Consolidated Financial Statements

2022

Bladex

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

Consolidated Financial Statements
as of December 31, 2022

(With the Independent Auditors' Report thereon)

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

Contents

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
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, 2022, 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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.

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Allowance for loan losses
Refer to Notes 3.4.K and 5.A to the consolidated financial statements

Key audit matter	How the key matter was addressed in the audit
The Bank's allowance for loan losses (ALL) was $55,200 thousand as of December 31, 2022. 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.	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. • 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 data 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.

- The audit team that has participated in the audit to which this report refers to, is comprised by Luis Venegas, Partner; Gerardo Contreras, Director; Kevin Rojas, Manager; and Armando Barnica, Manager.

KPMG

Panama, Republic of Panama
March 22, 2023

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

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

Consolidated statement of financial position
December 31, 2022
(In thousands of US dollars)

	Notes	2022	2021
Assets			
Cash and due from banks	5,7,8	1,241,586	1,253,052
Securities, net	5,7,9	1,023,632	831,913
Loans, net	5,7,10	6,760,434	5,713,022
Customers' liabilities under acceptances	5,7	163,345	201,515
Derivative financial instruments - assets	5,7,13	68,159	10,805
Equipment and leasehold improvements, net	15	17,282	17,779
Intangibles, net	16	2,104	1,595
Other assets	18	7,368	8,430
Total assets		9,283,910	8,038,111
Liabilities and Equity			
Liabilities:			
Demand deposits		233,757	362,356
Time deposits		2,956,959	2,673,872
	5,7,19	3,190,716	3,036,228
Interest payable		14,670	1,229
Total deposits		3,205,386	3,037,457
Securities sold under repurchase agreements	5,7,20	300,498	427,497
Borrowings and debt, net	7,21	4,416,511	3,304,178
Interest payable		47,878	11,322
Lease liabilities	22	16,745	17,733
Acceptances outstanding	5,7	163,345	201,515
Derivative financial instruments - liabilities	5,7,13	33,761	28,455
Allowance for losses on loan commitments and financial guarantee contract	5,7	3,628	3,803
Other liabilities	23	26,811	14,361
Total liabilities		8,214,563	7,046,321
Equity:			
Common stock	25	279,980	279,980
Treasury stock	25	(114,097)	(115,799)
Additional paid-in capital in excess of value assigned to common stock	25	120,498	120,043
Capital reserves	33	95,210	95,210
Regulatory reserves	33	136,019	136,019
Retained earnings		543,612	487,885
Other comprehensive income (loss)	26	8,125	(11,548)
Total equity		1,069,347	991,790
Total liabilities and equity		9,283,910	8,038,111

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, 2022
(In thousands of US dollars, except per share data and number of shares)

	Notes	2022	2021	2020
Interest income:				
Deposits		18,836	1,186	4,895
Securities		24,000	9,939	3,531
Loans		289,785	129,758	172,547
Total interest income	28	332,621	140,883	180,973
Interest expense:				
Deposits		(66,044)	(12,846)	(25,800)
Borrowings and debt		(117,987)	(40,445)	(61,861)
Lease liabilities	22	(579)	(810)	(862)
Total interest expense	28	(184,610)	(54,101)	(88,523)
Net interest income		148,011	86,782	92,450
Other income (expense):				
Fees and commissions, net	27	19,791	18,298	10,418
Loss on financial instruments, net	12	(1,410)	(1,296)	(4,794)
Other income, net		280	422	1,083
Total other income, net	28	18,661	17,424	6,707
Total revenues		166,672	104,206	99,157
(Provision for) reversal of credit losses	5,28	(19,521)	(2,328)	1,464
Gain on non-financial assets, net	14,28	—	742	296
Operating expenses:				
Salaries and other employee expenses	30	(34,219)	(21,652)	(21,462)
Depreciation of equipment, improvements to leased property and investment property	15,17	(2,154)	(2,749)	(3,587)
Amortization of intangible assets	16	(561)	(742)	(753)
Other expenses	31	(18,177)	(14,780)	(11,522)
Total operating expenses	28	(55,111)	(39,923)	(37,324)
Profit for the year		92,040	62,697	63,593
Per share data:				
Basic earnings per share (in US dollars)	24	2.54	1.62	1.60
Diluted earnings per share (in US dollars)	24	2.54	1.62	1.60
Weighted average basic shares (in thousands of shares)	24	36,304	38,796	39,656
Weighted average diluted shares (in thousands of shares)	24	36,304	38,796	39,656

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, 2022
(In thousands of US dollars)

	Note	2022	2021	2020
Profit for the year		92,040	62,697	63,593
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Change in fair value of instruments at FVOCI, net of hedging	26	—	—	546
Items that are or may be reclassified subsequently to profit or loss:				
Change in fair value on financial instruments, net of hedging	26	19,613	(12,252)	2,265
Reclassification of gains (losses) on financial instruments to profit or loss	26	60	48	(425)
Exchange difference in conversion of foreign currency operation	26	—	448	(360)
Other comprehensive income (loss)	26	19,673	(11,756)	2,026
Total comprehensive income for the year		111,713	50,941	65,619

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, 2022
(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
Balance at January 1, 2020	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	—	—	—	—	—	—	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	—	—	—	—	—	—	(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 B" and "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
Profit for the year	—	—	—	—	—	92,040	—	92,040
Other comprehensive income	—	—	—	—	—	—	19,673	19,673
Issuance of restricted stock	—	1,039	(1,039)	—	—	—	—	—
Compensation cost - stock options and stock units plans	—	—	2,157	—	—	—	—	2,157
Exercised options and stock units vested	—	663	(663)	—	—	—	—	—
Dividends declared	—	—	—	—	—	(36,313)	—	(36,313)
Balances at December 31, 2022	279,980	(114,097)	120,498	95,210	136,019	543,612	8,125	1,069,347

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

Consolidated statement of cash flows
For the year ended December 31, 2022
(In thousands of US dollars)

	Notes	2022	2021	2020
Cash flows from operating activities				
Profit for the year		92,040	62,697	63,593
Adjustments to reconcile profit for the year to net cash (used in) provided by operating activities:				
Depreciation of investment property, equipment and leasehold improvements	15	2,154	2,749	3,587
Amortization of intangible assets	16	561	742	753
Gain on investment property - Right-of-use	14	—	(742)	—
Gain on investment property - Fair value	14	—	—	(296)
Provision for (reversal of) credit losses	5	19,521	2,328	(1,464)
Unrealized (gain) loss on financial instruments at FVTPL	12	—	(227)	806
Realized (gain) loss on financial instruments at FVTPL	12	(510)	—	2,175
Net gain on financial instruments at FVOCI	12	—	(14)	—
Gain on sale of financial instruments at amortized cost	12	—	(333)	—
Compensation cost - share-based payment	30	2,157	1,908	1,722
Net changes in hedging position and foreign currency		719	(428)	(194)
Disposal of equipment and leasehold improvements	15	6	255	30
Derecognition of intangible assets	16	—	—	1
Interest income		(332,621)	(140,883)	(180,973)
Interest expense		184,610	54,101	88,523
Changes in operating assets and liabilities:				
Pledged deposits		(8,599)	(24,248)	648
Loans		(1,053,888)	(821,531)	911,073
Other assets		1,709	(1,705)	2,321
Due to depositors		154,488	(102,672)	250,564
Other liabilities		12,284	(4,677)	1,432
Cash flows (used in) provided by operating activities		(925,369)	(972,680)	1,144,301
Interest received		296,131	154,293	194,129
Interest paid		(140,415)	(53,327)	(91,021)
Net cash (used in) provided by operating activities		(769,653)	(871,714)	1,247,409
Cash flows from investing activities:				
Acquisition of equipment and leasehold improvements	15	(1,651)	(453)	(997)
Acquisition of intangible assets	16	(1,070)	(353)	(1,311)
Proceeds from the sale of securities at amortized cost		—	16,369	—
Proceeds from the sale of securities at FVOCI		—	33,492	1,882
Proceeds from the sale of loans to FVTPL		49,681	—	—
Proceeds from the redemption of securities at amortized cost		132,524	123,302	52,576
Proceeds from the redemption of securities at FVOCI		112,840	10,000	—
Purchase of securities at amortized cost		(458,983)	(618,440)	(143,594)
Purchase of securities at FVOCI		—	(9,999)	(227,027)
Purchase of investments at FVTPL		—	—	(1,433)
Net cash used in investing activities		(166,659)	(446,082)	(319,904)
Cash flows from financing activities:				
(Decrease) increase in securities sold under repurchase agreements		(127,000)	416,835	(29,867)
Net increase (decrease) in short-term borrowings and debt	21	579,065	1,196,710	(1,212,023)
Proceeds from long-term borrowings and debt	21	1,038,110	266,640	827,732
Payments of long-term borrowings and debt	21	(536,792)	(97,520)	(781,274)
Payments of lease liabilities	22	(995)	(1,227)	(1,114)
Dividends paid		(36,141)	(38,570)	(44,669)
Repurchase of common stock		—	(60,079)	—
Net cash provided by (used in) financing activities		916,247	1,682,789	(1,241,215)
(Decrease) increase net in cash and cash equivalents		(20,065)	364,993	(313,710)
Cash and cash equivalents at beginning of the year		1,211,001	846,008	1,159,718
Cash and cash equivalents at end of the year	8	1,190,936	1,211,001	846,008

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

1. Corporate information

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

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

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

Bladex Head Office's subsidiaries are the following:

- Bladex Holdings Inc. is a wholly owned subsidiary, incorporated under the laws of the State of Delaware, United States of America (USA), on May 30, 2000. Bladex Holdings Inc. has ownership in Bladex Representaçao Ltda.

- Bladex Representaçao Ltda, incorporated under the laws of Brazil on January 7, 2000, acts as the Bank's representative office in Brazil. Bladex Representaçao Ltda. is 99.999% owned by Bladex Head Office and the remaining 0.001% is owned by Bladex Holdings Inc.

- Bladex Development Corp. was incorporated under the laws of the Republic of Panama on June 5, 2014. Bladex Development Corp. is 100% owned by Bladex Head Office.

- BLX Soluciones, S.A. de C.V., SOFOM, E.N.R. ("BLX Soluciones") was incorporated under the laws of Mexico on June 13, 2014 and suspended its operations on July 28, 2021. The company specializes in offering financial leasing and other financial products such as loans and factoring. BLX Soluciones is 99.9% owned by Bladex Head Office, and Bladex Development Corp. owns the remaining 0.1%.

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 14, 2023.

(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), which is the functional currency of the Bank.

2.3 Basis of measurement

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

Items	Basis of measurement
Securities and other financial instruments at FVOCI and FVTPL	Fair value
Financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships	At amortized cost adjusted for the risk components associated to the hedging relationship
Investment property	Fair value
Share-based payments	Fair value

2.4 Reclassification

As of December 31, 2022, the Bank segregates the lease liabilities carrying amount from borrowings and debt, net presented in the consolidated statement of financial position. Prior periods and other related disclosures have been reclassified to a comparable presentation.

The reclassification in 2021 figures decreased borrowings and debt, net and increased lease liabilities carrying amount by $17.7 million. The reclassification had no impact on total liabilities nor total equity.

2.5 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.

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

2.5 Basis of consolidation (continued)

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

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

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

<u>Foreign currency transactions</u>

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

<u>Transactions and balances</u>

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-average 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, except for those corresponding to monetary items that are designated as hedge items in qualifying cash flow or net investment hedges recognized in other comprehensive income until maturity or sale, at which time the carrying amount is reclassified to profit or loss, except for the carrying amount of equity instruments designated to be 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.

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 measured at amortized cost.

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 any amount directly attributable to the transaction such as origination fees (paid or received), premiums, discounts, and transaction costs.

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. In calculating interest income and expense, the effective interest rate is applied to the gross book balance 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, the interest income calculation returns 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 return to the gross basis, even when it shows an improvement in the credit risk of the financial asset.

Presentation

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

- Interest on financial assets and financial liabilities measured at amortized cost.
- Interest on securities measured at FVOCI.
- Interest on loans measured at FVTPL.
- Interest expense on lease liabilities.
- The effective portion of the variability in interest flows from the hedge instruments, in the same period as the cash flows from the hedged item affect interest income or expense.

3. Significant accounting policies (continued)

3.3 Fees and commissions

Fees that are integral to the effective interest rate on a financial asset or financial liability are described in Note 3.2.

Fees and commissions are determined based on considerations specified in a contract with the client. The Bank recognizes such income when control over the service is transferred to a customer.

The following table describes the services, other than financial intermediation, from which the Bank generates its income:

Type of services	Nature of performance obligations
Letters of credit	
Issuance	Guarantee to honor the stipulated amount agreed to in the terms and conditions entered with the customer, upon presentation of required documentation.
Negotiation	Review of the shipping documents, by the beneficiary, 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.
Syndications	
Structuring	Advise to the borrower by structuring the terms and conditions of a credit facility and coordinating among the lenders' and the borrowers' legal counsel all legal aspects relating to the credit facility, among others.
Other services	
Other	Assignment of rights, transferability, reimbursements, payments, discrepancies, courier charges and transfers.

3.4 Financial assets and liabilities

A. Date of recognition and initial measurement

The Bank initially recognizes loans, deposits, securities and financial liabilities on settlement date. Other financial instruments are recognized on trade date, date on which the Bank becomes a party to the contractual provisions of the instrument.

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 liabilities, not measured at fair value through profit or loss (FVTPL), are added to or deducted from the fair value of the financial assets or 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.

Financial assets and 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

B. Classification of financial assets

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.

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 financial asset 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 until realized. Gains or losses realized on sale of financial asset are included in the line item gain (loss) on financial instruments, net.

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 FVOCI.

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, and
- It may irrevocably designate a debt instrument that meets the amortized cost or at FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

For an equity instrument designated as measured at FVOCI, the cumulative 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.

C. Classification of financial liabilities

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

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

D. Business model assessment

The Bank assesses the objective of the business model at a level that reflects how the financial asset groups are managed 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.

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.

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.

E. 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).

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

The Bank measures its financial assets and liabilities at FVTPL, 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 FVOCI.

F. 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 and liabilities.

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

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 the consideration that the Bank could be required to pay.

In derecognizing the financial asset, the 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 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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 assets 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.

H. 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 rate.

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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

- 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.

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.

I. <u>Offsetting</u>

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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

J. <u>Fair value measurement</u>

Fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction, between market participants at the measurement date or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

K. <u>Allowances for losses on financial instruments</u>

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 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´s 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.

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

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

i) Measurement of expected credit losses

Calculation of the allowance 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.

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

Internal rating	12 - month average PD (1) %	External rating (2)	Description
1 - 4	0.09	Aaa – Ba1	Exposure in customers or countries with payment ability to satisfy their financial commitments.
5 - 6	2.28	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 show 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

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

- 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.

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 value of the discounted cash flows (or observable fair value of collateral) of the credit is lower than the carrying value of that credit. The formula-based component (collective assessment basis), covers the Bank's performing credit portfolio and it is established based 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 cash 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 FVOCI.

- 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

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 borrower is past due for more than 90 days in any of its financial obligations, either in the principal payment or interest;

– 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.

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 year.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

Additionally, the Bank applies an alert model considering 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 risk severity for each scenario under analysis. Also, this model 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/debtor; high probability of default; granting a concession to the issuer/debtor; 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 expected cash flows since initial recognition.

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

In order to determine whether there has been a significant increase in the credit risk of a financial instrument, the assessment is based on quantitative 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.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

- 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.

L. 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 (K).

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 the consolidated statements of 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.

These derivatives contracts can be classified as fair value or 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 derivatives 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.

3. Significant accounting policies (continued)

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

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 US dollar interest rate swaps, cross currency swaps and foreign exchange forward contracts. 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. Hedging instruments should be assessed qualitatively and quantitatively, assessed on a quarterly basis in order to determine their 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 out by the Bank as the underlying of the hedging instrument matches or is closely aligned with the hedged risk. Even when there are differences between the hedged item and the hedging instrument, the economic relationship will often be capable of being demonstrated using a qualitative assessment. The assessment, whether qualitative or quantitative, considers the following: a) maturity; b) nominal amount; c) cash flow dates; d) interest rate basis; and e) credit risk, including the effect of collateral, among others.

ii) Hedge ratio

The hedge ratio is the ratio between the amount of the 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 a 1:1 relationship, the hedge ratio is generally set so as to adjust for the type of relationship 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.

3. Significant accounting policies (continued)

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

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk, except when the hedging instrument hedges an equity instrument designated at FVOCI in which case it is recognized in OCI. The carrying amount of a hedged item not already measured at fair value is adjusted in profit or loss for the fair value change attributable to the hedged risk. For financial instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the portion 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 an adjustment to the yield in profit or loss.

Cash flow hedges

When a derivative is designated as a hedging instrument for 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 the change in fair value of the derivative is recognized in OCI and it is recognized in profit or loss when the hedged cash flows affect income. The ineffective portion is recognized in 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 recognized in OCI are reclassified to profit or loss when hedged cash flows occur.

The Bank recognizes the costs associated with foreign exchange forward contracts when the hedged item is an asset or liability, as interest income or expense, adjusting the yield of the underlying transaction in profit or loss, and accumulates a reserve in OCI in the consolidated statement of financial position, which is reclassified to profit or loss upon maturity.

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 foreign currency 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 investment in the foreign operation occurs.

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 restricted deposits.

3.7 Loans

Loans reported in the consolidated statement of financial position include:

- Loans at amortized cost.
- Loans measured at FVTPL.

3. Significant accounting policies (continued)

3.7 Loans (continued)

Loans at amortized cost consider the principal outstanding amounts and interest receivable net of unearned interest, deferred fees and allowance for expected credit losses. 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 recognized at the 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 assessed instrument do not meet the SPPI criteria for its classification at amortized cost or at fair value through other comprehensive income.

3.8 Securities

Securities presented in the consolidated statement of financial position include:

- 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, except for those designated as hedged items in qualifying fair value hedging relationships which are measured at amortized cost adjusted for the hedged risk component associated with the hedging relationship.
- Debt investment securities measured at FVOCI. For the instruments designated as hedged items in qualifying fair value hedging relationships, the carrying amount is not adjusted, as it is already at fair value, but the portion of the fair value gain or loss of the hedged item associated with the hedged risk is recognized in profit or loss rather than OCI.

3.9 Deposits, borrowings and repurchase agreements

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

Repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase that security (or an asset that is substantially identical) at a fixed price on a future date. The Bank continues to recognize the securities in their entirety in the consolidated statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price.

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.

3. Significant accounting policies (continued)

3.10 Loan commitments and financial guarantee contracts (continued)

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 decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
    - The Bank has the right to operate the asset; or
    - The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

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

The details of the lease policy are described as follows:

A. Definition of a lease

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

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 at cost 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 leased property and the liability as lease liabilities, both in the consolidated statement of financial position.

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3. Significant accounting policies (continued)

3.11 Leases (continued)

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 applies 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 of 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.

Depreciation is calculated using the straight–line method over their estimated useful life, to write down the cost of assets and equipment to their residual values. 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

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.

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

Equipment and leasehold improvements are derecognized on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other income or other expenses in profit or loss.

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 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.

3. Significant accounting policies (continued)

3.13 Investment property (continued)

After initial recognition, investment property is measured at fair value, except for that recognized investment property – right of use that the Bank holds under sublease agreements which are subsequently measured at cost.

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 profit or loss as gain (loss) on non-financial assets, net.

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 reducing the cost of the intangible asset to their residual value over the estimated useful lives of the assets. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in profit or loss.

Bank's intangible assets include the cost of computer software, licenses, model design, among others. Gains or losses arising from the derecognition of an intangible asset are determined by the Bank as the difference between proceeds from the sale or disposal and the net carrying amount of the intangible asset and recognized in profit or loss for the year in which the transaction occurs.

3.15 Impairment of non-financial assets

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

3. Significant accounting policies (continued)

3.16 Provisions

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

3.17 Share-based payments

Compensation cost is based on the grant date fair value of both stock and options and is recognized over the requisite service period of the employee. The fair value of each option is estimated at the grant date using a binomial option-pricing model. When stock 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.

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 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 part of the cumulative net change in the fair value of the hedging instruments designated in a cash flow hedging relationship, as well as the offsetting effect of currency translation of the hedging items.

- 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 less the risk hedged when an underlying was designated in a fair value hedging relationship.

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. Significant accounting policies (continued)

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 tax authorities. Tax laws and regulations used to compute those amounts 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 at 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 expenses.

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 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 customers' liabilities under acceptances.

3. Significant accounting policies (continued)

3.21 Segment reporting (continued)

Profits from the Commercial Business Segment include (i) net interest income from loans; (ii) fees and commissions from the issuance, negotiation, acceptance, confirmation 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 financial instruments at FVOCI, (iv) reversal of (provision) for credit losses on such instruments and (v) direct and allocated operating expenses.

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 allowance for expected credit losses

The Bank individually assesses all credit impaired loans at amortized cost at each reporting date to assess whether an impairment loss is required to be recognized. 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 expected loss events for which there is objective evidence, but which effects are not yet evident.

The collective assessment takes into account data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, among others), 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).

3. Significant accounting policies (continued)

3.22 Judgments, estimates and significant accounting assumptions (continued)

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 and lifetime ECL 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 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.

<u>Determining the fair value on financial instruments</u>

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 when 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.

<u>Business model assessment</u>

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 at 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.

3. Significant accounting policies (continued)

3.22 Judgments, estimates and significant accounting assumptions (continued)

B. <u>Estimates and assumptions</u>

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.

<u>Going concern</u>

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.

4. Accounting policies not yet effective at the reporting date

The following amendments and modifications have not been applied early by the Bank and no significant impacts have been identified on the consolidated financial statements or on their disclosures:

- <u>*Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2):*</u> The Board issued amendments to IAS 1 Presentation of Financial Statements and IFRS 2 Practice Statement to replace the term "significant" for "material" requiring entities to disclose material information about their accounting policies, rather than their significant accounting policies.

- *Classification of Liabilities as Current or Non-current* <u>*(Amendments to IAS 1):*</u> The amendments clarify that the classification of liabilities as current and non-current interacts with an unconditional right to defer settlement relative to having the discretion to refinance or extend an obligation. A clarification of liquidation is included.

- <u>*Definition of Accounting Estimates (Amendments to IAS 8):*</u> The Board issued amendments to include the definition of accounting estimates. According to the new definition, accounting estimates are "monetary amounts in the financial statements that are subject to measurement uncertainty."

- <u>*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12):*</u> The Board issued amendments on deferred tax relating to assets and liabilities arising from a single transaction. The amendments reduced the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (Recognition Exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

- <u>*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16):*</u> The amendments clarify how a seller-lessee accounts for variable lease payments arising in a sale and leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-leaseback transactions.

5. Financial risk review

This note presents information about the Bank's exposure to financial risks.

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 gross 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 (K).

Loans at amortized cost, outstanding balance

	December 31, 2022				
	PD Ranges	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grades 1 - 4	0.03 - 0.74	2,864,686	—	—	2,864,686
Grades 5 - 6	0.75 - 3.80	3,645,901	50,625	—	3,696,526
Grades 7 - 8	3.81 - 34.51	123,603	48,098	20,000	191,701
Grades 9 - 10	34.52 - 100	—	—	10,107	10,107
		6,634,190	98,723	30,107	6,763,020
Loss allowance		(28,589)	(5,050)	(21,561)	(55,200)
Total		**6,605,601**	**93,673**	**8,546**	**6,707,820**

	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
		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**

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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, 2022				
	12-month PD Ranges	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments and financial guarantees issued					
Grades 1 - 4	0.03 - 0.74	302,260	—	—	302,260
Grades 5 - 6	0.75 - 3.80	279,550	1,700	—	281,250
Grades 7 - 8	3.81 - 34.51	195,864	—	—	195,864
		777,674	1,700	—	779,374
Customers' liabilities under acceptances					
Grades 1 - 4	0.03 - 0.74	34,258	—	—	34,258
Grades 5 - 6	0.75 - 3.80	19,782	—	—	19,782
Grades 7 - 8	3.81 - 34.51	109,305	—	—	109,305
		163,345	—	—	163,345
		941,019	1,700	—	942,719
Loss allowance		(3,605)	(23)	—	(3,628)
Total		**937,414**	**1,677**	**—**	**939,091**

	December 31, 2021				
	12-month PD Ranges	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Commitments and financial guarantees issued					
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**

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

5. Financial risk review (continued)

A. Credit risk (continued)

Securities at amortized cost

	December 31, 2022				
	12-month DP Ranges	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grades 1 - 4	0.03 - 0.74	736,139	—	—	736,139
Grades 5 - 6	0.75 - 3.80	154,248	46,589	—	200,837
Grades 7 - 8	3.81 - 34.51	—	—	4,995	4,995
		890,387	46,589	4,995	941,971
Loss allowance		(2,170)	(1,779)	(4,002)	(7,951)
Total		**888,217**	**44,810**	**993**	**934,020**

	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**

Securities at FVOCI

	December 31, 2022				
	12-month PD Ranges	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grades 1 - 4	0.03 - 0.74	77,972	—	—	77,972
		77,972	—	—	77,972
Loss allowance		(10)	—	—	(10)
Total		**77,962**	**—**	**—**	**77,962**

	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**

5. Financial risk review (continued)

A. Credit risk (continued)

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

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current	6,634,190	98,723	—	6,732,913
90-120 days	—	—	20,000	20,000
121-150 days	—	—	10,107	10,107
Total	**6,634,190**	**98,723**	**30,107**	**6,763,020**

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Current	**5,583,093**	**140,919**	**10,593**	**5,734,605**

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, 2022		
	Notional value USD	**Derivative financial instruments - fair value assets**	**Derivative financial instruments - fair value liabilities**
Interest rate swaps	368,711	483	(544)
Cross-currency swaps	1,175,570	45,806	(33,217)
Foreign exchange forwards	189,173	21,870	—
Total	**1,733,454**	**68,159**	**(33,761)**

	December 31, 2021		
	Notional value USD	**Derivative financial instruments - fair value assets**	**Derivative financial instruments - fair value liabilities**
Interest rate swaps	60,000	1,282	(538)
Cross-currency swaps	883,931	9,523	(27,917)
Total	**943,931**	**10,805**	**(28,455)**

5. Financial risk review (continued)

A. Credit risk (continued)

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.

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, 2022, and 2021, the coverage ratio to the carrying amount of the loan portfolio was 12%.

iii. Incorporation of forward-looking information

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

5. Financial risk review (continued)

A. Credit risk (continued)

Supplementary, for the expected credit loss measurement, the results of the "alert model" can be considered, through the assessment of a severity indicator to total risk resulting from the estimates and assumptions of several macroeconomic factors. These estimates and assumptions are supported by a base scenario. Other scenarios represent upside and downside results. The implementation and interpretation of the outcomes of the alert model are based on Management´s expert judgment, pondering 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, the U.S. Federal Reserve and banking authorities 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.

Main macroeconomic variables of the alert model with forward-looking scenarios are:

Variables	**Description**
GDP Growth (Var. %)	% Variation in the growth of the Gross Domestic Product (GDP)
ComEx Growth Index (Var. %)	% Variation in foreign trade growth (Export + Import)

The model uses, as main inputs, the percentage variation of the gross domestic product 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. The historical and projected information over a period of five years allows Management to estimate the macroeconomic effects in the Bank's portfolio.

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

5. Financial risk review (continued)

A. Credit risk (continued)

The table below lists the alert model's macroeconomic assumptions for countries representing the higher exposures, for the base, upside and downside scenarios over the five-year forecasted average available for each reporting period.

		Variable			
		GDP Growth (Var.%)		ComEx Growth Index (Var.%)	
	Scenario	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
	Base	1.9%	2.7%	7.1%	9.5%
Brazil	Upside	2.9%	3.7%	10.6%	13.0%
	Downside	0.5%	1.3%	3.1%	5.5%
	Base	1.7%	3.4%	3.1%	12.4%
Chile	Upside	2.8%	4.5%	6.6%	15.9%
	Downside	0.5%	2.2%	-0.9%	8.4%
	Base	3.6%	4.6%	8.4%	10.7%
Colombia	Upside	4.7%	5.7%	11.4%	13.7%
	Downside	2.3%	3.3%	4.9%	7.2%
	Base	4.8%	6.2%	5.8%	11.0%
Dominican Republic	Upside	6.0%	7.4%	9.3%	14.5%
	Downside	3.5%	4.9%	1.8%	7.0%
	Base	3.5%	3.5%	5.8%	8.1%
Guatemala	Upside	4.5%	4.5%	8.8%	11.1%
	Downside	2.3%	2.3%	2.3%	4.6%
	Base	1.9%	3.0%	6.4%	9.4%
Mexico	Upside	2.9%	4.0%	10.4%	13.4%
	Downside	0.7%	1.8%	1.9%	4.9%
	Base	5.0%	5.6%	6.2%	5.6%
Panama	Upside	6.5%	7.1%	9.2%	8.6%
	Downside	3.6%	4.2%	2.7%	2.1%
	Base	2.9%	4.9%	4.9%	11.7%
Peru	Upside	3.9%	5.9%	8.4%	15.2%
	Downside	1.7%	3.7%	0.9%	7.7%

iv. Loss allowances

The following tables show reconciliations from the opening to the closing balances 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 (K).

5. Financial risk review (continued)

A. Credit risk (continued)

Loans at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2021	**20,115**	**16,175**	**5,186**	**41,476**
Transfer to lifetime expected credit losses	(29)	29	—	—
Transfer to 12-month expected credit losses	176	(176)	—	—
Transfer to credit-impaired financial instruments	(130)	—	130	—
Net effect of changes in allowance for expected credit losses	(1,718)	(10,146)	16,072	4,208
Financial instruments that have been derecognized during the year	(12,385)	(832)	—	(13,217)
New instruments originated or purchased	22,560	—	—	22,560
Write-offs	—	—	(893)	(893)
Recoveries	—	—	1,066	1,066
Allowance for expected credit losses as of December 31, 2022	**28,589**	**5,050**	**21,561**	**55,200**

	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
Recoveries	—	—	160	160
Allowance for expected credit losses as of December 31, 2021	**20,115**	**16,175**	**5,186**	**41,476**

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

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 is 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, 2021	**3,472**	**331**	**—**	**3,803**
Transfer to 12-month expected credit losses	133	(133)	—	—
Net effect of changes in reserve for expected credit losses	(160)	(39)	—	(199)
Financial instruments that have been derecognized during the year	(2,981)	(136)	—	(3,117)
New instruments originated or purchased	3,141	—	—	3,141
Allowance for expected credit losses as of December 31, 2022	**3,605**	**23**	**—**	**3,628**

	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**

Securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2021	**1,790**	**—**	**—**	**1,790**
Transfer to lifetime expected credit losses	(46)	46	—	—
Transfer to credit-impaired financial instruments	(33)	—	33	—
Net effect of changes in allowance for expected credit losses	(13)	941	3,969	4,897
Financial instruments that have been derecognized during the year	(420)	—	—	(420)
New instruments originated or purchased	892	792	—	1,684
Allowance for expected credit losses as of December 31, 2022	**2,170**	**1,779**	**4,002**	**7,951**

5. Financial risk review (continued)

A. Credit risk (continued)

	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**

Securities at FVOCI

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2021	**26**	**—**	**—**	**26**
Financial instruments that have been derecognized during the year	(16)	—	—	(16)
Allowance for expected credit losses as of December 31, 2022	**10**	**—**	**—**	**10**

	Stage 1	Stage 2	Stage 3	Total
Allowance for expected credit losses as of December 31, 2020	**43**	**—**	**—**	**43**
New instruments originated or purchased	(17)	—	—	(17)
Allowance for expected credit losses as of December 31, 2021	**26**	**—**	**—**	**26**

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.

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

5. Financial risk review (continued)

A. Credit risk (continued)

December 31, 2022	Loans at amortized cost	Loan commitments and financial guarantee contracts	Securities: At amortized cost	Securities: FVOCI	Total
Net effect of changes in allowance for expected credit losses	4,208	(199)	4,897	—	8,906
Financial instruments that have been derecognized during the year	(13,217)	(3,117)	(420)	(16)	(16,770)
New financial assets originated or purchased	22,560	3,141	1,684	—	27,385
Total	**13,551**	**(175)**	**6,161**	**(16)**	**19,521**

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

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

5. Financial risk review (continued)

A. Credit risk (continued)

v. Credit-impaired financial assets

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

The following table sets out a reconciliation of changes in the carrying amount of the allowance for credit losses for credit-impaired financial assets:

	December 31, 2022	December 31, 2021
Credit-impaired loans at beginning of year	5,186	4,588
Classified as credit-impaired during the year	130	—
Change in allowance for expected credit losses	14,606	191
Write-offs	(893)	—
Recoveries of amounts previously written off	1,066	160
Interest income	1,466	247
Credit-impaired loans at end of year	**21,561**	**5,186**

	December 31, 2022
Investments at amortized cost with credit impairment at beginning of year	—
Classified as credit-impaired during the year	33
Change in allowance for expected credit losses	3,717
Interest income	252
Investments at amortized cost with credit impairment at end of year	**4,002**

(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 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, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Carrying amount - principal	6,763,020	5,734,605	163,345	201,515	941,971	631,123	77,972	193,488
Amount committed/ guaranteed	—	—	779,374	603,759	—	—	—	—
Concentration by sector								
Corporations:								
Private	2,553,193	1,934,056	409,139	336,181	543,381	362,085	24,773	59,096
State-owned	1,115,932	1,085,211	110,468	47,144	51,388	43,266	—	—
Financial institutions:								
Private	2,245,385	2,123,881	120,614	140,289	250,975	127,690	—	—
State-owned	719,882	567,847	302,498	281,660	31,902	46,496	53,199	134,392
Sovereign	128,628	23,610	—	—	64,325	51,586	—	—
Total	**6,763,020**	**5,734,605**	**942,719**	**805,274**	**941,971**	**631,123**	**77,972**	**193,488**
Concentration by industry								
Financial institutions	2,965,266	2,691,728	423,112	421,949	282,878	174,186	53,199	134,392
Manufacturing	1,341,453	1,122,325	293,659	193,169	339,914	180,088	14,898	44,586
Oil and petroleum derived products	1,244,491	1,091,264	104,426	62,208	77,553	74,954	9,875	14,510
Agricultural	317,037	267,382	3,854	—	—	—	—	—
Services	267,868	220,942	55,430	55,612	64,412	66,609	—	—
Mining	150,707	95,364	—	—	24,381	9,912	—	—
Sovereign	128,628	23,610	—	—	64,325	51,586	—	—
Other	347,570	221,990	62,238	72,336	88,508	73,788	—	—
Total	**6,763,020**	**5,734,605**	**942,719**	**805,274**	**941,971**	**631,123**	**77,972**	**193,488**

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, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Carrying amount - principal	6,763,020	5,734,605	163,345	201,515	941,971	631,123	77,972	193,488
Amount committed/guaranteed	—	—	779,374	603,759	—	—	—	—
Rating								
1-4	2,864,685	3,016,938	336,519	312,016	736,139	453,627	77,972	193,488
5-6	3,696,527	2,524,147	301,031	201,296	200,837	177,496	—	—
7-8	191,701	193,520	305,169	291,962	4,995	—	—	—
10	10,107	—	—	—	—	—	—	—
Total	**6,763,020**	**5,734,605**	**942,719**	**805,274**	**941,971**	**631,123**	**77,972**	**193,488**
Concentration by country								
Argentina	55,598	74,252	—	—	—	—	—	—
Australia	—	—	—	—	9,628	9,900	—	—
Belgium	25,362	17,374	—	—	—	—	—	—
Bolivia	—	3,000	3,759	2,983	—	—	—	—
Brazil	980,205	1,101,999	54,907	—	69,501	99,082	—	—
Canada	—	—	—	—	13,503	13,786	—	—
Chile	416,714	625,119	44,846	41,932	112,586	105,730	—	—
Colombia	702,409	795,467	54,333	50,630	54,484	38,038	—	—
Costa Rica	260,625	180,480	56,718	89,442	9,926	1,984	—	—
Denmark	—	—	11,880	—	—	—	—	—
Dominican Republic	579,918	275,423	27,534	16,499	4,828	4,947	—	—
Ecuador	110,466	37,446	305,168	281,075	—	—	—	—
El Salvador	30,032	73,500	—	6,867	—	—	—	—
France	126,929	179,491	66,906	62,172	—	—	—	—
Germany	—	—	10,000	7,000	—	—	—	—
Guatemala	745,837	431,543	67,456	58,145	—	3,051	—	—
Honduras	176,270	32,192	3,615	18,286	—	—	—	—
Hong Kong	2,800	17,600	—	—	—	—	—	—
Ireland	—	—	—	—	9,579	—	—	—
Israel	—	—	—	—	4,880	4,968	—	—
Jamaica	14,083	5,215	—	—	—	—	—	—
Japan	14,712	—	—	—	4,353	—	—	—
Luxembourg	114,557	117,700	—	—	—	—	—	—
Mexico	823,028	726,922	69,080	4,000	100,870	55,620	—	—
Panama	533,452	203,115	19,240	66,973	29,065	22,807	—	—
Paraguay	151,287	98,112	3,430	9,430	—	—	—	—
Peru	478,998	343,485	114,941	65,091	60,575	64,134	—	—
Singapore	152,208	58,117	24,333	10,750	—	—	—	—
Trinidad and Tobago	128,846	140,537	—	—	—	—	—	—
United States of America	53,463	19,000	3,349	—	458,193	207,076	43,464	88,170
United Kingdom	51,221	42,700	—	—	—	—	—	—
Uruguay	34,000	134,816	1,224	13,999	—	—	—	—
Multilateral	—	—	—	—	—	—	34,508	105,318
Total	**6,763,020**	**5,734,605**	**942,719**	**805,274**	**941,971**	**631,123**	**77,972**	**193,488**

(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, 2022					
				Gross amounts not offset in the consolidated statement of financial position		
	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	Financial instruments	Cash collateral received	Net Amount
Derivative financial instruments used for hedging	68,159	—	68,159	—	(50,615)	17,544
Total	**68,159**	**—**	**68,159**	**—**	**(50,615)**	**17,544**

	December 31, 2021					
				Gross amounts not offset in the consolidated statement of financial position		
	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	Financial instruments	Cash collateral received	Net Amount
Derivative financial instruments used for hedging	10,805	—	10,805	—	(5,030)	5,775
Total	**10,805**	**—**	**10,805**	**—**	**(5,030)**	**5,775**

5. Financial risk review (continued)

A. Credit risk (continued)

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

	December 31, 2022					
				Gross amounts not offset in the consolidated statement of financial position		
	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net Amount
Securities sold under repurchase agreements	(300,498)	—	(300,498)	791,956	22,947	514,405
Derivative financial instruments used for hedging	(33,761)	—	(33,761)	—	17,702	(16,059)
Total	**(334,259)**	**—**	**(334,259)**	**791,956**	**40,649**	**498,346**

	December 31, 2021					
				Gross amounts not offset in the consolidated statement of financial position		
	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net Amount
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**

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' include cash and cash equivalents which consist of deposits from banks and customers, as well as corporate debt securities rated A- or above.

5. Financial risk review (continued)

B. Liquidity risk (continued)

The following table details the Bank's liquidity ratios, described in the previous paragraph, as of December 31, 2022 and 2021, respectively:

	December 31, 2022	December 31, 2021
At the end of the year	167.46 %	199.19 %
Year average	132.63 %	122.80 %
Maximum of the year	276.86 %	306.82 %
Minimun of the year	81.18 %	66.43 %

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

(in millions of USD dollars)	December 31, 2022			December 31, 2021		
	Cash and due from banks	**Securities FVOCI**	**Total**	**Cash and due from banks**	**Securities FVOCI**	**Total**
United States of America	1,151	43	1,194	1,203	89	1,292
Latin America	15	—	15	8	—	8
Multilateral	25	35	60	—	105	105
Total	**1,191**	**78**	**1,269**	**1,211**	**194**	**1,405**

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, 2022	December 31, 2021
Demand and "overnight" deposits	583	362
Demand and "overnight" deposits to total deposits	18.27 %	11.92 %

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, 2022	December 31, 2021
Total liquid assets	1,269	1,404
Total assets to total liabilities	39.77 %	46.26 %
Total liquid assets in the Federal Reserve of the United States of America	90.23 %	85.52 %

5. Financial risk review (continued)

B. Liquidity risk (continued)

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 along with its average remaining term:

(in millions of USD dollars)	December 31, 2022	December 31, 2021
Loan portfolio at amortized cost and investment portfolio less than/equal to 1 year according to its original terms	4,008	3,426
Average term (days)	200	191

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 along with their average remaining term:

(in millions of USD dollars)	December 31, 2022	December 31, 2021
Loan portfolio at amortized cost and investment portfolio greater than/equal to 1 year according to its original terms	3,775	3,134
Average term (days)	1367	1365

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

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:

	December 31, 2022						
	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	1,241,779	—	—	—	—	1,241,779	1,241,586
Securities	129,983	105,789	98,345	744,996	10,293	1,089,406	1,023,632
Loans	2,294,259	1,478,494	1,223,661	2,244,454	158,967	7,399,835	6,760,434
Derivative financial instruments - assets	4,216	10,831	14,015	39,097	—	68,159	68,159
Total	**3,670,237**	**1,595,114**	**1,336,021**	**3,028,547**	**169,260**	**9,799,179**	**9,093,811**
Liabilities							
Deposits	(2,770,754)	(256,989)	(161,889)	(39,805)	—	(3,229,437)	(3,205,386)
Securities sold under repurchase agreements	(53,418)	(64,513)	(55,144)	(138,286)	—	(311,361)	(300,498)
Borrowings and debt, net	(776,584)	(895,531)	(934,288)	(2,212,704)	(41,523)	(4,860,630)	(4,464,389)
Lease liabilities	(384)	(384)	(738)	(5,769)	(13,771)	(21,046)	(16,745)
Derivative financial instruments - liabilities	(3,702)	(764)	(63)	(26,882)	(2,350)	(33,761)	(33,761)
Total	**(3,604,842)**	**(1,218,181)**	**(1,152,122)**	**(2,423,446)**	**(57,644)**	**(8,456,235)**	**(8,020,779)**
Subtotal net position	**65,395**	**376,933**	**183,899**	**605,101**	**111,616**	**1,342,944**	**1,073,032**
Off-balance sheet contingencies							
Confirmed letters of credit	166,367	117,398	21,024	—	—	304,789	
Stand-by letters of credit and guarantees	132,353	117,750	92,750	8,772	—	351,625	
Credit commitments	—	13,102	32,906	76,952	—	122,960	
Total	**298,720**	**248,250**	**146,680**	**85,724**	**—**	**779,374**	
Total net position	**(233,325)**	**128,683**	**37,219**	**519,377**	**111,616**	**563,570**	

5. Financial risk review (continued)

B. Liquidity risk (continued)

	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	36,984	44,743	179,219	599,397	—	860,343	831,913
Loans	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)	(3,315,500)
Lease liabilities	(393)	(393)	(787)	(5,819)	(15,215)	(22,607)	(17,733)
Derivative financial instruments - liabilities	—	(4,821)	(7,773)	(15,145)	(716)	(28,455)	(28,455)
Total	**(3,558,702)**	**(1,102,473)**	**(890,505)**	**(1,412,892)**	**(32,467)**	**(6,997,039)**	**(6,826,642)**
Subtotal net position	**(329,857)**	**(13,373)**	**638,000**	**759,238**	**119,062**	**1,173,070**	**982,150**
Off-balance sheet contingencies							
Confirmed letters of credit	149,672	62,123	2,435	—	—	214,230	
Stand-by letters of credit and guarantees	75,245	118,287	54,375	20,289	—	268,196	
Credit commitments	35,000	—	45,000	41,333	—	121,333	
Total	**259,917**	**180,410**	**101,810**	**61,622**	**—**	**603,759**	
Total net position	**(589,774)**	**(193,783)**	**536,190**	**697,616**	**119,062**	**569,311**	

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.

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

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, 2022		December 31, 2021	
	Amount	**Fair value**	**Amount**	**Fair value**
Balances with Federal Reserve of the United States of America	1,144,896	1,144,896	1,201,101	1,201,101
Cash and balances with other banks [1]	46,040	46,040	9,900	9,900
Total	**1,190,936**	**1,190,936**	**1,211,001**	**1,211,001**

[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, 2022		December 31, 2021	
	Pledged as collateral	**Available as collateral**	**Pledged as collateral**	**Available as collateral**
Cash and due from banks	50,649	1,190,936	42,051	1,211,001
Notional of investment securities	331,571	672,042	447,588	343,319
Loans at amortized cost	—	6,763,020	—	5,734,605
Total	**382,220**	**8,625,998**	**489,639**	**7,288,925**

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 table below details the Bank's exposure based on interest rate repricing/maturity date on interest-bearing financial assets and liabilities:

	December 31, 2022						
	Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Without interest rate risk**	**Total**
Assets							
Cash and due from banks	1,233,700	—	—	—	—	7,886	1,241,586
Securities, net	112,736	114,815	82,666	701,749	7,977	—	1,019,943
Loans	2,956,268	2,531,067	1,007,343	240,949	27,393	—	6,763,020
Total	**4,302,704**	**2,645,882**	**1,090,009**	**942,698**	**35,370**	**7,886**	**9,024,549**
Liabilities							
Demand deposits and time deposits	(2,746,776)	(250,299)	(153,862)	(35,082)	—	(4,697)	(3,190,716)
Securities sold under repurchase agreements	(52,164)	(62,968)	(53,740)	(131,626)	—	—	(300,498)
Borrowings and debt, net	(1,354,457)	(953,503)	(1,083,543)	(999,151)	(25,857)	—	(4,416,511)
Total	**(4,153,397)**	**(1,266,770)**	**(1,291,145)**	**(1,165,859)**	**(25,857)**	**(4,697)**	**(7,907,725)**
Net effect of derivative financial instruments held for interest risk management	**476**	**41**	**2,145**	**12,215**	**(2,350)**	**—**	**12,527**
Total interest rate sensitivity	**149,783**	**1,379,153**	**(198,991)**	**(210,946)**	**7,163**	**3,189**	**1,129,351**

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

5. Financial risk review (continued)

C. Market risk (continued)

	December 31, 2021						
	Up to 3 months	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Without interest rate risk**	**Total**
Assets							
Cash and due from banks	1,249,545	—	—	—	—	3,507	1,253,052
Securities, 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	**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	(1,265,779)	(653,454)	(452,621)	(915,938)	(16,386)	—	(3,304,178)
Total	**(4,232,972)**	**(1,023,107)**	**(531,060)**	**(958,966)**	**(16,386)**	**(5,412)**	**(6,767,903)**
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**	**(75,789)**	**(6,509)**	**(1,905)**	**1,032,028**

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 based on market conditions.

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, 2022	+50 bps	4,559	676
	-50 bps	(4,629)	(206)
December 31, 2021	+50 bps	(45)	17,232
	-50 bps	(2,297)	10,772

Interest rate movements affect reported equity in the following ways:

- Retained earnings: increases or decreases in net interest income and in fair values of derivatives reported in profit or loss;
- Fair value reserve: increases or decreases in fair values of financial assets at FVOCI reported directly in equity; and

5. Financial risk review (continued)

C. Market risk (continued)

- Hedging reserve: increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships.

This sensitivity provides an analysis of changes in interest rates, considering the previous year´s interest rate volatility.

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

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 December 31, 2022 is the following. The information presented is the remaining exposure as at each reporting date.

	December 31, 2022	**June 30, 2023**
(Notional in US$ thousands)		
Financial assets		
Loans	1,357,407	1,178,782
Financial liabilities		
Borrowings	62,500	12,500
Loan commitments	92,188	92,188

Disaggregated information by derivative financial instruments based on floating USD LIBOR rate, that have yet to transition to an alternative benchmark rate as at December 31, 2022 is the following. The information presented is the remaining notional amount as at each reporting date.

	December 31, 2022	**June 30, 2023**
(Notional US$ thousands)		
Derivatives held for risk management		
Derivative financial instruments - assets	1,937	—
Derivative financial instruments - liabilities	88,768	68,768

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, except for hedging relationships.

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

5. Financial risk review (continued)

C. Market risk (continued)

	December 31, 2022						
	Brazilian real	**European euro**	**Japanese yen**	**Colombian peso**	**Mexican peso**	**Other currencies (1)**	**Total**
Exchange rate	5.29	1.07	130.96	4,854.37	19.50		
Assets							
Cash and due from banks	26	53	4	9	5,439	38	5,569
Loans	—	—	—	—	301,765	—	301,765
Total	**26**	**53**	**4**	**9**	**307,204**	**38**	**307,334**
Liabilities							
Borrowings and debt	—	—	—	—	(306,603)	—	(306,603)
Total	**—**	**—**	**—**	**—**	**(306,603)**	**—**	**(306,603)**
Net currency position	**26**	**53**	**4**	**9**	**601**	**38**	**731**

	December 31, 2021						
	Brazilian real	**European euro**	**Japanese yen**	**Colombian peso**	**Mexican peso**	**Other currencies (1)**	**Total**
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	1,594
Loans	—	—	—	—	222,747	—	222,747
Total	**—**	**7**	**1**	**21**	**224,278**	**34**	**224,341**
Liabilities							
Borrowings and debt	—	—	—	—	(224,384)	—	(224,384)
Total	**—**	**—**	**—**	**—**	**(224,384)**	**—**	**(224,384)**
Net currency position	**—**	**7**	**1**	**21**	**(106)**	**34**	**(43)**

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

6. Financial risk management

The risk is inherent to the Bank's activities. Risks are classified into two categories: financial and non-financial risks. Financial risks are those associated within the Bank's business model, with impact in the Bank's consolidated statements of financial position and profit or loss, as follows: country risk, credit risk, market risk and liquidity risk.

6. Financial risk management (continued)

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, cybersecurity, compliance (know your customer, money laundering, terrorism financing), environmental, fraud, 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 to, according to the size and complexity of its operations, products and services.

The Bank has in place policies, standards and procedures, structures, and manuals relating to 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 prudent 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 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 integrated 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 Risk Committee.
- Country Risk Committee.
- Credit Committee (Management Credit Committee / Board of Director´s Delegated Credit Committee / CPER).
- Management and Monitoring Committee.
- Asset and Liability Committee (ALCO).

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, which includes updates on applicable laws and regulations as required.

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.

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 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.

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 analysis 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.

Climate risk, like any other risk in general, implies the presence of an extreme natural event, but unpredictable, resulting in a human activity that may be damaged by such event. Consequently, the Bank incorporates into its risk assessment the possible impacts of climate risk that may affect its credit portfolio.

<u>Individually assessed reserves</u>

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 on other dates.

<u>Collectively assessed reserves</u>

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.

6. Financial risk management (continued)

A. Credit risk (continued)

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

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.

<u>Derivative financial instruments</u>

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.

<u>Credit Commitments</u>

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 Ratio (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 timeframes.
- 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, securities, borrowings and debt, derivatives, among others. 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 rate 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 for the period and equity.

6. Financial risk management (continued)

C. Market risk (continued)

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.

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.

Interest rate risk derived from the IBOR reference rate reform

The main risks to which the Bank is exposed to as a result of the IBOR Reform are operational. Such operational risks include the renegotiation of credit agreements, updating of contractual terms and systems that use USD LIBOR curves, and review of operational controls related to the Reform. Financial risk is predominantly limited to interest rate risk.

As of December 31, 2022, the Bank continues its process of reviewing and updating the model contracts to incorporate the transition clauses to the new reference rate. The Bank plans to complete the process of modifying the contracts before June 30, 2023, the date established by the Alternative Reference Rate Committee (ARRC) for the cessation of the LIBOR rate. All bond and debt contracts have been reviewed and updated to incorporate transition clauses to the new reference rate.

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, risk mapping, 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.

As part of an adequate operational risk management, the Bank maintains a Business Continuity Plan to provide effective responses that guarantee the continuity of services and the banking business activities upon the occurrence of events that may create an interruption or instability in its operations.

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.

6. Financial risk management (continued)

F. Cybersecurity risk

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, customers 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.

To counter the risk arising from cyber attacks, the Bank maintains a comprehensive monitoring program of the main attack vectors: emails and end-user devices, as well as the continuous frequency of scans and vulnerability management. To address the risks arising under the hybrid model, the Bank maintains security platforms that provide an adequate level of protection, in order to keep the same security posture, regardless of the physical location of the employees.

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. This program is based on four fundamental pillars: Perimeter Security, Services and Infrastructure Security, User Security, and Data Security.

7. Fair value of financial instruments

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

The Bank applied the following fair value hierarchy:

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

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

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

When determining the fair value measurements for assets and liabilities that are required or permitted to be recorded at fair value, the Bank considers the principal or most advantageous market in which it would transact and considers the inputs that market participants would use when pricing the asset or liability. When possible, the Bank uses active markets and observable prices to value identical assets or liabilities.

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

7. Fair value of financial instruments (continued)

When identical assets and liabilities are not traded in active markets, the Bank uses observable market information for similar assets and liabilities. However, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to determine the fair value measurement. The frequency of transactions, the size of the bid-ask spread, and the size of the investment are factors considered in determining the liquidity of markets and the relevance of observed prices in those markets.

When there has been a significant decrease in the valuation of the financial asset or liability, or in the level of activity for a financial asset or liability (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 or FVOCI

For financial instruments at FVTPL or FVOCI, fair value is based upon quoted market prices, when available, or if quoted market prices are not available on discounted expected cash flows including interest rate yield curves and other market rates.

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 flow 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 amounts 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 interest rate curves. Because not all counterparties have the same credit rating, valuation adjustments are necessary to incorporate the market view of both the counterparty's credit risk and the Bank's own credit risk ("Credit and Debit Value Adjustment" CVA / DVA).

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

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

7. Fair value of financial instruments (continued)

A. Recurring valuation (continued)

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

	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities at FVOCI - Corporate debt	—	78,372	—	78,372
Derivative financial instruments - assets:				
Interest rate swaps	—	483	—	483
Cross-currency swaps	—	45,806	—	45,806
Foreign exchange forwards	—	21,870	—	21,870
Total derivative financial instrument assets	—	68,159	—	68,159
Total assets at fair value	**—**	**146,531**	**—**	**146,531**
Liabilities				
Derivative financial instruments - liabilities:				
Interest rate swaps	—	544	—	544
Cross-currency swaps	—	33,217	—	33,217
Total derivative financial instruments - liabilities	—	33,761	—	33,761
Total liabilities at fair value	**—**	**33,761**	**—**	**33,761**

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

7. Fair value of financial instruments (continued)

A. Recurring valuation (continued)

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Securities at FVOCI - Corporate debt	—	194,491	—	194,491
Loans at FVTPL	—	—	5,313	5,313
Total	—	194,491	5,313	199,804
Derivative financial instruments - assets:				
Interest rate swaps	—	1,282	—	1,282
Cross-currency swaps	—	9,523	—	9,523
Total derivative financial instrument assets	—	10,805	—	10,805
Total assets at fair value	**—**	**205,296**	**5,313**	**210,609**
Liabilities				
Derivative financial instruments - liabilities:				
Interest rate swaps	—	538	—	538
Cross-currency swaps	—	27,917	—	27,917
Total derivative financial instruments - liabilities	—	28,455	—	28,455
Total liabilities at fair value	**—**	**28,455**	**—**	**28,455**

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.

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:

<u>Financial instruments with carrying value that approximates fair value</u>

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.

<u>Financial instruments measured at amortized cost</u>

The fair value of financial instruments measured at amortized cost is valued using quoted market prices. If quoted market prices are not available, then fair values are estimated based upon quoted prices for similar instruments. When prices for similar instruments are not available, then fair values are estimated by using discounted cash flow models using interest rate yields curves and other market rates. Such instruments are classified in levels 2 and 3.

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, 2022				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and deposits in banks	1,241,586	1,241,586	—	1,241,586	—
Securities at amortized cost [(1)]	945,260	895,154	—	894,034	1,120
Loans at amortized cost [(2)]	6,760,434	6,785,652	—	6,785,652	—
Customers' liabilities under acceptances	163,345	163,345	—	163,345	—
Liabilities					
Deposits	3,205,386	3,205,386	—	3,205,386	—
Securities sold under repurchase agreements	300,498	300,498	—	300,498	—
Borrowings and debt, net	4,416,511	4,389,902	—	4,389,902	—
Acceptances outstanding	163,345	163,345	—	163,345	—

and unearned interest and deferred fees of

	December 31, 2021				
	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and deposits in 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	—
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	3,304,178	3,294,135	—	3,294,135	—
Acceptances outstanding	201,515	201,515	—	201,515	—

(1) The carrying value of securities at amortized cost is net of accrued interest receivable of $11.2 million and the allowance for expected credit losses of $8.0 million as of December 31, 2022 (accrued interest receivable of $8.1 million and the allowance for expected credit losses of $1.8 million as of December 31, 2021).

(2) The carrying value of loans at amortized cost is net of accrued interest receivable of $70.0 million, the allowance for expected credit losses of $55.2 million and unearned interest and deferred fees of $17.3 million as of December 31, 2022 (accrued interest receivable of $23.3 million, the allowance for expected credit losses of $41.5 million and unearned interest and deferred fees of $8.7 million as of December 31, 2021).

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

7. Fair value of financial instruments (continued)

C. Level 3 - Fair value measurement

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

	Loans at FVTPL
At December 31, 2020	4,949
Net changes in fair value[(1)]	364
At December 31, 2021	5,313
Net changes in fair value[(1)]	437
Sales	(5,750)
At December 31, 2022	—

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

The loan measured at FVTPL (level 3) was sold during the year 2022. The Bank has no new loans with this classification and measurement as of December 31, 2022.

Loans at FVTPL - Level 3

For financial instruments measured at fair value classified 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:

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

Fair value measurement sensitivity to unobservable inputs – discount rate	2021
A significant increase in volatility would result in a lower fair value	6.860% to 7.84%

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.

Loans at FVTPL	**Effect on profit or loss**
+ 100 bps to the observable and unobservable inputs	(108)
- 100 bps to the observable and unobservable inputs	111

8. Cash and due from banks

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

	December 31, 2022	2021	2020
Unrestricted deposits with the Federal Reserve of the United States of America	1,144,896	1,201,101	688,612
Cash and non-interest-bearing deposits in other banks	7,886	3,507	4,331
Cash and interest-bearing deposits in other banks[(1)]	88,804	48,444	170,869
Total cash and due from banks	**1,241,586**	**1,253,052**	**863,812**
Less:			
Time deposits with original maturity over 90 days and other restricted deposits [(1)]	50,650	42,051	17,804
Total cash and due from banks in the consolidated statement of cash flows	**1,190,936**	**1,211,001**	**846,008**

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

	December 31, 2022	2021	2020
Switzerland	16,797	9,787	3,027
Spain	12,814	4,011	18
United States of America[(1)]	11,387	12,615	11,515
Germany	5,380	449	—
United Kingdom	4,272	309	130
France	—	4,790	50
Netherlands	—	3,870	334
Japan	—	3,790	1,330
Mexico	—	2,430	790
Canada	—	—	610
Total	**50,650**	**42,051**	**17,804**

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

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

9. Securities, net

Securities are presented as follows:

December 31, 2022	Amortized cost	FVOCI	Total
Principal	941,971	77,972	1,019,943
Interest receivable	11,240	400	11,640
Allowance	(7,951)	—	(7,951)
	945,260	**78,372**	**1,023,632**

December 31, 2021	Amortized cost	FVOCI	Total
Principal	631,123	193,488	824,611
Interest receivable	8,089	1,003	9,092
Allowance	(1,790)	—	(1,790)
	637,422	**194,491**	**831,913**

Securities by contractual maturity are shown in the following table:

December 31, 2022	Amortized cost	FVOCI	Total
Due within 1 year	222,666	77,972	300,638
After 1 year but within 5 years	711,328	—	711,328
After 5 years but within 10 years	7,977	—	7,977
Balance - principal	**941,971**	**77,972**	**1,019,943**

December 31, 2021	Amortized cost	FVOCI	Total
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**

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

	December 31, 2022	December 31, 2021
Securities pledged to secure repurchase transactions	345,187	498,274
Securities sold under repurchase agreements	(300,498)	(427,497)

10. Loans

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

	December 31, 2022	December 31, 2021
Loans, outstanding balance	6,763,020	5,734,605
Interest receivable	69,965	23,308
Loss allowance	(55,200)	(41,476)
Unearned interest and deferred fees	(17,351)	(8,728)
Loans at amortized cost	**6,760,434**	**5,707,709**
Loans at FVTPL [(1)]	—	5,313
Loans, net	**6,760,434**	**5,713,022**

(1) The Bank sold financial instruments measured at FVTPL for $5.8 million, realizing a gain of $577 thousand recognized in the line item gain (loss) on financial instruments, net.

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

	December 31, 2022	December 31, 2021
Fixed interest rate	3,827,083	3,327,310
Floating interest rates	2,935,937	2,412,608
Total	**6,763,020**	**5,739,918**

As of December 31, 2022, and 2021, 79% and 71% of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days. Interest rates on loans ranges from 1.27% to 15.32% (December 31, 2021 0.53% to 10.23%).

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

	December 31, 2022	December 31, 2021
Loans to class A and B shareholders	834,768	467,000
% Loans to class A and B shareholders over total loan portfolio	12 %	8 %
% Class A and B stockholders with loans over number of class A and B stockholders	11 %	10 %

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

10. Loans (continued)

Modified financial assets

As of December 31, 2022, the Bank does not have modified financial assets. The modified financial assets during 2021, where modification does not result in de-recognition, are presented below:

	December 31, 2021
Gross carrying amount before modification	65,000
Allowance loss before modification [1]	(12,739)
Net amortized cost before modification	**52,261**
Gross carrying amount after modification	65,000
Allowance loss after modification [2]	(12,699)
Net amortized cost after modification	**52,301**

[1] 12 - month ECL.
[2] Lifetime ECL.

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, 2022	December 31, 2021
Documentary letters of credit	304,789	214,230
Stand-by letters of credit and guarantees - commercial risk	351,625	268,196
Credit commitments	122,960	121,333
Total	**779,374**	**603,759**

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

	December 31, 2022	December 31, 2021
Up to 1 year	693,650	542,137
From 1 to 2 years	15,956	57,622
Over 2 to 5 years	69,768	4,000
Total	**779,374**	**603,759**

12. Gain (loss) on financial instruments, net

The amounts that were recognized in profit or loss related to the results of financial instruments are detailed below:

	December 31, 2022	2021	2020
Loss on derivative financial instruments and foreign currency exchange, net	(1,920)	(1,870)	(1,813)
Unrealized gain (loss) on financial instruments at FVTPL	—	227	(806)
Realized gain (loss) on financial instruments at FVTPL	510	—	(2,175)
Gain on sale of financial instruments at amortized cost	—	333	—
Realized gain on financial instruments at FVOCI	—	14	—
	(1,410)	**(1,296)**	**(4,794)**

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, 2022		
		Carrying amount of hedging instruments	
	Nominal amount	Asset [1]	Liability [2]
Interest rate risk			
Fair value hedges	293,711	340	(543)
Cash flow hedges	75,000	143	(1)
Interest rate and foreign exchange risk			
Fair value hedges	252,793	4,129	(16,237)
Cash flow hedges	922,777	41,677	(16,980)
Foreign exchange risk			
Cash flow hedges	189,173	21,870	—
	1,733,454	**68,159**	**(33,761)**

	December 31, 2021		
		Carrying amount of hedging instruments	
	Nominal amount	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)
	943,931	**10,805**	**(28,455)**

[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.

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

13. Derivative financial instruments (continued)

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

- Fair value hedges.
- Cash flow hedges.
- Net investment hedges.

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.

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 maintaining open positions in excess of the limits established by Management. 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 and floating open positions, 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).

13. Derivative financial instruments (continued)

A. Fair value hedges (continued)

The following table details the nominal 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, 2022				
		Carrying amount of hedging instruments			
	Nominal amount	Asset [1]	Liability [2]	Changes in fair value used to calculate hedge ineffectiveness [3]	Ineffectiveness recognized in profit or loss [3]
Interest rate risk					
Loans	155,511	134	(543)	1,607	(18)
Securities at amortized cost	10,000	178	—	167	(62)
Borrowings and debt	128,200	28	—	(3,457)	(111)
Interest rate and foreign exchange risk					
Loans	1,938	108	—	(227)	(129)
Borrowings and debt	250,855	4,021	(16,237)	8,072	(1,548)
Total	**546,504**	**4,469**	**(16,780)**	**6,162**	**(1,868)**

	December 31, 2021				
		Carrying amount of hedging instruments			
	Nominal amount	Asset [1]	Liability [2]	Changes in fair value used to calculate hedge ineffectiveness [3]	Ineffectiveness recognized in profit or loss [3]
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)**

(1) Included in the consolidated statement of financial position under the line Derivative financial instruments - assets.
(2) Included in the consolidated statement of financial position under the line Derivative financial instruments - liabilities.
(3) Included in the consolidated statement of profit or loss under the line Loss on financial instruments, net.

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

13. Derivative financial instruments (continued)

A. Fair value hedges (continued)

The following table details the 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, 2022				
	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	Changes in fair value of the hedged items used to calculate hedge ineffectiveness[1]
	Asset	Liability			
Interest rate risk					
Loans	157,136	—	Loans, net	(1,625)	(1,625)
Securities at amortized cost	9,654	—	Securities, net	(229)	(229)
Borrowings and debt	—	(129,306)	Borrowings and debt, net	3,350	3,346
Interest rate and foreign exchange risk					
Loans	1,839	—	Loans, net	(580)	98
Borrowings and debt	—	(243,851)	Borrowings and debt, net	11,612	(9,620)
Total	168,629	(373,157)		12,528	(8,030)

	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	Changes 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

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

13. Derivative financial instruments (continued)

A. Fair value hedges (continued)

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

	December 31, 2022		
	Interest rate swaps	Cross currency swaps	Total
Less than 1 year	145,511	1,937	147,448
Over 1 to 2 years	20,000	153,415	173,415
Over 2 to 5 years	128,200	87,316	215,516
More than 5 years	—	10,125	10,125
Total	293,711	252,793	546,504

	December 31, 2021		
	Interest rate swaps	Cross currency swaps	Total
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

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.

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 from CVA/DVA counterparty risk made in the hedging instrument, which are not contemplated in the methodology of hypothetical derivative used to measure the ineffectiveness of the hedge.

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

13. Derivative financial instruments (continued)

B. Cash flow hedges (continued)

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 following table details the nominal 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, 2022							
		Carrying amount of hedging instruments					
	Nominal amount	Asset (1)	Liability (2)	Change in fair value used for calculating hedge ineffectiveness	Changes in the fair value of the hedging instruments recognized in OCI (3)	Ineffectiveness recognized in profit or loss (4)	Amount reclassified from the hedge reserve to profit or loss (4)
Interest rate risk							
Borrowings and debt	75,000	143	(1)	550	551	1	—
Interest rate and foreign exchange risk							
Borrowings and debt	922,777	41,677	(16,980)	28,211	27,061	(1,150)	4,914
Foreign exchange risk							
Deposits	8,534	37	—	37	37	—	—
Borrowings and debt	180,639	21,833	—	21,833	21,833	—	—
Total	**1,186,950**	**63,690**	**(16,981)**	**50,631**	**49,482**	**(1,149)**	**4,914**

December 31, 2021							
		Carrying amount of hedging instruments					
	Nominal amount	Asset (1)	Liability (2)	Change in fair value used for calculating hedge ineffectiveness	Changes in the fair value of the hedging instruments recognized in OCI (3)	Ineffectiveness recognized in profit or loss (4)	Amount reclassified from the hedge reserve to profit or loss (4)
Interest rate risk							
Borrowings and debt	20,000	—	(538)	562	560	(2)	(423)
Interest rate and foreign exchange risk							
Borrowings and debt	455,864	8,740	(7,009)	(21,267)	(20,920)	347	—
Foreign exchange risk							
Loans	—	—	—	—	—	0	(3,589)
Total	**475,864**	**8,740**	**(7,547)**	**(20,705)**	**(20,360)**	**345**	**(4,012)**

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

13. Derivative financial instruments (continued)

B. Cash flow hedges (continued)

The following table details the 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, 2022					
	Carrying amount of hedged items				
	Asset	Liability	Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Changes in the fair value of the hedged items used to calculate the hedge ineffectiveness	Cash flow hedge reserve
Interest rate risk					
Borrowings and debt	—	(75,695)	Borrowings and debt, net	(551)	(97)
Interest rate and foreign exchange risk					
Borrowings and debt	—	(943,942)	Borrowings and debt, net	(27,061)	(8,836)
Foreign exchange risk					
Deposits	—	(8,566)	Demand deposits	(37)	(44)
Borrowings and debt	—	(196,646)	Borrowings and debt, net	(21,833)	1,836
Total	**—**	**(1,224,849)**		**(49,482)**	**(7,141)**

December 31, 2021					
	Carrying amount of hedged items				
	Asset	Liability	Line in the consolidated statement of financial position that includes the carrying amount of the hedged items	Changes in the fair value of the hedged items used to calculate the hedge ineffectiveness	Cash flow hedge reserve
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	10,756
Total	**—**	**(490,222)**		**20,360**	**10,756**

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

13. Derivative financial instruments (continued)

B. Cash flow hedges (continued)

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

	December 31, 2022			
	Foreign exchange forward contracts	Interest rate swaps	Cross currency swaps	Total
Less than 1 year	189,173	75,000	388,035	652,208
Over 1 to 2 years	—	—	194,639	194,639
Over 2 to 5 years	—	—	322,817	322,817
More than 5 years	—	—	17,286	17,286
Total	**189,173**	**75,000**	**922,777**	**1,186,950**

	December 31, 2021		
	Interest rate swaps	Cross currency swaps	Total
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**

14. Gain on non - financial assets, net

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

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

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 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.

During 2020 the Bank realized sales of investment properties measured at fair value, which generated a gain of $296 thousand.

15. Equipment and leasehold improvements

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

	December 31,	
	2022	2021
Equipment and leasehold improvements, net	4,441	3,841
Right-of-use assets	12,841	13,938
	17,282	**17,779**

Equipment and leasehold improvements are detailed as follows:

	IT equipment	Furniture and fixtures	Leasehold improvements	Other equipment	Total
Cost:					
Balance as of January 1, 2020	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
Additions	599	165	852	35	1,651
Disposals	(1,136)	(36)	(4)	(6)	(1,182)
Effect of changes in exchange rates	2	2	3	1	8
Balance as of December 31, 2022	**3,941**	**1,808**	**8,301**	**717**	**14,767**
Accumulated depreciation:					
Balance as of January 1, 2020	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
Amortization	430	32	531	57	1,050
Disposals	(1,133)	(35)	(4)	(4)	(1,176)
Effect of changes in exchange rates	(1)	1	4	(1)	3
Balance as of December 31, 2022	**3,142**	**1,636**	**4,906**	**642**	**10,326**
Carrying amounts as of:					
December 31, 2022	**799**	**172**	**3,395**	**75**	**4,441**
December 31, 2021	**630**	**39**	**3,075**	**97**	**3,841**
December 31, 2020	**796**	**76**	**3,598**	**520**	**4,990**

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

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:

	December 31,	
	2022	**2021**
Initial balance	13,938	11,223
Additions	7	3,161
Depreciation of right-of-use assets	(1,104)	(1,164)
Transfer from investment property	—	1,409
Decrease	—	(691)
Ending balance	**12,841**	**13,938**

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 balances.

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, 2020	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
Additions	1,070
Balance as of December 31, 2022	**10,856**
Accumulated amortization:	
Balance as of January 1, 2020	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
Amortization	561
Balance as of December 31, 2022	**8,752**
Carrying amounts as of:	
December 31, 2022	**2,104**
December 31, 2021	**1,595**
December 31, 2020	**1,984**

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.

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

17. Investment property

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

	Investment property - right of use [1]
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] 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 "Loss on non-financial assets, net".

18. Other assets

Following is a summary of other assets:

	December 31,	
	2022	**2021**
Accounts receivable	2,240	1,389
Prepaid expenses	1,120	3,485
Prepaid fees and commissions	325	349
Interest receivable - deposits	751	12
IT projects under development	425	510
Severance fund	2,026	1,981
Other	481	704
Total	**7,368**	**8,430**

19. Deposits

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

	December 31,	
	2022	**2021**
Demand	233,757	362,356
Up to 1 month	999,043	842,472
From 1 month to 3 months	969,960	926,902
From 3 month to 6 months	385,972	641,526
From 6 month to 1 year	554,402	233,081
From 1 year to 2 years	31,287	29,891
From 2 years to 5 years	16,295	—
Total	**3,190,716**	**3,036,228**

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

	December 31,	
	2022	**2021**
Aggregate amount of $100,000 or more	3,190,376	3,035,906
Aggregate amount of deposits in the New York Agency	526,474	515,852

	December 31,		
	2022	**2021**	**2020**
Interest expense on deposits made in the New York Agency	12,334	3,852	5,035

20. Securities sold under repurchase agreements

As of December 31, 2022, and 2021, the Bank had financing transactions under repurchase agreements for $300.5 million and $427.5 million, respectively.

During the years ended December 31, 2022, 2021 and 2020, interest expense relating to financing transactions under repurchase agreements totaled $7.3 million, $956 thousand and $432 thousand, respectively. These expenses are included as interest expense – borrowings and debt in the consolidated statement of profit or loss.

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

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 25 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, 2022, the Bank was in compliance with all those covenants.

Carrying amount of borrowings and debt is detailed as follows:

	December 31, 2022				
	Short-Term		Long-term		
	Borrowings	Debt	Borrowings	Debt	Total
Principal	2,153,351	42,255	650,275	1,580,727	4,426,608
Transaction costs	(1,376)	(5)	(2,952)	(5,764)	(10,097)
	2,151,975	**42,250**	**647,323**	**1,574,963**	**4,416,511**

	December 31, 2021				
	Short-Term		Long-term		
	Borrowings	Debt	Borrowings	Debt	Total
Principal	1,547,845	34,213	329,888	1,398,223	3,310,169
Transaction costs	—	—	(498)	(5,493)	(5,991)
	1,547,845	**34,213**	**329,390**	**1,392,730**	**3,304,178**

21. Borrowings and debt (continued)

Short-term borrowings and debt

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

	December 31, 2022	December 31, 2021
Short-term borrowings:		
At fixed interest rates	1,584,776	1,102,621
At floating interest rates	568,575	445,224
Principal	2,153,351	1,547,845
Less: Transaction costs	(1,376)	—
Total short-term borrowings, net	**2,151,975**	**1,547,845**
Short-term debt:		
At floating interest rates	42,255	34,213
Principal	42,255	34,213
Less: Transaction costs	(5)	—
Total short-term debt, net	**42,250**	**34,213**
Total short-term borrowings and debt	**2,194,225**	**1,582,058**
Range of fixed interest rates on borrowings and debt in U.S. dollars	1.53% to 6.52%	0.50% to 2.02%
Range of floating interest rates on borrowings in U.S. dollars	4.90% to 5.72%	0.35% to 0.81%
Range of floating interest rates on borrowings and debt in Mexican pesos	10.97% to 12.00%	5.39% to 6.56%
Range of fixed interest rates on borrowings and debt in Japanese yen	0.84% to 1.23%	—

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

	December 31, 2022	December 31, 2021
US dollar	1,593,531	1,401,122
Mexican peso	405,830	180,936
Japanese yen	196,245	—
Carrying amount - principal	**2,195,606**	**1,582,058**

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

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), along with contractual interest rates, plus prepaid commissions are as follows:

	December 31,	
	2022	**2021**
Long-term borrowings:		
At fixed interest rates with due dates from May 2023 to September 2023	75,000	115,043
At floating interest rates with due dates from August 2023 to May 2026	575,275	214,845
Principal	650,275	329,888
Less: Transaction costs	(2,952)	(498)
Total long-term borrowings, net	**647,323**	**329,390**
Long-term debt:		
At fixed interest rates with due dates from January 2023 to November 2034	1,136,743	927,550
At floating interest rates with due dates from January 2023 to February 2026	443,984	470,673
Principal	1,580,727	1,398,223
Less: Transaction costs	(5,764)	(5,493)
Total long-term debt, net	**1,574,963**	**1,392,730**
Total long-term borrowings and debt, net	**2,222,286**	**1,722,120**
Range of fixed interest rates on borrowings and debt in U.S. dollars	0.80% to 5.81%	0.80% to 2.38%
Range of floating interest rates on borrowings and debt in U.S. dollars	4.96% to 6.04%	0.97% to 1.80%
Range of fixed interest rates on borrowings and debt in Mexican pesos	6.50% to 9.20%	6.50% to 9.09%
Range of floating interest rates on borrowings and debt in Mexican pesos	10.55% to 10.93%	5.43% to 6.87%
Range of fixed interest rates on debt in Japanese yens	0.40% to 1.27%	0.40% to 0.95%
Range of fixed interest rates on debt in Euros	0.23% to 3.75%	0.23% to 3.75%
Range of fixed interest rates on debt in Australian dollars	1.41% to 6.81%	1.41 %
Range of fixed interest rates on debt in Sterling pounds	1.50 %	1.50 %
Range of fixed interest rates on debt in Swiss francs	0.35 %	0.35 %

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:

	December 31,	
	2022	**2021**
US dollar	1,155,275	812,496
Mexican peso	845,867	643,490
Euro	111,095	121,443
Japanese yen	76,513	116,518
Australian dollar	26,968	18,174
Swiss franc	10,820	10,979
Sterling pound	4,464	5,011
Carrying amount - principal	**2,231,002**	**1,728,111**

Future payments of long-term borrowings and debt outstanding as of December 31, 2022, are as follows:

Year	**Outstanding**
2023	211,175
2024	550,907
2025	928,246
2026	258,705
2027	256,756
2029	15,272
2034	9,941
Carrying amount - principal	**2,231,002**

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 :

	2022	**2021**	**2020**
Balance as of January 1,	3,304,178	1,966,271	3,118,396
Net increase (decrease) in short-term borrowings and debt	579,065	1,196,710	(1,212,023)
Proceeds from long-term borrowings and debt	1,038,110	266,640	827,732
Payments of long-term borrowings and debt	(536,792)	(97,520)	(781,274)
Change in foreign currency rates	45,460	(27,528)	15,902
Fair value adjustment due to hedge accounting relationship	(9,334)	(2,034)	826
Other adjustments	(4,176)	1,639	(3,288)
Balance as of December 31,	**4,416,511**	**3,304,178**	**1,966,271**

The reconciliation of the movements of the equity accounts that are part of the financing activities are presented in the consolidated statement of changes in equity.

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

22. Lease liabilities

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

	December 31, 2022	December 31, 2021
Due within 1 year	1,506	1,574
After 1 year but within 5 years	7,210	7,262
After 5 years but within 10 years	12,330	13,771
Total undiscounted lease liabilities	**21,046**	**22,607**
Short-term	965	996
Long-term	15,780	16,737
Lease liabilities included in the consolidated statement of financial position	**16,745**	**17,733**

Amounts recognized in the consolidated statement of cash flows:

	December 31, 2022	December 31, 2021
Payments of lease liabilities	**995**	**1,227**

Amounts recognized in profit or loss:

	December 31, 2022	December 31, 2021	December 31, 2020
Interest on lease liabilities	**(579)**	**(810)**	**(862)**
Income from sub-leasing right-of-use assets	—	**227**	**265**

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 "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.

23. Other liabilities

Following is a summary of other liabilities:

	December 31, 2022	December 31, 2021
Accruals and other accumulated expenses	16,812	9,266
Accounts payable	7,269	2,311
Other	2,730	2,784
Total	**26,811**	**14,361**

24. 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, 2022	December 31, 2021	December 31, 2020
(Thousands of US$ dollars)			
Profit for the year	92,040	62,697	63,593
(U.S. dollars)			
Basic earnings per share	2.54	1.62	1.60
Diluted earnings per share	2.54	1.62	1.60
(Thousands of shares)			
Weighted average of common shares outstanding applicable to basic EPS	**36,304**	**38,796**	**39,656**
Adjusted weighted average of common shares outstanding applicable to diluted EPS	**36,304**	**38,796**	**39,656**

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

25. Capital and Reserves

A. Common stock and additional paid-in capital

Common stock

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

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

The holders of "Class B" shares have the right to convert or exchange their "Class B" shares, at any time, and without restriction, for "Class E" shares, exchanging one share for another share.

The following table provides detailed information on the movement of the shares by class for each of the years ended December 31, 2022, 2021 and 2020:

(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, 2020	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**
Restricted stock issued – directors	—	—	57,000	—	57,000
Restricted stock units – vested	—	—	36,410	—	36,410
Outstanding at December 31, 2022	**6,342,189**	**2,089,075**	**27,893,292**	**—**	**36,324,556**

Additional paid-in capital

As of December 31, 2022, 2021 and 2020, additional paid-in capital consists of additional cash contributions to the common capital paid by shareholders.

25. Capital and Reserves (continued)

B. Treasury stock

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

	"Class A"		**"Class B"**		**"Class E"**		**Total**	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Outstanding at January 1, 2020	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**
Restricted stock issued - directors	—	—	—	—	(57,000)	(1,039)	(57,000)	(1,039)
Restricted stock units - vested	—	—	—	—	(36,410)	(663)	(36,410)	(663)
Outstanding at December 31, 2022	**318,140**	**10,708**	**689,367**	**18,711**	**4,647,774**	**84,678**	**5,655,281**	**114,097**

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.

Bladex

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

26. 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, 2020	**(613)**	**(1,117)**	**(88)**	**(1,818)**
Change in fair value of debt instruments at FVOCI, 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 at FVOCI, net of hedging	(560)	(11,692)	—	(12,252)
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	(536)	(11,668)	448	(11,756)
Balance as of December 31, 2021	**(395)**	**(11,153)**	**—**	**(11,548)**
Change in fair value of debt instruments at FVOCI, net of hedging	(467)	20,080	—	19,613
Reclassification of gains (losses) on financial instruments to profit or loss [(1)]	—	60	—	60
Other comprehensive income (loss) for the year	(467)	20,140	—	19,673
Balance as of December 31, 2022	**(862)**	**8,987**	**—**	**8,125**

(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.

26. Other comprehensive income (continued)

The following table presents amounts reclassified from other comprehensive income to profit or loss:

Details about other comprehensive income components	Amounts reclassified from other comprehensive income			Line item affected in the consolidated statement of profit or loss
	December 31,			
	2022	2021	2020	
Realized gains (losses) on securities at FVOCI:	—	24	(56)	Net gain (loss) on financial instruments
Gains (losses) on derivative financial instruments:				
Foreign exchange forwards	(433)	(2,167)	(2,337)	Interest income – loans
	1,851	—	—	Interest expense – borrowings and deposits
	—	24	(369)	Gain (loss) on financial instruments, net
Interest rate and cross-currency swaps	60	—	—	Gain (loss) on financial instruments, net
	1,478	**(2,143)**	**(2,706)**	

27. Fee and commission income

Fee and commission income from contracts with customers broken down by main types of services, are detailed as follows:

	December 31, 2022			
	Syndications	Documentary and stand-by letters of credit	Other commissions, net	Total
Opening and confirmation	—	11,353	554	11,907
Negotiation and acceptance	—	264	—	264
Amendment	254	2,248	(12)	2,490
Structuring	4,672	—	1,182	5,854
Other	—	168	(892)	(724)
	4,926	**14,033**	**832**	**19,791**

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

27. Fee and commission income (continued)

	December 31, 2021			
	Syndications	**Documentary and stand-by letters of credit**	**Other commissions, net**	**Total**
Opening 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 stand-by letters of credit**	**Other commissions, net**	**Total**
Opening and confirmation	—	8,090	1,400	9,490
Negotiation and acceptance	—	183	—	183
Amendment	—	688	—	688
Structuring	603	—	—	603
Other	—	39	(585)	(546)
	603	**9,000**	**815**	**10,418**

The following table provides information on the ordinary income that is expected to be recognized on the contracts in force:

	December 31, 2022
Up to 1 year	2,407
From 1 to 2 years	7
More than 2 years	231
Total	**2,645**

28. Business segment information

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

	December 31, 2022		
	Commercial	**Treasury**	**Total**
Interest income	289,785	42,836	332,621
Interest expense	(463)	(184,147)	(184,610)
Inter-segment net interest income	(155,968)	155,968	—
Net interest income	133,354	14,657	148,011
Other income (expense), net	20,809	(2,148)	18,661
Total income	154,163	12,509	166,672
Provision for credit losses	(13,376)	(6,145)	(19,521)
Operating expenses	(43,156)	(11,955)	(55,111)
Segment profit (loss)	**97,631**	**(5,591)**	**92,040**
Segment assets	**6,940,335**	**2,336,958**	**9,277,293**
Segment liabilities	**180,369**	**8,007,383**	**8,187,752**

	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 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**

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

28. Business segment information (continued)

	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
(Provision for) reversal of credit losses	1,889	(425)	1,464
Gain 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**

The following table shows the reconciliation of information by business segment:

	December 31,		
	2022	**2021**	**2020**
Profit for the year	**92,040**	**62,697**	**63,593**
Assets:			
Assets from reportable segments	9,277,293	8,029,693	6,282,090
Other assets - unallocated	6,617	8,418	6,808
Total	**9,283,910**	**8,038,111**	**6,288,898**
Liabilities:			
Liabilities from reportable segments	8,187,752	7,031,960	5,232,264
Other liabilities - unallocated	26,811	14,361	18,714
Total	**8,214,563**	**7,046,321**	**5,250,978**

28. Business segment information (continued)

Geographic information

The geographic information analyzes the Bank's income 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.

2022	Panama	Brazil	Mexico	Colombia	Guatemala	Ecuador	Argentina	Other	Total
Total revenues	6,015	15,100	24,767	16,192	16,961	12,576	4,721	70,340	166,672
Non-current assets[(1)]	18,994	125	14	35	—	—	117	101	19,386

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[(1)]	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[(1)]	19,888	129	535	56	—	—	212	591	21,411

[(1)] Includes equipment and leasehold improvements, intangible assets and investment properties.

Information about the main clients

As of December 31, 2022, 2021, and 2020, the Bank has no customer, either individually or as group of companies, that represents more than 10% of total revenues.

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

29. Related party transactions

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

	December 31, 2022	December 31, 2021
Assets:		
Demand deposits	5,986	2,680
Loans, net	242,024	29,857
Securities at amortized cost	19,593	—
Total	**267,603**	**32,537**
Liabilities:		
Time deposits	567,451	150,000
Total	**567,451**	**150,000**
Contingencies:		
Stand-by letters of credit	3,350	9,130
Loss allowance	(16)	(37)

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

	December 31, 2022	2021	2020
Interest income:			
Loans	4,719	211	1,390
Securities at amortized cost	685	—	—
Total	5,404	211	1,390
Interest expense:			
Deposits	(10,943)	(1,866)	(2,961)
Net interest income (expenses)	**(5,539)**	**(1,655)**	**(1,571)**
Other income (expense):			
Fees and commissions, net	116	216	420
Loss on financial instruments, net	74	—	—
Total	190	216	420
Net income (loss) from related parties	**(5,349)**	**(1,439)**	**(1,151)**

29. Related party transactions (continued)

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

	December 31, 2022	2021	2020
Expenses:			
Compensation costs to directors	1,853	1,877	2,033
Compensation costs to executives	4,302	4,083	5,448

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

30. Salaries and other employee expenses

The following table details salaries and other employee expenses:

	December 31, 2022	2021	2020
Wages and salaries	18,135	13,803	13,717
Payroll taxes	2,196	1,731	1,722
Personnel benefits	12,344	5,134	5,383
Share-based payments	1,544	984	640
Total	**34,219**	**21,652**	**21,462**

A. 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 and established service requirements as the sole condition of vesting. The maximum aggregate number of shares which may be granted under this plan is three million "Class E" common shares. The 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 attract, retain, motivate, and compensate them for their contribution to the growth and profitability of the Bank; to determine whether and to what extent awards are granted, and to amend the terms of any outstanding award under this plan.

Restricted stocks are issued at the grant date but are withheld by the Bank until the vesting date. Restricted 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 on the date on which the restricted stock units become unrestricted.

During 2022, 2021 and 2020, 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:

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

30. Salaries and other employee expenses (continued)

A. 2015 Stock Incentive Plan – Directors and Executives (continued)

Restricted stock – Directors

During 2022, the Board of Directors granted the directors 57,000 "Class E" common shares and for the years 2021 and 2020, 63,000 in each year.

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 27, 2022, April 21, 2021 and April 29, 2020, respectively. The fair value of restricted stock granted totaled $835 thousand in 2022, $923 thousand in 2021, and $727 thousand in 2020, of which $354 thousand, $401 thousand and $306 thousand were recognized in profit or loss during 2022, 2021 and 2020, respectively.

Total expense recognized in profit or loss during 2022, 2021 and 2020 of restricted stock granted to directors amounted to $895 thousand, $924 thousand and $1.1 million, respectively. The remaining cost pending amortization of $637 thousand at December 31, 2022 will be amortized over 2.33 years.

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

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

	Shares	Weighted average grant date fair value
Outstanding at January 1, 2020	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
Granted	57,000	14.65
Vested	(85,950)	18.71
Outstanding at December 31, 2022	**116,850**	14.15
Expected to vest	**116,850**	

The fair value of vested stock during the years 2022, 2021 and 2020 was $1.6 million, $949 thousand and $1.1 million, respectively.

Restricted stock units and stock purchase options granted to certain executives

Restricted stock units

The Board of Directors approved the grant of restricted stock units to certain executives of the Bank with a grant date fair value of $822 thousand in 2022, $1 million in 2021 and $902 thousand in 2020. The distribution of the fair value was in restricted stock units.

30. Salaries and other employee expenses (continued)

A. 2015 Stock Incentive Plan – Directors and Executives (continued)

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. As of December 31, 2022, 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 2022, 2021 and 2020, the cost recognized in profit or loss as a result of the amortization of these grants totaled $749 thousand, $984 thousand and $640 thousand, respectively.

Fair value of vested stock during the years 2022, 2021 and 2020 is $581 thousand, $838 thousand, and $256 thousand, respectively.

A summary of the restricted stock units granted through December 31, 2022, 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, 2020	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		
Granted	63,056	13.03		
Vested	(36,410)	15.97		
Outstanding at December 31, 2022	**134,175**	13.80	2.56 years	348
Expected to vest	**134,175**	17.94	2.56 years	348

For the restricted share units that are expected to be released, the compensation cost pending amortization is $666 thousand in 2022 and will be amortized over 3.17 years.

Restricted stock units - Grant 2023

As of December 31, 2022, the Bank's management established a provision of $798 thousand, recognized in the consolidated statement of profit or loss, related to 25% of the restricted share units that were granted during the first quarter of 2023 and lost restriction after the 1st-month post-grant.

In February 2023, the Board of Directors approved the grant restricted stock units to certain executives of the Bank with a grant date fair value of $4.6 million or 298,951 shares, out of which 74,744 shares were vested in March 2023. The remaining shares will be vested at a rate of 25% each year on the grant date´s anniversary.

Stock purchase options

The Board of Directors approved the grant of stock purchase options to certain executives of the Bank.

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. As of December 31, 2022, there are no options to be exercised.

Bladex

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

30. 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 2022, 2021 and 2020, the Bank charged to salaries expense $62 thousand, $67 thousand and $75 thousand, respectively, that correspond to the Bank's contributions to this plan.

31. Other expenses

The following table details other expenses:

	December 31,		
	2022	**2021**	**2020**
Administrative	5,587	4,484	3,060
Professional services	5,603	4,074	3,316
Maintenance and repairs	3,449	2,388	2,081
Share-based payments to directors	895	924	1,082
Regulatory fees	1,015	978	964
Operating lease of spaces and equipment	717	562	575
Advertising and marketing	557	179	100
Other	354	1,191	344
Total	**18,177**	**14,780**	**11,522**

32. 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.

33. 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, 2022, and 2021, the minimum LCR to be reported to the SBP was 100% and 80%, respectively. The Bank´s LCR as of December 31, 2022 and 2021 was 167% and 199%, respectively.

33. Applicable laws and regulations (continued)

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, 2022, and 2021, was 100.49% and 80.80%, respectively.

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,	
	2022	**2021**
Capital funds	1,072,110	1,013,796
Risk-weighted assets	8,117,913	6,513,267
Capital adequacy index	13.21 %	15.57 %

Leverage ratio

Article No. 17 of the Rule No. 1-2015 establishes the leverage ratio of a regulated entity by means of the quotient between the ordinary primary capital and the total exposure for non-risk-weighted assets inside and outside the consolidated statement of financial position as 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 Bank'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.

33. Applicable laws and regulations (continued)

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

	December 31, 2022	December 31, 2021
Ordinary capital	936,092	877,777
Non-risk-weighted assets	9,606,970	8,107,810
Leverage ratio	9.74 %	10.83 %

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, 2022					
	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Loans at amortized cost						
Corporations	3,659,018	—	—	—	10,107	3,669,125
Financial institutions:						
Private	2,225,385	—	20,000	—	—	2,245,385
State-owned	719,882	—	—	—	—	719,882
	2,945,267	—	20,000	—	—	2,965,267
Sovereign	128,628	—	—	—	—	128,628
Total	**6,732,913**	**—**	**20,000**	**—**	**10,107**	**6,763,020**
Allowance for loan losses under IFRS [1]:	**33,639**	**—**	**16,141**	**—**	**5,420**	**55,200**

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)

33. Applicable laws and regulations (continued)

	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
Total	**5,655,344**	**68,668**	**10,593**	**—**	**—**	**5,734,605**
Allowance for loan losses IFRS [1]:	**22,713**	**13,577**	**5,186**	**—**	**—**	**41,476**
Loans at FVTPL						
Financial institutions:						
Private	5,313	—	—	—	—	5,313
Total	**5,660,657**	**68,668**	**10,593**	**—**	**—**	**5,739,918**

[1] As of December 31, 2022, and 2021, 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.

As of December 31, 2022, and 2021, there are no restructured loans.

Rule No.4-2013 defines as Past Due any credit facility for which payment of contractually agreed amounts present more than thirty (30) days in arrears, up to ninety (90) days; and as Delinquent, any credit facility for which payment of contractually agreed amounts present more than ninety (90) days in arrears, except for single-payment transactions and overdrafts, which will be considered Delinquent when payment exceeds thirty (30) days in arrears from the contractual payment date.

Below is the classification of the loan portfolio by maturity profile based on Rule No. 4-2013 and modified by Rule No. 8-2014:

	December 31, 2022			
	Current	Past due	Delinquent	Total
Loans at amortized cost				
Corporations	3,659,018	—	10,107	3,669,125
Financial institutions:				
Private	2,225,385	20,000	—	2,245,385
State-owned	719,882	—	—	719,882
	2,945,267	20,000	—	2,965,267
Sovereign	128,628	—	—	128,628
Total	**6,732,913**	**20,000**	**10,107**	**6,763,020**

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

33. Applicable laws and regulations (continued)

	December 31, 2021			
	Current	Past due	Delinquent	Total
Loans at amortized cost				
Corporations	3,022,386	—	—	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
	5,734,605	**—**	**—**	**5,734,605**
Loans at FVTPL				
Financial institutions:				
Private	5,313	—	—	5,313
Total	**5,739,918**	**—**	**—**	**5,739,918**

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, 2022					
	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Loans at amortized cost						
Impaired loans	—	—	20,000	—	10,107	30,107
Total	**—**	**—**	**20,000**	**—**	**10,107**	**30,107**

	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,	
	2022	2021
Non-accruing loans:		
Private corporations	30,107	10,593
Interest that would be reversed if the loans had been classified as non-accruing loans	1,173	598

As of December 31, 2022, and 2021, there was no interest income collected on loans in non-accrual status.

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.

33. Applicable laws and regulations (continued)

Methodology for the constitution of the regulatory credit reserve

The SBP 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:

- 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.
- When the calculation made in accordance with IFRS results in a higher reserve or provision for the bank compared to the one resulting from the use of the prudential standards issued by the SBP, the Bank will account the IFRS figures.
- 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.
- 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, 2022, and 2021, the total amount of the dynamic provision 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 allocation is restricted for dividend distribution purposes.

Capital reserve

In addition to capital reserves required by regulations, the Bank maintains a capital reserve of $95.2 million, which was voluntarily established. Pursuant to Article No. 69 of the Banking Law, reduction of capital reserves requires prior approval of SBP.

34. Subsequent events

The Bank announced a quarterly cash dividend of $0.25 US dollar cents per share corresponding to the fourth quarter of 2022. The cash dividend was approved by the Board of Directors on February 23, 2023 and will be paid on March 28, 2023 to the Bank's stockholders as of March 10 , 2023 record date.

In February 2023, the Board of Directors approved the grant restricted stock units to certain executives of the Bank with a grant date fair value of $4.6 million or 298,951 shares, out of which 74,744 shares were vested in March 2023. The remaining shares will be vested at a rate of 25% each year on the grant date´s anniversary.

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