LATIN AMERICAN EXPORT BANK
Form 20-F
June 25, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

|_| REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to _______

Commission File Number 1-11414

BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.
(Exact name of Registrant as specified in its charter)

LATIN AMERICAN EXPORT BANK	**REPUBLIC OF PANAMA**
(Translation of Registrant s name into English)	*(Jurisdiction of incorporation or organization)*

Calle 50 y Aquilino de la Guardia
Apartado 6-1497 El Dorado
Panama City, Republic of Panama
(507) 210-8500
(Address and telephone number of Registrant s principal executive offices)

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

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
3,466,702	Shares of Class B Common Stock
29,543,847	Shares of Class E Common Stock
39,352,738	Total Shares of Common Stock

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.

|X| Yes |_| No

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

|_| Item 17 |X| Item 18

BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.

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In this Annual Report on Form 20-F (this Annual Report), all references to the Bank or BLADEX are to Banco Latinoamericano de Exportaciones, S.A., a specialized multinational bank incorporated under the laws of the Republic of Panama (Panama) on November 30, 1977, and its subsidiaries.

The Bank will provide without charge to each person to whom this Annual Report is delivered, upon the written or oral request of such person, a copy of any or all of the documents listed as exhibits to this Annual Report (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference in such documents). Written requests for such copies should be directed to the attention of Carlos Yap, Senior Vice President Finance, BLADEX, as follows: (i) if by regular mail, to Apartado 6-1497, El Dorado, Panama City, Republic of Panama, and (ii) if by courier service, to Calle 50 y Aquilino de la Guardia, Panama City, Republic of Panama. Telephone requests may be directed to Mr. Yap at 011-507-210-8581. Written requests may also be faxed to Mr. Yap at 011-507-269-6333 or sent via e-mail to cyap@blx.com. Information is also available on the Bank s website at: www.blx.com.

All references to dollars or $ are to United States dollars. The numbers and percentages set out in this Annual Report have been rounded and, accordingly, may not total exactly.

The Bank accepts deposits and raises funds principally in United States dollars, grants loans mostly in United States dollars and publishes its Consolidated Financial Statements in United States dollars.

This Annual Report contains forward-looking statements of expected future developments. The Bank wishes to ensure that such statements are accompanied by meaningful cautionary statements pursuant to the safe harbor established in the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Annual Report refer to the possibility that the Bank will need to renegotiate and restructure or write-off certain of its Argentine loans, the adequacy of the Bank s allowance for credit losses to address the likely impact of the Argentine crisis and other credit risks on the Bank s loan portfolio, the necessity of making additional provisions for credit losses, the Bank s ability to achieve future growth, to reduce its liquidity levels and increase its leverage, the Bank s ability to maintain its investment-grade credit ratings, 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 and the impact of the crisis in Argentina and developments in other countries in Latin America and globally on the Bank s results of operations and financial condition. These forward-looking statements reflect the expectations of the Bank s management and are based on currently available data; however, actual experience with respect to these factors is subject to future events and uncertainties, which could materially impact the Bank s expectations. Among the factors that can cause actual performance and results to differ materially are as follows: a decline in the willingness of international lenders and depositors to provide funding to the Bank, causing a further contraction of the Bank s credit portfolio, adverse economic or political developments in Central and South America and the Caribbean (the Region), particularly in Argentina or Brazil, which could increase the level of impaired loans in the Bank s loan portfolio and, if sufficiently severe, result in the Bank s allowance for probable credit losses being insufficient to cover losses in the portfolio, unanticipated developments with respect to international banking transactions (including, among other things, interest rate spreads and competitive conditions), a decision by credit rating agencies to further reduce the Bank s credit ratings, events in Argentina, Brazil or other countries in the Region unfolding in a manner that is detrimental to the Bank or which result in adequate liquidity being unavailable to the Bank.

Forward-looking statements speak only as of the date they are made, and the Bank does not undertake any obligation to update them in light of new information or future developments.

Terms Relating to the Bank s Credit Portfolio

As used in this Annual Report, the following terms relating to the Bank s credit portfolio have the meanings set forth below, unless otherwise indicated.

Credit portfolio consists of loans, securities purchased under agreements to resell, selected securities held to maturity and available for sale (presented at their estimated fair value) and contingencies. Certain investment securities (selected investment securities) are considered part of the Bank s credit portfolio when the acquisition of such securities is subject to the same lending policies, including credit approval criteria, as the rest of the credit portfolio.

Contingencies consist of financial instruments with off-balance sheet credit risk, including letters of credit, guarantees and credit commitments, and customers liabilities under acceptances.

References to provision for loan losses are to additions to the allowance for loan losses in a particular period and charged to income. References to allowance for loan losses are to the aggregate allowance for loan losses shown as of a particular date as a balance sheet item.

Total loans includes total performing loans and total impaired loans. Total impaired loans includes only principal. For a description of the Bank s policies regarding the classification of loans as impaired, see Information on the Company Asset Quality.

Total loans, net refers to total loans less allowance for loan losses and unearned income.

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

3.A Selected Financial Data

The following table presents consolidated selected financial data for the Bank. The financial data presented below are at December 31, 1999, 2000, 2001, 2002 and 2003 and for the years then ended and are derived from the Bank s consolidated financial statements for the years indicated, which were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and audited by KPMG Peat Marwick. The Consolidated Financial Statements of the Bank at December 31, 2002 and 2003 and for each of the years in the three-year period ended December 31, 2003 (the Consolidated Financial Statements) are included in this Annual Report, together with the report of KPMG Peat Marwick thereon. The information below is qualified in its entirety by the detailed information, both financial and otherwise, included elsewhere herein and should be read in conjunction with Information on the Company, Operating and Financial Review and Prospects and the Consolidated Financial Statements and Notes thereto included in this Annual Report.

Consolidated Selected Financial Information

	At and for the Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in $ thousands, except per share amounts and ratios)				
Income Statement Data:					
Net interest income (1)	$ 111,719	$ 111,644	$ 117,688	$ 64,779	$ 53,987
Provision for loan losses (2)	(14,700)	(8,000)	(77,144)	(272,586)	69,508
Net interest income (loss) after provision for loan losses	97,019	103,644	40,544	(207,807)	123,495
Other income (expense):					
Commission income, net (1)	25,270	24,690	14,741	8,886	7,446
Provision for losses on off-balance sheet credit risk	(6,000)	(11,200)	0	(6,170)	(10,603)
Derivatives and hedging activities	0	0	7,379	(341)	(7,988)
Impairment loss on securities (3)	0	0	(40,356)	(44,268)	(953)
Gain on early extinguishment of debt	0	0	0	1,430	789
Gain on sale of securities available for sale	0	0	4,798	184	22,211
Gain (loss) on foreign currency exchange	54	80	(21)	301	(382)
Other income	1,328	1,086	674	553	42
Net other income (expense)	20,652	14,657	(12,783)	(39,425)	10,562
Total operating expenses	(16,614)	(21,245)	(24,008)	(19,259)	(22,561)
Income (loss) from continuing operations	101,057	97,056	3,752	(266,492)	111,496
Discontinued operations:					
Loss from operations and disposal of segment	0	0	(2,388)	(2,346)	0
Income (loss) before cumulative effect of accounting change	101,057	97,056	1,364	(268,838)	111,496
Cumulative effect of accounting change	0	0	1,129	0	0
Net income (loss)	101,057	97,056	2,494	(268,838)	111,496

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	At and for the Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in $ thousands, except per share amounts and ratios)				
Net income (loss) available for common stockholders	99,687	95,770	1,258	(269,850)	111,130
Balance Sheet Data:					
Securities purchased under agreements to resell	$ 0	$ 0	$ 291,871	$ 132,022	$ 132,022
Investment securities	174,816	391,959	356,098	160,714	77,793
Impaired loans	23,786	14,724	77,061	691,472	444,876
Loans (including impaired loans)	4,594,174	4,927,465	4,733,710	2,516,512	2,275,031
Allowance for loan losses	117,670	110,388	177,484	429,720	224,347
Total assets	5,172,132	5,660,682	5,922,267	2,929,267	2,563,556
Total deposits	1,617,174	1,743,842	1,571,359	551,973	702,955
Short-term borrowings and placements	1,520,971	1,509,880	1,823,324	647,344	687,214
Medium and long-term borrowings and placements	1,212,566	1,582,479	1,787,161	1,285,493	485,516
Total liabilities	4,474,809	4,945,666	5,308,617	2,587,868	1,979,227
Total stockholders equity	680,429	699,205	598,418	328,923	584,329

	At and for the Year Ended December 31,				
Average number of shares outstanding	20,141	19,783	18,102	17,343	28,675
Per Common Share Data:					
Net income (loss), after Preferred Stock dividend and before cumulative effect of accounting change	4.95	4.83	0.00	(15.56)	3.88
Diluted earnings per share before cumulative effect of accounting change	4.93	4.81	0.00	(15.56)	3.88
Net income (loss), after Preferred Stock dividend and after cumulative effect of accounting change	4.95	4.83	0.07	(15.56)	3.88
Diluted earnings per share after cumulative effect of accounting change	4.93	4.81	0.07	(15.56)	3.88
Net income (loss) from continuing operations	4.95	4.83	0.14	(15.42)	3.88
Book value (period end)	34.08	36.36	34.44	18.91	14.84
Cash dividends per share	0.96	2.50	1.88	0.00	0.00
Selected Financial Ratios:					
Performance Ratios:					
Return on average assets before cumulative effect of accounting change	1.93%	1.92%	0.02%	(6.47)%	4.24%
Return on average assets after cumulative effect of accounting change	1.93%	1.92%	0.04%	(6.47)%	4.24%
Return on average stockholders equity before cumulative effect of accounting change	15.68%	13.95%	0.00%	(60.48)%	23.91%
Return on average stockholders equity after cumulative effect of accounting change	15.68%	13.95%	0.18%	(60.48)%	23.91%
Net interest margin (4)	2.13%	2.22%	1.98%	1.48%	1.87%
Net interest spread (4)	1.28%	1.12%	1.30%	0.96%	1.23%
Total operating expenses to total average assets	0.32%	0.42%	0.40%	0.46%	0.86%
Cash dividend payout ratio	19.47%	51.97%	2,703.04%	0.00%	0.00%
Asset Quality Ratios:					
Impaired loans to loans, net of unearned income (5)	0.52%	0.30%	1.63%	27.58%	19.59%
Net charge-offs to loans, net of unearned income	0.13%	0.31%	0.21%	0.81%	6.07%
Allowance for loan losses to loans, net of unearned income	2.57%	2.25%	3.77%	17.14%	9.88%
Allowance for loan losses to non-accruing loans	495%	750%	230%	62%	50%
Reserve for losses on off-balance sheet credit risks to total contingencies	0.90%	1.74%	1.65%	4.72%	9.39%
Capital Ratios:					
Stockholders equity to total assets	13.16%	12.35%	10.10%	11.23%	22.79%

	At and for the Year Ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
	(in $ thousands, except per share amounts and ratios)				
Tier 1 capital to risk-weighted assets (6)	24.52%	18.27%	15.73%	15.26%	35.42%
Total capital to risk-weighted assets (6)	26.40%	19.94%	17.39%	16.51%	36.67%

(1) For 1999 2002, commission expense related to borrowings and placements was reclassified from commission expense and other charges to interest expense to conform with the required presentation for 2003 pursuant to U.S. GAAP.
(2) For information regarding provision for loan losses, see Operating and Financial Review and Prospects Results of Operations.
(3) For information regarding impairment loss on securities see Information on the Company Business Overview Asset Quality Impaired Securities.

(4) For information on regard to calculation of the net interest margin and the net interest spread, see Operating and Financial Review and Prospects Results of Operations Net Interest Income.

(5) The Bank did not have any repossessed assets or troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15 at any of the dates indicated above, with the exception in 2003 of $346.7 million, and in 2002, of $47.4 million of Argentine obligations. At December 31, 2003, a Brazilian impaired loan in the amount of $47.0 million was in the process of being restructured. Most of the Bank s credit portfolio in Argentina was classified as impaired during 2002, and 80% of the Argentine credit portfolio had been restructured at December 31, 2003, another 4% was in the process of being restructured, 8% had not been restructured and the remaining 8% was performing in accordance with original contract terms.

(6) Calculated using the U.S. Federal Reserve Board s 1992 fully phased in risk-weighted capital guidelines. Although the Bank is not subject to the risk-based capital or leverage requirements of the Federal Reserve Board, if these requirements did apply to the Bank, management believes that the capital ratios for the Bank would be as presented. The Bank s total capital to risk-weighted asset ratio calculated according to applicable Panama Banking Law provisions was 27.1% at December 31, 2003.

3.B Capitalization and indebtedness

Not required in this Annual Report.

3.C Reasons for the offer and use of proceeds

Not required in this Annual Report.

3.D Risk Factors

Economic conditions in the Region, where the Bank conducts all its lending activities, and where past economic difficulties have resulted in debt restructurings and loan losses for lenders, although showing improvement, have been highly volatile since the end of 2001, reflecting the volatility in U.S. and global economic conditions, and could deteriorate further and require the Bank to further increase its credit loss allowance.

All of the Bank s lending activities are conducted with borrowers in the Region. At various times in the past, countries in the Region have experienced severe economic difficulties, including periods of slow or negative growth, large government budget deficits, high inflation, currency devaluation and unavailability of foreign exchange, including dollars. As a result, since the Bank began operations in 1979 many governments and public and private institutions in the Region have at various times been unable to make interest and principal payments on their external debt, and much of the external debt of the Region has been restructured to provide for extensions of repayment schedules, grace periods during which payments of principal have been suspended and, in certain cases, reduced principal and/or rates of interest. Although these developments during the 1980 s and 1990 s did not have a material impact on the timely repayment of interest or principal on the Bank s loans to banks in the Region, short-term trade debt was generally exempt from such restructuring and certain countries in the Region granted a preferred creditor status to the Bank and negotiated directly with the Bank concerning the Bank s credit portfolio, there can be no assurance that a significant deterioration of economic conditions in the Region would not result in a reduction in the Bank s credit portfolio resulting from increased risk levels, reduced access by the

Bank to funding, and increased loan losses or otherwise adversely affect the financial condition or results of operations of the Bank. In addition, there is no assurance that, if future financial crises were to occur, the governments in the Region would grant the Bank the same special recognition with respect to debt restructuring that they granted in the past.

Adverse U.S. and global economic conditions during 2001 and 2002 affected economic conditions in the Region. Because the United States and Europe are the principal export markets for the Region, these global conditions adversely affected economies in the Region. Although economic conditions have improved in many countries in the Region where the Bank conducts lending activities, this improvement may not be sustained, which could require the Bank to make further loan loss provisions, which could produce additional losses and reduce the Bank s capital.

The crisis in Argentina led the Bank to classify almost the total Argentine credit portfolio as impaired and required the Bank to increase its allowance for credit losses during 2002 which resulted in a large net loss and reduction of the Bank s stockholders equity. It also resulted in the major credit rating agencies downgrading the Bank s credit ratings. Although the Bank has reduced its Argentine credit exposure

substantially and the situation in Argentina appears to have stabilized somewhat, a worsening of the situation could result in higher losses on the Bank s remaining Argentine loans than the Bank has provided for. This could reduce the Bank s earnings, its capital base and its credit ratings.

A prolonged deterioration in Argentina s economic environment, financial condition and investor confidence resulted in late December 2001 in a profound crisis, which forced the Argentine government to adopt stringent measures. These included a freeze on bank deposits, forced conversion of dollar-denominated bank deposits into Argentine pesos, currency devaluation, foreign exchange controls, bank holidays and restrictions on repayment as well as a default by the government on $132 billion of foreign debt in December 2001. During 2003 the Argentine GDP grew approximately 7%, partially offsetting the nearly 11% drop in 2002. It also achieved a fiscal surplus as well as improvements in unemployment, balance of payments, inflation and other indicators.

The deterioration of the Argentine economy made it more difficult for many of the Bank s Argentine obligors to repay their loans on schedule. Also, although some seemingly had resources to meet obligations, they suspended payments because of the uncertainty and disruption caused by the crisis.

The Bank s Argentine credit portfolio at March 31, 2004 amounted to $398.7 million, which represented a reduction of $715.7 million from December 31, 2001. All of the Bank s exposure in Argentina continues to be denominated in U.S. dollars (with the exception of a small portion denominated in Euros). None of the Bank s loans in Argentina have been converted to Argentine pesos. During 2003, the Bank collected interest from Argentine borrowers of approximately $24 million representing 86% of interest due from those borrowers. At June 30, 2002, 97% of the Bank s total credit portfolio in Argentina was classified as impaired and, since June 30, 2002, all interest income on the Bank s Argentine impaired credit portfolio has been accounted for on a cash basis.

At December 31, 2003, 79.7% of the Argentine portfolio had been restructured, while the restructuring of 4.2% of the portfolio was under negotiation, 7.8% had not been restructured and was not paying interest and 8.3% was performing under original terms. As of March 31, 2004, the Bank had restructured $2.5 million of these loans under negotiation, had received repayment of $28.3 million of these restructured loans and had received repayment of $7.6 million of these performing loans representing a total collection of principal of $35.9 million during the first quarter of 2004.

Because of concerns about the collectability of the Bank s Argentine credit portfolio, the Board of Directors and management increased the allowance for credit losses during 2002 by $278.8 million. As of March 31, 2004, the Bank s total allowance for credit losses amounted to $236.9 million of which $176.5 million related

to the loan portfolio and contingencies in Argentina. As a result of the increase in the allowance for credit losses and a $44.3 million charge for impairment loss on Argentine securities during 2002, the Bank incurred a net loss for 2002 of $268.8 million. This also had the effect of reducing the Bank s stockholders equity to $328.9 million at December 31, 2002 from $598.4 million at December 31, 2001. At December 31, 2003, the Bank s stockholders equity was $584.3 million reflecting the proceeds of the Bank s 22 million share rights offering which was completed on June 27, 2003.

The Board of Directors and management believe that the $176.5 million of allowances for credit losses at March 31, 2004 related to the Bank s exposure in Argentina is adequate to cover any Argentine credit charge-offs on the Bank s Argentine loans and contingencies. Argentina is in default on its public sector external debt and there is no clarity as to the timing in which this issue would be resolved. A worsening of the situation could result in higher losses on the Bank s remaining Argentine loans than the Bank has provided for. This could reduce the Bank s earnings or produce additional losses, and could reduce the Bank s capital base.

During the first quarter of 2002, the major credit rating agencies downgraded the Bank s credit ratings due to its large Argentine credit exposure and the increasing risk of default among Argentine borrowers, in light of Argentina s deposit controls and currency devaluation. The downgrades also reflected the Bank s large exposure in Brazil where political and economic uncertainty created concerns about whether the Bank would be required to create additional loan loss allowances. On August 12, 2002, Fitch IBCA, Inc (Fitch) further reduced its ratings on the Bank s debt securities to below investment grade with a stable outlook. On August 5, 2003, Fitch raised its rating on the Bank s debt securities to BBB-, an investment grade rating, reflecting the Bank s improved financial condition and its capital and liquidity position as a result of the proactive management of the Bank s Argentine credit portfolio, the successful capital raising activities, and the Bank s renewed focus on trade finance. As of the date of this Annual Report, the Bank has long-term debt ratings of Baa3 from Moody s Investor Services, Inc. (Moody s), BBB- from Standard and Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc. (Standard & Poor s), and BBB- from Fitch and short-term debt ratings of Prime 3, A-3 and F3 from Moody s, Standard & Poor s and Fitch, respectively. The Baa3 rating from Moody s, the BBB- rating from Standard & Poor s and the BBB- rating from Fitch are investment-grade ratings and the ratings outlook from all three rating agencies is stable.

A further deterioration of the Argentine situation or difficulties in other countries in the Region where the Bank has large exposures could trigger downgrades in the Bank s credit ratings from Moody s, Standard & Poor s or Fitch to below investment-grade ratings. This would increase the Bank s cost of funds, and reduce the Bank s deposit base and access to the debt capital markets. In that case, the Bank s ability to obtain the funding necessary to carry on its trade financing activities in Latin America at meaningful levels could be severely hampered.

Brazil has been performing satisfactorily to date. However, an eventual downturn in Brazil could have an adverse effect on earnings.

During 2002, investors became increasingly uneasy about Brazil due to, among other factors, the situation in Argentina and an increasingly uncertain political environment leading up to the election at the end of October 2002 of Luiz Inácio Lula da Silva, the rapid decline in the value of Brazil s currency compared with the U.S. dollar and speculation about the ability of Brazil to service its public debt, particularly its internal debt. After taking office in January 2003, the new government adopted conservative macroeconomic policies, which resulted in a positive reaction from the market and decreased the country s perceived risk level in a very short period of time. It is still premature to evaluate the government policies and the consequent reaction from the capital markets and investors. The situation has improved as evidenced by a stabilized exchange rate, strong export performance, controlled rate of inflation and a substantial reduction in the country s sovereign interest rate spread. Brazil did not default on its debt and the risk perception regarding Brazil has improved substantially.

The Bank s credit portfolio in Brazil amounted to $1,153.9 million at December 31, 2003 compared to $1,183.1 million at December 31, 2002. As of December 31, 2003, substantially all of the Bank s loans to Brazilian borrowers were current and there were no past due amounts of interest or principle, with the exception of one rescheduled loan to a Brazilian corporation for $47.0 million, for which the Bank established a specific allowance for possible loan losses of $16.3 million. This loan was successfully restructured in March 2004. Approximately 90.6% of the Bank s portfolio in Brazil matures during the remainder of 2004, giving the Bank flexibility to reduce its exposure in Brazil should this become necessary. The Bank remains committed to continuing its lending activities in this very important market in the Region. Although Brazil has not defaulted on its trade related obligations and up until now the Bank has not had substantial losses on its Brazilian portfolio, adverse changes in the political and economic situation in Brazil could weaken the Bank s Brazilian credit portfolio. If this were to occur, the Bank could be required to create further allowances for credit losses.

Determining the appropriate level for credit loss allowances requires assumptions and estimates during rapidly changing political and economic conditions in the Region. As a result, the Bank s allowances for credit losses could be inadequate to cover credit losses related to the Bank s loans and contingencies. If the Bank were required to create additional allowances for credit losses, it could result in significant losses for the Bank and reduce its equity capital.

At December 31, 2003, the total allowance for credit losses amounted to $258.3 million, of which $195.4 million, representing specific allowances, related to impaired loans and contingencies in Argentina. There were also $16.3 million of specific allowances related to $47.0 million of exposure with a Brazilian corporation. At December 31, 2003, the Bank s total loans and contingencies amounted to $2,636.7 million, of which $429.8 million, or 16.3%, represented loans and contingencies in Argentina. The remaining $46.6 million of the Bank s allowance for credit losses represents a generic allowance which covers its $2.2 billion of loans and contingencies outstanding in countries other than Argentina.

The Board of Directors and management believe that the current allowance for credit losses is adequate to cover any charge offs that will be necessary on the Bank s current credit portfolio. The Board of Directors and management will continue to maintain the allowance for credit losses at levels, which reflect the potential for political and economic instability in countries in the Region and economic cycles. Determining the appropriate level of allowances for credit losses necessarily requires management s judgment, including assumptions and estimates made in the context of rapidly changing political and economic conditions in many of the countries in the Region. As a result, the Bank s current level of allowances could be inadequate to cover losses in the Bank s credit portfolio. For example, it is possible that further deterioration in Argentina, or further pressure on other borrowers could require additional allowances, which would produce charges against the Bank s earnings.

During 2002 and 2003, although the Bank did not experience liquidity difficulties, its weakened financial condition, downgrades in credit ratings, and increased risk perception of the Region did adversely affect its funding activities. The occurrence of similar events could do so again in the future.

During 2002 and 2003, the Bank s weakened financial condition and downgrades by the rating agencies affected the Bank s funding activity, by making the Bank s lenders and depositors less willing to lend or place funds with the Bank and by increasing the interest costs for the Bank. The Bank experienced in an orderly fashion, a 52.0% and a 24.5% decline in the Bank s deposits and borrowings during 2002 and 2003, respectively, while maintaining an adequate liquidity position. In addition, the dramatic increase in the risk perception of Latin America resulted in a significant decline in the availability of credit lines to the Region. As a result, it has been difficult for Latin American borrowers, including the Bank, to access international debt markets for placements of securities. The Bank experienced a 48.6% and a 13.8% decline in its credit portfolio during 2002 and 2003, respectively, due to, among other things, these difficulties in funding. If the Bank experiences similar difficulties in the future, including a reduction of its investment grade credit ratings to below investment grade, the Bank s funding activities could be similarly adversely affected.

Concentration of the Bank s lending activities in a relatively small number of countries could have an adverse impact on the Bank s creditportfolio and, as a result, on the Bank s financial condition and results of operations if one or more of those countries encounter further economic difficulties.

At December 31, 2003, approximately $1,968.9 million, or 69.2%, of the Bank s credit portfolio was outstanding to borrowers in the following four countries: Brazil ($1,153.9 million, or 40.5%); Argentina ($435.1 million, or 15.3%); Mexico ($246.6 million, or 8.7%); and Chile ($133.3 million, or 4.7%). In addition, at December 31, 2003, 21.2% of the Bank s total credits were to 5 borrowers in Brazil and 7.8% of total credits were to 3 borrowers in Mexico. The Bank s exposure in each country where it extends credit is subject to the Bank s Board of Director s approved country limit process, as recommended by the Bank s management, that takes into account not only concentration issues, but also general political and economic risk in each country, prospects for business, type of financing (trade/non-trade) and funding considerations. The credit portfolio distribution by country reflects, among other factors, the relative gross domestic products (GDP) of the countries in which the Bank conducts its credit activities. This means that the Bank may frequently have larger exposure in countries that have relatively higher GDP. A significant deterioration, or further deterioration, of economic conditions in any of these countries or of the financial condition of any of these borrowers could require the Bank to create additional allowances for credit losses, or suffer further credit losses with the effect being accentuated because of this concentration.

Concentration of a substantial portion of the Bank s funding activities on interbank deposits from central banks required the Bank to significantly reduce those deposits and could do so again in the future.

One of the Bank s sources of funding for short-term loans is interbank deposits received principally from central banks in the Region. Historically, these deposits have represented approximately 35% of the Bank s total liabilities. As of the end of 2003, several central banks resumed making deposits with the Bank representing a positive response to the Bank s improved credit ratings outlook, successful capitalization program, and substantial reduction in exposure to Argentina. During 2002, these central banks withdrew a substantial portion of their deposits with the Bank in large part because of the deterioration in the Bank s financial condition and the resulting downgrades in the Bank s credit ratings. Overall deposits declined by 64.9% from $1,571.4 million at December 31, 2001 to $552.0 million at December 31, 2002 and, as a result, among other factors, total loans declined by 46.8% from $4,733.7 million at December 31, 2001 to $2,516.5 million at December 31, 2002. Despite this decline in deposits, the Bank was able to maintain a healthy net cash position throughout 2002 due to, among other things, the repayment of loans funded with these deposits, reflecting an asset and liability maturity profile that is basically matched. At December 31, 2002, deposits represented 21.3% of total liabilities, with the balance comprised of short-term obligations primarily from international banks and medium-term obligations primarily placed in the debt capital markets.

At December 31, 2003, the Bank s overall deposits and total loans amounted to $703.0 million and $2,275.0 million, respectively, and deposits represented 35.5% of total liabilities.

The Bank faces the risk that central banks, which withdrew deposits during 2002, will not increase the level of their deposits with the Bank, and will further reduce their deposits if the Bank suffers downgrades of its credit ratings. Failure by central banks to increase their deposit levels with the Bank will make it more difficult to obtain the funding necessary to increase its lending business and improve its profitability. Further withdrawals of deposits by these central banks could force the Bank to reduce its credit portfolio, thus reducing net interest income.

As a bank, the Bank faces liquidity risk, which is the risk of not having an adequate cash flow to repay its obligations on a timely basis.

As a bank, the Bank faces liquidity risk, which is the risk of not being able to maintain an adequate cash flow to repay its deposits and borrowings required to fund its credit portfolio on a timely basis. Failure to adequately manage the Bank s liquidity risk could produce a liquidity shortage in which the Bank would not be able to fund these obligations as they become due. The Bank manages its liquidity risk by maintaining its liquidity funds, which are funds generated by demand deposits, call accounts and time deposits placed with it, in short term, highly liquid and high quality investments such as overnight and other short term deposits, negotiable money market instruments, commercial paper and other similar instruments. The primary objectives for these investments are security and liquidity combined with a market return. In order to manage the Bank s liquidity needs, the Bank s liquidity position is reviewed and monitored by the Board of Directors and management. The Board of Directors and management follow a conservative liquidity management strategy and in view of the volatility in the Region began gradually increasing its net cash position in the second quarter of 2001. During 2002 and 2003, the Bank was able to reduce its financial liabilities by approximately $2.7 billion and $609.1 million, respectively, in an orderly fashion while maintaining an adequate liquidity position. At December 31, 2003, liquidity levels amounted to $252.6 million, representing a net cash position of 35.9% of total deposits.

Because Panama does not issue its own paper currency, the Banco Nacional de Panama does not act as a central bank in the traditional sense and is not a lender of last resort to the banking system in Panama. Accordingly, if the Bank faced a liquidity problem, it would have to rely on commercial sources of liquidity and would not have access to a central bank lender of last resort, as would a bank located in the United States or in certain other countries. In a liquidity problem, commercial sources of liquidity probably would not be adequate to meet the Bank s liquidity needs, which would result in the failure of the Bank and the intervention of the Panama banking authorities. The central banks of other countries in Latin America would not be authorized to act as lenders of last resort for the Bank if it faced liquidity problems because the Bank is a Panamanian bank and not located in their respective countries.

As a bank, the Bank faces interest rate risk, which is caused by the gap in the repricing periods between interest earning assets and interest bearing liabilities. If not properly managed, this gap could reduce net interest income as interest rates fluctuate.

Until recently, the Bank s interest rate risk arose from the Bank s liability sensitive position in the short-term, which means that the Bank s interest-bearing liabilities reprice more quickly than the Bank s interest-earning assets. In this position, there is a potential adverse impact on the Bank s net interest income that could result from increases in interest rates. At December 31, 2003, the Bank s cumulative interest rate gap was negative or liability sensitive. For more information see Item 5B. Liquidity and Capital Resources Interest Rate Sensitivity). At March 31, 2004, the Bank changed its asset and liability position to asset sensitive, which means that the Bank s interest earning assets repriced more quickly than the Bank s interest bearing liabilities. In this position, increases in interest rates would benefit the Bank s net interest income. The Bank attempts to manage its interest rate risk by matching, where possible, the terms and repricing characteristics of its interest rate sensitive assets and liabilities. However, this is not always possible given the needs of the Bank s borrowers and the available funding sources and thus the Bank faces the risk that mismatches will again occur in the future, and if they do, that sudden, or unexpectedly large, movements in interest rate levels will reduce the Bank s net interest income.

Because the Bank lends in U. S. dollars to borrowers whose income generally is in local currencies, it faces the risk that significant local currency devaluations and the imposition of local foreign exchange controls will make it more difficult for the Bank s borrowers to repay its loans on a timely basis.

Because the Bank makes U.S. dollar-denominated loans, it faces the risk that declines in the value of its borrowers local currencies will increase the cost, in local currency terms, to the Bank s borrowers of acquiring dollars to repay loans, although, most of the Bank s loans are export trade related and finance transactions which generate their own sources of U.S. dollars for repayment of these loans. The Bank also faces the risk that local country foreign exchange controls will restrict the ability of the Bank s borrowers to acquire dollars to repay loans on a timely basis.

The Bank faces competition from banks that offer similar financing services. The Bank also depends upon its competitors to fund and support part of its activities and if they cease to do so, it could reduce the Bank s funding and lending activities. Banking business

consolidation in Latin America has reduced the number of the Bank s local customers.

Most of the competition the Bank faces in the trade financing area comes from international banks, mostly European and North American, which provide similar financing services to those provided by the Bank within the markets it serves. These banks have substantially greater resources and access to less expensive funding than is the case with the Bank, which puts the Bank at a competitive disadvantage. Due to recent economic developments in the Region, the Bank has fewer competitors because many international banks have reduced their exposure in the Region or have withdrawn from the Region altogether. Although some of these international banks compete directly with the Bank, they are also providers of funding for the Bank and represent a source of business. If these international banks ceased providing this funding to the Bank for competitive reasons, the Bank would be required to seek to replace this funding from other sources, which may not be available or would be available only at a substantially higher interest cost.

A substantial consolidation of the banking business in Latin America has occurred and is continuing. This has reduced the number of local banks in the Region, which historically have been the Bank s primary customers for trade finance loans. Foreign banks operating locally are not always competitors and often, in fact, are important Bank clients. These changes in the business and in the markets of the Region could potentially place the Bank at a competitive disadvantage with respect to scale, resources and its ability to develop and diversify its sources of income.

Item 4. Information on the Company

4.A History and Development of the Company

The Bank, headquartered in Panama City, Panama, is a specialized multinational bank established to finance trade 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 multinational organization to increase the foreign trade financing capacity of the Region. The Bank was incorporated under the laws of Panama on November 30, 1977. Panama was selected as the location of the Bank s headquarters because of the importance of the country as a banking center, the benefits of a fully dollarized economy, the absence of foreign exchange controls, the geographic location of Panama and the quality of its communications facilities. Under special legislation enacted in 1978, the Bank was granted certain privileges by the government of Panama, including an exemption from the payment of income taxes in Panama. The Bank is considered a regional risk rather than a Panamanian risk by the Federal Reserve Board. Management believes that this classification is based upon the Bank s ownership structure and the absence of Panamanian concentration in the Bank s loan portfolio. The central banks of France, the United Kingdom and Spain do not consider the Bank a Panamanian country risk. The Bank began business operations on January 2, 1979. The Bank commenced operations with stockholders equity of $25 million paid by 186 stockholders. The Bank s stockholders equity was $584.3 million at December 31, 2003.

Central banks from 23 countries in the Region, or governmental financial institutions designated by such countries, own all of the Bank s Class A shares, which at December 31, 2003 comprised 16.1% of the Bank s common stock. 136 commercial banks, mostly from the Region, own the Bank s Class B shares, which at December 31, 2003 comprised 8.8% of the Bank s common stock. The Bank s Class E shares, which at December 31, 2003 comprised 75.1% of its common stock, are listed on the New York Stock Exchange. As of December 31, 2003, the composition of the Board of Directors was as follows: three Directors representing holders of the Class A common shares; two Directors representing holders of the Class B common shares; three

Directors representing holders of the Class E common shares; and two Directors representing all classes of common shares. On January 2, 2004, the two Board positions held by representatives of the Bank s Class B shares were forfeited to the Class E shareholders under the Bank s Articles of Incorporation because the percentage of Class B shares fell below 10% of the Bank s total outstanding shares of common stock.

The Bank is principally engaged in providing short-term financing to selected commercial banks in the Region, which in turn lend to businesses primarily engaged in foreign trade and to state and private institutions. During 2003, the Bank provided financing to 38 of its 136 Class B shareholder commercial banks, one of its Class A shareholder central banks and 83 non-stockholder institutions. These non-stockholder institutions consisted of 37 private commercial banks, three state-owned commercial banks, 25 private corporations, 12 state-owned export organizations, four governments, one multilateral bank, and one private investment fund. During 2003, 46.8% of the aggregate principal amount of loans extended by the Bank was made to stockholder commercial banks, 1.9% was made to stockholder central banks and 51.4% was made to non-stockholder institutions. The geographical composition (excluding the non-accruing portfolio in Argentina) of the Bank s net credit portfolio by type of client and purpose as of December 31, 2003 was as follows:

	Brazil	Mexico	Dominican Republic	Caribbean and Central America	Other South America	Other (*)	Total 12/31/03
Banks	78%	30%	100%	44%	65%	100%	67%
Other	22%	70%	0%	56%	35%	0%	33%
Trade	78%	74%	72%	99%	54%	5%	71%
Non-Trade	22%	26%	28%	1%	46%	95%	29%

(*) Other consists of reverse repurchase agreements classified as U.S. country risk of $132 million and guarantees $7 million issued to a multilateral bank in Honduras.

In July 2002, the Bank s Board of Directors and management decided to focus the Bank s business activities on providing short-term trade financing to banks and to reduce its non-trade lending activities with non-bank private entities, which primarily consist of private corporations. Loans to these entities previously were made primarily through co-financings, loan syndications and participations with other banks and generally involved medium-term, rather than short-term, loans that were not extended in connection with specific foreign trade transactions. In December 2002, the Bank s Board of Directors amended the Bank s by-laws to formalize this decision to focus on short-term trade financing to banks. This reflected the Bank s desire, in view of the Bank s weakened financial condition, to avoid higher risk, longer term loans to non-bank private entities which are not supervised by local bank regulatory authorities and do not have access to a lender of last resort, such as a central bank, in case of financial problems. Total loans outstanding to non-bank private entities at December 31, 2003 constituted 17.2% of the Bank s total loans compared to 22.8% at December 31, 2002 and 22.5% at December 31, 2001.

The majority of the Bank s short-term loans (defined as loans with an original maturity of less than one year) are extended in connection with specific foreign trade transactions that have been identified by the Bank. During 2003, the Bank extended $2,982.1 million of short-term loans, which represented 98.9% of the total loans extended by the Bank during that period. Of these loans, 69.2% in principal amount were made to commercial banks, 4.8% were made to central banks, 3.2% were made to private corporations and 22.7% were made to state-owned exporting organizations.

The Bank has reduced its medium-term lending activity in connection with its decision to focus on providing short-term trade financing. During 2003, the Bank extended only $34.6 million of medium-term loans (defined as loans with an original maturity of more than one year), representing 1.1% of the total loans made by the Bank during that period. During 2002, the Bank extended $62.5 million of medium-term loans, representing

2.9% of the total loans made by the Bank during that period. These loans generally had maturities ranging from 1 to 5 years and were made for the purpose of financing the export-related operations of the borrowers, and not specific foreign trade transactions. In 2001, the Bank extended $1,027.5 million of medium-term loans representing 15.4% of total loans made during that period.

The Bank s lending activities are funded by inter-bank deposits, primarily from central banks and financial institutions in the Region, by short-term and medium-term borrowings and by floating and fixed rate placements made with financial institutions and investors in Japan, Europe and North America. 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.

Banco Latinoamericano de Exportaciones, S.A. (in its individual capacity, BLADEX Panama) has two primary subsidiaries: Banco Latinoamericano de Exportaciones, Limited (BLADEX) (BLADEX Cayman) and BLADEX Representacao Ltda. BLADEX Cayman, which is a wholly owned subsidiary, was incorporated under the laws of the Cayman Islands (B.W.I.) (the Cayman Islands) on September 8, 1987. BLADEX Representacao Ltda., which was incorporated under the laws of Brazil on January 7, 2000, was established to operate the Bank s representative office in Brazil. BLADEX Representacao Ltda. is 99.999% owned by BLADEX Panama and 0.001% owned by BLADEX Cayman.

The Bank has an agency in the State of New York (the New York Agency), which began business operations on March 27, 1989. The New York Agency is principally engaged in obtaining inter-bank deposits and short-term borrowings to finance the Bank s short-term investments and foreign trade loans. As of December 31, 2002, the Bank s operations in New York City were located at 708 Third Avenue, 16th Floor, New York, New York 10017. The Bank also has representative offices in Buenos Aires, Argentina and Mexico City, Mexico.

At December 31, 2003, BLADEX Cayman and the New York Agency held $513.5 million and $148.1 million in assets, respectively.

4.B Business Overview

Overview

BLADEX is a multinational bank originally established by the central banks of Latin American and Caribbean countries to promote trade finance in the Region. The Bank s mission is to channel capital flows to the Region in the form of value-added trade finance solutions, which contribute to the economic development of the Region. The Bank s business focus is trade finance services. Historically, trade finance has had an attractive risk / reward relationship. Another characteristic of the trade finance business is that it has commodity features and economic cycles affect the business. The Bank s management believes that the basics of success of this business are the following:

Trade finance is a volume driven business, thus it is important to have a strong client franchise.

Low financing and operating costs.

High credit quality.

Optimal capital structure.

All of the Bank s lending activities are conducted with borrowers in the Region. During the 1980s, many of the countries in the Region experienced severe economic difficulties, including periods of slow or negative growth, large government budget deficits, high inflation, currency devaluations and unavailability of foreign exchange, including U.S. dollars. As a result, many governments and public and private institutions in the Region were unable to make interest and principal payments on their external debt. Much of the external debt of the Region was restructured to provide for extensions of repayment schedules, grace periods during which payments

of principal were suspended and, in certain cases, reduced rates of interest. Short-term trade debt was generally exempt from such restructuring and generally the countries in the Region negotiated directly with the Bank concerning the Bank s loans and generally granted the Bank special recognition with respect to debt restructuring.

The Bank s preferred creditor status in Argentina, confirmed by the Central Bank of Argentina at the end of February 2002, exempts the Bank from limitations on the convertibility and transfer abroad of U.S. dollars for payment of external obligations. This preferred status contributed positively to the on-going efforts of the Bank s collection program. Even with the benefit of this status, given the continued severity of the Argentine crisis, the Bank has had to renegotiate and restructure loans, and could face write-offs related to its Argentine portfolio.

Until the recent financial crises in Argentina, which has been unprecedented in its depth and severity, the Bank s financial condition was not, as a general matter, materially adversely affected by economic difficulties affecting countries in the Region. During the 1990 s, these difficulties included some of the following events. The financial markets in the Region were subject to volatility in December 1994 as a result of political and economic developments in Mexico, including the devaluation of the Mexican peso, which affected other countries in the Region. In early 1995, the banking system in Argentina experienced a sharp decrease in deposits, high interbank interest rates, an outflow of hard-currency reserves and several bank failures. Additionally, in Brazil, the banking system also experienced difficulties as a result of the economic crisis in Mexico. In 1997, the turmoil caused by the Asian collapse of currency and capital markets had a negative effect on the ability of issuers in the Region to raise debt and equity capital in international markets. In October 1998, as a result of the Russian financial crisis, the Central Bank of Brazil was forced to increase internal interest rates in order to stop the flight of capital. This increase coincided with the price of commodities (major export products in the Region) reaching a low point, which increased the current account deficit and put more pressure on currencies. Because of fear of inflation, Latin American countries also raised their interest rates, causing the recession to become more pronounced in 1999. These developments during the 1990 s did not, as a general matter, have a material impact on the timely repayment of interest or principal on the Bank s loans to banks in the Region.

Developments During 2002 and 2003

The operating results reported for the year ended December 31, 2003 reflect the substantial progress the Bank has made in addressing the adverse effects of the Argentine crisis experienced by the Bank in 2002.

Adverse Developments During 2002

As a result of the $278.8 million additional provision taken during 2002 for possible credit losses and the $44.3 million of impairment losses on securities, both mostly relating to the Bank s Argentine portfolio, coupled with a decline in net interest income from $117.7 million in 2001 to $64.8 million in 2002, the Bank reported a net loss for the year of $268.8 million. The resulting reduction in the Bank s capital base, along with the increased risk perception in the Region, lead to the contraction of the Bank s credit portfolio from $6.4 billion at December 31, 2001 to $3.3 billion at December 31, 2002, a decline of 48.6%. For a detailed explanation of the reasons why the Bank reduced its credit portfolio and how this was accomplished, see the first paragraph under Business Overview-Credit Portfolio By Country. The increased risk perception in the Region contributed to the contraction of the Bank s credit portfolio and to the reduction in the availability to the Bank of funding for its credit portfolio. In addition, the Bank reduced its credit portfolio to reflect the reduced amount of stockholders equity, after the substantial provisioning made with respect to the Argentine portfolio.

The deterioration of the Bank s Argentine credit portfolio resulted in substantially that entire Argentine credit portfolio being classified as impaired during 2002. This resulted in a dramatic increase in the percentage of the Bank s total credit portfolio represented by impaired assets and contingencies from 1.7% at December 31, 2001 to 23.4% at December 31, 2002. In addition, at December 31, 2002, 59.2% of the Bank s credit portfolio was outstanding in Argentina and Brazil.

Even though the Bank reported a $268.8 million net loss for 2002 as a result of the establishment of the additional provisions and the impairment losses, the Bank recorded net income for the third and fourth quarters of 2002 of $15.8 million and $15.0 million, respectively.

At January 1, 2002, the Bank s credit portfolio in Argentina was $1.1 billion. During the first half of the year, the country s economic condition became critical. This coincided with multilateral agencies insisting on the implementation of needed reforms as a precondition to providing support to Argentina. Those reforms were not forthcoming, and the situation deteriorated to the point where some of the Bank s borrowers were unable to continue servicing their obligations.

The problems in Argentina quickly escalated into a full-scale political and economic crisis, which resulted in the default by the Argentine government on more than $50 billion of sovereign debt. Efforts by the Argentine government to contain the situation were followed by civil unrest and riots and a succession of government collapses and resignations, which added to the uncertainty. To attempt to stem the crisis, the Argentine government abandoned its currency board arrangement, which had maintained the value of the Argentine peso at one dollar. This resulted in an immediate devaluation of the Argentine peso, which lost 70% of its value compared to the U.S. dollar during 2002. Argentina s gross domestic product declined by approximately 11% during 2002 and the economy experienced an inflation rate of over 40 %.

As mentioned above, the deterioration of the Argentine economy made it more difficult for many of the Bank s Argentine obligors to repay their loans on schedule. Also, although some seemingly had resources to meet obligations, they suspended payments because of uncertainty and disruption caused by the crisis. This resulted in substantially all of these loans being treated as impaired assets and required the Bank to make large additional provisions for loan losses and incur impairment losses on securities during 2002.

In addition to the events in Argentina, economic and political developments in other Latin American countries, particularly Brazil and Venezuela, contributed to a dramatic escalation in risk perception throughout Latin America, which was accompanied by a decrease in the availability of credit and investment in the Region. This affected the Bank s funding activity by making it more difficult for the Bank to obtain the funding for its credit portfolio and by increasing the interest costs for the Bank of borrowing funds or obtaining deposits. In Brazil, investors became increasingly uneasy in the uncertain political environment leading up to the election at the end of October 2002 of Luiz Inácio Lula da Silva. The election was preceded by a rapid decline in the value of Brazil s currency and speculation about its ability to service its approximately $239 billion of public debt, much of which must be refinanced in the next several years. These developments in Brazil contributed to the increased risk perception regarding Latin America and thus the decline in funding available to the Bank. In addition, one of the Bank s rating agencies expressed concern regarding the size of the Bank s credit portfolio in Brazil given the increased risks of loans in that country. In response, the Bank acted to reduce its credit portfolio in Brazil during 2002 from $2,489.9 million at December 31, 2001 to $1,183.1 million at

December 31, 2002. In Venezuela, broad-based discontent with the policies of the current Venezuelan government produced a countrywide strike that seriously disrupted economic activity in Venezuela and curtailed the production and export of oil, the major source of Venezuela s foreign exchange. In addition, other countries in Latin America, including Colombia, Bolivia and Ecuador were facing difficult economic and political circumstances that contributed to an increased risk perception.

Response to the Crisis and Positive Developments During 2003

The Bank s immediate response to these unfolding events was to take actions to preserve capital and increase liquidity. The suspension of the Bank s common share dividend was only one of the actions taken in this regard.

Facing an environment of continuing uncertainty and economic turmoil, the Bank s Board of Directors and management significantly increased provisions for credit losses associated with the Bank s Argentine portfolio in the context of a plan to address five specific challenges facing the Bank:

- Reducing credit risk, through reductions in the credit portfolio, particularly in Argentina, but also in other countries
- Maintaining a strong and stable liquidity position
- Returning the Bank to profitability
- Recapitalizing the Bank
- Developing a new medium-term strategy for the Bank in light of new trends and the economic challenges facing the Region

In spite of a difficult environment, the Bank s efforts at reducing its risk in Argentina, coupled with the benefit of its preferred creditor status, yielded encouraging results. During 2002 and 2003, the Bank reduced its credit exposure in Argentina by $340.4 million and $338.9 million, respectively. The Bank collected all but $5.9 million or 13.4% in interest due and payable on Argentine credit obligations in 2002, and $1.1 million or 4.2% in 2003. Even though the Bank was able to reduce its credit exposure in Argentina, the percentage of the Bank s total credit portfolio outstanding in Argentina increased from 17.3% at December 31, 2001 to 23.4 % at December 31, 2002 as a result of the fact that the Bank s total credit portfolio declined by a greater percentage than the Bank s credit portfolio in Argentina. During 2003, the Bank was able to reduce its credit exposure in Argentina as a percentage of its total credit portfolio to 15.3% at December 31, 2003. The $340.4 million reduction in the Bank s credit portfolio in Argentina in 2002 was achieved through $263.6 million of loan repayments net of new disbursements, $24.9 million of expirations of contingencies, $19.7 million of loans charged off and $32.2 million from changes in estimated fair value adjustments on securities. As a result, the Bank incurred aggregate charges of $63.9 million (representing loans charged off of $19.7 million and impairment loss on securities of $44.3 million) in connection with the reduction. The $338.9 million reduction in 2003 was due to: (i) the sale of Argentine credits with a book value of $254.3 million (face value of $308.0 million), of which $108.8 million were charged off against the allowance for loan losses; (ii) net principal collections for $68.8 million; (iii) additional loan charge offs (not related to the sale of loans) in the amount of $28.4 million; (iv) an $8.2 million increase in the outstanding balance due to changes in the fair market value adjustments of investment securities; and (v) a $4.4 million increase in the outstanding balance due to revaluation of foreign currency exchange (mostly related to letter of credit acceptances in Euros for 21.4 million). The Bank s strategic approach to the difficult situation of its Argentine portfolio, combined with the strength of its relationships, allowed the Bank to restructure 80% of its loans in the country as of December 31, 2003, thereby improving its financial prospects, while contributing to it s client s efforts to gradually resume normal operations. In addition, where appropriate, the Bank sold parts of the portfolio. As a result, the Bank believes that the remaining $222.2 million net exposure in Argentina, as of March 31, 2004, does not represent a significant risk to the financial viability of the Bank.

In addition to managing credit risk in a particularly challenging environment, the Bank had to adjust to a general liquidity shortage in Latin America. In 2002, credit flows to the Region began to decrease significantly. Many banks in both the United States and Europe, the traditional sources of credit facilities for Latin America, faced credit, trading and/or profitability difficulties in their home markets, which forced them to focus their resources on their core franchises. Under the circumstances, these banks turned more risk averse and many credit facilities to Latin American borrowers were sharply reduced. As a result, the Bank s funding became more scarce and expensive. Risk perceptions during 2003 improved for the Region following positive political developments in Brazil and the rapid increase in world commodity prices. This, together with the Bank s improved performance, had a positive impact upon the Bank s funding, increasing the availability of funds and reducing the interest cost of borrowing funds and obtaining deposits.

As a result of the Bank s lower credit ratings and the need for liquidity on the part of some of its depositors, deposits fell in the first half of 2002 and were down by $1,019.4 million to $552.0 million at year-end.

Approximately 62.7% of this reduction in deposits represented deposits withdrawn by central banks of countries in the Region and approximately 39.2% represented deposits withdrawn by commercial banks in the Region. The generally increased cost of funds was offset by higher lending margins. During 2003, the perception of the decline in risk increased the availability of liquidity in Latin America and this resulted in a strong increase in cash flows for the Region. As a result, the Bank s funding became more plentiful and less expensive. During July and August of 2003, the major credit rating agencies reviewed the Bank s credit ratings, following the Bank s successful recapitalization program, which increased its capital base by $147.0 million. As of the date of this report, the Bank s ratings are investment-grade (BBB-/Baa3) and the rating s outlook from all three rating agencies is stable, reflecting an upgrade by Fitch from non-investment grade and a change from a negative outlook by Moody s and Standard & Poors. During 2003, the deposit client base started to increase following the successful recapitalization program, the upgrade by Fitch and the improved environment. Overall deposits increased by 27.4% from $552.0 million at December 31, 2002 to $703.0 million at December 31, 2003 an increase of $151.0 million.

Adequate liquidity provides support and comfort to the Bank s creditors. The Bank was able to begin to reduce its liquidity levels following the recapitalization at the end of June 2003, while still maintaining a healthy net cash position throughout 2003. Liquidity is being managed in a conservative fashion and the Bank s cash position was $252.6 million at December 31, 2003, representing a 35.9% of the Bank s total deposit base and 9.9% of assets.

During 2002, the Bank implemented a significant cost reduction program, which by the fourth quarter of 2002 resulted in a decline in the Bank s operating expenses (excluding one-time items) of approximately 20% compared to the same period in 2001. During 2003, the Bank increased its operating expenses by approximately 17.1%, compared to the same period in 2002, mainly due to provisions for bonuses to the employees, consulting fees related to information technology projects and systems security, and higher insurance costs.

The Bank achieved record net income of $111.5 million for 2003, compared to a $268.8 million loss in 2002. The 2003 results reflected renewed growth in the Bank s core business areas, as well as the successful management of its Argentine portfolio, which included the sale, and partial payment, of Argentine loans, which generated reversals of the allowance for loan losses. Return on equity was 23.9% for 2003, which was achieved working off a particularly strong capitalization level.

In order to address the Bank s weakened capital ratios and the risk that Moody s and Standard and Poor s would further reduce the Bank s credit ratings to below investment grade, the Bank initiated and completed in June 2003 a highly successful recapitalization as a result of which the Bank raised $147.0 million of additional Tier 1 equity capital through the sale of 22 million shares in a rights offering to the Bank s existing shareholders. As a result of this recapitalization, the Bank s Tier 1 and Tier 2 equity capital ratios at December 31, 2003 were 35.4% and 36.7%. The successful completion of the recapitalization, the continued reduction of the Bank s credit exposure in Argentina, including the disposition during 2003 of $308.0 million in face value of Argentine loans and debt securities, and the gradual improvement of economic conditions in Argentina and other countries in Latin America resulted in Fitch raising the Bank s credit ratings to BBB-, an investment grade rating. All of the Bank s credit ratings are now investment grade with a stable outlook.

Institutionally, the Bank s business focus remains on services, products, clients and transactions linked to foreign trade. The Bank believes that its competitive advantages in the trade finance related business are both structural and operational. The structural advantage is based on the Bank s unique mission, multilateral character, shareholder composition, and proven commitment to its clients and to Latin America. The Bank s operational advantages are based on its technical expertise, regional know-how, management excellence, transparency, and first-rate corporate governance. Part of the Bank s tactical approach to leveraging its competitive advantages and becoming a complete trade services solution for its clients entails the deployment of new products that the Bank believes will increase, diversify, and stabilize its revenue stream. Basic to this approach is to limit the cost and execution risk of trade finance transactions through the use of strategic alliances with proven providers.

In July 2003, the Bank and Bank of America Corporation completed a strategic alliance that offers Bank of America s U.S. Dollar clearing services to the Bank s clients in the Latin America and Caribbean region. This alliance offers an opportunity to combine the Bank s reliable trade finance capabilities with Bank of America s widely recognized product excellence in clearing services.

In January 2004, the Bank and Trade Source International (TSI) completed a strategic alliance that offers the Bank s clients TSI s suite of global trade finance services, based on TSI s international expertise in export credit agency and other trade-specific financial structures. The services include creating and implementing innovative financing and payment solutions for trade-related structured transactions. As part of the Bank s strategy of increasing the scope of trade finance products through strategic alliances, TSI affords the Bank the capability of deploying first-rate export credit agency structures. The Bank s goal is to become the most comprehensive trade finance financial institution in Latin America, while minimizing the execution and investment risk.

With regard to the Argentine portfolio, the Bank will continue its efforts to restructure the remaining loan portfolio and may consider additional asset sales if prices are deemed attractive.

Business Strategy for 2004

During 2004, several free trade treaty initiatives involving Latin America are expected to be concluded, which stimulate foreign trade in the Region. This would provide important business opportunities for the Bank.

The Bank s focus in 2004 will be the following:

- Continue increasing trade finance balances.
- Maximize the value of the Argentine portfolio.
- Collect the remaining medium-term portfolio.
- Strengthen the management team.
- Diversify revenue sources.
- Further improve the BLADEX brand.
- Simplify internal processes and further improve efficiency.

The Bank s strategic focus is centered on supporting its clients full range of financial services needs arising in connection with their foreign trade transactions into and out of Latin America. Within this definition of the scope of its business, the Bank intends to achieve undisputed market leadership and pre-eminence, thus attracting and retaining the best people in the business, optimizing business origination, lowering its cost of funds, maximizing the price of its stock, and realizing all other advantages afforded by the market to industry leaders. Tactics to achieve the Bank s objective are currently being deployed on five relevant fronts:

Organizational Structure and Human Resources

- The Bank has decided to domicile the management of its commercial (business) operations in the United States. The Bank believes that this decision will afford it access to a deeper pool of skilled people, will afford it improved Latin American business origination in the U.S., and will keep it in closer contact with existing and potential business partners (Bank of America and TSI), and other constituencies such as shareholders, rating agencies, equity analysts and regulators.
- Consistent with this decision, the Bank placed Mr. Rubens Amaral, its new Head of Commercial Operations hired on March 1, 2004, in the Bank s Agency in New York City. Mr. Amaral is charged with responsibility for executing the Bank s business strategy, and managing the Bank s client and product sales force in the U.S., Panama, and the Representative Offices in Mexico, Argentina, and Brazil.

- Mr. Amaral has already started the process of upgrading the quality of the sales force, and shifting it to a consolidated U.S. location.

Clients

The Bank continues placing emphasis on working with banks and a few, carefully selected strategic corporations in industries it knows well as its core clients. The Bank intends to expand the number of banks it works with, as it develops fee products in demand by the medium sized segment of the market, and as it expands its presence in some of the smaller countries in the Region.

The number of corporate clients is also expected to increase as a result of co-financing transactions structured with its client banks, and as it expands structured trade transactions originated in the U.S.

Products

Product development is being conducted consistent with the objective of providing support across the entire range of financial service needs implied by trade transactions. From a financial perspective, the new products will provide the Bank with fee income, thus increasing return on asset levels, and providing stability to the overall revenue stream. A new Senior Product Manager has been hired and is expected to begin working on June 1, 2004 to lead this function (under Mr. Amaral s supervision).

The tactical approach to product development calls for making use of strategic partnerships wherever doing so provides the Bank with economies of scale, and where the Bank can leverage of its partners expertise. In the Bank s view, the use of strategic partnerships minimizes execution risk, deployment costs, and time-to-market.

Brand Management

It is the Bank s view that the management of the Bank brand could result in additional value being developed for the Bank. Consistent with this view, the Bank has conducted a branding study to determine the strengths and weaknesses of its positioning in the market, and developed a plan to leverage these strengths and address these weaknesses. Results of the project will start becoming apparent to the market in the third quarter of 2004.

Balance Sheet Management

Three aspects of the management of the balance sheet are being given special attention:

Credit portfolio diversification is increasingly being driven by risk-weighted asset considerations, as opposed to absolute, nominal exposure amounts. The Bank believes that a risk-weighted approach to portfolio diversification results in better decision-making, as the analysis addresses not only exposure amounts, but also makes critically important differentiations among different types of risks. With regard to the Argentine portfolio, the Bank will continue its efforts to restructure the remaining loan portfolio and could consider additional asset sales if prices are deemed attractive.

Liquidity management is being driven by the realities of the Bank s renewed strong and well-diversified access to funding sources.

Capital management is being subject to dynamic, continuous analysis, as the Bank works at optimizing its capital structure, balancing risk, liquidity, and return considerations.

Lending Policies

The Bank s Articles of Incorporation state that the Bank may not lend to an institution in a country in the Region unless the central bank or a designated government entity of that country is a holder of Class A shares of the Bank. It generally has been an operating policy of the Bank to extend credit directly to banks and state-owned

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export organizations within the Region. Until recently, the Bank also made a significant volume of loans to non-bank private entities, mostly through co-financing, loan syndications and participations with other banks. At December 31, 2003, total loans outstanding to non-bank private entities (excluding Argentina) constituted 13.2% of the Bank s total loans. All credit requests from eligible borrowers are analyzed 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 in evaluating the credit worthiness of all clients.

The Bank has 28 officers responsible for marketing the Bank s financial products and services to existing and potential customers. This includes the personnel in its representative offices in Argentina, Brazil and Mexico, and the New York Agency.

The Bank finances export and import transactions for all types of goods and products, with the exception of the export or import of armaments, ammunition, military equipment, liquor, hallucinogenic drugs or narcotics that are not utilized for medical purposes, and any article whose trading is widely prohibited due to environmental hazards or limitations established by international agreements. Exports financed by the

Bank are destined for buyers in countries both inside and outside the Region. In the same manner, imports financed by the Bank originate from sellers in countries both inside and outside the Region.

At regular intervals (at least once a year), the Bank conducts a credit review of each of its borrowers and of each country in the Region. The Bank s credit review includes an analysis of the borrower s financial condition, trends in the borrower s financial condition, peer group comparisons, a review of credit references and a review of general economic conditions in the borrower s country of origin, and may include discussions with bank regulatory authorities in the borrower s country of origin. On the basis of its credit review, the Bank establishes credit limits for each country in the Region and for each of its borrowers. In order to prevent excessive concentration, the Bank s policy has been that the outstanding credit portfolio in a given country could not exceed the lesser of (i) 40% of the total credit portfolio of the Bank, (ii) four times the Bank s total capital (defined according to the Basle capital adequacy principles), and (iii) the country limit established by management and approved by the Board of Directors. As a result of the net loss due to the increase in the allowance for credit losses, the cap on country exposures at four times the Bank s total capital (the then applicable limit) was temporarily exceeded during 2002 in the case of Brazil. The Bank s country limit allocations are currently under review and the Credit Policy and Risk Assessment Committee of the Board of Directors (the Board Credit Committee) has approved exceptions from the 40% limit in the case of Brazil, (the current applicable limit), subject to all transactions complying the Board approved country limit and other conditions.

Based on the criteria considered in the credit reviews and on any other information deemed relevant, borrowers are assigned risk ratings on a scale ranging from 1 to 10 , with ratings from 1 through 6 considered normal and 7 (special mention) to 10 (loss) considered problem cr These ratings are assigned at least once a year in the case of normal credits and whenever the credits are reviewed or circumstances warrant. Ratings ranging from 7 through 10 are reviewed at least quarterly. Credits more than 30 days overdue are rated 7 or higher.

The Board of Directors approves all country credit limits based on management recommendations, along with targeted customers and risk profiles as to tenor and type of risk to be undertaken in a particular country. The Board of Directors reviews and approves the credit limits for each country in the Region at least once a year. The Board of Directors also reviews and monitors the credit portfolio of the Bank, including both impaired credits and non-impaired credits rated 7 or higher, at least every quarter.

The Bank generally establishes lines of credit for each of its borrowers; however, the Bank is not obligated to lend under such lines of credit and must approve each lending transaction on a case-by-case basis. The Bank does not, as a general rule, publish or communicate its lending limits for countries in which it lends or its borrowers, but uses such limits internally as a credit risk management tool. Once a line of credit has been established, credit is generally extended after receipt of a request from the borrower for financing that is usually

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related to foreign trade. The pricing for such loans is determined in accordance with prevailing market conditions and the credit-worthiness of the borrower.

For existing borrowers, the Bank s management has authority to approve credit lines up to the lending limit prescribed by Panamanian law (see Regulation Panamanian Law), provided that such credit lines comply with the country credit limits for the borrower s country of domicile as approved by the Board of Directors. Approved borrower lending limits are reported to the Board Credit Committee on a quarterly basis. As of December 31, 2003, the lending limit prescribed by Panamanian law for any one borrower amounted to approximately $175.5 million. The Bank s management has recently been given authority to approve credit lines of up to the lending limit to the extent that the approved credit complies fully with the country limits and all conditions included therein. All credit lines must be approved by the head of Risk Management, who has right of veto, and the head of Credit and Marketing or Treasury, depending on the type of facility being reviewed, or their designees. The head of Risk Management s approval is required for all credit approvals, and the Chief Executive Officer s approval is also required for all new clients and for exposures exceeding $30 million. The approval of credit lines for any credit classified as 7 (special mention) require approval by the Board Credit Committee. The Board Credit Committee also reviews the entire impaired portfolio, including all Argentine loans along with non-impaired credits rated 7 or higher on a quarterly basis.

As a result of the recent change in Management s authority to approve credit lines, the restrictions that client credit lines not exceed an amount ranging from 10% to 50% of the borrower s equity, depending on the type of borrower, credit-worthiness and term and nature of the transaction, and up to 5% of the Bank s total outstanding credit portfolio were lifted and left to management, with decisions to be based on due consideration of all applicable factors. As a result of the Bank s decision to increase its allowance for credit losses and to take a charge for impairment losses on securities in 2002 and the corresponding reduction in the Bank s total assets and capital, the Bank exceeded the 30% lending limit prescribed by Panamanian law with respect to several borrowers. The Superintendency of Banks of Panama granted the Bank a waiver of this requirement in July of 2002 which allowed it one year to reduce its credits to non-Argentine borrowers to the 30% limit (which has been done), and an unspecified period to reduce its exposure to Argentine clients to the 30% limit, as market conditions allowed. At December 31, 2003, the Bank was in full compliance with all regulatory limits. The Panamanian Banking Law also contains certain concentration limits, which are strictly adhered to by the Bank. See Regulation Panamanian Law.

The Bank s loans are generally unsecured. However, in certain instances, based upon its 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 requires that a loan be secured by pledged deposits. The Bank has also in some instances either obtained an assignment of the trade related transaction documents and proceeds of the export transaction, such that the importer is obligated to make payments for the exported goods directly to the Bank, or obtained other appropriate collateral.

The Bank has developed credit information on its borrowers over an extended period of time. Many of the Bank s borrowers have been customers and stockholders for periods of over ten years. At December 31, 2003, total non-trade-related loans amounted to $404.9 million or 21.6% of the Bank s total loans (excluding Argentine loans).

In response to developments that occurred in the Region in 2001 and 2002 and the effect of such developments on the Bank, the Bank s management decided to focus the Bank s business activities on providing short-term trade financing to banks. In addition, the Bank s Board of Directors in 2002 amended the Bank s by-laws to focus its business activities on providing trade related financing. This reflected the Board s desire, in view of the Bank s weakened financial condition, to avoid higher risk, longer-term loans not tied to specific trade transactions. At December 31, 2003, $692.9 million or 28.7% of the Bank s total credit portfolio (excluding Argentina) represented non-trade related credits. At that date, $480.4 million or 69.3% of these non trade credits

had a remaining term to maturity of less than one year, and $207.5 million or 30.0% had a remaining maturity of one year or greater and $5.0 million or 0.7% consisted of past due loans.

Credit Portfolio

The Bank s credit portfolio consisting of loans, selected investment securities held to maturity and available for sale, securities purchased under agreements to resell, letters of credit, customers liabilities under acceptances, guarantees and credit commitments, declined from $6.4 billion at December 31, 2001 to $3.3 billion at December 31, 2002 to $2.8 billion at December 31, 2003. The decline in the credit portfolio resulted from management s decision to (i) maintain an adequate level of capitalization following Argentine credit loss provisions and charges, (ii) reduce credit exposure commensurate with increasing risk levels in some countries in the Region, and (iii) adapt the balance sheet to smaller funding levels. In 2002, $2.5 billion of the $3.1 billion reduction in the Bank s credit portfolio was achieved through loan portfolio repayments from the Bank s borrowers net of new disbursements, $548 million of the reduction resulted from expirations in contingencies, $20.6 million from loans charged-off, $28.2 million from the sale of loans and securities and $30.5 million from changes in estimated fair value adjustments on securities. Most of the loan reductions occurred in Brazil and Mexico. In 2003, the reduction in the Bank s credit portfolio was mainly attributable to the sale of Argentine credits with a face value of $308.0 million, and the reduction of the Bank s stock of non-trade medium-term credits.

The following tables set forth the distribution of the Bank s credit portfolio, by product category and by country at December 31 of each year set forth below. Investment securities are considered part of the Bank s credit portfolio (and therefore included in the chart below) when the acquisition of such securities is subject to the same lending policies, including credit approval criteria, as the rest of the credit portfolio. At December 31, 2003, 100% of the Bank s investment securities were considered part of its credit portfolio. The value of all securities included in the following tables has been calculated using the estimated fair value of such securities.

	At December 31,									
	1999	**%**	**2000**	**%**	**2001**	**%**	**2002**	**%**	**2003**	**%**
	(in $ millions, except percentages)									
Loans	$4,594	74.2	$4,927	74.7	$4,734	73.7	$2,517	76.2	$2,275	80.0
Investment securities (1)	160	2.6	395	6.0	357	5.5	161	4.9	78	2.7
Securities purchased under										

	At December 31,									
agreements to resell	0	0.0	0	0.0	292	4.5	132	4.0	132	4.6
Contingencies	1,434	23.2	1,276	19.3	1,044	16.2	495	15.0	362	12.7
Total	$6,188	100.0	$6,599	100.0	$6,426	100.0	$3,305	100.0	$2,847	100.0

1 Investment securities consist of investment securities considered part of the Bank s credit portfolio.

	At December 31,									
	1999	%	2000	%	2001	%	2002	%	2003	%
	(in $ millions, except percentages)									
Argentina	$1,198	19.4	$1,473	22.3	$1,114	17.3	$ 774	23.4	$ 435	15.3
Bolivia	66	1.1	21	0.3	26	0.4	14	0.4	0	0.0
Brazil	2,159	34.9	2,430	36.8	2,490	38.7	1,183	35.8	1,154	40.5
Chile	81	1.3	88	1.3	114	1.8	49	1.5	133	4.7
Colombia	257	4.2	177	2.7	195	3.0	105	3.2	123	4.3
Costa Rica	27	0.4	29	0.4	69	1.1	49	1.5	75	2.6
Dominican Republic	112	1.8	178	2.7	221	3.4	225	6.8	37	1.3
Ecuador	94	1.5	113	1.7	96	1.5	79	2.4	87	3.1
El Salvador	38	0.6	41	0.6	62	1.0	9	0.3	31	1.1
Guatemala	19	0.3	42	0.6	28	0.4	29	0.9	36	1.3
Honduras	10	0.2	6	0.1	0	0.0	0	0.0	0	0.0
Jamaica	18									