

BOOSTING LATIN AMERICAN FOREIGN TRADE



ANNUAL REPORT



INDEX

Message to Shareholders	4
Business Context	8
Business Management	12
Enterprise-wide Risk Management	34
Financial Performance	46
Corporate Governance	54
Human Capital	66
Social Development	72
Consolidated Financial Statements	76

Message to Shareholders



Dear Shareholders:

2019 was a significant year for Bladex, marked by two very important events: the Bank proudly celebrated 40 years of successful history in Latin America, upholding the same spirit of promoting foreign trade growth and being a relevant player in regional development and integration that forged its creation. The other event, one that was unexpected for Bladex, was the sad passing of Mr. Gonzalo Menéndez Duque, a well-regarded and respected board member and Chairman of the Board of Directors of the Bank until his death, last June in his native Chile. For 29 years Mr. Gonzalo Menéndez Duque dedicated all his talent, leadership and entrepreneurial vision to promoting Bladex's growth, as well as to strengthening its role as a financial institution oriented to play an increasingly important role in the development of Latin American foreign trade. His deep-rooted values and social sensitivity were also reflected in his significant contributions to the projects and programs carried out by the Foundation, which now also

bears his name, "Fundación Crece Latinoamérica-Gonzalo Menéndez Duque", to benefit children and young people in the most vulnerable sectors of the communities we serve.

We have ended a year in which global growth continued to be well below potential and with strong concerns related to the stagnation of advanced economies, the strain on trade relations especially between the United States and China, added to the volatility and uncertainty caused by the outbreak of COVID-19 in China since the end of the year, the full consequences of which are still unknown. On the other hand, GDP in the region had the second worst evolution in the last 10 years, with a growth of only 0.1%. This is due to the slowdown in global growth, particularly the deceleration of its two main trading partners, the United States and China, and the drop in the price of raw materials, with the corresponding impact on foreign trade flows (-3.4%)

in 2019). This scenario was compounded by growing social demands and political conflicts, which burst with unusual intensity in some Latin American countries. Of the three main economies, Brazil was the only one that showed a lukewarm growth of 1.2%, while Mexico registered a negative growth of 0.1%, with a remarkable decoupling from a strong US economy, and Argentina's GDP contracted by 2.7% during the year.

Under this challenging economic environment, Bladex continued to offer financial solutions for a broad base of financial institutions and corporations, serving their needs across the foreign trade chain and supporting their clients and investors in their Latin America businesses.

In 2019, Bladex disbursed more than US\$14 billion in short and medium term financing, on a bilateral or syndicated basis, assisted

by its network of offices in Bogota, Buenos Aires, Mexico City and Sao Paulo, as well as its headquarters in Panama, with significant support from the New York Agency. In August and after a structure analysis, the physical space of the Bank's office in Lima, Peru was closed, keeping the Representation License in force and transferring the coverage of its business to Panama.

Bladex is proud to have disbursed more than US\$288 billion to its client base over the past 40 years of operations in Latin America. The commercial portfolio balance at the end of the 2019 fiscal year reached US\$6,502 million, resulting in an outstanding corporate sector diversification, with a weight in financial institutions of 56% and a significant increase in loans within the most robust economies. On the liabilities side, the already demanding goals of onboarding new clients were surpassed. In addition, it is important to highlight

the positive performance of the syndicated and structured operations business, with six transactions successfully closed during the year.

These commercial achievements were particularly important, considering the aforementioned economic environment, which led to generalized downward revisions in global growth estimates and those of the main Latin American economies. Despite this challenging environment, Bladex managed to achieve sound financial results with earnings of US\$86.1 million in 2019, or US\$2.17 per share, compared to US\$11.1 million in 2018, or US\$0.28 per share, which represented a Return on Average Equity ("RoAE") of 8.6%, compared to 1.1% in 2018. This result was possible due to robust top-tier income, stable financial margins and average volumes in the trading portfolio, together with higher fees. The quality of origination was also improved, redirecting exposure to low risk countries and managing impaired exposures. This resulted in an almost total absence of credit impairment losses as well as losses on financial instruments. In addition, the Bank's ongoing focus on expense control with a significant reduction in the cost base, resulting in improvements in operational efficiency.

Looking at the balance sheet, the year ended with a total of \$102 million of allowance for credit impaired loan losses or 1.57% of the total commercial portfolio, while the impaired portfolio reached 1% of the total.

The Bank's' liquidity position reached US\$1.2 billion at the end of the year, accounting for 16% of total assets, while its funding was well distributed by regions, terms and sources, half of which was represented by a stable deposit base that reached US\$2.9 billion at year-end 2019. The sound Tier-1 Capital Ratio achieved under the Basel III methodology is also a source of satisfaction, standing at 19.8% while maintaining the annual dividend of US\$1.54 for the fifth consecutive year, with an annual return of 7.6%, the highest in the decade. As of December 31, 2019, the share price closed at US\$21.38, i.e. 0.8 times book value per share and 9.8 times earnings per share.

As for Corporate Governance, Bladex developed several projects aimed at strengthening internal control, as well as improving operating efficiency through the implementation of IT solutions and process automation, which allowed the Bank to significantly improve

its workflows and customer service. I would also like to highlight the Board of Directors' deep commitment to leadership and female representation on the Board. As part of this commitment, Bladex benefitted from the appointment of Ms. Isela Costantini (July 2019) and Alexandra Aguirre (February 2020) as new Directors, representing all classes of shareholders. Their appointments resulted from an extensive and thorough selection process carried out by the Board's Compensation Committee, which began last year and in which several candidates participated.

The work carried out throughout this year by the "Fundación Crece Latinoamérica – Gonzalo Menéndez Duque" is a testament of the commitment of our Organization to directly support the sustained development of the communities where we are privileged to operate. With this in mind, in 2019 we invested in projects and programs focused, mainly, on providing educational opportunities and personal development to children and young people from the most vulnerable sectors.

At the end of January 2020, we announced the orderly and planned succession of our Chief Executive Officer, with Mr. Jorge Salas taking office on March 9 in replacement of Mr. Gabriel Tolchinsky. On behalf of the Board of Directors, I am honored to express our appreciation to Gabriel for his good management of the Bank over the past two years and the assurance that, with Jorge Salas' leadership, Bladex will continue to be strong, reinforcing its strategic role for Latin America and our customers, as well as generating value for our shareholders.

I would like to conclude by expressing my appreciation to the great team of collaborators that constitute Bladex's main strength, whose efforts, commitment and dedication contributed to the results achieved this year. Likewise, we thank our shareholders once again for the trust they have placed in Bladex and its Board of Directors.

We will continue to be true to our corporate values and to our commitment that Bladex will continue to be an organization that plays an increasingly relevant role in the development of Latin America.

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Miguel Heras Castro

Chairman of the Board of Directors



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In 1975, at the 20th Meeting of the Latin American Central Bank Governors, Panama proposed the creation of a multinational mechanism for financing exports in Latin America.



FOREIGN TRADE AND MACRO-ECONOMIC ENVIRONMENT

The global economy has suffered a slow-down with important consequences for the economic activities and foreign trade in Latin America and the Caribbean. The International Monetary Fond (IMF) has estimated a world-wide Gross Domestic Product (GDP) growth of 2.9% for the year 2019, which is significantly below the estimated potential of 3.8% and represented the lowest growth rate since the global financial and economic crisis of 2008.

This economic slow-down has been pretty general in the advanced economies and even more pronounced in the developing and emerging market economies, partly reflecting the business and geopolitical tensions.

2.7% over the year.

The lower dynamic a lower aggregate

The US economy grew by 2.3% in 2019, which contributed to the world-wide growth, but had a limited impact because of its structure make-up, as it is driven by consumption and the service sector, while the trade and investments that have positive effects on the whole global economy weakened.

In spite of the historically low unemployment and the relatively solid growth in the US, the Federal Reserve Bank opted for lowering interest rates in 2019 in order to counter economic weakness in other places. With inflation below 2% and inflation expectations under control, the Federal Reserve reduced its Federal Funds reference rate three times during the year to 1.75%.

Under normal circumstances, the Federal Reserve actions should have been an impediment for the US American Dollar, but within a general environment of low growth and geopolitical crises all over the world, the US Dollar strengthened, which had a negative impacted on commodity prices and capital flows in emerging markets.

From the perspective of Latin America and the Caribbean ("the Region"), the slow-down of their main business partners, the United States and China was crucial. The countries in the Region were only exposed to the slower growth in those two countries for their exports but also to the lower commodity prices, as China and the United States are the most important players in the global markets for the commodities being exported by the Region.

In that sense, 2019 was a very difficult year for Latin America as economic growth barely reached 0.1%, well below the 1% growth

seen in 2018 and the expectations for a 2.1% predicted in the beginning of the year. Except for 2016, when Brazil went through its worst recession for the past 70 years, 2019 was the year with the slowest growth seen in Latin America in the past decade. Of the three largest economies in the Region, representing around 75% of its GDP, Brazil was the only one showing a little lukewarm growth of 1.2%; Mexico's economy shrank by 0.1%, which was a notable uncoupling from a strong US economy and GDP in Argentina also fell by some 2.7% over the year.

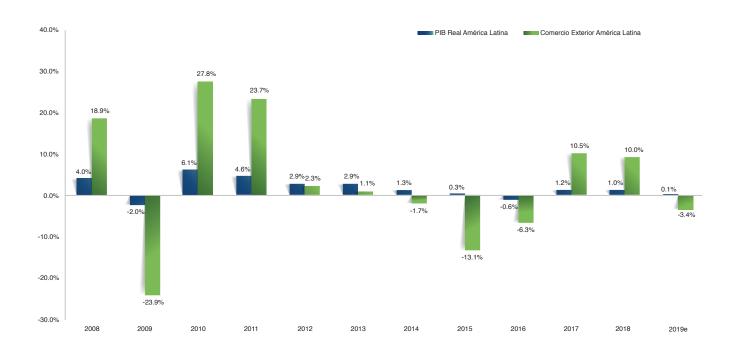
The lower dynamics for internal demand went hand in hand with a lower aggregate external demand and more fragile international financial markets. Trade flows in Latin America and the Caribbean fell by 3.4% in 2019, which was mainly due to the fall in commodity prices, more specifically in metals and oil, as well as to a decrease in export volumes as a negative result of the commercial tensions between the United States and China.

Trade terms in the Region worsened in 2019, especially for those countries exporting hydrocarbons and mining products, negatively affecting the available income and fiscal accounts of the commodity exporting economies. However, Central America and the Caribbean benefitted from the lower prices for energy, foodstuffs and other basic products.

Added to this scenario were growing social claims and political conflicts that burst out with an unusual intensity in some countries in the Region.

Faced with the complicated global economic situation and the persisting negative product gaps in the Region, economic policies should find a balance between stimulating growth and re-establishing the margins for maneuvering in economic policy. Fiscal consolidation for reducing public debt continued to be a priority in several countries. Monetary policy could continue to support growth as the inflation perspectives did stay stable and well anchored. However, the structural reforms seeking to promote greater openings for business and investment, to stimulate competiveness and to take on the too strict labor market regulations remain the dominating tasks on the Latin American and Caribbean Agendas.

GDP and Foreign Trade Evolution



Source: FMI; "The Economist Intelligence Unit Country Risk Service" of March 2020.







MISSION VISION CORPORATE VALUES To provide financial To be recognized **Integrity:** Is the foundation of our Organization centered on ethical behavior that reflects honesty and transparency. solutions of as a leading excellence to financial institution in **Commitment:** Is the hallmark of how we work at Bladex, focused on meeting our clients' needs and creating value for our institutions, companies supporting Shareholders. and investors doing trade and regional **Excellence:** Remains our overriding goal. The pursuit of quality business in integration across through creativity and innovation is present in everything we do. Latin America. **Latin America** 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.

BUSINESS OBJECTIVE

Since its foundation, more than 40 years ago, Bladex has honored its objective of providing financial institutions, corporations and investors with financial solutions of excellence for their business in Latin America and the Caribbean. Along these four decades, the Bank has disbursed more than US\$ 288 billion in credits, promoting foreign As a multinational Bank operating in 23 countries in the Region, trade and regional integration.

Thereto, it provides its customers, in the different markets where they operate, within and outside the Region, with a variety of trade-related products and working capital loans, as well as Treasury services. Bladex is also renowned as an important structured solutions provider and, in some cases, also syndicated, which are tailored to the corporations and financial institutions' needs.

Bladex provides short-term and medium-term financing, bilaterally or syndicated, in order to support the integration of Latin America and the Caribbean as well as their international expansion. In its syndicated structures, Bladex provides investment opportunities to entities that are interested in participating in financing corporations

and financial institutions across the Region, while opening access to new funding sources for its customers, acting as a real regional and

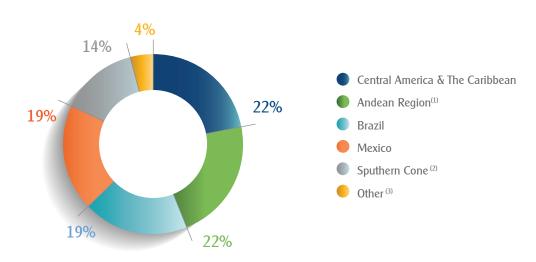
Bladex has built long-lasting Customer relationships, forged over the years, together with a sound reputation, financial track record and capacity to address their needs, resulting in a brand-name recognition throughout the Region.

Bladex provides its financial services from its Head Office in Panama and through its network of representation offices in Bogota, Buenos Aires, Mexico City and Sao Paolo, plus an Agency in New York and a Representation License in Peru, which enables it to be closer to its clients and to understand their financial needs better. The Head Office also plays a fundamental role in supporting its agile structure, providing administrative as well as risk management support, which is essential in achieving differentiation and providing value added solutions for its clients.



Annually Disbursed Credits (US\$ billion)

Accumulated Disbursed Credits by Region (1979-2019)



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

BUSINESS STRUCTURE

Bladex's main business is sustained by two segments: Commercial Division and Treasury. Annual results do reflect the Bank's capacity for efficiently managing both business lines with an excellent margin control, both on the assets and the liabilities sides.

The Commercial Division focuses on the Bank's core business of traditional financial intermediation, in addition to its fee income generating transactions associated to contingencies, guarantees and syndicated loan facilities. The Bank offers an extensive array of products and services than can be categorized as bilateral and syndicated loans, structured trade financing, documentary letters of credit, stand-by letters of credit, bank guarantees, irrevocable payment undertakings and documentary collections, among others.

The Treasury Division focuses on managing the Bank's liquidity and investment portfolio, as well as on the overall structure of our liabilities in order to achieve the most efficient funding positions for the Institution, thus mitigating the traditional financial risks associated with the balance sheet, such as interest rate, liquidity, pricing and currency risks.

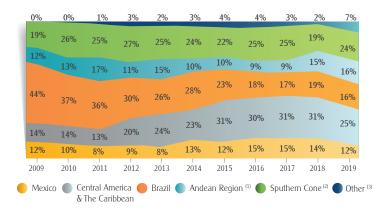
The record balance, for the past four years, reached by the Commercial Portfolio at the end of 2019 needs to be highlighted, amounting, to US\$ 6,502 million, 3% higher for the previous year. The average volume stayed stable at US\$ 6,055 million, up from US\$ 6,028 million in 2018. The medium-term portfolio continued to grow, reaching 42% of the total, up from 36% in 2018.

We would also like to point out the changes in the geographical breakdown of the Commercial Portfolio, with a notable increase in the The changes in the geographical breakdown of the Commercial Portfolio are remarkable, with a notable increase in the Andean Region (24% of the total, up from 19%) and countries outside the Region with robust risk ratings (7%, up from 2%), while Central America and the Caribbean, as well as Brazil shrank to 25% and 16% (from 31% and 19%), respectively. The portfolio composition went hand in hand with an adequate management of the origination margins throughout the year.

Additionally, Bladex continued to work on increasing its customer base, managing to surpass the goals established and substantially increasing the deposit base from the Commercial Division. Furthermore, a total of six structured transactions were closed resulting, together with a good performance, excluding non-recurrent transactions, of the Letters of Credit business, resulting in a fee income of US\$ 15.6 million.

Those achievements were especially relevantant considering an environment of generalized downward revisions of global growth estimates, as well as of those for the main Latin American and Caribbean economies. Among the prevailing risks the following should be pointed out: the geopolitical tensions in sensitive regions, the social disturbances in several countries, the trade conflict between China and the United States, as well as other factors that eroded the confidence sentiment, with an almost non-existent economic growth in the Region (at 0.1% much below the 1.0% of the year 2018, and significantly below the above 2% expectations at the beginning of the year), and negative trade flows (-3.4%, after having grown by more than 10% over the past two years). However, Bladex has managed to adequately improve its business effectiveness and portfolio management, resulting in a better profitability.

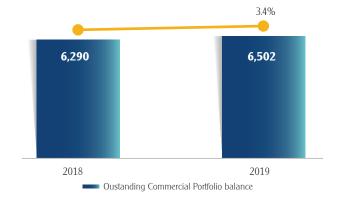
Geographical Breakdown of the Commercial Portfolio



- (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

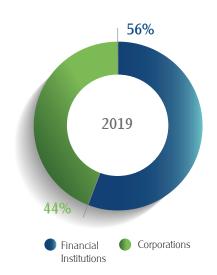
Commercial Portfolio





Commercial Portfolio by Type of Client





Commercial Portfolio by Original Term



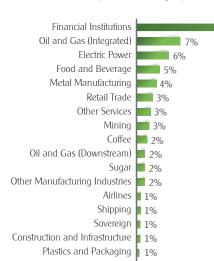
2019



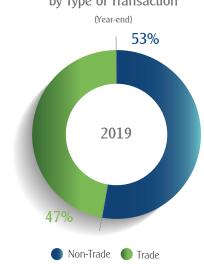
Short-term Medium & Medium & Long-term with maturity greater than 1 year Medium & Long-term matures within one year

Commercial Portfolio by Sectors

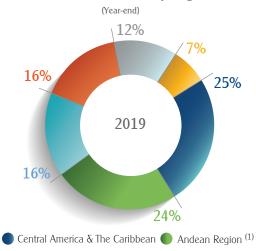
(at the end of the year)



Short Term Commercial Portfolio by Type of Transaction



Commercial Portfolio by Region



- (1) Includes Bolivia, Colombia, Ecuador and Peru
- (2) Includes Argentina, Chile, Paraguay and Uruguay.

■ Brazil ■ Southern Cone (2) ■ Mexico ■ Other (3)

Other corresponds to risk in countries outside the
 Region related to transactions carried out in the Region

FINANCIAL INTERMEDIATION BUSINESS

of our core business of financial intermediation in: Mexico, Central Colombia, Ecuador and Peru). America and the Caribbean, Brazil, the Southern Cone (Argentina,

Following are the highlights regarding the geographical segmentation Chile, Paraguay and Uruguay) and the Andean Region (Bolivia,

Mexico

Trade Balance for 2019*

Exports: +2.3%

Imports: -1.9%

Foreign Trade: +0.2%

76%

Represents

of the total

Commercial

Portfolio

12%

of the Short Term Commercial Portfolio in Foreign Trade

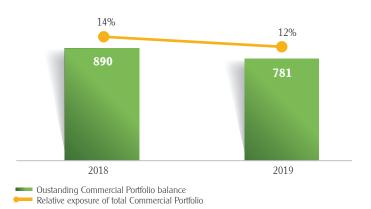
Source: The Economist Intelligence Unit Country Risk Service as of March 2020.

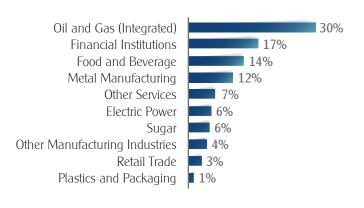
2019 Highlights

- Mexico represented 12% of the Bank's total Commercial Portfolio, equivalent to US\$ 781 million by the end of the period, with a total 52% share of trade transactions and 75% short-term.
- In 2019, the Mexican economy was impacted by uncertainty in investments, a low growth and the renegotiation of USMCA (new NAFTA), with a reduction in growth prospects. However, access to bank financing and capital markets, as well as vendor financing, was not materially affected, mainly for companies involved in trade finance transactions.
- In this environment, Bladex has kept its level of exposure to the country relatively stable, improving its loan margin and achieving a satisfactory income generation stream.

Commercial Portfolio

(Year-end balances, US\$ million)





(*) Corresponds to financial institutions dedicated to financial leasing / factoring.

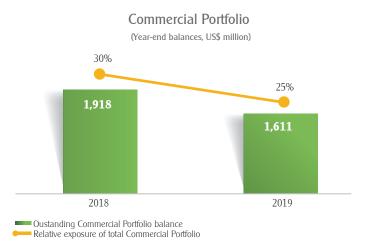




Central America and the Caribbean

2019 Highlights

- Central America and the Caribbean represent a quarter of the Bank's Commercial Portfolio, with US\$ 1,611 million by the end of 2019, which was 16% below last year.
- The decline in the portfolio is mainly explained by the increased conservatism in credit decisions in the face of the macroeconomic decline of several Central American countries, as well as by lower demand for credit by financial institutions in the latter part of the year. The weight of the exposure to financial institutions fell from 56% in 2018 to 51% in 2019.
- By country, the most notorious decreases were in Panama and Costa Rica, with a weight of respectively 5% and 4%, from 8% and 6% in 2018, with the financial institutions business having the greatest impact. Nicaragua's protracted political and macroeconomic deterioration explains why Bladex's portfolio remains with no exposure to Nicaragua for the second year in a row.
- The corporate sector continues to be key, with a significant support in the expansion processes of the so-called Multilatinas, amounting to 49% of the Central American and Caribbean portfolio, with an important leadership in the activity of syndicated loans successfully closed in 2019, mainly in the corporate sector.
- In terms of total revenues, Central America and the Caribbean is the main source, representing approximately 37% of the total, hence strategically important for Bladex.



Trade Balance for 2019*

Exports: +2.8%

Imports: -2.1%

Foreign Trade: -0.2%

of the total

Commercial

Portfolio

48%

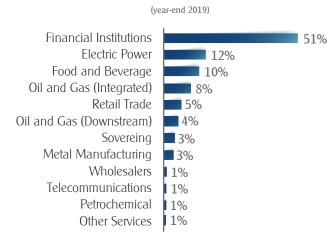
Represents

25%

of the Short Term Commercial Portfolio in Foreign Trade



Commercial Portfolio by Sectors



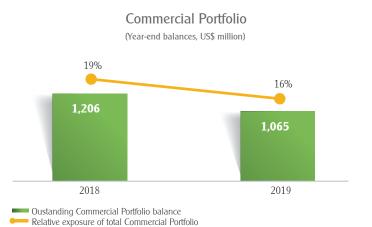
23

Source: The Economist Intelligence Unit Country Risk Service as of March 2020.

Brazil Trade Balance for 2019* Exports: -6.6% Imports: -4.9% Foreign Trade: -5.8% 45% Represents 16% of the Short Term Commercial Portfolio of the total in Foreign Trade Commercial

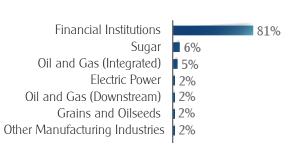
2019 Highlights

- Brazil represented 16% of the Bank's Commercial Portfolio, with US\$ 1,065 million by the end of 2019, which was 12% below last year.
- The business environment in Brazil finally started to show some signs of recovery by the end of the year, based on the approval of the Government's privatizations agenda and pensions reforms. During the year there still were macro-economic questionings resulting in liquidity exuberance and local interest rates cuts.
- The portfolio is still heavily exposed to the banking sector, with a weight of 81% in financial institutions, up from 73% in 2018, represented by Brazilian entities of high solvency and credit quality.
- The corporate sector is limited to some sectors, with weights of between 2% and 6%, all of them related to foreign trade activities which are key for the country.
- 78% of Bladex's Commercial Portfolio in Brazil is short-term and 42% is trade.





(year-end 2019)



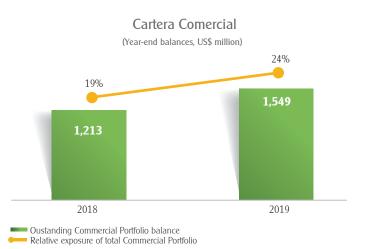
Source: The Economist Intelligence Unit Country Risk Service as of March 2020.

Portfolio

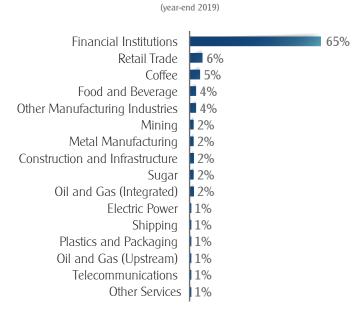
Andean Region Trade Balance for 2019* Exports: -12.7% Imports: -2.1% Foreign Trade: -7.8%

2019 Highlights

- The Andean Region consists of Bolivia, Colombia, Ecuador and Peru.
- This region represents 24% of the total Commercial Portfolio, amounting to US\$ 1,549 million, 28% higher than 2018, mainly thanks to the strength of Colombia, which represented 15% of total from 11% in 2018 on the strong performance of corporate and financial institutions, while Ecuador's weight stayed stable at 7% and Peru increased to 2% from 1% and Bolivia stayed below 1%.
- The dominance of liquidity and widespread access to dollars was noteworthy (debt is still inclined towards local currencies), which was offset by an adequate margin management and lengthening of terms, while the weight of the trade transactions fell to 39%, from 49% in 2018.
- The portfolio breakdown shows a 65% exposure to financial institutions and a 35% exposure to the corporate sector.



Commercial Portfolio by Sectors



46%

of the Short Term Commercial Portfolio in Foreign Trade

Commercial Portfolio

of the total

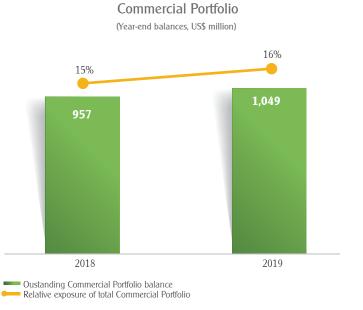
Represents

Source: The Economist Intelligence Unit Country Risk Service as of March 2020.

Southern Cone Trade Balance for 2019* Exports: -2.4% Imports: -13.8% Foreign Trade: -8% 45% of the Short Term

2019 Highlights

- The Southern Cone encompasses the operations carried out by Bladex in Argentina, Chile, Paraguay and Uruguay.
- In 2019, the Commercial Portfolio came in at US\$ 1,049 million, 10% higher than the year before, representing a 16% of the Bank's total. This can be explained by two opposing movements, on the one hand, the diligent strengthening of Chile portfolio that reached 11% of the total (up from 3% in 2018) and, on the other hand, the decrease of the exposure to Argentina to 3% (down from 10% in 2018). Consequently, a significant improvement in the credit profile and country breakdown of the Bank's portfolio was achieved. The Paraguay portfolio took up 2% of the total.
- As a result of the above, the weight of the business with financial institutions recovered to reach 61% in 2019, up from 47% in the previous year, while trade financing represented 17% of the total exposure in the Southern Cone.



Commercial Portfolio in Foreign Trade

Represents

16%

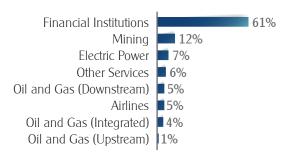
of the total

Commercial

Portfolio

Source: The Economist Intelligence Unit Country Risk Service as of March 2020.





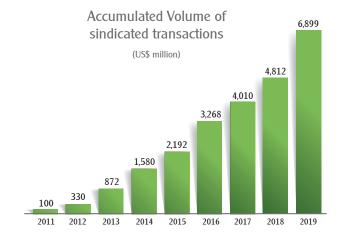
LOAN STRUCTURING AND SYNDICATED BUSINESS

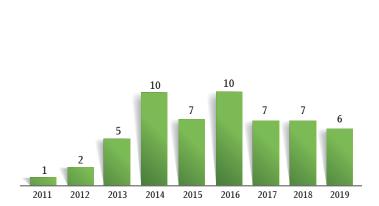
income from fees related to the syndications platform amounted to US\$ 5.6 million, up from US\$ 4.9 million in 2018.

These transactions were carried out with customers in Ecuador, Mexico. Panama, Costa Rica and Trinidad & Tobago, with Bladex playing a key

Bladex continued to bolster its syndication business with six role in supporting the Region's financial institutions and corporations transactions successfully closed in the year, taking the total number for expanding their business. For most of the customers, they were of such operations accrued since the beginning of those activities in provided with new banking relationships and medium-term funding, 2011 to 55 and thus exceeding an amount of US\$ 6.5 billion. The supporting their corporate movements and strategic decisions within the Region. With this activity, Bladex contributed, yet another year, in strengthening its positioning in the Latin American syndicated credits market, highlighting is distribution capacity and its access to a wide range of regional and international financial institutions.

Number of transactions / "Club Deals"







- Bladex acted as Joint Lead Arranger of a US\$131.5 million bridge facility for Corporación Favorita, which was secured by the Borrower's deposits with Ecuadorian banks.
- The Loan was structured as a club deal between Bladex and other financial institutions acting as Joint Lead Arrangers. Bladex is also the Administrative Agent under the Facility.
- Proceeds of this Facility were used for financing the Ecuadorian Corporación Favorita, a leader in their sector (more than US\$ 1.9 billion in sales and US\$ 1.6 billion in assets with a network of 150 supermarkets) in the cross border acquisition of a majority stake in the Rey Group (Rey Holdings Corp.), the holding corporation of the main supermarket chains, convenience stores and pharmacies in Panama, with more than US\$ 700 million in sales.



- Bladex co-led the structuring of a 3-year US\$ 220.6m syndicated credit for the Mexican company Unifin, a leading independent operating leasing company in Latin America, with the proceeds being allocated for refinancing debt and other general corporate uses.
- Bladex acted as Joint Lead Arranger and Joint Bookrunner and shall act as the Administrative Agent for the Facility, with this being the third international syndicated credit lead by Bladex for Unifin.
- The transaction attracted commitments from 17 financial institutions in Central America and the Caribbean, Europe, Asia and the United States of America, many of which represent new banking relations for the client, and was oversubscribed by 1.67 times the initial amount of US\$ 150 million.



- Bladex successfully co-led the structuring of a US\$130 million 3-year syndicated loan for Banco Aliado, S.A., the fourth largest Panamanian-owned bank in assets, for the purchase of Banco Panama, S.A., the ninth largest Panamanian bank in assets.
- Bladex acted as Joint Lead Arranger and Bookrunner and acts as the Administrative Agent under the the Facility.
- This transaction marks the fourth international syndicated facility led by Bladex for Banco Aliado, following the successful closing of medium term syndicated facilities in 2018 for US\$145 million, in 2016 for US\$59 million, and in 2014 for US\$80 million.
- The transaction was oversubscribed and attracted interest from 16 financial institutions established in Central America and the Caribbean, Europe as well as in the United States of America, some of which represented new banking relationships for the Client.



- Bladex acted as the Sole Lead Arranger and Bookrunner as well as Administrative and Collateral Agent for a 7-year, US\$ 110 million syndicated loan for Favorita Fruit Co. Ltd., a leading Ecuadorian agribusiness conglomerate, with diversified business activities, including bananas, dairy and fertilizers. The funds were allocated to improving the maturity profile of the Group's corporate debt and to financing their expansion projects.
- The syndication received a strong support from 11 financial institutions, based in Panama, Central America and the Caribbean and was oversubscribed by 1.4 times the initial amount of US\$ 80 million.
- This transaction marks the third international syndicated facility arranged by Bladex for Favorita, following US\$70 million and US\$102 million medium-term syndicated facilities successfully closed in 2017 and 2015 respectively.



- Bladex acted as Sole Lead Arranger and Bookrunner as well as Administrative Agent for US\$91 million 3-year syndicated loan for GMG Holding S.A. and subsidiaries of the Monge Group, one of the two largest integrated durable goods retailers and consumer finance providers in Central America (with 544 stores across 6 countries).
- The deal constitutes the second international syndicated facility led by Bladex for Grupo Monge. Proceeds from the facility were used to refinance Grupo Monge's existing corporate debt and extend the Group's debt maturity profile.
- The transaction attracted the interest of 14 financial institutions established in Central America, the Caribbean and Europe, some of which represent new banking relationships for the Monge Group. The operation was oversubscribed by 1.21 times the initial US\$ 75 million.

31

LETTERS OF CREDIT BUSINESS

Bladex is renowned among international banks as a financial institution of reference for confirming Letters of Credit from banks in the Region. The Bank assumes the Latin America risk and offers financial entities its solid reputation and extensive network of Apart from that, it has continued in taking advantage of the successful relationships with regional banks and counterparties.

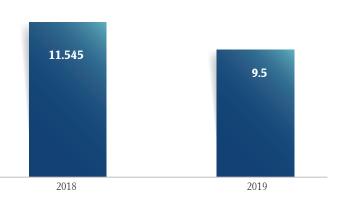
Over the past few years, Bladex has managed to make financial entities, as well as the corporate segment, more aware of its different trade services and products, by means of implementing an area with a specialized focus on a range of products that includes: issuing and confirming Documentary Letters of Credit, issuing and confirming In 2019, the fees from this line of business, taking into account Stand-By Letters of Credit, issuing and confirming Bank Guarantees,

issuing Irrevocable Payment Undertakings and Documentary Import and Export Collections, among others.

transformation of processes that has brought about a reduction in time for processing and responding to the client. The granularity of the transactions and the growing customer base, driven both by cross-sales as well as by signing up new customers, resulted in a welldiversified and recurrent portfolio.

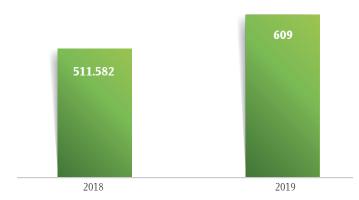
non-recurrent ad-hoc operations, amounted to US\$ 9.5 million.

Letters of credit fees, net* (US\$ millions)

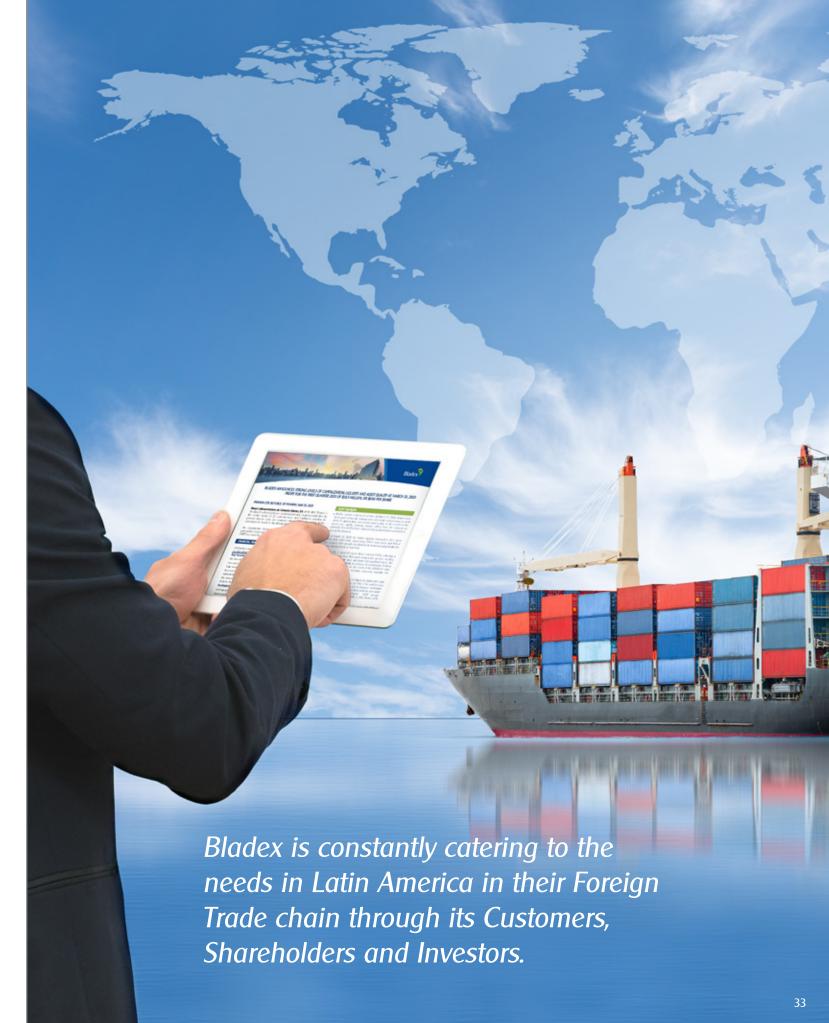


(*) Acceptances, loan commitments and financial guarantee contracts

Letters of credit and other* (US\$ millions)



(*) Acceptances, loan commitments and financial guarantee contracts





RISK MANAGEMENT FRAMEWORK



Risk Management plays a fundamental role in the Bank's strategic management, enabling it to handle its objectives as a solid and sustainable entity since their incipience. Hence the Bank's Risk Management Framework has been in constant development, adapting to the changing economic and social panorama where the Bank undertakes its operations, as well as to the latest international regulations and best industry practices.

Our Risk Management Framework requires that robust risk management practices are being implemented in the operational, financial and strategic planning processes throughout the entity, which will enable us to assure that the risks are being identified, assessed and mitigated on a timely basis. Every unit at the Bank employs the risk management process, going through the stages of Identifying, Measuring, Mitigating, Monitoring, Controlling and Reporting the risks as part of their inherent tasks.



The Bank has a robust governance framework that pursues an effective control of the risk profile, which is based on a clear distribution of roles among the three lines of defense, a solid committee structure and a risk culture entrenched throughout the Organization. This way, all employees do have the knowledge and skills needed for managing risks effectively, as well as the information technology tools that let them implement methodologies and programs for assuring an ongoing risk management process.

Our framework covers several functions, among which the following:

- Proposing guidelines for the Organization's Risk Management process, which should be approved by the Risk Policy and Assessment Committee (RPAC).
- Designing the different methodologies related to Risk Management and submitting them for approval to the RPAC for their subsequent implementation.
- Developing and maintaining a stress test methodology that includes all the Entity's business lines.
- Reviewing any new product before offering it to clients, in order to determine compliance with the risk appetite guidelines, according to the internal new product approval policy.
- Designing the indicators for monitoring compliance with the different limits established by the Organization to scrutinize the different risks to which it is exposed and submitting them for the consideration of the RPAC.

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

The Risk Management and Compliance areas are part of the Bank's second line of defense. Jointly, these areas oversee an adequate risk management, in line with the defined risk appetite level, as well as with all the rules and regulations to which the Bank is subject, in the different jurisdictions it operates.

- The Risk Management Area reports to the President / CEO and to the RPAC. Its main function is to oversee a comprehensive management of the Bank's operating model and technological platform, as well as the financial and non-financial risks.
- The Compliance area reports to the Board's Compliance and Anti-Money Laundering Committee. This area's primary responsibility is to implement and oversee the compliance function across the Organization, ensuring the adequacy of the "Know your Customer" framework in its different phases of onboarding and monitoring transactions, assuring regulatory compliance with rules and regulations. The Area's objective is to detect any kind of suspicious activity, and to combat money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction, as well as to ensure the enforcement of the sanction programs imposed or administered by international and governmental organizations.

RISK PROFILE

monitoring and mitigation of the risks associated with Bank's activity, ensuring that the business risk profile remains within the accepted approach are:

Bladex has developed a management approach to assure proper levels established by the risk appetite statement and stays in line with the agreed limits. The main aspects of our risk management

Risk Assessment

Bladex identifies and assesses all relevant financial and non-financial risks for its activity, incorporating, among others, an assessment of the risk of the different geographical locations where we operate and an understanding of the Customers' business models

The Bank has established a process for constantly improving its risk assessment process, benefitting from a constant supervision of the different risks to which it is exposed by building a data base that compiles the events and incidents that have impacted the Organization. This process helps to assure that the risks taken by the Bank are consistent and validates the underlying assumptions of our model for achieving the desired consistency and coherence in the risk management process.

Limits Structure Monitoring and Control

Any changes in the appetite for risk are translated into changes in the limits and controls established for the risk management process. In these cases, the Risk Management and Business Divisions are responsible for adhering to the new limits in order to assure day to day compliance with the Organization's appetite for risk.

The creation of the declaration of the appetite for risk is the result of specific metrics and tolerance limits expressing the maximum risk exposure that the Bank is willing to assume in quantitative and qualitative terms.

Compliance with the guidelines for the appetite for risk is subject to an ongoing monitoring. Management provides regular reports to the Risk Policy and Assessment Committee (RPAC) and the Board of Directors about the adequacy of the business' risk profile.

Scenario Analysis

Bladex has implemented a sensitivity analysis for identifying any possible impacts on the portfolio and its profits from changes in the market conditions and/or macro-economic scenarios.

This approach helps the Bank in carrying out the "stress tests" and simulating the market conditions and/or different macro-economic scenarios that will enable the Bank to be proactive in its hedging strategies and other measures aimed at protecting the Bank's income, liquidity and capital.

RISK CATEGORIES

The Bank has identified the risks affecting its business and operations and it has organized them into a "risk map", identifying the categories of the risks to which Bladex is most exposed, whether actually or potentially. The risks are classified into two categories: financial and non-financial risks. Financial risks are the ones associated with the Bank's business model and which impact its balance sheet and income statement i.e. country risk, credit risk, market risk and liquidity risk. Non-financial risks are those associated with the operating model of the Bank and the regulatory environment, which may impact the integrity of the information, the Organization's reputation, as well as its income statement: operational risks, technological and information security risks, compliance risks (money laundering, financing of terrorism and of the proliferations of weapons of mass destruction), etc.

Country Risk

Definition: This is defined as the inherent risk to which the Bank is exposed in the different countries where it operates, with a possibility of incurring losses caused by adverse effects in the economic, social or political environment or by natural disasters in the countries where our Customers do business and that encumber their capacity for fulfilling their contractual obligations. Country Risk could also be a sovereign debt default, nationalization, expropriation, or the impediment of convertibility and transferability of currency because of the imposition of foreign exchange controls.

Risk Management Process: The Bank has established a Country Risk Committee, which reviews and analyzes the macro-economic situation and business environment in each country where it operates. The Committee meets on a quarterly basis or on dates just prior to the Board meetings and reviews the business, social and political environments, the exposure to the countries, and the compliance with the country exposure limits approved by the Board of Directors. As result of this in-depth analysis, the Committee determines whether there are any signs of deterioration in the specific country that requires immediate action by the Bank. The Committee then presents its recommendation to the Board's Risk Policy and Assessment Committee (RPAC), to implement the required measures,

such as country risk rating reviews (upgrades or downgrades), country exposure limits (increase or decrease), types of permissible transactions (trade and non-trade), tenors (short and medium-term), etc. Unless otherwise determined, all countries should have an indepth annual review and as many reviews as may be needed, given the business and macro-economic environments.

Methodology: The Bank has developed its own internal rating methodology to assess country risk, thus making a pro-active risk management possible.

Credit Risk

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

The Bank's client base mainly comprises corporations, large companies, local and regional financial institutions as well as 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.

Risk Management Process: This 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 demand it, and portfolio reviews by the Bank's Credit Committees. 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 Business and Risk Management Units and is supervised by the Board of Directors through its Risk Policy and Assessment Committee (RPAC).

Guidelines for approving Credits

The Bank does have high placement standards, with a Credit Committee structure comprising three different approval levels: The Management Credit Committee, The Credits Committee delegated by the Board of Directors and the Risk Policy and Assessment Committee, the members and faculties whereof are being summarized as described in the following figure:

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

associated with the possible losses on financial instruments, based individual credit exposures is performed. on IFRS-9 "Financial Instruments", where assets are being classified in three stages or categories:

- **1. Stage 1:** Financial instruments with credit losses expected during the next 12 months;
- **2. Stage 2:** Financial instruments with credit losses expected during the tenor of the loan.
- **3. Stage 3:** Financial instruments with credit impairment (expected losses during the tenor of the loan).

Credit Loss Reserves Policy: Bladex has internally developed an For the last two categories, the provisions are calculated for the expected loss model for determining the required provision levels, lifetime of the transaction. In Stage 3, the specific analysis of

> The Bank incorporates information about future economic environments when assessing if an instrument has suffered a significant increase in its credit risk since initial recognition through its customer and country rating models, which include the projections of the analyzed variables.

> **Methodology:** The Bank has developed an internal rating model for clients, counterparties and countries, allowing a pro-active risk management of limits of exposure, typology of transactions, and maximum tenors, among others.

Credit Risk Cycle

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

Admission			Monitoring		
Origination	Risk Assessment and Analysis	Credit Committees	Annual Review	Credit Monitoring and Review	Credit Commitees
Senior Management, subject to Board approval, defines a strategic commercial plan, based on economic growth perspectives (GDP) and for trade flows, as well as the internal country risk rating perspectives in Latin America Customers are selected based on the Organization's strategic planning Both return as well as risk appetite are considered in the process	A comprehensive risk assessment is done on three levels, according to the policies and procedures: Country of exposure Sector of exposure The customer's capacity for meeting its contractual obligations with the Bank. This includes an analysis of the credit quality, credit structure, solvency and projected return for assuming risks	The Board of Directors, through its Risk Policy and Assessment Committee with the review / approval of country limits and special conditions (typology, term and duration) Internal origination / Admission Credit Committees Senior Management Credit Committee The Board's Delegated Credit Committee Risk Policy and Assessment Committee	The ratings assigned to the customers are reviewed regularly, incorporating new financial information and experience in the development of new business relationships. Frequent reviews are required for customers who trigger certain warnings and for those on the watch list.	Provide an assessment of the overall quality of the loan portfolio, by means of a credit profile review that includes: Assessments of individual loans Determination of compliance with lending procedures and policies Identification of gaps in the documentation	The Board of Directors, through its Risk Policy and Assessment Committee, regarding the monitoring of the credits assets' trends and quality, as well as reports of criticized or vulnerable assets, together with reasonable and adequate credit reserves Internal Committee for managing, monitoring and recovering credits (potential defaults / watch list, regular review of non-performing customers and portfolio)

Market Risk

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

Risk Management Process:

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

- The Bank manages the interest rate risk by monitoring closely the repricing of assets and liabilities and by entering hedges when warranted to reduce possible negative impacts on earnings and capital.
- Management conducts periodical sensitivity analyses, simulating market changes in interest rates, to determine the possible impacts on Net Interest Income (upwards and downwards). Additionally, the Bank tracks the DV01 limit, which applies a parallel shock of 1 basis point on the interest rate curve and determines whether there is any impact on capital.

Foreign Exchange (FX) Risk: The FX risk is the risk of changes in the market value of a financial instrument because of fluctuations in the exchange rate of a given currency. The Bank primarily transacts in US Dollars, 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 any position above US\$ 500,000, minimizing foreign exchange rate risk.

Liquidity Risk

Definition: The Liquidity Risk is the possibility of economic losses for the Bank because of difficulties in liquidating assets or obtaining financial resources against the usual conditions.

Risk Management Process: Every day, Bladex checks the Liquidity Coverage Ratio, (LCR). The LCR methodology follows local standards as well as guidelines recommended by the Basel Committee. The Bank also supervises the Net Stable Funding Ratio (NSFR), in order to maintain an adequate long-term funding structure.

Liquidity is controlled through regular reviews of:

- 1. Maturity distribution schedule to identify the maturity "gaps" in the different time buckets.
- 2. Deposits concentration report to identify a possible concentration of amounts and maturities that could affect the Organization's liquidity.

The Bank established a Liquidity Contingency Plan, which was designed to monitor a series of indicators that could trigger a liquidity event with possible impact on the Bank's operations and established an action plan to make sure that the liquidity of the Organization is always assured.

Operational Risk

Definition: Operational risk is the possibility of incurring losses because of deficiencies, failures or inadequate human resources, technology processes, infrastructure, management information, the models used or because of the occurrence of external events. This definition includes the legal risk associated to those factors, but excludes losses from business interruption reputational risk and the strategic risk.

Risk Management Process: The main goal within the department of Operational Risk Management in Bladex is to achieve a decrease in operational risk losses, while ensuring a proper management of this risk through the adoption of multiple risk management tools such as risk profiles, risk heat maps, global and specific limits, operational risk indicators, in conjunction with data analysis from our events and occurrences data base, which helps the Bank in the monitoring of action plans arising from potential or materialized risks.

The Bank emphasizes on the awareness-rising of its employees by promoting an adequate risk culture in a timely manner, while assuring that the importance of Operational Risk Management is comprehended and reflected on the implementation of its processes. This is accomplished through a mandatory annual training on operational risk general terminology and regulatory rules as required.

Important Aspects of Operational Risk Management The priority in managing these risks is to identify and mitigate them proactively in order to prevent future losses.

Risk Factors Managing the risk of losses Appropriately identifying the from threats that are beyond failures or insufficiencies the Bank's control and that associated to the factor "people" could alter the performance of Human **External** its activities. **Threats** Resources ×Δ o× Considering **incorrect** Having processes that are assumptions as well as slanted documented, defined and estimates of the parameters in **updated** on a constant basis. the models **Model Risk Processes** Ensuring timely and reliable Decisions based on data. information; avoiding business reports and analyses that are interruptions, and that such exposed to errors. information is integral, confidential **Management Technology** and available. Information

The Bank encourages a culture of awareness throughout the Organization by means of a complete training program available to all Employees.

The Bank follows the best practices for objectively measuring and assessing the operational risks, complying with the dispositions established by the Superintendency of Banks in Panama as well as with the guidelines recommended by the Basel Committee.

Additional Measures: The Operational Risk Matrixes set forth the risks identified in the processes and the assignment of the controls for mitigating them, resulting in the residual risk with its level of criticality for the Organization.

The Bank has a repository of the Events and Incidents associated with operational risks, where the operational risk events and incidents are being recorded with sufficient details for contributing to the management of those risks reported.

The Operational Risk indicators are a form of measuring them in order to act as an early warning about the behavior of the operational risks occurred throughout the Bank.

The Bank, based on its Risk Map, identifies the residual risk for all activities in the Organization. Thereto, mitigating controls are developed according to their criticality levels.

For the Self-Assessment, a process is carried out for detecting the strengths and weakness in the control environment of the Bank's operations and activities. The risks previously identified in the Operational Risk Matrixes are being taken into account.

The Bank has Global and Specific Limits assigned to each type of Operational Risk, broken down into ranges according to the criticality levels established by the Organization.

Anti-money laundering, combating the financing of terrorism and the financing of the proliferation of weapons of mass destruction

Financial entities are obligated to develop and implement a secure and comprehensive Anti-Money Laundering, Combating the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction (hereinafter "AML/CFT/PWMD") compliance program.

In its organizational structure, the Bank has established an independent Compliance Area that is responsible for overseeing strict compliance with the Bank's obligations regarding the "Anti-Money Laundering" regulations and policies. Hence, a solid Compliance Program has been implemented as part of our organizational culture. The main objective of this Program is to accomplish that all employees, directors and providers, regardless of the functions they fulfil, assume a commitment for adequately complying with the rules, regulations, policies and procedures related to the AML/CFT/PWMD System.

Through the following standards the Bank has put reasonable measures in place, pursuant to the regulations issued that apply both to its Head office as well as to its Offices and/or Dependencies in the country where it operates, in order to be get to know and identify all of its customers and the management of the operations being carried out every day:

- 1. Manual for the Prevention of Money Laundering, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction and the Know your Customer and/or Beneficial Owner Manual: through both manuals, due diligence mechanisms have been established for Knowing our Customers, Employees, Providers and Correspondents, as well as procedures and key controls.
- **2. Staff Training:** at Bladex we place a priority on paying attention to a constant training of the employees regarding the programs, procedures and mechanisms established for recognizing unusual and suspicious operations that could be linked to the crimes of Money Laundering, the Financing of Terrorism or the Financing of the Proliferation of Weapons of Mass Destruction.
- **3. Review and Monitoring:** we have procedures in place for constantly reviewing the customers, their operations and for checking that their profiles are regularly updated, which is a task of the Compliance Area, together with the Business Executives. The fact that a customer meets all the requirements established at the moment of starting a business relationship does not guarantee that the behavior of its operations over time remains in line with the Bank's guidelines regarding the prevention of the movements of funds coming from illicit activities.
- **4. Audits:** The Bank is subject to oversight and inspection from the Superintendency of Banks of Panama, as well as from the Regulators in the countries where the Bank has Offices and/or Dependencies and in the countries where it operates, who undertake periodical inspections in order to validate the compliance with and correct implementation of the Compliance Program.

We also have an Internal Auditing Area that includes, in its annual planning, a review of the Program and issues regular reports for the Board of Directors and the corresponding Committees.

5. Anti-Corruption and Anti-Bribery Policy: During 2019, fundamental policies and guidelines were included related to a zero-tolerance commitment vis-à-vis any corruption or bribery event, prohibiting activities and behavior that would incite or generate any situation related to bribery in any form through the employees, customers and providers.

Bladex is committed to reasonably know all its customers and the management of the operations being carried out every day, while creating staffing and systems structures that will make it possible to correctly apply the Institution's controls and procedures.

Cyber-Security

Definition: Cyber-Security or information technology security refers to 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 exploiting, and/or making improper use of the Bank's IT platform to gain access to the financial system.

Risk Management Process: 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 between the workforce, vendors and suppliers as well as any other person dealing with the Bank, on a permanent or temporary basis, which implies any access to data, resource management and information systems.

Key Measures: The Bank's Information Security Officer is responsible for overseeing compliance with the policies and procedures by any person with access to our systems. The Bank also engages independent third-party reviews of its cyber-security program.

The Bank's strategic Cyber-Security program was developed with a holistic approach, which enables us to cover both the technical measures as well as the strategic ones in one single scheme.

This program is based on four fundamental pillars:

- 1. Perimeter Security
- 2. Service and Infrastructure Security
- 3 User Security
- 4. Data Security

The implemented security controls, policies and methodologies are periodically analyzed and evaluated, thus enabling us to improve our security schemes in a timely and efficient manner.

One of the most important aspects is the awareness and training of all Employees, as a well-trained user turns into one of the strongest information security controls the Bank has.



INFORMATION SECURITY PROGRAM

Perimeter Security

Service and Infrastructure Security

User Security

Data Security

Physical and Environmental Security

Security Controls to prevent unauthorized access to the sites where the information is processed and stored.

Security Guidelines

Security practices, controls and processes for effectively deploying the Information Security Management System.

Risk Management

Formal and repeatable process for identifying, assessing and mitigating the inherent security risks.

Communications and Systems Security

Have defensive and preventive security tools and equipment in place.

Third Party Relationships (Suppliers, Providers)

Security guidelines for managing relationships with third parties (suppliers, providers) according to their criticality level.

Responding to Incidents

Incident Response and Disaster Recovery Processes. Establish procedures for identifying.

Secure Configurations

Guidelines and baselines for implementing secure configurations on equipment and systems. There should also be a process for periodically applying security patches.

Monitorina

Procedures and tools that will enable a continuous monitoring of the communications and information systems.

Vulnerabilities Management

Process for scanning, identifying, prioritizing, repairing and monitoring security vulnerabilities.

Asset Management

Guidelines and procedures for managing the assets' lifecycle (acquisition, maintenance, renovation, discarding/elimination).

User Privileges

Establish user privilege management processes that will make it possible to control and monitor the user accounts (regular and privileged ones).

Awareness and Training

Have information security training and awareness plans in place for all staff.

Malware Protection

Security tools and guidelines for preventing malware infections of the equipment and communications networks.

Classifying and Managing the Information Have procedures and controls in place that make it possible to classify and protect non-public information.



FINANCIAL PERFORMANCE

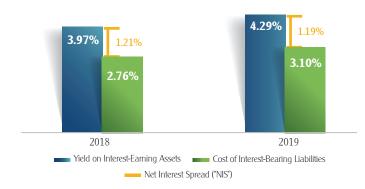
Bladex's profit for 2019 was US\$86.1 million, or US\$2.17 per share, compared to US\$11.1 million, or US\$0.28 per share for 2018. Bladex's 2019 results were mainly driven by:

- Steady top-line revenues on relatively stable financial margins and average Commercial Portfolio volumes, while the Bank was able to shift its credit underwriting toward lower risk countries.
- Substantial decrease of Impairment Loss on Financial Instruments as a result of improved risk profile of the Bank's portfolio on the account of higher quality origination, the timely collection of scheduled maturities of its watch-list exposures, and a slight decrease in NPLs – as no new credits have been classified under this category since the third quarter of 2018.
- Absence of non-financial losses and improved efficiency levels on lower operating expenses, as a result of the Bank's continued focus on effective cost control and enhanced structural and operational efficiencies.



Stable level of net interest income, totaling US\$109.5 million during 2019, with Net Interest Margin ("NIM") of 1.74% (+3 bps), and Net Interest Spread ("NIS") nearly stable at 1.19%. The net positive effect of higher average LIBOR-based market rates throughout the year, was offset by lower average lending volumes and decreased average liability deposit balances, impacting overall funding costs.



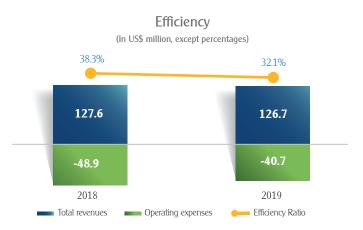


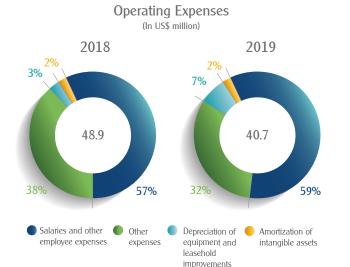
Fees and commissions totaled at US\$15.6 million during 2019, representing a 9% year-on-year decrease, resulting from the net effect of: i) a 14% year-on-year increase in loan structuring and syndication fees, after closing six transactions for a total of US\$1.3 billion; offset by ii) a 12% decrease in fees from letters of credit.



Substantial decrease in impairment loss on financial instruments amounting to US\$0.4 million in 2019, compared to US\$57.5 in 2018 – mostly related to impaired credits. In 2019, low credit provision requirements relate to improved credit quality as the Bank i) reprofiled its country risk exposure toward lower-risk countries; ii) collected on a timely basis the scheduled maturities of exposures that have undergone some credit deterioration since their origination, which are related to internal country risk downgrades or to their incorporation in the Bank's watch-list; and iii) decreased its Non-Performing Loan ("NPL") balances to 1.0% of total Loan Portfolio with no new loans being classified in this category since the third quarter of 2018.

Operating expenses decreased by 17% year-on-year, reaching a cost to income efficiency level of 32%, evidencing an effective cost control management and overall improved structural and operational efficiencies. The annual expense reduction was mainly related to a decrease in employee-related expenses –mostly resulting from a restructuring in 2018–, together with other cost savings.

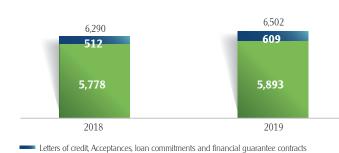




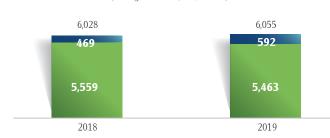
FINANCIAL POSITION

Commercial Portfolio balance, mostly consisting of gross loans, letters of credit and acceptances, amounted to US\$6.5 billion at year-end 2019, representing a 3% annual increase. The Commercial Portfolio's annual average balance totaled US\$6.1 billion, stable year-on-year.









Letters of credit, Acceptances, loan commitments and financial guarantee contracts

The portfolio's exposure remains well diversified across regions and industry sectors. The Bank's traditional client base of financial institutions represented 56% of the total Commercial Portfolio at the end of 2019, compared to 52% in the year before. In addition, the portfolio continued to be well diversified across corporate sectors, with total oil and gas exposure (integrated & downstream) at 10% of the total Commercial Portfolio at year-end 2019, down from 12% in 2018. All the remaining industry sectors were at 6% or lower.

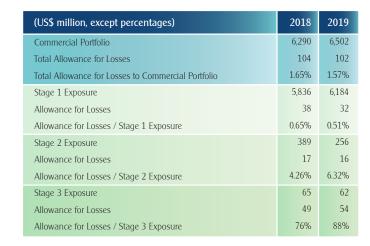
Geographically, exposure in Brazil –which represents the Bank's largest country-risk exposure–, decreased to 16% of the total Commercial Portfolio, down from 19% the year before, out of which 81% was with financial institutions at the end of 2019, compared to 73% in 2018. Exposure in Argentina was reduced to 3% of the total Commercial Portfolio at the end of 2019, down from 10% the year before, after successfully collecting maturities as planned. Overall, during 2019 the Bank re-shifted its portfolio origination towards top-tier banks and corporations in lower-risk countries, focusing its growth in top-rated countries in the Region, where it was able to take advantage of good risk/return opportunities.

Consequently, exposures in Colombia and Chile increased to 15% and 11% of the total Commercial Portfolio, which now represent the second and fourth largest country exposures, respectively, up from 11% and 3% the year before. In addition, exposure to other top-rated countries outside of Latin America, which relates to transactions carried out in the Region, was also increased to 7% of total portfolio at the end of the 2019, from 2% the year before. Mexico, which still represents a significant part of the portfolio as the third largest country-risk exposure, decreased to 12% of the Commercial Portfolio at year-end 2019, compared to 14% in the previous year.

The total allowance for credit losses on the Commercial Portfolio amounted to US\$102.4 million as of December 31, 2019, or 1.57% of the Commercial Portfolio, compared to 1.65% in the previous year. The US\$1.7 million year-on-year decrease was mostly associated to the improvement of the Bank's risk profile by re-shifting portfolio origination and exposures towards top-tier clients in lower-risk countries, by decreasing its watch-list exposures, and by recording no new Non-Performing Loans or NPLs during 2019.

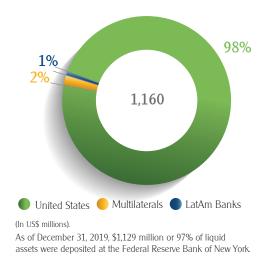
As of December 31, 2019, NPL balances totaled US\$61.8 million, or 1.0% of total Loan Portfolio, compared to US\$64.7 million or 1.1% as of December 31, 2018. The annual reduction was related to the sale of an exposure which resulted in a US\$0.5 million collection and a US\$2.4 million write-off against existing individually allocated reserves.

Total allowance for credit losses represented 1.7 times NPL balances at the end of 2019, compared to 1.6 times NPL balances in the previous year.

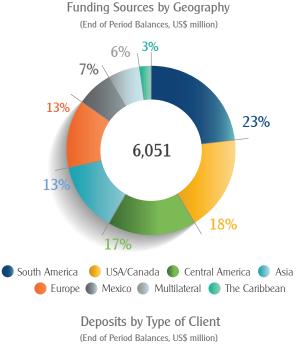


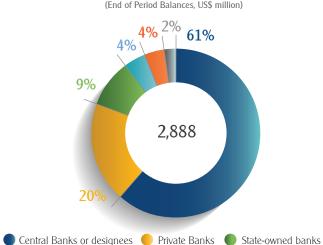


Liquidity balances totaled US\$1.2 billion at year-end 2019, of which 97% were deposits placed with the Federal Reserve Bank of New York End-of-period sound liquidity balances represented 16% of total assets and 40.2% of total deposits taken.



Funding sources remained well diversified across regions and tenors, with a stable deposit base at US\$2.9 billion at year-end 2019, representing 48% of the total, the majority of which coming from central banks, the Bank's Class "A" shareholders.



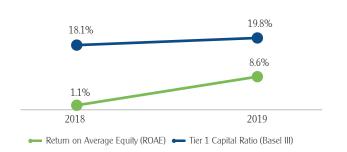


The Bank's capitalization remains solid, with a Tier 1 Capital Ratio (Basel III) of 19.8%. Risk-weighted assets are mostly derived from the Bank's Commercial Portfolio, while the Bank's equity consists entirely of issued and fully paid ordinary common stock, with 39.6 million common shares outstanding at year-end 2019.

State-owned corporations Multilateral Private corporations

Class "A" shareholders

2019 Return on Average Equity ("RoAE") stood at 8.6%, compared to 1.1% in 2018, as a result of increased profits.



51

STOCK PRICE AND DIVIDENDS EVOLUTION

average daily price and volume of US\$20.20 and 83,532 shares, share, or US\$0.385 per quarter, same level as the previous four respectively. As of December 31, 2019, the stock traded at 0.8 times years, underlying the Board of Directors' commitment to continue book value per share (price / book value) and at 9.8 times earnings its established dividend approach that reflects the Bank's business per share (price / earnings per share), compared to 0.7 and 61.4, fundamentals and continued support and added value to its longrespectively, in 2018.

At year-end 2019, BLX's share price closed at US\$21.38, with an During 2019, the Bank paid dividends that reached US\$1.54 per standing clients across the Region. The dividend payments provided investors with an attractive return, with an average dividend yield of approximately 7.6%, the highest in this decade.

BLX Stock Price Evolution and Volume





CONSOLIDATED FINANCIAL DATA - SUMMARY

YEAR ENDED DECEMBER 31 (In US\$ million, except percentages and per share amounts)	2019	2018
Selected Profit or Loss Statement Data		
Net interest Income	109.5	109.7
Fees and commissions, net	15.6	17.2
Loss on financial instruments, net	(1.4)	(1.0)
Other income, net	2.9	1.7
Total revenues	126.7	127.6
mpairment loss on financial instruments	(0.4)	(57.5)
Gain (loss) on non-financial assets, net	0.5	(10.0)
Operating expenses (1)	(40.7)	(48.9)
Profit for the year	<u>86.1</u>	11.1
Selected Financial Position Data		
Cash and due from banks	1,178	1,746
Securities and other financial assets, net	89	124
Loans ("Loan Portfolio")	5,893	5,778
Commercial Portfolio ⁽²⁾	6,502	6,290
Total assets	7,250	7,609
Deposits	2,888	2,971
Securities sold under repurchase agreements	41	40 2510
Borrowings and debt, net Total liabilities	3,138 6,233	3,518 6,616
Total equity	1,016	994
Per Common Share Data	1,010	227
Basic Earnings per Share ("EPS")	2.17	0.28
Book value per common share -period end	25.66	25.13
Common shares outstanding:	25.00	20.10
Period weighted average (in million of shares)	39.6	39.5
Period end (in million of shares)	39.6	39.5
Selected Performance Ratios		
Return on Average Equity ("ROAE") ⁽³⁾	8.6%	1.1%
Return on Average Assets ("ROAA") ⁽⁴⁾	1.36%	0.17%
Net Interest Margin ("NIM") ⁽⁵⁾	1.74%	1.71%
Net Interest Spread ("NIS") ⁽⁶⁾	1.19%	1.21%
Efficiency Ratio ⁽⁷⁾	32%	38%
Capital, Liquidity & Credit Quality		404
First Basel III Capital Ratio (8)	19.8%	18.1%
Total assets / Total equity (times)	7.1	7.7
iquid assets / Total assets (9)	16.0%	22.4%
Liquid assets / Total deposits ⁽⁹⁾ Fotal equity / Total assets	40.2% 14.0%	57.4% 13.1%
Credit Impaired Ioans to Loan Portfolio	1.05%	1.12%
Fotal allowance for credit losses to Commercial Portfolio	1.57%	1.65%
Total allowance for credit losses to credit impaired loans (times)	1.7	1.6
Market Information (TICKER SYMBOL: BLX)		
Market capitalization (In US\$ billion)	847	684
Closing Price	21.38	17.30
Price / Book Value (times)	0.8	0.7
Price / Book Value (times)	9.8	61.4

- (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 quarantees contracts (including confirmed and stand-by letters of credit, and guarantees covering commercial risk).
- (3) ROAE refers to return on total average equity which is calculated on the basis of unaudited daily average balances.
- (4) ROAA refers to return on total average 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 total 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.

53

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







2004

image in 2004, in order to reflect
the reality of being a dynamic and
competitive bank, experts in Latin
American foreign trade.



CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance refers to the mechanisms, processes and relationships through which Bladex is controlled and directed. The Corporate Governance structures and principles identify and define the rights and responsibilities of the different participants in the Bank's management, including its subsidiaries, the Board of Directors, Senior Management, all of its Employees, Shareholders, Regulators and other Stakeholders.

Corporate Governance is the backbone of Bladex management, providing the framework for achieving its objectives and covering the different execution environments, the action plans and the internal control structure at the Organization. These make it posible

to measure corporate responsibility and performance in order to maximize value creation for the Shareholders, Investors, Employees and the Communities where Bladex operates.

Corporate Governance principles derive from the dispositions set forth in the Articles of Incorporation, the Corporation's Bylaws, the Charters of the different Board Committees and the Bank's Executive Committee, the Corporate Governance Manual, the Code of Ethics, as well as from the regulations established by the regulatory entities and by the adoption of policies that are based on the best organizational practices.

External Regulations

The Bank is subject to supervision by regulatory authorities in different jurisdictions, with the most important ones being:

The Superintendency of Banks of Panama (SBP)

The U.S. Federal Reserve Bank (FED)

The U.S. Securities and Exchange Commission (SEC)

The New York State Department of Financial Services (NYSDFS)

The National Banking and Securities Commission (Mexico)

The Mexican Securities Exchange

The Superintendency of Banks, Insurance and Pension Funds of Peru

The Financial Superintendency of Colombia

The Central Bank of the Republic of Argentina

The Central Bank of Brazil

Internal Regulations

The following corporate regulations 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

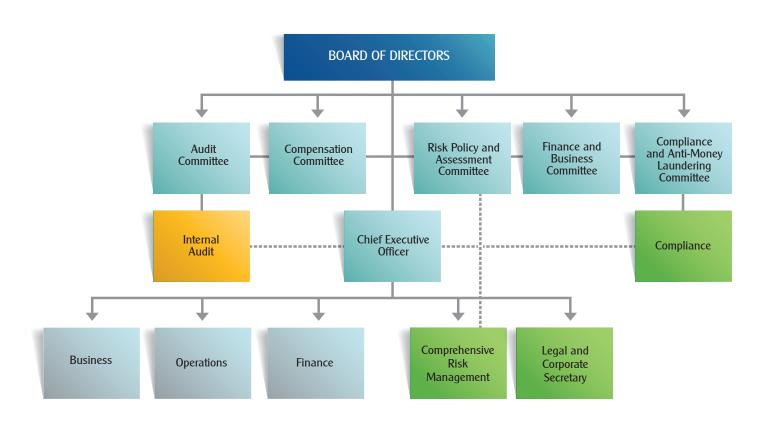
Corporate Governance Manual

Code of Fthics

Corporate Anti-Money Laundering and Combating the Financing of Terrorism Policy

Internal Procedures, Manuals, Policies and Guidelines

CORPORATE GOVERNANCE



First Line of Defense

Consists of the Business Units and related departments where the opportunities fitting in the Bank's appetite for risk are being originated.

Second Line of Defense

Oversees that the risks are being managed in line with the defined level of risk appetite and in total compliance with all current regulations in force.

The Risk Management reports with total independence to the CEO and the Risk Policy and Assessment Committee. The Compliance Department reports directly to the Compliance and Anti-Money Laundering Committee.

Third Line of Defense

With total independence, reporting to the Board's Audit Committee. Its responsibility is focused on regular evaluations of the policies, methods and procedures as well as on the effective implementation thereof.

In accordance with the Articles of Incorporation and its Bylaws, the Main Responsibilities Board of Directors of Bladex consists of ten members, as detailed below:

- Three Directors elected by the holders of Class A common shares
- Five Directors elected by the holders of Class E common shares
- Two Directors elected by the holders of all common shares

The Board members are elected at the Bank's Annual Meeting of Shareholders for periods of three years and may be re-elected at the end of each period. For Board members elections, the holders of the common shares of each class vote separately.

The holders of the shares in each class have a number of votes that is equal to the number of shares in the respective class they hold, multiplied by the number of directors to be elected, and they may cast all their votes for just one candidate or distribute them among the total number of Directors to be elected, or among two or more of them, as they may deem to be convenient.

The Board of Directors shall direct and control the business and assets of the Corporation, except in the cases that this corresponds to the General Meeting of Shareholders in accordance with the law or the Articles of Incorporation. Without limiting the generality of the above, the Board of Directors may dispose of the Corporation's assets and post them as surety for backing its, or its subsidiaries' or affiliates' obligations, or the obligations of such parties in which the Corporation has an interest.

The Board of Directors may grant general or special powers of attorney to empower the Directors, Officers or Executives of the Corporation or third parties to manage the business that the Board of Directors deems convenient which are under the scope of competence of the Board of Directors.

Meetings of the Board of Directors

The meetings of the directors are held five (5) times a year in the Republic of Panama or in any other country, as determined by the Board of Directors.

The presence of at least six (6) directors is necessary to duly hold a **Independence of the Directors** meeting of the Board of Directors. For the Board of Directors to be able to hold sessions, it will be necessary that, in addition to the quorum required, the majority of those present be directors and not be employees of the Bank.

The resolutions of the Board of Directors shall require the affirmative vote of most of the directors attending to 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 Meeting of Shareholders about such compensation plans as may be adopted for the Board of Directors and its Committees from time to time.

For Bladex, a Director is considered independent only when the Board of Directors has affirmatively determined that the Director does not have material relations with the Bank that could affect his or her independent judgment. The Board of Directors will review the factors that affect the independence when the Director is proposed for election or re-election. In the process of making such a determination, the Board of Directors will consider the nature, scope and materiality of the Director's relationship with the Bank, as well as all applicable rules, regulations and standards.

Based on the application of the above criteria, the Bank's Board of Directors has determined that to date a substantial majority (nine out of ten Directors) of the Board is independent.



BOARD OF DIRECTORS

Class A



José Alberto Garzón

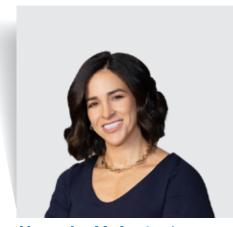
All Classes



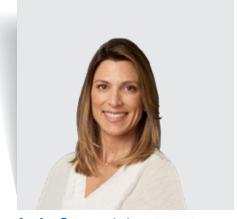
Javier González Fraga **



João Carlos de Nóbrega Pecego



Alexandra M. Aguirre*



Isela Costantini

*Assigned by the Board of Directors as from February 2020. ** Mandate ending in April 2020.

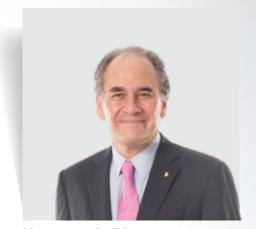
Class E



Miguel Heras Castro



Ricardo Manuel Arango



Herminio A. Blanco



Roland Holst



Mario Covo

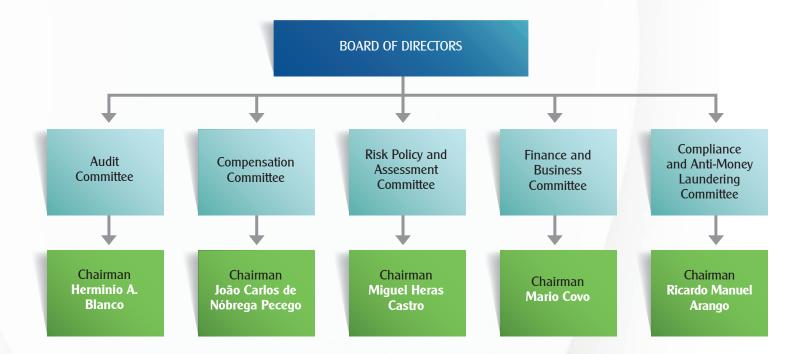
The Board of Directors includes five representatives for Class "E" shareholders, three for Class "A" shareholders and two Directors representing All Classes of shares.



BOARD COMMITTEES

The Board of Directors may set up Committees who shall have such powers and responsibilities as the Board may delegate to them, subject to the provisions of the Articles of Incorporation and in the Bylaws.

Each Committee shall consist of three or more Board members. Subject to such minimum, the exact number of committee members shall be determined from time to time, by the Board of Directors of the Bank.



Audit Committee

This Committee is responsible for exerting certain functions established by applicable regulations and to act in support of the Board of Directors for complying with its responsibilities of supervising the financial reporting process, the integrity of the financial statements, of the internal control system, the audit process and the process for monitoring compliance with the laws and regulations as well as with the Code of Ethics.

Compensation Committee

This Committee is responsible for submitting recommendations to the Board of Directors regarding the nominations of Directors, the compensation and benefits policies concerning the Directors, Officers, Executives and Employees, the hiring of the CEO and the subsequent evaluation of his performance, the Bank's human resources policies, The Committee carries out its task through the periodic reports its Corporate Governance and Code of Ethics. This Committee is also received from Senior Management and through its interaction with

responsible for proposing, to the Board of Directors, recommendations regarding issues related to the Bank's operating model, processes, technology and communications.

Risk Policy and Assessment Committee

This Committee is responsible for reviewing all policies related to a prudential Comprehensive Risk Management and recommending them to the Board of Directors for their approval. The Committee also reviews and evaluates the exposure to risk according to the risk levels the Bank is willing to assume, pursuant to the policies established for the different risks it faces when going about its business, including the quality and profile of the credit assets, the exposure to market risks and an analysis of operational risks, considering the legal risk associated to the products provided by the Bank.

the Comprehensive Risk Management Area as well as with other members of the Bank's Management. When going about their job, the Committee will apply reasonability and materiality criteria for the scope of their work.

The Committee is neither responsible for the correct implementation of the policies, nor for compliance with the legal limits or such other restrictions as may apply. Those are direct responsibilities of the Enterprise Risk Management area and the Bank's Management.

Finance and Business Committee

The fundamental role of this Committee is to review and analyze and be aware of, with its ensuing competences and attributes, all issues related to the development of the Bank's business and its financial management, including, among other things, capital management, (assets and liabilities) portfolio management, liquidity management,

management of mismatches and funding, the supervision of fiscal issues and, in general, the financial performance of the Bank as well as such other issues as may be contemplated in its Charter.

Compliance and Anti-Money Laundering Committee

The fundamental function of the Compliance and Anti-Money Laundering Committee is to act as support of the Board of Directors in complying with the laws and regulations that apply to the Bank regarding:

(i)Anti-Money Laundering and the Combating of the Financing Terrorism and the Proliferation of Weapons of Mass Destruction, (ii) The US Treasury Department's Office of Foreign Assets Control (OFAC), (iii) The US Foreign Account Tax Compliance Act (FATCA), (iv) The OECD's Common Reporting Standards (CRS), and (v) The Foreign Corrupt Practices Act (FCPA).

EXECUTIVE COMMITTEE



Jorge Salas* Chief Executive Officer



Erica Lijtztain Executive Vice President Chief Operating Officer



Alejandro Jaramillo Executive Vice President Chief Commercial



Alejandro Tizzoni Executive Vice President Chief Risk Office

63



Ana Graciela de Méndez Executive Vice President Chief Financia



Eduardo Vivone Executive Vice President Treasury and Capital Markets



Jorge Luis Real Executive Vice President Chief Legal Officer and Corporate



Jorge Córdoba Executive Vice President Chief Audit

^{*} Replacing Gabriel Tolchinsky as from March 9 2020

MAIN INTERNAL COMMITTEES

Board of Directors Executive Committee Information Credit Assets and Data Security and Country Risk Technology Ethics Disclosure Monitoring and Liabilities Credit Operational Risk Governance Committee Committee Committee Committee Management Committee Committee Management Committee Committee

TRANSPARENCY AND ETHICS

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 Ethics, containing the general policies and principles that should guide the ethical-professional behavior of the organization's Employees and Directors. Its objective is to safeguard the values being considered fundamental for properly directing the Institution's business and administration, in line with the Bank's principles and values that, for a regional financial institution with a shareholding scheme representing both the public as well as the private sector, conjugate a series of interests that do require guidelines for undertaking its business and activities.

It is essential for the Organization to have a clear direction to follow, along the lines of the fundamental principles and values human

beings and in the environment in which it operates, so that this Code aims to define the action framework that will make it possible to achieve this purpose. People and work become a whole, discarding the existence of a duality or incongruency between the individual and work behavior, in the concrete business actions and regarding its shareholders.

In line with the above and pursuant to best industry practices, during the year 2018, an Ethics and Conduct Policy for Suppliers, was adopted, to assure that the suppliers working with Bladex do so with the principles and values established by the Bank, in the expectance that those suppliers do extend these principles all along their value chains

The Bank has a whistle-blowing channel called the "Bladex Ethics Line", as its formal means of communication, through which all of its employees, suppliers and customers may report the occurrence of any real or potential irregularities that could affect the principles of institutional integrity. Those reports are treated with total confidentiality and the investigations are being carried out by means of an exhaustive analysis of the deeds reported, in order to assure the veracity of the possible irregularities.



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From the year 2000 until 2012,

Bladex implemented an aggressive

expansion plan that included

the opening up of representation

offices in Brazil, Colombia, Mexico

and Peru.





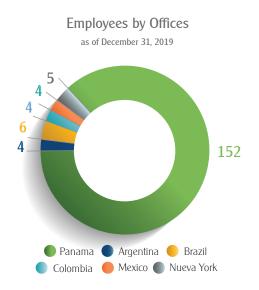
HUMAN CAPITAL

At Bladex we consider that Human Capital is the main backbone for all business activities. Year after year the behavior of our employees reflects our values: Commitment, Humility, Excellence, Respect and Integrity. This is the result of a robust management of talent that begins in the recruitment and selection process and is kept up through a comprehensive training model and benefit programs for our employees. The wellbeing of people is the basis for meeting the company's objectives.

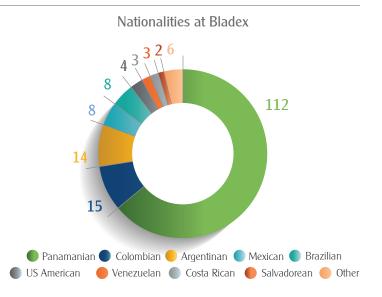
During the year 2019, apart from doing business in the changing environment of Latin America, the main challenge was to improve our processes and adapt them to the new internal control schemes prompted by market trends. The development of initiatives as part of multidisciplinary projects set the tone for interactions between the different areas, showing that anything can be accomplished with a highly professional and engaged human capital.

The presence of different nationalities and cultures among our employees enhances Bladex brand. Precisely the fact of having a multicultural work environment has become one of our main strengths, and it facilitates business management across the region. During 2019 the bank went through structural changes, and in the month of August we closed the Representation Office in Lima, Peru and our business in Peru is now managed from Panama.

Apart from the Head Office in Panama, where the Bank's operational and support activities are based and the business is managed for the countries of Central America, the Caribbean, Ecuador and Peru, the Bank also has representation offices in Argentina, Brazil, Colombia and Mexico as well as an Agency in New York in the United States.

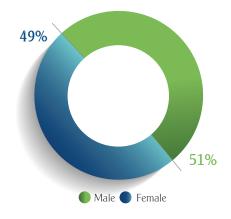


As of December 31, 2019, Bladex had 175 employees, representing 16 nationalities, of which 97% comes from Latin American countries.



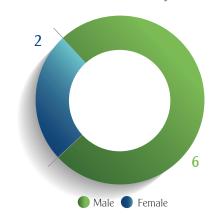
As far as diversity goes, our human capital consists of 51% men and 49% women, occupying positions under equal conditions, from administrative and technical functions up to Management.

Percentage of Employees by Gender



Two of the Bank's main areas are led by women: Finance and Operations, resulting in an average of 75% men and 25% women in the Executive Committee.

Executive Committee by Gender



TALENT DEVELOPMENT

During 2019 we continued our efforts to boost the integration and leadership of the Executive Committee, the Vice-Presidents and their direct reports, for which we designed and executed a **Leadership Development Program**. The participants worked on their managerial skills, team management, work environment and cultural transformation through coaching sessions and by personally attending workshops from leadership experts.

In order to support the development of the Bank's future generation of leaders, the **Star Talent Program** was carried out, through which a group of 21 employees with high-development potential participated

during approximately four months, in face-to-face and remote workshops. The participants worked on self-awareness, effective communications, emotional intelligence, leadership, innovation and creativity as well as effective presentation techniques. The closure of the program included an intensive project management course, for which the participants proposed and established the bases for five projects promoted by members of the Executive Committee. Those interdisciplinary projects made it possible for them to develop new competencies and opened a gateway for our young professionals to be able to position themselves and attain a sustained growth in the Organization.



• Leadership Development Program



Internal Trainings



Star Talent Program

Projects Developed from the Star Talent Program

Modification of the workflow to upload Limits and Collateral.

Designing the electronic form for the Letter of Credit web platform.

Incorporating improvements in the process for automating Correspondent Accounts with the SyC Application.

Developing the model for undertaking a preventive control for validating SPPI criteria.

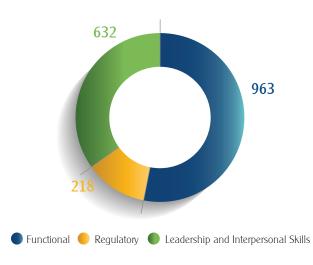
Creating the process for identifying AB Loans / Customer better than the Country, in order to achieve an automation of the process fort calculating reserves.

In addition to these programs, which fall in the category of Leadership and Inter-Personal Skills, the annual training program considered the functional training needs for each area, as well as the required regulatory compliance courses.

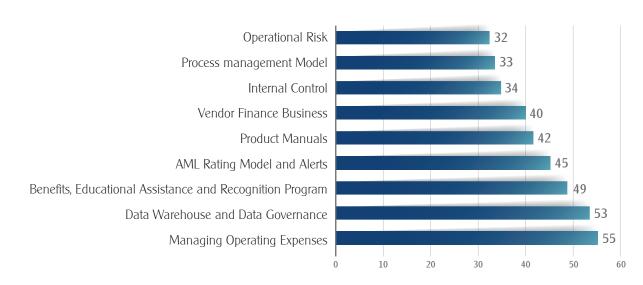
Pursuant to that Plan, during 2019 a total of 1,813 training courses were given for different topics, as detailed in the following chart.

As part of our functional training plan, the Human Development Department every year coordinates the presentation of the "Know your Bladex" workshops, in which our functional experts discuss matters of interest in their areas for all employees in one-and-ahalf hour sessions. This year, the following topics were presented with a participation of between 32 and 55 employees per session.





Know Your Bladex 2019



CORPORATE BENEFITS

employees excellent benefits, among which we can highlight out because of their commitment, teamwork and results. During the a collective health insurance and dental plan, that covers the employees and their dependents, as well as a flexible vision plan and life insurance, the last ones only for employees. We have weekly visits from an account executive that provides insurance claim services. and monthly visits from a general practitioner for primary care of our Head Office employees.

We also encourage the interest of our human capital in continuing their higher education through a Language and Educational **Assistance Program**, reimbursing the employees for a percentage of their studies cost, depending on their grades.

In order to embrace comprehensive health, Bladex provides its Bladex promotes the recognition of those employees who stand year 2019, 28 employees were rewarded through the **Recognition Program** for their contribution in projects that generally demand an effort beyond their regular duties.

> Bladex Employees participate in a series of corporate well-being and cultural integration activities, among which we can mention the end of the year celebrations at the Head Office and at all overseas offices, the celebration of Mother's Day. Father's Day, the recreational party for the employees' children, "After Office" gatherings, family summer trips and other sports activities.

Employee Recognition

At the end of each year we reward the employee who, through his To support the health of our employees, in the month of June we or her day to day performance has been a model throughout the year of our values: **Commitment, Humility, Excellence, Respect** employees and 65 dependents were vaccinated. and Integrity.

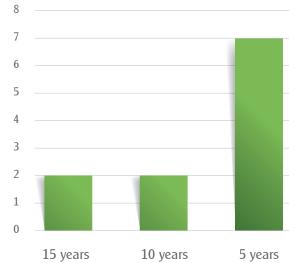
In 2019, nine employees were nominated, and Mrs. Doriel Barochis was selected as the Living Example of the Bladex Values, for promoting and living those values in her daily performance. She was nominated by 14 coworkers and, among the reasons indicated, they pointed out that she always shows a high level of commitment and willingness to share her knowledge and experience with her colleagues.



Doriel Barochis

At the end of the year, we also celebrate the commitment and loyalty of our employees for years of service, with a special mention being reserved for those with the longest seniority. This year, a total of 11 employees was rewarded, two of them with a seniority of 15 years.

Employees Recognized for their Years of Service

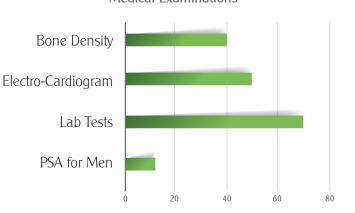


Health & Wellness

carried out the annual campaign for flu inoculations, where 72

The Annual **Health Fair** was held during the month of October. In this event we endeavor to add new activities to create awareness on the impact of prevention and good health practices: physical mental and financial. This year we had the assistance of several providers to carry out tests on the employees' physical health in general (lab tests, measurement of weight, blood pressure, EKG, etc.). During the Health Fair Week, we also shared the presentations given by our providers with the Representation Offices and the New York Agency, aiming them to foster health promoting activities.

Medical Examinations



As closure, we organized a talk about "The Power of the Mind and Proper Breathing" where the speaker gave some simple exercises to stimulate productivity and calmness in moments of stress.

This summary for the year 2019 describes only part of the efforts undertaken by the Bank for the wellbeing of its employees, our driving force. We will continue to boost these Bladex Culture activities in order to keep our team highly motivated, living our values and contributing to our organizational achievements.



Lab test



Fundación Crece Latinoamérica

2013

In 2013, the "Fundación Crece

Latinoamérica" was set up, which
foundation was meant to be an
instrument through which are
channeled the social responsibility
initiatives and programs that
Bladex develops in the countries
where it operates.



Beyond its business functions, Bladex recognizes and prides itself on its commitment to the development of the vulnerable sectors of the communities where we operate, as a core part of the spirit of our Organization.



The work that the Bank has been promoting over the years through its Foundation continues to be aimed at implementing projects and programs that promote education as an instrument of change and progress, as well as the personal growth of children and young people at social risk

Latinoamérica-Gonzalo Menéndez Duque, and also created the Medal of Excellence and the Gonzalo Menéndez Duque University Scholarship, in memory of the former active member of the Foundation's Board, which he had chaired since its creation in 2013. In Panama, where our Headquarters is located, we continue to maintain our strong support for seven organizations at the national level. During this year, the Foundation continued to improve the physical facilities and provided equipment for a computer room at the Marie Poussepin Educational Center (CEMP), a school built by Bladex in one of the high social risk sectors of Panama City, and which provides more than 700 students with a comprehensive education from kindergarten to high school.

As a vitally important complement to the education of CEMP students, the Foundation continued to sponsor the Parent Education program, carried out by the Bankers' Wives Society (Sociedad de Esposas de Banqueros). This year, 428 parents received ten months of training, through participatory workshops, to acquire the necessary knowledge to support their children during their school life, as well as within the family environment.



Bladex delivered 20 laptops for the CEM computer room

Interested in providing young people from communities far from the interior of the country the opportunity to continue their secondary studies, the Foundation completed the work of expanding and equipping the boarding school located in the Virgen de Guadalupe Community Center in El Bale, province of Veraguas. Other work carried out included improvements to the library and renovation of During 2019, the Foundation changed its name to Fundación Crece the school cafeteria, as well as making contributions for the annual feeding of the students and the implementation of an academic leveling program aimed at first-year students.

> This year we partnered with a new organization, Asociación Pro Niñez, to implement the One Laptop per Child program at La Misericordia multi-grade primary school, located in El Bale, province of Veraguas. The program includes providing about 50 children from this sector with a laptop. Internet installation in their school, as well as electricity and the necessary training and supervision to effectively use this study tool. The laptops will also benefit the families of these students who will have access to the equipment in their homes.

> At the Hogar Divina Gracia, a shelter dedicated to assisting young people at social risk, we continue to develop, for the fifth consecutive year, important structural improvement projects for its facilities. This year we carried out a maintenance program that included: increasing the water reserve capacity, renovation of kitchen furniture and building an industrial waste deposit, among others. The Foundation also provided an annual contribution for food expenses, sponsored a ten-month computer course for the 25 young women at the shelter, as well as aerobics classes for six months.



Structural improvements were made to the library of the Virgen de Guadalupe Community Center, Veraguas.

At the Hogar de Niñas y Adolescentes La Merced, the Foundation continued to provide an annual contribution for food, as well as for improvements in their dorms.

Being aware that an important component of financial inclusion is financial education at the high school level, the Bank remains committed to continue sponsoring the Financial Education Program led by the Panama Banking Association (ABP), which benefits over 1,500 senior students from public schools in different provinces of the country. In addition, as an active member of the ABP's Sustainability Commission, Bladex is in charge of leading the Financial Education sub-commission, which during 2019 carried out a comprehensive review of the program implemented in schools, improving and expanding the content of the modules, and participated as one of the representatives of the ABP in the working tables for the development of the National Financial Education Strategy, as well as in the commission on this important issue led by the Superintendency of Banks of Panama



Children from La Misericordia school received a laptop to support their studies

VOLUNTEERS IN ACTION

The valuable participation of the Bank's employees is an important complement to the social programs carried out by the Fundación Crece Latinoamérica-Gonzalo Menéndez Duque. Their contribution in resources, time, knowledge, and creativity has made it possible to develop educational, recreational and cultural activities.

On the Recreational and Cultural

- 1 Christmas party celebrations for the 700 students at the CEMP, as well as the boarders at the Hogar Divina Gracia in Panama, and the children at the Brascri Foundation in Brazil.
- 2 Visit to the Virgen de Guadalupe Community Center in El Bale, province of Veraguas, to deliver donations in food, medicine, and equipment for the boarding school. Sponsorship of an excursion to Panama City for 50 students, which included a trip to places of recreational and cultural interest.
- **3** Talent contest at the CEMP, with the participation of more than 100 primary and secondary students.

On the Educational Front

- 4 100 scholarships sponsored by employees were awarded to CEMP-Panama students.
- **5** Development of the annual financial education program at CEMP.
- **6** Economic incentives were provided to middle and high school students at the CEMP with the highest GPAs.











Consolidated Financial Statements as of December 31, 2019

(With the Independent Auditors' Report thereon)

Consolidated Financial Statements

Contents

Independent Auditors' Report	79
Consolidated Statement of Financial Position	81
Consolidated Statement of Profit or Loss.	82
Consolidated Statement of Comprehensive Income	83
Consolidated Statement of Changes in Equity	84
Consolidated Statement of Cash Flows	85
Notes to the Consolidated Financial Statements	86



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Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Banco Latinoamericano de Comercio Exterior, S.A. and subsidiaries (the Bank) as of December 31, 2019 and 2018, the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Bank's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 30, 2020 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the allowance for loan losses

As discussed in Notes 4.4 and 5 to the consolidated financial statements, the Bank's allowance for loan losses (ALL) was \$99,307 thousand as of December 31, 2019. The Bank applies a three-stage approach to measure the ALL, using an expected credit loss (ECL) methodology. The ECL methodology uses complex models which incorporate inputs and assumptions that involve significant judgment. The ALL is determined as a function of the Bank's assessment of the probability of default (PD), loss given default (LGD) and exposure at default (EAD) associated with the financial asset. It reflects a probability weighted outcome that considers the customer's credit risk rating, the country risk rating, which contemplates multiple economic scenarios, and historical recovery rates. When the Bank determines that there has been a significant increase in credit risk (SICR) since initial recognition or when the financial asset is in default, lifetime ECL is recorded; otherwise, a 12-month ECL is recorded. When the financial asset is in default, the Bank assesses ECL on an individual basis, considering the expected cash flows, discount rates and related collateral valuation.

We identified the assessment of the ALL as a critical audit matter because it involved significant measurement uncertainty requiring substantial auditor judgment, as well as industry knowledge and experience. Significant auditor judgment was required to evaluate the criteria for identifying a SICR, the occurrence of events of default and the Bank's ECL models. Specifically, this included the models for customer and country risk ratings, including the macro-economic forecasts embedded therein, PD and LGD. When assessing the ECL on an individual basis, significant auditor judgment was required to evaluate the expected cash flows, including the recovery through collateral.

The primary procedures we performed to address this critical audit matter included the following:

- We tested certain internal controls over the Bank's ALL process with the involvement of our financial risk management, credit risk and information technology professionals with specialized skills, industry knowledge and relevant experience. These included controls related to: (i) the validation of models that determine PD and LGD; (ii) the review of significant assumptions and judgments used by the Bank to determine customer and country risk ratings, including the forecast macro-economic variables; (iii) the identification of whether there has been SICR or an event of default; (iv) data inputs into the ALL models, including technology controls over its extraction and processing; (v) loan reviews to determine customer credit risk ratings; and (vi) country risk rating reviews.
- We involved financial risk management professionals with specialized skills, industry knowledge and relevant experience, who assisted in: (i) evaluating the methodology and key inputs used in determining the PD and LGD parameters produced by the models; (ii) evaluating the country risk rating models, including the forecast macro-economic variables.
- We involved credit risk professionals with specialized skills, industry knowledge and relevant experience, who assisted in: (i) evaluating, for a sample of customers, the Bank's assigned credit risk rating, and the Bank's judgment on whether there was a SICR or an event of default; and (ii) evaluating the collateral values used in the assessment of ECL on an individual basis.

We have served as the Bank's auditor since 2018.

KPMG

Panama City, Republic of Panama April 30, 2020

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

Consolidated statement of financial position

December 31, 2019

(In thousands of US dollars)

	Notes	2019	2018
Assets			
Cash and due from banks	7,8	1,178,170	1,745,652
Securities and other financial assets, net	5,7,9	88,794	123,598
Loans		5,892,997	5,778,424
Interest receivable		41,757	41,144
Allowance for loan losses		(99,307)	(100,785)
Unearned interest and deferred fees		(12,114)	(16,525)
Loans, net	5,7,10	5,823,333	5,702,258
Customers' liabilities under acceptances	5,7	115,682	9,696
Derivative financial instruments - assets	5,7,13	11,157	2,688
Equipment and leasehold improvements, net	15	18,752	6,686
Intangibles, net	16	1,427	1,633
Investment properties		3,494	-
Other assets	17	8,857	16,974
Total assets		7,249,666	7,609,185
Liabilities and Equity			
Liabilities:			
Demand deposits		85,786	211,381
Time deposits		2,802,550	2,759,441
	7,18	2,888,336	2,970,822
Interest payable		5,219	12,154
Total deposits		2,893,555	2,982,976
Securities sold under repurchase agreements	5,7,19	40,530	39,767
Borrowings and debt, net	7,20	3,138,310	3,518,446
Interest payable		10,554	13,763
Customers' liabilities under acceptances	5,7	115,682	9,696
Derivative financial instruments - liabilities	5,7,13	14,675	34,043
Allowance for loan commitments and financial guarantees contracts losses	5,7	3,044	3,289
Other liabilities	21	17,149	13,615
Total liabilities		6,233,499	6,615,595
Equity:			
Common stock	23	279,980	279,980
Treasury stock	23	(59,669)	(61,076)
Additional paid-in capital in excess of value assigned to common stock	23	120,362	119,987
Capital reserves	31	95,210	95,210
Regulatory reserves	31	136,019	136,019
Retained earnings		446,083	423,050
Other comprehensive income (loss)	24	(1,818)	420
Total equity		1,016,167	993,590
Total liabilities and equity		7,249,666	7,609,185

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

80 Antes de 1917

Consolidated statements of profit or loss

For the year ended December 31, 2019

(In thousands of US dollars, except per share data and number of shares)

	Notes	2019	2018	2017
Interest income:				
Deposits		17,011	15,615	10,261
Securities		3,209	2,899	2,492
Loans		253,462	239,976	213,326
Total interest income	26	273,682	258,490	226,079
Interest expense:				
Deposits		(67,435)	(63,146)	(42,847)
Borrowings and debt		(96,732)	(85,601)	(63,417)
Total interest expense	26	(164,167)	(148,747)	(106,264)
Net interest income		109,515	109,743	119,815
Other income (expense):				
Fees and commissions, net	25	15,647	17,185	17,514
Loss on financial instruments, net	12	(1,379)	(1,009)	(739)
Other income, net		2,874	1,670	1,723
Total other income, net	26	17,142	17,846	18,498
Total revenues		126,657	127,589	138,313
Impairment loss on financial instruments	5,26	(430)	(57,515)	(9,439)
Gain (impairment loss) on non-financial assets	14,26	500	(10,018)	-
Operating expenses:				
Salaries and other employee expenses	28	(24,179)	(27,989)	(27,653)
Depreciation of equipment and leasehold improvements	15	(2,854)	(1,282)	(1,578)
Amortization of intangible assets	16	(702)	(1,176)	(838)
Other expenses	29	(12,939)	(18,471)	(16,806)
Total operating expenses	26	(40,674)	(48,918)	(46,875)
Profit for the year		86,053	11,138	81,999
Per share data:				- 00
Basic earnings per share (in US dollars)	22	2.17	0.28	2.09
Diluted earnings per share (in US dollars)	22	2.17	0.28	2.08
Weighted average basic shares (in thousands of shares)	22	39,575	39,543	39,311
Weighted average diluted shares (in thousands of shares)	22	39,575	39,543	39,329

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

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

Consolidated statements of comprehensive income

For the year ended December 31, 2019

(In thousands of US dollars)

	Notes	2019	2018	2017
Profit for the year		86,053	11,138	81,999
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Change in fair value on equity instrument at FVOCI, net of hedging	24	491	(1,224)	187
Items that are or may be reclassified subsequently to profit or loss:				
Change in fair value on debt financial instruments at FVOCI, net of hedging	24	(2,694)	2,667	(3,948)
Reclassification of gains (losses) on financial instruments to the profit or loss	24	261	(1,704)	7,035
Exchange difference in conversion of foreign currency operation	24	(296)	(1,282)	1,490
Other comprehensive income (loss)	24	(2,238)	(1,543)	4,764
Total comprehensive income for the year		83,815	9,595	86,763

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

Consolidated statements of changes in equity For the year ended December 31, 2019 (In thousands of US dollars)

	Common stock	Treasury stock	Additional paid- in capital in excess of value assigned to common stock	Capital reserves	Regulatory reserves	Retained earnings	Other comprehensive income	Total equity
Balances at January 1, 2017	279,980	(69,176)	120,594	95,210	62,459	525,048	(2,801)	1,011,314
Profit for the year	-	-	-	-	-	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)
Regulatory credit reserve	-	-	-	-	1,865	(1,865)	-	-
Dymanic provision	-	-	-	-	64,930	(64,930)	-	-
Dividends declared						(60,540)		(60,540)
Balances at December 31, 2017	279,980	(63,248)	119,941	95,210	129,254	479,712	1,963	1,042,812
Profit for the year	_	_	-	_	_	11,138	-	11,138
Other comprehensive income (loss)	-	-	-	-	-	-	(1,543)	(1,543)
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	1,051	-	-	-	-	1,051
Exercised options and stock units vested	-	3,355	254	-	-	-	-	3,609
Repurchase of "Class B" and "Class E" common stock	-	(2,442)	-	-	-	-	-	(2,442)
Regulatory credit reserve	-	-	-	-	(20,498)	20,498	-	-
Dymanic provision	-	-	-	-	27,263	(27,263)	-	-
Dividends declared						(61,035)		(61,035)
Balances at December 31, 2018, previously reported	279,980	(61,076)	119,987	95,210	136,019	423,050	420	993,590
Effect for change in accounting policy						(1,926)		(1,926)
Balances at January 1, 2019, adjusted	279,980	(61,076)	119,987	95,210	136,019	421,124	420	991,664
Profit for the year	-	-	-	-	-	86,053	-	86,053
Other comprehensive income (loss)	-	-	-	-	-	-	(2,389)	(2,389)
Transfer of fair value on equity instrument at FVOCI						(151)	151	-
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	1,782	-	-	-	-	1,782
Exercised options and stock units vested	-	148	(148)	-	-	-	-	-
Dividends declared						(60,943)		(60,943)
Balances at December 31, 2019	279,980	(59,669)	120,362	95,210	136,019	446,083	(1,818)	1,016,167

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

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

Consolidated statement of cash flows

For the year ended December 31, 2019

(In thousands of US dollars)

	2019	2018	2017
	2017	2010	201/
Cash flows from operating activities			
Profit for the year	86,053	11,138	81,999
Adjustments to reconcile profit for the year to net cash provided by (used in) operating activities:			
Depreciation of equipment and leasehold improvements	2,854	1,282	1,578
Amortization of equipment and leasenoid improvements Amortization of intangible assets	702	1,282	838
Gain on sale of investment properties		1,170	636
Impairment loss on financial instruments	(500) 430	57,515	9,439
(Gain) loss, net on sale of financial assets at fair value through OCI	(186)	(194)	(249)
Amortization of premium and discount related to securities at amortized cost	* *	698	732
Compensation cost - share-based payment	1,037 1,782	1,051	296
Net changes in hedging position	(18,273)	12,403	(1,833)
Loss for disposal of equipment and leasehold improvements	(18,273)		2,205
Loss for descognition of intangible assets	22	24 2,705	2,203
	-		10
Impairment on investment properties at fair value through profit or loss	-	3,849	-
Impairment loss on other assets	-	3,464	-
Unrealized loss on investment instrument "debenture" measured at fair value through profit or loss	2,258	-	_
Interest income	(273,682)	(258,490)	(226,079)
Interest expense	164,167	148,747	106,264
Net decrease (increase) in operating assets:			
Pledged deposits	21,008	13,781	8,571
Loans	(111,967)	(305,464)	479,226
Other assets	7,891	(6,449)	(269)
Net increase (decrease) in operating liabilities:		(-, -,	()
Due to depositors	(78,822)	41,978	125,992
Financial liabilities at fair value through profit or loss	-	-	(24)
Other liabilities	3,074	(6,432)	(4,695)
Cash flows provided by (used in) operating activities	(192,152)	(277,218)	584,007
Interest received	274,031	242,276	239,394
Interest paid	(174,311)	(138,646)	(107,051)
Net cash (used in) provided by operating activities	(92,432)	(173,588)	716,350
			_
Cash flows from investing activities:			
Acquisition of equipment and leasehold improvements	(1,028)	(603)	(2,654)
Acquisition of intangible assets	(496)	(58)	(3,370)
Proceeds from the sale in investment properties	500	1,270	
Proceeds from the sale of securities at fair value through OCI	14,037	-	17,040
Proceeds from the redemption of securities at fair value through OCI	8,094	4,635	-
Proceeds from redemption of securities at amortized cost	28,274	9,807	17,526
Purchases of securities at fair value through OCI	-	(9,875)	(8,402)
Purchases of securities at amortized cost	(18,316)	(26,701)	(9,978)
Net cash provided by (used in) investing activities	31,065	(21,525)	10,162
Cash flows from financing activities:			
Increase in securities sold under repurchase agreements	764	39,767	_
Net increase (decrease) in short-term borrowings and debt	(428,611)	950,259	(396,205)
Proceeds from long-term borrowings and debt	371,536	609,017	219,905
Repayments of long-term borrowings and debt	(368,843)	(256,173)	(883,476)
Payments of leases liabilities	(1,072)	-	-
Dividends paid	(58,881)	(61,539)	(60,605)
Exercised stock options	-	3,609	4,977
Repurchase of common stock	_	(2,442)	(27)
Net cash (used in) provided by financing activities	(485,107)	1,282,498	(1,115,431)
(((103,107)	1,202,770	(1,113,731)
(Decrease) increase net in cash and cash equivalents	(546,474)	1,087,385	(388,919)
Cash and cash equivalents at beginning of the year	1,706,192	618,807	1,007,726
Cash and cash equivalents at end of the year	1,159,718	1,706,192	618,807
	7 7		,

Notes to the consolidated financial statements (Amounts expressed in thousands of U.S. dollars, unless 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 foreign 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 isto the laws of the Republic of Panama, and 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 Superintendence 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 Law Decree No. 9 of February 26, 1998, modified by 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, liquidity 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. is 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 Representação Ltda.
- Bladex Representação Ltda., incorporated under the laws of Brazil on January 7, 2000, acts as the Bank's representative office in Brazil. Bladex Representação Ltda. is 99.999% owned by Bladex Head Office and the remaining 0.001% is owned by Bladex Holdings Inc.
- Bladex Development Corp. was incorporated under the laws of the Republic 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. ("BLX Soluciones") 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").

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 7, 2020.

86 Antes de 1979 es

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

Notes to the consolidated financial statements

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

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").

2.2 Presentation currency

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 measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

Items	Basis of measurement
Securities and other financial instruments at fair value through other comprehensive income	Fair value
Other financial instruments at fair value through profit or loss	Fair value
Financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships	At amortized cost adjusted for the hedge risk components associated to the hedging relationship
Investment properties	Fair value

2.4 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 on consolidation. Specifically, the Bank controls an investee if, and only if, the Bank has the following elements:

- 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 returns.

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. The consolidation of the financial statements of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders 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.

87

Notes to the consolidated financial statements

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

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

2.4 Basis of consolidation

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 profit or loss. Any investment retained in the former subsidiary is recognized at fair value.

The fair value of any investment retained in the former subsidiary at the date when control is lost is measured according IFRS 9 – "Financial Instruments", or where applicable, at cost on initial recognition of an investment in an associate or a joint venture.

3. Changes in significant accounting policies

3.1 New accounting policies adopted

Leases under IFRS 16

The Bank applied IFRS 16 with effective date of initial application on January 1, 2019. As a result, the Bank has changed its accounting policy for lease contracts using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019.

Accounting policy applicable as of January 1, 2019:

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- The contract involves the use of an identified asset –this may be specified explicitly or implicitly; and should be physically distinct or represent substantially all of the capacity of a physically distinct asset.
- The Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.
- The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - The Bank has the right to operate the asset; or
 - The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or modified, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for lease agreements of office spaces in buildings in which the Bank is a lessee, it chose not to separate the components of the contract that do not correspond to the lease and to account for all of them under a single lease component.

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

Notes to the consolidated financial statements

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

3. Changes in significant accounting policies (continued)

3.1 New accounting policies adopted

A. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Bank assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.1.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

B. As a lessee

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the leases transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for most leases. These leases are presented in the consolidated statement of financial position.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's internal funding cost rate as at January 1, 2019. The right-of-use assets are measured at their book value as if IFRS 16 had been applied since the inception date, by discounting total lease payments to present value using the Bank's internal funding cost rate, for the weighted average term of the contract, adjusted for any prepayment, incremental cost, dismantling cost and depreciation that would have been recognized from the beginning of the contract until the date of implementation of the standard.

The right-of-use asset is subsequently depreciated using the straight-line method from the inception date until the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if applicable, and is adjusted for certain new measurements of the lease liability. The Bank presents its right of use assets in equipment and improvements to the leased property and the liability for lease in obligations and debt, net in the consolidated statement of financial position.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- For lease contracts with similar characteristics, the internal funding cost rate of the Bank was applied, according to the average term of the lease.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term, for those contracts that included the option to extend or rescind the lease.

C. As a lessor

The Bank does not require to make any adjustments on transition of IFRS 16 for its leases like a lessor, except when acting as an intermediate lessor. The Bank accounted its leases in accordance with IFRS 16 on the date of initial application.

Under IFRS 16, the Bank should the evaluate the classification of the sublease by reference to the right-of-use assets, and not by reference to the underlying asset. At transition, the Bank revalued the classification of a sublease contract previously classified as an operating lease under IAS 17. The Bank concluded that the sublease is an operating lease under IFRS 16.

On transition to IFRS 16, the right-of-use assets recognized as a result of lease agreements that qualify as investment property are presented in the consolidated statement of financial position and are measured at fair value.

The Bank applied IFRS 15 to revenue from contracts with customers to assign the consideration in the contract to each lease component and that is not a lease.

88 Antes de 1979 estaro

Notes to the consolidated financial statements

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

3. Changes in significant accounting policies (continued)

3.1 New accounting policies

Impacts on consolidated financial statements

In transition to IFRS 16, the Bank recognized right-of-use assets and lease liabilities, recognizing the difference in retained earnings.

The impact of transition is as follows:

	January 1, 2019
Right-of-use assets presented in equipment and improvements to leased property	17,435
Deferred liability loss under the methodology of IAS 17	1,604
Leases liabilities	(20,965)
Decrease in retained earnings	1,926

When measuring the lease liabilities, the Bank discounted the lease payments using its internal funding cost rate at January 1, 2019. The weighted average rate applied is 4.81%.

	January 1, 2019
Operating lease commitment disclosed as at December 31, 2018	16,790
Extensions and termination options that are reasonably true of being exercised	11,160
	27,950
Discounted lease liabilities using the internal funding cost rate as at January 1, 2019	20,965

Accounting policy applicable until December 31, 2018:

Leases under NIC 17

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.

a. Banks as a lessee

Leases where the lessor does not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases.

Collections from operating leases are recognized as an income in profit or loss using the straight-line method during the lease term

b. Bank as a sub-lessor

Leases where the Bank does not transfer substantially all risks 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. Rental income is recognized as revenue as earned. In the event that the contract is cancelable, they are recognized as income over the term of the lease.

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

Notes to the consolidated financial statements

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

3. Changes in significant accounting policies (continued)

3.2 New accounting policies and amendments not yet adopted

In September 2019, the IASB (International Accounting Standards Board) finalized the Phase 1 of the Project of IBOR Reform and issued the document Interest Rate Benchmark Reform ("the Reform"), which contains amendments to IFRS 9 Financial Instruments; to the IAS 39 Financial Instruments: Recognition and Measurement; and IFRS 7 Financial Instruments: Disclosures, as a first reaction to the potential effects the IBOR reform could have on financial reporting to the entities that report IFRS. These amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform.

The following summarizes the changes that are made to the Amendments (amendments to IFRS 9, IAS 39 and IFRS 7):

- a. Modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of the Reform;
- b. Are mandatory for all hedging relationships that are directly affected by the Reform;
- c. Are not intended to provide relief from any other consequences arising from the Reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- d. Require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively, early application is permitted. The Bank is evaluating possible impact scenarios for its hedging positions, considering the Reform, mainly in those whose maturity exceeds the deadline of the Reform.

4. Significant accounting policies

Significant accounting policies applied consistently by the Bank to all years presented in these consolidated financial statements, are presented as follows.

4.1 Currency and foreign currency transactions

Foreign currency transactions

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

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 translation adjustments are reported as a component of other comprehensive income (loss) in the consolidated statement of changes in equity.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

Transactions whose terms are denominated in a currency other than the functional currency, including transactions denominated in local currency of foreign entities whose functional currency is the US dollar, are recorded at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currency are translated into US dollars 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 on the line "gain (loss) on financial instruments, net" in profit or loss.

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

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Bank disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is attributed to non-controlling interest.

4.2 Interest

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not credit-impaired, or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market interest rates.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income and interest expense calculated using the effective interest method presented in the consolidated statement of profit or loss includes:

- Interest on financial assets and financial liabilities measured at amortized cost
- Interest on securities measured at fair value through other comprehensive income

Other interest income and expense presented in the consolidated statement of profit or loss includes:

- Interest expense on lease liabilities
- The effective portion of the variability in interest cash flow changes in qualifying hedging derivatives, in the same period as the hedged cash flows affect interest income/expense

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Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.3 Fees and commissions

Fees, commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are described in note 4.2

Other fees and commissions are recognized as the related services are performed based on the contractual terms set with a customer.

The following table describes the main products and services, other than services for financial intermediation, from which the Bank generates its revenue:

Nature and timing of artisfaction of nonformance obligations including

	Nature and timing of satisfaction of performance obligations, including
Type of services	significant payment terms
<u>Letters of credit</u> Opening	Guarantee to honor the estipulated amount agreed to in the terms and conditions entered into with the customer, upon presentation of required documentation.
Negotiation	Review of the shipping documents, by the beneficiary, under presentation and
Negouation	acceptance of payment on demand or on the day the reimbursement is made by the designated bank.
Acceptance	Commitment issued to the beneficiary to pay to a supplier in a future date, once all the shipping documents have been reviewed as to compliance with the terms and conditions of the letter of credit.
Confirmation	Commitment issued to the issuer bank and the beneficiary to honor or negotiate shipping documents.
Amendment	A request to amend the original letter of credit on behalf of the beneficiary modifying the original terms and conditions
<u>Syndications</u> Structuring	Advise to the borrower by structuring the terms and conditions of a credit facility, and coordinating among the lenders' and the borrowers' legal counsel all legal aspects relating to the credit facility, among others.
Other services Other	Assignment of rights, transferability, reimbursements, payments, discrepancies, courier charges and transfers.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities

A. Date of recognition and initial measurement

The Bank initially recognizes loans, deposits, securities and financial liabilities 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 marketplace.

Recognized 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 or 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 recognized immediately in profit or loss.

Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships are measured at amortized cost adjusted for the hedge risk components associated to the hedging relationship.

B. 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 based on the Bank's business model for managing the financial assets and the contractual cash flow characteristics of these financial assets, except for those designated as hedged items in qualifying fair value hedging relationships, which are measured at amortized cost adjusted for the hedge risk components associated to the hedging relationship.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI).

A debt instrument is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI

Unrealized gains or losses for financial assets at FVOCI are reported as net increases or decreases in other comprehensive income in the consolidated statement of changes in equity until realized. The gains or losses realized on the sale of securities, which are included in the gain (loss) on the sale of financial instruments, are determined individually for each instrument. Exchange gains or losses are recognized in gains or losses.

For an equity instrument designated as measured at FVOCI, the accumulated gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss but is transferred within equity to retained earnings.

The rest of financial assets are classified at FVTPL.

94 Antes de 1979 estata

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

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

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

The Bank classifies all financial liabilities as subsequently measured at amortized cost, except for those liabilities designated as hedged items in qualifying fair value hedging relationships, which are measured at amortized cost adjusted for the hedge risk components associated to the hedging relationship.

C. Business model assessment

The Bank assesses 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, if the 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 risks 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.

The Bank's Commercial business comprises primarily the loan portfolio that is held for collecting contractual cash flows. Sales of loans from theses portfolios are very infrequent and lower volume.

Certain debt securities are held by the Bank's Treasury business whose objective is to hold assets to collect the contractual cash flows. These securities may be sold, but such sales are not expected to be more than infrequent. Additionally, certain other debt securities are held in separate portfolios within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Accordingly, such sales are comprehensive rather than incidental and consequently implies a higher frequency and volume of sale.

An assessment of the business model for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business model at a level that reflects how financial asset groups are managed together to obtain a particular business objective. The business model does not depend on management's intentions for an individual instrument; therefore, assessment of the business model is done at a higher level of aggregation rather than instrument by instrument.

At the initial recognition of a financial asset, it is determined whether the newly recognized financial asset is part of an existing business model or whether it reflects the start of a new business model. The Bank reassesses its business model at each reporting date to determine whether business models have changed since the previous reporting date.

For the current and previous reporting dates, the Bank has not identified a change in its business model.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

D. Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

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 at a point in 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 credit agreement. Contractual terms that originate risk exposure or volatility in the contractual cash flows that are not related to a basic credit agreement, 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 credit arrangement irrespective of whether it is a credit in its legal form.

In assessing whether the contractual cash flows are SPPI, 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, so 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).

E. 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 fiscal 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 in the following paragraphs.

F. 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 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.

Upon derecognition of a financial asset, the difference between the carrying amount of the derecognized asset, and the sum of the consideration received and any accumulated gain or loss that has been recognized in other comprehensive income is recognized in the consolidated financial statement of profit or loss.

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

Any accumulated gain or loss recognized in other comprehensive income regarding equity instruments designated at fair value with changes in other comprehensive income is not recognized in the consolidated statement of profit or loss. Any interest in the transfer of a financial assets that qualify for derecognition, booked or held by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its consolidated statement of financial position but retains either all or substantially all 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 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 profit or loss.

G. Modified financial asset or liability

Financial assets

A modified financial asset is an instrument 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 financial asset or 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 policies 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 or 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 more than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss allowance for expected credit losses (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 financial asset is considered to be credit originated impaired. This applies only in the case where the fair value of the new financial asset is recognized at a significant discount to its revised nominal amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified or renegotiated financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

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

- The remaining lifetime probability of default (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 financial asset, the Bank shall:

- Continue with its current accounting treatment for the existing financial asset 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 financial asset'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 financial asset 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 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 the effect of such modifications (including the effect on the measurement of expected credit losses) and how the Bank monitors these financial assets that have been modified.

The Bank recognizes a loss allowance for expected credit losses on a financial asset 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 financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of that financial asset has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

Financial Liabilities

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in the consolidated financial statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

H. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Generally, this is not the case with a contractual compensation agreement; therefore, related assets and liabilities are presented with their gross amounts in the consolidated statement of financial position.

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

I. Fair value measurement

Fair value is 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 or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

J. Allowances for losses on financial instruments

The allowances for losses on financial instruments are provided for losses derived from the expected credit losses, inherent in the loan portfolio, investment securities and loan commitments and financial guarantee contracts, using the reserve methodology to determine expected credit losses. Additions to the allowance for expected credit losses for financial instruments are recognized in profit or loss or in other comprehensive income depending on classification of the instrument. Incurred credit losses are deducted from the allowance, and subsequent recoveries are added. The allowance is also decreased by reversals of the allowance back to profit or loss. The allowance for expected credit losses for financial instruments at amortized cost is reported as a deduction of financial assets and, the allowance for expected credit losses on loan commitments and financial guarantee contracts, such as letters of credit and guarantees, is presented as a liability.

The Bank assigns to each exposure a risk rating which is defined using quantitative and qualitative factors that are indicative of the risk of loss. This rating is considered for purposes of identifying significant increases in credit risk. These factors may vary depending on the nature of the exposure and the type of borrower.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

Each exposure will be assigned to a risk rating at the time of initial recognition based on the information available about the customer and the country. Exposures will be subject to continuous monitoring, which may result in the change of an exposure to a different risk rating.

The analysis of customer risk considers financial and operational factors, sector / industry, market and managerial, also considering the ratings of international rating agencies, quality of information and other elements of an objective nature, including projections on these indicators.

For the assignment of customer credit ratings, quantitative and qualitative criteria are applied, depending on whether the counterpart corresponds to a financial entity or a corporation, and broken down into several factors, which receive a weighting within the customer's rating.

In the analysis of the country risk, for the establishment of the rating, the assessment of quantitative and qualitative variables specific to the country under analysis is considered, as well as the regional and global macroeconomic environment, considering projections about the future performance of the country environment.

In general, there are three groups of quantitative factors that determine the analysis and that give rise to a quantitative rating of the country (changes in main economic indicators; external payment capacity and access to capital; performance of domestic credit and the financial system), which is later analyzed within the social-political framework of the country (qualitative factors) and may suffer some deterioration for the determination of the final country rating.

i) Measurement of expected credit losses

Calculation of reserve for expected credit losses for financial instruments is made based on the risk rating resulting from the Bank's internal model and considering, generally (certain exceptions apply), the worst among the country risk rating of the transaction and the customer risk rating.

The table below provides a mapping of the Bank's internal credit risk grades to external ratings.

	<u>12 - month</u>		
<u>Internal</u>	average	External	
<u>rating</u>	<u>PD (1) %</u>	rating (2)	<u>Description</u>
1 - 4	0.09	Aaa – Ba1	Exposure in customers or countries with payment ability to satisfy their financial commitments.
5 - 6	2.35	Ba2 – B3	Exposure in customers or countries with payment ability to satisfy their financial commitments, but with more frequent reviews.
7	7.90	Caa1 - Caa3	Exposure in customers 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, or in countries where the operation carries certain risks.
8 - 9	30.67	Ca	Exposure in customers whose operating cash flow continuously shows insufficiency to service the debt on the originally agreed terms, or in countries where the operation is limited or restricted to certain terms, structure and types of credits.
10	100	С	Exposure in customers 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⁾ Probability of default

100 Antes de 1979 estate

⁽²⁾ Credit rating by Moody's Investors Service.

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

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

The Bank measures expected credit losses in a way that reflects: a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; b) 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.

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

- Stage 1: 12-month ECL, which applies to all financial instruments (from initial recognition) as long as there is no significant deterioration in credit quality, and
- Stage 2 and 3: Lifetime ECL, which applies when a significant increase in credit risk has occurred on an individual or collective basis. In Stages 2 and 3 interest income is recognized. Under Stage 2 (as under Stage 1), there is a full decoupling between interest recognition and impairment and interest income is calculated on the carrying amount. Under Stage 3, when a financial asset subsequently becomes credit impaired (when a credit event has occurred), interest income 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 interest income 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 are 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 on a process that estimates the probable loss inherent in the portfolio, based on statistical analysis and management's qualitative judgment. This assessment considers comprehensive information that incorporates not only past-due data, but other relevant credit information, such as forward looking macro-economic information.

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the difference in the present value of the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from weighing 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 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 ECL using two methodologies to determine if there is objective evidence of impairment for financial instruments:

- Individually Assessed

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

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

The impairment loss is calculated by comparing the present value of the future expected flows, discounted at the original effective rate of the credit transaction, with its current carrying amount and the amount of any loss is charged as a provision for losses in profit or loss for those measured at amortized cost, and in equity for those operations measured at fair value through other comprehensive income.

- Collectively Assessed

For the purposes of a collective assessment of impairment, financial instruments are grouped according to similar credit risk characteristics. These characteristics are relevant to estimate 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 assessed.

Future cash flows in a group of credit transactions that are collectively assessed 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 similar credit risk characteristics, within each group, and the experienced management views on whether the current economy and credit conditions can change the real level of historical inherent losses suggested.

ii) 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 customer, or the existence of other factors allowing to estimate the possibility that the balance of principal and interest on customers' loans will not be 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 qualitative and quantitative indicators based on data internally developed 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.

iii) Significant increase in credit risk

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

The Bank continuously 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 by comparing:

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

For loan commitments, the Bank considers changes in the risk of a default occurring on the 'potential' financial instrument 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.

102 Antes de 1979 estara

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

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 profit or loss as the impairment amount. Impairment losses or recoveries are accounted for as an adjustment to the reserve in accumulated other comprehensive income, against profit or loss.

Additionally, to determine if there has been a significant increase in risk, the Bank 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 customer generates its income. The model defines a consolidated calculation of risk severity depending on the weighing of the severity to risk of each one of the scenarios under analysis. Also, this depends on the context of the variables or the ratings constructed for each one (by market, country and economic sector).

Impairment on a financial asset is assessed based on numerous factors and its relative importance varies on a case-by-case basis. Factors considered in determining whether there has been a negative impact on the estimated future cash flows of a financial asset include: significant financial difficulties of the issuer; high probability of default; granting a concession to the issuer; disappearance of an active market due to financial difficulties; breach of contract, such as defaults or delays in interest or principal; and, observable data indicating that there is a measurable decrease in 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.

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, among others, when measuring significant increase in credit risk:

- Significant changes in internal indicators of credit risk as a result of a change in credit risk since inception;
- Significant changes in 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, 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 ECL model.

Additionally, 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.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.4 Financial assets and liabilities (continued)

The reserve balances for expected credit losses, for credit exposures, are calculated applying the following formula:

Reserves = \sum (E x PD x 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 ECL and lifetime probability of default to account for more than 12-month ECL. Default rates are based on Bladex's historical portfolio performance per rating category, in addition to 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 applied, based on historical information, as well as best practices in the banking industry, volatility and simulated scenarios based on forward-looking information. Management applies judgment and historical loss experience.

K. Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate enough 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.

4.5 Derivative financial instruments for risk management purposes and hedge accounting

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 consolidated statement of financial position. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain/loss is recognized 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.

Policy applicable for all hedging relationships

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 currency 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.

105

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.5 Derivative financial instruments for risk management purposes and hedge accounting (continued)

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 swaps, cross-currency swaps and foreign exchange forward 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 from these financial instruments are recognized as gains or losses on financial instruments.

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 - assets and liabilities, 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 hedging instrument should be qualitatively assessed on a quarterly basis in order to determine its effectiveness at achieving offsetting changes in fair value or cash flows. Any ineffectiveness must be reported in current-year earnings.

i) Hedge accounting relationship

As the Bank enters into a hedge accounting 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, whether qualitative or quantitative, considers 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.

ii) 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.

iii) 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.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.5 Derivative financial instruments for risk management purposes and hedge accounting (continued)

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 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 FVOCI 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. For debt instruments measured at FVOCI, 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. When the hedged item is an equity instrument designated at FVOCI, 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 recognized in profit or loss when the hedged cash flows affect earnings. The ineffective portion is recognized in profit or loss as loss on financial instruments, net. 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 profit or loss when hedged cash flows occur.

Net investment hedges

When a derivative instrument or a non-derivative financial item 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 profit or loss. The amount recognized in OCI is reclassified to profit or loss as a reclassification adjustment when disposal of the foreign operation occurs.

4.6 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.

4.7 Loans

Loans are reported at their amortized cost in the consolidated statement of financial position, considering the principal outstanding amounts and interest receivable net of unearned interest, deferred fees and allowance for expected credit losses. The loans recognized and designated as hedged items in qualifying fair value hedging relationships, are measured at amortized cost adjusted for the hedge risk components associated to the hedging relationship.

Purchased loans are recorded at acquisition cost. The difference between the outstanding amount and the acquisition cost of loans, 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 also reflected as an adjustment to the yield and are expensed when incurred.

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

Securities and other financial assets

Securities and other financial assets caption in the statement of financial position includes:

- Debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- Debt and equity investment securities measured at FVOCI; and
- Debt investment securities measured at FVTPL

Deposits, borrowings and repurchase agreements

Liability deposits, borrowings and debt are accounted for at amortized cost, except for those designated as hedged items in qualifying fair value hedging relationships, which are measured at amortized cost adjusted for the hedge risk components associated to the hedging relationship.

Repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase that security (or an asset that is substantially identical) at a fixed price on a future date. The Bank continues to recognize the securities in their entirety in the consolidated statement of financial position because it retains substantially all 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 in the repurchase agreements 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.

Loan commitments and financial guarantee contracts

Letters of credit, stand-by letters of credit and guarantees

The Bank, on behalf of its client's base, issues, confirms and advises letters of credit to facilitate foreign trade transactions. When issuing, confirming and advising letters of credit, the Bank adds its own unqualified assurance that the Bank will pay upon presentation of complying documents as per the terms and conditions established in the letter of credit. The Bank also issues, confirms and advises 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 the commitment is issued, it becomes irrevocable and remains valid until its expiration upon the presentation of complying documents on or before the expiry date.

Credit commitments

Commitments to extend credit are binding legal agreements to lend to customers. 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 on, the total commitment amounts do not necessarily represent future cash requirements.

Equipment and leasehold improvements

Equipment and leasehold improvements are stated at cost excluding the costs of day-to-day maintenance, less accumulated depreciation and impairment losses. 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 assets and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Useful life in years

3 to 5 years 3 years

2 to 4 years Other equipment Leasehold improvements 3 to 15 years or up to the lease term

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.11 Equipment and leasehold improvements (continued)

Leasehold improvements, under operating leases are amortized on a straight-line basis calculated without exceeding the length of the respective lease contracts.

Right-of-use assets arising from IFRS 16 are included within this caption. The corresponding accounting policy regarding recognition and subsequent measurement is set out in Note 3.1.

Equipment and leasehold improvements are derecognized on disposal or when no future economic benefits are expected from their 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 profit or loss in the year that the asset is derecognized.

Investment property

Property that is held with the intention of generating a return on rent, capital appreciation or under operating lease contracts and that are not occupied by the Bank, are classified as investment properties. Investment properties are initially measured at cost including all costs related to the transaction and, when applicable, the costs associated with their financing, except for those investment properties derived from sublease contracts recognized under IFRS 16 which are recognized at fair value. Subsequent to initial recognition, investment properties are measured at fair value.

Fair value is based on market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional appraisers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Changes in fair value are recognized in profit or loss. Investment property is derecognized when disposed of.

When the Bank disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss as gain (loss) on non-financial assets.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

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 lives are amortized using the straight-line method over the estimated useful lives of the assets. 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 profit or loss.

Hardware

Furniture and equipment

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.13 Intangible assets (continued)

Bank's intangible assets include the cost 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 are determined by the Bank as the difference between proceeds from the sale or disposal and the net carrying amount of the intangible asset and recognized in profit or loss for the year in which the transaction occurs.

4.14 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 its use or sale. 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 profit or loss. On the other hand, if there is any indication that previously recognized impairment losses may no longer exist 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 or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

4.15 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 profit or loss, net of any reimbursement.

4.16 Share-based payments

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. 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 sale treasury stock.

4.17 Equity

Reserves

Regulatory and capital reserves are established as appropriations from retained earnings and, as such, form part of retained earnings. Reductions of regulatory and capital reserves require the approval of the Bank's Board of Directors and the SBP.

Other capital reserves, presented as other comprehensive income include:

- <u>Translation reserve</u>: The translation reserve comprises all foreign currency differences arising from the translation of the consolidated financial statements of foreign operations when the functional currency of the foreign operation is different from the US dollars, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.
- <u>Hedging reserve</u>: 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.
- <u>Fair value reserve</u>: 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.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.17 Equity (continued)

Treasury stock and contracts on own shares

The own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury stock) 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 profit or loss on the purchase, sale, issue or cancellation of own equity instruments, but is recognized directly in equity.

4.18 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 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.

4.19 Taxes

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. 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 Representação Ltda. is 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.

Current and deferred tax

The current tax for the reporting date as well as for the deferred tax, result in a minimal amount, whereby the changes are presented in profit or loss as other operating expenses.

As of January 1st, 2019, IFRIC 23 – Uncertainty over income tax treatment took effect and it was applicable to the financial statements to be issued as of December 31st, 2019.

The Bank, together with its tax experts, have carried out the corresponding assessment to the applicable laws and regulations in its different jurisdictions concluding that there is no uncertainty about the tax treatments applied in each tax legislation.

4.20 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, including its activities in investment securities, as well as management of the Bank's interest rate, liquidity, price, and currency risks.

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

4.21 Judgments, estimates and significant accounting assumptions

A. Judgments

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 reporting date 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.

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:

Determining the reserve for expected credit losses

When establishing ECL, judgment is applied by management in order to assess the amount and opportunity of the future cash flows with the purpose of evaluating whether credit risk has significantly increased since initial recognition, taking into account the characteristics of the financial asset and the former patterns pre-established for similar financial assets. The changes in risk of default occurring within the next 12 months can be a reasonable approach of the changes in the risk measure according to the lifetime of the instrument. The Bank uses the changes in risk of default occurring within the next 12 months to determine if the credit risk has significantly increased since initial recognition, unless the circumstances indicate an assessment during the lifetime of the instrument is necessary.

i. Significant increase of credit risk

For the financial assets in stage 1, ECL are measured as an allowance equal to 12-month ECL on stage 1 assets, or lifetime ECL assets on 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 reasonable and supportable forward-looking qualitative and quantitative information.

ii. Establishing groups of assets with similar credit risk characteristics

When ECL 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 when 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 ECL to lifetime ECL, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month ECL or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differs.

Determining the fair value on financial instruments

i. <u>Models and assumptions used</u>

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment 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.

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

Notes to the consolidated financial statements

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

4. Significant accounting policies (continued)

Judgments, estimates and significant accounting assumptions (continued)

i. Fair value measurement

When the fair values of financial assets and financial liabilities recorded in 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 7.

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 judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, and the risks that affect the performance of the assets and how they are managed. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized 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.

B. 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, even considering the events set out in Note 32. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Impairment losses on loans at amortized cost

The Bank individually assesses all credit impaired loans at amortized cost at each reporting date to assess whether an impairment loss should be recorded in profit or loss. 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 several factors and actual results that may vary, resulting in future changes to the allowance. Loans at amortized cost that do not give rise to credit impairment individually are assessed in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but which effects are not yet evident. The collective assessment takes into account 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 price indices, country risk and the performance of various individual groups).

Notes to the consolidated financial statements

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

5. Financial Risk

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

A. Credit risk

i. Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortized cost, and securities at FVOCI. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.4 (J).

Loans

December 31, 2019

	PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	2,928,401	-	-	2,928,401
Grades 5 - 6	0.75 - 3.95	2,330,150	85,173	-	2,415,323
Grades 7 - 8	3.96 - 30.67	343,606	143,822	-	487,428
Grades 9 - 10	30.68 - 100		-	61,845	61,845
		5,602,157	228,995	61,845	5,892,997
Loss allowance		(28,892)	(15,842)	(54,573)	(99,307)
Total		5,573,265	213,153	7,272	5,793,690

December 31, 2018

	PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.80	2,268,324	-	-	2,268,324
Grades 5 - 6	0.81 - 4.12	2,791,410	368,735	-	3,160,145
Grades 7 - 8	4.13 - 30.43	281,017	4,237	-	285,254
Grades 9 - 10	30.44 - 100			64,701	64,701
		5,340,751	372,972	64,701	5,778,424
Loss allowance		(34,957)	(16,389)	(49,439)	(100,785)
Total		5,305,794	356,583	15,262	5,677,639

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

Loan commitments and financial guarantees issued

December 31, 2019

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Commitments and					
contingencies					
Grades 1 - 4	0.03 - 0.74	153,874	-	-	153,874
Grades 5 - 6	0.75 - 3.95	150,631	27,446	-	178,077
Grades 7 - 8	3.96 - 30.67	161,421	-	-	161,421
	•	465,926	27,446	-	493,372
Customers' liabilities under					
acceptances					
Grades 1 - 4	0.03 - 0.74	13,367	-	-	13,367
Grades 5 - 6	0.75 - 3.95	5,491	-	-	5,491
Grades 7 - 8	3.96 - 30.67	96,824	-	-	96,824
	•	115,682	-	-	115,682
	•	581,608	27,446	-	609,054
Loss allowance		(2,683)	(361)		(3,044)
Total	•	578,925	27,085	-	606,010

December 31, 2018

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Commitments and	_				
contingencies					
Grades 1 - 4	0.03 - 0.80	111,224	-	-	111,224
Grades 5 - 6	0.81 - 4.12	126,046	16,318	-	142,364
Grades 7 - 8	4.13 - 30.43	248,299	-	-	248,299
		485,569	16,318	-	501,887
Customers' liabilities under					
acceptances					
Grades 1 - 4	0.03 - 0.80	7,750	-	-	7,750
Grades 5 - 6	0.81 - 4.12	-	-	-	-
Grades 7 - 8	4.13 - 30.43	1,946	-	-	1,946
		9,696		-	9,696
		495,265	16,318	-	511,583
Loss allowance		(3,089)	(200)	-	(3,289)
Total		492,176	16,118	-	508,294

Antes de 1918

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

Securities at amortized cost

December 31, 2019

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	73,047	-	-	73,047
Grades 5 - 6	0.75 - 3.95	-	1,500	-	1,500
		73,047	1,500	-	74,547
Loss allowance		(103)	(10)	-	(113)
Total	·	72,944	1,490	-	74,434

December 31, 2018

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total	
Grades 1 - 4	0.03 - 0.80	83,835	-	-	83,835	
Grades 5 - 6	0.81 - 4.12		1,491		1,491	
		83,835	1,491	-	85,326	
Loss allowance		(113)	(27)	-	(140)	
Total	•	83,722	1,464	-	85,186	

Securities at fair value through other comprehensive income (FVOCI)

December 31, 2019

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	5,094	-		5,094
		5,094	-	-	5,094
Loss allowance		-	-		-
Total		5,094	_		5,094

December 31, 2018

12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
0.03 - 0.80	18,911	-	-	18,911
0.81 - 4.12	<u> </u>	2,887		2,887
	18,911	2,887	-	21,798
	(33)	(140)		(173)
	18,878	2,747	-	21,625
	Ranges 0.03 - 0.80	Ranges 0.03 - 0.80	Ranges Stage 1 Stage 2 0.03 - 0.80 18,911 - 0.81 - 4.12 - 2,887 18,911 2,887 (33) (140)	Ranges Stage 1 Stage 2 Stage 3 0.03 - 0.80 18,911 - - 0.81 - 4.12 - 2,887 - 18,911 2,887 - (33) (140) -

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

The following table presents information of the current and past due balances of loans in stages 1, 2 and 3:

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Current	5,602,157	228,995	47,169	5,878,321
Past due				
90-120 days	-	-	3,724	3,724
151-180 days	-	-	-	-
More than 180 days		-	10,952	10,952
Total past due		-	14,676	14,676
Total	5,602,157	228,995	61,845	5,892,997

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount			_	_
Current	5,340,751	372,972	57,025	5,770,748
Past due				
90-120 days	-	-	2,410	2,410
151-180 days	-	-	2,857	2,857
More than 180 days		<u>-</u>	2,409	2,409
Total past due		<u>-</u>	7,676	7,676
Total	5,340,751	372,972	64,701	5,778,424

As of December 31, 2019 and 2018, other financial assets were no past due or impaired balances.

The following table presents an analysis of counterparty credit exposures arising from derivative transactions. The Bank's derivative transactions are generally fully secured by cash.

	December 31, 2019			
	Notional value USD	Derivative financial instrument - fair value asset	Derivative financial instrument - fair value liabilities	
Interest rate swaps	521,333	407	(1,903)	
Cross-currency swaps	369,869	10,125	(10,197)	
Foreign exchange forwards	74,471	625	(2,575)	
Total	965,673	11,157	(14,675)	

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

		December 31, 2018		
	Notional value USD	Derivative financial instrument - fair value asset	Derivative financial instrument - fair value liabilities	
Interest rate swaps	893,500	621	(9,410)	
Cross-currency swaps	249,782	1,134	(17,378)	
Foreign exchange forwards	182,494	933	(7,255)	
Total	1,325,776	2,688	(34,043)	

ii. 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.

Derivatives and repurchase agreements

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 pledged 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.

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 are met.

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.

Loans

The main types of collateral obtained are, as follows:

- For commercial lending, liens on real estate property, 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 property in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed property for business use.

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

Notes to the consolidated financial statements (Amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

5. Financial Risk (continued)

A. Credit risk (continued)

The Bank holds guarantees and other financial credit enhancements against certain exposures in the loan portfolio. As of December 31, 2019, and 2018, the coverage ratio to the carrying amount of the loan portfolio was 12% and 8% respectively.

ii. Implementation of forward-looking information

The Bank incorporates information of the economic environments on a forward-looking view, when assessing whether the credit risk of a financial instrument has significantly increased since initial recognition through customer and country rating models which include projections of the inputs under analysis.

Supplementary, for the expected credit loss measurement the results of the alert model can be considered, which are analyzed through a severity indicator to total risk resulting from the estimates and assumptions of several macroeconomics factors. These estimates and assumptions are supported by a base scenario associated to a probability of occurrence of 95%. Other scenarios represent optimistic and pessimistic results. The implementation and interpretation of the outcomes of the alert are based on the expert judgement of management, based on suggestions of areas such as Credit Risk, Economic Studies and Loan Recovery of the Bank.

The external information could include economic data and projections published by governmental committees, monetary agencies (e.g., Federal Reserve Bank and from countries where the Bank operates), supranational organizations (International Monetary Fund, The World Bank, World Trade Organization), private sector, academic projections, credit rating agencies, among other.

Principal macroeconomies variables of the country rating model with forward-looking scenarios are:

Variables	Description
GDP Growth (Var. %)	% Variation in the growth of the Gross Domestic Product (GDP)
ComEx Growth (Var. %)	% Variation in foreign trade growth (Exp. + Imp.)

The model uses, as main inputs, the following macroeconomic variables: the percentage variation of the gross domestic product of Latin America and the percentage of the foreign trade index growth. The main movements and changes in the variables are analyzed, in general and in particular for each country in the region. This historical and projected information over a period of five years allows Management a complementary means to estimate the macroeconomic effects in the Bank's portfolio.

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

The table below lists the macroeconomic assumptions by country used in the base, optimistic and pessimistic scenarios over the five-year average forecast period.

		Variable					
			Growth :.%)		Growth Var.%)		
Country	Scenario	2019	2018	2019	2018		
•	Central	2.0%	1.7%	4.1%	5.6%		
Brazil	Upside	3.0%	2.7%	7.6%	9.1%		
	Downside	0.6%	0.3%	0.1%	1.6%		
	Central	3.4%	3.1%	6.6%	7.3%		
Colombia	Upside	4.5%	4.2%	9.6%	10.3%		
	Downside	2.1%	1.8%	3.1%	3.8%		
	Central	1.5%	1.5%	2.2%	3.0%		
Mexico	Upside	2.5%	2.5%	6.2%	7.0%		
	Downside	0.3%	0.3%	-2.3%	-1.5%		
	Central	2.2%	2.4%	3.1%	4.1%		
Chile	Upside	3.3%	3.5%	6.6%	7.6%		
	Downside	1.0%	1.2%	-0.9%	0.1%		
	Central	1.3%	1.1%	4.6%	6.3%		
Ecuador	Upside	2.3%	2.1%	7.6%	9.3%		
	Downside	-0.2%	-0.4%	1.1%	2.8%		
	Central	3.5%	3.4%	4.1%	3.4%		
Guatemala	Upside	4.5%	4.4%	7.1%	6.4%		
	Downside	2.3%	2.2%	0.6%	-0.1%		
Dominican	Central	5.0%	5.4%	5.8%	6.4%		
	Upside	6.2%	6.6%	9.3%	9.9%		
Republic	Downside	3.7%	4.1%	1.8%	2.4%		
	Central	4.6%	4.3%	3.0%	3.3%		
Panama	Upside	6.1%	5.8%	6.0%	6.3%		
	Downside	3.2%	2.9%	-0.5%	-0.2%		

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

iv. Loss allowances

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in our accounting policy; see Note 4.4(J)

Loans

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2018	34,957	16,389	49,439	100,785
Transfer to lifetime expected credit losses	(2,488)	2,488	-	-
Net effect of changes in allowance for expected credit losses	(2,154)	5,881	7,987	11,714
Financial instruments that have been derecognized during the year	(27,118)	(8,916)	(500)	(36,534)
New financial assets originated or purchased	25,695	-	-	25,695
Write-offs	-	-	(2,405)	(2,405)
Recoveries		<u> </u>	52	52_
Allowance for expected credit losses as of December 31, 2019	28,892	15,842	54,573	99,307
Allowance for expected credit losses as of December 31, 2017	Stage 1 19,821	Stage 2 33,477	Stage 3 27,996	Total 81,294
Transfer to lifetime expected credit losses	(514)	514		
Transfer to credit-impaired financial instruments	(111)	(7,864)	7,975	_
Transfer to 12-month expected credit losses	4,471	(4,471)	-	-
Net effect of changes in reserve for expected credit losses	(4,665)	5,823	55,153	56,311
Financial instruments that have been derecognized during the year	(16,400)	(11,090)	-	(27,490)
New financial assets originated or purchased	32,355	-	-	32,355
Write-offs	-	-	(41,686)	(41,686)
Recoveries			1	1
Allowance for expected credit losses as of December 31, 2018	34,957	16,389	49,439	100,785

120 Antes de 1979 estats

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

Securities at amortized cost

December 31, 2019

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2018	113	27		140
Net effect of changes in allowance for expected credit losses	(1)	(17)	-	(18)
Financial instruments that have been derecognized during the year	(46)	-	-	(46)
New financial assets originated or purchased	37	<u>-</u>	<u> </u>	37
Allowance for expected credit losses as of December 31, 2019		10	<u>-</u>	113
	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2017	144	52		196
Net effect of changes in reserve for expected credit losses	(23)	(25)	-	(48)
Financial instruments that have been derecognized during the year	(64)	-	-	(64)
New financial assets originated or purchased	56			56
Allowance for expected credit losses as of December 31, 2018	113	27		140
Securities at fair value through other comprehensive inco	me (FVOCI)			
	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2018	33	140_	<u> </u>	173
Financial instruments that have been derecognized during the year	(33)_	(140)		(173)_
Allowance for expected credit losses as of				

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2017	24_	198_		222
Transfer to lifetime expected credit losses	(5)	(58)	-	(63)
New financial assets originated or purchased	14			14_
Allowance for expected credit losses as of December 31, 2018	33	140		173

Loan commitments and financial guarantee contracts

The allowance for expected credit losses on loan commitments and financial guarantee contracts reflects the Bank's management estimate expected credit losses of customers' liabilities under acceptances and items such as: confirmed letters of credit, standby letters of credit, guarantees, and credit commitments.

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of				
December 31, 2018	3,089	200	-	3,289
Net effect of changes in reserve for expected credit loss	(17)	170	-	153
Financial instruments that have been derecognized during the year	(2,497)	(9)	-	(2,506)
New instruments originated or purchased	2,108	-	-	2,108
Allowance for expected credit losses as of December 30, 2019	2,683	361		3,044

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2017	1,358	5,487		6,845
Transfer to lifetime expected credit losses	(31)	31	-	-
Net effect of changes in reserve for expected				
credit loss	13	169	-	182
Financial instruments that have been				
derecognized during the year	(1,179)	(5,487)	-	(6,666)
New instruments originated or purchased	2,928_			2,928
Allowance for expected credit losses as of				
December 31, 2018	3,089	200	<u> </u>	3,289

122 Antes de 1979 estat

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

Total

A. Credit risk (continued)

The following table provides a reconciliation between:

- Amounts shown in the previous tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- The 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.

Securities

			Securiti	ies	
December 31, 2019	Loans	Loan commitments and financial guarantee contracts	At amortized cost	FVOCI	Total
Net effect of changes in allowance for expected credit losses	11,714	153	(18)	-	11,849
Financial instruments that have been derecognized during the year	(36,534)	(2,506)	(46)	(173)	(39,259)
New financial assets originated or purchased	25,695	2,108	37	-	27,840
Total	875	(245)	(27)	(173)	430
			Securit	ies	
December 31, 2018	Loans	Loan commitments and financial guarantee contracts	At amortized cost	FVOCI	Total
Net effect of changes in allowance for expected credit losses	56,311	182	(48)	(63)	56,382
Financial instruments that have been derecognized during the year	(27,490)	(6,666)	(64)	-	(34,220)
New financial assets originated or purchased	32,355	2,928	56	14	35,353
Total	61,176	(3,556)	(56)	(49)	57,515
			Securit	ies	
December 31, 2017	Loans	Loan commitments and financial guarantee contracts	At amortized cost	FVOCI	Total
Net effect of changes in allowance for expected credit losses	35,584	799	(45)	(71)	36,267
Financial instruments that have been derecognized during the year	(44,088)	(971)	(440)	(12)	(45,511)
New financial assets originated or purchased	17,363	1,241	79	-	18,683

8,859

1,069

(406)

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

Notes to the consolidated financial statements (Amounts expressed in thousands of U.S. dollars, unless otherwise indicated)

5. Financial Risk (continued)

A. Credit risk (continued)

v. Credit-impaired financial assets

Credit-impaired loans and advances are graded 8 to 10 in the Bank's internal credit risk grading system.

The following table sets out a reconciliation of changes in the net carrying amount of credit-impaired loans.

	2019	2018
Credit-impaired loans and advances at January 1,	49,439	27,996
Classified as credit-impaired during the year	-	7,975
Change in expected credit losses allowance	7,664	54,342
Release for asset sale	(500)	-
Recoveries of amounts previously written off	52	1
Interest income	323	811
Write-offs	(2,405)	(41,686)
Credit-impaired loans and advances at December 31,	54,573	49,439

vi. Modified financial assets

As of December 31, 2018, the Bank received a new financial asset (debentures) with a fair value of \$8.8 million as part of a restructured loan with a book value of \$35 million. The remaining balance of \$26.2 million was written off against the allowance for loan losses.

vii. Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, industry and by country. An analysis of concentrations of credit risk from loans, loan commitments, financial guarantees and investment securities is as follows.

124 Antes de 1979 estat

9,439

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

Concentration by sector and industry

		_	Securities					
	Loans		At amortize	amortize d cost		CI	Loan commitments and financial guarantee contract	
	2019	2018	2019	2018	2019	2018	2019	2018
Carrying amount - principal	5,892,997	5,778,424	74,547	85,326	5,094	21,798	115,682	9,696
Amount committed/guaranteed	-	-	-	-	-	-	493,372	501,887
Concentration by sector								
Corporations:								
Private	1,782,808	1,893,696	2,998	7,264	-	-	213,161	196,663
State-owned	780,491	742,912	23,792	23,816	-	7,743	69,822	97,142
Financial institutions:								
Private	2,692,787	2,458,690	19,276	12,642	-	6,157	75,130	13,093
State-owned	589,690	624,100	-	-	-	2,887	250,941	204,685
Sovereign	47,221	59,026	28,481	41,604	5,094	5,011	-	-
Total	5,892,997	5,778,424	74,547	85,326	5,094	21,798	609,054	511,583
Concentration by industry								
Financial institutions	3,282,477	3,082,790	19,276	12,642	-	9,044	326,071	217,778
Industrial	925,375	986,262	21,658	25,826	-	-	143,560	66,117
Oil and petroleum derived products	561,068	634,615	5,132	5,254	-	7,743	71,571	94,271
Agricultural	327,288	446,960	-	-	-	-	-	-
Services	370,753	393,925	-	-	-	-	20,497	47,137
Mining	162,364	20,000	-	-	-	-	-	-
Sovereign	47,221	59,026	28,481	41,604	5,094	5,011	-	-
Other	216,451	154,846				_	47,355	86,280
Total	5,892,997	5,778,424	74,547	85,326	5,094	21,798	609,054	511,583

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

Risk rating and concentration by country

				Securit	ies			
	Loai	ns	At amortize	ed cost	FVOC	CI CI	Loan commits financial guarant	
	2019	2018	2019	2018	2019	2018	2019	2018
Carrying amount - principal	5,892,997	5,778,424	74,547	85,326	5,094	21,798	115,682	9,696
Amount committed/guaranteed	-	-	-	-	-	-	493,372	501,887
Rating								
1-4	2,928,401	2,268,324	73,047	83,835	5,094	18,911	167,241	118,974
5-6	2,415,323	3,160,145	1,500	1,491	-	2,887	183,568	142,364
7-8	487,428	285,254	-	-	-	-	258,245	250,245
9	-	64,701	-	-	-	-	-	-
10	61,845	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>		-
Total	5,892,997	5,778,424	74,547	85,326	5,094	21,798	609,054	511,583
Concentration by country								
Argentina	226,481	604,112	_	-	-	-	_	6,980
Belgium	13,742	13,278	-	-	-	-	_	_
Bolivia	7,000	14,187	_	-	-	-	400	293
Brazil	1,015,316	1,156,223	1,500	1,491	-	2,887	50,000	50,000
Canada	· · · -	-	, <u>-</u>	-	-	_	657	422
Chile	683,132	176,976	-	-	5,094	5,011	8	-
Colombia	906,091	625,932	15,338	28,183	-	_	50,610	52,000
Costa Rica	220,380	370,087	-	, <u>-</u>	-	-	59,161	38,598
Dominican Republic	289,853	301,067	_	-	-	-	16,500	16,500
Ecuador	174,267	188,445	-	_	-	-	252,391	249,170
El Salvador	54,232	70,048	-	-	-	-	5,555	824
France	152,530	_	_	-	-	-	47,906	-
Germany	34,613	17,500	-	-	-	-	, -	18,000
Guatemala	278,557	328,830	-	-	-	-	44,200	15,293
Honduras	128,937	89,205	_	-	-	-	300	250
Hong Kong	10,400	-	-	-	-	-	_	-
Jamaica	38,312	21,727	-	-	-	-	_	-
Luxembourg	59,813	17,664	_	-	-	-	_	-
Mexico	754,465	867,441	21,505	27,123	-	-	27,377	22,731
Panama	268,355	485,546	36,204	28,529	-	6,157	25,304	34,897
Paraguay	127,970	158,685	-	-	-	-	10,652	-
Peru	150,301	78,191	-	-	-	-	8,033	4,875
Singapore	90,955	38,500	-	-	-	-	-	-
Switzerland	-	-	_	-	-	_	10,000	-
Trinidad and Tobago	181,676	144,874	_	-	-	7,743	-	-
United States of America	25,000	-	_	-	-	-	-	-
Uruguay	619	9,906	_	-	-	-	-	750
Total	5,892,997	5,778,424	74,547	85,326	5,094	21,798	609,054	511,583

126 Antes de 1979 escut

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

vii. Offsetting financial assets and liabilities

The following tables include financial assets and liabilities that are offset in the consolidated financial statement or subject to an enforceable master netting arrangement:

a) <u>Derivative financial instruments – assets</u>

		Decei	mber 31, 2019			
		Gross amounts offset in the consolidated	Net amount of assets presented in the consolidated	cons olidate d	not offset in the statement of position	
Description	Gross amounts of assets	statement of financial position	statement of financial position	Financial instruments	Cash collateral received	Net Amount
Derivative financial instruments used for hedging	11,157	-	11,157	_	(9,350)	1,807
Total	11,157		11,157		(9,350)	1,807

December 31, 2018

		Gross amounts offset in the	Net amount of assets presented	cons olidate d	not offset in the statement of position	
Description	Gross amounts of assets	consolidated statement of financial position	in the consolidated statement of financial position	Financial ins trume nts	Cash collateral received	Net Amount
Derivative financial instruments used for hedging	2,688	_	2,688	_	(1,496)	1,192
Total	2,688		2,688		(1,496)	1,192

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

A. Credit risk (continued)

b) <u>Securities sold under repurchase and derivative financial instruments – liabilities</u>

		December	31, 2019			
	Gross	Gross amounts offset in the	Net amount of liabilities presented	Gross amounts the consolidated financial p	Net	
Description	amounts of liabilities	consolidated statement of financial position	in the consolidated statement of financial position	Financial instruments	Cas h collateral ple dge d	Amount
Securities sold under repurchase agreements	(40,530)		(40,530)	41,937	320	1,727
Derivative financial instruments used for hedging						
	(14,675)		(14,675)		14,632	(43)
Total	(55,205)	_	(55,205)	41,937	14,952	1,684

	Gross	Gross amounts offset in the	Net amount of liabilities presented	Gross amounts the consolidated financial p	statement of	Not
Description	amounts of liabilities	consolidated statement of financial position	in the consolidated statement of financial position	Financial instruments	Cash collateral pledged	Net Amount
Securities sold under repurchase agreements	(39,767)		(39,767)	43,628		3,861
Derivative financial instruments used for hedging Total	(34,043) (73,810)		(34,043) (73,810)	43,628	35,960 35,960	1,917 5,778

128 Mantes de 1979 estat

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

B. Liquidity risk

i. Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers and short-term funding. For this purpose, 'net liquid assets' includes cash and cash equivalents which consist of deposits from banks, customers, debt securities issued, other borrowings and commitments maturing within the next month.

The following table details the Bank's liquidity ratios, described in the previous paragraph, as of December 31, 2019 and 2018, respectively, along with average information for the year:

	December 31, 2019	December 31, 2018
At December 31,	52.48%	92.83%
Year average	37.82%	52.17%
Maximum of the year	53.38%	112.96%
Minimum of the year	23.23%	21.98%

The following table include the Bank's liquid assets by geographical location:

(in millions of USD dollars)	December 31, 2019	December 31, 2018
United State of America	1,132	1,650
Other O.E.C.D countries	4	50
Latin America	4	6
Other countries	20	
Total	1,160	1,706

The following table includes the Bank's demand deposits from customers and its ratio to total deposits from customers:

	December 31,	December 31,
(in millions of USD dollars)	2019	2018
Demand liabilities and "overnight"	86	725
% Demand liabilities and "overnight" of		
total deposits	2.97%	24.00%

The liquidity requirements resulting from the Bank's demand deposits from customers is satisfied by the Bank's liquid assets as follows:

	December 31,	December 31,
(in millions of USD dollars)	2019	2018
Total liquid assets	1,160	1,706
% Total assets of total liabilities	40.15%	57.00%
% Total liquid assets in the U.S. Federal		
Reserve	97.37%	97.00%

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

B. Liquidity risk (continued)

The remaining liquid assets were composed of short-term deposits in other banks.

While the Bank's liabilities generally expire in shorter periods than their assets, the associated liquidity risk is diminished by the short-term nature of the loan portfolio, because the Bank is primarily engaged in financing foreign trade.

The following table includes the carrying amount for the Bank's loans and securities short-term portfolio with maturity within one year based on their original contractual term together with its average remaining term:

(in millions of USD dollars)	December 31, 2019	December 31, 2018
Loan portfolio and investment portfolio less		
than/equal to 1 year according to its original term	3,485	3, 912
Average term(days)	189	226

The following table includes the carrying amount for the Bank's loans and securities medium term portfolio with maturity based over one year based on their original contractual term together with its average remaining term:

	December 31,	December 31,
(in millions of USD dollars)	2019	2018
Loan portfolio and investment portfolio greater to		
1 year according to its original term	2,497	1, 990
Average term (days)	1,185	1, 350

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

B. Liquidity risk

ii. Maturity analysis for financial liabilities and financial assets

The following table details the future undiscounted cash flows of assets and liabilities grouped by their remaining maturity with respect to the contractual maturity:

			Dec	ember 31, 20	19					
Description Assets	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Gross Inflow (outflow)	Carrying amount			
Cash and due from banks	1,178,288	_				1,178,288	1,178,170			
Securities and other financial assets, net	16,684	6,457	7,293	54,544	6,492	91,470	88,794			
Loans, net	1,960,381	967,594	1,207,469	1,822,519	150,742	6,108,705	5,823,333			
Derivative financial instruments - assets	-	625	-	10,532	-	11,157	11,157			
Total	3,155,353	974,676	1,214,762	1,887,595	157,234	7,389,620	7,101,454			
Liabilities										
Deposits	(2,574,180)	(198,786)	(122,680)	-	-	(2,895,646)	(2,893,555)			
Securities sold under repurchase agreements	(40,691)	-	-	-	-	(40,691)	(40,530)			
Borrowings and debt, net	(1,407,612)	(451,736)	(230,776)	(1,147,699)	(13,422)	(3,251,245)	(3,148,864)			
Derivative financial instruments - liabilities	(2,425)	(775)	(1,711)	(12,014)	-	(16,925)	(14,675)			
Total	(4,024,908)	(651,297)	(355,167)	(1,159,713)	(13,422)	(6,204,507)	(6,097,624)			
Contingencies										
Confirmed lettes of credit	84,235	77,493	7,592	_	-	169,320	169,320			
Stand-by letters of credit and guaranteed	35,906	95,440	114,078	10,057	-	255,481	255,481			
Credit commitments	-	-	-	68,571	-	68,571	68,571			
Total	120,141	172,933	121,670	78,628		493,372	493,372			
Net position	(989,696)	150,446	737,925	649,254	143,812	691,741	510,458			

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

B. Liquidity risk (continued)

			De	ecember 31, 20)18					
Description	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Gross Inflow (outflow)	Carrying amount			
Assets										
Cash and due from banks	1,745,671	-	-	-	-	1,745,671	1,745,652			
Securities and other financial assets, net	14,870	5,152	21,702	69,802	13,993	125,519	123,598			
Loans, net	1,873,995	1,434,229	972,201	1,611,558	19,785	5,911,768	5,702,258			
Derivative financial instruments - assets	(2,104)	19	78	1,111	_	(896)	2,688			
Total	3,632,432	1,439,400	993,981	1,682,471	33,778	7,782,062	7,574,196			
Liabilities										
Deposits	(2,515,096)	(291,804)	(184,360)	-	-	(2,991,260)	(2,982,976)			
Securities sold under repurchase agreements	(11,604)	-	(28,873)	-	-	(40,477)	(39,767)			
Borrowings and debt, net	(956,634)	(402,871)	(958,442)	(1,281,454)	(68,464)	(3,667,865)	(3,532,209)			
Derivative financial instruments - liabilities	(4,421)	(8,516)	(3,946)	(8,634)	(3,260)	(28,777)	(34,043)			
Total	(3,487,755)	(703,191)	(1,175,621)	(1,290,088)	(71,724)	(6,728,379)	(6,588,995)			
Contingencies										
Confirmed letters of credit	75,720	141,985	1,283	-	-	218,988	218,988			
Stand-by letters of credit and guaranteed	75,273	31,107	73,176	200	-	179,756	179,756			
Credit commitments	36,000	-	-	67,143	-	103,143	103,143			
Total	186,993	173,092	74,459	67,343		501,887	501,887			
Net position	(42,316)	563,117	(256,099)	325,040	(37,946)	551,796	483,314			

The amounts in the table above have been compiled as follows:

Type of financial instrument Financial assets and liabilities	Basis on which amounts are compiled Undiscounted cash flows, which include estimated interest payments.
Issued financial guarantee contracts, and loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross and the net amounts for derivatives that are net settled.

132 Antes de 1919 Bades

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

B. Liquidity risk (continued)

iii. Liquidity reserves

As part of management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, which can be readily sold to meet liquidity requirements. In addition, the Bank maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with banks.

The following table sets out the components of the Banks's liquidity reserves:

	Decemb	,	December 31, 2018		
_	201	19			
_	Amount	Fair Value	Amount	Fair Value	
Balance with Central Banks	1,129,016	1,129,016	1,648,306	1,648,306	
Cash and balances with other bank Undrawn credit lines granted by others banks,	49,154	49,154	97,346	97,346	
unannounced	1,773,000	1,773,000	1,365,000	1,365,000	
Total Liquidity reserves	2,951,170	2,951,170	3,110,652	3,110,652	

iv. Financial assets available to support future funding

The following table sets out the Bank's financial assets available to support future funding:

December	31.	2019
December	J 1 9	2017

Determor 31, 2017						
Guaranteed	Available as collateral					
18,452	1,159,718					
40,531	38,045					
	5,823,333					
58,983	7,021,096					
	18,452 40,531					

December 31, 2018

	Guaranteed	Available as collateral
Cash and due from banks	39,460	1,706,192
Notional of investment securities	39,767	66,601
Loan portfolio		5,702,258
Total assets	79,227	7,475,051

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

C. Market risk

For the definition of market risk and information on how the Bank manages the market risks of trading and non-trading portfolios, see note 6.

The following is a summary of the Bank's interest rate gap position for the financial assets and liabilities based on their next repricing date:

	December 31, 2019						
Description	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Non interest rate risk	Total
Assets							
Demand deposits and time deposits	1,155,155	-	-	-	-	-	1,155,155
Securities and other financial assets	14,935	6,351	5,055	53,300	-	-	79,641
Loans	4,031,432	1,096,355	548,028	208,443	8,739		5,892,997
Total assets	5,201,522	1,102,706	553,083	261,743	8,739	-	7,127,793
Liabilities							
Demand deposits and time deposits	(2,570,324)	(197,300)	(120,419)	-	-	(293)	(2,888,336)
Securities sold repurchase agreements	(40,530)	-	-	-	-	-	(40,530)
Borrowings and debt	(2,534,382)	(401,432)	(25,261)	(157,321)		(19,914)	(3,138,310)
Total liabilities	(5,145,236)	(598,732)	(145,680)	(157,321)	-	(20,207)	(6,067,176)
Net effect of derivative financial instruments held for interest risk management	(2,425)	(150)	(1,711)	(1,482)	-	-	(5,768)
Total interest rate sensitivity	53,861	503,824	405,692	102,940	8,739	(20,207)	1,054,849

	December 31, 2018						
Description	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Non interest rate risk	Total
Assets							
Demand deposits and time deposits	1,736,008	=	-	-	-	-	1,736,008
Securities and other financial assets	12,833	3,279	20,182	64,673	6,157	-	107,124
Loans	4,002,558	1,259,088	331,875	177,301	7,602	-	5,778,424
Total assets	5,751,399	1,262,367	352,057	241,974	13,759	-	7,621,556
Liabilities							
Demand deposits and time deposits	(2,504,077)	(285,492)	(181,253)	-	-	-	(2,970,822)
Securities sold under repurchase agreements	(11,535)	-	(28,232)	-	-	-	(39,767)
Borrowings and debt	(2,827,219)	(142,799)	(78,572)	(409,541)	(60,315)	-	(3,518,446)
Total liabilities	(5,342,831)	(428,291)	(288,057)	(409,541)	(60,315)	-	(6,529,035)
Net effect of derivative financial instruments held for interest risk management	(139,362)	58,748	(159,500)	160,037	57,188	-	(22,889)
Total interest rate sensitivity	269,206	892,824	(95,500)	(7,530)	10,632		1,069,632

Management of interest rate risk is complemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 50bps, 100bps and 200bps, respectively, parallel fall or rise in all yield curves which are assessed accordingly to market conditions.

134 Antes de 1919 Plader

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

C. Market risk (continued)

The following is an analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movements in yield curves and a constant financial position:

	Change in interest rate	Effect on profit or loss	Effect on Equity
December 31, 2019	+200 bps	14,297	(66,840)
	-200 bps	(14,297)	66,840
December 31, 2018	+200 bps	5,881	(20,508)
	-200 bps	(5,298)	20,508

Interest rate movements affect reported equity in the following ways:

- Retained earnings: increases or decreases in net interest income and in fair values of derivatives reported in profit or loss:
- Fair value reserve: increases or decreases in fair values of financial assets at FVOCI reported directly in equity; and
- Hedging reserve: increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships.

This sensitivity provides a consideration of changes in interest rates, considering last year interest rate volatility.

i. Exposure to currency risk

The following table presents the maximum exposure amount in foreign currency of the Bank's carrying amount of total assets and liabilities, excluding derivative financial assets and liabilities which are included in other assets and liabilities based on their fair value.

	December 31, 2019						
	Brazilian Real	European Euro	Japanese Yen	Colombian Peso	Mexican Peso	Other Currencies	Total
Exchance rate	4.02	1.12	108.67	3,287.50	18.88		
Assets							
Cash and due from banks	274	17	4	34	4,243	58	4,630
Loans					473,729		473,729
Total Assets	274	17	4	34	477,972	58	478,359
Liabilities							
Borrowings and debt		<u> </u>			(478,038)		(478,038)
Total liabilities					(478,038)		(478,038)
Net currency position	274	17	4	34	(66)	58	321

⁽¹⁾ It includes other currencies such as: Argentine pesos, Australian dollar, Swiss franc, Sterling pound, Peruvian soles, and Renminbi.

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

Notes to the consolidated financial statements

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

5. Financial Risk (continued)

C. Market risk (continued)

	December 31, 2018						
	Brazilian Real	European Euro	Japanese Yen	Colombian Peso	Mexican Peso	Other Currencies	Total
Exchance rate	3.87	1.14	109.98	3,253.00	19.66		
Assets							
Cash and due from banks	291	16	1	62	505	44	919
Loans	<u>-</u>				173,953	<u> </u>	173,953
Total Assets	291	16	1	62	174,458	44	174,872
Liabilities							
Borrowings and debt	<u>-</u> _				(173,577)		(173,577)
Total liabilities					(173,577)		(173,577)
Net currency position	291	16	1	62	881	44	1,295

⁽¹⁾ It includes other currencies such as: Argentine pesos, Australian dollar, Swiss franc, Sterling pound, Peruvian soles, and Renminbi.

6. Financial risk management

The risk is inherent to the Bank's activities. Risks are classified into two categories: financial and non-financial risks. Financial risks are those associated within the Bank's business model, with impact in the Bank's consolidated statement of financial position and profit or loss, as follows: country risk, credit risk, market risk and liquidity risk. Non-financial risks are those related to the Bank's operating model and the regulatory environment that may affect the integrity of the information, the Bank's reputation and also its profit or loss accounts, as follows: operational, technological, cyber security, compliance (know your customer, money laundering, terrorism financing), environmental, fraud risks, among others.

Lead by the Head of Integral Risk Management, an ongoing process of identification, measurement, monitoring, control, mitigation and reporting to all operating areas within the Bank is carried out continuously, considering the different types of risk to which the Bank is exposed according to the size and complexity of its operations, products and services.

The Bank has in place policies, standards and procedures, structures, and manuals associated to the integral risk management, designed to identify potential events that may affect it, all of which are consistent with the risk profile of the business, considering the complexity and the volume of its operations.

The Board of Directors is responsible for establishing the Bank's acceptable risk profile, for which it has the knowledge and understanding of the risks to which the Bank is exposed to. The Board of Directors designate the members of the Risk Policy and Assessment Committee (CPER, for its Spanish acronym), which is responsible for overseeing the overall risk process within the Bank.

CPER oversees the assessment and recommendation for approval to the Board of Directors of all the policies related to a reasonable Risk Management. Furthermore, the Committee also reviews and assesses the exposure, within the risk levels stated in its policies, by which the Bank is willing to assume the various risks it faces through the business management.

The Head of Integral Risk Management directly reports to the CEO and the CPER, and has as a main duty to ensure the comprehensive risk management of the Bank's operating model and IT platform, as well as for the financial and credit related risks, being responsible for implementing and maintaining risk-related procedures in place to ensure that an independent control process is kept, monitoring the compliance of the risk principles, policies and limits at all levels throughout the Bank. The Head of Integral Risk Management works closely with CPER to ensure that procedures are consistent with the Integral Risk Management Governance Framework.

Notes to the consolidated financial statements

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

6. Financial risk management (continued)

Risk Management Committees:

- Operational and Information Security Risk Committee
- Country Risk Committee
- Credit Committee (Management Credit Committee / Board of Directors Delegate Credit Committee / CPER)
- Management and monitoring Committee
- Asset and Liability Committee (ALCO)

A. Credit risk

As part of the embedded risk, the Bank will incur in losses and/or its assets will be impaired as a result of the failure of its borrowers to comply in a timely manner or to meet the terms of credit agreements.

The Bank's customer base consists primarily of corporations, large companies, local and regional financial institutions, as well as state-owned enterprises. The Bank focuses its risk assessment on an in-depth analysis of the entity or economic group that involves: the nature of the business, the countries where it operates, types of products offered, duration of the relationship, track record and reputation, among others.

Credit risk management comprises two main stages: origination and monitoring. The credit origination process involves the activities of identifying and analyzing the customer's creditworthiness and approving the terms and conditions for credit extensions. The monitoring process consists of annual credit reviews of existing exposures, "ad hoc" reviews on a case-by-case basis when conditions so require, and portfolio reviews by the Bank's credit committees. The objective is to maximize the risk-adjusted rate of return by keeping credit risk exposures within acceptable parameters. This process involves the Risk and Business Units under the supervision of the Board of Directors, through the Risk Policy and Assessment Committee (CPER).

The Bank has developed internally a loss model to determine the required level of expected credit losses associated with potential losses in financial instruments, based on IFRS 9 - Financial Instruments.

Individually assessed reserves

The Bank individually assesses the appropriate reserves for certain significant financial asset, by considering interest payment delays, credit rating downgrading or any breach of the original contractual terms. Factors considered when determining a reserve include the sustainability of the counterparty's business plan, its ability to improve performance when facing a difficult financial situation, projected payments and expected results in the event of bankruptcy, the availability of other financial support, the realizable value of collateral, and the timing of expected cash flows. Impairment loss is assessed at each report date, unless unforeseen circumstances require special attention.

Collectively assessed reserves

Reserves are separately assessed at each reporting date for each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, to determine whether it is appropriate to provide for, due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in individual loan assessments. The collective assessment considers either portfolio information (e.g. historical losses in the portfolio, delinquency levels, credit utilization, loan-to-collateral ratios and expected collections and recoveries after impairment) or economic data (such as current economic conditions, unemployment, local or industry-specific situations).

The Bank generally supports its assessment on historical experience and forward-looking information. However, when significant market, regional and/or global events occur, the Bank includes these macroeconomic factors in its assessments. Depending on the characteristics of the individual or collective assessment, these factors include: unemployment rates, current levels of impaired debt, changes in law, changes in regulation, bankruptcy trends and other consumer data. The Bank may use the above factors, as appropriate, to adjust for impairment.

The time elapsed since a loss is incurred and a specific individual reserve requirement its identified should be taken into consideration for the evaluation. The impairment reserve is reviewed by credit management to ensure alignment with the Bank's general policy.

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

Notes to the consolidated financial statements

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

6. Financial risk management (continued)

A. Credit risk (continued)

Financial guarantees and letters of credit are assessed in a similar manner to amortized cost loans.

A supplemental qualitative review may result in adjustments to the level of provisions, based on prospective reviews of potential risk scenarios for businesses or loans not yet captured in the Bank's historical information.

The Bank has developed an internal customer, counterparty and country rating model, which allows for proactive risk management in terms of exposure limits, transaction typology and time limits, among others.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position at fair value. With derivatives that are settled gross, the Bank is also exposed to settlement risk, which is the risk that the Bank will honor its obligation, but the counterparty will be unable to deliver the value of the consideration.

Credit Commitments.

The Bank makes available to its customers guarantees that may require the Bank to make payments on behalf of these customers and to take on commitments to issue lines of credit to ensure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers for a specific event, usually related to the import or export of goods. Such commitments expose the Bank to risks similar to those loans which are mitigated by the same controls established in processes and policies.

B. Liquidity risk

Liquidity risk is the possibility of an economic loss to the Bank due to the difficulty in liquidating assets or obtaining financial resources on normal terms.

The Bank conducts daily reviews of the Liquidity Coverage Ratio (LCR). The LCR methodology follows local standards and guidelines recommended by the Basel Committee. The Bank also monitors the Net Stable Funding Rate (NSFR), to maintain an adequate funding structure over the long term.

Liquidity is controlled through the periodic review of:

- The maturity schedule to identify maturity "gaps" in the various time frames.
- Deposit concentration report to identify possible increases in amounts and maturities that may affect the Bank's liquidity.

The Bank has a Liquidity Contingency Plan in place, which was designed to monitor a series of indicators that could trigger a liquidity event, with possible impact on the Bank's operations and establishes an action plan so that the Bank's liquidity is always assured.

C. Market risk

Market risk is the risk that the value of the Bank's assets and liabilities will decline due to changes in market conditions that may adversely affect its income. The risk is inherent in the financial instruments associated with the Bank's operations and activities, including: loans, investments and securities, liabilities and debt, derivatives, etc. The main risks include: interest rate risk and foreign exchange risk, which can affect asset prices and result in losses for the Bank.

With respect to interest rate risk management, the Bank's policy requires Management to assess the asset and liability positions in order to reduce potential adverse impacts on net interest income due to market interest rates fluctuations.

Notes to the consolidated financial statements

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

6. Financial risk management (continued)

The Bank manages interest rate risk by closely monitoring the appreciation of the assets and liabilities through hedging to reduce potential negative impacts on earnings and capital.

Management conducts periodic sensitivity analyses simulating market changes in interest rates to determine potential impacts on net interest income (both upward and downward). In addition, the Bank monitors the DV01 limit, for which a parallel 1-base point shock is applied to the interest rate curve and assesses if there is any impact on capital.

Foreign exchange risk is the risk of change in the market value of a financial instrument due to fluctuations in the exchange rate of a given currency. The Bank operates primarily in U.S. dollars, so exposure to this type of risk is minimized. For transactions in currencies other than the US dollar, the Bank manages the exchange rate risk by arranging derivative instruments for hedging purposes, or by establishing natural hedges matching assets and liabilities expressed in the same currency. For liquidity positions, the Bank has established thresholds in order to limit the maximum level of exposure.

D. Operational risk

Operational risk is the possibility of incurring losses due to deficiencies, failures or inadequacies in human resources, processes, technology, infrastructure, management information, models used, or the occurrence of external events. If this occurs, it can damage the Bank's reputation and result in regulatory sanctions, which can lead to financial losses. The Bank, like any other financial institution, is exposed to operational risks.

Bladex's main objective with Operational Risk Management is to reduce losses generated from operational risk and maintain an adequate administration thereof through the use of established management tools such as: risk profile, risk mapping, global and specific limits, operational risk indicators, and using as well the analysis of what is recorded in the Events and Incidents Database in order to monitor action plans of the actual or potential risks.

The Bank emphasizes the awareness of its employees, promoting a Risk Management culture that has continuity over time and that allows them to understand and assimilate the importance of this concept from each of the processes that are executed within their areas. This is done throughout the training of all employees on an annual basis to raise their awareness in general terms of operational risks and to include updates on the standard or regulatory laws as required.

E. Fraud risk

Fraud is any intentional act or omission designed to deceive others, resulting in a loss for the victim and/or a gain for the perpetrator.

Identification of fraud risk considers both internal and external factors, and their impact on the achievement of the Bank's objectives. Internal fraud is related to losses arising from any type of action, involving Bank employees, aimed at defrauding, misappropriating property or violating regulations, laws or internal policies. External fraud is related to losses arising from any type of action by a third party aimed at defrauding, misappropriating property or infringing the law.

To manage this risk, the Bank has a general fraud risk management program in place, which includes: establishing fraud risk governance policies, evaluating fraud risk, designing and developing control activities to prevent and detect fraud, and investigating fraud, in addition to monitoring and evaluating the fraud risk management program.

F. Cybersecurity

Cybersecurity or information technology security refers to the procedures designed, and measures implemented to protect computers, networks, programs and data against cyber-attacks, in other words, unauthorized access or attacks aimed at operating, or misusing, the Bank's technology platform to access the financial system. The Bank has approved policies and implemented procedures defining roles and responsibilities for managing information security as part of the IT security and technology risk management framework. These policies and procedures apply throughout the Bank and cover all relationships between the workforce, vendors and suppliers, as well as any other individual who, on a permanent or temporary basis with the Bank, has some form of access to data, resource management and IT systems.

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

Notes to the consolidated financial statements

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

6. Financial risk management (continued)

F. Cybersecurity (continued)

The Bank's Information Security Officer is responsible for ensuring compliance with policies and procedures by anyone with access to our systems.

The Bank's cybersecurity program has been developed with a holistic approach, allowing us to encompass both technical and strategic measures in a single framework.

7. 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 inputs that 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 assess 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 inputs 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 inputs that market participants would use when pricing the asset or liability. When possible, the Bank uses active markets and observable prices to value 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 valuation of the financial asset or liability, or in the 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.

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

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:

A. Recurring valuation

Financial instruments at FVTPL and FVOCI

Financial instruments at FVTPL and FVOCI 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.

When quoted prices are available in an active market, financial instruments at FVTPL and financial instruments at FVOCI 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 for similar instruments, or where these are not available, by using internal valuation techniques, principally discounted cash flows models. Such securities are classified within levels 2 and 3 of the fair value hierarchy.

Derivative financial instruments and hedged items that qualify as a fair value hedging relationship

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.

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.

Financial instruments assets and liabilities recognized and designated as hedged items that qualify as a fair value hedging relationship are measured at amortized cost and adjusted for the effect of the risks covered in the hedging relationship.

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

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

A. Recurring valuation (continued)

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

	December 31, 2019					
	Level 1	Level 2	Level 3	Total		
Assets						
Securities and other financial assets:						
Securities at FVOCI - Corporate debt	-	-	-	-		
Securities at FVOCI - Sovereign debt	-	5,094	-	5,094		
Equity instrument at FVOCI	-	1,889	-	1,889		
Debt instrument at fair value through profit or loss	-	-	6,492	6,492		
Total securities and other financial assets		6,983	6,492	13,475		
Derivative financial instruments - assets:						
Interest rate swaps	-	407	-	407		
Cross-currency swaps	-	10,125	-	10,125		
Foreign exchange forwards	-	625	-	625		
Total derivative financial instrument assets		11,157	-	11,157		
Total assets at fair value		18,140	6,492	24,632		
Liabilities						
Derivative financial instruments - liabilities:						
Interest rate swaps	-	1,903	-	1,903		
Cross-currency swaps	-	10,197	-	10,197		
Foreign exchange forwards	-	2,575	-	2,575		
Total derivative financial instruments - liabilities		14,675		14,675		
Total liabilities at fair value		14,675		14,675		

42 Antes de 1917 Plados

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

A. Recurring valuation (continued)

December 31, 2018

	December 31, 2018				
	Level 1	Level 2	Level 3	Total	
Assets					
Securities and other financial assets:					
Securities at FVOCI - Corporate debt (1)	-	6,157	-	6,157	
Securities at FVOCI - Sovereign debt (1)	-	15,641	-	15,641	
Equity instrument at FVOCI (1)	-	6,273	-	6,273	
Debt instrument at fair value through profit or loss	-	-	8,750	8,750	
Total securities and other financial assets		28,071	8,750	36,821	
Derivative financial instruments - assets:					
Interest rate swaps	-	621	-	621	
Cross-currency swaps	-	1,134	-	1,134	
Foreign exchange forwards		933		933	
Total derivative financial instrument assets	_	2,688		2,688	
Total assets at fair value	<u> </u>	30,759	8,750	39,509	
<u>Liabilities</u>					
Derivative financial instruments - liabilities:					
Interest rate swaps	-	9,410	-	9,410	
Cross-currency swaps	-	17,378	-	17,378	
Foreign exchange forwards	-	7,255	-	7,255	
Total derivative financial instruments - liabilities		34,043		34,043	
Total liabilities at fair value		34,043		34,043	

⁽¹⁾ At December 31, 2018, investment securities and equity instrument at FVOCI for \$21.8 million were reclassified from Level 1 to Level 2 of the fair value hierarchy due to changes in market conditions causing that the quoted prices were no longer active for these financial instruments.

Fair value calculations are provided only for a limited portion of assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used for estimates, comparisons of fair value information disclosed by the Bank with those of other companies may not be meaningful for comparative analysis.

Antes de 1979 estar

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

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

B. Non-recurring valuation

The following methods and inputs 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, interest receivable and certain financial liabilities including customer's demand and time deposits, securities sold under repurchase agreements, interest payable, and acceptances outstanding, due to their short-term nature, is considered to approximate their fair value. These instruments are classified in Level 2.

Securities at amortized cost

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

Loans

The fair value of the loan portfolio, including impaired loans, is estimated by discounting expected 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 Levels 2 and 3.

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 their fair value at the date of transfer. The fair value of these instruments is determined based upon quoted market prices when available or is 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.

Short and long-term borrowings and debt

The fair value of short and long-term borrowings and debt is estimated using discounted contractual future cash flows based on the current incremental borrowing rates for similar types of borrowing arrangements, considering the changes in the Bank's credit margin. These liabilities are classified in Level 2.

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

B. Non-recurring valuation (continued)

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

	December 31, 2019				
_	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets	- variet	, uiuc	<u> </u>	<u> </u>	<u> </u>
Cash and deposits on banks	1,178,170	1,178,170	_	1,178,170	-
Securities at amortized cost (1)	75,271	75,724	_	56,914	18,810
Loans, net (2)	5,823,333	6,162,885	_	6,101,040	61,845
Customers' liabilities under acceptances	115,682	115,682	-	115,682	-
Investment properties	3,494	3,494	-	-	3,494
Liabilities					
Deposits	2,888,336	2,888,336	_	2,888,336	-
Securities sold under repurchase agreements	40,530	40,530	-	40,530	-
Borrowings and debt, net (3)	3,118,396	3,126,333	-	3,126,333	-
Customers' liabilities under acceptances	115,682	115,682	-	115,682	-

	December 31, 2018					
	Carrying	Fair				
	value	value	Level 1	Level 2	Level 3	
<u>Assets</u>				·		
Cash and deposits on banks	1,745,652	1,745,652	-	1,745,652	-	
Securities at amortized cost (1)	86,326	85,036	-	73,869	11,167	
Loans, net (2)	5,702,258	5,958,540	-	5,884,527	74,013	
Customers' liabilities under acceptances	9,696	9,696	-	9,696	-	
<u>Liabilities</u>						
Deposits	2,970,822	2,970,822	-	2,970,822	-	
Securities sold under repurchase agreements	39,767	39,767	-	39,767	-	
Borrowings and debt, net	3,518,446	3,558,763	-	3,558,763	-	
Customers' liabilities under acceptances	9,696	9,696	-	9,696	-	

⁽¹⁾ The carrying value of securities at amortized cost is net of the accrued interest receivable of \$0.8 million and the allowance for expected credit losses of \$0.1 million as of December 31, 2019 and the accrued interest receivable of \$1.1 million and the allowance for expected credit losses \$0.1 million as of December 31, 2018.

At December 31, 2018, investment securities at amortized cost were reclassified from Level 1 to Level 2 of the fair value hierarchy due to changes in market conditions causing that the quoted prices were no longer active for these financial instruments.

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

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

C. Valuation framework

The Bank has an established control framework for the measurement of fair values, which is independent of front office management, to verify the valuation of significant fair value measurements of derivative financial instruments, securities and other financial instrument. Specific controls include:

- Verification of observable pricing.
- Validation of performance of valuation models.
- A review and approval process for new models and changes to existing models.
- Analysis and assessment of significant valuation fluctuations.
- Review of significant unobservable inputs, valuation adjustments and changes to fair value measurement of Level 3 instruments.

D. Level 3 - Fair value measurement

The following table presents the movement of a Level 3 financial instruments measured at fair value

Carrying amount as of January 1, 2018	-
Origination	8,750
Carrying amount as of December 31, 2018	8,750
Unrealized loss	(2,258)
Carrying amount as of December 31,2019	6,492

Significant inputs used to determine fair value for Level 3 financial instruments

The following table presents the significant inputs used to determine the fair value for Level 3 financial instruments:

2019	2018		
Unobservable inputs	Unobservable inputs		
Discount rate for similar companies of the same business line adjusted due to the debt-equity structure of the issuer	suer business line adjusted due to the debt-equity		
	of the issuer		
Observable inputs			
Average recovery factor for companies that reported default – Moody's	 Premium or liquidity rate from liquidity analysis carried out by experts 	3	
	Range of estimates		
Fair value measurement sensitivity to unobservable inputs	2019 2018		

Fair value measurement sensitivity to unobservable inputs	2019	2018
A significant increase in volatility would result in a lower fair	12.97% a 27.50%	18.28% a 45.00%
value		

147

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The carrying value of loans at amortized cost is net of the accrued interest receivable of \$41.7 million, the allowance for expected credit losses of \$99.3 million and unearned interest and deferred fees of \$12.1 million for December 31, 2019, and the accrued interest receivable of \$41.1 million, the allowance for expected credit losses of \$100.8 million and unearned interest and deferred fees of \$16.5 million for December 31, 2018.

⁽³⁾ The borrowings and debt exclude the lease liabilities for an amount of \$19.9 million.

Notes to the consolidated financial statements

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

7. Fair value of financial instruments (continued)

D. Level 3 - Fair value measurement (continued)

During 2018, a premium or liquidity rate obtained from liquidity cost studies carried out by experts was used as part of the inputs to measure fair value, and for the year 2019, as a result of obtaining better observable data, a recovery factor with respect to historical average data provided by Moody's for defaulted companies in Brazil was obtained.

The effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used would have the following effects.

Debentures at fair value through profit or loss	Effect on profit or loss
+ 100 bps to the observable and unobservable inputs	(230)
- 100 bps to the unobservable and observable inputs	240

8. Cash and due from banks

	December 31,	December 31,
	2019	2018
Cash and due from banks	23,015	9,644
Interest-bearing deposits in banks	1,155,155	1,736,008
Total	1,178,170	1,745,652
Less:		
Pledged deposits	18,452	39,460
Total cash and cash equivalents	1,159,718	1,706,192

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

	Decemb	December 31, 2019		er 31, 2018	
	Amount	Amount Interest rate range		Interest rate range	
Interest-bearing deposits in banks:		_		_	
Demand deposits (1)	1,135,155	1.55% a 5.10%	1,686,008	2.43% to 6.5%	
Time deposits	20,000	-	50,000	-	
Total	1,155,155		1,736,008		
Pledged deposits	18,452	1.55%	39,460	2.40%	

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

Notes to the consolidated financial statements

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

8. Cash and due from banks (continued)

The following table provides a breakdown of pledged deposits by country risk:

	December 31, 2019	December 31, 2018	
Country:			
Switzerland	9,567	8,697	
United States of America (2)	5,645	19,078	
France	1,770	-	
Japan	1,470	2,451	
Netherlands	-	494	
Spain	-	8,740	
Total	18,452	39,460	

⁽¹⁾ Interest-bearing demand deposits based on daily rates determined by banks. In addition, rates of 5.10% and 6.5% corresponds to a deposit placed in MXN – México.

9. Securities and other financial assets, net

All securities and other financial assets as of December 31, 2019 and 2018 are presented as follows:

			At fair value		
		With changes in ot	her comprehensive		
At December 31, 2019		income (loss)		With	
	•	Recyclable to	Non-recyclable to	changes in	Total securities and other
Carrying amount	Amortized cost	profit and loss	profit and loss	profit or loss	financial assets, net
Principal	74,547	5,094	1,889	6,492	88,022
Interest receivable	837	48	-	-	885
Reserves	(113)				(113)
	75,271	5,142	1,889	6,492	88,794

			At fair value		
		With changes in ot	her comprehensive		
At December 31, 20	18	income (loss)		With	
	•	Recyclable to	Non-recyclable to	changes in	Total securities and other
Carrying amount	Amortized cost	profit and loss	profit and loss	profit or loss	financial assets, net
Principal	85,326	21,798	6,273	8,750	122,147
Interest receivable	1,140	451	-	-	1,591
Reserves	(140)	-			(140)
	86,326	22,249	6,273	8,750	123,598
			-		

In 2019, the Bank sold 767,301 shares which were designated in their initial recognition at fair value with changes in other comprehensive income due to market changes affecting the liquidity of the instrument. The cumulative fair value of the shares sold was \$4.8 million and the cumulative loss recognized in OCI was \$151 thousand, which was transferred to retained earnings.

148
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⁽²⁾ Includes pledged deposits of \$3.5 million and \$3.0 million at December 31, 2019 and 2018, respectively, with the New York State Banking Department under March 1994 legislation and deposits pledged to guarantee derivative financial instrument transactions.

Notes to the consolidated financial statements

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

9. Securities and other financial assets, net (continued)

Securities and other financial assets by contractual maturity are shown in the following table:

			At fair value		
At December 31, 2019		With changes in other comprehemsive income		_	
	Amortized cost	Recyclabe to profit ans loss	Non-recyclable to profit and loss	With changes in profit or loss	Total securities and other financial assets, net
Due within 1 year	28,295		1,889	-	30,184
After 1 year but within 5 years	46,252	5,094	-	-	51,346
After 5 years but within 10 years Non maturity	-	-	-	6,492	6,492
Balance - principal	74,547	5,094	1,889	6,492	88,022
At December 31, 2018			At fair value her comprehemsive ome		
	Amortized cost	Recyclabe to	Non-recyclable to	With changes in profit or loss	Total securities and other financial assets, net
Due within 1 year	28,551	7,743	6,273	-	42,567
After 1 year but within 5 years	56,775	7,898	-	-	64,673
After 5 years but within 10 years	-	6,157	-	-	6,157
Non maturity				8,750	8,750
Balance - principal	85,326	21,798	6,273	8,750	122,147

The following table includes the securities pledge to secure repurchase transactions accounted for as secured pledged:

	De	ecember 31, 2019)	De	ecember 31, 2018	
	Amortized cost	Fair value	Total	Amortized cost	Fair value	Total
Securities pledged to secure repurchase transactions	36,843	5,094	41,937	38,618	5,010	43,628
Securities sold under repurchase agreements	(35,647)	(4,883)	(40,530)	(35,114)	(4,653)	(39,767)

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

	Year ended December 31			
	2019	2018	2017	
Realized gain on sale of securities	266	194	766	
Realized loss on sale of securities	(80)	-	(517)	
Net gain on sale of securities at FVOCI	186	194	249	

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

Notes to the consolidated financial statements

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

10. Loans

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

	December 31,	December 31,	
	2019	2018	
Fixed interest rates	2,757,333	2,706,834	
Floating interest rates	3,135,664	3,071,590	
Total	5,892,997	5,778,424	

As of December 31, 2019, and 2018, 74% and 82% of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days.

As of December 31, 2019, the range of interest rates on loans fluctuates from 1.20% to 13.93% (December 31, 2018 1.20% to 12.25%).

As of December 31, 2019, and 2018, the Bank had credit transactions in the normal course of business with 11% and 17%, 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, 2019, and 2018, approximately 11% and 9%, 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, 2019, 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 owner of record of more than 3.5% of the total outstanding shares of the voting capital stock of the Bank.

Recognition and derecognition of financial assets

During the years ended December 31, 2019, 2018 and 2017, the Bank sold loans measured at amortized cost. These sales were made based on compliance with the Bank's strategy to optimize credit risk of its loan portfolio.

The carrying 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 (loss) on financial instruments, net" in the consolidated statement of profit or loss.

	Assignments and participations	Gains (losses)
Carrying amount as of December 31, 2019	15,000	21
Carrying amount as of December 31, 2018	61,667	(625)
Carrying amount as of December 31, 2017	77,400	181

150 Santes de 1919 codo el Bladex

Notes to the consolidated financial statements

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

11. Loan commitments and financial guarantee contracts

In the normal course of business, to meet the financing needs of its customers, the Bank is party to loan commitments and financial guarantee 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 loan commitments and financial guarantee contracts are as follows:

	December 31,	December 31,
	2019	2018
Documentary letters of credit	169,320	218,988
Stand-by letters of credit and guarantees - commercial risk	255,481	179,756
Credit commitments	68,571	103,143
Total loans commitments and financial guarantee contracts	493,372	501,887

The remaining maturity profile of the Bank's outstanding loan commitments and financial guarantee contracts is as follows:

Maturities	December 31,	December 31,	
<u>Maturities</u>	2019	2018	
Up to 1 year	424,744	434,544	
From 1 to 2 years	8,628	200	
From 2 to 5 years	60,000	67,143	
Total	493,372	501,887	

12. Gain (loss) on financial instruments, net

The following table sets forth the details for the gain or loss on financial instrument recognized in the consolidated statements of profit or loss:

December 31st		
2019	2018	2017
672	(1,226)	(437)
(2,258)	648	(732)
186	194	249
21	(625)	181
(1,379)	(1,009)	(739)
	2019 672 (2,258) 186 21	2019 2018 672 (1,226) (2,258) 648 186 194 21 (625)

152 Antes de 1979 estare

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

Notes to the consolidated financial statements

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

13. Derivative financial instruments

The following table details quantitative information on the notional amounts and carrying amounts of the derivative instruments used for hedging by type of risk hedged and type of hedge:

	December 31, 2019			
	Nominal amount	Carrying amou		
	Asset (1)		Liability (2)	
Interest rate risk				
Fair value hedges	398,333	407	(805)	
Cash flow hedges	123,000	-	(1,098)	
Interest rate and foreign				
exchange risk				
Fair value hedges	346,844	10,125	(8,527)	
Cash flow hedges	23,025	-	(1,670)	
Foreign exchange risk				
Cash flow hedges	72,391	625	(2,552)	
Net investment	2,080	-	(23)	
	965,673	11,157	(14,675)	

	December 31, 2018			
	Nominal amount	instrumer		
	amount	Asset (1)	Liability (2)	
Interest rate risk				
Fair value hedges	433,500	108	(6,134)	
Cash flow hedges	460,000	513	(3,276)	
Interest rate and foreign				
exchange risk				
Fair value hedges	226,757	1,134	(15,994)	
Cash flow hedges	23,025	-	(1,384)	
Foreign exchange risk				
Cash flow hedges	176,311	933	(7,177)	
Net investment	6, 183	-	(78)	
	1,325,776	2,688	(34,043)	

⁽¹⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - assets.

⁽²⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - liabilities.

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

The hedging instruments detailed in the tables above are presented in the consolidated statement of financial position as derivative financial instruments - assets or derivative financial instruments - liabilities.

As part of the financial risk management, the Bank uses the following hedging relationships:

- Fair value hedge
- Cash flow hedge
- Net investment hedge

For control purposes, derivative instruments are recorded at their nominal amount in memoranda 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 forward contracts 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 loan and investment portfolio. The Bank also uses foreign exchange forward contracts to hedge the foreign exchange risk associated with the Bank's equity investment in a non-U.S. dollar functional currency foreign entity. Derivative and foreign exchange forward 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.

A. Fair value hedge

This type of hedge is used to mitigate the risk of changes in foreign exchange currency rates, as well as changes in interest rate risk. Within the derivative financial instruments used by the Bank for fair value hedging are interest rate swap contracts whereby a series of interest rate flows in a single currency are exchanged over a prescribed period and cross currency swaps contracts that generally involve the exchange of both interest and principal amounts in two different currencies.

The Bank's exposure to interest rate risk is disclosed in Note 5(C)(i). Interest rate risk to which the Bank applies hedge accounting arises from fixed-rate euro medium term notes and other long-term notes issuances ("Certificados Bursatiles"), fixed-rate loans and advances, whose fair value fluctuates when benchmark interest rates change. The Bank hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate note or loan are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

Before fair value hedge accounting is applied by the Bank, the Bank determines whether an economic relationship between the hedged item and the hedging instrument exists based on an assessment of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Bank assesses whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Bank further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item. The sources of ineffectiveness mainly come from forward rates, discount rates and cross currency basis (cost of the operation).

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

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

A. Fair value hedge (continued)

The following table details the notional amounts and carrying amounts of derivative instruments used in fair value hedges by type of risk and hedged item, along with the changes during the period used to determine and recognize the ineffectiveness of the hedge:

	December 31, 2019					
	Nominal amount		amount of	Changes in fair value used to calculate hedge	Ineffectiveness recognized in	
		Asset (1)	Liability (2)	ineffectiveness (3)	profit or loss (3)	
Interest rate risk						
Loans	13,333	-	(166)	(127)	(9)	
Securities at FVOCI	5,000	-	(45)	(97)	(17)	
Borrowings and debt	380,000	407	(594)	5,20 3	(65)	
Interest rate and foreign exchange risk						
Loans	6,430	276	-	(482)	(214)	
Borrowings and debt	340,414	9,849	(8,527)	7,23 4	55	
Total	745,177	10,532	(9,332)	11,731	(250)	

December 31, 2018	ember 31, 20	18
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155

	Nominal amount	Carrying amount of hedging instruments		Changes in fair value used to calculate hedge	Ineffectiveness recognized in profit or loss (3)	
		Asset (1)	Liability (2)	ineffectiveness (3)	profit or foss	
Interest rate risk						
Loans	66,000	10	(64)	(66)	31	
Securities at FVOCI	12,500	98	-	11 4	(228)	
Borrowings and debt	355,000	-	(6,070)	(1,118)	43	
Interest rate and						
foreign exchange risk						
Loans	11,484	1,134	-	(310)	(610)	
Borrowings and debt	215,273	-	(15,994)	(1,085)	(323)	
Total	660,257	1,242	(22,128)	(2,465)	(1,087)	

⁽¹⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - assets.

154 Agrantes de 1979 estate

⁽²⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - liabilities.

⁽³⁾ Included in the consolidated statement of profit or loss is the line Loss on financial instruments, net.

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

A. Fair value hedge (continued)

The following table details the notional amounts and carrying amounts of the hedged items at fair value by type of risk and hedged item, along with the changes during the period used to determine and recognize the ineffectiveness of the hedge:

			December	31, 2019	
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes the	Accumulated amount of fair value hedge adjustments included in	Change in fair value of the hedged items used
	Asset	Liability	carrying amount of the hedged items	the carrying amount of the hedged items	to calculate hedge ineffectiveness (1)
Interest rate risk					
Loans	13,583	-	Loans, net	158	118
Securities at FVOCI	5,142	-	Securities and other financial assets, net financieros, netos	94	80
Borrowings and debt	-	(381,587)	Borrowings and debt, net	18	(5,268)
Interest rate and foreign exchange risk	-	-			-
Loans	6,202	-	Loans, net	(495)	268
Borrowings and debt	-	(336,117)	Borrowings and debt, net	(973)	(7,179)
Total	24,927	(717,704)		(1,198)	(11,981)

	December 31, 2018					
	Carrying amount of hedged items		Line in the consolidated statement of financial	Accumulated amount of fair value hedge	Change in fair value of the hedged items used	
	Asset	Liability	position that includes the carrying amount of the hedged items	adjustments included in the carrying amount of the hedged items	to calculate hedge ineffectiveness (1)	
Interest rate risk						
Loans	66,208	-	Loans, net	97	97	
Securities at FVOCI	11,958	-	Securities and other financial assets, net financieros, netos	(298)	(342)	
Borrowings and debt	-	(350,263)	Borrowings and debt, net	5,286	1,161	
Interest rate and foreign exchange risk	-	-				
Loans	10,616	-	Loans, net	(1,148)	(300)	
Borrowings and debt	-	(199,901)	Borrowings and debt, net	15,005	762	
Total	88,782	(550,164)		18,942	1,378	

⁽¹⁾ Included in the consolidated statement of profit or loss is the line Loss on financial instruments, net.

150 Antes de al Rladex

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

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

A. Fair value hedge (continued)

The following table details the maturity of the notional amount for the derivative instruments used in fair value hedges:

	D	December 31, 2019			
Maturity	Interest rate swaps	Foreign exchange and interest rate risks	Total		
Fair value hedge					
Less than 1 year	350,000	-	350,000		
1 to 2 years	48,333	-	48,333		
2 to 5 years	-	346,844	346,844		
Total	398,333	346,844	745,177		

	December 31, 2018				
Maturity	Interest rate swaps	•			
Fair value hedge					
Less than 1 year	4,500	146,505	151,005		
1 to 2 years	400,000	-	400,000		
2 to 5 years	29,000	10,419	39,419		
More than 5 years	-	68,768	68,768		
Total	433,500	225,692	659,192		
			· ·		

B. Cash flow hedge

This type of hedge is used to mitigate the risk of changes in foreign exchange currency rates, as well as changes in interest rate risk, that could include variability in the future cash flows. Within the derivative financial instruments used by the Bank for a cash flow hedging are interest rate swaps contracts whereby a series of interest rate flows in a single currency are exchanged over a prescribed period, cross currency swaps contracts that generally involve the exchange of both interest and principal amounts in two different currencies, and foreign exchange forward contracts, an agreement to purchase or sell foreign currency at a future date at agreed-upon terms.

The Bank's exposure to market risk is disclosed in Note 5 (C) (ii). The Bank determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in interest rates and foreign currency exchange rates on the future cash flows. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis. As noted above for fair value hedges, by using derivative financial instruments to hedge exposures to changes in interest rates and foreign currency exchange rates, the Bank exposes itself to credit risk of the counterparties to the derivatives, which is not offset by the hedged items. This exposure is managed similarly to that off fair value hedges.

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

B. Cash flow hedge (continued)

The Bank determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an assessment of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Bank assesses whether the cash flows of the hedged item and the hedging instrument respond similarly to the hedged risk, such as the benchmark interest rate or foreign currency. The Bank further supports this qualitative assessment by using sensitivity analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the present value of the hedged item. The Bank assesses hedge effectiveness using the hypothetical derivative method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The terms of the hypothetical derivative match the critical terms of the hedged item and it has a fair value of zero at inception. The sources of ineffectiveness arise mainly because of the differences in discount rates (OIS - Overnight Index Swap).

The maximum length of time over which the Bank has hedged its exposure to the variability in future cash flows on forecasted transactions is 8.3 years.

The Bank recognized the lifetime associated cost of the foreign exchange forward contracts into interest income, in profit or loss, as an adjustment to the yield on hedged items creating an accumulated reserve in OCI, reclassified to profit or loss at their maturity. The Bank estimates that approximately \$241 thousand are expected to be reclassified into profit or loss during the year ending December 31, 2020.

The Bank recognized the lifetime associated cost of the foreign exchange forward contracts into interest expense, in profit or loss, as an adjustment to the yield on hedge items creating an accumulated reserve in OCI, reclassified to profit or loss at their maturity. The Bank estimates that approximately \$6 thousand are expected to be reclassified into profit or loss during the year ending December 31, 2020.

The following table details the notional amounts and carrying amounts of derivative instruments used in cash flow hedges by type of risk and hedged item, along with the changes during the period used to determine and recognize the ineffectiveness of the hedge:

	December 31, 2019						
	•		g amount of instruments	Change in fair value used for calculating hedge	Changes in the fair value of the hedging instruments	Ineffectiveness recognized in profit or loss ⁽⁴⁾	Amount reclassified from the hedge reserve to profit
		Asset (1)	Liability (2)	ineffectiveness	recognized in OCI ⁽³⁾	profit or foss	or loss ⁽⁴⁾
Interest rate risk							
Borrowings and debt	123,000	-	(1,098)	(1,459)	(1,458)	1	39
Interest rate and foreign exchange risk							
Borrowings and debt	23,025	-	(1,670)	(284)	(283)	1	-
Foreign exchange risk							
Loans	72,391	625	(2,552)	(2,346)	(2,344)	2	(1,070)
Deposits				<u>-</u>			(5,545)
Total	218,416	625	(5,320)	(4,089)	(4,085)	4	(6,576)

⁽¹⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - assets.

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

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

B. Cash flow hedge (continued)

December 31, 2018

		December 31, 2016					
	Nominal amount	Carrying amount of hedging instruments		Change in fair value used for calculating hedge	Changes in the fair value of the hedging instruments	Ineffectiveness recognized in profit or loss ⁽⁴⁾	Amount reclassified from the hedge reserve to profit
		Asset (1)	Liability (2)	ineffectiveness	recognized in OCI ⁽³⁾	promour ross	or loss ⁽⁴⁾
Interest rate risk							
Borrowings and debt	460,000	513	(3,276)	847	847	-	183
Interest rate and foreign exchange risk							
Borrowings and debt	23,025	-	(1,384)	(2,246)	(2,246)	-	-
Foreign exchange risk							
Loans	51,962	814	(1,513)	(626)	(626)	-	2,700
Deposits	124,349	119	(5,664)	(7,196)	(7,196)		4,414
Total	659,336	1,446	(11,837)	(9,221)	(9,221)	-	7,297

The following table details the nominal amounts and carrying amounts of the cash flow hedged items by type of risk and hedged item, along with the changes during the period used to determine and recognize the ineffectiveness of the hedge:

December 31, 2019

159

	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes	Change in the fair value of the hedged items used	Cash flow
	Asset	Liability	the carrying amount of the hedged items	to calculate the hedge ineffectiveness ⁽⁴⁾	hedge reserve
Interest rate risk					
Borrowings and debt	-	(70,110)	Borrowings and debt, net	1,458	1,072
Interest rate and foreign exchange risk					
Borrowings and debt	-	(21,234)	Borrowings and debt, net	283	(5)
Foreign exchange risk					
Loans	73,861	-	Loans, net	2,344	263
Deposits	-	-	Deposit	-	-
Total	73,861	(91,344)		4,085	1,330

⁽¹⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - assets.

Antes de Propins de Bladex

⁽²⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - liabilities.

⁽³⁾ Included in equity in the consolidated statement of financial position on the line Other comprehensive income

⁽⁴⁾ Included in the consolidated statement of profit or loss under the line Loss on financial instruments, net.

⁽²⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - liabilities.

⁽³⁾ Included in equity in the consolidated statement of financial position on the line Other comprehensive income.

⁽⁴⁾ Included in the consolidated statement of profit or loss under the line of Loss on financial instruments, net.

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

B. Cash flow hedge (continued)

December 31, 2018

			Determoer 51,	2010			
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes	Change in the fair value of the hedged items used	Cash flow		
	Asset	Liability	the carrying amount of the hedged items	to calculate the hedge h ineffectiveness (1)	hedge reserve		
Interest rate risk							
Borrowings and debt	-	(390,516)	Borrowings and debt, net	(847)	(427)		
Interest rate and foreign exchange risk		-					
Borrowings and debt	-	(42,554)	Borrowings and debt, net	2,246	(19)		
Foreign exchange risk							
Loans	52,128	-	Loans, net	62 6	(19)		
Deposits		(108,422)	Deposit	7,196	2,373		
Total	52,128	(541,492)		9,221	1,908		

⁽¹⁾ Included in the consolidated statement of profit and loss or the line Loss on financial instruments, net.

The following table details the maturity of the derivative instruments used in cash flow hedges:

December	31,201

Maturity	Foreign exchange risk	Interest rate s waps	Foreign exchange and interest rate risks	Total
Cash flow hedge				
Less than 1 year	74,471	63,000	23,025	160,496
1 to 2 years	-	40,000	-	40,000
2 to 5 years	-	20,000	-	20,000
Total	74,471	123,000	23,025	220,496

December 31, 2018

Maturity	Foreign exchange risk	Interest rate swaps	Foreign exchange and interest rate risks	Total
Cash flow hedge				
Less than 1 year	177,333	337,000	-	514,333
1 to 2 years	5,161	63,000	23,025	91,186
2 to 5 years	-	60,000	-	60,000
Total	182,494	460,000	23,025	665,519

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

Notes to the consolidated financial statements

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

13. Derivative financial instruments (continued)

C. Net investment hedge

A foreign currency exposure arises from a net investment either in a subsidiary that has a different functional currency from that of the Bank or in a financial instrument in a foreign currency designated at FVOCI. The hedge risk in the net investment hedge is the variability in the US dollar against any other foreign currency that will result in a reduction in the carrying amount.

The Bank's policy is to hedge the net investment only to the extent of the debt principal; therefore, the hedge ratio is established by aligning the principal amount in foreign currency of the debt with the carrying amount of the net investment that is designated.

When the hedging instrument is a forward foreign exchange contract, the Bank establishes a hedge relationship where the notional of the forward foreign exchange contract matches the carrying amount of the designated net investment. The Bank ensures that the foreign currency in which the hedging instrument is denominated is the same as the functional currency of the net investment. The only source of ineffectiveness that is expected to arise from these hedging relationships is due to the effect of the counterparty and the Bank's own credit risk on the fair value of the derivative.

The following table details the notional amount and carrying amount of the derivative instruments used as net investment hedge by type of risk and hedged item, along with changes during the period used to determine and recognize the ineffectiveness of the hedge:

December 31, 2019

	Nominal amount	Carrying hedging in	amount of estruments	value used for		Ineffectiveness recognized in profit or loss (4)	Amount reclassified from the hedge reserve to profit
		Asset (1)	Liability (2)	ineffectiveness	recognized in OCI (3)		or loss (4)
Foreign exchange risk							
Net investment	2,080	-	(23)	(23)	(23)	-	(78)
Total	2,080	_	(23)	(23)	(23)		(78)

December 31, 2018

161

	Nominal amount		ng amount of value used ford calculating hedge		Changes in the fair value of the hedging instruments	Ineffectiveness recognized in profit or loss (4)	Amount reclassified from the hedge reserve to profit
		Asset (1)	Liability (2)	ineffectiveness	recognized in OCI (3)		or loss ⁽⁴⁾
Foreign exchange risk							
Net investment	6,183	-	(78)	(78)	(78)	-	50
Total	6,183		(78)	(78)	(78)	-	50

Derivative instruments used in net investment hedges at the period ending in 2019 and 2018 have a maturity of less than 30 days.

160 Avantes de 1979 estard

⁽¹⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - assets.

⁽²⁾ Included in the consolidated statement of financial position under the line Derivative financial instruments - liabilities.

⁽³⁾ Included in equity in the consolidated statement of financial position on the line Other comprehensive income.

⁽⁴⁾ Included in the consolidated statement of profit or loss under the line of Loss on financial instruments, net.

Notes to the consolidated financial statements

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

1,889

6,273

6,273

13. Derivative financial instruments (continued)

C. Net investment hedge (continued)

Total

Net investment

Total

The following table details the nominal value and carrying amount of the net investment hedged items by type of risk and hedged item, along with changes during the period used to determine and recognize the ineffectiveness of the hedge:

	December 31, 2019					
	Carrying amount of hedged items		Line in the consolidated statement of financial	Change in the fair value of the hedged items used to	Cash flow hedge	
	Asset	Liability	position that includes the carrying amount of the hedged items	calculate the hedge ineffectiveness (1)	reserve	
Foreign exchange risk Net investment	1,889		Securities and other	23	23	

23

78

23

78

			December 3	1,2018	
	Carrying amount of hedged items		Line in the consolidated statement of financial	Change in the fair value of the hedged items used to	Cash flow hedge
	Asset	Liability	position that includes the carrying amount of the hedged items	calculate the hedge ineffectiveness ⁽¹⁾	reserve
Foreign exchange risk					

Securities and other

financial assets, net

financial assets, net

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

Notes to the consolidated financial statements

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

14. Gain (loss) on non - financial assets, net

The gain or loss on non-financial assets is presented as follows:

	December 31,		
	2019	2018	
Profit on sale of investment property	500	-	
Impairment loss on other assets	=	(3,464)	
Impairment loss on investment property	=	(3,849)	
Write off on intangible assets	<u> </u>	(2,705)	
	500	(10,018)	

During 2019, the Bank realized the sale of an investment property, which results in a gain of \$500 thousand.

As of December 31, 2018, the Bank made write offs corresponding mainly to technological projects classified as intangible assets by \$2.7 million and other assets under development with a book value of \$1.3 million. In addition, the storage silos received as payment for a restructured loan operation that were recorded as investment property with a carrying amount of \$3.8 million and other assets under development of the deed with a carrying amount of \$1.7 million, were assessed by the Bank, determining a fair value of zero. As of December 31, 2017, no impairment losses were reported.

⁽¹⁾ Included in the consolidated statement of profit or loss under the line Loss on financial instruments, net.

Notes to the consolidated financial statements

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

15. Equipment and leasehold improvements

The following table provides a summary of the items include in equipment and leasehold improvement:

	December 31, 2019	December 31, 2018
Equipment and leasehold improvements, net	6,230	6,686
Right-of-use assets	12,522	-
	18,752	6,686

A breakdown of cost, accumulated depreciation, additions and disposals of equipment and leasehold improvements is as follows:

	IT equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Total
Cost:					
Balance as of January 1, 2017	4,386	3,778	6,771	61 8	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
Additions	411	12	111	69	603
Disposals	(253)	(97)	(80)	(62)	(492)
Reclassifications	10_		<u> </u>		10
Balance as of December 31, 2018	4,338	1,899	6,841	2,512	15,590
Additions	683	36	185	124	1,028
Disposals	(63)	(102)	(176)	(33)	(374)
Effect of movements in exchange rates	(53)	(62)	(47)	(14)	(176)
Balance as of December 31, 2019	4,905	1,771	6,803	2,589	16,068
Accumulated depreciation:					
Balance as of January 1, 2017	2,742	1,645	2,174	44 3	7,004
Amortization	587	149	474	36 8	1,578
Disposals	(459)	(54)	-	(20)	(533)
Balance as of December 31, 2017	2,870	1,740	2,648	791	8,049
Amortization	516	64	480	222	1,282
Disposals	(159)	(89)	(127)	(94)	(469)
Reclassifications	42				42
Balance as of December 31, 2018	3,269	1,715	3,001	919	8,904
Amortization	584	62	508	260	1,414
Disposals	(59)	(97)	(175)	(21)	(352)
Effect of movements in exchange rates	(40)	(53)	(35)	-	(128)
Balance as of December 31, 2019	3,754	1,627	3,299	1,158	9,838
Carrying amounts as of:					
December 31, 2019	1,151	144	3,504	1,431	6,230
December 31, 2018	1,069	184	3,840	1,593	6,686
December 31, 2017	1,300	244	4,162	1,714	7,420

164 Antes de 1979 estar

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

Notes to the consolidated financial statements

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

15. Equipment and leasehold improvements

Leases

In accordance with the accounting policy described in note 3.1, the Bank has applied IFRS 16, under the modified retrospective method. The following is the detail of the movement of right-of-use assets on the leases for which the Bank is a lessee:

	Building
Balance at January 1, 2019	17,435
Additions	14
Depreciation of right-of-use assets	(1,440)
Revaluation currency effect	7
Reclassification to investment property	(3,494)
Balance at December 31, 2019	12,522

The Bank leases office spaces in buildings. The lease of main office space typically runs for a period of 15 years, and for the representative offices from 3 to 5 years. Some leases include an option to renew the lease for a similar additional period after the end of the contract term.

The Bank sub-leases some of its property under operating leases.

Notes to the consolidated financial statements

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

16. Intangible assets

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

Costs:	
Balance as of January 1, 2017	13,883
Additions	3,370
Disposals	(81)
Balance as of December 31, 2017	17,172
Additions	58
Disposals	(3,315)
Reclassifications	(10)
Balance as of December 31, 2018	13,905
Additions	496
Balance as of December 31, 2019	14,401
Accumulated amortization:	
Balance as of January 1, 2017	10,974
Amortization	838
Disposals	(65)
Balance as of December 31, 2017	11,747
Amortization	1,176
Disposals	(609)
Reclassifications	(42)
Balance as of December 31, 2018	12,272
Amortization	702
Balance as of December 31, 2019	12,974
Carrying amounts as of:	
December 31, 2019	1,427
December 31, 2018	1,633
December 31, 2017	5,425

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. Disposals during 2018 correspond to technological projects.

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

Notes to the consolidated financial statements

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

17. Other assets

Following is a summary of other assets:

	December 31, 2019	December 31, 2018
Accounts receivable (1)	3,549	13,333
Interest receivable - deposits	26	281
IT projects under development	52 1	357
Other	4,761	3, 003
	8,857	16,974

⁽¹⁾ As of December 31, 2018, the sale of financial assets was for \$ 12.4 million and related payment was received in January 2019.

18. Deposits

The maturity profile of the Bank's deposits, excluding interest payable, is as follows:

	December 31,	December 31,
	2019	2018
Demand	85,786	211,381
Up to 1 month	1,285,949	1,192,252
From 1 month to 3 months	628,981	412,638
From 3 months to 6 months	593,431	533,135
From 6 months to 1 year	289,189	462,156
From 1 year to 2 years	5,000	70,047
From 2 years to 5 years	-	89,213
	2,888,336	2,970,822

The following table presents additional information regarding the Bank's deposits

	December 31,	December 31,
	2019	2018
Aggregate amounts of \$100,000 or more	2,888,043	2,970,438
Aggregate amounts of deposits in the New York Agency	240,003	265,349

1	December 31th		
2019	2018	2017	
6,277	5,937	2,524	
	2019	2019 2018	

106 Antes de el Bladex

Notes to the consolidated financial statements

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

19. Securities sold under repurchase agreements

As of December 31, 2019 and 2018, the Bank has financing transactions under repurchase agreements for \$40.5 million and \$39.8 million, respectively.

During the year ended December 31, 2019 and 2018, interest expense related to financing transactions under repurchase agreements totaled \$1.1 million and \$635 thousand, respectively. These expenses are included as interest expense – borrowings and debt line in the consolidated statement of profit or loss.

20. Borrowings and debt

Borrowings consist of bilateral funding 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 and Japanese markets.

The Bank's funding activities include: (i) EMTN, which may be used to issue notes for up to \$2.250 million, 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 "Mexican Program") in the Mexican local market, registered with the Mexican National Registry of Securities administered 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 1 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, 2019, the Bank was in compliance with all those covenants.

Borrowings and debt are detailed as follows:

December 31, 2019

		Short-Term			Long-term		
Carrying amount	Borrowings	Debt	Lease Liabilities	Borrowings	Debt	Lease Liabilities	Total
Principal	1,573,663	22,000	1,145	723,419	802,676	18,769	3,141,672
Prepaid commissions				(1,456)	(1,906)	<u> </u>	(3,362)
	1,573,663	22,000	1,145	721,963	800,770	18,769	3,138,310

December 31, 2018

_		Short-Term			Long-term		
Carrying amount	Borrowings	Debt	Lease Liabilities	Borrowings	Debt	Lease Liabilities	Total
Principal	1,975,174	45,930	-	886,384	614,505	-	3,521,993
Prepaid commissions	=	=		(2,790)	(757)		(3,547)
_	1,975,174	45,930		883,594	613,748		3,518,446

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

Notes to the consolidated financial statements

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

20. Borrowings and debt (continued)

Short-term borrowings and debt

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

	December 31, 2019	December 31, 2018
Short-term borrowings:		
At fixed interest rates	607,500	695,500
At floating interest rates	966,163	1,279,674
Total borrowings	1,573,663	1,975,174
Short-term debt:		
At fixed interest rates	22,000	2,700
At floating interest rates	-	43,230
Total debt	22,000	45,930
Total short-term borrowings and debt	1,595,663	2,021,104
Maximum balance at any month-end	1,595,663	2,021,104
Range of fixed interest rates on borrowings and debt in U.S. dollars	2.07% to 2.52%	2.74% to 3.30%
Range of floating interest rates on borrowings in U.S. dollars	2.09% to 2.35%	2.72% to 3.41%
Range of fixed interest rates on borrowings in Mexican pesos	8.08%	-
Range of floating interest rates on borrowings in Mexican pesos	7.71% to 8.31%	8.49% to 9.39%
		-

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

	December 31, 2019	December 31, 2018
Currency		
US dollar	1,476,000	1,926,000
Mexican peso	119,663	95,104
Total	1,595,663	2,021,104

168 Antes de 1919 codo el Bladex

Notes to the consolidated financial statements

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

20. Borrowings and debt (continued)

Long-term borrowings and debt

The breakdown of borrowings and long-term debt (original maturity of more than one year), along with contractual interest rates, plus prepaid commissions of \$3.5 million and \$4.2 million as of December 31, 2019 and December 31, 2018, respectively, are as follows (excludes lease liabilities):

Long-term borrowings:	December 31, 2019	December 31, 2018
At fixed interest rates with due dates from October 2020 to February 2022	65,435	63,367
At floating interest rates with due dates from February 2020 to August 2023	65 7,984	823,017
Total long-term borrowings	72 3,419	886,384
Long-term debt:		
At fixed interest rates with due dates from May 2020 to March 2024	50 2,880	503,229
At floating interest rates with due dates from March 2022 to June 2023	29 9,796	111,276
Total long-term debt	802,676	614,505
Total long-term borrowings and debt	1,526,095	1,500,889
Less: Prepaid commissions	(3,362)	(3,547)
Total long-term borrowings and debt, net	1,522,733	1,497,342
Maximum outstanding balance at any month – end	1,527,126	1,500,889
Range of fixed interest rates on borrowings and debt in U.S. dollars	2.56% to 3.25%	2.25% to 3.25%
Range of floating interest rates on borrowings and debt in U.S. dollars	2.46% to 3.36%	3.26% to 4.46%
Range of fixed interest rates on borrowings in Mexican pesos	5.73% to 9.09%	5.25% to 9.09%
Range of floating interest rates on borrowings and debt in Mexican pesos	8.14% to 9.13%	9.19% to 9.71%
Range of fixed interest rates on debt in Japanese yens	0.52%	0.46%
Range of fixed interest rates on debt in Euros	3.75%	3.75%
Range of fixed interest rates on debt in Australian dollars	3.33%	3.33%

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

Notes to the consolidated financial statements

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

20. Borrowings and debt (continued)

Long-term borrowings and debt (continued)

The balances of long-term borrowings and debt by currency, excluding prepaid commissions, are as follows:

	December 31, 2019	December 31, 2018
Currency		
US dollar	1,097,611	1,203,101
Mexican peso	280,105	143,661
Japanese yen	67,831	72,670
Euro	59,465	60,315
Australian dollar	21,083	21,142
Total	1,526,095	1,500,889

Future payments of long-term borrowings and debt outstanding as of December 31, 2019, are as follows:

Payments	Outstanding
2020	478,817
2021	530,094
2022	395,219
2023	62,500
2024	59,465
	1,526,095

Reconciliation of movements of borrowings and debt arising from financing activities, as presented in the consolidated statements of cash flows:

	2019	2018	2017
Balance as of January 1,	3,518,446	2,211,567	3,246,813
Net (decrease) increase in short-term borrowings and debt	(428,611)	950,259	(396,205)
Proceeds from long-term borrowings and debt	371,536	609,017	219,905
Repayments of long-term borrowings and debt	(368,843)	(256,173)	(883,476)
Payment of lease liabilities	(1,072)	-	-
Recognition of lease liabilities	20,979	-	-
Change in foreign currency	20,044	1,903	23,487
Adjustment of fair value for hedge accounting relationship	4,943	753	(483)
Other adjustments	888	1,120	1,525
Balance as of December 31,	3,138,310	3,518,446	2,211,567

Notes to the consolidated financial statements

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

20. Borrowings and debt (continued)

Lease liabilities

Maturity analysis of contractual undiscounted cash flows of the lease liability is detailed below:

	December 31, 2019
Due within 1 year	2,005
After 1 year but within 5 years	10,470
After 5 years but within 10 years	13,492
Total undiscounted lease liabilities	25,967
Short-term	1,145
Long-term	18,769
Lease liabilities included in the consolidated statement of financial position	19,914
	December 31, 2019
Cash outflow for leases	1,072
Amounts recognized in profit or loss	
	December 31, 2019
Interest on lease liabilities	912
Income from sub-leasing right-of-use assets	(1,661)

172 Antes de 1979 estate

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

Notes to the consolidated financial statements

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

21. Other liabilities

Following is a summary of other liabilities:

	December 31,	December 31,
	2019	2018
Accruals and other accumulated expenses	11,901	8,602
Accounts payable	2,52 6	453
Others	2,722	4,560
	17,149	13,615

22. Earnings per share

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

	December 31, 2019	December 31, 2018	December 31, 2017
(Thousands of U.S. dollars)			
Profit for the year	86,053	11,138	81,999
(U.S. dollars)			
Basic earnings per share	2.17	0.28	2.09
Diluted earnings per share	2.17	0.28	2.08
(Thousands of shares) Weighted average of common shares outstanding applicable to basic EPS	39,575	39,543	39,311
Effect of diluted securities: Stock options and restricted stock units plan	-	-	18
Adjusted weighted average of common shares outstanding applicable to diluted EPS	39,575	39,543	39,329

Notes to the consolidated financial statements

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

23. Capital and Reserves

A. Common stock and additional paid-in capital

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, exchanging one share for another share.

The following table provides detailed information on the movement of the shares by class for each of the years ended December 31, 2019, 2018 and 2017:

(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, 2017	6,342,189	2,474,468	30,343,390	-	39,160,047
Conversions	-	(64,663)	64,663	-	-
Repurchased 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	<u>-</u>	70,519
Outstanding at December 31, 2017	6,342,189	2,408,805	30,677,840	-	39,428,834
Conversions	-	(64,386)	64,386	-	-
Repurchased common stock	-	(99,193)	(64)	-	(99,257)
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	102,918	-	102,918
Restricted stock units – vested			49,055	<u> </u>	49 ,055
Outstanding at December 31, 2018	6,342,189	2,245,226	30,951,135	-	39,538,550
Conversions	-	(62,799)	62,799	-	-
Repurchased common stock	-	(1)	1	-	-
Restricted stock issued – directors	-	-	57,000	-	57,000
Restricted stock units – vested		<u> </u>	6,727	<u>-</u>	6,727
Outstanding at December 31, 2019	6,342,189	2,182,426	31,077,662	-	39,602,277

Additional paid-in capital

As of December 31, 2019, 2018 and 2017, the additional paid-in capital consists of additional cash contributions to the common capital paid by shareholders.

174 Antes de 1979 estard

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

Notes to the consolidated financial statements

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

23. Capital and Reserves

B. Treasury stock

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

	"Clas	s A"	"Clas	s B"	"Class	s E"	Tot	al
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Outstanding at January 1, 2017	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			<u> </u>	<u> </u>	(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
Repurchase of common stock	-	-	99,193	2,441	64	1	99,257	2,442
Restricted stock issued - directors	-	-	_	_	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation								
plans	-	-	-	-	(102,918)	(2,272)	(102,918)	(2,272)
Restricted stock units - vested			<u> </u>		(49,055)	(1,083)	(49,055)	(1,083)
Outstanding at December 31, 2018	318,140	10,708	689,367	18,711	1,433,781	31,657	2,441,288	61,076
Repurchase of common stock	_	_	_	_	_	_	_	_
Restricted stock issued - directors	_	-	_	_	(57,000)	(1,259)	(57,000)	(1,259)
Restricted stock units - vested	-	-	-	_	(6,727)	(148)	(6,727)	(148)
Outstanding at December 31, 2019	318,140	10,708	689,367	18,711	1,370,054	30,250	2,377,561	59,669

Notes to the consolidated financial statements

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

24. Other comprehensive income

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

	Financial instruments FVH	Financial Instruments CFH	Foreign currency translation adjustment	Total
Balance as of January 1, 2017	(581)	(2,220)		(2,801)
Change in fair value of debt instruments, net of hedging Change in fair value of equity instruments at FVOCI, net of	976	(4,924)	-	(3,948)
hedging Reclassification of gains (losses) on financial instruments included in profit or loss (1)	187 (279)	7,314	- -	187 7,035
Exchange difference in conversion of foreign operating currency	<u> </u>	<u> </u>	1,490	1,490
Other comprehensive income (loss) for the year	884	2,390	1,490	4,764
Balance as of December 31, 2017	303	170	1,490	1,963
Change in fair value of debt instruments, net of hedging Change in fair value of equity instruments at FVOCI, net of	(174)	2,841	-	2,667
hedging Reclassification of gains (losses) on financial instruments included in profit or loss (1)	(1,224)	(1,534)	-	(1,224) (1,704)
Exchange difference in conversion of foreign operating currency			(1,282)	(1,282)
Other comprehensive income (loss) for the year	(1,568)	1,307	(1,282)	(1,543)
Balance as of December 31, 2018	(1,265)	1,477	208	420
Change in fair value of debt instruments, net of hedging Change in fair value of equity instruments at FVOCI, net of	4	(2,698)	-	(2,694)
hedging Reclassification of gains (losses) on financial instruments	491	-	-	491
included in profit or loss ⁽¹⁾ Exchange difference in conversion of foreign operating	157	104	-	261
currency			(296)	(296)
Other comprehensive income (loss) for the year	652	(2,594)	(296)	(2,238)
Balance as of December 31, 2019	(613)	(1,117)	(88)	(1,818)

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

Antes de 1919

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

Notes to the consolidated financial statements

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

24. Other comprehensive income (continued)

The following table presents amounts reclassified from other comprehensive income to profit or loss:

Details about other comprehensive income components	Amount reclassified from other comprehensive income		Line item affected in the consolidated statement of profit or loss	
		December 31,		
	2019	2018	2017	
Realized gains (losses) on securities at FVOCI:	157	87	84	Net gain (loss) on financial instruments
Gains (losses) on derivative financial instruments:				
Foreign exchange forwards	(3,261)	(2,502)	(7,611)	Interest income – loans
	(1,733)	(1,650)	(2,102)	Interest expense – borrowings and deposits
	(61)	(1,530)	7,216	Net gain (loss) on foreign currency exchange
Interest rate swaps	56	4	86	Net gain (loss) on interest rate swaps
Cross-currency swaps	(9)	<u>-</u>	12	Net gain (loss) on cross- currency swaps
	(5,008)	(5,678)	(2,399)	

Notes to the consolidated financial statements

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

25. Fee and commission income

Fee and commission income from contracts with customers broken down by main types of services according to the scope of IFRS 15, are detailed as follows:

December	21	201
December	• •	/ 11 1 '

	Syndications	Documentary and stand-by letters of credit	Other Commissions, net	Total	
Openning and confirmation	-	8,381	1,3 12	9,693	
Negotiation and acceptance	-	39 9	-	399	
Amendment	-	63 2	(27)	605	
Structuring	5,622	-	-	5,622	
Other		94	(766)	(672)	
	5,622	9,506	519	15,647	

December 31, 2018

	December 31, 2010					
	Syndications	Documentary and stand-by letters of credit	Other Commissions, net	Total		
Openning and confirmation	-	9,281	1,738	11,019		
Negotiation and acceptance	-	379	-	379		
Amendment	-	1,020	(151)	869		
Structuring	4,950	-	-	4,950		
Others		87	(119)	(32)		
	4,950	10,767	1,468	17,185		

Fees and commission income from contracts with customers recognized under IAS 18 as of December 31, 2017 are detailed below:

	December 31,
	2017
Commission income - Loans & commitments, net	476
Commission income - Letters of credit	10,430
Commission income - Arrangements	6,608
Total	17,514

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

Notes to the consolidated financial statements

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

25. Fee and commission income (continued)

The following table provides information on the ordinary income that is expected to be recognized on the contracts in force:

			More than 2	
	Up to 1 year	1 to 2 years	years	Total
Ordinary income expected to be recognized on the contracts as of December 31, 2019	1,462	95	1,026	2,583
	Up to 1 year	1 to 2 years	More than 2 years	Total
Ordinary income expected to be recognized on the contracts as of December 31, 2018	1,655	377	761	2,793

26. Business segment information

The Bank's activities are managed and executed in two business segments: Commercial and Treasury. Information related to each reportable segment is set out below. Business segment results are based on the Bank's managerial accounting process, which assigns assets, liabilities, revenue and expense items to each business segment on a systematic basis. The maximum decision-making operating authority of the Bank is represented by the Chief Executive Officer and the Executive Committee, who review the internal management reports for each division at least every six months. 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, mainly from financial instruments at fair value through OCI and financial instruments at fair value through profit or loss, which are included in net other income. 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.

The Commercial Business Segment encompasses the Bank's core business of financial intermediation and fee generating activities developed to cater to corporations, financial institutions and investors in Latin America. These activities include the origination of bilateral short-term and medium-term loans, structured and syndicated credits, loan commitments, and financial guarantee contracts such as issued and confirmed letters of credit, stand-by letters of credit, guarantees covering commercial risk, and other assets consisting of customers' liabilities under acceptances.

Profits from the Commercial Business Segment include (i) net interest income from loans; (ii) fees and commissions from the issuance, confirmation and negotiation of letters of credit, guarantees and loan commitments, and through loan structuring and syndication activities; (iii) gain on sale of loans generated through loan intermediation activities, such as sales in the secondary market and distribution in the primary market; (iv) recovery or impairment loss on financial instruments, as well as gain (loss) in other non-financial assets, net; and (v) direct and allocated operating expenses.

The Treasury Business Segment focuses on managing the Bank's investment portfolio, and the overall structure of its assets and liabilities to achieve more efficient funding and liquidity positions for the Bank, mitigating the traditional financial risks associated with the balance sheet, such as interest rate, liquidity, price and currency risks. Interest-earning assets managed by the Treasury Business Segment include liquidity positions in cash and cash equivalents, and financial instruments related to the investment management activities, consisting of securities at FVOCI and securities at amortized cost. The Treasury Business Segment also manages the Bank's interest-bearing liabilities, which constitute its funding sources, mainly deposits, short- and long-term borrowings and debt.

Notes to the consolidated financial statements

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

26. Business segment information (continued)

Profits from the Treasury Business Segment include net interest income derived from the above mentioned treasury assets and liabilities, and related net other income (net results from derivative financial instruments and foreign currency exchange, gain (loss) on financial instruments at FVTPL, gain (loss) on sale of securities at FVOCI, and other income), recovery or impairment loss on financial instruments, and direct and allocated operating expenses.

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

	December 31, 2019			
	Commercial	Treasury	Total	
Interest income	253,462	20,220	273,682	
Interest expense	(730)	(163,437)	(164,167)	
Inter-segment net interest income	(144,334)	144,334		
Net interest income	108,398	1,117	109,515	
Other income (expense), net	17,835	(693)	17,142	
Total income	126,233	424	126,657	
Impairment loss on financial assets	(744)	314	(430)	
Gain (impairment loss) on non-financial assets	500	-	500	
Operating expenses	(31,183)	(9,491)	(40,674)	
Segment profit (loss)	94,806	(8,753)	86,053	
Segment assets	5,967,157	1,273,678	7,240,835	
Segment liabilities	134,657	6,081,693	6,216,350	

	1	December 31, 2018				
	Commercial	Treasury	Total			
Interest income	239,976	18,514	258,490			
Interest expense	-	(148,747)	(148,747)			
Inter-segment net interest income	(130,195)	130,195				
Net interest income	109,781	(38)	109,743			
Other income (expense), net	18,002	(156)	17,846			
Total income	127,783	(194)	127,589			
Impairment loss on financial assets	(57,621)	106	(57,515)			
Impairment loss on non-financial assets	(5,967)	-	(5,967)			
Operating expenses	(37,436)	(11,482)	(48,918)			
Segment profit (loss)	26,759	(11,570)	15,189			
Segment assets	5,734,159	1,858,333	7,592,492			
Segment liabilities	12,985	6,588,995	6,601,980			

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

Notes to the consolidated financial statements

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

26. Business segment information (continued)

Other assets - unallocated

Liabilities from reportable segments

Other liabilities - unallocated

Total assets

Liabilities:

Total Liabilities

		December 31, 2017	
	Commercial	Treasury	Total
Interest income	213,326	12,753	226,079
Interest expense	-	(106,264)	(106,264
Inter-segment net interest income	(92,745)	92,745	
Net interest income	120,581	(766)	119,815
Other income (expense), net	18,926	(428)	18,498
Total income	139,507	(1,194)	138,313
Impairment loss (gain) on financial assets	(9,928)	489	(9,439)
Gain (impairment loss) on non-financial assets	-	-	-
Operating expenses	(35,916)	(10,959)	(46,875
Segment profit (loss)	93,663	(11,664)	81,999
Segment assets	5,481,628	774,681	6,256,309
Segment liabilities	13,214	5,191,170	5,204,384
Reconciliation on informatiln on reportable segments			
	2019	2018	2017
Profit (loss) for the period	86,053	15,189	81,999
Impairment loss on non-financial assets - unallocated		(4,051)	_
Total profit (loss) for the period	86,053	11,138	81,999
Assets:			
Assets from reportable segments	7,240,835	7,592,492	6,256,309

The Bank applied IFRS 16, as of January 1, 2019, using the modified retrospective approach to recognize right-of-use assets for \$17.4 million presented within equipment and leasehold improvements and lease liabilities for \$20.9 million.

8,831

7,249,666

6,216,350

6,233,499

17,149

16,693

7,609,185

6,601,980

6,615,595

13,615

11,438

6,267,747

5,204,384

5,224,935

20,551

As of December 31, 2019 assets and liabilities were allocated between Commercial and Treasury segments.

Antes de 191

Notes to the consolidated financial statements

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

26. Business segment information (continued)

As a result of the adoption of the new standard, certain amounts related to equipment and leasehold improvements and intangibles were reclassified for presentation purposes in the consolidated financial statement.

Geographic information

The geographic information analyses the Bank's revenue and non-current assets by the Bank's country of domicile and other countries. In presenting the geographic information below, segment revenue is based on customer's country risk and segment non-current assets are based on the geographic location of the assets.

2019	Panama	Brazil	M exico	Colombia	Costa Rica	Ecuador	Argentina	Other	Total
Total revenues	8,649	13,122	18,757	10,348	10,702	13,640	14,889	36,550	126,657
Non-current assets*	20,976	222	1,510	55	-	-	185	725	23,673
2018	Panama	Brazil	M exico	Colombia	Costa Rica	Ecuador	Argentina	Other	Other
Total revenues	13,913	17,887	14,577	15,440	11,115	10,414	9,959	34,284	127,589
Non-current assets*	6,520	126	1,495	7	-	-	37	134	8,319
2017	Panama	Brazil	M exico	Colombia	Costa Rica	Ecuador	Argentina	Other	Other
Total revenues	10,829	27,908	17,451	18,465	11,814	9,545	6,975	35,326	138,313
Non-current assets*	15,934	88	1,702	16	-	-	33	192	17,965

^{*} Includes equipment and lesehold improvements, intangibles and investment property

Disaggregation of revenue from contract with customers

As of December 31, 2019, 2018, and 2017, respectively, the Bank has no customer, either individually or as group of companies, that represents more than 10% of the total revenues.

27. Related party transactions

The detail of the assets and liabilities with related private corporations and financial institutions is as follows:

	December 31,	Decembre 31,	
	2019	2018	
Assets			
Demand deposits	3,812	5,179	
Loans, net	49,101	201,762	
Securities at fair value through other comprehensive income, net	<u> </u>	2,913	
Total asset	52,913	209,854	
Liabilities			
Demand deposits	-	200,000	
Time deposits	120,000	40,000	
Total liabilities	120,000	240,000	
Contingencies			
Stand-by letters of credit	20,000	-	
Loss allowance	(49)	-	

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

Notes to the consolidated financial statements

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

27. Related party transactions (continued)

The detail of income and expenses with related parties is as follows:

December, 31			
2019	2018	2017	
2,837	2,751	985	
		_	
(3,927)	(984)	(530)	
(645)	_	_	
(4,572)	(984)	(530)	
(1,735)	1,767	455	
132	1	-	
(41)	41	-	
<u>-</u>	1	<u>-</u>	
91	43		
(899)	-	-	
(409)	(2,287)	-	
(1,308)	(2,287)		
(2,952)	(477)	455	
	2,837 (3,927) (645) (4,572) (1,735) 132 (41) 91 (899) (409) (1,308)	2,837 2,751 (3,927) (984) (645) - (4,572) (984) (1,735) 1,767 132 1 (41) 41 - 1 91 43 (899) - (409) (2,287) (1,308) (2,287)	

⁽¹⁾ This caption includes the financial cost relating to leases and depreciation expense for the right-of-use assets that rises from the lease contract with related parties where the Bank acts as a lessee through September 30, 2019.

The total compensation paid to directors and the executives as representatives of the Bank amounted to:

	December 31,			
	2019	2018	2017	
Expenses:				
Compensation costs to directors	2, 289	2,331	2,581	
Compensation costs to executives	3, 244	4,943	3,299	

Compensation costs to directors and executives, include annual cash retainers and the cost of granted restricted stock and restricted stock units.

28. Salaries and other employee expenses

	December 31, 2019	December 31, 2018	December 31, 2017
Wages and salaries	13,232	18,487	16,191
Payroll taxes	1,721	2,120	2,629
Personnel benefits	8,867	6,732	8,644
Share-based payments	359	650	189
Total	24,179	27,989	27,653

Notes to the consolidated financial statements

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

28. Salaries and other employee expenses (continued)

A. 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.

i. 2015 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 who has the authority at 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. This plan was updated in October 2015, modified and renamed as "2015 Stock Incentive Plan"

Restricted stocks are issued at the grant date but are withheld by the Bank until the vesting date. Restricted stock is 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 or disposes of treasury stock and delivers common stock at the vesting date of the restricted stock units.

During 2019, 2018 and 2017, 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 2019, 2018 and 2017, the Board of Directors granted 57,000, each year, 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 17, 2019, April 11, 2018 and April 19, 2017. The fair value of restricted stock granted totaled \$1.3 million in 2019, \$1.6 million in 2018, and \$1.6 million in 2017, of which \$570 thousand, \$739 thousand and \$788 thousand were recognized in profit or loss during 2019, 2018 and 2017, respectively.

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

Notes to the consolidated financial statements

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

28. Salaries and other employee expenses

A. Cash and stock-based compensation plan

Restricted stock – Directors (continued)

The total expense recognized in profit or loss during 2019, 2018 and 2017 of restricted stock – directors amounted \$1.4 million, \$1.5 million and \$1.7 million, respectively. The remaining cost pending amortization of \$1.1 million at December 31, 2019 will be amortized over 2.3 years.

Restricted stock loses 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 restricted stock granted to Directors is presented below:

		Weighted
		average grant
	Shares	date fair value
Outstanding at January 1, 2017	96,900	27.86
Granted	57,000	27.80
Vested	(61,950)	28.50
Outstanding at December 31, 2017	91,950	27.40
Granted	57,000	28.70
Vested	(45,300)	28.07
Outstanding at December 31, 2018	103,650	27.82
Granted	57,000	22.68
Vested	(51,300)	27.19
Outstanding at December 31, 2019	109,350	25.44
Expected to vest	109,350	

The fair value of vested stock during the years 2019, 2018 and 2017 was \$1.4 million, \$1.3 million and \$1.8 million, 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 \$355 thousand in 2019, \$581 thousand in 2018 and \$650 thousand in 2017. The distribution of the fair value was in restricted stock units.

Restricted stock units

The fair value of the restricted stock units was based on the "Class E" stock closing price in the New York Stock Exchange on the grant 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 the accelerated method. During 2019, 2018 and 2017, the cost recognized in profit or loss as a result of the amortization of these grants totaled \$359 thousand, \$503 thousand and \$811 thousand, respectively. The remaining compensation cost pending amortization of \$321 thousand in 2019 will be amortized over 3.1 years.

185

184 Antes de 1979 estate

Notes to the consolidated financial statements

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

28. Salaries and other employee expenses

A. Cash and stock-based compensation plan

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

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

		Weighted average grant	Weighted average remaining contractual	Aggregate
Sha		date fair value	term	intrinsic value
Outstanding at January 1, 2017	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		
Granted	23,412	24.80		
Forfeited	-	-		
Vested	(49,055)	20.90		
Outstanding at December 31, 2018	25,162	24.86		
Granted	23,743	14.95		
Forfeited	-	-		
Vested	(6,727)	24.92		
Outstanding at December 31, 2019	42,178	19.27	2.64 years	153.20
Expected to vest	42,178	19.27	2.63 years	153.20

The fair value of vested stock during the years 2019, 2018 and 2017 is \$168 thousands, \$1.0 million, and \$1.4 million, respectively.

Stock purchase options

The Bank's policy indicates that options expire seven years after the grant date and are exercisable at a rate of 25% each year on the grant date's anniversary.

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

Notes to the consolidated financial statements

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

28. Salaries and other employee expenses

A. Cash and stock-based compensation plan

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

Related cost recognized in profit or loss during 2018 and 2017 as a result of the amortization of these plans that amounted to \$14 thousand and \$118 thousand, respectively.

Weighted

187

A summary of stock options granted is presented below:

		Weighted average	average remaining contractual	Aggregate intrinsic
	Options	exercise price	term	value
Outstanding at January 1, 2017	485,845	26.87		
Granted	-	-		
Forfeited	(69,934)	28.63		
Exercised	(142,268)	24.84		
Outstanding at December 31, 2017	273,643	27.48		
Granted	-	-		
Forfeited	(28,315)	29.25		
Exercised	(102,918)	24.55		
Outstanding at December 31, 2018	142,410	29.25		
Granted	-	-		
Forfeited	-	-		
Exercised		-		
Outstanding at December 31, 2019	142,410	29.25	2.11 years	
Exercisable	142,410	29.25	2.11 years	-
Expected to vest	142,410	29.25	2.11 years	-

During 2019 there were no options exercised. The intrinsic value of exercised options during the years 2018 and 2017 was \$406 thousand and \$593 thousand, respectively.

During 2018 and 2017, the Bank received \$2.5 million and \$3.5 million, 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 2019, 2018 and 2017, the Bank charged to salaries expense \$87 thousand, \$102 thousand and \$163 thousand, respectively, that correspond to the Bank's contributions to this plan.

186 Antes de 1919 Plades

Notes to the consolidated financial statements

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

29. Other expenses

	December 31,	December 31,	December 31,	
	2019	2018	2017	
Administrative	5,560	6,391	6,846	
Professional services	3,487	4,293	3,911	
Maintenance and repairs	1,770	2,912	1,673	
Regulatory fees	994	1,246	977	
Rental - office and equipment	658	2,913	2,394	
Advertising and marketing	290	337	683	
Other	180	379	322	
Total	12,939	18,471	16,806	

30. Litigation

Bladex is not engaged in any litigation that is significant to the Bank's business or, to the best of the knowledge of Bank's management, that is likely to have an adverse effect on its business, consolidated financial position or its consolidated financial performance.

31. Applicable laws and regulations

Liquidity index

Rule No. 2-2018 issued by the Superintendence of Banks of Panama (SBP) establishes that every general license or international license bank must guarantee, with a higher level of confidence, that it is in the position to face its intraday liquidity obligations in a period when liquidity pressure may affect the lending market. For that purpose, the Superintendence of Banks of Panama has established a short-term liquidity coverage ratio known as "Liquidity Coverage Ratio or LCR". This ratio is measured through the quotient of two amounts, the first one corresponds to the high-quality liquid assets and the second one corresponds to the net cash outflows in 30 days.

As of December 31, 2019 and 2018, the minimum LCR to be reported to the SBP was 25% for both periods. The Bank's LCR as of December 31, 2019 and 2018 was 131% and 238%, respectively.

Rule No. 4-2008 issued by the SBP establishes that every general license or international license bank must maintain, always, a minimum balance of liquid assets equivalent to 30% of the gross total of its deposits in the Republic of Panama or overseas up to 186 days, counted from the reporting date. The formula is based on the following parameters:

As of December 31, 2019 and 2018, the percentage of the liquidity index reported by the Bank to the regulator was 100.36% and 124.39%, respectively.

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

Notes to the consolidated financial statements

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

31. Applicable laws and regulations (continued)

Capital adequacy

The Banking Law in the Republic of Panama and the Rules No. 01-2015 and 03-2016 require that the general license banks maintain a total capital adequacy index that shall not be lower, at any time, than 8% of total assets and off-balance sheet irrevocable contingency transactions, weighted according to their risks; and ordinary primary capital that shall not be less than 4.5% of its assets and off-balance sheet transactions that represent an irrevocable contingency, weighted based on their risks; and a primary capital that shall not be less than 6% of its assets and off-balance sheet transactions that represent an irrevocable contingency, weighted based on their risks.

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with capital requirements imposed by local regulator and maintains strong credit ratings and healthy capital ratios to support its business and to maximize shareholder value.

The Bank manages its capital structure and adjusts it according to changes in economic conditions and the risk characteristics of its activities. 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, 2019	December 31, 2018
Tier 1 capital	1,026,125	995,743
Risk weighted assets	5,937,648	5,830,875
Tier 1 capital ratio	17.28%	17.08%

Leverage ratio

Article 17 of the Rule No. 1-2015 establishes the leverage ratio of a regulated entity by means of the quotient between the ordinary primary capital and the total exposure for non-risk-weighted assets inside and outside the statement of financial position established by the SBP. For the determination of the exposure of off-balance-sheet operations, the criteria established for credit and counterparty credit risk positions will be used. The exposure of the derivatives will be the fair value at which it is recorded in the entity's assets.

The leverage ratio cannot be lower, at any time, than 3%. The Bank will inform to SBP as often as the compliance with the leverage ratio is determined.

	December 31, 2019	December 31, 2018
Ordinary capital	890,106	859,725
Non-risk-weighted assets	7,323,187	7,779,919
Leverage ratio	12.15%	11.05%

Notes to the consolidated financial statements

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

31. Applicable laws and regulations (continued)

Specific credit provisions

Rule No. 4-2013, modified by Rule No. 8-2014, states that the specific provisions are originated from the objective and concrete evidence of impairment. These provisions must be established for credit facilities classified according to the risk categories denominated as: special mention, substandard, doubtful, or unrecoverable, both for individual credit facilities as for a group of such facilities. In the case of a group, it corresponds to circumstances that indicate the existence of deterioration in credit quality, although individual identification is still not possible.

Banks must calculate and maintain at all times the amount of the specific provisions determined by the methodology specified in this Rule, which takes into account the balance owed of each credit facility classified in any of the categories subject to provision, mentioned in the paragraph above; the present value of each guarantee available in order to mitigate risk, as established by type of collateral; and a weighting table that applies to the net exposure balance subject to loss of such credit facilities.

Article 34 of this Rule establishes that all credits must be classified in the following five (5) categories, according to their default risk and loan conditions, and establishes a minimum reserve for each classification: normal 0%, special mention 20%, substandard 50%, doubtful 80%, and unrecoverable 100%.

If there is an excess in the specific provision, calculated in accordance with this Rule, compared to the provision calculated in accordance with IFRS, this excess will be accounted for as a regulatory credit reserve in equity and will increase or decrease with appropriations from/to retained earnings. The balance of the regulatory credit reserve will not be considered as capital funds for calculating certain ratios or prudential indicators mentioned in the Rule.

Based on the classification of risks, collateral and in compliance with SBP Rule No. 4-2013, the Bank classified the loan portfolio as follows:

December 31, 2019

Loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Corporations	2,487,859	13,595	-		61,845	2,563,299
Banks:						
Private	2,692,787	-	-	-	-	2,692,787
State-owned	589,690	<u>-</u>	<u>-</u>	<u>-</u>		589,690
	3,282,477		_	<u> </u>		3,282,477
Sovereign	47,221	_	_			47,221
Total	5,817,557	13,595	-		61,845	5,892,997
Allowance for loan						
losses IFRS (*):	42,396	2,338			54,573	99,307

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

Notes to the consolidated financial statements

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

51,346

31. Applicable laws and regulations (continued)

Specific credit provisions (continued)

December 31, 2018

Loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Corporations	2,571,907			64,701	-	2,636,608
Banks:						
Private	2,458,690	-	-	-	-	2,458,690
State-owned	624,100	-	-	-	-	624,100
	3,082,790			_		3,082,790
Sovereign	59,026			-	-	59,026
Total	5,713,723			64,701		5,778,424
Allowance for loan						

As of December 31, 2019, there are no restructured loans. As of December 31, 2018, the total restructured loans amounted to \$9.0 million.

Specific credit provisions (continued)

losses IFRS (*):

For statutory purposes only, non-accruing loans are presented by category as follows:

December 31, 2019

49,439

100,785

Non-accruing loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Impaired loans		-			61,845	61,845
Total					61,845	61,845
						_

December 31, 2018

Non-accruing loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Impaired loans				64,701		64,701
Total	_			64,701		64,701

190 Antes de 1919 Pleder

^(*) As of December 31, 2019 and December 31, 2018, there is no excess in the specific provision calculated in accordance with Agreement No. 8-2014 of the SBP, over the provision calculated in accordance with IFRS.

Notes to the consolidated financial statements

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

31. Applicable laws and regulations (continued)

Specific credit provisions (continued)

Credit risk coverage - dynamic provision

Dec	cember 31, 2019	December 31, 2018
Non-accruing loans:		
Private corporations	61,845	64,701
Total non-accruing loans	61,845	64,701
Interest that would be reversed if the loans had been classified as non-accruing loans	1,379	1,056
Income from collected interest on non-accruing loans	631	2,879

The SBP by means of Rule No. 4-2013, establishes the compulsory constitution of a dynamic provision in addition to the specific credit provision as part of the total provisions for the credit risk coverage.

The dynamic provision is an equity item associated to the regulatory capital but does not replace or offset the capital adequacy requirements established by the SBP.

Methodology for the constitution of the regulatory credit reserve

The Superintendence of Banks of Panama by means of the General Resolution of Board of Directors SBP-GJD-0003-2013 of July 9, 2013, establishes the accounting methodology for differences that arise between the application of the International Financial Reporting Standards (IFRS) and the application of prudential regulations issued by the SBP; as well as the additional disclosures required to be included in the notes to the consolidated financial statements.

The parameters established in this methodology are the following:

- 1. The calculations of accounting balances in accordance with IFRS and the prudential standards issued by the SBP will be carried out and the respective figures will be compared.
- 2. When the calculation made in accordance with IFRS results in a greater reserve or provision for the bank compared to the one resulting from the use of the prudential standards issued by the SBP, the Bank will account the IFRS figures.
- 3. When the impact of the use of prudential standards results in a greater reserve or provision for the Bank, the effect of the application of IFRS will be recognized in profit or loss, and the difference between IFRS calculation compared to the prudential standards calculation will be appropriated from retained earnings as a regulatory credit reserve. If the bank does not have sufficient retained earnings, the difference will be presented as an accumulated deficit account.
- 4. The regulatory credit reserve mentioned in paragraph 3 of this Rule may not be reversed against the retained earnings as long as there are differences between IFRS and the originated prudential regulations.

Considering that the Bank presents its consolidated financial statements under IFRS, specifically for its expected credit reserves under IFRS 9, the line "Regulatory credit reserve" established by the SBP has been used to present the difference between the application of the accounting standard used and the prudential regulations of the SBP to comply with the requirements of Rule No. 4-2013.

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

Notes to the consolidated financial statements

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

31. Applicable laws and regulations (continued)

As of December 31, 2019 and December 31, 2018, the total amount of the dynamic provision and the regulatory credit reserve calculated according to the guidelines of Rule No. 4-2013 of the SBP is \$136.0 million for both periods, appropriated from retained earnings for purposes of compliance with local regulatory requirements. This appropriation is restricted from dividend distribution in order to comply with local regulations. The provision and reserve are detailed as follows:

	December 31, 2019	December 31, 2018
Dynamic provision	136,019	136,019
Regulatory credit reserve	-	-
	136,019	136,019

Capital reserve

In addition to capital reserves required by regulations, the Bank maintains a capital reserve of \$95.2 million, which was voluntarily established. Pursuant to Article No. 69 of the Banking Law, reduction of capital reserves requires prior approval of SBP.

32. Subsequent Events

Bladex announced a quarterly cash dividend of \$0.385 US dollar cents per share corresponding to the results of the fourth quarter of 2019. The cash dividend was approved by the Board of Directors at its meeting held on February 7, 2020 and it was payable on March 12, 2020 to the Bank's stockholders as of February 26, 2020 record date.

As part of an orderly and programmed succession plan, the Board announced on January 27, 2020, that, effective March 9, 2020, Mr. N. Gabriel Tolchinsky will step down as Chief Executive Officer, and will be succeeded by Mr. Jorge Salas.

Bladex announced a quarterly cash dividend of \$0.25 US dollar cents per share corresponding to the results of the first quarter of 2020. The cash dividend was approved by the Board of Directors at its meeting held on April 8, 2020 and it will be payable on May 13, 2020 to the Bank's stockholders as of April 27, 2020 record date.

The outbreak of the novel Coronavirus disease, also known as COVID-19, initially reported in December of 2019, has spread rapidly as a pandemic among the world's population during the first quarter of 2020. The COVID-19 has negatively affected the economic conditions of companies in most of the countries in the world, causing global uncertainty which can significantly affect Bladex's operations, as well as the operations of its customers, counterparties and suppliers. The duration and severity of the impacts of COVID-19 are uncertain at this time, and the Bank cannot predict the impact it may have in its operations and financial situation, which could be material and adverse. The Bank's Management will continue to monitor and modify the operating and financial strategies in order to mitigate the possible risks that could affect the business.

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