FOREIGN TRADE BANK OF LATIN AMERICA, INC.
Form 20-F
April 23, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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FORM 20-F

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¨ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF

THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

OR

¨ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report................................

For the transition period from ______ to _______

Commission File Number 1-11414

**BANCO LATINOAMERICANO DE COMERCIO EXTERIOR, S.A.**

*(Exact name of Registrant as specified in its charter)*

| | |
|---|---|
| **FOREIGN TRADE BANK OF LATIN AMERICA, INC.** | **REPUBLIC OF PANAMA** |
| *(Translation of Registrant's name into English)* | *(Jurisdiction of incorporation or organization)* |

**Torre V, Business Park**

**Avenida La Rotonda, Urb. Costa del Este**

**P.O. Box 0819-08730**

**Panama City, Republic of Panama**

*(Address of principal executive offices)*

**Christopher Schech**

**Chief Financial Officer**

**(507) 210-8500**

**Email address: cschech@bladex.com**

*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

| Title of each class | Name of each exchange on which registered |
|---|---|
| Class E Common Stock | New York Stock Exchange |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

| | |
|---|---|
| 6,342,189 | Shares of Class A Common Stock |
| 2,531,926 | Shares of Class B Common Stock |
| 29,271,067 | Shares of Class E Common Stock |
| 0 | Shares of Class F Common Stock |
| 38,145,182 | Total Shares of Common Stock |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

ý Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

¨ Yes ý No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

ý Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

ý Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large Accelerated Filer ý Accelerated Filer ¨ Non-accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

ý U.S. GAAP ¨ IFRS ¨ Other

Indicate by check mark which financial statement item the Registrant has elected to follow.

¨ Item 17 ý Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes ý No

**BANCO LATINOAMERICANO DE COMERCIO EXTERIOR, S.A.**

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In this Annual Report on Form 20-F, or this Annual Report, references to the "Bank" or "Bladex" are to Banco Latinoamericano de Comercio Exterior, S.A., a specialized supranational bank incorporated under the laws of the Republic of Panama, or Panama, and its consolidated subsidiaries. References to "Bladex Head Office" are to Banco Latinoamericano de Comercio Exterior, S.A. in its individual capacity. References to "U.S. dollars" or "$" are to United States, or U.S., dollars. The Bank accepts deposits and raises funds principally in U.S. dollars, grants loans mostly in U.S. dollars and publishes its consolidated financial statements in U.S. dollars. The numbers and percentages set out in this Annual Report have been rounded and, accordingly, may not total exactly.

Upon written or oral request, the Bank will provide without charge to each person to whom this Annual Report is delivered, a copy of any or all of the documents listed as exhibits to this Annual Report (other than exhibits to those documents, unless the exhibits are specifically incorporated by reference in the documents). Written requests for copies should be directed to the attention of Christopher Schech, Chief Financial Officer, Bladex, as follows: (1) if by regular mail, to P.O. Box 0819-08730, Panama City, Republic of Panama, and (2) if by courier, to Torre V, Business Park, Avenida La Rotonda, Urb. Costa del Este, Panama City, Republic of Panama. Telephone requests may be directed to Mr. Schech at 011+(507) 210-8630. Written requests may also be sent via e-mail to cschech@bladex.com. Information is also available on the Bank's website at: http://www.bladex.com.

Forward-Looking Statements

In addition to historical information, this Annual Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements may appear throughout this Annual Report. The Bank uses words such as "believe," "intend," "expect," "anticipate," "plan," "may," "will," "should," "estimate," "potential," "project" and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning the Bank's expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. Forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from these forward-looking statements include the risks described in the section titled "Risk Factors." Forward-looking statements include statements regarding:

- the growth of the Bank's credit portfolio, including its trade finance portfolio;
- the Bank's ability to increase the number of its clients;
- the Bank's ability to maintain its investment-grade credit ratings and preferred creditor status;
- the effects of changing interest rates, inflation, exchange rates and of an improving macroeconomic environment in Latin America and the Caribbean on the Bank's financial condition;
- the execution of the Bank's strategies and initiatives, including its revenue diversification strategy;
- anticipated operating income and return on equity in future periods;
- the Bank's level of capitalization and debt;
- the implied volatility of the Bank's Treasury and trading revenues;

- levels of defaults by borrowers and the adequacy of the Bank’s allowance and provisions for credit losses;
- the availability and mix of future sources of funding for the Bank’s lending operations;
- the adequacy of the Bank’s sources of liquidity to cover large deposit withdrawals;
- management’s expectations and estimates concerning the Bank’s future financial performance, financing, plans and programs, and the effects of competition;
- existing and future governmental banking and tax regulations, including Basel II and Basel III capital and leverage requirements and Basel Committee on Banking Supervision liquidity requirements as adopted in the countries in which the Bank does business, and the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, on the Bank’s business, business practices, and costs of operation as a foreign bank with offices in the United States;

- credit and other risks of lending and investment activities; and
- the Bank’s ability to sustain or improve its operating performance.

In addition, the statements included under the headings “Item 4.B. Business Overview—Strategies for 2013 and Subsequent Years” and “Item 5.D. Trend Information” are forward-looking statements. Given the risks and uncertainties surrounding forward-looking statements, undue reliance should not be placed on these statements. Many of these factors are beyond the Bank’s ability to control or predict. The Bank’s forward-looking statements speak only as of the date of this Annual Report. Other than as required by law, the Bank undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

# PART I

## Item 1. Identity of Directors, Senior Management and Advisers

Not required in this Annual Report.

## Item 2. Offer Statistics and Expected Timetable

Not required in this Annual Report.

## Item 3. Key Information

### A. Selected Financial Data

The following table presents selected consolidated financial data for the Bank. The financial data presented below are at and for the years ended December 31, 2012, 2011, 2010, 2009, and 2008, and are derived from the Bank's consolidated financial statements for the years indicated, which were prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, and are stated in U.S. dollars. The consolidated financial statements for the years ended December 31, 2012, 2011, 2010, 2009, and 2008 were audited by the independent registered public accounting firm Deloitte, Inc. The consolidated financial statements of the Bank for each of the three years in the period ended December 31, 2012, or the Consolidated Financial Statements, are included in this Annual Report, together with the report of the independent registered public accounting firm Deloitte, Inc. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read in conjunction with Item 4, "Information on the Company," Item 5, "Operating and Financial Review and Prospects," and the Consolidated Financial Statements and notes thereto included in this Annual Report.

**Consolidated Selected Financial Information**

| | As of and for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2012[(1)]** | **2011[(1)]** | **2010[(1)]** | **2009[(1)]** | **2008[(1)]** |
| | (in $ thousand, except per share data and ratios) | | | | |
| Income Statement Data: | | | | | |
| Net interest income | $104,977 | $102,710 | $74,503 | $64,752 | $77,847 |
| Fees and commissions, net | 10,021 | 10,619 | 9,811 | 6,452 | 4,920 |
| Reversal of provision (provision) for credit losses [(2)] | 12,389 | (4,393) | 4,835 | (14,830) | 1,544 |
| Derivative financial instruments and hedging | 71 | 2,923 | (1,446) | (2,534) | 9,956 |
| Recoveries, net of impairment of assets | 0 | (57) | 233 | (120) | (767) |
| Net gain (loss) from investment fund trading | 7,011 | 20,314 | (7,995) | 24,997 | 21,357 |
| Net gain (loss) from trading securities | 11,234 | (6,494) | (3,603) | 13,113 | (20,998) |
| Net gain on sale of securities available-for-sale | 6,030 | 3,413 | 2,346 | 546 | 67 |
| Gain (loss) on foreign currency exchange | (10,525) | 4,269 | 1,870 | 613 | (1,596) |
| Gain on sale of premises and equipment | 5,626 | 0 | 0 | 0 | 0 |
| Other income, net | 2,986 | 1,059 | 1,279 | 1,451 | 703 |
| Total operating expenses | (55,814) | (50,087) | (42,218) | (38,674) | (37,317) |
| Net income from continuing operations | 94,006 | 84,276 | 39,615 | 55,767 | 55,714 |
| Net income (loss) from discontinued operations [(1)] | (681) | (420) | 206 | 214 | (388) |
| Net income | 93,325 | 83,856 | 39,821 | 55,980 | 55,327 |
| Net income (loss) attributable to the redeemable noncontrolling interest | 293 | 676 | (2,423) | 1,118 | 208 |
| Net income attributable to Bladex | 93,032 | 83,180 | 42,244 | 54,862 | 55,119 |
| Net income from continuing operations | 93,713 | 83,600 | 42,038 | 54,648 | 55,507 |
| Net income (loss) from discontinued operations [(1)] | (681) | (420) | 206 | 214 | (388) |
| Balance Sheet Data: | | | | | |
| Trading assets | 5,265 | 20,436 | 50,412 | 50,277 | 44,939 |
| Securities available-for-sale | 183,017 | 416,300 | 353,250 | 456,984 | 607,918 |
| Securities held-to-maturity | 34,113 | 26,536 | 33,181 | 0 | 28,410 |
| Investment fund | 105,888 | 120,425 | 167,291 | 197,575 | 150,695 |
| Loans | 5,715,556 | 4,959,573 | 4,064,332 | 2,779,262 | 2,618,643 |
| Allowance for loan losses | 72,976 | 88,547 | 78,615 | 73,789 | 54,648 |
| Total assets | 6,756,396 | 6,360,032 | 5,100,087 | 3,878,771 | 4,362,678 |
| Total deposits | 2,317,260 | 2,303,506 | 1,820,925 | 1,256,246 | 1,169,048 |
| Trading liabilities | 32,304 | 5,584 | 3,938 | 3,152 | 14,157 |
| Securities sold under repurchase agreements and short-term borrowings | 1,607,397 | 1,700,468 | 1,360,327 | 399,132 | 1,212,921 |
| Borrowings and long-term debt | 1,905,540 | 1,487,548 | 1,075,140 | 1,390,387 | 1,204,952 |
| Total liabilities | 5,926,537 | 5,595,203 | 4,384,087 | 3,168,234 | 3,783,665 |

| | | | | | |
|---|---|---|---|---|---|
| Capital stock | 279,980 | 279,980 | 279,980 | 279,980 | 279,980 |
| Total stockholders' equity | 826,475 | 759,282 | 697,050 | 675,637 | 574,324 |
| Weighted average basic shares | 37,824 | 36,969 | 36,647 | 36,493 | 36,388 |
| Weighted average diluted shares | 37,938 | 37,145 | 36,814 | 36,571 | 36,440 |
| Per Common Share Data: | | | | | |
| Basic earnings per share | 2.46 | 2.25 | 1.15 | 1.50 | 1.51 |
| Diluted earnings per share | 2.45 | 2.24 | 1.15 | 1.50 | 1.51 |
| Book value per share (period end) | 21.67 | 20.45 | 18.99 | 18.49 | 15.77 |
| Regular cash dividends per share | 1.10 | 0.85 | 0.67 | 0.60 | 0.88 |
| Selected Financial Ratios: | | | | | |
| Performance Ratios: | | | | | |
| Return on average assets [3] | 1.51 % | 1.46 % | 0.97 % | 1.38 % | 1.09 % |
| Return on average stockholders' equity[4] | 11.57 % | 11.40 % | 6.21 % | 8.60 % | 8.99 % |
| Net interest margin [5] | 1.70 % | 1.81 % | 1.70 % | 1.62 % | 1.55 % |
| Net interest spread [5] | 1.44 % | 1.62 % | 1.43 % | 1.12 % | 0.99 % |
| Total operating expenses to total average assets [6] | 0.90 % | 0.88 % | 0.97 % | 0.97 % | 0.74 % |
| Regular cash dividend payout ratio | 44.72 % | 37.78 % | 58.12 % | 39.91 % | 58.09 % |
| Special cash dividend payout ratio | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Liquidity Ratios: | | | | | |
| Liquid assets [7] / total assets | 10.21 % | 12.36 % | 8.25 % | 10.36 % | 18.92 % |
| Liquid assets [7] / total deposits | 29.78 % | 34.11 % | 23.10 % | 32.00 % | 70.62 % |
| Asset Quality Ratios: | | | | | |
| Non-accrual loans to total loans [8] | n.m. (*) | 0.65 % | 0.71 % | 1.82 % | n.m. (*) |
| Impaired loans to total loans [8] | n.m. (*) | 0.65 % | 0.71 % | 1.29 % | n.m. (*) |
| Charged-off loans to total loans | 0.13 % | 0.02 % | 0.13 % | 0.00 % | n.m. (*) |
| Allowance for loan losses to total loans, net of unearned income and deferred commission | 1.28 % | 1.79 % | 1.94 % | 2.66 % | 2.09 % |
| Allowance for losses on off-balance sheet credit risk to total contingencies | 2.05 % | 2.45 % | 3.50 % | 8.28 % | 6.95 % |
| Capital Ratios: | | | | | |
| Stockholders' equity to total assets | 12.23 % | 11.94 % | 13.67 % | 17.42 % | 13.16 % |
| Average stockholders' equity to total average assets [9] | 13.03 % | 12.83 % | 15.62 % | 16.06 % | 12.11 % |
| Leverage ratio[10] | 8.2 x | 8.4 x | 7.3 x | 5.7 x | 7.6 x |
| Tier 1 capital to risk-weighted assets [11] | 17.9 % | 18.6 % | 20.5 % | 25.8 % | 20.4 % |
| Total capital to risk-weighted assets [12] | 19.2 % | 19.9 % | 21.8 % | 27.0 % | 21.6 % |
| Risk-weighted assets | $4,609,221 | $4,090,333 | $3,416,782 | $2,633,482 | $3,143,971 |

(*) "n.m." means not meaningful.

(1) The Asset Management Unit is reported as a discontinued operation since the Bank decided to divest the operations of this Unit in the fourth quarter of 2012, in accordance with the ASC Topic 250-20 – Presentation of Financial Statements – Discontinued Operations. The amounts reported for the years ended December 31, 2011, 2010, 2009, and 2008 have been reclassified to conform with the presentation of discontinued operations in 2012. See Item 4.B, "Business Overview – Overview", for a discussion of the Asset Management Unit.

(2) Includes reversal of (provision for) loan losses and for losses on off-balance sheet credit risks. For information regarding reversal of (provision for) credit losses, see Item 5, "Operating and Financial Review and Prospects—Operating Results."

(3) Average assets calculated on the basis of unaudited daily average balances.

(4) Average stockholders' equity calculated on the basis of unaudited daily average balances.

(5) For information regarding calculation of the net interest margin and the net interest spread, see Item 5A, "Operating and Financial Review and Prospects—Operating Results—Net Interest Income and Margins."

(6) Average assets calculated on the basis of unaudited daily average balances.

(7) Liquid assets consist of investment-grade "A" securities, and cash and due from banks, excluding pledged deposits. See Item 18, "Financial Statements" Note 3 to the Audited Financial Statements.

(8) As of December 31, 2012, the Bank did not have any loans in non-accrual status. Non-accrual loans amounted $32 million in 2011, all of which corresponded to impaired loans, $29 million in 2010, all of which corresponded to impaired loans, and $51 million in 2009 of which $36 million corresponded to impaired loans in 2009. Impairment factors considered by the Bank's management include collection status, collateral value, the probability of collecting scheduled principal and interest payments when due, and economic conditions in the borrower's country of residence.

(9) Average stockholders' equity and total average assets calculated on the basis of unaudited daily average balances.

(10) Leverage ratio is the ratio of total assets to stockholders' equity.

(11) Tier 1 capital is calculated according to Basel I capital adequacy guidelines, and is equivalent to stockholders' equity, excluding the Other Comprehensive Income account effect of the available-for-sale portfolio. The Tier 1 capital ratio is calculated as a percentage of risk-weighted assets. Risk-weighted assets are, in turn, also calculated based on Basel I capital adequacy guidelines.

(12) Total capital refers to Tier 1 capital plus Tier 2 capital, based on Basel I capital adequacy guidelines. Total capital refers to the total capital ratio as a percentage of risk-weighted assets.

**B. Capitalization and Indebtedness**

Not required in this Annual Report.

**C. Reasons for the Offer and Use of Proceeds**

Not required in this Annual Report.

**D. Risk Factors**

**Risks Relating to the Bank's Business**

***Bladex faces liquidity risk, and its failure to adequately manage this risk could result in a liquidity shortage, which could adversely affect its financial condition, results of operations and cash flows.***

Bladex, like all financial institutions, faces liquidity risk, or the risk of not being able to maintain adequate cash flow to repay its deposits and borrowings and fund its credit portfolio on a timely basis. Failure to adequately manage its liquidity risk could produce an available funds shortage as a result of which the Bank would not be able to repay its obligations as they become due.

As of December 31, 2012, approximately 24% of the Bank's funding represents short-term borrowings from international private banks, the majority of which are European and North American institutions, which compete with the Bank in its credit extension activity. If these international banks cease to provide funding to the Bank, the Bank would have to seek funding from other sources, which may not be available, or if available, may be at a higher cost.

Financial turmoil in the international markets could negatively impact liquidity in the financial markets, reducing the Bank's access to credit or increasing its cost of funding, which could lead to tighter lending standards. An example of this situation is the liquidity constraint experienced in the second half of 2007 in the international financial markets, which intensified during the third quarter of 2008, driven first by the subprime crisis in the United States and then followed by the credit crisis, and in the ongoing European sovereign debt crisis. As of December 31, 2012, the Bank had extended loans in Spain of approximately $10 million. The reoccurrence of such unfavorable market conditions could have a material adverse effect on the Bank's liquidity.

As of December 31, 2012, approximately 38% of the Bank's total deposits represented deposits from state-owned banks, 37% of the Bank's total deposits represented deposits from central banks, and 16% of the Bank's deposits represented deposits from private sector commercial banks and financial institutions.

As a U.S. dollar-based economy, Panama does not have a central bank in the traditional sense, and there is no lender of last resort to the banking system in the country. Central Banks in Latin America and the Caribbean, or the Region, would not be obligated to act as lenders of last resort if Bladex were to face a liquidity shortage and the Bank would have to rely on commercial liquidity sources to cover the shortfall.

The credit ratings of Bladex are an important factor in maintaining the Bank's liquidity. A reduction in the Bank's credit rating could reduce the Bank's access to debt markets or materially increase the cost of issuing debt, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing or permitted, contractually or otherwise, to do business with or lend to the Bank. This in turn could reduce the Bank's liquidity and negatively impact its operating results and financial position.

***The Bank’s allowances for credit losses could be inadequate to cover credit losses related to its loans and contingencies.***

The Bank determines the appropriate level of allowances for credit losses based on a process that estimates the probable loss inherent in its portfolio, which is the result of a statistical analysis supported by the Bank’s historical portfolio performance, external sources, and the judgment of the Bank’s management. The latter reflects assumptions and estimates made in the context of changing political and economic conditions in the Region. The Bank’s allowances could be inadequate to cover losses in its commercial portfolio due to exposure concentration or deterioration in certain sectors or countries, which in turn could have a material adverse effect on the Bank’s financial condition, results of operations and cash flows.

***The Bank’s businesses are subject to 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, investment and trading securities, short-term borrowings, long-term debt, derivatives and trading positions. Among many other market conditions that may shift from time to time are fluctuations in interest rates and currency exchange rates, changes in the implied volatility of interest rates and changes in securities prices, due to changes in either market perception or actual credit quality of either the relevant issuer or its country of origin. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse effects on the Bank’s financial condition, results of operations, cash flows and business.

See Item 11, “Quantitative and Qualitative Disclosures About Market Risk.”

***The Bank faces interest rate risk that is caused by the mismatch in maturities of interest-earning assets and interest-bearing liabilities. If not properly managed, this mismatch can reduce net interest income as interest rates fluctuate.***

As a bank, Bladex faces interest rate risk because interest-bearing liabilities generally reprice at a different pace than interest-earning assets. Bladex’s exposure to instruments whose values vary with the level or volatility of interest rates contributes to its interest rate risk. Failure to adequately manage eventual mismatches may reduce the Bank’s net interest income during periods of fluctuating interest rates.

***The Bank's credit portfolio may decrease or may not continue to grow at the present rate or at a similar rate. Additionally, growth in the Bank's credit portfolio may expose the Bank to an increase in allowance for loan losses.***

It is difficult to predict whether the Bank's credit portfolio, including the Bank's foreign trade portfolio, will continue to grow in the future at historical rates. A reversal in the growth rate of the Region's economy and trade volumes could adversely affect the growth rate of the Bank's credit portfolio. Additionally, the future expansion of Bladex's credit portfolio may expose the Bank to higher levels of potential or actual losses and require an increase in credit risk reserves, which could negatively impact the Bank's operating results and financial position. Non-performing or low credit quality loans can negatively impact the Bank's results of operations. The Bank may not be able to effectively control the level of the impaired loans in its total loan portfolio. In particular, the amount of its reported non-performing loans may increase in the future as a result of growth in its loan portfolio, including as a result of loan portfolios that the Bank may acquire in the future, or factors beyond the Bank's control, such as the impact of economies trends and political events affecting the Region, events affecting certain industries or events affecting financial markets and global economies.

***Increased competition and banking industry consolidation could limit the Bank's ability to grow and may adversely affect results of operations.***

Most of the competition the Bank faces in the trade finance business comes from domestic and international banks, the majority of which are European and North American institutions. Many of these banks have substantially greater resources than the Bank and enjoy access to less expensive funding than the Bank does. It is difficult to predict how increased competition will affect the Bank's growth prospects and results of operations.

Over time, there has been substantial consolidation among companies in the financial services industry, and this trend continued accelerating in 2011 and 2012 as the credit crisis led to numerous mergers and asset acquisitions among industry participants and in certain cases reorganization, restructuring, or even bankruptcy. Merger activity in the financial services industry has produced companies that are capable of offering a wide array of financial products and services at competitive prices. In addition, whenever economic conditions and risk perception improve in the Region, competition from commercial banks, the securities markets and other new participants generally increases.

Globalization of the capital markets and financial services industries exposes the Bank to further competition. To the extent the Bank expands into new business areas and new geographic regions, the Bank may face competitors with more experience and more established relationships with clients, regulators and industry participants in the relevant market, which could adversely affect the Bank's ability to compete. The Bank's ability to grow its business and therefore, its earnings, is affected by these competitive pressures.

***The Bank's businesses rely heavily on data collection, management and processing, and information systems, the failure of which could have a material adverse effect on the Bank, including the effectiveness of the Bank's risk management and internal control systems.***

All of the Bank's principal businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Bank's businesses and to its ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect the Bank's decision-making process, the Bank's risk management and internal control systems, as well as the Bank's ability to respond on a timely basis to changing market conditions. If the Bank cannot maintain an effective data collection, management and processing system, it may be materially and adversely affected.

The Bank is also dependent on information systems to operate its website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. The Bank may experience operational problems with its information systems as a result of system failures (including failure to update systems), viruses, computer “hackers” or other causes. The Bank’s ability to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. The Bank continually makes investments and improvements in its information technology infrastructure in order to remain competitive. In the future, the Bank may not be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of its information technology infrastructure. Any failure to effectively improve or upgrade its information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Bank.

***Operational problems or errors can have a material adverse impact on the Bank’s business, financial condition, results of operations and cash flows.***

Bladex, 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, financial condition, results of operations and cash flows.

***Any delays or failure to implement business initiatives that the Bank may undertake could prevent the Bank from realizing the anticipated revenues and benefits of the initiatives.***

Part of the Bank's strategy is to diversify income sources through business initiatives, including targeting new clients and developing new products and services. These initiatives may not be fully implemented within the time frame the Bank expects, or at all. In addition, even if such initiatives are fully implemented, they may not generate revenues as expected. Any delays in implementing these business initiatives could prevent the Bank from realizing the anticipated benefits of the initiatives, which could adversely affect the Bank's business, results of operations and growth prospects.

***Any failure to remain in compliance with applicable banking laws or other applicable regulations in the jurisdictions in which the Bank operates could harm its reputation and/or cause it to become subject to fines, sanctions or legal enforcement, which could have an adverse effect on the Bank's business, financial condition and results of operations.***

Bladex has adopted various policies and procedures to ensure compliance with applicable laws, including internal controls and "know-your-customer" procedures aimed at preventing money laundering and terrorism financing; however, participation of multiple parties in any given trade finance transaction can make the process of due diligence difficult. Further, because trade finance can be more document-based than other banking activities, it is susceptible to documentary fraud, which can be linked to money laundering, terrorism financing, illicit activities and/or the circumvention of sanctions or other restrictions (such as export prohibitions, licensing requirements, or other trade controls). While the Bank is alert to high-risk transactions, it is also aware that efforts, such as forgery, double invoicing, partial shipments of goods and use of fictitious goods, may be used to evade applicable laws and regulations. If the Bank's policies and procedures are ineffective in preventing third parties from using it as a conduit for money laundering or terrorism financing without its knowledge, the Bank's reputation could suffer and/or it could become subject to fines, sanctions or legal action (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with the Bank), which could have an adverse effect on the Bank's business, financial condition and results of operations. In addition, amendments to applicable laws and regulations in Panama and other countries in which the Bank operates could impose additional compliance burdens on the Bank.

***Panamanian laws and regulations, including future government restrictions on interest rates or changes in reserves, may have a material adverse effect on the Bank***.

The Bank is subject to extensive laws and regulations regarding the Bank organization, operations, lending and funding activities, capitalization and other matters. In September 2010, the Basel Committee on Banking Regulations and Supervisory Practices, or the Basel Committee, proposed comprehensive changes to the capital adequacy framework, known as Basel III. On December 16, 2010 and January 13, 2011, the Basel Committee issued its final guidance on a number of regulatory reforms to the regulatory capital framework in order to strengthen minimum capital requirements, including the phasing out of innovative Tier 1 and 2 Capital instruments with incentive-based redemption clauses and implementing a leverage ratio on institutions in addition to current risk-based regulatory requirements. The Superintendency of Banks of Panama (*Superintendencia de Bancos de Panamá*), or the Superintendency, is authorized to increase the minimum capital requirement percentage in Panama in the event that generally accepted international capitalization standards (the standards set by the Basel Committee on Banking Supervision) become more stringent. Non-compliance with this legal lending limit could result in the assessment of administrative sanctions by the Superintendency for such violations, taking into consideration the magnitude of the offense and any prior occurrences, and the magnitude of damages and prejudice caused to third parties.

***Legislation regarding the financial services industry may subject the Bank to significant and extensive regulation, which may have an impact on the Bank's operations***.

On July 21, 2010, the Dodd-Frank Act, was signed into law in the United States. The Dodd-Frank Act is intended primarily to overhaul the financial regulatory framework in the United States following the global financial crisis and may impact substantially all financial institutions including the Bank. The Dodd-Frank Act, among other things, imposes higher prudential standards, including more stringent risk-based capital, leverage, liquidity and risk-management requirements, establishes a Bureau of Consumer Financial Protection, establishes a systemic risk regulator, consolidates certain federal bank regulators, imposes additional requirements related to corporate governance and executive compensation and requires various U.S. federal agencies to adopt a broad range of new implementing rules and regulations, for which they are given broad discretion. The Bank is closely monitoring this rulemaking process, and analyzing, the impact of new rules on the Bank's business. For example, the provisions of the Dodd-Frank Act generally known as the "Volcker Rule" are designed to restrict banking entities' proprietary trading and private fund investment activities. The Volcker Rule is subject to final rule-making and interpretation, including with respect to the scope of its applicability to activities outside of the United States, and the impact of the rule on the Bank's business operations is still not completely certain.

The Bank, as a foreign financial institution (FFI), will be subject to provisions of the U.S. Foreign Account Tax Compliance Act (FATCA). Pursuant to this legislation, the Bank will enter into an agreement with the Internal Revenue Service (IRS) directly or indirectly through an intergovernmental agreement, which will require the Bank to identify U.S. accounts, report certain information regarding the U.S. accounts to the IRS and withhold a 30% tax on "pass-thru payments" made to non-participating FFIs or accountholders that fail to provide requested information.

**Risk Relating to the Region**

***The Bank's credit portfolio is concentrated in the Region. The Bank also faces borrower concentration. Adverse economic changes in the Region or in the condition of the Bank's largest borrowers could adversely affect the Bank's growth, asset quality, prospects, profitability, financial condition and financial results.***

The Bank's credit activities are concentrated in the Region, which is a reflection of the Bank's mission and strategy. Historically, economies of countries in the Region have occasionally experienced significant volatility characterized, in some cases, by political uncertainty, slow growth or recessions, declining investments, government and private sector debt defaults and restructurings, and significant inflation and/or currency devaluation. Global economic changes, including fluctuations in oil prices, commodities prices, U.S. dollar interest rates and the U.S. dollar exchange rate, and slower economic growth in industrialized countries, could have a significant adverse effect on the economic condition of countries in the Region, including Panama and the other countries where the Bank operates. In turn, adverse changes affecting the economies of countries in the Region could have a significant adverse impact on the quality of the Bank's credit portfolio, including increased loan loss provisions, debt restructuring, and loan losses.

As a result, this could also have an adverse impact on the Bank's asset growth, asset quality, prospects, profitability and financial condition.

The Bank's credit activities are concentrated in a number of countries. Adverse changes affecting the economies in one or more of those countries could have an adverse impact on the Bank's credit portfolio and, as a result, its financial condition, growth, prospects, results of operations and financial condition. As of December 31, 2012, approximately 67% of the Bank's credit portfolio was outstanding to borrowers in the following five countries: Brazil ($1,842 million, or 30%), Peru ($844 million, or 14%), Mexico ($547 million, or 9%), Colombia ($488 million, or 8%), and Panama ($390 million, or 6%).

In addition, as of December 31, 2012, of the Bank's total credit portfolio balances, 8% were to five borrowers in Brazil, 8% were to five borrowers in Peru, 2% were to five borrowers in Mexico, 4% were to five borrowers in Colombia, and 4% were to five borrowers in Panama. A significant deterioration of the financial or economic condition of any of these countries or borrowers could have an adverse impact on the Bank's credit portfolio, requiring the Bank to create additional allowances for credit losses, or suffer credit losses with the effect being accentuated because of this concentration.

See Item 4.B. "Information on the Company—Business Overview—Developments During 2012".

***Local country foreign exchange controls or currency devaluation may harm the Bank's borrowers' ability to pay U.S. dollar-denominated obligations.***

The Bank makes mostly U.S. dollar-denominated loans and investments. As a result, the Bank faces the risk that local country foreign exchange controls will restrict the ability of the Bank's borrowers, even if they are exporters, to acquire dollars to repay loans on a timely basis, and/or that significant currency devaluation might occur, which could increase the cost, in local currency terms, to the Bank's borrowers of acquiring dollars to repay loans.

***Increased risk perception in countries in the Region where the Bank has large credit exposure could have an adverse impact on the Bank's credit ratings, funding activities and funding costs.***

Increased risk perception in any country in the Region where the Bank has large exposures could trigger downgrades to the Bank's credit ratings. A credit rating downgrade would likely increase the Bank's funding costs, and reduce its deposit base and access to the debt capital markets. In that case, the Bank's ability to obtain the necessary funding to carry on its financing activities in the Region at meaningful levels could be affected in an important way.

## Item 4. Information on the Company

### A. History and Development of the Company

The Bank, a corporation *(sociedad anónima, S.A.)* organized under the laws of Panama and headquartered in Panama City, Panama, is a specialized supranational bank originally established by central banks of Latin American and Caribbean countries to promote trade finance in the Region.

The Bank was established pursuant to a May 1975 proposal of the XX Assembly of Governors of central banks in the Region, which recommended the creation of a supranational organization to increase the Region's foreign trade financing capacity. The Bank was constituted in 1978 as a corporation pursuant to the laws of Panama and commenced operations on January 2, 1979. Panama was selected as the location of the Bank's headquarters because of the country's importance as a banking center in the Region, the benefits of a fully U.S. dollar-based economy, the absence of foreign exchange controls, its geographic location, and the quality of its communications facilities. Under Contract No. 103-78 signed between Panama and the Bank, the Bank was granted certain privileges by the government of Panama, including an exemption from payment of income taxes in Panama.

On June 17, 2009, the Bank changed its name from "Banco Latinoamericano de Exportaciones, S.A." to "Banco Latinoamericano de Comercio Exterior, S.A.," although it continues to operate under the commercial name of "Bladex."

The Bank offers its services through its head office and its subsidiaries in Panama City, its subsidiaries and offices in New York City, including its agency, or the New York Agency, and Bladex Asset Management Inc., or Bladex Asset Management, its subsidiaries in Brazil and the Cayman Islands, its international administrative office in Miami, or the Florida Administrative Office, and its representative offices in Buenos Aires, Argentina, in Mexico City, D.F. and Monterrey, Mexico, in Porto Alegre, Brazil, in Lima, Peru and in Bogotá, Colombia, as well as through a worldwide network of correspondent banks. Bladex's shares of Class E common stock are listed on the New York Stock Exchange, or NYSE, under the symbol "BLX."

The following is a description of the Bank's subsidiaries:

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 0.001% owned by Bladex Holdings Inc.

Bladex Holdings Inc., Bladex Holdings, incorporated under the laws of the State of Delaware on May 30, 2000, is a wholly owned subsidiary of Bladex Head Office and, exercises control over Bladex Asset Management.

Bladex Asset Management, incorporated on May 24, 2006 under the laws of the State of Delaware, serves as investment manager for Bladex Offshore Feeder Fund, or the Feeder, and Bladex Capital Growth Fund, or the Fund, both of which are registered with the Cayman Islands Monetary Authority, or CIMA, under the Mutual Funds Law of the Cayman Islands. On September 8, 2009, Bladex Asset Management was registered as a foreign entity in the Republic of Panama, to permit the establishment of a branch in Panama, which is mainly engaged in providing administrative and operating services to Bladex Asset Management in the United States. On February 23, 2012 Bladex Asset Management was registered with the United States Securities and Exchange Commission, or SEC as an Investment Adviser.

Bladex Head Office is a member of BCG PA LLC, or BCG, a company incorporated under the laws of the State of Delaware, and owns a 50% interest in BCG.

Bladex Investimentos Ltda. was incorporated under the laws of Brazil on May 3, 2011. Bladex Head Office owns 99% of Bladex Investimentos Ltda. and Bladex Holdings owns the remaining 1%. Bladex Investimentos Ltda. has invested substantially all of its assets in Bladex Latam Fundo de Investimento Multimercado, or the Brazilian Fund, which was incorporated under the laws of Brazil on July 26, 2011.

The objective of the Brazilian Fund is to achieve capital gains by dealing in the interest, currency, securities, commodities and debt markets, and by trading instruments available in the spot and derivative markets. The Brazilian Fund is registered with the Brazilian Securities Commission, or CVM. This fund is a variable interest entity, or VIE, and has been consolidated in the consolidated financial statements. As of December 31, 2012, Bladex Investimentos Ltda. holds 82.90% of the Brazilian Fund's net asset value.

BLX Brazil Ltd. was incorporated under the laws of the Cayman Islands on October 5, 2010. Bladex Head Office owns 99.8% of BLX Brazil Ltd. In turn, BLX Brazil Ltd. owns 99.9999% of Bladex Asset Management Brazil –

Gestora de Recursos Ltda., or BAM Brazil, and Bladex Asset Management owns the remaining 0.0001% . BAM Brazil was incorporated under the laws of Brazil on January 6, 2011 and provides investment advisory services to the Brazilian Fund.

Clavex LLC, a former subsidiary of Bladex Holdings, was dissolved on April 7, 2011, and its net assets were transferred to its controlling entity. Clavex S.A., a former subsidiary of Bladex Head Office, was dissolved on August 30, 2011, and its net assets were transferred to Bladex Head Office.

On April 2, 2013, Bladex announced the finalization of its definitive agreement for the sale of its Asset Management Unit. The Asset Management Unit is being sold to Alpha4X Asset Management, LLC ("Alpha4X"), a newly-formed company that is majority-owned by former members of the Asset Management Unit's executive team. A subsidiary of XL Group plc (NYSE: XL) will acquire a minority equity stake in Alpha4X as part of the sale. Bladex will continue to invest in the fund under Alpha 4X's management in its role as anchor investor for a period of up to three years with revenue-sharing rights. As part of the agreement, a subsidiary of XL will also become an anchor investor in the fund under Alpha4X's management. Following the completion of the divestiture of the Asset Management Unit, BLX Brazil Ltd and Bladex Asset Management Brazil – Gestora de Recursos Ltda., will be transferred to Alpha4X and Bladex Asset Management and BCG PA, LLC, will be dissolved. The divestiture is expected to be completed in the second quarter of 2013.

On June, 2012, The Bank’s headquarters office were relocated to Torre V, Business Park, Avenida La Rotonda, Urb. Costa del Este, Panama City, Panama, and its telephone number is + (507) 210-8500.

The Bank’s financial statements are prepared in accordance with U.S. GAAP.

See Item 18. “Financial Statements,” notes 1 and 2(a).

B. Business Overview

Overview

The Bank’s mission is to provide seamless support to Latin America’s foreign trade, while creating value for its stockholders. The Bank is principally engaged in providing trade financing to selected commercial banks, middle-market companies and corporations in the Region. The Bank’s lending and investing activities are funded by interbank deposits, primarily from central banks and financial institutions in the Region, by borrowings from international commercial banks and, to a lesser extent, by sales of the Bank’s debt securities to financial institutions and investors in Asia, Europe, North America and the Region. The Bank does not provide retail banking services to the general public, such as retail savings accounts or checking accounts, and does not take retail deposits.

Bladex intermediates in the financial and capital markets throughout the Region, through two business segments.

The Commercial Division is responsible for the Bank’s core business of financial intermediation and fee generation activities generated by the commercial portfolio. The division’s portfolio includes loan portfolio, selected deposits placed, equity investments, customer liabilities under acceptances and contingencies (including confirmed and stand-by letters of credit and guarantees covering commercial risk, credit commitments). The majority of the Bank’s loans are extended in connection with specifically identified foreign trade transactions. Through its revenue diversification strategy, the Bank’s Commercial Division has introduced a broader range of products, services and solutions associated with foreign trade, including co-financing arrangements, underwriting of syndicated credit facilities, structured trade financing, asset-based financing in the form of factoring, vendor financing and leasing, and other fee-based services, such as electronic clearing services.

The Treasury Division is responsible for the Bank's funding and liquidity management, along with its investment securities activities, including management of the Bank's interest rate, liquidity, price and currency risks. The Division manages the Bank's liquidity balance, trading assets, securities available-for-sale, securities held-to-maturity, and the Bank's investments in the Investment Funds, see "—Investment Fund" below for a detailed discussion. Historically, trade finance has been afforded favorable treatment under Latin American debt restructurings. This has been, in part, due to the perceived importance that governments and other borrowers in the Region have attributed to maintaining access to trade finance. The Bank believes that, in the past, the combination of its focus on trade finance and the composition of its Class A shareholders has been instrumental in obtaining some exceptions on U.S. dollars convertibility and transfer limitations imposed on the servicing of external obligations, or preferred creditor status. Although the Bank maintains its focus both on trade finance and its Class A shareholders, it cannot guarantee that such exceptions will be granted in all future debt restructurings.

The Asset Management Unit, which was comprised of the Bank's interests in BAM Brazil, BCG, BLX Brazil Ltd. and Bladex Asset Management, was responsible for the Bank's asset management activities, including its investments in the Investment Fund and the Brazilian Fund. The Asset Management Unit has been reported as a discontinued operation as of December 31, 2012, following the Bank's decision to divest the operations of this Unit in the fourth quarter of 2012. A definitive agreement to sell the Asset Management Unit was announced on April 2, 2013.

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As of December 31, 2012, the Bank had 63 employees, or 32% of its total employees, across its offices responsible for marketing the Bank's financial products and services to existing and potential customers.

***Developments During 2012***

The macroeconomic environment in the Region faced major challenges in 2012, such as the ability to sustain economic growth against a backdrop of global downturn, partly due to increased downside risks in the European economy as a result of high debt levels and weak economic growth (with some countries showing economic contractions), increased downside risks in the Chinese economy, and the looming deadline in the U.S. to reach a deal to steer away from the "fiscal cliff". While some economies saw a slowdown in growth during the year the prudent handling of economic policies in the countries allowed the Region to continue seeing positive growth, without any significant adverse impact on other fiscal and monetary stability indicators.

Despite the dampening in global economic growth, particularly in large economies such as Europe and China, and a slight upturn in other major economies such as the U.S. and Japan, exports grew by 2% in the Region in 2012 according to "Economic Commission for Latin America", while maintaining a trend towards greater diversification, supported by a steady inflow of foreign direct investment that grew nearly 8% year-over-year. Despite lower growth in 2012, compared to 2011, the Region also benefited from the demand from China and other emerging countries for raw materials. Although GDP growth was more moderate in 2012 than in 2011, in response to a less favorable world economic environment, the Region as a whole continued to improve its fiscal and solvency indicators, improving its global position in the face of greater international economic uncertainty.

These developments were reflected in the gradual improvement in the international ratings of some countries in the Region, such as Bolivia, Chile, Ecuador, Panama, Peru, and Uruguay, with a generally higher investment grade in the Region. In this environment, the Bank has developed even further its capacity to support both international and inter-regional trade, which has resulted in its highest-ever geographic diversification of credit placements and a downward trend in systemic risk related to these placements throughout the period.

The Bank continued to build on its fundamental strengths to achieve favorable results in 2012, notwithstanding an environment of heightened volatility and uncertainty resulting in generally more subdued growth in the economies throughout the Latin American Region and the rest of the world. In line with its long-standing prudent approach to doing business, the Bank maintained solid levels of liquidity, capital, and improved credit quality throughout the year, while continuing to strengthen its funding structure by way of benchmark bond issuances, taking advantage of a favorable reception in capital markets towards Latin American risk.

The Bank financial results continued to strengthen in 2012, mainly as the result of growth and increased profitability in the Commercial Division. Net income attributable to the Bank reached $93.0 million in 2012, compared to $83.2 million in 2011. The $9.8 million, or 12%, increase was the result of improved performance in core financial intermediation activity, partially offset by lower contributions from investment activities in the Treasury Division. Additional reasons for the increase include contributions from the non-core activities of the Asset Management Unit (presented as a discontinued operation as of December 31, 2012), and extraordinary items, including a $5.6 million gain on the sale of premises and equipment associated with the relocation of the Bank's headquarters.

The Bank's commercial portfolio grew by 11% during 2012, amounting to $5,953 million as of December 31, 2012, compared to $5,354 million as of December 31, 2011, as a result of higher growth and diversification from the Bank's established client base of corporations (which grew by 19%) and middle-market segment (which grew by 57%), offset by a small decrease in the financial institutions (which decrease by 6%).

The credit quality of the Bank's portfolio continued to improve, with a non-accrual balance of zero at year-end, compared to $32 million, or 0.6% of total loan portfolio as of December 31, 2011. The ratio of allowance for credit losses to the Bank's commercial portfolio stood at 1.3% as of December 31, 2012, compared to 1.8% as of December 31, 2011. The Bank's Tier 1 capitalization stood at 17.9% as of December 31, 2012, with leverage at 8.2 times, as the Bank continued to deploy capital towards business growth, compared with 18.6% of Tier 1 capital and 8.4 times, as of December 31, 2011.

The Bank's efficiency ratio stood at 42% for the year 2012, compared to 36% for the year 2011, mainly as a result of a $5.7 million, or 11% increase in operating expenses. The Commercial Division's 32% increase in operating revenues, over the year, more than offset the impact of lower revenue contributions from the Treasury Division. The increase in operating expenses was attributable to increases in salaries and other employee expenses related to increased headcount in the Commercial and Risk Departments, severance payments associated with executive officers, and other operating expenses associated with the relocation of the Bank's headquarters.

Liquidity remained strong at $690 million as of December 31, 2012, compared to $786 million as of December 31, 2011, as the Bank maintained prudent liquidity management by increasing its liquidity position in response to volatility in the markets. Liquid asset to total assets ratio stood at 10.2% as of December 31, 2012 compared to 12.4% as of December 31, 2011.

On October 16, 2012, the Bank's Board of Directors, or the Board, approved an increase in quarterly dividends distributed to holders of common shares from $0.25 to $0.30 per share pertaining to the third quarter of 2012. This 20% increase in quarterly dividends reaffirmed the Bank's commitment to a dividend payout that reflects the Bank's growing core business.

See Item 5, "Operating and Financial Review and Prospects—Operating Results—Net Income Attributable to Bladex" and Item 18, "Financial Statements," note 26.

***Strategies for 2013 and Subsequent Years***

*Further extend the Bank's business in politically and economically stable, high-growth markets*

The Bank's expertise in risk and capital management and extensive knowledge of the Region allows it to identify and strategically focus on stable and growth-oriented markets, including investment grade countries in the Region. Bladex maintains strategically placed representative offices in order to provide focused products and services in markets that the Bank considers key to its continued growth. In addition, the Bank continually considers establishing a presence in other strategic locations throughout the Region in order to rapidly respond to stability and growth trends it identifies.

*Targeted growth in expanding and diversifying the Bank’s client base*

The Bank’s strategy to participate in a broad range of activities and further diversify its client base includes targeting clients that offer the potential for longstanding relationships and a wider presence in the Region, such as financial institutions, large corporations and middle-market companies, including through participation in bilateral and co-financed transactions. The Bank intends to continue to cultivate existing and new longstanding client relationships through the quality of the Bank’s services and the Bank’s agile decision-making and credit approval processes.

*Enhance current products and services by providing relevant sector-specific solutions in the Region*

The Bank intends to continue its focus on the development of expertise in the sectors in which the Bank currently operates, while strategically targeting industries with significant growth potential by offering sector-specific products and solutions to clients in these industries. These sectors include some of the most profitable industries in the Region, such as oil & gas, food, mining and agribusiness commodities, as well as growth sectors such as Latin American intra-regional trade. Bladex also intends to continue to explore key regional and local partnerships to bolster its range of services and increase its presence in key economic sectors throughout the Region.

*Increase the range of products and services that the Bank offers*

Due to the Bank's relationships throughout, and knowledge of, the Region, the Bank is strongly positioned to strategically identify key additional products and services to offer to clients. The Bank's Articles of Incorporation permit a broad scope of potential activities, encompassing all types of banking, investment, and financial and other businesses that support foreign trade flows and the development of the trade in the Region. This support the Bank's ongoing strategy to develop new products and services, such as factoring and vendor finance, debt intermediation in primary and secondary markets, and structure financing, including export insurance programs, that complement the Bank's expertise in foreign trade finance and risk management.

The Bank's management believes that the Bank is well positioned to comply with its mission to provide seamless support to Latin America's foreign trade, while creating value for its stockholders.

***Lending Policies***

The Bank extends credit directly to banks, corporations and middle market companies within the Region. The Bank finances import and export transactions for all types of goods and products, with the exception of articles such as weapons, ammunition, military equipment, hallucinogenic drugs or narcotics not utilized for medical purposes. Imports and exports financed by the Bank are destined for buyers/sellers in countries both inside and outside the Region. The Bank analyzes credit requests from eligible borrowers in the light of credit risk criteria, including economic and market conditions. The Bank maintains a consistent lending policy and applies the same credit criteria to all types of potential borrowers in evaluating creditworthiness.

Due to the nature of trade finance, the Bank's loans generally are unsecured. However, in certain instances, based upon the Bank's credit review of the borrower and the economic and political situation and trends in the borrower's home country, the Bank has determined that the level of risk involved may require that a loan be secured by pledged deposits and other type of collateral.

***Country Credit Limits***

The Bank maintains a continuous review of each country's risk profile evolution, supporting its analysis with various factors, both quantitative and qualitative, the main driving factors of which include: the evolution of macroeconomic policies (fiscal, monetary, and exchange rate policy), fiscal and external performance, price stability, level of liquidity in foreign currency, changes of legal and institutional framework, as well as material social and political events, among others, including industry analysis relevant to Bladex business activities.

Bladex has a methodology for capital allocation by country and its risk weights for assets. The Risk Policy and Assessment Committee, or the CPER, of the Board approves a level of “allocated capital” for each country, in addition to nominal exposure limits. These country capital limits are reviewed at least once a year by the CPER and more often if necessary. The methodology helps to establish the capital equivalent of each transaction, based on the internal numeric rating assigned to each country, which is approved by the CPER.

The amount of capital allocated to a transaction is based on customer type (sovereign, state-owned or private, middle-market companies, corporate or financial institution), the type of transaction (trade or non-trade), and the average remaining term of the transaction (from one to 180 days, 181 days to a year, between one and three years, or longer than three years). Capital utilizations by the business units cannot exceed the Bank’s reported stockholders’ equity.

***Borrower Lending Limits***

The Bank generally establishes lines of credit for each borrower according to the results of its risk analysis and potential business prospects; however, the Bank is not required to lend under these lines of credit. Once a line of credit has been established, credit generally is extended after receipt of a request from the borrower for financing, usually related to foreign trade, which accounted for 58% of such credit as of December 31, 2012. Loan pricing is determined in accordance with prevailing market conditions and the borrower's creditworthiness.

For existing borrowers, the Bank's management has authority to approve credit lines up to the legal lending limit prescribed by Panamanian law (see Item 4.B. "Information on the Company—Business Overview—Regulations—Panamanian Law"), provided that the credit lines comply fully with the country credit limits and conditions for the borrower's country of domicile set by the Board. Approved borrower lending limits are reported to the CPER quarterly. Panamanian Law sets forth certain concentration limits, which are applicable and strictly adhered to by the Bank, including a 30% limit as a percentage of capital and reserves for any one borrower and borrower group, in the case of financial institutions, and a 25% limit as a percentage of capital and reserves for any one borrower and borrower group, in the case of corporate, sovereign and middle-market companies. As of December 31, 2012, the legal lending limit prescribed by Panamanian law for corporations, sovereign borrowers and middle-market companies amounted to $207 million, and for financial institutions and financial groups amounted to $248 million. Non-compliance with this legal lending limit could result in the assessment of administrative sanctions by the Superintendency for such violations, taking into consideration the magnitude of the offense and any prior occurrences, and the magnitude of damages and prejudice caused to third parties. On a quarterly basis, the CPER reviews the impaired portfolio, if any, along with certain non-impaired credits. As of December 31, 2012, the Bank was in full compliance with all regulatory limits. See Item 4.B, "Information on the Company—Business Overview—Regulations—Panamanian Law."

***Credit Portfolio***

The Bank's credit portfolio, which consists of the commercial portfolio and investment securities portfolio, increased to $6,170 million as of December 31, 2012, from $5,814 million as of December 31, 2011, and from $4,884 million as of December 31, 2010. The $356 million, or 6%, credit portfolio increase during 2012 was largely attributable to increased demand from the Bank's established client base of corporations ($302 million, or 11%), and middle-market companies ($257 million, or 57%) segments, partially offset by a decreased of $203 million, or 8%, in the financial institutions segment.

***Commercial Portfolio***

The commercial portfolio includes the loan portfolio, selected deposits placed, equity investments, customer liabilities under acceptances, and contingencies (including confirmed and stand-by letters of credit and guarantees covering commercial risk and credit commitments).

The Bank's commercial portfolio increased to $5,953 million as of December 31, 2012, a 11% increase from $5,354 million as of December 31, 2011, a 34% increase from $4,446 million as of December 31, 2010. The increase in 2012 was largely attributable to growing demand in the Bank's corporate client base (which grew by $478 million, or 19%), the Bank's continued diversification into the middle-market segment (which grew by $257 million, or 57%), offset by a decrease in the financial institutions segment (by $136 million, or 6%).

As of December 31, 2012, 61% of the Bank's commercial portfolio represented trade-related credits, and the remaining balance consisted primarily of lending to banks and corporations. The corporations segment represented 49% of the total commercial portfolio, of which 66% represented trade financing. The middle-market companies segment represented 12% of the total commercial portfolio, of which 70% represented trade financing.

The following table sets forth the distribution of the Bank's commercial portfolio, by product category, as of December 31 of each year:

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | % | **2011**[(1)] | % | **2010**[(2)] | % | **2009**[(3)] | % | 2008 | % |
| | (in $ million, except percentages) | | | | | | | | | |
| Loans | $5,716 | 96.0 | $4,960 | 92.6 | $4,064 | 91.4 | $2,779 | 89.4 | $2,619 | 85.5 |
| Selected deposits placed | 0 | 0.0 | 30 | 0.6 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Contingencies and other assets | 237 | 4.0 | 364 | 6.8 | 382 | 8.6 | 331 | 10.6 | 444 | 14.5 |
| Total | $5,953 | 100.0 | $5,354 | 100.0 | $4,446 | 100.0 | $3,110 | 100.0 | $3,062 | 100.0 |

(1) Includes non-accrual loans for $32 million as of December 31, 2011.
(2) Includes non-accrual loans for $29 million as of December 31, 2010.
(3) Includes non-accrual loans for $51 million as of December 31, 2009.

Loan Portfolio

As of December 31, 2012, the Bank's total loans amounted to $5,716 million, compared to $4,960 million as of December 31, 2011 and compared to $4,064 million as of December 31, 2010. As of December 31, 2012, 76% of the Bank's loans were scheduled to mature within one year.

As of December 31, 2012, the Bank had no non-accrual loans. As of December 31, 2011 and 2010, the Bank had non-accrual loans for $32 million (or 0.65% of loan portfolio) and $29 million (0.71% of loan portfolio), respectively.

For more detailed information, see Item 5, "Operating and Financial Review and Prospects-Operating Results—Changes in Financial Condition" and "Operating and Financial Review and Prospects—-Operating Results—Asset Quality and Allowance for Credit Losses," and Item 18, "Financial Statements," note 8 and note 9.

For more information about non-accrual loans, see Item 18 "Financial Statements," note 8.

Loans by Country Risk

The following table sets forth the distribution of the Bank's loans by country risk at the dates indicated:

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | **% of Total Loans** | **2011** | **% of Total Loans** | **2010** | **% of Total Loans** | **2009** | **% of Total Loans** | **2008** | **% of Total Loans** |
| | (in $ million, except percentages) | | | | | | | | | |
| Argentina | $222 | 3.9 | $390 | 7.9 | $237 | 5.8 | $73 | 2.6 | $151 | 5.8 |
| Belgium | 31 | 0.5 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Brazil (1) | 1,773 | 31.0 | 1,852 | 37.3 | 1,583 | 38.9 | 1,335 | 48.0 | 1,289 | 49.2 |
| Chile | 310 | 5.4 | 376 | 7.6 | 328 | 8.1 | 258 | 9.3 | 8 | 0.3 |
| Colombia | 450 | 7.9 | 734 | 14.8 | 585 | 14.4 | 200 | 7.2 | 285 | 10.9 |
| Costa Rica | 197 | 3.4 | 109 | 2.2 | 88 | 2.2 | 83 | 3.0 | 55 | 2.1 |
| Dominican Republic | 111 | 1.9 | 118 | 2.4 | 135 | 3.3 | 31 | 1.1 | 48 | 1.8 |
| Ecuador | 174 | 3.0 | 22 | 0.4 | 18 | 0.4 | 23 | 0.8 | 36 | 1.4 |
| El Salvador | 66 | 1.2 | 21 | 0.4 | 39 | 1.0 | 41 | 1.5 | 76 | 2.9 |
| France | 60 | 1.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Germany | 0 | 0.0 | 5 | 0.1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Guatemala | 273 | 4.8 | 161 | 3.2 | 92 | 2.3 | 74 | 2.7 | 61 | 2.3 |
| Honduras | 71 | 1.2 | 46 | 0.9 | 38 | 0.9 | 23 | 0.8 | 45 | 1.7 |
| Jamaica | 10 | 0.2 | 2 | 0.0 | 64 | 1.6 | 31 | 1.1 | 15 | 0.6 |
| Mexico (2) | 496 | 8.7 | 416 | 8.4 | 404 | 9.9 | 302 | 10.9 | 380 | 14.5 |
| Netherlands | 77 | 1.4 | 20 | 0.4 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Nicaragua | 10 | 0.2 | 10 | 0.2 | 0 | 0.0 | 1 | 0.0 | 4 | 0.2 |
| Panama | 277 | 4.8 | 119 | 2.4 | 47 | 1.2 | 41 | 1.5 | 47 | 1.8 |
| Paraguay | 27 | 0.5 | 30 | 0.6 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Peru | 841 | 14.7 | 342 | 6.9 | 343 | 8.4 | 161 | 5.8 | 50 | 1.9 |
| Spain | 10 | 0.2 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Trinidad & Tobago | 119 | 2.1 | 76 | 1.5 | 63 | 1.6 | 72 | 2.6 | 23 | 0.9 |
| United States | 3 | 0.1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Uruguay | 109 | 1.9 | 110 | 2.2 | 0 | 0.0 | 30 | 1.1 | 45 | 1.7 |
| Total | $5,716 | 100.0 | $4,960 | 100.0 | $4,064 | 100.0 | $2,779 | 100.0 | $2,619 | 100.0 |

(1) Includes non-accrual loans in Brazil of $1 million in 2010 and $7 million in 2009.

(2) Includes non-accrual loans in Mexico of $32 million in 2011, $28 million in 2010 and $44 million in 2009.

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As of December 31, 2012, the loans extended in European countries represented $177 million or 3.1% of total loan portfolio, compared to $25 million or 0.5% as of December 31, 2011. Of total loans granted in 2012 to European countries, $87 million corresponded to corporations in the Netherlands ($77 million, or 1.4% of the total loan portfolio), and Spain ($10 million, or 0.2%), and $90 million corresponded to financial institutions in France ($60 million, or 1%) and Belgium ($31 million, or 0.5%).

Loans by Type of Borrower

The following table sets forth the amounts of the Bank's loans by type of borrower at the dates indicated:

| | As of December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | % of Total Loans | 2011 | % of Total Loans | 2010 | % of Total Loans | 2009 | % o Tota Loa |
| | (in $ million, except percentages) | | | | | | | |
| Private sector commercial banks and financial institutions | $1,776 | 31.1 | $1,716 | 34.6 | $1,381 | 34.0 | $875 | 31. |
| State-owned commercial banks | 416 | 7.3 | 448 | 9.0 | 320 | 7.9 | 334 | 12. |
| Central banks | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Sovereign debt | 100 | 1.8 | 27 | 0.5 | 54 | 1.3 | 96 | 3.4 |
| State-owned exporting organizations | 539 | 9.4 | 233 | 4.7 | 312 | 7.7 | 193 | 7.0 |
| Private middle-market companies (1) | 682 | 11.9 | 446 | 9.0 | 225 | 5.5 | 129 | 4.6 |
| Private corporations (2) | 2,203 | 38.5 | 2,090 | 42.1 | 1,772 | 43.6 | 1,153 | 41. |
| **Total (3)** | $5,716 | 100.0 | $4,960 | 100.0 | $4,064 | 100.0 | $2,779 | 100 |

(1) In 2012, 43% of loans to private middle-market companies correspond to the industrial sector, 24% of loans correspond to the agricultural sector, and 5% correspond to oil and petroleum and derived products.

(2) In 2012, 37% of loans to private corporations correspond to the industrial sector, 31% of loans correspond to the agricultural sector, 16% of loans correspond to oil and petroleum derived products, and 1% of loans correspond to the mining sector.

(3) Includes $32 million, $29 million and $51 million in non-accrual loans in 2011, 2010 and 2009, respectively.

The Bank did not have any exposure to European sovereign debt, as of December 31, 2012 and December 31, 2011.

As of December 31, 2012, the Bank's loan portfolio amounted to $5,716 million, an increase of $756 million, or 15%, from $4,960 million, as of December 31, 2011. The increase resulted from improved conditions in the Latin American financial market and increased demand for the Bank's lending products. As of December 31, 2012, 18% of the Bank's $3,423 million loan exposure to private corporations, state-owned exporting organizations and private middle-market companies was concentrated in the oil & gas industry in countries such as Brazil, Chile, Trinidad & Tobago, Uruguay, the Netherlands, Argentina, Dominican Republic, Colombia and Guatemala.

Maturities and Sensitivities of the Loan Portfolio

The following table sets forth the remaining term of the maturity profile of the Bank's loan portfolio as of December 31, 2012, by type of rate and type of borrower:

| | As of December 31, 2012 (in $ million) | | | |
|---|---|---|---|---|
| | Due in one year or less | Due after one year through five years | **Due after five years through ten years** [1] | Total |
| FIXED RATE | | | | |
| Private sector commercial banks and financial institutions | $955 | $0 | $ 0 | $955 |
| State-owned commercial banks | 374 | 0 | 0 | 374 |
| Sovereign debt | 100 | 0 | 0 | 100 |
| State-owned exporting organizations | 324 | 0 | 0 | 324 |
| Private middle-market companies | 420 | 3 | 0 | 423 |
| Private corporations | 1,069 | 38 | 0 | 1,107 |
| Sub-total | $3,242 | $41 | $ 0 | $3,283 |
| FLOATING RATE | | | | |
| Private sector commercial banks and financial institutions | $470 | $351 | $ 0 | $821 |
| State-owned commercial banks | 22 | 20 | 0 | 42 |
| Sovereign debt | 0 | 0 | 0 | 0 |
| State-owned exporting organizations | 10 | 205 | 0 | 215 |
| Private middle-market companies | 165 | 94 | 0 | 259 |
| Private corporations | 436 | 660 | 0 | 1,096 |
| Sub-total | $1,104 | $1,329 | $ 0 | $2,433 |
| Total | $4,346 | $1,370 | $ 0 | $5,716 |

(1) The Bank's loan portfolio on private corporations matures no later than the year 2018.

Contingencies and Other Assets

The Bank's contingencies and other assets included in the commercial portfolio consist of selected financial instruments with off-balance sheet credit risk, customer liabilities under acceptances, equity investment, guarantees covering commercial risk and credit commitments.

The Bank, on behalf of its client base, advises and confirms letters of credit to facilitate foreign trade transactions. The Bank also provides stand-by letters of credit, guarantees, and commitments to extend credit, which are binding legal agreements to lend to a customer.

The Bank applies the same credit policies used in its lending process to its evaluation of these instruments, and, once issued, the commitment is irrevocable and remains valid until its expiration. As of December 31, 2012, total contingencies and other assets in the commercial portfolio amounted to $237 million (4% of the total commercial portfolio), of which 56% corresponded to letters of credit, mainly in Ecuador.

As of December 31, 2011, total contingencies and other assets in the commercial portfolio amounted to $364 million (7% of the total commercial portfolio), of which 79% corresponded to letters of credit, mainly in Ecuador.

As of December 31, 2010, total contingencies and other assets in the commercial portfolio amounted to $382 million (9% of the total commercial portfolio), of which 68% corresponded to letters of credit, mainly in Ecuador and Venezuela.

The following table presents the amount of contingencies and other assets, as of December 31 of each year:

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2010 | |
| | Amount | % of Total Contingencies and other assets | Amount | % of Total Contingencies and other assets | Amount | % of Total Contingencies and other assets |
| | (in $ million, except percentages) | | | | | |
| Customers' liabilities under acceptances | $1 | 0.5 | $1 | 0.3 | $27 | 7.1 |
| Contingencies | | | | | | |
| Bolivia | 1 | 0.3 | 1 | 0.3 | 0 | 0.0 |
| Brazil | 24 | 10.0 | 41 | 11.3 | 67 | 17.4 |
| Chile | 6 | 2.6 | 12 | 3.4 | 0 | 0.0 |
| Colombia | 9 | 3.8 | 2 | 0.7 | 0 | 0.0 |
| Costa Rica | 1 | 0.4 | 12 | 3.2 | 32 | 8.4 |
| Dominican Republic | 2 | 0.6 | 2 | 0.4 | 0 | 0.0 |
| Ecuador | 80 | 33.6 | 215 | 59.1 | 121 | 31.7 |
| El Salvador | 1 | 0.3 | 2 | 0.6 | 0 | 0.0 |
| Guatemala | 0 | 0.1 | 1 | 0.1 | 1 | 0.4 |
| Honduras | 1 | 0.2 | 0 | 0.1 | 0 | 0.1 |
| Jamaica | 0 | 0.0 | 0 | 0.1 | 0 | 0.0 |
| Mexico | 28 | 11.9 | 16 | 4.4 | 53 | 13.8 |
| Panama | 58 | 24.6 | 2 | 0.5 | 1 | 0.3 |
| Peru | 3 | 1.2 | 2 | 0.7 | 0 | 0.0 |
| Spain | 0 | 0.0 | 10 | 2.7 | 0 | 0.0 |
| Switzerland | 0 | 0.0 | 1 | 0.1 | 1 | 0.1 |
| United States | 0 | 0.0 | 22 | 6.0 | 0 | 0.0 |
| Venezuela | 23 | 9.8 | 22 | 6.0 | 78 | 20.5 |
| Total Contingencies | $236 | 99.5 | $363 | 99.7 | $355 | 92.9 |
| Total Contingencies and Other Assets | $237 | 100.0 | $364 | 100.0 | $382 | 100.0 |

See Item 18, "Financial Statements," note 19.

***Investment Securities Portfolio***

The Bank's investment securities portfolio consists of debt securities available-for-sale, securities held-to-maturity and some trading assets, and excludes the Bank's investments in the Investment Funds.

In the normal course of business, the Bank utilizes interest rate swaps for hedging purposes with respect to its assets (mainly its investment securities) and liabilities management activities.

The following table sets forth information regarding the carrying value of the Bank's investment securities portfolio at the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (in $ millions) | | |
| Treasury trading assets [1] | 0 | 17 | 50 |
| Securities available-for-sale | 183 | 416 | 353 |
| Securities held-to-maturity | 34 | 27 | 33 |
| Total investment securities | $217 | $460 | $437 |

(1) The Treasury trading assets as of December 31, 2012 and 2011 does not include trading assets related to the Brazilian Fund ($5 million and $3 million ), respectively which are shown of the trading assets on the consolidated information of the Bank's balance sheet.

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Trading assets

As of December 31, 2012, the Bank's treasury trading assets amounted to nil, compared to $17 million as of December 31, 2011, and compared to $50 million as of December 31, 2010. See Item 18, "Financial Statements", notes 2(i) and 5.

Securities available-for-sale

As of December 31, 2012, the Bank's securities available-for-sale amounted to $183 million and consisted of investments with issuers in the Region, of which 47% corresponded to sovereign borrowers, and 14% corresponded to private corporations and banks. The $233 million decrease in the securities available-for-sale portfolio during 2012 compared to 2011 reflects the net effect of: (i) $40.0 million on investment securities acquired during 2012, (ii) the sale of $254.8 million in book value ($239.6 million in nominal value) which generated gains of $6.0 million during 2012, (iii) redemption of $15.3 million of investment securities, iv) a $0.3 million variance of fair value of the available for sale securities portfolio, and (v) a $3.0 million decrease in amortization of premiums and discounts.

As of December 31, 2011, the Bank's securities available-for-sale amounted to $416 million and consisted of investments with issuers in the Region, of which 79% corresponded to sovereign borrowers, and 21% corresponded to private corporations and banks. The $63 million increase in the securities available-for-sale portfolio during 2011 compared to 2010 reflects the net effect of: (i) $364.9 million on investment securities acquired during 2011, (ii) the sale of $264.9 million in book value ($243.6 million in nominal value) which generated net gains of $3.4 million during 2011, (iii) redemption of $19.4 million of investment securities, (iv) a $10.7 million variance of fair value of the available for sale securities portfolio, and (v) a $6.7 million decrease in amortization of premiums and discounts.

As of December 31, 2010, the Bank's securities available-for-sale amounted to $353 million and consisted of investments with issuers in the Region, of which 63% corresponded to sovereign borrowers and 37% corresponded to state and private corporations. The $104 million decrease in the securities available-for-sale portfolio during 2010 compared to 2009 reflects the sale of $135 million in nominal value which generated net gains of $2.3 million during 2010.

Securities held-to-maturity

The held-to-maturity portfolio amounted to $34 million as of December 31, 2012, compared to $27 million as of December 31, 2011, and compared to $33 million as of December 31, 2010.

See Item 18, "Financial Statements," notes 2 (j) and 6.

Investment Securities portfolio by Country Risk

The following table sets forth the distribution of the Bank's investment securities portfolio (treasury trading assets, securities available-for-sale and securities held-to-maturity) by country risk at the dates indicated:

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| | (in $ millions, except percentages) | | | | | |
| Brazil | 44 | 20.5 | 91 | 19.7 | 93 | 21.3 |
| Chile | 3 | 1.4 | 0 | 0.0 | 28 | 6.3 |
| Colombia | 29 | 13.5 | 102 | 22.1 | 120 | 27.4 |
| Costa Rica | 0 | 0.0 | 0 | 0.0 | 5 | 1.2 |
| Dominican Republic | 0 | 0.0 | 0 | 0.0 | 3 | 0.7 |
| El Salvador | 0 | 0.0 | 0 | 0.0 | 16 | 3.6 |
| Guatemala | 0 | 0.0 | 5 | 1.2 | 11 | 2.5 |
| Mexico | 22 | 10.3 | 65 | 14.2 | 48 | 11.0 |
| Panama | 54 | 25.0 | 58 | 12.6 | 49 | 11.3 |
| Peru | 1 | 0.3 | 41 | 8.9 | 0 | 0.0 |
| Multilateral Organizations | 63 | 29.0 | 98 | 21.3 | 65 | 14.8 |
| Total | $217 | 100.0 | $460 | 100.0 | 437 | 100.0 |

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***Investment Fund***

The Investment Fund, consists of the Bank's investment in the Fund's assets and liabilities and is managed by a third party following the divestiture of the Bladex Asset Management Unit.

The Fund's net assets are composed of cash, investment in equity and debt instruments, and derivative financial instruments that are quoted and traded in active markets. The Fund reports trading gains and losses from negotiation of these instruments as realized and unrealized gains and losses on investments.

As of December 31, 2012, the Fund's net asset value totaled $106 million, compared to $120 million as of December 31, 2011, and compared to $167 million as of December 31, 2010, of which the minority interest in the investment fund amounted to $3 million, $6 million, and $19 million, respectively. The Bank's ownership of the Feeder was 98.06% as of December 31, 2012, 95.84% as of December 31, 2011, and 88.67% as of December 31, 2010, with the remaining balances owned by third party investors.

During 2012, the Bank redeemed $15 million from its investment in the Fund, and redeemed $50 million in 2011.

Following the announcement of the definitive agreement to sale the Bank's Asset Management unit, on April 2, 2013, the Bank expects to redeemed its investment by $34 million.

See Item 18, "Financial Statements," notes 1, 2(e), 2(k), 7, and 23.

***Total Outstandings by Country***

The following table sets forth the aggregate amount of the Bank's cross-border outstandings, consisting of cash and due from banks, interest-earning deposits in other banks, trading assets, investment securities, loans, Investment Fund outstandings and accrued interest receivable, but not including contingencies as of December 31 of each year:

| | As of December 31, 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | Amount | % of Total Outstandings | Amount | % of Total Outstandings | Amount | % of Total Outstandings |
| | (in $ million, except percentages) | | | | | |
| Argentina | $225 | 3.3 | $392 | 6.1 | $239 | 4.7 |
| Brazil | 1,837 | 27.1 | 1,962 | 30.5 | 1,689 | 32.9 |
| Chile | 313 | 4.6 | 377 | 5.9 | 367 | 7.1 |
| Colombia | 482 | 7.1 | 843 | 13.1 | 711 | 13.8 |
| Costa Rica | 199 | 2.9 | 110 | 1.7 | 93 | 1.8 |
| Dominican Republic | 112 | 1.6 | 149 | 2.3 | 139 | 2.7 |
| Ecuador | 174 | 2.6 | 22 | 0.3 | 18 | 0.4 |
| El Salvador | 66 | 1.0 | 21 | 0.3 | 55 | 1.1 |
| France | 60 | 0.9 | 1 | 0.0 | 11 | 0.2 |
| Germany | 0 | 0.0 | 7 | 0.1 | 0 | 0.0 |
| Guatemala | 274 | 4.0 | 168 | 2.6 | 104 | 2.0 |
| Honduras | 71 | 1.0 | 46 | 0.7 | 38 | 0.7 |
| Jamaica | 10 | 0.1 | 2 | 0.0 | 65 | 1.3 |
| Japan | 20 | 0.3 | 11 | 0.2 | 62 | 1.2 |
| Mexico | 523 | 7.7 | 484 | 7.5 | 457 | 8.9 |
| Netherlands | 77 | 1.1 | 20 | 0.3 | 0 | 0.0 |
| Panama | 333 | 4.9 | 181 | 2.8 | 98 | 1.9 |
| Peru | 846 | 12.5 | 386 | 6.0 | 346 | 6.7 |
| Switzerland | 0 | 0.0 | 0 | 0.0 | 32 | 0.6 |
| Trinidad & Tobago | 120 | 1.8 | 77 | 1.2 | 63 | 1.2 |
| United Kingdom | 2 | 0.0 | 1 | 0.0 | 1 | 0.0 |
| United States | 681 | 10.0 | 779 | 12.1 | 297 | 5.8 |
| Uruguay | 109 | 1.6 | 110 | 1.7 | 0 | 0.0 |
| Multilateral Organization | 64 | 0.9 | 99 | 1.5 | 65 | 1.3 |
| Other countries (1) | 78 | 1.1 | 55 | 0.9 | 20 | 0.4 |
| Sub-Total | $6,678 | 98.4 | $6,304 | 98.1 | $4,969 | 96.7 |
| Investment Fund (2) | 111 | 1.6 | 120 | 1.9 | 167 | 3.3 |
| **Total (3)** | $6,789 | 100.0 | $6,425 | 100.0 | $5,136 | 100.0 |

(1) Other countries consists of cross-border outstandings to countries in which cross-border outstandings did not exceed 1% for any of the periods indicated. Other countries in 2012 was comprised of $31 million in Belgium, $27 million in Paraguay, $10 million in Nicaragua and $10 million in Spain. Other countries in 2011 was comprised of $31 million in Paraguay, $10 million in Nicaragua, $10 million in China, and $4 million in Spain. Other countries in

2010 was comprised of $20 million in Finland. The balances in Investment Fund represent the participation of the Feeder in the net asset value of the Fund, as well as trading assets of the Brazilian Fund.

(2) The outstandings by country does not include contingencies. See Item 4.B, “Business Overview—Contingencies and Other Assets.”

In allocating country risk limits, the Bank applies a portfolio management approach that takes into consideration several factors, including the Bank’s perception of country risk levels, business opportunities, and economic and political analysis.

The composition of the outstandings per country portfolio has increased over the last three years. Some exposures in certain countries have been adjusted in accordance with the Bank’s risk perception.

Cross-border outstandings in countries outside the Region correspond principally to the Bank’s liquidity placements. See Item 5, “Operating and Financial Review and Prospects—Liquidity and Capital Resources—Liquidity.”

The following table sets forth the amount of the Bank's cross-border outstandings by type of institution as of December 31 of each year:

| | As of December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (in $ million) | |
| Private sector commercial banks and financial institutions | $1,828 | $ 1,823 | $1,560 |
| State-owned commercial banks | 424 | 505 | 403 |
| Central banks | 653 | 761 | 265 |
| Sovereign debt | 203 | 238 | 307 |
| State-owned exporting organizations | 623 | 383 | 355 |
| Private middle-market companies | 727 | 449 | 227 |
| Private corporations | 2,218 | 2,146 | 1,852 |
| Sub-Total | $6,678 | $ 6,304 | $4,969 |
| Investment fund (1) | 111 | 120 | 167 |
| Total | $6,789 | $ 6,425 | $5,136 |

(1) The balances in Investment Fund represent the participation of the Feeder in the net asset value of the Fund, as well as trading assets of the Brazilian Fund.

Net Revenues Per Country

The following table sets forth information regarding the Bank's net revenues by country at the dates indicated, with net revenues calculated as the sum of net interest income, net fees and commissions, derivative financial instruments and hedging, net gain (loss) from investment fund trading, net gain (loss) from trading securities, net gain (loss) on sale of securities available-for-sale, net gain (loss) on foreign currency exchange, and other income (expense), net:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (in $ million) | | |
| Argentina | $10.3 | $8.4 | $4.9 |
| Bolivia | 0.1 | 0.0 | 0.0 |
| Brazil | 40.5 | 37.5 | 28.6 |
| Chile | 3.8 | 3.5 | 2.9 |
| Colombia | 9.3 | 12.0 | 5.1 |
| Costa Rica | 3.9 | 1.9 | 2.0 |
| Dominican Republic | 2.5 | 2.8 | 1.3 |
| Ecuador | 5.9 | 5.8 | 4.1 |
| El Salvador | 0.6 | 0.5 | 0.8 |
| Guatemala | 3.4 | 0.8 | 1.4 |

| | | | |
|---|---|---|---|
| Honduras | 1.7 | 1.8 | 1.4 |
| Jamaica | 1.3 | 1.4 | 1.1 |
| Mexico | 16.6 | 18.8 | 15.7 |
| Nicaragua | 0.3 | 0.0 | 0.0 |
| Panama | 2.2 | 2.5 | 1.6 |
| Paraguay | 0.8 | 0.4 | 0.0 |
| Peru | 12.2 | 8.7 | 5.0 |
| Trinidad and Tobago | 1.6 | 1.7 | 1.3 |
| Uruguay | 1.7 | 1.3 | 0.5 |
| Venezuela | 1.5 | 2.6 | 4.6 |
| Other countries[1] | 3.4 | 4.6 | 2.0 |
| Investment Funds | 8.3 | 21.6 | (7.7 ) |
| Total net revenues | $131.8 | $138.8 | $76.8 |
| Reversal (provision) for credit losses | 12.4 | (4.4 ) | 4.8 |
| Recoveries, net of impairment of assets | 0.0 | (0.1 ) | 0.2 |
| Operating expenses | (55.8 ) | (50.1 ) | (42.2) |
| Net income – Business Segments | $88.4 | $84.3 | $39.6 |
| Net income (loss) attributable to the redeemable non-controlling interest | 0.3 | 0.7 | (2.4 ) |
| Net income attributable to Bladex – Business Segments | $88.1 | $83.6 | $42.0 |
| Other income unallocated—Gain on sale of premises and equipment | 5.6 | 0.0 | 0.0 |
| Net income (loss) from discontinued operations | (0.7 ) | (0.4 ) | 0.2 |
| Net income attributable to Bladex | $93.0 | $83.6 | $42.0 |

[1] Other countries consists of net revenues per country in which net revenues did not exceed $1 million for any of the periods indicated above.

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The table above provides a reconciliation of the net revenues (as defined previously) to the Bank's net income. Net revenues do not include the effects of reversals (provisions) for credit losses, recoveries on assets, net of impairments, operating expenses, the income (loss) attributable to the redeemable non-controlling interest, other income unallocated—gain on sale of premises and equipment, and net income (loss) from discontinued operations. The objective of the aforementioned table is to show net revenues before operating expenses generated from the Bank's Commercial and Treasury Division, on a by-country basis. Given that the Bank's business segments generate revenues not only from net interest income, but from other sources including fees and commissions, gains and losses on investments and derivative financial instruments, which form part of other income rather than net interest income, the Bank adds those amounts to net interest income to show net revenues earned before operating expenses. Reversals (provisions) for credit losses, and recoveries, net of impairment of assets, are not included as part of net revenues as the Bank believes such amounts, which are based on management estimates, may distort trend analysis. Thus, the Bank believes excluding such amounts from net revenues provides a more accurate and clear indicator of the Bank's performance within its two business segments for each country, and thus provides a better analysis of the efficiency of the Bank. The Bank also believes the presentation of net revenues helps facilitate comparisons of performance between periods. However, net revenues should not be considered a substitute for, or superior to, financial measures calculated differently on a U.S. GAAP basis. Furthermore, net revenues may be calculated differently by other companies in the financial industry.

## Competition

The Bank operates in a highly competitive environment in most of its markets, and faces competition principally from regional and international banks, the majority of which are European or North American, in making loans and providing fee-generating services. The Bank competes in its lending and deposit-taking activities with other banks and international financial institutions, many of which have greater financial resources, enjoy access to less expensive funding and offer sophisticated banking services. Whenever economic conditions and risk perception improve in the Region, competition from commercial banks, the securities markets and other new participants generally increases. Competition may have the effect of reducing the spreads of the Bank's lending rates over its funding costs and constraining the Bank's profitability.

Increased open account exports and new financing requirements from multinational corporations are changing the way banks intermediate foreign trade financing. Trade finance volumes are also dependent on global economic conditions.

The Bank also faces competition from investment banks and the local and international securities markets, which provide liquidity to the financial systems in certain countries in the Region, as well as non-bank specialized financial institutions. The Bank competes primarily on the basis of agility, pricing, and quality of service. See Item 3.D., "Key Information/Risk Factors."

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Regulations

General

The Superintendency regulates, supervises and examines the Bank on a consolidated basis. The New York Agency is regulated, supervised and examined by the New York State Department of Financial Services and the Board of Governors of the Federal Reserve System, or the U.S. Federal Reserve Board, and the Florida International Administrative Office is regulated, supervised and examined by the Florida Office of Financial Regulation and the U.S. Federal Reserve Board. The Bank's direct and indirect nonbanking subsidiaries doing business in the United States are subject to regulation by the U.S. Federal Reserve Board. The Feeder and the Fund are regulated by the CIMA in the Cayman Islands. The Bank is subject to regulations in each jurisdiction in which the Bank has a physical presence. The regulation of the Bank by relevant Panamanian authorities differs from the regulation generally imposed on banks, including foreign banks, in the United States by U.S. federal and state regulatory authorities.

The Superintendency of Banks has signed and executed agreements or letters of understanding with 24 foreign supervisory authorities for the sharing of supervisory information under the principles of reciprocity, appropriateness, national agreement, and confidentiality. These 24 entities include the U.S. Federal Reserve Board, the Office of the Comptroller of Currency of the Treasury Department or the OCC, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. In addition, the Statement of Cooperation between the United States and Panama promotes cooperation between U.S. and Panamanian banking regulators and demonstrates the commitment of the U.S. regulators and the Superintendency to the principles of comprehensive and consolidated supervision.

**Panamanian Law**

The Bank operates in Panama under a General Banking License issued by the National Banking Commission, predecessor of the Superintendency of Banks. Banks operating under a General Banking License, or General License Banks, may engage in all aspects of the banking business in Panama, including taking local and offshore deposits, as well as making local and international loans.

All banking institutions in Panama are governed by Executive Decree 52 of April 30, 2008, or the Banking Law.

Under the Banking Law, a bank's capital composition includes primary, secondary and tertiary capital. Primary capital is made up of paid-in capital, declared reserves and retained earnings. Secondary capital is made up of undeclared reserves, hybrid instruments of debt and equity, and long-term subordinated debt. Tertiary capital is made up of short-term subordinated debt incurred for the management of market risk. Under the Banking Law, the sum of secondary and tertiary capital cannot exceed primary capital.

General License Banks must have paid-in capital of not less than $10 million. Additionally, they must maintain a minimum total capital of 8% of their total risk-weighted assets, and primary equity capital must be equal to or greater than 4% of the bank's assets and off-balance sheet operations that represent a contingency to the bank. The Superintendency is authorized to take into account market risks, operational risks and country risks, among others, to evaluate capital adequacy. In addition, the Superintendency is authorized to increase the minimum capital requirement percentage in Panama in the event that generally accepted international capitalization standards (the standards set by the Basel Committee on Banking Supervision) become more stringent.

General License Banks are required to maintain 30% of their global deposits in liquid assets (which include short-term loans to other banks and other liquid assets) of the type prescribed by the Superintendency. Under the Banking Law, deposits from central banks and other similar depositories of the international reserves of sovereign states are immune from attachment or seizure proceedings.

Pursuant to the Banking Law, banks cannot grant loans or issue guarantees or any other obligation, or Credit Facilities, to any one person or group of related persons in excess of 25% of the Bank's total capital. This limitation also extends to Credit Facilities granted to parties related to the ultimate parent of the banking group. However, the Banking Law establishes that, in the case of Credit Facilities granted by mixed-capital banks with headquarters in Panama whose principal business is the granting of loans to other banks, the limit is 30% of the bank's capital funds. As confirmed by the Superintendency, the Bank currently applies the limit of 30% of the Bank's total capital with respect to the Bank's credit facilities in favor of financial institutions and the limit of 25% of the Bank's total capital with respect to the Bank's credit facilities in favor of corporations, middle-market companies and sovereign borrowers.

Under the Banking Law, a bank and the ultimate parent of the banking group may not grant loans or issue guarantees or any other obligation to "related parties" that exceed (1) 5% of its total capital, in the case of unsecured transactions, and (2) 10% of its total capital, in the case of collateralized transactions (other than loans secured by deposits in the bank). For these purposes, a "related party" is (a) any one or more of the bank's directors, (b) any stockholder of the bank who directly or indirectly owns 5% or more of the issued and outstanding capital stock of the bank, (c) any company of which one or more of the bank's directors is a director or officer or where one or more of the bank's directors is a guarantor of the loan or credit facility, (d) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (e) any company or entity in which the bank or any one of its directors or officers owns 20% or more of the issue and outstanding capital stock of the company or entity and (f) managers, officers and employees of the bank, or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for employees). The Superintendency currently limits the total amount of secured and unsecured Credit Facilities (other than Credit Facilities secured by deposits in the bank) granted by a bank or the ultimate parent of a banking group to related parties to 25% of the total capital of the bank.

The Superintendency of Banks may authorize the total or partial exclusion of loans or credits from the computation of these limitations in cases of unsecured loans and other credits granted by mixed-capital banks with headquarters in Panama whose principal business is the granting of loans to other banks, which is the case of the Bank. This authorization is subject to the following conditions: (1) the ownership of shares in the debtor bank–directly or indirectly–by the shared director or shared officer, may not exceed 5% of the bank's capital, or may not amount to any sum that would ensure his or her majority control over the decisions of the bank; (2) the ownership of shares in the creditor bank–directly or indirectly–by the debtor bank represented in any manner by the shared director or shared officer, may not exceed 5% of the shares outstanding of the creditor bank, or may not amount to any sum that would ensure his or her majority control over the decisions of the bank; (3) the shared director or shared officer must abstain from participating in the deliberations and in the voting sessions held by the creditor bank regarding the loan or credit request; and (4) the loan or credit must strictly comply with customary standards of discretion set by the grantor bank's credit policy. The Superintendency will determine the amount of the exclusion in the case of each loan or credit submitted for its consideration.

The Banking Law contains additional limitations and restrictions with respect to related party loans and Credit Facilities. For instance, under the Banking Law, banks may not grant Credit Facilities to any employee in an amount that exceeds the employee's annual compensation package, and all Credit Facilities to managers, officers, employees or stockholders who are owners of 5% or more of the issued and outstanding capital stock of the lending bank or the ultimate parent of the banking group, will be made on terms and conditions similar to those given by the bank to its clients in arm's-length transactions and which reflect market conditions for a similar type of operation. Shares of a bank cannot be pledged or offered as security for loans or Credit Facilities issued by the bank.

In addition to the foregoing requirements, there are certain other requirements applicable to General License Banks, including (1) a requirement that a bank must notify the Superintendency before opening or closing a branch or office in Panama and obtain approval from the Superintendency before opening or closing a branch or subsidiary outside Panama, (2) a requirement that a bank obtain approval from the Superintendency before it liquidates its operations, merges or consolidates with another bank or sells all or substantially all of its assets, (3) a requirement that a bank must designate the certified public accounting firm that it wishes to contract to carry out the duty of external auditing for the new fiscal term, within the first three months of each fiscal term, and notify the Superintendency within 7 days of such designation, (4) a requirement that a bank obtain prior approval from the Superintendency of the rating agency it wishes to hire to perform the risk rating of the bank, (5) a requirement that a bank must publish in a local newspaper the risk rating issued by the rating agency and any risk rating update, and (6) a requirement that a bank must provide written affirmation of the Bank's audited financial statements signed by the Bank's Chairman of the Board, the Chief Executive Officer and Chief Financial Officer. The subsidiaries of Panamanian banks established in foreign jurisdictions must observe the legal and regulatory provisions applicable in Panama regarding the sufficiency of capital, as prescribed under the Banking Law.

The Banking Law regulates banks and the entire "banking group" to which each bank belongs. Banking groups are defined as the holding company and all direct and indirect subsidiaries of the holding company, including the bank in question. Banking groups must comply with audit standards and various limitations set forth in the Banking Law, in addition to all compliance required of the bank in question. The Banking Law provides that banks and banking groups in Panama are subject to inspection by the Superintendency, which must take place at least once every two years. The Superintendency is empowered to request from any bank or any company that belongs to the economic group of which a bank in Panama is a member, the documents and reports pertaining to its operations and activities. Banks are required to file with the Superintendency weekly, monthly, quarterly and annual information, including financial statements, an analysis of their credit facilities and any other information requested by the Superintendency. In addition, banks are required to make available for inspection any reports or documents that are necessary for the Superintendency to ensure compliance with Panamanian banking laws and regulations. Banks subject to supervision may be fined by the Superintendency for violations of Panamanian banking laws and regulations.

***Panamanian Anti-Money Laundering laws and regulations***

In Panama, all banks and trust corporations must take necessary measures to prevent their operations and/or transactions from being used to commit the felony of money laundering, terrorism financing or any other illicit activity contemplated in the laws and regulations addressing this matter.

**United States Law**

The Bank operates a New York state-licensed agency in New York, New York and maintains a direct wholly-owned non-banking subsidiary in Delaware, Bladex Holdings, which is not engaged in activities other than owning one wholly-owned subsidiary incorporated under the laws of the State of Delaware, Bladex Asset Management, another wholly-owned subsidiary, Clavex LLC, was dissolved on April 7, 2011 and its net assets were transferred to its controlling entity. On October 30, 2006, the Bank established the Florida International Administrative Office in Miami, Florida. On April 16, 2008, the Bank incorporated a direct fifty percent (50%) owned subsidiary in Delaware, BCG PA LLC, which receives the performance allocation of the Fund. See Item 4.A “Information on the Company—History and Development of the Company”.

***Federal Law***

In addition to being subject to New York and Florida state laws and regulations, the New York Agency and the Florida International Administrative Office are subject to federal regulations, primarily under the International Banking Act of 1978, as amended, or IBA, and are subject to examination and supervision by the U.S. Federal Reserve Board. The IBA generally extends federal banking supervision and regulation to the U.S. offices of foreign banks and to the foreign bank itself. Under the IBA, the U.S. branches and agencies of foreign banks, including the New York Agency, are subject to reserve requirements on certain deposits. At present, the New York Agency has no deposits subject to such requirements. The New York Agency also is subject to reporting and examination requirements imposed by the U.S. Federal Reserve Board similar to those imposed on domestic banks that are members of the U.S. Federal Reserve System. The Foreign Bank Supervision Enhancement Act of 1991, or the FBSEA, amended the IBA to enhance the authority of the U.S. Federal Reserve Board to supervise the operations of foreign banks in the United States. In particular, the FBSEA expanded the U.S. Federal Reserve Board's authority to regulate the entry of foreign banks into the United States, supervise their ongoing operations, conduct and coordinate examinations of their U.S. offices with state banking authorities, and terminate their activities in the United States for violations of law or for unsafe or unsound banking practices.

In addition, under the FBSEA, state-licensed branches and agencies of foreign banks may not engage in any activity that is not permissible for a "federal branch" (i.e., a branch of a foreign bank licensed by the federal government through the OCC, rather than by a state), unless the U.S. Federal Reserve Board has determined that such activity is consistent with sound banking practices.

The New York Agency does not engage in retail deposit-taking from persons in the United States. Under the FBSEA, the New York Agency may not obtain Federal Deposit Insurance Corporation, or FDIC, insurance and generally may not accept deposits from persons in the United States, but may accept credit balances incidental to its lawful powers, from persons in the United States, and accept deposits from non-U.S. citizens who are non-U.S. residents, but must inform each customer that the deposits are not insured by the FDIC.

The IBA also restricts the ability of a foreign bank with a branch or agency in the United States to engage in non-banking activities in the United States, to the same extent as a U.S. bank holding company. Bladex is subject to certain provisions of the Federal Bank Holding Company Act of 1956, or the BHCA, because it maintains an agency in the United States. Generally, any nonbanking activity engaged in by Bladex directly or through a subsidiary in the United States is subject to certain limitations under the BHCA. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999, or GLB Act, a foreign bank with a branch or agency in the United States may engage in a broader range of non-banking financial activities, provided it is qualified and has filed a declaration with the U.S. Federal Reserve Board to be a "financial holding company". The application with the U.S. Federal Reserve Board to obtain financial holding company status, filed by the Bank on January 29, 2008, was withdrawn, effective March 2, 2012, as the Bank no longer considered the financial holding company status to be a necessary requirement in order to achieve its long-term strategic goals and objectives. At present, the Bank has subsidiaries in the United States, Bladex

Holdings, a wholly-owned company incorporated under Delaware law that is not engaged in any activity other than owning Bladex Asset Management, a Delaware corporation and BCG PA LLC, a fifty percent (50%) owned subsidiary incorporated under the laws of Delaware.

In addition, pursuant to the Financial Services Regulatory Relief Act of 2006, the SEC and the U.S. Federal Reserve Board finalized Regulation R. Regulation R defines the scope of exceptions provided for in the GLB Act for securities brokerage activities which banks may conduct without registering with the SEC as securities brokers or moving such activities to a broker-dealer affiliate. The “push out” rules exceptions contained in Regulation R enable banks, subject to certain conditions, to continue to conduct securities transactions for customers as part of the bank’s trust and fiduciary, custodial, and deposit “sweep” functions, and to refer customers to a securities broker-dealer pursuant to a networking arrangement with the broker-dealer. The New York Agency is subject to Regulation R with respect to its securities activities.

Certain provisions of the Dodd-Frank Act also require regulatory agencies, including the SEC, to establish regulations for implementation of many of the provisions of the Dodd-Frank Act. The Bank is closely monitoring this rulemaking process and analyzing the exact impact of the new rules on the Bank’s business. The Bank will continue to monitor all relevant developments and rulemaking initiatives, and expects to successfully implement any new applicable legislative and regulatory requirements.

Finally, under the regulations of the Office of Foreign Asset Control, or OFAC, the Bank is required to monitor and block transactions with certain "specially designated nationals" which OFAC has determined pose a risk to U.S. national security.

**New York State Law**

The New York Agency, established in 1989, is licensed by the Superintendent of Financial Services of the State of New York, or the Superintendent, under the New York Banking Law. The New York Agency maintains an international banking facility that also is regulated by the Superintendent and the U.S. Federal Reserve Board. The New York Agency is examined by the Department of Financial Services and is subject to banking laws and regulations applicable to a foreign bank that operates a New York agency. New York agencies of foreign banks are regulated substantially the same as, and have similar powers to, New York state-chartered banks, except with respect to capital requirements and deposit-taking activities.

The Superintendent is empowered by law to require any branch or agency of a foreign bank to maintain in New York specified assets equal to a percentage of the branch's or agency's liabilities, as the Superintendent may designate. Under the current requirement, the New York Agency is required to maintain a pledge of a minimum of $2 million with respect to its total third-party liabilities and such pledge may be up to 1% of the agency's third party liabilities, or upon meeting eligibility criteria, up to a maximum amount of $100 million. As of December 31, 2012, the New York Agency maintained a pledge deposit with a carrying value of $3.0 million with the New York State Department of Financial Services, complying with the minimum required amount.

In addition, the Superintendent retains the authority to impose specific asset maintenance requirements upon individual agencies of foreign banks on a case-by-case basis. No special requirement has been prescribed for the New York Agency.

The New York Banking Law generally limits the amount of loans to any one person to 15 percent of the capital, surplus fund and undivided profits of a bank. For foreign bank agencies, the lending limits are based on the capital of the foreign bank and not that of the agency.

The Superintendent is authorized to take possession of the business and property of a New York agency of a foreign bank whenever an event occurs that would permit the Superintendent to take possession of the business and property of a state-chartered bank. These events include the violation of any law, unsafe business practices, an impairment of capital, and the suspension of payments of obligations. In liquidating or dealing with an agency's business after taking possession of the agency, the New York Banking Law provides that the claims of creditors which arose out of transactions with the agency may be granted a priority with respect to the agency's assets over other creditors of the foreign bank.

**Florida Law**

The Florida International Administrative Office, established in October 2006, is licensed and supervised by the Florida Office of Financial Regulation under the Florida Financial Institutions Codes. The activities of the Florida International Administrative Office are subject to the restrictions described below as well as to Florida banking laws and regulations that are applicable generally to foreign banks that operate offices in Florida. The Florida International Administrative Office is also subject to regulation by the U.S. Federal Reserve Board under the IBA.

Pursuant to Florida law, the Florida International Administrative Office is authorized to conduct certain “back office” functions on behalf of the Bank, including administration of the Bank’s personnel and operations, data processing and record keeping activities, and negotiating and servicing loans or extensions of credit and investments. Under the provisions of the Florida Financial Institutions Codes, as well as the IBA and the regulations of the U.S. Federal Reserve Board, the Florida International Administrative Office is also permitted to function as a representative office of the Bank. In this capacity it may solicit new business for the Bank and conduct research. It may also act in a liaison capacity between the Bank and its customers.

***Anti-Money Laundering Laws***

U.S. anti-money laundering laws, as amended by the USA PATRIOT Act of 2001, impose significant compliance and due diligence obligations, on financial institutions doing business in the United States. Both the New York Agency and the Florida International Administrative Office are “financial institutions” for these purposes. Failure of a financial institution to comply with the requirements of these laws and regulations could have serious legal and reputational consequences for an institution. The New York Agency and the Florida International Administrative Office have adopted comprehensive policies and procedures to address these requirements.

***Cayman Islands Law***

The Feeder and the Fund, both incorporated in the Cayman Islands with limited liability on February 21, 2006, and BLX Brazil Ltd., incorporated in the Cayman Islands on October 5, 2010, are exempted companies pursuant to the Companies Law (2012 Revision) of the Cayman Islands, or the Companies Law. The registered office of these companies is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. These companies have received an undertaking exempting them from taxation of all future profits until March 7, 2026 for the Feeder and the Fund, and until November 23, 2030 for BLX Brazil Ltd.

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Section 174 of the Companies Law prohibits the Feeder, the Fund and BLX Brazil Ltd. from trading in the Cayman Islands with any person, firm or corporation except in furtherance of the business of these companies carried on outside the Cayman Islands. This does not prevent the Feeder, the Fund and BLX Brazil Ltd. from executing contracts in the Cayman Islands and exercising in the Cayman Islands all of their powers necessary for the carrying on of their business outside the Cayman Islands.

The Proceeds of Crime Law, 2008 of the Cayman Islands and the Terrorism Law (2011 Revision) of the Cayman Islands impose reporting obligations on residents of the Cayman Islands who know or suspect, or have reasonable grounds for knowing or suspecting, the involvement of another person in criminal conduct or with terrorism or terrorist property and the information for that knowledge or suspicion came to their attention in the course of business in the regulated sector.

C. Organizational Structure

For information regarding the Bank's organizational structure, see Item 18, "Financial Statements," note 1.

D. Property, Plant and Equipment

The Bank leases its headquarters, with 4,990 square meters of office space located at Business Park - Tower V, Costa del Este, Panama City, Panama. The Bank leases 11 square meters of computer equipment hosting, located at Gavilan Street Balboa, Panama City, Panama and 21 square meters of office space and internet access, as a contingency, located at 75E Street San Francisco, in Panama City, Panama. The Bank also leases, as contingency, 10 square meters of computer equipment hosting, located at Cable & Wireless Howard IDC, Brujas Street (Perimetral Oeste), behind the International Business Park, Arraijan, Panama.

In addition, the Bank leases office space for its representative offices in Mexico City and Monterrey, Mexico, Buenos Aires, Argentina, Lima, Peru, Bogotá, Colombia, Bladex Representação Ltda. in São Paulo and Porto Alegre, Brazil, its New York Agency in New York City, New York, and the Florida International Administrative Office in Miami, Florida. See Item 18, "Financial Statements," notes 2(q), 10 and 20.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the Bank's Consolidated Financial Statements and the notes thereto included elsewhere in this Annual Report. See Item 18, "Financial Statements."

**Nature of Earnings**

The Bank derives income from net interest income, fees and commissions, derivative financial instruments and hedging, recoveries, net of impairment of assets, net gain (loss) from investment fund trading, net gain (loss) from trading securities, net gain on sale of securities available-for-sale, and net gain (loss) on foreign currency exchange, and other income (net). Net interest income, or the difference between the interest income the Bank receives on its interest-earning assets and the interest it pays on interest-bearing liabilities, is generated principally by the Bank's lending activities. The Bank generates fees and commissions mainly through the issuance, confirmation and negotiation of letters of credit and guarantees and through loan origination.

A. Operating Results

The following table summarizes changes in components of the Bank's net income and performance for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2012**[(1)] | **2011**[(1)] | **2010**[(1)] |
| | (in $ thousand, except per share amounts and percentages) | | |
| Total interest income | $192,437 | $157,427 | $119,478 |

| | | | |
|---|---|---|---|
| Total interest expense | 87,460 | 54,717 | 44,975 |
| Net interest income | 104,977 | 102,710 | 74,503 |
| Reversal of provision (provision) for loan losses [2] | 8,343 | (8,841 ) | (9,091 ) |
| Net interest income, after reversal of provision (provision) for loan losses | 113,320 | 93,869 | 65,412 |
| Other income (expense): | | | |
| Reversal of provision for losses on off-balance sheet credit risk [2] | 4,046 | 4,448 | 13,926 |
| Fees and commissions, net | 10,021 | 10,619 | 9,811 |
| Derivative financial instruments and hedging | 71 | 2,923 | (1,446 ) |
| Recoveries, net of impairment of assets | 0 | (57 ) | 233 |
| Net gain (loss) from investment fund trading | 7,011 | 20,314 | (7,995 ) |
| Net gain (loss) from trading securities | 11,234 | (6,494 ) | (3,603 ) |
| Net gain on sale of securities available-for-sale | 6,030 | 3,413 | 2,346 |
| Net gain (loss) on foreign currency exchange | (10,525 ) | 4,269 | 1,870 |
| Gain on sale of premises and equipment | 5,626 | 0 | 0 |
| Other income , net | 2,986 | 1,059 | 1,279 |
| Net other income | 36,500 | 40,494 | 16,421 |
| Total operating expenses | (55,814 ) | (50,087 ) | (42,218 ) |
| Net income from continuing operations | 94,006 | 84,276 | 39,615 |
| Net income (loss) from discontinued operations [1] | (681 ) | (420 ) | 206 |
| Net income | 93,325 | 83,856 | 39,821 |
| Net income (loss) attributable to the redeemable noncontrolling interest | 293 | 676 | (2,423 ) |
| Net income attributable to Bladex | $93,032 | $83,180 | $42,244 |
| Net income from continuing operations | 93,713 | 83,600 | 42,038 |
| Net income (loss) from discontinued operations [1] | (681 ) | (420 ) | 206 |
| Basic earnings per share | $2.46 | $2.25 | $1.15 |
| Diluted earnings per share | $2.45 | $2.24 | $1.15 |
| Return on average assets [3] | 1.51 % | 1.46 % | 0.97 % |
| Return on average stockholders' equity[4] | 11.57 % | 11.40 % | 6.21 % |

(1) The Asseet Management Unit is reported as a discontinued operation since the Bank decided to divest the operations of this Unit in the fourth quarter of 2012, in accordance with the ASC Topic 250-20 – Presentation of Financial Statements – Discontinued Operations. The amounts reported for the years ended December 31, 2011, 2010, 2009, and 2008 have been reclassified to conform with the presentation of discontinued operations in 2012.

(2) Includes reversal of provision (provision) loan losses and for losses on off-balance sheet credit risks. For information regarding reversal of provision (provision) credit losses, see Item 5, "Operating and Financial Review and Prospects—Operating Results."

(3) Average assets calculated on the basis of unaudited daily average balances.

(4) Average stockholders' equity calculated on the basis of unaudited daily average balances.

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*Business Segment Analysis*

The Bank's activities are operated and managed in two business segments: Commercial and Treasury. The Asset Management segment was discontinued as of December 31, 2012, as a result of its divestiture.

The business segment results are determined based on the Bank's managerial accounting process, which assigns consolidated balance sheets, revenue and expense items to each reportable division on a systemic basis.

In 2011, the Bank made the following changes in the measurement methods used to determine business segment profit or loss. Current interest expense allocation methodology reflects allocated funding on a matched-funded basis, net of risk adjusted capital by business segment. Current operating expense allocation methodology allocates overhead expenses based on resource consumption by business segment. Prior methodology allocated interest expenses and overhead operating expenses based on the business segments' average portfolio.

The Bank incorporates net operating income by business segment in order to disclose the revenue and expense items related to its normal course of business, segregating from the net income, the impact of reversals of reserves for loan losses and off-balance sheet credit risk, and recoveries on assets. In addition, the Bank's net interest income represents the main driver of net operating income. The following table summarizes net operating income of the Bank, both by business segment and on a consolidated basis for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (in $ million, except percentages) | | |
| COMMERCIAL DIVISION: | | | |
| Net interest income | $110.0 | $81.7 | $54.5 |
| Non-interest operating income | 12.2 | 11.0 | 10.3 |
| Operating expenses | (38.3) | (34.8) | (28.3) |
| Net operating income | 83.9 | 57.9 | 36.5 |
| Reversal (provision) for loan and off-balance sheet credit losses, net | 12.4 | (4.4) | 4.8 |
| Recoveries, net of impairment of assets | 0.0 | (0.1) | 0.2 |
| NET INCOME ATTRIBUTABLE TO BLADEX | $96.3 | $53.4 | $41.6 |
| | | | |
| TREASURY DIVISION: | | | |
| Net interest income | $(5.0) | $21.0 | $20.0 |
| Non-interest operating income | 14.6 | 25.1 | (8.0) |
| Operating expenses | (17.5) | (15.2) | (13.9) |
| Net operating income | (7.9) | 30.9 | (2.0) |
| Net income (loss) | (7.9) | 30.9 | (2.0) |
| Net income (loss) attributable to the redeemable noncontrolling interest | 0.3 | 0.7 | (2.4) |
| NET INCOME (LOSS) ATTRIBUTABLE TO BLADEX | $(8.2) | $30.2 | $0.5 |
| | | | |
| CONSOLIDATED: | | | |
| Net interest income | $105.0 | $102.7 | $74.5 |
| Non-interest operating income | 26.8 | 36.1 | 2.3 |
| Operating expenses | (55.8) | (50.0) | (42.2) |
| Net operating income | 76.0 | 88.8 | 34.5 |
| Reversal (provision) for loan and off-balance sheet credit losses, net | 12.4 | (4.4) | 4.8 |
| Recoveries, net of impairment of assets | 0.0 | (0.1) | 0.2 |
| Net income – business segments | 88.4 | 84.3 | 39.6 |
| Net income (loss) attributable to the redeemable non-controlling interest | 0.3 | 0.7 | (2.4) |
| NET INCOME ATTRIBUTABLE TO BLADEX – BUSINESS SEGMENT | 88.1 | 83.6 | 42.0 |
| Other income unallocated – Gain on sale of premises and equipment | 5.6 | 0.0 | 0.0 |
| Net income (loss) from discontinued operations | (0.7) | (0.4) | 0.2 |
| NET INCOME ATTRIBUTABLE TO BLADEX | $93.0 | $83.2 | $42.2 |

For further information on net income by business segment, see Item 18, "Financial Statements," notes 3 and 26.

***<u>The Commercial Division</u>***

The Commercial Division is responsible for the Bank's core business of financial intermediation and fee generation activities generated by the commercial portfolio. The division's portfolio includes loan portfolio, selected deposits placed, equity investments and contingencies and other assets. The Commercial Division's net income includes net interest income from loans, fees and commissions, allocated operating expenses, the reversal (provision) for credit losses, and recoveries, net of impairment of assets.

*<u>Year 2012 vs. Year 2011</u>*

The Commercial Division's net income amounted to $96.3 million for the year ended December 31, 2012, compared to $53.4 million for the year ended December 31, 2011. The $42.9 million, or 80%, increase in 2012 was mainly the result of: (i) a $29.5 million, or 32%, increase in net operating revenues mainly attributable to increased net interest income (an increase of $28.3 million, or 35%) from higher loan portfolio balances (an increase of 11%) and lending rates (an increased of 55 bps), and (ii) a $16.8 million positive variation in provisions for credit losses due to improved country and client risk exposure profiles in the Commercial Portfolio. These effects were partially offset by a $3.5 million, or 10%, increase in allocated operating expenses mainly due to higher average headcount.

The Commercial Division's portfolio balance amounted to $5,953 million, a 11% increase from the balances as of December 31, 2011. The increases were mainly attributable to growing demand in the Bank's client base of corporations (which grew by 19%) and continued diversification into the middle-market companies (which grew by 56%), offset by a 6% decrease in the financial institutions segment.

The Commercial Portfolio continued to be short-term and trade-related in nature with $4,563 million, or 77%, of the Commercial Portfolio maturing within one year. Trade financing operations represented 61% of the portfolio, while the remaining balance consisted primarily of lending to banks and corporations involved in foreign trade.

Credit disbursements in 2012 increased 8% to $11.3 billion, the highest level in 15 years, compared to $10.5 billion disbursed in 2011. As of December 31, 2012, the Bank had no portfolio balances in non-accrual, compared to $32.0 million, or 0.6% of the loan portfolio balances in non-accrual,as of December 31, 2011.

*Year 2011 vs. Year 2010*

The Commercial Division's net income amounted to $53.4 million for the year ended December 31, 2011, compared to the $41.6 million for the year ended December 31, 2010. The $11.8 million, or 28%, increase during the year 2011 was mainly due to: (i) a $27.2 million, or 50%, increase in net interest income, which amounted to $81.7 million in 2011, reflective of higher average loan portfolio balances (an increase of $1,319 million, or 40%) and improved net interest margins (an increase of 11 bps) and (ii) a $0.7 million, or 7%, increase in non-interest operating income, mainly as a result of increased commission income from higher average volumes in the letter of credit business (an increase of 28%). The revenue increase was partly offset by (i) a $6.5 million increase in operating expenses, as the Commercial Division expanded its sales force and local presence in various markets in the Region, and (ii) $4.4 million in credit provision charges during the year 2011, related to higher portfolio balances and shift in the composition of the commercial portfolio, as compared to $4.8 million in reversals of provisions during 2010.

The Commercial Division's portfolio balance amounted to $5,354 million as of December 31, 2011, compared to $4,446 million as of December 31, 2010. The 20% portfolio increase in 2011 compared to 2010 was attributable to increased demand from the Bank's established client base of corporations (an increase of 8%) and financial institutions (an increase of 26%), in addition to the Bank's continued business expansion into the middle-market segment (an increase of 101%) as the Bank's regional expansion and segment penetration activities continues to have results. In 2011, the Bank disbursed $8.2 billion in new loans, an increase of $2.7 billion, or 49%, compared to the year 2010, driven by strong demand from the Bank's established client base and benefitting from the Bank's expansion of its cross border vendor finance business during 2011. Of these disbursements during 2011, $583 million in loans were made to the middle-market companies. The non-accrual portfolio amounted to $32 million as of December 31, 2011, compared to $29 million as of December 31, 2010, and compared to $51 million as of December 31, 2009. The $32 million in non-accrual portfolio as of December 31, 2011 represented 0.6% of the total loan portfolio balance.

***The Treasury Division***

The Treasury Division is responsible for the Bank's funding and liquidity management, along with its investment securities activities, including management of the Bank's interest rate, liquidity, price and currency risks. The Division manages the Bank's funding and liquidity along with its investment securities activities in trading assets, securities available-for-sale, securities held-to-maturity, and the Bank's investments in the Investment Fund (balance of the Investment Fund and assets of the Brazilian Fund). With the designation of the former Bladex's Asset Management Unit as a discontinued operation the Treasury Division now incorporates the Bank's investment in the Investment Funds for 2012. The Treasury Division results for the years 2011 and 2010 have been adjusted to conform with the presentation in 2012.

The Treasury Division's net income is presented net of allocated operating expenses, and includes net interest income on treasury assets (interest-bearing deposits with banks, investment securities, and trading assets); net interest margin related to the Feeder's participation in the net interest margin of the Fund, non-interest operating income (expense), such as net gain (loss) from trading securities, net gain (loss) from investment fund trading, the net gain on sale of securities available-for-sale, foreign currency exchange, and derivative financial instruments and hedging. The Division also includes net interest margin from the Brazilian Fund, as well as net gain (loss) from trading securities, fee income, and allocated operating expenses from the Brazilian Fund.

*Year 2012 vs. Year 2011*

The Treasury Division reported a net loss of $8.2 million for the year ended December 31, 2012, compared to a net income of $30.2 million for the year ended December 31, 2011. The $38.4 million, or 127%, decrease during 2012 was due to the combined effects of: (i) a $26.0 million decrease in net interest income, as a result of higher average funding costs due to increased funding tenors, along with lower average interest-earning securities portfolio balances and $5.0 million in amortizations to the carrying amount of certain financial instruments for which hedge accounting was discontinued in the third quarter of 2012, (ii) a $10.5 million decrease in non-interest operating income mainly from lower gains from investments in the Investment Fund and (iii) a $2.3 million increase in allocated operating expenses.

Liquidity balance as of December 31, 2012 amounted to $690 million, compared to $786 million as of December 31, 2011. Liquid assets as of Decemer 31, 2012 represented 10.2% of total assets and 11.6% of total liabilities, compared to 12.4% and 14.0%, respectively, as of December 31, 2011. Deposit balances increased $13 million, or 1%, to $2,317 million as of December 31, 2012, compared to $2,304 million as of December 31, 2011.

Weighted average funding costs for the year ended December 31, 2012 amounted to 1.63%, an increase of 51 bps, or 46%, compared to 1.12% for the year ended December 31, 2011, mainly as a result of inflows recorded in the first half of 2012 from bond issuances and a loan syndication.

Short-term borrowings and securities sold under repurchase agreements amounted to $1,607 million a decreased of 5% during 2012. Borrowings and long-term debt increased 28% during 2012 to $1,906 million as of December 31, 2012, compared to $1,488 million as of December 31, 2011.

*Year 2011 vs. Year 2010*

The Treasury Division reported net income of $30.2 million for the year ended December 31, 2011, compared to net income of $0.5 million for the year ended December 31, 2010. The $29.8 million increase during 2011 was due to the combined effects of a $33.1 million increase in non-interest operating income attributable to higher gains from sale of securities available-for-sale and the positive valuations of trading securities and their associated trading derivatives during the year and trading gains from the investment fund, which was partially offset by increased operating expenses ($0.9 million).

Liquidity balance as of December 31, 2011 amounted to $786 million, compared to $421 million as of December 31, 2010. Liquid assets as of December 31, 2011 represented 12.4% of total assets and 34.1% of liability deposits, compared to 8.2% and 23.1%, respectively, as of December 31, 2010. Deposit balances increased $483 million, or 27%, to $2,304 million as of December 31, 2011 compared to $1,821 million as of December 31, 2010.

Funding costs continued to improve as weighted average funding cost for the year ended December 31, 2011 amounted to 1.12%, a decrease of 14 bps, or 11%, compared to 1.26% for the year ended December 31, 2010, as a result of lower average interbank market rates and improvement in funding costs of deposits. Borrowings and securities sold under repurchase agreements balances increased 31% during 2011 to $3,188 million as of December 31, 2011 compared to $2,435 million as of December 31, 2010.

**Net Income Attributable to Bladex**

The results for 2012 demonstrated the strength of Bladex's business model, as the Bank continued to add value to its clients with a focus on trade finance. During the year, the Region experienced an acceleration of economic activity in several countries, which helped propel the increase in balances of the Bank's credit portfolio during 2012, especially in the segments of corporations and middle market companies. The credit quality of the Bank's portfolio continued to improve, with a non-accrual balance of zero at year-end. Liquidity remained strong at $690 million as of December 31, 2012, with leverage at 8.2 times, as the Bank continued to deploy capital towards business growth. The Bank's Tier 1 capitalization stood at 17.9% as of December 31, 2012.

Bladex's financial results continued to strengthen in 2012, mainly as the result of growth and increased profitability in the Commercial Division. Net Income attributable to Bladex reached $93.0 million in 2012, compared to $83.2 million in 2011. The $9.8 million, or 12%, increase, was the result of improved performance in core financial intermediation activity, partially offset by lower contributions from investment activities in the Treasury Division. Additional reasons for the increase include contributions from the non-core activities of the Asset Management Unit (presented as a discontinued operation as of December 31, 2012), and extraordinary items, including a $5.6 million gain on the sale of premises and equipment associated with the relocation of the Bank's headquarters.

The 2011 results reflect the Bank's solid positioning as a result of a strategy focused on business growth, diversification of the Bank's business activities, and the strengthening of the Bank's position, supported by growing trade flows in Latin America, which resulted in net income attributable to Bladex of $83.2 million in 2011 compared to $42.2 million net income attributable to Bladex during 2010. The $40.9 million, or 97%, increase was mostly driven by $53.3 million in net income from the Commercial Division, and $30.2 million in net income from the Treasury Division.

Net Interest Income and Margins

The following table sets forth information regarding net interest income, the Bank's net interest margin (net interest income divided by the average balance of interest-earning assets), and the net interest spread (the average yield earned on interest-earning assets, less the average yield paid on interest-bearing liabilities) for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (in $ million, except percentages) | | |

| | | | |
|---|---|---|---|
| Net interest income (loss) | | | |
| Commercial Division | 110.0 | 81.7 | $54.5 |
| Treasury Division | (0.0 ) | 21.0 | 20.0 |
| Consolidated Net Interest Income | $110.0 | $102.7 | $74.5 |
| Amortization of free-standing financial instruments | (5.0 ) | 0.0 | 0.0 |
| Total Net Interest Income | $105.0 | $102.7 | $74.5 |
| Net interest margin [1] | 1.70 % | 1.81 % | 1.70% |
| Net interest spread | 1.44 % | 1.62 % | 1.43% |

(1) Excluding the amortization of free-standing financial instruments assigned to the Treasury Division, the net interest margin from commercial activities amounted to 1.78% as of December 31, 2012.

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Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Differentials

The following table presents the distribution of consolidated average assets, liabilities and stockholders' equity, as well as the total dollar amounts of interest income from average interest-earning assets and the resulting yields, the dollar amounts of interest expense and average interest-bearing liabilities, and corresponding information regarding rates. Average balances have been computed on the basis of consolidated daily average balances:

| | For the Year ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | | 2010 | | | |
| Description | Average balance | Interest | Average yield/rate | | Average balance | Interest | Average yield/rate | | Average balance | Interest | Average yield/rate | |
| | (in $ million, except percentages) | | | | | | | | | | | |
| Interest-Earning Assets | | | | | | | | | | | | |
| Interest-earning deposits with banks | $711 | $ 2 | 0.26 | % | $458 | $ 1 | 0.29 | % | $384 | $ 1 | 0.22 | % |
| Loans, net of unearned income & deferred loan fees | 5,064 | 181 | 3.52 | % | 4,576 | 138 | 2.97 | % | 3,243 | 102 | 3.09 | % |
| Non-accrual loans [(1)] ((1) | 23 | 2 | 9.17 | % | 29 | 2 | 8.03 | % | 44 | 3 | 7.55 | % |
| Trading assets | 7 | 0 | 0.94 | % | 30 | 2 | 5.79 | % | 51 | 3 | 6.11 | % |
| Investment securities[(2)] | 254 | 6 | 2.48 | % | 441 | 12 | 2.61 | % | 468 | 8 | 1.79 | % |
| Investment fund | 117 | 1 | 0.74 | % | 148 | 2 | 1.56 | % | 190 | 2 | 1.14 | % |
| Total interest-earning assets | $6,177 | $ 192 | 3.06 | % | $5,681 | $ 157 | 2.73 | % | $4,378 | $ 119 | 2.69 | % |
| Non-interest-earning assets | 55 | | | | 71 | | | | 42 | | | |
| Allowance for loan losses | (82 ) | | | | (81 ) | | | | (75 ) | | | |
| Other assets | 20 | | | | 16 | | | | 12 | | | |
| Total Assets | $6,169 | | | | $5,687 | | | | $4,357 | | | |
| Interest-Bearing Liabilities | | | | | | | | | | | | |
| Deposits | $2,258 | $ 13 | 0.56 | % | $2,074 | $ 9 | 0.42 | % | $1,555 | $ 9 | 0.54 | % |
| Trading liabilities | 10 | 0 | n.m. (*) | | 2 | 0 | n.m. (*) | | 4 | 0 | n.m. (*) | |
| Investment fund | 0 | 0 | n.m. (*) | | 0 | 0 | n.m. (*) | | 0 | 1 | n.m. (*) | |
| Securities sold under repurchase agreements | 153 | 2 | 1.05 | % | 267 | 2 | 0.75 | % | 179 | 1 | 0.79 | % |
| Short-term borrowings | 973 | 19 | 1.92 | % | 1,102 | 14 | 1.23 | % | 545 | 7 | 1.20 | % |
| Borrowings and long-term debt | 1,892 | 54 | 2.79 | % | 1,392 | 30 | 2.11 | % | 1,241 | 27 | 2.18 | % |
| Total interest-bearing liabilities | $5,285 | $ 87 | 1.63 | % | $4,838 | $ 55 | 1.12 | % | $3,524 | $ 45 | 1.26 | % |
| Non-interest bearing liabilities and other liabilities | $76 | | | | $111 | | | | $119 | | | |
| Total Liabilities | $5,361 | | | | $4,949 | | | | $3,643 | | | |
| | 4 | | | | 8 | | | | 34 | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Redeemable noncontrolling interest | | | | | | | | | | | | |
| Stockholders' equity | 804 | | | | 730 | | | | 681 | | | |
| Total Liabilities and Stockholders' Equity | $6,169 | | | | $5,687 | | | | $4,357 | | | |
| Net interest spread | | | 1.44 | % | | | 1.62 | % | | | 1.43 | % |
| Net interest income and net interest margin | | $ 105 | 1.70 | % | | $ 103 | 1.81 | % | | $ 75 | 1.70 | % |

(*) "n.m." means not meaningful.

(1) Interest received on non-accrual loans is only recorded as earned when collected.
(2) The average yield of the investment securities portfolio using cost-based average balances, would have been 2.56%, 2.65%, and 2.02%, for 2012, 2011 and 2010, respectively.

Changes in Net Interest Income — Volume and Rate Analysis

Net interest income is affected by changes in volume and changes in interest rates. Volume changes are caused by differences in the level of interest-earning assets and interest-bearing liabilities. Rate changes result from differences in yields earned on interest-earning assets and rates accrued on interest-bearing liabilities. The following table sets forth a summary of the changes in net interest income of the Bank resulting from changes in average interest-earning asset and interest-bearing liability volume and changes in average interest rates for 2012 compared to 2011 and for 2011 compared to 2010. Volume and rate variances have been calculated based on daily movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

| | 2012 vs. 2011 | | | 2011 vs. 2010 | | |
|---|---|---|---|---|---|---|
| | **Volume**(*) | **Rate**(*) | Net Change | **Volume**(*) | **Rate**(*) | Net Change |
| | (in $ thousand) | | | | | |
| Increase (decrease) in interest income | | | | | | |
| Interest-bearing deposits with banks | $670 | $(145) | $525 | $217 | $294 | $512 |
| Accruing loans, net | 17,653 | 25,472 | 43,125 | 40,190 | (3,749) | 36,441 |
| Non-accrual loans | (569) | 343 | (226) | (1,168) | 209 | (959) |
| Trading assets | (214) | (1,474) | (1,688) | (1,212) | (164) | (1,375) |
| Investment securities | (4,689) | (575) | (5,264) | (721) | 3,908 | 3,188 |
| Investment fund | (230) | (1,232) | (1,462) | (655) | 799 | 144 |
| Total increase (decrease) | $12,621 | $22,389 | $35,010 | $36,652 | $1,297 | $37,949 |
| Increase (decrease) in interest expense | | | | | | |
| Deposits | 1,063 | 3,063 | 4,126 | 2,206 | (1,918) | 288 |
| Trading liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment fund | (25) | (189) | (214) | (36) | (604) | (641) |
| Securities sold under repurchase agreement and Short-term borrowings | (4,436) | 9,355 | 4,920 | 7,420 | 275 | 7,695 |
| Borrowings and long-term debt | 14,234 | 9,677 | 23,911 | 3,246 | (847) | 2,399 |
| Total increase (decrease) | $10,836 | $21,907 | 32,743 | $12,836 | $(3,095) | $9,742 |
| Increase (decrease) in net interest income | $1,785 | $482 | $2,267 | $23,817 | $4,392 | $28,208 |

(*) Volume variation effect in net interest income is calculated by multiplying the difference in average volumes by the current year's average yield. Rate variation effect in net interest income is calculated by multiplying the difference in average yield by the prior year's average volume.

*Net Interest Income and Net Interest Margin Variation*

<u>*2012 vs. 2011*</u>

The $2.3 million, or 2% increase in net interest income for the year ended December 31, 2012 primarily reflected the combined effects of:

i. Higher average interest-earning asset levels (increase of 9%), mainly average loan portfolio balances, which resulted in a $12.6 million overall increase in interest income, partially offset by a $10.8 million increase in interest expense, resulting from a 9% increase in average interest-bearing liabilities.

ii.

A $0.9 million increase in net interest income from the net impact of higher average interest rates on the Bank's assets and liabilities, mainly driven by an increase in lending rates (increase of 55 bps), partly offset by a shift towards longer interest bearing liability tenors, resulting in higher rates (increase of 51 bps) along with $5.0 million in amortizations of free-standing financial instruments.

Net interest margin decreased 11 bps to 1.70% in 2012 compared to 1.81% in 2011, mainly due to increasingly higher cost of funds associated with increase in interest bearing liabilities balances, which offset the increase in average yields of interest earning assets, mainly in the loan portfolio.

*2011 vs. 2010*

The $28.2 million, or 38%, increase in net interest income for the year ended December 31, 2011 compared to the year ended December 31, 2010 primarily reflects:

i. Higher average interest-earning assets balances, primarily in average loan portfolio balances, which increased from $3.3 billion in 2010 to $4.6 billion in 2011, a $1.3 billion, or 40%, increase during the year. The higher average balance in interest-earning assets during 2011 resulted in a $36.7 million overall increase in interest income, partially offset by a $12.8 million increase in interest expense associated with an increase of $1.3 billion, or 37%, in interest-bearing liability balances (deposits, securities sold under repurchase agreements, short-term borrowings and borrowings and long-term debt) from $3.5 billion in 2010 to $4.8 billion in 2011. Higher average volumes in interest-earning assets and interest-bearing liabilities resulted in a net effect of a $23.9 million net increase in net interest income.

ii. A $4.3 million increase in net interest income during 2011 due to rate variances, as the average yield paid on interest-bearing liabilities decreased 14 bps to 1.12% in 2011 (from 1.26% in 2010), while the average yield on interest-earning assets increased 4 bps to 2.73% in 2011 (from 2.69% in 2010).

Net interest margin increased 11 bps to 1.81% in 2011 compared to 1.70% in 2010, mainly due to higher average loan portfolio balances and lending spreads as a result of greater market penetration, relative business growth and portfolio mix in the corporate and middle-market companies segments, and in the financial institutions segment, in a year characterized by liquidity constraints and volatility in the financial industry.

Reversal (Provision) for Loan Losses

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (in $ million) | | |
| Net Brazil specific reserve reversals (provisions) | 0.0 | (0.7) | 2.1 |
| Net Mexico specific reserve reversals (provisions) | 7.3 | (3.6) | 0.8 |
| Total specific reserve reversals (provisions) | 7.3 | (4.3) | 2.9 |
| Generic reserve reversals (provisions) — due to changes in credit portfolio composition and risk levels | 1.0 | (4.5) | (11.9) |
| Total generic reserve reversals (provisions) | 1.0 | (4.5) | (11.9) |
| Total reversals (provisions) of allowance for loan losses | $8.3 | $(8.8) | $(9.1) |

As of December 31, 2012, the Bank had loans in non-accrual status. As of December 31, 2011 and 2010, the Bank had $32.0 million and $29.0 million in non-accrual loans, respectively, all of which correspond to impaired loans for which specific reserves of $14.8 million and $11.5 million, respectively, were allocated.

During 2012, the Bank reversed $8.3 million in provisions for loan losses, as a result of the release of specific reserves associated with the exit of a non-accruing loan exposure, along with a reversal of generic reserves associated with the improved risk profile of the Bank's loan portfolio.

The $8.8 million provision for loan losses in 2011 was the result of: (i) $4.5 million in generic provision for loan losses driven by the combination of an increase in the Bank's loan portfolio, attributable to increased demand from the Bank's client base of corporations, financial institutions and middle-market clients, and an improvement in client-specific and country risk levels in the Region; and ii) $4.3 million in charges for specific loan loss reserves assigned to the impaired portfolio which totaled $32.0 million as of December 31, 2011.

During 2010, the Bank reversed $2.9 million in specific provisions assigned to the impaired portfolio. The $11.9 million generic provision for loan losses in 2010 was primarily due to an increase in the loan portfolio which was partially mitigated by an improvement of the risk profile of the Region.

The Bank's loan loss reserve coverage was 1.3% as of December 31, 2012, a decrease from 1.8% as of December 31, 2011, and a decrease from 1.9% as of December 31, 2010. The decrease in the loan loss reserve coverage reflects the impact of changes in the composition of the Bank's loan portfolio and improvement of the risk profile of the portfolio on the Bank's reserve model.

For more detailed information, see Item 5, "Operating and Financial Review and Prospects/Operating Results/Asset Quality and Allowance for Credit Losses," and Item 18, "Financial Statements," note 9.

For more detailed information about Non-Accrual Loans, see Item 18 "Financial Statements," note 8.

Reversals (Provisions) for Losses on Off-Balance Sheet Credit Risk

The $4.0 million reversal of provision for losses on off-balance sheet credit risk in 2012 was primarily the result of lower balances in the off-balance sheet exposures in the commercial portfolio and improved risk profile of the Bank's portfolio composition.

The $4.4 million reversal of provision for losses on off-balance sheet credit risk in 2011 was primarily due to improved risk profile in the off-balance sheet exposures in the commercial portfolio, primarily in customer liabilities under acceptances and contingencies, at the end of year 2011.

The $13.9 million reversal of provision for losses on off-balance sheet credit risk in 2010 was primarily the net result of changes in volume, composition, and improvement of the risk profile of the portfolio, together with the purchase of international insurance to mitigate exposures on the off-balance sheet credit risk portfolio.

The off-balance sheet reserve coverage decreased to 2.1% as of December 31, 2012, compared to 2.5% as of December 31, 2011, and compared to 3.5% as of December 31, 2010.

For more detailed information, see Item 5, "Operating and Financial Review and Prospects/Operating Results/Asset Quality and Allowance for Credit Losses," and Item 18, "Financial Statements," note 9.

Fees and Commissions, net

The Bank generates fee and commission income primarily from originating letters of credit confirmations, guarantees (including commercial and country risk coverage), loan origination and distribution, and service activities. The following table shows the components of the Bank's fees and commissions, net, for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (in $ thousand) | |
| Letters of credit | $7,617 | $ 9,360 | $8,314 |
| Guarantees | 184 | 14 | 158 |
| Loan Fees | 2,153 | 1,109 | 1,195 |
| Other (1) | 67 | 136 | 144 |
| Fees and commissions, net | $10,021 | $ 10,619 | $9,811 |

(1) Net of commission expense.

In 2012, fees and commissions totaled $10.0 million, compared to $10.6 million in 2011. The $0.6 million, or 6% decrease reflects reduced commissions from lower average balances in the letters of credit portfolio, partially offset by increased fees and commissions from transactional loans.

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The $0.4 million, or 4%, increase in fees and commissions during 2011 was mostly attributable to increased commission income from higher average volumes in the letter of credit business (which increased 28%), partially offset by lower loan and asset management fee income.

The $3.6 million, or 53%, increase in 2010 compared to 2009 mainly reflects increased commission income from the letter of credit business, as a result of higher volumes of letters of credit in a more favorable economic environment.

For more information, see Item 18, “Financial Statements,” notes 2(p).

Derivative Financial Instruments and Hedging

The Bank recorded a net gain of $0.1 million, a net gain of $2.9 million , and a net loss of $1.4 million in 2012, 2011 and 2010, respectively, in derivative financial instruments and hedging.

The 2011 results reflect the effect of recording the effectiveness on hedging relationships, which was offset by the discount of the Bank’s own credit risk when calculating the fair value of its cross currency swap portfolio that it contracts for hedging purposes.

The 2010 results reflect the effect of recording the effectiveness (ineffectiveness) on hedging relationships and the discount of the Bank’s own credit risk when calculating the fair value of its cross currency swap portfolio that it contracts for hedging purposes, which had a liability balance as of December 31, 2010. The fair value of these cross currency swaps improved during 2010, and as a consequence, the credit risk discount decreased when valuing these derivative instruments.

For additional information, see Item 11, “Quantitative and Qualitative Disclosure about Market Risk,” and Item 18, “Financial Statements,” notes 2(u) and 21.

*Net Gain (Loss) from Investment Fund Trading*

The Bank recorded a net gain of $7.0 million from investment fund trading in 2012, compared to $20.3 million in 2011, and compared to a net loss of $8.0 million in 2010, related to the performance of the trading activities of the Fund.

For additional information, see Item 18, "Financial Statements," notes 5 and 23.

*Net Gain (Loss) from Trading Securities*

In 2012, the Bank recorded a gain from trading securities of $11.2 million, compared to a $6.5 million loss and a $3.6 million loss in 2011 and 2010, respectively.

The $11.2 million gain in 2012 was mainly due to valuations of financial derivative instruments for which hedge accounting was discontinued in 2012.

The $6.5 million loss in 2011 was due to diminished valuations of trading securities and valuations of financial instruments that do not qualify for hedge accounting.

The $3.6 million loss in 2010 was due to the increases in securities valuations which were more than offset by the diminished valuations of financial instruments that do not qualify for hedge accounting.

For additional information, see Item 18, “Financial Statements,” notes 5 and 13.

Net Gain on Sale of Securities Available-for-Sale

The Bank purchases debt instruments as part of its Treasury activity with the intention of selling them prior to maturity. These debt instruments are classified as securities available-for-sale and are included as part of the Bank’s credit portfolio.

The Bank’s net gain on sale of securities available-for-sale in 2012 was $6.0 million, compared to $3.4 million in 2011, and compared to $2.3 million in 2010. Detail of the net gains is as follows:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | (in $ millions) | |
| Nominal amount | $239.6 | $243.6 | $135.0 |
| Amortized cost | $(254.8) | $(265.0) | $(151.3) |
| Proceeds | 262.2 | 279.7 | 167.2 |