

CONSOLIDATED
FINANCIAL
STATEMENTS

2021

Bladex 

2021

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

Consolidated Financial Statements
as of December 31, 2021

(With the Independent Auditors' Report thereon)



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

Consolidated Financial Statements

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco Latinoamericano de Comercio Exterior, S. A. and subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2021, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Panama and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is that matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Allowance for loan losses

Refer to Notes 3.4.J and 5.A to the consolidated financial statements

Key audit matter

The Bank's allowance for loan losses (ALL) was \$41,476 thousand as of December 31, 2021. The Bank applies a three-stage approach to measure the ALL, using an expected credit loss (ECL) methodology. The ECL methodology uses complex models that incorporate inputs and assumptions that involve significant judgment, to determine the collective ALL and the individual ALL.

The collective ALL is determined based on the Bank's assessment of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) associated with the financial assets. The collective ALL considers the customer's credit risk rating and the country risk rating, which considers macroeconomic scenarios, historical loss rates and other assumptions. When the Bank determines that there has been a significant increase in credit risk (SICR) since initial recognition or when the financial asset is in default, lifetime ECL is recorded; otherwise, a 12-month ECL is recorded. When the financial asset is in default, the Bank determines the ECL individually, considering the expected cash flows, the discount rates and the related collateral valuation.

We identify the assessment of the ALL as a key audit matter because it involves significant measurement uncertainty that requires substantial auditor judgment, as well as industry knowledge and experience.

How the key matter was addressed in the audit

Our audit procedures, considering the use of specialists, included:

- Evaluate the methodology and key inputs used to determine the PD and LGD parameters produced by the models; as well as the country risk rating models. This includes considering projected macroeconomic scenarios based on publicly available information, which include assessment of potential impact of the COVID-19 pandemic.
- Test certain internal controls over the Bank's ALL process relating to: (i) the validation of models for determining PD and LGD; (ii) the review of significant assumptions and judgments used by the Bank to determine customer and country risk ratings, including projected macroeconomic scenarios; (iii) the identification of whether there has been SICR or an event of default; (iv) assessment of data inputs into the ALL models, including technology controls over transfer through certain application systems and their processing; (v) loan reviews to determine customer credit risk ratings, and (vi) country risk rating reviews.
- Assess i) for a sample of clients, the quantitative and qualitative factors related to the customer's financial condition, its payment sources, and assumptions and judgments applied in determining the customer's credit risk ratings assigned by the Bank; ii) judgment on whether there has been a SICR or an event of default; and iii) the probable scenarios and the collateral values used for assessing individual ECLs.
- Recalculate the ALL, in accordance with the Bank's ECL methodology.

Other Information

Management is responsible for the Other Information. The Other Information comprises the Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other legal requirements of information

In compliance with Law 280 of December 30, 2021, which regulates the certified public accountant profession in the Republic of Panama, we declare the following:

- The direction, execution, and supervision of this audit engagement has been performed physically on the Panamanian territory.
- The engagement partner on the audit who has prepared this independent auditors' report is Luis Venegas, with certified public accountant (C.P.A.) identification number #0215-2012.
- The audit team that has participated in the audit to which this report refers to, is comprised by Luis Venegas, Partner; Nicole Ramsauer, Partner; Gerardo Contreras, Director; Armando Barnica, Manager; Kevin Rojas, Manager; Juan Toro, Manager; Angelo Welch, Manager; and Karla Ruiz, Manager.

KPMG

Panama, Republic of Panama
March 25, 2022


Luis Venegas
Partner
C.P.A. #0215-2012

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

Consolidated statement of financial position

December 31, 2021

(In thousands of US dollars)

	Notes	2021	2020
Assets			
Cash and due from banks	5,7,8	1,253,052	863,812
Securities and other financial assets, net	5,7,9	831,913	398,068
Loans, net	5,7,10	5,713,022	4,896,647
Customers' liabilities under acceptances	5,7	201,515	74,366
Derivative financial instruments - assets	5,7,13	10,805	27,778
Equipment and leasehold improvements, net	15	17,779	16,213
Intangibles, net	16	1,595	1,984
Investment property	17	-	3,214
Other assets	18	8,430	6,816
Total assets		8,038,111	6,288,898
Liabilities and Equity			
Liabilities:			
Demand deposits		362,356	170,660
Time deposits	5,7,19	2,673,872	2,968,240
		3,036,228	3,138,900
Interest payable		1,229	1,975
Total deposits		3,037,457	3,140,875
Securities sold under repurchase agreements	5,7,20	427,497	10,663
Borrowings and debt, net	7,21	3,321,911	1,985,070
Interest payable		11,322	9,175
Acceptances outstanding	5,7	201,515	74,366
Derivative financial instruments - liabilities	5,7,13	28,455	9,211
Allowance for loan commitments and financial guarantee contract losses	5,7	3,803	2,904
Other liabilities	22	14,361	18,714
Total liabilities		7,046,321	5,250,978
Equity:			
Common stock	24	279,980	279,980
Treasury stock	24	(115,799)	(57,999)
Additional paid-in capital in excess of value assigned to common stock	24	120,043	120,414
Capital reserves	32	95,210	95,210
Regulatory reserves	32	136,019	136,019
Retained earnings		487,885	464,088
Other comprehensive income (loss)	25	(11,548)	208
Total equity		991,790	1,037,920
Total liabilities and equity		8,038,111	6,288,898

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, 2021

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

	Notes	2021	2020	2019
Interest income:				
Deposits		1,186	4,895	17,011
Securities		9,939	3,531	3,209
Loans		129,758	172,547	253,462
Total interest income	27	140,883	180,973	273,682
Interest expense:				
Deposits		(12,846)	(25,800)	(67,435)
Borrowings and debt		(41,255)	(62,723)	(96,732)
Total interest expense	27	(54,101)	(88,523)	(164,167)
Net interest income		86,782	92,450	109,515
Other income (expense):				
Fees and commissions, net	26	18,298	10,418	15,647
Loss on financial instruments, net	12	(1,296)	(4,794)	(1,379)
Other income, net		422	1,083	2,874
Total other income, net	27	17,424	6,707	17,142
Total revenues		104,206	99,157	126,657
(Provision for) reversal of credit losses	5,27	(2,328)	1,464	(430)
Gain on non-financial assets, net	14,27	742	296	500
Operating expenses:				
Salaries and other employee expenses	29	(21,652)	(21,462)	(24,179)
Depreciation of investment property, equipment and improvements	15,17	(2,749)	(3,587)	(2,854)
Amortization of intangible assets	16	(742)	(753)	(702)
Other expenses	30	(14,780)	(11,522)	(12,939)
Total operating expenses	27	(39,923)	(37,324)	(40,674)
Profit for the year		62,697	63,593	86,053
Per share data:				
Basic earnings per share (in US dollars)	23	1.62	1.60	2.17
Diluted earnings per share (in US dollars)	23	1.62	1.60	2.17
Weighted average basic shares (in thousands of shares)	23	38,796	39,656	39,575
Weighted average diluted shares (in thousands of shares)	23	38,796	39,656	39,575

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, 2021
(In thousands of US dollars)

	Notes	2021	2020	2019
Profit for the year		62,697	63,593	86,053
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Change in fair value of equity instruments at FVOCI, net of hedging	25	-	546	491
Items that are or may be reclassified subsequently to profit or loss:				
Change in fair value of financial debt, net of hedging	25	(12,252)	2,265	(2,694)
Reclassification of gains (losses) on financial instruments to profit or loss	25	48	(425)	261
Exchange difference in conversion of foreign currency operation	25	448	(360)	(296)
Other comprehensive income (loss)	25	(11,756)	2,026	(2,238)
Total comprehensive income for the year		50,941	65,619	83,815

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, 2021
(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, 2019	279,980	(61,076)	119,987	95,210	136,019	421,124	420	991,664
Profit for the year	-	-	-	-	-	86,053	-	86,053
Other comprehensive income (loss)	-	-	-	-	-	-	(2,389)	(2,389)
Transfer of fair value on equity instrument at FVOCI	-	-	-	-	-	(151)	151	-
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	1,782	-	-	-	-	1,782
Exercised options and stock units vested	-	148	(148)	-	-	-	-	-
Dividends declared	-	-	-	-	-	(60,943)	-	(60,943)
Balances at December 31, 2019	279,980	(59,669)	120,362	95,210	136,019	446,083	(1,818)	1,016,167
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
Profit for the year	-	-	-	-	-	62,697	-	62,697
Other comprehensive income (loss)	-	-	-	-	-	-	(11,756)	(11,756)
Issuance of restricted stock	-	1,391	(1,391)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	1,908	-	-	-	-	1,908
Exercised options and stock units vested	-	888	(888)	-	-	-	-	-
Repurchase of "Class E" common stock	-	(60,079)	-	-	-	-	-	(60,079)
Dividends declared	-	-	-	-	-	(38,900)	-	(38,900)
Balances at December 31, 2021	279,980	(115,799)	120,043	95,210	136,019	487,885	(11,548)	991,790

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

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

Consolidated statement of cash flows
For the year ended December 31, 2021
(In thousands of US dollars)

	2021	2020	2019
Cash flows from operating activities			
Profit for the year	62,697	63,593	86,053
Adjustments to reconcile profit for the year to net cash (used in) provided by operating activities:			
Depreciation of investment property, equipment and leasehold improvements	2,749	3,587	2,854
Amortization of intangible assets	742	753	702
Gain on investment property - Right-of-use	(742)	-	-
Gain on investment property - Fair value	-	(296)	(500)
Provision for (reversal of) credit losses	2,328	(1,464)	430
Unrealized (gain) loss on financial instruments at FVTPL	(227)	806	-
Net gain on sale of financial assets at FVOCI	(14)	-	(186)
Gain on sale of financial instruments at amortized cost	(333)	-	-
Compensation cost - share-based payment	1,908	1,722	1,782
Net changes in hedging position and foreign currency	(428)	(194)	(18,273)
Loss on disposal of equipment and leasehold improvements	255	30	22
Loss on derecognition of intangible assets	-	1	-
Realized loss on investment instrument "debenture" measured at FVTPL	-	2,175	2,258
Interest income	(140,883)	(180,973)	(273,682)
Interest expense	54,101	88,523	164,167
Net decrease (increase) in operating assets:			
Pledged deposits	(24,248)	648	21,008
Loans	(821,531)	911,073	(111,967)
Other assets	(1,705)	2,321	7,891
Net increase (decrease) in operating liabilities:			
Due to depositors	(102,672)	250,564	(78,822)
Other liabilities	(4,677)	1,432	3,074
Cash flows (used in) provided by operating activities	(972,680)	1,144,301	(193,189)
Interest received	154,293	194,129	275,068
Interest paid	(53,327)	(91,021)	(174,311)
Net cash (used in) provided by operating activities	(871,714)	1,247,409	(92,432)
Cash flows from investing activities:			
Acquisition of equipment and leasehold improvements	(453)	(997)	(1,028)
Acquisition of intangible assets	(353)	(1,311)	(496)
Proceeds from the sale in investment property	-	-	500
Proceeds from the sale of securities at FVOCI	33,492	1,882	14,037
Proceeds from the sale of securities at amortized cost	16,369	-	-
Proceeds from the redemption of securities at FVOCI	10,000	-	8,094
Proceeds from the redemption of securities at amortized cost	123,302	52,576	28,274
Purchases of securities at FVOCI	(9,999)	(227,027)	-
Purchases of investments at FVTPL	-	(1,433)	-
Purchases of securities at amortized cost	(618,440)	(143,594)	(18,316)
Net cash (used in) provided by investing activities	(446,082)	(319,904)	31,065
Cash flows from financing activities:			
Increase (decrease) in securities sold under repurchase agreements	416,835	(29,867)	764
Net increase (decrease) in short-term borrowings and debt	1,196,710	(1,212,023)	(428,611)
Proceeds from long-term borrowings and debt	266,640	827,732	371,536
Payments of long-term borrowings and debt	(97,520)	(781,274)	(368,843)
Payments of lease liabilities	(1,227)	(1,114)	(1,072)
Dividends paid	(38,570)	(44,669)	(58,881)
Repurchase of common stock	(60,079)	-	-
Net cash provided by (used in) financing activities	1,682,789	(1,241,215)	(485,107)
Increase (decrease) net in cash and cash equivalents	364,993	(313,710)	(546,474)
Cash and cash equivalents at beginning of the year	846,008	1,159,718	1,706,192
Cash and cash equivalents at end of the year	1,211,001	846,008	1,159,718

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

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)

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 Representação Ltda.
- Bladex Representação Ltda, incorporated under the laws of Brazil on January 7, 2000, acts as the Bank’s representative office in Brazil. Bladex Representação Ltda. is 99.999% owned by Bladex Head Office and the remaining 0.001% is owned by Bladex Holdings Inc.
- Bladex Development Corp. was incorporated under the laws of the Republic of Panama on June 5, 2014. Bladex Development Corp. is 100% owned by Bladex Head Office.
- BLX Soluciones, S.A. de C.V., SOFOM, E.N.R. (“BLX Soluciones”) was incorporated under the laws of Mexico on June 13, 2014. BLX Soluciones is 99.9% owned by Bladex Head Office, and Bladex Development Corp. owns the remaining 0.1%. The company specializes in offering financial leasing and other financial products such as loans and factoring.

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

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 15, 2022.

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

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

2. Basis of preparation of the consolidated financial statements

2.1 Statement of compliance

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

2.2 Functional and presentation currency

All amounts presented in the consolidated financial statements and notes are expressed in United States of America dollars (US dollar), 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 property	Fair value
Share-based payments	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 until the date on which control ceases. All intercompany balances and transactions have been eliminated on consolidation; and when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank’s accounting policies.

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 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 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.

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

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

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

2.4 Basis of consolidation (continued)

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.

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 subsidiary, the Bank determines the functional currency. The items included in the consolidated financial statements for each subsidiary, are measured using the functional currency of the Bank.

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 presentation currency. 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 subsidiaries 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 line item "gain (loss) on financial instruments, net" in the consolidated statement of 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, except for the cumulative amount equity instruments measured at fair value through other comprehensive income. 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.

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

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

3. Significant accounting policies (continued)

3.2 Interest

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

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.

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 presented in the consolidated statement of profit or loss includes:

- Interest on financial assets and financial liabilities measured at amortized cost, calculated using the effective interest method
- 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.

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

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

3. Significant accounting policies (continued)

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 Bank recognizes such income when control over the product or service is transferred to 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
<u>Letters of credit</u> 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, upon 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
<u>Syndications</u> Structuring	Advise to the borrower by structuring the terms and conditions of a credit facility and coordinating among the lenders’ and the borrowers’ legal counsel all legal aspects relating to the credit facility, among others.
<u>Other services</u> Other	Assignment of rights, transferability, reimbursements, payments, discrepancies, courier charges and transfers.

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

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

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 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 are included in the line item gain (loss) on financial instruments, net as well as exchange 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 met for its classification at amortized cost or at fair value through other comprehensive income.

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

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

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

At initial recognition, the following irrevocable election / designation for measurement 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).
- 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 hedge 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 at a level that reflects how the financial asset groups are managed together to obtain a particular business objective and how information on those assets is provided to Management. The assessment considers the following:

- The Bank's policies and objectives for the portfolio and the operation of those policies in practice. In particular, if 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 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 imply 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 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.

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

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 its 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 met 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 the financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policies on derecognition and modification 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.

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

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

3. 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 is deducted from the gross carrying amount of the financial asset; any accumulated gain or loss that has been recognized in other comprehensive income is recognized 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 through 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 and transactions under repurchase agreements.

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 counterparty 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.

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

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

3. 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 an extension of maturity date, reduction in the stated interest rate, rescheduling of future cash flows, and reduction in the face amount of the financial asset or accrued interest, among others.

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

- Qualitative factors, such as contractual cash flows after modification that 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 estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime probability of default 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. If the credit quality of the financial asset no longer exhibits a credit impairment, it will 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.

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

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

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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 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 consolidated 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.

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

Notes to the consolidated financial statements
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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 (“ECL”), 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 (loss) 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, as well as the ratings of international rating agencies, quality of information and other elements of an objective nature, including projections on relevant 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 factors 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 consider added 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 considers, generally (certain exceptions apply), the worst among the country risk rating of the transaction and the customer risk rating.

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Notes to the consolidated financial statements
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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.

<u>Internal rating</u>	<u>12 - month average PD ⁽¹⁾ %</u>	<u>External rating ⁽²⁾</u>	<u>Description</u>
1 - 4	0.09	Aaa – Ba1	Exposure in customers or countries with payment ability to satisfy their financial commitments.
5 - 6	2.28	Ba2 – B3	Exposure in customers or countries with payment ability to satisfy their financial commitments, but with more frequent reviews.
7	7.81	Caa1 - Caa3	Exposure in customers whose primary source of payment (operating cash flows) 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	34.52	Ca	Exposure in customers whose operating cash flows 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 risk, 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 gross carrying amount. Under Stage 3, when a financial asset subsequently becomes credit impaired (when a credit event has occurred) interest income is calculated by applying the effective interest rate adjusted to the amortized cost of the impaired asset. 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.

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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 credit risk 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 recognized as a provision for losses in the consolidated statement of 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 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 being 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;
- Impairment 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.

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

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

3. 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 FVOCI, 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 would be 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 in the consolidated statement of financial position, against profit or loss for the period.

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.

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

Notes to the consolidated financial statements
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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 a 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 into 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 = $\sum(E \times PD \times LGD)$; where:

- Exposure (E) = the total outstanding balance at the end of the period under review.
- Probabilities of Default (PD) = one-year probability of default applied to the portfolio to account for 12-month ECL and lifetime probability of default to account for more than 12-month ECL. Default rates are based on Bladex’s historical portfolio performance per rating category, in addition to international rating agency’s probabilities of default for categories 6, 7 and 8, in view of the greater robustness of data for such cases.
- Loss Given Default (LGD) = a factor is applied, based on historical information, as well as best practices in the banking industry, volatility and simulated scenarios based on forward-looking information. Management applies judgment and historical loss experience.

K. Write-offs

When the Bank has no reasonable expectation of recovering a financial asset, the carrying amount is written off either partially or in full. 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).

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Notes to the consolidated financial statements
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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.

Applicable standards for all hedging relationships

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the 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 in the consolidated statement of financial position. Changes in realized and unrealized gains and losses from these financial instruments are recognized as gain (loss) on financial instruments, net in the consolidated statements of profit or loss.

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) Hedge accounting relationship

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

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Notes to the consolidated financial statements

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

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 the consolidated statement of profit or loss in the line item gain (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.

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

Notes to the consolidated financial statements

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

3. Significant accounting policies (continued)

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

iv) Interest Rate Benchmark Reform (the Phase 1 and Phase 2 amendments)

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 effective for annual periods beginning on or after January 1st, 2020. Furthermore, in August 2020, the IASB published Phase 2 of the project amendments to the Reform effective for annual periods on or after January 1st, 2021. This phase addressed clarifications, exemptions and included new requirements and temporary waivers to IFRS 9, IFRS 7 and IFRS 16.

The requirements of Phase 1 and 2 of the IBOR Reform are applicable to the extent that the Bank identifies uncertainties in the measurement of its financial instruments when transitioning to the new reference rate. As of December 31, 2021, the Bank has not yet adopted these reforms as because it has not identified uncertainties in the measurement of its financial instruments.

The Bank assessed the potential impacts on the remeasurement of its financial assets and liabilities, as well as its hedging position, and did not identify material impacts that could affect its consolidated financial performance.

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.

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.

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Notes to the consolidated financial statements
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3. Significant accounting policies (continued)

3.9 Deposits, borrowings and repurchase agreements (continued)

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.

3.10 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 customers 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 to 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.

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3. Significant accounting policies (continued)

3.11 Leases (continued)

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.

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, for the weighted average term of the contract.

The right-of-use asset is recognized from the initial measurement of lease liabilities, adjusted for any prepayment, incremental cost, dismantling cost and accumulated depreciation. Subsequently, it is 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 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 the line item of equipment and improvements to the leased property and the liability for lease in obligations and debt, net, both 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. Lease income is recognized in profit or loss in the period in which it is 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 property - 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 property 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 property is closely related to the principal lease agreement.

When the Bank disposes an investment property – right of use, it writes off its original cost and its accumulated depreciation. Any resulting difference between the net asset and the associated lease liability is recognized in profit or loss.

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, if applicable. Changes in the expected useful lives are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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Notes to the consolidated financial statements
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3. Significant accounting policies (continued)

3.12 Equipment and leasehold improvements (continued)

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.

Equipment and leasehold improvements include right of use assets arising from leases. 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 the consolidated statement of profit or loss.

3.13 Investment property

Property that is 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 property 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 property is measured at fair value, except for that investment property – right of use recognized under IFRS 16 that the Bank holds under sublease agreements which are subsequentlymeasured in accordance with IAS 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 an investment 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 the consolidated statement of profit or loss as gain (loss) on non-financial assets, net.

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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 the consolidated statement of 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 the consolidated statement of 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 the consolidated statement of 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 sell treasury stock, if available.

3.18 Equity

Reserves

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.

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Notes to the consolidated financial statements
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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 for the period.
- 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

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 that amount are those 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 the consolidated statement of profit or loss as other operating expenses.

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

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

3. Significant accounting policies (continued)

3.20 Taxes (continued)

The Bank performs 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 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; and Treasury 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.

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 or stage 3 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 reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from

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Notes to the consolidated financial statements
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3. Significant accounting policies (continued)

3.22 Judgments, estimates and significant accounting assumptions (continued)

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 is required. 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 credit 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.

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Notes to the consolidated financial statements
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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. Other standards

The following new and amended standards are not expected to have a significant impact on the Bank’s consolidated financial statements.

- Annual Improvements to IFRS Standards 2018–2020
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12).

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 review

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 debt instruments 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).

Loans at amortized cost, outstanding balance

December 31, 2021					
	PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	3,016,938	-	-	3,016,938
Grades 5 - 6	0.75 - 3.80	2,466,348	57,799	-	2,524,147
Grades 7 - 8	3.81 - 34.51	99,807	83,120	10,593	193,520
Grades 9 - 10	34.52 - 100	-	-	-	-
		5,583,093	140,919	10,593	5,734,605
Loss allowance		(20,115)	(16,175)	(5,186)	(41,476)
Total		5,562,978	124,744	5,407	5,693,129

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

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Notes to the consolidated financial statements
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5. Financial risk review (continued)

A. Credit risk (continued)

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

December 31, 2021					
	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Commitments and contingencies					
Grades 1 - 4	0.03 - 0.74	257,831	-	-	257,831
Grades 5 - 6	0.75 - 3.80	172,993	21,400	-	194,393
Grades 7 - 8	3.81 - 34.51	151,535	-	-	151,535
		582,359	21,400	-	603,759
Customers' liabilities under acceptances					
Grades 1 - 4	0.03 - 0.74	54,185	-	-	54,185
Grades 5 - 6	0.75 - 3.80	6,903	-	-	6,903
Grades 7 - 8	3.81 - 34.51	140,427	-	-	140,427
		201,515	-	-	201,515
		783,874	21,400	-	805,274
Loss allowance		(3,472)	(331)	-	(3,803)
Total		780,402	21,069	-	801,471

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

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Notes to the consolidated financial statements
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5. Financial risk review (continued)

A. Credit risk (continued)

Securities at amortized cost

December 31, 2021					
	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	453,627	-	-	453,627
Grades 5 - 6	0.75 - 3.80	177,496	-	-	177,496
		631,123	-	-	631,123
Loss allowance		(1,790)	-	-	(1,790)
Total		629,333	-	-	629,333

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

Securities at fair value through other comprehensive income (FVOCI)

December 31, 2021					
	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Grades 1 - 4	0.03 - 0.74	193,488	-	-	193,488
		193,488	-	-	193,488
Loss allowance		(26)	-	-	(26)
Total		193,462	-	-	193,462

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

As of December 31, 2021, and 2020, loans at amortized cost and other financial assets were not past due nor impaired.

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Notes to the consolidated financial statements
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5. Financial risk review (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, 2021			
Notional value USD	Derivative financial instruments - fair value asset	Derivative financial instruments - fair value liabilities	
Interest rate swaps	60,000	1,282	(538)
Cross-currency swaps	883,931	9,5 23	(27,917)
Foreign exchange forwards	-	-	-
Total	943,931	10,805	(28,455)

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)

ii. Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

Derivatives and repurchase agreements

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

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Notes to the consolidated financial statements
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5. Financial risk review (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 for commercial lending are as follows:

- 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 or received in lieu of payment, for business use.

The Bank holds guarantees and other financial credit enhancements against certain exposures in the loan portfolio. As of December 31, 2021, and 2020, the coverage ratio to the carrying amount of the loan portfolio was 12%.

iii. Incorporation 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 risk 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.

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5. Financial risk review (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 growth index. 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			
Country	Scenario	GDP Growth (Var.%)		ComEx Growth Index (Var.%)	
		December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Brazil	Central	2.7%	0.7%	9.5%	4.0%
	Upside	3.7%	1.7%	13.0%	7.5%
	Downside	1.3%	-0.7%	5.5%	0.0%
Colombia	Central	4.6%	1.4%	10.7%	4.6%
	Upside	5.7%	2.5%	13.7%	7.6%
	Downside	3.3%	0.1%	7.2%	1.1%
Mexico	Central	3.0%	0.2%	9.4%	3.5%
	Upside	4.0%	1.2%	13.4%	7.5%
	Downside	1.8%	-1.0%	4.9%	-1.0%
Chile	Central	3.4%	1.5%	12.4%	6.4%
	Upside	4.5%	2.6%	15.9%	9.9%
	Downside	2.2%	0.3%	8.4%	2.4%
Dominican Republic	Central	6.2%	4.8%	11.0%	9.5%
	Upside	7.4%	6.0%	14.5%	13.0%
	Downside	4.9%	3.5%	7.0%	5.5%
Guatemala	Central	3.5%	2.5%	8.1%	4.2%
	Upside	4.5%	3.5%	11.1%	7.2%
	Downside	2.3%	1.3%	4.6%	0.7%
Peru	Central	4.9%	1.4%	11.7%	5.1%
	Upside	5.9%	2.4%	15.2%	8.6%
	Downside	3.7%	0.2%	7.7%	1.1%
Ecuador	Central	2.3%	-0.2%	8.7%	2.7%
	Upside	3.3%	0.8%	11.7%	5.7%
	Downside	0.8%	-1.7%	5.2%	-0.8%

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Notes to the consolidated financial statements
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5. Financial risk review (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 in Note 3.4 (J).

Loans at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2020	16,661	19,916	4,588	41,165
Transfer to lifetime expected credit losses	(158)	158	-	-
Transfer to 12-month expected credit losses	243	(243)	-	-
Net effect of changes in allowance for expected credit losses	(874)	(2,041)	438	(2,477)
Financial instruments that have been derecognized during the year	(13,100)	(1,615)	-	(14,715)
New instruments originated or purchased	17,343	-	-	17,343
Write-offs	-	-	-	-
Recoveries	-	-	160	160
Allowance for expected credit losses as of December 31, 2021	20,115	16,175	5,186	41,476
	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 instruments 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

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Notes to the consolidated financial statements
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5. Financial risk review (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 of expected credit losses of customers' liabilities under acceptances and contingent liabilities 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, 2020	2,426	478	-	2,904
Transfer to lifetime expected credit losses	(53)	53	-	-
Transfer to 12-month expected credit losses	87	(87)	-	-
Net effect of changes in reserve for expected credit losses	(96)	42	-	(54)
Financial instruments that have been derecognized during the year	(1,793)	(155)	-	(1,948)
New instruments originated or purchased	2,901	-	-	2,901
Allowance for expected credit losses as of December 31, 2021	3,472	331	-	3,803
	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

5. Financial risk review (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, 2020	462	33	-	495
Net effect of changes in allowance for expected credit losses	(20)	-	-	(20)
Financial instruments that have been derecognized during the year	(160)	(33)	-	(193)
New instruments originated or purchased	1,508	-	-	1,508
Allowance for expected credit losses as of December 31, 2021	1,790	-	-	1,790

	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 instruments originated or purchased	430	-	-	430
Allowance for expected credit losses as of December 31, 2020	462	33	-	495

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, 2020	43	-	-	43
Financial instruments that have been derecognized during the year	(17)	-	-	(17)
Allowance for expected credit losses as of December 31, 2021	26	-	-	26

5. Financial risk review (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, 2019	-	-	-	-
Financial instruments that have been derecognized during the year	43	-	-	43
Allowance for expected credit losses as of December 31, 2020	43	-	-	43

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		Total
			At amortized cost	FVOCI	
December 31, 2021	Loans at amortized cost	Loan commitments and financial guarantee contracts			
Net effect of changes in allowance for expected credit losses	(2,477)	(54)	(20)	-	(2,551)
Financial instruments that have been derecognized during the year	(14,715)	(1,948)	(193)	(17)	(16,873)
New instruments originated or purchased	17,343	2,901	1,508	-	21,752
Total	151	899	1,295	(17)	2,328

			Securities		Total
			At amortized cost	FVOCI	
December 31, 2020	Loans at amortized cost	Loan commitments and financial guarantee contracts			
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 instruments originated or purchased	12,828	1,666	430	43	14,967
Total	(1,749)	(140)	382	43	(1,464)

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 review (continued)

A. Credit risk (continued)

December 31, 2019	Loans at amortized cost	Loan commitments and financial guarantee contracts	Securities		Total
			At amortized cost	FVOCI	
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 instruments originated or purchased	25,695	2,108	37	-	27,840
Total	875	(245)	(27)	(173)	430

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 carrying amount of allowance for credit losses for credit-impaired loans.

	December 31, 2021	December 31, 2020
Credit-impaired loans and advances at beginning of year	4,588	54,573
Classified as credit-impaired during the period	-	2,100
Change in allowance for expected credit losses	191	(744)
Recoveries of amounts previously written off	160	139
Interest income	247	626
Write-offs	-	(52,106)
Credit-impaired loans and advances at end of year	5,186	4,588

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 review (continued)

A. Credit risk (continued)

vi. Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, industry and 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		FVOCI	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Carrying amount - principal	5,734,605	4,911,397	201,515	74,366	631,123	164,074	193,488	231,348
Amount committed/guaranteed	-	-	603,759	564,898	-	-	-	-
Concentration by sector								
Corporations:								
Private	1,934,056	1,425,929	336,181	276,249	362,085	56,979	59,096	60,403
State-owned	1,085,211	741,791	47,144	92,299	43,266	29,985	-	23,858
Financial institutions:		-						
Private	2,123,881	2,231,742	140,289	65,434	127,690	33,715	-	-
State-owned	567,847	476,520	281,660	205,282	46,496	28,276	134,392	141,974
Sovereign	23,610	35,415	-	-	51,586	15,119	-	5,113
Total	5,734,605	4,911,397	805,274	639,264	631,123	164,074	193,488	231,348
Concentration by industry								
Financial institutions	2,691,728	2,708,262	421,949	270,716	174,186	61,991	134,392	141,974
Manufacturing	1,122,325	760,985	193,169	173,493	180,088	66,053	44,586	45,654
Oil and petroleum derived products	1,091,264	586,030	62,208	98,189	74,954	20,911	14,510	38,607
Agricultural	267,382	336,715	-	-	-	-	-	-
Services	220,942	264,597	55,612	63,086	66,609	-	-	-
Mining	95,364	94,955	-	-	9,912	-	-	-
Sovereign	23,610	35,415	-	-	51,586	15,119	-	5,113
Other	221,990	124,438	72,336	33,780	73,788	-	-	-
Total	5,734,605	4,911,397	805,274	639,264	631,123	164,074	193,488	231,348

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 review (continued)

A. Credit risk (continued)

Risk rating and concentration by country

	Loans at amortized cost		Loan commitments and financial guarantee contracts		Securities			
					At amortized cost		FVOCI	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Carrying amount - principal	5,734,605	4,911,397	201,515	74,366	631,123	164,074	193,488	231,348
Amount committed/guaranteed	-	-	603,759	564,898	-	-	-	-
Rating								
1-4	3,016,938	2,582,794	312,016	247,425	453,627	108,505	193,488	231,348
5-6	2,524,147	2,096,138	201,296	237,807	177,496	55,569	-	-
7-8	193,520	232,465	291,962	154,032	-	-	-	-
Total	5,734,605	4,911,397	805,274	639,264	631,123	164,074	193,488	231,348
Concentration by country								
Argentina	74,252	130,944	-	-	-	-	-	-
Australia	-	-	-	-	9,900	-	-	-
Belgium	17,374	9,807	-	-	-	-	-	-
Bolivia	3,000	12,000	2,983	2,800	-	-	-	-
Brazil	1,101,999	971,652	-	50,000	99,082	41,128	-	-
Canada	-	-	-	-	13,786	-	-	-
Chile	625,119	533,945	41,932	7,911	105,730	11,992	-	28,972
Colombia	795,467	714,258	50,630	50,333	38,038	29,998	-	-
Costa Rica	180,480	146,200	89,442	56,876	1,984	-	-	-
Dominican Republic	275,423	202,433	16,499	16,500	4,947	-	-	-
Ecuador	37,446	45,511	281,075	165,275	-	-	-	-
El Salvador	73,500	40,000	6,867	1,087	-	-	-	-
France	179,491	150,810	62,172	84,862	-	-	-	-
Germany	-	-	7,000	-	-	-	-	-
Guatemala	431,543	281,485	58,145	43,845	3,051	-	-	-
Honduras	32,192	10,199	18,286	345	-	-	-	-
Hong Kong	17,600	1,800	-	-	-	-	-	-
Israel	-	-	-	-	4,968	-	-	-
Jamaica	5,215	23,274	-	-	-	-	-	-
Luxembourg	117,700	50,000	-	-	-	-	-	-
Mexico	726,922	607,099	4,000	4,995	55,620	43,910	-	-
Panama	203,115	241,097	66,973	61,435	22,807	10,399	-	-
Paraguay	98,112	100,816	9,430	11,800	-	-	-	-
Peru	343,485	272,752	65,091	47,245	64,134	26,647	-	-
Singapore	58,117	75,095	10,750	-	-	-	-	-
Trinidad and Tobago	140,537	165,995	-	-	-	-	-	-
United States of America	19,000	113,816	-	-	207,076	-	88,170	89,794
United Kingdom	42,700	10,409	-	-	-	-	-	-
Uruguay	134,816	-	13,999	33,955	-	-	-	-
Multilateral	-	-	-	-	-	-	105,318	112,582
Total	5,734,605	4,911,397	805,274	639,264	631,123	164,074	193,488	231,348

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 review (continued)

A. Credit risk (continued)

vii. Offsetting financial assets and liabilities

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

a) Derivative financial instruments – assets

December 31, 2021						
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		Net amount
				Financial instruments	Cash collateral received	
Derivative financial instruments used for hedging	10,805	-	10,805	-	(5,030)	5,775
Total	10,805	-	10,805	-	(5,030)	5,775

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		Net amount
				Financial instruments	Cash collateral received	
Derivative financial instruments used for hedging	27,778	-	27,778	-	(24,720)	3,058
Total	27,778	-	27,778	-	(24,720)	3,058

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 review (continued)

A. Credit risk (continued)

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

December 31, 2021						
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		Net amount
				Financial instruments	Cash collateral pledged	
Securities sold under repurchase agreements	(427,497)	-	(427,497)	498,274	3,110	73,887
Derivative financial instruments used for hedging	(28,455)	-	(28,455)	-	28,942	487
Total	(455,952)	-	(455,952)	498,274	32,052	74,374

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		Net amount
				Financial instruments	Cash collateral pledged	
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)

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 review (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, as of December 31, 2021 and 2020, respectively:

	December 31, 2021	December 31, 2020
At the end of the period	199.19%	249.42%
Period average	122.80%	115.98%
Maximum of the period	306.82%	249.42%
Minimum of the period	66.43%	53.26%

The following table includes the Bank’s liquid assets by country risk:

(in millions of USD dollars)	December 31, 2021			December 31, 2020		
	Cash and due from banks	Securities FVOCI	Total	Cash and due from banks	Securities FVOCI	Total
United State of America	1,203	89	1,292	690	90	780
Other O.E.C.D countries	-	-	-	100	-	100
Latin America	8	-	8	6	-	6
Other countries	-	-	-	-	-	-
Multilateral	-	105	105	50	112	162
Total	1,211	194	1,405	846	202	1,048

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, 2021	December 31, 2020
Demand and "overnight" deposits	362	171
Demand and "overnight" deposits to total deposits	11.92%	5.44%

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 review (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, 2021	December 31, 2020
Total liquid assets	1,404	1,048
Total assets to total liabilities	46.26%	33.40%
Total liquid assets in the Federal Reserve of the United States of America	85.52%	65.68%

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, 2021	December 31, 2020
Loan portfolio at amortized cost and securities portfolio less than to 1 year according to its original terms	3,426	3,114
Average term (days)	191	195

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, 2021	December 31, 2020
Loan portfolio at amortized cost and securities portfolio greater than to 1 year according to its original terms	3,134	2,193
Average term (days)	1,365	1,382

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

Notes to the consolidated financial statements
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5. Financial risk review (continued)

B. Liquidity risk (continued)

- ii. Maturity analysis for financial liabilities and financial assets

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

Description	December 31, 2021						
	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	1,253,052	-	-	-	-	1,253,052	1,253,052
Securities and other financial assets, net	36,984	44,743	179,219	599,397	-	860,343	831,913
Loans, net	1,936,018	1,040,765	1,349,286	1,568,311	151,529	6,045,909	5,713,022
Derivative financial instruments - assets	2,791	3,592	-	4,422	-	10,805	10,805
Total	3,228,845	1,089,100	1,528,505	2,172,130	151,529	8,170,109	7,808,792
Liabilities							
Deposits	(2,641,995)	(310,326)	(79,034)	(8,090)	-	(3,039,445)	(3,037,457)
Securities sold under repurchase agreements	(333,031)	(60,218)	-	(35,515)	-	(428,764)	(427,497)
Borrowings and debt, net	(583,283)	(726,715)	(802,911)	(1,348,323)	(16,536)	(3,477,768)	(3,333,233)
Derivative financial instruments - liabilities	-	(4,821)	(7,773)	(15,145)	(716)	(28,455)	(28,455)
Total	(3,558,309)	(1,102,080)	(889,718)	(1,407,073)	(17,252)	(6,974,432)	(6,826,642)
Contingencies							
Confirmed letters of credit	149,672	62,123	2,435	-	-	214,230	214,230
Stand-by letters of credit and guarantees	75,245	118,287	54,375	20,289	-	268,196	268,196
Credit commitments	35,000	-	45,000	41,333	-	121,333	121,333
Total	259,917	180,410	101,810	61,622	-	603,759	603,759
Net position	(589,381)	(193,390)	536,977	703,435	134,277	591,918	378,391

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Notes to the consolidated financial statements
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5. Financial risk review (continued)

B. Liquidity risk (continued)

ii. Maturity analysis for financial liabilities and financial assets (continued)

Description	December 31, 2020						Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Gross inflows (outflows)	
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 letters 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

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 assets and financial liabilities	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that simultaneously settle gross or net amounts.

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

Notes to the consolidated financial statements
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5. Financial risk review (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, 2021		December 31, 2020	
	Amount	Fair Value	Amount	Fair Value
Balances with Federal Reserve of the United States of America	1,201,101	1,201,101	688,612	688,612
Cash and due from banks ⁽¹⁾	9,900	9,900	157,396	157,396
Total liquidity reserves	1,211,001	1,211,001	846,008	846,008

⁽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, 2021		
	Guaranteed	Available as collateral
Cash and due from banks	42,051	1,211,001
Notional of investment securities	447,588	343,319
Loans at amortized cost	-	5,734,605
Total assets	489,639	7,288,925

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

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Notes to the consolidated financial statements
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5. Financial risk review (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:

Description	December 31, 2021						Total
	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	
Assets							
Cash and due from banks	1,249,545	-	-	-	-	3,507	1,253,052
Securities and other financial assets, net	26,693	28,906	121,834	647,178	-	-	824,611
Loans	2,510,544	1,593,471	1,378,589	246,721	10,593	-	5,739,918
Total assets	3,786,782	1,622,377	1,500,423	893,899	10,593	3,507	7,817,581
Liabilities							
Demand deposits and time deposits	(2,634,776)	(309,601)	(78,439)	(8,000)	-	(5,412)	(3,036,228)
Securities sold under repurchase agreements	(332,417)	(60,052)	-	(35,028)	-	-	(427,497)
Borrowings and debt, net	(1,265,779)	(653,454)	(452,621)	(933,671)	(16,386)	-	(3,321,911)
Total liabilities	(4,232,972)	(1,023,107)	(531,060)	(976,699)	(16,386)	(5,412)	(6,785,636)
Net effect of derivative financial instruments held for interest risk management	2,791	(1,230)	(7,773)	(10,722)	(716)	-	(17,650)
Total interest rate sensitivity	(443,399)	598,040	961,590	(93,522)	(6,509)	(1,905)	1,014,295

Description	December 31, 2020						Total
	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	
Assets							
Cash and due from banks	859,481	-	-	-	-	4,331	863,812
Securities and other financial assets, net	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, net	(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

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.

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Notes to the consolidated financial statements
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5. Financial risk review (continued)

C. Market risk (continued)

i. 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, 2021	+50 bps	(45)	17,232
	-50 bps	(2,297)	10,772
December 31, 2020	+50 bps	1,182	16,618
	-50 bps	(5,161)	107

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 FV OCI 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 an analyses of changes in interest rates, considering last year interest rate volatility.

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.

The Bank has established the LIBOR Transition Steering Committee (LTSC), whose purpose is to monitor and manage the transition to alternative rates. The Committee assesses 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 collaborating with other business functions as needed. The Committee provides Management and the Board of Directors periodic reports of the risks arising from IBOR Reform.

The Alternative Reference Rates Committee (ARRC) was established by the US Federal Reserve to ensure the successful transition of the USD LIBOR rate to an alternative interest rate. The ARRC is comprised of private sector entities – which participate in markets affected by USD LIBOR – and other government entities, including financial sector regulators in the United States. In May 2021, the ARRC stipulated that the USD LIBOR rate will continue to be published until June 30, 2023 and set this as the deadline to complete the modification of the contracts that must include the transition language towards the new reference rate, which had initially been set for the end 2021.

Management began the process of evaluating its existing contracts at the end of 2020. As of December 31, 2021, the Bank has an inventory of contingent loans and credits that will need to be modified to incorporate the transition language to Secured Overnight Funding Rate (SOFR), following the recommendations of the ARRC and the Loan Syndications and Trading Association (LSTA). As of December 31, 2021, the Bank completed the review and modification of most of the models for the borrowings and debt contracts, incorporating the transition language terms to the new reference rate. The Bank plans to finalize the modification process before the cessation date set out by the ARRC.

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

5. Financial risk review (continued)

C. Market risk (continued)

The main risks to which the Bank is exposed to as a result of IBOR reform are operational. Such operational risks include the renegotiation of loan contracts through bilateral negotiations 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.

a) Non-derivative financial instruments and loan commitments

Quantitative Information

The Bank has USD LIBOR exposures on floating-rate loans, borrowings and loan commitments. Disaggregated information of such financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period December 31, 2021 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	2,293,004	1,280,743	1,091,080
Non-derivative financial liabilities			
Borrowings	392,500	62,500	12,500
Loan commitments	13,333	13,333	13,333

b) Derivative financial instruments used for risk management and hedge accounting purposes

The uncertainty about when and how the transition will occur at a new reference rate may affect a hedging relationship – e.g., its effectiveness assessment and highly probable assessment of the hedged item. 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 during the financial reporting period, the Bank will assess 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 hedge accounting criteria, with the exception of the requirement that the hedge be 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.

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Notes to the consolidated financial statements
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5. Financial risk review (continued)

C. Market risk (continued)

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

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's derivative instruments are guided 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 supplement creates fallback provisions in derivative instruments that describe which floating rates will apply upon the permanent discontinuation of certain key IBOR rates. In mid-2021, the Bank joined the ISDA protocol containing the transitional fallback supplement. With the adherence of the Bank and its counterparties to this protocol, the Bank automatically incorporated SOFR language into its derivative financial instruments for risk management and hedge accounting purposes.

The Bank maintains a limited exposure to USD LIBOR risk on derivative financial instruments used for risk management purposes whose maturity exceeds the waiver date approved by the ARRC extending the publication of the USD LIBOR benchmark rate until June 30, 2023. As of December 31, 2021, the Bank's exposure is limited to US\$68.8 million notional amount on one cross-currency rate swap contract hedging the fair value of a fixed rate Euro issuance made under the Euro Medium Term Notes (EMTN) program. Given that the hedged item is not benchmarked to USD LIBOR and that the Bank and its counterparties adhered to the ISDA protocol, the Bank does not consider that there is any impact from the IBOR Reform that could affect this hedging position.

Quantitative Information

Disaggregated information by derivative financial instruments based on floating USD LIBOR rate, that have yet to transition to an alternative benchmark rate as at the end of the reporting period December 31, 2021 is the following. The information presented is the remaining notional amount 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)
Derivatives held for risk management			
Derivative financial instruments - assets	3,006	1,937	-
Derivative financial instruments - liabilities	400,414	88,768	68,768

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5. Financial risk review (continued)

C. Market risk (continued)

ii. 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, 2021						
	Brazilian Real	European Euro	Japanese Yen	Colombian Peso	Mexican Peso	Other currencies (1)
Exchange rate	5.57	1.14	115.15	4,072.94	20.46	
Assets						
Cash and due from banks	-	7	1	21	1,531	34
Loans	-	-	-	-	222,747	-
Total assets	-	7	1	21	224,278	34
Liabilities						
Borrowings and debt	-	-	-	-	(224,384)	-
Total liabilities	-	-	-	-	(224,384)	-
Net currency position	-	7	1	21	(106)	34

December 31, 2020						
	Brazilian Real	European Euro	Japanese Yen	Colombian Peso	Mexican Peso	Other currencies (1)
Exchange rate	5.19	1.22	103.23	3430.19	19.92	
Assets						
Cash and due from banks	81	13	1	20	1,615	80
Loans	-	-	-	-	182,395	-
Total assets	81	13	1	20	184,011	80
Liabilities						
Borrowings and debt	-	-	-	-	(183,863)	-
Total liabilities	-	-	-	-	(183,863)	-
Net currency position	81	13		20	148	80

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

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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 statements 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 risks 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 integrated 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 of 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 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 to Credit Committee / CPER)
- Management and Monitoring Committee
- Asset and Liability Committee (ALCO)

A. Credit risk

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

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

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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, as well as 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 on 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 risk 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 internal customer, counterparty and country rating models, which allow for proactive risk management in terms of exposure limits, transaction typology and time limits, among others.

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Notes to the consolidated financial statements
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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 profit or loss and equity.

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 equity.

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Notes to the consolidated financial statements
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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.

The 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, riskmapping, global and specific limits, operational risk indicators, as well as the analysis of events and incidents recorded in a database in order to monitor action plans on 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.

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Notes to the consolidated financial statements
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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 the Bank to encompass both technical and strategic measures in a single framework.

COVID-19 considerations

i. 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 and 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 estimations made in the context of changing political and economic conditions in the region, in which the Bank operates, including but not limited to the impact of recent ongoing turmoil related to COVID-19.

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 periodic economic analyses that contribute to the active management of the portfolio.

The Bank's business model holds a low-risk portfolio, which focuses on financial institutions and large leading corporations in the region, including "quasi-sovereign" entities in strategic sectors, with whom it mainly conducts foreign trade operations.

During 2021, the performance of the countries of Latin America and the Caribbean was closely monitored, having carried out 30 individual country risk analyses. The results of the alert model, duly incorporated into the rating models, serve as a guide to focus the forward-looking assessment. 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's Management has concluded that the methodology used remains valid in the context of the COVID-19 pandemic.

ii. Liquidity risk

As a result of the resilience in the different sources of funding, together with a credit quality loan portfolio, during 2021 the Bank regularized the monitoring of its liquidity coverage index "LCR" at its pre-pandemic levels.

The Bank's capacity to maintain strong liquidity levels is attributable to historically diversified and stable funding sources, including deposits from central banks in Latin America and the Caribbean. In addition, the Bank has maintained fluid access to a significant base of correspondents and investors from debt capital markets across the globe.

iii. Market risk

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

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6. Financial risk management (continued)

COVID-19 considerations (continued)

iv. Cybersecurity risk

Actions implemented due to the COVID-19 pandemic

The Bank implemented a revision of its Business Continuity Plan, which entails among other things, that a hybrid work model has been applied, increasing the risks associated with cybersecurity, including:

- Increase in attempted attacks via email and end devices (mobile, among others).
- Increase in attempted attacks due to the widespread use of remote connection protocols.

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

- Expanded monitoring of the main attack vectors: email and end-user devices.
- Awareness-raising and training activities for Bank employees were reinforced.
- Intensified the frequency of scans and vulnerability management.
- New security platforms were implemented to provide an adequate level of protection within the hybrid model and to maintain the same security posture, regardless of the physical location of the collaborators.

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.

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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 (provided it is not due to impairment), the Bank uses the present value technique which considers market information to determine a representative fair value under 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.

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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, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Securities and other financial assets:				
Securities at FVOCI - Corporate debt	-	193,488	-	193,488
Loans at FVTPL	-	-	5,313	5,313
Total securities and other financial assets	-	193,488	5,313	198,801
Derivative financial instruments - assets:				
Interest rate swaps	-	1,282	-	1,282
Cross-currency swaps	-	9,523	-	9,523
Foreign exchange forwards	-	-	-	-
Total derivative financial instrument assets	-	10,805	-	10,805
Total assets at fair value	-	204,293	5,313	209,606
Liabilities				
Derivative financial instruments - liabilities:				
Interest rate swaps	-	538	-	538
Cross-currency swaps	-	27,917	-	27,917
Foreign exchange forwards	-	-	-	-
Total derivative financial instruments - liabilities	-	28,455	-	28,455
Total liabilities at fair value	-	28,455	-	28,455

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7. Fair value of financial instruments (continued)

A. Recurring valuation (continued)

	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 FVTPL	-	-	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

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.

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7. Fair value of financial instruments (continued)

B. Non-recurring valuation

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

Financial instruments with carrying value that approximates fair value

The carrying value of certain financial assets, including cash and due from banks, interest-bearing deposits in banks, customers’ liabilities under acceptances 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.

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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, 2021				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and deposits on banks	1,253,052	1,253,052	-	1,253,052	-
Securities at amortized cost ⁽¹⁾	637,422	632,848	-	628,284	4,564
Loans at amortized cost, net ⁽²⁾	5,707,709	5,806,915	-	5,806,915	-
Customers' liabilities under acceptances	201,515	201,515	-	201,515	-
Investment property	-	-	-	-	-
Liabilities					
Deposits	3,037,457	3,037,457	-	3,037,457	-
Securities sold under repurchase agreements	427,497	427,497	-	427,497	-
Borrowings and debt, net ⁽³⁾	3,304,178	3,294,135	-	3,294,135	-
Acceptances outstanding	201,515	201,515	-	201,515	-
	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 property	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	-
Acceptances outstanding	74,366	74,366	-	74,366	-

⁽¹⁾ The carrying value of securities at amortized cost is net of accrued interest receivable of \$8.1 million and the allowance for expected credit losses of \$1.7 million as of December 31, 2021 (accrued interest receivable of \$1.9 million and the allowance for expected credit losses of \$0.4 million as of December 31, 2020).

⁽²⁾ The carrying value of loans at amortized cost is net of accrued interest receivable of \$23.3 million, the allowance for expected credit losses of \$41.4 million and unearned interest and deferred fees of \$8.7 million for December 31, 2021 (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).

⁽³⁾ Borrowings and debt exclude lease liabilities for an amount of \$17.7 million and \$18.7 million as of December 31, 2020 and December 31, 2020, respectively.

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7. Fair value of financial instruments (continued)

C. Valuation framework

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

- Validation of observable pricing.
- Performance validation of valuation techniques.
- 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, 2019	6, 492	-	6,492
Additions	1, 433	5,750	7,183
Net changes in fair value ⁽¹⁾	(2,175)	(801)	(2,976)
Sales	(5,750)	-	(5,750)
At December 31, 2020	-	4,949	4,949
Additions	-	-	-
Net changes in fair value ⁽¹⁾	-	364	364
Sales	-	-	-
At December 31, 2021	-	5,313	5,313

⁽¹⁾ The fair value of the instrument includes interest receivable.

The loan measured at fair value through profit or loss (level 3) arises as the result of the sale during the year 2020, of debt instruments measured at fair value through profit or loss, received in lieu of payment as part of the restructuring process of a financial asset.

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Notes to the consolidated financial statements
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7. Fair value of financial instruments (continued)

D. Level 3 - Fair value measurement (continued)

Loans at fair value through profit or loss - Level 3

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

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

<i>Observable inputs</i>	<i>Unobservable inputs</i>	
- 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.	

<u>Fair value measurement sensitivity to unobservable inputs – discount rate</u>	2021	2020
A significant increase in volatility would result in a lower fair value	6.86% - 7.84%	3.128% to 8.89%

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

The effect on unobservable inputs

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.

<u>Loans at fair value through profit or loss</u>	<u>Effect on profit or loss</u>
+ 100 bps to the observable and unobservable inputs	(108)
- 100 bps to the observable and unobservable inputs	111

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Notes to the consolidated financial statements
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7. Fair value of financial instruments (continued)

D. Level 3 - Fair value measurement (continued)

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, that were maintained in prior years, using present value techniques, are as follows:

2020	2019
<i>Unobservable inputs</i>	<i>Unobservable inputs</i>
- 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	
	<i>Observable inputs</i>
	- Average recovery factor for companies that reported default – Moody’s

	Range of estimates	
Fair value measurement sensitivity to unobservable inputs – discount rate	2020	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 allowed a more reliable measurement for the instrument.

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8. Cash and due from banks

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

	December 31, 2021	December 31, 2020	December 31, 2019
Unrestricted deposits with the Federal Reserve of the United States of America	1,201,101	688,612	1,129,016
Cash and non-interest-bearing deposits in other banks	3,507	4,331	8,078
Cash and interest-bearing deposits in other banks ⁽¹⁾	48,444	170,869	41,076
Total cash and due from banks	1,253,052	863,812	1,178,170
Less:			
Time deposits with original maturity over 90 days and other restricted deposits ⁽¹⁾	42,051	17,804	18,452
Total cash and due from banks in the consolidated statement of cash flows	1,211,001	846,008	1,159,718

The following table presents the pledged deposits classified by country risk:

	December 31, 2021	December 31, 2020	December 31, 2019
Country:			
United States of America ⁽¹⁾	12,615	11,515	5,645
Switzerland	9,787	3,027	9,567
France	4,790	50	1,770
Spain	4,011	18	-
Netherlands	3,870	334	-
Japan	3,790	1,330	1,470
Mexico	2,430	790	-
Germany	449	-	-
United Kingdom	309	130	-
Canada	-	610	-
Total	42,051	17,804	18,452

⁽¹⁾ Includes restricted deposit of \$10.0 million for both years with the New York State Banking Department under March 1994 legislation and margin call deposits collateralizing derivative financial instrument transactions.

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9. Securities and other financial assets, net

Securities and other financial assets are presented as follows:

		At fair value			
		With changes in other comprehensive income (loss)		With	Total securities and other financial assets, net
At December 31, 2021		Recyclable to profit and loss	Non-recyclable to profit and loss	changes in profit or loss	
Carrying amount	Amortized cost				
Principal	631,123	193,488	-	-	824,611
Interest receivable	8,089	1,003	-	-	9,092
Allowance ⁽¹⁾	(1,790)	-	-	-	(1,790)
	637,422	194,491	-	-	831,913

		At fair value			
		With changes in other comprehensive income (loss)			Total securities and other financial assets, net
At December 31, 2020		Recyclable to profit and loss	Non-recyclable to profit and loss	With changes in profit or loss	
Carrying amount	Amortized cost				
Principal	164,074	231,348	-	-	395,422
Interest receivable	1,985	1,156	-	-	3,141
Allowance ⁽¹⁾	(495)	-	-	-	(495)
	165,564	232,504	-	-	398,068

(1) As of December 31, 2021 and 2020, the loss allowance for losses for securities at FVOCI for \$26 thousand and \$43 thousand, respectively are included in equity in the consolidated statement of financial position in the line Other comprehensive income.

As of December 31, 2020, the Bank sold 261,164 shares, which were designated at their initial recognition FVOCI due to market changes affecting the liquidity of the instrument.

The cumulative fair value of the shares sold was \$1.7 million, and the cumulative loss recognized in other comprehensive income was \$602 thousand, transferred directly to retained earnings.

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

		At fair value			
At December 31, 2021		With changes in other comprehensive income			
	Amortized cost	Recyclable to profit and loss	Non-recyclable to profit and loss	With changes in profit or loss	Total securities and other financial assets, net
Due within 1 year	63,640	113,792	-	-	177,432
After 1 year but within 5 years	567,483	79,696	-	-	647,179
Balance - principal	631,123	193,488	-	-	824,611

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Notes to the consolidated financial statements
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9. Securities and other financial assets, net (continued)

		At fair value			
At December 31, 2020		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
Balance - principal	164,074	231,348	-	-	395,422

The following table includes the securities pledged to secure repurchase transactions (see note 20).

	December 31, 2021			December 31, 2020		
	At amortized cost	At FVOCI	Total	At amortized cost	At FVOCI	Total
Securities pledged to secure repurchase transactions	498,274	-	498,274	11,998	-	11,998
Securities sold under repurchase agreements	(427,497)	-	(427,497)	(10,663)	-	(10,663)

10. Loans

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

	December 31, 2021	December 31, 2020
Loans, outstanding balance	5,734,605	4, 911,397
Interest receivable	23,308	27 ,350
Loss allowances	(41,476)	(41,165)
Unearned interest and deferred fees	(8,72 8)	(5,884)
Loans at amortized cost	5,707,709	4,891,698
Loans at FVTPL ⁽¹⁾	5,31 3	4,949
Loans, net	5,713,022	4,896,647

(1) The Bank realized the sale of debt instruments measured at FVTPL for \$5.8 million. As a result, the Bank recognized a loan and classified it at FVTPL with a carrying amount of \$5.3 million and \$4.9 million as of December 31, 2021 and 2020, respectively.

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10. Loans (continued)

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

	December 31, 2021	December 31, 2020
Fixed interest rates	3,327,310	2,544,544
Floating interest rates	2,412,608	2,371,802
Total	5,739,918	4,916,346

As of December 31, 2021, and 2020, 71% and 41% of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days. Interest rates on loans ranges from 0.53% to 10.23% (December 31, 2020: 0.43% to 9.70%).

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

	December 31, 2021	December 31, 20120
Class A and B shareholder loans	467,000	522,316
% Loans to Class A and B shareholders over total loan portfolio	8%	11%
% Class A and B stockholders with loans over number of Class A and B stockholders	10%	12%

Modified financial assets

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

	December 31, 2021	December 31, 2020
Gross carrying amount before modification	65,000	8,829
Allowance loss before modification ⁽¹⁾	(12,739)	(1,796)
Net amortized cost before modification	52,261	7,033
Gross carrying amount after modification	65,000	8,829
Allowance loss after modification ⁽²⁾	(12,699)	(1,802)
Net amortized cost after modification	52,301	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.

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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, 2021	December 31, 2020
Documentary letters of credit	214,230	216,782
Stand-by letters of credit and guarantees - commercial risk	268,196	210,497
Credit commitments	121,333	137,619
Total loans commitments and financial guarantee contracts	603,759	564,898

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

<u>Maturities</u>	December 31, 2021	December 31, 2020
Up to 1 year	54 2,137	419,015
From 1 to 2 years	57,622	75 ,883
Over 2 to 5 years	4,0 00	70 ,000
Total	603,759	564,898

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,		
	2021	2020	2019
Gain (loss) on derivative financial instruments and foreign currency exchange, net	(1,870)	(1,813)	672
Unrealized gain (loss) on financial instruments at FVTPL	227	(806)	-
Realized loss on financial instruments at FVTPL	-	(2,175)	(2,258)
Gain on sale of financial instruments at amortized cost	333	-	-
Realized gain on financial instruments at FVOCI	14	-	186
Gain on sale of loans	-	-	21
	(1,296)	(4,794)	(1,379)

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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, 2021		
	Nominal amount	Carrying amount of hedging instruments	
		Asset ⁽¹⁾	Liability ⁽²⁾
Interest rate risk			
Fair value hedges	40,000	1,282	-
Cash flow hedges	20,000	-	(538)
Interest rate and foreign exchange risk			
Fair value hedges	428,067	783	(20,908)
Cash flow hedges	455,864	8,740	(7,009)
	<u>943,931</u>	<u>10,805</u>	<u>(28,455)</u>
	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)
	<u>783,017</u>	<u>27,778</u>	<u>(9,211)</u>

⁽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.

As part of the financial risk management, the Bank has used 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 control 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.

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13. Derivative financial instruments (continued)

The Bank manages and controls the risks on these foreign exchange hedges 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 has used 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 (USD Libor or SOFR). 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).

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13. Derivative financial instruments (continued)

A. Fair value hedges

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, 2021				
	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					
Borrowings and debt	40,000	1,282	-	(19)	22
Interest rate and foreign exchange risk					
Loans	3,006	333	-	(23)	(119)
Borrowings and debt	425,061	450	(20,908)	(18,614)	(1,283)
Total	468,067	2,065	(20,908)	(18,656)	(1,380)
	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)

(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.

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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, 2021				
	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					
Borrowings and debt	-	(41,315)	Borrowings and debt, net	-	41
Interest rate and foreign exchange risk					
Loans	2,717	-	Loans, net	(751)	(96)
Borrowings and debt	-	(406,724)	Borrowings and debt, net	18,919	17,331
Total	2,717	(448,039)		18,168	17,276
	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	-	Loans, net	(654)	(327)
Borrowings and debt	-	(339,688)	Borrowings and debt, net	1,083	2,056
Total	19,739	(411,625)		296	1,429

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

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Notes to the consolidated financial statements
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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, 2021			
Maturity	Interest rate swaps	Cross currency swaps	Total
Fair value hedge			
Less than 1 year	40,000	271,646	311,646
Over 1 to 2 years	-	3,006	3,006
Over 2 to 5 years	-	153,415	153,415
Total	40,000	428,067	468,067

December 31, 2020			
Maturity	Interest rate swaps	Cross currency swaps	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

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) (i) and (ii). The Bank determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in interest rates and foreign currency exchange rates on the future cash flows. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis. As noted above for fair value hedges, by using derivative financial instruments to hedge exposures to changes in interest rates and foreign currency exchange rates, the Bank exposes itself to credit risk of the counterparties to the derivatives, which is not offset by the hedged items. This exposure is managed similarly to that of fair value hedges.

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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 6 years.

The Bank recognized the lifetime associated cost of foreign exchange forward contracts where the hedge item is either asset or liability, as interest income or interest expense in the consolidated statement of profit or loss, as an adjustment to the yield of the hedge item creating an accumulated reserve in OCI in the consolidated statement of financial position, reclassified to profit or loss at their maturity.

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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, 2021					
	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⁾
		Asset ⁽¹⁾	Liability ⁽²⁾			
Interest rate risk						
Borrowings and debt	20,000	-	(538)	562	560	(2)
Interest rate and foreign exchange risk						
Borrowings and debt	455,864	8,740	(7,009)	(21,267)	(20,920)	347
Foreign exchange risk						
Loans	-	-	-	-	-	-
Total	475,864	8,740	(7,547)	(20,705)	(20,360)	345

	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⁾
		Asset ⁽¹⁾	Liability ⁽²⁾			
Interest rate risk						
Borrowings and debt	60,000	-	(1,541)	(443)	(442)	1
Interest rate and foreign exchange risk						
Borrowings and debt	221,508	23,091	-	23,380	23,481	101
Foreign exchange risk						
Loans	71,353	-	(3,589)	(3,466)	(3,465)	1
Total	352,861	23,091	(5,130)	19,471	19,574	103

⁽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.

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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, 2021			
	Carrying amount of hedged items		Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Cash flow hedge reserve
	Asset	Liability		
Interest rate risk				
Borrowings and debt	-	(20,041)	Borrowings and debt, net	(560)
Interest rate and foreign exchange risk				
Borrowings and debt	-	(470,181)	Borrowings and debt, net	20,920
Total	-	(490,222)		10,756

	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	Cash flow hedge reserve
	Asset	Liability		
Interest rate risk				
Borrowings and debt	-	(20,045)	Borrowings and debt, net	442
Interest rate and foreign exchange risk				
Borrowings and debt	-	(243,817)	Borrowings and debt, net	(23,481)
Foreign exchange risk				
Loans	74,509	-	Loans, net	3,465
Total	74,509	(263,862)		22

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Notes to the consolidated financial statements
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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:

Maturity	December 31, 2021			
	Foreign exchange forwards	Interest rate swaps	Cross currency swaps	Total
Cash flow hedge				
Less than 1 year	-	-	108,779	108,779
Over 1 to 2 years	-	20,000	30,332	50,332
Over 2 to 5 years	-	-	299,684	299,684
More than 5 years	-	-	17,069	17,069
Total	-	20,000	455,864	475,864

Maturity	December 31, 2020			
	Foreign exchange forwards	Interest rate swaps	Cross currency swaps	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

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

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

	December 31,		
	2021	2020	2019
Gain on investment property - Right-of-use	742	-	-
Gain on investment property - Fair value	-	296	500
	742	296	500

At the end of 2021, the Bank’s Management renegotiated the terms and conditions of the lease agreement related to the Head Office. Such negotiation included the assignment to the lessor of the sublease agreement that was maintained as operating lease and classified as Investment Properties – Right of Use. As the result of the assignment of the sublease agreement, the Bank derecognized the entire investment property arising from right-of-use assets, as well as its associated lease liability, originating a gain of \$742 thousand recognized in the consolidated statement of profit or loss within the line "Gain (loss) on non-financial assets, net".

During 2020 and 2019, the Bank realized the sale of investment properties measured at fair value through profit or loss, which resulted in a gain of \$296 thousand and \$500 thousand, respectively.

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15. Equipment and leasehold improvements

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

	December 31, 2021	December 31, 2020
Equipment and leasehold improvements, net	3,841	4,990
Right-of-use assets	13,938	11,223
	17,779	16,213

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, 2019	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
Additions	402	4	26	21	453
Disposals	(58)	(3)	-	(1,906)	(1,967)
Effect of changes in exchange rates	(5)	(1)	(4)	-	(10)
Reclassifications	1	-	-	-	1
Balance as of December 31, 2021	4,476	1,677	7,450	687	14,290
Accumulated depreciation:					
Balance as of January 1, 2019	3,269	1,715	3,001	919	8,904
Amortization	584	62	508	260	1,414
Disposals	(59)	(97)	(175)	(21)	(352)
Reclassifications	(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
Amortization	566	41	549	190	1,346
Disposals	(57)	(3)	-	(1,652)	(1,712)
Effect of changes in exchange rates	(3)	(2)	(4)	-	(9)
Reclassifications	-	1	-	-	1
Balance as of December 31, 2021	3,846	1,638	4,375	590	10,449
Carrying amounts as of:					
December 31, 2021	630	39	3,075	97	3,841
December 31, 2020	796	76	3,598	520	4,990
December 31, 2019	1,151	144	3,504	1,431	6,230

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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, 2021	December 31, 2020
Initial balance	11,223	12,522
Additions	3,161	68
Depreciation of right-of-use assets	(1,164)	(1,128)
Effect of changes in exchange rates	-	(34)
Transfer from investment property	1,409	-
Decrease	(691)	(205)
Ending balance	13,938	11,223

The Bank leases office spaces in buildings. The lease of head 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.

At the end of 2021, the Bank renegotiated the terms and conditions of the lease agreement for its head office. The new terms and conditions contemplated changes in the leased space and term. With the contractual modification, the Bank remeasured and adjusted the lease liability and the right-of-use asset balance.

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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, 2019	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
Additions	353
Disposals	(6,278)
Balance as of December 31, 2021	9,786
Accumulated amortization:	
Balance as of January 1, 2019	12,272
Amortization	702
Balance as of December 31, 2019	12,974
Amortization	753
Balance as of December 31, 2020	13,727
Amortization	742
Disposals	(6,278)
Balance as of December 31, 2021	8,191
Carrying amounts as of:	
December 31, 2021	1,595
December 31, 2020	1,984
December 31, 2019	1,427

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

17. Investment property

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

	Investment property - right of use
Balance as of December 31, 2019	3,494
Amortization	(280)
Balance as of December 31, 2020	3,214
Transfer to right-of-use asset	(1,409)
Derecognition of investment property	(1,566)
Amortization	(239)
Balance as of December 31, 2021⁽¹⁾	-

⁽¹⁾ At the end of 2021, the Bank’s Management renegotiated the terms and conditions of the lease agreement relating to the head office. Such negotiation included the assignment to the lessor of the sublease agreement that was maintained as operating lease and classified as Investment Property – Right-of-Use. As the result of the assignment of the sublease agreement, the Bank derecognized the entire investment property arising from the right-of-use assets, as well as its associated lease liability, originating a gain of \$742 thousand recognized in the consolidated statement of profit or loss within the line "Gain (loss) on non-financial assets, net".

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18. Other assets

Following is a summary of other assets:

	December 31, 2021	December 31, 2020
Accounts receivable	1,389	938
Prepaid expenses	3,485	2,541
Prepaid fees and commissions	349	486
Interest receivable - deposits	12	8
IT projects under development	510	218
Severance fund	1,981	1,927
Other	704	698
	8,430	6,816

19. Deposits

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

	December 31, 2021	December 31, 2020
Demand	36 2,356	170,660
Up to 1 month	84 2,472	1,127,120
From 1 month to 3 months	92 6,902	878,900
From 3 months to 6 months	64 1,526	544,860
From 6 months to 1 year	23 3,081	365,879
From 1 year to 2 years	29,891	51,481
	3,036,228	3,138,900

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

	December 31, 2021	December 31, 2020
Aggregate amounts of \$100,000 or more	3,035,906	3,1 38,684
Aggregate amounts of deposits in the New York Agency	515,852	657,851

	December 31,		
	2021	2020	2019
Interest expense on deposits made in the New York Agency	3,852	5,035	6,277

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20. Securities sold under repurchase agreements

As of December 31, 2021, and 2020, the Bank had financing transactions under repurchase agreements for \$427.5 million and \$10.7 million, respectively.

During the years ended December 31, 2021, 2020 and 2019, interest expense relating to financing transactions under repurchase agreements totaled \$956 thousand, \$432 thousand and \$1.1 million, respectively. These expenses are included as interest expense – borrowings and debt 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 (“EMTN”) Program as well as the Short-and Long-Term Notes (“Certificados Bursatiles”) Program (the “Mexican Program”) in the Mexican local market.

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 of 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 relating to minimum capital adequacy ratios, incurrence of additional liens, and asset sales, as well as other customary covenants, representations and warranties. As of December 31, 2021, the Bank was in compliance with all those covenants.

Carrying amount of borrowings and debt is detailed as follows:

December 31, 2021							
	Short-Term			Long-term			Total
	Borrowings	Debt	Lease Liabilities	Borrowings	Debt	Lease Liabilities	
Principal	1,547,845	34,213	996	329,888	1,398,223	16,737	3,327,902
Prepaid commissions	-	-	-	(498)	(5,493)	-	(5,991)
	1,547,845	34,213	996	329,390	1,392,730	16,737	3,321,911

December 31, 2020							
	Short-Term			Long-term			Total
	Borrowings	Debt	Lease Liabilities	Borrowings	Debt	Lease Liabilities	
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

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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, 2021	December 31, 2020
Short-term borrowings:		
At fixed interest rates	1,102,621	55,000
At floating interest rates	445,224	276,585
Total borrowings	1,547,845	331,585
Short-term debt:		
At floating interest rates	34,213	49,350
Total debt	34,213	49,350
Total short-term borrowings and debt	1,582,058	380,935
Range of fixed interest rates on borrowings and debt in U.S. dollars	0.5% to 2.02%	0.45% to 1.40%
Range of floating interest rates on borrowings in U.S. dollars	0.35% to 0.81%	0.47% to 1.65%
Range of floating interest rates on borrowings and debt in Mexican pesos	5.39% to 6.56%	4.97% to 5.05%

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

Currency	December 31, 2021	December 31, 2020
US dollar	1,401,122	299,957
Mexican peso	180,936	80,978
Total	1,582,058	380,935

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21. Borrowings and debt (continued)

Long-term borrowings and debt

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

	December 31, 2021	December 31, 2020
Long-term borrowings:		
At fixed interest rates with due dates from January 2022 to September 2023	115,043	68,190
At floating interest rates with due dates from July 2022 to November 2023	214,845	408,820
Total long-term borrowings	329,888	477,010
Long-term debt:		
At fixed interest rates with due dates from June 2022 to December 2027	927,550	784,006
At floating interest rates with due dates from March 2022 to November 2024	470,673	332,027
Total long-term debt	1,398,223	1,116,033
Total long-term borrowings and debt	1,728,111	1,593,043
Less: Prepaid commissions	(5,991)	(7,707)
Total long-term borrowings and debt, net	1,722,120	1,585,336
Range of fixed interest rates on borrowings and debt in U.S. dollars	0.8% to 2.38%	2.04% to 3.05%
Range of floating interest rates on borrowings and debt in U.S. dollars	0.97% to 1.80%	1.16% to 1.85%
Range of fixed interest rates on borrowings in Mexican pesos	6.50% to 9.09%	6.77% to 9.09%
Range of floating interest rates on borrowings and debt in Mexican pesos	5.43% to 6.87%	4.87% to 5.74%
Range of fixed interest rates on debt in Japanese yens	0.4% to 0.95%	0.52%
Range of fixed interest rates on debt in Euros	0.23% to 3.75%	0.9% to 3.75%
Range of fixed interest rates on debt in Australian dollars	1.41%	0.00%
Range of fixed interest rates on debt in Sterling pounds	1.50%	0.00%
Range of fixed interest rates on debt in Swiss franc	0.35%	0.00%

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21. Borrowings and debt (continued)

Long-term borrowings and debt (continued)

The outstanding balances of long-term borrowings and debt by currency, excluding prepaid commissions, are as follows (excluding lease liabilities):

	December 31, 2021	December 31, 2020
Currency		
US dollar	812,496	910,296
Mexican peso	643,490	509,687
Euro	121,443	101,469
Japanese yen	116,518	71,591
Australian dollar	18,174	-
Swiss franc	10,979	-
Sterling pound	5,011	-
Total	1,728,111	1,593,043

Future payments of long-term borrowings and debt outstanding as of December 31, 2021, are as follows (excluding lease liabilities):

Year	Outstanding
2022	41 1,020
2023	33 5,657
2024	31 9,331
2025	61 1,668
2026	34,049
2027	16,386
	1,728,111

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Notes to the consolidated financial statements
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21. 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 statement of cash flows:

	December		
	2021	2020	2019
Balance as of January 1,	1,985,070	3,138,310	3,518,446
Net increase (decrease) in short-term borrowings and debt	1,196,710	(1,212,023)	(428,611)
Proceeds from long-term borrowings and debt	266,640	827,732	371,536
Payments of long-term borrowings and debt	(97,520)	(781,274)	(368,843)
Payment of lease liabilities	(1,227)	(1,114)	(1,072)
Recognition of lease liabilities	-	-	20,979
Net increase in lease liabilities	161	48	-
Change in foreign currency	(27,528)	15,853	20,044
Adjustment of fair value for hedge accounting relationship	(2,034)	826	4,943
Other adjustments	1,639	(3,288)	888
Balance as of December 31,	3,321,911	1,985,070	3,138,310

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

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21. Borrowings and debt (continued)

Lease liabilities

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

	December 31, 2021	December 31, 2020
Due within 1 year	1,574	2,058
After 1 year but within 5 years	7,262	10,641
After 5 years but within 10 years	13,771	11,354
Total undiscounted lease liabilities	22,607	24,053
Short-term	996	1,244
Long-term	16,737	17,555
Lease liabilities included in the consolidated statement of financial position	17,733	18,799

Amounts recognized in the consolidated statement of cash flows:

	December 31, 2021	December 31, 2020
Payments of lease liabilities	1,227	1,114

Amounts recognized in profit or loss:

	December 31, 2021	December 31, 2020	2019
Interest on lease liabilities	(810)	(862)	(912)
Income from sub-leasing right-of-use assets	227	265	277

At the end of 2021, the Bank’s Management renegotiated the terms and conditions of the lease agreement relating to the Head Office. Such negotiation included the assignment to the lessor of the sublease agreement that was maintained as operating lease and classified as Investment Property – Right-of-Use. As the result of the assignment of the sublease agreement, the Bank derecognized the entire investment property arising from the right-of-use assets, as well as its associated lease liability, originating a gain of \$742 thousand recognized in the consolidated statement of profit or loss within the line "Gain (loss) on non-financial assets, net". With the contractual modification, the Bank remeasured and adjusted the lease liability and the right-of-use asset balance.

22. Other liabilities

Following is a summary of other liabilities:

	December 31, 2021	December 31, 2020
Accruals and other accumulated expenses	9,266	9,213
Accounts payable	2,311	6,307
Other	2,784	3,194
	14,361	18,714

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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,		
	2021	2020	2019
(Thousands of U.S. dollars)			
Profit for the year	62,697	63,593	86,053
(U.S. dollars)			
Basic earnings per share	1.62	1.60	217
Diluted earnings per share	1.62	1.60	217
(Thousands of shares)			
Weighted average of common shares outstanding applicable to basic EPS	38,796	39,656	39,575
Effect of diluted securities:			
Stock options and restricted stock units plan	-	-	-
Adjusted weighted average of common shares outstanding applicable to diluted EPS	38,796	39,656	39,575

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.

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24. Capital and Reserves (continued)

A. Common stock and additional paid-in capital (continued)

The following table provides detailed information on the movement of the shares by class for each of the years ended December 31, 2021, 2020 and 2019:

(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, 2019	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
Conversions	-	(89,290)	89,290	-	-
Repurchased common stock	-	-	(3,558,093)	-	(3,558,093)
Restricted stock issued – directors	-	-	63,000	-	63,000
Restricted stock units – vested	-	-	48,299	-	48,299
Outstanding at December 31, 2021	6,342,189	2,089,075	27,799,882	-	36,231,146

Additional paid-in capital

As of December 31, 2021, 2020 and 2019, additional paid-in capital consists of additional cash contributions to the common capital paid by shareholders.

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, 2019	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
Repurchase of common stock	-	-	-	-	3,558,093	60,079	3,558,093	60,079
Restricted stock issued - directors	-	-	-	-	(63,000)	(1,391)	(63,000)	(1,391)
Restricted stock units - vested	-	-	-	-	(48,299)	(888)	(48,299)	(888)
Outstanding at December 31, 2021	318,140	10,708	689,367	18,711	4,741,184	86,380	5,748,691	115,799

In May 2021, the Bank announced a \$60 million common stock repurchase program which ended in December 2021. Through the program, the Bank repurchased a total of 3,558,093 Class E shares, representing approximately 10% of the total outstanding shares at a volume-weighted average price per share of \$16.86.

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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, 2019	(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 to profit or loss ⁽¹⁾	157	104	-	261
Exchange difference in conversion of foreign currency operation	-	-	(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 to profit or loss ⁽¹⁾	(56)	(369)	-	(425)
Exchange difference in conversion of foreign currency operation	-	-	(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
Change in fair value of debt instruments, net of hedging	(560)	(11,692)	-	(12,252)
Change in fair value of equity instruments at FVOCI, net of hedging	-	-	-	-
Reclassification of gains (losses) on financial instruments to profit or loss ⁽¹⁾	24	24	-	48
Exchange difference in conversion of foreign currency operation	-	-	448	448
Other comprehensive income (loss) for the year	(546)	(11,668)	448	(11,756)
Balance as of December 31, 2021	(395)	(11,153)	-	(11,548)

⁽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.

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Notes to the consolidated financial statements
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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,			
	2021	2020	2019	
Realized gains (losses) on securities at FVOCI:	24	(56)	157	Net gain (loss) on financial instruments
Gains (losses) on derivative financial instruments:				
Foreign exchange forwards	(2,167)	(2,337)	(3,261)	Interest income – loans
	-	-	(1,733)	Interest expense – borrowings and deposits
	24	(369)	(61)	Net gain (loss) on foreign currency exchange
Interest rate swaps	-	-	56	Net gain (loss) on interest rate swaps
Cross-currency swaps	-	-	(9)	Net gain (loss) on cross-currency swaps
	(2,143)	(2,706)	(5,008)	

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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 2021				
	Syndications	Documentary and "stand-by" letters of credit	Other commissions, net	Total
Openning and confirmation	-	10 ,506	2,668	13,174
Negotiation and acceptance	-	45	-	45
Amendment	-	1,527	(17)	1,510
Structuring	4,269	-	-	4,269
Other	-	41	(741)	(700)
	4,269	12,119	1,910	18,298
December, 31 2020				
	Syndications	Documentary and standby letters of credit	Other commissions, net	Total
Openning and confirmation	-	8,090	1,400	9,489
Negotiation and acceptance	-	183	-	183
Amendment	-	688	(0)	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
Openning and confirmation	-	8,381	1,312	9,693
Negotiation and acceptance	-	399	-	399
Amendment	-	632	(27)	605
Structuring	5,622	-	-	5,622
Other	-	94	(766)	(672)
	5,622	9,506	519	15,647

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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, 2021
Up to 1 year	1,916
From 1 to 2 years	439
More than 2 years	345
	2,700

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 periodically review the internal management reports for each division. 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 FVOCI and financial instruments at FVTPL, 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 other income, net.

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 infrequent sales in the secondary 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.

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 liquidity, interest rate and currency rate. 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 FVOCI and securities at amortized cost (the “Credit Investment Portfolio”). The Treasury Business Segment also manages the Bank’s interest-bearing liabilities, which constitute its funding sources, mainly deposits, securities sold under repurchase agreements and borrowings and debt, net.

Profits from the Treasury Business Segment include (i) net interest income derived from the above mentioned treasury assets and liabilities, (ii) gain (loss) on derivative financial instruments and foreign currency exchange, (iii) gain (loss) on sale of securities at FVOCI, (iv) reversal of (provision) for credit losses and (v) direct and allocated operating expenses.

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27. Business segment information (continued)

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

	December 31, 2021		
	Commercial	Treasury	Total
Interest income	129,758	11,125	140,883
Interest expense	(648)	(53,453)	(54,101)
Inter-segment net interest income	(45,318)	45,318	-
Net interest income	83,792	2,990	86,782
Other income (expense), net	19,188	(1,764)	17,424
Total income	102,980	1,226	104,206
Provision for credit losses	(1,050)	(1,278)	(2,328)
Gain (loss) on non-financial assets, net	742	-	742
Operating expenses	(30,751)	(9,172)	(39,923)
Segment profit (loss)	71,921	(9,224)	62,697
Segment assets	5,931,201	2,098,492	8,029,693
Segment liabilities	219,505	6,812,455	7,031,960

	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

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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

Reconciliation on information on reportable segments

	2021	2020	2019
Profit for the year	62,697	63,593	86,053
<u>Assets:</u>			
Assets from reportable segments	8,029,693	6,282,090	7,240,835
Other assets - unallocated	8,418	6,808	8,831
Total assets	8,038,111	6,288,898	7,249,666
<u>Liabilities:</u>			
Liabilities from reportable segments	7,031,960	5,232,264	6,216,350
Other liabilities - unallocated	14,361	18,714	17,149
Total liabilities	7,046,321	5,250,978	6,233,499

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, 2021, 2020 and 2019, assets and liabilities were allocated between Commercial and Treasury segments.

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

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27. Business segment information (continued)

Geographic information

The geographic information analyzes 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.

2021	Panama	Brazil	Mexico	Colombia	Guatemala	Ecuador	Argentina	Other	Total
Total revenues	5,872	9,802	17,318	12,116	10,862	8,990	5,454	33,792	104,206
Non-current assets*	18,795	138	75	51	-	-	157	158	19,374
2020	Panama	Brazil	Mexico	Colombia	Guatemala	Ecuador	Argentina	Other	Total
Total revenues	7,580	7,054	14,480	13,462	8,494	9,242	8,163	30,682	99,157
Non-current assets*	19,888	129	535	56	-	-	212	591	21,411
2019	Panama	Brazil	Mexico	Colombia	Guatemala	Ecuador	Argentina	Other	Total
Total revenues	8,649	13,122	18,757	10,348	7,906	13,640	14,889	39,346	126,657
Non-current assets*	20,976	222	1,510	55	-	-	185	725	23,673

* Includes equipment and lesehold improvements, intangibles and investment property

Disaggregation of revenue from contract with customers

As of December 31, 2021, 2020, and 2019, 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, 2021	December 31, 2020
Assets		
Demand deposits	2,680	3,269
Loans, net	29,857	22,499
Total asset	32,537	25,768
Liabilities		
Time deposits	150,000	240,000
Total liabilities	150,000	240,000
Contingencies		
Stand-by letters of credit	9,130	28,300
Loss allowance	(37)	(60)

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28. Related party transactions (continued)

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

	December 31,		
	2021	2020	2019
Interest income			
Loans	211	1,390	2,837
Interest expense			
Deposits	(1,866)	(2,961)	(3,927)
Borrowings and debt ⁽¹⁾	-	-	(645)
Total interest expense	(1,866)	(2,961)	(4,572)
Net interest income (expenses)	(1,655)	(1,571)	(1,735)
Other income (expense)			
Fees and commissions, net	216	420	132
Loss on financial instruments, net	-	-	(41)
Total other income, net	216	420	91
Operating expenses			
Depreciation of equipment and leasehold improvements	-	-	(899)
Other expenses	-	-	(409)
Total operating expenses	-	-	(1,308)
Net income from related parties	(1,439)	(1,151)	(2,952)

(1) This caption includes the financial cost relating to lease 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.

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

	December 31,		
	2021	2020	2019
Expenses:			
Compensation costs of directors	1,877	2, 033	2,28 9
Compensation costs of executives	4,083	5, 448	3,24 4

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

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29. Salaries and other employee expenses

The following table details salaries and other employee expenses:

	December 31,		
	2021	2020	2019
Wages and salaries	13,803	13,717	13,232
Payroll taxes	1,731	1,722	1,721
Personnel benefits	5,134	5,383	8,867
Share-based payments	984	640	359
Total	21,652	21,462	24,179

A. Cash and stock-based compensation plans

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

i. 2015 Stock Incentive Plan – Directors and Executives

In February 2008, the Board of Directors of the Bank approved an incentive plan for directors and executives allowing the Bank to grant restricted stock, restricted stock units, stock purchase options, and/or other similar compensation instruments. The maximum aggregate number of shares which may be granted under this plan is three million “Class E” common shares. The 2008 Stock Incentive Plan is administered by the Board of Directors who has the authority at its discretion to select the directors and executives to whom the awards may be granted; to determine whether and to what extent awards are granted, and to amend the terms of any outstanding award under this plan. This plan was updated in October 2015, modified and renamed as “2015 Stock Incentive Plan”.

Restricted stocks are issued at the grant date but are withheld by the Bank until the vesting date. Restricted stock is entitled to receive dividends.

A restricted stock unit is a grant valued in terms of the Bank’s stock, but no stock is issued at the grant date. Restricted stock units are not entitled to dividends.

The Bank issues or disposes of treasury stock and delivers common stock at the vesting date of the restricted stock units.

During 2021, 2020 and 2019, the Board of Directors approved the grant of restricted stock to directors and stock options and restricted stock units to certain executives of the Bank, as follows:

Restricted stock – Directors

For the years 2021 and 2020, the Board of Directors granted 63,000 “Class E” common shares each year and 57,000 “Class E” common shares for 2019.

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 21, 2021, April 29, 2020, and April 17, 2019 respectively. The fair value of restricted stock granted totaled \$923 thousand in 2021, \$727 thousand in 2020, and \$1.3 million in 2019, of which \$401 thousand, \$306 thousand, and \$570 thousand were recognized in profit or loss during 2021, 2020 and 2019, respectively.

Total expense recognized in profit or loss during 2021, 2020 and 2019 of restricted stock granted to directors amounted \$924 thousand, \$1.1 million, and \$1.4 million, respectively. The remaining cost pending amortization of \$697 thousand at December 31, 2021 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.

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29. Salaries and other employee expenses (continued)

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

Restricted stock – Directors (continued)

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

	Shares	Weighted average grant date fair value
Outstanding at January 1, 2019	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
Granted	63,000	14.65
Vested	(49,350)	19.24
Outstanding at December 31, 2021	145,800	16.64
Expected to vest	145,800	

The fair value of vested stock during the years 2021, 2020 and 2019 was \$949 thousand, \$1.1 million, and \$1.4 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 \$1 million in 2021, \$902 thousand in 2020 and \$355 thousand in 2019. The distribution of the fair value was in restricted stock units.

Restricted stock units

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

Compensation costs of the restricted stock units are amortized during the period of restriction by the accelerated method. During 2021, 2020 and 2019, the cost recognized in profit or loss as a result of the amortization of these grants totaled \$984 thousand, \$640 thousand and \$359 thousand, respectively. The remaining compensation cost pending amortization of \$592 thousand in 2021 will be amortized over 3.17 years.

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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)

Restricted stock units (continued)

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, 2019	25,162	24.86		
Granted	23,743	14.95		
Vested	(6,727)	24.91		
Outstanding at December 31, 2019	42,178	19.27		
Granted	51,829	17.41		
Vested	(12,664)	20.24		
Outstanding at December 31, 2020	81,343	17.94		
Granted	75,796	13.33		
Forfeited	(1,311)	14.51		
Vested	(48,299)	17.35		
Outstanding at December 31, 2021	107,529	14.99	2.56 years	231
Expected to vest	107,529	17.94	2.56 years	231

Fair value of vested stock during the years 2021, 2020 and 2019 is \$838 thousand, \$256 thousand, and \$168 thousand, 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.

A summary of stock options granted is presented below:

	Options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2019	142,410	29.25		
Outstanding at December 31, 2020	142,410	29.25		
Outstanding at December 31, 2021	142,410	29.25	0.11 years	-
Exercisable	142,410	29.25	0.11 years	-
Expected to vest	-	-		-

During 2021, 2020 and 2019 there were no options exercised.

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

29. Salaries and other employee expenses (continued)

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 2021, 2020 and 2019, the Bank charged to salaries expense \$67 thousand, \$75 thousand and \$87 thousand, respectively, that correspond to the Bank’s contributions to this plan.

30. Other expenses

	December 31,		
	2021	2020	2019
Administrative	4,4 84	3,060	4,136
Professional services	4,0 74	3,316	3,487
Maintenance and repairs	2,3 88	2,081	1,770
Share-based payments to directors	924	1,082	1,424
Regulatory fees	978	964	994
Rental - office and equipment	562	575	658
Advertising and marketing	179	100	290
Other	1,1 91	344	180
Total	<u>14,780</u>	<u>11,522</u>	<u>12,939</u>

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 consolidated financial performance.

32. Applicable laws and regulations

Liquidity index

Rule No. 2-2018 issued by the Superintendence of Banks of Panama (SBP) establishes that every general license or international license bank must guarantee, with a higher level of confidence, that it is in the position to face its intraday liquidity obligations in a period when liquidity pressure may affect the lending market. For that purpose, the SBP 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, 2021, and 2020 the minimum LCR to be reported to the SBP was 80% and 65%, respectively. The Bank’s LCR as of December 31, 2021 and 2020 was 199% and 249%, respectively.

Rule No. 4-2008 issued by the SBP, establishes that every general license or international license bank must always maintain, 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:

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

The liquidity index reported by the Bank to the regulator as of December 31, 2021 and 2020 was 80.80% and 79.99%, respectively.

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

32. Applicable laws and regulations (continued)

Capital adequacy

The Banking Law in the Republic of Panama and Rules No. 01-2015 and 03-2016 require that the general license banks maintain a total capital adequacy index that shall not be lower, at any time, than 8% of total assets and off-balance sheet irrevocable contingency transactions, weighted according to their risks; and ordinary primary capital that shall not be less than 4.5% of its assets and off-balance sheet transactions that represent an irrevocable contingency, weighted based on their risks; and a primary capital that shall not be less than 6% of its assets and off-balance sheet transactions that represent an irrevocable contingency, weighted based on their risks.

The primary objectives of the Bank’s capital management policy are to ensure that the Bank complies with capital requirements imposed by local regulator and maintains strong credit ratings and healthy capital ratios to support its business and to maximize shareholder value.

The Bank manages its capital structure and adjusts it according to changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made to the objectives, policies, and processes from the previous periods. However, they are under constant review by the Board.

The information corresponding to the total capital adequacy index is as follows:

	December 31, 2021	December 31, 2020
Capital funds	<u>1,013,796</u>	<u>1,048,182</u>
Risk-weighted assets	<u>6,513,267</u>	<u>5,187,054</u>
Capital adequacy index	<u>15.57%</u>	<u>20.21%</u>

Leverage ratio

Article No. 17 of 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 transactions, 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 they are 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.

The table below presents the Bank’s leverage ratio in compliance with Article No.17 of Rule No. 1-2015:

	December 31, 2021	December 31, 2020
Ordinary capital	<u>877,777</u>	<u>912,164</u>
Non-risk-weighted assets	<u>8,107,810</u>	<u>6,479,416</u>
Leverage ratio	<u>10.83%</u>	<u>14.08%</u>

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)

32. Applicable laws and regulations (continued)

Specific provisions

SBP Rule No. 4-2013, modified by Rule No. 8-2014, states that the specific credit 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 credit provisions determined by the methodology specified in this Rule, which takes into account the balance owed of each credit facility classified in any of the categories subject to provision, mentioned in the paragraph above; the present value of each guarantee available in order to mitigate risk, as established by type of collateral; and a weighting table that applies to the net exposure balance subject to loss of such credit facilities.

Article 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 credit 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, 2021					
	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Loans at amortized cost						
Corporations	2,943,125	68,668	10,593	-	-	3,022,386
Financial institutions:						
Private	2,120,762	-	-	-	-	2,120,762
State-owned	567,847	-	-	-	-	567,847
	2,688,609	-	-	-	-	2,688,609
Sovereign	23,610	-	-	-	-	23,610
	5,655,344	68,668	10,593	-	-	5,734,605
Allowance for loan losses under IFRS ^(*) :	22,713	13,577	5,186	-	-	41,476
Loans at FVTPL						
Financial institutions:						
Private	5,313	-	-	-	-	5,313
Total loans	5,660,657	68,668	10,593	-	-	5,739,918

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

32. Applicable laws and regulations (continued)

Specific provisions (continued)

	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 under 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

As of December 31, 2021, and 2020, there are no restructured loans.

^(*) As of December 30, 2021, and 2020, there is no excess in the specific provision calculated in accordance with Rule No. 8-2014 of the SBP, over the provision calculated in accordance with IFRS.

In accordance with Rule No. 4-2013, as amended by Rule No. 8-2014, non-accruing loans are presented by category as follows:

	December 31, 2021					
	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Loans at amortized cost						
Impaired loans	-	-	10,593	-	-	10,593
Total	-	-	10,593	-	-	10,593
	December 31, 2020					
	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Loans at amortized cost						
Impaired loans	-	-	10,593	-	-	10,593
Total	-	-	10,593	-	-	10,593

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Notes to the consolidated financial statements
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32. Applicable laws and regulations (continued)

<u>Specific provisions</u> (continued)	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Non-accruing loans:		
Private corporations	10,593	10,593
Total non-accruing loans	<u>10,593</u>	<u>10,593</u>
Interest that would be reversed if the loans had been classified as non-accruing loans	<u>598</u>	<u>351</u>
Income from collected interest on non-accruing loans	<u>-</u>	<u>-</u>

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

Rule No. 2-2021, issued by the SBP, establishes the guidelines and parameters for credit and counterparty risk management of the modified credits reported in accordance with the measures initially established in Rule No. 2-2020, later abrogated. Rule No. 2-2021, updated by Rules No. 3-2021 and 6-2021, establishes the calculation of arrears for the modified loans, the administration of the provision established for such credits and the suspension of the recognition of the interest for those that as of December 31, 2021 present a significant increase in risks with respect to their initial recognition.

As of December 31, 2021, the Bank does not have modified loans; therefore, the requirements and disclosures established by article 8 of Rule No. 6-2021 are not applicable.

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

32. Applicable laws and regulations (continued)

Modified special mention loans (continued)

As of December 31, 2020, the detail of the modified special mention loan portfolio is presented:

	<u>December 31, 2020</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
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
(-) Uneamed interest and deferred fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total loan portfolio subject to provisions				
Rule No. 9-2020	<u>-</u>	<u>8,836</u>	<u>-</u>	<u>8,836</u>
Allowance				
Allowance under IFRS 9	<u>-</u>	<u>1,767</u>	<u>-</u>	<u>1,767</u>
Collective allowance (complement to 1.5%) *				-
Regulatory reserve (complement to 3%) *				<u>-</u>
Total allowance and reserves				<u>1,767</u>

* 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 of December 31, 2020, the modified special mention loan complied with the agreed payments, from the modification of such credit. It is important to note that in addition to the loan classified in the special mention loan category, the Bank maintains corporate loans in the Subnormal category according to Rule No. 4-2013 that benefitted from the moratorium established in Law No. 156 of June 30, 2020. As of December 31, 2020, these loans amounted to \$10.9 million (including interest) and were in arrears regarding to the payments of their interest with a moratorium of up to 30 days.

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 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 for the IFRS figures.

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Notes to the consolidated financial statements
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32. Applicable laws and regulations (continued)

Methodology for the constitution of the regulatory credit reserve (continued)

- 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 prudential standards.

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, 2021, and 2020, 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, 2021	December 31, 2020
Dynamic provision	136,019	136,019
Regulatory credit reserve	-	-
	<u>136,019</u>	<u>136,019</u>

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 2021. The cash dividend was approved by the Board of Directors on February 15, 2022 and it was paid on March 22, 2022 to the Bank’s stockholders as of March 7, 2022 record date.

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