



BANCO LATINOAMERICANO DE EXPORTACIONES, S. A.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Banco Latinoamericano de Exportaciones, S. A. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Latinoamericano de Exportaciones, S. A. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As further disclosed in Note 2(o) and 6 to the consolidated financial statements, the Bank changed its method of accounting for share-based compensation plan and its methodology for estimating generic allowances for credit losses in 2005.

KPMG

January 31, 2006
Panama, Republic of Panama

**BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2005 and 2004
(in US\$ thousands, except per share amounts)

Assets	Note	2005	2004
Cash and due from banks	3,19	US\$ 687	687
Interest-bearing deposits with banks (including pledged certificate of deposit of US\$5,000 and US\$4,200 for 2005 and 2004, respectively)	3,19	229,200	154,099
Securities available for sale	4,19	182,050	164,871
Securities held to maturity (market value of US\$26,325 in 2005 and US\$28,117 in 2004)	4,19	26,520	27,984
Loans	5,19	2,610,019	2,441,686
Less:			
Allowance for loan losses	6,19	39,448	106,352
Unearned income and deferred loan fees		5,577	7,013
Loans, net		<u>2,564,994</u>	<u>2,328,321</u>
Customers' liabilities under acceptances	19	110,621	32,530
Premises and equipment, net	7	3,253	3,508
Accrued interest receivable	19	30,254	15,448
Derivative financial instruments-assets	17,19	357	0
Other assets	16	11,295	5,491
Total assets		<u>US\$ 3,159,231</u>	<u>2,732,939</u>
Liabilities and Stockholders' Equity			
Deposits:	8,19		
Noninterest-bearing - Demand		US\$ 28,385	22,619
Interest-bearing - Time		1,018,233	841,541
Total deposits		<u>1,046,618</u>	<u>864,160</u>
Short-term borrowings	9,19	760,699	704,718
Medium and long-term borrowings and placements	10,19	533,860	403,621
Acceptances outstanding	19	110,621	32,530
Accrued interest payable	19	14,736	6,477
Derivative financial instruments - liabilities	17,19	297	0
Reserve for losses on off-balance sheet credit risk	6	52,086	33,101
Redeemable preferred stock (US\$10 par value)	11,19	5,149	7,860
Other liabilities		18,383	24,342
Total liabilities		<u>2,542,449</u>	<u>2,076,809</u>
Stockholders' equity:	12,13,14		
Class "A" common stock, no par value, assigned value of US\$6.67 (Authorized 40,000,000; issued and outstanding 6,342,189)		44,407	44,407
Class "B" common stock, no par value, assigned value of US\$6.67 (Authorized 40,000,000; issued and outstanding 3,214,344 in 2005 and 3,271,269 in 2004)		25,219	25,598
Class "E" common stock, no par value, assigned value of US\$6.67 (Authorized 100,000,000; issued and outstanding 28,540,242 in 2005 and 29,283,621 in 2004)		210,353	209,973
Additional paid-in capital in excess of assigned value		134,340	133,786
Capital reserves		95,210	95,210
Retained earnings		212,916	233,701
Treasury stock	12	(106,282)	(92,627)
Accumulated other comprehensive income	4,18	619	6,082
Total stockholders' equity		<u>616,782</u>	<u>656,130</u>
Commitments and contingent liabilities	16,19		
Total liabilities and stockholders' equity		<u>US\$ 3,159,231</u>	<u>2,732,939</u>

See accompanying notes to consolidated financial statements.

**BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.
AND SUBSIDIARIES**

Consolidated Statements of Operations

For Each of the Years in the Three - Year Period Ended December 31, 2005
(in US\$ thousands, except per share amounts)

	Note	2005	2004	2003
Interest income:				
Deposits with banks		US\$ 5,121	2,765	4,659
Investment securities:				
Investment available for sale		7,755	3,688	6,516
Investment held to maturity		2,219	2,218	1,275
Loans		101,728	67,481	85,945
Total interest income		<u>116,823</u>	<u>76,152</u>	<u>98,395</u>
Interest expense:				
Deposits		29,559	11,939	7,348
Short-term borrowings		20,408	9,388	12,051
Medium and long-term borrowings and placements		21,603	12,800	25,009
Total interest expense		<u>71,570</u>	<u>34,127</u>	<u>44,408</u>
Net interest income		45,253	42,025	53,987
Reversal of provision for loan losses	6	(54,155)	(111,400)	(69,508)
Net interest income after reversal of provision for loan losses		<u>99,408</u>	<u>153,425</u>	<u>123,495</u>
Other income (expense):				
Reversal (provision) for losses on off-balance sheet credit risk	6	(15,781)	871	(10,603)
Commission income, net		5,824	5,928	7,445
Derivatives and hedging activities		2,338	47	(7,988)
Recoveries (impairment) on securities	4	10,206	0	(953)
Net gain on sale of securities available for sale	4	206	2,922	22,211
Gain on early extinguishment of debt	10	0	6	789
Gain (loss) on foreign currency exchange		3	(194)	(382)
Other income, net		5	77	42
Net other income		<u>2,801</u>	<u>9,657</u>	<u>10,561</u>
Operating expenses:				
Salaries and other employee expenses		13,073	10,335	11,390
Depreciation of premises and equipment		869	1,298	1,512
Professional services		3,281	2,571	3,147
Maintenance and repairs		1,172	1,207	1,166
Other operating expenses		6,296	5,941	5,345
Total operating expenses		<u>24,691</u>	<u>21,352</u>	<u>22,560</u>
Income before cumulative effect of changes in accounting principles		77,518	141,730	111,496
Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology	6,15	2,733	0	0
Cumulative effect on prior year (to December 31, 2004) of an early adoption of the fair-value-based method of accounting stock-based employee compensation plan	14,15	(150)	0	0
Net income		<u>US\$ 80,101</u>	<u>141,730</u>	<u>111,496</u>
Basic earnings per share:	6,14,15			
Income before cumulative effect of changes in accounting principles		US\$ 2.01	3.61	3.88
Cumulative effect of changes in accounting principles		0.07	0.00	0.00
Net income per share		<u>US\$ 2.08</u>	<u>3.61</u>	<u>3.88</u>
Diluted earnings per share:	6,14,15			
Income before cumulative effect of changes in accounting principles		US\$ 1.99	3.60	3.88
Cumulative effect of changes in accounting principles		0.07	0.00	0.00
Net income per share		<u>US\$ 2.06</u>	<u>3.60</u>	<u>3.88</u>
Pro forma amounts, assuming the changes in accounting principles are applied retroactively:	6,14,15			
Income before effect of changes in accounting principles		US\$ 77,518	141,730	111,496
Less - Preferred stock dividends		0	0	(366)
Net income, as reported		77,518	141,730	111,130
Effect on prior years of a change in the credit loss reserve methodology		0	(8,244)	428
Effect on prior year of an early adoption of the fair-value based method of accounting stock-based employee compensation plan		0	(150)	0
Net income available to common stockholders for both basic and diluted earning per share		<u>US\$ 77,518</u>	<u>133,336</u>	<u>111,558</u>
Basic earning per share		<u>US\$ 2.01</u>	<u>3.40</u>	<u>3.89</u>
Diluted earnings per share		<u>US\$ 1.99</u>	<u>3.39</u>	<u>3.89</u>

See accompanying notes to consolidated financial statements.

**BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Stockholders' Equity
For Each of the Years in the Three - Year Period Ended December 31, 2005
(in US\$ thousands)

	<u>Note</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Common stock:				
Balance at beginning of the year		US\$ 279,978	279,978	133,235
Issuance of common stock	12,13	0	0	146,740
Difference in fractional shares in conversion of common stock		1	0	3
Balance at end of the year		US\$ <u>279,979</u>	<u>279,978</u>	<u>279,978</u>
Additional paid-in capital in excess of assigned value:				
Balance at beginning of the year		US\$ 133,786	133,786	145,490
Issuance of common stock	12,13	0	0	220
Compensation cost - indexed stock options plan	14	555	0	0
Difference in fractional shares in conversion of common stock		(1)	0	(3)
Stock offering costs		0	0	(11,921)
Balance at end of the year		US\$ <u>134,340</u>	<u>133,786</u>	<u>133,786</u>
Capital reserves:				
Balance at the beginning and end of the year		US\$ <u>95,210</u>	<u>95,210</u>	<u>95,210</u>
Retained earnings:				
Balance at beginning of the year		US\$ 233,701	150,789	40,740
Net income		80,101	141,730	111,496
Dividends - common stock		(100,825)	(58,702)	0
Dividends - redeemable preferred stock		0	0	(1,219)
Issuance of restricted stock		(57)	(116)	(228)
Stock awards granted		(4)	0	0
Balance at end of the year		US\$ <u>212,916</u>	<u>233,701</u>	<u>150,789</u>
Treasury stock:				
Balance at beginning of the year		US\$ (92,627)	(85,310)	(85,633)
Issuance of restricted stock		152	211	323
Stock awards granted	14	8	0	0
Repurchase of Class "E" common stock	12	(13,815)	(7,528)	0
Balance at end of the year		US\$ <u>(106,282)</u>	<u>(92,627)</u>	<u>(85,310)</u>
Accumulated other comprehensive income (loss):				
Balance at beginning of the year		US\$ 6,082	9,876	(118)
Net change in unrealized gains (losses) on securities available for sale	18	(5,463)	(4,178)	7,259
Net change in unrealized gains on derivatives		0	384	2,735
Balance at end of the year		US\$ <u>619</u>	<u>6,082</u>	<u>9,876</u>
Balance at beginning of the year		US\$ 656,130	584,329	328,924
Changes during the year, net		(39,348)	71,801	255,405
Balance at end of the year		US\$ <u>616,782</u>	<u>656,130</u>	<u>584,329</u>

See accompanying notes to consolidated financial statements.

**BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.
AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Income
For Each of the Years in the Three - Year Period Ended December 31, 2005
(in US\$ thousands)

	<u>Note</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income before cumulative effect of changes in accounting principles		US\$ 77,518	141,730	111,496
Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology	6	2,733	0	0
Cumulative effect on prior year (to December 31, 2004) of an early adoption of the fair value-based method of accounting stock-based employee compensation plan	14,15	(150)	0	0
Net income		US\$ <u>80,101</u>	<u>141,730</u>	<u>111,496</u>
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized gains (losses) arising from the year	4,18	(5,257)	(1,256)	29,470
Less: Reclassification adjustments for gains included in net income	18	(206)	(2,922)	(22,211)
Net change in unrealized gains (losses) on securities available for sale		<u>(5,463)</u>	<u>(4,178)</u>	<u>7,259</u>
Unrealized gains on derivatives arising from the year	18	0	384	2,735
Other comprehensive income (loss)		<u>(5,463)</u>	<u>(3,794)</u>	<u>9,994</u>
Comprehensive income		US\$ <u>74,638</u>	<u>137,936</u>	<u>121,490</u>

See accompanying notes to consolidated financial statements.

**BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

For Each of the Years in the Three - Year Period Ended December 31, 2005
(in US\$ thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Income before cumulative effect of changes in accounting principles:	US\$ 77,518	141,730	111,496
Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology	2,733	0	0
Cumulative effect on prior year (to December 31, 2004) of an early adoption of the fair-value based method of accounting stock-based employee compensation plan	(150)	0	0
Net income	<u>80,101</u>	<u>141,730</u>	<u>111,496</u>
Adjustments to reconcile net income to net cash provided by operating activities:			
Derivatives and hedging activities	(85)	(48)	1,274
Depreciation of premises and equipment	869	1,298	1,512
Reversal of provision for loan losses	(54,155)	(111,400)	(69,508)
Provision (reversal) for losses on off-balance sheet credit risk	15,781	(871)	10,603
Impairment loss on securities	469	0	953
Provision for fair value of guarantees	0	0	5
Gain on sale of securities available for sale	(206)	(2,922)	(22,211)
Compensation cost - indexed stock options plan	555	0	0
Issuance of restricted stock	95	95	95
Deferred compensation awards	3	0	0
Amortization of premiums and discounts on investments	2,343	1,175	(263)
Net (increase) decrease in accrued interest receivable	(14,806)	(4,517)	4,481
Net increase in derivative financial instruments	25	(10,333)	(1,223)
Net (increase) decrease in other assets	(5,804)	723	2,756
Net increase (decrease) in accrued interest payable	8,259	385	(6,075)
Net (decrease) increase in other liabilities	(5,958)	10,511	(1,796)
Net cash provided by operating activities	<u>27,486</u>	<u>25,826</u>	<u>32,099</u>
Cash flows from investing activities:			
(Increase) decrease in pledged certificates of deposit	(800)	(2,000)	2,800
Net (increase) decrease in loans	(179,315)	(173,687)	102,804
Net acquisition of premises and equipment	(614)	(688)	(544)
Proceeds from the redemption of securities available for sale	26,000	19,274	56,815
Proceeds from the redemption of securities held to maturity	0	0	11,818
Proceeds from the sale of securities available for sale	276,524	7,657	40,676
Acquisition of securities available for sale	(326,307)	(144,425)	0
Net cash (used in) provided by investing activities	<u>(204,512)</u>	<u>(293,869)</u>	<u>214,369</u>
Cash flows from financing activities:			
Net increase in due to depositors	182,458	161,205	150,982
Net increase (decrease) in short-term borrowings and placements with original maturity of less than 90 days	94,998	(183,024)	(25,574)
Proceeds from short-term borrowings and placements with original maturity greater than 90 days	908,729	936,355	870,584
Repayments of short-term borrowings and placements with original maturity greater than 90 days	(947,746)	(735,828)	(805,140)
Proceeds from medium and long-term borrowings and placements with original maturity greater than 90 days	309,962	256,728	100,099
Repayments of medium and long-term borrowings and placements with original maturity greater than 90 days	(179,723)	(338,623)	(900,075)
Dividends paid	(100,825)	(52,867)	(853)
Proceeds from issuance of common stocks	0	0	146,960
Stock offering costs	0	0	(7,841)
Redemption of redeemable preferred stocks	(2,705)	(2,425)	(2,260)
Repurchase of preferred stocks	(6)	0	0
Repurchase of common stocks	(13,815)	(7,528)	0
Net cash provided by (used in) financing activities	<u>251,327</u>	<u>33,993</u>	<u>(473,118)</u>
Net increase (decrease) in cash and cash equivalents	74,301	(234,050)	(226,650)
Cash and cash equivalents at beginning of the year	150,586	384,636	611,286
Cash and cash equivalents at end of the year	<u>US\$ 224,887</u>	<u>150,586</u>	<u>384,636</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	US\$ 63,298	33,742	50,483
Non-cash investing and financing activities:			
Loan restructured as investment	US\$ 0	0	933
Investment restructured as loan	US\$ 0	0	3,325
Transfer from securities available for sale to held to maturity	US\$ 0	0	29,821

See accompanying notes to consolidated financial statements.

**BANCO LATINOAMERICANO DE EXPORTACIONES, S. A.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(1) Organization

Banco Latinoamericano de Exportaciones, S. A. ("Bladex Head Office" and together with its subsidiaries "Bladex" or the "Bank"), headquartered in Panama City, Republic of Panama is a specialized supranational bank established to finance trade in Latin America and the Caribbean (the "Region"). The Bank was established pursuant to a May 1975 proposal presented to the XX 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, constituted in 1978 as a corporation pursuant to the laws of the Republic of Panama, and officially initiated operations on January 2, 1979.

The Bank operates under a general banking license issued by the National Banking Commission, predecessor of the Superintendency of Banks of Panama, and is subject to its supervision and inspection.

Bladex'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, on May 30, 2000 and continues to exist thereunder.
- Bladex Representacao Ltda., incorporated under the laws of Brazil on January 7, 2000 and continues to exist there under, was established to act as the Bank's representative office in Brazil. Bladex Representacao Ltda. is 99.999% owned by Bladex Head Office and 0.001% owned by Bladex Holdings Inc.

The Bank has an agency in the United States of America (the "New York Agency"), which began operations on March 27, 1989. The New York Agency is principally engaged in obtaining inter-bank deposits and short-term borrowings to finance the Bank's short-term investments and foreign trade loans. The Bank also has representative offices in Buenos Aires, Argentina, and in Mexico City, D.F., Mexico.

In addition, Banco Latinoamericano de Exportaciones Limited, a wholly owned subsidiary, incorporated under the laws of the Cayman Islands (B.W.I.) ceased its banking operations on November 30, 2004 and was dissolved on 2005. All financial assets and liabilities were transferred to Bladex Head Office and recorded at their carrying amount.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements have been prepared under generally accepted accounting principles in the United States of America ("U.S. GAAP"). All amounts presented in the consolidated financial statements and notes are expressed in U.S. dollars.

(b) Principle of Consolidation

The consolidated financial statements include the accounts of Bladex (Head Office), its agencies and subsidiaries. All significant inter-company balances and transactions have been eliminated for consolidation purposes.

Certain amounts in prior years have been reclassified to conform to the current year's presentation.

(c) Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowances for credit losses and impairment losses on securities.

(d) Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents consist of due from banks, interest-bearing deposits with banks with original maturities of three months or less, except certificates of deposit and banker's acceptances pledged.

(e) Repurchase and Resale Agreements

Repurchase and resale agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities will be subsequently reacquired or resold, including accrued interest, as specified in the respective agreements. The Bank's policy is to take possession of securities purchased under agreements to resell and to relinquish

possession of the securities sold under agreements to repurchase. The market value of securities to be repurchased and resold is monitored, and additional collateral is obtained where appropriate, to protect against credit exposure.

(f) Investment Securities

Securities are classified at the date of purchase based on the ability and intent to sell or hold them as investments. These securities consist of debt securities such as: negotiable commercial paper, banker's acceptances, bonds and floating rate notes and equity securities.

1) *Trading Securities*

Securities classified as trading have been bought and held principally for the purpose of selling them in the near term and are carried at fair value, which is determined based upon quoted prices when available, or if quoted market prices are not available, on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security. Changes in the fair value are recorded in earnings.

2) *Securities Available for Sale*

These securities consist of mostly debt instruments that the Bank buys with the intention of selling them prior to maturity, and are subject to the same approval criteria as the rest of the credit portfolio. These securities are carried at fair value, based on quoted market prices when available, or if quoted market prices are not available, on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security. Unrealized gains and losses are reported as net increase or decreases to accumulated other comprehensive income (loss) until they are realized.

3) *Securities Held to Maturity*

Securities classified as held to maturity represent securities that the Bank has the ability and the intent to hold until maturity and are carried at amortized cost and are subject to the same approval criteria as the rest of the credit portfolio.

Interests on securities are recognized based on the interest method. Amortization of premiums and accretion of discounts, are included in interest income as an adjustment to the yield. Realized gains and losses from the sales of securities, which are included in net gains on sales of securities, are determined using the specific identification method.

Declines in fair value that are determined to be other than temporary are charged to earnings. Accrual of income is suspended on fixed maturities that are in default, or on which it is likely that future interest payments will not be made as scheduled.

(g) Other Investments

An investment in a fund and other equity investments are reported at cost and are included in other assets.

(h) Loans

Loans are reported at their principal amounts outstanding net of unearned income, and deferred loan fees and allowance for loan losses. Interest income is recognized using the interest method. The amortization of net unearned income and deferred loan fees are recognized as an adjustment to the related loan yield over the term of the loan by a method that approximates the interest method.

Loans are identified as impaired and placed on a cash (non-accrual) basis when it is determined that the payment of interest or principal is doubtful when interest or principal is past due for 90 days or more, or before if the Bank's management determines that the ultimate collection of principal or interest is doubtful. Any interest receivable that was accrued during the current period is reversed and any interest accrued in prior periods is charged-off against earnings. Interest on non-accrual loans is only recorded as earned when collected. Cash basis loans are returned to an accrual status when (1) all contractual principal and interest amounts are reasonably assured of repayment (2) there is a sustained period of repayment performance in accordance with the contractual terms of at least six months, which is the minimum required by the Superintendency of Banks of Panama; and (3) if in the Bank's Management's opinion the loan is fully collectible. When current events or available information confirms that specific impaired loans or portions thereof are uncollectible, these credit losses are deducted from the allowance for loan losses. Factors considered by the Bank's management in determining impairment include collection status, collateral value, the probability of collecting scheduled principal and interest payment when due, and economic conditions in the borrowing country.

A loan is classified as a troubled debt restructuring if a significant concession in amount, maturity or interest rate is granted to the borrower due to the deterioration in its financial condition. Securities received in exchange for loan claims in debt

restructurings are initially recorded at fair value, with any gain or loss recorded as recovery to the allowance, and are subsequently accounted for as securities available for sale.

Transfers of financial assets, primarily loans, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Upon completion of a transfer of assets that satisfies the conditions described above to be accounted for as a sale, the Bank recognizes the assets as sold and records in earnings any gain or loss on the sale.

(i) Allowance for Credit Losses

The allowance for credit losses is provided for risk on losses, derived from the credit extension process, inherent in the loan portfolio and off-balance sheet financial instruments, using the reserve method of providing for credit losses. Additions to the allowance for credit losses are made by charges to earnings. Credit losses are deducted from the allowance, and subsequent recoveries are added. The allowance is also decreased by reversals of the allowance back to earnings.

Bladex's management estimate losses on impaired loans, on a loan-by-loan basis. This estimate considers all available evidence including, as appropriate, the present value of expected future cash flows discounted at the loan's contractual effective rate, the secondary market value of the loan, the fair value of the collateral, and other factors.

Bladex's management estimates probable credit losses on the rest of its credit portfolio using an expected loss forecast model, which considers historical loss experience, internal ratings, as well as country, client and risk elements. The model establishes guidelines for the application of management's qualitative judgment to complement the statistical estimate of losses. These guidelines take into consideration the potential impact of portfolio concentrations, the absence of a lender of last resort in a dollarized economy, such as Panama, model imprecision, and external economic factors.

The allowance attributable to loans is reported as a deduction of loans and the allowance for off-balance sheet credit risk, such as: letters of credit and guarantees, is reported as liabilities.

(j) Fair Value of Guarantees Including Indirect Indebtedness of Others

The Bank recognizes a liability for the fair value of all the obligations undertaken such as: stand-by letters of credit and guarantees. Fair value is calculated based on the present value of the premium to be received or an specific off-balance sheet allowance based on FAS 5 is established, whichever is greater.

(k) Commission Income

Loan origination fees, net of direct loan origination costs are deferred and the net amount is recognized over the contractual term of the loans as an adjustment to the yield. These fees, net of direct loan origination costs, are not recognized during periods in which interest income on loans is suspended because of concerns about the realization of loan principal or interest.

Fees received in connection with a modification of terms of a troubled debt restructuring are applied as a reduction of the recorded investment in the loan. All related costs, including direct loan origination costs, are charged to expense as incurred. Fees earned on letters of credit, guarantees and commitments are amortized over the life of such instruments.

(l) Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation, except land, which is carried at cost. Depreciation is charged to operations using the straight-line method, and is provided over the estimated useful life of the related asset. The estimated original useful life for building is 40 years and for furniture and equipment is 3 to 5 years.

(m) Capitalized Internal Use Software Costs

The Bank capitalizes the cost of internal-use software that has a useful life in excess of one year in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". These costs consist of payments made to third parties related to the use of licenses and installation of both, software and hardware, and other related costs. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized internal use software costs will be amortized using the straight-line method over their estimated useful lives, generally consisting of 3 to 7 years.

During the year 2005, the Bank disbursed US\$2,445 thousand related to a project to install a software package obtained for internal-use. The Bank's management estimates that the project will be completed during 2006.

Impairment is evaluated considering numerous factors, and their relative significance varies case to case. Factors considered include the length of time and extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss is recognized through earnings.

The unrealized losses are due to overall increases in market interest rates and not due to underlying credit concerns of the issuers. At December 31, 2005 and 2004, the Bank believes that none of the securities in its investment portfolio are other-than-temporarily impaired.

At December 31, 2005 and 2004, securities available for sale with a carrying value of US\$119.3 million and US\$62.4 million, respectively, were pledged to secure borrowings for securities sold under repurchase agreements.

During 2005, the Bank collected Argentine impaired securities for US\$10.7 million which had been written-off and charged to earnings in prior years. This recovery was recorded in earnings as recoveries (impairment) on securities. During the year, an impaired security with a net carrying value of US\$469 thousand was written-off and charged to earnings.

The following table presents the realized components of investment securities transactions attributable to securities available for sale:

(In US\$ thousands)	December 31,					
	2005		2004		2003	
	Gains	Losses	Gains	Losses	Gains	Losses
US\$	253	47	2,922	0	22,211	0

The amortized cost and fair value of securities available for sale distributed by contractual maturity at December 31, 2005, are shown in the following table:

(In US\$ thousands)		Amortized Cost	Fair Value
Due within 1 year	US\$	20,000	20,000
After 1 but within 5 years		104,071	103,003
After 5 years		58,620	59,047
	US\$	182,691	182,050

b) Securities Held to Maturity

The amortized cost, quoted market value, and related unrealized gross gain of securities held to maturity are as follows:

(In US\$ thousands)		December 31, 2005			
		Amortized Cost	Unrealized Gross Gain	Unrealized Gross Loss	Fair Value
Bonds - Government	US\$	26,520	0	195	26,325
		December 31, 2004			
		Amortized Cost	Unrealized Gross Gain	Unrealized Gross Loss	Fair Value
Bonds - Government	US\$	27,984	133	0	28,117

The security held to maturity has been in unrealized gross loss position for less than 12 month and the unrealized loss is not considered other-than-temporary.

At December 31, 2005 and 2004, securities held to maturity with a carrying value of US\$26.5 million and US\$27.9 million, respectively, were pledged to secure borrowings for securities sold under repurchase agreements.

(5) Loans

The remaining loan maturities are summarized as follows:

(In US\$ thousands)	December 31,	
	2005	2004
Current		
Up to 1 month	US\$ 397,745	255,891
From 1 month to 3 months	601,557	356,777
From 3 months to 6 months	592,223	617,428
From 6 months to 1 year	521,367	614,783
Over 1 year	468,305	341,255
Impaired	0	12,500
	2,581,197	2,198,634
Restructured and impaired	28,822	238,777
Past due	0	4,275
	US\$ 2,610,019	2,441,686

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

(In US\$ thousands)	December 31,	
	2005	2004
Fixed interest rates	US\$ 1,561,893	1,480,457
Floating interest rates	1,048,126	961,229
	US\$ 2,610,019	2,441,686

At December 31, 2005, 89% of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days.

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

(In US\$ thousands)	December 31,	
	2005	2004
Country		
Argentina	US\$ 51,215	206,782
Brazil	1,095,055	1,054,073
Chile	282,500	321,500
Colombia	249,025	148,262
Costa Rica	53,962	37,507
Dominican Republic	997	242
Ecuador	25,407	51,047
El Salvador	80,753	44,473
Guatemala	41,303	38,040
Honduras	25,654	5,957
Jamaica	24,018	26,123
Mexico	160,737	262,156
Nicaragua	1,977	4,808
Panama	156,061	89,298
Peru	180,156	54,692
Trinidad and Tobago	177,498	92,121
Uruguay	3,701	0
Venezuela	0	4,605
	US\$ 2,610,019	2,441,686

In the normal course of business, at December 31, 2005 and 2004, the Bank has credit activity transactions with 22% and 23%, respectively of its Class "A" and "B" stockholders (See Note 12). All transactions are made based on arm's-length terms and subject to prevailing commercial criteria and market rates and are subject to all of the Bank's Corporate Governance and control procedures. At December 31, 2005 and 2004, approximately 40% and 49%, respectively, of the outstanding loan portfolio is placed with the Bank's Class "A" and "B" stockholders and their related parties. At December 31, 2005, the Bank was not directly or indirectly owned or controlled by another corporation or any foreign government, and no Class "A" or "B" shareholder was the registered owner of more than 3.5% of the total outstanding shares of the voting capital stock of the Bank.

The following is a summary of information on non-accruing loans, and interest amounts on non-accruing loans:

		December 31,		
		2005	2004	2003
Loans on non-accrual status	US\$	<u>28,822</u>	<u>255,552</u>	<u>444,876</u>
Interest which would had been recorded if the loans had not been on a non-accrual status	US\$	<u>7,004</u>	<u>18,716</u>	<u>28,889</u>
Interest income collected on non-accruing loans		<u>7,670</u>	<u>18,692</u>	<u>24,086</u>
Foregone interest revenue	US\$	<u>0</u>	<u>24</u>	<u>4,803</u>

The following is a summary of information pertaining to impaired loans:

		December 31,		
		2005	2004	2003
Impaired loans with specific allowance for credit losses	US\$	<u>28,822</u>	<u>255,552</u>	<u>444,876</u>
Specific allowance for impaired loans (under SFAS 114)	US\$	<u>11,184</u>	<u>81,725</u>	<u>191,293</u>
Average balance of impaired loans during the year	US\$	<u>105,964</u>	<u>356,278</u>	<u>572,812</u>
Interest income collected on impaired loans	US\$	<u>7,670</u>	<u>18,692</u>	<u>24,086</u>

(6) Allowance for Credit Losses

The allowance for credit losses is available to absorb estimated probable credit losses existing in the credit portfolio at the date of the consolidated balance sheets.

During the third quarter of 2005, Bladex implemented a new methodology for estimating generic allowances for credit losses. The new methodology incorporates eight years of statistical data on Bladex's historical loss performance in the calculation of expected loss and loss given default ratios replacing the use of general probability of default information from rating agencies in the former model. The Bank believes that this new methodology provide a more adequate level of allowance for credit losses.

The effect of the change in methodology for 2005 decreased the net income by US\$10 million (or US\$0.26 per share). The adjustment of US\$2.7 million to apply retroactively (to December 31, 2004) the new methodology is included in income of 2005. The pro-forma amounts shown on the income statement have been adjusted for the effect of retroactive application of credit loss reserve, which would have been applied, had the new methodology been in effect.

The Bank classifies the allowance for credit losses into two components:

a) Allowance for Loan Losses:

		December 31,		
		2005	2004	2003
Balance at beginning of the year	US\$	<u>106,352</u>	<u>224,347</u>	<u>429,720</u>
Reversal of provision for loan losses:				
Reversal - 2005		(48,180)	(111,400)	(69,508)
Reversal - effect of a change in the credit loss reserve methodology - 2005		(5,975)	0	0
		<u>(54,155)</u>	<u>(111,400)</u>	<u>(69,508)</u>
Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology		(5,937)	0	0
Loan recoveries		2,612	6,396	1,971
Loans written-off against the allowance for loan losses		(9,424)	(12,991)	(137,836)
Balance at end of the year	US\$	<u>39,448</u>	<u>106,352</u>	<u>224,347</u>

b) Reserve for Losses on Off-Balance Sheet Credit Risk:

		December 31,		
		2005	2004	2003
Balance at beginning of the year	US\$	<u>33,101</u>	<u>33,972</u>	<u>23,369</u>
Provision (reversal) for losses on off-balance sheet credit risk:				
Provision (reversal) - 2005		(210)	(871)	10,603
Provision - effect of a change in the credit loss reserve methodology - 2005		<u>15,991</u>	<u>0</u>	<u>0</u>
		<u>15,781</u>	<u>(871)</u>	<u>10,603</u>
Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology		3,204	0	0
Balance at end of the year	US\$	<u>52,086</u>	<u>33,101</u>	<u>33,972</u>

The reserve for losses on off-balance sheet credit risk reflects the Bank's management estimate of probable losses on off-balance sheet credit risk items, such as: confirmed letters of credit, stand-by letters of credit, guarantees and credit commitments. (See Note 16).

(7) Premises and Equipment

The table below provides information on premises and equipment:

		December 31,	
		2005	2004
Land	US\$	462	462
Building and improvements		4,185	4,148
Furniture and equipment		<u>7,743</u>	<u>8,079</u>
		<u>12,390</u>	<u>12,689</u>
Less: accumulated depreciation		<u>9,137</u>	<u>9,181</u>
	US\$	<u>3,253</u>	<u>3,508</u>

(8) Deposits

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

		December 31,	
		2005	2004
Demand	US\$	28,385	22,619
Up to 1 month		575,362	475,821
From 1 month to 3 months		361,071	261,290
From 3 months to 6 months		81,800	103,001
From 6 months to 1 year		0	1,429
	US\$	<u>1,046,618</u>	<u>864,160</u>
Aggregate amounts of time deposits of US\$100,000 or more	US\$	<u>1,018,038</u>	<u>841,541</u>
Aggregate amounts of deposits in offices outside of Panama	US\$	<u>350,026</u>	<u>301,495</u>
Interest expense	US\$	<u>8,853</u>	<u>4,485</u>

On August 3, 2004, the Board of Directors authorized a three-year stock repurchase program under which Bladex may, from time to time, repurchase up to an aggregate of US\$50 million of its Class E shares of common stock, in the open market at the then prevailing market price.

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

(In US\$ thousands, except shares data)

	Class "A"		Class "B"		Class "E"		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Outstanding at December 31, 2002	318,140	10,708	568,010	15,655	1,750,505	59,271	2,636,655	85,634
Restricted stocks granted	0	0	0	0	(9,547)	(323)	(9,547)	(323)
Outstanding at December 31, 2003	318,140	10,708	568,010	15,655	1,740,958	58,948	2,627,108	85,311
Repurchased during 2004	0	0	0	0	461,900	7,527	461,900	7,527
Restricted stocks granted	0	0	0	0	(6,242)	(211)	(6,242)	(211)
Outstanding at December 31, 2004	318,140	10,708	568,010	15,655	2,196,616	66,264	3,082,766	92,627
Repurchased during 2005	0	0	0	0	805,900	13,815	805,900	13,815
Restricted stocks granted	0	0	0	0	(5,320)	(152)	(5,320)	(152)
Stock awards granted	0	0	0	0	(276)	(8)	(276)	(8)
Outstanding at December 31, 2005	<u>318,140</u>	<u>10,708</u>	<u>568,010</u>	<u>15,655</u>	<u>2,996,920</u>	<u>79,919</u>	<u>3,883,070</u>	<u>106,282</u>

(13) Capital Issuance and Related Costs

During 2003, the Bank increased its paid-in capital by US\$147 million through a stock rights offering. At December 31, 2003, the accumulated direct costs provided by the financial advisors as well as legal and others were US\$11.9 million, which was recorded as a deduction from additional paid-in capital.

(14) Cash and Stock Based Compensation Plans

The Bank established equity compensation plans under which it administers restricted stock and stock options plans to attract, retain and motivate Directors, and key employees to compensate them for their contributions to the growth and profits of the Bank.

a) Restricted Stock – Directors

During 2003, the Board of Directors approved a restricted stock award program for non-employee Directors of the Bank. Restricted stock may be sourced from treasury stock, or authorized un-issued shares. On a yearly basis, the Bank's Board of Directors may grant Class "E" shares for each Director worth US\$10 thousand, and to the Chairman of the Board worth US\$15 thousand, all based on Bladex's closing price in the NYSE at the last trading date preceding the grant. The restricted stocks have a cliff vesting after five years. During 2005, 2004 and 2003, the Bank issued under this plan, 5,320, 6,242 and 9,547, Class "E" common shares respectively, and related compensation costs charged against income was US\$95 thousand for each year.

b) Indexed Stock Option Plan 2003 – Directors and Key Employees

During 2003, the Board of Directors approved an indexed stock option plan for non-employee Directors and key employees of the Bank. On annual basis, the plan allows Directors to receive options to purchase Class "E" shares from treasury shares already held, for an equivalent amount of US\$10 thousand, and for the Chairman of the Board, an equivalent amount of US\$15 thousand. The number of options granted for key employees is determined by the Board of Directors based on the target of each eligible position and the value of the option at grant date.

The indexed stock options expire in seven years with a cliff-vesting period of four years. The exercise price is adjusted based on the change in a customized Latin America general market index.

A summary of the status of the share options granted under the indexed stock option plans is presented below:

	December 31,			
	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	184,836	18.53	0	US\$ 0
Granted	152,084	17.30	186,886	12.19
Forfeited	(29,907)	17.30	(2,050)	12.19
Outstanding, end of year	<u>307,013</u>	<u>17.30</u>	<u>184,836</u>	<u>12.19</u>
Exercisable at year end	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Weighted average fair value of options granted during the year		US\$ 5.18		US\$ 6.54

Range of Exercise Prices	December 31, 2005		
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (In years)
US\$10.00 - 20.00	307,013	US\$ 13.95	5.48

As of December 31, 2005, the Bank had an unrecognized compensation cost of US\$1.1 million related to non-vested options granted under the Plan, which will be recognized over a period of 3.08 years.

The fair value of each option granted is estimated at the grant date using the Black-Scholes option-pricing model, based on the following factors:

	December 31,	
	2005	2004
Weighted average fair value option	5.25	6.62
Weighted average expected term	6.17 years	5.37 years
Expected volatility	51.37%	51.37%
Risk-free rate	3%	3%
Expected dividends	6.70%	6.70%

c) Stock Option Plan - Directors and Employees

During 2000, the Board of Directors approved a stock option plan for non-employee Directors of the Bank. The exercise price of each option must equal 100% of the market value of the stock at the grant date and becomes 100% exercisable one year after the grant date and expire on the fifth year after the grant date.

During 1995 and 1999, the Board of Directors approved two stock option plans for employees (the "1995 and 1999 Stock Option Plan"). For 1995 and 1999, stock option plans, the stock options were granted at a purchase price equal to the average market value of the common stock at the grant date; one third of the options may be exercised on each successive year and two years, respectively, after the grant date and expire on the tenth anniversary after the grant date.

On July 19, 2003, the Board of Directors approved discontinuing these plans therefore, no additional stock options have been granted.

A summary of the status of the stock options granted to Directors and employees is presented below:

	December 31,					
	2005		2004		2003	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding, beginning of year	102,012	US\$ 36.12	228,625	US\$ 36.86	247,642	US\$ 37.23
Forfeited	(37,483)	US\$ 35.35	0	0	0	0
Expired	(8,436)	US\$ 37.88	(126,613)	US\$ 37.46	(19,017)	US\$ 41.66
Outstanding, end of year	<u>56,093</u>	<u>US\$ 34.34</u>	<u>102,012</u>	<u>US\$ 36.12</u>	<u>228,625</u>	<u>US\$ 36.86</u>
Exercisable at year end	<u>56,093</u>	<u>US\$ 34.34</u>	<u>93,989</u>	<u>US\$ 36.40</u>	<u>191,210</u>	<u>US\$ 38.00</u>

Range of Exercise Prices	December 31, 2005				
	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Number Exercisable	Weighted Average Exercise Price
US\$20.00 - 30.00	17,343	US\$ 23.10	4 years	17,343	US\$ 23.10
US\$30.01 - 40.00	18,950	US\$ 32.88	5 years	18,950	US\$ 32.88
US\$40.01 - 50.00	10,300	US\$ 42.06	2 years	10,300	US\$ 42.06
Greater than US\$50.00	9,500	US\$ 51.19	1 year	9,500	US\$ 51.19
Total	<u>56,093</u>	<u>US\$ 34.29</u>		<u>56,093</u>	<u>US\$ 34.29</u>

d) Other Employee Plans

Expatriate officers plan:

The Bank sponsors a defined contribution plan for its expatriate top executives. The Bank's contributions are determined as a percentage of the eligible officers' annual salary, with each officer contributing an additional amount withheld from his salary and deposited in a saving account, at market interest rates. During the years 2005, 2004 and 2003, the Bank charged to salaries expense, US\$165 thousand, US\$179 thousand, and US\$140 thousand, respectively. As of December 31, 2005, 2004 and 2003, the accumulated liability payable amounted to US\$484 thousand, US\$356 thousand and US\$572 thousand, respectively.

Deferred equity unit plan (the "DEU Plan"):

The DEU Plan allowed eligible employees to invest up to 25% of their annual profit sharing in Class "E" shares. The employee received a grant of one DEU for every two participating shares. Every DEU represented the right to receive a Class "E" share. On July 19, 2003, the Bank's Board of Directors approved discontinuing this plan and consequently, no additional options were granted. During December 2005, 2004, and 2003, the Bank recorded as expense the market value of the related Class "E" shares of US\$0.2 thousand, US\$0.2 thousand and US\$1.9 thousand, respectively corresponding to 122 DEU to be exercisable in February 2006.

Deferred compensation plan (the "DC Plan"):

The DC Plan has two separate features. Under the first component, the Bank may grant to each eligible employee a number of DEU equal to an amount equivalent to a percentage, not to exceed 3%, of the employee's compensation, divided by the market value of a Class "E" share. Eligible employees will vest the DEU after three years of service. Distributions are made in respect of DEU on the later of (i) the date the vested DEU are credited to an employee's account and (ii) ten years after the employee is first credited with DEU under the DC Plan. Participating employees receive dividends, and receive additional deferred equity units in lieu of a dividend with respect to their unvested deferred equity units. The second component allows employees who are not citizens or residents of the United States to defer a percentage of their compensation, and receive discretionary matching cash contribution. In no event shall the value of (i) the discretionary matching cash contribution made on behalf of an employee and (ii) the grant of deferred equity units made to such employees exceed 6% of the employee's annual base compensation. On July 19, 2003, the Board of Directors approved discontinuing this plan; consequently, no additional options have been granted.

A summary of the status of the DC Plan is presented below:

	December, 31		
	2005	2004	2003
Outstanding at the beginning of the year	28,351	28,890	9,114
Granted	0	0	20,140
Forfeited	0	(82)	(281)
Exercised	(398)	(457)	(83)
Outstanding at end of the year	<u>27,953</u>	<u>28,351</u>	<u>28,890</u>

As of December 31, 2005, 2004 and 2003, expenses recorded were US\$67 thousand, US\$32 thousand and US\$59 thousand, respectively.

(15) Earnings Per Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the dates indicated:

(In US\$ thousands, except per share amounts)

	December 31,		
	2005	2004	2003
Income before cumulative effect of changes in accounting principles:	US\$ 77,518	141,730	111,496
Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology	2,733	0	0
Cumulative effect on prior year (to December 31, 2004) of an early adoption of the fair-value-based method of accounting stock-based employee compensation	(150)	0	0
Net income	<u>80,101</u>	<u>141,730</u>	<u>111,496</u>
Less - Preferred stock dividends	0	0	366
Net income available to common stockholders for both, basic and diluted EPS	80,101	141,730	111,130
Weighted average common shares outstanding applicable to basic EPS	38,550	39,232	28,675
Basic earnings per share:			
Income before cumulative effect of changes in accounting principles	2.01	3.61	3.88
Cumulative effect on prior years of accounting changes	0.07	0	0
Net income per share	<u>US\$ 2.08</u>	<u>3.61</u>	<u>3.88</u>
Weighted average common shares outstanding applicable to diluted EPS	38,550	39,232	28,675
Effect of dilutive securities ⁽¹⁾ :			
Indexed stock option plans	310	139	0
Adjusted weighted average common shares outstanding applicable to diluted EPS	38,860	39,371	28,675
Diluted earnings per share:			
Income before cumulative effect of changes in accounting principles	1.99	3.60	3.88
Cumulative effect on prior years of accounting changes	0.07	0	0
Net income per share	<u>US\$ 2.06</u>	<u>3.60</u>	<u>3.88</u>
Pro forma amounts, assuming the changes in accounting principles are applied retroactively:			
Income before the effect of changes in accounting principles:	US\$ 77,518	141,730	111,496
Less - Preferred stock dividends	0	0	(366)
Net income, as originally reported	<u>77,518</u>	<u>141,730</u>	<u>111,130</u>
Effect on prior years of a change in the credit loss reserve methodology	0	(8,244)	428
Effect on prior year of early adoption of the fair-value-based method of accounting stock-based employee compensation	0	(150)	0
Net income available to common stockholders for both, basic and diluted EPS	77,518	133,336	111,558
Basic earning per share	<u>US\$ 2.01</u>	<u>3.40</u>	<u>3.89</u>
Diluted earning per share	<u>US\$ 1.99</u>	<u>3.39</u>	<u>3.89</u>

(1) At December 31, 2005 and 2004, weighted average options for 98,806 and 145,460, respectively, were excluded from the computation of diluted EPS because the option's exercise price was greater than the average quoted market price of the Bank's common stock.

(16) Financial Instruments with Off-Balance Sheet Credit Risk

In the normal course of business, to meet the financing needs of its customers, the Bank is party to financial instruments with off-balance sheet credit risk. These financial instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized in the consolidated balance sheets. 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 financial instruments with off-balance sheet credit risk, were as follows:

<i>(In US\$ thousands)</i>	December 31,	
	2005	2004
Confirmed letters of credit	US\$ 155,547	51,323
Stand-by letters of credit and guarantees:		
Country risk	149,921	83,060
Commercial risk	239,112	120,994
Credit commitments:		
At fixed interest rates	138,228	4,770
At floating interest rates	0	15,632
Reimbursement undertaking	904	0
	US\$ <u>683,712</u>	<u>275,779</u>

As of December 31, 2005, the maturity profile of the Bank's outstanding financial instruments with off-balance sheet credit risk is as follows:

<i>(In US\$ thousands)</i>	
Within 1 year	US\$ 411,446
From 1 to 2 years	94,271
From 2 to 5 years	175,102
After 5 years	2,893
	US\$ <u>683,712</u>

As of December 31, 2005 and 2004 the breakdown of the Bank's off-balance sheet exposure by country risk is as follows:

<i>(In US\$ thousands)</i>	December 31,	
	2005	2004
Country		
Argentina	US\$ 2,316	5,000
Brazil	264,160	114,832
Chile	132	519
Colombia	500	410
Costa Rica	31,797	133
Dominican Republic	126,559	27,189
Ecuador	82,355	49,586
El Salvador	1,367	11,851
Guatemala	4,084	2,200
Jamaica	22,715	0
Mexico	2,957	14,959
Panama	15,350	10,125
Peru	49,779	30,530
Uruguay	3,024	0
United States	16,677	0
Venezuela	59,460	189
Other	480	8,256
	US\$ <u>683,712</u>	<u>275,779</u>

Letters of Credit and Guarantees

The Bank, on behalf of its institutional client base, advises and confirms letters of credit to facilitate foreign trade transactions. When confirming letters of credit, the Bank adds its own unqualified assurance that the issuing bank will pay and that if the issuing bank does not honor drafts drawn on the credit, the Bank will.

The Bank provides stand-by letters of credit and guarantees (including country risk coverage), which are issued on behalf of institutional customers in connection with financing between the customers and third parties. The Bank applies the same credit policies used in its lending process and, once issued, the commitment is irrevocable and remains valid until its expiration. Credit risk arises from the Bank's obligation to make payment in the event of a customer's contractual default to a third party. Risks associated with stand-by letters of credit and guarantees are included in the evaluation of overall credit risk.

The Bank issues stand-by letters of credit and guarantees to provide coverage for country risk arising from the risk of convertibility and transferability of local currency of countries in the Region into hard currency and to provide coverage for country risk arising from political risks, such as expropriation, nationalization, war and/or civil disturbances.

Credit Commitments

Commitments to extend credit are a combination of either non-binding or legal agreements to lend to a customer. Commitments generally have fixed expiration dates or other termination clauses and may 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.

Other Commitments

Private Investment Fund and Other Investments

The Bank is committed to invest US\$5 million in an investment fund whose main objective is investing in the Mexican export industry and its supply chain. Additionally, the Bank has an equity investment in a company specialized in digital identity solutions. These investments are recorded as other assets and are carried at cost. At December 31, 2005 and 2004, these investments totaled US\$2.7 and US\$1.3 million, respectively.

At December 31, 2005, the Bank did not estimate the fair value of these investments and has not identified any events or changes in their financial conditions that may have had a significant adverse effect on the fair value of these investments. The Bank does not consider these investments to be other-than-temporary impaired.

Purchase Agreements

The Bank has signed service agreements with certain vendors that provide services that are necessary for the ongoing operations of its business and mainly related to the implementation during 2005 and 2006, of a new technology platform and telecommunications services. The terms of these agreements are up to 8 years and some of these agreements can be re-negotiated for annual or semi-annual price adjustments, after the fifth year. These agreements also include maintenance and license payments, starting from 2007. During 2005 amounts paid under these agreements are US\$2 million.

Under the terms of these agreements, the Bank has committed to contractually specified minimums payments over the contractual periods. The contractual minimums payments are:

<i>(In US\$ thousands)</i>	
2006	US\$ 5,498
2007	699
2008	699
2009	644
2010 and all years thereafter	3,388
	US\$ <u>10,928</u>

A certain portion of these payments will be amortized over the estimated useful lives of the assets.

To the extent that the Bank does not purchase the contractual minimum amount of services, the Bank must pay the shortfall to the vendors. The Bank believes that it will meet the contractual minimums payments through the normal course of business.

(17) Derivative Financial Instruments

The Bank records financial instruments that are considered to be derivatives on the consolidated balance sheets at their fair value. For control purposes, these financial instruments are recorded at their nominal amount ("notional amount") on the memorandum accounts.

In the normal course of business, the Bank uses interest rate and foreign exchange derivatives primarily for hedging purposes in its consolidated balance sheet management activities. 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 payment or vice-versa. The Bank also engages in some foreign exchange trades to serve customers' transaction needs. All positions are hedged with an offsetting contract for the same currency. The Bank manages and controls the risks on these foreign exchange trades by establishing counter party credit limits by client, and by adopting policies that do not allow for open positions.

Types of Derivative and Foreign Exchange Instruments

Derivative and foreign exchange instruments negotiated by the Bank are executed mainly over-the-counter (OTC). These contracts are executed between two counter parties that negotiate specific agreement terms, including notional amount, exercise price and maturity.

For purposes of asset/liability activities, the Bank uses the following instruments:

Interest rate swaps are contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. The Bank has designated these derivative instruments as fair value hedges, cash flow hedges and freestanding derivatives.

Cross-currency swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. The Bank has designated these derivative instruments as fair value hedges.

Forward foreign exchange contract represents an agreement to purchase or sell foreign currency on a future date at agreed-upon terms. The Bank has not designated a hedging relationship to these derivative instruments.

As of December 31, 2005, the Bank had interest rate swaps for a notional amount of US\$114.7 million and a recorded fair value of US\$0.1 million. During 2005, the Bank settled prior to maturity certain hedge relationships accounted for as fair value hedges, and recorded US\$2.1 million in other income-derivative and hedging activities. These interest rate swaps were considered highly effective at reducing the interest rate risk associated to available for sale securities. As of December 31, 2005, the fair value hedge ineffective net gain of US\$84 thousand was reported in earnings. There were no derivative financial instruments outstanding at December 31, 2004.

(18) Accumulated Other Comprehensive Income (Loss)

As of December 31, 2005, 2004 and 2003 the breakdown of accumulated other comprehensive income (loss) related to investment securities and derivatives was as follows:

(In US\$ thousands)

	Investment Securities	Derivatives Financial Instruments	Total
Balance as of December 31, 2002	US\$ 3,001	(3,119)	(118)
Unrealized gains (losses) arising from the year	29,470	2,735	32,205
Reclassification adjustment for gains included in net income ⁽¹⁾	(22,211)	0	(22,211)
Balance as of December 31, 2003	10,260	(384)	9,876
Unrealized gains (losses) arising from the year	(1,256)	384	(872)
Reclassification adjustment for gains included in net income ⁽¹⁾	(2,922)	0	(2,922)
Balance as of December 31, 2004	6,082	0	6,082
Unrealized losses arising from the year	(5,257)	0	(5,257)
Reclassification adjustment for gains included in net income ⁽¹⁾	(206)	0	(206)
Balance as of December 31, 2005	US\$ 619	0	619

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

(19) Fair Value Disclosure of Financial Instruments

The following disclosures represent the Bank's best estimate of the fair value of on-and-off-balance financial instruments. The following assumptions were used by management in estimating the fair values of each type of financial instruments:

(a) Financial instruments with carrying value equal to fair value

The carrying value of certain financial assets, including cash and due from banks, interest-bearing deposits with banks, securities purchased under agreements to resell, accrued interest receivable, customers' liabilities under acceptances and certain financial liabilities including, interest, other liabilities and acceptances outstanding, as a result of their short-term nature, is considered to be equal to fair value.

(b) Investment securities

The fair value of investment securities has been based upon current market quotations, where available. If quoted market prices are not available, fair value has been estimated based upon quoted price of similar instruments.

(c) Loans

The fair value of the performing loan portfolio has been determined principally based upon a discounted analysis of anticipated cash flows adjusted for expected credit losses. The loans have been grouped to the extent possible, into homogeneous pools, segregated by maturity and the weighted average maturity of the loans within each pool. Depending upon the type of loan involved, maturity assumptions have been based on either contractual or expected maturity.

Credit risk has been factored into the present value analysis of cash flows associated with each loan type, by allocating allowances for loan losses. The allocated portion of the allowance, adjusted by a present value factor based upon the timing of expected losses, has been deducted from the gross cash flows prior to calculating the present value. The fair value of the non-performing loans has been determined net of related allowance for loan losses.

(d) Deposits

The fair value of demand deposits is equal to the amount payable on demand at the reporting date. For time deposits, fair value has been estimated based upon interest rates currently being offered on deposits with similar characteristics and maturities.

(e) Short-term borrowings

The fair value of short-term borrowings is estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar types of borrowing arrangements, and the carrying value approximates fair value because of the relative short period of time between their origination and expected realization.

(f) Medium and long-term borrowings and placements

The fair value of medium and long-term borrowings and placements is estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar types of borrowing arrangements.

(g) Derivative financial instruments

The fair value of derivatives financial instruments and options is based upon quoted market prices.

(h) Commitments to extend credit, stand-by letters of credit, and financial guarantees written

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparts at the reporting date.

Fair values have been determined based on applicable requirements and do not necessarily represent the amount that would be realized upon liquidation. The following table provides information on the carrying value and fair value of the Bank's financial instruments:

	December 31,			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In US\$ thousands)</i>				
Financial assets:				
Instruments with carrying value equal to fair value	US\$ 370,762	370,762	202,764	202,764
Securities available for sale	182,050	182,050	164,871	164,871
Securities held to maturity	26,520	26,325	27,984	28,117
Loans, net of allowance	2,564,994	2,590,429	2,327,545	2,349,327
Derivatives financial instruments - assets	357	357	0	0
Financial liabilities:				
Instruments with carrying value equal to fair value	US\$ 158,891	158,891	69,487	69,487
Time deposits	1,018,233	1,018,233	841,541	841,541
Short-term borrowings	760,699	760,699	704,718	704,718
Medium and long-term borrowings and placements	533,860	527,657	403,621	398,869
Derivatives financial instruments - liabilities	297	297	0	0
Commitments to extend credit, stand-by letters of credits and guarantees	683,712	1,532	275,779	1,136

(20) Business Segment Information

The Bank's businesses are grouped into three segments for management reporting and analysis purposes: Securities, short-term loans, medium-term loans, acceptances and contingencies (letters of credit, guarantees and other fee generating businesses). These segments are based upon products and services offered and are identified in a manner consistent with the requirements outlined on Statement of Financial Accounting Standard No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information". The segment results show the financial performance of the major lines of business. These results are determined based on the Bank's management accounting process, which assigns consolidated balance sheets, revenue and expense items to each reportable line of business on a systematic basis.

The short-term loans (original term of up to 365 days) represent the Bank's principal activity, and constitute mostly short-term trade related financing to its stockholders banks and other selected commercial banks in the Region, which then on-lend to businesses engaged in foreign trade, as well as to state owned export institutions, and to private entities.

Medium-term loans (original term of over one to five years, and exceptionally more than five years) were mainly granted to selected commercial banks and corporations in the Region, to support the medium-term financing needs of the Bank's clients.

The contingencies constitute mainly guarantees and stand-by or commercial letters of credit covering commercial and country risk. This business segment is the primary component of fee income generation. Additional components of other income are

commissions earned on loan origination. The following table presents certain information regarding the Bank's continuing operations by segment:

Business Segment Analysis ⁽¹⁾						
<i>(In US\$ million)</i>						
	Average Assets	Net Interest Income	Net Commissions and Other Income	Net Revenues	Operating Expenses	Net Operating Income ⁽²⁾
2005						
Loans and securities						
Short-term	1,573	23.8	1.6	25.4	(12.8)	12.7
Medium-term	926	21.4	1.0	22.4	(7.5)	14.9
Total loans and securities	2,498	45.3	2.6	47.8	(20.3)	27.5
Acceptances and contingencies ⁽³⁾	582	0	5.7	5.7	(4.5)	1.2
Credit portfolio ⁽⁴⁾	3,081	45.3	8.3	53.5	(24.8)	28.7
2004						
Loans and securities						
Short-term	1,884	31.5	2.4	33.9	(15.0)	19.0
Medium-term	448	10.5	0.6	11.1	(3.6)	7.5
Total loans and securities	2,332	42.0	3.0	45.0	(18.5)	26.5
Acceptances and contingencies ⁽³⁾	373	0	5.8	5.8	(2.8)	2.9
Credit portfolio ⁽⁴⁾	2,705	42.0	8.8	50.8	(21.3)	29.4
2003						
Loans and securities						
Short-term	1,763	37.9	17.1	55.0	(14.1)	40.9
Medium-term	720	16.1	7.0	23.1	(5.7)	17.4
Total loans and securities	2,483	54.0	24.1	78.1	(19.8)	58.3
Acceptances and contingencies ⁽³⁾	369	0	6.1	6.1	(2.8)	3.3
Credit portfolio ⁽⁴⁾	2,852	54.0	30.2	84.2	(22.6)	61.6

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

(2) To reconcile the net operating income reported on the preceding table with the net income reported on the consolidated statement of operations for the years ended December 31, 2005, 2004, and 2003, the following items should be included: (a) reversals of provision for credit losses for US\$38.4 million, US\$112.3 million and US\$58.9 million, respectively; (b) cumulative effect of a change in the credit loss reserve methodology for US\$2.7 million, (c) Recoveries (impairment) on securities for US\$10.2 million and US\$(1.0) million for the years ended December 31, 2005 and 2003, respectively; (d) derivatives and hedging activities for US\$2.3 million and US\$(8.0) million for the years ended December 31, 2005 and 2003, respectively.

(3) Includes customers' liabilities under acceptances, letters of credit and guarantees covering commercial and country risk and credit commitments.

(4) Includes loans and investment securities plus acceptances and contingencies.

(21) Leasehold Commitments

At December 31, 2005, a summary of leasehold commitments is as follows:

Expiration Year	Future Rental Commitments
<i>(In US\$ thousands)</i>	
2006	US\$ 586
2007	490
2008	495
2009	501
2010	511
	US\$ <u>2,583</u>

Occupancy expense for years ended December 31, 2005, 2004 and 2003, amounted to US\$447 thousand, US\$311 thousand, and US\$293 thousand, respectively.

(22) Litigation

Bladex is not engaged in any litigation that is material to the Bank's business and, to the best knowledge of the Bank's management, which is likely to have a material adverse effect on its business, financial condition or results of operations.

(23) Summary of Unaudited Quarterly Financial Information

(In US\$ thousands, except per share data)	2005			
	Fourth	Third	Second	First
Interest income	US\$ 35,127	29,959	25,061	26,676
Interest expense	(22,630)	(18,291)	(15,122)	(15,528)
Net interest income	12,498	11,668	9,939	11,148
Reversal (provision) for loan losses:				
Reversal (provision) - 2005	(715)	23,213	5,863	19,819
Reversal (provision) - effect of a change in the credit loss reserve methodology - 2005	16,518	707	1,266	(12,516)
	15,803	23,920	7,129	7,302
Net interest income after provision (reversal) for loan losses	28,301	35,589	17,069	18,450
Reversal (provision) for losses on off-balance sheet credit risk:				
Reversal (provision) - 2005	1,571	(1,051)	(3,286)	2,977
Reversal (provision) - effect of a change in the credit loss reserve methodology - 2005	(9,854)	(10,330)	4,284	(91)
	(8,283)	(11,381)	998	2,885
Commission income, net	1,667	1,546	1,024	1,587
Derivatives and hedging activities	2,336	2	0	0
Recovery of impairment loss on securities	0	137	0	10,069
Gain (loss) on sale of securities available for sale	(40)	0	93	152
Gain (loss) on foreign currency exchange	(29)	12	20	0
Other income, net	3	1	1	1
Operating expenses	(7,407)	(6,034)	(5,616)	(5,633)
Net income before cumulative effect of changes in accounting principles	16,548	19,872	13,590	27,511
Cumulative effect on prior periods (to Dec, 31, 2004) of a change in the credit loss reserve methodology	0	0	0	2,733
Effect on prior period (to Dec, 31, 2004) of an early adoption of the fair-value based method of accounting stock-based employee compensation	(150)	0	0	0
Net income	US\$ 16,398	19,872	13,590	30,245
Net income per share before the cumulative effect of changes in accounting principles	US\$ 0.43	0.52	0.35	0.71
Cumulative effect of changes in accounting principles	0	0	0	0.07
Net income per share	US\$ 0.43	0.52	0.35	0.78
Diluted earnings per share before cumulative effect of a change in the credit loss reserve methodology	US\$ 0.43	0.51	0.35	0.70
Cumulative effect of changes in accounting principles	0	0	0	0.07
Diluted earnings per share	US\$ 0.43	0.51	0.35	0.77
Average number of common shares outstanding (thousands)	38,097	38,481	38,738	38,895
2004				
(In US\$ thousands, except per share data)				
Interest income	US\$ 20,422	18,535	17,687	19,508
Interest expense	(11,358)	(7,950)	(6,632)	(8,186)
Net interest income	9,064	10,585	11,054	11,322
Reversal of provision for loan losses	45,010	27,413	20,638	18,338
Net interest income after provision for loan losses	54,074	37,998	31,692	29,660
Reversal (provision) for losses on off-balance sheet credit risk	4,715	(3,683)	(3,212)	3,051
Commission income, net	1,201	1,569	1,471	1,686
Derivatives and hedging activities	0	24	(89)	113
Gain on sale of securities available for sale	0	2,589	332	0
Gain on early extinguishment of debt	0	0	0	6
Gain (loss) on foreign currency exchange	7	5	(205)	(1)
Other income, net	60	14	1	2
Operating expenses	(6,145)	(4,792)	(5,727)	(4,689)
Net income	US\$ 53,913	33,724	24,263	29,830
Earnings per share	US\$ 1.39	0.86	0.62	0.76
Diluted earnings per share	US\$ 1.38	0.85	0.61	0.76
Average number of common shares outstanding (thousands)	38,916	39,310	39,353	39,353