ANNUAL REPORT

Bladex

INDEX

Message to Shareholders

Dear Shareholders

2020 was without a doubt an extremely difficult year for everyone on the planet. The effects of the COVID-19 pandemic have gone beyond what most could have anticipated and have become the catalyst for one of the greatest transformations of our lifetime. How we go about our daily lives, where and how we work, exercise, shop, learn, communicate and, of course, how we do business, will be changed forever.

The impact of this pandemic has also forced governments to implement harsh and unprecedented measures to contain the spread of the virus which triggered a major contraction in international trade, high volatility in financial markets throughout the world and major fluctuations in commodity prices. The nature of the health crisis, and the scale of the economic damage, varies widely from country to country. Some countries have largely reopened their economies, while others are still in the middle of the battle against the virus, or are reverting to closures in the wake of new waves.

The world economy entered a strong recession in 2020, registering a 3.6% decrease in world output, according to IMF estimates, to become the largest contraction in world production since 1946, caused by a general decline in economic activity in both developed and emerging economies. Latin America registered a GDP contraction of -7.4% in 2020. The worst performance since the great depression of the 1930s.

However, some hope is foreseen as prospects for a quick recovery in world trade have improved as merchandise trade expanded more rapidly than expected in the second half of 2020. According to the latest estimates from the World Trade Organization ("WTO"), the volume of world trade is expected to increase by 8.0% in 2021 after having fallen 5.3% in 2020, continuing its rebound from the pandemic-induced collapse that bottomed out in the second quarter of last year.

Nevertheless, the WTO states that such improvement is marred by regional disparities, continued weakness in services trade, and lagging vaccination timetables, particularly in emerging countries across the Globe and in Latin America. Short-term risks to the forecast are firmly on the downside and centered on pandemic-related factors as COVID-19 continues to pose the greatest threat to the outlook for trade, as new waves of infection could easily undermine any hoped-for recovery. Over the medium-to-long term, public debt and deficits could also weigh on economic growth and trade, particularly in highly indebted developing countries in our region.

Jorge Salas
Chief Executive Officer

Miguel Heras Castro
Chairman of the Board of Directors

In this difficult economic environment, Bladex managed to disburse over US$10 billion in short- and medium-term financing, our commercial portfolio reached US$5.6 billion dollars for the year, remaining well diversified and focused on high quality exposures, with 59% deployment in investment grade countries, 54% with financial institutions and 16% with sovereign and state-owned corporations. In addition, exposure to higher risk sectors has been downsized since the onset of COVID-19, such as sugar and airlines, now representing only 1% and 0.9% of the total portfolio, respectively.

Bladex's unique business model − characterized by its short-term foreign trade nature and high-quality borrower base − proved to be a fundamental and comparative advantage throughout the year, allowing us to swiftly recompose the risk in our portfolio, while working closely and attending our clients' needs under tighter credit underwriting standards, as we also strengthen our liquidity levels, supported by broad access to debt capital markets and the continued support of deposits from our Class A shareholders.

Bladex achieved earnings of US$63.6 million in 2020, or US$1.60 per share, compared to US$86.1 million in 2019, or US$2.17 per share, representing a Return on Average Equity (ROAE) of 6.2% denoting sustainable results as Bladex's unique business model represents a key advantage in a year deeply impacted by COVID-19 pandemic and prevailing market uncertainty.

Reviewing the balance sheet, the year closed with a total of US$44.6 millions in allowance for credit losses or 0.75% of the total Credit Portfolio, while the impaired portfolio stood at 0.22% of total loans, which highlights the strengths of our business model and the soundness of our loan portfolio.

By the end of the year, the Bank reduced its liquidity position, which stood at 1 billion dollars at December 31, representing 17% of total assets, while its funding was well distributed among various regions, terms and sources, including ample and constant access to interbank and debt capital markets, 60% of which was a deposit base that totaled US$3.1 billion. The continued growth in the Bank's deposit base denotes the growth of its new Yankee CD program which complements the short-term funding structure, and the steady support from the Bank's Class A shareholders, which represented 50% of total deposits at the end of 2020.

The Bank also maintained a solid Basel III Tier 1 capital ratio of 26%, after having kept the annual dividend at US$1 per share.

Bladex's solid financial position remains intact, despite all the challenges faced throughout a very complex economic year and is underlined by the Bank's ability to deliver sustainable and quality results, with a healthier and well-diversified asset composition, and a stronger funding structure with increased tenors and diversification.

Because of the volatile nature of the Latin American Region in which we operate, the Bank has historically maintained a solid capitalization which, in this context, becomes a unique strength, enabling us to keep serving our clients' needs in difficult times like these.

Capital management decisions will be subject to the financial condition of the bank and the economic repercussions of the unprecedented COVID-19 crisis. Capital and liquidity preservation are of paramount importance to the Board and Management of the Bank at this juncture.

In keeping with the Board's commitment to gender diversity in leadership and representation, Isela Costantini and Alexandra Aguirre were appointed as new Directors representing the shareholders of All Classes, in July 2019 and February 2020, respectively as a result of an extensive and thorough selection process carried out by the Board's Compensation Committee. We are extremely lucky to have two board members of their professional experience with robust credentials and the fact that the Compensation Committee of the Bank has decided to nominate these great professionals to be elected in representation of shareholders of All Classes at the Annual Shareholder's meeting is a testament to that commitment.

On the corporate social responsibility front, the work carried during the year by the Crece Latinoamerica-Gonzalo Menendez Foundation, reaffirms the commitment of our Organization to directly support the sustained development of the communities where we are privileged to operate. In 2020 we continued to invest in projects and programs focused mainly on providing educational and personal growth opportunities to children and young people from the most vulnerable sectors, but also contributed to different initiatives aimed at helping those suffering the effects of the pandemic.

On the other hand, our Human Development Department put in place a wellbeing program, which included mental health support, close monitoring of all employees and their families, as well as carrying out many activities aimed at fostering connectivity, communication and engagement amongst our collaborators.

During a crisis, the true meaning of pulling together is revealed. On behalf of the entire Board, we would like to cordially thank all our employees, as they have been at the heart of our success in navigating through the storm. We are very proud of what they have accomplished. We stepped up to support each other so that they could have the ability to support our clients, transitioning well to working in a remote environment without disruption of services to our customers.

It is true that from any vantage point and by any measure 2020 was an unparalleled year. Yet, for all its unique challenges, the year also inspired exceptional levels of resilience, collaboration and determination. Through it all Bladex adapted and adjusted to ensure we continue to deliver on our commitments.

To conclude, we would like to offer our appreciation not only to the Bank's Directors, administration and workforce, but to our customers, and to all our stakeholders. Importantly, we would like to thank our stockholders, once again, for the support and trust they have placed in Bladex and its Board of Directors.

We remain faithful to our corporate values and our commitment to ensure that Bladex continues playing an increasingly important role in the betterment and development of our beloved Latin America.

Miguel Heras Castro
Chairman of the Board of Directors

Jorge Salas
Chief Executive Officer

1

BUSINESS CONTEXT

MACROECONOMIC AND TRADE ENVIRONMENT

In 2020, the Latin American economy faced significant shocks and a highly uncertain environment. This was primarily due to the detrimental effects of the COVID-19 pandemic and the measures implemented to contain its spread. In the face of an adverse and volatile environment, economic activity, inflation and financial conditions in the region were significantly impacted.

The global economic impact of COVID-19 was very difficult to predict, given that it was a shock that simultaneously impacted both supply (affecting production processes) and demand (suspension of investment and consumption decisions, and a further deterioration of confidence), for a Latin America that was already very weak.

Early confinements affected economies in historic proportions. The greatest economic impact came from border closures, containment measures, the disruption of the global supply chain, cancellation of investments, and the slowdown in consumption.

The crisis also triggered a considerable contraction in international trade, sharp fluctuations in commodity prices and high volatility in financial markets.

Furthermore, the containment measures adopted in the vast majority of the world's countries to contain the pandemic have had a significant impact on tourism and related activities such as commercial aviation and hospitality services (restaurants and hotels).

The world economy entered into a sharp recession in 2020, recording a 3.3% decline in world output in 2020, according to IMF estimates. In this regard, it was the largest contraction in world output since 1946, as a consequence of a generalized fall in economic activity in both developed and emerging economies.

As for Latin America's main trading partners, the U.S. experienced a recession, with negative growth of 3.5% and China, on the other hand, grew by 2.3%. In other words, of the major economies, China will be the only one with a positive growth rate. However, although China avoided recession, this was its biggest growth slowdown over the last 40 years.

To cope with the effects of the pandemic, developed and emerging economies implemented unprecedented fiscal and monetary packages, amounting to nearly US$13 trillion in fiscal actions and US$8.5 trillion in monetary action announcements. These measures have cushioned the fall in economic activity, but they have also resulted in high levels of liquidity, which has led to an increase in global indebtedness. In addition, these measures led to a marked decrease in financial volatility, but also contributed to lower profitability and higher risk appetite in financial markets. This situation exacerbated a greater disconnect between financial dynamics and the real economy.

For Latin America, GDP growth of -7.0% in 2020 was well below the positive growth of 1.8% at the beginning of the year and was its worst performance since the Great Depression of the 1930s.

[1, 2] Source: International Monetary Fund (IMF), "World Economic Outlook Update". April 2021.
[3] Source: See International Monetary Fund (IMF), IMF Annual Report 2020: A Year Like No Other. Updated IMF estimates as of the end of December.
[4] See Graph 1. Source: International Monetary Fund (IMF), "World Economic Outlook Update". April 2021.
[5] Source: See International Monetary Fund (IMF), "World Economic Outlook Update". April 2021.

Recessions were recorded in most of the region's major economies: Brazil (-4.1%), Mexico (-8.2%), Argentina (-10.0%), Chile (-5.8%), Peru (-11.1%), and Colombia (-6.8%).

The contraction of GDP in the economies of Latin America and the Caribbean is explained both by the significant decrease in domestic demand in each of its components and by lower external demand.
An important point to note is that the pandemic crisis has manifested itself heterogeneously. Factors such as the capacity of countries to react to the health emergency in the short term and to adopt policies to support the neediest sectors have been key in explaining the dynamics of economic activity during the year. On the other hand, the severity of the confinement of the economies was also heterogeneous, and the economic activity of the countries already exhibited different stages in their economic cycle before the pandemic.

The magnitude of the effects of this crisis on Latin American economies has also been determined by structural factors such as their degree of integration in international trade, their productive structure, social aspects, and the degree of formalization of labor markets.

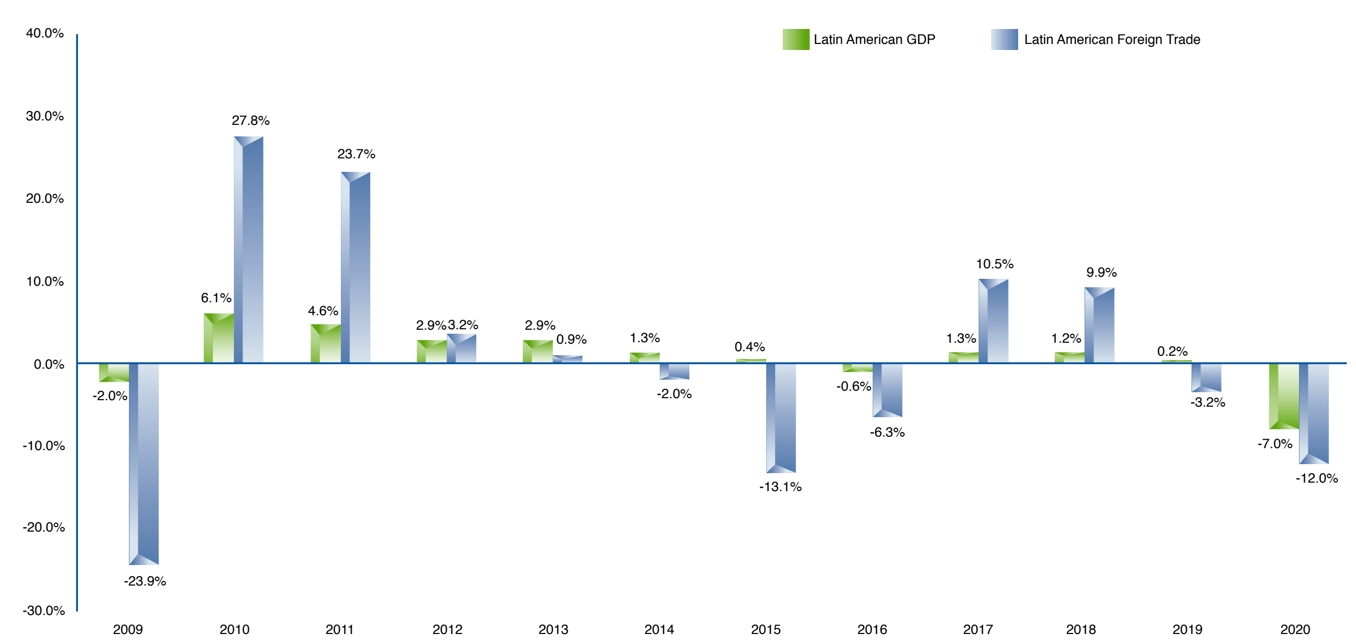
Likewise, foreign trade in the Latin American region decreased by 12.0%. This significant reduction was the result of decreases in commodity prices, reductions in export volumes due to lower external demand, and the contraction of imports due to internal confinement and lower domestic activity.

In terms of economic policies, the countries of the region implemented significant fiscal packages to mitigate the social and economic effects of the pandemic crisis. Thus, fiscal policy became the most important tool. For their part, the central banks of the countries in the region have also reinforced these measures to support aggregate demand and preserve financial stability. These policies have induced a significant expansion of liquidity, as well as an increase in financing directed to sectors of the economies.

In the face of the complicated global situation brought about by the health crisis and the persistence of negative output gaps in the Region, economic policies had to strike a balance between promoting growth and restoring room for maneuver in economic policies. Fiscal policy focused primarily on cushioning the negative effects of the pandemic as a priority in all countries of the region. Monetary policy was able to continue supporting growth as inflation expectations remained stable and well anchored. However, structural reforms aimed at promoting greater openness to trade and investment, stimulating competitiveness and addressing overly strict regulations in the labor market remained pressing tasks on the agenda in Latin America and the Caribbean.

[6] Source: The Economist Intelligence Unit, "Country Risk Service" as of April 2021.
[7] Source: International Monetary Fund (IMF), "Primary Commodity Price" as of April 2021.

GDP and Foreign Trade Evolution



Source: International Monetary Fund (IMF), "World Economic Outlook Update". April 2021.

BUSINESS MANAGEMENT

2

CORPORATE VALUES

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

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

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

Respect: Guides us in our behavior toward our Co-workers, Clients, Shareholders and the Community.

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

MISSION

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

VISION

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

BUSINESS EVOLUTION

2020 was an unprecedented and, therefore, very challenging year for Bladex's markets, as Latin American economic growth was severely impacted by the high uncertainty and volatility caused by the effects of the Covid-19 pandemic, as evidenced by the contraction in regional GDP (estimated at -7.4%).

Bladex's business is built upon the Commercial and Treasury segments, and in 2020 it became particularly important to maintain a sustained balance between managing the Commercial Portfolio origination and maintaining the aimed levels of liquidity, underlining the proper management of margins both on the assets and on the liabilities side. Bladex remains in a solid financial position, which emphasizes the Bank's ability to report sustainable and quality results, with a robust, diversified and well-matched asset composition and funding structure.

Bladex's unique business model, characterized by its short-term foreign trade nature and the high credit quality of its client base, proved to be a fundamental and differentiating advantage throughout the year, enabling the Bank to nimbly recompose its portfolio's risk. In 2020, Bladex worked especially closely on its clients' needs via teleworking and under stricter credit approval standards. In addition, Bladex was supported by having broad access to debt markets and its deposit base with the predominance of Class "A" shareholders, thus strengthening the Bank's liquidity levels.

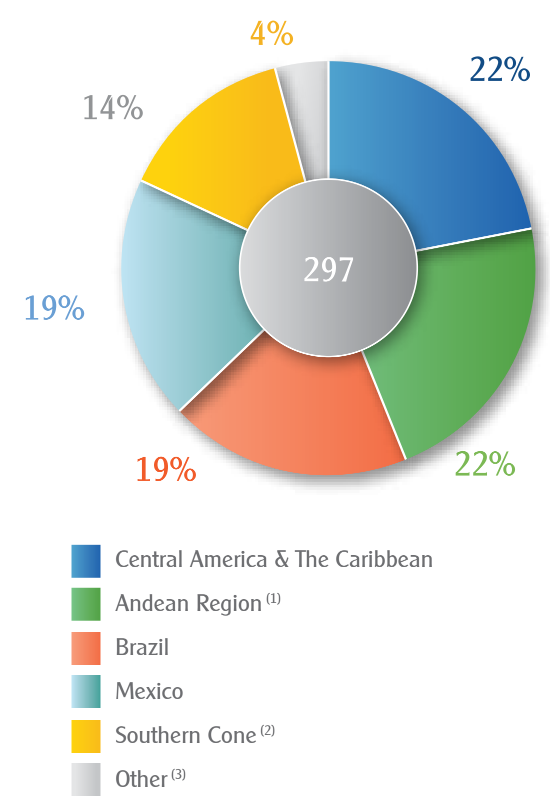
The Bank's Commercial Portfolio reached US$5.6 billion as of December 31, 2020, a 15% decrease from pre-Covid levels a year ago. Average balances of the Commercial Portfolio reached US$5.4 billion for 2020 (-11% year-on-year), highlighting its recovery in growth during the second half of the year; medium-term reached 39% of the total compared to 42% in 2019.

The Commercial Portfolio remained well balanced, with almost 60% in lower-risk countries and over half with leading financial institutions, 54% of the total. In the corporate sector, diversification and defensiveness were maintained. The oil and gas sectors accounted for 7% of the total, followed by a relatively large participation in the food and beverage and the electric power industries, each contributing 6% of the total. Additionally, the Bank maintained minimal exposure in high risk sectors related to the pandemic.

On the other hand, we highlight the increase of our investments in good quality Latin American bond instruments and the creation of a portfolio of highly liquid corporate debt securities. The investment portfolio reached US$395 million at year-end (up from US$80 million in 2019), with the dual purpose of improving the return on liquid assets and generating investment alternatives which are complementary to its Commercial Portfolio.

Accumulated Credit Disbursements
(1979-2020) by Region

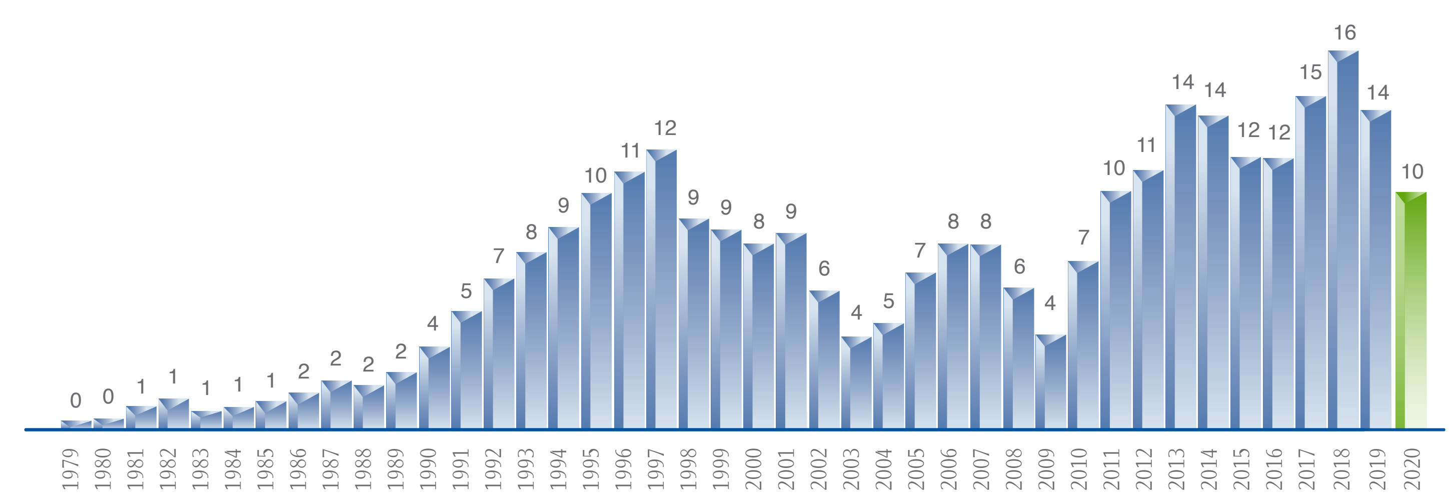
(US$ billion)



(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.

Annual Credit Disbursements

(US$ billion)



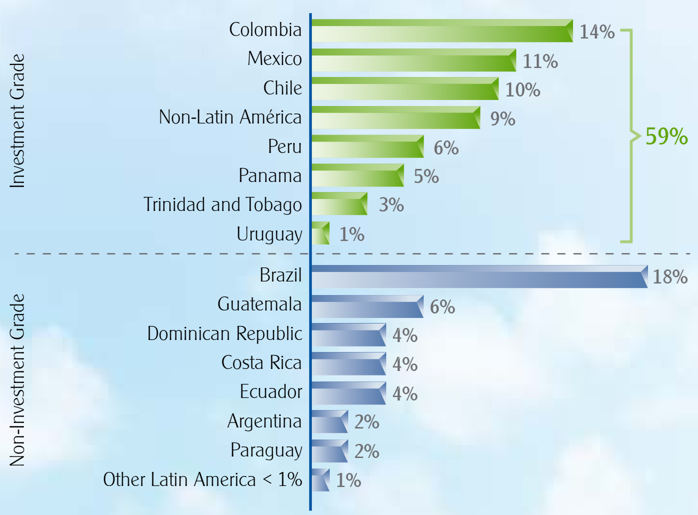
In summary, Bladex has been able to improve the composition, diversification and quality of assets, despite all the challenges faced on numerous fronts during 2020.

2020 Highlights:
- Commercial Portfolio of US$5.6 billion, focusing on lower-risk country exposure and defensive sectors
- Strong level of disbursements > US$8.0 billion in loan origination
- 59% of exposure in investment grade countries
- 75% maturing in less than one year
- Top tier clients (leading financial institution and corporate industries) with no retail exposure
- Continuous risk assessment and close client contact
- Robust credit quality

As of December 31, 2020, trade finance transactions accounted for 57% of the short-term origination, an increase of 4 percentage points above 2019 levels.

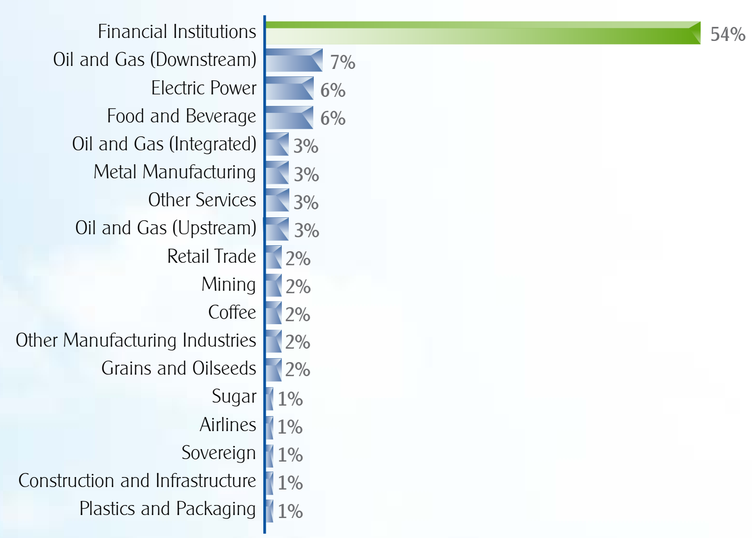
The quality and diversification of Bladex's exposure across geographies and industries represents a comparative advantage in navigating business challenges posed by COVID-19.

Commercial Portfolio by Country Risk



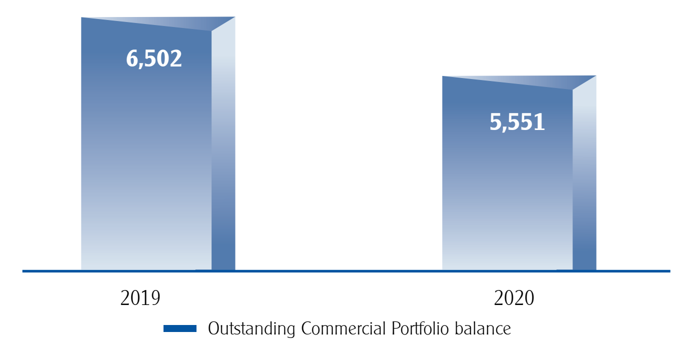
Commercial Portfolio by Sectors

(Year-end 2020)



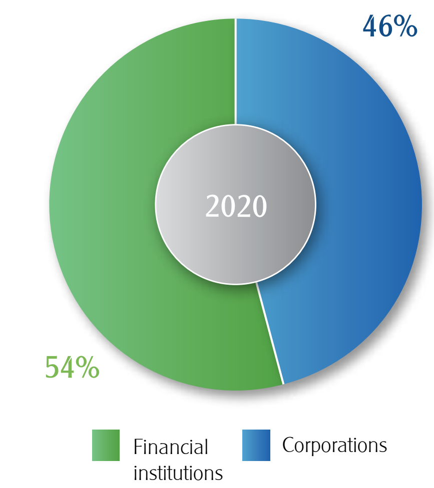
Commercial Portfolio

(Year-end, US$ millions)



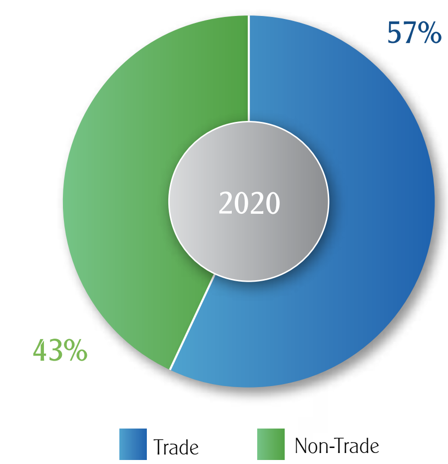
Commercial Portfolio by Type of Client

(Year-end)



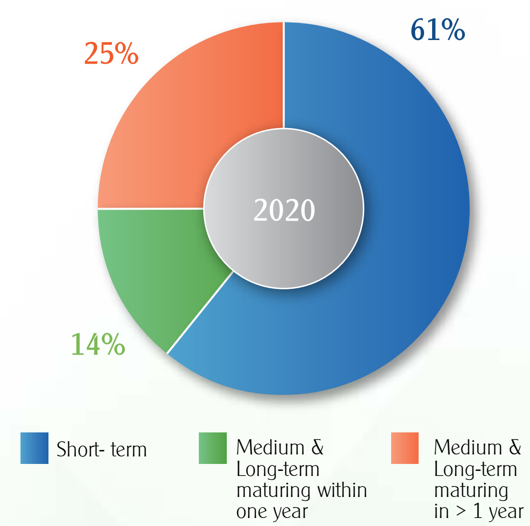
Short Term Commercial Portfolio by Type of Transaction

(Year-end)



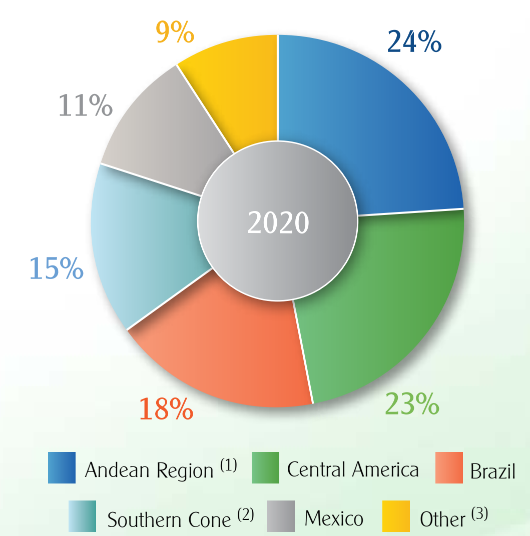
Commercial Portfolio by Original Term

(Year-end)



Commercial Portfolio by Region

(Year-end)



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

FINANCIAL INTERMEDIATION BUSINESS

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

Mexico

Trade Balance 2020*

Exports: -9.3%

Imports: -15.8%

Foreign Trade: -12.6%

39%

in Foreign Trade

Represents

11%

of the total Commercial Portfolio.

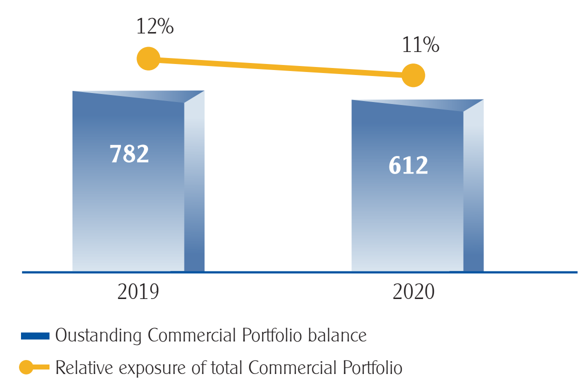
Source: The Economist Intelligence Unit Country Risk Service as of February 2021.

2020 Highlights

- Mexico represented 11% of the Bank's total Commercial Portfolio, equivalent to US$612 million by the end of the period, with a total 39% share of trade transactions and 74% short-term.
- The Mexican economy decreased by -8.2% in 2020 due to the effects of COVID-19 on the different industries and value chains. In addition, there was a contraction of local and foreign investment.
- On the other hand, the entry into force of the new Free Trade Agreement with the United States and Canada contains several conditions that can be considered complex for Mexico to develop its full potential.
- In this environment, Bladex has managed to keep its level of exposure to the country relatively stable and increase its exposure to the financial sector (weight of 24% from 17% in 2019) as well as to defensive sectors such as food and beverages (21% from 14% in 2021).

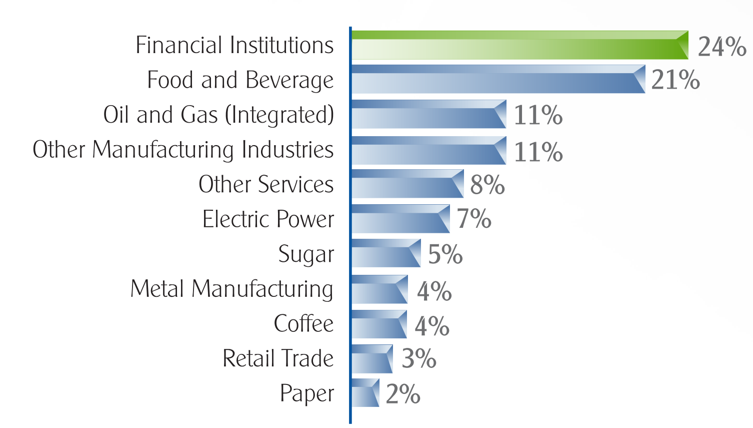
Commercial Portfolio

(Year-end balances, US$ million)



Commercial Portfolio by Sectors

(Year-end 2020)



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

Central America and The Caribbean

Trade Balance 2020*

Exports: -9.0%

Imports: -17%

Foreign Trade: -14.3%

42%

in Foreign Trade

Represents

23%

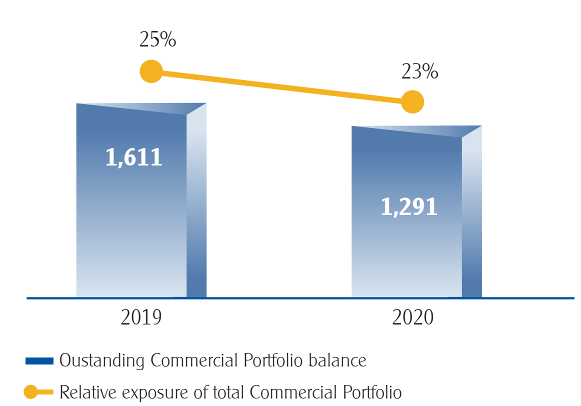
of the total Commercial Portfolio.

Source: The Economist Intelligence Unit Country Risk Service as of February 2021.

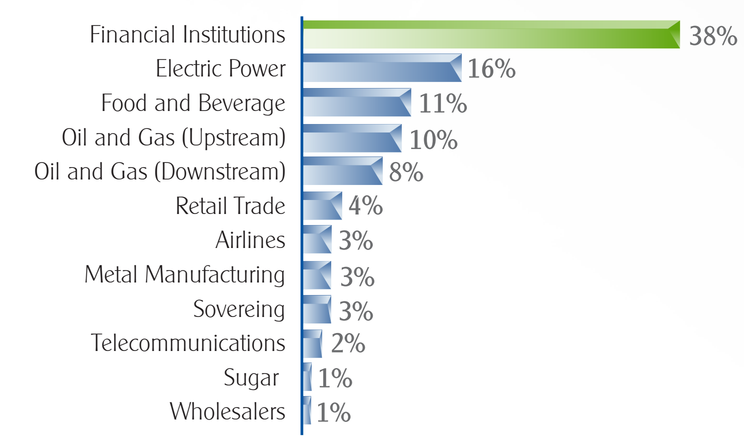
2020 Highlights

- Central America and the Caribbean represents 23% of the Bank's Commercial Portfolio, with US$1,291 million at the end of 2020, 20% lower than the previous year, mainly due to the effects of Covid-19, which led to greater conservatism in credit decisions in the face of the strong macroeconomic deterioration in several Central American countries.
- On the other hand, financial institutions in this region had less funding needs due to the fall in investment and credit demand. The weight of the exposure to financial institutions dropped to 38% from 51% in 2019.
- Country-wise, Panama and Costa Rica maintained their weights at 5% and 4%, respectively, while Guatemala increased to 6% from 5% a year ago. The extended political and macroeconomic deterioration in Nicaragua explains why Bladex's portfolio continues to have no exposure to that country for the third consecutive year.
- The corporate sector continued to gain weight in Central America and the Caribbean, accounting for 62% of the total (up from 49% in 2019), with support for "multilatinas" in key sectors such as power, food and beverage, and oil and gas proving fundamental.
- Central America and the Caribbean is of strategic importance to Bladex due to its important contribution to the Bank's portfolio and results.

Commercial Portfolio
(Year-end balances, US$ million)



Commercial Portfolio by Sectors
(Year-end 2020)



Brazil

Trade Balance 2020*

Exports: -6.7%

Imports: -9.7%

Foreign Trade: -8.0%

51%

in Foreign Trade

Represents

18%

of the total Commercial Portfolio.

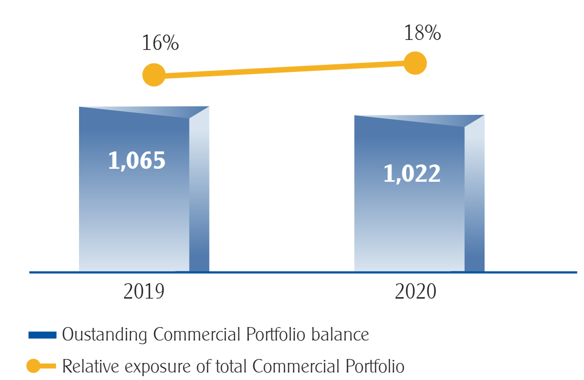
Source: The Economist Intelligence Unit Country Risk Service as of February 2021.

2020 Highlights

- Brazil represented 18% of the Bank's Commercial Portfolio, with US$1,022 million at the end of 2020, a YoY increase of 16%.
- 95%t of Bladex's Commercial Portfolio in Brazil is short-term and 51% is trade.
- Despite the pandemic, GDP contraction was not as strong as expected, coming in at -4.1% (vs. double-digit forecasts). The country saw a rather quick partial economic recovery, leading to increased demand for funding by financial and corporate institutions in the second half of the year.
- The portfolio continues to be characterized by strong exposure to the banking sector, with a 91% weight in financial institutions, from 81% in 2019, represented by Brazilian entities of high creditworthiness and credit quality with high use of their lines.
- Bladex's presence in the corporate sector is concentrated in foreign trade-related activities, which are key for the country. These are defensive sectors that showed good export growth and benefited from the devaluation of the Brazilian Real and the recovery of China's demand for hard and soft commodities.

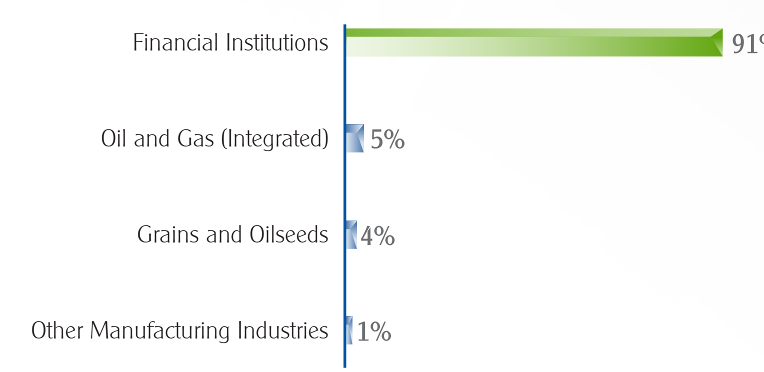
Commercial Portfolio

(Year-end balances, US$ million)



Commercial Portfolio by Sectors

(Year-end 2020)



Andean Region

Trade Balance 2020*

Exports: -18.0%
Imports: -21.0%
Foreign Trade: -19.2%

44%

in Foreign Trade

Represents

24%

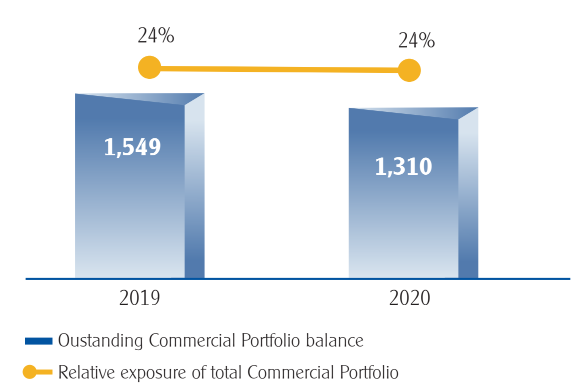
of the total Commercial Portfolio.

Source: The Economist Intelligence Unit Country Risk Service as of February 2021.

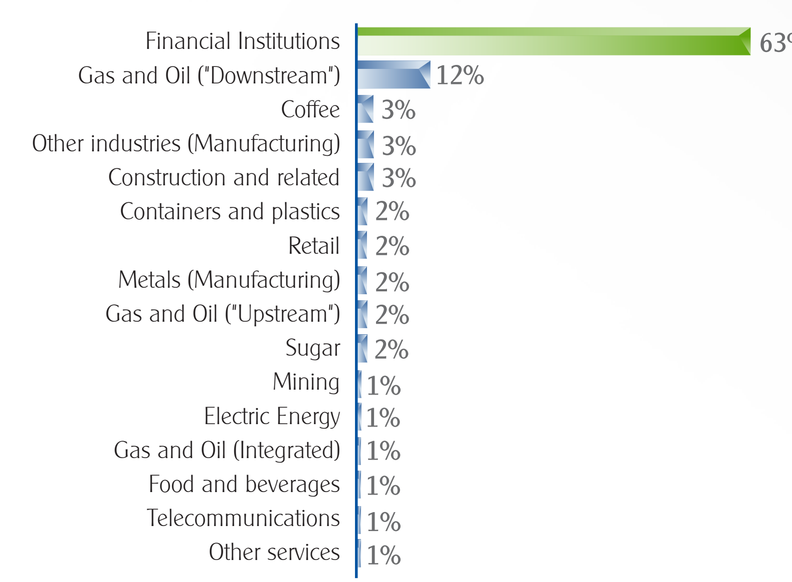
2020 Highlights

- Andean Region: Bolivia, Colombia, Ecuador, and Peru
- The Andean region represented 24% of the total Commercial Portfolio reaching US$1.31 billion, maintaining its relative weight in the portfolio, thanks mainly to the momentum of Peru, which increased its weight to 6% from 2% in 2019, due to the good performance of the corporate and financial segment, while Colombia stood at 14% from 15%, Ecuador decreased to 4% from 7%, and Bolivia remained below 1%.
- Bladex continued to strengthen the regional relationship with its clients as its main point of contact with expertise in all its operating markets, being perceived as their strategic financial ally, despite a Covid-19 threatening environment.
- The portfolio breakdown shows 63% exposure to financial institutions and 37% to the corporate sector, from 65% and 35%, respectively, in 2019.

Commercial Portfolio
(Year-end balances, US$ million)



Commercial Portfolio by Sectors
(Year-end 2020)



Southern Cone

Trade Balance 2020*

Exports: -8%

Imports: -15%

Foreign Trade: -11%

26%

in Foreign Trade

Represents

15%

of the total Commercial Portfolio.

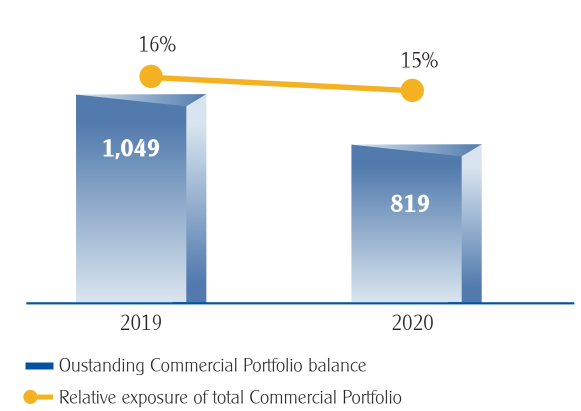
Source: The Economist Intelligence Unit Country Risk Service as of February 2021.

2020 Highlights

- The Southern Cone encompasses the operations carried out by Bladex in Argentina, Chile, Paraguay and Uruguay.
- In 2020, the Commercial Portfolio stood at US$819 million, representing 15% of the Bank's total. In an environment of strong uncertainty and downgraded economic forecasts due to Covid-19, Bladex continued strengthening its portfolio in Chile, which stood at 10% of the total, in line with 11% in 2019, and reducing exposure to Argentina to 1.5%, from 3% in 2019. Meanwhile, the Paraguay portfolio maintained its weight at 2% of the total.
- The result of seizing, in this context, business opportunities in key foreign trade and resilient economic sectors was an increase in the weight in the corporate sector to 50% in 2020, from 39% in 2019.

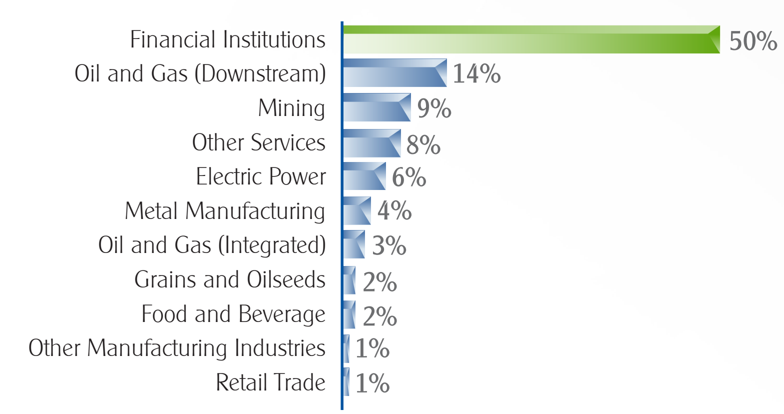
Commercial Portfolio

(Year-end balances, US$ million)



Commercial Portfolio by Sectors

(Year-end 2020)



FEE-GENERATING BUSINESS

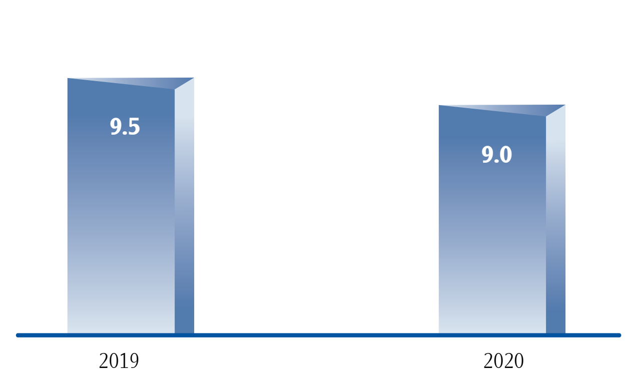
Bladex mainly generates fees through two products: structured and syndicated loans, and commitments or contingencies, such as letters of credit issued and confirmed, stand-by, guarantees and customer obligations under acceptances.

Structuring fees were affected by a significant drop in these types of transactions in the markets due to the paralysis brought about by the pandemic environment. Nevertheless, US$0.6 million of structuring fees were recorded as Bladex participated in the structuring of a syndicated facility and a Club Deal, both for five years and for US$100 million each. The syndicated facility funds were used for acquisition financing and the Club Deal funds were used to improve the client's debt maturity profile.

Conversely, and as is typical of stressed economic cycles, the letters of credit business performed resiliently in both the financial and corporate sectors generating US$9.0 million in fees in 2020, a slight decrease compared to 2019. In this regard, Bladex is recognized by international banks as a reference bank for the confirmation of letters of credit for banks in the region by assuming Latin American risk and offering financial institutions its solid reputation and extensive network of relationships with regional banks and counterparties.

Letter of Credit Fees and Commissions, net*

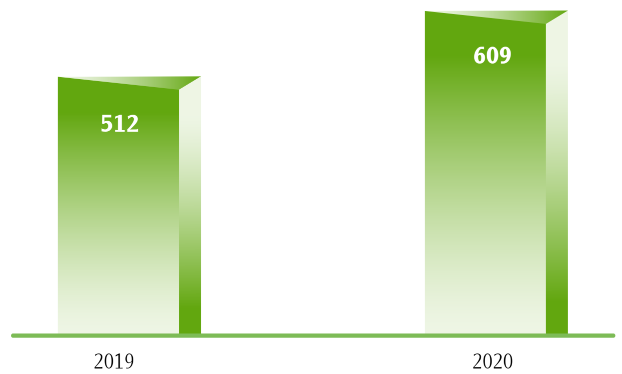
(US$ millions)



(*) Acceptances, credit commitments and financial guarantee contracts

Letters of Credt and Others*

(US$ millions)



(*) Acceptances, loan commitments and and financial guarantee contracts

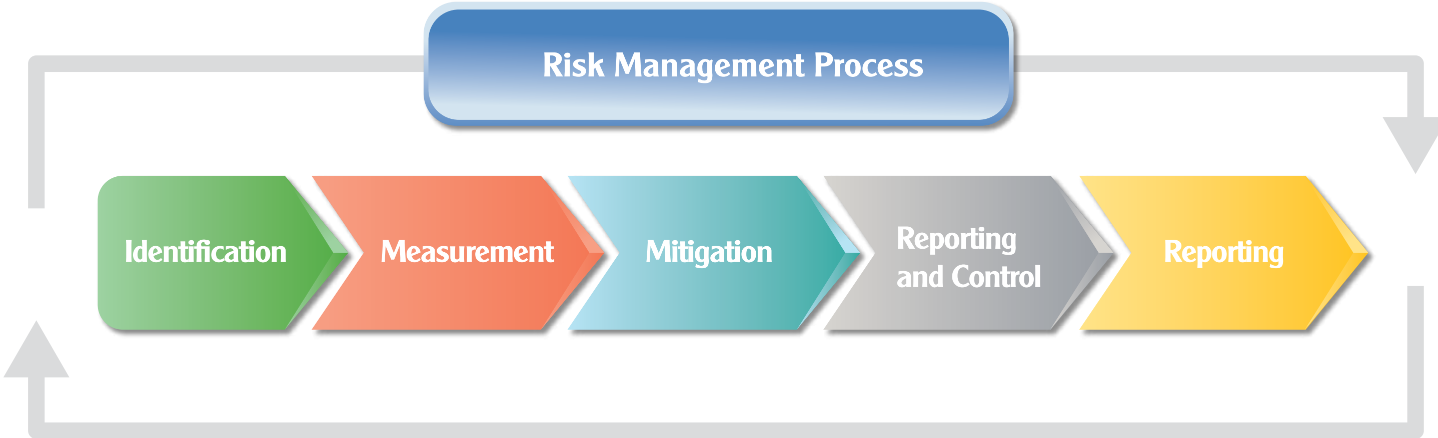
3

RISK MANAGEMENT

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 its inception. 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 implemented in strategic, financial and operational planning processes throughout the entity to ensure that risks are 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.

Structure of the Executive Vice Presidency of Risk Management

The main function of the Risk Management area is to monitor the different risks to which the Bank is exposed, assist in the design of policies and procedures aimed at mitigating them, and subsequently monitor their compliance. To ensure the proper performance of these functions, the Bank has an organizational structure designed to provide a clear separation between the business and risk management areas. The Executive Vice Presidency of Risk Management is structured as follows:

Enterprise Risk Management Risk Management Committees

Risk Policy and Assessment Committee (RPAC) [1]

Reviews and assesses exposure within the risk levels the Bank is willing to assume according to the policies for the different risks it faces in the course of its business, including the quality and profile of credit assets, exposure to market risks and analysis of operational risks, which consider the legal risks of the products offered by the Bank.

Assets and Liabilities Committee [2]

Responsible for the supervision and management of the Bank's liquidity, interest rate and currency mismatches and coordinates disbursement and funding activities in order to optimize earnings and manage risk.

Credit Committees [1, 2]

Approve requests for new credit limits, annual renewals of credit limits, maturity extensions and/or amendments of those economic group and/or individual credit limits for all regions and business areas, including Treasury.

Credit Monitoring and Management Committee [2]

Reviews the situation of clients on watchlist monitoring, in the process of restructuring and/or in an impaired condition requiring review of their structure, strategy, guarantees, and exit plan, among other things.

Operational Risk Committee [2]

Responsible for ensuring the management and control of operational risks, as well as compliance with the Bank's business continuity strategy.

Information Security and Technological Risk Committee [2]

Responsible for overseeing the management and control of risks derived from the use and management of technology, information security and cybersecurity within the Bank.

Country Risk Committee [2]

Responsible for reviewing and recommending to the RPAC changes in the country limit rating and amount, and conditions for its use, for the countries where Bladex operates. Monitors the economic, political and social situation of Latin American countries in which the Bank has financial exposure or potential business.

1/ Board Comittee
2/ Senior Management Comittee

Our framework covers several functions, including 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.
- 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.
- Ensuring 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.

RISK PROFILE

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

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 risk appetite guidelines is subject to 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 "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.

The Bank has identified the risks affecting its business and operations and has organized them into a "risk map", identifying the categories of the risks to which Bladex is most exposed, whether actually or potentially. Risks are classified into two categories: financial and non-financial risks. Financial risks are those associated with the Bank's business model and which impact its balance sheet and income statement. 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.

Financial Risks
- Country Risk
- Credit Risk
- Market Risk
- Liquidity Risk

Credit Risk
- Operational Risk
- Technological and Information Security Risk
- Prevention of Money Laundering, Financing of Terrorism and Proliferation of Weapons of Mass Destruction

Country Risk

The macro-economic situation and business environment in each country where the Bank operates is reviewed and analyzed through the Country Risk Committee. 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 annual review and as many reviews as may be needed, given the business and macro-economic environments.

The Bank has its own internal rating methodology to assess country risk. Each country risk rating considers the assessment of quantitative and qualitative variables specific to the country under analysis, as well as the regional and global macroeconomic environment.

To perform the country risk assessment, the following aspects are considered as a minimum:

I) Macroeconomic situation: Analysis of the country's macroeconomic balances, observing indicators such as GDP growth, inflation rate, interest rate, exchange rate, savings, investment and fiscal situation, also including indicators related to monetary, budgetary, financial sector and balance of payments aggregates, restrictions to capital flows, and other aspects considered necessary for the analysis.

II) External financial situation: The country's capacity to meet its foreign commitments. Indicators such as total external debt, short-term external debt, debt service with respect to Gross Domestic Product (GDP), exports, international reserves, foreign exchange requirements, among others, are analyzed.

III) Access to financing: This considers whether or not the country has access to capital markets and the degree of compliance with agreements with multilateral organizations.

IV) Credit ratings assigned by agencies: This considers the sovereign risk ratings assigned by internationally recognized rating agencies.

V) Political, social and institutional stability: Analysis of situations that may jeopardize the stability of the country, considering whether there are internal conflicts, possibility of disruptions to the rule of law, governance problems, potential conflicts with other countries that may jeopardize the stability of the country's economy, or affect the return of resources invested in the country.

Country Risk Management during the COVID-19 pandemic

The Bank performed ongoing country-level assessments of potential risks associated with the pandemic, considering that the greatest economic impacts were caused by border closures, internal containment, social distancing measures, disruption of the global supply chain, investment cancellations, and slowdown in consumption. Assessments are performed on an individual basis, to be presented and approved at Risk Policy and Assessment Committee (RPAC) meetings.

Credit Risk

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).

Credit Risk Management during the COVID-19 pandemic

Since the beginning of the pandemic, the Bank took a range of measures focused on credit risk management of the portfolio under a context of global uncertainty. Among the main measures taken, the following stand out:

- Regular in-depth reviews of the commercial loan portfolio throughout 2020, enabling effective decision-making to maintain stable portfolio quality.
- Active contact with credit portfolio clients to keep the Bank acquainted of their business performance along with updated financial information, highlighting the impact on their activities, measures adopted and liquidity position maintained to face the current scenario.
- Preparation of a heat map by industry risk, by means of which it was possible to identify those clients whose activity could be most affected, thus reducing exposure in high risk sectors.
- New credit placements were focused on lower risk sectors with clients known to the Bank, with many years of relationship, adequate financial position, excellent payment experience, and good access to credit.
- During the pandemic, a collection factor of over 99% was achieved, which compares favorably with the local and regional financial system.

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 Credit Committee delegated by the Board of Directors and the Risk Policy and Assessment Committee, the members and faculties whereof are summarized as described in the following figure:

	Members	Approval Powers
3rd Instance **Risk Policy and Assessment Committee (RPAC)**	The Board's Risk Policy and Assessment Committee (a minimum quorum of 3 out of 5 members) The Bank's President and CEO The Executive Vice-President Risk Management The Executive Vice-President Commercial	Limits and transactions exceeding US$100 million and up to the legal limit established by the Regulator for individual credits and/or economic groups.
2nd Instance **The Board's Delegated Credit Committee**	2 Directors that are RPAC Members The Bank's CEO The Executive Vice-President Risk Management The Executive Vice-President Commercial	Limits and transactions exceeding US$30 million and up to US$100 million for individual credits and/or economic groups.
1st Instance **Senior Management Credit Committee**	The Bank's President and CEO The Executive Vice-President Risk Management The Executive Vice-President Commercial	Limits and transactions for up to US$30 million for individual credits and/or economic groups.

Credit Loss Reserves Policy

Bladex has internally developed an expected loss model for determining the required provision levels, associated with the possible losses on financial instruments, based 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).

For the last two categories, the provisions are calculated for the lifetime of the transaction. In Stage 3, the specific analysis of individual credit exposures is performed.

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 Bladex's credit risk management process:

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 and Liquidity 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 interest rate risk by closing monitoring the appreciation of assets and liabilities and by entering hedges when warranted to reduce possible negative impacts on earnings and capital.
- Management undertakes regular sensitivity analyses by simulating market changes in interest rates to determine the potential impact on Net Interest Income for the next 12 months. For long-term analyses, management applies sensitivity scenarios ranging from one basis point to 100 basis points and monitors the appreciation or depreciation of assets and liabilities sensitive to interest rate changes.

With regard to Exchange Rate Risk, which corresponds to the change in the market value of a financial instrument due to 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.

With regard to Liquidity Risk, Bladex checks on a daily basis 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), to maintain an adequate long-term funding structure.

Liquidity is controlled through regular review of:

1. Maturity distribution to identify the "gaps" between assets and liabilities in the different time buckets.
2. Deposits concentration 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.

Market and Liquidity Risk Management during the COVID-19 pandemic

At the end of March 2020, the Bank decided to activate the Liquidity Contingency Plan to closely manage the liquidity during the pandemic, thus raising its liquidity requirement and increasing control over credit operation disbursements. Management is closely monitoring the evolution of the global economies as a result of the pandemic.

Operational Risk

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.

Risk Factors

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

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.

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.

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 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.

Operational Risk Management during the COVID-19 pandemic

Since the declaration of COVID-19 as a pandemic by the WHO, the Bank has maintained an active management in the identification of risks associated with the disruption in its operations, in order to mitigate adverse impacts due to it.

In March 2020, considering that the measures imposed by the governments where Bladex maintains offices prevented physical attendance at the main and alternate operations centers, the business continuity plan was put into action, which guaranteed uninterrupted operations under the remote work modality. As a result of the execution of the plan, measures were adopted to address the following fronts:

- Human capital management
- Information security
- Physical facilities
- Customers, suppliers and shareholders
- Regulators and rating agencies
- Social Responsibility

Throughout 2020, there were no business interruptions or other situations that put the Bank's normal operations at risk. In this sense, the execution of the remote work modality proved to have been carried out in an agile and efficient manner.

Information Security and Technological Risk

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.

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.

Strategic Cyber-Security and Information Security Program

The Bank has been developed with a holistic approach, which enables us to cover both technical and strategic measures under a single scheme.

This program is based on four fundamental pillars::

- Perimeter Security
- Service and Infrastructure Security
- User Security
- 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 and Technological Risk during the COVID-19 pandemic

The COVID-19 pandemic has forced the acceleration of digital transformation and associated processes. Similarly, cyber risks have been on the rise and, therefore, adequate mitigating controls must be in place. Bladex does not escape from this situation and has prepared itself with cybersecurity measures and controls, which allow us to keep all employees safe and therefore, the continuity of operations.

In general, being out of the usual operations of the Organization implies an increase in the risk of being a victim of a cyber-attack (malware, phishing). In the case of Bladex, the cybersecurity tools acquired to safeguard the main attack vectors, such as e-mail and end points (laptops), work in cloud mode, which means that they do not need to be connected to the local network to operate.

The following provides more details on the main measures to mitigate the risks of cyber-attacks:

- Email protection: E-mail protection tool. Reviews and takes action on the entire email flow (incoming and outgoing), so that if phishing e-mails, malware or even zero day attacks are found, it is able to stop it.
- End Point Protection: Next generation antivirus, which allows the detection of behavior-based threats. It also has modules for automatic incident detection and response and a 24X7X365 threat hunting service.
- Encrypted and secure communication to access the Bank's resources: a VPN (Virtual Private Network) platform is used to access the Bank's resources (applications, shared folders).
- Continuous analysis of vulnerabilities in critical equipment: daily analysis was carried out for equipment published on the Internet and weekly for internal technological infrastructure equipment.

All this along with continuous monitoring by Information Security, Technology and the outsourced SOC (Security Operation Center).

INFORMATION SECURITY PROGRAM

Perimeter Security

- **Physical and Environmental Security**
  Security Controls to prevent unauthorized access to the sites where the information is processed and stored.

Service and Infrastructure Security

- **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**
  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, containing, eradicating, and providing follow-up to security incidents.
- **Secure Configurations**
  Guidelines and baselines for implementing secure configurations on equipment and systems. There should also be a process for periodically applying security patches.
- **Monitoring**
  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 Security

- **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.

Data Security

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

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

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/FPWMD") 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, Financing of Terrorism and Financing of the Proliferation of Mass Destruction Weapons and Know Your Client and/or Ultimate Beneficiary Manual:** through this manual we have established due diligence mechanisms for our clients, employees, suppliers and correspondents, as well as key procedures and controls for the adequate prevention and management of crimes associated with Money Laundering, Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction.

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 crimes of Money Laundering, Financing of Terrorism or Financing of the Proliferation of Weapons of Mass Destruction.

3. **Review and Monitoring:** we have procedures in place for the ongoing review of clients and their operations, as well as the evaluation and monitoring of employees and third parties related to Bladex. It is the Compliance Area's task to define the requirements for the initiation of a relationship, and Business Executives must ensure that a client complies with all existing requirements at onboarding and throughout the relationship. Constant monitoring makes it possible to identify any changes in a client's transactional profile and to confirm that the client remains within the Bank's guidelines regarding the prevention of the movement of funds stemming from illicit activities.

4. **Audits:** The Bank is subject to oversight and inspection by the Superintendency of Banks of Panama, as well as 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:** The Bank has fundamental policies and guidelines 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, clients and providers.

Bladex is committed to reasonably know all its clients, employees and providers, as well as the management of the operations that are carried out on a daily basis. At the same time, it ensures that this work has the necessary resources to enable the correct application of the institution's controls and procedures.

FINANCIAL PERFORMANCE

4

FINANCIAL PERFORMANCE

Bladex's unique business model – characterized by its short-term foreign trade nature and high-quality borrower base – proved to be a fundamental and differentiating advantage throughout 2020, allowing the Bank to strengthen its asset quality, capitalization and liquidity levels, in a year that posed unprecedented challenges for the markets in which the Bank operates.

As soon as the effects of the COVID-19 pandemic started to unfold, Bladex was able to significantly increase its cash position, continuously maintaining levels well above regulatory liquidity requirements based on Basel III standards, supported by a broad access to debt capital markets, as evidenced by its 144A/Regulation-S bond issuance in September of 2020, as well as by the continued support of its Class A shareholders, who provide a stable deposit base for the Bank. Since March of 2020, Bladex assumed a defensive approach which prioritized liquidity over loan growth, as well as underwriting credit soundness – working closely with and attending to the needs of its client base under tighter credit underwriting standards, all of which resulted in a year-over-year decrease but well-diversified, high quality Credit Portfolio.

The Commercial Portfolio balance, mostly consisting of gross loans at amortized cost, letters of credit and acceptances, amounted to US$5.6 billion at year-end 2020, a 15% annual decrease, on the Bank's defensive approach to favor liquidity over portfolio growth, with a focus on serving its strategic customer base, in client segments and industries that the Bank assessed as being better suited to face the effects of the COVID-19 pandemic. Throughout 2020, Bladex was also able to collect virtually all scheduled credit maturities, in addition to certain voluntary credit prepayments, on the account of the high quality of its borrower base and the short-term nature of its portfolio.

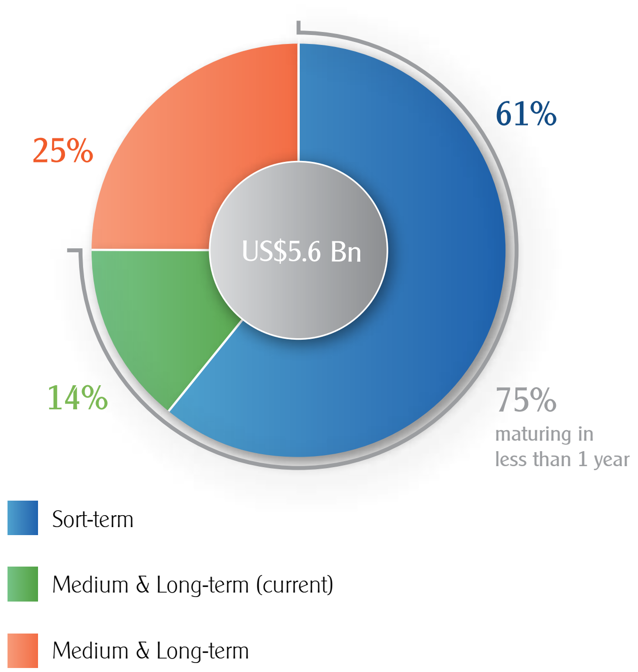
As part of its enhanced credit assessment, Bladex implemented a continuous review process of its entire portfolio on a name by name basis, classifying countries and sectors by risk categories. This process benefited the Bank on gaining a deep understanding of the impacts of COVID-19 on sectors and clients by country, having been in close contact with most of its client base throughout the year. The Bank was able to reduce exposures in sectors identified as high risk, such as airlines, sugar, oil & gas upstream, supply chain and retail, among other.

Overall, during 2020, the Bank focused its portfolio origination towards defensive sectors and under stricter credit underwriting standards, maintaining a well-diversified exposure across countries and industry sectors. The Bank's traditional client base of financial institutions represented 54% of the total Commercial Portfolio at year-end 2020, compared to 56% the year before. The remaining portfolio exposure continued to be scattered across corporate sectors, with most industries representing 5% or less of the total Commercial Portfolio at the end of 2020, except for certain sectors that are assessed by the Bank as defensive, such as oil & gas (downstream) at 7%, and electric power and food and beverage, each at 6% of the total Commercial Portfolio.

Geographically, 59% of the portfolio remained distributed in investment grade countries as of December 31, 2020, up 5 pp from 2019, as the Bank weighted its portfolio towards lower-risk countries during the year, taking advantage of good risk/return opportunities. On a country-risk basis, Brazil represented the largest country-risk exposure at 18% of the total Commercial Portfolio, of which 91% was with financial institutions. Other relevant country-risk exposures were to investment grade countries such as Colombia at 14%, Mexico at 11%, Chile at 10%, and top-rated countries outside of Latin America (which relate to transactions carried out in Latin America) at 9% of the total portfolio. The Bank also continued to decrease its exposure to higher-risk countries, such as in Argentina, now representing 2% of the total Commercial Portfolio, down 1 pp year-on-year.

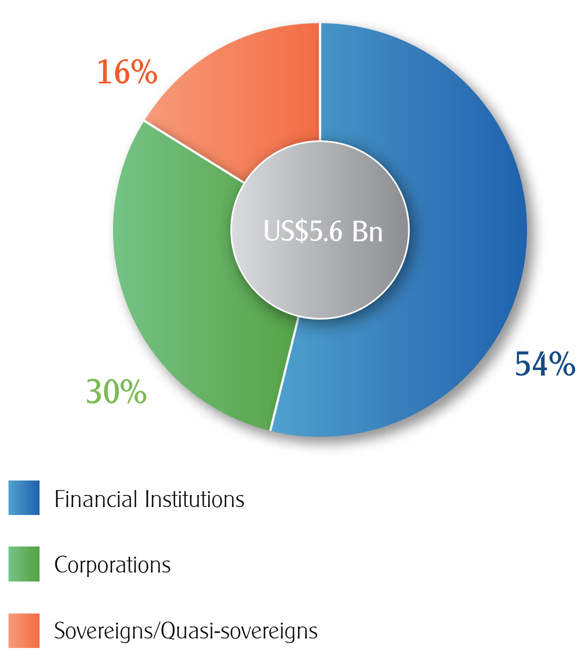
Commercial Portfolio by Term

% as of 31 December 2020

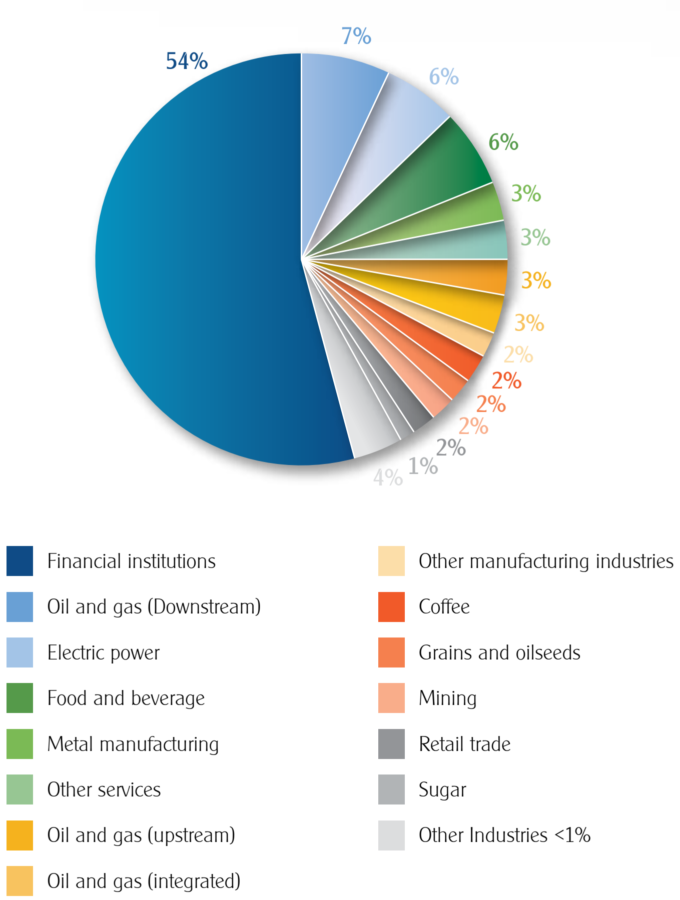


Commercial Portfolio by Customer Type

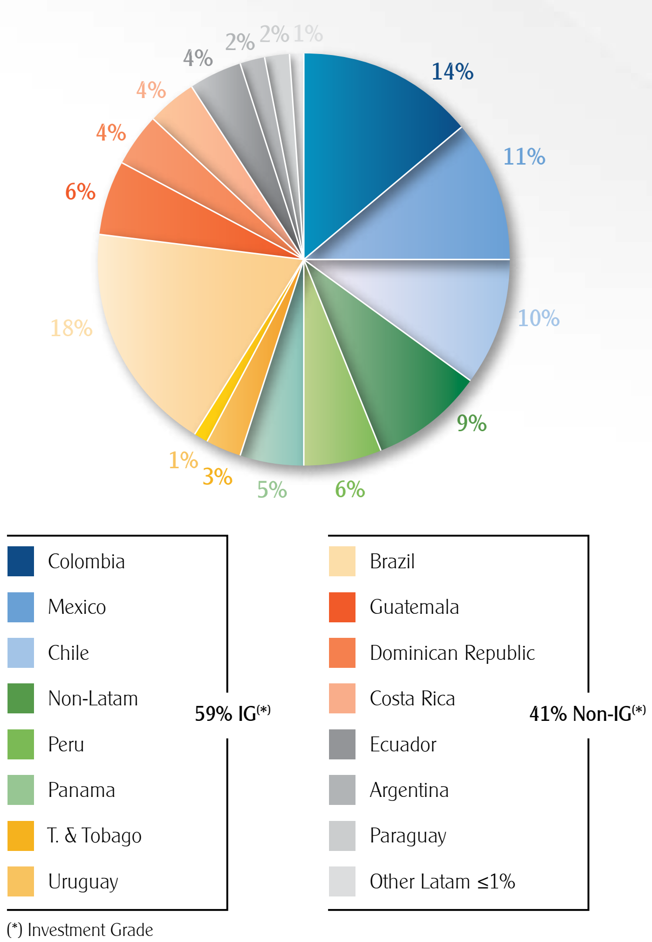
% as of 31 December 2020



Commercial Portfolio by Industry



Commercial Portfolio by Country



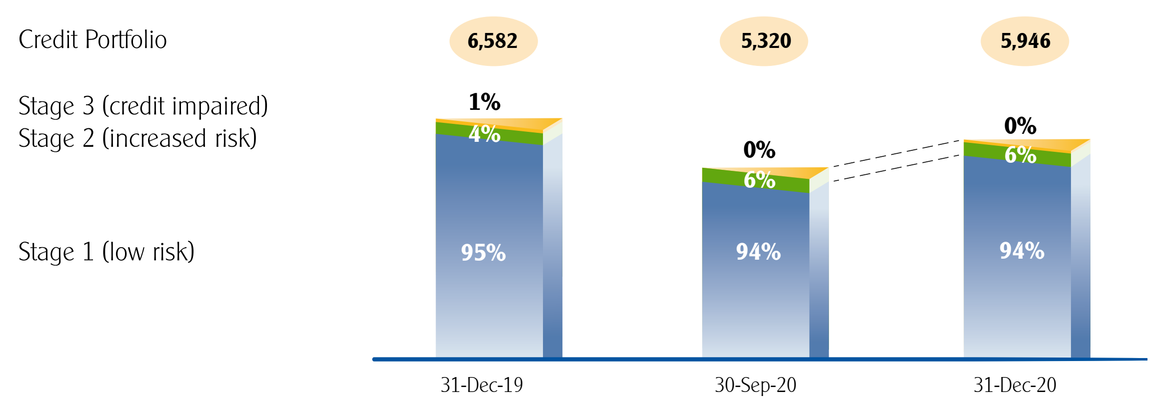
Lower Loan Portfolio balances and the collection of loans in higher risk sectors and countries resulted in US$44.6 million in total allowance for credit losses as of December 31, 2020, or 0.75% of the Credit Portfolio, compared to 1.56% in the previous year. The US$57.9 million year-on-year decrease was mainly associated to the sale of a former credit-impaired loan and watchlist loan, totaling US$56 million in write-offs against previously constituted reserves, coupled with the Bank's improved mix of its Credit Portfolio exposure.

As of December 31, 2020, asset quality remained sound with US$11 million recorded as a credit-impaired loans ("NPL"), representing 0.22% of the total Loan Portfolio, compared to US$62 million or 1.05% of the total Loan Portfolio the year before.

Allowance for Credit Losses

(US$ million, except for %)

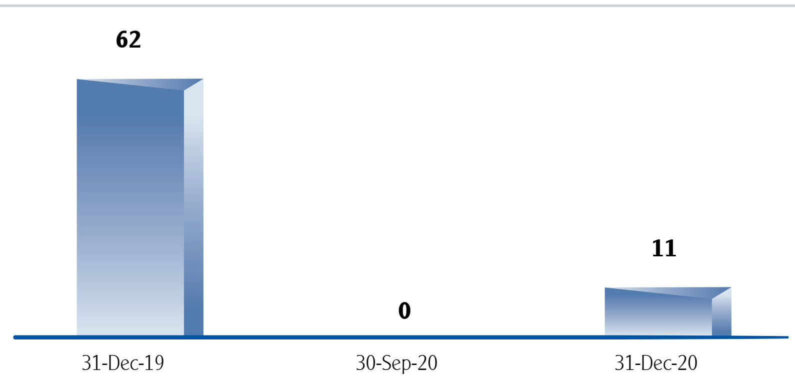
	31-Dec-19	30-Sep-20	31-Dec-20
Total Allowance for Losses to Credit Portfolio	**1.56%**	**0.84%**	**0.75%**
Allowance for Losses to Stages 1 + 2	**0.73%**	**0.84%**	**0.67%**
Allowance for Losses	**102.5**	**44.9**	**44.6**



Credit impaired Loans

(US$ million, except for %)

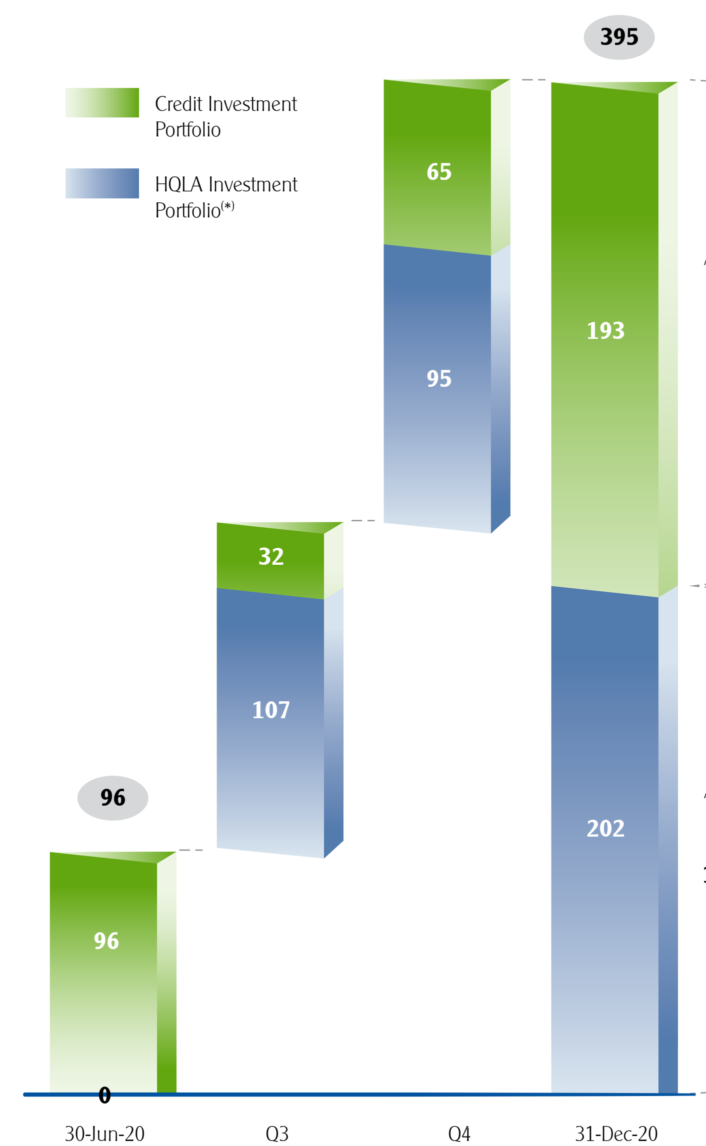
	31-Dec-19	30-Sep-20	31-Dec-20
Total allowance for losses to Credit impaired loans	**1.7x**	**n.a.**	**4.2x**
Credit impaired loans to Loan Portfolio	**1.0%**	**0.0%**	**0.2%**



Asset composition was enhanced during the second half of 2020, supported by the build-up of a corporate bond portfolio, evenly split between a High Quality Liquid Asset portfolio, as defined by Basel standards, aimed at improving the overall return on liquid assets, and a credit portfolio of Latin American names conceived as a complement to the Bank's Commercial Portfolio. The Investment Portfolio increased by US$315 million in 2020, and is mostly focused in investment grade countries and on highly liquid corporate debt securities rated above 'A-'.

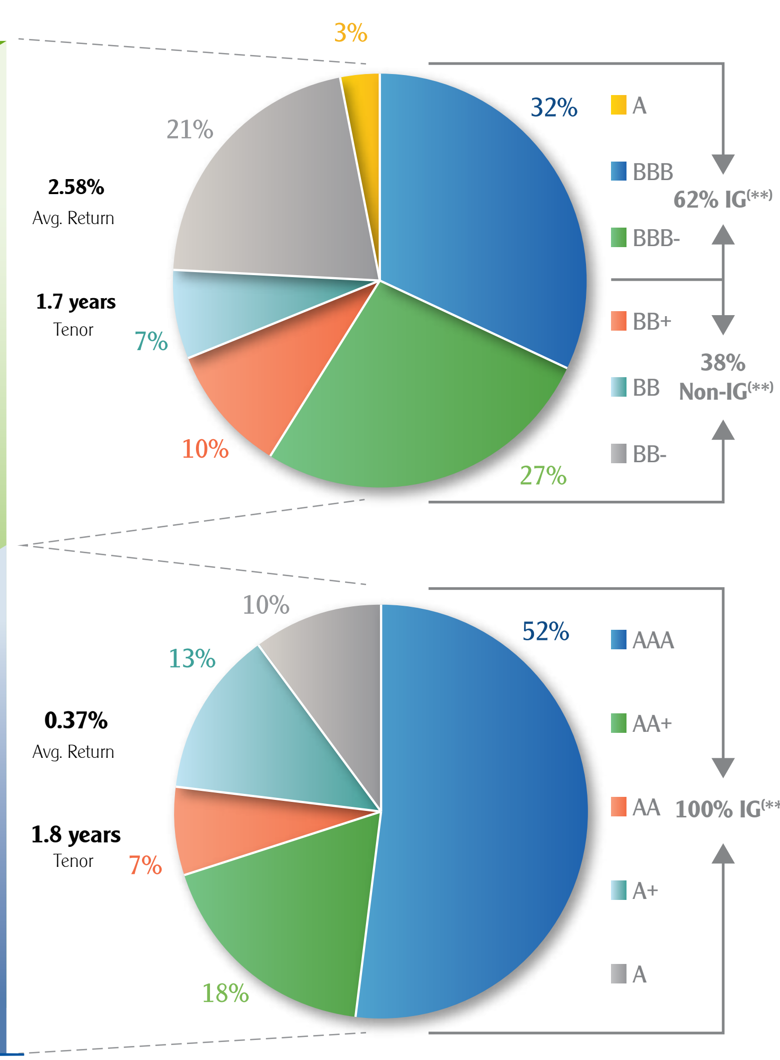
Investment Portfolio

(US$ millon) - End-of-period balances



Credit Rating

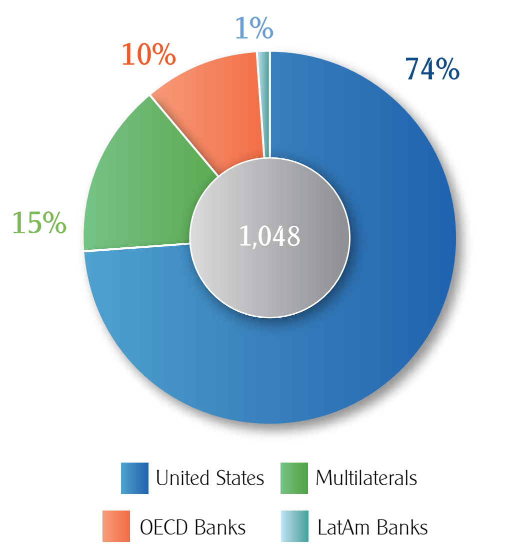
% as of 31 December 2020



(*) HQLA refers to "High Quality Liquid Assets" in accordance with the specifications of the Basel Committee.
(**) Investment Grade

Liquidity balances, in the form of cash and cash equivalents and highly rated corporate debt securities (above 'A-'), totaled US$1,048 million at year-end 2020, of which 66% were deposits placed with the Federal Reserve Bank of New York. End-of-period liquidity balances represented 17% of total assets and 33% of total deposits taken.

Liquid Assets Placements by Country Risk



As of December 31, 2020, $689 million or 66% of liquid assets were deposited at the Federal Reserve Bank of New York.

The Bank's capacity to maintain a strong liquidity position is attributable to its historically diversified and stable funding sources that include many longstanding relationships with correspondent banks and investors across the globe, as well as deposits from Latin American central banks, which are also the Bank's Class A shareholders.

Funding sources remained well-diversified across regions and tenors, primarily supported by the continued growth of its deposit base at US$3,139 million at year-end 2020, up 9% year-on-year, denoted by the growth of its new Yankee CD program which complements the short-term funding structure, as well as by the steady support from the Bank's Class A shareholders (i.e.: central banks and their designees), which represented half of total deposits at year-end 2020.

In addition, the Bank maintains an ample and constant access to interbank and debt capital markets, characterized by well-established relationships with a wide network of more than 40 correspondent banks across different geographies, and by being a recurrent issuer in the US (placing a third bond issuance in the 144A/Reg S market in September of 2020) and in the Mexican debt capital markets (placing the latest issuance in Mexico in June of 2020).

5th issuance in the Mexican Capital Market

Underwriting Agents

BBVA | Santander

June 2020

- MXN 5,000 million (US$235 million)
- Original Issuance 1.5 times oversubscribed
- 3 and 5-year maturity
- TIIE 28d+58bps for 3-year and 6.97% (M-Bond+140bps) for 5-year
- Investor: afores, insurance companies, investment funds, private banks and banks' treasury departments.
- Reference operation in the Mexican market, as it was the first relevant transaction in the context of the global pandemic

3rd issuance in the International Capital Markets under Rule 144A/RegS

Underwriting Agents

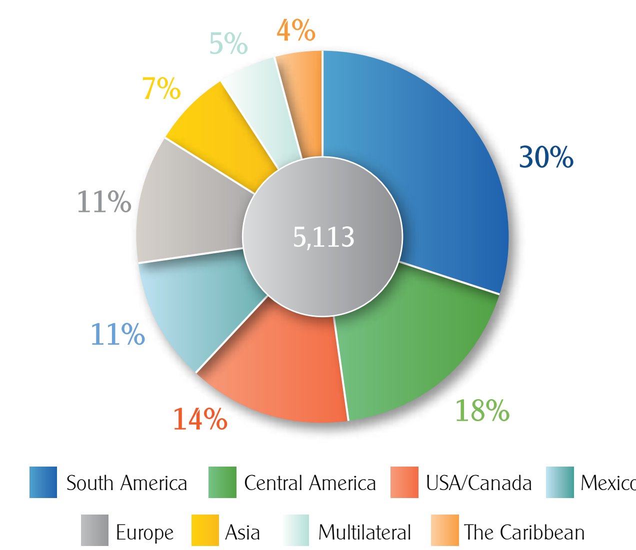
MIZUHO | Bank of America | SMBC

September 2020

- US$400 million
- 4.0 times oversubscribed
- 5-year maturity
- Fixed rate of 2.475% (US Treasury + 220bps)
- Investors in the US, Europe, Asia and Latin America
- Lowest coupon of all 144a/RegS issuances from Bladex

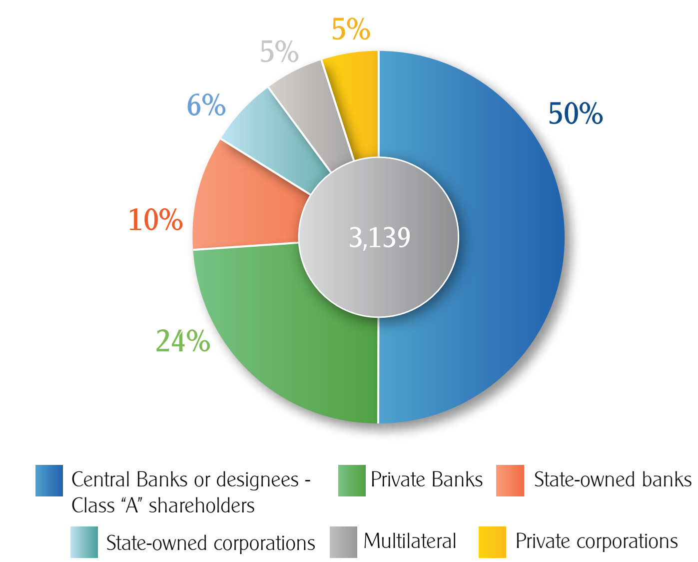
Funding Sources by Geography

(End of Period balances, US$ million)



Deposits by Type of Client

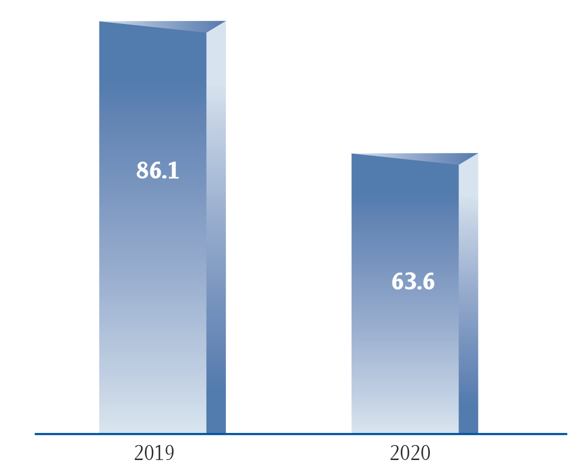
(End of Period balances, US$ million)



Bladex's profit for 2020 was US$63.6 million, or US$1.60 per share, compared to US$86.1 million, or US$2.17 per share for 2019, denoting sustainable results, as Bladex's unique business model proved to be a key advantage in a year deeply impacted by COVID-19 pandemic and the resulting prevailing market uncertainty.

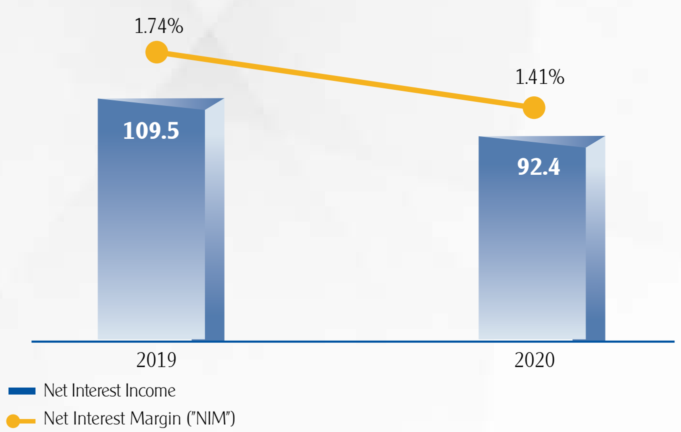
Bladex's 2020 decrease in profits was mainly driven by the Bank's defensive approach of favoring liquidity over loan growth during most of 2020, as part of the prudential measures implemented since the onset of the COVID-19 pandemic. This mainly resulted in: (i) a US$17.1 million, or 16% decrease in net interest income during 2020, following Bladex's decision to preserve the Bank's liquidity, to implement stricter credit underwriting standards, and to focus on sectors assessed as defensive in the prevailing economic context, together with its successful collection of virtually all scheduled loan maturities, all of which resulted in a reduction of average lending volumes throughout the year, an effect that was coupled with the negative impact of decreased market rates in the Bank's net interest margin; and (ii) a US$5.2 million, or 33% decrease in fees and commissions, mostly due to the absence of mandated structured transactions in a year impacted by market uncertainty. These negative effects were partially offset by: (i) a US$3.4 million, or 8% decrease in operating expenses, mainly on lower performance-based variable compensation and other savings generated by the Bank in the current context; and (ii) reversal of provisions for credit losses for US$1.5 million, derived from lower balances and higher quality Commercial Portfolio, supported by loan collections in higher risk sectors and countries, as well as from reduced levels of credit impaired loans.

Net Profit for the Period

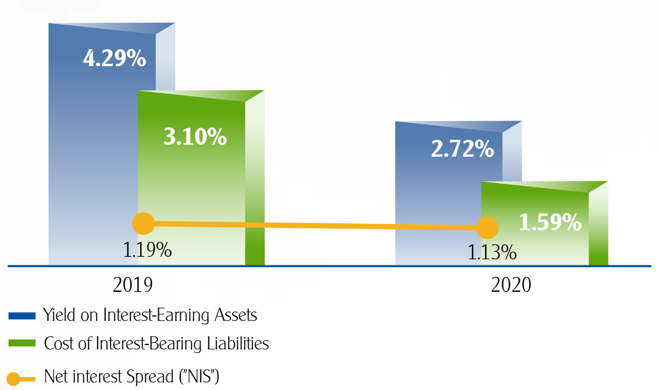


Lower level of net interest income, totaling US$92.4 million during 2020, with Net Interest Margin ("NIM") at 1.41% (-33 bps), and Net Interest Spread ("NIS") at 1.13% (-6 bps). Net interest income and margin were impacted by the Bank's defensive approach to favor liquidity over loan growth during most part of the year, as evidenced by higher average cash position levels (23% of average interest-earning assets in 2020) and lower average loan balances, coupled with the net negative impact of lower market (Libor) rates on the Bank's assets and liabilities. These effects were partly offset by the widening of the Bank's net lending spread differential throughout 2020, as liabilities repriced faster than loans in a decreasing market rate environment, and as the Bank was able to increase lending spreads in its origination to top quality borrowers during the first months after the emergence of the Covid-19 crisis.

Net Interest Income & Margins

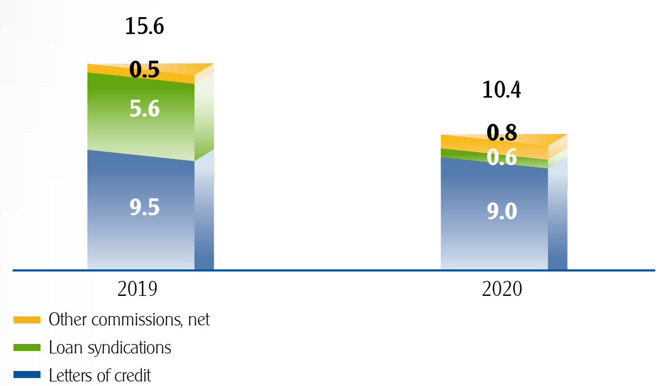


Net Interest Spread (NIS)



Fees and commissions totaled US$10.4 million during 2020, mostly from the Bank's letters of credit business, performing similarly to pre-Covid levels in the second half of the year (-5% year-on-year). The 33% year-on-year decrease in fees and commissions was mainly attributable to lower activity in the Bank's syndication desk, as the market for this transaction-based business was profoundly impacted by the prevailing uncertainty during 2020.

Fees and Commissions, net

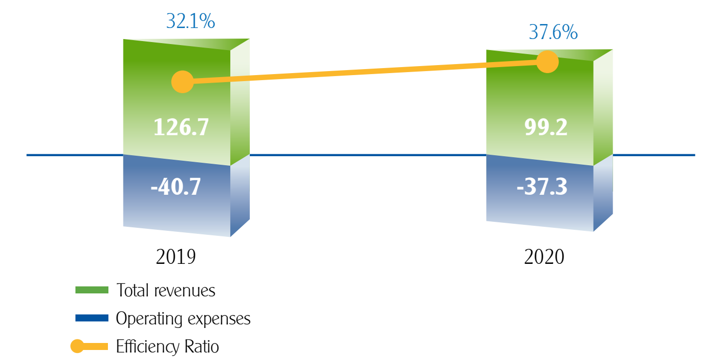


Reversals on provisions for credit losses amounting to US$1.5 million for the year 2020, compared to provisions for credit losses of US$0.4 million in 2019, mostly relate to: (i) a 17% year-on-year decrease in Loan Portfolio balance at the end of 2020; (ii) improved credit quality on reduced exposures to higher risk countries and sectors, having successfully collected on scheduled maturities, and on focused origination towards defensive sectors, under tighter underwriting standards, and (iii) lower levels of credit-impaired loans.

Operating expenses decreased by 8% year-on-year, mainly related to lower performance-based variable compensation and other cost savings derived from the Covid-19 setting. For the year 2020, cost to income efficiency level reached 37.6% on lower revenues on the account of the Bank's implemented measures to mitigate the risks associated to Covid-19 pandemic.

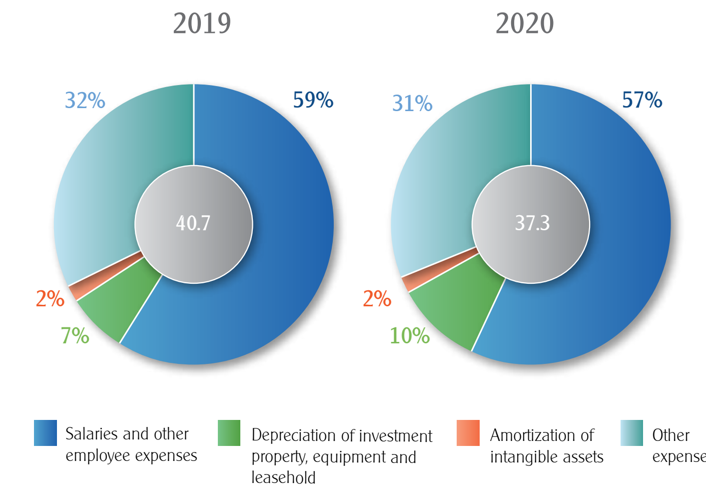
Efficiency

(In US$ million, except percentages)



Operating Expenses

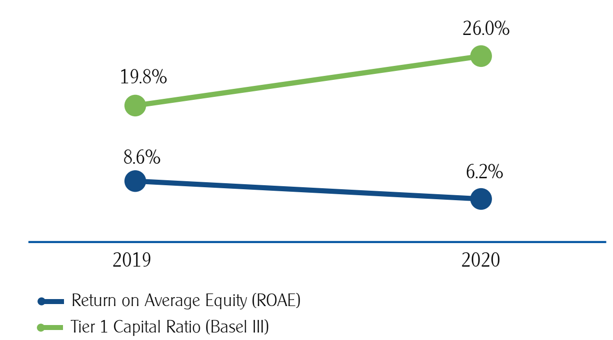
(In US$ million)



The Bank's capitalization remains solid, with a Tier 1 Capital Ratio (Basel III) of 26.0%. Risk-weighted assets are calculated under the advanced Internal Ratings Based Approach (IRB) for credit risk related to the Bank's Credit Portfolio, and under the standardized approach for operational risk. The Bank's equity consists entirely of issued and fully paid ordinary common stock, with 39.6 million common shares outstanding at year-end 2020.

Return on Average Equity ("RoAE") stood at 6.2% in 2020, compared to 8.6% in 2019, due to the combination of lower profits (-26% year-on-year) and increased equity (+2% year-on-year).

Capitalization

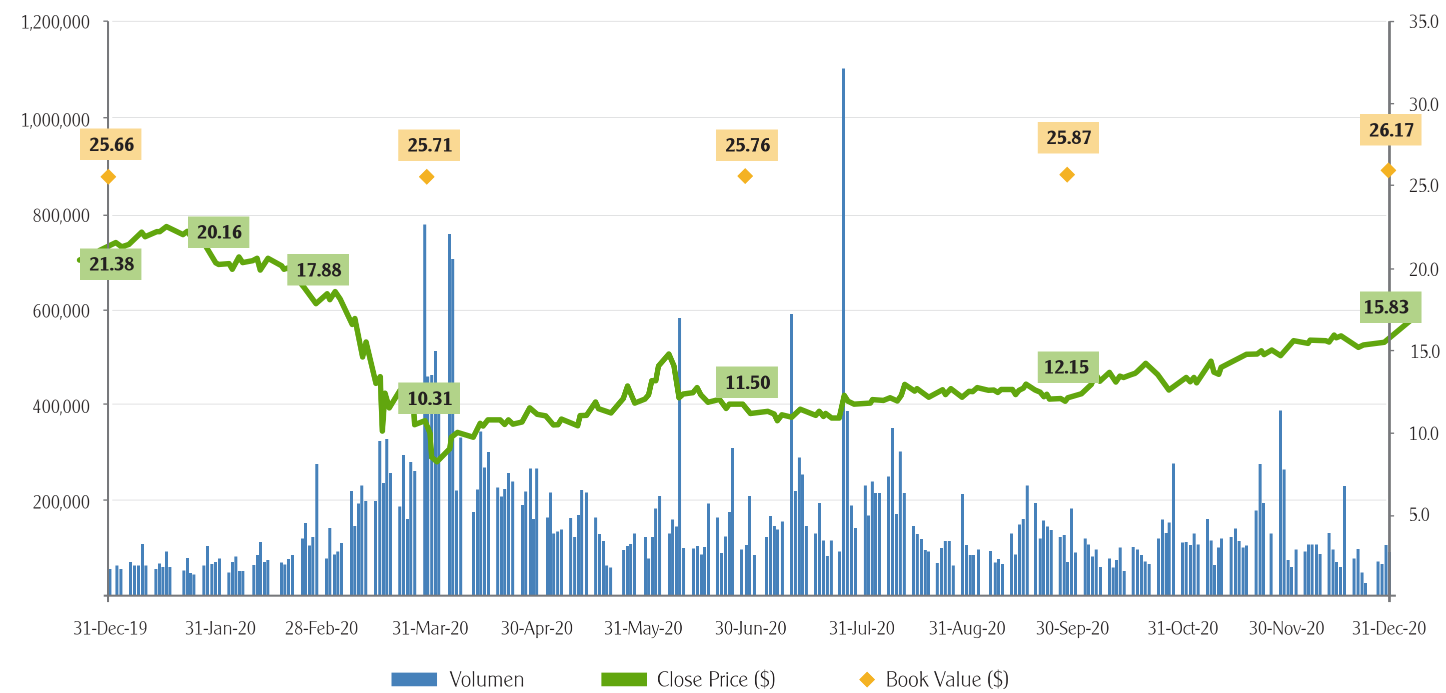


STOCK PRICE AND DIVIDENDS EVOLUTION

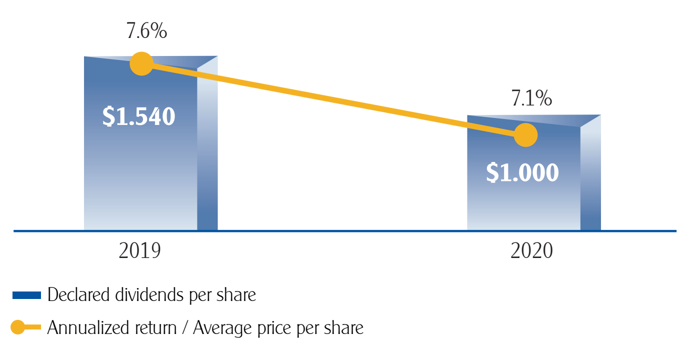
At year-end 2020, BLX's share price closed at US$15.83, with an average daily price and volume of US$13.99 per share and 156,855 shares, respectively. As of December 31, 2020, the stock traded at 0.6 times book value per share (price / book value) and at 9.9 times earnings per share (price / earnings per share), compared to 0.8 and 9.8, respectively, in 2019.

During 2020, the Bank paid dividends that reached US$1.00 per share, or US$0.25 per quarter, a 35% year-on-year decrease compared to US$1.54 of total cash dividends in 2019, as the Board of Directors decreased the quarterly cash dividend as a prudent measure in managing the Bank under current market conditions. The Bank's dividends reflect its business fundamentals and represented an average dividend yield of approximately 7.1% in 2020.

BLX Stock Price Evolution and Volume



Dividend per share



CONSOLIDATED FINANCIAL DATA - SUMMARY

Financial Information prepared in accordance with IFRS as issued by IASB

YEAR ENDED DECEMBER 31 (In US$ million, except percentages and per share amounts)	2020	2019
Selected Profit or Loss Statement Data		
Net interest Income	92.4	109.5
Fees and commissions, net	10.4	15.6
Loss on financial instruments, net	(4.8)	(1.4)
Other income, net	1.1	2.9
Total revenues	99.2	126.7
Reversal (provision) for credit losses	1.5	(0.4)
Gain (loss) on non-financial assets, net	0.3	0.5
Operating expenses (1)	(37.3)	(40.7)
Profit for the year	**63.6**	**86.1**
Selected Financial Position Data		
Cash and cash equivalents	864	1,178
Securities and other financial assets, net	398	89
Loans ("Loan Portfolio")	4,911	5,893
Commercial Portfolio (2)	5,551	6,502
Total assets	6,289	7,250
Total Deposits	3,139	2,894
Securities sold under repurchase agreements	11	41
Borrowings and debt, net	1,985	3,138
Total liabilities	5,251	6,233
Total equity	1,038	1,016
Per Common Share Data		
Basic Earnings per Share ("EPS")	1.60	2.17
Book value per common share -period end	26.16	25.66
Common shares outstanding:		
Period weighted average	39.7	39.6
Period end	39.7	39.6
Selected Performance Ratios		
Return on Average Equity ("ROAE") (3)	6.2%	8.6%
Return on Average Assets ("ROAA") (4)	1.0%	1.4%
Net Interest Margin ("NIM") (5)	1.41%	1.74%
Net Interest Spread ("NIS") (6)	1.13%	1.19%
Efficiency Ratio (7)	38%	32%
Capital, Liquidity & Credit Quality		
Tier 1 Basel III Capital Ratio (8)	26.0%	19.8%
Total assets / Total equity (times)	6.1	7.1
Liquid assets / Total assets (9)	16.7%	16.0%
Liquid assets / Total deposits (9)	33.4%	40.2%
Total equity / Total assets	16.5%	14.0%
Credit Impaired loans to Loan Portfolio	0.22%	1.05%
Total allowance for credit losses to Commercial Portfolio	0.80%	1.58%
Total allowance for credit losses to credit impaired loans (times)4.2	1.7	
Market Information (TICKER SYMBOL: BLX)		
Market capitalization (In US$ billion)	628	847
Closing Price	15.83	21.38
Price / Book Value (times)	0.6	0.8
Price / EPS (times)	9.9	9.8

Notes

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

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

(3) ROAE refers to return on 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.

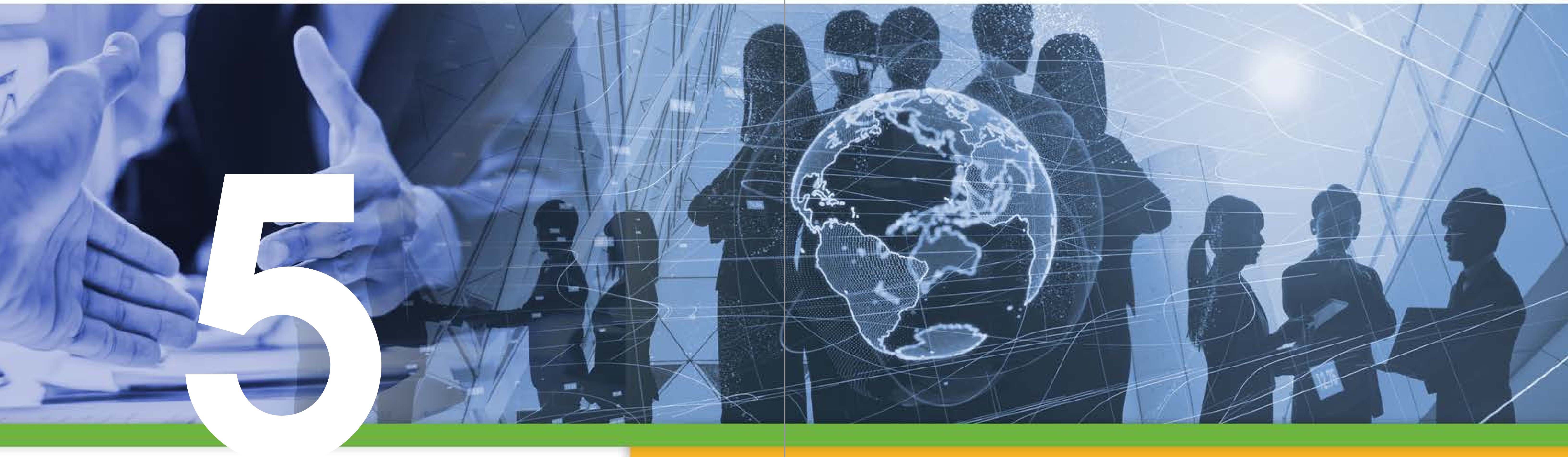
(6) NIS refers to net interest spread which constitutes the average yield earned on interest-earning assets, less the average yield paid on interest-bearing liabilities.

(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.

(9) Liquid assets refer to total cash and cash equivalents, consisting of cash and due from banks and interest-bearing deposits in banks, excluding pledged deposits and margin calls; as well as highly rated corporate debt securities (above 'A-').

CORPORATE GOVERNANCE



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 possible 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 provisions 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:

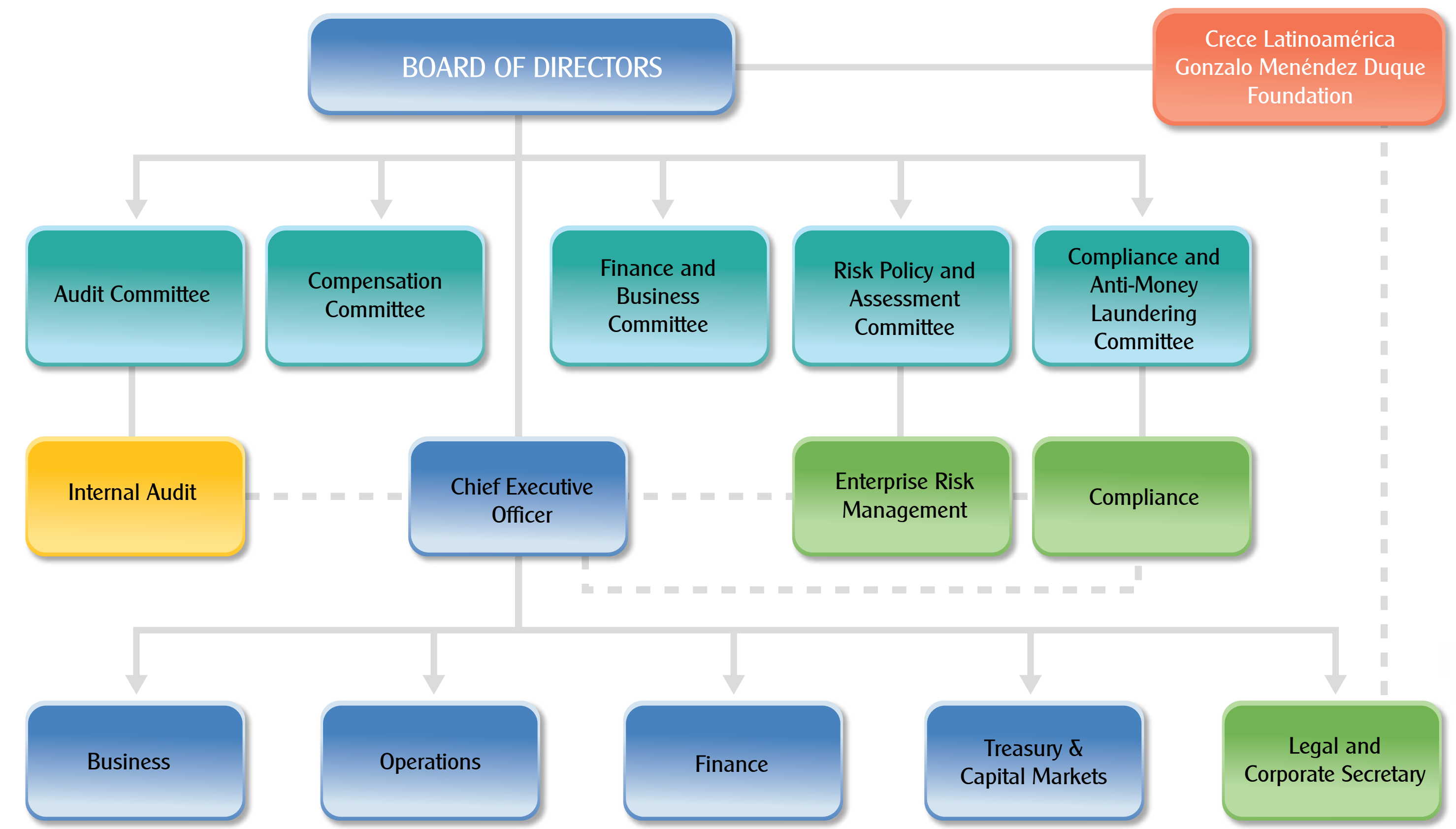
- The Superintendency of Banks of Panama (SBP)
- The U.S. Federal Reserve Bank (FED)
- New York Stock Exchange (NYSE)
- The U.S. Securities and Exchange Commission (SEC)
- The New York State Department of Financial Services (NYSDFS)
- The National Banking and Securities Commission (Mexico)
- The Mexican 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 Ethics

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 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 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 Classes of 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.

In April 2020, the Bank held its first Annual Meeting of Shareholders virtually due to the COVID-19 pandemic, as it was in the best interest of the health and safety of our shareholders and employees.

Main Responsibilities

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.

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 at least four 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 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.

Independence of the Directors

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.

Diversity

Diversity is among the factors considered by the Board's Compensation Committee when in evaluating candidates for positions on the Bank's Board of Directors. The Compensation Committee generally views and values diversity from the perspective of professional and life experiences and recognizes that diversity in professional and life experiences may include considerations of gender, race, nationality or other traits that may contribute to the Bank's strategic vision and mission. During 2020, gender diversity was strengthened with the appointment of two female Directors representing the shareholders of All Classes. Furthermore, the fact that seven different nationalities are represented on the ten-member Board of Directors reflects the importance attached to diversity by the Board of Directors.

The presence of different nationalities and cultures among our employees enhances the Bladex brand. Having a multicultural work environment is one of our main strengths that facilitates business management across the Region.

Sustainable and Responsible Business Practices

The Board of Directors recognizes the importance of its responsibilities related to Environmental, Social and Governance (ESG) issues. The Bank is further redoubling its corporate responsibility efforts by undertaking a formal ESG materiality assessment to identify the most significant ESG issues and opportunities for improvement, as well as related risks for the Bank.

BOARD OF DIRECTORS

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

Class A


José Alberto Garzón


Eduardo Hecker


João Carlos de Nóbrega Pecego

Class E


Miguel Heras Castro


Ricardo Manuel Arango


Herminio A. Blanco


Roland Holst


Mario Covo

All Classes


Alexandra M. Aguirre

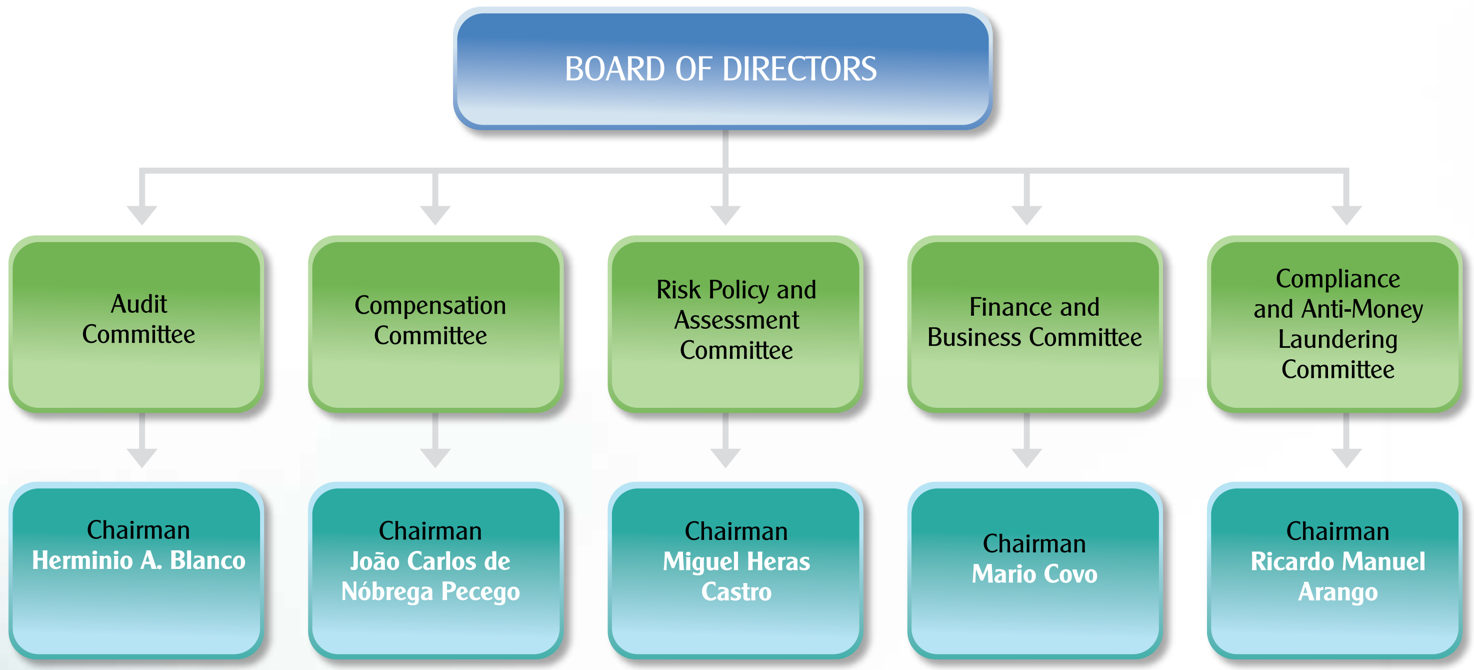

Isela Costantini

BOARD COMMITTEES

The Board of Directors may set up Committees which shall have such powers and responsibilities as the Board may delegate to them, subject to the provisions of the Articles of Incorporation and 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. The members of each committee shall be appointed for such purposes and for such term as may be determined by the Board of Directors.

The Bank currently has five standing committees composed of directors and members of the Bank's Senior Management.



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, its Corporate Governance and Code of Ethics. This Committee is also 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 Enterprise 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 Committee carries out its task through the periodic reports received from Senior Management and through its interaction with the Enterprise 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 the Committee is to review and analyze all issues related to the development and execution of the Bank's business and its financial management, including, among others, capital management, portfolio management (assets and liabilities), liquidity management, gap and funding management, tax related matters and, the financial performance of the Bank in general, 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 support the Board of Directors in complying with the laws and regulations applicable to the Bank in all jurisdictions where it has a presence with respect to: (i) Anti-Money Laundering and Combating the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction, (ii) the U.S. Treasury Department's Office of Foreign Assets Control (OFAC), (iii) the U.S. Foreign Account Tax Compliance Act (FATCA), (iv) the OECD 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 Officer

Alejandro Tizzoni
Executive Vice President
Chief Risk Officer

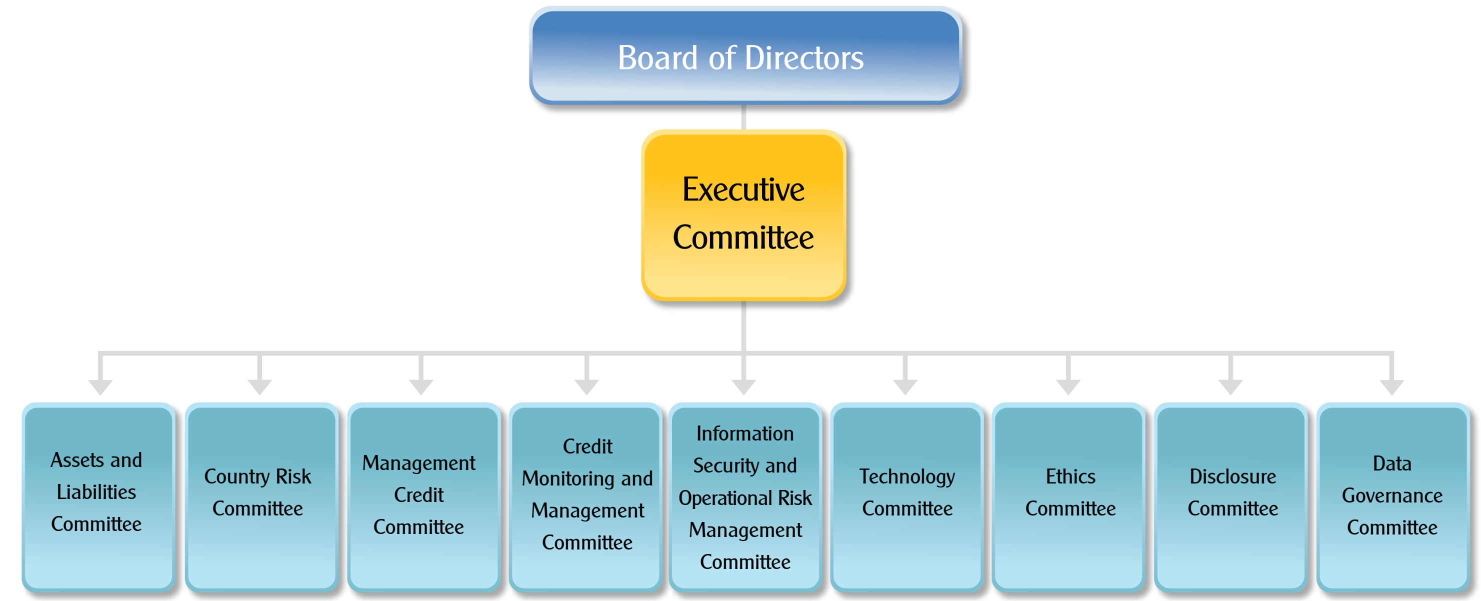
Ana Graciela de Méndez
Executive Vice President
Chief Financial Officer

Jorge Córdoba
Executive Vice President
Chief Audit Officer

Jorge Luis Real
Executive Vice President
Chief Legal Officer and Corporate Secretary

Eduardo Vivone
Executive Vice President Treasury
and Capital Markets

MAIN INTERNAL COMMITTEES



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.

HUMAN CAPITAL

6

HUMAN CAPITAL

Our human capital is the main backbone of all business activities at Bladex and in 2020, ensuring the overall well-being of our employees, it became increasingly important. Our priority is to provide all employees in our Organization with an environment that integrates both their professional fulfillment and personal well-being.

Pandemic Response

In a year where the world faced COVID-19 unprecedented crisis, the Bank was prepared with the necessary equipment and technological infrastructure to enable our employees at all of our offices to work remotely. As of March, confinement measures mandated by the authorities in each country where Bladex operates were implemented, and the COVID-19 Committee was activated to regularly monitor the pandemic's development in all our locations, following up on potential infections among our employees and their families.

Notwithstanding the challenges involved in adapting a space to work from home, mobility restrictions, which were stricter in some countries, and the impact of the crisis on families and businesses, Bladex employees continued to stand out by living our values: Commitment, Humility, Excellence, Respect and Integrity.

While the global economic environment was very complex and made it difficult to generate business at the expected pace, this did not represent changes in working conditions or in human capital benefits. With the arrival of the new CEO, we continued our efforts to improve our processes and adapt them to the internal control schemes, which are now part of our day-to-day business.

New Organizational Dynamics

The Organization maintained its commitment to talent management, with regulatory and functional training plans, and virtual team-building activities (Team Coaching). In addition, we implemented a virtual onboarding program to welcome new employees who started work from home.

The Human Development Department promoted organizational well-being, implementing different strategies to maintain closeness, provide self-help tools and distract employees from concerns about the crisis. In this regard, virtual activities such as monthly birthday celebrations with the participation of members of the Executive Committee, "Coffee with Friends" to share various topics of interest presented by experts, storytelling for employees' children, Mindfulness sessions to promote wellness, and talks on nutrition, among others, were implemented.

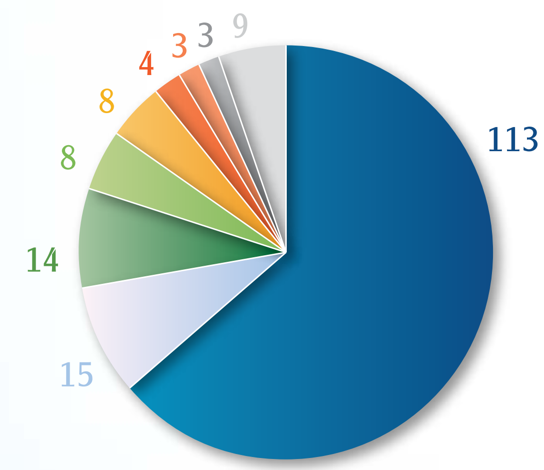
Surveys were also conducted to obtain feedback from employees on organizational management of the crisis, achieving very satisfactory ratings.

Cultural Diversity

Having a multicultural work environment is one of Bladex's main strengths, and this year in particular we achieved greater proximity with everyone working from home. The presence of different nationalities and cultures among our employees, coupled with the commitment and professionalism demonstrated, led to difficulties being taken as challenges and opportunities, enriching the Bladex brand.

As of December 31, 2020, the workforce comprised 177 employees, representing 16 nationalities, 97% of which are from Latin American countries.

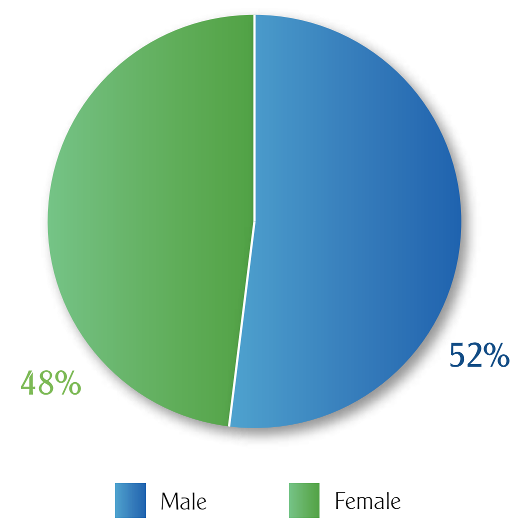
Nationalities at Bladex
as of December 31, 2020



In terms of diversity, our human capital is made up of 52% men and 48% women, occupying positions under equal conditions, from administrative and technical to managerial functions.

Senior positions are filled by both genders, highlighting the Executive Committee, where two areas with very important responsibilities are led by women: Finance and Operations.

Percentage of Employees by Gender
as of December 31, 2020



TALENT DEVELOPMENT

Bladex is characterized by keeping its employees updated on regulatory, functional and interpersonal matters, fostering the development of a range of knowledge and skills.

In 2020, it is worth noting the team's participation in an Incoterms training course, where they strenghtened their knowledge about foreign trade, one of the pillars of Bladex's business. The course covered Stand-by Letters of Credit, First Demand Guarantees and a refresher on Incoterms 2020.

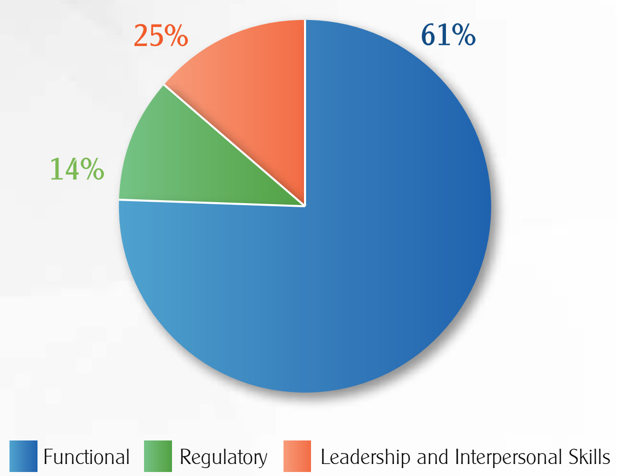
In addition, we continued the Leadership Development Program implemented in 2019 with Team Coaching - Building Teams, conducted by leadership experts for leaders and their work teams. We were able to reach all of our employees, in virtual sessions with a group closing where they shared experiences applicable in their work environment.

The annual training plan takes into consideration necessary functional, regulatory, leadership, and interpersonal competencies. Pursuant to this plan, during 2020 our employees participated in a total of 2,084 training sessions.

As part of our functional training plan, every year the Human Development Department coordinates the presentation of "Know Your Bladex" workshops where our functional experts share matters of interest in their areas with all employees in one-hour sessions. This year, the following topics were covered with a participation of between 60 and 105 employees per session.

Bladex Talent Development and Coaching

by Type of Training



Participation in Know Your Bladex 2020 Workshops

CORPORATE BENEFITS

In order to embrace comprehensive health, Bladex provides its employees excellent benefits, among which we can highlight a collective health insurance and dental plan that covers employees and their dependents, as well as a flexible vision plan and life insurance, the last ones only for employees. The following were the most valued benefits provided during 2020:

Annual Flu Vaccination Campaign: 72 employees and 90 dependents were vaccinated at home.

Health Week: We raised awareness about prevention and good health practices, providing home lab tests at the Head Office, videoconference activities, interviews with a nutritionist, mindfulness sessions, videos with active pause dynamics, daily raffles for healthy breakfasts, nutrition workshops, a burn-out understanding talk, exercise sessions at the end of the day, and a virtual "After-Office" closing.

Recognition Program: A total of 11 employees were recognized for going the extra mile and striving beyond their regular duties.

Celebrations: Bladex employees participate in a series of corporate well-being and cultural integration activities, including Father's Day, Mother's Day and the year-end celebration. For the first time, these activities were held virtually, allowing employees from all of the company's offices to participate.

Special New Year's Eve Event: We held a virtual ceremony, with the warmth and emotion that represents us. During the ceremony, we rewarded the commitment and loyalty of our employees for their years of service and bestowed the 2020 Living Example of Bladex Values reward.

Health Week

Recognition was given to 24 employees who had completed between 5 and 20 years of service. Ana Graciela Varela de Méndez, Executive Vice President – Chief Financial Officer, received special recognition for 30 years of service at Bladex.

Ana Graciela Varela de Méndez
30 years of service at Bladex.

Maytte Amaya
Back Office Analyst

Living Example of Bladex Values

Maytte Amaya, Back Office Analyst, received special recognition for her outstanding performance during the year, standing out in modeling the values of Commitment and Integrity, and her constant willingness to look for different ways to do things in the best way possible.

7

SOCIAL DEVELOPMENT

SOCIAL DEVELOPMENT

Fundación Crece Latinoamérica
Gonzalo Menéndez Duque

Aware of the impact and consequences of the COVID-19 pandemic on the most vulnerable sectors, Bladex, through its Crece Latinoamérica-Gonzalo Menéndez Duque Foundation, implemented a support plan through nine social organizations in Panama, Brazil and Ecuador. US$237,500 was allocated to education programs, as well as food programs that provided sustenance to thousands of families in need at a time of great uncertainty.

Food assistance during the pandemic

In an exceptional year, the Crece Latinoamérica-Gonzalo Menéndez Duque Foundation allocated US$160,000 for food assistance programs, channeled through seven nonprofit organizations, four of them in Panama, one in Brazil, and one in Ecuador. We supplemented the educational work carried out by the Marie Poussepin Educational Center (CEMP), the Hogar Divina Gracia shelter and the Hogar de Niñas Nuestra Señora de la Merced shelter by providing food. The Food Bank of Panama received US$100,000 for the Feed a Life (Alimenta una Vida) program, which delivers food to about 30,000 people a month in various sectors of the country. In addition, a total of 300 bags of food were delivered to residents of communities and indigenous and peasant sectors of El Bale de Veraguas through the Virgen de Guadalupe Community Center. About 2,000 people were treated through medical visits and received dairy products over a two-month period through the Fundación Wong in Ecuador, and some 60 food boxes were distributed to the families of children served by the Bascri Foundation in Brazil.

Distribution of 300 boxes of food in the community of El Bale in Veraguas

Student Yaliani Fonseca winner Gonzalo Menendez Duque Excellence Scholarship

Delivery of tablets to CEMP students

Donation of tablets to students of Hogar de Niñas y Adolescentes La Merced

Strengthening Educational Processes in times of Pandemic

Since its creation eight years ago, one of the priorities of the Crece Latinoamérica-Gonzalo Menéndez Duque Foundation has been to promote education as an instrument of change and progress, strategically focusing investments in two main areas: educational infrastructure and educational quality. Over the years, the Foundation has consistently supported five institutions in Panama that impact over three thousand students, especially the Marie Poussepin Educational Center (CEMP) built by Bladex. The following is a summary of the impact achieved in 2020:

- The Marie Poussepin Educational Center (CEMP) received educational infrastructure support for the maintenance of its facilities, including the painting of all the classrooms and the exterior of the six buildings that make up the school, remodeling a total of 14 classrooms, and providing maintenance to school furniture. As for educational quality, 74 tablets were given to students to connect to virtual classes and 100 parents attended the virtual Parent Education program. CEMP was able to adopt biosecurity protocols with COVID-19 prevention measures, through the purchase and installation of all the special measuring and cleaning materials stipulated by the authorities.

- Gonzalo Méndez Scholarship and Medal of Excellence: The Foundation awarded the student with the highest GPA of the class of 2020 the Gonzalo Menéndez Duque Medal of Excellence and Scholarship, which will cover all expenses for higher education and will serve as an inspiration for the rest of the students at CEMP.

- Support provided to other centers: a total of 30 young people from Hogar Divina Gracia received virtual computer classes; 25 girls participated in academic reinforcement and received electronic devices to access virtual classes at the Hogar de Niñas y Adolescentes la Merced; 50 young people studying at the Virgen de Guadalupe Community Center boarding school in El Bale de Veraguas received academic reinforcement and better study conditions, with new study furniture and the installation of equipment and materials required to comply with biosafety protocols. Additionally, at El Bale, 20 laptops were delivered and maintenance was provided to the 50 units donated the previous year, as part of the "One Laptop per Child" program, in alliance with the Fundación Pro-Niñez, thus supporting the primary school students of La Misericordia School.

Volunteer Committee

A total of 72 scholarships were sponsored by Bladex employees under the Sponsorship Program led by the Volunteer Committee for over ten years, benefiting CEMP students, where awards were also presented to middle and high school students with the highest grade point averages. Volunteers from the Brazil office organized the delivery of Christmas gifts and food baskets for hearing-impaired children served by the Bascri Foundation.

Scholarships awards for CEMP students

Delivery of recognition for the students with highest academic index of CEMP.

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

Consolidated Financial Statements
as of December 31, 2020

(With the Independent Auditors' Report thereon)

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

Consolidated Financial Statements

Contents

KPMG
Torre PDC, Ave. Samuel Lewis y
Calle 56 Este, Obarrio
Panamá, República de Panamá

Teléfono: (507) 208-0700
Website: kpmg.com.pa

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, 2020 and 2019, the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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, 2020, 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 29, 2021 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 3.4 and 5 to the consolidated financial statements, the Bank's allowance for loan losses (ALL) was $41.2 million as of December 31, 2020, of which $36.6 million related to the allowance for loan losses evaluated on a collective basis (collective ALL) and $4.6 million related to the allowance for loan losses evaluated on an individual basis (individual ALL). Fundamental to the Bank's ALL estimate are the customer credit risk rating and the country risk rating which the Bank assigns to each loan. These ratings are determined using models that incorporate judgmental inputs and assumptions including, for the customer credit rating model, forecasts of customer´s financial performance and conditions and, for the country risk rating model, future macroeconomic scenarios and related assumptions. The Bank applies a three-stage approach to measure ALL. Generally, loans are initially classified in stage 1. Subsequently, the customer credit and country risk ratings are used to assess whether there has been a significant increase in credit risk (SICR), stage 2, or when the financial asset is credit impaired, stage 3. The Bank calculates a collective ALL for loans in stages 1 and 2 and assesses ECL on an individual basis for loans in stage 3. Lifetime ECL is recorded when the Bank determines that there has been a SICR (stage 2) or when the financial asset is in default (stage 3); otherwise, a 12-month ECL is recorded (stage 1). The collective ALL is the product of multiplying the Bank´s estimates of probability of default (PD), loss given default (LGD) and the exposure at default (EAD) of each loan. The Bank uses models to develop the PD and LGD, which are derived from internal historical default and loss experience adjusted for current conditions. The Bank calculates ECL on an individual basis based on the expected cash flows which consider the possible recovery scenarios including the related collateral valuation when applicable. As a response to the COVID-19 pandemic, the Bank performed more frequent assessments of customer credit and country risk ratings to identify emerging risks.

We identified the assessment of the collective and individual ALL as a critical audit matter. It requires a high degree of audit effort involving subjective auditor judgment, including specialized skills and knowledge, due to the number and complexity of significant assumptions and the resulting significant measurement uncertainty. The collective and individual ALL methodologies required significant assumptions in the methods and models used to determine the PDs, LGDs and customer credit and country risk ratings. These significant assumptions included: historical observation periods; forecasts of macroeconomic scenarios and customer´s financial performance and conditions, including the current and potential impacts of the COVID-19 pandemic; and cash flow recovery scenarios.

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

— We evaluated the design and tested the operating effectiveness of certain internal controls related to the Bank's collective and individual ALL estimates. These included controls relating to: (i) model validation related to PD, LGD and collective ALL models, including the historical observation periods; (ii) review and approval of significant assumptions and judgments used by the Bank to determine customer credit and country risk ratings; (iii) data inputs for the collective and individual ALL models, including those used to determine PDs, LGDs and customer credit and country risk ratings, including technology controls over the sources of data and its extraction and processing.

— We involved financial risk management professionals with specialized skills and knowledge, who assisted in: (i) evaluating the Bank´s collective and individual ALL methodologies for compliance with the International Financial Reporting Standards as issued by the International Accounting Standards Board; (ii) assessing the conceptual soundness and performance testing of the PD and LGD models by inspecting model documentation to determine whether the models are suitable for their intended use; (iii) evaluating the customer credit and country risk rating models by comparing them to relevant industry practices, considering the Bank´s business environment; and (iv) assessing the macroeconomic variables used by the Bank by comparing them to publicly available information, considering current and potential COVID-19 pandemic impacts.

— We involved credit risk professionals with specialized skills and knowledge, who assisted in: (i) testing a selection of the Bank's customer credit risk ratings by developing an independent rating using information related to the borrower's financial performance and conditions obtained from the Bank and from independent sources and comparing to the Bank's rating; and (ii) evaluating the sources of repayment and any relevant guarantees or underlying collateral used in the individual ALL estimate.

KPMG

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

Panama City, Republic of Panama
April 29, 2021

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

Consolidated statement of financial position
December 31, 2020
(In thousands of US dollars)

	Notes	2020	2019
Assets			
Cash and due from banks	7,8	863,812	1,178,170
Securities and other financial assets, net	5,7,9	398,068	88,794
Loans, net	5,7,10	4,896,647	5,823,333
Customers' liabilities under acceptances	5,7	74,366	115,682
Derivative financial instruments - assets	5,7,13	27,778	11,157
Equipment and leasehold improvements, net	15	16,213	18,752
Intangibles, net	16	1,984	1,427
Investment properties	17	3,214	3,494
Other assets	18	6,816	8,857
Total assets		6,288,898	7,249,666
Liabilities and Equity			
Liabilities:			
Demand deposits		170,660	85,786
Time deposits		2,968,240	2,802,550
	5,7,19	3,138,900	2,888,336
Interest payable		1,975	5,219
Total deposits		3,140,875	2,893,555
Securities sold under repurchase agreements	5,7,20	10,663	40,530
Borrowings and debt, net	7,21	1,985,070	3,138,310
Interest payable		9,175	10,554
Acceptance outstanding	5,7	74,366	115,682
Derivative financial instruments - liabilities	5,7,13	9,211	14,675
Allowance for loan commitments and financial guarantees contracts losses	5,7	2,904	3,044
Other liabilities	22	18,714	17,149
Total liabilities		5,250,978	6,233,499
Equity:			
Common stock	24	279,980	279,980
Treasury stock	24	(57,999)	(59,669)
Additional paid-in capital in excess of value assigned to common stock	24	120,414	120,362
Capital reserves	32	95,210	95,210
Regulatory reserves	32	136,019	136,019
Retained earnings		464,088	446,083
Other comprehensive income (loss)	25	208	(1,818)
Total equity		1,037,920	1,016,167
Total liabilities and equity		6,288,898	7,249,666

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

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

Consolidated statement of profit or loss
For the year ended December 31, 2020
(In thousands of US dollars, except per share data and number of shares)

	Notes	2020	2019	2018
Interest income:				
Deposits		4,895	17,011	15,615
Securities		3,531	3,209	2,899
Loans		172,548	253,462	239,976
Total interest income	27	180,973	273,682	258,490
Interest expense:				
Deposits		(25,800)	(67,435)	(63,146)
Borrowings and debt		(62,723)	(96,732)	(85,601)
Total interest expense	27	(88,523)	(164,167)	(148,747)
Net interest income		92,450	109,515	109,743
Other income (expense):				
Fees and commissions, net	26	10,418	15,647	17,185
Loss on financial instruments, net	12	(4,794)	(1,379)	(1,009)
Other income, net		1,083	2,874	1,670
Total other income, net	27	6,707	17,142	17,846
Total revenues		99,157	126,657	127,589
Reversal (provisión) for credit losses	5,27	1,464	(430)	(57,515)
Gain (loss) on non-financial assets, net	14,27	296	500	(10,018)
Operating expenses:				
Salaries and other employee expenses	29	(21,462)	(24,179)	(27,989)
Depreciation of investment properties, equipment and improvements	15,17	(3,587)	(2,854)	(1,282)
Amortization of intangible assets	16	(753)	(702)	(1,176)
Other expenses	30	(11,522)	(12,939)	(18,471)
Total operating expenses	27	(37,324)	(40,674)	(48,918)
Profit for the year		63,593	86,053	11,138
Per share data:				
Basic earnings per share (in US dollars)	23	1.60	2.17	0.28
Diluted earnings per share (in US dollars)	23	1.60	2.17	0.28
Weighted average basic shares (in thousands of shares)	23	39,656	39,575	39,543
Weighted average diluted shares (in thousands of shares)	23	39,656	39,575	39,543

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

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

Consolidated statement of comprehensive income
For the year ended December 31, 2020
(In thousands of US dollars)

	Notes	2020	2019	2018
Profit for the year		63,593	86,053	11,138
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	25	546	491	(1,224)
Items that are or may be reclassified subsequently to profit or loss:				
Change in fair value on financial instruments, net of hedging	25	2,265	(2,694)	2,667
Reclassification of gains (losses) on financial instruments to the profit or loss	25	(425)	261	(1,704)
Exchange difference in conversion of foreign currency operation	25	(360)	(296)	(1,282)
Other comprehensive income (loss)	25	2,026	(2,238)	(1,543)
Total comprehensive income for the year		65,619	83,815	9,595

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

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

Consolidated statement of changes in equity
For the year ended December 31, 2020
(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, 2018	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	-	-	-	-	6,765	(6,765)	-	-
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)	-	-	-	-	-
Repurchase of "Class B" and "Class E" common stock	-	-	-	-	-	-	-	-
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
Profit for the year	-	-	-	-	-	63,593	-	63,593
Other comprehensive income (loss)	-	-	-	-	-	-	1,424	1,424
Transfer of fair value on equity instrument at FVOCI						(602)	602	-
Issuance of restricted stock	-	1,391	(1,391)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	1,722	-	-	-	-	1,722
Exercised options and stock units vested	-	279	(279)	-	-	-	-	-
Dividends declared	-	-	-	-	-	(44,986)	-	(44,986)
Balances at December 31, 2020	279,980	(57,999)	120,414	95,210	136,019	464,088	208	1,037,920

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

Consolidated statements of cash flows
For the year ended December 31, 2020
(In thousands of US dollars)

	2020	2019	2018
Cash flows from operating activities			
Profit for the year	63,593	86,053	11,138
Adjustments to reconcile profit for the year to net cash provided by (used in) operating activities:			
Depreciation of investment property, equipment and leasehold improvements	3,587	2,854	1,282
Amortization of intangible assets	753	702	1,176
Gain on sale of investment properties	-	(500)	-
Unrealized gain on investment properties	(296)	-	-
(Reversal) provision for credit losses	(1,464)	430	57,515
Unrealized gain on financial instruments at fair value through profit or loss	806	-	-
Net gain on sale of financial assets at fair value through OCI	-	(186)	(194)
Compensation cost - share-based payment	1,722	1,782	1,051
Net changes in hedging position and foreign currency	(194)	(18,273)	12,403
Loss for disposal of equipment and leasehold improvements	30	22	24
Loss for derecognition of intangible assets	1	-	2,705
Impairment on investment properties at fair value through profit or loss	-	-	3,849
Impairment loss on other assets	-	-	3,464
Realized loss on investment instrument measured at fair value through profit or loss	2,175	2,258	-
Interest income	(180,973)	(273,682)	(258,490)
Interest expense	88,523	164,167	148,747
Net decrease (increase) in operating assets:	-	-	-
Pledged deposits	648	21,008	13,781
Loans	911,073	(111,967)	(305,464)
Other assets	2,321	7,891	(6,449)
Net increase (decrease) in operating liabilities:	-	-	-
Due to depositors	250,564	(78,822)	41,978
Other liabilities	1,432	3,074	(6,432)
Cash flows provided by operating activities	1,144,301	(193,189)	(277,916)
Interest received	194,129	275,068	242,974
Interest paid	(91,021)	(174,311)	(138,646)
Net cash provided by (used in) operating activities	1,247,409	(92,432)	(173,588)
Cash flows from investing activities:			
Acquisition of equipment and leasehold improvements	(997)	(1,028)	(603)
Acquisition of intangible assets	(1,311)	(496)	(58)
Proceeds from the sale in investment properties	-	500	1,270
Proceeds from the sale of securities at fair value through OCI	1,882	14,037	0
Proceeds from the redemption of securities at fair value through OCI	-	8,094	4,635
Proceeds from redemption of securities at amortized cost	52,576	28,274	9,807
Purchases of securities at fair value through OCI	(227,027)	-	(9,875)
Purchases of investments at fair value with changes in profit or loss	(1,433)	-	0
Purchases of securities at amortized cost	(143,595)	(18,316)	(26,701)
Net cash (used in) provided by investing activities	(319,904)	31,065	(21,525)
Cash flows from financing activities:			
(Decrease) increase in securities sold under repurchase agreements	(29,867)	764	39,767
Net (decrease) increase in short-term borrowings and debt	(1,212,023)	(428,611)	950,259
Proceeds from long-term borrowings and debt	827,732	371,536	609,017
Repayments of long-term borrowings and debt	(781,274)	(368,843)	(256,173)
Payments of leases liabilities	(1,114)	(1,072)	-
Dividends paid	(44,669)	(58,881)	(61,539)
Exercised stock options	-	-	3,609
Repurchase of common stock	-	-	(2,442)
Net cash (used in) provided by financing activities	(1,241,215)	(485,107)	1,282,498
(Decrease) increase net in cash and cash equivalents	(313,710)	(546,474)	1,087,385
Cash and cash equivalents at beginning of the year	1,159,718	1,706,192	618,807
Cash and cash equivalents at end of the year	846,008	1,159,718	1,706,192

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

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 to 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 Representaçao Ltda.

- Bladex Representaçao Ltda, incorporated under the laws of Brazil on January 7, 2000, acts as the Bank's representative office in Brazil. Bladex Representaçao 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 9, 2021.

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.

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

2.4 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity, while any resulting 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. Significant accounting policies

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

3.1 Foreign currency

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.

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 in the caption of "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.

3. Significant accounting policies (continued)

3.2 Interests

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.

Methodology for 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.

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

3. Significant accounting policies (continued)

3.2 Interests (continued)

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

- Interest on securities measured at fair value through other comprehensive income.
- Interest on loans measured at fair value through profit or loss.
- 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.

3.3 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 3.2.

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:

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms
Letters of credit	
Issuance	Guarantee to honor the stipulated amount agreed to in the terms and conditions entered with the customer, upon presentation of required documentation.
Negotiation	Review of the shipping documents, by the beneficiary, under presentation and 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
Syndications	
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.

3. Significant accounting policies (continued)

3.4 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, when the assessment of the financial instrument's contractual terms and the cash flows derived from it determine that the SPPI criteria is not meet for its classification at amortized cost or at fair value through other comprehensive income.

3. Significant accounting policies (continued)

3.4 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 of a low 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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 periods, the Bank has not identified a change in its business models.

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).

The Bank measures it's financial assets and liabilities at fair value through profit or loss, when the assessment of the financial instrument's contractual terms and the cash flows derived from it determines that the SPPI criteria is not meet for its classification at amortized cost or at fair value through other comprehensive income.

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 models 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

F. Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

- 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.

The Bank assesses the transfer of risks and benefits by comparing the entity's exposure, before and after the transfer, with the variation in the amounts and timing of the net cash flows of the transferred asset; additionally, the continued participation in a transferred financial asset is measured by the lowest value between the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to pay.

In derecognizing the financial asset, allowance for losses are deducted from the gross carrying amount of the financial asset; any accumulated gain or loss that has been recognised in other comprehensive income is recognised in the consolidated statement of profit or loss.

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 qualifies 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 a 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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 anextension 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 according to the original terms with the contractual cash flows of the revised terms; both amounts discounted at the original effective interest.

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.

When the modification of a financial asset results in the derecognition of an existing financial asset and the subsequent recognition of a modified financial asset, the modified asset is considered a new financial asset, at the time of derecognition, the reserve for expected credit losses (ECL) is recalculated to determine the net carrying value of the asset at that date. The new financial asset will have an allowance for losses measured based on 12-month for expected credit losses except for rare cases where the new financial asset is considered to be impaired, because a high risk of default remains, which has not been reduced in the modification. The Bank monitors the credit risk of the modified or renegotiated financial assets by assessing qualitative and quantitative information, considering them in the same way as customers with expired status under new terms.

Financial Liabilities

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. The Bank considers that the terms of a modified financial liability are substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received, discounted at the original effective interest rate presents a difference greater than 10% of the discounted present value of the cash flows still remaining from the original financial liability.

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.

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.

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

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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.

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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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

Internal rating	12 - month average PD [(1)] %	External rating [(2)]	Description
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	C	Exposure to customers with operating cash flows that do 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
(2) Credit rating by Moody's Investors Service.

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 increase 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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 transactions 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.

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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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.

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 principal or interest; 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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.

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. <u>Write-offs</u>

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.

Recoveries of amounts previously written off are recognized when cash is received in the allowance for losses as mentioned in Note 3.4 (J).

3. Significant accounting policies (continued)

3.5 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 immediately recognized in profit or loss 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 hedging relationship.

<u>Applicable standards for all hedging relationships</u>

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 hedging 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.

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 dollars 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 profit or loss.

i) <u>Hedge accounting relationship</u>

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.

3. Significant accounting policies (continued)

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

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, the hedge ratio is generally set 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.

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 in profit or loss 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 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.

3. Significant accounting policies (continued)

3.6 Cash and due from banks

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

3.7 Loans

Loans reported in the consolidated statement of financial position include:

- Loans at amortized cost
- Loans measured at fair value through profit or loss

Loans at amortized cost consider 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.

Loans measured at FVTPL arise as the result of the assessment of the financial instrument's contractual terms and it is determined that the cash flows derived from the evaluated instrument do not meet with the SPPI criteria for its classification at amortized cost or at fair value through other comprehensive income.

3.8 Securities and other financial assets

Securities and other financial assets caption in the consolidated 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

3.9 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.

3. Significant accounting policies (continued)

3.10 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 down, the total commitment amounts do not necessarily represent future cash requirements.

3.11 Leases

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.

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.

The details of the lease policy are described as follows:

A. Definition of a lease

The Bank determines at the beginning of the contract if an agreement is or contains a lease according to IFRS 16. The Bank assesses if a contract is or contains a lease based on the definition of a lease.

3. Significant accounting policies (continued)

3.11 Leases (continued)

B. As a lessee

The Bank recognizes right-of-use assets and lease liabilities for most leases. These leases are presented in the consolidated statement of financial position. Lease liabilities are measured at the present value of the lease payments, discounted at the Bank's internal funding cost rate. The right-of-use assets are measured at their book value, 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 accumulated depreciation.

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.

C. As a sublessor

Sub-leases of assets for rights of use are classified as operating leases. The subleased portion is classified as investment property, which is subsequently measured by applying the cost model. Leases receivable are recognized as income in the consolidated statement of profit or loss in the period in which they are earned.

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.

D. Investment properties - Right of use

Rights-of-use assets that the Bank holds under sublease agreements for the purpose of obtaining lease income are classified as investment properties in the consolidated statement of financial position. These assets are measured at initial recognition using the same criteria used to recognize other rights-of-use assets. After initial recognition, the carrying amount of these assets is amortized on a straight-line basis over their life. The estimated useful life of these investment properties is closely related to the principal lease agreement.

3.12 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
Furniture and equipment	3 to 5 years
Hardware	3 years
Other equipment	2 to 4 years
Leasehold improvements	3 to 15 years or up to the lease term

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

3. Significant accounting policies (continued)

3.12 Equipment and leasehold improvements (continued)

Equipment and leasehold improvements include right of use of assets arising from the lease policy. Regarding the recognition and subsequent measurement for lease contracts are set out in Note 3.11.

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.

3.13 Investment property

Properties that are held with the intention of generating a return from rental, capital appreciation or both, as well as right-of-use assets recognized under IFRS 16 that the Bank holds under sublease agreements and that are not occupied by the Bank, are classified as investment properties in the consolidated statement of financial position and are initially measured at cost, including all transaction-related costs and, where applicable, costs associated with financing.

After initial recognition, investment properties are measured at fair value, except for those investment properties – right of use recognized under IFRS 16 that the Bank holds under sublease agreements which are subsequentlymeasured in accordance with IFRS 16.

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.

3. Significant accounting policies (continued)

3.14 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.

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.

3.15 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.

3.16 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.

3.17 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.

3.18 Equity

<u>Reserves</u>

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

3. Significant accounting policies (continued)

3.18 Equity (continued)

Other capital reserves, presented as other comprehensive income include:

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

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.

3.19 Earnings per share

Basic earnings per share is computed by dividing the profit for the year (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. Diluted earnings per share measure performance incorporating the effect that potential common shares, such as stock options and restricted stock units outstanding during the same period, would have on 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.

3.20 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 Representacao 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.

3. Significant accounting policies (continued)

3.20 Taxes (continued)

The Bank performes an annual assessment of laws and regulations in its different jurisdictions together with its tax experts to determine uncertainty regarding income tax treatments, concluding that there is no uncertainty about tax treatments applied in each tax legislation.

3.21 Segment reporting

The Bank's segment reporting is based on the following business segments: Commercial, which incorporates the Bank's core business of financial intermediation and fee generating 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.

3.22 Judgments, estimates and significant accounting assumptions

The preparation of the consolidated financial statements requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the 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.

A. Judgments

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

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 in 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

3. Significant accounting policies (continued)

3.22 Judgments, estimates and significant accounting assumptions (continued)

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. Models and assumptions used

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.

ii. 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. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Impairment losses on financial instruments at amortized cost

The Bank individually assesses all credit impaired loans at amortized cost at each reporting date to assess whether an impairment 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.

3. Significant accounting policies (continued)

3.22 Judgments, estimates and significant accounting assumptions (continued)

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).

4. New accounting standards

4.1 New accounting policies and amendments not yet adopted

In September 2019, the International Accounting Standards Board (IASB) finalized Phase 1 of the IBOR Reform and issued the document Interest Rate Benchmark Reform ("the Reform"), which contains amendments to IFRS 9 and IFRS 7. These amendments are effective for annual periods beginning on or after 1 January 2020.

In August 2020, the IASB published the second phase of the project amendments to the Reform; this document contains exemptions and clarifications for the applicable financial instruments.

Phase 2 of the Reference Interest Rate Reform Project

This document contains:

- Clarifications on changes in the basis used for determining contractual cash flows
- Practical exemptions applicable to the existing criteria for re-estimating financial assets and liabilities at variable interest rates to account for modifications resulting from the Reform.
- Practical exemptions allowing changes in the initial documentation of hedging relationships
- Waivers for hedge groups of hedged items and interest rate risk portfolios when the items in the designated group are subject to the contractual amendments resulting from the Reform
- Adds additional requirements when there are changes in the basis used to determine the contractual cash flows of the financial asset or liability that has given rise to the designation of a hedge
- Provides temporary waiver in the designation of risk components
- New disclosure requirements are included in the financial statements

The amendments issued in the second phase of the project are mandatory for annual periods beginning on or after 1 January 2021, and early adoption is permitted.

As of 31 December 2020, the Bank has not made the adoption of the reforms contained in phases 1 and 2 of the project amendments.

Managing interest rate benchmark reform and any risks arising due to reform

Fundamental reform of significant interest rate benchmarks is being undertaken globally, including the replacement of interbank offered rates (IBORs) with alternative nearly risk-free rates. Due to the nature of its business, the Bank's portfolio is mainly constituted of short-term fixed rate assets and liabilities. However, the Bank has exposures to IBORs (USD LIBOR only) on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition. The Bank anticipates that IBOR Reform will impact its risk management and hedge accounting.

The Bank's LIBOR Transition Steering Committee (LTSC) monitors and manages the transition to alternative rates. The Committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR Reform and how to manage communication about IBOR reform with counterparties. The Committee reports to the Board of Directors and collaborates with other business functions as needed. It provides periodic reports to management on interest rate risk and risks arising from IBOR Reform.

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

4. New accounting standards (continued)

4.1 New accounting policies and amendments not yet adopted (continued)

Although USD LIBOR was planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. This may mean that certain USD LIBOR tenors may continue to be published until June 30, 2023.

At the end of 2020, the Bank commenced amending existing loans and advances to corporate customer, including loan commitments. These amendments incorporate a fallback provision stating that the existing USD LIBOR benchmark rate will be replaced by SOFR (Secured Overnight Financing Rate) when USD LIBOR ceases to exist. The Bank plans to finish the process of amending contractual terms by the end of 2021.

The main risks to which the Bank is exposed as a result of IBOR reform are operational. Such operational risks include the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use USD LIBOR curves and revision of operational controls related to the Reform. Financial risk is predominantly limited to interest rate risk.

Non-derivative financial instruments and loan commitments

Quantitative Information

Disaggregated information by financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period December 31, 2020 is the following. The information presented is the remaining exposure as at each reporting period.

	USD LIBOR as of December 31, 2021 (Notional in US$ *thousands*)	USD LIBOR as of December 31, 2022 (Notional in US$ *thousands*)	USD LIBOR as of June 30, 2023 (Notional in US$ *thousands)*
Non-derivative financial assets			
Loans	1,034,252	473,643	416,833
Non-derivative financial liabilities			
Borrowings	222,500	62,500	12,500
Loan commitments	63,333	60,000	10,000

The Bank has USD LIBOR exposures on floating-rate loans and advances to customers and loan commitments.

4. New accounting standards (continued)

4.1 New accounting policies and amendments not yet adopted (continued)

Derivatives held for risk management and hedge accounting

The Bank's derivative instruments are governed by ISDA's 2006 definitions. ISDA has reviewed its definitions in light of IBOR Reform and issued an IBOR fallbacks supplement on October 23, 2020. This sets out how the amendments to new alternative benchmark rates (e.g., SOFR) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or in ISDA declaring a non-representative determination of an IBOR.

The Bank plans to adhere to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts on the later of when the supplement becomes effective or both counterparties adhere to the protocol. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the Bank is monitoring whether its counterparties will also adhere to the protocol and, if there are counterparties that will not, then the Bank plans to negotiate with them bilaterally about inclusion of new fallback clauses.

As of December 31, 2020, the Bank has not amended its derivatives instruments with its counterparties.

Hedge Accounting

The Bank has evaluated the extent to which its fair value and cash flow hedging relationships are subject to uncertainty driven by IBOR Reform as at the reporting date. The Bank's hedged items and hedging instruments continue to be indexed to USD LIBOR benchmark rates. These USD LIBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

The Bank has very limited cash flow hedging relationships with USD LIBOR risks extending beyond the anticipated revised cessation date for USD LIBOR. Exposure to USD LIBOR designated in a cash flow hedging relationship at 31 December 2020 is a nominal amount of $20 million attributable to the interest rate swap hedging USD LIBOR cash flows on the Bank's USD liabilities maturing in 2023.

The Bank expects that SOFR will replace USD LIBOR, but there is uncertainty over the timing and amount of the replacement rate cash flows. Such uncertainty may impact the hedging relationship – e.g., its effectiveness assessment and highly probable assessment. For these assessments, the Bank assumes that the hedged benchmark interest rate, the cash flows of the hedged item and/or the hedging instrument will not be altered as a result of IBOR Reform.

If a hedging relationship impacted by uncertainty about IBOR Reform has not been highly effective throughout the financial reporting period, then the Bank will evaluate whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

Hedging relationships impacted by uncertainty about IBOR Reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and the hedging instrument, which may lead to hedge ineffectiveness. The Bank has measured its hedging instruments indexed to IBORs using available quoted market rates for IBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in IBOR on a similar basis.

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

4. New accounting standards (continued)

4.1 New accounting policies and amendments not yet adopted (continued)

Hedge Accounting (continued)

When the uncertainty arising from IBOR reform no longer exists, the Bank will cease to apply the assumptions that the hedged benchmark interest rate, the cash flows of the hedged item and/or hedging instrument will not be altered as a result of IBOR Reform. At that time, the Bank will also remeasure the cumulative changes in the hedged cash flows and the hedging instrument based on new alternative benchmark rates – i.e., SOFR. For the purpose of remeasuring the cumulative changes in the hedged cash flows, the Bank will amend the terms of the hypothetical derivative to reflect the changes required by IBOR Reform in the hedged item.

Quantitative Information

Disaggregated information by derivative financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period December 31, 2020 is the following. The information presented is the remaining notional amount as at each reporting period.

	USD LIBOR as at December 31, 2021 (Notional US$,000)	USD LIBOR as at December 31, 2021 (Notional US$,000)	USD LIBOR as at June 30, 2023 (Notional US$,000)
Derivatives held for risk management			
Derivative financial instruments - assets	3,006	1,937	-
Derivative financial instruments - liabilities	400,414	88,768	68,768

Leasing Reform IFRS 16

In May 2020, the IASB published the document "Rental Lease concessions related to COVID-19", which contains amendments to IFRS 16 Leases effective as of June 1, 2020, in order to provide relief to the lessee with respect to the rental concessions granted as a result of the events of COVID-19, where in the existing event the lessee must re-measure the responsibility of the lease using a revised discount rate.

At the reporting date, the Bank has not modified nor received concessions in the lease agreements entered into with third parties.

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 the outstanding balances. 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 3.4 (J).

The Bank's Management has not made any adjustment to the methodology and key inputs used to determine the PD and LGD parameters produced by the model, after assessing the impact in the economic sectors caused by the pandemic COVID-19 (as set out in Note 6).

Loans at amortized cost

December 31, 2020

	PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	2,582,794	-	-	2,582,794
Grades 5 - 6	0.75 - 3.95	1,928,142	167,996	-	2,096,138
Grades 7 - 8	3.96 - 30.67	102,532	119,340	10,593	232,465
Grades 9 - 10	30.68 - 100	-	-	-	-
		4,613,468	287,336	10,593	4,911,397
Loss allowance		(16,661)	(19,916)	(4,588)	(41,165)
Total		**4,596,807**	**267,420**	**6,005**	**4,870,232**

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**

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

5. Financial risk (continued)

A. Credit risk (continued)

Loan commitments, financial guarantees issued and customers' liabilities under acceptances

December 31, 2020

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Commitments and contingencies					
Grades 1 - 4	0.03 - 0.74	245,927	-	-	245,927
Grades 5 - 6	0.75 - 3.95	198,638	38,446	-	237,084
Grades 7 - 8	3.96 - 30.67	81,887	-	-	81,887
		526,452	38,446	-	564,898
Customers' liabilities under acceptances					
Grades 1 - 4	0.03 - 0.74	1,498	-	-	1,498
Grades 5 - 6	0.75 - 3.95	723	-	-	723
Grades 7 - 8	3.96 - 30.67	72,145	-	-	72,145
		74,366	-	-	74,366
		600,818	**38,446**	-	**639,264**
Loss allowance		(2,426)	(478)	-	(2,904)
Total		**598,392**	**37,968**	**-**	**636,360**

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	4.13 - 30.43	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	4.13 - 30.43	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**

5. Financial risk (continued)

A. Credit risk (continued)

Securities at amortized cost

December 31, 2020

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	108,505	-	-	108,505
Grades 5 - 6	0.75 - 3.95	50,562	5,007	-	55,569
		159,067	5,007	-	164,074
Loss allowance		(462)	(33)	-	(495)
Total		**158,605**	**4,974**	**-**	**163,579**

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**

Securities at fair value through other comprehensive income (FVOCI)

December 31, 2020

	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	231,348	-	-	231,348
		231,348	-	-	231,348
Loss allowance		(43)	-	-	(43)
Total		**231,305**	**-**	**-**	**231,305**

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**

5. Financial risk (continued)

A. Credit risk (continued)

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

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Current	**4,613,468**	**287,336**	**10,593**	**4,911,397**

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
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**

As of December 31, 2020, and 2019, other financial assets were not past due nor impaired.

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 an analysis of counterparty credit exposures arising from derivative transactions. The Bank's derivative fair values are generally secured by cash.

	December 31, 2020		
	Notional value USD	Derivative financial instruments - fair value asset	Derivative financial instruments - fair value liabilities
Interest rate swaps	145,667	1,831	(1,774)
Cross-currency swaps	565,997	25,947	(3,848)
Foreign exchange forwards	71,353	-	(3,589)
Total	**783,017**	**27,778**	**(9,211)**

	December 31, 2019		
	Notional value USD	Derivative financial instruments - fair value asset	Derivative financial instruments - 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)**

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.

<u>Derivatives and repurchase agreements</u>

In the ordinary course of business, the Bank enters into derivative financial instrument transactions and securities sold under repurchase agreements under industry standard 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.

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

5. Financial risk (continued)

A. Credit risk (continued)

Such arrangements provide for single net settlement of all financial instruments covered only 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.

The Bank holds guarantees and other financial credit enhancements against certain exposures in the loan portfolio. As of December 31, 2020, and 2019, the coverage ratio to the carrying amount of the loan portfolio was 12%..

iii. 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 central scenario. Other scenarios represent upside and downside results. The implementation and interpretation of the outcomes of the alert are based on the expert judgment 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 (For example, 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.

5. Financial risk (continued)

A. Credit risk (continued)

Main 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.

The table below lists the macroeconomic assumptions by country used in the central, upside and downside scenarios over the five-year forecasted average available for each reporting period.

		Variable			
		GDP Growth (Var.%)		**ComEx Growth Index (Var.%)**	
Country	**Scenario**	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Brazil	Central	0.7%	2.0%	4.0%	4.1%
	Upside	1.7%	3.0%	7.5%	7.6%
	Downside	-0.7%	0.6%	0.0%	0.1%
Colombia	Central	1.4%	3.4%	4.6%	6.6%
	Upside	2.5%	4.5%	7.6%	9.6%
	Downside	0.1%	2.1%	1.1%	3.1%
Mexico	Central	0.2%	1.5%	3.5%	2.2%
	Upside	1.2%	2.5%	7.5%	6.2%
	Downside	-1.0%	0.3%	-1.0%	-2.3%
Chile	Central	1.5%	2.2%	6.4%	3.1%
	Upside	2.6%	3.3%	9.9%	6.6%
	Downside	0.3%	1.0%	2.4%	-0.9%
Panama	Central	2.5%	4.6%	4.2%	3.0%
	Upside	3.5%	6.1%	7.2%	6.0%
	Downside	1.3%	3.2%	0.7%	-0.5%
Guatemala	Central	2.5%	3.5%	4.2%	4.1%
	Upside	3.5%	4.5%	7.2%	7.1%
	Downside	1.3%	2.3%	0.7%	0.6%
Peru	Central	1.4%	3.3%	5.1%	4.2%
	Upside	2.4%	4.3%	8.6%	7.7%
	Downside	0.2%	2.1%	1.1%	0.2%
Ecuador	Central	-0.2%	1.3%	2.7%	4.6%
	Upside	0.8%	2.3%	5.7%	7.6%
	Downside	-1.7%	-0.2%	-0.8%	1.1%

(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 3. 4(J)

Loans at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2019	**28,892**	**15,842**	**54,573**	**99,307**
Transfer to lifetime expected credit losses	(886)	886	-	-
Transfer to credit-impaired financial instruments	-	(2,100)	2,100	-
Net effect of changes in allowance for expected credit losses	134	13,443	(118)	13,459
Financial instruments that have been derecognized during the year	(24,307)	(3,729)	-	(28,036)
New financial assets originated or purchased	12,828	-	-	12,828
Write-offs	-	(4,426)	(52,106)	(56,532)
Recoveries	-	-	139	139
Allowance for expected credit losses as of December 31, 2020	**16,661**	**19,916**	**4,588**	**41,165**

	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	-	-	52	52
Allowance for expected credit losses as of December 31, 2019	**28,892**	**15,842**	**54,573**	**99,307**

5. Financial risk (continued)

A. Credit risk (continued)

Loan commitments, financial guarantee contracts and customers' liabilities under acceptances

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, stand-by letters of credit, guarantees, and credit commitments.

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2019	**2,683**	**361**	**-**	**3,044**
Transfer to lifetime expected credit losses	(96)	96	-	-
Net effect of changes in reserve for expected credit losses	37	42	-	79
Financial instruments that have been derecognized during the year	(1,864)	(21)	-	(1,885)
New instruments originated or purchased	1,666	-	-	1,666
Allowance for expected credit losses as of December 31, 2020	**2,426**	**478**	**-**	**2,904**

	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 losses	(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 31, 2019	**2,683**	**361**	**-**	**3,044**

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

5. Financial risk (continued)

A. Credit risk (continued)

Securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2019	**103**	**10**	**-**	**113**
Transfer to lifetime expected credit losses	(10)	10	-	-
Net effect of changes in allowance for expected credit losses	15	23	-	38
Financial instruments that have been derecognized during the year	(76)	(10)	-	(86)
New financial assets originated or purchased	430	-	-	430
Allowance for expected credit losses as of December 31, 2020	**462**	**33**	**-**	**495**

	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	-	-	37
Allowance for expected credit losses as of December 31, 2019	**103**	**10**	**-**	**113**

Securities at fair value through other comprehensive income (FVOCI)

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2019	**-**	**-**	**-**	**-**
Financial instruments that have been derecognized during the year	43	-	-	43
Allowance for expected credit losses as of December 31, 2020	**43**	**-**	**-**	**43**

5. Financial risk (continued)

A. Credit risk (continued)

Securities at fair value through other comprehensive income (FVOCI)

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2018	**33**	**140**	**-**	**173**
Financial instruments that have been derecognized during the year	(33)	(140)	-	(173)
Allowance for expected credit losses as of December 31, 2019	**-**	**-**	**-**	**-**

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 (reversal) provision for credit losses' line item in the consolidated statement of profit or loss and other comprehensive income.

			Securities		
December 31, 2020	Loans at amortized cost	Loan commitments and financial guarantee contracts	At amortized cost	FVOCI	Total
Net effect of changes in allowance for expected credit losses	13,459	79	38	-	13,576
Financial instruments that have been derecognized during the year	(28,036)	(1,885)	(86)	-	(30,007)
New financial assets originated or purchased	12,828	1,666	430	43	14,967
Total	**(1,749)**	**(140)**	**382**	**43**	**(1,464)**

			Securities		
December 31, 2019	Loans at amortized cost	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**

5. Financial risk (continued)

A. Credit risk (continued)

December 31, 2018	Loans at amortized cost	Loan commitments and financial guarantee contracts	Securities: At amortized cost	Securities: 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**

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 allowance for credit losses for credit-impaired loans

	December 31, 2020	December 31, 2019
Credit-impaired loans and advances at beginning of year	54,573	49,439
Classified as credit-impaired during the year	2,100	-
Change in allowance for expected credit losses	(744)	7,164
Recoveries of amounts previously written off	139	52
Interest income	626	323
Write-offs	(52,106)	(2,405)
Credit-impaired loans and advances at end of year	**4,588**	**54,573**

During the year ended December 31, 2020, the sale of the outstanding credit-impaired loan in Stage 3, classified at amortized cost, was made for $11.6 million. This sale resulted in a write off against the allowance for credit losses of $ 52.1 million.

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)

vi. 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.

Concentration by sector and industry

	Loans at amortized cost		Loan commitments and financial guarantee contracts		Securities: At amortized cost		Securities: FVOCI	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Carrying amount - principal	4,911,397	5,892,997	74,366	115,682	164,074	74,547	231,348	5,094
Amount committed/guaranteed	-	-	564,898	493,372	-	-	-	-
Concentration by sector								
Corporations:								
Private	1,425,929	1,782,808	276,249	213,161	56,979	2,998	60,403	-
State-owned	741,791	780,491	92,299	69,822	29,985	23,792	23,858	-
Financial institutions:								
Private	2,231,742	2,692,787	65,434	75,130	33,715	19,276	-	-
State-owned	476,520	589,690	205,282	250,941	28,276	-	141,974	-
Sovereign	35,415	47,221	-	-	15,119	28,481	5,113	5,094
Total	**4,911,397**	**5,892,997**	**639,264**	**609,054**	**164,074**	**74,547**	**231,348**	**5,094**
Concentration by industry								
Financial institutions	2,708,262	3,282,477	270,716	326,071	61,991	19,276	141,974	-
Manufacturing	760,985	925,375	173,493	143,560	66,053	21,658	45,654	-
Oil and petroleum derived products	586,030	561,068	98,189	71,571	20,911	5,132	38,607	-
Agricultural	336,715	327,288	-	-	-	-	-	-
Services	264,597	370,753	63,086	20,497	-	-	-	-
Mining	94,955	162,364	-	-	-	-	-	-
Sovereign	35,415	47,221	-	-	15,119	28,481	5,113	5,094
Other	124,438	216,451	33,780	47,355	-	-	-	-
Total	**4,911,397**	**5,892,997**	**639,264**	**609,054**	**164,074**	**74,547**	**231,348**	**5,094**

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

5. Financial risk (continued)

A. Credit risk (continued)

<u>Risk rating and concentration by country</u>

	Loans at amortized cost		Loan commitments and financial guarantee contracts		Securities: At amortized cost		Securities: FVOCI	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Carrying amount - principal	4,911,397	5,892,997	74,366	115,682	164,074	74,547	231,348	5,094
Amount committed/guaranteed	-	-	564,898	493,372	-	-	-	-
Rating								
1-4	2,582,794	2,928,401	247,425	167,241	108,505	73,047	231,348	5,094
5-6	2,096,138	2,415,323	237,807	183,568	55,569	1,500	-	-
7-8	232,465	487,428	154,032	258,245	-	-	-	-
10	-	61,845	-	-	-	-	-	-
Total	**4,911,397**	**5,892,997**	**639,264**	**609,054**	**164,074**	**74,547**	**231,348**	**5,094**
Concentration by country								
Argentina	130,944	226,481	-	-	-	-	-	-
Belgium	9,807	13,742	-	-	-	-	-	-
Bolivia	12,000	7,000	2,800	400	-	-	-	-
Brazil	971,652	1,015,316	50,000	50,000	41,128	1,500	-	-
Canada	-	-	-	657	-	-	-	-
Chile	533,945	683,132	7,911	8	11,992	-	28,972	5,094
Colombia	714,258	906,092	50,333	50,610	29,998	15,338	-	-
Costa Rica	146,200	220,380	56,876	59,161	-	-	-	-
Dominican Republic	202,433	289,853	16,500	16,500	-	-	-	-
Ecuador	45,511	174,267	165,275	252,391	-	-	-	-
El Salvador	40,000	54,233	1,087	5,555	-	-	-	-
France	150,810	152,530	84,862	47,906	-	-	-	-
Germany	-	34,613	-	-	-	-	-	-
Guatemala	281,485	278,557	43,845	44,200	-	-	-	-
Honduras	10,199	128,937	345	300	-	-	-	-
Hong Kong	1,800	10,400	-	-	-	-	-	-
Jamaica	23,274	38,312	-	-	-	-	-	-
Luxembourg	50,000	59,813	-	-	-	-	-	-
Mexico	607,099	754,465	4,995	27,377	43,910	21,505	-	-
Panama	241,097	268,356	61,435	25,304	10,399	36,204	-	-
Paraguay	100,816	127,970	11,800	10,652	-	-	-	-
Peru	272,752	150,301	47,245	8,033	26,647	-	-	-
Singapore	75,095	90,955	-	-	-	-	-	-
Switzerland	-	-	-	10,000	-	-	-	-
Trinidad and Tobago	165,995	181,676	-	-	-	-	-	-
United States of America	113,816	25,000	-	-	-	-	89,794	-
United Kingdom	10,409	-	-	-	-	-	-	-
Uruguay	-	619	33,955	-	-	-	-	-
Multinational	-	-	-	-	-	-	112,582	-
Total	**4,911,397**	**5,892,997**	**639,264**	**609,054**	**164,074**	**74,547**	**231,348**	**5,094**

5. Financial risk (continued)

A. Credit risk (continued)

vi. 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>

December 31, 2020

Description	Gross amounts of assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position: Financial instruments	Gross amounts not offset in the consolidated statement of financial position: Cash collateral received	Net Amount
Derivative financial instruments used for hedging	27,778	-	27,778	-	(24,720)	3,058
Total	**27,778**	**-**	**27,778**	**-**	**(24,720)**	**3,058**

December 31, 2019

Description	Gross amounts of assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position: Financial instruments	Gross amounts not offset in the consolidated statement of financial position: 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**

5. Financial risk (continued)

A. Credit risk (continued)

b) Securities sold under repurchase agreements and derivative financial instruments – liabilities

December 31, 2020

Description	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position: Financial instruments	Gross amounts not offset in the consolidated statement of financial position: Cash collateral pledged	Net Amount
Securities sold under repurchase agreements	(10,663)	-	(10,663)	11,998	18	1,353
Derivative financial instruments used for hedging	(9,211)	-	(9,211)	-	7,786	(1,425)
Total	**(19,874)**	**-**	**(19,874)**	**11,998**	**7,804**	**(72)**

December 31, 2019

Description	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position: Financial instruments	Gross amounts not offset in the consolidated statement of financial position: Cash collateral pledged	Net 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**

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 and customers, as well as corporate debt securities rated A- or above.

The following table details the Bank's liquidity ratios, described in the previous paragraph, for the year ended December 31, 2020 and 2019, respectively:

	December 31, 2020	December 31, 2019
At the end of the year	249.42%	52.48%
Year average	115.98%	37.82%
Maximum of the year	249.42%	53.38%
Minimun of the year	53.26%	23.23%

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

(in millions of USD dollars)	December 31, 2020: Cash and due from banks	December 31, 2020: Securities FVOCI	December 31, 2020: Total	December 31, 2019: Cash and due from banks
United State of America	740	90	830	1,132
Other O.E.C.D countries	100	-	100	4
Latin America	6	-	6	4
Other countries	-	-	-	20
Multinational	-	112	112	-
Total	**846**	**202**	**1,048**	**1,160**

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

(in millions of USD dollars)	December 31, 2020	December 31, 2019
Demand liabilities and "overnight"	171	86
% Demand liabilities and "overnight" to total deposits	5.44%	2.97%

5. Financial risk (continued)

B. Liquidity risk (continued)

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

(in millions of USD dollars)	December 31, 2020	December 31, 2019
Total liquid assets	1,048	1,160
% Total assets to total liabilities	33.40%	40.15%
% Total liquid assets in the U.S. Federal Reserve	65.68%	97.37%

Even though the average term of the Bank's assets exceeds the average term of its liabilities, the associated liquidity risk is diminished by the short-term nature of a significant portion of the loan portfolio, since 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, 2020	December 31, 2019
Loan portfolio at amortized cost and investment portfolio less than/equal to 1 year according to its original terms	3,114	3,485
Average term (days)	195	189

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

(in millions of USD dollars)	December 31, 2020	December 31, 2019
Loan portfolio at amortized cost and investment portfolio greater than/equal to 1 year according to its original terms	2,193	2,497
Average term (days)	1,382	1,185

5. Financial risk (continued)

B. Liquidity risk (continued)

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:

	December 31, 2020						
Description	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Gross inflows (outflows)	Carrying amount
Assets							
Cash and due from banks	863,831	-	-	-	-	863,831	863,812
Securities and other financial assets, net	11,541	20,961	60,311	312,027	-	404,840	398,068
Loans, net	1,712,049	998,923	1,255,069	293,489	1,156,625	5,416,155	4,896,647
Derivative financial instruments - assets	-	119	129	26,691	839	27,778	27,778
Total	**2,587,421**	**1,020,003**	**1,315,509**	**632,207**	**1,157,464**	**6,712,604**	**6,186,305**
Liabilities							
Deposits	(2,678,292)	(166,832)	(293,306)	(6,638)	-	(3,145,068)	(3,140,875)
Securities sold under repurchase agreements	-	(5,784)	(4,977)	-	-	(10,761)	(10,663)
Borrowings and debt, net	(166,034)	(60,816)	(456,932)	(1,425,806)	(24,922)	(2,134,510)	(1,994,245)
Derivative financial instruments - liabilities	(3,020)	(1,081)	(71)	(5,039)	-	(9,211)	(9,211)
Total	**(2,847,346)**	**(234,513)**	**(755,286)**	**(1,437,483)**	**(24,922)**	**(5,299,550)**	**(5,154,994)**
Contingencies							
Confirmed lettes of credit	167,301	29,466	20,015	-	-	216,782	216,782
Stand-by letters of credit and guarantees	35,041	106,943	55,963	12,550	-	210,497	210,497
Credit commitments	-	-	4,286	133,333	-	137,619	137,619
Total	**202,342**	**136,409**	**80,264**	**145,883**	**-**	**564,898**	**564,898**
Net position	**(462,267)**	**649,081**	**479,959**	**(951,159)**	**1,132,542**	**848,156**	**466,413**

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

5. Financial risk (continued)

B. Liquidity risk (continued)

Description	December 31, 2019						
	Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Gross inflows (outflows)**	**Carrying amount**
Assets							
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 guarantees	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**

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

Type of financial instrument	**Basis on which amounts are compiled**
Financial assets and liabilities	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 simultaneously settle gross or net amounts.

5. Financial risk (continued)

B. Liquidity risk (continued)

iii. Liquidity reserves

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents.

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

	December 31, 2020		**December 31, 2019**	
	Amount	**Fair Value**	**Amount**	**Fair Value**
Balances with Central Banks	688,612	688,612	1,129,016	1,129,016
Cash and balances with other bank [(1)]	157,396	157,396	30,702	30,702
Total Liquidity reserves	**846,008**	**846,008**	**1,159,718**	**1,159,718**

[(1)] Excludes pledged deposits.

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, 2020	
	Guaranteed	**Available as collateral**
Cash and due from banks	17,804	846,008
Notional of investment securities	11,450	371,900
Loans at amortized cost	-	4,911,397
Total assets	**29,254**	**6,129,305**

	December 31, 2019	
	Guaranteed	**Available as collateral**
Cash and due from banks	18,452	1,159,718
Notional of investment securities	40,531	38 ,045
Loans at amortized cost	-	5,823,333
Total assets	**58,983**	**7,021,096**

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

5. Financial risk (continued)

C. Market risk

The Bank manages market risk by considering the consolidated financial situation of the Bank. 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.

i. Interest rate risk

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, 2020						
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	859,481	-	-	-	-	4,331	863,812
Securities and other financial assets	9,554	9,139	55,960	320,769	-	-	395,422
Loans	3,468,477	895,794	434,813	117,262	-	-	4,916,346
Total assets	4,337,512	904,933	490,773	438,031	-	4,331	6,175,580
Liabilities							
Demand deposits and time deposits	(2,675,867)	(166,317)	(290,000)	(6,500)	-	(216)	(3,138,900)
Securities sold under repurchase agreements	-	(5,728)	(4,935)	-	-	-	(10,663)
Borrowings and debt	(1,103,703)	(45,859)	(16,511)	(794,522)	(24,475)	-	(1,985,070)
Total liabilities	(3,779,570)	(217,904)	(311,446)	(801,022)	(24,475)	(216)	(5,134,633)
Net effect of derivative financial instruments held for interest risk management	(3)	(373)	58	15,982	839	-	16,503
Total interest rate sensitivity	**557,939**	**686,656**	**179,385**	**(347,009)**	**(23,636)**	**4,115**	**1,057,450**

	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	1,170,092	-	-	-	-	-	1,170,092
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	5,216,459	1,102,706	553,083	261,743	8,739	-	7,142,730
Liabilities							
Demand deposits and time deposits	(2,570,324)	(197,300)	(120,419)	-	-	(293)	(2,888,336)
Securities sold under 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	**68,798**	**503,824**	**405,692**	**102,940**	**8,739**	**(20,207)**	**1,069,786**

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, parallel fall or rise in all yield curves which are assessed accordingly to market conditions.

5. Financial risk (continued)

C. Market risk (continued)

ii. Interest rate risk (continued)

Following is an analysis of the Bank's sensitivity to the most likely increase or decrease in market interest rates at the reporting date, 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, 2020	+50 bps	1,182	16,618
	-50 bps	(5,161)	107
December 31, 2019	+50 bps	3,064	7,461
	-50 bps	(3,064)	(7,461)

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 period interest rate volatility.

iii. Foreign exchange 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, based on their fair value.

	December 31, 2020						
	Brazilian Real	**European Euro**	**Japanese Yen**	**Colombian Peso**	**Mexican Peso**	**Other Currencies** [(1)]	**Total**
Exchance rate	5.19	1.22	103.23	3,430.19	19.92		
Assets							
Cash and due from banks	81	13	1	20	1,615	80	1,810
Loans	-	-	-	-	182,395	-	182,395
Total Assets	**81**	**13**	**1**	**20**	**184,010**	**80**	**184,205**
Liabilities							
Borrowings and debt	-	-	-	-	(183,863)	-	(183,863)
Total liabilities	**-**	**-**	**-**	**-**	**(183,863)**	**-**	**(183,863)**
Net currency position	**81**	**13**	**1**	**20**	**147**	**80**	**342**

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

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

5. Financial risk (continued)

C. Market risk (continued)

iii. Foreign exchange risk (continued)

	December 31, 2019						
	Brazilian Real	European Euro	Japanese Yen	Colombian Peso	Mexican Peso	Other Currencies (1)	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	-	-	-	-	(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 Chinese 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 Integrated 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 acronym in Spanish), 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 relating to a reasonable Integrated 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 Integrated 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 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 Integrated Risk Management works closely with CPER to ensure that procedures are consistent with the Integrated Risk Management Governance Framework.
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 in 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.

6. Financial risk management (continued)

A. Credit risk (continued)

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 assets, 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 reporting 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) and 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 is identified should be taken into consideration for the assessment. The impairment reserve is reviewed by credit management to ensure alignment with the Bank's general policy.

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.

6. Financial risk management (continued)

A. Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recognized 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 for 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 potential 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.

The Bank manages interest rate risk by closely monitoring the appreciation and decline in value 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.

6. Financial risk management (continued)

C. Market risk (continued)

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, including 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 technological appliances, 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.

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 the Bank's 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.

Impacts and actions implemented in the context of COVID-19

The COVID-19 pandemic and the measures implemented globally to prevent its spread could negatively impact the Bank's business in a number of ways. These impacts may include, among others, reduced business volumes, restricted access to funding sources, insufficient liquidity, delayed or defaulted payments from the Bank's customers or from the Bank´s financial counterparties, increased levels of indebtedness or the unavailability of sufficient financing for the Bank's borrowers, and other factors which are beyond the Bank's control. In this context, and in order to mitigate these risks, the Bank has implemented a series of measures and actions described below.

i. Liquidity risk

Following the COVID-19 pandemic and its potential impact on the availability of resources, the Bank activated its Liquidity Contingency Plan, based on internally designed market triggers, in order to ensure a robust position given the situation caused by the pandemic. This led the Bank to adjust the scenario of its internal liquidity coverage ratio "LCR" from a regular level of 1 to a level of 3, which implies more restrictive assumptions for inflows and outflows of cash, with a downward adjustment of the percentages of funding sources renewals and of loan portfolio collections. Other additional elements included in the Liquidity Contingency Plan are, among others, the collection of all loan maturities and the case-by-case approval of all new credit disbursements by the Credit Committee, establishing at least biweekly meetings.

Following the execution of the previously described Liquidity Contingency Plan, the Bank achieved a significant increase in its cash position in a short period of time, managing to continuously maintain a robust level of liquidity, exceeding regulatory requirements.

The Bank's capacity to maintain these strong liquidity levels, even in the current context, is attributable to historically diversified and stable funding sources, including deposits from central banks in Latin America and the Caribbean, who are also the Bank's Class A shareholders. In addition, the Bank has maintained a fluid access to a significant base of correspondent banks and investors from debt capital markets across the globe, which have maintained and even increased their availability of funding to the Bank in the last few months. Furthermore, the Bank has been able to collect on the majority of scheduled maturities of its loan portfolio and has then disbursed new transactions on a selective basis, prioritizing prudent risk management over loan growth, with a focus on adequate levels of risk / return.

The Bank intends to maintain this additional level of liquidity as long as the current environment of volatility and uncertainty remains, therefore it will continue to give preference to maintaining a resilient and robust liquidity position over the growth of its balance sheet and / or its profitability.

ii. Credit risk

The Bank determines the appropriate level of allowances for expected credit losses based on a forward-looking process that estimates the probable loss inherent in its Credit Portfolio, which is the result of a statistical analysis supported by the Bank's historical portfolio performance, external sources, and the judgment of the Bank's management. This level of allowance reflects assumptions and estimates made in the context of changing political and economic conditions in the region, including but not limited to the impact of recent ongoing turmoil related to COVID-19.

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

6. Financial risk management (continued)

ii. Credit risk (continued)

The Bank has a Business Model mainly focused on financial institutions and large corporations, a portion of which represents “quasi-sovereign” risks, with an average short-term duration, allowing an agile adjustment of exposure in adverse scenarios.

Actions implemented due to the COVID-19 pandemic

In late March 2020, due to the context, Bladex elaborated a heat map including each country and industry in which it maintains exposure. This allowed the Bank to identify customers with higher levels of risk depending on the country, industry and financial position.

Four main variables were used to assign the level of customer risk:

Financial Institutions	Corporations
a. COVID-19 business impact	a. COVID-19 business impact
b. Portfolio quality and coverage levels	a. Foreign currency exchange risk
b. Solvency level	i. Commodity risk
ii. Liquidity position	d. Liquidity position

The Bank’s Management holds conference and video calls frequently with its customers, focusing on those operating in higher risk industries. Any relevant information is presented to the Credit Committee.

As a result of the pandemic crisis, the loans portfolio was significantly reduced due to the implementation of the Liquidity Contingency Plan as the Bank's strategy to adjust the credit risk of the portfolio and prioritize liquidity. Initially, all operations were submitted for approval on a case-by-case basis by the Credit Committee with a meeting frequency of at least twice per week. Subsequently, the Bank progressively resumed originations with clients with good quality profiles with whom it maintained close commercial relationships and, based on the new information available, limits were raised for approval by the CPER for specific cases of short-term transactional clients with good financial situation..

The permanent review of transactions maturing in a 90-day horizon, has allowed the Bank to take quick actions to collect and to identify cases with a higher level of risk. Moreover, the Bank is assessing on a periodic basis the adequacy of the allowances for expected credit losses.

The Bank holds a low-risk portfolio, particularly due to the nature of its business, which focuses on a portfolio on financial institutions and corporations in the region and “quasi-sovereign” entities in strategic sectors, with whom it mainly conducts foreign trade operations. At December 31, 2020, 58% of placements were in investment grade countries, along with a short-term portfolio profile with 61% of the portfolio maturing within 1 year.

The Bank periodically assesses the adequacy and the validity of the allowance for expected credit losses calculation model. When assessing if the calculation model remains valid, characteristics and behavior of the loan portfolio are considered as a fundamental factor, as well as the active management by Risk and Business areas. Additionally, periodic and specific economic analyses that contribute to the active management of the portfolio are considered.

Given the current situation, the Bank has prepared 40 individual country risk analyses, as well as a comprehensive analysis at the beginning of the pandemic for 20 countries of Latin America and the Caribbean. Likewise, the results of the alert model have served as a guide to focus the consideration of the forward looking, which are duly incorporated in the rating models. In addition, statistical studies were conducted on the relationship between the quality of the loan portfolio and the behavior of the Latin American macroeconomic environment, concluding that these maintain a low correlation or a correlation that is not congruent with the behavior of the portfolio given the macroeconomic conditions. As a result of the above, the Bank has concluded that the methodology used remains valid in the context of the COVID-19 pandemic.

6. Financial risk management (continued)

iii. Market risk

The Bank's Management has not made any material adjustments to the Market Risk valuation metrics and models.

iv. Cybersecurity risk

Actions implemented due to the COVID-19 pandemic

The Bank successfully implemented its Business Continuity Plan, implicating among other things, that 100% of its staff is working remotely (Telecommuting).

This has increased the frequency of risks associated with cybersecurity, among them:

- Increased e-mail attack attempts.
- Increased attack attempts due to the widespread use of remote connection protocols.

To counteract these risks, the Bank's Management has reinforced the controls as follows:

- Monitoring of main attack vectors was expanded: e-mail and end-user devices.
- Awareness and training activities within the organization were reinforced.
- Frequency of vulnerability scans has been intensified.

7. Fair value of financial instruments

The Bank determines the fair value of its financial instruments using the fair value hierarchy, 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.

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

7. Fair value of financial instruments (continued)

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.

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.

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, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Securities and other financial assets:				
Securities at FVOCI - Corporate debt	-	226,235	-	226,235
Securities at FVOCI - Sovereign debt	-	5,113	-	5,113
Loans at fair value through profit or loss	-	-	4,949	4,949
Total securities and other financial assets	-	231,348	4,949	236,297
Derivative financial instruments - assets:				
Interest rate swaps	-	1,831	-	1,831
Cross-currency swaps	-	25,947	-	25,947
Foreign exchange forwards	-	-	-	-
Total derivative financial instrument assets	-	27,778	-	27,778
Total assets at fair value	**-**	**259,126**	**4,949**	**264,075**
Liabilities				
Derivative financial instruments - liabilities:				
Interest rate swaps	-	1,774	-	1,774
Cross-currency swaps	-	3,848	-	3,848
Foreign exchange forwards	-	3,589	-	3,589
Total derivative financial instruments - liabilities	-	9,211	-	9,211
Total liabilities at fair value	**-**	**9,211**	**-**	**9,211**

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

7. Fair value of financial instruments (continued)

A. Recurring valuation (continued)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Securities and other financial assets:				
Securities at FVOCI - Sovereign debt	-	5,094	-	5,094
Equity instrument at FVOCI	-	1,889	-	1,889
Debt instruments 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**

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.

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 valu e

The carrying value of certain financial assets, including cash and due from banks, interest-bearing deposits in banks, customers' liabilities under acceptances and certain financial liabilities including customer's demand and time deposits, securities sold under repurchase agreements 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.

(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 the estimated fair value of the Bank's financial instruments that are not measured on a recurring basis:

	December 31, 2020				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and deposits on banks	863,812	863,812	-	863,812	-
Securities at amortized cost [(1)]	165,564	168,110	-	157,698	10,412
Loans at amortized cost, net [(2)]	4,891,698	4,972,599	-	4,972,599	-
Customers' liabilities under acceptances	74,366	74,366	-	74,366	-
Investment properties	3,214	3,214	-	-	3,214
Liabilities					
Deposits	3,140,875	3,140,875	-	3,140,875	-
Securities sold under repurchase agreements	10,663	10,663	-	10,663	-
Borrowings and debt, net [(3)]	1,966,271	1,989,719	-	1,989,719	-
Customers' liabilities under acceptances	74,366	74,366	-	74,366	-

	December 31, 2019				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
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 at amortized cost, 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	2,893,555	2,893,555	-	2,893,555	-
Securities sold under repurchase agreements	40,530	40,530	-	40,530	-
Borrowings and debt, net	3,118,396	3,126,333	-	3,126,333	-
Customers' liabilities under acceptances	115,682	115,682	-	115,682	-

(1) The carrying value of securities at amortized cost is net of accrued interest receivable of $1.9 million and the allowance for expected credit losses of $0.4 million as of December 31, 2020 (accrued interest receivable of $0.8 million and the allowance for expected credit losses of $0.1 million as of December 31, 2019).

(2) The carrying value of loans at amortized cost is net of accrued interest receivable of $27.3 million, the allowance for expected credit losses of $41.1 million and unearned interest and deferred fees of $5.8 million for December 31, 2020 (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).

(3) Borrowings and debt exclude lease liabilities for an amount of $18.7 million and $19.9 million as of December 31, 2020 and December 31, 2019, respectively.

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:

	Debt instruments at fair value through profit or loss (*debentures*)	Loans at fair value through profit or loss	Total
At December 31, 2018	-	-	-
Additions	8,750	-	8,750
Net changes in fair value	(2,258)	-	(2,258)
Sales	-	-	-
At December 31, 2019	6,492	-	6,492
Additions	1,433	5,750	7,183
Net changes in fair value	(2,175)	(801)	(2,976)
Sales	(5,750)	-	(5,750)
At December 31, 2020	-	4,949	4,949

For financial instruments measured at fair value in level 3 category, the Bank uses the following methodologies and inputs using present value techniques.

Loans at fair value through profit or loss - Level 3

The Bank realized the sale of the debt instrument measured at fair value through profit or loss for $5.8 million. As a result, the Bank recognized a loan and classified it at fair value through profit or loss with a carrying amount of $4.9 million as of December 31, 2020.

Inputs used in the fair value measurement are detailed as follows:

Observable inputs	*Unobservable inputs*
- Forward interest rate referenced to 12M USD Libor	- Discount rate or discount margin of floating rate bond "USD US composite B+" with credit risk similar to the instrument analyzed adjusted by the country risk premium.

Fair value measurement sensitivity to unobservable inputs – discount rate	2020
A significant increase in volatility would result in a lower fair value	3.128% to 8.89%

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

7. Fair value of financial instruments (continued)

D. Level 3 - Fair value measurement

As of December 31, 2020, Management used market data published in Bloomberg for the construction of the discount curve, which allows for a more accurate measurement of the instrument.

Loans at fair value through profit or loss - Level 3 (continued)

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 fair value measurements. For fair value measurements in level 3, changing one or more of the assumptions used would have the following effects.

Loans at fair value through profit or loss	*Effect on profit or loss*
+ 100 bps to the observable and unobservable inputs	(149)
- 100 bps to the observable and unobservable inputs	154

Debt instruments "debentures" at fair value through profit or loss - Level 3

The significant inputs used in determining the fair value of instruments categorized as level 3, using present value techniques, are as follows:

2020	2019
Unobservable inputs	***Unobservable inputs***
- Discount rate based on the return from CCC Corporate S&P Bond Index	- Discount rate for similar companies of the same business line adjusted due to the debt-equity structure of the issuer
- Probability of occurrence of the flows of each sale or conversion scenario	
	Observable inputs
	- Average recovery factor for companies that reported default – Moody's

Fair value measurement sensitivity to unobservable inputs – discount rate	Range of estimates 2020	Range of estimates 2019
A significant increase in volatility would result in a lower fair value	10.00% to 20.00%	12.97% to 27.50%

During 2020, Management used the discount rate based on the return from CCC Corporate S&P Bond Index, mostly composed of data from US/LATAM markets displayed in Bloomberg, which allows a more reliable measurement for the instrument.

8. Cash and due from banks

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

	December 31, 2020	December 31, 2019
Cash and due from banks	4,331	8,078
Interest-bearing deposits in banks	859,481	1,170,092
Total	863,812	1,178,170
Less:		
Pledged deposits	17,804	18,452
Total cash and cash equivalents	**846,008**	**1,159,718**

	December 31, 2020		December 31, 2019	
	Amount	**Interest rate range**	**Amount**	**Interest rate range**
Interest-bearing deposits in banks:				
Demand deposits [(1)]	749,481	0.03% to 3.08%	1,150,092	1.55% to 5.10%
Time deposits	110,000	-	20,000	-
Total	**859,481**		**1,170,092**	
Pledged deposits	**17,804**	0.09%	**18,452**	1.55%

(1) Interest-bearing demand deposits based on daily rates determined by banks. In addition, rates of 3.08% and 5.10% correspond to a deposit placed in México.

	December 31, 2020	December 31, 2019
Country:		
United States of America[(1)]	11 ,515	5,645
Switzerland	3,027	9,567
Japan	1,330	1,470
Mexico	790	-
Canada	610	-
Netherlands	334	-
United Kingdom	130	-
France	50	1,770
Spain	18	-
Total	**17,804**	**18,452**

(1) Includes pledged deposits of $10.0 million at December 31, 2020 and $3.5 million at December 31, 2019, with the New York State Banking Department under March 1994 legislation and deposits pledged to guarantee derivative financial instrument transactions.

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

9. Securities and other financial assets, net

Securities and other financial assets are presented as follows:

At December 31, 2020		At fair value			
		With changes in other comprehensive income (loss)		With changes in profit or loss	
Carrying amount	Amortized cost	Recyclable to profit and loss	Non-recyclable to profit and loss		Total securities and other financial assets, net
Principal	164,074	231,348	-	-	395,422
Interest receivable	1,985	1,156	-	-	3,141
Reserves (1)	(495)	(43)	-	-	(538)
	165,564	232,461	-	-	398,025

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

(1) The loss allowance for losses for securities at FVOCI is included in equity in the consolidated statement of financial position in the line Other comprehensive income. As December 31, 2020 and 2019 the principal plus interest receivable of securities at FVOCI is $232,504 and $5,142, respectively.

As of December 31, 2020, and 2019, the Bank sold 261,164 and 767,301 shares, respectively, which were designated at 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 $1.7 million and $4.8 million, respectively, and the cumulative loss recognized in OCI was $602 thousand and $151 thousand, respectively, transferred to retained earnings.

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

At December 31, 2020		At fair value			
		With changes in other comprehensive income			
	Amortized cost	Recyclable 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	40,625	34,027	-	-	74,652
After 1 year but within 5 years	123,449	197,321	-	-	320,770
After 5 years but within 10 years	-	-	-	-	-
Non maturity	-	-	-	-	-
Balance - principal	**164,074**	**231,348**	**-**	**-**	**395,422**

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

At December 31, 2019		At fair value			
		With changes in other comprehensive income			
	Amortized cost	Recyclable 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**

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

	December 31, 2020			December 31, 2019		
	Amortized cost	Fair value	Total	Amortized cost	Fair value	Total
Securities pledged to secure repurchase transactions	11,998	-	11,998	36,843	5,094	41,937
Securities sold under repurchase agreements	(10,663)	-	(10,663)	(35,647)	(4,883)	(40,530)

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
Realized gain on sale of securities	266	194
Realized loss on sale of securities	(80)	-
Net gain on sale of securities at FVOCI	**186**	**194**

For 2020, there were no sales of securities at fair value through other comprehensive income, with changes recyclable in profit or loss.

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

10. Loans

The following table presents the loan portfolio according to its classification and subsequent measurement:

	December 31, 2020	December 31, 2019
Loans at amortized cost	4,911,397	5,892,997
Interest receivable	27,350	41,757
Loss allowances	(41,165)	(99,307)
Unearned interest and deferred fees	(5,884)	(12,114)
Loans at amortized cost, net	**4,891,698**	**5,823,333**
Loans at fair value through profit or loss [1]	4,949	-
Loans, net	**4,896,647**	**5,823,333**

[1] The Bank realized the sale of debt instruments measured at fair value through profit or loss for $5.8 million. As a result, the Bank recognized a loan and classified it at fair value through profit or loss with a carrying amount of $4.9 million as of December 31, 2020.

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

	December 31, 2020	December 31, 2019
Fixed interest rates	2,544,544	2,757,333
Floating interest rates	2,371,802	3,135,664
Total	**4,916,346**	**5,892,997**

As of December 31, 2020, and 2019, 41% and 74% of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days. The range of interest rates on loans fluctuates from 0.43% to 9.70% (December 31, 2019 1.20% to 13.93%).

The following table details information relating to loans granted to class A and B shareholders:

	December 31, 2020	December 31, 2019
Class A and B shareholder loans	522,316	664,447
% Loans to class A and B shareholders over total loan portfolio	11%	11%
% Class A and B stockholders with loans over number of class A and B stockholders	12%	11%

10. Loans (continued)

Modified financial assets

The following table refers to modified financial assets during the year, where modification does not result in de-recognition:

	December 31, 2020
Gross carrying amount before modification	8,829
Allowance loss before modification [1]	(1,796)
Net amortized cost before modification	7,033
Gross carrying amount after modification	8,829
Allowance loss after modification [2]	(1,802)
Net amortized cost after modification	7,027

[1] Expected credit loss for 12 months.
[2] Expected credit loss within the life of the financial asset.

Recognition and derecognition of financial assets

During the year ended December 31, 2020, a Stage 3 impaired loan was sold for $11.6 million and a Stage 2 loan with a significant increase in credit risk was sold for $13.2 million, both classified at amortized cost. This resulted in a write-off against reserves of $56.1 million. These sales were made based on compliance with the Bank's strategy to optimize credit risk of its loan portfolio.

During the years ended December 31, 2019 and 2018, 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 "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)

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, 2020	December 31, 2019
Documentary letters of credit	216,782	169,320
Stand-by letters of credit and guarantees - commercial risk	210,497	255,481
Credit commitments	137,619	68,571
Total loans commitments and financial guarantee contracts	**564,898**	**493,372**

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

Maturities	December 31, 2020	December 31, 2019
Up to 1 year	419,015	424,744
From 1 to 2 years	75,883	8,628
Over 2 to 5 years	70,000	60,000
Total	**564,898**	**493,372**

12. Gain (loss) on financial instruments, net

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

	December 31		
	2020	**2019**	**2018**
Gain (loss) on derivative financial instruments and foreign currency exchange, net	(1,813)	672	(1,226)
(Loss) gain on financial instruments at fair value through profit or loss	(2,175)	(2,258)	648
Unrealized loss on financial instruments at fair value through profit or loss	(806)	-	-
Realized gain on sale of securities at fair value through OCI	-	186	194
Gain (loss) on sale of loans	-	21	(625)
	(4,794)	**(1,379)**	**(1,009)**

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, 2020		
	Nominal amount	Carrying amount of hedging instruments	
		Asset [1]	Liability [2]
Interest rate risk			
Fair value hedges	85,667	1,831	(233)
Cash flow hedges	60,000	-	(1,541)
Interest rate and foreign exchange risk			
Fair value hedges	344,489	2,856	(3,848)
Cash flow hedges	221,508	23,091	-
Foreign exchange risk			
Cash flow hedges	71,353	-	(3,589)
	783,017	**27,778**	**(9,211)**

	December 31, 2019		
	Nominal amount	Carrying amount of hedging instruments	
		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 hedges	2,080	-	(23)
	965,673	**11,157**	**(14,675)**

(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.

13. Derivative financial instruments (continued)

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 portfolios. 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 hedges

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)

B. Fair value hedges (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 years used to determine and recognize the ineffectiveness of the hedge:

	December 31, 2020				
	Nominal amount	Carrying amount of hedging instruments		Changes in fair value used to calculate hedge ineffectiveness (3)	Ineffectiveness recognized in profit or loss (3)
		Asset (1)	Liability (2)		
Interest rate risk					
Loans	10,667	-	(132)	84	1
Securities at FVOCI	5,000	-	(101)	(29)	(20)
Borrowings and debt	70,000	1,831	-	199	(27)
Interest rate and foreign exchange risk					
Loans	4,075	356	-	178	(149)
Borrowings and debt	340,414	2,500	(3,848)	(2,524)	(468)
Total	**430,156**	**4,687**	**(4,081)**	**(2,092)**	**(663)**

	December 31, 2019				
	Nominal amount	Carrying amount of hedging instruments		Changes in fair value used to calculate hedge ineffectiveness (3)	Ineffectiveness recognized in profit or loss (3)
		Asset (1)	Liability (2)		
Interest rate risk					
Loans	13,333	-	(166)	(127)	(9)
Securities at FVOCI	5,000	-	(45)	(97)	(17)
Borrowings and debt	380,000	407	(594)	5,203	(65)
Interest rate and foreign exchange risk					
Loans	6,430	276	-	(482)	(214)
Borrowings and debt	340,414	9,849	(8,527)	7,234	55
Total	**745,177**	**10,532**	**(9,332)**	**11,731**	**(250)**

(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 the consolidated statement of profit or loss under the line Loss on financial instruments, net.

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

13. Derivative financial instruments (continued)

A. Fair value hedges (continued)

The following table details the notional amounts and carrying amounts of the fair value 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, 2020				
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged items	Change in fair value of the hedged items used to calculate hedge ineffectiveness (1)
	Asset	Liability			
Interest rate risk					
Loans	10,837	-	Loans, net	74	(83)
Securities at FVOCI	5,113	-	Securities and other financial assets, net	85	9
Borrowings and debt	-	(71,937)	Borrowings and debt, net	(292)	(226)
Interest rate and foreign exchange risk					-
Loans	3,789	-		(654)	(327)
Borrowings and debt	-	(339,688)	Borrowings and debt, net	1,083	2,056
Total	**19,739**	**(411,625)**		**296**	**1,429**

	December 31, 2019				
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged items	Change in fair value of the hedged items used to calculate hedge ineffectiveness (1)
	Asset	Liability			
Interest rate risk					
Loans	13,583	-	Loans, net	158	118
Securities at FVOCI	5,142	-	Securities and other financial assets, net	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)**

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

13. Derivative financial instruments (continued)

A. Fair value hedges (continued)

The following table details the maturity of the notional amount for the derivative instruments used in fair value hedges:

	December 31, 2020		
Maturity	**Interest rate swaps**	**Foreign exchange and interest rate risks**	**Total**
Fair value hedge			
Less than 1 year	85,667	-	85,667
Over 1 to 2 years	-	271,646	271,646
Over 2 to 5 years	-	72,843	72,843
Total	**85,667**	**344,489**	**430,156**

	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
Over 1 to 2 years	48,333	-	48,333
Over 2 to 5 years	-	346,844	346,844
Total	**398,333**	**346,844**	**745,177**

B. Cash flow hedges

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 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) and (iii). 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 of fair value hedges.

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

13. Derivative financial instruments (continued)

B. Cash flow hedges (continued)

The Bank determines whether an economic relationship exists between the cash flows of the hedged item and the 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 the 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 7 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 $508 thousand are expected to be reclassified into profit or loss during the period of 12 months ending December 31, 2021.

The Bank recognized the associated costs for the forward foreign exchange contracts where the hedged item is an asset, as an integral part interest income (expense) of the underlying transaction, presented in the consolidated statement of profit or loss and as an accumulated reserve in Other comprehensive income in the consolidated statement of financial position, which at maturity of the transaction is reclassified to profit or loss.

The Bank recognized the associated costs for the forward foreign exchange contracts where the hedged item is a liability, as an integral part interest expense (expense) of the underlying transaction, presented in the consolidated statement of profit or loss and as an accumulated reserve in Other comprehensive income in the consolidated statement of financial position, which at maturity of the transaction is reclassified to profit or loss.

13. Derivative financial instruments (continued)

B. Cash flow hedges (continued)

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, 2020						
	Nominal amount	Carrying amount of hedging instruments		Change in fair value used for calculating hedge ineffectiveness	Changes in the fair value of the hedging instruments recognized in OCI [3]	Ineffectiveness recognized in profit or loss [4]	Amount reclassified from the hedge reserve to profit or loss [4]
		Asset [1]	Liability [2]				
Interest rate risk							
Borrowings and debt	60,000	-	(1,541)	(443)	(442)	1	(75)
Interest rate and foreign exchange risk							
Borrowings and debt	221,508	23,091	-	23,380	23,481	101	(1,697)
Foreign exchange risk							
Loans	71,353	-	(3,589)	(3,466)	(3465)	1	(1,927)
Total	**352,861**	**23,091**	**(5,130)**	**19,471**	**19,574**	**103**	**(3,699)**

	December 31, 2019						
	Nominal amount	Carrying amount of hedging instruments		Change in fair value used for calculating hedge ineffectiveness	Changes in the fair value of the hedging instruments recognized in OCI [3]	Ineffectiveness recognized in profit or loss [4]	Amount reclassified from the hedge reserve to profit or loss [4]
		Asset [1]	Liability [2]				
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)
Borrowings and debt	-	-	-	-	-	-	(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.
(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 under the line Other comprehensive income.
(4) Included in the consolidated statement of profit or loss under the line Loss on financial instruments, net.

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

13. Derivative financial instruments (continued)

B. Cash flow hedges (continued)

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, 2020				
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Change in the fair value of the hedged items used to calculate the hedge ineffectiveness [(1)]	Cash flow hedge reserve
	Asset	Liability			
Interest rate risk					
Borrowings and debt	-	(20,045)	Borrowings and debt, net	442	1,440
Interest rate and foreign exchange risk					
Borrowings and debt	-	(243,817)	Borrowings and debt, net	(23,481)	(1,980)
Foreign exchange risk					
Loans	74,509	-	Loans, net	3,465	562
Total	**74,509**	**(263,862)**		**(19,574)**	**22**

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

	December 31, 2019				
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Change in the fair value of the hedged items used to calculate the hedge ineffectiveness [(1)]	Cash flow hedge reserve
	Asset	Liability			
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
Total	**73,861**	**(91,344)**		**4,085**	**1,330**

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

13. Derivative financial instruments (continued)

B. Cash flow hedge (continued)

The following table details the maturity of the derivative instruments used in cash flow hedges:

	December 31, 2020			
Maturity	**Foreign exchange risk**	**Interest rate swaps**	**Foreign exchange and interest rate risks**	**Total**
Cash flow hedge				
Less than 1 year	71,353	40,000	-	111,353
Over 2 to 5 years	-	20,000	197,854	217,854
More than 5 years	-	-	23,654	23,654
Total	**71,353**	**60,000**	**221,508**	**352,861**

	December 31, 2019			
Maturity	**Foreign exchange risk**	**Interest rate swaps**	**Foreign exchange and interest rate risks**	**Total**
Cash flow hedge				
Less than 1 year	72,391	63,000	23,025	158,416
Over 1 to 2 years	-	40,000	-	40,000
Over 2 to 5 years	-	20,000	-	20,000
Total	**72,391**	**123,000**	**23,025**	**218,416**

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 of 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. As of December 30, 2020, The Bank holds no net investment hedges.

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

13. Derivative financial instruments (continued)

C. Net investment hedge (continued)

The following table details the notional amount and carrying amount of the derivative instruments used as net investment hedge at December 31, 2019 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 amount of hedging instruments		Change in fair value used for calculating hedge ineffectiveness	Changes in the fair value of the hedging instruments recognized in OCI [3]	Ineffectiveness recognized in profit or loss [4]	Amount reclassified from the hedge reserve to profit or loss [4]
		Asset [1]	Liability [2]				
Foreign exchange risk							
Net investment	2,080	-	(23)	(23)	(23)	-	(78)
Total	**2,080**	**-**	**(23)**	**(23)**	**(23)**	**-**	**(78)**

Derivative instruments used in net investment hedges at December 31, 2019 have a maturity of less than 30 days.

(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 under the line Other comprehensive income.
(4) Included in the consolidated statement of profit or loss under the line Loss on financial instruments, net.

The following table details the nominal value and carrying amount of the net investment hedged items at December 31, 2019, 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 position that includes the carrying amount of the hedged items	Change in the fair value of the hedged items used to calculate the hedge ineffectiveness [1]	Cash flow hedge reserve
	Asset	Liability			
Foreign exchange risk					
Net investment	1,889	-	Securities and other financial assets, net	23	23
Total	**1,889**	**-**		**23**	**23**

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

14. Gain (loss) on non - financial assets, net

The gain or loss on non-financial assets is presented as follows:

	December 31,		
	2020	2019	2018
Gain on sale of investment property	-	500	-
Unrealized gain on investment property	296	-	-
Impairment loss on other assets	-	-	(3,464)
Impairment loss on investment property	-	-	(3,849)
Write off on intangible assets	-	-	(2,705)
	296	**500**	**(10,018)**

During 2019, the Bank realized the sale of an investment property, which resulted in a gain of $500 thousand.

15. Equipment and leasehold improvements

The following table provides a summary of the items included in equipment and leasehold improvement:

	December 31, 2020	December 31, 2019
Equipment and leasehold improvements, net	4,990	6,230
Right-of-use assets	11,223	12,522
	16,213	**18,752**

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

15. Equipment and leasehold improvements (continued)

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, 2018	4,170	1,984	6,810	2,505	15,469
Additions	411	12	111	69	603
Disposals	(253)	(97)	(80)	(62)	(492)
Reclassifications	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 changes in exchange rates	(53)	(62)	(47)	(14)	(176)
Balance as of December 31, 2019	4,905	1,771	6,803	2,589	16,068
Additions	293	1	671	32	997
Disposals	(1,045)	(84)	(26)	(48)	(1,203)
Effect of changes in exchange rates	(17)	(11)	(20)	(1)	(49)
Balance as of December 31, 2020	**4,136**	**1,677**	**7,428**	**2,572**	**15,813**
Accumulated depreciation:					
Balance as of January 1, 2018	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 changes in exchange rates	(40)	(53)	(35)	-	(128)
Balance as of December 31, 2019	3,754	1,627	3,299	1,158	9,838
Amortization	643	63	553	920	2,179
Disposals	(1,043)	(82)	(8)	(40)	(1,173)
Effect of changes in exchange rates	(14)	(7)	(14)	14	(21)
Balance as of December 31, 2020	**3,340**	**1,601**	**3,830**	**2,052**	**10,823**
Carrying amounts as of:					
December 31, 2020	**796**	**76**	**3,598**	**520**	**4,990**
December 31, 2019	**1,151**	**144**	**3,504**	**1,431**	**6,230**
December 31, 2018	**1,069**	**184**	**3,840**	**1,593**	**6,686**

15. Equipment and leasehold improvements (continued)

Leases

The following is the detail of the movement of right-of-use assets on the leases for which the Bank is a lessee:

	Building	
	December 31, 2020	**December 31, 2019**
Initial balance	12,522	17,435
Additions	68	14
Depreciation of right-of-use assets	(1,128)	(1,440)
Effect of changes in exchange rates	(34)	7
Reclassification to investment property	-	(3,494)
Decrease	(205)	
Ending balance	**11,223**	**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. As of December 31, 2019, these contracts were reclassified as investment properties – right of use, as described in Note 17.

16. Intangible assets

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

Costs:	
Balance as of January 1, 2018	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
Additions	1,311
Disposals	(1)
Balance as of December 31, 2020	**15,711**
Accumulated amortization:	
Balance as of January 1, 2018	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
Amortization	753
Balance as of December 31, 2020	**13,727**
Carrying amounts as of:	
December 31, 2020	**1,984**
December 31, 2019	**1,427**
December 31, 2018	**1,633**

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. Investment properties

The following is the movement of investment properties arising from the reclassification of sublease agreements:

	Investment properties - right of use
Balance as of December 31, 2019	3,494
Amortization	(280)
Balance as of December 31, 2020	**3,214**

18. Other assets

Following is a summary of other assets:

	December 31, 2020	December 31, 2019
Accounts receivable	938	3,549
Prepaid expenses	2,541	1,070
Prepaid fees and commissions	486	1,110
Interest receivable - deposits	8	26
IT projects under development	218	521
Severance fund	1,927	1,863
Other	698	718
	6,816	**8,857**

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

19. Deposits

The maturity profile of the Bank's deposits, excluding interest payable, as follows:

	December 31, 2020	December 31, 2019
Demand	170,660	85,786
Up to 1 month	1,127,120	1,285,949
From 1 month to 3 months	878,900	628,981
From 3 months to 6 months	544,860	593,431
From 6 months to 1 year	365,879	289,189
From 1 year to 2 years	51,481	5,000
	3,138,900	**2,888,336**

The following table presents additional information regarding the Bank's deposits

	December 31, 2020	December 31, 2019
Aggregate amounts of $100,000 or more	3,138,684	2,888,043
Aggregate amounts of deposits in the New York Agency	657,851	240,003

	December 31,		
	2020	2019	2018
Interest expense on deposits made in the New York Agency	5,035	6,277	5,937

20. Securities sold under repurchase agreements

As of December 31, 2020, and 2019, the Bank had financing transactions under repurchase agreements for $10.7 million and $40.5 million, respectively.

During the years ended December 31, 2020, 2019 and 2018, interest expense related to financing transactions under repurchase agreements totaled $432 thousand, $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.

21. 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 30, 2020, the Bank was in compliance with all those covenants.

Borrowings and debt are detailed as follows:

	December 31, 2020						
	Short-Term			Long-term			
Carrying amount	Borrowings	Debt	Lease Liabilities	Borrowings	Debt	Lease Liabilities	Total
Principal	331,585	49,350	1,244	477,010	1,116,033	17,555	1,992,777
Prepaid commissions	-	-	-	(1,158)	(6,549)	-	(7,707)
	331,585	**49,350**	**1,244**	**475,852**	**1,109,484**	**17,555**	**1,985,070**

	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)	-	(3,362)
	1,573,663	**22,000**	**1,145**	**721,963**	**800,770**	**18,769**	**3,138,310**

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

21. Borrowings and debt (continued)

Short-term borrowings and debt

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

	December 31, 2020	December 31, 2019
Short-term borrowings:		
At fixed interest rates	55,000	607,500
At floating interest rates	276,585	966,163
Total borrowings	331,585	1,573,663
Short-term debt:		
At fixed interest rates	-	22,000
At floating interest rates	49,350	-
Total debt	49,350	22,000
Total short-term borrowings and debt	**380,935**	**1,595,663**
Range of fixed interest rates on borrowings and debt in U.S. dollars	0.45% to 1.40%	2.07% to 2.52%
Range of floating interest rates on borrowings in U.S. dollars	0.47% to 1.65%	2.09% to 2.35%
Range of fixed interest rates on borrowings in Mexican pesos	0.00%	8.08%
Range of floating interest rates on borrowings and debt in Mexican pesos	4.97% to 5.05%	7.71% to 8.31%

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

	December 31, 2020	December 31, 2019
Currency		
US dollar	299,957	1,476,000
Mexican peso	80,978	119,663
Total	**380,935**	**1,595,663**

21. Borrowings and debt (continued)

Long-term borrowings and debt

The breakdown of borrowings and long-term debt (original maturity of more than one year, excluding lease liabilities), along with contractual interest rates, plus prepaid commissions as of December 31, 2020 and 2019, respectively, are as follows:

	December 31, 2020	December 31, 2019
Long-term borrowings:		
At fixed interest rates with due dates from April 2021 to May 2022	68,190	65,435
At floating interest rates with due dates from June 2021 to August 2023	408,820	657,984
Total long-term borrowings	477,010	723,419
Long-term debt:		
At fixed interest rates with due dates from July 2021 to December 2027	784,006	502,880
At floating interest rates with due dates from March 2022 to June 2023	332,027	299,796
Total long-term debt	1,116,033	802,676
Total long-term borrowings and debt	1,593,043	1,526,095
Less: Prepaid commissions	(7,707)	(3,362)
Total long-term borrowings and debt, net	**1,585,336**	**1,522,733**
Range of fixed interest rates on borrowings and debt in U.S. dollars	2.04% to 3.05%	2.56% to 3.25%
Range of floating interest rates on borrowings and debt in U.S. dollars	1.16% to 1.85%	2.46% to 3.36%
Range of fixed interest rates on borrowings in Mexican pesos	6.77% to 9.09%	5.73% to 9.09%
Range of floating interest rates on borrowings and debt in Mexican pesos	4.87% to 5.74%	8.14% to 9.13%
Range of fixed interest rates on debt in Japanese yens	0.52%	0.52%
Range of fixed interest rates on debt in Euros	0.9% to 3.75%	3.75%
Range of fixed interest rates on debt in Australian dollars	0.00%	3.33%

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

21. 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:

Currency	December 31, 2020	December 31, 2019
US dollar	910,296	1,097,611
Mexican peso	509,687	280,105
Euro	101,469	59,465
Japanese yen	71,591	67,831
Australian dollar	-	21,083
Total	**1,593,043**	**1,526,095**

Future payments of long-term borrowings and debt outstanding as of December 31, 2020, are as follows (excluding lease liabilities):

Payments	Outstanding
2021	252,045
2022	525,175
2023	108,436
2024	64,757
2025	618,154
2026	12,238
2027	12,238
	1,593,043

21. Borrowings and debt (continued)

Long-term borrowings and debt (continued)

Reconciliation – Movements of borrowings

The following table presents the reconciliation of movements of borrowings and debt arising from financing activities, as presented in the consolidated statements of cash flows:

	2020	2019	2018
Balance as of January 1,	**3,138,310**	**3,518,446**	**2,211,567**
Net decrease (increase) in short-term borrowings and debt	(1,212,023)	(428,611)	950,259
Proceeds from long-term borrowings and debt	827,732	371,536	609,017
Repayments of long-term borrowings and debt	(781,274)	(368,843)	(256,173)
Payment of lease liabilities	(1,114)	(1,072)	-
Recognition of lease liabilities	-	20,979	-
Net Increase in lease liabilities	48	-	-
Change in foreign currency	15,853	20,044	1,903
Adjustment of fair value for hedge accounting relationship	826	4,943	753
Other adjustments	(3,288)	888	1,120
Balance as of December 31,	**1,985,070**	**3,138,310**	**3,518,446**

The reconciliation of equity account movements is presented in the consolidated statement of changes in equity.

21. Borrowings and debt (continued)

Lease liabilities

Maturity analysis of contractual undiscounted cash flows of the lease liabilities is detailed below:

	December 31, 2020	December 31, 2019
Due within 1 year	2,058	2,005
After 1 year but within 5 years	10,641	10,470
After 5 years but within 10 years	11,354	13,492
Total undiscounted lease liabilities	**24,053**	**25,967**
Short-term	1,244	1,145
Long-term	17,555	18,769
Lease liabilities included in the consolidated statement of financial position	**18,799**	**19,914**

Amounts recognized in the statement of cash flows:

	December 31, 2020	December 31, 2019
Payments of lease liabilities	**1,114**	**1,072**

Amounts recognized in profit or loss:

	December 31, 2020	December 31, 2019
Interest on lease liabilities	**(862)**	**(912)**
Income from sub-leasing right-of-use assets	**265**	**277**

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)

22. Other liabilities

Following is a summary of other liabilities:

	December 31, 2020	December 31, 2019
Accruals and other accumulated expenses	9,213	11,901
Accounts payable	6,307	2,526
Others	3,194	2,722
	18,714	**17,149**

23. 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,		
	2020	2019	2018
Profit for the year	63,593	86,053	11,138
(U.S. dollars)			
Basic earnings per share	1.60	2.17	0.28
Diluted earnings per share	1.60	2.17	0.28
(Thousands of shares)			
Weighted average of common shares outstanding applicable to basic EPS	39,656	39,575	39,543
Effect of diluted securities:			
Stock options and restricted stock units plan	-	-	-
Adjusted weighted average of common shares outstanding applicable to diluted EPS	**39,656**	**39,575**	**39,543**

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

24. 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, 2020, 2019 and 2018:

(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, 2018	**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	-	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	-	-	6, 727	-	6,727
Outstanding at December 31, 2019	**6,342,189**	**2,182,426**	**31,077,662**	**-**	**39,602,277**
Conversions	-	(4,060)	4,060	-	-
Repurchased common stock	-	(1)	-	-	(1)
Restricted stock issued – directors	-	-	63,000	-	63 ,000
Restricted stock units – vested	-	-	12,664	-	12 ,664
Outstanding at December 31, 2020	**6,342,189**	**2,178,365**	**31,157,386**	**-**	**39,677,940**

Additional paid-in capital

As of December 31, 2020, 2019 and 2018, additional paid-in capital consists of additional cash contributions to the common capital paid by shareholders.

24. Capital and Reserves (continued)

B. Treasury stock

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

	"Class A"		"Class B"		"Class E"		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Outstanding at January 1, 2018	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	-	-	-	-	(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**
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**
Restricted stock issued - directors	-	-	-	-	(63,000)	(1,391)	(63,000)	(1,391)
Restricted stock units - vested	-	-	-	-	(12,664)	(279)	(12,664)	(279)
Outstanding at December 31, 2020	**318,140**	**10,708**	**689,367**	**18,711**	**1,294,390**	**28,580**	**2,301,897**	**57,999**

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

25. 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, 2018	**303**	**170**	**1,490**	**1,963**
Change in fair value of debt instruments, net of hedging	(174)	2,841	-	2,667
Change in fair value of equity instruments at FVOCI, net of hedging	(1,224)	-	-	(1,224)
Reclassification of gains (losses) on financial instruments included in profit or loss (1)	(170)	(1,534)	-	(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	4	(2,698)	-	(2,694)
Change in fair value of equity instruments at FVOCI, net of hedging	491	-	-	491
Reclassification of gains (losses) on financial instruments included in profit or loss (1)	157	104	-	261
Exchange difference in conversion of foreign operating 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)**
Change in fair value of debt instruments, net of hedging	264	2,001	-	2,265
Change in fair value of equity instruments at FVOCI, net of hedging	546	-	-	546
Reclassification of gains (losses) on financial instruments included in profit or loss (1)	(56)	(369)	-	(425)
Exchange difference in conversion of foreign operating currency	-	-	(360)	(360)
Other comprehensive income (loss) for the year	754	1,632	(360)	2,026
Balance as of December 31, 2020	**141**	**515**	**(448)**	**208**

(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.

25. 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,			
	2020	2019	2018	
Realized gains (losses) on securities at FVOCI:	(56)	157	87	Net gain (loss) on financial instruments
Gains (losses) on derivative financial instruments:				
Foreign exchange forwards	(2,337)	(3,261)	(2,502)	Interest income – loans
	-	(1,733)	(1,650)	Interest expense – borrowings and deposits
	(369)	(61)	(1,530)	Net gain (loss) on foreign currency exchange
Interest rate swaps	-	56	4	Net gain (loss) on interest rate swaps
Cross-currency swaps	-	(9)	-	Net gain (loss) on cross-currency swaps
	(2,762)	**(5,008)**	**(5,678)**	

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

26. 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 31, 2020			
	Syndications	Documentary and standby letters of credit	Other commissions, net	Total
Issuance and confirmation	-	8,090	1,400	9,490
Negotiation and acceptance	-	183	-	183
Amendment	-	688	-	688
Structuring	603	-	-	603
Other	-	39	(584)	(546)
	603	**9,000**	**815**	**10,418**

	December 31, 2019			
	Syndications	Documentary and standby letters of credit	Other commissions, net	Total
Issuance and confirmation	-	8,381	1,312	9,693
Negotiation and acceptance	-	399	-	399
Amendment	-	632	(27)	605
Structuring	5,622	-	-	5,622
Others	-	94	(766)	(672)
	5,622	**9,506**	**519**	**15,647**

	December 31, 2018			
	Syndications	Documentary and standby letters of credit	Other commissions, net	Total
Issuance 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**

26. 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:

	December 31, 2020
Up to 1 year	1,917
From 1 to 2 years	361
More than 2 years	763
	3,041

27. 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 other income, net. 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, negotiation, acceptance and amendment 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 and distribution in the primary market; (iv) gain (loss) on sale on financial instruments measured at FVTPL; (v) reversal of (provision) for credit losses, (vi) gain (loss) on other non-financial assets, net; and (vii) direct and allocated operating expenses.

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

27. Business segment information (continued)

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 consolidated statements of financial position, 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, as well as highly liquid corporate debt securities rated above 'A-', and financial instruments related to the investment management activities, consisting of securities at fair value through other comprehensive income ("FVOCI") and securities at amortized cost (the "Investment Portfolio"). 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.

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, 2020		
	Commercial	**Treasury**	**Total**
Interest income	172,548	8,425	180,973
Interest expense	(690)	(87,833)	(88,523)
Inter-segment net interest income	(83,937)	83,937	-
Net interest income	**87,921**	**4,529**	**92,450**
Other income (expense), net	8,597	(1,890)	6,707
Total income	96,518	2,639	99,157
Reversal of (provision for) credit losses	1,889	(425)	1,464
Gain (loss) on non-financial assets, net	296	-	296
Operating expenses	(28,021)	(9,303)	(37,324)
Segment profit (loss)	**70,682**	**(7,089)**	**63,593**
Segment assets	**4,989,009**	**1,293,081**	**6,282,090**
Segment liabilities	**92,309**	**5,139,955**	**5,232,264**

27. Business segment information (continued)

	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	15,577	1,565	17,142
Total income	123,975	2,682	126,657
(Provision for) reversal of credit losses	(744)	314	(430)
Gain (loss) on non-financial assets, net	500	-	500
Operating expenses	(31,183)	(9,491)	(40,674)
Segment profit (loss)	**92,548**	**(6,495)**	**86,053**
Segment assets	**5,967,157**	**1,273,678**	**7,240,835**
Segment liabilities	**134,657**	**6,081,693**	**6,216,350**

	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
(Provision for) reversal of credit losses	(57,621)	106	(57,515)
(Loss) gain on non-financial assets, net	(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**

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

27. Business segment information (continued)

Reconciliation on information on reportable segments

	2020	2019	2018
Profit for the year	63,593	86,053	15,189
Impairment loss on non-financial assets - unallocated	-	-	(4,051)
Total profit for the year	63,593	86,053	11,138
Assets:			
Assets from reportable segments	6,282,090	7,240,835	7,592,492
Other assets - unallocated	6,808	8,831	16,693
Total assets	6,288,898	7,249,666	7,609,185
Liabilities:			
Liabilities from reportable segments	5,232,264	6,216,350	6,601,980
Other liabilities - unallocated	18,714	17,149	13,615
Total liabilities	5,250,978	6,233,499	6,615,595

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. As of December 31, 2020, assets and liabilities were allocated between Commercial and Treasury segments.

As a result of the adoption of the new standard in the year 2019, certain amounts related to equipment and leasehold improvements and intangibles were reclassified for presentation purposes in the consolidated financial statements.

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.

2020	Panama	Brazil	Mexico	Colombia	Costa Rica	Ecuador	Argentina	Other	Total
Total revenues	7,580	7,054	14,480	13,462	7,142	9,242	8,163	32,034	99,157
Non-current assets*	19,888	129	535	56	-	-	212	591	21,411
2019	Panama	Brazil	Mexico	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	Mexico	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

* Includes equipment and lesehold improvements, intangibles and investment properties

Disaggregation of revenue from contract with customers

As of December 31, 2020, 2019, and 2018, respectively, the Bank has no customer, either individually or as group of companies, that represents more than 10% of total revenues.

28. Related party transactions

The detail of the assets and liabilities with related private corporations and financial institutions is as follows:

	December 31, 2020	December 31, 2019
Assets		
Demand deposits	3,269	3,812
Loans, net	22,499	49,101
Total asset	**25,768**	**52,913**
Liabilities		
Time deposits	240,000	120,000
Total liabilities	**240,000**	**120,000**
Contingencies		
Stand-by letters of credit	28,300	20,000
Loss allowance	(60)	(49)
Total contingencies	**28,240**	**19,951**

The detail of income and expenses with related parties is as follows:

	December 31,		
	2020	2019	2018
Interest income			
Loans	1,390	2,837	2,751
Total interest income	1,390	2,837	2,751
Interest expense			
Deposits	(2,961)	(3,927)	(984)
Borrowings and debt (1)	-	(645)	-
Total interest expense	(2,961)	(4,572)	(984)
Net interest income (expenses)	**(1,571)**	**(1,735)**	**1,767**
Other income (expense)			
Fees and commissions, net	420	132	1
(Loss) gain on financial instruments, net	-	(41)	41
Other income, net	-	-	1
Total other income, net	420	91	43
Operating expenses			
Depreciation of equipment and leasehold improvements	-	(899)	-
Other expenses	-	(409)	(2,287)
Total operating expenses	-	(1,308)	(2,287)
Net income from related parties	**(1,151)**	**(2,952)**	**(477)**

(1) This caption includes the financial cost relating to leases and depreciation expense for the right-of-use assets that originates from the lease contract with related parties where the Bank acts as a lessee through December 31, 2019.

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

28. Related party transactions (continued)

The total compensation paid to directors and the executives as representatives of the Bank amounted to:

	December 31,		
	2020	2019	2018
Expenses:			
Compensation costs to directors	2,033	2,289	2,331
Compensation costs to executives	5,448	3,244	4,943

Compensation costs to directors and executives, include annual cash retainers and the cost of granted restricted stock and restricted stock units.

29. Salaries and other employee expenses

The following table details salaries and other employee expenses:

	December 31,		
	2020	2019	2018
Wages and salaries	13,717	13,232	18,487
Payroll taxes	1,722	1,721	2,120
Personnel benefits	5,383	8,867	6,732
Share–based payments	640	359	650
Total	**21,462**	**24,179**	**27,989**

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 toamend 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 2020, 2019 and 2018, 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:

29. Salaries and other employee expenses (continued)

A. Cash and stock-based compensation plan (continued)

Restricted stock – Directors

For the year 2020, the Board of Directors granted 63,000 "Class E" common shares.

During the years 2019 and 2018, 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 29, 2020, April 17, 2019 and April 11, 2018. The fair value of restricted stock granted totaled $727 thousand in 2020, $1.3 million in 2019, and $1.6 million in 2018, of which $306 thousand, $570 thousand and $739 thousand were recognized in profit or loss during 2020, 2019 and 2018, respectively.

The total expense recognized in profit or loss during 2020, 2019 and 2018 of restricted stock – directors amounted $1.1 million, $1.4 million and $1.5 million, respectively. The remaining cost pending amortization of $699 thousand at December 31, 2020 will be amortized over 2.33 years.

Restricted stock loses their restriction from the year following the anniversary date, as follows: 35% in the first and second years, and 30% in the third year.

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

	Shares	Weighted average grant date fair value
Outstanding at January 1, 2018	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
Granted	63,000	11.54
Vested	(40,200)	26.26
Outstanding at December 31, 2020	132,150	18.56
Expected to vest	132,150	

The fair value of vested stock during the years 2020, 2019 and 2018 was $1.1 million, $1.4 million and $1.3 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 $902 thousand in 2020, $355 thousand in 2019 and $581 thousand in 2018. 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".

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

29. Salaries and other employee expenses (continued)

A. Cash and stock-based compensation plan (continued)

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

Compensation costs of the restricted stock units are amortized during the period of restriction by the accelerated method. During 2020, 2019 and 2018, the cost recognized in profit or loss as a result of the amortization of these grants totaled $640 thousand, $359 thousand and $503 thousand, respectively. The remaining compensation cost pending amortization of $583 thousand in 2020 will be amortized over 3.17 years.

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

	Shares	Weighted average grant date fair value	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at January 1, 2018	50,805	21.07		
Granted	23,412	24.80		
Vested	(49,055)	20.90		
Outstanding at December 31, 2018	25,162	24.86		
Granted	23,743	14.95		
Vested	(6,727)	24.92		
Outstanding at December 31, 2019	42,178	19.27		
Granted	51,829	17.41		
Vested	(12,664)	20.24		
Outstanding at December 31, 2019	81,343	17.93	2.59 years	15.71
Expected to vest	81,343	17.93	2.60 years	15.71

The fair value of vested stock during the years 2020, 2019 and 2018 is $256 thousand, $168 thousand, and $1 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.

29. Salaries and other employee expenses (continued)

A. Cash and stock-based compensation plan (continued)

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

Related cost recognized in profit or loss during 2018 as a result of the amortization of these plans amounted to $14 thousand.

A summary of stock options granted is presented below:

	Options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at January 1, 2018	273,643	27.48		
Granted	-	-		
Forfeited	(28,315)	29.25		
Exercised	(102,918)	24.55		
Outstanding at December 31, 2018	142,410	29.25		
Outstanding at December 31, 2019	142,410	29.25		
Outstanding at December 31, 2020	142,410	29.25	1.11 years	-
Exercisable	142,410	29.25	1.11 years	-
Expected to vest	-	-		-

During 2020 and 2019 there were no options exercised. The intrinsic value of exercised options during the years 2018 was $406 thousand. During 2018, the Bank received $2.5 million 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 2020, 2019 and 2018, the Bank charged to salaries expense $75 thousand, $87 thousand and $102 thousand, respectively, that correspond to the Bank's contributions to this plan.

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

30. Other expenses

	December 31,		
	2020	**2019**	**2018**
Administrative	4,142	5,560	6,391
Professional services	3,316	3,487	4,293
Maintenance and repairs	2,081	1,770	2,912
Regulatory fees	964	994	1246
Rental - office and equipment	575	658	2,913
Advertising and marketing	100	290	337
Other	344	180	379
Total	**11,522**	**12,939**	**18,471**

31. 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.

32. Applicable laws and regulations

<u>Liquidity index</u>

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, 2020, and 2019, the minimum LCR to be reported to the SBP was 65% and 50%, respectively. The Bank´s LCR as of December 31, 2020 and 2019 was 249% and 131%, 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:

$$\frac{\text{Liquid assets}}{\text{Liabilities (Deposits Received)}} \times 100 = X\% \text{ (Liquidity ratio)}$$

As of December 31, 2020, and 2019, the percentage of the liquidity index reported by the Bank to the regulator was 79.99% and 100.36%, respectively.

<u>Capital adequacy</u>

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.

32. Applicable laws and regulations (continued)

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 periods. However, they are under constant review by the Board.

	December 31, 2020	**December 31, 2019**
Capital funds	1,048,182	1,026,125
Risk-weighted assets	5,187,054	5,937,648
Capital adequacy index	20.21%	17.28%

<u>Leverage ratio</u>

Article No. 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 consolidated 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, 2020	**December 31, 2019**
Ordinary capital	912,164	890,106
Non-risk-weighted assets	6,479,416	7,323,187
Leverage ratio	14.08%	12.15%

<u>Specific credit provisions</u>

SBP 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.

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

32. Applicable laws and regulations (continued)

Article No. 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, 2020					
	Normal	**Special Mention**	**Substandard**	**Doubtful**	**Unrecoverable**	**Total**
Loans at amortized cost						
Corporations	2,147,846	9,281	10,593	-	-	2,167,720
Financial Institutions:						
Private	2,231,742	-	-	-	-	2,231,742
State-owned	476,520	-	-	-	-	476,520
	2,708,262	-	-	-	-	2,708,262
Sovereign	35,415	-	-	-	-	35,415
	4,891,523	**9,281**	**10,593**	**-**	**-**	**4,911,397**
Allowance for loan losses IFRS (*):	**34,720**	**1,857**	**4,588**	**-**	**-**	**41,165**
Loans at FVTPL						
Financial Institutions:						
Private	4,949	-	-	-	-	4,949
Total loans	**4,896,472**	**9,281**	**10,593**	**-**	**-**	**4,916,346**

32. Applicable laws and regulations (continued)

	December 31, 2019					
Loans at amortized cost	**Normal**	**Special Mention**	**Substandard**	**Doubtful**	**Unrecoverable**	**Total**
Corporations	2,487,859	13,595	-	-	61,845	2,563,299
Financial Institutions:						
Private	2,692,787	-	-	-	-	2,692,787
State-owned	589,690	-	-	-	-	589,690
	3,282,477	-	-	-	-	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**

As of December 31, 2020, and 2019, there are no restructured loans.

(*) As of December 31, 2020, and 2019, 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.

For statutory purposes only, non-accruing loans are presented by category as follows:

	December 31, 2020					
Loans at amortized cost	**Normal**	**Special Mention**	**Substandard**	**Doubtful**	**Unrecoverable**	**Total**
Impaired loans	-	-	10,593	-	-	10,593
Total	**-**	**-**	**10,593**	**-**	**-**	**10,593**

	December 31, 2019					
Loans at amortized cost	**Normal**	**Special Mention**	**Substandard**	**Doubtful**	**Unrecoverable**	**Total**
Impaired loans	-	-	-	-	61,845	61,845
Total	**-**	**-**	**-**	**-**	**61,845**	**61,845**

	December 31, 2020	**December 31, 2019**
Non-accruing loans:		
Private corporations	10,593	61,845
Total non-accruing loans	**10,593**	**61,845**
Interest that would be reversed if the loans had been classified as non-accruing loans	351	1,379
Income from collected interest on non-accruing loans	-	631

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

32. Applicable laws and regulations (continued)

Credit risk coverage - dynamic provision

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.

Modified Special Mention loans

SBP Rule No. 2-2020, which as an amendment to Rule 4-2013, with effect on March 31, 2020, allows banks to grant a grace period to customers affected in their businesses, regarding the COVID-19 effects, until June 30, 2020. As of that date, and as a result of an agreement signed between the Government of Panama and the Banking Association of Panama, as well as the issuance of Law No. 156 on moratorium, extended the financial relief to those affected by COVID-19 and who requested it until December 31, 2020. Subsequently, Rule No. 13-2020 which arise as an amendment to Rule No. 2-2020, with effect on October 2020 allows an additional grace of period to the financial relief until June 30, 2021.

On September 11, 2020, the Superintendence of Banks of Panama issued Rule No. 9-2020 amending Rule No. 2-2020 of March 16, 2020, by which, it defines that loans classified as normal and special mention, as well as restructured loans without arrears, may be modified in accordance with the guidelines established herein. Moreover, the loans amended in normal and special mention categories shall be classified in "modified special mention" category for the purpose of determining the respective provisions. Modified restructured loans in the substandard, doubtful or unrecoverable categories shall maintain the credit classification they had at the time of their modification with their respective provision.

In accordance with the Rule referred to in the preceding paragraph, about the modified special mention loan portfolio, banks will create a provision equivalent to the highest value between the IFRS provision of the modified special mention category and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including uncollected accrued interest and capitalized interests; modified loans secured with deposits pledged in the same bank may be excluded from this calculation up to the secured amount. For this, the following scenarios will be consid ered:

1. In cases where the IFRS provision is equal to or greater than the generic provision of 3% established herein, the Bank will record the corresponding IFRS provision in the profit or loss of the year.

2. In cases where the IFRS provision is less than the generic provision of 3% established herein, the Bank will record such IFRS provision in the profit or loss and the difference must be record in the results or in a regulatory reserve in equity, taking into consideration the following aspects:

   i. When the IFRS provision is equal to or greater than 1.5%, the Bank must record such IFRS provision in the profit or loss. Likewise, the difference to complete the 3% of the generic provision established herein must be recorded in a regulatory reserve in equity.

   ii. When the IFRS provision is less than 1.5%, the Bank must ensure that this percentage is completed and recorded in the profit or loss. Likewise, the difference to complete the 3% of the generic provision established herein must be recorded in a new regulatory reserve in equity.

32. Applicable laws and regulations (continued)

Modified special mention loans (continued)

In accordance with the requirements of Article 4-E of Rule No. 9-2020, a detail of the portfolio of modified special mention category loans and their respective provisions and regulatory reserves as of December 31, 2020, classified according to the three-stage model of IFRS 9 follows:

Modified special mention loans (continued)

	Stage 1	Stage 2	Stage 3	Total
Modified special mention loans				
Modified loans				
Corporate	-	8,829	-	8,829
(-) Modified loans secured by pledged deposits in the same bank up to the guaranteed amount	-	-	-	-
(+) Interest receivable	-	7	-	7
(-) Unearned interest and deferred fees	-	-	-	-
Total loan portfolio subject to provisions Rule No. 9-2020	-	8,836	-	8,836
Allowance				
Allowance IFRS 9	-	1,767	-	1,767
Collective allowance (complement to 1.5%) *				-
Regulatory reserve (complement to 3%) *				-
Total allowance and reserves				1,767

* Because IFRS 9 provision for modified special mention loans by $1.7million exceeds the generic provision equivalent to the 3% required by Rule No. 9-2020, the Bank does not require additional complementary equity reserves to the existing provision.

As part of the Bank's risk management, both individual and collective analyzes of the condition of the loans have been developed, including the segmentation of the portfolio in order to identify the employment situation or the opening of economic activity of each client and define who will be able to meet their bank obligations, who will have difficulties in doing so and who will definitely not be able to meet and thus determine if there has been a significant increase in risk and classify those loans according to the corresponding impairment stage. Additionally, different agreements have been reached with clients based on the individual analysis of their ability to generate the cash flows necessary to meet their obligations.

As of December 31, 2020, the modified special mention loan has complied with its contractual payments of the loan agreement.

It is important to note that in addition to the modified special mention loan, the Bank maintains corporate loans in Substandard category and that they embraced to the moratorium of Law No. 156 of June 30, 2020. As of December 31, 2020, these loans carrying amount is $10.9 million (including interest) and present interest payments with a default of up to 30 days.

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

32. Applicable laws and regulations (continued)

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 higher 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 higher 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 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.

As of December 31, 2020, and 2019, 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 million for both years, 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, 2020	December 31, 2019
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 $95.3 million, which was voluntarily established. Pursuant to Article No. 69 of the Banking Law, reduction of capital reserves requires prior approval of SBP.

33. Subsequent events

The Bank announced a quarterly cash dividend of $0.25 US dollar cents per share corresponding to the fourth quarter of 2020. The cash dividend was approved by the Board of Directors at its meeting held on February 12, 2021 and it was paid on March 10, 2021 to the Bank’s stockholders as of February 23, 2021 record date.

Torre V, Business Park
Ave. La Rotonda, Urb. Costa del Este
Apartado 0819-08730
Panamá, República de Panamá
Tel: (507) 210-8500

www.bladex.com