analysis of the variables used in the models. This work included the calculation of the fair value of a sample of derivative financial instruments using independent variables and in some cases resulted in valuations different from those calculated by the Bank, which were within the reasonable ranges.
- Tests of key inputs to the valuation model to review the results of the model.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Luis Castro.

DELOITTE

March 7, 2018
Panama, Republic of Panama

Banco Latinoamericano de Comercio Exterior, S. A. and Subsidiaries

Consolidated statement of financial position
For the years ended December 31, 2017 and 2016
(In US\$ thousand)

	Notes	2017	2016
Assets			
Cash and cash equivalents	4,18,27.2	672,048	1,069,538
Financial Instruments:			
At fair value through OCI	5.2,18	25,135	30,607
Securities at amortized cost, net	5.3,18	68,934	77,214
Loans	5.5,27.2,27.3	5,505,658	6,020,731
Less:			
Allowance for expected credit losses	5.5,17,27.2	81,294	105,988
Unearned interest and deferred fees	5.5,27.2	4,985	7,249
Loans, net		5,419,379	5,907,494
Derivative financial instruments used for hedging – receivable	5.6,5,7,17,18	13,338	9,352
Property and equipment, net	7,17	7,420	8,549
Intangibles, net	8,17	5,425	2,909
Other assets:			
Customers' liabilities under acceptances	18,17	6,369	19,387
Accrued interest receivable	18,17	30,872	44,187
Other assets	9,17	18,827	11,546
Total of other assets		56,068	75,120
Total assets		6,267,747	7,180,783
Liabilities and stockholders' equity			
Deposits:	10,18,27.2,27.3		
Noninterest-bearing - Demand		420	1,617
Interest-bearing - Demand		81,644	125,397
Time		2,846,780	2,675,838
Total deposits		2,928,844	2,802,852
Derivative financial instruments used for hedging – payable	5.6,5,7,18	34,943	59,686
Financial liabilities through profit or loss	5.1,5,7,18	-	24
Short-term borrowings and debt	12.1,18	1,072,723	1,470,075
Long-term borrowings and debt, net	12.2,18	1,138,844	1,776,738
Other liabilities:			
Acceptances outstanding	18	6,369	19,387
Accrued interest payable	18	15,816	16,603
Allowance for expected credit losses on loan commitments and financial guarantees contracts	6	6,845	5,776
Other liabilities	13	20,551	18,328
Total other liabilities		49,581	60,094
Total liabilities		5,224,935	6,169,469
Stockholders' equity:	14,15,16,19		
Common stock		279,980	279,980
Treasury stock	15	(63,248)	(69,176)
Additional paid-in capital in excess of assigned value of common stock		119,941	120,594
Capital reserves		95,210	95,210
Retained earnings		608,966	587,507
Accumulated other comprehensive income (loss)	5.2,5,6,19	1,963	(2,801)
Total stockholders' equity		1,042,812	1,011,314
Total liabilities and stockholders' equity		6,267,747	7,180,783

The accompanying notes are an integral part of these consolidated financial statements.

Banco Latinoamericano de Comercio Exterior, S. A. and Subsidiaries

Consolidated statements of profit or loss
For the years ended December 31, 2017, 2016 and 2015
(In US\$ thousand, except per share amounts)

	Notes	2017	2016	2015
Interest income:				
Deposits		10,261	4,472	2,050
At fair value through OCI		545	2,254	6,033
Securities at amortized cost		1,947	2,780	2,371
Loans		213,326	236,392	209,858
Total interest income		226,079	245,898	220,312
Interest expense:				
Deposits		42,847	20,131	11,788
Short and long-term borrowings and debt		63,417	70,558	63,045
Total interest expense		106,264	90,689	74,833
Net interest income		119,815	155,209	145,479
Other income:				
Fees and commissions, net	21	17,514	14,306	19,200
Loss on derivative financial instruments and foreign currency exchange, net	5.6	(437)	(486)	(23)
(Loss) gain per financial instrument at fair value through profit or loss	22	(732)	(2,883)	5,731
Gain (loss) on sale of securities at fair value through OCI	5.2	249	(356)	363
Gain on sale of loans	5.4	181	806	1,505
Other income		1,723	1,378	1,603
Net other income		18,498	12,765	28,379
Total income		138,313	167,974	173,858
Expenses:				
Impairment loss from expected credit losses on loans at amortized cost	5.5	8,859	34,760	17,248
(Recovery) impairment loss from expected credit losses on investment securities	5.2,5.3	(489)	3	5,290
Impairment loss (recovery) from expected credit losses on loan commitments and financial guarantee contracts	6	1,069	352	(4,448)
Salaries and other employee expenses	23	27,653	25,196	30,435
Depreciation of equipment and leasehold improvements	7	1,578	1,457	1,371
Amortization of intangible assets	8	838	629	596
Other expenses	24	16,806	18,532	19,382
Total expenses		56,314	80,929	69,874
Profit for the year		81,999	87,045	103,984
Earnings per share:				
Basic	14	2.09	2.23	2.67
Diluted	14	2.08	2.22	2.66
Weighted average basic shares	14	39,311	39,085	38,925
Weighted average diluted shares	14	39,329	39,210	39,113

The accompanying notes are an integral part of these consolidated financial statements.

Banco Latinoamericano de Comercio Exterior, S. A. and Subsidiaries

Consolidated statements of profit or loss and other comprehensive income
For the years ended December 31, 2017, 2016 and 2015
(In US\$ thousand)

	Notes	2017	2016	2015
Profit for the year		81,999	87,045	103,984
Other comprehensive income (loss):				
Items that are not be reclassified subsequently to gains and losses:				
Change in fair value for revaluation by equity instrument to FVOCI, net of hedging	19	187	-	-
Items that are or may be reclassified subsequently to gains and losses:				
Net change in unrealized gain (losses) on financial instruments at fair value through OCI	19	696	8,078	(2,114)
Net change in unrealized losses on derivative financial instruments	19	2,391	(198)	(730)
Cambio neto en pérdidas netas por conversión de moneda extranjera		(60)	-	-
Exchange difference in conversion of foreign operating currency		1,550	-	-
Other comprehensive income (loss)	19	4,764	7,880	(2,844)
Total comprehensive income for the year		86,763	94,925	101,140

The accompanying notes are an integral part of these consolidated financial statements.

Banco Latinoamericano de Comercio Exterior, S. A. and Subsidiaries

Consolidated statements of changes in equity
For the years ended December 31, 2017, 2016 and 2015
(In US\$ thousand)

	Common stock	Treasury stock	Additional paid-in capital in excess of assigned value of common stock	Capital reserves	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balances at January 1, 2015	279,980	(77,627)	119,644	95,210	501,669	(7,837)	911,039
Profit for the year	-	-	-	-	103,984	-	103,984
Other comprehensive income	-	-	-	-	-	(2,844)	(2,844)
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	3,296	-	-	-	3,296
Exercised options and stock units vested	-	2,971	(1,504)	-	-	-	1,467
Repurchase of "Class B" and "Class E" common stock	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	(45,011)	-	(45,011)
Balances at December 31, 2015	279,980	(73,397)	120,177	95,210	560,642	(10,681)	971,931
Profit for the year	-	-	-	-	87,045	-	87,045
Other comprehensive income	-	-	-	-	-	7,880	7,880
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	3,063	-	-	-	3,063
Exercised options and stock units vested	-	2,962	(1,387)	-	-	-	1,575
Repurchase of "Class B" and "Class E" common stock	-	-	-	-	-	-	-
Dividends declared	-	-	-	-	(60,180)	-	(60,180)
Balances at December 31, 2016	279,980	(69,176)	120,594	95,210	587,507	(2,801)	1,011,314
Profit for the period	-	-	-	-	81,999	-	81,999
Other comprehensive income	-	-	-	-	-	4,764	4,764
Issuance of restricted stock	-	1,259	(1,229)	-	-	-	30
Compensation cost - stock options and stock units plans	-	-	296	-	-	-	296
Exercised options and stock units vested	-	4,697	280	-	-	-	4,977
Repurchase of "Class B" and "Class E" common stock	-	(28)	-	-	-	-	(28)
Dividends declared	-	-	-	-	(60,540)	-	(60,540)
Balances at December 31, 2017	279,980	(63,248)	119,941	95,210	608,966	1,963	1,042,812

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows
For the years ended December 31, 2017, 2016 and 2015
(In US\$ thousand)

	2017	2016	2015
Cash flows from operating activities			
Profit for the year	81,999	87,045	103,984
Adjustments to reconcile profit for the year to net cash provided by (used in) operating activities:			
Activities of derivative financial instruments used for hedging	(26,363)	21,333	(2,279)
Depreciation of equipment and leasehold improvements	1,578	1,457	1,371
Amortization of intangible assets	838	629	596
Loss for disposal of equipment and leasehold improvements	2,205	140	32
Loss for disposal of intangible assets	16	-	1
Impairment loss from expected credit losses	9,439	35,115	18,090
Net (gain) loss on sale of financial assets at fair value through OCI	(249)	356	(363)
Compensation cost - share-based payment	296	3,063	3,296
Interest income	(226,079)	(245,898)	(220,312)
Interest expense	106,264	90,689	74,833
Net decrease (increase) in operating assets:			
Net decrease (increase) in pledged deposits	8,571	(29,148)	6,546
Financial instruments at fair value through profit or loss	-	53,411	2,545
Net decrease (increase) in loans at amortized cost	479,226	650,217	(7,410)
Other assets	(269)	(39)	(7,738)
Net increase (decrease) in operating liabilities:			
Net increase due to depositors	125,992	7,383	288,775
Financial liabilities at fair value through profit or loss	(24)	(65)	37
Other liabilities	(4,695)	(1,774)	6,398
Cash provided by operating activities	558,745	673,914	268,402
Interest received	239,394	247,167	223,033
Interest paid	(107,051)	(91,802)	(71,972)
Net cash provided by operating activities	691,088	829,279	419,463
Cash flows from investing activities:			
Acquisition of equipment and leasehold improvements	(2,654)	(3,973)	(615)
Acquisition of intangible assets	(3,370)	(3,111)	-
Proceeds from the redemption of of financial instruments at fair value through OCI	-	107,088	151,131
Proceeds from the sale of financial instruments at fair value through OCI	17,040	102,655	118,210
Proceeds from maturities of financial instruments at amortized cost	18,258	55,240	44,923
Purchases of financial instruments at fair value through OCI	(8,402)	(84,153)	(86,629)
Purchases of financial instruments at amortized cost	(9,978)	(24,600)	(96,920)
Net cash provided by investing activities	10,894	149,146	130,100
Cash flows from financing activities:			
Net decrease in short-term borrowings and debt and securities sold under repurchase agreements	(397,352)	(1,074,366)	(448,615)
Proceeds from long-term borrowings and debt	219,905	403,489	946,084
Repayments of long-term borrowings and debt	(857,799)	(508,564)	(462,559)
Dividends paid	(60,605)	(60,135)	(59,943)
Exercised stock options	4,977	1,575	1,467
Repurchase of common stock	(27)	-	-
Net cash used in financing activities	(1,090,901)	(1,238,001)	(23,566)
Net (decrease) increase in cash and cash equivalents	(388,919)	(259,576)	525,997
Cash and cash equivalents at beginning of the year	1,007,726	1,267,302	741,305
Cash and cash equivalents at end of the year	618,807	1,007,726	1,267,302

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2017, 2016 and 2015

(Amounts expressed in thousands of U.S. dollars, except when otherwise indicated)

1. Corporate information

Banco Latinoamericano de Comercio Exterior, S. A. (“Bladex Head Office” and together with its subsidiaries “Bladex” or the “Bank”), headquartered in Panama City, Republic of Panama, is a specialized multinational bank established to support the financing of trade and economic integration in Latin America and the Caribbean (the “Region”). The Bank was established pursuant to a May 1975 proposal presented to the Assembly of Governors of Central Banks in the Region, which recommended the creation of a multinational organization to increase the foreign trade financing capacity of the Region. The Bank was organized in 1977, incorporated in 1978 as a corporation pursuant to the laws of the Republic of Panama, and officially initiated operations on January 2, 1979. Under a contract law signed in 1978 between the Republic of Panama and Bladex, the Bank was granted certain privileges by the Republic of Panama, including an exemption from payment of income taxes in Panama.

The Bank operates under a general banking license issued by the National Banking Commission of Panama, predecessor of the Superintendency of Banks of Panama (the “SBP”).

In the Republic of Panama, banks are regulated by the SBP through Executive Decree No. 52 of April 30, 2008, which adopts the unique text of the Law Decree No. 9 of February 26, 1998, modified by the Law Decree No. 2 of February 22, 2008. Banks are also regulated by resolutions and agreements issued by this entity. The main aspects of this law and its regulations include: the authorization of banking licenses, minimum capital and liquidity requirements, consolidated supervision, procedures for management of credit and market risks, measures to prevent money laundering, the financing of terrorism and related illicit activities, and procedures for banking intervention and liquidation, among others.

Bladex Head Office’s subsidiaries are the following:

- Bladex Holdings Inc. a wholly owned subsidiary, incorporated under the laws of the State of Delaware, United States of America (USA), on May 30, 2000. Bladex Holdings Inc. has ownership in Bladex Representacao Ltda.
- Bladex Representação Ltda., incorporated under the laws of Brazil on January 7, 2000, acts as the Bank’s representative office in Brazil. Bladex Representacao Ltda. is 99.999% owned by Bladex Head Office and the remaining 0.001% owned by Bladex Holdings Inc.
- Bladex Investimentos Ltda. was incorporated under the laws of Brazil on May 3, 2011. Bladex Head Office owned 99% of Bladex Investimentos Ltda., and Bladex Holdings Inc. owned the remaining 1%. This company had invested substantially all of its assets in an investment fund, Alpha 4x Latam Fundo de Investimento Multimercado, incorporated in Brazil (“the Brazilian Fund”), registered with the Securities and Exchange Commission of Brazil (“CVM”, for its acronym in Portuguese). Bladex Investimentos Ltda. merged with Bladex Representacao Ltda. on April 2016, being the former the extinct company under Brazilian law and prevailing the acquiring company Bladex Representacao Ltda.
- Bladex Development Corp. was incorporated under the laws of Panama on June 5, 2014. Bladex Development Corp. is 100% owned by Bladex Head Office.
- BLX Soluciones, S.A. de C.V., SOFOM, E.N.R. was incorporated under the laws of Mexico on June 13, 2014. BLX Soluciones is 99.9% owned by Bladex Head Office, and Bladex Development Corp. owns the remaining 0.1%. The company specializes in offering financial leasing and other financial products such as loans and factoring.

Bladex Head Office has an agency in New York City, USA (the “New York Agency”), which began operations on March 27, 1989. The New York Agency is principally engaged in financing transactions related to international trade, mostly the confirmation and financing of letters of credit for customers in the Region. The New York Agency also has authorization to book transactions through an International Banking Facility (“IBF”).

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1. Corporate information (continued)

The Bank has representative offices in Buenos Aires, Argentina; in Mexico City; in Lima, Peru; and in Bogota, Colombia.

The consolidated financial statements have been authorized for issue by resolution of the Board of Directors dated February 06, 2018.

2. Basis of preparation of the consolidated financial statements

2.1 Statement of compliance

The consolidated financial statements of Banco Latinoamericano de Comercio Exterior, S. A. and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations issued by the IFRS Interpretation Committee (formerly known as IFRIC).

2.2 Basis of valuation and presentation currency

The consolidated financial statements have been prepared on the basis of fair value for financial assets and liabilities through profit or loss, derivative financial instruments, investments and other financial assets at fair value through other comprehensive income. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges, that would otherwise be carried at amortized cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. Other financial assets and liabilities and other non-financial assets and liabilities are presented at amortized cost or on a historical cost basis.

All amounts presented in the consolidated financial statements and notes are expressed in United States of America dollars (US dollar), which is the functional currency of the Bank.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of Bladex and its subsidiaries. Bladex consolidates its subsidiaries from the date on which control is transferred to the Bank. All intercompany balances and transactions have been eliminated for consolidation purposes. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee. Existing rights that give it the current ability to direct the relevant activities of the investee.
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its return.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Bank has less than the majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank’s voting rights and potential voting rights.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the equity holders of the parent of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank’s accounting policies.

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2. Basis of preparation of the consolidated financial statements (continued)

2.3 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in the consolidated statement of profit or loss. Any investment retained is recognized at fair value.

When loses control of a subsidiary, the gain/loss on disposal recognised in profit or loss is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest, and
- The previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any Non-Controlling Interest (NCI)

All amounts previously recognised in other comprehensive income (loss) in relation to that subsidiary are accounted for as if had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 – “Financial *Instruments*” when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Summary of significant accounting policies

The following are the significant accounting policies applied consistently by the Bank to all years presented in these consolidated financial statements.

3.1 Currency and foreign currency transactions

3.1.1 Foreign currency transactions

For the purpose of consolidation of the financial statements, the Bank applies IAS 21- “*The Effect of Change in Foreign Exchange Rates*” to financial assets and financial liabilities that are monetary items and denominated in a foreign currency. This standard requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge, a hedge of a net investment or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income (loss).

For each entity, the Bank determines the functional currency, and items included in the consolidated financial statements of each entity are measured using the functional currency.

3.1.2 Transactions and balances

Assets and liabilities of foreign subsidiaries, whose local currency is considered their functional currency, are translated into the reporting currency, US dollars, using month-end spot foreign exchange rates. The Bank uses monthly-averaged exchange rates to translate revenues and expenses from local functional currency into US dollars. The effects of those translations adjustments are reported as a component of the accumulated other comprehensive income (loss) in the consolidated statement of changes in equity.

Transactions whose terms are denominated in a currency other than the functional currency, including transactions denominated in local currency of the foreign entity with the US dollar as their functional currency, are recorded at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currency are translated into US dollar using month-end spot foreign exchange rates. The effects of translation of monetary assets and liabilities into US dollar are included in current year’s earnings in the gain (loss) on foreign currency exchange line item.

3. Summary of significant accounting policies (continued)

3.1 Currency and foreign currency transactions (continued)

3.1.2 Transactions and balances (continued)

Differences arising on settlement or translation of monetary items are recognized in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Bank’s net investment in a foreign operation. These are recognized in consolidated statements of other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is classified to the consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in consolidated statements of other comprehensive income, if applicable.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

3.2 Cash and cash equivalents

Cash equivalents include demand deposits in banks and interest-bearing deposits in banks with original maturities of three months or less, excluding pledged deposits.

3.3 Financial instruments

3.3.1 Date of recognition

All financial assets and liabilities are initially recognized on the trade date, the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.3.2 Initial measurement of financial instruments

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost; debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI); all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- It may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 – “*Business Combinations*” applies, in other comprehensive income (loss); and
- It may irrevocably designate a debt instrument that meets the amortized cost or at FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Summary of significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.3 Classification

The Bank classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of the Bank’s business model for managing the financial assets and the contractual cash flow characteristics of these financial assets.

The Bank classifies all financial liabilities as subsequently measured at amortized costs, except for those liabilities measured at fair value through profit or loss as a result of hedge accounting, as well as liabilities measured at fair value in the case of undesignated derivatives.

3.3.4 Business model assessment

The Bank makes an assessment of the objective of the business model in which the financial asset is held at a portfolio level, because this reflects the way the business is managed, and information is provided to management. The information considers the following:

- The Bank’s policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank’s management;
- The risk that affect the performance of the business model and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realized.

3.3.5 Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs as well as profit margin.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers the following:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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3. Summary of significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.6 Financial assets at fair value through other comprehensive income (FVOCI)

These securities consist of debt instruments not classified as either securities at FVTPL or securities at amortized cost, and are subject to the same approval criteria as the rest of the credit portfolio. These securities are carried at fair value if both of the following conditions are met:

- The financial asset is held according to a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Unrealized gains and losses are reported as net increases or decreases to accumulated other comprehensive income (loss) (“OCI”) in the consolidated statement of changes in equity until they are realized. Realized gains and losses from the sale of securities which are included in net gain on sale of securities are determined using the specific identification method.

For an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

3.3.7 Financial assets at amortized cost

Financial assets classified at amortized cost represent securities and loans whose objective is to hold them in order to collect contractual cash flows over the life of the instrument. These securities and loans are measured at amortized cost if both of the following conditions are met:

- The financial asset is held according to a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.3.8 Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets and liabilities at fair value through profit or loss include a) assets with contractual cash flows that are not SPPI; or/and b) assets designated at FVTPL using the fair value option; and payables (unrealized losses) related to derivative financial instruments which are not designated as hedges or which do not qualify for hedge accounting.

Unrealized and realized gains and losses on assets and liabilities at FVTPL are recorded in the consolidated statement of profit or loss as net gain (loss) from financial instruments at FVTPL.

3.3.9 Reclassification

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank’s financial assets.

During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

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3. Summary of significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.10 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset and either has transferred substantially all risk and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- The Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement.
- When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred asset or portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is extinguished, when the obligation specified in the contract is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a an extinguishment of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of profit or loss.

3. Summary of significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.10 Derecognition of financial assets and financial liabilities (continued)

Impairment of financial assets – investment securities

The Bank conducts periodic reviews for all of its securities. The Bank recognizes a loss allowance for expected credit losses on investment securities measured at fair value through other comprehensive income and investment securities measured at amortized cost. If at the reporting date, the credit risk of these financial instruments has not increased significantly since initial recognition, the Bank will measure the loss allowance for those financial instruments at an amount equal to 12-month expected credit losses. However, if the Bank determines that the credit risk of those financial instruments has increased significantly since initial recognition, then it measures a loss allowance at an amount equal to the lifetime expected credit losses. If the Bank has measured a loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting year because of a significant increase in credit risk, but determines at the current reporting date that this presumption is no longer met; then it will measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date. The Bank recognizes in the consolidated statement of profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance to the amount that is required to be recognized at the reporting date.

The Bank maintains a system of internal credit quality indicators. . The table below provides a mapping of the Bank’s internal credit risk grades to external ratings.

<u>Internal Rating</u>	<u>External Rating ⁽¹⁾</u>	<u>Description</u>
1 a 4	Aaa – Ba1	Clients with payment ability to satisfy their financial commitments
5 a 6	Ba2 – B3	Clients with payment ability to satisfy their financial commitments, but with more frequent reviews.
7	Caa1	Clients exposed to systemic risks specific to the country or the industry in which they are located, facing adverse situations in their operation or financial condition. At this level, access to new funding is uncertain.
8	Caa2 – Caa3	Clients whose primary source of payment (operating cash flow) is inadequate, and who show evidence of deterioration in their working capital that does not allow them to satisfy payments on the agreed terms, endangering recovery of unpaid balances.
9	Ca	Clients whose operating cash flow continuously shows insufficiency to service the debt on the originally agreed terms. Due to the fact that the borrower presents an impaired financial and economic situation, the likelihood of recovery is low.
10	C	Clients with operating cash flow that does not cover their costs, are in suspension of payments, presumably will also have difficulties fulfilling possible restructuring agreements, are in a state of insolvency, or have filed for bankruptcy, among others.

⁽¹⁾ External rating in accordance to Moody’s

For financial instruments measured at fair value through OCI, the expected credit losses do not reduce the carrying amount in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset was measured at amortized cost is recognized in the consolidated statement of profit or loss and other comprehensive income as the accumulated impairment amount. Impairment gains or losses are accounted for as an adjustment of the revaluation reserve in the accumulated other comprehensive income, with a corresponding charge to the consolidated statement of profit or loss.

Impairment on securities is evaluated considering numerous factors, and their relative significance varies case by case. Factors considered in determining whether a detrimental impact on the estimated future cash flows of a financial asset has occurred include, but are not limited to: significant financial difficulty of the issuer; high probability of bankruptcy; granting a concession to the issuer; disappearance of an active market because of financial difficulties; breach of contract, such as default

3. Summary of significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.10 Derecognition of financial assets and financial liabilities (continued)

Impairment of financial assets – investment securities

or delinquency in interest or principal; and, observable data indicating there is a measurable decrease in the estimated future cash flows since initial recognition.

If a security is no longer publicly traded or the entity’s credit rating is downgraded, this is not, by itself, evidence of impairment, but should be considered for impairment together with other information. A decline in the fair value of an investment security below its amortized cost is not necessarily evidence of impairment, as it may be due to an increase in market interest rates. Whether a decline in fair value below cost is considered significant or prolonged, must be assessed on an instrument-by-instrument basis and should be based on both qualitative and quantitative factors. However, the assessment of prolonged decline should not be compared to the entire period that the investment has been or is expected to be held.

3.4 Non-financial assets

A non-financial asset is an asset with a physical or intangible value and it is subject to the impairment guidelines prescribed in IAS 36 – *Impairment of assets*.

3.4.1 Impairment of non-financial assets

A non-financial asset is impaired when an entity will not be able to recover that asset’s carrying value, either through using it or selling it. If circumstances arise which indicate that a non-financial asset might be impaired, a review should be undertaken of its cash generating abilities through use or sale. This review will produce an amount which should be compared with the asset’s carrying value, and if the carrying value is higher, the difference must be written off as impairment in the consolidated statement of profit or loss. On the other hand, if there is any indication that previously recognized impairment losses may no longer exists or may have decreased, the Bank makes an estimate of the recoverable amount. In that case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss.

3.5 Loans - at amortized cost

Loans are reported at their amortized cost considering the principal outstanding amounts net of unearned interest, and deferred fees and allowance for expected credit losses. Interest income is recognized using the effective interest rate method. This shall be calculated by applying the effective interest rate to the gross carrying amount of the loan, except for: a) purchased or originated credit-impaired loans. For these financial assets, the Bank applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition; and b) loans that have subsequently become credit-impaired financial assets. For these loans, the Bank shall apply the effective interest rate to the amortized cost of the financial asset in subsequent reporting years.

The amortization of net unearned interest and deferred fees are recognized as an adjustment to the related loan yield using the effective interest rate method.

Purchased loans are recorded at acquisition cost. The difference between the principal and the acquisition cost of loans, the premiums and discounts, is amortized over the life of the loan as an adjustment to the yield. All other costs related to acquisition of loans are expensed when incurred.

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3. Summary of significant accounting policies (continued)

3.5 Loans - at amortized cost (continued)

Definition of Default

The Bank considers a financial asset to be in default when it presents any of the following characteristics:

- The debtor is past due for more than 90 days in any of its obligations to the bank, either in the loan principal or interest; or when the principal balance with one single balloon payment was due for more than 30 days;
- Deterioration in the financial condition of the client, or the existence of other factors with the administration to estimate the possibility that the balance of principal and interest on customer loans is not fully recovered.

The above presumptions regarding past due loans may be rebuttable if the Bank has reasonable and supportable information that is available without undue cost or effort, that demonstrate that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 or 90 days past due.

In assessing whether a borrower is in default, the Bank considers indicators that are qualitative and quantitative based on data developed internally and obtained from external sources. Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Modified loan

A modified or renegotiated loan is a loan whose borrower is experiencing financial difficulties and the renegotiation constitutes a concession to the borrower. A concession may include modification of terms such as an extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, and reduction in the face amount of the loan or reduction of accrued interest, among others.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

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3. Summary of significant accounting policies (continued)

3.5 Loans - at amortized cost (continued)

Modified loan (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

In the renegotiation or modification of the contractual cash flows of the loan, the Bank shall:

- Continue with its current accounting treatment for the existing loan that has been modified.
- Record a modification gain or loss by recalculating the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate.
- Assess whether there has been a significant increase in the credit risk of the financial instrument, by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). The loan that is modified is not automatically considered to have a lower credit risk. The assessment should consider credit risk over the expected life of the asset based on the historical and forward-looking information, including information about the circumstances that led to the modification. Evidence that the criteria for the recognition of lifetime expected credit losses are subsequently no longer met may include a history of up-to-date and timely payment in subsequent periods. A minimum period of observation will be necessary before a financial asset may qualify to return to a 12-month expected credit loss measurement.
- Make the appropriate quantitative and qualitative disclosures required for renegotiated or modified assets to reflect the nature and effect of such modifications (including the effect on the measurement of expected credit losses) and how the Bank monitors these loans that have been modified.

The Bank recognizes a loss allowance for expected credit losses (ECL) on a loan that is measured at amortized cost at each reporting date at an amount equal to the lifetime expected credit losses if the credit risk on that loan has increased significantly since initial recognition. If at the reporting date, the credit risk of that loan has not increased significantly since initial recognition, an entity shall measure the loss allowance for that loan at an amount equal to 12-month expected credit losses.

The Bank's lending portfolio is comprised of the following segments: corporations, sovereign, middle-market companies and banking and financial institutions. The distinction between corporations and middle-market companies depends on the client's level of annual sales in relation to the country risk, among other criteria. Except for the sovereign segment, segments are broken down into state-owned and private.

The Bank's lending policy is applicable to all types of loans.

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3. Summary of significant accounting policies (continued)

3.6 Allowance for expected credit losses

The allowance for expected credit losses is provided for losses derived from the credit extension process, inherent in the loan portfolio and loan commitments and financial guarantee contracts, using the reserve methodology to determine expected credit losses. Additions to the allowance for expected credit losses are made by debiting earnings. Credit losses are deducted from the allowance, and subsequent recoveries are added. The allowance is also decreased by reversals of the allowance back to earnings. The allowance for expected credit losses for loans at amortized cost is reported as a deduction of loans and, as a liability, the allowance for expected credit losses on loan commitments and financial guarantee contracts, such as, letters of credit and guarantees.

The Bank maintains a system of internal credit quality indicators. These indicators are assigned depending on several factors which include: profitability, quality of assets, liquidity and cash flows, capitalization and indebtedness, economic environment and positioning, regulatory framework and/or industry, sensitivity scenarios and the quality of borrower’s management and shareholders, among others.

The Bank maintains a system of internal credit quality indicators. The table below provides a mapping of the Bank’s internal credit risk grades to external ratings.

<u>Internal Rating</u>	<u>External Rating ⁽¹⁾</u>	<u>Description</u>
1 a 4	Aaa – Ba1	Clients with payment ability to satisfy their financial commitments
5 a 6	Ba2 – B3	Clients with payment ability to satisfy their financial commitments, but with more frequent reviews.
7	Caa1	Clients exposed to systemic risks specific to the country or the industry in which they are located, facing adverse situations in their operation or financial condition. At this level, access to new funding is uncertain.
8	Caa2 – Caa3	Clients whose primary source of payment (operating cash flow) is inadequate, and who show evidence of deterioration in their working capital that does not allow them to satisfy payments on the agreed terms, endangering recovery of unpaid balances.
9	Ca	Clients whose operating cash flow continuously shows insufficiency to service the debt on the originally agreed terms. Due to the fact that the borrower presents an impaired financial and economic situation, the likelihood of recovery is low.
10	C	Clients with operating cash flow that does not cover their costs, are in suspension of payments, presumably will also have difficulties fulfilling possible restructuring agreements, are in a state of insolvency, or have filed for bankruptcy, among others.

⁽²⁾ External rating in accordance to Moody’s

In order to maintain periodical monitoring of the quality of the portfolio, clients are reviewed within a frequency of time between 3 and 12 months, depending on the risk rating.

The Bank measures expected credit losses (ECLs) in a way that reflects: a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; b) the time value of money; and c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

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3. Summary of significant accounting policies (continued)

3.6 Allowance for expected credit losses (continued)

The expected credit loss model reflects the general pattern of deterioration or improvement in the credit quality of the loans. The amount of ECLs recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. There are two measurement bases:

- 12-month ECLs (Stage 1), which applies to all loans (from initial recognition) as long as there is no significant deterioration in credit quality,
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis. In Stages 2 and 3 interest revenue is recognized. Under Stage 2 (as under Stage 1), there is a full decoupling between interest recognition and impairment and interest revenue is calculated on the gross carrying amount. Under Stage 3, when a loan subsequently becomes credit impaired (when a credit event has occurred), interest revenue is calculated on the amortized cost, net of impairment, i.e. the gross carrying amount after deducting the impairment allowance. In subsequent reporting years, if the credit quality of the financial asset improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to the occurrence of an event (such as an improvement in the borrower’s credit rating), then the Bank will once again calculate the interest revenue on a gross basis.

The allowance for expected credit losses includes an asset-specific component and a formula-based component. The asset-specific component, or specific allowance, relates to the provision for losses on credits considered impaired and measured individually case-by-case. A specific allowance is established when the discounted cash flows (or observable fair value of collateral) of the credit is lower than the carrying value of that credit. The formula-based component (collective assessment basis), covers the Bank’s performing credit portfolio and it is established based in a process that estimates the probable loss inherent in the portfolio, based on statistical analysis and management’s qualitative judgment. This analysis considers comprehensive information that incorporates not only past-due data, but other relevant credit information, such as forward looking macro-economic information.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset’s effective interest rate (EIR). For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank determines the ECLs using two methodologies to determine if there is objective evidence of impairment:

- Individually Evaluated Loans

The expected credit losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. This procedure is applied to all loans that are individually significant or not. If it is determined that there is no objective evidence of impairment for an individual loan, it is included in a group of loans with similar characteristics and is evaluated collectively to determine whether there is impairment.

The impairment loss is calculated by comparing the present value of the future expected flows, discounted at the original effective rate of the loan, with its current carrying amount and the amount of any loss is charged as a provision for losses in the statement of profit and loss . The carrying amount of the impaired loans is reduced through the use of a reserve account.

3. Summary of significant accounting policies (continued)

3.6 Allowance for expected credit losses (continued)

- Collectively Evaluated Loans

For the purposes of a collective assessment of impairment, loans are grouped according to similar characteristics of credit risk. These characteristics are relevant for the estimation of future cash flows for the groups of such assets, being indicative of the debtors' ability to pay the amounts owed according to the contractual terms of the assets that are evaluated.

Future cash flows in a group of loans that are evaluated collectively to determine whether there is impairment are estimated according to the contractual cash flows of the assets in the group, the historical loss experience for assets with risk characteristics. Similar credit to the group and in experienced management views on whether the current economy and credit conditions can change the real level of historical inherent losses suggested.

Significant increase in credit risk

When assessing whether the credit risk on a loan has increased significantly, the Bank considers the change in the risk of default occurring since initial recognition. For a loan to be considered in “default”, management considers criteria used in the internal credit risk model and qualitative factors, such as financial covenants, when appropriate.

Additionally, the Bank to determine that there has been a significant increase in risk applies an alert model that considers the international economic environment, the specific financial situation by country and the economic analysis of the industry where the credit generates its income. The model defines a consolidated calculation of Risk Severity depending on the weighting of the Severity to Risk of each one of the analysis contexts. Also, this depends on the context of the variables or the ratings constructed for each one (International Context: by market ratings, Context Country: by country / Context Economic Sector: by economic sector).

At each reporting date, the Bank assesses significant increases in credit risk based on the change in the risk of a default occurring over the expected life of the credit instrument. In order to make the assessment of whether there has been significant credit deterioration, the Bank considers reasonable and supportable information that is available without undue cost or effort and comparing:

- The risk of a default occurring on the financial instrument as at the reporting date, and
- The risk of a default occurring on the financial instrument as at the date of initial recognition.

For loan commitments, the Bank considers changes in the risk of a default occurring on the ‘potential’ loan to which a loan commitment relates, and for financial guarantee contracts, changes in the risk that the specified debtor will default, are taken into consideration. In order to determine whether there has been a significant increase in the credit risk of the financial instrument, the assessment is based on quantitative information and qualitative information. The Bank considers the following factors though not exhaustive, when measuring significant increase in credit risk:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception;
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life;
- An actual or expected significant change in the financial instrument’s external credit rating;
- Existing or forecast adverse changes in business, financial or economic conditions;
- An actual or expected significant change in the operating results of the borrower;
- An actual or expected significant adverse change in the regulatory environment, economic, or technological environment of the borrower;
- Significant changes in the value of the collateral supporting the obligation;
- Significant changes, such as reductions, in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancements, among other factors incorporated in the Bank’s ECLs model.

3. Summary of significant accounting policies (continued)

3.6 Allowance for expected credit losses (continued)

Significant increase in credit risk (continued)

The reserve balances, for exposures on loans at amortized cost and loan commitments and financial guarantees contracts, are calculated applying the following formula:

Reserves = $\sum (E \times PD \times LGD)$; where:

- Exposure (E) = the total accounting balance at the end of the period under review.
- Probabilities of Default (PD) = one-year probability of default applied to the portfolio to account for 12-month expected credit losses and lifetime probability of default to account for more than 12-month. Default rates are based on Bladex’s historical portfolio performance per rating category, complemented by International Rating Agency’s probabilities of default for categories 6, 7 and 8, in view of the greater robustness of data for such cases.
- Loss Given Default (LGD) = a factor is utilized, based on historical information, same as based on best practices in the banking industry, volatility and simulated scenarios based on forward-looking information. Management applies judgment and historical loss experience. Management also applies complementary judgment to capture elements of prospective nature or loss expectations based on risks identified in the environment that are not necessarily reflected in the historical data. The allowance policy is applicable to all classes of loans and, loan commitments and financial guarantee contracts of the Bank.

Write-off

When the Bank has no reasonable expectations of recovering the loan, then the gross carrying amount of the loan is directly reduced in its entirety; thus, constituting a derecognition event. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

If the amount of loss on write-off is greater than the accumulated loss allowance, the differences will be recognized as an additional impairment loss.

3.7 Derivative financial instruments for risk management purposes and hedge accounting

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

The Bank applies IFRS 9- “*Financial Instruments*” the hedge accounting rules in full.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. Summary of significant accounting policies (continued)

3.7 Derivative financial instruments and hedge accounting (continued)

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), 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 Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated.

The Bank uses derivative financial instruments for its management of interest rate and foreign exchange risks. Interest rate swap contracts, cross-currency swap contracts and foreign exchange forward contracts have been used to manage interest rate and foreign exchange risks respectively associated with debt securities and borrowings with fixed and floating rates, and loans and borrowings in foreign currency.

These derivatives contracts can be classified as fair value and cash flow hedges. In addition, foreign exchange forward contracts are used to hedge exposures to changes in foreign currency in subsidiary companies with functional currencies other than the US dollar. These contracts are classified as net investment hedges.

The accounting for changes in value of a derivative depends on whether the contract is for trading purposes or has been designated and qualifies for hedge accounting.

Derivatives held for trading purposes include interest rate swap, cross-currency swap, foreign exchange forward and future contracts used for risk management purposes that do not qualify for hedge accounting. These derivatives are reported as asset or liabilities, as applicable. Changes in realized and unrealized gains and losses and interest from these financial instruments are included in gain or loss per financial instrument at fair value through profit or loss.

Derivatives for hedging purposes primarily include foreign exchange forward contracts and interest rate swap contracts in US dollar and cross-currency swaps. Derivative contracts designated and qualifying for hedge accounting are reported in the consolidated statement of financial position as derivative financial instruments used for hedging - receivable and payable, as applicable, and hedge accounting is applied. In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, as well as how effectiveness will be assessed prospectively. The extent to which a hedging instrument is effective at achieving offsetting changes in fair value or cash flows must be assessed at least quarterly. Any ineffectiveness must be reported in current-year earnings.

Economic relationship

As the Bank enters into a hedging relationship, the first requirement is that the hedging instrument and the hedged item must be expected to move in the opposite direction as a result of the change in the hedged risk. This should be based on an economic rationale, as could be the case if the relationship is based only on a statistical correlation. This requirement is fulfilled for many of the hedging relationships carried by the Bank as the underlying of the hedging instrument matches, or is closely aligned with the hedged risk. Even when there are differences between the hedged item and the hedging instrument, the economic relationship will often be capable of being demonstrated using a qualitative assessment. The assessment considers, whether qualitative or quantitative, the following: a) maturity; b) nominal amount; c) cash flow dates; d) interest rate basis; and e) credit risk, including the effect of collateral, among others.

Hedge ratio

The hedge ratio is the ratio between the amount of hedged item and the amount of the hedging instrument. For most of the hedging relationships, the hedge ratio is 1:1 as the underlying of the hedging instrument perfectly matches the designated hedged risk. For a hedging relationship with a correlation between the hedged item and the hedging instrument that is not 1:1 relationship, generally set the hedge ratio so as to adjust for the type of relation in order to improve effectiveness.

3. Summary of significant accounting policies (continued)

3.7 Derivative financial instruments and hedge accounting (continued)

Discontinuation of hedge accounting

The Bank discontinues hedge accounting prospectively in the following situations:

1. It is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item.
2. The derivative expires or is sold, terminated or exercised.
3. It is determined that designation of the derivative as a hedging instrument is no longer appropriate.

The Bank carries all derivative financial instruments in the consolidated statement of financial position at fair value.

Fair value hedges

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 a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized in the consolidated statement of profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk, except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognized in OCI. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognized in profit or loss instead of OCI, except when the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

If the hedge relationship is terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively and the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to earnings as a yield adjustment where hedging gains/losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of variability in cash flows attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in OCI and it is presented in the hedging reserve within equity and recognized in the consolidated statement of profit or loss when the hedged cash flows affect earnings. The ineffective portion is recognized in the consolidated statement of profit or loss as activities of derivative financial instruments and hedging. If the cash flow hedge relationship is terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively and the related amounts in OCI are reclassified into earnings when hedged cash flows occur.

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognized in the consolidated statement of profit or loss. The amount recognized in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

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3. Summary of significant accounting policies (continued)

3.7 Derivative financial instruments and hedge accounting (continued)

3.8 Repurchase agreements

Repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Bank continues to recognize the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price. Because the Bank sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

3.9 Borrowings and debt

Short and long-term borrowings and debt are accounted for at amortized cost.

3.10 Recognition of income and expenses

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Income is recognized to the extent that is probable that the economic benefits will flow to the Bank and it is reliably measured, regardless of when the payment is made. This income is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment an excluding taxes or duty.

Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

Fees and commissions on loans at amortized cost

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on an effective interest rate basis. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the Bank making the loan, the fee is recognized as revenue on expiration.

Loan origination fees, net of direct loan origination costs, are deferred, and the net amount is recognized as revenue over the contractual term of the loans as an adjustment to the yield. When there are concerns about the realization of loan principal or interest, these net fees are recognized as revenue at the credit-adjusted effective interest rate for credit-impaired financial assets.

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3. Summary of significant accounting policies (continued)

3.10 Recognition of income and expenses (continued)

Fees and commissions on loans at amortized cost (continued)

Underwriting fees are recognized as revenue when the Bank has rendered all services to the issuer and is entitled to collect the fee from the issuer, when there are no contingencies related to the fee. Underwriting fees are recognized net of syndicate expenses. In addition, the Bank recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

Fees received in connection with a modification of terms of a loan at amortized cost are applied as a reduction of the recorded investment in the loan. Fees earned on letters of credit, financial guarantees and other commitments are amortized using the straight-line method over the life of such instruments.

3.11 Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	<u>Useful life in Years</u>
Furniture and equipment	3 to 5 years
Hardware	3 years
Other Equipments	2 to 4 years
Leasehold improvements	3 to 15 years or up to the lease term

Improvements to leased properties, under operating leases are amortized on a straight line calculated without exceeding the length of the respective lease contracts.

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other income or other expenses in the consolidated statement of profit or loss in the year that the asset is derecognized.

3.12 Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful life are amortized using the straight-line method over the estimated useful lives of assets which are reviewed annually by the Bank. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the consolidated statement of profit or loss.

Bank’s intangible assets include the value of computer software. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 5 years. Gains or losses arising from the derecognition of an intangible asset is determined by the Bank as the difference between proceeds from the sale or disposal and the net carrying amount of the intangible asset and recognizing them in the results for the year in which the transaction occurs.

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3. Summary of significant accounting policies (continued)

3.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements; therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

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

3.14 Operating leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Banks as a lessee

Leases where the lessor do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

Bank as a sub-lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which they are earned. In the event that the contract is cancelable, they are recognized as income over the term of the lease.

3.15 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit or loss, net of any reimbursement.

3.16 Capital reserves

Capital reserves are established as an appropriation of retained earnings and are, as such, a form of retained earnings. Reductions of capital reserves require the approval of the Bank’s Board of Directors and the SBP. Other capital reserves include:

- Translation reserve: The translation reserve comprises all foreign currency differences arising from the translation of the consolidated financial statements of foreign operations as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.
- Hedging reserve: The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.
- Fair value reserve: The fair value reserve comprises the cumulative net change in the fair value of investment securities measured at FVOCI, less the ECL allowance recognized in profit or loss.

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3. Summary of significant accounting policies (continued)

3.17 Share-based payment transactions

The Bank applies IFRS 2 for share-based payment transactions to account for compensation costs on restricted stock, restricted stock units and stock option plans. Compensation cost is based on the grant date fair value of both stock and options and is recognized over the requisite service period of the employee, using the accelerated method. The fair value of each option is estimated at the grant date using a binomial option-pricing model. When stocks options and restricted stock units vested are exercised, the Bank’s policy is to reissue shares from treasury stock.

3.18 Income taxes

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax laws and regulations used to compute the amount are those that are enacted or substantively enacted by the reporting date.

- Bladex Head Office is exempted from payment of income taxes in Panama in accordance with the contract law signed between the Republic of Panama and Bladex.
- Bladex Representacao Ltda. and Bladex Investimentos Ltda., are subject to income taxes in Brazil.
- Bladex Development Corp. is subject to income taxes in Panama.
- BLX Soluciones, S.A. de C.V., SOFOM, is subject to income taxes in Mexico.
- The New York Agency and Bladex Holdings, Inc. incorporated in USA are subject to federal and local taxation in USA based on the portion of income that is effectively connected with its operations in that country.

Deferred tax

Deferred tax is calculated based on the liability method, on temporary differences between the carrying amounts of assets and liabilities reported for financial purposes and the amounts used for taxation purposes. The amount of deferred tax is based on the embodiment of assets and liabilities using the rate of income tax in effect on the date of the consolidated statement of financial position.

3.19 Earnings per share

Basic earnings per share is computed by dividing the profit for the year (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. Diluted earnings per share measure performance incorporating the effect that potential common shares, such as stock options and restricted stock units outstanding during the same period, would have on net earnings per share. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except for the denominator, which is increased to include the number of additional common shares that would have been issued if the beneficiaries of stock purchase options and restricted stock units plans could exercise their options. The number of potential common shares that would be issued is determined using the treasury stock method.

3.20 Treasury shares and contracts on own shares

The own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank’s own equity instruments is recognized directly in equity.

No gain or loss is recognized in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

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3. Summary of significant accounting policies (continued)

3.21 Segment reporting

The Bank’s segment reporting is based on the following business segments: Commercial, which incorporates the Bank’s core business of financial intermediation and fee generation activities relating to the Bank’s Commercial Portfolio; and Treasury, which is responsible for the Bank’s funding and liquidity management, along with the management of its activities in investment securities, as well as the management of the Bank’s interest rate, liquidity, price, and currency risks.

3.22 Judgments, estimates and significant accounting assumptions

The preparation of the consolidated financial statements requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowances for expected credit losses, impairment of securities, and the fair value of financial instruments. Actual results could differ from those estimates. Management believes these estimates are adequate.

Judgments

In the process of applying the Bank’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Significant increase of credit risk: For the financial assets in stage 1, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used: The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

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3. Summary of significant accounting policies (continued)

3.22 Judgments, estimates and significant accounting assumptions (continued)

Fair value measurement

When the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 18.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments; however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Going concern

The Bank’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Impairment losses on loans at amortized cost

The Bank reviews its individually significant loans at amortized cost at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, management’s judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans at amortized cost that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics.

This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of investments securities measured at fair value through OCI and investment securities at amortized cost

The Bank reviews its debt securities classified as investments at fair value through OCI and investments at amortized cost at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of the investment securities. The Bank records impairment charges when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Bank evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

3. Summary of significant accounting policies (continued)

3.23 Future changes in applicable accounting policies

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e the share-based payment arrangement has a net settlement feature, such as arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - The original liability is de-recognized;
 - The equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. The Bank is evaluating this new standard in its consolidated financial statements and does not anticipate material impacts on the adoption of said standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will replace all current requirements for revenue recognition under IFRS. Either a full retroactive application or a modified retroactive application is required for annual periods beginning on or after January 1, 2018. Early application is allowed. The Bank plans to adopt the new standard on the effective date required and, if any impact is identified, it will use a modified retroactive method in its initial application.

During 2017, the Bank performed the preliminary assessment of the five steps for all credit products and does not anticipate material impacts on the adoption of this standard.

3. Summary of significant accounting policies (continued)

3.23 Future changes in applicable accounting policies (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. IFRS 16 supersedes IAS 17 – Leases. The Bank is evaluating the potential impact of this new standard in its consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

On 8 December 2016, the IFRS interpretations Committee of the International Accounting Standards Boards (IASB) issued IFRS Interpretation, IFRIC 22, Foreign Currency Transactions and Advance Considerations.

IFRIC 22 addresses how to determine the “date of transaction” for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for the item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability.

The Interpretation specifies that the date of transactions is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt advance consideration.

The Interpretation is effective for annual periods beginning on or 1 January 2018 with earlier application permitted. The Bank is evaluating this new standard in its consolidated financial statements and does not anticipate material impacts on the adoption of said standard.

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4. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash and due from banks	11,032	89,656
Interest-bearing deposits in banks	661,016	979,882
Total	672,048	1,069,538
Less:		
Pledged deposits	53,241	61,812
Total cash and cash equivalents	618,807	1,007,726

The following table presents the details on interest-bearing deposits in banks and pledged deposits:

	December 31, 2017		December 31, 2016	
	Amount	Range Interest rate	Amount	Range Interest rate
Interest-bearing deposits in banks:				
Demand deposits ⁽¹⁾	661,016	0.25% a 1.55%	854,882	0.01% to 0.77%
Time deposits ⁽²⁾	-	-	125,000	0.83% to 0.88%
Total	661,016		979,882	
Pledged deposits:				
New York ⁽³⁾	3,000	-	2,800	-
Panama ⁽⁴⁾	50,241	1.42%	59,012	0.66%
Total	53,241		61,812	

⁽¹⁾ Demand deposits with bearing interest based on the daily rates determined by banks.

⁽²⁾ Time deposits “overnight” calculated on an average interest rate.

⁽³⁾ The New York Agency had a pledged deposit with the New York State Banking Department, as required by law since March 1994.

⁽⁴⁾ The Bank had pledged deposits to secure derivative financial instruments transactions.

5. Financial instruments

5.1 Financial instruments at FVTPL - Fair value through profit or loss

The fair value of financial liabilities at FVTPL is as follows:

	December 31, 2017	December 31, 2016
Liabilities		
Foreign exchange forward	-	24
Total	-	24

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5. Financial instruments (continued)

5.1 Financial instruments at FVTPL - Fair value through profit or loss (continued)

The information on the nominal amounts of derivative financial instruments at FVTPL is as follows:

	December 31, 2017			December 31, 2016		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange forward	-	-	-	1,274	-	24
Total	-	-	-	1,274	-	24

5.2 Financial instruments at fair value through other comprehensive income

The amortized cost, related unrealized gross gain (loss) and fair value of financial instruments at fair value through other comprehensive income by country risk and type of debt are as follows:

Equity Investment at FVOCI

	December 31, 2017			
	Unrealized			Fair value
	Amortized cost	Gain	Loss	
Equity investments ⁽¹⁾				
Brazil	8,630	-	228	8,402
	8,630	-	228	8,402

Securities at FVOCI

	December 31, 2017			
	Unrealized			Fair value
	Amortized cost	Gain	Loss	
Sovereign debt:				
Brazil	2,937	29	12	2,954
Chile	5,182	-	35	5,147
Trinidad and Tobago	8,843	-	211	8,632
	16,962	29	258	16,733
	25,592	29	486	25,135

⁽¹⁾ Equity instruments were initially recognized at fair value. These equity instruments correspond to equity securities classified with the irrevocable option of changes in OCI.

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5. Financial instruments (continued)

5.2 Financial instruments at fair value through other comprehensive income (continued)

Securities at FVOCI (continued)

	December 31, 2016			
	Unrealized			Fair value
	Amortized cost	Gain	Loss	
Corporate debt:				
Brazil	3,144	-	62	3,082
Venezuela	10,810	20	3	10,827
	13,954	20	65	13,909
Sovereign debt:				
Brazil	2,926	-	140	2,786
Chile	5,229	-	59	5,170
Trinidad and Tobago	9,283	-	541	8,742
	17,438	-	740	16,698
	31,392	20	805	30,607

As of December 31, 2017 and 2016, there were no securities at fair value through OCI guaranteeing repurchase transactions.

The following table discloses those securities that had unrealized losses for a period less than 12 months and for 12 months or longer:

	December 31, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses
Sovereign debt	5,147	35	9,616	223	14,763	258
Total	5,147	35	9,616	223	14,763	258

	December 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses	Fair value	Unrealized gross losses
Corporate debt	1,805	3	3,082	62	4,887	65
Sovereign debt	5,170	59	11,528	681	16,698	740
Total	6,975	62	14,610	743	21,585	805

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5. Financial instruments (continued)

5.2 Financial instruments at fair value through other comprehensive income (continued)

Securities at FVOCI (continued)

The following table presents the realized gains and losses on sale of securities at fair value through other comprehensive income:

	December 31, 2017	December 31, 2016	December 31, 2015
Realized gain on sale of securities	766	221	469
Realized loss on sale of securities	(517)	(577)	(106)
Net gain (loss) on sale of securities at fair value through other comprehensive income	249	(356)	363

Securities at fair value through other comprehensive income classified by issuer’s credit quality indicators are as follows:

Rating ⁽¹⁾	December 31, 2017	December 31, 2016
1-4	16,733	30,607
5-6	-	-
7	-	-
8	-	-
9	-	-
10	-	-
Total	16,733	30,607

⁽¹⁾ Current ratings as of December 31, 2017 and 2016, respectively.

The amortized cost and fair value of securities at fair value through other comprehensive income by contractual maturity are shown in the following tables:

	December 31, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within 1 year	-	-	-	-
After 1 year but within 5 years	16,962	16,733	17,656	16,994
After 5 years but within 10 years	-	-	13,736	13,613
	16,962	16,733	31,392	30,607

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5. Financial instruments (continued)

5.3 Financial instruments at fair value through other comprehensive income (continued)

Securities at FVOCI (continued)

The allowance for expected credit losses relating to securities at fair value through other comprehensive income, which is recorded in equity under accumulated other comprehensive income (loss), is as follow:

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2016	42	263	-	305
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit losses	(6)	(65)	-	(71)
Financial assets that have been derecognized during the year	(12)	-	-	(12)
Changes due to financial instruments recognized as of December 31, 2016:	(18)	(65)	-	(83)
New financial assets originated or purchased	-	-	-	-
Write-offs	-	-	-	-
Allowance for expected credit losses as of December 31, 2017	24	198	-	222

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2015	234	178	6,737	7,149
Transfer to lifetime expected credit losses	(31)	456	-	425
Transfer to credit-impaired financial assets	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit losses	(15)	(168)	-	(183)
Financial assets that have been derecognized during the year	(174)	(203)	-	(377)
Changes due to financial instruments recognized as of December 31, 2015:	(220)	85	-	(135)
New financial assets originated or purchased	28	-	-	28
Write-offs	-	-	(6,737)	(6,737)
Allowance for expected credit losses as of December 31, 2016	42	263	-	305

⁽¹⁾ 12-month expected credit losses.
⁽²⁾ Lifetime expected credit losses.
⁽³⁾ Credit-impaired financial assets (lifetime expected credit losses).

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5. Financial instruments (continued)

5.3 Investment securities- at amortized cost

The amortized cost, related unrealized gross gain (loss) and fair value of these securities by country risk and type of debt are as follows:

	December 31, 2017			
	Amortized cost ⁽¹⁾	Unrealized		Fair value
		Gross gain	Gross loss	
Corporate debt:				
Brazil	1,485	3	-	1,488
Panama	9,978	-	-	9,978
	11,463	3	-	11,466
Sovereign debt:				
Colombia	29,006	67	16	29,057
Mexico	20,203	-	167	20,036
Panama	8,458	-	11	8,447
	57,667	67	194	57,540
	69,130	70	194	69,006

	December 31, 2016			
	Amortized cost ⁽²⁾	Unrealized		Fair value
		Gross gain	Gross loss	
Corporate debt:				
Brazil	4,614	-	146	4,468
Panama	3,000	-	-	3,000
	7,614	-	146	7,468
Sovereign debt:				
Brazil	11,179	37	194	11,022
Colombia	29,812	34	280	29,566
Mexico	20,541	-	1,059	19,482
Panama	8,670	198	-	8,868
	70,202	269	1,533	68,938
	77,816	269	1,679	76,406

⁽¹⁾ Amounts do not include allowance for expected credit losses of US\$196.
⁽²⁾ Amounts do not include allowance for expected credit losses of US\$602.

(Amounts expressed in thousands of U.S. dollars, except when otherwise indicated)

5.3 Investment securities - at amortized cost (continued)

December 31, 2017		December 31, 2016	
Amortized cost	Fair value	Amortized cost	Fair value
7,978	7,978	3,988	4,025
61,152	61,028	68,537	67,358
-	-	5,291	5,023
69,130	69,006	77,816	76,406

Securities at amortized cost classified by issuer's credit quality indicators are as follows:

Rating ⁽¹⁾	December 31, 2017	December 31, 2016
1-4	57,667	76,333
5-6	11,463	1,483
7	-	-
8	-	-
9	-	-
10	-	-
Total	69,130	77,816

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5.3 Investment securities- at amortized cost (continued)

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2016	99	503	-	602
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to credit-impaired financial assets	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit losses	(16)	(29)	-	(45)
Financial assets that have been derecognized during the year	(18)	(422)	-	(440)
Changes due to financial instruments recognized as of December 31, 2016:	(34)	(451)	-	(485)
New financial assets originated or purchased	79	-	-	79
Allowance for expected credit losses as of December 31, 2017	144	52	-	196

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2015	348	178	-	526
Transfer to lifetime expected credit losses	(43)	444	-	401
Transfer to credit-impaired financial assets	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit losses	(5)	(91)	-	(96)
Financial assets that have been derecognized during the year	(317)	(28)	-	(345)
Changes due to financial instruments recognized as of December 31, 2015:	(365)	325	-	(40)
New financial assets originated or purchased	116	-	-	116
Allowance for expected credit losses as of December 31, 2016	99	503	-	602

(3) Credit-impaired financial assets (lifetime expected credit losses).

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5. Financial instruments (continued)

5.4 Recognition and derecognition of financial assets

During the years ended December 31, 2017, 2016 and 2015, the Bank sold loans at amortized cost in the secondary market. These sales were made on the basis of compliance with the Bank's strategy to optimize the loan portfolio.

The amounts and gains arising from the derecognition of these financial instruments are presented in the following table. These gains are presented within the line “gain on sale of loans at amortized cost” in the consolidated statement of profit or loss.

	Assignments and participations	Gains
For the year ended December 31, 2017	77,400	181
For the year ended December 31, 2016	157,242	730
For the year ended December 31, 2015	92,438	422

During the years ended December 31, 2016 and 2015 the Bank entered into a master participation agreement with the International Finance Corp. to sale participation in credit facilities which resulted in revenues of \$76 and \$425, respectively.

5.5 Loans – at amortized cost

The following table set forth details of the Bank’s gross loan portfolio:

	December 31, 2017	December 31, 2016
Corporations:		
Private	1,882,846	2,655,910
State-owned	723,267	786,900
Banking and financial institutions:		
Private	2,083,795	1,738,999
State-owned	573,649	544,877
Middle-market companies:		
Private	242,101	294,045
Total	5,505,658	6,020,731

The composition of the gross loan portfolio by industry is as follows:

	December 31, 2017	December 31, 2016
Banking and financial institutions	2,657,444	2,283,876
Industrial	772,238	1,242,441
Oil and petroleum derived products	735,413	788,186
Agricultural	501,241	1,007,139
Services	430,717	419,440
Mining	231,687	54,000
Others	176,918	225,649
Total	5,505,658	6,020,731

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

Loans are reported at their amortized cost considering the principal outstanding amounts net of unearned interest, deferred fees and allowance for expected credit losses.

The amortization of net unearned interest and deferred fees are recognized as an adjustment to the related loan yield using the effective interest rate method.

The unearned discount interest and deferred commission amounted to \$4,985 and \$7,249 at December 31, 2017 and 2016, respectively.

Loans classified by borrower’s credit quality indicators are as follows:

December 31, 2017						
	Corporations		Banking and financial institutions		Middle-market companies	
Rating ⁽¹⁾	Private	State-owned	Private	State-owned	Private	Total
1-4	1,336,032	563,877	1,729,592	361,236	147,212	4,137,949
5-6	523,055	159,390	354,203	212,413	59,889	1,308,950
7	-	-	-	-	-	-
8	23,759	-	-	-	-	23,759
9	-	-	-	-	-	-
10	-	-	-	-	35,000	35,000
Total	1,882,846	723,267	2,083,795	573,649	242,101	5,505,658

December 31, 2016						
	Corporations		Banking and financial institutions		Middle-market companies	
Rating ⁽¹⁾	Private	State-owned	Private	State-owned	Private	Total
1-4	1,714,936	646,797	1,457,984	259,981	174,107	4,253,805
5-6	863,937	140,103	281,015	284,896	84,938	1,654,889
7	58,673	-	-	-	-	58,673
8	4,000	-	-	-	-	4,000
9	-	-	-	-	35,000	35,000
10	14,364	-	-	-	-	14,364
Total	2,655,910	786,900	1,738,999	544,877	294,045	6,020,731

⁽¹⁾ Current ratings as of December 31, 2017 and 2016, respectively.

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

The following table provides a breakdown of gross loans by country risk:

	December 31, 2017	December 31, 2016
Country:		
Argentina	294,613	325,321
Belgium	11,368	4,180
Bolivia	15,000	18,318
Brazil	1,019,466	1,163,825
Chile	170,827	69,372
Colombia	829,136	653,012
Costa Rica	356,459	400,371
Dominican Republic	249,926	243,696
Ecuador	94,315	129,269
El Salvador	55,110	104,723
Germany	37,500	50,000
Guatemala	309,024	315,911
Honduras	74,476	72,319
Jamaica	24,435	7,399
Luxembourg	19,924	14,722
Mexico	850,463	927,041
Nicaragua	29,804	36,949
Panama	500,134	498,651
Paraguay	59,536	108,068
Peru	211,846	467,408
Singapore	54,500	70,204
Switzerland	3,687	46,000
Trinidad and Tobago	175,000	184,389
United States of America	44,109	73,083
Uruguay	15,000	36,500
Total	5,505,658	6,020,731

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

The remaining loan maturities are summarized as follows:

	December 31, 2017	December 31, 2016
Current:		
Up to 1 month	846,993	896,310
From 1 month to 3 months	1,079,793	1,300,675
From 3 months to 6 months	1,175,801	1,267,194
From 6 months to 1 year	922,711	551,794
From 1 year to 2 years	392,456	631,629
From 2 years to 5 years	989,222	1,211,847
More than 5 years	39,923	95,918
	<u>5,446,899</u>	<u>5,955,367</u>
Impaired	58,759	65,364
Total	5,505,658	6,020,731

As of December 31, 2017 and 2016, the range of interest rates on loans fluctuates from 1.35% and 11.52% (2016: 1.21% y 12.69%).

The fixed and floating interest rate distribution of the loan portfolio is as follows:

	December 31, 2017	December 31, 2016
Fixed interest rates	2,378,509	2,709,555
Floating interest rates	3,127,149	3,311,176
Total	5,505,658	6,020,731

As of December 31, 2017 and 2016, 85% and 93%, of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days.

An analysis of credit-impaired balances is detailed as follows:

	December 31, 2017			2017	
	Recorded investment	Past due principal balance	Related allowance Stage 3	Average principal loan balance	Balance interest recognized
With an allowance recorded:					
Private corporations	23,759	-	7,468	5,988	229
Middle-market companies	35,000	35,000	20,527	35,000	3,028
Total	58,759	35,000	27,995	40,988	3,257

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

	December 31, 2016			2016	
	Recorded investment	Past due principal balance	Related allowance Stage 3	Average principal loan balance	Balance interest recognized
With an allowance recorded:					
Private corporations	30,364	18,364	23,174	12,500	408
Middle-market companies	35,000	35,000	12,179	17,705	1,679
Total	65,364	53,364	35,353	30,205	2,087

The following is a summary of information of interest amounts recognized on an effective interest basis on net carrying amount for those financial assets in Stage 3:

	December 31, 2017	December 31, 2016	December 31, 2015
Interest revenue calculated on the net carrying amount (net of credit allowance)	1,170	1,808	91

The following table presents an aging analysis of the loan portfolio:

December 31, 2017								
	91-120 days	121-150 days	151-180 days	Greater than 180 days	Total Past due	Delinquent	Current	Total
Corporations	-	-	-	-	-	-	2,606,113	2,606,113
Banking and financial institutions	-	-	-	-	-	-	2,657,444	2,657,444
Middle-market companies	-	-	-	35,000	35,000	-	207,101	242,101
Total	-	-	-	35,000	35,000	-	5,470,658	5,505,658

December 31, 2016								
	91-120 days	121-150 days	151-180 days	Greater than 180 days	Total Past due	Delinquent	Current	Total
Corporations	-	-	4,000	14,364	18,364	-	3,424,446	3,442,810
Banking and financial institutions	-	-	-	-	-	-	2,283,876	2,283,876
Middle-market companies	-	-	-	35,000	35,000	-	259,045	294,045
Total	-	-	4,000	49,364	53,364	-	5,967,367	6,020,731

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

As of December 31, 2017 and 2016, the Bank had credit transactions in the normal course of business with 21% and 16%, respectively, of its Class “A” and “B” stockholders. All transactions were made based on arm’s-length terms and subject to prevailing commercial criteria and market rates and were subject to all of the Bank’s Corporate Governance and control procedures. As of December 31, 2017 and 2016, approximately 14% and 10%, respectively, of the outstanding loan portfolio was placed with the Bank’s Class “A” and “B” stockholders and their related parties. As of December 31, 2017, the Bank was not directly or indirectly owned or controlled by another corporation or any foreign government, and no Class “A” or “B” shareholder was the registered owner of more than 3.5% of the total outstanding shares of the voting capital stock of the Bank.

Modified financial assets

The following table refer to modified financial assets, where modification does not result in de-recognition:

Modified financial assets (with loss allowance based on lifetime ECL) modified during the period	December 31, 2017	December 31, 2016
Gross carrying amount before modification	8,855	-
Loss allowance before modification	(3,344)	-
Net amortized cost before modification	5,511	-
Gross carrying amount after modification	4,484	-
Loss allowance after modification	(4,484)	-
Net amortized cost after modification	-	-

For the modified financial assets during the year 2017, were received other real estate owned for \$ 5,119.

During the year 2017, a financial asset with a nominal value of \$ 37,817 was restructured. As part of the restructuration The Bank received Equity Instrument with a fair value of \$8,630 and a new originated credit impaired loans with a fair value of \$19,274. The remaining balance was written off against allowance for loans losses.

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

The significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided at the table below:

Loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of December 31, 2016	5,019,368	935,999	65,364	6,020,731
Transfer in book value to stage 2	(41,167)	41,167	-	-
Transfer to lifetime expected credit losses - credit-impaired	-	(46,673)	46,673	-
Transfer in book value to stage 1	8,000	(8,000)	-	-
Financial assets that have been derecognised during the year	(4,214,697)	(313,394)	(21,667)	(4,549,758)
Changes due to financial instruments recognized as of December 31, 2016	(4,247,864)	(326,900)	25,006	(4,549,758)
New financial assets originated or purchased	4,067,723	-	-	4,067,723
Write-offs	-	(1,427)	(31,611)	(33,038)
Gross carrying amount as of December 31, 2017	4,839,227	607,672	58,759	5,505,658

Loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as of December 31, 2015	6,282,752	356,668	52,329	6,691,749
Transfer in book value to stage 2	(828,589)	828,589	-	-
Transfer to lifetime expected credit losses – not credit-impaired	(12,000)	(45,056)	57,056	-
Transfer in book value to stage 1	90,770	(90,770)	-	-
Financial assets that have been derecognized during the year	(4,577,890)	(113,432)	(25,214)	(4,716,536)
Changes due to financial instruments recognized as of December 31, 2015	(5,327,709)	579,331	31,842	(4,716,536)
New financial assets originated or purchased	4,064,325	-	-	4,064,325
Write-offs	-	-	(18,807)	(18,807)
Gross carrying amount as of December 31, 2016	5,019,368	935,999	65,364	6,020,731

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5. Financial instruments (continued)

5.5 Loans – at amortized cost (continued)

The allowances for expected credit losses related to loans at amortized cost are as follows:

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2016	29,036	41,599	35,353	105,988
Transfer to lifetime expected credit losses – not credit-impaired	(672)	672	-	-
Transfer to lifetime expected credit losses - credit-impaired	-	(12,845)	12,845	-
Transfer to 12-month expected credit losses	1,428	(1,428)	-	-
Net effect of changes in reserve for expected credit losses	(2,900)	18,227	20,257	35,584
Financial assets that have been derecognized during the year	(24,434)	(11,321)	(8,333)	(44,088)
Changes due to financial instruments recognized as of December 31, 2016	(26,578)	(6,695)	24,769	(8,504)
New financial assets originated or purchased	17,363	-	-	17,363
Write-offs	-	(1,427)	(32,126)	(33,553)
Recoveries of amounts previously written off	-	-	-	-
Allowance for expected credit losses as of December 31, 2017	19,821	33,477	27,996	81,294

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2015	59,214	9,609	21,151	89,974
Transfer to lifetime expected credit losses – not credit-impaired	(9,117)	9,119	-	2
Transfer to lifetime expected credit losses – not credit-impaired	(7)	(6,317)	6,324	-
Transfer to 12-month expected credit losses	2,038	(2,077)	38	(1)
Net effect of changes in reserve for expected credit losses	(39,621)	48,021	26,491	34,891
Financial assets that have been derecognized during the year	(65,640)	(16,756)	-	(82,396)
Changes due to financial instruments recognized as of December 31, 2015	(112,347)	31,990	32,853	(47,504)
New financial assets originated or purchased	82,169	-	-	82,169
Write-offs	-	-	(18,807)	(18,807)
Recoveries of amounts previously written off	-	-	156	156
Allowance for expected credit losses as of December 31, 2016	29,036	41,599	35,353	105,988

⁽¹⁾ 12-month expected credit losses.

⁽²⁾ Lifetime expected credit losses.

⁽³⁾ Credit-impaired financial assets (lifetime expected credit losses).

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes

Quantitative information on derivative financial instruments held for hedging purposes is as follows:

	December 31, 2017			
	Carrying amount of the hedging instrument		Changes in fair value used for calculating hedge ineffectiveness	
	Nominal Amount	Asset		Liability
Fair value hedges:				
Interest rate swaps	367,500	-	(4,361)	(2,394)
Cross-currency swaps	306,961	3,672	(30,154)	15,900
Cash flow hedges:				
Interest rate swaps	595,000	127	(428)	995
Cross-currency swaps	23,025	879	-	2,132
Foreign exchange forward	225,388	8,610	-	11,835
Net investment hedges:				
Foreign exchange forward	9,243	50	-	181
Total	1,527,117	13,338	(34,943)	28,649
	December 31, 2016			
	Carrying amount of the hedging instrument		Changes in fair value used for calculating hedge ineffectiveness	
	Nominal Amount	Asset		Liability
Fair value hedges:				
Interest rate swaps	796,202	40	(2,005)	(2,199)
Cross-currency swaps	291,065	2,561	(44,944)	(19,316)
Cash flow hedges:				
Interest rate swaps	752,000	323	(1,699)	696
Cross-currency swaps	23,025	-	(1,254)	(1,313)
Foreign exchange forward	352,553	6,428	(9,653)	(5,093)
Net investment hedges:				
Foreign exchange forward	3,780	-	(131)	(415)
Total	2,218,625	9,352	(59,686)	(27,640)

The hedging instruments presented in the tables above are located in the line item in the statement of financial position at fair value - Derivative financial instruments used for hedging – receivable or at fair value – Derivative financial instruments used for hedging – payable.

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

The gains and losses resulting from activities of derivative financial instruments and hedging recognized in the consolidated statements of profit or loss are presented below:

	December 31, 2017			
	Gain (loss) recognized in OCI (effective portion)	Classification of gain (loss)	Gain (loss) reclassified from accumulated OCI to the consolidated statement of profit or loss	Gain (loss) recognized on derivatives (ineffective portion)
Derivatives – cash flow hedge				
Interest rate swaps	(834)	Gain (loss) on interest rate swap	-	242
Cross-currency swaps	(1,924)	Gain (loss) on foreign currency exchange	-	26
		Interest income – loans	7,611	-
Foreign exchange forward	(2,708)	Interest income – securities at FVOCI	-	-
		Interest income – loans	3,991	-
		Interest expense – borrowings and debt	-	-
		Interest expenses – deposits	(190)	-
		Gain (loss) on foreign currency exchange		
Total	(5,466)		11,412	268
Derivatives – net investment hedge				
Forward foreign exchange	(277)			
Total	(277)			

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

December 31, 2016				
	Gain (loss) recognized in OCI (effective portion)	Classification of gain (loss)	Gain (loss) reclassified from accumulated OCI to the consolidated statement of profit or loss	Gain (loss) recognized on derivatives (ineffective portion)
Derivatives – cash flow hedge				
Interest rate swaps	627	Gain (loss) on interest rate swap	-	(1,258)
Cross-currency swaps	(1,299)	Gain (loss) on foreign currency exchange	-	16
		Interest income – loans	-	(110)
Foreign exchange forward	233	Interest income – securities at FVOCI	-	-
		Interest income – loans	(4,751)	-
		Interest expense – borrowings and debt	-	-
		Interest expenses – deposits	1,672	-
		Gain (loss) on foreign currency exchange	9,097	-
Total	(439)		6,018	(1,352)
Derivatives – net investment hedge				
Forward foreign exchange	-			
Total	-			

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

December 31, 2015				
	Gain (loss) recognized in OCI (effective portion)	Classification of gain (loss)	Gain (loss) reclassified from accumulated OCI to the consolidated statement of profit or loss	Gain (loss) recognized on derivatives (ineffective portion)
Derivatives – cash flow hedge				
Interest rate swaps	35	Gain (loss) on interest rate swap	-	(229)
Cross-currency swaps	5,367	Gain (loss) on foreign exchange	-	84
		Interest income – loans	-	-
Forward foreign exchange	3,511	Interest income – securities at FVOCI	(694)	-
		Interest income – loans	(1,821)	-
		Interest expense – borrowings and debt	-	-
		Interest expenses – deposits	166	-
		Gain (loss) on foreign currency exchange	12,539	-
Total	8,913		10,190	(145)
Derivatives – net investment hedge				
Forward foreign exchange	(901)			
Total	(901)			

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

The Bank recognized in the consolidated statement of profit or loss the gain (loss) on derivative financial instruments and the gain (loss) of the hedged asset or liability related to qualifying fair value hedges, as follows:

December 31, 2017				
	Classification in consolidated statement of profit or loss	Gain (loss) on derivatives	Gain (loss) on hedge item	Net gain (loss)
Derivatives – fair value hedge				
Interest rate swaps	Interest income – securities at FVOCI	(126)	476	350
	Interest income – loans	(12)	160	148
	Interest expenses – borrowings and debt	1,387	(16,233)	(14,846)
	Derivative financial instruments and hedging	(2,270)	2,371	101
Cross-currency swaps	Interest income – loans	(1,496)	2,442	946
	Interest expenses – borrowings and debt	1,848	(10,265)	(8,417)
	Derivative financial instruments and hedging	14,950	(16,709)	(1,759)
		<u>14,281</u>	<u>(37,758)</u>	<u>(23,477)</u>
Total				
		<u>14,281</u>	<u>(37,758)</u>	<u>(23,477)</u>

December 31, 2016				
	Classification in consolidated statement of profit or loss	Gain (loss) on derivatives	Gain (loss) on hedge item	Net gain (loss)
Derivatives – fair value hedge				
Interest rate swaps	Interest income – securities at FVOCI	(617)	1,593	976
	Interest income – loans	(25)	2,023	1,998
	Interest expenses – borrowings and debt	4,558	(28,261)	(23,703)
	Derivative financial instruments and hedging	(2,077)	2,178	101
Cross-currency swaps	Interest income – loans	(372)	928	556
	Interest expenses – borrowings and debt	195	(6,183)	(5,988)
	Derivative financial instruments and hedging	17,673	(16,752)	921
		<u>19,335</u>	<u>(44,474)</u>	<u>(25,139)</u>
Total				
		<u>19,335</u>	<u>(44,474)</u>	<u>(25,139)</u>

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

December 31, 2015				
	Classification in consolidated statement of profit or loss	Gain (loss) on derivatives	Gain (loss) on hedge item	Net gain (loss)
Derivatives – fair value hedge				
Interest rate swaps	Interest income – securities at FVOCI	(1,047)	1,514	467
	Interest income at amortized cost	(376)	3,987	3,611
	Interest expenses – borrowings and debt	6,268	(24,026)	(17,758)
	Derivative financial instruments and hedging	(1,841)	1,688	(153)
Cross-currency swaps	Interest income loans at amortized cost	(135)	348	213
	Interest expenses – borrowings and debt	744	(3,785)	(3,041)
	Derivative financial instruments and hedging	(19,522)	20,550	1,028
		<u>(15,909)</u>	<u>276</u>	<u>(15,633)</u>
Total				
		<u>(15,909)</u>	<u>276</u>	<u>(15,633)</u>

Derivatives financial position and performance

The following tables details the changes of the market value of the underlying item in the statement of financial position related to fair value hedges:

December 31, 2017			
	Carrying amount	Thereof accumulated fair value adjustments	Line item in the statement of financial position
Fair value hedges			
Interest rate risk			
Loans	-	-	Loans
Issuances	355,000	(4,411)	Short and long term borrowings and debt
Foreign exchange rate risk and FX			
Securities at FVOCI	12,369	(32)	Financial instruments at FVOCI
Loans	25,027	744	Loans
Issuances	(249,328)	(2,301)	Short and long term borrowings and debt

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

Derivatives financial position and performance (continued)

Fair value hedges	December 31, 2016		
	Carrying amount	Thereof accumulated fair value adjustments	Line item in the statement of financial position
Interest rate risk			
Loans	18,502	12	Loans
Issuances	755,000	2,089	Short and long term borrowings and debt
Foreign exchange rate risk and FX			
Securities at FVOCI	22,188	(232)	Financial instruments at FVOCI
Loans	9,252	706	Loans
Issuances	(308,739)	(49)	Short and long term borrowings and debt

The following tables detail the profile of the timing of the nominal amount of the hedging instrument:

Risk type	December 31, 2017			
	Foreign Exchange risk	Interest rate risk	Foreign exchange and Interest rate risk	Total
Up to 1 month	69,459	-	-	69,459
31 to 60 days	26,104	-	-	26,104
61 to 90 days	1,729	185,000	16,821	203,550
91 to 180 days	16,567	137,500	-	154,067
181 to 365 days	68,952	202,500	8,127	279,579
1 to 2 years	178,331	21,500	73,193	273,024
2 to 5 years	4,413	416,000	24,872	445,285
More than 5 years	-	-	76,049	76,049
Total	365,555	962,500	199,062	1,527,117

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

Derivatives financial position and performance (continued)

Analysis of maturity of the derivatives by type of risk covered:

Risk type	December 31, 2016			
	Foreign Exchange risk	Interest rate risk	Foreign exchange and Interest rate risk	Total
Up to 1 month	66,149	-	-	66,149
31 to 60 days	33,393	85,000	-	118,393
61 to 90 days	24,093	60,000	-	84,093
91 to 180 days	71,533	745,080	-	816,613
181 to 365 days	109,228	160,422	189	269,839
1 to 2 years	92,115	50,000	24,948	167,063
2 to 5 years	73,311	434,500	96,218	604,029
More than 5 years	-	13,200	79,246	92,446
Total	469,822	1,548,202	200,601	2,218,625

The following tables detail the sources of ineffectiveness for our cash flow hedge positions:

Type of risk hedge	December 31, 2017				
	USD-OIS	Tenor	Xccy basis	Credit spread	Total Ineffectiveness
Interest rate risk	22	296	-	(16)	302
Foreign exchange risk	(8)	-	17	(1)	8
Total	14	296	17	(17)	310
Type of risk hedge	December 31, 2016				
	USD-OIS	Tenor	Xccy basis	Credit spread	Total Ineffectiveness
Interest rate risk	19	-	-	604	623
Foreign exchange risk	25	-	(4)	(5)	16
Total	44	-	(4)	599	639

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5. Financial instruments (continued)

5.6 Derivative financial instruments for hedging purposes (continued)

For control purposes, derivative instruments are recorded at their nominal amount (“notional amount”) in memorandum accounts. Interest rate swaps are made either in a single currency or cross currency for a prescribed period to exchange a series of interest rate flows, which involve fixed for floating interest payments, and vice versa. The Bank also engages in certain foreign exchange trades to serve customers’ transaction needs and to manage foreign currency risk. All such positions are hedged with an offsetting contract for the same currency.

The Bank manages and controls the risks on these foreign exchange trades by establishing counterparty credit limits by customer and by adopting policies that do not allow for open positions in the credit and investment portfolio. The Bank also uses foreign currency exchange contracts to hedge the foreign exchange risk associated with the Bank’s equity investment in a non-U.S. dollar functional currency foreign subsidiary. Derivative and foreign exchange instruments negotiated by the Bank are executed mainly over-the-counter (OTC). These contracts are executed between two counterparties that negotiate specific agreement terms, including notional amount, exercise price and maturity.

The maximum length of time over which the Bank has hedged its exposure to the variability in future cash flows on forecasted transactions is 6.19 years.

The Bank estimates that approximately \$610 reported as losses in OCI as of December 31, 2017, related to foreign exchange forward contracts, are expected to be reclassified into interest income as an adjustment to yield of hedged loans during the twelve-month year ending December 31, 2018.

The Bank estimates that approximately \$645 of losses reported in OCI as of December 31, 2017, related to forward foreign exchange contracts are expected to be reclassified into interest expense as an adjustment to yield of hedged available-for-sale securities during the twelve-month year ending December 31, 2018.

Types of Derivatives and Foreign Exchange Instruments

Interest rate swaps are contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. The Bank has designated a portion of these derivative instruments as fair value hedges and a portion as cash flow hedges. Cross currency swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. The Bank has designated a portion of these derivative instruments as fair value hedges and a portion as cash flow hedges. Foreign exchange forward contracts represent an agreement to purchase or sell foreign currency at a future date at agreed-upon terms. The Bank has designated these derivative instruments as cash flow hedges and net investment hedges.

In addition to hedging derivative financial instruments, the Bank has derivative financial instruments held for trading purposes as disclosed in Note 5.1.

5.7 Offsetting of financial assets and liabilities

In the ordinary course of business, the Bank enters into derivative financial instrument transactions and securities sold under repurchase agreements under industry standards agreements. Depending on the collateral requirements stated in the contracts, the Bank and counterparties can receive or deliver collateral based on the fair value of the financial instruments transacted between parties. Collateral typically consists of cash deposits and securities. The master netting agreements include clauses that, in the event of default, provide for close-out netting, which allows all positions with the defaulting counterparty to be terminated and net settled with a single payment amount.

The International Swaps and Derivatives Association master agreement (“ISDA”) and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

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5. Financial instruments (continued)

5.7 Offsetting of financial assets and liabilities (continued)

The following tables summarize financial assets and liabilities that have been offset in the consolidated statement of financial position or are subject to master netting agreements:

a) Derivative financial instruments – assets

December 31, 2017						
Description	Gross amounts assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net Amount
Derivative financial instruments used for hedging – receivable – at fair value	13,338	-	13,338	-	(22,304)	(8,966)
Total	<u>13,338</u>	<u>-</u>	<u>13,338</u>	<u>-</u>	<u>(22,304)</u>	<u>(8,966)</u>

December 31, 2016						
Description	Gross amounts assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net Amount
Derivative financial instruments used for hedging – receivable – at fair value	9,352	-	9,352	-	-	9,352
Total	<u>9,352</u>	<u>-</u>	<u>9,352</u>	<u>-</u>	<u>-</u>	<u>9,352</u>

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5. Financial instruments (continued)

5.7 Offsetting of financial assets and liabilities (continued)

a) Derivative financial instruments – assets (continued)

The following table presents the reconciliation of assets that have been offset or are subject to master netting agreements to individual line items in the consolidated statement of financial position:

Description	December 31, 2017		
	Gross amounts of assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position
Derivative financial instruments used for hedging – receivable – at fair value	13,338	-	13,338
Total	<u>13,338</u>	<u>-</u>	<u>13,338</u>

Description	December 31, 2016		
	Gross amounts of assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position
Derivative financial instruments used for hedging – receivable – at fair value	9,352	-	9,352
Total	<u>9,352</u>	<u>-</u>	<u>9,352</u>

b) Financial liabilities and derivative financial instruments – liabilities

December 31, 2017						
Description	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral pledged	Net Amount
Derivative financial instruments used for hedging – payable – at fair value	34,943	-	34,943	-	(50,241)	(15,298)
Total	<u>34,943</u>	<u>-</u>	<u>34,943</u>	<u>-</u>	<u>(50,241)</u>	<u>(15,298)</u>

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5. Financial Instruments (continued)

5.7 Offsetting of financial assets and liabilities (continued)

b) Financial liabilities and derivative financial instruments – liabilities (continued)

Description	December 31, 2016					
	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral pledged	Net Amount
Financial liabilities at FVTPL	24	-	24	-	-	24
Derivative financial instruments used for hedging – payable – at fair value	59,686	-	59,686	-	(59,012)	674
Total	<u>59,710</u>	<u>-</u>	<u>59,710</u>	<u>-</u>	<u>(59,012)</u>	<u>698</u>

The following table presents the reconciliation of liabilities that have been offset or are subject to master netting agreements to individual line items in the consolidated statement of financial position:

Description	December 31, 2017		
	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position
Derivative financial instruments:			
Derivative financial instruments used for hedging – payable – at fair value	34,943	-	34,943
Total derivative financial instruments	<u>34,943</u>	<u>-</u>	<u>34,943</u>

Description	December 31, 2016		
	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position
Derivative financial instruments:			
Financial liabilities at FVTPL	24	-	24
Derivative financial instruments used for hedging – payable – at fair value	59,686	-	59,686
Total derivative financial instruments	<u>59,710</u>	<u>-</u>	<u>59,710</u>

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6. Loans commitments and financial guarantees contracts

In the normal course of business, to meet the financing needs of its customers, the Bank is party to loans commitments and financial guarantees contracts. These instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized in the consolidated statement of financial position. Credit risk represents the possibility of loss resulting from the failure of a customer to perform in accordance with the terms of a contract.

The Bank’s outstanding loans commitments and financial guarantees contracts are as follows:

	December 31, 2017	December 31, 2016
Confirmed letters of credit	273,449	216,608
Stand-by letters of credit and guaranteed – Commercial risk	168,976	176,177
Credit commitments	45,578	10,250
Total	488,003	403,035

The remaining maturity profile of the Bank’s outstanding loans commitments and financial guarantees contracts is as follows:

<u>Maturities</u>	December 31, 2017	December 31, 2016
Up to 1 year	457,168	399,257
From 1 to 2 years	257	-
From 2 to 5 years	30,000	3,200
More than 5 years	578	578
	488,003	403,035

Loans commitments and financial guarantees contracts classified by issuer’s credit quality indicators are as follows:

<u>Rating⁽¹⁾</u>	December 31, 2017	December 31, 2016
1-4	151,934	145,255
5-6	336,069	193,368
7	-	64,412
8	-	-
9	-	-
10	-	-
Total	488,003	403,035

⁽¹⁾ Current ratings as of December 31, 2017 and 2016, respectively.

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6. Loans commitments and financial guarantees contracts (continued)

The breakdown of the Bank’s loans commitments and financial guarantees contracts exposure by country risk is as follows:

<u>Country:</u>	December 31, 2017	December 31, 2016
Argentina	7,546	-
Bolivia	200	190
Brazil	-	-
Canada	425	160
Chile	15,000	-
Colombia	91,020	78,815
Costa Rica	19,848	2,250
Dominican Republic	-	26,787
Ecuador	252,800	172,522
El Salvador	767	1,305
Guatemala	11,788	7,000
Honduras	890	1,170
Mexico	35,643	11,118
Panama	31,260	39,756
Paraguay	22	-
Peru	17,618	42,764
Switzerland	-	1,000
United Kingdom	-	70
Uruguay	3,176	18,128
Total	488,003	403,035

Letters of credit and guarantees

The Bank, on behalf of its client’s base, advises and confirms letters of credit to facilitate foreign trade transactions. When confirming letters of credit, the Bank adds its own unqualified assurance that the issuing bank will pay and that if the issuing bank does not honor drafts drawn on the letter of credit, the Bank will. The Bank provides stand-by letters of credit and guarantees, which are issued on behalf of institutional clients in connection with financing between its clients and third parties. The Bank applies the same credit policies used in its lending process, and once issued the commitment is irrevocable and remains valid until its expiration. Credit risk arises from the Bank's obligation to make payment in the event of a client’s contractual default to a third party. Risks associated with stand-by letters of credit and guarantees are included in the evaluation of the Bank’s overall credit risk.

Credit commitments

Commitments to extend credit are binding legal agreements to lend to clients. Commitments generally have fixed expiration dates or other termination clauses and require payment of a fee to the Bank. As some commitments expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements.

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6. Loans commitments and financial guarantees contracts (continued)

The allowances for credit losses related to loans commitments and financial guarantees contracts are as follows:

	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2016	1,143	4,633	-	5,776
Transfer to lifetime expected credit losses	(1)	1	-	-
Transfer to credit-impaired instruments	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit loss	(54)	853	-	799
Instruments that have been derecognized during the year	(971)	-	-	(971)
Changes due to instruments recognized as of December 31, 2016:	(1,026)	854	-	(172)
New instruments originated or purchased	1,241	-	-	1,241
Allowance for expected credit losses as of December 31, 2017	1,358	5,487	-	6,845
	Stage 1 ⁽¹⁾	Stage 2 ⁽²⁾	Stage 3 ⁽³⁾	Total
Allowance for expected credit losses as of December 31, 2015	2,914	2,510	-	5,424
Transfer to lifetime expected credit losses	(646)	693	-	47
Transfer to credit-impaired instruments	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit loss	(748)	1,756	-	1,008
Instruments that have been derecognized during the year	(2,631)	(326)	-	(2,957)
Changes due to instruments recognized as of December 31, 2015:	(4,025)	2,123	-	(1,902)
New instruments originated or purchased	2,254	-	-	2,254
Allowance for expected credit losses as of December 31, 2016	1,143	4,633	-	5,776

⁽¹⁾ 12-month expected credit losses.
⁽²⁾ Lifetime expected credit losses.
⁽³⁾ Credit-impaired financial assets (lifetime expected credit losses).

The reserve for expected credit losses on loans commitments and financial guarantees contracts reflects the Bank’s Management estimate of expected credit losses items such as: confirmed letters of credit, stand-by letters of credit, guarantees and credit commitments.

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7. Property and equipment

A breakdown of cost, accumulated depreciation, additions and disposals for property and equipment is as follows:

	IT equipment	Furniture and fixtures	Leasehold improvement	Other equipment	Total
Cost:					
Balance as of January 1, 2015	3,136	2,147	7,458	460	13,201
Additions	368	30	179	38	615
Disposals	(138)	(175)	(225)	(41)	(579)
Balance as of December 31, 2015	3,366	2,002	7,412	457	13,237
Additions	1,436	2,137	239	161	3,973
Disposals	(416)	(361)	(880)	-	(1,657)
Balance as of December 31, 2016	4,386	3,778	6,771	618	15,553
Additions	246	461	39	1,908	2,654
Disposals	(462)	(2,255)	-	(21)	(2,738)
Balance as of December 31, 2017	4,170	1,984	6,810	2,505	15,469
Accumulated depreciation:					
Balance as of January 1, 2015	2,397	1,339	2,202	302	6,240
Depreciation expense of the year	388	322	556	105	1,371
Disposals	(114)	(170)	(222)	(41)	(547)
Balance as of December 31, 2015	2,671	1,491	2,536	366	7,064
Depreciation expense of the year	483	384	513	77	1,457
Disposals	(412)	(230)	(875)	-	(1,517)
Balance as of December 31, 2016	2,742	1,645	2,174	443	7,004
Depreciation expense of the year	587	149	474	368	1,578
Disposals	(459)	(54)	-	(20)	(533)
Balance as of December 31, 2017	2,870	1,740	2,648	791	8,049
Carrying amounts as of:					
December 31, 2017	1,300	244	4,162	1,714	7,420
December 31, 2016	1,644	2,133	4,597	175	8,549
December 31, 2015	695	511	4,876	91	6,173

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8. Intangible assets

A breakdown of cost, accumulated amortization, additions, sales and disposals for intangible assets is as follows:

Costs:	
Balance as of January 1, 2015	10,987
Additions	-
Disposals	(211)
Balance as of December 31, 2015	10,776
Additions	3,111
Disposals	(4)
Balance as of December 31, 2016	13,883
Additions	3,370
Disposals	(81)
Balance as of December 31, 2017	17,172
Accumulated amortization:	
Balance as of January 1, 2015	9,963
Disposals	(210)
Amortization expense of the year	596
Balance as of December 31, 2015	10,349
Disposals	(4)
Amortization expense of the year	629
Balance as of December 31, 2016	10,974
Disposals	(65)
Amortization expense of the year	838
Balance as of December 31, 2017	11,747
Carrying amounts as of:	
December 31, 2017	5,425
December 31, 2016	2,909
December 31, 2015	427

Expenses related to the amortization of intangible assets are presented as part of amortization of intangible assets in the consolidated statement of profit or loss.

9. Other assets

Following is a summary of other assets:

	December 31, 2017	December 31, 2016
Accounts receivable	6,793	5,413
Real estate owned ⁽¹⁾	5,119	-
IT projects under development	1,405	4,199
Other ⁽²⁾	5,510	1,934
	18,827	11,546

⁽¹⁾ Other real estate owned.

⁽²⁾ As of December 31, 2017, \$1.7 million corresponds to leasing under development.

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10. Deposits

The maturity profile of the Bank’s deposits is as follows:

	December 31, 2017	December 31, 2016
Demand	82,064	127,014
Up to 1 month	1,147,772	1,201,328
From 1 month to 3 months	492,205	463,479
From 3 months to 6 months	411,159	336,627
From 6 months to 1 year	571,500	436,884
From 1 year to 2 years	76,422	190,000
From 2 years to 5 years	147,722	47,520
	2,928,844	2,802,852

The following table presents additional information regarding the Bank’s deposits:

	December 31, 2017	December 31, 2016
Aggregate amounts of time deposits of \$100,000 or more	2,928,425	2,802,474
Aggregate amounts of deposits in the New York Agency	266,158	250,639
	December 31, 2017	December 31, 2016
Interest expense to deposits in the New York Agency	3,519	2,094
	December 31, 2015	December 31, 2015
		1,228

11. Securities sold under repurchase agreements

As of December 31, 2017 and 2016, the Bank does not have financing transactions under repurchase agreements.

As of December 31, 2017, the Bank did not incur interest expense generated by financing transactions under repurchase agreements. During the years ended December 31, 2016 and 2015, interest expense related to financing transactions under repurchase agreements totaled \$971 and \$1,800, respectively, corresponding to interest expense generated by the financing contracts under repurchase agreements. These expenses are included in the interest expense – short-term borrowings and debt line in the consolidated statements of profit or loss.

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12. Borrowings and debt

12.1 Short-term borrowings and debt

The breakdown of short-term (original maturity of less than one year) borrowings and debt, together with contractual interest rates, is as follows:

	December 31, 2017	December 31, 2016
Short-term Borrowings:		
At fixed interest rates	429,069	788,075
At floating interest rates	633,154	657,000
Total borrowings	1,062,223	1,445,075
Short-term Debt:		
At fixed interest rates	10,500	25,000
At floating interest rates	-	-
Total debt	10,500	25,000
Total short-term borrowings and debt	1,072,723	1,470,075
Average outstanding balance during the year	710,021	1,348,230
Maximum balance at any month-end	1,072,723	1,876,322
Range of fixed interest rates on borrowing and debt in U.S. dollars	1.60% to 1.95%	1.10% to 1.50%
Range of floating interest rates on borrowing in U.S. dollars	1.77% to 2.08%	1.14% to 1.48%
Range of fixed interest rates on borrowing in Mexican pesos	7.92%	6.16%
Range of floating interest rate on borrowing in Mexican pesos	7.68% to 7.89%	5.72%
Weighted average interest rate at end of the year	2.16%	1.30%
Weighted average interest rate during the year	1.66%	1.10%

The balances of short-term borrowings and debt by currency, is as follows:

	December 31, 2017	December 31, 2016
Currency		
US dollar	1,044,500	1,470,000
Mexican peso	28,223	75
Total	1,072,723	1,470,075

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12. Borrowings and debt (continued)

12.2 Long-term borrowings and debt

Borrowings consist of long-term and syndicated loans obtained from international banks. Debt instruments consist of public and private issuances under the Bank's Euro Medium Term Notes Program (“EMTN”) as well as public issuances in the Mexican market. The breakdown of borrowings and long-term debt (original maturity of more than one year), together with contractual interest rates gross of prepaid commission of \$4,211 and \$5,133 as of December 31, 2017 and 2016, respectively, is as follows:

	December 31, 2017	December 31, 2016
Long-term Borrowings:		
At fixed interest rates with due dates from October 2017 to February 2022	44,011	61,148
At floating interest rates with due dates from November 2017 to March 2021	379,000	631,326
Total borrowings	423,011	692,474
Long-term Debt:		
At fixed interest rates with due dates from March 2018 to March 2024	532,305	921,479
At floating interest rates with due dates from January 2018 to March 2022	187,739	167,918
Total long-term debt	720,044	1,089,397
Total long-term borrowings and debt	1,143,055	1,781,871
Less: Prepaid commission	(4,211)	(5,133)
Total long-term borrowings and debt, net	1,138,844	1,776,738
Net average outstanding balance during the year	1,477,788	1,874,435
Maximum outstanding balance at any month – end	2,010,078	2,054,138
Range of fixed interest rates on borrowing and debt in U.S. dollars	1.35% to 3.25%	2.85% to 3.75%
Range of floating interest rates on borrowing and debt in U.S. dollars	2.61% to 3.01%	1.66% to 2.49%
Range of fixed interest rates on borrowing in Mexican pesos	4.89% to 9.09%	4.75% to 8.90%
Range of floating interest rates on borrowing and debt in Mexican pesos	7.99% to 8.00%	6.19% to 6.54%
Range of fixed interest rate on debt in Japanese yens	0.46% to 0.81%	0.46% to 0.81%
Range of fixed interest rate on debt in Euros	3.75%	3.75%
Range of fixed interest rate on debt in Australian dollar	3.33%	3.33%
Weighted average interest rate at the end of the year	3.60%	2.98%
Weighted average interest rate during the year	3.43%	2.84%

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12. Borrowings and debt (continued)

12.2 Long-term borrowings and debt (continued)

The balances of long-term borrowings and debt by currency, is as follows:

	December 31, 2017	December 31, 2016
Currency		
US dollar	753,981	1,392,995
Mexican peso	206,750	219,347
Japanese yen	98,711	95,238
Euro	60,178	52,574
Australian dollar	23,435	21,717
Total	1,143,055	1,781,871

The Bank's funding activities include: (i) EMTN, which may be used to issue notes for up to \$2.3 billion, with maturities from 7 days up to a maximum of 30 years, at fixed or floating interest rates, or at discount, and in various currencies. The notes are generally issued in bearer or registered form through one or more authorized financial institutions; (ii) Short-and Long-Term Notes “Certificados Bursatiles” Program (the “Mexico Program”) in the Mexican local market, registered with the Mexican National Registry of Securities maintained by the National Banking and Securities Commission in Mexico (“CNBV”, for its acronym in Spanish), for an authorized aggregate principal amount of 10 billion Mexican pesos with maturities from one day to 30 years.

Some borrowing agreements include various events of default and covenants related to minimum capital adequacy ratios, incurrence of additional liens, and asset sales, as well as other customary covenants, representations and warranties. As of December 31, 2017 the Bank was in compliance with all covenants.

The future payments of long-term borrowings and debt outstanding as of December 31, 2017, are as follows:

Payments	Outstanding
2018	139,070
2019	357,434
2020	375,592
2021	200,731
2022	10,050
2024	60,178
	1,143,055

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13. Other liabilities

Following is a summary of other liabilities:

	December 31, 2017	December 31, 2016
Accruals and other accumulated expenses	8,018	4,170
Accounts payable	9,307	11,179
Others	3,226	2,979
	20,551	18,328

14. Earnings per share

The following table presents a reconciliation of the income and share data used in the basic and diluted earnings per share (“EPS”) computations for the dates indicated:

	December 31, 2017	December 31, 2016	December 31, 2015
<i>(Thousands of U.S. dollars)</i>			
Profit for the year	81,999	87,045	103,984
<i>(U.S. dollars)</i>			
Basic earnings per share	2.09	2.23	2.67
Diluted earnings per share	2.08	2.22	2.66
<i>(Share units)</i>			
Weighted average common shares outstanding - applicable to basic	39,311	39,085	38,925
Effect of diluted securities: Stock options and restricted stock units plans	18	125	188
Adjusted weighted average common shares outstanding applicable to diluted EPS	39,329	39,210	39,113

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15. Capital and Reserves

15.1 Common stock

The Bank’s common stock is divided into four categories:

- 1) “Class A”; shares may only be issued to Latin American Central Banks or banks in which the state or other government agency is the majority shareholder.
- 2) “Class B”; shares may only be issued to banks or financial institutions.
- 3) “Class E”; shares may be issued to any person whether a natural person or a legal entity.
- 4) “Class F”; may only be issued to state entities and agencies of non-Latin American countries, including, among others, central banks and majority state-owned banks in those countries, and multilateral financial institutions either international or regional institutions.

The holders of “Class B” shares have the right to convert or exchange their “Class B” shares, at any time, and without restriction, for “Class E” shares, at a rate of one-to-one.

The following table provides detailed information on the Bank’s common stock activity per class for each of the periods in the three-years ended December 31, 2017, 2016 and 2015:

(Share units)	“Class A”	“Class B”	“Class E”	“Class F”	Total
Authorized	40,000,000	40,000,000	100,000,000	100,000,000	280,000,000
Outstanding at January 1, 2015	6,342,189	2,479,050	29,956,100	-	38,777,339
Conversions	-	(4,581)	4,581	-	-
Repurchase common stock	-	-	-	-	-
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	70,358	-	70,358
Restricted stock units – vested	-	-	64,208	-	64,208
Outstanding at December 31, 2015	6,342,189	2,474,469	30,152,247	-	38,968,905
Conversions	-	-	-	-	-
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	68,785	-	68,785
Restricted stock units – vested	-	-	65,358	-	65,358
Outstanding at December 31, 2016	6,342,189	2,474,469	30,343,390	-	39,160,048
Conversions	-	(64,663)	64,663	-	-
Repurchase common stock	-	(1,000)	-	-	(1,000)
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	142,268	-	142,268
Restricted stock units – vested	-	-	70,519	-	70,519
Outstanding at December 31, 2017	6,342,189	2,408,806	30,677,840	-	39,428,835

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15. Capital and Reserves (continued)

15.1 Common stock (continued)

The following table presents information regarding shares repurchased but not retired by the Bank and accordingly classified as treasury stock:

	“Class A”		“Class B”		“Class E”		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Outstanding at January 1, 2015	318,140	10,708	589,174	16,242	2,295,186	50,677	3,202,500	77,627
Repurchase of common stock	-	-	-	-	-	-	-	-
Restricted stock issued – directors	-	-	-	-	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation plans	-	-	-	-	(70,358)	(1,553)	(70,358)	(1,553)
Restricted stock units – vested	-	-	-	-	(64,208)	(1,418)	(64,208)	(1,418)
Outstanding at December 31, 2015	318,140	10,708	589,174	16,242	2,103,620	46,447	3,010,934	73,397
Repurchase of common stock	-	-	-	-	-	-	-	-
Restricted stock issued – directors	-	-	-	-	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation plans	-	-	-	-	(68,785)	(1,519)	(68,785)	(1,519)
Restricted stock units – vested	-	-	-	-	(65,358)	(1,443)	(65,358)	(1,443)
Outstanding at December 31, 2016	318,140	10,708	589,174	16,242	1,912,477	42,226	2,819,791	69,176
Repurchase of common stock	-	-	1,000	28	-	-	1,000	28
Restricted stock issued - directors	-	-	-	-	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation plans	-	-	-	-	(142,268)	(3,140)	(142,268)	(3,140)
Restricted stock units - vested	-	-	-	-	(70,519)	(1,557)	(70,519)	(1,557)
Outstanding at December 31, 2017	318,140	10,708	590,174	16,270	1,642,690	36,270	2,551,004	63,248

15.2 Reserves

The Banking Law in the Republic of Panama requires banks with general banking license to maintain a total capital adequacy index that shall not be lower than 8% of total assets and off-balance sheet irrevocable contingency transactions, weighted according to their risk; and primary capital equivalent that shall not be less than 4.5% of its assets and loans commitments and financial guarantees contracts, weighted according to their risk. As of December 31, 2017, the Bank’s total capital adequacy ratio is 18.71% which is in compliance with the minimum capital adequacy ratios required by the Banking Law in the Republic of Panama.

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15. Capital and Reserves (continued)

15.3 Restriction on retained earnings

The Bank does not have restrictions on its ability to access its retained earnings other than those resulting from the supervisory framework which the Bank is subject to, in order to operate. The supervisory framework requires banks to keep an additional reserve as part of equity to cover credit risk of their lending facilities. As of December 31, 2017 and 2016, \$129,254 and \$62,459, respectively, of the Bank’s retained earnings are restricted from dividend distribution for purposes of complying with local regulatory requirements.

	December 31, 2017	December 31, 2016
Dynamic provision	108,756	43,826
Regulatory reserve	20,498	18,633
	<u>129,254</u>	<u>62,459</u>

15.4 Additional paid-in capital

As of December 31, 2017 and 2016, the additional paid-in capital consists of additional cash contributions to the common capital paid by shareholders.

16. Cash and stock-based compensation plans

The Bank has established equity compensation plans under which it manages restricted stock, restricted stock units and stock purchase option plans to attract, retain and motivate directors and top employees and compensate them for their contributions to the growth and profitability of the Bank. Vesting conditions for each of the Bank’s plans are only comprised of specified requisite service periods.

A. 2008 Stock Incentive Plan – Directors and Executives

In February 2008, the Board of Directors of the Bank approved an incentive plan for directors and executives allowing the Bank to grant restricted stock, restricted stock units, stock purchase options, and/or other similar compensation instruments. The maximum aggregate number of shares which may be granted under this plan is three million “Class E” common shares. The 2008 Stock Incentive Plan is administered by the Board of Directors which has the authority in its discretion to select the directors and executives to whom the awards may be granted; to determine whether and to what extent awards are granted, and to amend the terms of any outstanding award under this plan.

Restricted stocks are issued at the grant date, but are withheld by the Bank until the vesting date. Restricted stocks are entitled to receive dividends. A restricted stock unit is a grant valued in terms of the Bank’s stock, but no stock is issued at the grant date. Restricted stock units are not entitled to dividends. The Bank issues and delivers common stock at the vesting date of the restricted stock units.

During 2017 and 2016, the Board of Directors approved the grant of restricted stock to directors and stock options and restricted stock units to certain executives of the Bank, as follows:

Restricted stock – Directors

During the years 2017 and 2016 the Board of Directors granted 57,000 of “Class E” common shares. The fair value of restricted stock granted was based on the stock closing price in the New York Stock Exchange of the “Class E” shares on April 19, 2017 and April 13, 2016. The fair value of restricted stock granted totaled \$1,585 in 2017 and \$1,376 in 2016, of which \$788 y \$617 were charged against income during 2017 and 2016, respectively.

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16. Cash and stock-based compensation plans (continued)

A. 2008 Stock Incentive Plan – Directors and Executives (continued)

Restricted stock – Directors (continued)

The total expense recorded during 2017, 2016 and 2015 of restricted stock – directors \$1,697, \$1,548 and \$1,553. The remaining cost pending amortization of \$1,033 at December 31, 2017 will be amortized over 2.3 years.

The stocks lose their restriction from the year following the anniversary date, as follows: 35% in the first and second year, and 30% in the third year.

A summary of the restricted stock granted to Directors is presented below:

	Shares	Weighted average grant date fair value
Outstanding at January 1, 2015	78,336	24.37
Granted	57,000	33.78
Vested	(39,015)	22.69
Outstanding at December 31, 2015	96,321	30.62
Granted	57,000	24.14
Vested	(56,421)	28.80
Outstanding at December 31, 2016	96,900	27.86
Granted	57,000	27.80
Vested	(61,950)	28.50
Outstanding at December 31, 2017	<u>91,950</u>	27.40
Expected to vest	<u>91,950</u>	

The fair value of vested stock during the years 2017 and 2016 was \$1,765 and \$1,625, respectively.

Restricted Stock Units and Stock Purchase Options granted to certain Executives

The Board of Directors approved the grant of stock purchase options and restricted stock units to certain executives of the Bank with a grant date fair value of \$650 in 2017 and \$1,670 in 2016. The distribution of the fair value was in units of restricted shares.

Restricted stock units

The fair value of the stock units was based on the “Class E” stock closing price in the New York Stock Exchange on the grants date. These stock units vest 25% each year on the grant date’s anniversary. The restricted stock units are exchanged at a ratio of 1: 1 for common shares "Class E".

Compensation costs of the restricted stock units are amortized during the period of restriction by accelerated method. Costs charged against income during 2017, 2016 and 2015 due to the amortization of these grants totaled \$811, \$1,295 and \$1,282, respectively. The remaining compensation cost pending amortization of \$381 in 2017 will be amortized over 2.5 years.

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16. Cash and stock-based compensation plans (continued)

A. 2008 Stock Incentive Plan – Directors and Executives (continued)

Restricted Stock Units and Stock Purchase Options granted to certain Executives (continued)

Restricted stock units (continued)

A summary of the restricted stock units granted to certain executives is presented below:

	Shares	Weighted average grand date fair value	Weighted average remaining contractual term	Aggregate Intrinsic value
Outstanding at January 1, 2015	163,712	18.18		
Granted	63,244	21.67		
Forfeited	-			
Vested	(64,208)	17.67		
Outstanding at December 31, 2015	162,748	19.74		
Granted	91,454	18.26		
Forfeited	(21,408)	17.69		
Vested	(65,358)	18.83		
Outstanding at December 31, 2016	167,436	19.35		
Granted	25,289	25.70		
Forfeited	(71,401)	18.61		
Vested	(70,519)	19.76		
Outstanding at December 31, 2017	50,805	21.07	2.02 years	\$518
Expected to vest	50,805	21.07	2.02 years	\$296

The fair value of vested stock during the years 2017 and 2016 is \$1,394, and \$1,230, respectively.

Stock purchase options

The fair value of stock purchase options granted to certain Executives during 2017 was estimated using a binomial option-pricing model, based on the following factors:

	Measuring unit	2017	2016	2015
Weighted average fair value per option	\$	-	-	1.95 - 2.06
Weighted average expected term, in years	Year	-	-	5.5
Expected volatility	%	-	-	22%
Risk-free rate	%	-	-	0.02 – 1.52
Expected dividend	%	-	-	5.00%

These options expire seven years after the grant date and are exercisable at a rate of 25% each year on the grant date’s anniversary.

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16. Cash and stock-based compensation plans (continued)

A. 2008 Stock Incentive Plan – Directors and Executives (continued)

Restricted Stock Units and Stock Purchase Options granted to certain Executives (continued)

Stock purchase options (continued)

Related cost charged against income during 2017, 2016 and 2015 as a result of the amortization of these plans amounted to \$118, \$251 and \$454, respectively. The remaining compensation cost pending amortization of \$30 in 2017 will be amortized over a period of 1.11 years.

A summary of stock options granted is presented below:

	Options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic value
Outstanding at January 1, 2015	391,696	23.65		
Granted	233,418	29.25		
Forfeited	-	-		
Exercised	(70,358)	20.86		
Outstanding at December 31, 2015	554,756	26.36		
Granted	-	-		
Forfeited	(126)	18.93		
Exercised	(68,785)	22.78		
Outstanding at December 31, 2016	485,845	26.87		
Granted	-	-		
Forfeited	(69,934)	28.63		
Exercised	(142,268)	24.84		
Outstanding at December 31, 2017	273,643	27.48	3.66 years	\$242
Exercisable	121,840	27.73	3.70 years	\$115
Expected to vest	151,803	27.28	3.63 years	\$128

The intrinsic value of exercised options during the years 2017 and 2016 was \$593 and \$412, respectively. During the years 2017 and 2016 the Bank received \$3,533 and \$1,565, respectively, from exercised options.

B. Other plans - Expatriate Top Executives Plan

The Bank sponsors a defined contribution plan for its expatriate top executives based in Panama, which are not eligible to participate in the Panamanian social security system. The Bank’s contributions are determined as a percentage of the annual salaries of top executives eligible for the plan, each contributing an additional amount withheld from their salary. Contributions to this plan are managed by a fund manager through a trust. The executives are entitled to the Bank’s contributions after completing at least three years of service in the Bank. During the years 2017, 2016 and 2015, the Bank charged to salaries expense \$163, \$121 and \$171, respectively, that correspond to the Bank’s contributions to this plan.

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17. Business segment information

The Bank’s activities are managed and executed in two business segments: Commercial and Treasury. The business segment results are determined based on the Bank’s managerial accounting process as defined by IFRS 8 – Operating Segments, which assigns consolidated statement of financial positions, revenue and expense items to each business segment on a systematic basis. The Chief Operating Decision Maker (CODM), represented by the Chief Executive Officer (CEO) and the Management Committee reviews internal management reports from each division at least quarterly. Segment profit, as included in the internal management reports is used to measure performance as management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industry.

The Bank’s net interest income represents the main driver of profits; therefore, the Bank presents its interest-earning assets by business segment, to give an indication of the size of business generating net interest income. Interest-earning assets also generate gains and losses on sales, such as for financial instruments at fair value through OCI and financial instruments at fair value through profit or loss, which are included in net other income, in the Treasury Segment. The Bank also discloses its other assets and contingencies by business segment, to give an indication of the size of business that generates net fees and commissions, also included in net other income, in the Commercial Business Segment.

The Commercial Business Segment incorporates all of the Bank’s financial intermediation and fees generated by the commercial portfolio. The commercial portfolio includes book value of loans at amortized cost, acceptances, loan commitments and financial guarantee contracts. Profits from the Commercial Business Segment include net interest income from loans at amortized cost, fee income, gain on sale of loans at amortized cost, impairment loss from expected credit losses on loans at amortized cost, impairment loss from expected credit losses on loan commitments and financial guarantee contracts, and allocated expenses.

The Treasury Business Segment incorporates deposits in banks and all of the Bank’s financial instruments at fair value through profit or loss, financial instruments at fair value through OCI and securities at amortized cost. Profits from the Treasury Business Segment include net interest income from deposits with banks, financial instruments at fair value through OCI and securities at amortized cost, derivative financial instruments foreign currency exchange, gain (loss) for financial instrument at fair value through profit or loss, gain (loss) for financial instrument at fair value through OCI, impairment loss for expected credit losses on investment securities, other income and allocated expenses.

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17. Business segment information (continued)

The following table provides certain information regarding the Bank’s operations by segment:

	Years ended December 31,		
	2017 ⁽¹⁾	2016 ⁽¹⁾	2015 ⁽¹⁾
Commercial			
Interest income	213,326	236,392	209,858
Interest expense	(92,745)	(96,017)	(82,697)
Net interest income	120,581	140,375	127,161
Net other income ⁽²⁾	18,926	16,333	21,492
Total income	139,507	156,708	148,653
Impairment loss from expected credit losses on loans and impairment loss from expected credit losses on loan commitments and financial guarantee contracts	(9,928)	(35,112)	(12,800)
Expenses, less impairment loss from expected credit losses	(35,916)	(34,599)	(40,429)
Profit for the year	93,663	86,997	95,424
Commercial assets and loan commitments and financial guarantee contracts (end of year balances):			
Interest-earning assets ^(3 and 5)	5,500,673	6,013,482	6,682,445
Other assets and loan commitments and financial guarantee contracts ⁽⁴⁾	493,794	422,422	437,436
Total interest-earning assets, other assets and loan commitments and financial guarantee contracts	5,994,467	6,435,904	7,119,881
Treasury			
Interest income	12,753	9,506	10,454
Interest expense	(13,519)	5,328	7,864
Net interest income	(766)	14,834	18,318
Net other income ⁽²⁾	(428)	(3,568)	6,887
Total income	(1,194)	11,266	25,205
Impairment loss for expected credit losses on investment securities	489	(3)	(5,290)
Expenses, less impairment loss for expected credit losses	(10,959)	(11,216)	(11,355)
Profit (loss) for the year	(11,664)	47	8,560
Treasury assets (end of year balances):			
Interest-earning assets ^(3 and 5)	757,911	1,177,961	1,603,921
Total interest-earning assets	757,911	1,177,961	1,603,921

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17. Business segment information (continued)

Combined business segment total	Years ended December 31,		
	2017⁽¹⁾	2016⁽¹⁾	2015⁽¹⁾
Interest income	226,079	245,898	220,312
Interest expense	(106,264)	(90,689)	(74,833)
Net interest income	119,815	155,209	145,479
Net other income ⁽²⁾	18,498	12,765	28,379
Total income	138,313	167,974	173,858
Impairment loss from expected credit losses on loans and impairment loss from expected credit losses on loan commitments and financial guarantee contracts	(9,928)	(35,112)	(12,800)
Impairment loss from expected credit losses on investment securities	489	(3)	(5,290)
Expenses, less impairment loss from expected credit losses	(46,875)	(45,814)	(51,784)
Profit for the year	81,999	87,045	103,984

	December 31, 2017	December 31, 2016
Total assets and loan commitments and financial guarantee contracts (end of year balances):		
Interest-earning assets ^(3 and 5)	6,258,584	7,191,443
Other assets and loan commitments and financial guarantee contracts ⁽⁴⁾	493,794	422,422
Total interest-earning assets, other assets and loan commitments and financial guarantee contracts	6,752,378	7,613,865

⁽¹⁾ The numbers set out in these tables have been rounded and accordingly may not total exactly.

⁽²⁾ Net other income consists of other income including gains on sale of loans, gains (loss) per financial instrument at FVTPL and FVOCI, derivative instruments and foreign currency exchange.

⁽³⁾ Includes deposits and loans, net of unearned interest and deferred fees.

⁽⁴⁾ Includes customers' liabilities under acceptances, loans commitments and financial guarantees contracts.

⁽⁵⁾ Includes cash and cash equivalents, interest-bearing deposits with banks, financial instruments at fair value through OCI, financial instruments at amortized cost and financial instruments at fair value through profit or loss.

	December 31, 2017	December 31, 2016
Reconciliation of total assets:		
Interest-earning assets – business segment	6,258,584	7,191,443
Equity instruments	8,402	-
Allowance for expected credit losses on loans	(81,294)	(105,988)
Allowance for expected credit losses on securities at amortized cost	(196)	(602)
Customers' liabilities under acceptances	6,369	19,387
Intangibles, net	5,425	2,909
Accrued interest receivable	30,872	44,187
Property and equipment, net	7,420	8,549
Derivative financial instruments used for hedging - receivable	13,338	9,352
Other assets	18,827	11,546
Total assets – consolidated financial statements	6,267,747	7,180,783

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18. Fair value of financial instruments

The Bank determines the fair value of its financial instruments using the fair value hierarchy established in IFRS 13 - Fair Value Measurements and Disclosure, which requires the Bank to maximize the use of observable inputs (those that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market information obtained from sources independent of the reporting entity) and to minimize the use of unobservable inputs (those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances) when measuring fair value. Fair value is used on a recurring basis to measure assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate assets and liabilities for impairment or for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Bank uses some valuation techniques and assumptions when estimating fair value. The Bank applied the following fair value hierarchy:

Level 1 – Assets or liabilities for which an identical instrument is traded in an active market, such as publicly-traded instruments or futures contracts.

Level 2 – Assets or liabilities valued based on observable market data for similar instruments, quoted prices in markets that are not active; or other observable inputs that can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Assets or liabilities for which significant valuation assumptions are not readily observable in the market; instruments measured based on the best available information, which might include some internally-developed data, and considers risk premiums that a market participant would require.

When determining the fair value measurements for assets and liabilities that are required or permitted to be recorded at fair value, the Bank considers the principal or most advantageous market in which it would transact and considers the assumptions that market participants would use when pricing the asset or liability. When possible, the Bank uses active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Bank uses observable market information for similar assets and liabilities. However, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to determine the fair value measurement. The frequency of transactions, the size of the bid-ask spread and the size of the investment are factors considered in determining the liquidity of markets and the relevance of observed prices in those markets.

When there has been a significant decrease in the volume or level of activity for a financial asset or liability, the Bank uses the present value technique which considers market information to determine a representative fair value in usual market conditions.

A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, including the general classification of such assets and liabilities under the fair value hierarchy is presented below:

Financial instruments at FVTPL and FVOCI

Financial instruments at FVTPL are carried at fair value, which is based upon quoted prices when available, or if quoted market prices are not available, on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security.

Financial instruments at FVOCI are carried at fair value, based on quoted market prices when available, or if quoted market prices are not available, based on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security.

When quoted prices are available in an active market, financial instruments at FVOCI and financial instruments at FVTPL are classified in level 1 of the fair value hierarchy. If quoted market prices are not available or they are available in markets that are not active, then fair values are estimated based upon quoted prices of similar instruments, or where these are not available, by using internal valuation techniques, principally discounted cash flows models. Such securities are classified within level 2 of the fair value hierarchy.

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18. Fair value of financial instruments (continued)

Derivative financial instruments

The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. Exchange-traded derivatives that are valued using quoted prices are classified within level 1 of the fair value hierarchy.

For those derivative contracts without quoted market prices, fair value is based on internal valuation techniques using inputs that are readily observable and that can be validated by information available in the market. The principal technique used to value these instruments is the discounted cash flows model and the key inputs considered in this technique include interest rate yield curves and foreign exchange rates. These derivatives are classified within level 2 of the fair value hierarchy.

The fair value adjustments applied by the Bank to its derivative carrying values include credit valuation adjustments (“CVA”), which are applied to OTC derivative instruments, in which the base valuation generally discounts expected cash flows using the Overnight Index Swap (“OIS”) interest rate curves. Because not all counterparties have the same credit risk as that implied by the relevant OIS curve, a CVA is necessary to incorporate the market view of both, counterparty credit risk and the Bank’s own credit risk, in the valuation.

Derivative financial instruments (continued)

Own-credit and counterparty CVA is determined using a fair value curve consistent with the Bank’s or counterparty credit rating. The CVA is designed to incorporate a market view of the credit risk inherent in the derivative portfolio. However, most of the Bank’s derivative instruments are negotiated bilateral contracts and are not commonly transferred to third parties. Derivative instruments are normally settled contractually, or if terminated early, are terminated at a value negotiated bilaterally between the counterparties. Therefore, the CVA (both counterparty and own-credit) may not be realized upon a settlement or termination in the normal course of business. In addition, all or a portion of the CVA may be reversed or otherwise adjusted in future periods in the event of changes in the credit risk of the Bank or its counterparties or due to the anticipated termination of the transactions.

Transfer of financial assets

Gains or losses on sale of loans depend in part on the carrying amount of the financial assets involved in the transfer, and its fair value at the date of transfer. The fair value of instruments is determined based upon quoted market prices when available, or are based on the present value of future expected cash flows using information related to credit losses, prepayment speeds, forward yield curves, and discounted rates commensurate with the risk involved.

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18. Fair value of financial instruments (continued)

Financial instruments measured at fair value on a recurring basis by caption on the consolidated statement of financial positions using the fair value hierarchy are described below:

	December 31, 2017			
	Level 1 ^(a)	Level 2 ^(b)	Level 3 ^(c)	Total
<u>Assets</u>				
<u>Securities at fair value through OCI:</u>				
Equity investments	8,402	-	-	8,402
Sovereign debt (1)	16,733	-	-	16,733
Total securities at fair value through OCI	25,135	-	-	25,135
<u>Derivative financial instruments used for hedging – receivable:</u>				
Interest rate swaps	-	129	-	129
Cross-currency interest rate swaps	-	4,550	-	4,550
Foreign exchange forward	-	8,659	-	8,659
Total derivative financial instrument used for hedging – receivable	-	13,338	-	13,338
Total financial assets at fair value	25,135	13,338	-	38,473
<u>Liabilities</u>				
<u>Derivative financial instruments used for hedging – payable:</u>				
Interest rate swaps	-	4,789	-	4,789
Cross-currency interest rate swaps	-	30,154	-	30,154
Total derivative financial instruments used for hedging – payable	-	34,943	-	34,943
Total financial liabilities at fair value	-	34,943	-	34,943

(1) At December 31, 2017, securities at fair value through OCI for \$2,955 were reclassified from level 2 to level 1 of the fair value hierarchy given that Bloomberg's valuation "BVAL" for these values increased from 7 (in 2016) to 10 (in 2017).

^(a) Level 1: Quoted market prices in an active market.
^(b) Level 2: Quoted market prices in an inactive market or internally developed models with significant observable market.
^(c) Level 3: Internally developed models with significant unobservable market information.

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18. Fair value of financial instruments (continued)

	December 31, 2016			
	Level 1 ^(a)	Level 2 ^(b)	Level 3 ^(c)	Total
Assets				
<u>Securities at fair value through OCI:</u>				
Corporate debt	13,909	-	-	13,909
Sovereign debt	13,912	2,786	-	16,698
Total securities at fair value through OCI	27,821	2,786	-	30,607
<u>Derivative financial instruments used for hedging – receivable:</u>				
Interest rate swaps	-	363	-	363
Cross-currency interest rate swaps	-	2,561	-	2,561
Foreign exchange forward	-	6,428	-	6,428
Total derivative financial instrument used for hedging – receivable	-	9,352	-	9,352
Total financial assets at fair value	27,821	12,138	-	39,959
Liabilities				
<u>Financial instruments at FVTPL:</u>				
Foreign exchange forward	-	24	-	24
Total financial instruments at FVTPL	-	24	-	24
<u>Derivative financial instruments used for hedging – payable:</u>				
Interest rate swaps	-	3,704	-	3,704
Cross-currency interest rate swaps	-	46,198	-	46,198
Foreign exchange forward	-	9,784	-	9,784
Total derivative financial instruments used for hedging – payable	-	59,686	-	59,686
Total financial liabilities at fair value	-	59,710	-	59,710

^(a) Level 1: Quoted market prices in an active market.
^(b) Level 2: Quoted market prices in an inactive market or internally developed models with significant observable market.
^(c) Level 3: Internally developed models with significant unobservable market information.

The following information should not be interpreted as an estimate of the fair value of the Bank. Fair value calculations are only provided for a limited portion of the Bank’s financial assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparison of fair value information of the Bank and other companies may not be meaningful for comparative analysis.

As of December 31, 2017 and 2016, there was no reclassification from one level to another in the fair value hierarchy in financial instruments.

The following methods and assumptions were used by the Bank’s management in estimating the fair values of financial instruments whose fair value is not measured on a recurring basis:

Financial instruments with carrying value that approximates fair value

The carrying value of certain financial assets, including cash and due from banks, interest-bearing deposits in banks, customers’ liabilities under acceptances, accrued interest receivable and certain financial liabilities including customer’s demand and time deposits, securities sold under repurchase agreements, accrued interest payable, and acceptances outstanding, as a result of their short-term nature, are considered to approximate fair value. These instruments are classified in Level 2.

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18. Fair value of financial instruments (continued)

Securities at amortized cost

The fair value has been based upon current market quotations, where available. If quoted market prices are not available, fair value has been estimated based upon quoted price of similar instruments, or where these are not available, on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security. These securities are classified in Levels 1, 2 and 3.

Loans at amortized cost

The fair value of the loan portfolio, including impaired loans, is estimated by discounting future cash flows using the current rates at which loans would be made to borrowers with similar credit ratings and for the same remaining maturities, considering the contractual terms in effect as of December 31 of the relevant year. These assets are classified in Level 2.

Short and long-term borrowings and debt

The fair value of short and long-term borrowings and debt is estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar types of borrowing arrangements, taking into account the changes in the Bank’s credit margin. These liabilities are classified in Level 2.

The following table provides information on the carrying value and estimated fair value of the Bank’s financial instruments that are not measured on a recurring basis:

	December 31, 2017				
	Carrying value	Fair value	Level 1 ^(a)	Level 2 ^(b)	Level 3 ^(c)
Financial assets					
Instruments with carrying value that approximates fair value:					
Cash and deposits on banks	672,048	672,048	-	672,048	-
Acceptances	6,369	6,369	-	6,369	-
Interest receivable	30,872	30,872	-	30,872	-
Securities at amortized cost ⁽²⁾	68,934	69,006	50,581	8,447	9,978
Loans, net ⁽¹⁾	5,419,379	5,520,604	-	5,520,604	-
Financial liabilities					
Instruments with carrying value that approximates fair value:					
Deposits	2,928,844	2,928,844	-	2,928,844	-
Acceptances	6,369	6,369	-	6,369	-
Interest payable	15,816	15,816	-	15,816	-
Short-term borrowings and debt	1,072,723	1,072,483	-	1,072,483	-
Long-term borrowings and debt, net	1,138,844	1,158,534	-	1,158,534	-

(a) Level 1: Quoted market prices in an active market.
(b) Level 2: Quoted market prices in an inactive market or internally developed models with significant observable market.
(c) Level 3: Internally developed models with significant unobservable market information.

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18. Fair value of financial instruments (continued)

The following table provides information on the carrying value and estimated fair value of the Bank’s financial instruments that are not measured on a recurring basis:

	December 31, 2016				
	Carrying value	Fair value	Level 1 ^(a)	Level 2 ^(b)	Level 3 ^(c)
<u>Financial assets</u>					
Instruments with carrying value that approximates fair value:					
Cash and deposits on banks	1,069,538	1,069,538	-	1,069,538	-
Acceptances	19,387	19,387	-	19,387	-
Interest receivable	44,187	44,187	-	44,187	-
Securities at amortized cost ⁽²⁾	77,214	76,406	73,406	3,000	-
Loans , net ⁽¹⁾	5,907,494	6,021,006	-	6,021,006	-
<u>Financial liabilities</u>					
Instruments with carrying value that approximates fair value:					
Deposits	2,802,852	2,802,852	-	2,802,852	-
Acceptances	19,387	19,387	-	19,387	-
Interest payable	16,603	16,603	-	16,603	-
Short-term borrowings and debt	1,470,075	1,470,045	-	1,470,045	-
Long-term borrowings and debt, net	1,776,738	1,808,228	-	1,808,228	-

(a) Level 1: Quoted market prices in an active market.

(b) Level 2: Quoted market prices in an inactive market or internally developed models with significant observable market.

(c) Level 3: Internally developed models with significant unobservable market information.

⁽¹⁾ The carrying value of loans at amortized cost is net of the allowance for expected credit losses of \$81.3 million and unearned interest and deferred fees of \$5.0 million for December 31, 2017; allowance for expected credit losses of \$106.0 million and unearned interest and deferred fees of \$7.2 million for December 31, 2016.

⁽²⁾ The carrying value of securities at amortized cost is net of the allowance for expected credit losses of \$0.2 million for December 31, 2017 and \$0.6 million for December 31, 2016.

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19. Accumulated other comprehensive income (loss)

The breakdown of accumulated other comprehensive income (loss) related to financial instruments at FVOCI, derivative financial instruments, and foreign currency translation is as follows:

	Financial instruments at FVOCI	Derivative financial instruments	Foreign currency translation adjustment NIIF	Total
Balance as of January 1, 2015	(6,817)	(1,020)	-	(7,837)
Net unrealized gain (loss) arising from the year	(6,267)	(4,942)		(11,209)
Reclassification adjustment for (gains) loss included in the profit of the year ⁽¹⁾	4,153	4,212	-	8,365
Other comprehensive income (loss) from the year	(2,114)	(730)	-	(2,844)
Balance as of December 31, 2015	(8,931)	(1,750)	-	(10,681)
Balance as of January 1, 2016	(8,931)	(1,750)	-	(10,681)
Net unrealized gain (loss) arising from the year	7,048	4,383		11,431
Reclassification adjustment for (gains) loss included in the profit of the year ⁽¹⁾	1,030	(4,581)	-	(3,551)
Other comprehensive income (loss) from the year	8,078	(198)	-	7,880
Balance as of December 31, 2016	(853)	(1,948)	-	(2,801)
Balance as of January 1, 2017	(853)	(1,948)	-	(2,801)
Change in fair value for revaluation by debt instrument, net of hedging	612	(8)	-	604
Change in fair value for revaluation by equity instrument, net of hedging	(228)	415	-	187
Reclassification adjustment for (gains) loss included in the profit of the year ⁽¹⁾	84	2,399	-	2,483
Foreign currency translation adjustment, net	-	-	(60)	(60)
Exchange difference in conversion of foreign operating currency	-	-	1,550	1,550
Other comprehensive income (loss) from the year	468	2,806	1,490	4,764
Balance as of December 31, 2017	(385)	858	1,490	1,963

⁽¹⁾ Reclassification adjustments include amounts recognized in profit of the year that had been part of other comprehensive income (loss) in this and previous years.

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19. Accumulated other comprehensive income (loss) (continued)

The following table presents amounts reclassified from other comprehensive income to the profit of the year:

December 31, 2017		
Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the consolidated statement of profit or loss where net income is presented
Realized gains (losses) on financial instruments at FVOCI:	- 24 (108) (84)	Interest income – financial instruments at FVOCI Net gain on sale of financial instruments at FVOCI Derivative financial instruments and hedging
Gains (losses) on derivative financial instruments:		
Foreign exchange forward	(7,611) (2,102) 7,216	Interest income – loans at amortized cost Interest expense – borrowings and deposits Net gain (loss) on foreign currency exchange
Interest rate swaps	86	Net gain (loss) on interest rate swaps
Cross-currency interest rate swap	12 (2,399)	Net gain (loss) on cross-currency interest rate swap
December 31, 2016		
Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the consolidated statement of profit or loss where net income is presented
Realized gains (losses) on financial instruments at FVOCI:	- (7,243) 6,213 (1,030)	Interest income – financial instruments at FVOCI Net gain on sale of financial instruments at FVOCI Derivative financial instruments and hedging
Gains (losses) on derivative financial instruments:		
Foreign exchange forward	(4,750) 1,679 6,060	Interest income – loans at amortized cost Interest expense – borrowings and deposits Net gain (loss) on foreign currency exchange
Interest rate swaps	1,104	Net gain (loss) on interest rate swaps
Cross-currency interest rate swap	488 4,581	Net gain (loss) on cross-currency interest rate swap

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19. Accumulated other comprehensive income (loss) (continued)

December 31, 2015		
Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the consolidated statement of profit or loss where net income is presented
Realized gains (losses) on financial instruments at FVOCI:	240 393 (4,786) (4,153)	Interest income – financial instruments at FVOCI Net gain on sale of financial instruments at FVOCI Derivative financial instruments and hedging
Gains (losses) on derivative financial instruments:		
Foreign exchange forward	(1,822) - (2,390) (4,212)	Interest income – loans at amortized cost Interest expense – borrowings and deposits Net gain (loss) on foreign currency exchange
Interest rate swaps	(229)	Net gain (loss) on interest rate swaps
Cross-currency interest rate swap	84	Net gain (loss) on cross-currency interest rate swap

20. Related party transactions

During the reporting years, total compensation paid to directors and the executives of Bladex as representatives of the Bank amounted to:

	December 31, 2017	December 31, 2016	December 31, 2015
Expenses:			
Compensation costs paid to directors	884	880	949
Compensation costs paid to executives	2,370	4,055	4,601

21. Fees and commissions, net

	December 31, 2017	December 31, 2016	December 31, 2015
Commission income – Loans & commitments, net	476	1,126	2,988
Commission income - Letters of credit	10,430	7,458	9,332
Commission income - Arrangements	6,608	5,722	6,880
Total	17,514	14,306	19,200

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22. Net gain or (loss) on financial instruments at FVTPL

	December 31, 2017	December 31, 2016	December 31, 2015
Net (loss) gain on financial instruments at FVTPL	(732)	1,481	645
Net (loss) gain on investment funds	-	(4,364)	5,086
	<u>(732)</u>	<u>(2,883)</u>	<u>5,731</u>

23. Salaries and other employee expenses

	December 31, 2017	December 31, 2016	December 31, 2015
Wages and salaries	16,191	16,132	15,500
Payroll taxes	2,629	2,244	2,264
Personnel benefits	5,442	3,090	8,613
Share-based payments	3,391	3,730	4,058
Total	<u>27,653</u>	<u>25,196</u>	<u>30,435</u>

24. Other expenses

	December 31, 2017	December 31, 2016	December 31, 2015
Advertising and marketing	683	785	829
Regulatory fees	977	1,348	1,565
Rental - office and equipment	2,394	2,681	3,019
Administrative	6,846	7,468	7,469
Professional services	3,911	4,255	4,621
Maintenance and repairs	1,673	1,866	1,635
Other	322	129	244
Total	<u>16,806</u>	<u>18,532</u>	<u>19,382</u>

25. Commitments and contingencies

Leasing arrangements

Operating lease commitments – Bank as lessee

Future minimum lease payments under cancellable operating leases as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Within 1 year	2,006	1,984	2,055
After 1 year but not more than 5 years	7,335	7,362	6,731
More than 5 years	8,814	10,638	14,128
Total	<u>18,155</u>	<u>19,984</u>	<u>22,914</u>

The total amount of expenses recognized in connection with such leases in 2017, 2016 and 2015 are \$2,332, \$2,605 and \$2,930, respectively.

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25. Commitments and contingencies (continued)

Leasing arrangements (continued)

Operating leases – Bank as sub-lessor

Future minimum lease payments under cancellable operating leases as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Within 1 year	300	289	455
After 1 year but not more than 5 years	243	646	822
Total	<u>543</u>	<u>935</u>	<u>1,277</u>

The total amount of income recognized in connection with such leases in 2017, 2016 and 2015 are \$275, \$436 y \$661, respectively.

26. Litigation

Bladex is not engaged in any litigation that is material to the Bank’s business or, to the best of the knowledge of the Bank’s management that is likely to have an adverse effect on its business, financial condition or results of operations.

27. Risk management

Risk is inherent in the Bank’s activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to market, credit, compliance and liquidity risk. It is also subject to country risk and various operating risks.

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed an Administration Committee which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a weekly basis to the Supervisory Board.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a daily basis, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank’s Assets/Liabilities Committee (ALCO) is responsible for managing the Bank’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank’s policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

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27. Risk management (continued)

Risk measurement and reporting systems

The Bank’s risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank’s policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, market risk sensitivities, stop losses, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank. For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

In accordance with the Bank’s policy, its risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Risk Controlling Unit (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Risk Controlling Unit quarterly. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

The Bank has exposure to the following risk from financial instruments:

27.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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27. Risk management (continued)

27.1 Credit risk (continued)

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Allowances for losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for debt investments at amortized costs that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. The Bank generally bases its analyses on historical experience and prospective information. However, when there are significant market developments, regional and/or global, the Bank would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debt, changes in the law, changes in regulation, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate time when a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank’s overall policy.

Financial guarantees and letters of credit are assessed in a similar manner as for loans.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position at fair value. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation, but the counterparty fails to deliver the counter value.

Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

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27. Risk management (continued)

27.1 Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank’s policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance–sheet assets and liabilities unless certain conditions for offsetting.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized.
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

27.2 Liquidity risk

Liquidity refers to the Bank’s ability to maintain adequate cash flows to fund operations and meet obligations and other commitments on a timely basis.

As established by the Bank’s liquidity policy, the Bank’s liquid assets are held in overnight deposits with the Federal Reserve Bank of New York or in the form of interbank deposits with reputable international banks that have A1, P1, or F1 ratings from two of the major internationally – recognized rating agencies and are primarily located outside of the Region. In addition, the Bank’s liquidity policy allows for investing in negotiable money market instruments, including Euro certificates of deposit, commercial paper, and other liquid instruments with maturities of up to three years. These instruments must be of investment grade quality A or better, must have a liquid secondary market and be considered as such according to Basel III rules.

The Bank performs daily reviews, controls and periodic stress tests on its liquidity position, including the application of a series of limits to restrict its overall liquidity risk and to monitor the liquidity level according to the macroeconomic environment. The Bank determines the level of liquid assets to be held on a daily basis, adopting a Liquidity Coverage Ratio methodology referencing the Basel Committee guidelines. Additionally, the Liquidity Coverage Ratio is complemented with the use of the Net Stable Funding Ratio to maintain an adequate long-term funding structure. According to the Bank's liquidity guidelines, it is established that a minimum level of 1.0 of LCR and NSFR must be met. The Bank maintained a liquidity index between 1.25 and 1.53, with an average of 1.42 for 2017; and between 0.94 and 2.60, with an average of 1.15 for 2016.

Specific limits have been established to control (1) cumulative maturity “gaps” between assets and liabilities, for each maturity classification presented in the Bank’s internal liquidity reports, and (2) concentrations of deposits taken from any client or economic group maturing in one day and total maximum deposits maturing in one day.

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27. Risk management (continued)

27.2 Liquidity risk (continued)

The Bank follows a Contingent Liquidity Plan. The plan contemplates the regular monitoring of several quantified internal and external reference benchmarks (such as deposit level, Emerging Markets Bonds Index Plus, LIBOR-OIS spread and market interest rates), which in cases of high volatility would trigger implementation of a series of precautionary measures to reinforce the Bank’s liquidity position. In the Bank’s opinion, its liquidity position is adequate for the Bank’s present requirements.

The following table shows the Bank’s liquid assets, by principal geographic area:

	December 31, 2017	December 31, 2016
<i>(in millions US\$)</i>		
United States of America	612	591
Other O.E.C.D.	-	409
Multilateral	-	-
Latin America	7	8
Total	619	1,008

As of December 31, 2017 and 2016, the Bank’s 24-hour deposits from customers (demand deposit accounts and call deposits) amounted to \$478 million and \$227 million, respectively; representing 16% and 8% of the Bank’s total deposits, for each year reported. The liquidity requirement resulting from these maturities is satisfied by the Bank’s liquid assets, which as of December 31, 2017 and 2016 were \$619 million and \$1,008 million, respectively (representing 21% and 36% of total deposits, respectively) of which \$609 million, or 98% and \$591 million, or 59%, as of December 31, 2017 and 2016, of liquid assets were deposited at the Federal Reserve Bank of New York. The remaining liquid assets consisted of short-term funds deposited with other banks.

While the Bank’s liabilities generally mature over somewhat shorter periods than its assets, the associated liquidity risk is diminished by the short-term nature of the loan portfolio, as the Bank is engaged primarily in the financing of foreign trade. As of December 31, 2017 and 2016, the Bank’s short-term loan and investment securities portfolio (maturing within one year based on original contractual term) totaled \$3,746 million and \$3,577 million, respectively. As of December 31, 2017 and 2016, it had an average original term to maturity of 203 and 184 days, respectively and an average remaining term to maturity of 112 days and 89 days, respectively.

Medium-term assets (loans and investment securities maturing beyond one year based on original contractual term) totaled \$1,872 millions and \$2,552 millions as of December 31, 2017 and 2016, respectively. Of that amount, \$86 millions and \$105 millions corresponded to the Bank’s investment securities as of December 31, 2017 and 2016. The remaining \$1,786 millions and \$2,447 millions in medium-term assets corresponded to the Bank’s loan portfolio as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the medium-term assets had an average original term to maturity of four years and three years and nine months, respectively; and an average remaining term to maturity of one year and nine months (655 days), and one year and seven months (588 days), respectively.

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27. Risk management (continued)

27.2 Liquidity risk (continued)

The following table details the Banks’s assets and liabilities grouped by its remaining maturity with respect to the contractual maturity:

Description	December 31, 2017						Total
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without maturity	
Assets							
Cash and cash equivalent	672,048	-	-	-	-	-	672,048
Investment securities	700	279	7,000	77,688	-	-	85,667
Equity investments	-	-	-	-	-	8,402	8,402
Loans at amortized cost	1,926,787	1,175,801	922,711	1,386,161	94,198	-	5,505,658
Unearned interest and deferred fees	(472)	(479)	(223)	(3,546)	(248)	(17)	(4,985)
Allowance for expected credit losses	-	-	-	-	-	(81,294)	(81,294)
Other assets	31,282	8,635	13,175	3,819	9,398	15,942	82,251
Total	2,630,345	1,184,236	942,663	1,464,122	103,348	(56,967)	6,267,747
Liabilities							
Deposits	1,722,041	411,158	571,500	224,145	-	-	2,928,844
Other liabilities	806,547	151,090	291,694	979,958	66,802	-	2,296,091
Total	2,528,588	562,248	863,194	1,204,103	66,802	-	5,224,935
Confirmed letters of credit	169,042	101,403	3,004	-	-	-	273,449
Stand-by letters of credit and guaranteed – Commercial risk	18,687	72,080	77,952	257	-	-	168,976
Credit commitments	-	15,000	-	30,000	578	-	45,578
Total	187,729	188,483	80,956	30,257	578	-	488,003
Net position	(85,972)	433,505	(1,487)	229,762	35,968	(56,967)	554,809

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27. Risk management (continued)

27.2 Liquidity risk (continued)

Description	December 31, 2016						Total
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without maturity	
Assets							
Cash and cash equivalent	1,069,538	-	-	-	-	-	1,069,538
Investment securities	1,024	3,000	-	83,643	20,756	(602)	107,821
Loans at amortized cost	2,262,349	1,267,194	551,794	1,843,476	95,918	-	6,020,731
Unearned interest and deferred fees	(663)	(906)	(258)	(4,762)	(660)	-	(7,249)
Allowance for expected credit losses	-	-	-	-	-	(105,988)	(105,988)
Other assets	55,445	6,587	3,721	6,399	642	23,136	95,930
Total	3,387,693	1,275,875	555,257	1,928,756	116,656	(83,454)	7,180,783
Liabilities							
Deposits	2,306,413	173,288	275,631	47,520	-	-	2,802,852
Other liabilities	884,453	744,135	346,294	1,330,515	61,220	-	3,366,617
Total	3,190,866	917,423	621,925	1,378,035	61,220	-	6,169,469
Confirmed letters of credit	146,755	173,192	63,813	-	-	-	383,760
Stand-by letters of credit and guaranteed – commercial risk	70	8,595	360	-	-	-	9,025
Credit commitments	-	4,073	2,399	3,200	578	-	10,250
Total	146,825	185,860	66,572	3,200	578	-	403,035
Net position	50,002	172,592	(133,240)	547,521	54,858	(83,454)	608,279

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27. Risk management (continued)

27.3 Market risk

Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with many of the Bank’s operations and activities, including loans, deposits, securities held to maturity and financial instruments through OCI, short- and long-term borrowings and debt, derivatives and financial liabilities through profit or loss. This risk may result from fluctuations in different parameters: interest rates, currency exchange rates, inflation rates and changes in the implied volatility. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on the Bank’s financial condition, results of operations, cash flows and business.

Interest rate risk

The Bank endeavors to manage its assets and liabilities in order to reduce the potential adverse effects on the net interest income that could be produced by interest rate changes. The Bank’s interest rate risk is the exposure of earnings (current and potential) and capital to adverse changes in interest rates and is managed by attempting to match the term and repricing characteristics of the Bank’s interest rate sensitive assets and liabilities. The Bank’s policy with respect to interest rate risk provides that the Bank establishes limits with regards to: (1) changes in net interest income due to a potential impact, given certain movements in interest rates and (2) changes in the amount of available equity funds of the Bank, given a one basis point movement in interest rates.

The following summary table presents a sensitivity analysis of the effect on the Bank’s results of operations derived from a reasonable variation in interest rates which its financial obligations are subject to, based on change in points.

	Change in interest rate	Effect on income
December 31, 2017	+200 bps	<u>18,282</u>
	-200 bps	<u>(8,879)</u>
December 31, 2016	+200 bps	<u>24,603</u>
	-200 bps	<u>(11,382)</u>
December 31, 2015	+200 bps	<u>18,723</u>
	-200 bps	<u>(3,480)</u>

This analysis is based on the prior year changes in interest rates and assesses the impact on income, with balances as of December 31, 2017 and 2016. This sensitivity provides an idea of the changes in interest rates, taking as example the volatility of the interest rate of the previous year.

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27. Risk management (continued)

27.3 Market risk (continued)

Interest rate risk (continued)

The table below summarizes the Bank's exposure based on the terms of repricing of interest rates on financial assets and liabilities.

Description	December 31, 2017					Total
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
Assets						
Investments securities	700	279	7,000	77,688	-	85,667
Equity investments	-	-	-	-	8,402	8,402
Loans at amortized cost	<u>4,067,639</u>	<u>952,542</u>	<u>301,334</u>	<u>173,550</u>	<u>10,593</u>	<u>5,505,658</u>
Total	4,068,339	952,821	308,334	251,238	18,995	5,599,727
Liabilities						
Deposits	2,242,220	305,415	197,060	102,085	-	2,846,780
Short and long term borrowings and debt, net	<u>1,585,145</u>	<u>2,538</u>	<u>85,232</u>	<u>482,814</u>	<u>55,838</u>	<u>2,211,567</u>
Total	<u>3,827,365</u>	<u>307,953</u>	<u>282,292</u>	<u>584,899</u>	<u>55,838</u>	<u>5,058,347</u>
Total interest rate sensibility	<u>240,974</u>	<u>644,868</u>	<u>26,042</u>	<u>(333,661)</u>	<u>(36,843)</u>	<u>541,380</u>
Description	December 31, 2016					Total
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
Assets						
Time deposit	125,000	-	-	-	-	125,000
Securities and other financial assets	9,025	3,000	-	72,094	18,200	102,319
Loans at amortized cost	<u>4,350,913</u>	<u>1,445,290</u>	<u>140,609</u>	<u>83,919</u>	<u>-</u>	<u>6,020,731</u>
Total	4,484,938	1,448,290	140,609	156,013	18,200	6,248,050
Liabilities						
Deposits	2,179,399	173,288	275,631	47,520	-	2,675,838
Short and long term borrowings and debt, net	<u>2,168,964</u>	<u>402,643</u>	<u>133,190</u>	<u>495,883</u>	<u>46,133</u>	<u>3,246,813</u>
Total	<u>4,348,363</u>	<u>575,931</u>	<u>408,821</u>	<u>543,403</u>	<u>46,133</u>	<u>5,922,651</u>
Total interest rate sensibility	<u>136,575</u>	<u>872,359</u>	<u>(268,212)</u>	<u>(387,390)</u>	<u>(27,933)</u>	<u>325,399</u>

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27. Risk management (continued)

27.3 Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For purposes of accounting standards this risk does not come from financial instruments that are not monetary items, or for financial instruments denominated in the functional currency. Exposure to currency risk is low since the Bank’s has maximum exposure limits established by the Board.

Most of the Bank’s assets and most of its liabilities are denominated in US American Dollars and hence the Bank does not incur a significant currency exchange risk. The currency exchange rate risk is mitigated by the use of derivatives, which, although perfectly covered economically, may generate a certain accounting volatility.

The following table details the maximum to foreign currency, where all assets and liabilities are presented based on their book value, except for derivatives, which are included within other assets and other liabilities based on its value nominal.

	December 31, 2017						Total
	Brazilian Real expressed in US\$	European Euro expressed in US\$	Japanese Yen expressed in US\$	Colombian Peso expressed in US\$	Mexican Peso expressed in US\$	Other currencies expressed in US\$ ⁽¹⁾	
Exchange rate	3.31	1.20	112.66	2,985.78	19.67	-	-
Assets							
Cash and cash equivalent	87	2	4	91	369	75	628
Equity investments	168	-	-	-	-	-	168
Loans at amortized cost	-	-	-	-	143,182	-	143,182
Total	255	2	4	91	143,551	75	143,978
Liabilities							
Borrowings and deposit placements	-	-	-	-	143,661	-	143,661
Other liabilities	-	-	-	-	-	-	-
Total	-	-	-	-	143,661	-	143,661
Net currency position							
	255	2	4	91	(110)	75	317

⁽¹⁾ It includes other currencies such as: Argentine pesos, Australian- dollar, Swiss franc, Pound sterling, Peruvian soles and Remimbis.

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27. Risk management (continued)

27.3 Market risk (continued)

Currency risk (continued)

	December 31, 2016						Total
	Brazilian Real expressed in US\$	European Euro expressed in US\$	Japanese Yen expressed in US\$	Colombian Peso expressed in US\$	Mexican Peso expressed in US\$	Other currencies expressed in US\$ ⁽¹⁾	
Exchange rate	3.25	1.06	116.68	3,002.00	20.6139	-	-
Assets							
Cash and cash equivalent	4,014	6	6	55	2,339	74	6,494
Investments and other financial assets	-	-	-	-	-	-	-
Loans at amortized cost	-	-	-	-	295,580	-	295,580
Other assets	-	52,800	94,279	-	79,104	-	226,183
Total	4,014	52,806	94,285	55	377,023	74	528,257
Liabilities							
Borrowings and deposit placements	-	-	94,279	-	280,557	-	374,836
Other liabilities	3,933	52,800	-	-	96,951	-	153,684
Total	3,933	52,800	94,279	-	377,508	-	528,520
Net currency position							
	81	6	6	55	(485)	74	(263)

⁽¹⁾ It includes other currencies such as: Argentine pesos, Australian- dollar, Canadian dollar, Swiss franc, Peruvian soles and Remimbis.

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27. Risk management (continued)

27.4 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Bladex, like all financial institutions, is exposed to operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures, and errors by employees, and any failure, interruption or breach in the security or operation of the Bank’s information technology systems could result in interruptions in such activities. Operational problems or errors may occur, and their occurrence may have a material adverse impact on the Bank’s business, financial condition, results of operations and cash flows. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Capital management

The primary objectives of the Bank’s capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made to the objectives, policies and processes from the previous years. However, they are under constant review by the Board.

	December 31, 2017	December 31, 2016
Tier 1 capital	1,048,304	1,054,719
Risk weighted assets	5,601,518	6,350,544
Tier 1 capital ratio	18.71%	16.61%

28. Subsequent Events

Bladex announced a quarterly cash dividend of \$15,180 which represents \$0.385 US dollar cent per share corresponding to the 4th quarter of 2017. The cash dividend was approved by the Board of Directors at its meeting held on January 16, 2018 and it is payable on February 21, 2018 to the Bank’s stockholders as of February 2, 2018 record date.

Torre V, Business Park
Ave. La Rotonda, Urb. Costa del Este
P.O. Box 0819-08730
Panama, Republic of Panama
Tel: (507) 210-8500

www.bladex.com

