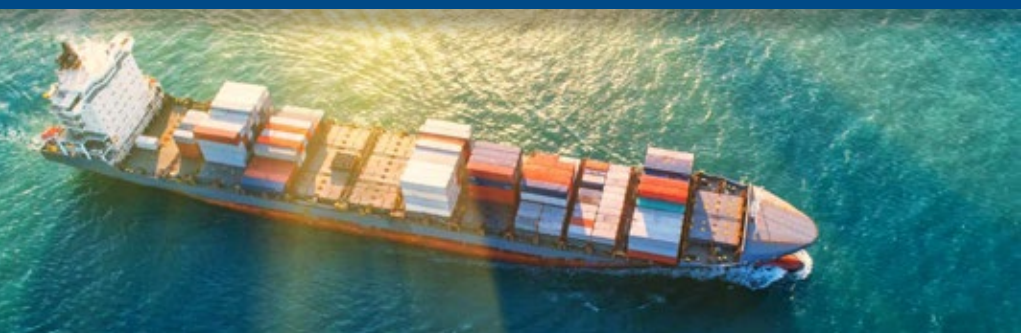




CONSOLIDATED  
FINANCIAL  
STATEMENTS  
2018



# Consolidated Financial Statements 2018



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

Consolidated Financial Statements  
as of December 31, 2018

(With the Independent Auditors' Report thereon)



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

Consolidated Financial Statements

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## **INDEPENDENT AUDITORS' REPORT**

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

### *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, 2018, 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, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

*Allowance for loan losses*

*Refer to Notes 3.2.5 and 6 to the consolidated financial statements*

Key audit matter

The allowance for loan losses at amortized cost is considered one of the most significant issues since it requires judgments and the use of assumptions by management for the design of the expected credit loss model (ECL). The gross carrying amount of the loan portfolio at amortized cost represents 76% of the Bank's total assets. The allowance for loan losses at amortized cost includes the ECL as a result of the loan rating model and the mechanism to determine the probability of default of the loan according to the impairment stage where it is assigned to.

The model to estimate the ECL considers the grouping of the loans, in stages 1 and 2, with similar credit risk characteristics, using a single methodology. This methodology is composed of estimates of the probability of default, loss given default, forward-looking analysis and exposure at default. Also, the evaluation of whether or not a significant increase in the credit risk of the loans has occurred requires significant management judgment.

For impaired loans, in stage 3, the ECL estimate is determined individually. For those loans, the identification of impairment events and the calculation of expected cash flows, considering the ECL criteria, requires significant management judgment.

This constitutes a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of management judgment.

How the key matter was addressed in the audit

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

- Tests of design and operating effectiveness of key controls relating to the borrowers' internal credit risk ratings; comparison with borrowers' external credit risk ratings, if available; approval of collective and individual allowances; review of accuracy of borrowers' information; and calculation of allowances based on the model being used.
- For a sample of loans selected based on quantitative and qualitative factors, inspection of the respective credit files, including the borrowers' financial information and other evidence that could represent a loss event, to determine the reasonableness of the credit risk rating assigned by risk officers.
- Assessment of the methodologies applied by the Bank in the ECL estimation model, in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and methodologies, including their inputs, documented and approved by the Bank's corporate governance.
- Recalculation of ECL allowances based on both methodologies.
- Assessment of management judgments applied on assumptions relating to the current economic conditions and the considerations on the forward-looking assessment that can change the level of ECL, based on our experience and knowledge of the industry.
- Assessment of disclosures in the consolidated financial statements, in accordance with IFRS disclosure requirements.

### *Hedge accounting*

*Refer to Notes 3.2.6, 9 and 26 to the consolidated financial statements*

#### Key audit matter

#### How the key matter was addressed in the audit

The Bank uses fair value, cash flow and net investment hedge accounting, with derivative financial instruments (hedging instruments) to manage interest rate and foreign currency exchange risks of several financial assets and liabilities (hedged items). The accounting treatment varies for each type of hedge and requires fair value calculations of both the hedging instrument and the specific hedged risk(s) of the hedged item. The accounting analysis for initial designation of the type of hedge to be applied, accounting recognition of hedges in accordance with IFRS, and valuation of hedging instruments and hedged items, as well as the hedge effectiveness assessments, involve management judgments and the use of some inputs that are not observable in active markets.

Fair value of derivative financial instruments used for hedge accounting as of December 31, 2018 amount to \$2,688 thousand in assets and \$34,043 thousand in liabilities.

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

- Tests of design and operating effectiveness of key controls in the process of determining the type of hedge accounting applicable, valuation of both hedging instruments and hedged items, hedge effectiveness assessments and accounting recognition, considering the assessment of methodologies, inputs and assumptions used by the Bank.
- Independent assessment of the valuation models, inputs used in those models and valuation of both hedging instruments and hedged items; for this, we compared observable inputs and other market data with independent sources.
- Inspection of accounting entries, for each type of hedge accounting and hedged item, to test adequate accounting recognition.
- Assessment of disclosures in the consolidated financial statements, in accordance with IFRS disclosure requirements.

#### *Other Matter –Predecessor Auditor*

The consolidated financial statements of the Bank for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 7, 2018.

#### *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, related safeguards.

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.

The engagement partner on the audit resulting in this independent auditors' report is Luis Venegas.

KPMG

Republic of Panama, Panama  
March 15, 2019



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

### Consolidated statement of financial position

December 31, 2018

(In thousands of US dollars)

	Notes	2018	2017
<b>Assets</b>			
Cash and cash equivalents	4	1,745,652	672,048
Securities and other financial assets, net	5,26	123,598	95,484
Loans		5,778,424	5,505,658
Interest receivable		41,144	29,409
Allowance for loans losses		(100,785)	(81,294)
Unearned interest and deferred fees		(16,525)	(4,985)
Loans, net	6	5,702,258	5,448,788
Customers' liabilities under acceptances		9,696	6,369
Derivative financial instruments - assets	9,26	2,688	13,338
Equipment and leasehold improvements, net	11	6,686	7,420
Intangibles, net	12	1,633	5,425
Investment properties	13	-	5,119
Other assets	14	16,974	13,756
<b>Total assets</b>		<b>7,609,185</b>	<b>6,267,747</b>
<b>Liabilities and Equity</b>			
Liabilities:			
Demand deposits		211,381	82,064
Time deposits		2,759,441	2,846,780
Interest payable	15	2,970,822	2,928,844
Total deposits		2,982,976	2,937,105
Securities sold under repurchase agreements	16	39,767	-
Borrowings and debt, net	17	3,518,446	2,211,567
Interest payable		13,763	7,555
Customers' liabilities under acceptances		9,696	6,369
Derivative financial instruments - liabilities	9,26	34,043	34,943
Allowance for loan commitments and financial guarantees contracts losses	7	3,289	6,845
Other liabilities	18	13,615	20,551
Total liabilities		6,615,595	5,224,935
Equity:			
Common stock	20	279,980	279,980
Treasury stock	21	(61,076)	(63,248)
Additional paid-in capital in excess of value assigned to common stock	20	119,987	119,941
Capital reserves	33	95,210	95,210
Regulatory reserves	33	136,019	129,254
Retained earnings		423,050	479,712
Other comprehensive income	22	420	1,963
Total equity		993,590	1,042,812
<b>Total liabilities and equity</b>		<b>7,609,185</b>	<b>6,267,747</b>

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, 2018

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

	Notes	2018	2017	2016
<b>Interest income:</b>				
Deposits		15,615	10,261	4,472
Securities		2,899	2,492	5,034
Loans		239,976	213,326	236,392
Total interest income	25	258,490	226,079	245,898
<b>Interest expense:</b>				
Deposits		(63,146)	(42,847)	(20,131)
Borrowings and debt		(85,601)	(63,417)	(70,558)
Total interest expense	25	(148,747)	(106,264)	(90,689)
<b>Net interest income</b>		109,743	119,815	155,209
<b>Other income (expense):</b>				
Fees and commissions, net	24	17,185	17,514	14,306
Loss on financial instruments, net	8	(1,009)	(739)	(2,919)
Other income, net	25	1,670	1,723	1,378
Total other income, net		17,846	18,498	12,765
<b>Total revenues</b>		127,589	138,313	167,974
Impairment loss on financial instruments	6,7	(57,515)	(9,439)	(35,115)
Impairment loss on non-financial assets	10	(10,018)	-	-
Operating expenses:				
Salaries and other employee expenses	28	(27,989)	(27,653)	(25,196)
Depreciation of equipment and leasehold improvements	11	(1,282)	(1,578)	(1,457)
Amortization of intangible assets	12	(1,176)	(838)	(629)
Other expenses	29	(18,471)	(16,806)	(18,532)
Total operating expenses		(48,918)	(46,875)	(45,814)
<b>Profit for the year</b>		11,138	81,999	87,045
<b>Per share data:</b>				
Basic earnings per share	19	0.28	2.09	2.23
Diluted earnings per share	19	0.28	2.08	2.22
Weighted average basic shares	19	39,543	39,311	39,085
Weighted average diluted shares	19	39,543	39,329	39,210

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, 2018

(In thousands of US dollars)

	Notes	2018	2017	2016
Profit for the year		11,138	81,999	87,045
Other comprehensive income (loss):				
<b>Items that will not be reclassified subsequently to profit and loss:</b>				
Change in fair value on equity instrument at FVOCI, net of hedging	22	(1,224)	187	-
<b>Items that are or may be reclassified subsequently to profit and loss:</b>				
Change in fair value of debt instruments at FVOCI, net of hedging	22	(4,629)	604	11,431
Reclassification of gains (losses) on debt instruments to the profit or loss	22	5,591	2,483	(3,551)
Exchange difference in conversion of foreign currency operation	22	(1,281)	1,490	-
Other comprehensive income (loss)	22	(1,543)	4,764	7,880
Total comprehensive income for the year		<u>9,595</u>	<u>86,763</u>	<u>94,925</u>

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, 2018**  
(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
<b>Balances at January 1, 2016</b>	279,980	(73,397)	120,177	95,210	38,708	521,934	(10,681)	971,931
Profit for the year	-	-	-	-	-	87,045	-	87,045
Other comprehensive income	-	-	-	-	-	-	7,880	7,880
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	3,063	-	-	-	-	3,063
Exercised options and stock units vested	-	2,962	(1,387)	-	-	-	-	1,575
Repurchase of "Class B" and "Class E" common stock	-	-	-	-	-	-	-	-
Regulatory credit reserve	-	-	-	-	10,713	(10,713)	-	-
Dynamic provision	-	-	-	-	13,038	(13,038)	-	-
Dividends declared	-	-	-	-	-	(60,180)	-	(60,180)
<b>Balances at December 31, 2016</b>	<b>279,980</b>	<b>(69,176)</b>	<b>120,594</b>	<b>95,210</b>	<b>62,459</b>	<b>525,048</b>	<b>(2,801)</b>	<b>1,011,314</b>
Profit for the year	-	-	-	-	-	81,999	-	81,999
Other comprehensive income (loss)	-	-	-	-	-	-	4,764	4,764
Issuance of restricted stock	-	1,259	(1,229)	-	-	-	-	30
Compensation cost - stock options and stock units plans	-	-	296	-	-	-	-	296
Exercised options and stock units vested	-	4,697	280	-	-	-	-	4,977
Repurchase of "Class B" and "Class E" common stock	-	(28)	-	-	-	-	-	(28)
Regulatory credit reserve	-	-	-	-	1,865	(1,865)	-	-
Dynamic provision	-	-	-	-	64,930	(64,930)	-	-
Dividends declared	-	-	-	-	-	(60,540)	-	(60,540)
<b>Balances at December 31, 2017</b>	<b>279,980</b>	<b>(63,248)</b>	<b>119,941</b>	<b>95,210</b>	<b>129,254</b>	<b>479,712</b>	<b>1,963</b>	<b>1,042,812</b>
Profit for the year	-	-	-	-	-	11,138	-	11,138
Other comprehensive income	-	-	-	-	-	-	(1,543)	(1,543)
Issuance of restricted stock	-	1,259	(1,259)	-	-	-	-	-
Compensation cost - stock options and stock units plans	-	-	1,051	-	-	-	-	1,051
Exercised options and stock units vested	-	3,355	254	-	-	-	-	3,609
Repurchase of "Class B" and "Class E" common stock	-	(2,442)	-	-	-	-	-	(2,442)
Regulatory credit reserve	-	-	-	-	(20,498)	20,498	-	-
Dynamic provision	-	-	-	-	27,263	(27,263)	-	-
Dividends declared	-	-	-	-	-	(61,035)	-	(61,035)
<b>Balances at December 31, 2018</b>	<b>279,980</b>	<b>(61,076)</b>	<b>119,987</b>	<b>95,210</b>	<b>136,019</b>	<b>423,050</b>	<b>420</b>	<b>993,590</b>

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

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

### Consolidated statement of cash flows For the year ended December 31, 2018 (In thousands of US dollars)

	2018	2017	2016
<b>Cash flows from operating activities</b>			
Profit for the year	11,138	81,999	87,045
<b>Adjustments to reconcile profit for the year to net cash provided by (used in) operating activities:</b>			
Net changes in hedging position	12,403	(1,833)	(24,836)
Depreciation of equipment and leasehold improvements	1,282	1,578	1,457
Amortization of intangible assets	1,176	838	629
Loss for disposal of equipment and leasehold improvements	24	2,205	140
Loss for derecognition of intangible assets	2,705	16	-
Impairment on investment properties at fair value through profit or loss	3,849	-	-
Impairment loss on financial instruments	57,515	9,439	35,115
(Gain) loss, net on sale of financial assets at fair value through OCI	(194)	(249)	356
Amortization of premium and discount related to securities at amortized cost	698	732	965
Impairment loss on other assets	3,464	-	-
Compensation cost - share-based payment	1,051	296	3,063
Interest income	(258,490)	(226,079)	(245,898)
Interest expense	148,747	106,264	90,689
<b>Net decrease (increase) in operating assets:</b>			
Pledged deposits	13,781	8,571	(29,148)
Financial instruments at fair value through profit or loss	-	-	53,411
Loans	(305,464)	479,226	650,217
Other assets	(6,449)	(269)	(39)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to depositors	41,978	125,992	7,383
Financial liabilities at fair value through profit or loss	-	(24)	(65)
Other liabilities	(6,432)	(4,695)	(1,774)
Cash flows provided by (used in) operating activities	<u>(277,218)</u>	<u>584,007</u>	<u>628,710</u>
Interest received	242,276	239,394	247,167
Interest paid	(138,646)	(107,051)	(91,802)
<b>Net cash (used in) provided by operating activities</b>	<u>(173,588)</u>	<u>716,350</u>	<u>784,075</u>
<b>Cash flows from investing activities:</b>			
Acquisition of equipment and leasehold improvements	(603)	(2,654)	(3,973)
Acquisition of intangible assets	(58)	(3,370)	(3,111)
Proceeds from the sale of investment property	1,270	-	-
Proceeds from the redemption of securities at fair value through OCI	4,635	-	107,088
Proceeds from the sale of securities at fair value through OCI	-	17,040	102,655
Proceeds from maturities of securities at amortized cost	9,807	17,526	54,275
Purchases of securities at fair value through OCI	(9,875)	(8,402)	(84,153)
Purchases of securities at amortized cost	(26,701)	(9,978)	(24,600)
<b>Net cash (used in) provided by investing activities</b>	<u>(21,525)</u>	<u>10,162</u>	<u>148,181</u>
<b>Cash flows from financing activities:</b>			
Increase (decrease) in securities sold under repurchase agreements	39,767	-	(114,084)
Net increase (decrease) in short-term borrowings and debt	950,259	(396,205)	(961,095)
Proceeds from long-term borrowings and debt	609,017	219,905	406,149
Repayments of long-term borrowings and debt	(256,173)	(883,476)	(464,242)
Dividends paid	(61,539)	(60,605)	(60,135)
Exercised stock options	2,526	4,977	1,575
Repurchase of common stock	(1,359)	(27)	-
<b>Net cash provided by (used in) financing activities</b>	<u>1,282,498</u>	<u>(1,115,431)</u>	<u>(1,191,832)</u>
Increase (decrease) net in cash and cash equivalents	1,087,385	(388,919)	(259,576)
Cash and cash equivalents at beginning of the year	618,807	1,007,726	1,267,302
<b>Cash and cash equivalents at end of the year</b>	<u>1,706,192</u>	<u>618,807</u>	<u>1,007,726</u>

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

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

Notes to the consolidated financial statements

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

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## 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 and market risks, measures to prevent money laundering, the financing of terrorism and related illicit activities, and procedures for banking intervention and liquidation, among others.

Bladex Head Office’s subsidiaries are the following:

- Bladex Holdings Inc. is a wholly owned subsidiary, incorporated under the laws of the State of Delaware, United States of America (USA), on May 30, 2000. Bladex Holdings Inc. has ownership in Bladex Representação Ltda.
- Bladex Representação Ltda., incorporated under the laws of Brazil on January 7, 2000, acts as the Bank’s representative office in Brazil. Bladex Representação Ltda. is 99.999% owned by Bladex Head Office and the remaining is 0.001% owned by Bladex Holdings Inc.
- Bladex Investimentos Ltda. was incorporated under the laws of Brazil on May 3, 2011. Bladex Head Office owned 99% of Bladex Investimentos Ltda., and Bladex Holdings Inc. owned the remaining 1%. This company had invested substantially all of its assets in an investment fund, Alpha 4x Latam Fundo de Investimento Multimercado, incorporated in Brazil (“the Brazilian Fund”), registered with the Securities and Exchange Commission of Brazil (“CVM”, for its acronym in Portuguese). Bladex Investimentos Ltda. merged with Bladex Representação Ltda. in April 2016, being the former the extinct company under Brazilian law and prevailing the acquiring company Bladex Representação Ltda.
- Bladex Development Corp. was incorporated under the laws of the Republic of Panama on June 5, 2014. Bladex Development Corp. is 100% owned by Bladex Head Office.
- BLX Soluciones, S.A. de C.V., SOFOM, E.N.R. (“BLX Soluciones”) was incorporated under the laws of Mexico on June 13, 2014. BLX Soluciones is 99.9% owned by Bladex Head Office, and Bladex Development Corp. owns the remaining 0.1%. The company specializes in offering financial leasing and other financial products such as loans and factoring.

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

# 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)*

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## 1. Corporate information (continued)

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 19, 2019.

## 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 Basis of measurement and presentation currency

The consolidated financial statements have been prepared on the basis of fair value for financial assets and liabilities through profit or loss, investment properties, derivative financial instruments, investments and other financial assets at fair value through other comprehensive income. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges, that would otherwise be carried at amortized cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. Other financial assets and liabilities and other non-financial assets and liabilities are presented at amortized cost or on a historical cost basis.

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 Reclassifications and corrections

Certain amounts in the consolidated financial statements of 2017 and 2016 were reclassified in order to align them with the presentation of the consolidated financial statements of 2018. In addition, the Bank has identified non-material errors that have been corrected through the increase (decrease) of \$24.5 million and (\$46.2 million) from the financing activities line-items repayments of long-term borrowings and debt and net increase (decrease) in short-term borrowings and debt to the operating activities line-item net changes in hedging position of the consolidated statements of cash flows for the years ended December 31, 2017 and 2016, respectively. These reclassifications and corrections did not change total assets, liabilities, equity, nor the profit for the respective years.

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of Bladex and its subsidiaries. Bladex consolidates its subsidiaries from the date on which control is transferred to the Bank. All intercompany balances and transactions have been eliminated for consolidation purposes. Specifically, the Bank controls an investee if, and only if, the Bank has the following elements:

- Power over the investee. Existing rights that give it the current ability to direct the relevant activities of the investee.
- Exposure or rights to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

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

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

# 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)

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

### 2.4 Basis of consolidation (continued)

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The consolidation of the financial statements of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank’s accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is recognized at fair value.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 – “*Financial Instruments*”, or where applicable, to the cost on initial recognition of an investment in an associate or a joint venture.

## 3. Summary of accounting policies

### 3.1 New accounting policies

#### 3.1.1 Investment Properties

Property that is held for long-term rental yields, operating leases and/or for capital appreciation, and that is not occupied by the Bank, is classified as investment property. Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value.

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

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

Subsequent expenditure is capitalized to the asset’s carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Changes in fair value are recognized in profit or loss. Investment properties are derecognized when they have been disposed of.

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

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

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.1 New accounting policies (continued)

##### 3.1.2 Fees and Commissions

Former accounting policy as of December 31, 2017:

##### Revenue recognition of fees and commissions under IAS 18

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Income is recognized to the extent that is probable that the economic benefits will flow to the Bank and it is reliably measured, regardless of when the payment is made. This income is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees.

##### Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

##### Fees and commissions on loans at amortized cost

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on an effective interest rate basis. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the Bank making the loan, the fee is recognized as revenue on expiration.

Loan origination fees, net of direct loan origination costs, are deferred, and the net amount is recognized as revenue over the contractual term of the loans as an adjustment to the yield. When there are concerns about the realization of loan principal or interest, these net fees are recognized as revenue at the credit-adjusted effective interest rate for credit-impaired financial assets.

Underwriting fees are recognized as revenue when the Bank has rendered all services to the issuer and is entitled to collect the fee from the issuer, when there are no contingencies related to the fee. Underwriting fees are recognized net of syndicate expenses. In addition, the Bank recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

Fees received in connection with a modification of terms of a loan are applied as a reduction of the amortized cost of the loan. Fees earned on letters of credit, financial guarantees and other commitments are amortized using the straight-line method over the life of such instruments.

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

Notes to the consolidated financial statements

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

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### 3. Summary of accounting policies (continued)

#### 3.1 New accounting policies (continued)

##### 3.1.2 Fees and Commission

Accounting policy applicable from January 1<sup>st</sup>, 2018:

##### Revenue recognition of fees and commissions under IFRS 15

Revenues are measured based on the considerations specified in a contract signed with a customer and exclude collections on behalf of third parties. The Bank recognizes revenues when it transfers control over the product or services to a customer.

IFRS 15 - "Revenue from contracts with customers" was issued in May 2014 and establishes a five-step model to account for the revenue from the contracts with customers. Under IFRS 15, income is recognized by an amount that reflects the consideration that the Bank expects to be entitled to, in exchange for the transfer of goods or services. The new revenue standard replaces all current requirements for revenue recognition under IAS 18.

The Bank has applied IFRS 15 provisions from the 1st of January 2018 by applying the retroactive modified method pursuant to IAS 8 - "Accounting policies, changes in accounting estimates and errors". The performance period for services provided to customers of the Bank and revenue recognition of related commissions were not impacted by the adoption of IFRS 15. The impact of IFRS 15 is limited to the new required disclosures.

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

Notes to the consolidated financial statements

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

### 3. Summary of accounting policies (continued)

#### 3.1 New accounting policies (continued)

##### 3.1.2 Fees and commissions (continued)

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

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
<b><u>Letters of credit</u></b>		
<b>Opening</b>	Guarantee to honor the stipulated amount agreed to in the terms and conditions entered into with the customer, upon presentation of required documentation.	Revenues from services are recognized over time as services are provided.
<b>Negotiation</b>	Review of the shipping documents, of the beneficiary, agreeing to pay at sight or on the day on which the reimbursement is being made by the designated bank.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
<b>Acceptance</b>	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.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
<b>Confirmation</b>	Commitment issued to the issuer bank and the beneficiary to honor or negotiate shipping documents.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
<b>Amendment</b>	A request to amend the original letter of credit on behalf of the beneficiary modifying the original terms and conditions	Revenue from services is recognised over time as the services are provided.
<b><u>Syndications</u></b>		
<b>Structuring</b>	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.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
<b><u>Other services</u></b>		
<b>Other</b>	Assignment of rights, transferability, reimbursements, payments, discrepancies, courier and swift fees, etc.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

## 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)

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies

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

##### 3.2.1 Currency and foreign currency transactions

###### **Foreign currency transactions**

For purposes of consolidation of the financial statements, the Bank applies IAS 21- "*The Effects of Changes in Foreign Exchange Rates*" to financial assets and financial liabilities that are monetary items and denominated in a foreign currency. This standard requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognized in profit or loss. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge, a hedge of a net investment or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income (loss).

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

###### **Transactions and balances**

Assets and liabilities of foreign subsidiaries, whose local currency is considered their functional currency, are translated into the reporting currency, US dollars, using month-end spot foreign exchange rates. The Bank uses monthly-averaged exchange rates to translate revenues and expenses from local functional currency into US dollars. The effects of those translation adjustments are reported as a component of other comprehensive income (loss) in the consolidated statement of changes in equity.

Transactions whose terms are denominated in a currency other than the functional currency, including transactions denominated in local currency of the foreign entities whose functional currency is the US dollar, are recorded at the exchange rate prevailing at the date of the transaction. Assets and liabilities in foreign currency are translated into US dollar using month-end spot foreign exchange rates. The effects of translation of monetary assets and liabilities into US dollar are included in current year's earnings on the line "gain (loss) on financial instruments, net" in profit or loss.

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

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

## 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)

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.2 Cash and cash equivalents

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

##### 3.2.3 Financial instruments

###### Date of recognition

All financial assets and liabilities are initially recognized on the trade date, the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

###### Initial measurement of financial instruments

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets or financial liabilities at fair value through profit or loss (FVTPL), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost; debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVOCI); all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity instruments are subsequently measured at FVTPL.

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

- It may irrevocably elect to present subsequent changes in fair value of an equity instrument that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 – “*Business Combinations*” applies, in other comprehensive income (loss); and
- It may irrevocably designate a debt instrument that meets the amortized cost or at FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

###### Classification

The Bank classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss based on the Bank’s business model for managing the financial assets and the contractual cash flow characteristics of these financial assets.

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.

# 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)*

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## 3. Summary of accounting policies (continued)

### 3.2 Significant accounting policies (continued)

#### 3.2.3 Financial instruments (continued)

##### **Business model assessment**

The Bank assesses the objective of the business model in which the financial asset is held at a portfolio level, because this reflects the way the business is managed, and information is provided to management. The information considers the following:

- The Bank's policies and objectives for the portfolio and the operation of those policies in practice. In particular, if the management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reason for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

An assessment of the business model for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business model at a level that reflects how financial asset groups are managed together to obtain a particular business objective. The business model does not depend on management 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 in each reporting date to determine whether business models have changed since the previous reporting date. For the current and previous reporting dates, the Bank has not identified a change in its business model.

##### **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.

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.3 Financial instruments (continued)

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).

##### **Financial assets at fair value through other comprehensive income (FVOCI)**

These instruments consist on debt instruments not classified as either financial instruments at FVTPL or at amortized cost and are subject to the same approval criteria as the rest of the credit portfolio. These instruments are carried at fair value if both of the following conditions are met:

- The financial asset is held according to a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Unrealized gains or losses are reported as net increases or decreases in other comprehensive income (OCI) in the consolidated statement of changes in equity until they are realized. Realized gains or losses from the sale of securities which are included as gain (loss) on financial instruments, net are determined using the specific identification method.

For an equity instrument designated at FVOCI, the cumulative gain or loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

##### **Financial assets at amortized cost**

Financial assets classified at amortized cost represent securities and loans whose objective is to hold them to collect contractual cash flows over the life of the instrument. These securities and loans are measured at amortized cost if both of the following conditions are met:

- The financial asset is held according to a business model whose objective is to hold the financial assets to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

##### **Financial assets and liabilities at fair value through profit or loss (FVTPL)**

Financial assets and liabilities at fair value through profit or loss include a) instruments with contractual cash flows that are not SPPI; and/or b) instruments designated at FVTPL using the fair value option; accounts receivable (unrealized gains) and accounts payable (unrealized losses) related to derivative financial instruments which are not hedge designated or do not qualify for hedge accounting.

Unrealized and realized gains or losses on assets and liabilities at FVTPL are recorded in profit or loss as gain (loss) on financial instruments, net.

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

Notes to the consolidated financial statements

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

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## 3. Summary of accounting policies (continued)

### 3.2 Significant accounting policies (continued)

#### 3.2.3 Financial instruments (continued)

##### 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 financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described in the following paragraphs.

##### Derecognition of financial assets and financial liabilities

###### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The Bank enters into transactions whereby it transfers assets recognized on its consolidated statement of financial position but retains either all or substantially all the risks and rewards of the transferred asset or portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

###### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is extinguished, when the obligation specified in the contract is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.4 Loans - at amortized cost

Loans are reported at their amortized cost considering the principal outstanding amounts and interest receivable net of unearned interest, deferred fees and allowance for expected credit losses, except for those designated as hedged items in qualifying fair value hedging relationships. Interest income is recognized using the effective interest rate method. Such income shall be calculated by applying the effective interest rate to the gross carrying amount of the loan, except for: a) purchased or originated credit-impaired loans. For these loans, the Bank applies the credit-adjusted effective interest rate to the amortized cost of the loan from initial recognition; and b) loans that have subsequently become credit impaired financial assets. For these loans, the Bank shall apply the effective interest rate to the amortized cost of the loan, after deducting the impairment allowance in subsequent reporting periods.

The amortization of net unearned interest and deferred fees is recognized as an adjustment to the related loan yield using the effective interest rate method.

Purchased loans are recorded at acquisition cost. The difference between the principal and the acquisition cost of loans, premiums and discounts, is amortized over the life of the loan as an adjustment to the yield. All other costs related to acquisition of loans are also reflected as an adjustment to the yield and are expensed when incurred.

##### **Modified or renegotiated loan**

A modified or renegotiated loan is a loan 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 loan or accrued interest, among others.

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

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity or covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is more than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss allowance for expected credit losses (ECL) is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be credit originated impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised nominal amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified or renegotiated financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

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

Notes to the consolidated financial statements

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

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## 3. Summary of accounting policies (continued)

### 3.2 Significant accounting policies (continued)

#### 3.2.4 Loans - at amortized cost (continued)

##### **Modified or renegotiated loan** (continued)

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

- The remaining lifetime probability of default (PD) estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

In the renegotiation or modification of the contractual cash flows of the loan, the Bank shall:

- Continue with its current accounting treatment for the existing loan 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 loan's original effective interest rate.
- Assess whether there has been a significant increase in the credit risk of the financial instrument, by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). The loan that is modified is not automatically considered to have a lower credit risk. The assessment should consider credit risk over the expected life of the asset based on historical and forward-looking information, including information about the circumstances that led to the modification. Evidence that the criteria for the recognition of lifetime expected credit losses are subsequently no longer met may include a history of up-to-date and timely payment in subsequent periods. A minimum period of observation will be necessary before a financial asset may qualify to return to a 12-month expected credit loss measurement.
- Make the appropriate quantitative and qualitative disclosures required for renegotiated or modified assets to reflect the nature and effect of such modifications (including the effect on the measurement of expected credit losses) and how the Bank monitors these loans that have been modified.

The Bank recognizes a loss allowance for expected credit losses on a loan that is measured at amortized cost at each reporting date at an amount equal to the lifetime expected credit losses if the credit risk on that loan has increased significantly since initial recognition. If at the reporting date, the credit risk of that loan has not increased significantly since initial recognition, an entity shall measure the loss allowance for that loan at an amount equal to 12-month expected credit losses.

The Bank's lending portfolio is comprised of the following types of debtor: corporations and financial institutions. In turn, these are broken down into state-owned and private.

The Bank's lending policy is applicable to all types of loans.

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.4 Loans - at amortized cost (continued)

###### Write-offs

When the Bank has no reasonable expectations of recovering the loan, then the gross carrying amount of the loan is directly reduced in full or partially; thus, constituting a derecognition event. 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.

##### 3.2.5 Allowances for losses on financial instruments

The allowances for losses on financial instruments are provided for losses derived from the expected credit losses, inherent in the loan portfolio, investment securities and loan commitments and financial guarantee contracts, using the reserve methodology to determine expected credit losses. Additions to the allowance for expected credit losses for financial instruments are recognized in profit or loss or in other comprehensive income depending on classification of the instrument. Expected 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 loss. This rating is considered for purposes of identifying significant increases in credit risk. These factors may vary depending on the nature of the exposure and the type of borrower.

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

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

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

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

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

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

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

Notes to the consolidated financial statements

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

### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.5 Allowances for losses on financial instruments (continued)

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

<u>Internal Rating</u>	<u>External Rating</u> <sup>(1)</sup>	<u>Description</u>
1 - 4	Aaa – Ba1	Exposure in customers or countries with payment ability to satisfy their financial commitments
5 - 6	Ba2 – B3	Exposure in customers or countries with payment ability to satisfy their financial commitments, but with more frequent reviews.
7	Caa1 - Caa3	Exposure in customers whose primary source of payment (operating cash flow) is inadequate, and who show evidence of deterioration in their working capital that does not allow them to satisfy payments on the agreed terms, or in countries where the operation carries certain risks.
8	Ca	Exposure in customers whose operating cash flow continuously shows insufficiency to service the debt on the originally agreed terms, or in countries where the operation is limited or restricted to certain terms, structure and types of credits.
9-10	C	Exposure in customers with operating cash flow that does not cover their costs, are in suspension of payments, presumably will also have difficulties fulfilling possible restructuring agreements, are in a state of insolvency, or have filed for bankruptcy, among others.

<sup>(1)</sup> 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:

- 12-month ECL (Stage 1), which applies to all financial instruments (from initial recognition) as long as there is no significant deterioration in credit quality, and
- Lifetime ECL (Stages 2 and 3), 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 on the amortized cost, net of impairment, i.e. the gross carrying amount after deducting the impairment allowance. In subsequent reporting years, if the credit quality of the financial asset improves so that the financial asset is no longer credit-impaired, and the improvement can be related objectively to the occurrence of an event (such as an improvement in the borrower's credit rating), then the Bank will once again calculate interest income on a gross basis.

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.5 Allowances for losses on financial instruments (continued)

The allowance for expected credit losses includes an asset-specific component and a formula-based component. The asset-specific component, or specific allowance, relates to the provision for losses on credits considered impaired and measured individually case-by-case. A specific allowance is established when the discounted cash flows (or observable fair value of collateral) of the credit 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 transaction that are individually significant or not. If it is determined that there is no objective evidence of impairment for an individual credit transaction, it is included in a group of credit transactions with similar characteristics and is collectively assessed to determine whether there is impairment.

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

##### - Collectively Assessed

For the purposes of a collective assessment of impairment, financial instruments are grouped according to similar credit risk characteristics. These characteristics are relevant to estimate cash flows for the groups of such assets, being indicative of the debtors' ability to pay the amounts owed according to the contractual terms of the assets that are assessed.

Future cash flows in a group of credit transactions that are collectively assessed to determine whether there is impairment are estimated according to the contractual cash flows of the assets in the group, the historical loss experience for assets with similar credit risk characteristics, within each group, and the experienced management views on whether the current economy and credit conditions can change the real level of historical inherent losses suggested.

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.5 Allowances for losses on financial instruments (continued)

###### **Definition of Default**

The Bank considers a financial asset to be in default when it presents any of the following characteristics:

- The debtor is past due for more than 90 days in any of its obligations to the Bank, either in the loan principal or interest; or when the principal balance with one single balloon payment was due for more than 30 days;
- Deterioration in the financial condition of the customer, or the existence of other factors allowing to estimate the possibility that the balance of principal and interest on customers' loans will not be fully recovered.

The above presumptions regarding past due loans may be rebuttable if the Bank has reasonable and supportable information that is available without undue cost or effort, that demonstrate that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 or 90 days past due.

In assessing whether a borrower is in default, the Bank considers qualitative and quantitative indicators based on data internally developed and obtained from external sources. Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

###### **Significant increase in credit risk**

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

The Bank continuously assesses significant increases in credit risk based on the change in the risk of a default occurring over the expected life of the credit instrument. In order to make the assessment of whether there has been significant credit deterioration, the Bank considers reasonable and supportable information that is available without undue cost or effort by comparing:

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

For loan commitments, the Bank considers changes in the risk of a default occurring on the 'potential' financial instrument to which a loan commitment relates, and for financial guarantee contracts, changes in the risk that the specified debtor will default, are taken into consideration.

For financial instruments measured at fair value through OCI, the expected credit losses do not reduce the carrying amount in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset was measured at amortized cost is recognized in profit or loss as the impairment amount. Impairment losses or recoveries are accounted for as an adjustment to the reserve in accumulated other comprehensive income, against profit or loss.

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

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

## 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)

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.5 Allowances for losses on financial instruments (continued)

###### Significant increase in credit risk (continued)

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

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

The Bank considers the following factors, among others, when measuring significant increase in credit risk:

- Significant changes in internal indicators of credit risk as a result of a change in credit risk since inception;
- Significant changes in market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life;
- An actual or expected significant change in the financial instrument's external credit rating;
- Existing or forecast adverse changes in business, financial or economic conditions;
- An actual or expected significant change in the operating results of the borrower;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower;
- Significant changes in the value of the collateral supporting the obligation;
- Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancements, among other factors incorporated in the Bank's ECL model.

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

# 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)

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## 3. Summary of accounting policies (continued)

### 3.2 Significant accounting policies (continued)

#### 3.2.6 Derivative financial instruments for risk management purposes and hedge accounting

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

The Bank applies IFRS 9- "*Financial Instruments*" hedge accounting rules in full.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the consolidated statement of financial position. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain/loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated.

The Bank uses derivative financial instruments for its management of interest rate and foreign currency risks. Interest rate swap contracts, cross-currency swap contracts and foreign exchange forward contracts have been used to manage interest rate and foreign exchange risks respectively associated with debt securities and borrowings with fixed and floating rates, and loans and borrowings in foreign currency.

These derivatives contracts can be classified as fair value and cash flow hedges. In addition, foreign exchange forward contracts are used to hedge exposures to changes in foreign currency in subsidiary companies with functional currencies other than the US dollar. These contracts are classified as net investment hedges.

The accounting for changes in value of a derivative depends on whether the contract is for trading purposes or has been designated and qualifies for hedge accounting.

Derivatives held for trading purposes include interest rate swaps, cross-currency swaps and foreign exchange forward contracts used for risk management purposes that do not qualify for hedge accounting. These derivatives are reported as asset or liabilities, as applicable. Changes in realized and unrealized gains and losses and interest from these financial instruments are recognized as gains or losses on financial instruments at fair value through profit or loss.

Derivatives for hedging purposes primarily include foreign exchange forward contracts and interest rate swap contracts in US dollar and cross-currency swaps. Derivative contracts designated and qualifying for hedge accounting are reported in the consolidated statement of financial position as derivative financial instruments used for hedging - assets and liabilities, as applicable; and hedge accounting is applied. In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, as well as how effectiveness will be assessed prospectively. The hedging instrument should be qualitatively assessed on a quarterly basis in order to determine its effectiveness at achieving offsetting changes in fair value or cash flows. Any ineffectiveness must be reported in current-year earnings.

## 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)

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

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

###### Hedge accounting relationship

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

###### Hedge ratio

The hedge ratio is the ratio between the amount of hedged item and the amount of the hedging instrument. For most of the hedging relationships, the hedge ratio is 1:1 as the underlying of the hedging instrument perfectly matches the designated hedged risk. For a hedging relationship with a correlation between the hedged item and the hedging instrument that is not 1:1 relationship, generally set the hedge ratio so as to adjust for the type of relation in order to improve effectiveness.

###### Discontinuation of hedge accounting

The Bank discontinues hedge accounting prospectively in the following situations:

1. It is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item.
2. The derivative expires or is sold, terminated or exercised.
3. It is determined that designation of the derivative as a hedging instrument is no longer appropriate.

The Bank carries all derivative financial instruments in the consolidated statement of financial position at fair value.

###### Fair value hedges

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

If the hedge relationship is terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively and the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to earnings as a yield adjustment where hedging gains/losses are recognized in profit or loss; they are recognized in the same line as the hedged item.

## 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)

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

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

###### Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of variability in cash flows attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in OCI and recognized in profit or loss when the hedged cash flows affect earnings. The ineffective portion is recognized in profit or loss as loss on financial instruments, net. If the cash flow hedge relationship is terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively and the related amounts in OCI are reclassified into profit or loss when hedged cash flows occur.

###### Net investment hedges

When a derivative instrument or a non-derivative financial item is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognized in profit or loss. The amount recognized in OCI is reclassified to profit or loss as a reclassification adjustment when disposal of the foreign operation occurs.

##### 3.2.7 Repurchase agreements

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 statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and a financial liability is recognized for the obligation to pay the repurchase price. Because the Bank sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

##### 3.2.8 Borrowings and debt

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.

##### 3.2.9 Non-financial assets

A non-financial asset is an asset with a physical or intangible value and it is subject to the impairment guidelines prescribed in IAS 36 – *Impairment of assets*.

###### 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.

## 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)

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.10 Equipment and leasehold improvements

Equipment and leasehold improvements are stated at cost excluding the costs of day-to-day maintenance, less accumulated depreciation and impairment losses. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of assets and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

	<u>Useful life in Years</u>
Furniture and equipment	3 to 5 years
Hardware	3 years
Other equipment	2 to 4 years
Leasehold improvements	3 to 15 years or up to the lease term

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

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

##### 3.2.11 Intangible assets

An intangible asset is recognized only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives of the assets. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in profit or loss.

Bank's intangible assets include the cost of computer software. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 5 years. Gains or losses arising from the derecognition of an intangible asset are determined by the Bank as the difference between proceeds from the sale or disposal and the net carrying amount of the intangible asset and recognized in profit or loss for the year in which the transaction occurs.

##### 3.2.12 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position if, and only when, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements; therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

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

# 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)

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## 3. Summary of accounting policies (continued)

### 3.2 Significant accounting policies (continued)

#### 3.2.13 Operating leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### Banks as a lessee

Leases where the lessor does not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis through the lease term. Rental payable is recognized as an expense as incurred.

#### Bank as a sub-lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental income is recognized as revenue as earned. In the event that the contract is cancelable, they are recognized as income over the term of the lease.

#### 3.2.14 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.

#### 3.2.15 Regulatory and capital reserves

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

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

#### 3.2.16 Share-based payments

The Bank applies IFRS 2 - *Share-based payment transactions* to account for compensation costs on restricted stock, restricted stock units and stock option plans. Compensation cost is based on the grant date fair value of both stock and options and is recognized over the requisite service period of the employee. The fair value of each option is estimated at the grant date using a binomial option-pricing model. When stocks options and restricted stock units vested are exercised, the Bank's policy is to sale treasury stock.

## **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)*

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### **3. Summary of accounting policies (continued)**

#### **3.2 Significant accounting policies (continued)**

##### **3.2.17 Taxes**

###### **Income taxes**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. Tax laws and regulations used to compute the amount are those that are enacted or substantively enacted by the reporting date.

- Bladex Head Office is exempted from payment of income taxes in Panama in accordance with the contract law signed between the Republic of Panama and Bladex.
- Bladex Representacao Ltda. and Bladex Investimentos Ltda., are 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.

###### **Deferred tax**

Deferred tax is calculated based on the asset and liability method, on temporary differences between the carrying amounts of assets and liabilities reported for financial purposes and the amounts used for taxation purposes. The amount of deferred tax is based on the realization of assets and liabilities using the income tax rate in effect on the reporting date.

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

##### **3.2.18 Earnings per share**

Basic earnings per share is computed by dividing the profit for the year (the numerator) by the weighted average number of common shares outstanding (the denominator) during the year. Diluted earnings per share measure performance incorporating the effect that potential common shares, such as stock options and restricted stock units outstanding during the same period, would have on earnings per share. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except for the denominator, which is increased to include the number of additional common shares that would have been issued if the beneficiaries of stock purchase options and restricted stock units plans could exercise their options.

##### **3.2.19 Treasury stock and contracts on own shares**

The own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury stock) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity.

No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

##### **3.2.20 Segment reporting**

The Bank's segment reporting is based on the following business segments: Commercial, which incorporates the Bank's core business of financial intermediation and fee generation activities relating to the Bank's commercial portfolio; and Treasury, which is responsible for the Bank's funding and liquidity management, including its activities in investment securities, as well as the management of the Bank's interest rate, liquidity, price, and currency risks.

# 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)*

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## 3. Summary of accounting policies (continued)

### 3.2 Significant accounting policies (continued)

#### 3.2.21 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.

#### **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:

#### **Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, and the risks that affect the performance of the assets and how they are managed. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

#### **Significant increase of credit risk**

For the financial assets in stage 1, ECL are measured as an allowance equal to 12-month ECL on stage 1 assets, or lifetime ECL assets on stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account reasonable and supportable forward-looking qualitative and quantitative information.

#### **Establishing groups of assets with similar credit risk characteristics**

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that when credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month ECL to lifetime ECL, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month ECL or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differs.

#### **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.

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.21 Judgments, estimates and significant accounting assumptions

###### Reserve for expected credit losses

When establishing ECL, judgment is applied by management in order to assess the amount and opportunity of the future cash flows with the purpose of evaluating whether credit risk has significantly increased since the 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 has significantly increased since the initial recognition, unless the circumstances give rise to an assessment during the lifetime of the instrument.

###### Fair value measurement

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 26.

###### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

###### Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

###### Impairment losses on loans at amortized cost

The Bank individually assesses all credit impaired loans at amortized cost at each reporting date to assess whether an impairment loss should be recorded in profit or loss. Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about several factors and actual results that may vary, resulting in future changes to the allowance. Loans at amortized cost that do not give rise to credit impairment individually are assessed in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects which are not yet evident. The collective assessment takes into account data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of various individual groups).

## 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)*

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### 3. Summary of accounting policies (continued)

#### 3.2 Significant accounting policies (continued)

##### 3.2.22 Future changes in accounting policies

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these consolidated financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017. Of those standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Bank's consolidated financial statements in the period of initial application.

##### **IFRS 16 Leases**

IFRS 16 Leases will be effective for annual periods beginning on or after January 1, 2019. IFRS 16 supersedes IAS 17 – Leases; IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 -Operating leases – incentives and SIC27 - Evaluating the substance of transactions involving the legal form of a lease.

IFRS 16 changes the way in which the lease is accounted for by lessees, using a single model to account for such transactions. This unique model determines that a lessee must recognize a right-of-use asset, which represents its right to use the underlying asset, and a lease liability, which represents its obligation to make future lease payments.

The standard includes exemptions for its application for short-term leases and leases in which the underlying asset has low value.

The lessor's accounting remains the same to that established in IAS 17, that is, the lessors continue to classify the leases as financial or operating.

The Bank has evaluated the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below:

The Bank will recognize the new assets and liabilities for its operating leases related to rental of offices premises, use of parking lots, and equipment rental contracts. The nature of the expenses related to these leases will change as of January 1, 2019, because the Bank will recognize a depreciation expense for the right-of-use assets, and the interest expenses for the lease liabilities.

Previously, the Bank recognized operating lease payments as an expense in profit or loss on a straight-line basis over the lease term.

##### **Transition**

The Bank will to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

On the basis of available information, the Bank estimates that on January 1, 2019, it will recognize lease liabilities for \$20.8 million and right-of-use assets for \$17.2 million.

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

Notes to the consolidated financial statements

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

### 4. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash and due from banks	9,644	11,032
Interest-bearing deposits in banks	1,736,008	661,016
<b>Total</b>	<b>1,745,652</b>	<b>672,048</b>
Less:		
Pledged deposits	39,460	53,241
<b>Total cash and cash equivalents</b>	<b>1,706,192</b>	<b>618,807</b>

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

	December 31, 2018		December 31, 2017	
	Amount	Interest rate range	Amount	Interest rate range
<b>Interest-bearing deposits in banks:</b>				
Demand deposits <sup>(1)</sup>	1,686,008	2.43% to 6.5%	661,016	0.25% to 1.55%
Time deposits <sup>(2)</sup>	50,000		-	-
<b>Total</b>	<b>1,736,008</b>		<b>661,016</b>	
Pledged deposits <sup>(3)</sup>	<b>39,460</b>	2.40%	<b>53,241</b>	1.42%

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

	December 31, 2018	December 31, 2017
<b>Country:</b>		
Netherlands	494	15,582
Spain	8,740	22,580
United Kingdom	15,217	9,137
United States of America <sup>(3)</sup>	15,009	5,942
<b>Total</b>	<b>39,460</b>	<b>53,241</b>

<sup>(1)</sup> Interest-bearing demand deposits based on the daily rates determined by banks. The rate of 6.5% corresponds to a deposit placed in BRL - Brazil. In addition, a rate of 5.61% corresponds to a deposit placed in MXN - México.

<sup>(2)</sup> Time deposits "overnight" calculated on an average interest rate.

<sup>(3)</sup> Includes deposits pledged of \$3.5 million and \$3.0 million at December 31, 2018 and 2017, respectively, with the New York State Banking Department under March 1994 legislation and deposits pledged to guarantee derivative financial instrument transactions.

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

Notes to the consolidated financial statements

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

### 5. Securities and other financial assets, net

All securities and other financial assets as of December 31, 2018 and 2017 are presented as follows:

At December 31, 2018		At fair value			Total securities and other financial assets, net
		With changes in other comprehensive income Recyclable to profit and loss	Non-recyclable to profit and loss	With changes in profit or loss	
Carring amount	Amortized cost				
Principal	85,326	21,798	6,273	8,750	122,147
Interest receivable	1,140	451	-	-	1,591
Reserves	(140)	-	-	-	(140)
	<u>86,326</u>	<u>22,249</u>	<u>6,273</u>	<u>8,750</u>	<u>123,598</u>

At December 31, 2017		At fair value			Total securities and other financial assets, net
		With changes in other comprehensive income Recyclable to profit and loss	Non-recyclable to profit and loss	With changes in profit or loss	
Carring amount	Amortized cost				
Principal	69,130	16,733	8,402	-	94,265
Interest receivable	1,040	375	-	-	1,415
Reserves	(196)	-	-	-	(196)
	<u>69,974</u>	<u>17,108</u>	<u>8,402</u>	<u>-</u>	<u>95,484</u>

#### Securities at amortized cost

The amortized cost of these securities by country risk and type of debt, excluding the amounts of interest receivable and allowance for expected credit losses are as follows:

	December 31, 2018	December 31, 2017
<b>Corporate debt:</b>		
Brazil	1,491	1,485
Mexico	7,264	-
Panama	11,151	9,978
	<u>19,906</u>	<u>11,463</u>
<b>Sovereign debt:</b>		
Colombia	28,183	29,006
Mexico	19,859	20,203
Panama	17,378	8,458
	<u>65,420</u>	<u>57,667</u>
	<u><b>85,326</b></u>	<u><b>69,130</b></u>

As of December 31, 2018, and 2017, the allowance for expected credit losses relating to securities at amortized cost amounted to \$140 thousand and \$196 thousand, respectively.

As of December 31, 2018, securities at amortized cost with a carrying value of \$35.1 million, were pledged to secure repurchase transactions accounted for as secured financings. As of December 31, 2017, there were no securities at amortized cost accounted for as secured financial liabilities.

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

Notes to the consolidated financial statements

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

### 5. Securities and other financial assets, net (continued)

#### Securities at amortized cost (continued)

Securities at amortized cost by contractual maturity are shown in the following tables:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Due within 1 year	28,551	7,978
After 1 year but within 5 years	<u>56,775</u>	<u>61,152</u>
	<u><b>85,326</b></u>	<u><b>69,130</b></u>

Securities at amortized cost classified by issuer's credit quality indicators are as follows:

<b>Rating</b>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
2	5,181	5,236
3	44,858	43,973
4	33,796	8,458
5	<u>1,491</u>	<u>11,463</u>
Total	<u><b>85,326</b></u>	<u><b>69,130</b></u>

#### Securities at fair value through other comprehensive income (FVOCI)

The fair value of financial instruments at FVOCI by country risk and type of debt are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Corporate debt:</b>		
Panama	6,157	-
	<u>6,157</u>	<u>-</u>
<b>Sovereign debt:</b>		
Brazil	2,887	2,954
Chile	5,011	5,147
Trinidad and Tobago	<u>7,743</u>	<u>8,632</u>
	<u>15,641</u>	<u>16,733</u>
	<u><b>21,798</b></u>	<u><b>16,733</b></u>

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

Notes to the consolidated financial statements

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

### 5. Securities and other financial assets

#### Securities at fair value through other comprehensive income (FVOCI) (continued)

As of December 31, 2018, and 2017, the allowance for expected credit losses relating to securities at fair value through other comprehensive income amounted to \$172 thousand and \$222 thousand, respectively.

As of December 31, 2018, securities at fair value through other comprehensive income with a carrying value of \$4.6 million, were pledged to secure repurchase transactions accounted for as secured financings. As of December 31, 2017, there were no securities at fair value through other comprehensive income accounted for as secured financings.

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

	Years ended December 31,		
	2018	2017	2016
Realized gain on sale of securities	194	766	221
Realized loss on sale of securities	-	(517)	(577)
Net gain (loss) on sale of securities at FVOCI	<b>194</b>	<b>249</b>	<b>(356)</b>

Securities at FVOCI classified by issuer's credit quality indicators are as follows:

Rating	December 31, 2018	December 31, 2017
1	5,010	5,147
4	13,901	11,586
5	2,887	-
Total	<b>21,798</b>	<b>16,733</b>

The amortized cost and fair value of securities at FVOCI by contractual maturity are shown in the following tables:

	December 31, 2018		December 31, 2017	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within 1 year	8,386	7,743	-	-
After 1 year but within 5 years	8,084	7,898	16,962	16,733
After 5 years but within 10 years	5,926	6,157	-	-
	<b>22,396</b>	<b>21,798</b>	<b>16,962</b>	<b>16,733</b>

## 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)*

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### 5. Securities and other financial assets (continued)

#### Equity instrument at FVOCI

The fair value of the equity instrument irrevocably measured at fair value through OCI:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Equity Instrument at FVOCI	<u>6,273</u>	<u>8,402</u>

#### Financial instrument required to be measured at fair value through profit and loss

As of December 31, 2018, the Bank received a new financial asset (debentures) with a fair value of \$8.8 million as part of a restructured loan with a book value of \$35 million.

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

Notes to the consolidated financial statements

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

### 6. Loans

The following table sets forth the details of the Bank's gross loan portfolio:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Corporations:		
Private	1,893,696	2,124,947
State-owned	801,938	723,267
Financial institutions:		
Private	2,458,690	2,083,795
State-owned	624,100	573,649
Total	<b>5,778,424</b>	<b>5,505,658</b>

The composition of the gross loan portfolio by industry is as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Financial institutions	3,082,790	2,657,444
Industrial	986,262	772,238
Oil and petroleum derived products	634,615	735,413
Agricultural	446,960	501,241
Services	393,925	430,717
Mining	20,000	231,687
Sovereign	59,026	-
Other	154,846	176,918
Total	<b>5,778,424</b>	<b>5,505,658</b>

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

Notes to the consolidated financial statements

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

### 6. Loans (continued)

Loans classified by borrower's credit quality indicators are as follows:

December 31, 2018					
Rating	Corporations		Financial institutions		Total
	Private	State-owned	Private	State-owned	
1-4	975,588	388,773	797,439	54,000	2,215,800
5-6	795,399	391,438	1,476,861	464,800	3,128,498
7	58,008	21,727	184,390	105,300	369,425
8	-	-	-	-	-
9	64,701	-	-	-	64,701
10	-	-	-	-	-
Total	<b>1,893,696</b>	<b>801,938</b>	<b>2,458,690</b>	<b>624,100</b>	<b>5,778,424</b>

December 31, 2017					
Rating	Corporations		Financial institutions		Total
	Private	State-owned	Private	State-owned	
1-4	1,234,970	458,651	796,508	126,685	2,616,814
5-6	792,363	240,181	1,127,508	391,891	2,551,943
7	58,130	24,435	159,779	55,073	297,417
8	4,484	-	-	-	4,484
9	-	-	-	-	-
10	35,000	-	-	-	35,000
Total	<b>2,124,947</b>	<b>723,267</b>	<b>2,083,795</b>	<b>573,649</b>	<b>5,505,658</b>

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

Notes to the consolidated financial statements

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

### 6. Loans (continued)

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Country:</b>		
Brazil	1,156,223	1,019,466
Mexico	867,441	850,463
Colombia	625,932	829,136
Argentina	604,112	294,613
Panama	485,546	500,134
Costa Rica	370,087	356,459
Guatemala	328,830	309,024
Dominican Republic	301,067	249,926
Ecuador	188,445	94,315
Chile	176,976	170,827
Paraguay	158,685	59,536
Trinidad and Tobago	144,874	175,000
Honduras	89,205	74,476
Peru	78,191	211,846
El Salvador	70,048	55,110
Singapore	38,500	54,500
Jamaica	21,727	24,435
Luxembourg	17,664	19,924
Germany	17,500	37,500
Bolivia	14,187	15,000
Belgium	13,278	11,368
Uruguay	9,906	15,000
Switzerland	-	3,687
Nicaragua	-	29,804
United States of America	-	44,109
Total	<u><b>5,778,424</b></u>	<u><b>5,505,658</b></u>

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

Notes to the consolidated financial statements

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

### 6. Loans (continued)

The remaining loan maturities are summarized as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>Current:</b>		
Up to 1 month	820,184	846,993
From 1 month to 3 months	966,210	1,079,793
From 3 months to 6 months	1,281,615	1,175,801
From 6 months to 1 year	769,280	922,711
From 1 year to 2 years	719,564	392,456
From 2 years to 5 years	1,110,489	989,222
More than 5 years	46,381	39,923
	<u>5,713,723</u>	<u>5,446,899</u>
<b>Impaired</b>	64,701	58,759
Total	<u><u>5,778,424</u></u>	<u><u>5,505,658</u></u>

As of December 31, 2018, and December 31, 2017, the range of interest rates on loans fluctuates from 1.20% to 12.25% (2017: 1.35% to 11.52%).

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Fixed interest rates	2,706,834	2,378,509
Floating interest rates	3,071,590	3,127,149
Total	<u><u>5,778,424</u></u>	<u><u>5,505,658</u></u>

As of December 31, 2018, and December 31, 2017, 82% and 85% of the loan portfolio at fixed interest rates has remaining maturities of less than 180 days.

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

Notes to the consolidated financial statements

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

### 6. Loans (continued)

The following table presents an aging analysis of the loan portfolio by credit classification in stages 1, 2 and 3:

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

	2017			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount				
Current	4,839,227	607,672	23,759	5,470,658
Past due				
90-120 days	-	-	-	-
151-180 days	-	-	-	-
More than 180 days	-	-	35,000	35,000
Total past due	-	-	35,000	35,000
<b>Total</b>	<b>4,839,227</b>	<b>607,672</b>	<b>58,759</b>	<b>5,505,658</b>

As of December 31, 2018 and December 31, 2017, the Bank had credit transactions in the normal course of business with 17% and 21%, respectively, of its Class "A" and "B" stockholders. All transactions were made based on arm's-length terms and subject to prevailing commercial criteria and market rates and were subject to all of the Bank's Corporate Governance and control procedures. As of December 31, 2018 and December 31, 2017, approximately 9% and 14%, respectively, of the outstanding loan portfolio was placed with the Bank's Class "A" and "B" stockholders and their related parties. As of December 31, 2018, 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.

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

Notes to the consolidated financial statements

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

### 6. Loans (continued)

#### Modified financial assets

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

<b>Financial assets (with loss allowance based on lifetime ECL) modified during the year</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Gross carrying amount before modification	-	8,855
Allowance loss before modification	-	(3,344)
Net amortized cost before modification	-	<b>5,511</b>
Gross carrying amount after modification	-	4,484
Allowance loss after modification	-	(4,484)
Net amortized cost after modification	-	-

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

#### Recognition and derecognition of financial assets

During the years ended December 31, 2018, 2017 and 2016, the Bank sold loans measured at amortized cost. These sales were made based on compliance with the Bank's strategy to optimize credit risk of its loan portfolio.

The carrying amounts and gains arising from the derecognition of these financial instruments are presented in the following table. These gains are presented within the line "Gain (loss) on financial instruments, net" in the consolidated statement of profit or loss.

	<b>Assignments and participations</b>	<b>Gains (losses)</b>
Carrying amount as of December 31, 2018	61,667	(625)
Carrying amount as of December 31, 2017	77,400	181
Carrying amount as of December 31, 2016	157,242	730

During 2016, the Bank entered into a master participation agreement with the International Finance Corporation. to sale participations in credit facilities which resulted in revenues of \$76 thousand.

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

Notes to the consolidated financial statements

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

### 6. Loans (continued)

The allowance for expected credit losses relating to loans at amortized cost are as follows:

	<u>Stage 1 <sup>(1)</sup></u>	<u>Stage 2 <sup>(2)</sup></u>	<u>Stage 3 <sup>(3)</sup></u>	<u>Total</u>
<b>Allowance for expected credit losses as of December 31, 2017</b>	<b>19,821</b>	<b>33,477</b>	<b>27,996</b>	<b>81,294</b>
Transfer to lifetime expected credit losses	(514)	514	-	-
Transfer to credit-impaired financial instruments	(111)	(7,864)	7,975	-
Transfer to 12-month expected credit losses	4,471	(4,471)	-	-
Net effect of changes in allowance for expected credit losses	(4,665)	5,823	55,153	56,311
Financial instruments that have been derecognized during the year	(16,400)	(11,090)	-	(27,490)
New financial assets originated or purchased	32,355	-	-	32,355
Write-offs	-	-	(41,686)	(41,686)
Recoveries of amounts previously written off	-	-	1	1
<b>Allowance for expected credit losses as of December 31, 2018</b>	<b>34,957</b>	<b>16,389</b>	<b>49,439</b>	<b>100,785</b>
	<u>Stage 1 <sup>(1)</sup></u>	<u>Stage 2 <sup>(2)</sup></u>	<u>Stage 3 <sup>(3)</sup></u>	<u>Total</u>
<b>Allowance for expected credit losses as of December 31, 2016</b>	<b>29,036</b>	<b>41,599</b>	<b>35,353</b>	<b>105,988</b>
Transfer to lifetime expected credit losses	(672)	672	-	-
Transfer to credit-impaired financial instruments	-	(12,845)	12,845	-
Transfer to 12-month expected credit losses	1,428	(1,428)	-	-
Net effect of changes in reserve for expected credit losses	(2,900)	18,227	20,257	35,584
Financial instruments that have been derecognized during the year	(24,434)	(11,321)	(8,333)	(44,088)
New financial assets originated or purchased	17,363	-	-	17,363
Write-offs	-	(1,427)	(32,126)	(33,553)
Recoveries of amounts previously written off	-	-	-	-
<b>Allowance for expected credit losses as of December 31, 2017</b>	<b>19,821</b>	<b>33,477</b>	<b>27,996</b>	<b>81,294</b>

<sup>(1)</sup> 12-month expected credit losses.

<sup>(2)</sup> Lifetime expected credit losses.

<sup>(3)</sup> Credit-impaired financial assets (lifetime expected credit losses).

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

Notes to the consolidated financial statements

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

### 7. 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:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Documentary letters of credit	218,988	273,449
Stand-by letters of credit and guarantees - commercial risk	179,756	168,976
Credit commitments	103,143	45,578
Total loans commitments and financial guarantee contracts	<b>501,887</b>	<b>488,003</b>

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

<b><u>Maturities</u></b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Up to 1 year	434,544	457,168
From 1 to 2 years	200	257
From 2 to 5 years	67,143	30,000
More than 5 years	-	578
Total	<b>501,887</b>	<b>488,003</b>

Loan commitments and financial guarantee contracts classified by issuer's credit quality indicators are as follows:

<b>Rating</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
1-4	94,724	120,275
5-6	158,864	113,271
7	248,299	254,457
Total	<b>501,887</b>	<b>488,003</b>

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

Notes to the consolidated financial statements

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

### 7. Loan commitments and financial guarantee contracts (continued)

The breakdown of the Bank's loan commitments and financial guarantee contracts' exposure by country risk is as follows:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>Country:</b>		
Ecuador	247,225	252,800
Colombia	52,000	91,020
Brazil	50,000	-
Costa Rica	38,598	19,848
Panama	29,175	31,260
Mexico	22,731	35,643
Germany	18,000	-
Dominican Republic	16,500	-
Guatemala	15,293	11,788
Argentina	6,980	7,546
Peru	2,846	17,618
El Salvador	824	767
Uruguay	750	3,176
Canada	422	425
Bolivia	293	200
Honduras	250	890
Chile	-	15,000
Paraguay	-	22
Total	<u>501,887</u>	<u>488,003</u>

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

The Bank, on behalf of its client's base, issues, confirms and advises letters of credit to facilitate foreign trade transactions. When issuing, confirming and advising letters of credit, the Bank adds its own unqualified assurance that the bank will pay upon presentation of complying documents as per the terms and conditions established in the letter of credit. The Bank also issues, confirms and advises stand-by letters of credit and guarantees, which are issued on behalf of institutional clients in connection with financing between its clients and third parties. The Bank applies the same credit policies used in its lending process, and once the commitment is issued, it becomes irrevocable and remains valid until its expiration upon the presentation of complying documents on or before the expiry date.

#### Credit commitments

Commitments to extend credit are binding legal agreements to lend to clients. Commitments generally have fixed expiration dates or other termination clauses and require payment of a fee to the Bank. As some commitments expire without being drawn on, the total commitment amounts do not necessarily represent future cash requirements.

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

Notes to the consolidated financial statements

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

### 7. Loan commitments and financial guarantee contracts (continued)

The allowance for expected credit losses relating to loan commitments and financial guarantee contracts is as follows:

	<u>Stage 1 <sup>(1)</sup></u>	<u>Stage 2 <sup>(2)</sup></u>	<u>Stage 3 <sup>(3)</sup></u>	<u>Total</u>
<b>Allowance for expected credit losses as of December 31, 2017</b>	<b>1,358</b>	<b>5,487</b>	-	<b>6,845</b>
Transfer to lifetime expected credit losses	(31)	31	-	-
Transfer to credit-impaired financial instruments	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit loss	13	169	-	182
Financial instruments that have been derecognized during the year	(1,179)	(5,487)	-	(6,666)
New instruments originated or purchased	2,928	-	-	2,928
<b>Allowance for expected credit losses as of December 31, 2018</b>	<b>3,089</b>	<b>200</b>	-	<b>3,289</b>
	<u>Stage 1 <sup>(1)</sup></u>	<u>Stage 2 <sup>(2)</sup></u>	<u>Stage 3 <sup>(3)</sup></u>	<u>Total</u>
<b>Allowance for expected credit losses as of December 31, 2016</b>	<b>1,143</b>	<b>4,633</b>	-	<b>5,776</b>
Transfer to lifetime expected credit losses	(1)	1	-	-
Transfer to credit-impaired financial instruments	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-
Net effect of changes in reserve for expected credit loss	(54)	853	-	799
Financial instruments that have been derecognized during the year	(971)	-	-	(971)
New instruments originated or purchased	1,241	-	-	1,241
<b>Allowance for expected credit losses as of December 31, 2017</b>	<b>1,358</b>	<b>5,487</b>	-	<b>6,845</b>

<sup>(1)</sup> 12-month expected credit losses.

<sup>(2)</sup> Lifetime expected credit losses.

<sup>(3)</sup> Credit-impaired financial assets (lifetime expected credit losses).

The allowance for expected credit losses on loan commitments and financial guarantee contracts reflects the Bank's management estimate of expected credit losses items such as: confirmed letters of credit, stand-by letters of credit, guarantees and credit commitments.

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

Notes to the consolidated financial statements

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

### 8. Impairment loss on financial instruments, net

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

	December 31,		
	2018	2017	2016
Loss on derivative financial instruments and changes in foreign currency, net	(1,226)	(437)	(486)
Gain (loss) on financial instruments at fair value through profit or loss	648	(732)	(2,883)
Gain (loss) realized on financial instruments at fair value with changes in other comprehensive income	194	249	(356)
(Loss) gain on sale of loans	(625)	181	806
	<b>(1,009)</b>	<b>(739)</b>	<b>(2,919)</b>

### 9. Derivative financial instruments

Quantitative information on derivative financial instruments is as follows:

	December 31, 2018			Changes in fair value used for calculating hedge ineffectiveness
	Nominal Amount	Carrying amount of the hedging instrument		
		Asset	Liability	
<b>Fair value hedges:</b>				
Interest rate swaps	433,500	108	(6,134)	(1,666)
Cross-currency swaps	226,757	1,134	(15,994)	11,676
<b>Cash flow hedges:</b>				
Interest rate swaps	460,000	513	(3,276)	(2,462)
Cross-currency swaps	23,025	-	(1,384)	(2,263)
Foreign exchange forwards	176,311	933	(7,177)	(14,854)
<b>Net investment hedges:</b>				
Foreign exchange forwards	6,183	-	(78)	(128)
<b>Total</b>	<b>1,325,776</b>	<b>2,688</b>	<b>(34,043)</b>	<b>(9,697)</b>

## 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)

### 9. Derivative financial instruments (continued)

	December 31, 2017			Changes in fair value used for calculating hedge ineffectiveness
	Nominal Amount	Carrying amount of the hedging instrument		
		Asset	Liability	
<b>Fair value hedges:</b>				
Interest rate swaps	367,500	-	(4,361)	(2,394)
Cross-currency swaps	306,961	3,672	(30,154)	15,900
<b>Cash flow hedges:</b>				
Interest rate swaps	595,000	127	(428)	995
Cross-currency swaps	23,025	879	-	2,132
Foreign exchange forwards	225,388	8,610	-	11,835
<b>Net investment hedges:</b>				
Foreign exchange forwards	9,243	50	-	181
<b>Total</b>	<b>1,527,117</b>	<b>13,338</b>	<b>(34,943)</b>	<b>28,649</b>

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

## 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)

### 9. Derivative financial instruments (continued)

The gains and losses resulting from activities of hedging derivative financial instruments recognized in the consolidated statements of profit or loss are presented below:

				December 31, 2018	
	Gain (loss) recognized in OCI (effective portion)	Classification of gain (loss)	Gain (loss) reclassified from OCI to profit or loss	Gain (loss) recognized on derivatives (ineffective portion)	
<b>Derivatives – cash flow hedges</b>					
Interest rate swaps	(593)	Gain (loss) on interest rate swaps	-	(3)	
Cross-currency swaps	2,246	Gain (loss) on foreign currency exchange	-	(3)	
Foreign exchange forwards	12,453	Interest income – loans	1,756	-	
		Interest income – securities at FVOCI	-	-	
		Interest expenses – deposits	4,049	-	
		Interest expense – borrowings and debt	-	-	
		Gain (loss) on foreign currency exchange	(7,001)	-	
<b>Total</b>	<b>14,106</b>		<b>(1,196)</b>	<b>(6)</b>	
<b>Derivatives – net investment hedge</b>					
Foreign exchange forwards	(909)				
<b>Total</b>	<b>(909)</b>				

## 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)

### 9. Derivative financial instruments (continued)

	December 31, 2017			
	Gain (loss) recognized in OCI (effective portion)	Classification of gain (loss)	Gain (loss) reclassified from OCI to profit or loss	Gain (loss) recognized on derivatives (ineffective portion)
<b>Derivatives – cash flow hedge</b>				
Interest rate swaps	(834)	Gain (loss) on interest rate swaps	-	242
Cross-currency swaps	(1,924)	Gain (loss) on foreign currency exchange	-	26
		Interest income – loans	7,611	-
Foreign exchange forwards	(2,708)	Interest income – securities at FVOCI	-	-
		Interest expenses – deposits	3,991	-
		Interest expense – borrowings and debt	-	-
		Gain (loss) on foreign currency exchange	(190)	
<b>Total</b>	<b><u>(5,466)</u></b>		<b><u>11,412</u></b>	<b><u>268</u></b>
<b>Derivatives – net investment hedge</b>				
Foreign exchange forwards	<u>(277)</u>			
<b>Total</b>	<b><u>(277)</u></b>			

## 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)

### 9. Derivative financial instruments (continued)

	December 31, 2016			
	Gain (loss) recognized in OCI (effective portion)	Classification of gain (loss)	Gain (loss) reclassified from OCI to profit or loss	Gain (loss) recognized on derivatives (ineffective portion)
<b>Derivatives – cash flow hedge</b>				
Interest rate swaps	627	Gain (loss) on interest rate swaps	-	(1,258)
Cross-currency swaps	(1,299)	Gain (loss) on foreign currency exchange	-	16
		Interest income – loans	-	(110)
Foreign exchange forwards	233	Interest income – securities at FVOCI	-	-
		Interest income – loans	(4,751)	-
		Interest expense – borrowings and debt	-	-
		Interest expenses – deposits	1,672	-
		Gain (loss) on foreign currency exchange	9,097	-
<b>Total</b>	<b>(439)</b>		<b>6,018</b>	<b>(1,352)</b>
<b>Derivatives – net investment hedge</b>				
Foreign exchange forwards	-			
<b>Total</b>	<b>-</b>			

## 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)

### 9. Derivative financial instruments (continued)

For the agreements qualifying as fair value hedge, the Bank recognized the gain or loss on the derivative financial instruments and the gain or loss of the hedged asset or liability in profit or loss as follows:

		December 31, 2018		
	Classification in consolidated statement of profit or loss	Gain (loss) on derivatives	Gain (loss) on hedged item	Net gain (loss)
<b>Derivatives – fair value hedge</b>				
Interest rate swaps	Interest income – securities FVOCI	(4)	388	384
	Interest income – loans	(134)	1,899	1,765
	Interest expenses – borrowings and debt	(2,192)	(12,201)	(14,393)
	Derivative financial instruments	(5,291)	5,363	72
Cross-currency swaps	Interest income – loans	(765)	1,598	833
	Interest expenses – borrowings and debt	(241)	(9,367)	(9,608)
	Derivative financial instruments	(15,840)	13,927	(1,913)
<b>Total</b>		<b>(24,467)</b>	<b>1,607</b>	<b>(22,860)</b>
		December 31, 2017		
	Classification in consolidated statement of profit or loss	Gain (loss) on derivatives	Gain (loss) on hedged item	Net gain (loss)
<b>Derivatives – fair value hedge</b>				
Interest rate swaps	Interest income – securities FVOCI	(126)	476	350
	Interest income – loans	(12)	160	148
	Interest expenses – borrowings and debt	1,387	(16,233)	(14,846)
	Derivative financial instruments	(2,270)	2,371	101
Cross-currency swaps	Interest income – loans	(1,496)	2,442	946
	Interest expenses – borrowings and debt	1,848	(10,265)	(8,417)
	Derivative financial instruments	14,950	(16,709)	(1,759)
<b>Total</b>		<b>14,281</b>	<b>(37,758)</b>	<b>(23,477)</b>

## 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)

### 9. Derivative financial instruments (continued)

		December 31, 2016		
	Classification in consolidated statement of profit or loss	Gain (loss) on derivatives	Gain (loss) on hedged item	Net gain (loss)
<b>Derivatives – fair value hedge</b>				
Interest rate swaps	Interest income – securities FVOCI	(617)	1,593	976
	Interest income – loans	(25)	2,023	1,998
	Interest expenses – borrowings and debt	4,558	(28,261)	(23,703)
	Derivative financial instruments	(2,077)	2,178	101
Cross-currency swaps	Interest income – loans	(372)	928	556
	Interest expenses – borrowings and debt	195	(6,183)	(5,988)
	Derivative financial instruments	17,673	(16,752)	921
<b>Total</b>		<b>19,335</b>	<b>(44,474)</b>	<b>(25,139)</b>

#### Derivatives financial position and performance

The following tables detail the changes of fair value of the underlying item in the consolidated statement of financial position related to fair value hedges:

		December 31, 2018		
<u>Fair value hedges</u>	<u>Carrying amount</u>	<u>Accumulated fair value adjustments</u>	<u>Line item in the consolidated statement of financial position</u>	
Interest rate risk				
Loans	66,091	97	Loans	
Issuances	349,428	5,266	Borrowings and debt, net	
Foreign exchange rate risk and interest rate risk:				
Securities at FVOCI	12,221	(527)	Securities and other financial instruments, net	
Loans	10,581	(1,097)	Loans	
Issuances	199,356	15,024	Borrowings and debt, net	

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Notes to the consolidated financial statements

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

### 9. Derivative financial instruments (continued)

#### Derivatives financial position and performance (continued)

Fair value hedges	December 31, 2017		
	Carrying amount	Accumulated fair value adjustments	Line item in the consolidated statement of financial position
Interest rate risk			
Loans	-	-	Loans
Issuances	355,000	(4,411)	Borrowings and debt, net
Foreign exchange rate risk and interest rate risk:			
Securities at FVOCI	12,369	(32)	Securities and other financial instruments, net
Loans	25,027	744	Loans
Issuances	249,328	(2,301)	Borrowings and debt, net

The following tables detail the maturity profile of the timing of the nominal amounts of the hedging instruments, by type of risk covered:

Risk type	December 31, 2018			Total
	Foreign exchange risk	Interest rate risk	Foreign exchange and interest rate risks	
Up to 1 month	27,458	-	-	27,458
31 to 60 days	16,977	115,000	-	131,977
61 to 90 days	6,908	50,000	-	56,908
91 to 180 days	100,489	17,000	73,193	190,682
181 to 365 days	98,813	159,500	-	258,313
1 to 2 years	5,161	463,000	23,025	491,186
2 to 5 years	3,704	89,000	7,779	100,483
More than 5 years	-	-	68,768	68,768
Total	<b>259,510</b>	<b>893,500</b>	<b>172,765</b>	<b>1,325,775</b>

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### 9. Derivative financial instruments (continued)

Derivatives financial position and performance (continued)

Risk type	December 31, 2017			Total
	Foreign exchange risk	Interest rate risk	Foreign exchange and interest rate risks	
Up to 1 month	69,459	-	-	69,459
31 to 60 days	26,104	-	-	26,104
61 to 90 days	1,729	185,000	16,821	203,550
91 to 180 days	16,567	137,500	-	154,067
181 to 365 days	68,952	202,500	8,127	279,579
1 to 2 years	178,331	21,500	73,193	273,024
2 to 5 years	4,413	416,000	24,872	445,285
More than 5 years	-	-	76,049	76,049
Total	<b>365,555</b>	<b>962,500</b>	<b>199,062</b>	<b>1,527,117</b>

#### Assessment of the sources of ineffectiveness

As part of its hedging operations and according to the type of hedge, the Bank is exposed to the following ineffectiveness factors:

- *Cash flow hedges*: Type of hedge used to mitigate the risk of changes in foreign exchange currency rates, as well of changes in interest rate risk that could include volatility in the projected cash flows. The sources of ineffectiveness arise mainly because of the differences in discount rates (OIS - Overnight Index Swap).
- *Cross currency swaps*: Type of hedge used to mitigate both interest rate risk and foreign currency risk. The sources of ineffectiveness come mainly from forward rates, discount rates and cross currency basis (cost of the operation).

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

Notes to the consolidated financial statements

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

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### 9. Derivative financial instruments (continued)

For control purposes, derivative instruments are recorded at their nominal amount in memoranda accounts. Interest rate swaps are made either in a single currency or cross currency for a prescribed period to exchange a series of interest rate flows, which involve fixed for floating interest payments, and vice versa. The Bank also engages in certain foreign exchange forward contracts to serve customers' transaction needs and to manage foreign currency risk. All such positions are hedged with an offsetting contract for the same currency.

The Bank manages and controls the risks on these foreign exchange trades by establishing counterparty credit limits by customer and by adopting policies that do not allow for open positions in the loan and investment portfolio. The Bank also uses foreign exchange forward contracts to hedge the foreign exchange risk associated with the Bank's equity investment in a non-U.S. dollar functional currency foreign entity. Derivative and foreign exchange forward instruments negotiated by the Bank are executed mainly over-the-counter (OTC). These contracts are executed between two counterparties that negotiate specific agreement terms, including notional amount, exercise price and maturity.

The maximum length of time over which the Bank has hedged its exposure to the variability in future cash flows on forecasted transactions is 5.2 years (2017: 6.2 years).

The Bank recognized the lifetime associated cost of the foreign exchange forward contracts into interest income, in profit or loss, as an adjustment to the yield on hedged items creating an accumulated reserve in OCI, reclassified to profit or loss at their maturity. The Bank estimates that approximately \$365 thousand are expected to be reclassified into profit or loss during the twelve-month year ending December 31, 2019.

The Bank recognized the lifetime associated cost of the foreign exchange forward contracts into interest expense, in profit or loss, as an adjustment to the yield on hedge items creating an accumulated reserve in OCI, reclassified to profit or loss at their maturity. The Bank estimates that approximately \$3.1 million are expected to be reclassified into profit or loss during the twelve-month year ending December 31, 2019.

#### Types of Derivatives and Foreign Exchange 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 a portion of these derivative instruments as fair value hedges and another portion as cash flow hedges. Cross currency swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. The Bank has designated a portion of these derivative instruments as fair value hedges and another portion as cash flow hedges. Foreign exchange forward contracts represent an agreement to purchase or sell foreign currency at a future date at agreed-upon terms. The Bank has designated these derivative instruments as cash flow hedges and net investment hedges.

#### Offsetting of financial assets and liabilities

In the ordinary course of business, the Bank enters into derivative financial instrument transactions and securities sold under repurchase agreements under industry standards agreements. Depending on the collateral requirements stated in the contracts, the Bank and counterparties can receive or deliver collateral based on the fair value of the financial instruments transacted between parties. Collateral typically consists of pledged cash deposits and securities. The master netting agreements include clauses that, in the event of default, provide for close-out netting, which allows all positions with the defaulting counterparty to be terminated and net settled with a single payment amount.

The International Swaps and Derivatives Association master agreement ("ISDA") and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events.

## 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)

### 9. Derivative financial instruments (continued)

#### Offsetting of financial assets and liabilities (continued)

The following tables summarize financial assets and liabilities that have been offset in the consolidated statement of financial position or are subject to master netting agreements:

#### a) Derivative financial instruments – assets

December 31, 2018						
Description	Gross amounts of assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		Net Amount
				Financial instruments	Cash collateral received	
Derivative financial instruments used for hedging at fair value	2,688	-	2,688	-	(1,496)	1,192
Total	<u>2,688</u>	<u>-</u>	<u>2,688</u>	<u>-</u>	<u>(1,496)</u>	<u>1,192</u>

December 31, 2017						
Description	Gross amounts of assets	Gross amounts offset in the consolidated statement of financial position	Net amount of assets presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		Net Amount
				Financial instruments	Cash collateral received	
Derivative financial instruments used for hedging at fair value	13,338	-	13,338	-	(22,304)	(8,966)
Total	<u>13,338</u>	<u>-</u>	<u>13,338</u>	<u>-</u>	<u>(22,304)</u>	<u>(8,966)</u>

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

Notes to the consolidated financial statements

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

### 9. Derivative financial instruments (continued)

#### Offsetting of financial assets and liabilities (continued)

##### b) Financial liabilities and derivative financial instruments – liabilities

December 31, 2018

Description	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		Net Amount
				Financial instruments	Cash collateral pledged	
Derivative financial instruments used for hedging at fair value	34,043	-	34,043	-	(35,960)	(1,917)
Total	<b>34,043</b>	-	<b>34,043</b>	-	<b>(35,960)</b>	<b>(1,917)</b>

December 31, 2017

Description	Gross amounts of liabilities	Gross amounts offset in the consolidated statement of financial position	Net amount of liabilities presented in the consolidated statement of financial position	Gross amounts not offset in the consolidated statement of financial position		Net Amount
				Financial instruments	Cash collateral pledged	
Derivative financial instruments used for hedging at fair value	34,943	-	34,943	-	(50,241)	(15,298)
Total	<b>34,943</b>	-	<b>34,943</b>	-	<b>(50,241)</b>	<b>(15,298)</b>

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

Notes to the consolidated financial statements

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

### 10. Impairment loss on non - financial assets

Impairment losses on non-financial assets are as follows:

Losses for:	December 31,		
	2018	2017	2016
Impairment loss on other assets	(3,464)	-	-
Impairment loss on investment properties	(3,849)	-	-
Write off on intangible assets	(2,705)	-	-
	<b>(10,018)</b>	-	-

As of December 31, 2018, the Bank made write offs corresponding mainly to technological projects classified as intangible assets by \$2.7 million and other assets under development with a book value of \$1.3 million. In addition, the storage silos received as payment for a restructured loan operation that were recorded as investment properties with a carrying amount of \$3.8 million and other assets under development of the deed with a carrying amount of \$1.7 million, were assessed by the Bank, determining a fair value of zero.

### 11. Equipment and leasehold improvements

A breakdown of cost, accumulated depreciation, additions and disposals of equipment and leasehold improvements is as follows:

	IT equipment	Furniture and fixtures	Leasehold improvement	Other equipment	Total
<b>Cost:</b>					
Balance as of January 1, 2016	3,366	2,002	7,412	457	13,237
Additions	1,436	2,137	239	161	3,973
Disposals	(416)	(361)	(880)	-	(1,657)
<b>Balance as of December 31, 2016</b>	<b>4,386</b>	<b>3,778</b>	<b>6,771</b>	<b>618</b>	<b>15,553</b>
Additions	246	461	39	1,908	2,654
Disposals	(462)	(2,255)	-	(21)	(2,738)
<b>Balance as of December 31, 2017</b>	<b>4,170</b>	<b>1,984</b>	<b>6,810</b>	<b>2,505</b>	<b>15,469</b>
Additions	411	12	111	69	603
Disposals	(253)	(97)	(80)	(62)	(492)
Reclassifications	10	-	-	-	10
<b>Balance as of December 31, 2018</b>	<b>4,338</b>	<b>1,899</b>	<b>6,841</b>	<b>2,512</b>	<b>15,590</b>
<b>Accumulated depreciation:</b>					
Balance as of January 1, 2016	2,671	1,491	2,536	366	7,064
Amortisation for the year	483	384	513	77	1,457
Disposals	(412)	(230)	(875)	-	(1,517)
<b>Balance as of December 31, 2016</b>	<b>2,742</b>	<b>1,645</b>	<b>2,174</b>	<b>443</b>	<b>7,004</b>
Amortisation for the year	587	149	474	368	1,578
Disposals	(459)	(54)	-	(20)	(533)
<b>Balance as of December 31, 2017</b>	<b>2,870</b>	<b>1,740</b>	<b>2,648</b>	<b>791</b>	<b>8,049</b>
Amortisation for the year	516	64	480	222	1,282
Disposals	(159)	(89)	(127)	(94)	(469)
Reclassifications	42	-	-	-	42
<b>Balance as of December 31, 2018</b>	<b>3,269</b>	<b>1,715</b>	<b>3,001</b>	<b>919</b>	<b>8,904</b>
<b>Carrying amounts as of:</b>					
December 31, 2018	<b>1,069</b>	<b>184</b>	<b>3,840</b>	<b>1,593</b>	<b>6,686</b>
December 31, 2017	<b>1,300</b>	<b>244</b>	<b>4,162</b>	<b>1,714</b>	<b>7,420</b>
December 31, 2016	<b>1,644</b>	<b>2,133</b>	<b>4,597</b>	<b>175</b>	<b>8,549</b>

## 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)

### 12. Intangible assets

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

<b>Costs:</b>	
<b>Balance as of January 1, 2016</b>	10,776
Additions	3,111
Disposals	(4)
<b>Balance as of December 31, 2016</b>	<u>13,883</u>
Additions	3,370
Disposals	(81)
<b>Balance as of December 31, 2017</b>	<u>17,172</u>
Additions	58
Disposals	(3,315)
Reclassifications	(10)
<b>Balance as of December 31, 2018</b>	<u><u>13,905</u></u>
<b>Accumulated amortization:</b>	
<b>Balance as of January 1, 2016</b>	10,349
Amortisation for the year	629
Disposals	(4)
<b>Balance as of December 31, 2016</b>	<u>10,974</u>
Amortisation for the year	838
Disposals	(65)
<b>Balance as of December 31, 2017</b>	<u>11,747</u>
Amortisation for the year	1,176
Disposals	(609)
Reclassifications	(42)
<b>Balance as of December 31, 2018</b>	<u><u>12,272</u></u>
<b>Carrying amounts as of:</b>	
December 31, 2018	<u><u>1,633</u></u>
December 31, 2017	<u><u>5,425</u></u>
December 31, 2016	<u><u>2,909</u></u>

Expenses related to the amortization of intangible assets are presented as part of amortization of intangible assets in the consolidated statement of profit or loss. Disposals during 2018 correspond to technological projects.

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

Notes to the consolidated financial statements

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

### 13. Investment properties

Investment properties are measured at fair value through profit or loss. The gains and losses resulting from fair value adjustments are recognized in profit or loss. A summary is as follows:

<b>Balance at January 1, 2017</b>	-
Additions	5,119
<b>Balance at December 31, 2017</b>	<b>5,119</b>
Sale of investment properties	(1,270)
Net change in fair value	(3,849)
<b>Balance at December 31, 2018</b>	<b>-</b>

### 14. Other assets

Following is a summary of other assets:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Accounts receivable <sup>(1)</sup>	13,333	6,793
Interest receivable - deposits	281	48
IT projects under development <sup>(2)</sup>	357	1,405
Other <sup>(3)</sup>	3,003	5,510
	<b>16,974</b>	<b>13,756</b>

<sup>(1)</sup> As of December 31, 2018, the sale of financial assets was executed for \$ 12.4 million and related payment was received in January 2019.

<sup>(2)</sup> As of December 31, 2018, the Bank derecognized the amount of \$0.8 million related to IT projects under development, outstanding as of December 31, 2017, in the consolidated financial statement of profit or loss as an impairment loss on non-financial assets.

<sup>(3)</sup> As of December 31, 2018, the Bank derecognized the amount of \$1.7 million related to a leasing under development, outstanding as of December 31, 2017, in the consolidated financial statement of profit or loss as an impairment loss on non-financial assets.

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

Notes to the consolidated financial statements

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

### 15. Deposits

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Demand	211,381	82,064
Up to 1 month	1,192,252	1,147,772
From 1 month to 3 months	412,638	492,205
From 3 months to 6 months	533,135	411,159
From 6 months to 1 year	462,156	571,500
From 1 year to 2 years	70,047	76,422
From 2 years to 5 years	89,213	147,722
	<u><u>2,970,822</u></u>	<u><u>2,928,844</u></u>

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Aggregate amounts of \$100,000 or more	<u>2,970,438</u>	<u>2,928,425</u>
Aggregate amounts of deposits in the New York Agency	<u>265,349</u>	<u>266,158</u>

	<u>Year ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Interest expense on deposits made in the New York Agency	<u>5,937</u>	<u>2,524</u>	<u>1,429</u>

### 16. Securities sold under repurchase agreements

As of December 31, 2018, the Bank has financing transactions under repurchase agreements for \$39.8 million.

As of December 31, 2017, the Bank does not have financing transactions under repurchase agreements.

During the year ended December 31, 2018, \$635 thousand was recorded corresponding to interest expenses generated by financing agreements under repurchase agreements. These expenses are included as interest expense – borrowings and debt line in the consolidated statement of profit or loss. As of December 31, 2017, the Bank did not incur in any interest expense generated by financing agreements under repurchase agreements.

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

Notes to the consolidated financial statements

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

### 17. Borrowings and debt

Borrowings and debt are detailed as follows:

	December 31, 2018				
	Short-Term		Long-term		Total
	Borrowings	Debt	Borrowings	Debt	
Carring amount					
Principal	1,975,174	45,930	886,384	614,505	3,521,993
Prepaid commissions	-	-	(2,790)	(757)	(3,547)
	<b>1,975,174</b>	<b>45,930</b>	<b>883,594</b>	<b>613,748</b>	<b>3,518,446</b>

	December 31, 2017				
	Short-Term		Long-term		Total
	Borrowings	Debt	Borrowings	Debt	
Carring amount					
Principal	1,062,223	10,500	423,011	720,044	2,215,778
Prepaid commissions	-	-	(2,790)	(1,421)	(4,211)
	<b>1,062,223</b>	<b>10,500</b>	<b>420,221</b>	<b>718,623</b>	<b>2,211,567</b>

#### Short-term borrowings and debt

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

	December 31, 2018	December 31, 2017
<b>Short-term borrowings:</b>		
At fixed interest rates	695,500	429,069
At floating interest rates	1,279,674	633,154
Total borrowings	1,975,174	1,062,223
<b>Short-term debt:</b>		
At fixed interest rates	2,700	10,500
At floating interest rates	43,230	-
Total debt	45,930	10,500
Total short-term borrowings and debt	<b>2,021,104</b>	<b>1,072,723</b>
Average outstanding balance during the year	1,095,530	710,021
Maximum balance at any month-end	2,021,104	1,072,723
Range of fixed interest rates on borrowings and debt in U.S. dollars	2.74% to 3.30%	1.60% to 1.95%
Range of floating interest rates on borrowings in U.S. dollars	2.72% to 3.41%	1.77% to 2.08%
Range of fixed interest rates on borrowings in Mexican pesos	-	7.92%
Range of floating interest rate on borrowings in Mexican pesos	8.49% to 9.39%	7.68% to 7.89%
Weighted average interest rate at end of the year	3.18%	2.16%
Weighted average interest rate during the year	3.00%	1.66%

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

Notes to the consolidated financial statements

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

### 17. Borrowings and debt (continued)

#### Short-term borrowings and debt (continued)

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

Currency	December 31, 2018	December 31, 2017
US dollar	1,926,000	1,044,500
Mexican peso	95,104	28,223
Total	<u>2,021,104</u>	<u>1,072,723</u>

#### Long-term borrowings and debt

Borrowings consist of long-term and syndicated loans obtained from international banks. Debt instruments consist of public and private issuances under the Bank's Euro Medium Term Notes Program ("EMTN") as well as public issuances in the Mexican and Japanese markets. The breakdown of borrowings and long-term debt (original maturity of more than one year), along with contractual interest rates, plus prepaid commissions of \$3.5 million and \$4.2 million as of December 31, 2018 and December 31, 2017, respectively, are as follows:

	December 31, 2018	December 31, 2017
<b>Long-term borrowings:</b>		
At fixed interest rates with due dates from January 2019 to February 2022	63,367	44,011
At floating interest rates with due dates from August 2019 to August 2023	823,017	379,000
Total borrowings	<u>886,384</u>	<u>423,011</u>
<b>Long-term debt:</b>		
At fixed interest rates with due dates from June 2019 to March 2024	503,229	532,305
At floating interest rates with due dates from April 2019 to June 2023	111,276	187,739
Total long-term debt	<u>614,505</u>	<u>720,044</u>
Total long-term borrowings and debt	1,500,889	1,143,055
Less: Prepaid commissions	(3,547)	(4,211)
Total long-term borrowings and debt, net	<u>1,497,342</u>	<u>1,138,844</u>
Net average outstanding balance during the year	<u>1,244,619</u>	<u>1,477,788</u>
Maximum outstanding balance at any month – end	<u>1,500,889</u>	<u>2,010,078</u>
Range of fixed interest rates on borrowings and debt in U.S. dollars	<u>2.25% to 3.25%</u>	<u>1.35% to 3.25%</u>
Range of floating interest rates on borrowings and debt in U.S. dollars	<u>3.26% to 4.46%</u>	<u>2.61% to 3.01%</u>
Range of fixed interest rates on borrowings in Mexican pesos	<u>5.25% to 9.09%</u>	<u>4.89% to 9.09%</u>
Range of floating interest rates on borrowings and debt in Mexican pesos	<u>9.19% to 9.71%</u>	<u>7.99% to 8.00%</u>
Range of fixed interest rates on debt in Japanese yens	<u>0.46%</u>	<u>0.46% to 0.81%</u>
Range of fixed interest rates on debt in Euros	<u>3.75%</u>	<u>3.75%</u>
Range of fixed interest rates on debt in Australian dollars	<u>3.33%</u>	<u>3.33%</u>
Weighted average interest rate at the end of the year	<u>4.35%</u>	<u>3.60%</u>
Weighted average interest rate during the year	<u>4.09%</u>	<u>3.43%</u>

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

Notes to the consolidated financial statements

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

### 17. Borrowings and debt (continued)

#### Long-term borrowings and debt (continued)

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

Currency	December 31,	December 31,
	2018	2017
US dollar	1,203,101	753,981
Mexican peso	143,661	206,750
Japanese yen	72,670	98,711
Euro	60,315	60,178
Australian dollar	21,142	23,435
Total	<u>1,500,889</u>	<u>1,143,055</u>

The Bank's funding activities include: (i) EMTN, which may be used to issue notes for up to \$2.3 billion, with maturities from 7 days up to a maximum of 30 years, at fixed or floating interest rates, or at discount, and in various currencies. The notes are generally issued in bearer or registered form through one or more authorized financial institutions; (ii) Short-and Long-Term Notes ("Certificados Bursatiles") Program (the "Mexican Program") in the Mexican local market, registered with the Mexican National Registry of Securities administered by the National Banking and Securities Commission in Mexico ("CNBV", for its acronym in Spanish), for an authorized aggregate principal amount of 10 billion Mexican pesos with maturities from one day to 30 years.

Some borrowing agreements include various events of default and covenants related to minimum capital adequacy ratios, incurrence of additional liens, and asset sales, as well as other customary covenants, representations and warranties. As of December 31, 2018, the Bank was in compliance with all those covenants.

The future payments of long-term borrowings and debt outstanding as of December 31, 2018, are as follows:

Payments	Outstanding
2019	257,393
2020	488,237
2021	558,265
2022	74,179
2023	62,500
2024	60,315
	<u>1,500,889</u>

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

Notes to the consolidated financial statements

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

### 17. Borrowings and debt (continued)

Reconciliation of movements of borrowings and debt arising from financing activities of consolidated statements of cash flows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Balance as of January 1,</b>	<b>2,211,567</b>	<b>3,246,813</b>	<b>4,312,170</b>
Net increase (decrease) in short-term borrowings and debt	950,259	(396,205)	(961,095)
Proceeds from long-term borrowings and debt	609,017	219,905	406,149
Repayments of long-term borrowings and debt	(256,173)	(883,476)	(464,242)
Change in foreign currency	1,903	23,487	(43,010)
Adjustment of fair value for hedge accounting relationship	753	(483)	(5,945)
Other adjustments	1,120	1,525	2,786
<b>Balance as of December 31,</b>	<b><u>3,518,446</u></b>	<b><u>2,211,567</u></b>	<b><u>3,246,813</u></b>

### 18. Other liabilities

Following is a summary of other liabilities:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accruals and other accumulated expenses	8,602	8,018
Accounts payable	453	9,307
Others	4,560	3,226
	<b><u>13,615</u></b>	<b><u>20,551</u></b>

### 19. 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:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<i>(Thousands of U.S. dollars)</i>			
Profit for the year	11,138	81,999	87,045
<i>(U.S. dollars)</i>			
Basic earnings per share	0.28	2.09	2.23
Diluted earnings per share	0.28	2.08	2.22
<i>(Thousands of shares)</i>			
Weighted average of common shares outstanding - applicable to basic EPS	39,543	39,311	39,085
Effect of diluted securities:			
Stock options and restricted stock units plan	-	18	125
Adjusted weighted average of common shares outstanding applicable to diluted EPS	<b><u>39,543</u></b>	<b><u>39,329</u></b>	<b><u>39,210</u></b>

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

Notes to the consolidated financial statements

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

### 20. Capital 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, 2018, 2017 and 2016:

(Share units)	<u>"Class A"</u>	<u>"Class B"</u>	<u>"Class E"</u>	<u>"Class F"</u>	<u>Total</u>
Authorized	<b>40,000,000</b>	<b>40,000,000</b>	<b>100,000,000</b>	<b>100,000,000</b>	<b>280,000,000</b>
<b>Outstanding at January 1, 2016</b>	6,342,189	2,474,469	30,152,247	-	38,968,905
Conversions	-	-	-	-	-
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	68,785	-	68,785
Restricted stock units – vested	-	-	65,358	-	65,358
<b>Outstanding at December 31, 2016</b>	<b>6,342,189</b>	<b>2,474,469</b>	<b>30,343,390</b>	-	<b>39,160,048</b>
Conversions	-	(64,663)	64,663	-	-
Repurchased common stock	-	(1,000)	-	-	(1,000)
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	142,268	-	142,268
Restricted stock units – vested	-	-	70,519	-	70,519
<b>Outstanding at December 31, 2017</b>	<b>6,342,189</b>	<b>2,408,806</b>	<b>30,677,840</b>	-	<b>39,428,835</b>
Conversions	-	(64,386)	64,386	-	-
Repurchased common stock	-	(99,193)	(64)	-	(99,257)
Restricted stock issued – directors	-	-	57,000	-	57,000
Exercised stock options - compensation plans	-	-	102,918	-	102,918
Restricted stock units – vested	-	-	49,055	-	49,055
<b>Outstanding at December 31, 2018</b>	<b>6,342,189</b>	<b>2,245,227</b>	<b>30,951,135</b>	-	<b>39,538,551</b>

#### Additional paid-in capital

As of December 31, 2018, and 2017, the additional paid-in capital consists of additional cash contributions to the common capital paid by shareholders.

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

Notes to the consolidated financial statements

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

### 21. 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
<b>Outstanding at January 1, 2016</b>	318,140	10,708	589,174	16,242	2,103,620	46,447	3,010,934	73,397
Repurchase of common stock	-	-	-	-	-	-	-	-
Restricted stock issued – directors	-	-	-	-	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation plans	-	-	-	-	(68,785)	(1,519)	(68,785)	(1,519)
Restricted stock units – vested	-	-	-	-	(65,358)	(1,443)	(65,358)	(1,443)
<b>Outstanding at December 31, 2016</b>	<b>318,140</b>	<b>10,708</b>	<b>589,174</b>	<b>16,242</b>	<b>1,912,477</b>	<b>42,226</b>	<b>2,819,791</b>	<b>69,176</b>
Repurchase of common stock	-	-	1,000	28	-	-	1,000	28
Restricted stock issued – directors	-	-	-	-	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation plans	-	-	-	-	(142,268)	(3,140)	(142,268)	(3,140)
Restricted stock units – vested	-	-	-	-	(70,519)	(1,557)	(70,519)	(1,557)
<b>Outstanding at December 31, 2017</b>	<b>318,140</b>	<b>10,708</b>	<b>590,174</b>	<b>16,270</b>	<b>1,642,690</b>	<b>36,270</b>	<b>2,551,004</b>	<b>63,248</b>
Repurchase of common stock	-	-	99,193	2,441	64	1	99,257	2,442
Restricted stock issued - directors	-	-	-	-	(57,000)	(1,259)	(57,000)	(1,259)
Exercised stock options - compensation plans	-	-	-	-	(102,918)	(2,272)	(102,918)	(2,272)
Restricted stock units - vested	-	-	-	-	(49,055)	(1,083)	(49,055)	(1,083)
<b>Outstanding at December 31, 2018</b>	<b>318,140</b>	<b>10,708</b>	<b>689,367</b>	<b>18,711</b>	<b>1,433,781</b>	<b>31,657</b>	<b>2,441,288</b>	<b>61,076</b>

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

Notes to the consolidated financial statements

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

### 22. Other 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 at FVOCI	Derivative financial instruments	Foreign currency translation adjustment	Total
<b>Balance as of January 1, 2016</b>	(8,931)	(1,750)	-	(10,681)
Change in fair value of debt instruments, net of hedging	7,048	4,383		11,431
Reclassification of gains (losses) on financial instruments included in profit or loss <sup>(1)</sup>	1,030	(4,581)	-	(3,551)
Other comprehensive income (loss) for the year	8,078	(198)	-	7,880
<b>Balance as of December 31, 2016</b>	<b>(853)</b>	<b>(1,948)</b>	<b>-</b>	<b>(2,801)</b>
Change in fair value of debt instruments, net of hedging	612	(8)	-	604
Change in fair value of equity instruments at FVOCI, net of hedging	(228)	415	-	187
Reclassification of gains (losses) on financial instruments included in profit or loss <sup>(1)</sup>	84	2,399	-	2,483
Exchange difference in conversion of foreign operating currency	-	-	1,490	1,490
Other comprehensive income (loss) for the year	468	2,806	1,490	4,764
<b>Balance as of December 31, 2017</b>	<b>(385)</b>	<b>858</b>	<b>1,490</b>	<b>1,963</b>
Change in fair value of debt instruments, net of hedging	(254)	(4,375)	-	(4,629)
Change in fair value of equity instruments at FVOCI, net of hedging	(2,074)	850	-	(1,224)
Reclassification of gains (losses) on financial instruments included in profit or loss <sup>(1)</sup>	(87)	5,678	-	5,591
Exchange difference in conversion of foreign operating currency	-	-	(1,281)	(1,281)
Other comprehensive income (loss) for the year	(2,415)	2,153	(1,281)	(1,543)
<b>Balance as of December 31, 2018</b>	<b>(2,800)</b>	<b>3,011</b>	<b>209</b>	<b>420</b>

<sup>(1)</sup> Reclassification adjustments include amounts recognized in profit or loss of the year that had been part of other comprehensive income in this and previous years.

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

Notes to the consolidated financial statements

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

### 22. Other comprehensive income (continued)

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

<b>December 31, 2018</b>		
<b>Details about other comprehensive income components</b>	<b>Amount reclassified from other comprehensive income</b>	<b>Affected line item in the consolidated statement of profit or loss</b>
Realized gains (losses) on securities at FVOCI:	-	Interest income – securities at FVOCI
	-	Net gain on sale of securities at FVOCI
	87	Derivative financial instruments and impairment loss on financial instruments at FVOCI
	<u>87</u>	
Gains (losses) on derivative financial instruments:		
Foreign exchange forwards	(2,502)	Interest income – loans
	(1,650)	Interest expense – borrowings and deposits
	(1,530)	Net gain (loss) on foreign currency exchange
Interest rate swaps	4	Net gain (loss) on interest rate swaps
Cross-currency swaps	-	Net gain (loss) on cross-currency swaps
	<u>(5,678)</u>	

<b>December 31, 2017</b>		
<b>Details about other comprehensive income components</b>	<b>Amount reclassified from other comprehensive income</b>	<b>Affected line item in the consolidated statement of profit or loss</b>
Realized gains (losses) on securities at FVOCI:	-	Interest income – securities at FVOCI
	24	Net gain on sale of securities at FVOCI
	(108)	Derivative financial instruments and impairment loss on financial instruments at FVOCI
	<u>(84)</u>	
Gains (losses) on derivative financial instruments:		
Foreign exchange forwards	(7,611)	Interest income – loans
	(2,102)	Interest expense – borrowings and deposits
	7,216	Net gain (loss) on foreign currency exchange
Interest rate swaps	86	Net gain (loss) on interest rate swaps
Cross-currency swaps	12	Net gain (loss) on cross-currency swaps
	<u>(2,399)</u>	

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

Notes to the consolidated financial statements

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

### 22. Other comprehensive income (continued)

December 31, 2016		
Details about other comprehensive income components	Amount reclassified from other comprehensive income	Affected line item in the consolidated statement of profit or loss
Realized gains (losses) on securities at FVOCI:	-	Interest income – securities at FVOCI
	(7,243)	Net gain on sale of securities at FVOCI
	6,213	Derivative financial instruments and impairment loss on financial instruments at FVOCI
	<b>(1,030)</b>	
Gains (losses) on derivative financial instruments:		
Foreign exchange forwards	(4,750)	Interest income – loans
	1,679	Interest expense – borrowings and deposits
	6,060	Net gain (loss) on foreign currency exchange
Interest rate swaps	1,104	Net gain (loss) on interest rate swaps
Cross-currency swaps	488	Net gain (loss) on cross-currency swaps
	<b>4,581</b>	

### 23. Cash and stock-based compensation plans

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

#### 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. The maximum aggregate number of shares which may be granted under this plan is three million “Class E” common shares. The 2008 Stock Incentive Plan is administered by the Board of Directors which has the authority in its discretion to select the directors and executives to whom the awards may be granted; to determine whether and to what extent awards are granted, and to amend the terms of any outstanding award under this plan. This plan was updated in October 2015, modified and renamed as “2015 Stock Incentive Plan”

Restricted stocks are issued at the grant date but are withheld by the Bank until the vesting date. Restricted stock is entitled to receive dividends. A restricted stock unit is a grant valued in terms of the Bank's stock, but no stock is issued at the grant date. Restricted stock units are not entitled to dividends. The Bank issues or disposes of treasury stocks, and delivers common stock at the vesting date of the restricted stock units.

During 2018 and 2017, the Board of Directors approved the grant of restricted stock to directors and stock options and restricted stock units to certain executives of the Bank, as follows:

#### Restricted stock – Directors

During the years 2018, 2017 and 2016, the Board of Directors granted 57,000, each year, of “Class E” common shares. The fair value of restricted stock granted was based on the stock closing price in the New York Stock Exchange of the “Class E” shares on April 11, 2018, April 19, 2017 and April 13, 2016. The fair value of restricted stock granted totaled \$1.6 million in 2018, \$1.6 million in 2017, and \$1.4 million in 2016, of which \$739 thousand, \$788 thousand and \$617 thousand were recognized in profit or loss during 2018, 2017 and 2016, respectively.

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

Notes to the consolidated financial statements

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

### 23. Cash and stock-based compensation plan

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

The total expense recognized in profit or loss during 2018, 2017 and 2016 of restricted stock – directors amounted \$1.5 million, \$1.7 million and \$1.6 million, respectively. The remaining cost pending amortization of \$1.2 million at December 31, 2018 will be amortized over 2.3 years.

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

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

	<u>Shares</u>	<u>Weighted average grant date fair value</u>
Outstanding at January 1, 2016	96,321	30.62
Granted	57,000	24.14
Vested	(56,421)	28.80
Outstanding at December 31, 2016	96,900	27.86
Granted	57,000	27.80
Vested	(61,950)	28.50
Outstanding at December 31, 2017	91,950	27.40
Granted	57,000	28.70
Vested	(45,300)	28.07
Outstanding at December 31, 2018	103,650	27.82
Expected to vest	103,650	

The fair value of vested stock during the years 2018 and 2017 was \$1.3 million and \$1.8 million, respectively.

#### Restricted Stock Units and Stock Purchase Options granted to certain Executives

The Board of Directors approved the grant of stock purchase options and restricted stock units to certain executives of the Bank with a grant date fair value of \$581 thousand in 2018 and \$650 thousand in 2017. The distribution of the fair value was in restricted stock units.

#### *Restricted stock units*

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

Compensation costs of the restricted stock units are amortized during the period of restriction by the accelerated method. Costs recognized in profit or loss during 2018, 2017 and 2016 due to the amortization of these grants totaled \$503 thousand, \$811 thousand and \$1.3 million, respectively. The remaining compensation cost pending amortization of \$324 thousand in 2018 will be amortized over 3.1 years.

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

Notes to the consolidated financial statements

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

### 23. Cash and stock-based compensation plans (continued)

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

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

##### *Restricted stock units (continued)*

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

	<u>Shares</u>	<u>Weighted average grant date fair value</u>	<u>Weighted average remaining contractual term</u>	<u>Aggregate intrinsic value</u>
Outstanding at January 1, 2016	162,748	19.74		
Granted	91,454	18.26		
Forfeited	(21,408)	17.69		
Vested	<u>(65,358)</u>	18.83		
Outstanding at December 31, 2016	167,436	19.35		
Granted	25,289	25.70		
Forfeited	(71,401)	18.61		
Vested	<u>(70,519)</u>	19.76		
Outstanding at December 31, 2017	50,805	21.07		
Granted	23,412	24.80		
Forfeited	-	-		
Vested	<u>(49,055)</u>	20.90		
Outstanding at December 31, 2018	<u>25,162</u>	<u>24.86</u>	2.99 years	<u>\$0</u>
Expected to vest	<u>25,162</u>	<u>24.86</u>	2.99 years	<u>\$0</u>

The fair value of vested stock during the years 2018 and 2017 is \$1.0 million, and \$1.4 million, respectively.

##### *Stock purchase options*

The Bank's policy indicates that options expire seven years after the grant date and are exercisable at a rate of 25% each year on the grant date's anniversary.

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

Notes to the consolidated financial statements

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

### 23. Cash and stock-based compensation plans (continued)

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

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

Stock purchase options (continued)

Related cost recognized in profit or loss during 2018, 2017 and 2016 as a result of the amortization of these plans that amounted to \$14 thousand, \$118 thousand and \$251 thousand, respectively. The remaining compensation cost pending amortization of \$16 thousand in 2018 will be amortized over a period of 0.11 years.

A summary of stock options granted is presented below:

	<u>Options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>	<u>Aggregate intrinsic value</u>
Outstanding at January 1, 2016	554,756	26.36		
Granted	-	-		
Forfeited	(126)	18.93		
Exercised	<u>(68,785)</u>	22.78		
Outstanding at December 31, 2016	485,845	26.87		
Granted	-			
Forfeited	(69,934)	28.63		
Exercised	<u>(142,268)</u>	24.84		
Outstanding at December 31, 2017	273,643	27.48		
Granted	-			
Forfeited	(28,315)	29.25		
Exercised	<u>(102,918)</u>	24.55		
Outstanding at December 31, 2018	<u>142,410</u>	<u>29.25</u>	3.11 years	<u>\$0</u>
Exercisable	<u>142,410</u>	<u>29.25</u>	3.11 years	<u>\$0</u>
Expected to vest	<u>142,410</u>	<u>29.25</u>	3.11 years	<u>\$0</u>

The intrinsic value of exercised options during the years 2018 and 2017 was \$406 and \$593, respectively. During the years 2018 and 2016 the Bank received \$2.5 million and \$3.5 million, respectively, from exercised options.

#### B. Other plans - Expatriate Top Executives Plan

The Bank sponsors a defined contribution plan for its expatriate top executives based in Panama, which are not eligible to participate in the Panamanian social security system. The Bank's contributions are determined as a percentage of the annual salaries of top executives eligible for the plan, each contributing an additional amount withheld from their salary. Contributions to this plan are managed by a fund manager through a trust. The executives are entitled to the Bank's contributions after completing at least three years of service in the Bank. During the years 2018, 2017 and 2016, the Bank charged to salaries expense \$102 thousand, \$163 thousand and \$121 thousand, respectively, that correspond to the Bank's contributions to this plan.

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

Notes to the consolidated financial statements

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

### 24. Fees and commission income

Fees and commission income from contracts with customers broken down by main types of services according to the scope of IFRS 15, beginning after January 1<sup>st</sup>, 2018, are detailed below:

	December 31, 2018					Total
	Syndicated loans	Documentary letters of credit	Stand-by letters of credit and guarantees	Credit commitments	Other	
Opening and confirmation	-	7,333	2,460	874	-	10,667
Negotiation and acceptance	-	379	100	-	-	479
Amendment	-	46	1,230	-	-	1,276
Structuring	4,625	-	-	325	-	4,950
Other	-	(4)	-	(151)	(32)	(187)
	<b>4,625</b>	<b>7,754</b>	<b>3,790</b>	<b>1,048</b>	<b>(32)</b>	<b>17,185</b>

The following table provides information on the ordinary income that is expected to be recognized on the contracts in force as of December 31, 2018:

	Up to 1 year	1 to 2 years	More than 2 years	Total
	Ordinary income expected to be recognized on the contracts as of December 31, 2018	1,655	377	761

Fees and commission income from contracts with customers recognized under IAS 18 as of December 31, 2017 are detailed below:

	December 31, 2017	December 31, 2016
Commission income – Loans & commitments, net	476	1,126
Commission income - Letters of credit	10,430	7,458
Commission income - Structuring	6,608	5,722
Total	<b>17,514</b>	<b>14,306</b>

## 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)*

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### 25. Business segment information

The Bank's activities are managed and executed in two business segments: Commercial and Treasury. The business segment results are determined based on the Bank's managerial accounting process as defined by IFRS 8 – Operating Segments, 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, which review the internal management reports for each division at least every six months. Segment profit, as included in the internal management reports is used to measure performance as management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industry.

The Bank's net interest income represents the main driver of profits; therefore, the Bank presents its interest-earning assets by business segment, to give an indication of the size of business generating net interest income. Interest-earning assets also generate gains and losses on sales, mainly from financial instruments at fair value through OCI and financial instruments at fair value through profit or loss, which are included in net other income, in the Treasury Segment. The Bank also discloses its other assets and contingencies by business segment, to give an indication of the size of business that generates net fees and commissions, also included in net other income, in the Commercial Business Segment.

The Commercial Business Segment encompasses the Bank's core business of financial intermediation and fee generation activities catering to corporations, financial institutions and investors in Latin America. These activities include the origination of bilateral short-term and medium-term loans, structured and syndicated credits, loan commitments, and financial guarantee contracts such as issued and confirmed letters of credit, stand-by letters of credit, guarantees covering commercial risk, and other assets consisting of customers' liabilities under acceptances.

Profits from the Commercial Business Segment include (i) net interest income from loans; (ii) fees and commissions from the issuance, confirmation and negotiation of letters of credit, guarantees and loan commitments, and through loan structuring and syndication activities; (iii) gain on sale of loans generated through loan intermediation activities, such as sales in the secondary market and distribution in the primary market; (iv) impairment loss on financial instruments; and (v) direct and allocated operating expenses.

The Treasury Business Segment focuses on managing the Bank's investment portfolio, and the overall structure of its assets and liabilities to achieve more efficient funding and liquidity positions for the Bank, mitigating the traditional financial risks associated with the balance sheet, such as interest rate, liquidity, price and currency risks. Interest-earning assets managed by the Treasury Business Segment include liquidity positions in cash and cash equivalents, and financial instruments related to the investment management activities, consisting of securities at FVOCI and securities at amortized cost. The Treasury Business Segment also manages the Bank's interest-bearing liabilities, which constitute its funding sources, mainly deposits, short- and long-term borrowings and debt.

Profits from the Treasury Business Segment include net interest income derived from the above mentioned treasury assets and liabilities, and related net other income (net results from derivative financial instruments and foreign currency exchange, gain (loss) per financial instruments at FVTPL, gain (loss) on sale of securities at FVOCI, and other income), recovery or impairment loss on financial instruments, and direct and allocated operating expenses.

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

Notes to the consolidated financial statements

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

### 25. Business segment information (continued)

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

	<b>December 31, 2018</b>		
	<b>Comercial</b>	<b>Treasury</b>	<b>Total</b>
Interest income	239,976	18,514	258,490
Interest expense	-	(148,747)	(148,747)
Inter-segment net interest income	(130,195)	130,195	-
Net interest income	109,781	(38)	109,743
Other income (expense), net	18,002	(156)	17,846
Total income	127,783	(194)	127,589
Impairment loss on financial assets	(57,621)	106	(57,515)
Impairment loss on non-financial assets	(5,967)	-	(5,967)
Operating expenses	(37,436)	(11,482)	(48,918)
<b>Segment profit (loss) for the year</b>	<b>26,759</b>	<b>(11,570)</b>	<b>15,189</b>
<b>Segment Assets</b>	<b>5,726,977</b>	<b>1,857,196</b>	<b>7,584,173</b>
<b>Segment Liabilities</b>	<b>12,985</b>	<b>6,588,995</b>	<b>6,601,980</b>

	<b>December 31, 2017</b>		
	<b>Comercial</b>	<b>Treasury</b>	<b>Total</b>
Interest income	213,326	12,753	226,079
Interest expense	-	(106,264)	(106,264)
Inter-segment net interest income	(92,745)	92,745	-
Net interest income	120,581	(766)	119,815
Other income (expense), net	18,926	(428)	18,498
Total income	139,507	(1,194)	138,313
Impairment loss on financial assets	(9,928)	489	(9,439)
Operating expenses	(35,916)	(10,959)	(46,875)
<b>Segment profit (loss) for the year</b>	<b>93,663</b>	<b>(11,664)</b>	<b>81,999</b>
<b>Segment Assets</b>	<b>5,470,947</b>	<b>772,517</b>	<b>6,243,464</b>
<b>Segment Liabilities</b>	<b>13,214</b>	<b>5,191,170</b>	<b>5,204,384</b>

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

Notes to the consolidated financial statements

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

### 25. Business segment information (continued)

	December 31, 2016		
	Comercial	Treasury	Total
Interest income	236,392	9,506	245,898
Interest expense	-	(90,689)	(90,689)
Inter-segment net interest income	(96,017)	96,017	-
Net interest income	140,375	14,834	155,209
Other income (expense), net	16,333	(3,568)	12,765
Total income	156,708	11,266	167,974
Impairment loss on financial assets	(35,112)	(3)	(35,115)
Operating expenses	(34,599)	(11,215)	(45,814)
<b>Segment profit for the year</b>	<b>86,997</b>	<b>47</b>	<b>87,045</b>
<b>Segment Assets</b>	<b>5,969,902</b>	<b>1,188,406</b>	<b>7,158,308</b>
<b>Segment Liabilities</b>	<b>25,163</b>	<b>6,125,954</b>	<b>6,151,117</b>

### Reconciliation of information on reportable segments:

	2018	2017	2016
Profit:			
Total profit from reportable segments	15,189	81,999	87,045
Impairment loss on non-financial assets - unallocated	(4,051)	-	-
Consolidated profit for the year	<u>11,138</u>	<u>81,999</u>	<u>87,045</u>
Assets:			
Total assets from reportable segments	7,584,173	6,243,464	7,158,308
Equipment and leasehold improvements, net - unallocated	6,686	7,420	8,549
Intangibles, net - unallocated	1,633	5,425	2,909
Other assets - unallocated	16,693	11,438	11,016
Unallocated amounts	<u>25,012</u>	<u>24,283</u>	<u>22,474</u>
Consolidated total assets	<u>7,609,185</u>	<u>6,267,747</u>	<u>7,180,783</u>
Liabilities:			
Total liabilities from reportable segments	6,601,980	5,204,384	6,151,117
Other liabilities - unallocated	13,615	20,551	18,352
Unallocated amounts	<u>13,615</u>	<u>20,551</u>	<u>18,352</u>
Consolidated total liabilities	<u>6,615,595</u>	<u>5,224,935</u>	<u>6,169,469</u>

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

Notes to the consolidated financial statements

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

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### 26. Fair value of financial instruments

The Bank determines the fair value of its financial instruments using the fair value hierarchy established in IFRS 13 - Fair Value Measurements and Disclosure, which requires the Bank to maximize the use of observable inputs (those that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market information obtained from sources independent of the reporting entity) and to minimize the use of unobservable inputs (those that reflect the reporting entity's own assumptions about the inputs that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances) when measuring fair value. Fair value is used on a recurring basis to measure assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to assess assets and liabilities for impairment or for disclosure purposes. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Bank uses some valuation techniques and assumptions when estimating fair value. The Bank applied the following fair value hierarchy:

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

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

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

When determining the fair value measurements for assets and liabilities that are required or permitted to be recorded at fair value, the Bank considers the principal or most advantageous market in which it would transact and considers the inputs that market participants would use when pricing the asset or liability. When possible, the Bank uses active markets and observable prices to value identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Bank uses observable market information for similar assets and liabilities. However, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to determine the fair value measurement. The frequency of transactions, the size of the bid-ask spread and the size of the investment are factors considered in determining the liquidity of markets and the relevance of observed prices in those markets.

When there has been a significant decrease in the valuation of the financial asset or liability, or in the level of activity for a financial asset or liability, the Bank uses the present value technique which considers market information to determine a representative fair value in usual market conditions.

#### Recurring valuation:

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:

#### Financial instruments at FVTPL and FVOCI

Financial instruments at FVTPL are carried at fair value, which is based upon quoted prices when available, or if quoted market prices are not available, on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security.

Financial instruments at FVOCI are carried at fair value, based on quoted market prices when available, or if quoted market prices are not available, based on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security.

## 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)*

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### 26. Fair value of financial instruments (continued)

#### Financial instruments at FVTPL and FVOCI (continued)

When quoted prices are available in an active market, financial instruments at FVOCI and financial instruments at FVTPL 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

The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instrument. Exchange-traded derivatives that are valued using quoted prices are classified within level 1 of the fair value hierarchy.

For those derivative contracts without quoted market prices, fair value is based on internal valuation techniques using inputs that are readily observable and that can be validated by information available in the market. The principal technique used to value these instruments is the discounted cash flows model and the key inputs considered in this technique include interest rate yield curves and foreign exchange rates. These derivatives are classified within level 2 of the fair value hierarchy.

The fair value adjustments applied by the Bank to its derivative carrying values include credit valuation adjustments (“CVA”), which are applied to OTC derivative instruments, in which the base valuation generally discounts expected cash flows using the Overnight Index Swap (“OIS”) interest rate curves. Because not all counterparties have the same credit risk as that implied by the relevant OIS curve, a CVA is necessary to incorporate the market view of both, counterparty credit risk and the Bank’s own credit risk, in the valuation.

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

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

Notes to the consolidated financial statements

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

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

- <sup>(1)</sup> At December 31, 2018, investment securities and equity instrument at FVOCI for \$21.8 million and \$6.3 million, respectively; were reclassified from level 1 to level 2 of the fair value hierarchy due to changes in market conditions causing that the quoted prices were no longer active for these financial instruments.

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

Notes to the consolidated financial statements

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

### 26. Fair value of financial instruments (continued)

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Securities and other financial assets:				
Securities at FVOCI - Sovereign debt <sup>(1)</sup>	16,733	-	-	16,733
Equity instrument at FVOCI	8,402	-	-	8,402
<b>Total securities and other financial assets</b>	<b>25,135</b>	<b>-</b>	<b>-</b>	<b>25,135</b>
Derivative financial instruments assets:				
Interest rate swaps	-	129	-	129
Cross-currency swaps	-	4,550	-	4,550
Foreign exchange forwards	-	8,659	-	8,659
<b>Total derivative financial instruments - assets</b>	<b>-</b>	<b>13,338</b>	<b>-</b>	<b>13,338</b>
<b>Total assets at fair value</b>	<b>25,135</b>	<b>13,338</b>	<b>-</b>	<b>38,473</b>
<b>Liabilities</b>				
Derivative financial instruments liabilities:				
Interest rate swaps	-	4,789	-	4,789
Cross-currency swaps	-	30,154	-	30,154
<b>Total derivative financial instruments - liabilities</b>	<b>-</b>	<b>34,943</b>	<b>-</b>	<b>34,943</b>
<b>Total liabilities at fair value</b>	<b>-</b>	<b>34,943</b>	<b>-</b>	<b>34,943</b>

- (1) At December 31, 2017, securities at FVOCI with a carrying amount of \$3.0 million were reclassified from level 2 to level 1 of the fair value hierarchy, due to an upgrade valuation of Bloomberg "BVAL" from 7 to 10 during 2017.

Fair value calculations are only provided for a limited portion of the Bank's financial assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparison of fair value information of the Bank and other companies may not be meaningful for comparative analysis.

#### Non-recurring valuation:

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

#### Financial instruments with carrying value that approximates fair value

The carrying value of certain financial assets, including cash and due from banks, interest-bearing deposits in banks, customers' liabilities under acceptances, interest receivable and certain financial liabilities including customer's demand and time deposits, securities sold under repurchase agreements, interest payable, and acceptances outstanding, due to their short-term nature, is considered to approximate their fair value. These instruments are classified in Level 2.

## 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)*

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### 26. Fair value of financial instruments (continued)

#### Non-recurring basic (continued)

##### Securities at amortized cost

The fair value has been estimated upon current market quotations, where available. If quoted market prices are not available, fair value has been estimated based upon quoted prices of similar instruments, or where these are not available, on discounted expected cash flows using market rates commensurate with the credit quality and maturity of the security. These securities are classified in Levels 1 and 2.

##### Loans

The fair value of the loan portfolio, including impaired loans, is estimated by discounting future cash flows using the current rates at which loans would be made to borrowers with similar credit ratings and for the same remaining maturities, considering the contractual terms in effect as of December 31 of the relevant year. These assets are classified in Levels 2 and 3.

##### Transfer of financial assets

Gains or losses on sale of loans depend in part on the carrying amount of the financial assets involved in the transfer, and their fair value at the date of transfer. The fair value of these instruments is determined based upon quoted market prices when available or is based on the present value of future expected cash flows using information related to credit losses, prepayment speeds, forward yield curves, and discounted rates commensurate with the risk involved.

##### Short and long-term borrowings and debt

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

##### Valuation framework

The Bank has an established control framework for the measurement of fair values, which is independent of front office management, verifying the valuation results of the derivative financial instruments, securities and other financial instrument significantly measured. Specific controls include:

- Verification of observable pricing
- Verification of re – performance of model valuations
- A review and approval process for new models and changes to existing models
- Annual calibration and back testing of models against observed market transactions
- Analysis and evaluation of the significant valuation movements
- Review of the significant unobservable inputs, valuation adjustments and changes to the fair value measurement of Level 3 instruments.

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

Notes to the consolidated financial statements

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

### 26. Fair value of financial instruments (continued)

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

	December 31, 2018				
	Carrying value	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>					
Cash and deposits on banks	1,745,652	1,745,652	-	1,745,652	-
Securities at amortized cost <sup>(1) (3)</sup>	86,326	85,036	-	73,869	11,167
Loans, net <sup>(2)</sup>	5,702,258	5,958,540	-	5,884,527	74,013
Customers' liabilities under acceptances	9,696	9,696	-	9,696	-
<b>Liabilities</b>					
Deposits	2,970,822	2,970,822	-	2,970,822	-
Securities sold under repurchase agreements	39,767	39,767	-	39,767	-
Borrowings and debt, net	3,518,446	3,558,763	-	3,558,763	-
Customers' liabilities under acceptances	9,696	9,696	-	9,696	-
Allowance for expected credit losses on loan commitments and financial guarantee contracts	3,289	3,289	-	3,289	-
December 31, 2017					
	Carrying value	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>					
Cash and deposits on banks	672,048	672,048	-	672,048	-
Securities at amortized cost <sup>(1)</sup>	69,974	69,006	50,581	8,447	9,978
Loans, net <sup>(2)</sup>	5,448,788	5,550,704	-	5,550,704	-
Customers' liabilities under acceptances	6,369	6,369	-	6,369	-
<b>Liabilities</b>					
Deposits	2,928,844	2,928,844	-	2,928,844	-
Borrowings and debt, net	2,211,567	2,231,017	-	2,231,017	-
Customers' liabilities under acceptances	6,369	6,369	-	6,369	-
Allowance for expected credit losses on loan commitments and financial guarantee contracts	6,845	6,845	-	6,845	-

<sup>(1)</sup> The carrying value of securities at amortized cost is net of the accrued interest receivable of \$1.1 million and the allowance for expected credit losses of \$0.1 million as of December 31, 2018, and the accrued interest receivable of \$1.0 million and the allowance for expected credit losses \$0.2 million as of December 31, 2017.

<sup>(2)</sup> The carrying value of loans at amortized cost is net of the accrued interest receivable of \$41.1 million, the allowance for expected credit losses of \$100.8 million and unearned interest and deferred fees of \$16.5 million for December 31, 2018, and the accrued interest receivable of \$29.4 million, the allowance for expected credit losses of \$81.3 million and unearned interest and deferred fees of \$5.0 million for December 31, 2017.

<sup>(3)</sup> At December 31, 2018, investment securities at amortized cost were reclassified from level 1 to level 2 of the fair value hierarchy due to changes in market conditions causing that the quoted prices were no longer active for these financial instruments.

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

Notes to the consolidated financial statements

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

### 26. Fair value of financial instruments (continued)

#### Level 3 fair value measurements

##### Reconciliation

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

Carrying amount as of January 1, 2018	-
Origination	8,750
Carrying amount as of December 31, 2018	<u>8,750</u>

#### Unobservable inputs used in the fair value measurements

The following tables provides information about the significant inputs used in the measurement of instruments at Level 3 fair value:

Type of financial instruments	Fair value December 31, 2018	Measurement techniques	Significant unobservable inputs
At fair value through profit or loss (debentures)	8,750	Discounted cash flows	Discount rate Premium or liquidity rate

Range of estimates	Unobservable inputs sensibility
18.28%	Significant increases would lead to a lower fair value
45%	Significant increases would lead to a lower fair value

Significant unobservable inputs were developed as follows:

- The discount rate was derived from the discount rate of a similar company in the same line of business. For the discount rate, the debt-equity structure for the Issuer of the securities was applied.
- The premium or liquidity rate was derived from liquidity cost studies carried out by experts and then subsequently from knowledge of management of similar businesses.

#### Effect of unobservable inputs in fair value measurement

Although management considers that its estimates of fair value are appropriate, the use of different methodologies or assumptions can generate different Level 3 fair values for measurements. Changing one or more assumptions used can generate the following effect:

December 31, 2018	Effect on income*	
	Negative effect	Positive effect
Other assets at fair value through profit or loss (debenture)	<u>(659)</u>	<u>714</u>

\* Changes in +100 bps in the unobservable variables.

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

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### 27. Related party transactions

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

	Decembre 31, 2018	Decembre 31, 2017
<b>Assets</b>		
Demand deposits	5,179	1,809
Loans	202,578	83,031
Allowance for loans losses	(1,837)	(204)
Securities at fair value through other comprehensive income	2,887	2,954
<b>Total asset</b>	<b>208,807</b>	<b>87,590</b>
<b>Liabilities</b>		
Demand deposits	200,000	50,000
Time deposits	40,000	190,000
<b>Total liabilities</b>	<b>240,000</b>	<b>240,000</b>

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

	Decembre 31, 2018	Decembre 31, 2017
<b>Interest income</b>		
Loans	2,751	985
Total interest income	2,751	985
<b>Interest expense</b>		
Deposits	(984)	(530)
Total interest expense	(984)	(530)
<b>Net interest expense</b>	<b>1,767</b>	<b>455</b>
<b>Other income (expense)</b>		
Fees and commissions, net	1	-
Gain on financial instruments, net	41	-
Other income, net	1	-
Total other income, net	43	-
<b>Net income from related parties</b>	<b>1,810</b>	<b>455</b>

### Directors and executives' compensation

During the reporting periods, total compensation paid to directors and the executives of Bladex as representatives of the Bank amounted to:

	December 31,		
	2018	2017	2016
<b>Expenses:</b>			
Compensation costs to directors	2,331	2,581	2,428
Compensation costs to executives	4,943	3,299	5,601

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

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

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

### 28. Salaries and other employee expenses

	December 31, 2018	December 31, 2017	December 31, 2016
Wages and salaries	18,487	16,191	16,132
Payroll taxes	2,120	2,629	2,244
Personnel benefits	6,732	8,644	5,231
Share-based payments	650	189	1,589
<b>Total</b>	<b>27,989</b>	<b>27,653</b>	<b>25,196</b>

### 29. Other expenses

	December 31,		
	2018	2017	2016
Advertising and marketing	337	683	785
Regulatory fees	1,246	977	1,348
Rental - office premises and equipment	2,913	2,394	2,681
Administrative	6,391	6,846	7,468
Professional services	4,293	3,911	4,255
Maintenance and repairs	2,912	1,673	1,866
Other	379	322	129
<b>Total</b>	<b>18,471</b>	<b>16,806</b>	<b>18,532</b>

### 30. Commitments and contingencies

#### Operating lease commitments – Bank as lessee

Future minimum lease payments under cancellable operating leases are as follows:

	December 31,		
	2018	2017	2016
Within 1 year	2,120	2,006	1,984
After 1 year but not more than 5 years	7,734	7,335	7,362
More than 5 years	6,936	8,814	10,638
<b>Total</b>	<b>16,790</b>	<b>18,155</b>	<b>19,984</b>

The total amount of expenses recognized in connection with such leases during the years 2018, 2017 and 2016 are \$2.4 million, \$2.3 million and \$2.6 million, respectively.

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

Notes to the consolidated financial statements

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

### 30. Commitments and contingencies (continued)

#### Operating leases – Bank as sub-lessor

Future minimum lease payments under cancellable operating sub-leases areas follows:

	December 31,		
	2018	2017	2016
Within 1 year	243	300	289
After 1 year but not more than 5 years	-	243	646
Total	<u>243</u>	<u>543</u>	<u>935</u>

The total amount of income recognized in connection with such leases during 2018, 2017 and 2016 are \$323thousand, \$275 thousand y \$436 thousand, respectively.

### 31. Litigation

Bladex is not engaged in any litigation that is significant to the Bank's business or, to the best of the knowledge of Bank's management, that is likely to have an adverse effect on its business, consolidated financial position or its consolidated financial performance.

### 32. Risk management

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This risk management process is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to market, credit, compliance and liquidity risks. It is also subject to country risk and various operating risks.

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a Risk Committee which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a weekly basis to the Executive Committee.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Unit works closely with the Risk Committee to ensure that procedures are compliant with the overall framework.

The Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. This Unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a daily basis, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank's Assets/Liabilities Committee (ALCO) is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

## 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)*

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### 32. Risk management (continued)

#### Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Information compiled from all the businesses is examined and processed to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division.

The report includes aggregate credit exposure, credit metric forecasts, market risk sensitivities, stop losses, liquidity ratios and risk profile changes. On a monthly basis, the Bank prepares detailed reporting of industry, customer and geographic risks. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary and up-to-date information.

#### Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

In accordance with the Bank's policy, the risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Risk Controlling Unit (based on economic considerations rather than the IFRS hedge accounting regulations).

The effectiveness of all the hedge relationships is monitored by the Risk Controlling Unit quarterly. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

#### Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. To avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry / country levels.

## 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)*

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### 32. Risk management (continued)

The Bank has exposure to the following risks from financial instruments:

#### **Credit risk**

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties may fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established using a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss because of the risks to which it is exposed to and take corrective action.

#### Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, considering any overdue payments of interests, credit rating downgrades, or breach of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is facing a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Allowances for losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### Collectively assessed allowances

Allowances for expected credit losses are assessed collectively for losses on credit facilities and for debt investments at amortized cost, with similar characteristics, when assessing credit risk provided that no impairment has been evidence.

The Bank generally bases its analyses on historical experience and prospective information. However, when there are significant market developments, regional and/or global, the Bank would include these macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debt, changes in the law, changes in regulation, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date for each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loan assessments. The collective assessment takes into account data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment and local or industry specific conditions). The approximate lapse between the time when a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

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

## 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)*

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### 32. Risk management (continued)

#### Credit risk (continued)

##### Derivative financial instrument risks

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the consolidated statement of financial position at fair value. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation, but the counterparty fails to deliver the counter value.

##### Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to risks similar to those on loans and are mitigated by the same control processes and policies.

##### 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.

The main types of collateral obtained are, as follows:

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

The Bank also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance-sheet assets and liabilities unless certain conditions for offsetting are met.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized.
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

The Bank holds guarantees and other financial credit enhancements against certain exposures in the loan portfolio. As of December 31, 2018, and 2017, the coverage ratio to the carrying amount of the loan portfolio was 8% and 7% respectively.

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

Notes to the consolidated financial statements

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

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### 32. Risk management (continued)

#### Credit risk (continued)

##### Implementation of forward-looking information

The Bank incorporates information of the economic environments on a forward-looking view, when assessing whether the credit risk of a financial instrument has significantly increased since initial recognition. This is done through a rating model which includes projections of the inputs under analysis, and of the expected credit loss measurement, based on suggestions of areas such as Credit Risk, Economic Studies and Loan Recovery of the Bank. The results of the alert model are analyzed through a severity indicator to total risk resulting of the estimations and assumptions of several macroeconomics factors. These estimations and assumptions are supported under a base scenario associated to a probability of occurrence of 95%. Other scenarios represent optimistic and pessimistic results. The implementation and interpretation of the outcomes of the alert are based on the expert judgement of management

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

Principal macroeconomics variables of the model with forward-looking scenarios

<b>Variable</b>	<b>Description</b>
GDP Growth (Var.%)	% Variation in the growth of weighted Gross Domestic Product (GDP) for Latin American countries.
ComEx Growth (Var.%)	% Variation in foreign trade growth (Exp. + Imp.) weighted for Latin American countries.
Commodities Price Index 2005 = 100	Global indicator of the weighted value of commodity prices (including fuel prices).
FED interest rate (%)	Interest rate for interbank loans according to the Federal Reserve of the United States of America.
USD vs Global Currencies Index 1973 = 100	% Variation in the US dollar vs Group of Global Currencies (relevant in the market).
PMI Index	% Variation in the Manufacturing Production Index (PMI) China (50%) / % Variation in the Manufacturing Production Index (PMI) United States of America (50%).

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Credit risk (continued)

##### Implementation of forward-looking information (continued)

Variable	Scenario	2018	2019	2020	2021	2022
<b>GDP Growth (Var.%)</b>	<b>Central</b>	1.2%	2.2%	2.7%	2.7%	2.8%
	<b>Upside</b>	2.7%	3.5%	3.6%	3.8%	3.8%
	<b>Downside</b>	0.4%	1.1%	1.3%	1.4%	1.5%
<b>ComEx Growth Index (Var.%)</b>	<b>Central</b>	8.2%	4.6%	4.4%	6.8%	6.9%
	<b>Upside</b>	11.8%	9.6%	10.2%	10.5%	10.6%
	<b>Downside</b>	4.1%	1.8%	2.5%	2.7%	2.8%
<b>Commodities Price Index 2005 = 100</b>	<b>Central</b>	136.4	134.6	130.7	128.0	126.1
	<b>Upside</b>	152.5	149.8	148.2	148.7	151.0
	<b>Downside</b>	109.3	103.0	97.8	94.2	91.9
<b>FED interest rate (%)</b>	<b>Central</b>	2.4%	3.0%	3.1%	3.6%	4.3%
	<b>Upside</b>	2.1%	2.7%	2.8%	3.4%	4.0%
	<b>Downside</b>	2.6%	3.2%	3.3%	3.9%	4.5%
<b>USD vs Global Currencies Index 1973 = 100</b>	<b>Central</b>	94.6	99.0	101.5	103.5	105.6
	<b>Upside</b>	90.6	95.0	97.5	99.5	101.6
	<b>Downside</b>	98.6	103.0	105.5	107.5	109.6
<b>PMI Index</b>	<b>Central</b>	51.0	50.5	50.4	50.3	50.1
	<b>Upside</b>	53.3	54.5	55.2	55.7	56.1
	<b>Downside</b>	50.1	48.9	48.4	48.0	47.7

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Liquidity risk

Liquidity refers to the Bank's ability to maintain adequate cash flows to fund operations and meet obligations and other commitments on a timely basis.

As established by the Bank's liquidity policy, the Bank's liquid assets are held in overnight deposits with the Federal Reserve Bank of New York or in the form of interbank deposits with reputable international banks that have A1, P1, or F1 ratings from two of the major internationally – recognized rating agencies and are primarily located outside of the Region. In addition, the Bank's liquidity policy allows for investing in negotiable money market instruments, including Euro certificates of deposit, commercial paper, and other liquid instruments with maturities of up to three years. These instruments must be of investment grade quality A or better, must have a liquid secondary market and be considered as such according to Basel III rules.

The Bank performs daily reviews, controls and periodic stress tests on its liquidity position, including the application of a series of limits to restrict its overall liquidity risk and to monitor the liquidity level according to the macroeconomic environment. The Bank determines the level of liquid assets to be held on a daily basis, by adopting a Liquidity Coverage Ratio methodology referencing the Basel Committee guidelines. Additionally, the Liquidity Coverage Ratio is complemented with the use of the Net Stable Funding Ratio (NSFR) to maintain an adequate long-term funding structure.

Specific limits have been established to control (1) cumulative maturity "gaps" between assets and liabilities, for each maturity classification presented in the Bank's internal liquidity reports, and (2) concentrations of deposits taken from any client or macroeconomic group maturing in one day and total maximum deposits maturing in one day.

The Bank follows a Contingent Liquidity Plan. The plan contemplates the regular monitoring of several quantified internal and external reference benchmarks (such as deposit level, Emerging Markets Bonds Index Plus, LIBOR-OIS spread and market interest rates), which in cases of high volatility would trigger implementation of a series of precautionary measures to reinforce the Bank's liquidity position. In the Bank's opinion, its liquidity position is adequate for the Bank's present requirements.

The following table shows the Bank's liquid assets, by principal geographic area:

<i>(in million of US\$)</i>	December 31,	
	2018	2017
United States of America	1,650	612
Others O.E.C.D.countries	50	-
Latin America	6	7
<b>Total</b>	<b>1,706</b>	<b>619</b>

As of December 31, 2018, and 2017, the Bank's 24-hour deposits from customers (demand deposit accounts and call deposits) amounted to \$725 million and \$478 million, respectively; representing 24% and 16% of the Bank's total deposits, respectively. The liquidity requirement resulting from these maturities is satisfied by the Bank's liquid assets, which as of December 31, 2018 and 2017 were \$1,706 million and \$619 million, respectively (representing 57% and 21% of total deposits, respectively) of which \$1,648 million, or 97% and \$609 million, or 98%, as of December 31, 2018 and 2017, respectively, of liquid assets were deposited at the Federal Reserve Bank of New York. The remaining liquid assets consisted of short-term funds deposited with other banks.

While the Bank's liabilities generally mature over somewhat shorter periods than its assets, the associated liquidity risk is diminished by the short-term nature of the loan portfolio, as the Bank is engaged primarily in the financing of foreign trade. As of December 31, 2018, and 2017, the Bank's short-term loan and investment securities portfolio (maturing within one year based on original contractual term) totaled \$3,688 million and \$3,746 million, respectively. As of December 31, 2018, and 2017, it had an average original term to maturity of 226 and 203 days, respectively, and an average remaining term to maturity of 118 days and 112 days, respectively.

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Liquidity risk (continued)

Medium-term assets (loans and investment securities maturing beyond one year based on original contractual term) totaled \$2,197 million and \$1,872 million as of December 31, 2018 and 2017, respectively. Of that amount, \$98 million and \$86 million corresponded to the Bank's investment securities as of December 31, 2018 and 2017. The remaining \$2,099 million and \$1,786 million in medium-term assets corresponded to the Bank's loan portfolio as of December 31, 2018 and 2017, respectively. As of December 31, 2018, and 2017, the medium-term assets had an average original term to maturity of three years and nine months and four years, respectively; and an average remaining term to maturity of one year and ten months (688 days), and one year and nine months (655 days), respectively.

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

The following table details the Banks's future cash flows between assets and liabilities grouped by its remaining maturity with respect to the contractual maturity:

Description	December 31, 2018					Gross Inflow (outflow)	Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years		
<b>Assets</b>							
Cash and cash equivalents	1,745,671	-	-	-	-	1,745,671	1,745,652
Securities and other financial assets, net	14,870	5,152	21,702	69,802	13,993	125,519	123,598
Loans, net	1,873,995	1,434,229	972,201	1,611,558	19,785	5,911,768	5,702,258
Derivative financial instruments - assets	(2,104)	19	78	1,111	-	(896)	2,688
<b>Total</b>	<b>3,632,432</b>	<b>1,439,400</b>	<b>993,981</b>	<b>1,682,471</b>	<b>33,778</b>	<b>7,782,062</b>	<b>7,574,196</b>
<b>Liabilities</b>							
Deposits	(2,515,096)	(291,804)	(184,360)	-	-	(2,991,260)	(2,982,976)
Securities sold under repurchase agreements	(11,604)	-	(28,873)	-	-	(40,477)	(39,767)
Borrowings and debt, net	(956,634)	(402,871)	(958,442)	(1,281,454)	(68,464)	(3,667,865)	(3,532,209)
Derivative financial instruments - liabilities	(4,421)	(8,516)	(3,946)	(8,634)	(3,260)	(28,777)	(34,043)
<b>Total</b>	<b>(3,487,755)</b>	<b>(703,191)</b>	<b>(1,175,621)</b>	<b>(1,290,088)</b>	<b>(71,724)</b>	<b>(6,728,379)</b>	<b>(6,588,995)</b>
Confirmed letters of credit	75,720	141,985	1,283	-	-	218,988	218,988
Stand-by letters of credit and guaranteed – commercial risk	75,273	31,107	73,176	200	-	179,756	179,756
Credit commitments	36,000	-	-	67,143	-	103,143	103,143
<b>Total Contingencies</b>	<b>186,993</b>	<b>173,092</b>	<b>74,458</b>	<b>67,343</b>	<b>-</b>	<b>501,886</b>	<b>501,886</b>
<b>Net position</b>	<b>(42,316)</b>	<b>563,117</b>	<b>(256,098)</b>	<b>325,040</b>	<b>(37,946)</b>	<b>551,797</b>	<b>483,315</b>

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Liquidity risk (continued)

Description	December 31, 2017					Gross Inflow (outflow)	Carrying amount
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years		
<b>Assets</b>							
Cash and cash equivalents	672,048	-	-	-	-	672,048	672,048
Securities and other financial assets, net	2,431	7,556	4,009	79,398	-	93,394	95,484
Loans, net	2,007,222	1,293,249	1,081,319	1,176,532	21,387	5,579,709	5,448,788
Derivative financial instruments - assets	3,624	652	5,134	3,090	838	13,338	13,338
<b>Total</b>	<b>2,685,325</b>	<b>1,301,457</b>	<b>1,090,462</b>	<b>1,259,020</b>	<b>22,225</b>	<b>6,358,489</b>	<b>6,229,658</b>
<b>Liabilities</b>							
Deposits	(2,331,137)	(310,128)	(199,423)	(102,107)	-	(2,942,795)	(2,937,105)
Borrowings and debt, net	(788,085)	(143,589)	(297,373)	(1,013,083)	(76,078)	(2,318,208)	(2,219,122)
Derivative financial instruments - liabilities	(4,421)	(8,516)	(3,946)	(8,634)	(3,260)	(28,777)	(34,943)
<b>Total</b>	<b>(3,123,643)</b>	<b>(462,233)</b>	<b>(500,742)</b>	<b>(1,123,824)</b>	<b>(79,338)</b>	<b>(5,289,780)</b>	<b>(5,191,170)</b>
Confirmed letters of credit	169,042	101,403	3,004	-	-	273,449	273,449
Stand-by letters of credit and guaranteed – commercial risk	18,687	72,080	77,952	257	-	168,976	168,976
Credit commitments	-	15,000	-	30,000	578	45,578	45,578
<b>Total Contingencies</b>	<b>187,729</b>	<b>188,483</b>	<b>80,956</b>	<b>30,257</b>	<b>578</b>	<b>488,003</b>	<b>488,003</b>
<b>Net position</b>	<b>(626,047)</b>	<b>650,741</b>	<b>508,765</b>	<b>104,939</b>	<b>(57,691)</b>	<b>580,706</b>	<b>550,486</b>

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Market risk

Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with many of the Bank's operations and activities, including loans, deposits, securities at amortized cost and financial instruments through OCI and profit or loss, short- and long-term borrowings and debt, derivatives and financial liabilities through profit or loss. This risk may result from fluctuations in different parameters: interest rates, currency exchange rates, inflation rates and changes in the implied volatility. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on the Bank's consolidated financial statement, financial performance, cash flows and business.

#### Interest rate risk

The Bank endeavors to manage its assets and liabilities in order to reduce the potential adverse effects on the net interest income that could be produced by interest rate changes. The Bank's interest rate risk is the exposure of earnings (current and potential) and capital to adverse changes in interest rates and is managed by attempting to match the term and repricing characteristics of the Bank's interest rate sensitive assets and liabilities. The Bank's policy with respect to interest rate risk provides that the Bank establishes limits with regards to: (1) changes in net interest income due to a potential impact, given certain movements in interest rates and (2) changes in the amount of available equity funds of the Bank, given a one basis point movement in interest rates.

The following summary table presents a sensitivity analysis of the effect on the Bank's results of operations and equity derived from a reasonable variation in interest rates which its financial obligations are subject to, based on change in points.

	<u>Change in interest rate</u>	<u>Effect on income</u>	<u>Effect on equity</u>
December 31, 2018	+200 bps	<u>5,881</u>	<u>(20,508)</u>
	-200 bps	<u>(5,298)</u>	<u>20,508</u>
December 31, 2017	+200 bps	<u>16,945</u>	<u>(19,025)</u>
	-200 bps	<u>(16,674)</u>	<u>19,025</u>

This analysis is based on the prior year changes in interest rates and assesses the impact on income, with balances as of December 31, 2018 and December 31, 2017. This sensitivity provides an idea of the changes in interest rates, taking as example the volatility of the interest rate of the previous year.

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Market risk (continued)

##### Interest rate risk (continued)

The table below summarizes the Bank's exposure based on the terms of repricing of interest rates on financial assets and liabilities.

Description	December 31, 2018					Total
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
<b>Assets</b>						
Time deposits	50,000	-	-	-	-	50,000
Securities and other financial assets	12,833	3,279	20,181	64,673	6,157	107,124
Loans	4,002,558	1,259,088	331,875	177,301	7,602	5,778,424
Total assets	4,065,392	1,262,367	352,056	241,974	13,759	5,935,548
<b>Liabilities</b>						
Deposits	(2,292,696)	(285,492)	(181,253)	-	-	(2,759,441)
Securities sold under repurchase agreements	(11,535)	-	(28,232)	-	-	(39,767)
Borrowings and debt	(2,827,219)	(142,799)	(78,572)	(409,541)	(60,315)	(3,518,446)
Total liabilities	(5,131,450)	(428,291)	(288,057)	(409,541)	(60,315)	(6,317,654)
Net effect of derivative financial instruments held for interest risk management	(139,362)	58,748	(159,500)	160,037	57,188	(22,889)
Total interest rate sensitivity	<b>(1,205,420)</b>	<b>892,824</b>	<b>(95,500)</b>	<b>(7,530)</b>	<b>10,632</b>	<b>(404,995)</b>
<b>December 31, 2017</b>						
Description	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
<b>Assets</b>						
Securities and other financial assets	706	281	7,056	77,821	-	85,864
Loans	4,067,639	952,542	301,334	173,550	10,593	5,505,658
Total assets	4,068,345	952,823	308,390	251,371	10,593	5,591,522
<b>Liabilities</b>						
Deposits	(2,242,220)	(305,415)	(197,060)	(102,085)	-	(2,846,780)
Borrowings and debt	(1,585,145)	(2,538)	(85,232)	(482,814)	(55,838)	(2,211,567)
Total liabilities	(3,827,365)	(307,953)	(282,292)	(584,899)	(55,838)	(5,058,347)
Net effect of derivative financial instruments held for interest risk management	(114,739)	(134,540)	(193,623)	344,683	60,050	(38,169)
Total interest rate sensitivity	<b>126,241</b>	<b>510,330</b>	<b>(167,525)</b>	<b>11,155</b>	<b>14,805</b>	<b>495,006</b>

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Market risk (continued)

##### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For purposes of accounting standards this risk does not come from financial instruments that are not monetary items, or for financial instruments denominated in the functional currency. Exposure to currency risk is low since the Bank's has maximum exposure limits established by the Board.

Most of the Bank's assets and most of its liabilities are denominated in US dollars and, hence, the Bank does not incur in a significant currency exchange risk. The currency exchange rate risk is mitigated by using derivatives, which, although perfectly hedged economically, may generate a certain accounting volatility.

For the rest of the net currency position, the Bank uses economic hedges as a strategy for managing risk for its different currencies and does not foresee a significant risk associated to the volatility that may rise.

The following table details the maximum to foreign currency, where all assets and liabilities are presented based on their book value, except for derivatives, which are included within other assets and other liabilities at fair value.

	(In US dollar thousands)						
	Brazilian Real	European Euro	Japanese Yen	Colombian Peso	Mexican Peso	Other currencies <sup>(1)</sup>	Total
<b>Exchange rate</b>	3.87	1.14	109.98	3,253.00	19.66	-	-
<b>Assets</b>							
Cash and cash equivalents	291	16	1	62	505	44	919
Loans	-	-	-	-	173,953	-	173,953
<b>Total assets</b>	<b>291</b>	<b>16</b>	<b>1</b>	<b>62</b>	<b>174,458</b>	<b>44</b>	<b>174,872</b>
<b>Liabilities</b>							
Borrowings and debt	-	-	-	-	(173,577)	-	(173,577)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(173,577)</b>	<b>-</b>	<b>(173,577)</b>
<b>Net currency position</b>	<b>291</b>	<b>16</b>	<b>1</b>	<b>62</b>	<b>881</b>	<b>44</b>	<b>1,295</b>

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

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

Notes to the consolidated financial statements

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

### 32. Risk management (continued)

#### Market risk (continued)

#### Currency risk (continued)

	<b>December 31, 2017</b>						
	(In US dollar thousands)						
	<b>Brazilian Real</b>	<b>European Euro</b>	<b>Japanese Yen</b>	<b>Colombian Peso</b>	<b>Mexican Peso</b>	<b>Other currencies <sup>(1)</sup></b>	<b>Total</b>
<b>Exchange rate</b>	3.31	1.20	112.66	2,985.78	19.67	-	-
<b>Assets</b>							
Cash and cash equivalents	87	2	4	91	369	75	628
Securities and other financial assets	168	-	-	-	-	-	168
Loans	-	-	-	-	143,182	-	143,182
<b>Total assets</b>	<b>255</b>	<b>2</b>	<b>4</b>	<b>91</b>	<b>143,551</b>	<b>75</b>	<b>143,978</b>
<b>Liabilities</b>							
Borrowings and debt	-	-	-	-	(143,661)	-	(143,661)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(143,661)</b>	<b>-</b>	<b>(143,661)</b>
<b>Net currency position</b>	<b>255</b>	<b>2</b>	<b>4</b>	<b>91</b>	<b>(110)</b>	<b>75</b>	<b>317</b>

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

#### Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank, like all financial institutions, is exposed to operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures, and errors by employees, and any failure, interruption or breach in the security or operation of the Bank's information technology systems could result in interruptions in such activities. Operational problems or errors may occur, and their occurrence may have a material adverse impact on the Bank's business, consolidated financial position, financial performance and cash flows.

The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, as well as the use of internal audit.

## 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

#### Liquidity index

The Rule No. 2-2018 issued by the Superintendence of Banks of Panama (SBP) establishes that every general license or international license bank must guarantee, with a higher level of confidence, that it is in the position to face its intraday liquidity obligations in a period when liquidity pressure may affect the lending market. For that purpose, the Superintendence of Banks of Panama has established a short-term liquidity coverage ratio known as “Liquidity Coverage Ratio or LCR”. This ratio is measured through the quotient of two amounts, the first one corresponds to the high-quality liquid assets and the second one corresponds to the net cash outflows in 30 days.

As of December 31, 2018, the minimum LCR to be reported to the SBP was 25%. The Bank’s LCR as of December 31, 2018 was 238%.

The Rule No. 4-2008 issued by the Superintendence of Banks of Panama (SBP) establishes that every general license or international license bank must maintain, always, a minimum balance of liquid assets equivalent to 30% of the gross total of its deposits in the Republic of Panama or overseas up to 186 days, counted from the reporting date. The formula is based on the following parameters:

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

As of December 31, 2018, and December 31, 2017, the percentage of the liquidity index reported by the Bank to the regulator was 124.39% and 88.78%, respectively.

#### Capital adequacy

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

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

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Tier 1 capital	<u>995,743</u>	<u>1,048,304</u>
Risk weighted assets	<u>5,830,875</u>	<u>5,601,518</u>
Tier 1 capital ratio	<u>17.08%</u>	<u>18.71%</u>

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

Notes to the consolidated financial statements

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

### 33. Applicable laws and regulations (continued)

#### Leverage Coefficient

Article 17 of the Rule No. 1-2015 establishes the leverage coefficient of a regulated entity by means of the quotient between the ordinary primary capital and the total exposure for unweighted assets inside and outside the statement of financial position established by the Superintendence of Banks of Panama (SBP). For the determination of the exposure of off-balance-sheet operations, the criteria established for credit and counterparty credit risk positions will be used. The exposure of the derivatives will be the fair value at which it is recorded in the entity's assets.

The leverage ratio cannot be lower, at any time, than 3%. The Bank will inform to SBP as often as the compliance with the leverage ratio is determined.

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Ordinary capital	<u>859,725</u>	<u>939,548</u>
Risk weighted assets	<u>7,779,919</u>	<u>6,478,314</u>
Leverage coefficient	<u>11.05%</u>	<u>14.50%</u>

#### Specific credit provisions

Rule No. 4-2013, modified by Rule No. 8-2014, states that the specific provisions are originated from the objective and concrete evidence of impairment. These provisions must be established for credit facilities classified according to the risk categories denominated as: special mention, substandard, doubtful, or unrecoverable, both for individual credit facilities as for a group of such facilities. In the case of a group, it corresponds to circumstances that indicate the existence of deterioration in credit quality, although individual identification is still not possible.

Banks must calculate and maintain at all times the amount of the specific provisions determined by the methodology specified in this Rule, which takes into account the balance owed of each credit facility classified in any of the categories subject to provision, mentioned in the paragraph above; the present value of each guarantee available in order to mitigate risk, as established by type of collateral; and a weighting table that applies to the net exposure balance subject to loss of such credit facilities.

Article 34 of this Rule establishes that all credits must be classified in the following five (5) categories, according to their default risk and loan conditions, and establishes a minimum reserve for each classification: normal 0%, special mention 2%, substandard 15%, doubtful 50%, and unrecoverable 100%.

If there is an excess in the specific provision, calculated in accordance with this Rule, compared to the provision calculated in accordance with IFRS, this excess will be accounted for as a regulatory credit reserve in equity and will increase or decrease with appropriations from/to retained earnings. The balance of the regulatory credit reserve will not be considered as capital funds for calculating certain ratios or prudential indicators mentioned in the Rule.

## 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)

#### Specific credit provisions (continued)

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, 2018						
Loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Corporations	2,630,932	-	-	64,701	-	2,695,633
Banks:						
Private	2,458,691	-	-	-	-	2,458,691
State-owned	624,100	-	-	-	-	624,100
	3,082,791	-	-	-	-	3,082,791
<b>Total</b>	<b>5,713,723</b>	<b>-</b>	<b>-</b>	<b>64,701</b>	<b>-</b>	<b>5,778,424</b>
Loans provision:						
Specific	-	-	-	48,383	-	48,383
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,383</b>	<b>-</b>	<b>48,383</b>

December 31, 2017						
Loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Corporations	3,050,900	-	23,759	-	35,000	3,109,659
Banks:						
Private	1,822,350	-	-	-	-	1,822,350
State-owned	573,649	-	-	-	-	573,649
	2,395,999	-	-	-	-	2,395,999
<b>Total</b>	<b>5,446,899</b>	<b>-</b>	<b>23,759</b>	<b>-</b>	<b>35,000</b>	<b>5,505,658</b>
Loans provision:						
Specific	-	-	7,238	-	17,500	24,738
<b>Total</b>	<b>-</b>	<b>-</b>	<b>7,238</b>	<b>-</b>	<b>17,500</b>	<b>24,738</b>

As of December 31, 2018, and December 31, 2017, the total restructured loans amounted to \$9.0 million and \$32.9 million, respectively.

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

December 31, 2018						
Non-accruing loans	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Impaired loans	-	-	-	64,701	-	64,701
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,701</b>	<b>-</b>	<b>64,701</b>

## 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)

Non-accruing loans	December 31, 2017					
	Normal	Special Mention	Substandard	Doubtful	Unrecoverable	Total
Impaired loans	-	-	23,759	-	35,000	58,759
Total	-	-	23,759	-	35,000	58,759

	December 31, 2018	December 31, 2017
Non-accruing loans:		
Private corporations	64,701	58,759
Total non-accruing loans	64,701	58,759
Interest that would be reversed if the loans had been classified as non-accruing loans	1,056	3,257
Income from collected interest on non-accruing loans	2,879	551

#### Credit risk coverage - dynamic provision

The Superintendence of Banks of Panama 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 Superintendence of Banks of Panama.

#### Methodology for the constitution of the regulatory credit reserve

The Superintendence of Banks of Panama by means of the General Resolution of Board of Directors SBP-GJD-0003-2013 of July 9, 2013, establishes the accounting methodology for differences that arise between the application of the International Financial Reporting Standards (IFRS) and the application of prudential regulations issued by the SBP; as well as the additional disclosures required to be included in the notes to the consolidated financial statements.

The parameters established in this methodology are the following:

1. The calculations of accounting balances in accordance with IFRS and the prudential standards issued by the Superintendence of Banks of Panama will be carried out and the respective figures will be compared.
2. When the calculation made in accordance with IFRS results in a greater reserve or provision for the bank compared to the one resulting from the use of the prudential standards issued by the SBP, the Bank will account the IFRS figures.
3. When the impact of the use of prudential standards results in a greater reserve or provision for the Bank, the effect of the application of IFRS will be recognized in profit or loss, and the difference between IFRS calculation compared to the prudential standards calculation will be appropriated from retained earnings as a regulatory credit reserve. If the bank does not have sufficient retained earnings, the difference will be presented as an accumulated deficit account.
4. The regulatory credit reserve mentioned in paragraph 3 of this Rule may not be reversed against the retained earnings as long as there are differences between IFRS and the originated prudential regulations.

## 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)

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

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 Superintendence of Banks of Panama has been used to present the difference between the application of the accounting standard used and the prudential regulations of the Superintendence of Banks of Panama to comply with the requirements of Rule No. 4-2013.

As of December 31, 2018, and December 31, 2017, the total amount of the dynamic provision and the regulatory credit reserve calculated according to the guidelines of Rule No. 4-2013 of the Superintendence of Banks of Panama is \$136.0 million and \$129.2 million, respectively, appropriated from retained earnings for purposes of compliance with local regulatory requirements. This appropriation is restricted from dividend distribution in order to comply with local regulations. The provision and reserve are detailed as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Dynamic provision	136,019	108,756
Regulatory credit reserve	-	20,498
	<b><u>136,019</u></b>	<b><u>129,254</u></b>

#### 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

Bladex announced a quarterly cash dividend of \$0.385 US dollar cents per share corresponding to the fourth quarter of 2018. The cash dividend was approved by the Board of Directors at its meeting held on February 19, 2019 and it is payable on March 26, 2019 to the Bank's stockholders as of March 11, 2019 record date.

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