

LATIN AMERICAN EXPORT BANK

Form 20-F/A

February 28, 2008

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

FORM 20-F/A
(Amendment No. 1)

**“ 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, 2006

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

(Translation of Registrant's name into English)

REPUBLIC OF PANAMA

(Jurisdiction of incorporation or organization)

Calle 50 y Aquilino de la Guardia

P.O. Box 0819-8730

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.

6,342,189Shares of Class A Common Stock

2,725,387Shares of Class B Common Stock

27,261,495Shares of Class E Common Stock

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36,329,072 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.

☒ Yes ☐ No

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

☐ Yes ☒ 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.

☒ Yes ☐ No

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

☐ Large Accelerated Filer

☒ Accelerated Filer

☐ Non-accelerated Filer

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

☐ Item 17 ☒ Item 18

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

☐ Yes ☒ No

EXPLANATORY NOTE

This Amendment on Form 20-F/A (this “Amendment”) to the Annual Report on Form 20-F of Banco Latinoamericano de Exportaciones, S.A. (the “Bank”) for the fiscal year ended December 31, 2006 (the “Form 20-F”) is being filed by the Bank solely for the purpose of amending “Item 15. Controls and Procedures,” now “Item 15T. Controls and Procedures.”

The Bank has not updated the disclosure in this Amendment to speak as of a later date than the date of the original filing of the Form 20-F.

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 011-507-210-8563. 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 changing 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 implied volatility of the Bank’s Treasury revenues;
- the adequacy of the Bank’s allowance for and provisions for credit losses;
- the Bank’s ability to maintain its investment-grade credit ratings;
- the availability and cost of funding 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.

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, 2002, 2003, 2004, 2005 and 2006 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, 2005 and 2006 and for each of the years in the three-year period ended December 31, 2006 (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,				
	2002	2003	2004	2005	2006
	(in \$ thousands, except per share amounts and ratios)				
Income Statement Data:					
Net interest income ¹	\$ 64,779	\$ 53,987	\$ 42,025	\$ 45,253	\$ 58,837
Commission income, net ¹	8,886	7,446	5,928	5,824	6,285
Reversal of (Provision for) credit losses ²	(278,756)	58,905	112,271	38,374	13,045
Total operating expenses	(19,259)	(22,561)	(21,352)	(24,691)	(28,929)
Income (loss) from continuing operations	(266,492)	111,496	141,730	77,518	57,902
Cumulative effect of accounting changes	0	0	0	2,583	0
Net income (loss)	(268,838)	111,496	141,730	80,101	57,902
Balance Sheet Data:					
Trading assets	0	0	0	0	130,076
Investment securities	160,714	77,793	192,856	208,570	471,351
Loans	2,516,512	2,275,031	2,441,686	2,610,019	2,980,772
Allowance for loan losses	429,720	224,347	106,352	39,448	51,266
Total assets	2,925,401	2,560,612	2,732,940	3,159,231	3,978,338
Total deposits	551,973	702,955	864,160	1,046,618	1,056,278
Trading liabilities	0	0	0	0	54,832
Short-term borrowings and placements	647,344	687,214	704,718	760,699	1,595,604
	1,285,493	485,516	403,621	533,860	558,860

Medium and long-term borrowings and placements					
Total liabilities	2,584,002	1,976,283	2,076,810	2,542,449	3,394,442
Total stockholders' equity	328,923	584,329	656,130	616,782	583,896
Average number of shares outstanding	17,343	28,675	39,232	38,550	37,065
Per Common Share Data:					
Net income (loss) per share	(15.56)	3.88	3.61	2.08	1.56
Diluted earnings (loss) per share	(15.56)	3.88	3.60	2.06	1.54
Book value (period end)	18.91	14.84	16.87	16.19	16.07
Cash dividends per share	0.00	0.00	1.50	2.60	1.75
Selected Financial Ratios:					
<i>Performance Ratios:</i>					
Return on average assets	(6.47)%	4.24%	5.83%	3.00%	1.70%
Return on average stockholders' equity	(60.48)%	23.91%	22.75%	12.85%	9.96%
Net interest margin ³	1.48%	1.87%	1.65%	1.70%	1.76%
Net interest spread ³	0.96%	1.23%	0.98%	0.67%	0.70%
Total operating expenses to total average assets	0.46%	0.86%	0.88%	0.93%	0.85%
Cash dividend payout ratio	0.00%	0.00%	41.52%	125.13%	112.02%
<i>Asset Quality Ratios:</i>					
Impaired loans to total loans, net of unearned income and deferred commission ⁴	27.62%	19.62%	10.50%	1.11%	0.00%
Charged-off loans to total loans, net of unearned income and deferred commission	0.8%	6.1%	0.5%	0.4%	0.00%
Allowance for loan losses to total loans, net of unearned income and deferred commission	17.17%	9.89%	4.37%	1.51%	1.72%
Allowance for credit losses to non-accruing credits	54%	53%	48%	217%	n.a.
<i>Capital Ratios:</i>					
Stockholders' equity to total assets	11.24%	22.82%	24.01%	19.52%	14.68%
Tier 1 capital to risk-weighted assets ⁵	15.26%	35.42%	42.90%	33.74%	24.45%
Total capital to risk-weighted assets ⁵	16.51%	36.67%	44.15%	34.99%	25.70%

¹ For 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 credit losses, see "Business Overview" and "Results of Operations".

³ For information regarding calculation of the net interest margin and the net interest spread, see "Results of Operations—Net Interest Income and Margins".

⁴ Repossessed assets or troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15 amounted to \$23 million in 2005, and \$202 million in 2004, and related mostly to Argentine credits.

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. 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"), which is a reflection of its mission and strategy. Historically, economies of countries in the Region have occasionally experienced significant volatility characterized, in some cases, by political uncertainty, slow growth or recession, declining investments, government and private sector debt defaults and restructurings, significant inflation and/or devaluation. Global economic changes, including oil prices, commodities 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 quality of 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.

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 encounters economic difficulties. At December 31, 2006, approximately 64% of the Bank's credit portfolio was outstanding to borrowers in the following four countries: Brazil (\$1,663 million, or 42%); Colombia (\$329 million, or 8%); Mexico (\$283 million, or 7%); and Peru (\$280 million, or 7%).

In addition, at December 31, 2006, 15% of the Bank's total credits were to five borrowers in Brazil, and 9% of total credits were to three borrowers from: Ecuador (3%), Peru (3%), and the Dominican Republic (3%). A significant deterioration of the financial or economic condition of any of these countries or borrowers could have an adverse impact on the Bank's credit portfolio and, as a result, 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 and investments. As a result, the Bank faces the risk that local country foreign exchange controls will restrict the ability of the Bank's borrowers, even if they are exporters, to acquire dollars to repay loans on a timely basis, and/or that significant currency devaluation will occur, which could increase the cost, in local currency terms, to the Bank's borrowers of acquiring dollars to repay loans.

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

Increased risk perception in any country in the Region where the Bank has large exposures could trigger downgrades to the Bank's credit ratings. A credit rating downgrade would likely increase the Bank's funding costs, and reduce its deposit base and access to the debt capital markets. In that case, the Bank's ability to obtain the necessary funding to carry on its 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 be inadequate to cover credit losses related to its loans and contingencies.

The Bank determines the appropriate level of allowances for credit losses based in a process that estimates the probable loss inherent in the portfolio, which is the result of a statistical analysis supported by the Bank's historical portfolio performance, and the Bank's management's qualitative judgment. The latter includes assumptions and estimates made in the context of changing political and economic conditions in the Region. The Bank's allowances could be inadequate to cover losses in its credit portfolio, which in turn, could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank's businesses are subject to market risk.

Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with many of the Bank's operations and activities, including loans, deposits, investment and trading securities, short-term borrowings, long-term debt, derivatives and trading positions. Among many other market conditions that may shift from time to time, 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, like all financial institutions, faces liquidity risk, or the risk of not being able to maintain adequate cash flow to repay its deposits, borrowings, and placements required to fund its credit portfolio on a timely basis. Failure to adequately manage its liquidity risk could produce a cash shortage as a result of 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 the country. Central banks in 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 to resolve it.

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. 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 growth rate of the Region's economy and trade volumes could adversely affect the growth rate of the Bank's credit portfolio.

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

Most of the competition the Bank faces in the trade finance area comes from international banks, the majority of which are European and North American institutions. Many of these international banks have substantially greater resources than the Bank and enjoy access to less expensive funding than the Bank does. 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 be at higher interest costs.

Merger activity in the financial services industry has produced companies that are capable of offering a wide array of financial products and services at competitive prices. This significant consolidation of the banking business has also reduced the number of client banks in the Region for trade finance credit and services. Globalization of the capital markets and financial services industries exposes the Bank to further competition. The Bank's ability to grow its business and therefore, its earnings, is affected by these competitive pressures.

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

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

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 supranational organization to increase the Region's foreign trade financing capacity. The Bank was constituted in 1978 as a corporation pursuant to the laws of 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.

Bladex offers its services through the Bank's head office and subsidiaries in Panama City, its subsidiaries and offices in New York City, including its agency (the "New York Agency") and Bladex Asset Management, its International Administrative Office in Miami, its subsidiaries in Brazil and the Cayman Islands, its representative offices in Mexico City and Buenos Aires, and a worldwide network of correspondent banks. See "Organizational Structure" and Note 1 to the Consolidated Financial Statements.

B. Business Overview

Overview

The Bank's mission is to provide seamless support to Latin America's foreign trade, while creating value for its stockholders. The Bank is principally engaged in providing trade financing to selected commercial banks and corporations in the Region. The Bank's core trade finance products include loans for pre and post export financing and import of goods, letters of credit, banker's acceptances and guarantees. The majority of the Bank's loans are extended in connection with specific identified foreign trade transactions. 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, underwriting, leasing, structured trade and vendor financing, and US clearing electronic services.

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 to financial institutions and investors in Japan, Europe and North America and the Region. The Bank does not provide retail-banking services to the general public, such as retail savings accounts or checking accounts, and does not take retail deposits.

During 2006, the Bank completed the process of conversion of its treasury area into a revenue center. The area is organized around three business platforms, from which Bladex intermediates in the capital markets throughout the Region. The Treasury, based in the Panama head office, is responsible for ensuring the Bank's funding and liquidity, for the management of its interest rate and liquidity risks, and for Bladex's investments in fixed-income securities. Asset Distribution, based in the New York Agency, was established to intermediate in the primary and secondary loan markets in Latin America. Bladex Asset Management, based in New York, is engaged in the management of a multi-strategy portfolio of Latin American fixed income securities, currencies, and credit derivatives.

At December 31, 2006, the Bank had 47 officers across its offices responsible for marketing the Bank's financial products and services to existing and potential customers.

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, 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. 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.

Developments During 2006

During 2006, Bladex achieved net income of \$58 million, or \$1.56 per share, compared with net income of \$80 million, or \$2.08 per share, for 2005. The net income reduction was driven by lower reversals of credit provisions and recoveries on assets, net of impairments, which for 2006 amounted to \$19 million, compared to \$51 million in 2005.

Bladex's strategy of diversifying its activities and revenues, as well as broadening its services to new clients along new trade-related business lines translated into an increase of 36% in operating income (net income before net reversals of credit provisions and recoveries on assets, net of impairments), to \$39 million, compared to \$29 million in 2005, reflecting principally a 30% increase in net interest income, an 8% increase in fee income, and higher gains in Treasury activities. Net revenues from the impaired portfolio contributed only 6% of this operating income, compared to 20% in 2005. Excluding this effect, the real increase in operating income reached 60%. The increase in the Bank's revenue, combined with careful expense control allowed the Bank to improve its operating efficiency ratio from 46% in 2005 to 42% in 2006. As a result, the Bank's operating return on average equity rose to 6.8%, compared to 4.6% in 2005, and 4.7% in 2004.

Sustained growth in the Bank's commercial activity resulted in over \$8 billion in credit disbursements in 2006, and a 19% increase in its average credit portfolio over 2005. This growth was achieved under conditions of high liquidity in the financial markets and intense regional competition, and was especially noteworthy in the corporate segment.

The growth of the Bank's credit and other business activities was achieved while maintaining its credit quality, allowing Bladex to close 2006 without any past due or non-accrual loans. The Bank continued to develop and introduce new products in 2006. The Bank launched new activities in leasing, and completed the transformation of the Treasury function into a profit center, through active participation in the Region's fixed income markets and through the creation of a new proprietary asset management fund.

In addition, the Bank completed a series of important internal projects in 2006, such as the deployment of a new technology platform, which has allowed the Bank to optimize its responsiveness to clients, improve its operating efficiency, and upgrade its information management systems.

Developments and Strategy for 2007

In 2007, Bladex continues to focus its efforts on diversifying its revenue sources across a stronger client franchise, geared towards a growing corporate segment, a wider product range, and expanded Treasury operations, with the objective of achieving improved return on equity levels.

The Bank has adjusted its business model to further expand its participation in the value chain of international trade flows. In this context, the Bank is developing and implementing new products to finance trade flows between the Region and the rest of the world, and to facilitate trade between countries within the Region, thus strengthening intra-regional commercial flows. As such, the commercial effort is primarily focused on offering services to a significant segment of the external trade business that is not adequately covered by local financial markets, or by multinational banks operating in the Region.

To achieve this, in 2007 Bladex continues to reinforce its product portfolio. Introducing operational and financial leasing services allows Bladex to offer additional financing solutions to its clients. The Bank also continues to focus its efforts on leveraging the Bank's competitive advantages in originating, structuring, underwriting, and distributing trade finance transactions by focusing on maximizing profitability per client, and strengthening the Bank's relationships with its clients.

The Bank also continues to expand its Treasury activities and continue complementing its revenue sources. During 2007, the Bank plans to increase its available for sale and held to maturity fixed income portfolio and intends to adjust the structure of its asset management fund to allow the participation of third-party investors.

During the first quarter of 2007, the Bank decided to discontinue its digital identity project, as the market for the service in the Region was taking longer to mature than the Bank's management had anticipated. While the project expenses were relatively small, amounting to less than 3% of the Bank's operating expenses for 2006, the Bank's

management concluded that management time could be put to better use pursuing other businesses.

Lending Policies

The Bank extends credit directly to banks, corporations and state-owned export organizations within the Region. The Bank analyzes credit requests from eligible borrowers in 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.

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. Imports and exports financed by the Bank are destined for buyers/sellers in countries both inside and outside the Region.

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

Bladex has a methodology for capital allocation by country, aligned with Basel II and its risk weights for assets. The Credit Policy and Risk Assessment Committee ("CPER") approves a level of "allocated capital" for each country, instead of nominal exposure limits. These country capital limits are reviewed at least annually in the quarterly meetings of the aforementioned Committee. The system establishes the capital equivalent of each transaction, based on the internal numeric rating assigned to each country (which is approved by this Committee, on the basis of recommendations made by the Country Risk Committee comprised by members of local management). The amounts of capital allocated takes into account the customer type (sovereign, private, corporate or financial institutions), the type of transaction (trade or non trade), and the remaining tenor of the transaction (less than a year, between one and three years, or more than three years). Capital utilizations by the business units should never exceed the Bank's reported equity.

Borrower Lending Limits

Generally the Bank establishes lines of credit for each borrower according to the results of its risk analysis and business potential prospects; however, the Bank is not required to lend under these lines of credit. Once a line of credit has been established, credit generally is extended after receipt of a request from the borrower for financing usually related to foreign trade. 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 CPER quarterly. As of December 31, 2006, the legal lending limit prescribed by Panamanian law for any one borrower amounted to approximately \$175 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 the 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 CPER. On a quarterly basis, the CPER reviews the impaired portfolio, if any, along with certain non-impaired credits.

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, 2006, the Bank was in full compliance with all regulatory limits. See "Regulation—Panamanian Law".

Credit Portfolio

The Bank's credit portfolio consists of the commercial division portfolio and the fair value of selected investment securities.

The Bank's credit portfolio, increased from \$2,944 million at December 31, 2004, to \$3,616 million at December 31, 2005 and to \$4,006 million at December 31, 2006.

Commercial Division Portfolio

The Commercial Division Portfolio includes book value of loans, securities purchased under agreements to resell and contingencies (including letters of credit, reimbursement undertakings, guarantees, credit commitments, equity investments and customers' liabilities under acceptances).

The Bank's commercial portfolio (excluding non-accruing credits) increased from \$2,463 million at December 31, 2004, to \$3,365 million at December 31, 2005 and to \$3,634 million at December 31, 2006.

At December 31, 2006, 74% of the Bank's commercial portfolio represented trade related credits. The following table sets forth the distribution of the Bank's commercial portfolio (excluding non-accruing credits), by product category at December 31 of each year:

	At December 31,									
	2002	%	2003	%	2004	%	2005	%	2006	%
	(in \$ millions, except percentages)									
Loans	\$ 1,825	75.8	\$ 1,830	79.8	\$ 2,186	88.7	\$ 2,581	76.7	\$ 2,981	82.0
Securities purchased under agreements to resell	132	5.5	132	5.8	0	0.0	0	0.0	0	0.0
Contingencies	450	18.7	330	14.4	277	11.3	784	23.3	654	18.0
Total	\$ 2,407	100.0	\$ 2,292	100.0	\$ 2,463	100.0	\$ 3,365	100.0	\$ 3,634	100.0

Loan Portfolio

At December 31, 2006, the Bank's total loans amounted to \$2,981 million, compared to \$2,610 million at December 31, 2005. See "Changes in Financial Condition—Loans" and Note 6 to the 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,									
	2002	%	2003	%	2004	%	2005	%	2006	%
	(in \$ millions, except percentages)									
Argentina	\$ 694	27.6	\$ 398	17.5	\$ 207	8.5	\$ 51	2.0	\$ 203	6.8
Bolivia	13	0.5	0	0.0	0	0.0	0	0.0	5	0.2
Brazil	930	37.0	1,011	44.4	1,054	43.2	1,095	42.0	1,317	44.2
Chile	48	1.9	131	5.8	322	13.2	283	10.8	175	5.9
Colombia	80	3.2	96	4.2	148	6.1	249	9.5	163	5.5
Costa Rica	42	1.7	59	2.6	38	1.5	54	2.1	85	2.9
Dominican Republic	156	6.2	24	1.1	0	0.0	1	0.0	9	0.3
Ecuador	46	1.8	22	1.0	51	2.1	25	1.0	43	1.4
El Salvador	2	0.1	26	1.1	44	1.8	81	3.1	82	2.8
Guatemala	29	1.1	34	1.5	38	1.6	41	1.6	89	3.0
Honduras	0	0.0	0	0.0	6	0.2	26	1.0	36	1.2
Jamaica	11	0.4	14	0.6	26	1.1	24	0.9	49	1.6
Mexico	142	5.6	183	8.0	262	10.7	161	6.1	168	5.6
Nicaragua	7	0.2	9	0.4	5	0.2	2	0.1	10	0.3
Panama	19	0.8	44	1.9	89	3.7	156	6.0	180	6.1
Paraguay	2	0.1	0	0.0	0	0.0	0	0.0	0	0.0
Peru	63	2.5	65	2.8	55	2.2	180	7.0	262	8.8
Trinidad & Tobago	84	3.3	100	4.4	92	3.8	177	6.8	104	3.5
Uruguay	0	0.0	0	0.0	0	0.0	4	0.1	0	0.0

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Venezuela	149	6.0	61	2.7	5	0.2	0	0.0	1	0.0
Total	\$ 2,517	100.0	\$ 2,275	100.0	\$ 2,442	100.0	\$ 2,610	100.0	\$ 2,981	100.0

Loans by Type of Borrower

The following table sets forth the amounts of the Bank's loans by type of borrower at December 31 each year:

	At December 31,				
	2002	2003	2004	2005	2006
	(in \$ millions)				
Private sector commercial banks	\$ 935	\$ 986	\$ 1,243	\$ 1,583	\$ 1,167
State-owned commercial banks	511	422	563	118	273
Central banks	71	0	13	0	0
Sovereign debt	90	50	58	49	123
State-owned exporting organizations	335	424	363	402	138
Private corporations	574	392	201	458	1,279
Total	\$ 2,517	\$ 2,275	\$ 2,442	\$ 2,610	\$ 2,981

Contingencies

The Bank applies to contingencies the same credit policies used in its lending process to its evaluation of these instruments. At December 31, 2006, total contingencies amounted to \$654 million, representing 18% of the Bank's total commercial portfolio.

The Bank, on behalf of its institutional client base, advises and confirms letters of credit to facilitate foreign trade transactions. The Bank also issues guarantees to provide coverage for country risk arising from the risk of convertibility and transferability of local currency of countries in the Region into hard currency and to provide coverage for country risk arising from political risks, such as expropriation, nationalization, war and/or civil disturbances. At December 31, 2006, total guarantees representing country risk coverage amounted to \$124 million. The Bank also enters into credit commitments (defined as a combination of either non-binding or legal agreements to lend to a customer) in order to meet the financial needs of customers. See Note 16 to the Consolidated Financial Statements.

Investment Securities

The Bank's investment securities consist mostly of debt securities held to maturity and securities available for sale. See Note 5 to the Consolidated Financial Statements.

In the normal course of business, the Bank utilizes interest rate swaps for hedging purposes in its assets and liabilities management activities, including investment securities.

At December 31, 2006, the Bank's investment securities portfolio totaled \$471 million, of which 79% consisted of investments with banks and sovereign borrowers, and the Bank's total portfolio had a weighted average interest rate of 6.02% per annum.

Trading Assets and Liabilities

The Bank's trading activity started in April 2006 and is conducted through an asset management fund incorporated in the Cayman Islands. At December 31, 2006, the fair value of trading assets was \$130 million and trading liabilities was \$55 million. See Notes 2(g), 4 and 20 to the Consolidated Financial Statements.

Total Outstandings by Country

The following table sets forth the aggregate amount of the Bank's cross-border outstandings, consisting of cash and due from banks, interest-bearing deposits in other banks, investment securities net of impairment loss on securities, securities purchased under agreements to resell, trading assets and loans, but not including contingencies (collectively "cross-border outstandings") at December 31 of each year:

	2004		2005		2006	
	Amount	% of Total Outstandings	Amount	% of Total Outstandings	Amount	% of Total Outstandings
	(in \$ millions, except percentages)					
Argentina	\$ 208	7.4%	\$ 55	1.8%	\$ 229	5.9%
Brazil	1,065	38.2	1,193	39.1	1,494	38.2
Chile	362	13.0	315	10.3	210	5.4
Colombia	172	6.2	260	8.5	278	7.1
Costa Rica	38	1.3	54	1.8	85	2.2
Ecuador	51	1.8	25	0.8	43	1.1

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El Salvador	59	2.1	101	3.3	87	2.2
France	15	0.5	1	0.0	50	1.3
Germany	0	0.0	40	1.3	0	0.0
Guatemala	38	1.4	41	1.4	89	2.3
Jamaica	26	0.9	24	0.8	51	1.3
Japan	45	1.6	35	1.1	33	0.9
Mexico	364	13.0	199	6.5	268	6.8
Panama	89	3.2	161	5.3	200	5.1
Peru	55	2.0	180	5.9	271	6.9
Spain	24	0.8	48	1.6	73	1.9
Switzerland	0	0.0	0	0.0	40	1.0
Trinidad & Tobago.	92	3.3	177	5.8	104	2.6
United States	15	0.6	5	0.2	135	3.5
Other ¹	71	2.6	132	4.3	174	4.4
Total	\$ 2,789	100.0%	\$ 3,048	100.0%	\$ 3,914	100.0%

¹Other consists of cross-border outstandings to countries in which cross-border outstandings did not exceed 1% of total assets for any of the periods indicated above.

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

Cross-border outstandings in countries outside the Region correspond principally to cash and due from banks, interest-earning deposits with banks and securities held to maturity.

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

	2004	2005	2006
		(in \$ millions)	
Private sector commercial banks	\$ 1,429	\$ 1,784	\$ 1,595
State-owned commercial banks	563	184	324
Central banks	28	20	0
Sovereign debt	110	157	424
State-owned exporting organizations	488	434	219
Private corporations	171	470	1,352
Total	\$ 2,789	\$ 3,048	\$ 3,914

Asset Quality

The Bank believes that its asset quality is linked to the composition of its client base, the importance that governments and borrowers in the Region attach to maintaining continued access to trade financing, its preferred creditor status, and the Bank's strict adherence to commercial criteria in its credit activities. The Bank has developed knowledge of, and a relationship with, most of its client base throughout its 28 years of operations in the Region, which allows it to continue to further enhance its risk management process.

The Bank's management and the CPER periodically review a report of all loan delinquencies. The Bank's collection policies include rapid internal notification of any delinquency and prompt initiation of collection efforts, usually involving senior management.

Impaired Assets and Contingencies

The Bank's impaired assets consist of impaired loans and impaired securities. Loans are identified as impaired and placed on non-accrual status when any principal or interest payment is over 90 days past due or if the Bank's management determines that the ultimate collection of principal or interest is doubtful. In all cases, if a borrower has more than one outstanding loan under its line of credit with the Bank and any of its individual loans is placed on non-accrual status, the Bank places all outstanding loans to that borrower on non-accrual status. Similarly, if a single note of a loan is placed on non-accrual status, the remaining notes under that loan are placed on non-accrual status as well. Securities that experience a decline in value, which is deemed other than temporary, are classified as impaired. Contingencies are identified as impaired and placed on non-accrual status when any payment of fees or commissions relating thereto is over 90 days past due or if the Bank's management determines that the item may become payable by the Bank and ultimate collection of principal or interest is doubtful. For more information see Notes 2, 5, 6 and 16 to the Consolidated Financial Statements.

The following table sets forth information regarding the Bank's impaired assets and contingencies at December 31 of each year:

	2002	2003	2004	2005	2006
	(in \$ millions, except percentages)				
Impaired loans	\$ 691	\$ 445	\$ 256	\$ 29	\$ 0
Allocation from the allowance for loan losses	365	191	82	11	0
Impaired loans as a percentage of total loans, net of unearned income and deferred commission	27.6%	19.6%	10.5%	1.1%	0.0%
Impaired contingencies	\$ 45	\$ 32	\$ 32	\$ 13	\$ 0
Allocation from the reserve for losses on off balance-sheet credit risks	14	20	21	9	0
Impaired contingencies as a percentage of total contingencies	9.2%	8.8%	10.5%	1.7%	0.0%
Impaired securities (par value)	\$ 107	\$ 10	\$ 5	\$ 0	\$ 0
Estimated fair value adjustments on options and impaired securities ¹	73	5	4	0	0
Estimated fair value of impaired securities	\$ 35	\$ 5	\$ 1	\$ 0	\$ 0
Impaired securities as a percentage of total securities ²	21.6%	6.8%	0.5%	0.0%	0.0%
Impaired assets and contingencies as a percentage of total credit portfolio ³	23.4%	17.0%	9.8%	1.2%	0.0%

¹ Includes impairment losses on securities, estimated unrealized gain (loss) on impaired securities, premiums and discounts.

² Total securities consist of investment securities considered part of the Bank's credit portfolio.

³ The total credit portfolio consists of loans net of unearned income, fair value of investment securities, securities purchased under agreements to resell and contingencies.

Allowance for Credit Losses

The allowance for credit losses (which includes the allowance for loan losses and the reserve for losses on off-balance sheet credit risk) covers the credit risk on loans and contingencies. The allowance for credit losses includes an asset-specific component and a formula-based component in line with FAS 5. The asset-specific component relates to a provision for losses on credits considered impaired and measured on a case-by-case basis pursuant to FAS 114. For additional information regarding allowance for credit losses, see Notes 2 (k) and 7 to the Consolidated Financial Statements.

During the third quarter of 2005, Bladex implemented a new methodology for estimating generic allowances for credit losses. The new methodology is driven primarily by Bladex's own historical probability of default and loss experience, as well as an internal country risk classification, rather than relying exclusively on third party data, as was formerly the case. This change in methodology was the result of the Bank's decision to adopt best practices in the banking industry, and is in line with FAS 5, which calls for the use of internal historical performance data in the estimation of credit loss reserves. The Bank began compiling its eight-year historical database in 2004 and completed this effort during 2005.

The reserve balances for estimating generic allowances, for both on and off-balance sheet credit exposures, are calculated applying the following formula:

$$\text{Reserves} = S(E \times PD \times LGD)$$

where:

- a) Exposure (E) = the total accounting balance (on and off-balance sheet) at the end of the period under review, segregated by country.
- b) Probabilities of Default (PD) = one-year probability of default applied to the portfolio in each country. Default rates are based on Bladex's historical portfolio performance per country rating category during an eight-year period, complemented by probabilities of default data from international credit rating agencies for high risk cases, in view of the greater robustness of credit rating agencies data for such cases.
- c) Loss Given Default (LGD) = a factor of 45% is utilized, based on best practices in the banking industry. This factor applies to all countries, except those classified as higher risk, in which case management applies historical loss experience on a case-by-case basis.

The following table sets forth information regarding the Bank's allowance for credit losses with respect to total credits outstanding at December 31 of each year:

	2002	2003	2004	2005	2006
	(in \$ millions, except percentages)				
<i>Components of the allowance for credit losses</i>					
Allowance for loan losses					
Balance at beginning of the year	\$ 177	\$ 430	\$ 224	\$ 106	\$ 39
Provision (reversal)	273	(70)	(111)	(48)	12
Effect of change in methodology	0	0	0	(6)	0
Cumulative effect on prior years (2004) of a change in credit loss reserve methodology					
	0	0	0	(6)	0
Recoveries	0	2	6	3	0
Loans charged-off	(21)	(138)	(13)	(9)	0
Balance at the end of the year	\$ 430	\$ 224	\$ 106	\$ 39	\$ 51
Reserve for losses on off-balance sheet credit risk:					
Balance at beginning of the year	\$ 17	\$ 23	\$ 34	\$ 33	\$ 52
Provision (reversal)	6	11	(1)	(0)	(25)
Effect of change in methodology	0	0	0	16	0
Cumulative effect on prior years (2004) of a change in credit loss reserve methodology					
	0	0	0	3	0
Balance at end of the year	\$ 23	\$ 34	\$ 33	\$ 52	\$ 27
Total allowance for credit losses	\$ 453	\$ 258	\$ 139	\$ 92	\$ 78
Allowance for credit losses to total credit portfolio					
	13.7%	9.1%	4.7%	2.5%	2.0%

The effect of the change in credit loss methodology for 2005 decreased net income by \$10 million, or \$0.26 per share (resulting from a loan loss reserve provision reversal of \$6 million, and an off-balance sheet reserve provision charge of \$16 million). In addition, the adjustment to apply retroactively the new methodology (to December 31, 2004) increased net income for 2005 by \$3 million (resulting from a loan loss reserve provision reversal of \$6 million and an off-balance sheet reserve provision charge of \$3 million). The pro-forma amounts shown on the income statement have been adjusted for the effect of retroactive application of the credit loss reserve, which could have been applied, had the new methodology been in effect.

The \$12 million overall positive impact on 2005 net income as it relates to the allowance for loan losses results from the use by the Bank of its own historical portfolio performance to determine the probabilities of default, whereas the previous methodology utilized only probabilities of default data from international credit rating agencies, which are more severe than the Bank's, given the more selective and specialized nature of the Bank's portfolio (short-term trade finance). To a lesser extent, the result was also affected by the use of the current methodology of one-year probabilities of default, given the short-term nature of the Bank's portfolio (average maturity of 264 days), whereas the previous methodology utilized the probabilities of default of the remaining tenor of each loan, which resulted in more severe factors when exposures were longer term.

With regard to the reserve for losses on off-balance sheet credit risk, the \$19 million overall negative impact on 2005 net income reflected the use by the previous methodology of a somewhat lower probability of default for off-balance sheet items, whereas the current methodology applies the same factor to both on and off-balance sheet items. This is

because the Bank's data at this date is not sufficiently large to allow for segregated probabilities of default on a robust basis. In this regard, we note that the Bank determined, in the aftermath of the Argentine crisis, to reserve for both on and off-balance sheet items on an equal basis.

The following table sets forth information regarding the Bank's allowance for credit losses allocated by country of exposure at December 31 of each year:

	2004		2005		2006	
	Total	%	Total	%	Total	%
(in \$ millions, except percentages)						
Argentina	\$ 83.9	60.2%	\$ 21.0	23.0%	\$ 25.4	32.4%
Brazil	29.3	21.0	18.5	20.2	11.2	14.3
Colombia	1.3	0.9	0.5	0.5	1.7	2.2
Dominican Republic	3.9	2.8	1.2	1.3	2.6	3.3
Ecuador	14.4	10.3	46.1	50.4	30.0	38.3
Jamaica	1.0	0.7	0.2	0.3	2.4	3.1
Mexico	1.2	0.8	0.1	0.1	1.2	1.6
Peru	1.3	1.0	2.8	3.0	0.6	0.8
Other ¹	3.2	2.3	1.2	1.3	3.2	4.1
Total Allowance for Credit Losses	\$ 139.5	100.0%	\$ 91.5	100.0%	\$ 78.5	100.0%

¹ Other consists of allowance for credit losses allocated to countries in which allowance for credit losses outstandings did not exceed \$1 million for any of the periods indicated above.

The following table sets forth information regarding the Bank's allowance for credit losses by type of borrower at December 31 of each year:

	2004	2005	2006
	(in \$ millions)		
Private sector commercial banks	\$ 30.1	\$ 19.8	\$ 14.9
State-owned commercial banks	60.0	18.0	5.3
Central banks	10.0	36.1	20.5
Sovereign debt	0.0	1.1	1.1
State-owned exporting organization	6.6	3.1	1.5
Private corporations	32.6	13.5	35.1
Total	\$ 139.5	\$ 91.5	\$ 78.5

The following table sets forth the distribution of the Bank's loans charged-off against the allowance for loan losses, by country at December 31 of each year:

	2002	%	2003	%	2004	%	2005	%	2006	%
	(in \$ millions, except percentages)									
Argentina	\$ 20	95.3	\$ 137	99.4	\$ 13	100.0	\$ 5	53.7	\$ 0	0.0
Brazil	0	0.0	0	0.0	0	0.0	4	46.3	0	0.0
Mexico	1	4.7	0	0.0	0	0.0	0	0.0	0	0.0
Paraguay	0	0.0	1	0.6	0	0.0	0	0.0	0	0.0
Total	\$ 21	100.0	\$ 138	100.0	\$ 13	100.0	\$ 9	100.0	\$ 0	0.0

Reversals of Argentine Specific Provision for Credit Losses

The crisis in Argentina that began in December 2001, 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. This economic crisis resulted in the imposition by the Argentine government of a number of measures, including a freeze on bank deposits, forced conversion of dollar-denominated bank deposits, a 70% currency devaluation, and the imposition of exchange controls. Because of the Argentine crisis, the Bank's Argentine obligors faced repayment difficulties. At December 31, 2001, the Bank's Argentine credit portfolio totaled \$1 billion. The Bank classified as impaired nearly its entire Argentine exposure due to these collectibility concerns and increased its allowance for credit losses during 2001 and 2002 by \$77 million and \$279 million, respectively, bringing the total credit reserves assigned to its Argentine portfolio to \$380 million at December 31, 2002.

In the years following the crisis, Argentina continued to experience significant problems and uncertainties, such as its defaults on debt with the World Bank and IMF, exchange controls, the need for important structural reforms (related to public security and the financial system), and political conflicts and domestic uncertainty. These factors forced the Bank to maintain strong provisioning coverage on its Argentine portfolio during these years.

Beginning in 2002, the Bank negotiated the restructuring of its Argentine portfolio and sold at a discount most of the positions that the Bank estimated had the lowest probability of collection. At the close of 2003, the Bank had restructured, sold or charged-off all of its non-performing exposures, with the exception of four clients for a total \$34 million. During 2004 and 2005, the Bank was able to sell these four exposures. The restructuring process was made possible in part by the exception granted to Bladex by the Central Bank of Argentina regarding the foreign exchange controls imposed at the early stage of the crisis.

In 2003, economic conditions in Argentina started to improve gradually. After an 11% negative economic growth in 2002, the country achieved a 9% GDP growth in 2003, and in each of the following two years. The country benefited from post-crisis catch-up effects and a declining interest rate environment, combined with increasing prices of its most important commodities, wheat and soy, driven by a strong demand from Asian markets, which had a positive effect on the country's balance of payments and current accounts. During 2005, the country benefited from the sovereign foreign debt restructuring process, involving a deep discount in value and reduced interest payments, which eased the pressure on its balance of payments and consequently, increased the availability of hard currency for Argentine corporations to repay their obligations.

The following table shows Argentina's key economic indicators for the years indicated, reflecting an improved economic scenario from 2003 through 2006:

Key Economic Indicators - Argentina¹

	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth (%)	-0.8%	-4.4%	-10.9%	8.8%	9.0%	9.2%	8.5%
Fiscal Balance (% GDP)	-2.4%	-3.2%	-1.5%	0.5%	3.1%	1.8%	1.8%
Public-sector Debt (% GDP)	45.1%	53.8%	145.9%	138.3%	127.3%	73.5%	64.6 ²
Inflation (%)	-0.7%	-1.5%	41.0%	3.7%	6.1%	12.3%	9.8%
Current Account (\$ millions)	-8,989	-3,336	8,710	8,051	3,158	5,625	8,054
Current Account (% GDP)	-3.2%	-1.2%	8.5%	6.2%	2.1%	3.1%	3.8%
Forex Reserves (\$ millions)	25,147	14,553	10,489	14,153	19,646	28,077	32,037
Debt Service ratio (%)	70.8%	42.2%	59.8%	79.3%	66.9%	47.3%	n.a.

¹ Source: Banco Central de la República Argentina.

² This ratio corresponds to the third quarter of 2006.

These factors contributed to a gradual improvement and more stable economic situation, which in turn improved the financial flexibility of many of the Bank's clients, allowing them to comply with their contracted payments or make prepayments. As a result, the Bank was able to decrease its impaired loan portfolio in Argentina by \$191 million, \$184 million, and \$23 million, for the years 2004, 2005, and 2006, respectively, as well as to recover previously charged-off loans, resulting in reversals of loan loss provisions for \$105 million, \$48 million, and \$10 million, respectively. These reversals resulted from loan collections and sales that exceeded their respective net book values.

The following table sets forth information regarding the Bank's reversals (provisions) of allowance for loan losses during the years indicated:

	For the year ended December 31,		
	2004	2005	2006
	(in \$ millions)		
Argentine reversals related to sale of loans	\$ 6.3	\$ 2.9	\$ 0.0
Argentine reversals related to credit restructurings and collections, and changes in expected loss levels	92.5	45.1	10.2
Total Argentine Specific Reserves Reversals	\$ 98.8	\$ 47.9	\$ 10.2
Brazil Specific Reserves Reversals (Provisions)	(2.2)	13.2	1.0
Total Specific Reserves Reversals	\$ 96.6	\$ 61.1	\$ 11.2
Generic Reserves Reversals (Provisions) - due to changes in credit portfolio composition and risk levels	\$ 8.4	\$ (15.5)	\$ (23.0)
Generic Reserves Reversals - due to change in credit loss reserve methodology	0.0	6.0	0.0
Total Generic Reserves Reversals (Provisions)	\$ 8.4	\$ (9.6)	\$ (23.0)
Recoveries - Argentine credits	6.4	0.3	0.0
Recoveries - Other credits	0.0	2.3	0.0
Total Recoveries	\$ 6.4	\$ 2.6	\$ 0.0
Total Reversals (Provisions) of Allowance for Loan Losses	\$ 111.4	\$ 54.2	\$ (11.8)

Revenues Per Country

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The following table sets forth information regarding the Bank's approximate net revenues per country at the dates indicated, with net revenues calculated as the sum of net interest income, fees and commissions, net derivatives and hedging activities, trading gains, net gain on sale of securities available for sale, gain (loss) on foreign currency exchange and other income, net.

	For the year ended December 31,		
	2004	2005²	2006
	(in \$ millions)		
Argentina	\$ 14.6	\$ 5.7	\$ 4.2
Brazil	17.9	23.4	31.4
Chile	1.1	2.9	2.7
Colombia	2.2	3.4	3.6
Costa Rica	0.0	0.0	1.6

	For the year ended December 31,		
	2004	2005 ²	2006
	(in \$ millions)		
Dominican Republic	1.1	1.0	1.0
Ecuador	2.8	2.5	2.9
El Salvador	0.6	1.2	1.5
Guatemala	0.0	0.0	1.3
Jamaica	0.6	1.2	1.5
Mexico	4.1	4.7	5.0
			3.6
Panama	0.6	1.6	3.4
Peru	1.1	1.4	3.4
Trinidad and Tobago	0.0	0.0	1.8
Venezuela	1.2	0.7	1.0
Other ¹	2.9	3.9	1.8 ³
Total	\$ 50.8	\$ 53.6	\$ 68.2

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

² Starting in 2005, derivatives & hedging activities are included as part of net revenues, as the Treasury Area became one of the Bank's revenue centers.

³ It includes \$627 thousand corresponding to the Bank's proprietary asset management fund.

The \$15 million increase in net revenues for 2006 compared to 2005, was mainly due to:

- a \$14 million, or 30%, increase in net interest income, mostly driven by:
- a 26% increase in the average accruing loan and investment portfolio; and
- an increase of 6 basis points in net interest margin, resulting from the impact of increasing interest rates on the Bank's available capital, wider lending spreads, and lower cost of funds.
- These factors were partially offset by the impact of lower interest collections on the Bank's richly priced non-accruing portfolio over the period.

- a \$1 million, or 12%, increase in non-interest income, mostly driven by:
- an 8% increase in fee income; and
- higher gains in Treasury activities.

The \$3 million increase in net revenues for 2005 compared to 2004, was primarily due to:

- the positive effect of higher interest rates on the Bank's interest-earning assets;
- the positive effect of an increase in the average credit portfolio from \$2,705 million in 2004 to \$3,081 million in 2005; and
- revenues from gains on hedging activities.
- These factors were offset by the impact of lower interest collections on the Bank's decreasing and richly priced non-accruing portfolio, as well as lower net lending margins and lower gains on the sale of Argentine impaired securities.

Competition

The Bank operates in a highly competitive environment in most of its markets. Management recognizes that the Bank needs to continue to invest and adapt in order to remain competitive. The Bank faces strong competition principally

from regional and international banks in making loans, and providing fee-generating services. The Bank competes in its lending and deposit taking activities with other banks and international financial institutions, many of which have greater financial resources and offer sophisticated banking services. Whenever economic conditions and risk perception improve in the largest countries of the Region, competition from commercial banks, the securities markets and other new participants tends to increase. Competition may have the effect of reducing the spreads of the Bank's lending rates over its funding costs and constraining the Bank's profitability.

The trade finance business is subject to change. Increased open account exports and new financing requirements from multinational corporations are changing the way banks intermediate foreign trade financing. The Bank cannot predict with certainty the changes that may occur and how these may affect the competitiveness of its businesses.

The Bank believes that competition also comes from investment banks and the local and international securities markets, which provide liquidity to the financial systems in certain countries in the Region, as well as non-bank specialized financial institutions. The Bank competes primarily on the basis of pricing and quality of service. Moreover, the Bank has developed customer loyalty because it has been a consistent source of trade-related financing. The Bank also believes that its operating efficiencies, commitment to the Region, preferred creditor status, market knowledge, and business focus constitute important competitive advantages in certain markets. See “Risk Factors”.

Regulation

General

The Superintendency of Banks of Panama (the “Superintendency of Banks”) regulates, supervises and examines Bladex. The New York Agency is regulated, supervised and examined by the New York Banking Department and the Federal Reserve Board. Bladex Offshore Feeder Fund and Bladex Capital Growth Fund are regulated by government authorities in the Cayman Islands. The regulation of the Bank by relevant Panamanian authorities differs from the regulation generally imposed on banks, including foreign banks, in the United States by U.S. federal and state regulatory authorities.

As of October 5, 2004, the Superintendency of Banks entered into an arrangement for the sharing of supervisory information with various U.S. regulators, including the Federal Reserve Board, the Office of the Comptroller of Currency and the Federal Deposit Insurance Corporation (the “Statement of Cooperation”). The Statement of Cooperation promotes cooperation between U.S. and Panamanian banking regulators and demonstrates the commitment of the U.S. regulators and the Superintendency of Banks to the principles of comprehensive consolidated supervision.

Panamanian Law

On February 26, 1998, Panama adopted Decree-Law No. 9 (the “Banking Law”), which is a comprehensive revision and restatement of the banking legislation in Panama. The Banking Law took effect on June 12, 1998.

The Bank operates in Panama under a General Banking License issued by the National Banking Commission, predecessor of the Superintendency of Banks, and is subject to supervision and examination by the Superintendency of Banks. Banks operating under a General Banking License (“General License Banks”) may engage in all aspects of the banking business in Panama, including accepting local and offshore deposits, as well as entering into banking transactions in Panama that may have an economic impact outside of Panama.

General License Banks must have paid-in capital of not less than \$10 million. Additionally, General License Banks must maintain minimum capital of 8% of their total risk-weighted assets. The capital adequacy standards used by the Superintendency of Banks are based on the Basel Capital Accord. The Superintendency of Banks is authorized to increase the minimum capital requirement percentage in Panama in the event that generally accepted international capitalization standards as set forth in the Basel Capital Accord become more stringent.

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

Pursuant to the Banking Law, the Bank cannot make loans or issue guarantees or any other obligation to any one person or a group of related persons in excess of thirty percent (30%) of its capital.

Under the Banking Law, a bank may not grant loans or issue guarantees or any other obligation to “related parties” that exceed (1) 5% of its total capital, in the case of unsecured transactions, (2) 10% of its total capital, in the case of collateralized transactions (other than loans secured by deposits in the bank), and (3) 25% of the Capital Funds of the Bank, in the case the total amount of all operations of the Bank and that of the subsidiaries that consolidate with for loans and credit facilities granted to Related Parties and for indebtedness title investment issued by Related Parties. For these purposes a “related party” is (a) any one or more of the bank’s directors, (b) any stockholder of the bank who directly or indirectly owns 5% or more of the outstanding and issued capital stock of the bank, (c) any company of which one or more of the bank’s directors is a director or officer or where one or more of the bank’s directors is a guarantor of the loan or credit facility, (d) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (e) any company or entity in which the bank or any one of its directors or officers owns 20% or more of the outstanding and issued capital stock of such company or entity and (f) managers, officers and employees of the bank, or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for employees). The Superintendency of Banks may authorize the total or partial exclusion of loans or credits from the computation of these limitations in cases of unsecured loans and other credits granted by mixed-capital banks with headquarters in Panama whose principal business is the granting of loans to other banks, which is the case of the Bank. This authorization is contingent on the following conditions: (i) the ownership of shares in the debtor bank -directly or indirectly- by the shared director or shared officer, may not exceed five-percent (5%) of the said bank's capital, or may not amount to any sum that would ensure his or her majority control over the decisions of this bank; (ii) the ownership of shares in the creditor bank -directly or indirectly- by the debtor bank represented in any manner by the shared director or shared officer, may not exceed five-percent (5%) of the shares outstanding of the creditor bank, or may not amount to any sum that would ensure his or her majority control over the decisions of this bank; (iii) the shared director or shared officer must abstain from participating in the deliberations and in the voting sessions held by the creditor bank regarding the loan or credit request under this article, and (iv) the loan or credit must strictly comply with customary standards of discretion set by the grantor bank's credit policy. The Superintendency of Banks shall determine the amount of the exclusion in the case of each loan or credit submitted for its consideration.

The Banking Law contains additional limitations and restrictions with respect to related party loans and credit facilities. For instance, under the Banking Law, all loans made to managers, officers, employees or stockholders who are owners of 5% or more of the lending Bank’s outstanding and issued capital stock shall be made on terms and conditions similar to those given by the bank to its clients in arm’s-length transactions and which reflect market conditions. Shares of a bank cannot be pledged or offered as security for loans or credit facilities issued by such bank.

In addition to the foregoing requirements, there are certain other restrictions applicable to General License Banks, including (1) a requirement that a bank must notify the Superintendency of Banks before opening or closing a branch or office in Panama and obtain approval from the Superintendency of Banks before opening or closing a branch or subsidiary outside Panama and (2) a requirement that a bank obtain approval from the Superintendency of Banks before it liquidates its operations, merges or consolidates with another bank or sells all or substantially all of its assets. The subsidiaries of Panamanian banks established in foreign jurisdictions must observe the legal and regulatory provisions applicable in Panama regarding the sufficiency of capital, as prescribed under the Banking Law.

The Banking Law provides that banks in Panama are subject to inspection by the Superintendency of Banks, which must take place at least once every two years. These supervisory powers of the Superintendency of Banks also extend to a bank’s subsidiaries and branches. The Superintendency of Banks last inspected the Bank during April and May 2006, and the results of this inspection were fully satisfactory.

The Superintendency of Banks is empowered to request from any bank or any company that belongs to the economic group of which a bank in Panama is a member, the documents and reports pertaining to its operations and activities. Banks are required to file with the Superintendency of Banks monthly, quarterly and annually information, including financial statements, an analysis of their credit facilities and any other information, requested by the Superintendency

of Banks. In addition, banks are required to make available for inspection any reports or documents that are necessary for the Superintendency of Banks to ensure compliance with Panamanian banking laws and regulations. Banks subject to supervision may be fined by the Superintendency of Banks for violations of Panamanian banking laws and regulations.

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

United States Law

Bladex operates a New York state-licensed agency in New York, New York and maintains a wholly-owned non-banking subsidiary in Delaware, Bladex Holdings Inc., that is not engaged in activities other than owning two wholly owned subsidiaries incorporated under the laws of the State of Delaware: Clavex, LLC, incorporated on June 15, 2006, and Bladex Asset Management, Inc. incorporated on May 24, 2006. On October 30, 2006, the Bank established an International Administrative Office in Miami, Florida (the “Miami Office”).

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

The Superintendent is empowered by law to require any branch or agency of a foreign bank to maintain in New York specified assets equal to a percentage of the branch or agency’s liabilities, as the Superintendent may designate. Under the current requirement, the New York Agency is required to maintain a pledge of 1% of its total third-party liabilities, subject to a minimum of \$2 million. At December 31, 2006, the New York Agency maintained a pledge of \$5.5 million, complying with the minimum required amount.

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

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

Florida State Law. The Miami Office, established in October 2006, is licensed and supervised by the Florida Office of Financial Regulation under the Florida Financial Institutions Codes. The Miami Office is subject to certain activities restrictions described below as well as to Florida banking laws and regulations that are applicable generally to foreign banks that operate offices in Florida. The Miami Office is also subject to regulation by the Federal Reserve Board under the International Banking Act of 1978 (the “IBA”).

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

Federal Law. In addition to being subject to New York and Florida state laws and regulations, the New York Agency and the Florida International Administrative Office are subject to federal regulations, primarily under the IBA and is subject to examination and supervision by the Federal Reserve Board. The IBA generally extends federal banking

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

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

The New York Agency does not engage in retail deposit-taking in the United States, and deposits with the New York Agency are not insured by the Federal Deposit Insurance Corporation (“FDIC”). Under the FBSEA, the New York Agency may not obtain FDIC insurance and generally may not accept deposits of less than \$100,000.

The IBA also restricts the ability of a foreign bank with a branch or agency in the United States to engage in nonbanking activities in the United States, to the same extent as a United States bank holding company. Bladex is subject to certain provisions of the Federal Bank Holding Company Act of 1956 (the “BHCA”) because it maintains an agency in the United States. Generally, any nonbanking activity engaged in by Bladex directly or through a subsidiary in the United States is subject to certain limitations under the BHCA. Under the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the “GLB Act”), a foreign bank with a branch or agency in the United States may engage in a broader range of non-banking financial activities, provided it is qualified and has filed a declaration with the Federal Reserve Board to be a “financial holding company” (“FHC”). As of the date hereof, Bladex has not filed such declaration with the Federal Reserve Board. At present, Bladex has one subsidiary in the United States, Bladex Holdings Inc. (“Bladex Holdings”), that is incorporated under Delaware law. That subsidiary is not engaged in any activity, other than owning two Delaware Companies, which are Bladex Asset Management, Inc. and Clavex, LLC.

The USA PATRIOT Act of 2001 (the “PATRIOT Act”) substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significantly new compliance and due diligence obligations, creating new crimes and penalties and expanding the extraterritorial jurisdiction of the United States. Failure of a financial institution to comply with the PATRIOT Act’s requirements could have serious legal and reputational consequences for an institution. Both the New York Agency and the Miami Office are “financial institutions” within the meaning of the PATRIOT Act.

Cayman Islands Law

Bladex Offshore Feeder Fund and Bladex Capital Growth Fund are exempted companies incorporated in the Cayman Islands with limited liability, incorporated on February 21, 2006 under the Companies Law (2004 Revision) of the Cayman Islands. The registered office of these companies is at PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Companies Law (2004 Revision) of the Cayman Islands (the “Companies Law”) is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Section 193 of the Companies Law requires that Bladex Offshore Feeder Fund and Bladex Capital Growth Fund shall not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of these companies carried on outside the Cayman Islands. This does not prevent Bladex Offshore Feeder Fund and Bladex Capital Growth Fund from effecting and concluding contracts in the Cayman Islands and exercising in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands.

Cayman Islands Anti-Money Laundering laws and regulations. The Proceeds of Criminal Conduct Law (2005 Revision) and the Terrorism Law (2003 Revision) of the Cayman Islands impose reporting obligations on residents of the Cayman Islands who know or suspect the involvement of another person in money laundering or terrorist activities.

C. Organizational Structure

For information regarding the Bank's organizational structure see Note 1 to the Consolidated Financial Statements.

D. Property, Plants and Equipment

The Bank owns its principal offices, with office space of 3,457 square meters, located at Calle 50 y Aquilino de La Guardia in Panama City. In addition, the Bank leases office space for its representative offices in Mexico and Buenos Aires, Bladex Representação Ltda. in Brazil, its New York Agency, Bladex Asset Management in New York, and its International Administrative Office in Miami. See Notes 2 (n) and 17 to the Consolidated Financial Statements.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the Bank's Consolidated Financial Statements and the Notes thereto included elsewhere in this Annual Report.

Nature of Earnings

The Bank derives income from net interest income, fee income, gains of securities available for sale and from trading gains. Net interest income, or the difference between the interest income the Bank receives on its interest-earning assets and the interest it pays on interest-bearing liabilities, is generated principally by the Bank's lending activities. The Bank generates fee income mainly through the issuance, confirmation and negotiation of letters of credit and guarantees covering commercial and country risk, loan origination and sales.

A. Operating Results

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

	At and For the Year Ended December 31,		
	2004	2005	2006
	(in \$ thousands, except per share amounts and percentages)		
Total interest income	\$ 76,152	\$ 116,823	\$ 203,350
Total interest expense	34,127	71,570	144,513
Net interest income	42,025	45,253	58,837
Reversal of (provision for) loan losses	111,400	54,155	(11,846)
Net interest income after reversal of (provision for) loan losses	153,425	99,408	46,991
Other income (expense):			
Reversal of (provision for) losses on off-balance sheet credit risk	871	(15,781)	24,891
Commission income, net	5,928	5,824	6,285
Derivatives and hedging activities	47	2,338	(225)
Recoveries (impairment) on securities	0	10,206	5,551
Trading gains	0	0	879
Net gain on sale of securities available for sale	2,922	206	2,568
Gain (loss) on foreign currency exchange	(194)	3	(253)
Other income, net	83	5	144
Net other income	9,657	2,801	39,840
Total operating expenses	(21,352)	(24,691)	(28,929)
Income before cumulative effect of changes in accounting principles	\$ 141,730	\$ 77,518	\$ 57,902
	0	2,733	0

Cumulative effect on prior years (to December 31, 2004) of a change in the credit loss reserve methodology

Cumulative effect on prior years (to December 31, 2004) of an early adoption of the fair-value-based method of accounting stock-based employee compensation

	0	(150)	0
Net income	\$ 141,730	\$ 80,101	\$ 57,902
Net income per share	\$ 3.61	\$ 2.08	\$ 1.56
Diluted earnings per share	\$ 3.60	\$ 2.06	\$ 1.54
Return on average assets	5.8%	3.0%	1.7%
Return on average stockholders' equity	22.8%	12.9%	10.0%

Net Income

During 2006, Bladex achieved net income of \$58 million, compared with net income of \$80 million for 2005. The reduction in net income during 2006 resulted from lower reversals of credit provisions and recoveries on assets, net of impairments, which for 2006 amounted to \$19 million, compared to \$51 million in 2005.

The \$62 million net income reduction during 2005 was driven by lower net reversals of both credit provisions and impairment losses, which amounted to \$51 million, compared to \$112 million in 2004, resulting from the \$247 million reduction in the non-accruing credit portfolio in Argentina and Brazil. Excluding the impact of the reversals of credit provisions and impairment losses, and net revenues from the non-accruing portfolio, net income for 2005 grew by 42%.

Net Interest Income and Margins

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

	For the Year Ended December 31,		
	2004	2005	2006
	(in \$ millions, except percentages)		
Interest income			
Accruing assets	\$ 57	\$ 108	\$ 201
Non-accruing assets	19	9	3
Total interest income	76	117	203
Interest expense	(34)	(72)	(145)
Net interest income	\$ 42	\$ 45	\$ 59
Net interest margin	1.65%	1.70%	1.76%
Net interest spread	0.98%	0.67%	0.70%

The \$14 million, or 30%, increase in net interest income during 2006 was driven by a 26% increase in the average accruing loan and investment portfolio, as a well as higher net interest margin (6 bps), the latter resulting from the impact of increasing interest rates on the Bank's available capital, wider lending spreads, reflecting changes in the Bank's portfolio mix, and lower cost of funds. These factors were partially offset by the lower interest collections on the Bank's (richly) priced non-accruing portfolio over the period.

The \$3 million increase in net interest income and the increase in net interest margin in 2005 compared to 2004 were mainly due to the positive effect of higher market interest rates on the Bank's interest earning assets. This factor offset the impact of lower interest collections on the Bank's decreasing non-accruing portfolio, which resulted in the decline in net interest spread.

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

The following table presents the distribution of consolidated average assets, liabilities and stockholders' equity, as well as the total dollar amounts of interest income from average interest-earning assets and the resulting yields, and the dollar amounts of interest expense and average interest-bearing liabilities, and corresponding information regarding rates. All impaired loans are on non-accruing status, and interest on these loans is accounted for on a cash basis. Average balances have been computed on the basis of consolidated daily average balance sheets.

Description	Year ended December 31,								
	2004			2005			2006		
	Average balance	Average Interest	Average yield/rate	Average balance	Average Interest	Average yield/rate	Average balance	Average Interest	Average yield/rate
(in \$ millions, except percentages)									
Interest-Earning Assets									
Interest-bearing deposits									
with banks	\$ 213	\$ 3	1.28%	\$ 158	\$ 5	3.19%	\$ 180	\$ 9	4.90%
Securities purchased under agreements to resell	89	2	1.92	0	0	n.a.	0	0	n.a.
Loans, net	1,792	47	2.58	2,211	93	4.15	2,697	163	5.96
Impaired loans	356	19	5.16	106	9	8.10	18	3	14.77
Trading assets	0	0	n.a.	0	0	n.a.	50	6	11.46
Investment securities	92	6	6.31	181	10	5.43	390	23	5.76
Total interest-earning assets	\$ 2,542	\$ 76	2.95%	\$ 2,656	\$ 117	4.34%	\$ 3,336	\$ 203	6.01%
Non-interest-earning assets	\$ 61			\$ 81			\$ 90		
Allowance for loan losses	(179)			(79)			(44)		
Other assets	7			9			21		
Total Assets	\$ 2,432			\$ 2,667			\$ 3,403		
Interest-Bearing Liabilities									
Deposits	\$ 772	\$ 12	1.52%	\$ 869	\$ 30	3.36%	1,106	\$ 57	5.05%
Securities sold under repurchase agreements	159	2	1.29	40	1	2.92	306	16	5.29
Short-term borrowings and placements	374	7	1.92	565	19	3.36	738	39	5.16
Medium- and long-term borrowings and placements	401	13	3.14	451	22	4.72	500	28	5.57
Trading liabilities	0	0	n.a.	0	0	n.a.	35	5	13.17
Total interest-bearing liabilities	\$ 1,707	\$ 34	1.97%	\$ 1,925	\$ 72	3.67%	\$ 2,684	\$ 145	5.31%
Non-interest bearing liabilities and other liabilities	\$ 102			\$ 118			\$ 137		
Total Liabilities	\$ 1,809			\$ 2,044			\$ 2,821		
Stockholders' equity	623			623			581		
Total Liabilities, Redeemable Preferred Stock and Stockholders' Equity	\$ 2,432			\$ 2,667			\$ 3,403		
Net Interest Spread			0.98%			0.67%			0.70%
Net Interest Income and Net Interest Margin		\$ 42	1.65%		\$ 45	1.70%		\$ 59	1.76%

Changes in Net Interest Income — Volume and Rate Analysis

Net interest income is affected by changes in volume and changes in interest rates. Volume changes are caused by differences in the level of interest-earning assets and interest-bearing liabilities. Rate changes result from differences in yields earned on interest-earning assets and rates paid on interest-bearing liabilities. The following table sets forth a summary of the Bank's changes in net interest income of the Bank resulting from changes in average interest-earning asset and interest-bearing liability balances (volume) and changes in average interest rates for 2005 compared to 2004 and 2006 compared to 2005. Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rates have been allocated equally to volume and rate.

	2005 vs. 2004			2006 vs. 2005		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in \$ thousands)					
Increase (Decrease) in interest income						
Interest-bearing deposits with banks	(\$1,238)	\$ 3,593	\$ 2,356	\$ 914	\$ 2,939	\$ 3,853
Securities purchased under agreements to resell	(867)	(867)	(1,733)	0	0	0
Loans, net	14,312	31,656	45,968	24,916	45,141	70,058
Impaired loans	(16,848)	6,861	(9,987)	(10,180)	4,196	(5,984)
Trading assets	0	0	0	2,905	2,905	5,810
Investment securities	5,313	(1,245)	4,068	11,836	955	12,791
Total increase (decrease)	\$ 673	\$ 39,998	\$ 40,671	\$ 30,391	\$ 56,135	\$ 86,527
Increase (Decrease) in interest expense						
Deposits	2,392	15,228	17,620	10,090	16,961	27,051
SSecurities sold under repurchase agreements..	(2,539)	1,650	(889)	11,065	4,167	15,232
Short-term borrowings and placements	5,112	6,796	11,908	7,460	11,901	19,361
Medium- and long-term borrowings and placements	2,000	6,804	8,804	2,540	4,120	6,660
Trading liabilities	0	0	0	2,320	2,320	4,640
Total increase (decrease)	\$ 6,965	\$ 30,479	\$ 37,443	\$ 33,474	\$ 39,469	\$ 72,943
Increase (Decrease) in net interest income	\$ (6,292)	\$ 9,520	\$ 3,228	\$ (3,082)	\$ 16,666	\$ 13,584

Reversal of (Provision for) Loan Losses

The Bank's \$12 million provision for loan losses during 2006 was mainly due to the net effect of:

- a \$23 million generic provision charge, due to increased loan exposure;
- a \$10 million reversal related to the collection of Argentine restructured loans during the year; and
- a \$1 million reversal related to the collection of a Brazilian restructured loan during the year.

The Bank's \$54 million reversal of provision for loan losses during 2005 was mainly due to the net effect of:

- a \$3 million reversal related to the sale of an Argentine loan with a nominal value of \$11 million;
- a \$45 million reversal related to the decrease in Argentine restructured loans, reflecting payments and prepayments received during the year;
- a \$13 million reversal related to the decrease in Brazilian restructured loans, reflecting payments and prepayments received during the year;
- a \$3 million reversal due to recoveries from loans charged-off in previous years;
- \$16 million generic provision charge, due to increased loan exposure; and
- a \$6 million reversal due to the change in the credit loss reserve methodology during 2005.

For detailed information see "Business Overview — Allowance for Credit Losses and Asset Quality".

Commission Income

The Bank generates commission income primarily from originating letters of credit confirmation, guarantees, country risk coverage, and loans. The following table shows the components of the Bank's commission income for the periods indicated.

	For the Year Ended December 31,		
	2004	2005	2006
	(in \$ thousands)		
Letters of credit	\$ 3,894	\$ 3,396	\$ 4,121
Guarantees	1,540	2,011	1,419
Loans and other	603	464	773
Commission Income	\$ 6,037	\$ 5,872	\$ 6,313
Commission Expense	(109)	(48)	(28)
Commission Income, Net	\$ 5,928	\$ 5,824	\$ 6,285

The increase of \$461 thousand in commission income, net for 2006, compared to 2005, reflects mostly a 12% increase in the average volume of letters of credit.

The decline of \$104 thousand in commission income for 2005 compared to 2004 resulted mainly from lower pricing in the letter of credit business.

Reversal (provision) for Losses on Off-Balance Sheet Credit Risk

The \$25 million reversal of provision for losses on off-balance sheet credit risk in 2006 was mainly due to a \$15 million reduction in generic reserves driven by exposure reductions in certain countries and a \$10 million reversal in specific reserves resulting from the maturity of Argentine impaired contingencies. The \$16 million provision for losses on off-balance sheet credit risk in 2005 was mainly related to the effect of a change in the credit loss reserve methodology during 2005. For detailed information see "Business Overview — Allowance for Credit Losses and Asset Quality".

Derivatives and Hedging Activities

During 2005, the Bank recorded income of \$2 million mostly related to the unwinding of interest rate swaps associated with the sale of securities available for sale.

Impairment Loss on Securities

For detailed information see “Business Overview — Allowance for Credit Losses and Asset Quality”.

Gain on the Sale of Securities Available for Sale

From time to time, the Bank purchases debt instruments as part of its Treasury activity with the intention of selling them prior to maturity. These debt instruments are classified as securities available for sale and are included as part of the Bank's credit portfolio. During 2006, the Bank's net gain on the sale of securities available for sale was \$3 million related to the sale of securities available for sale for a nominal amount of \$105 million. During 2005 and 2004, the Bank had gains on the sale of securities available for sale for \$206 thousand and \$3 million respectively, mostly related to the sale of impaired Argentine securities.

Operating Expenses

The following table shows a breakdown of the components of total operating expenses for the periods indicated.

	For the Year Ended December 31,		
	2004	2005	2006
	(in \$ thousands)		
Salaries and other employee expenses	\$ 10,335	\$ 13,073	\$ 16,826
Depreciation	1,298	869	1,406
Professional services	2,572	3,281	2,671
Maintenance and repairs	1,207	1,172	1,000
Other operating expenses	5,941	6,295	7,026
Total Operating Expenses	\$ 21,352	\$ 24,691	\$ 28,929

The \$4 million, or 17% increase in operating expenses for 2006 compared to 2005, was mostly due to higher salary expenses associated with the development of the corporate segment and the implementation of new business initiatives, including proprietary asset management, leasing, and digital identity, as well as increased depreciation expenses related to Bank's new technology platform.

The \$3 million, or 16%, increase in operating expenses for 2005 compared to 2004, was mostly due to increased expenses associated with the strengthening of the Bank's sales team, the adoption of FAS 123R related stock-based compensation expense, and legal and consulting fees related to new product development and business initiatives.

Changes in Financial Condition

The following table summarizes components on the Bank's balance sheet at December 31 of each year:

	2004	2005	2006
	(in \$ thousands)		
Assets			
Cash and due from banks	\$ 687	\$ 687	\$ 401
Interest-bearing deposits with banks	154,099	229,200	331,764
Trading assets	0	0	130,076
Investment securities	192,856	208,570	471,351
Loans	2,441,686	2,610,019	2,980,772
Less:			
Allowance for loan losses	(106,352)	(39,448)	(51,266)
Unearned income and deferred loan fees	(7,013)	(5,577)	(4,425)
Loans, net	2,328,321	2,564,994	2,925,081
Customers' liabilities under acceptances	32,530	110,621	46,006
Premises and equipment, net	3,508	3,253	11,136

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Accrued interest receivable	15,448	30,254	55,238
Derivative financial instruments-assets	0	357	541
Other assets	5,491	11,295	6,743
Total Assets	\$ 2,732,940	\$ 3,159,231	\$ 3,978,337
Liabilities and Stockholders' Equity			
Deposits	864,160	1,046,618	1,056,277
Securities sold under repurchase agreements	82,368	128,599	438,356
Short-term borrowings	622,350	632,100	1,157,248
Medium and long-term borrowings and placements	403,621	533,860	558,860
Trading liabilities	0	0	54,832
Acceptances outstanding	32,530	110,621	46,006
Accrued interest payable	6,477	14,736	28,420
Derivative financial instruments-liabilities	0	297	2,634
Reserve for losses on off-balance sheet credit risk	33,101	52,086	27,195
Redeemable preferred stock	7,860	5,149	0
Other liabilities	24,342	18,383	24,614
Total Liabilities	\$ 2,076,810	\$ 2,542,449	\$ 3,394,442
Stockholders' Equity			
Common stock, no par value	279,978	279,979	279,980
Capital surplus	133,785	134,340	134,945
Capital reserves	95,210	95,210	95,210
Retained earnings	233,701	212,916	205,200
Accumulated other comprehensive income (loss)	6,082	619	3,328
Treasury stock	(92,627)	(106,282)	(134,768)
Total Stockholders' Equity	\$ 656,130	\$ 616,782	\$ 583,895
Total Liabilities and Stockholders' Equity	\$ 2,732,940	\$ 3,159,231	\$ 3,978,337

Loans

The \$371 million increase in loans during 2006 reflects the Bank's new strategy to diversify its client base, involving principally an increase in its activity with corporations. The corporate portfolio increased \$600 million to represent 45% of the total portfolio, as compared to one third of the portfolio in 2005.

The \$168 million increase in loans during 2005 was mainly attributable to the increase in the Bank's non-trade lending, which offset the reduction in the Bank's non-accruing portfolio.

Critical Accounting Policies

General

The Bank prepares its Consolidated Financial Statements in conformity with U.S. GAAP. As such, the Bank is required to use methods, make estimates, judgments and assumptions in applying its accounting policies that have a significant impact on the results it reports in its Consolidated Financial Statements. Some of the Bank's accounting policies require management to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The Bank's management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from the estimates.

The Bank's most critical accounting estimates include the assessment of allowance for credit losses, impairments on the value of securities that are "other than temporary" and the fair value of financial instruments. For information regarding the Bank's most critical accounting policies see Notes 2, 5, 7 and 20 to the Consolidated Financial Statements.

B. Liquidity and Capital Resources

Liquidity

Liquidity refers to the Bank's ability to maintain adequate cash flows to fund operations and meet obligations and other commitments on a timely basis. The Bank maintains its liquid assets in demand deposits, overnight funds and time deposits with well-known international banks. These liquid assets are adequate to cover 24-hour deposits from customers, which theoretically could be withdrawn on the same day. At December 31, 2006, the Bank's 24-hour deposits from customers (overnight deposits, demand deposit accounts and call deposits) amounted to \$132 million, representing 12.5% of the Bank's total deposits. The liquidity requirement resulting from these maturities is met by the Bank's liquid assets, which at December 31, 2006, were \$327 million (representing 31% of total deposits), and by daily maturities of approximately \$62 million to \$114 million in the Bank's loan portfolio.

The main objectives of the Bank's policy with respect to liquidity risk are: to achieve diversification of liabilities, to avoid concentrations (both in clients and maturities), to have adequate liquid assets levels, and to avoid risky mismatches between assets and liabilities. The Bank established the following limits: maximum deposits taken from any client or economic group maturing in one day, and total maximum deposits maturing in any one day. The Bank also established a limit on the cumulative maturity gap and a liquidity ratio (a percentage of total interest-earning assets in highly liquid assets - cash and due from banks, unpledged deposits with banks and selected investments not used as collateral for repurchase agreements). Inter-bank deposits are placed with reputable international banks that have A1, P1, or F1 ratings by two of the major rating agencies, and are located outside of the Region. These banks must have a correspondent relationship with the Bank and be approved by the Board on an annual basis. In addition, the Bank's liquidity policy allows for investing in negotiable money market instruments, such as Euro certificates of deposit, commercial paper, bankers' acceptances and other liquid instruments with maturities of up to 180 days. These instruments must be of investment grade quality (carrying two of the following ratings: A-1, P-1 or F-1 from Standard & Poor's, Moody's or Fitch, respectively) and must have a liquid secondary market.

The primary objectives for the investment of the Bank's liquidity funds are security and convertibility and the secondary objective is yield. The Bank reviews and monitors its liquidity position on a daily basis.

The following table shows the Bank's liquid assets, which consist of short-term funds deposited with other banks broken down by principal geographic area:

	2004	At December 31, 2005 (in \$ millions)	2006
Europe	\$ 104	\$ 189	\$ 224
United States	1	1	49
Other O.E.C.D.	45	35	54
Total	\$ 151	\$ 225	\$ 327

While the Bank's liabilities generally mature over shorter periods than its assets, requiring the Bank to renew or create new liabilities at current interest rates, the associated risk is diminished by the short-term nature of the loan portfolio. At December 31, 2006, the average original term to maturity of the Bank's short-term loan portfolio was approximately 213 days.

At December 31, 2006, the Bank's cumulative maturity gap for the subsequent twelve-month period was positive. This means that the Bank has sufficient asset maturities in the next twelve months to cover the maturity of its liabilities.

Funding Sources

The Bank's principal sources of funds are deposits, borrowed funds and floating and fixed rate placements. While these sources are expected to continue to provide the majority of the funds needed by the Bank in the future, their mix, as well as the possible use of other sources of funds, will depend upon future economic and market conditions. The following table shows the Bank's funding distribution:

	2004	At December 31, 2005 (in percentages)	2006
Inter-bank deposits	41.6%	41.2%	31.1%
Securities sold under repurchase agreements	4.0%	5.1%	12.9%
Short- and medium-term borrowings and placements	49.4%	45.9%	50.6%
Other liabilities.	5.0%	7.9%	5.4%

Total liabilities	100.0 %	100.0 %	100.0 %
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Deposits

The Bank obtains deposits principally from central and commercial banks in the Region. At December 31, 2006, approximately 37% of the deposits held by the Bank were deposits made by central banks of countries in the Region. Many of these banks deposit a portion of their dollar reserves with the Bank. The average term remaining to maturity of deposits from central banks of countries in the Region at December 31, 2006 and 2005 was 44 days. The bulk of the Bank's remaining deposits is obtained primarily from commercial banks located in the Region. At December 31, 2006, deposits from the Bank's five largest depositors, of which three were central banks in the Region, represented 60% of the Bank's total deposits.

The following table analyzes the Bank's deposits by country at December 31 of each year:

	2004	2005	2006
		(in \$ millions)	
Argentina	\$ 75	\$ 75	\$ 91
Barbados	2	10	5
Brazil	365	424	400
Cayman Island	0	0	27
Chile	5	0	0
Colombia	32	44	47
Costa Rica	46	2	7
Dominican Republic	28	22	27
Ecuador	75	182	99
El Salvador	27	32	27
Finland	0	0	10
Guatemala	0	0	1
Germany	45	0	0
Haiti	2	2	3
Honduras	20	10	14
Italy	9	0	0
Jamaica	2	2	2
Mexico	90	128	35
The Netherlands	0	17	18
Nicaragua	0	0	2
Panama	13	15	48
Paraguay	3	0	0
Peru	0	5	43
United States	0	0	19
Trinidad and Tobago	10	11	10
Venezuela	14	65	121
Total	\$ 864	\$ 1,047	\$ 1,056

Short-Term Borrowings and Placements and Securities Sold Under Repurchase Agreements

The Bank's short-term borrowings consist of borrowings from banks and have maturities of up to 365 days. These borrowings are made available to the Bank on an uncommitted basis for the financing of trade-related loans. Approximately 39 European and North American banks provide these short-term borrowings from banks.

As of December 31, 2006, short-term borrowings amounted to \$1,596 million, an increase of \$835 million from December 31 2005. The increase in short-term borrowings funded the growth in the credit portfolio experienced during the year.

The average term remaining to maturity of short-term borrowings at December 31, 2006 was approximately 102 days. See Note 10 to the Consolidated Financial Statements.

The Bank also enters into repurchase agreements ("repos") with international banks, utilizing its investment securities portfolio to secure funding. As of December 31, 2006, repos amounted to \$438 million, an increase of \$309 million from December 31, 2005, reflecting the increase in the Bank's investment securities portfolio during this period.

The following table presents information regarding the amounts outstanding under, and interest rates on, the Bank's short-term borrowings and placements and securities sold under repurchase agreements at the dates and during the periods indicated.

At and for the Year Ended December 31,
2004 2005 2006
(in \$ millions, except percentages)

Short term borrowings and Securities sold under repurchase agreements

Advances from banks	\$	622	\$	608	\$	1,147
Discounted acceptances		0		24		10
Securities sold under repurchase agreements		82		129		438
Total short term borrowings and securities sold under repurchase agreements	\$	705	\$	761	\$	1,596
Maximum amount outstanding at any month-end	\$	705	\$	761	\$	1,634
Amount outstanding at year-end	\$	705	\$	761	\$	1,596
Average amount outstanding	\$	533	\$	601	\$	1,044
Weighted average interest rate on average amount outstanding		1.74%		3.39%		5.20%
Weighted average interest rate on amount outstanding at year end		2.83%		4.73%		5.51%

Medium- and Long-Term Borrowings and Placements

The interest rates on medium and long-term borrowings are adjusted semi-annually based on short-term LIBOR rates plus a credit spread (which is based on several factors, including credit ratings, risk perception, and the maturity period). The Bank uses these funds to finance its medium-term loan portfolio. The average term remaining to maturity of the Bank's medium and long-term debt is two years.

The Bank's Euro Medium Term Note Program, or, EMTN Program, has a maximum limit of \$2.3 billion. Notes issued under the EMTN Program are placed in the Euro or Regulation S or 144A markets, and are general obligations of the Bank. The EMTN Program may be used to issue notes with maturities ranging from 90 days up to a maximum of 30 years, at fixed or floating interest rates and in various currencies. The Bank has not actively used the EMTN Program in the past three years, as it has relied on cheaper interbank funding. As of December 31, 2006, the total amount outstanding under this program with medium-term maturities was \$25 million. As part of its interest rate and currency risk management, the Bank has from time to time, entered into foreign exchange forward and cross currency contracts and interest rate swaps to hedge the risk associated with a portion of the notes issued under its EMTN Program. See Note 11 to the Consolidated Financial Statements and "Quantitative and Qualitative Disclosure About Market Risk".

Cost and Maturity Profile of Borrowed Funds and Floating and Fixed Rate Placements

The following table sets forth certain information regarding the weighted average cost and the remaining maturities of the Bank's borrowed funds and floating and fixed rate placements at December 31, 2006:

	Amount (in \$ millions)	Weighted Average Cost
Short-term borrowings at fixed interest rate		
Due in 0 to 30 days	\$ 467	5.43%
Due in 31 to 90 days	465	5.50%
Due in 91 to 180 days	390	5.57%
Due in 181 to 365 days	274	5.57%
Total	\$ 1,596	5.51%
Medium and long-term borrowings at fixed interest rate		
Due in 0 to 30 days	\$ 1	8.42% ¹
Due in 31 to 90 days	3	8.42% ¹
Due in 91 to 180 days	4	8.42% ¹
Due in 181 to 365 days	48	5.01% ¹
Due in 1 through 4 years	49	8.42% ¹
Total	\$ 105	6.87%
Medium and long-term borrowings at floating interest rate		
Due in 0 to 30 days	\$ 1	5.71%
Due in 31 to 90 days	5	5.58%
Due in 91 to 180 days	25	5.90%
Due in 181 to 365 days	74	5.70%
Due in 1 through 4 years	324	5.74%
Total	\$ 429	5.74%
Medium & long-term floating rate placements		
Due in 1 through 4 years	\$ 25	6.10%
Total	\$ 25	6.10%

¹ Represent fixed rate interest-bearing liabilities booked in local currency, to fund fixed rate interest-earning assets in the same local currency.

Asset/Liability Management

The Bank seeks to manage its assets and liabilities to reduce the potential adverse impact on net interest income that could result from interest rate changes. The Bank controls interest rate risk through systematic monitoring of maturity mismatches. The Bank's investment decision-making takes into account not only the rates of return and the respective underlying degree of risk, but also liquidity requirements, including minimum cash reserves, withdrawal and maturity of deposits and additional demand for funds. For any given period, a matched pricing structure exists when an equal amount of assets and liabilities are repriced. An excess of assets or liabilities over these matched items results in a "gap" or "mismatch", as shown in the table under "Interest Rate Sensitivity" below. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income. Substantially all of the Bank's assets and liabilities are denominated in dollars and, therefore, the Bank has no material foreign exchange risk.

Interest Rate Sensitivity

The following table presents the projected maturities and interest rate adjustment periods of the Bank's assets, liabilities and stockholders' equity based upon the contractual maturities and adjustment dates at December 31, 2006. The Bank's interest-earning assets and interest-bearing liabilities and the related interest rate sensitivity gap shown in the following table may not reflect positions in subsequent periods.

	Total	0-30 Days	31-90 Days	91-180 Days	181-365 Days	More than 365 Days	Non-Interest Sensitive
(in \$ millions, except percentages)							
Interest-earning assets							
Cash and due from banks	\$ 29.3	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 29.3
Interest-bearing deposits with banks	302.9	297.4	5.5	0.0	0.0	0.0	0.0
Investment securities							
Trading securities	130.1	0.0	0.0	0.0	0.0	130.1	0.0
Available for Sale Securities	346.2	115.3	13.1	130.9	13.0	73.8	0.0
Held to Maturity Securities	125.2	35.1	10.0	80.1	0.0	0.0	0.0
Loans, net	2,925.1	522.7	1,294.4	836.5	132.3	194.9	(55.7)
Total interest-earning assets	3,858.7	970.5	1,323.0	1,047.5	145.3	398.8	(26.4)
Non-interest earning assets	112.9	0.0	0.0	0.0	0.0	0.0	112.9
Other assets	6.7	0.0	0.0	0.0	0.0	0.0	6.7
Total assets	\$ 3,978.3	\$ 970.5	\$ 1,323.0	\$ 1,047.5	\$ 145.3	\$ 398.8	\$ 93.3
Interest-bearing liabilities							
Deposits							
Demand	\$ 132.1	\$ 132.1	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Time	924.1	578.2	317.2	28.8	0.0	0.0	0.0
Securities sold under repurchase Agreements	438.4	322.7	115.7	0.0	0.0	0.0	0.0
Short-term borrowings and placements	1,157.2	144.4	349.2	390.1	273.5	0.0	0.0
Medium- and long-term borrowings and placements	558.9	252.0	51.7	129.6	60.4	65.2	0.0
Trading Liabilities	54.8	0.0	0.0	0.0	0.0	54.8	0.0
Total interest-bearing liabilities	3,265.6	1,429.4	833.8	548.5	333.9	120.0	0.0
Non-interest-bearing liabilities	128.9	0.0	0.0	0.0	0.0	0.0	128.9
Total liabilities	3,394.4	1,429.4	833.8	548.5	333.9	120.0	128.9
Stockholders' equity	583.9	0.0	0.0	0.0	0.0	0.0	583.9
Total liabilities and stockholders' equity	\$ 3,978.3	\$ 1,429.4	\$ 833.8	\$ 548.5	\$ 333.9	\$ 120.0	\$ 712.8
Interest rate sensitivity gap		(458.9)	489.2	499.0	(188.5)	278.8	(619.5)
Cumulative interest rate sensitivity gap		(458.9)	30.3	529.3	340.7	619.5	
Cumulative gap as a % of total interest-earning assets		-12%	1%	14%	9%	16%	

The Bank's interest rate risk is the exposure of earnings (current and potential) and capital to adverse changes in interest rates and is managed by attempting to match the term and repricing characteristics of the Bank's interest rate sensitive assets and liabilities. The Bank's interest rate risk arises from the Bank's liability sensitive short-term position, which means that the Bank's interest-bearing liabilities reprice more quickly than the Bank's interest-earning assets. As a result, there is a potential adverse impact on the Bank's net interest income that might result from interest rate increases. The Bank's policy with respect to interest rate risk provides that the Bank establishes limits with regards to: (i) changes in net interest income due to a potential impact given certain movements in interest rates, (ii) changes in the amount of available equity funds of the Bank (given a one basis point movement in interest rates) and (iii) changes in Value-at-Risk (VaR) of the Bank's portfolio (the expected maximum loss due to interest rate fluctuations, based on statistical analysis of the historical volatility of the Bank's portfolio). The Bank also has used interest rate swaps as part of its interest rate risk management. Interest rate swaps are made either in a single currency or cross-currency for a prescribed period to exchange a series of interest rate flows, which involve fixed for floating rate interest payments or vice versa.

Stockholders' Equity

The following table presents information concerning the Bank's capital position at the dates indicated.

	2004	At December 31, 2005	2006
		(in \$ thousands)	
Common stock	\$ 279,978	\$ 279,978	\$ 279,980
Capital surplus	133,785	134,340	134,945
Capital reserves	95,210	95,210	95,210
Retained earnings	233,701	212,916	205,200
Accumulated other comprehensive income	6,082	619	3,328
Treasury stock	(92,627)	(106,282)	(134,768)
Total stockholders' equity			