LATIN AMERICAN EXPORT BANK
Form 20-F
June 21, 2006

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

FORM 20-F

o 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, 2005

OR

o 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
P.O. Box 0819-08730
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

3,214,344	Shares of Class B Common Stock
28,540,242	Shares of Class E Common Stock
38,096,775	Total Shares of Common Stock

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

x Yes o No

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

o Yes x No

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

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

x Yes o No

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

o Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer

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

o Item 17 x Item 18

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

o Yes x No

BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.

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In this Annual Report on Form 20-F (this Annual Report), references to the Bank or Bladex are to Banco Latinoamericano de Exportaciones, S.A., a specialized supranational bank incorporated under the laws of the Republic of Panama (Panama) and its subsidiaries. References to dollars or $ are to United States dollars. 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. The numbers and percentages set out in this Annual Report have been rounded and, accordingly, may not total exactly.

Upon written or oral request, the Bank will provide without charge to each person to whom this Annual Report is delivered, a copy of any or all of the documents listed as exhibits to this Annual Report (other than exhibits to those documents, unless the exhibits are specifically incorporated by reference in the documents). Written requests for copies should be directed to the attention of Carlos Yap, Chief Financial Officer, Bladex, as follows: (1) if by regular mail, to P.O. Box 0819-08730, Panama City, Republic of Panama, and (2) if by courier, to Calle 50 y Aquilino de la Guardia, Panama City, Republic of Panama.

Telephone requests may be directed to Mr. Yap at 011-507-210-8653. Written requests also may 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.

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements include statements regarding:

the anticipated growth of the Bank s credit portfolio, including its trade finance portfolio;
the Bank s ability to increase the number of corporate clients;
the continuation of the Bank s preferred creditor status;
the effects of increased interest rates on the Bank s financial condition;
the implementation of the Bank s strategies and initiatives, including its revenue diversification strategy;
anticipated operating income in future periods;
the adequacy of the Bank s allowance for credit losses;
the necessity of making additional provisions for credit losses;
the Bank s ability to maintain its investment-grade credit ratings;
the availability and cost of future funding sources for the Bank s lending operations; and
the adequacy of the Bank s sources of liquidity to cover large deposit withdrawals.

In addition, the statements included under the headings Strategy and Trends are forward-looking statements. Forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from these forward-looking statements include the risks described in the section titled Risk Factors. All forward-looking statements in this Annual Report are made as of the date hereof, based on information available to the Bank as of the date hereof, and the Bank assumes no obligation to update any forward-looking statement.

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 these 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, reimbursement undertakings, guarantees, credit commitments, and customers liabilities under acceptances.

References to provision for credit losses are to additions to the allowance for credit losses in a particular period that are charged to income. References to allowance for credit losses are to the aggregate allowance for credit 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

A. Selected Financial Data

The following table presents consolidated selected financial data for the Bank. The financial data presented below are at and for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 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. The consolidated financial statements of the Bank at December 31, 2004 and 2005 and for each of the years in the three-year period ended December 31, 2005 (the Consolidated Financial Statements) are included in this Annual Report, together with the report of KPMG. The information below is qualified in its entirety by the detailed information 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,				
	2001	2002	2003	2004	2005
	(in $ thousands, except per share amounts and ratios)				
Income Statement Data:					
Net interest income [1]	$117,688	$64,779	$53,987	$42,025	45,253
Commission income, net [1]	14,741	8,886	7,446	5,928	5,824
Reversal (Provision) for credit losses [2]	(77,144)	(278,756)	58,905	112,271	38,374
Total operating expenses	(24,008)	(19,259)	(22,561)	(21,352)	(24,691)
Income (loss) from continuing operations	3,752	(266,492)	111,496	141,730	77,518
Cumulative effect of accounting changes	1,129	0	0	0	2,583
Net income (loss)	2,494	(268,838)	111,496	141,730	80,101
Balance Sheet Data:					
Investment securities	356,098	160,714	77,793	192,856	208,570
Loans	4,733,710	2,516,512	2,275,031	2,441,686	2,610,019
Allowance for loan losses	177,484	429,720	224,347	106,352	39,448
Total assets	5,917,842	2,925,401	2,560,612	2,732,940	3,159,231
Total deposits	1,571,359	551,973	702,955	864,160	1,046,618
Short-term borrowings and placements	1,823,324	647,344	687,214	704,718	760,699
Medium and long-term borrowings and placements	1,787,161	1,285,493	485,516	403,621	533,860
Total liabilities	5,304,192	2,584,002	1,976,283	2,076,810	2,542,449
Total stockholders equity	598,418	328,923	584,329	656,130	616,782
Average number of shares outstanding	18,102	17,343	28,675	39,232	38,550
Per Common Share Data:					
Net income (loss) per share	0.07	(15.56)	3.88	3.61	2.08
Diluted earnings per share	0.07	(15.56)	3.88	3.60	2.06
Book value (period end)	34.44	18.91	14.84	16.87	16.19
Cash dividends per share	1.88	0.00	0.00	1.50	2.60
Selected Financial Ratios:					
Performance Ratios:					
Return on average assets	0.04%	(6.47)%	4.24%	5.83%	3.00%
Return on average stockholders equity	0.18%	(60.48)%	23.91%	22.75%	12.85%

	At and for the Year Ended December 31,				
	2001	2002	2003	2004	2005
	(in $ thousands, except per share amounts and ratios)				
Net interest margin [3]	1.98%	1.48%	1.87%	1.65%	1.70%
Net interest spread [3]	1.30%	0.96%	1.23%	0.98%	0.67%
Total operating expenses to total average assets	0.40%	0.46%	0.86%	0.88%	0.93%
Cash dividend payout ratio	2,703.04%	0.00%	0.00%	41.52%	125.13%
Asset Quality Ratios:					
Impaired loans to loans [4]	1.64%	27.62%	19.62%	10.50%	1.11%
Charge-offs to loans	0.21%	0.81%	6.08%	0.53%	0.36%
Allowance for loan losses to loans	3.77%	17.17%	9.89%	4.37%	1.51%
Allowance for loan losses to non-accruing loans	230%	62%	50%	42%	137%
Reserve for losses on off balance sheet credit risks to total contingencies	1.65%	4.72%	9.39%	10.74%	6.56%
Capital Ratios:					
Stockholders equity to total assets	10.11%	11.24%	22.82%	24.01%	19.52%
Tier 1 capital to risk-weighted assets [5]	15.73%	15.26%	35.42%	42.90%	33.74%
Total capital to risk-weighted assets [5]	17.39%	16.51%	36.67%	44.15%	34.99%

1 For 2001 2002, commission expense related to borrowings and placements was reclassified from commission expense and other charges to interest expense to conform to the required presentation for 2003 pursuant to U.S. GAAP.

2 For information regarding reversal (provision) for loan losses, see Operating and Financial Review and Prospects Results of Operations.

3 For information regarding calculation of the net interest margin and the net interest spread, see Operating and Financial Review and Prospects Results of Operations Net Interest Income and Margins.

4 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 2005 of $23 million, in 2004 of $202 million, and in 2003 of $347 million of Argentine obligations.

5 Calculated using the U.S. Federal Reserve Board s 1992 fully phased in risk-weighted capital guidelines.

B. Capitalization and Indebtedness

Not required in this Annual Report.

C. Reasons for the Offer and Use of Proceeds

Not required in this Annual Report.

D. Risk Factors

Risks Relating to the Region

The Bank s credit portfolio is concentrated in Latin America and the Caribbean and adverse economic changes in those countries, could affect adversely the Bank s growth, asset quality, prospects, profitability and financial condition.

The Bank s lending activities and, as a result, the credit portfolio is concentrated in Central and South America and the Caribbean (the Region). Historically, economies of countries in the Region have sometimes experienced significant volatility characterized, in some cases, by political uncertainty, slow growth or recession, declining investments, government and private sector debt default and restructurings, significant inflation and/or devaluation. Global economic changes, including oil prices, the U.S. dollar interest rates and exchange rate, and slower economic growth in developed countries, could have a significant adverse effect on the economic condition of countries in the Region. In turn, adverse changes affecting the economies of countries in the Region could have a significant adverse impact on the Bank s credit portfolio, including increased loan loss provisions, debt restructurings, and loan losses and, as a result, on the Bank s growth, asset quality, prospects, profitability and financial condition.

Bladex s lending activities are concentrated in a relatively small number of countries and clients, exacerbating the possible effect that adverse economic changes in such countries could have on the Bank.

The Bank s lending activities are concentrated in a relatively small number of countries, which could have an adverse impact on the Bank s credit portfolio and, as a result, its financial condition, growth, prospects, cash flows and results of operations if one or more of those countries encounter economic difficulties. At December 31, 2005, approximately 62% of the Bank s credit portfolio was outstanding to borrowers in the following four countries: Brazil ($1,453 million, or 40%); Chile ($315 million, or 9%); Colombia ($261 million, or 7%); and Peru ($230 million, or 6%).

In addition, at December 31, 2005, 20% of the Bank s total credits were to five borrowers in Brazil and 7% of total credits were to two borrowers in Chile. A significant deterioration 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.

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

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

The performance of financial markets, including fluctuations in interest rates, may cause changes in the value of the Bank s investment securities portfolio and in the amount of revenues generated from these assets.

Increased risk perception in countries in the Region where the Bank has large credit exposure could affect adversely the Bank s credit ratings, funding activities and funding costs.

As a result of the Argentine crisis in 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. The downgrades also reflected the Bank s large exposure in Brazil, where political and economic uncertainty created concerns at that time. One of the Bank s funding sources for short-term loans is interbank deposits received principally from central banks in the Region. During 2002, these central banks withdrew a substantial portion of their deposits from the Bank, in large part because of the deterioration in the Bank s financial condition and the credit ratings downgrades. 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. The Bank maintained an adequate liquidity position throughout this period.

The occurrence of similar events in any countries in the Region where the Bank has large exposures could trigger downgrades to the Bank s credit ratings. A credit rating downgrade would likely increase the Bank s funding costs, and reduce its deposit base and access to the debt capital markets. In that case, the Bank s ability to obtain the necessary funding to carry on trade finance activities in Latin America at meaningful levels could be severely hampered.

Risks Relating to the Bank s Business

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

Determining the appropriate level of allowances for credit losses necessarily requires the Bank s Board s and management s judgment, including assumptions and estimates made in the context of changing political and economic conditions in the Region. Consequently, the Bank s allowances could be inadequate to cover losses in its credit portfolio, which in turn, could have a material adverse effect on the Bank s financial condition, results of operations, and business.

The Bank s businesses are subject to market risk.

Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with many of the Bank s operations and activities, including loans, deposits, investment securities, short-term borrowings, long-term debt and derivatives. As many other market conditions that may shift from time to time, thereby exposing the Bank to market risk, are fluctuations in interest and currency exchange rates, changes in the implied volatility of interest rates, changes in foreign exchange rates and changes in securities prices, due to changes in either market perception or actual credit quality of either the issuer or its country of origin. Accordingly, depending on the instruments or activities impacted, market risks can have wide ranging, complex adverse affects on the Bank s financial condition, results of operations, and business.

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

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

As a U.S. dollar based economy, Panama does not have a central bank in the traditional sense, and there is no lender of last resort to the banking system in Panama. In addition, the central banks of other Latin American countries would not be obligated to act as lenders of last resort if Bladex were to face a liquidity shortage. Accordingly, if the Bank faced a liquidity shortage, it would have to rely on commercial liquidity sources.

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

Bladex, like all financial institutions, is exposed to operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures, and errors by employees. Although the Bank maintains a system of internal controls, there can be no assurance that operational problems or errors will not occur, and that their occurrence will not have a material adverse impact on the Bank s business, financial condition and results of operations.

The Bank s credit portfolio may not continue to grow at the same or similar rate.

No assurance can be given that, in the future, the Bank s credit portfolio, including the Bank s foreign trade portfolio, will continue to grow at historical rates. A reversal in the rate of growth of the Region s economy and trade volumes could adversely affect the rate of growth of the Bank s credit portfolio.

Increased competition and industry consolidation in some Latin American countries could increase competition and limit the Bank s ability to grow in those markets and reduce its profitability, which may adversely affect results of operations.

Most of the competition the Bank faces in the trade finance area comes from international banks, mostly European and North American, which provide similar financing services to those the Bank provides within the markets the Bank serves. These international banks have substantially greater resources and access to less expensive funding than the Bank does, which puts the Bank at a competitive disadvantage. There can be no assurance that increased competition will not affect adversely the Bank s growth prospects and results of operations.

Although some of these international banks compete directly with the Bank, in many cases they also provide funding for the Bank and represent a source of business. If these international banks ceased providing funding to the Bank, the Bank would be required to seek funding from other sources, which may not be available, or if available, may only be at higher interest costs.

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 income sources.

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.

The Bank may pursue a capital management strategy that differs from that expected by some of its stockholders or others in the market.

The Board s opinion regarding the Bank s capital adequacy and needs might differ from that of some of its stockholders or other market participants. If so, the Bank s capital management actions and the timing of such actions might not correspond with the expectations of the Bank s stockholders or other market participants. The Bank s Board of Directors (the Board) may choose to pursue any of several capital management options, or a combination of strategies, including growth, investments, declaring dividends to stockholders, or repurchasing shares under a stock repurchase program. The Board is not required to declare dividends (or increase dividends) or effect stock repurchases pursuant to its stock repurchase program, and could use the capital for other purposes, which may not coincide with the preferences of some of the Bank s stockholders. To the extent that the capital management strategy elected by the Bank s Board differs from expectations of investors or other market participants, it could result in negative market perceptions of the Bank. Dissatisfaction of some of the Bank s stockholders or a negative market perception of the Bank with regard to the use of capital could adversely affect the Bank s stock price.

Any delays or failure to implement business initiatives that the Bank may undertake could prevent the Bank from realizing the anticipated revenues and benefits of the initiatives, divert the attention of its management, cause additional expenses, or cause other negative repercussions for the Bank.

Part of the Bank s strategy is to diversify income sources through business initiatives that, in some cases, involve partnerships or strategic alliances with specialists, expanding into new markets, targeting new clients and developing new products and services. These initiatives may not be fully implemented within the time frame the Bank expects, or at all. In addition, even if such initiatives are fully implemented, they may not generate revenues as expected. Any delays in securing necessary regulatory approvals, in reaching agreement with strategic partners, or otherwise implementing the Bank s strategic initiatives, could divert the attention of the Bank s management, result in additional expense, prevent the Bank from pursuing other initiatives or ultimately, prevent the Bank from realizing the anticipated benefits of the initiatives, which could adversely affect the Bank s business, results of operations and financial condition.

Item 4. Information on the Company

A. History and Development of the Company

The Bank, headquartered in Panama City, Panama, is a specialized supranational bank originally established by central banks of Latin American and Caribbean countries to promote trade finance in the Region. The Bank was established pursuant to a May 1975 proposal of the XX Assembly of Governors of central banks in the Region, which recommended the creation of a multinational organization to increase the Region s foreign trade financing capacity. The Bank was constituted in 1978 as a corporation pursuant to the laws of the Republic of Panama as Banco Latinoamericano de Exportaciones, S.A. and commenced operations in January 1979. The Bank operates under the commercial name of Bladex . Panama was selected as the location of the Bank s headquarters because of the country s importance as a banking center, the benefits of a fully U.S. dollar-based economy, the absence of foreign exchange controls, its geographic location and the quality of its communications facilities. Under special legislation enacted in 1978, the Bank was granted certain privileges by the government of Panama, including an exemption from payment of income taxes in Panama.

The Bank s mission is to provide seamless support to Latin America s foreign trade, while creating value for its stockholders. The Bank is principally engaged in providing short-term trade financing to selected commercial banks in the Region, which, in turn, lend to businesses primarily active in foreign trade and to state and private corporations. The majority of the Bank s loans are extended in connection with specific foreign trade transactions that have been identified.

The Bank s lending activities are funded by interbank deposits, primarily from central banks and financial institutions in the Region, by borrowings from international commercial banks and, to a lesser extent, by sales of debt securities (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.

Bladex offers its services through the Bank s head office in Panama City, its agency in New York City (the New York Agency), its subsidiary in Brazil, its representative offices in Mexico City and Buenos Aires and a worldwide network of correspondent banks. In addition, the Bank has obtained regulatory approval to open a representative office in Miami, Florida. See Organizational Structure and Note 1 to the Consolidated Financial Statements.

B. Business Overview

Overview

Bladex is a supranational 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 provide seamless support to Latin America s foreign trade, while creating value for its stockholders. The Bank offers trade finance services, primarily providing short-term financing. More recently, through its revenue diversification strategy, the Bank has introduced a broader range of products, services and solutions associated with foreign trade, including co-financing arrangements, syndicated loans, bilateral credits and vendor financing.

Historically, trade finance generally has not been negatively affected by Latin American debt restructurings. This has been due, in part, to the perceived importance that governments and borrowers in the Region attach to maintaining their access to trade finance. In the case of Bladex, the Bank generally has enjoyed preferred creditor status in several countries in the Region, which has strengthened its position in respect of debt restructurings. The Bank believes that its preferred creditor status is partially attributable to its relationship with its Class A stockholders consisting of central banks or governmental financial institutions from 23 countries in the Region. The Bank, due in part to its preferred creditor status, generally has been allowed to negotiate directly with the governments of these countries concerning its loans, as opposed to negotiating indirectly as a member of a group of creditors in debt restructuring proceedings. In addition, the Bank s preferred creditor status has generally exempted it from convertibility and transfer limitations of U.S. dollars for payment of external obligations.

Developments During 2004

The Bank s net income for 2004 was a record $142 million, representing an increase of 27% as compared to 2003. These results reflected increased reversal of provisions for possible credit losses and recoveries on impairment losses mostly related to the reduction in the Bank s exposure in Argentina. The 2004 net income figure produced a return on equity of 22.8%. Other indicators of note included a 25% growth in the Bank s trade finance portfolio, and a 23% increase in its deposit base.

The Bank s business activity during 2004 reflected prevailing financial market conditions. For 2004, Gross Domestic Product growth in the Region is estimated to have reached 5.5%, a significant increase over 2003. This trend was driven by improved terms of exchange, low inflation, and increasingly effective fiscal policies. As a result, risk levels generally improved during the year, with major rating agencies upgrading eight countries in the Region. Along with high levels of liquidity, reduced risk levels drove loan margins to historically low levels. The trade finance business in the Region resumed growth, spurred by several factors, among others, the Free Trade Agreements signed with the United States, an increase in intra-regional trade, and the worldwide surge in commodity prices which was in large part stimulated by the demands of the Chinese economy.

During 2004, the Bank s efforts were focused on strengthening its role as a leading supranational bank supporting trade in Latin America by:

- maximizing the value of the Bank s Argentine portfolio;
- increasing the Bank s trade finance balances and diversifying its credit portfolio;
- taking proactive capital management actions;
- diversifying revenue; and
- further strengthening the Bladex brand.

Developments During 2005

During 2005, the Bank substantially improved the composition and magnitude of its operating income. The Bank also resolved its impaired Argentine portfolio, which has been collected nearly in full. Lastly, the Bank made significant progress on the execution of a business model that seeks to expand the Bank s client base and broaden its financial service offering.

For 2005, the Bank reported net income of $80 million, implying a return on equity of 12.9%. These results reflected a $61 million year-over-year reduction in the amount of reversals of provisions for possible credit losses and impairment losses on securities, which largely explain the lower net income in 2005 when compared to the $142 million reported in 2004. Excluding the impact of provision reversals and net revenues from the non-accrual portfolio, the Bank s net income increased 42% during the year.

Throughout 2005, the Bank continued to be a key institution in supporting the trade finance business in Latin America, despite a highly competitive environment with new players, an abundance of funding, and historically low margins.

The Bank continued to analyze the Bank s capital management, seeking a proper balance between its capitalization ratio, growth potential, investment opportunities, and the return to its stockholders. During the year, the Bank paid a common dividend equivalent to $0.60 per share, along with an extraordinary dividend of $2.00 per share. Furthermore, after the close of 2005, the Bank declared an additional extraordinary dividend of $1.00 per share, as well as a 25% increase in the common quarterly dividend.

During 2005, the Bank initiated a project aimed at transforming and modernizing its technology platform, an undertaking that is expected to be completed during the second half of 2006. The Bank s management believes that the new technological capabilities will provide the Bank with greater flexibility, agility, effectiveness and efficiency in providing quality client service, and in the deployment of new products.

Strategy for 2006

Since its inception, one of the Bank s key objectives has been to contribute to the development and prosperity of Latin America. Another target of equal importance has been the creation of value for and the rewarding of its stockholders. The combination of these two goals reflects the commercial strategy deployed by the Bank throughout its history. In 2006, the Bank looks forward to building on the momentum gained in 2005 through the implementation of its long-term strategy that seeks to expand the Bank s client base, particularly the corporate portion, and broaden its financial services offering. The Bank will continue to leverage its brand and reputation in the Region with a commitment to providing high quality, value-added services and solutions to the Bank s expanded target customer base, and will continue developing the Bank s Treasury Area as a source of revenue, including a new asset distribution desk and a fixed income desk. The asset distribution desk is designed to intermediate Latin American loan instruments with regional and international investors, and the fixed income desk is expected to bring to the Bank professional proprietary portfolio management capabilities in the Latin American debt capital markets.

Lending Policies

Imports and exports financed by the Bank are destined for buyers/sellers in countries both inside and outside the Region. Historically, it has been Bank operating policy to extend credit directly mostly to banks and state-owned export organizations within the Region, as well as to non-bank private entities. At December 31, 2005, excluding the non-accruing portfolio, total loans and contingencies outstanding to non-bank private entities constituted 16% of the Bank s total loans and contingencies. The Bank analyzes credit requests from eligible borrowers in the light of credit risk criteria, including economic and market conditions. The Bank maintains a consistent lending policy and applies the same credit criteria to all types of potential borrowers in evaluating creditworthiness.

At December 31, 2005, the Bank had 39 officers across its offices responsible for marketing the Bank s financial products and services to existing and potential customers.

The Bank finances import and export transactions for all goods and products, with the exception of articles such as weapons, ammunition, military equipment, hallucinogenic drugs or narcotics not utilized for medical purposes.

The Bank s loans generally are 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.

Country Credit Limits

The Credit Policy and Risk Assessment Committee of the Board (the Board Credit Committee) establishes country limits annually and more often if required. The Board Credit Committee also reviews country usage in both nominal terms and in terms of capital requirements quarterly. All transactions must comply fully with Board approved country limits and other conditions. The Board approves all country credit limits based on management recommendations, along with targeted customer and risk profiles as regarding the tenor and type of risk to be undertaken in a particular country.

Borrower Lending Limits

Generally the Bank establishes lines of credit for each borrower in line with its risk analysis and business prospects; however, the Bank is not required to lend under these lines of credit. 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 these limits internally as a credit risk management tool. Once a line of credit has been established, credit generally is extended after receipt of a request from the borrower for financing usually related to foreign trade. Loan pricing is determined in accordance with prevailing market conditions and the borrower s creditworthiness.

For existing borrowers, the Bank s management has authority to approve credit lines up to the legal lending limit prescribed by Panamanian law (see Regulation Panamanian Law), provided that the credit lines comply fully with the country credit limits and conditions for the borrower s country of domicile set by the Board. Approved borrower lending limits are reported to the Board Credit Committee quarterly. As of December 31, 2005, the legal lending limit prescribed by Panamanian law for any one borrower amounted to approximately $185 million. The head of the Commercial Area or Treasury Area, or their designees, depending on the facility type, recommend proposed credit lines. Approval from the head of Risk Management Area is required for all credit approvals, and approval from the Chief Executive Officer also is required for all new clients and for exposures exceeding $30 million. Certain credit lines require approval by the Board Credit Committee. The Board Credit Committee also reviews the entire impaired portfolio, along with certain non-impaired credits quarterly.

Panamanian Banking Law prescribes certain concentration limits, which are strictly adhered to by the Bank, including a 30% limit, applicable to the Bank, as a percentage of capital and reserves for any one borrower and borrower group. At December 31, 2005, the Bank was in full compliance with all regulatory limits. See Regulation Panamanian Law .

Credit Portfolio

The Bank s credit portfolio, which consists 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, reimbursement undertakings, guarantees covering commercial and country risks and credit commitments, increased from $2,847 million at December 31, 2003, to $2,944 million at December 31, 2004 and to $3,616 million at December 31, 2005.

At December 31, 2005, $757 million or 21% of the Bank s total credit portfolio (excluding the non-accruing portfolio and investment securities) represented non-trade related credits. At December 31, 2005 there were no past due loans of these non-trade credits. At December 31, 2005, the geographic composition of the Bank s credit portfolio by client type and transaction type was as follows:

	Brazil	Chile	Colombia	Peru	Rest of countries	Total
Transaction type						
Trade	76%	60%	25%	94%	75%	72%
Non-trade	16%	30%	71%	6%	17%	21%
Investment Securities	7%	10%	4%	0%	5%	6%
Non-accrual	0%	0%	0%	0%	3%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Client type						
Financial entities	69%	90%	94%	51%	65%	70%
Non-financial entities	31%	10%	6%	49%	35%	30%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

The following table sets forth the distribution of the Bank s credit portfolio, by product category at December 31 of each year.

	At December 31,									
	2001	**%**	**2002**	**%**	**2003**	**%**	**2004**	**%**	**2005**	**%**
	(in $ millions, except percentages)									
Loans	$4,734	73.7	$2,517	76.2	$2,275	80.0	$2,442	83.0	$2,610	72.2
Investment securities [1]	357	5.5	161	4.9	78	2.7	194	6.6	212	5.8
Securities purchased under agreements to resell	292	4.5	132	4.0	132	4.6	0	0.0	0	0.0
Contingencies	1,044	16.2	495	15.0	362	12.7	308	10.5	794	22.0
Total	**$6,426**	**100.0**	**$3,305**	**100.0**	**$2,847**	**100.0**	**$2,944**	**100.0**	**$3,616**	**100.0**

1 Investment securities consist of investment securities held to maturity and investment securities available for sale considered part of the Bank s credit portfolio. It also includes a $3 million investment fund recorded as other asset.

A per country distribution of the remaining maturity profile of the Bank s credit portfolio maturing beyond one year is presented below:

	As of Dec. 31, 2005	Credits Maturing in Year Ended 2007	2008	2009	2010 2012
	(in $ millions)				
Argentina	$30	$12	$8	$7	$3
Brazil	651	220	145	169	116
Colombia	18	13	2	2	2
Chile	32	0	0	32	0
Costa Rica	7	7	0	0	0
Guatemala	5	2	1	1	1
Mexico	67	35	11	11	11
Panama	69	11	51	1	6
Peru	30	30	0	0	0
Venezuela	29	29	0	0	0
Total	**$939**	**$358**	**$218**	**$224**	**$140**

Loan Portfolio

At December 31, 2005, the Bank s total loans amounted to $2,610 million, compared to $2,442 million at December 31, 2004. At December 31, 2005, 82% of the Bank s loans were scheduled to mature within one year. The Bank services all loans in its loan portfolio except syndicated loans, which are serviced through agent banks generally appointed by the arrangers of the syndication. See Operating and Financial Review and Prospects Changes in Financial Condition Loans and Note 5 to Consolidated Financial Statements.

Loans by Country

The following table sets forth the distribution of the Bank s loans by country at December 31 of each year:

	At December 31, 2001	%	2002	%	2003	%	2004	%	2005	%
	(in $ millions, except percentages)									
Argentina	$804	17.0	$694	27.6	$398	17.5	$207	8.5	$51	2.0
Bolivia	26	0.5	13	0.5	0	0.0	0	0.0	0	0.0
Brazil	2,013	42.5	930	37.0	1,011	44.4	1,054	43.2	1,095	42.0
Chile	112	2.4	48	1.9	131	5.8	322	13.2	283	10.8
Colombia	138	2.9	80	3.2	96	4.2	148	6.1	249	9.5
Costa Rica	67	1.4	42	1.7	59	2.6	38	1.5	54	2.1
Dominican Republic	175	3.7	156	6.2	24	1.1	0	0.0	1	0.0
Ecuador	14	0.3	46	1.8	22	1.0	51	2.1	25	1.0
El Salvador	19	0.4	2	0.1	26	1.1	44	1.8	81	3.1
Guatemala	23	0.5	29	1.1	34	1.5	38	1.6	41	1.6
Honduras	0	0.0	0	0.0	0	0.0	6	0.2	26	1.0
Jamaica	7	0.2	11	0.4	14	0.6	26	1.1	24	0.9
Mexico	833	17.6	142	5.6	183	8.0	262	10.7	161	6.1
Nicaragua	38	0.8	7	0.2	9	0.4	5	0.2	2	0.1
Panama	43	0.9	19	0.8	44	1.9	89	3.7	156	6.0
Paraguay	1	0.0	2	0.1	0	0.0	0	0.0	0	0.0
Peru	120	2.5	63	2.5	65	2.8	55	2.2	180	7.0