UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

THE SECURITIES EXCHANGE ACT OF 1934

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

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

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 1-11414

BANCO LATINOAMERICANO DE EXPORTACIONES, S. A.

(Exact name of Registrant as specified in its charter)

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

Calle 50 y Aquilino de la Guardia

Apartado 6-1497 El Dorado

Panama City, Republic of Panama

(507) 210-8500

(Address and telephone number of Registrant s principal executive offices)

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

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

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

None

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

None

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

4,911,185	Shares of Class A Common Stock
3,746,721	Shares of Class B Common Stock
8,685,287	Shares of Class E Common Stock
17,343,193	Total Shares of Common Stock

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

x Yes ¨ No

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

¨ Item 17 x Item 18

BANCO LATINOAMERICANO DE EXPORTACIONES, S.A.

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

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

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

The Bank accepts deposits and raises funds principally in United States dollars, grants loans mostly in United States dollars and publishes its consolidated financial statements in United States dollars.

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

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

Terms Relating to the Bank s Credit Portfolio

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

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

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

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

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

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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

Selected Financial Data

The following table presents consolidated selected financial data for the Bank. The financial data presented below are at December 31, 1998, 1999, 2000, 2001 and 2002 and for the years then ended and are derived from the Bank s consolidated financial statements for the years indicated, which were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and audited by KPMG Peat Marwick. The Consolidated Financial Statements of the Bank at December 31, 2001 and 2002 and for each of the years in the three-year period ended December 31, 2002 (the Consolidated Financial Statements) are included in this Annual Report, together with the report of KPMG Peat Marwick thereon. The information below is qualified in its entirety by the detailed information, both financial and otherwise, included elsewhere herein and should be read in conjunction with Information on the Company, Operating and Financial Review and Prospects and the Consolidated Financial Statements and Notes thereto included in this Annual Report.

Consolidated Selected Financial Information

	At and for the Year Ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
	(in thousands, except per share amounts and ratios)				
Income Statement Data:					
Net interest income	$ 92,210	$ 112,698	$ 112,670	$ 118,739	$ 66,655
Provision for loan losses (1)	(11,200)	(14,700)	(8,000)	(77,144)	(272,586)
Net interest income (loss) after provision for loan losses	81,010	97,998	104,670	41,594	(205,931)
Other income (expense):					

Net commission income	19,031	24,291	23,664	13,691	7,010
Provision for losses on off-balance sheet credit risk	0	(6,000)	(11,200)	0	(6,170)
Provision for losses on guarantees	(15,534)	0	0	0	0
Derivatives and hedging activities	0	0	0	7,379	(341)
Impairment loss on securities (2)	0	0	0	(40,356)	(44,268)
Gain on early extinguishment of debt	0	0	0	0	1,430
Gain on sale of securities available for sale	0	0	0	4,798	184
Gain (loss) on foreign currency exchange	13	54	80	(21)	301
Other income	1,330	1,328	1,086	674	553
Net other income (expense)	4,840	19,674	13,630	(13,834)	(41,302)
Total operating expenses	(14,067)	(16,578)	(21,180)	(23,973)	(19,306)
Income (loss) from continuing operations before income tax	71,783	101,093	97,121	3,787	(266,539)
Income tax	0	(36)	(65)	(35)	47
Income (loss) from continuing operations, net	71,783	101,057	97,056	3,752	(266,492)

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	At and for the Year Ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
	(in thousands, except per share amounts and ratios)				
Discontinued operations:					
Loss from operations and disposal of segment	0	0	0	(2,388)	(2,346)
Income (loss) before cumulative effect of accounting change	71,783	101,057	97,056	1,364	(268,838)
Cumulative effect of accounting change	0	0	0	1,129	0
Net income (loss)	71,783	101,057	97,056	2,494	(268,838)
Net income (loss) available for common stockholders	70,386	99,687	95,770	1,138	(269,850)
Balance Sheet Data:					
Securities purchased under agreements to resell	$ 0	$ 0	$ 0	$ 291,871	$ 132,022
Investment securities	163,935	178,816	395,459	362,098	165,714
Impaired loans	0	23,786	14,724	77,061	691,472
Loans (including impaired loans)	5,119,897	4,594,174	4,927,465	4,733,710	2,516,512
Allowance for loan losses	108,753	117,670	110,388	177,484	429,720
Total assets	5,587,726	5,172,132	5,660,682	5,922,267	2,929,267
Total deposits	1,705,997	1,617,174	1,743,842	1,571,359	551,973
Short-term borrowings and placements	1,883,629	1,520,971	1,509,880	1,823,324	647,344
Medium and long-term borrowings and placements	1,269,598	1,212,566	1,582,479	1,787,161	1,285,493
Total liabilities	4,963,999	4,474,809	4,945,666	5,308,617	2,587,868
Total common stockholders equity	606,506	680,429	699,205	598,418	328,923
Average number of shares outstanding	20,305	20,141	19,783	18,102	17,343
Per Common Share Data:					
Net income (loss), after Preferred Stock dividend and before cumulative effect of accounting change	3.47	4.95	4.83	0.00	(15.56)
Diluted earnings per share before cumulative effect of accounting change	3.46	4.93	4.81	0.00	(15.56)
Net income (loss), after Preferred Stock dividend and after cumulative effect of accounting change	3.47	4.95	4.83	0.06	(15.56)
Diluted earnings per share after cumulative effect of accounting change	3.46	4.93	4.81	0.06	(15.56)
Net income (loss) from continuing operations	3.47	4.95	4.83	0.13	(15.42)
Book value (period end)	29.93	34.08	36.36	34.43	18.91
Cash dividends per share	0.96	0.96	2.50	1.88	0.00
Selected Financial Ratios:					
Performance Ratios:					
Return on average assets before cumulative effect of accounting change	1.33%	1.93%	1.92%	0.02%	(6.47)%
Return on average assets after cumulative effect of accounting change	1.33%	1.93%	1.92%	0.04%	(6.47)%
Return on average common stockholders equity before cumulative effect of accounting change	12.21%	15.68%	13.98%	0.00%	(60.48)%
Return on average common stockholders equity after cumulative effect of accounting change	12.21%	15.68%	13.95%	0.16%	(60.48)%
Net interest margin (3)	1.71%	2.15%	2.24%	2.00%	1.53%
Net interest spread (3)	0.90%	1.30%	1.14%	1.32%	1.01%
Total operating expenses to total average assets	0.26%	0.32%	0.42%	0.40%	0.46%
Cash dividend payout ratio	27.67%	19.39%	51.76%	3,133.3%	0.00%
Asset Quality Ratios:					
Impaired loans to loans, net of unearned income (4)	0.00%	0.52%	0.30%	1.63%	27.58%
Net charge-offs to loans, net of unearned income	0.37%	0.13%	0.31%	0.21%	0.81%
Allowance for loan losses to loans, net of unearned income	2.14%	2.57%	2.25%	3.77%	17.14%
Allowance for loan losses to non-accruing loans	n.a	495%	750%	230%	62%
Allowance for losses on off balance sheet credit risks to total contingencies net of mark to market guarantees (options)	n.a	0.50%	1.62%	1.88%	5.53%
Capital Ratios:					
Common stockholders equity to total assets	10.85%	13.16%	12.35%	10.10%	11.23%

	At and for the Year Ended December 31,				
	1998	1999	2000	2001	2002
	(in thousands, except per share amounts and ratios)				
Tier 1 capital to risk-weighted assets (5)	20.06%	24.52%	18.27%	15.73%	15.26%
Total capital to risk-weighted assets (5)	21.90%	26.40%	19.94%	17.39%	16.51%

(1) For information regarding the provision for loan losses, see Operating and Financial Review and Prospects Results of Operations.
(2) For information regarding the impairment loss on securities see Information on the Company Business Overview Asset Quality Impaired Securities.
(3) For information regarding the calculation of the net interest margin and the net interest spread, see Operating and Financial Review and Prospects Results of Operations Net Interest Income.
(4) The Bank did not have any repossessed assets or troubled debt restructurings as defined in Statement of Financial Accounting Standards No. 15 at any of the dates indicated above, with the exception in 2002 of $7.5 million of Argentine obligations. However, most of the Bank s credit portfolio in Argentina has been classified as impaired, the terms of certain Argentine loans have been extended, and the Bank anticipates that it will be required to restructure a significant portion of its Argentine credits.
(5) Calculated using the U.S. Federal Reserve Board s 1992 fully phased in risk-weighted capital guidelines. Although the Bank is not subject to the risk-based capital or leverage requirements of the Federal Reserve Board, if these requirements did apply to the Bank, management believes that the capital ratios for the Bank would be as presented. The Bank s total capital to risk-weighted asset ratio calculated according to applicable Panama Banking Law provisions was 12.9% at December 31, 2002.

Common Stockholders Equity

At December 31, 2002, the Bank s total common stockholders equity was $328.9 million compared to $598.4 million at December 31, 2001 and $699.2 million at December 31, 2000, representing 11.2%, 10.1% and 12.4%, respectively, of the Bank s total assets.

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

	At December 31,		
	2000	2001	2002
	(in thousands)		
Redeemable Preferred Stock	$15,810	$15,232	$12,476
Common Stock	132,851	133,217	133,235
Treasury Stock	(20,841)	(85,634)	(85,634)
Capital Surplus	144,522	145,456	145,490
Capital Reserves	305,210	305,210	95,210
Other Comprehensive Income	0	(506)	(118)
Retained Earnings	137,462	100,674	40,740
Total Common Stockholders Equity	$ 699,205	$ 598,418	$ 328,923
Total Common Stockholders Equity and Redeemable Preferred Stock	$ 715,015	$ 613,650	$ 341,399

Capital reserves are established by the Bank from retained earnings and are a form of retained earnings according to Panamanian banking regulations. The objective of capital reserves is to strengthen the capital position of the Bank, as reductions of these reserves, for example to pay dividends, require the approval of the Board of Directors of the Bank (the Board of Directors) and Panamanian banking authorities. Panamanian banking regulations do not require the Bank to maintain any particular level of capital reserves. Effective on June 30, 2002, the Bank transferred $210 million to retained earnings from the capital reserves account in order to cover the loss resulting from the $278.8 million provision for credit loss provision charges taken in 2002.

The Bank did not increase capital reserves in 2000 and 2001 because at that time the intention was instead to use a portion of retained earnings to increase the dividend pay-out ratio and to establish a $100 million share buy-back program.

The decrease in common stockholders equity in 2001 was due primarily to the stock repurchase program and an increased dividend pay-out ratio approved by the Board of Directors in December 2000. The decrease in common stockholder s equity in 2002 was mainly due to the net loss of $268.8 million for the year 2002, which was the result of a $278.8 million provision for credit losses (including losses on loans and on off-balance sheet items) and a $44.3 million impairment loss on securities in 2002.

In 2000, the Bank declared and paid an annual dividend of $1.25 per common share and a special dividend of $1.25 per common share to holders of common stock, for a total annual dividend of $2.50 per share, which amounted to $49.8 million. In 2001, the Bank declared and paid a quarterly dividend of $0.47 per common share to holders of common stock for the four quarters of 2001 for a total annual dividend of $1.88 per share for the year 2001, which amounted to $34.0 million. On February 5, 2002, the Board of Directors suspended dividends on common shares believing that it was in the best interest of the shareholders to conserve the Bank s capital resources until there was more clarity regarding the Bank s exposure in Argentina.

During the year 2000, the Board of Directors approved repurchases by the Bank, at the discretion of management, of up to 2,000,000 Class B shares (at the prevailing per share market price of the Class E shares on the date of purchase) from shareholders that requested conversion of their Class B shares into Class E shares. The Bank repurchased an aggregate of 568,010 Class B shares for $15.7 million under this program prior to its cancellation in December 2000.

In December 2000, the Board of Directors approved a stock repurchase program, under which the Bank could purchase up to an aggregate of $75,000,000 of Class E shares on the open market at the then prevailing market price. The program also provided for the purchase of up to an aggregate of $25,000,000 of Class A shares of common stock in privately negotiated transactions at the then prevailing market price of the Class E shares. On November 8, 2001, the Board of Directors halted the Bank s share repurchase program, believing that it was in the best interest of shareholders to conserve the Bank s capital resources until there was more clarity regarding the Bank s exposure in Argentina (see Risk Factors below). During the years ended December 31, 2000 and 2001, the Bank repurchased the following shares under this program:

	December 31,			
	2000		**2001**	
	Shares	**Amount**	**Shares**	**Amount**
Class A	48,297	$ 1,485,144	269,843	$ 9,222,575
Class E	117,300	3,700,521	1,633,205	55,570,235
	165,597	$ 5,185,665	1,903,048	$ 64,792,811

None of the shares repurchased by the Bank in 2000 and 2001 were cancelled and, accordingly, the shares were reclassified as treasury shares. None of these treasury shares have been reissued. All of those shares were purchased out of the Bank s retained earnings.

On November 18, 2002, shareholders approved an increase in the number of the Bank s authorized shares to 185 million in connection with the Bank s recapitalization plan (see Information on the Company Business Overview Developments during 2002).

The Bank s policy with respect to its capital position is to maintain a minimum capital ratio of total common stockholders equity to total assets of 7%. At December 31, 2002, this ratio was 11%. In addition, the Bank has a policy of maintaining minimum Tier 1 and total capital to risk weighted asset ratios of 10% and

12.5%, respectively, as defined by the United States Board of Governors of the Federal Reserve System (the Federal Reserve Board) and BIS capital adequacy requirements, although the Bank is not subject to these risk-weighted capital requirements. However, if the Federal Reserve Board s fully phased in risk-based capital guidelines had been applicable to the Bank, management believes that as of December 31, 2002 the Bank would have exceeded all applicable capital adequacy requirements. At December 31, 2002, the Bank s Tier 1 and total capital ratios calculated according to these guidelines were 15.3% and 16.5%, respectively. The Banking Law (as defined under Information on the Company Business Overview Regulation) in Panama, which became effective on June 12, 1998, requires the Bank to maintain a minimum total capital to risk-weighted asset ratio of 8% (each, as defined in the Banking Law). At December 31, 2002, the Bank s total capital to risk-weighted asset ratio, calculated according to the guidelines of the Banking Law, was 12.9%. See Information on the Company Business Overview Regulation Panamanian Law.

Risk Factors

Global economic conditions have been weak making recovery in Latin America more difficult and increasing the risk that economic conditions in Latin America will further deteriorate and adversely affect the Bank. The risk of war in Iraq has contributed to this weakness.

During 2001, the U.S. economy suffered a recession, and was further adversely affected by the attack on New York s World Trade Center. Negative trends that began in 2001, such as extreme volatility in the U.S. equity markets, have continued through the end of 2002. Most major economies in Europe also suffered economic downturns during 2001 and/or 2002. Because the United States and Europe are the principal export markets for the Region, these global conditions have adversely affected economies in the Region. If these conditions continue or worsen, it likely will delay any economic recovery in the Region which would adversely affect the Bank s trade finance business by reducing overall demand for this type of financing and increasing the risk profile of the Bank s credit portfolio.

The risk of war in Iraq has contributed to increases in the price of oil and delayed investment decisions, making a recovery of the global economy more difficult and uncertain.

Economic conditions in the Region, where the Bank conducts all its lending activities, have been highly volatile since the beginning of 2001 and could deteriorate further and require the Bank to further increase its credit loss allowance.

All of the Bank s lending activities are conducted with borrowers in the Region. At various times in the past, countries in the Region have experienced severe economic difficulties, including periods of slow or negative growth, large government budget deficits, high inflation, currency devaluation and unavailability of foreign exchange, including dollars. As a result, since the Bank began operations in 1979 many governments and public and private institutions in the Region have at various times been unable to make interest and principal payments on their external debt, and much of the external debt of the Region has been restructured to provide for extensions of repayment schedules, grace periods during which payments of principal have been suspended and, in certain cases, reduced principal and/or rates of interest.

These difficulties have arisen again, particularly in Argentina where a prolonged economic crisis has resulted in a default on the country s public sector external debt. The Argentine crisis has had a significant adverse effect on the Bank s financial condition and results of operations, because the Bank has been required to make large additions to its loan loss allowance to provide for probable losses on its Argentine loan portfolio. If economic conditions in countries in the Region where the Bank conducts lending activities deteriorate further, the Bank could be required to make further loan loss provisions, which would adversely affect the Bank s capital and earnings.

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Economic problems in countries in the Region have led to increasing political instability in a number of countries, particularly Argentina and Venezuela. This political instability has further compounded and prolonged the economic difficulties due to the lack of effective government mechanisms to address the problems.

The continuing crisis in Argentina may result in higher losses on the Bank s Argentine loans than the Bank has provided for. This would reduce the Bank s earnings or produce losses, and could reduce the Bank s capital base.

A prolonged deterioration in Argentina s economic and political environment, financial condition and investor confidence resulted in late December 2001 in a profound crisis which forced the Argentine government to adopt stringent measures. These included foreign exchange and deposit controls, bank holidays and restrictions on the repayment of foreign debt. There is uncertainty as to how or when the situation will be resolved.

The deterioration of the Argentine economy, reflecting four years of economic recession, and the current crisis adversely affected the financial condition of the Bank s Argentine obligors, including banks and corporations, and the quality of the Bank s loans to those obligors.

The Bank s Argentine credit portfolio at December 31, 2002 amounted to $774 million, which represented a reduction of $340 million from December 31, 2001. All of the Bank s exposure in Argentina continues to be denominated in U.S. dollars (with the exception of a small portion in Japanese yen). None of the Bank s loans in Argentina have been converted to Argentine pesos. During 2002, the Bank collected interest from Argentine borrowers of approximately $38 million (including $17 million received after they were classified as impaired) representing 87% of interest due from those borrowers, while interest in the amount of $6 million was past due on December 31, 2002. At June 30, 2002, 97% of the Bank s total credit portfolio in Argentina was classified as impaired and, since June 30, 2002, all interest income on the Bank s Argentine impaired credit portfolio is accounted for on a cash basis.

Even with the benefit of the Bank s confirmed multilateral status, given the continued severity of the Argentine crisis, the Board of Directors and management believe that the Bank will have to renegotiate and restructure loans, and that the Bank will also face write-offs related to its Argentine portfolio.

Because of concerns about the collectibility of the Bank s Argentine credit portfolio, the Board of Directors and management increased the allowance for credit losses during 2002 by $279 million. As of December 31, 2002, the Bank s total allowance for credit losses amounted to $453 million of which $380 million related to the loan portfolio and off-balance sheet items in Argentina of $739 million. As a result of the increase in the allowance for credit losses and a $44 million charge for impairment loss on Argentine securities during 2002, the Bank incurred a net loss for 2002 of $269 million. This also had the effect of reducing the Bank s common stockholders equity to $329 million at December 31, 2002 from $598 million at December 31, 2001.

The Board of Directors and management believe that the $380 million of allowances for credit losses related to the Bank s exposure in Argentina is adequate to cover any Argentine credit chargeoffs on the Bank s Argentine loans and off-balance sheet credit risks. Argentina has reached a limited agreement with the International Monetary Fund regarding additional IMF loans, and the Argentine economy has shown some signs of a recovery. If there is further deterioration in Argentine economic conditions, or if the crisis continues indefinitely, the Bank s loan losses in Argentina could be higher than currently anticipated. This would require the Bank to take additional charges against its earnings and/or equity capital, which could produce losses in the future and a significant reduction in its equity capital.

Brazil recently elected a new administration whose economic policies are untested. To the extent these policies are not free market oriented, they could produce a deterioration of economic conditions in Brazil causing defaults in the Bank s Brazilian credit portfolio.

Investors became increasingly uneasy about Brazil due to, among other factors, the situation in Argentina and an increasingly uncertain political environment leading up to the election at the end of October 2002 of Luiz Inacio Lula da Silva. The markets are awaiting further clarification as to the policies that will be implemented by his administration and the effect of these policies, although there has been a positive market reaction to Mr. da Silva s actions and appointments thus far. The election was preceded by the rapid decline in the value of Brazil s currency compared to the U.S. dollar and speculation about the ability of Brazil to service its approximately $239 billion of public debt, much of which must be refinanced in the next several years.

The Bank s credit portfolio in Brazil amounted to $1,115 million at December 31, 2002, down from $2,461 million at December 31, 2001. As of the date of this Annual Report, substantially all of the Bank s loans to Brazilian borrowers are current and there are no past due amounts of interest or principal, although the Bank is in the process of restructuring loans to two Brazilian borrowers aggregating $60.2 million. In addition, approximately 70% of the Bank s portfolio in Brazil matures during 2003 giving the Bank the flexibility to further reduce its exposure in Brazil if this becomes necessary. The Bank remains committed to continuing its lending activities in this very important market in the Region. However, the political and economic situation in Brazil may deteriorate, which could weaken the Bank s Brazilian credit portfolio. If this were to occur, the Bank s capital levels, even after the Bank s proposed recapitalization, could prove inadequate to accommodate the need to create further loan loss allowances.

The current political and economic turmoil in Venezuela is making it more difficult for the Bank s Venezuelan borrowers to service their loans on a timely basis and this situation could worsen.

Broadbased discontent with the policies of the current Venezuelan government have produced a country-wide strike which has seriously disrupted economic activity in Venezuela and severely curtailed the production and export of oil, the major source of Venezuela s foreign exchange. In response, the government has imposed foreign exchange and price controls, making it more difficult for the Bank s borrowers in that country to obtain the U.S. dollars needed to service their U.S. dollar loans to the Bank on a timely basis. The Bank expects that if this situation continues, it will result in some payment delays on its Venezuelan loans. At December 31, 2002, the Bank s credit portfolio in Venezuela amounted to $168 million and there were no past due amounts of interest or principal.

The Bank s credit ratings may be further reduced to below investment grade. This would severely hamper the Bank s ability to obtain funding to carry on its trade financing activities.

The prolonged crisis in Argentina and heightened risk perception of other countries in the Region have affected the Bank s credit ratings. During the first quarter of 2002, the major rating agencies downgraded the Bank s credit ratings due to the crisis in Argentina and its potential impact on the Bank s credit exposure in that country. On August 12, 2002, Fitch IBCA, Inc (Fitch) further reduced its ratings on the Bank s debt securities to below investment grade with a stable outlook. As of the date of this Annual Report, the Bank has long-term debt ratings of Baa3 from Moody s Investor Services, Inc. (Moody s), BBB- from Standard and Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc. (Standard & Poor s), and BB+ from Fitch and short-term debt ratings of Prime 3, A-3 and B from Moody s, Standard & Poor s and Fitch, respectively. The Baa3 rating from Moody s and the BBB- rating from Standard & Poor s are investment-grade ratings. Although the rating outlook from Standard & Poor s remains negative, on January 22, 2003, Moody s changed its rating outlook from negative to stable.

The recent sharp increase in the risk perception of the Region, caused by events in, among other countries, Argentina, Brazil and Venezuela, has had a significant negative impact on the Bank s asset base and capital, and has threatened the Bank s remaining investment-grade credit ratings. As a result, the Board of Directors and management believe that it must raise a minimum of $100 million of Tier 1 capital to provide the Bank with a prudent level of capitalization in view of the environment in which it operates. The Bank also believes that this additional capital is needed in order to allow it to retain its investment-grade credit ratings and continue to fulfill in a significant way its primary role of providing trade financing to borrowers in Latin America through, among other things, increasing the Bank s access to funding.

A further deterioration of the Argentine situation or difficulties in other countries in the Region where the Bank has large exposures may trigger further downgrades in the Bank s credit ratings below investment-grade ratings. This would adversely affect the Bank s cost of funds, the Bank s deposit base and accessibility to the debt capital markets. Based on statements made by Standard & Poor s and Moody s, the Bank believes that if it does not obtain additional Tier 1 equity capital, it is highly likely that these rating agencies will reduce their ratings on the Bank s debt obligations to below investment-grade. In that case, the Bank s ability to obtain the funding necessary to carry on its trade financing activities in Latin America at meaningful levels will be severely hampered. In addition, even if the Bank is successful in raising $100 million of additional capital, it may not be sufficient to achieve the Bank s stated goals, including maintaining the Bank s investment-grade ratings.

The Bank s allowances for credit losses may prove to be inadequate to cover credit losses related to the Bank s loans and off-balance sheet items.

At December 31, 2002, the total allowance for credit losses amounted to $453 million, of which $380 million (representing specific allowances) related to impaired loans and off-balance sheet items in Argentina. At December 31, 2002, the Bank s total loans and off-balance sheet items amounted to $2,939 million, $739 million (or 25%) of which represented loans and off-balance sheet items in Argentina. The remaining $73 million of the Bank s allowance for credit losses represents a generic allowance which covers its $2.2 billion of loans and off-balance sheet items outstanding in countries other than Argentina.

The Board of Directors and management believe that the current allowance for credit losses is adequate to cover any charge offs that will be necessary on the Bank s current credit portfolio. The Board of Directors and management will continue to maintain the allowance for credit losses at levels which reflect the potential for political and economic instability in countries in the Region and economic cycles. Determining the appropriate level of allowances for credit losses necessarily requires management s judgment, including assumptions and estimates made in the context of rapidly changing political and economic conditions in many of the countries in the Region. As a result, the Bank s current level of allowances may not be adequate to cover losses in the Bank s credit portfolio. For example, it is possible that further deterioration in Argentina, or further pressures on other borrowers, particularly in Brazil, could require additional allowances at a time when the Bank s capacity to generate allowances is strained. The Bank s ability to create additional allowances will depend on the Bank s ability to continue to generate earnings in future periods, which may be severely limited if economic conditions in the Region deteriorate further. In that case, the Bank s financial condition and results of operations could be adversely affected, possibly severely.

The Argentine crisis and risk perception of the Region have adversely affected the Bank s funding activity and may continue to do so.

The crisis in Argentina and downgrades by the rating agencies have affected the Bank s funding activity, resulting in a 52% decline in the Bank s deposits and borrowings during 2002. In addition, the dramatic increase in the risk perception of Latin America resulted in a significant decline in the availability of credit lines to the Region. As a result, it has been difficult for Latin American borrowers, including the Bank, to access international debt markets for placements of securities. The Bank experienced a 49% decline in its credit

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portfolio during 2002 due to, among other things, these difficulties in funding. If this trend continues and funding does not become more readily available to the Bank in the near future, further reductions in deposits and borrowings, and corresponding reductions in the credit portfolio, are likely to occur.

The Bank believes that a reduction of its investment-grade credit ratings to below investment-grade by Standard & Poor s and Moody s would further reduce the amount of funding available for its lending activities, and also substantially increase the cost of any funding that could be obtained.

Concentration of the Bank s lending activities in a relatively small number of countries could accentuate the Bank s loan losses if one or more of those countries encounter further economic difficulties.

At December 31, 2002, approximately $2,508 million, or 78%, of the Bank s credit portfolio was outstanding to borrowers in the following five countries: Brazil ($1,115 million, or 35%); Argentina ($774 million, or 24%); Mexico ($230 million, or 7%); the Dominican Republic ($220 million, or 7%); and Venezuela ($168 million, or 5%). In addition, at December 31, 2002, 23% of the Bank s total credits were to nine borrowers in Brazil and 6% of total credits were to four borrowers in Mexico. The Bank s exposure in each country where it extends credit is subject to the Bank s Board of Director s approved country limit process that takes into account not only concentration issues, but also general political and economic risk in each country, prospects for business and funding considerations. A significant deterioration, or further deterioration, of economic conditions in any of these countries or of the financial condition of any of these borrowers could have a significant adverse affect on the Bank s financial condition and results of operations because of this concentration.

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

One of the Bank s sources of funding for short-term loans is interbank deposits received principally from central banks in the Region. Historically, these deposits have represented approximately 35% of total liabilities. During 2002, these central banks withdrew a substantial portion of their deposits with the Bank in large part because of the downgrades in the Bank s credit ratings. Overall deposits declined by 65% from $1,571 million at December 31, 2001 to $552 million at December 31, 2002 and, in part as a result, total loans declined by 47% from $4,734 million at December 31, 2001 to $2,517 million at December 31, 2002. Despite this decline in deposits, the Bank was able to maintain a healthy net cash position throughout 2002 due to, among other things, the repayment of loans funded with these deposits, reflecting an asset and liability maturity profile that is basically matched. At December 31, 2002, deposits represented 21% of total liabilities, with the balance comprised of short-term obligations primarily from international banks and medium-term obligations primarily from the debt capital markets.

The Bank faces certain market risks related to liquidity and changes in interest rates and currency exchange rates.

The Bank s risk management policies are designed to identify and control market risks by establishing and monitoring appropriate limits on its market exposures. The Bank s primary market risks are liquidity risk and interest rate risk and, to a lesser extent, currency exchange risk.

Liquidity risk is the risk of not being able to maintain an adequate cash flow to fund operations and meet obligations and other commitments on a timely basis. Failure to adequately manage the Bank s liquidity risk could produce a liquidity crisis in which the Bank would not be able to fund its obligations as they become due. The Bank manages short-term liquidity risk by investing a minimum of 50% of the liquidity funds generated

by demand, call accounts and time deposits in overnight deposits with maturities of less than one week and by investing the remaining balance in short-term time deposits with maturities of up to six months and investment

funds or negotiable money market instruments, such as Euro certificates of deposits, commercial paper, bankers acceptances and other liquid instruments, with maturities of up to 180 days. These instruments must be of investment grade (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. Interbank deposits are with reputable international banks located outside of the Latin American region that usually carry ratings of A-1, P-1 or F-1 by two of the major rating agencies. These banks must have a correspondent relationship with the Bank and be approved by the Board of Directors on an annual basis. The primary objectives for these investments are security and liquidity. In order to manage the Bank s liquidity needs, the Bank s liquidity position is reviewed and monitored on a daily basis by management.

Management follows a conservative liquidity management strategy and in view of the volatility in the Region began gradually increasing its net cash position in the second quarter of 2001. During 2002, the Bank was able to reduce its obligations by approximately $2.7 billion in an orderly fashion while maintaining an adequate liquidity position. At December 31, 2002, liquidity levels amounted to $479 million, representing a net cash position of 87% of total deposits. Because Panama does not issue its own paper currency, the Banco Nacional de Panama does not act as a central bank in the traditional sense and is not a lender of last resort to the banking system in Panama. Accordingly, if the Bank faced a liquidity crisis, it would have to rely on commercial sources of liquidity and would not have access to a central bank lender of last resort, as would a bank located in the United States or in certain other countries.

Historically, interest rate risk has arisen from the Bank s liability-sensitive position in the short-term, which means that interest-bearing liabilities generally reprice more quickly than interest-earning assets. Consequently, failure to adequately manage this interest rate risk could adversely affect the Bank s net interest income during periods of increasing interest rates. During 2002, the Bank took several steps to reduce the mismatch between assets and liabilities, including an increase in its net cash position and a change in the mix of its liabilities. As a result, at December 31, 2002, the Bank s cumulative maturity gap for the subsequent six months was positive. The Bank s interest rate risk is managed by attempting to match the term and repricing characteristics of the Bank s interest rate sensitive assets and liabilities. The Bank s policy with respect to interest rate gaps provides that the gap between short-term interest-earning assets and interest-bearing liabilities on a cumulative basis at 90 days should not exceed 200% of total capital. On a cumulative basis at 180 days, the gap should not exceed 100% of total capital. The Bank s policy with respect to interest rate gaps also provides that it match fund interest-earning assets over 365 days.

Currency exchange risk arises when the Bank accepts deposits or raises funds in one currency and lends or invests the proceeds in another. Failure to adequately manage this risk could adversely affect the Bank s results of operations if the value of the currency in which the Bank borrows declines compared to the value of the currency in which it lends or invests. The Bank accepts deposits and raises funds principally in U.S. dollars, extends loans primarily in U.S. dollars and presents its consolidated financial results in U.S. dollars. At December 31, 2002, loans outstanding denominated in currencies other than U.S. dollars amounted to the equivalent of $158 million. Whenever possible, foreign currency-denominated assets are funded with liability instruments denominated in the same currency. In cases where these assets are funded in different currencies, forward foreign exchange or cross-currency swap contracts are used to fully hedge the risk resulting from this cross-currency funding. Because the Bank makes U.S. dollar-denominated loans, it faces the risk that declines in the value of its borrowers local currencies will increase the cost, in local currency terms, to the Bank s borrowers of acquiring dollars to repay loans. The Bank also faces the risk that local country foreign exchange controls will restrict the ability of the Bank s borrowers to acquire dollars to repay loans on a timely basis.

Sales of additional Class E shares into the public market could adversely affect their market price.

The Bank is currently preparing a rights offering to its existing shareholders and has filed a Registration Statement with the U.S. Securities and Exchange Commission relating to an aggregate of 29.4 million shares of

common stock. Although only 14.7 million of these shares are being offered in the form of Class E shares, it is possible that the entire 29.4 million shares could be issued in the form of Class E shares, either through the exercise of the over-subscription privilege in the rights offering, or pursuant to the conversion of Class B shares currently outstanding or issued pursuant to the rights offering. As a result, the total number of Class E shares outstanding in the public market could increase substantially from the 8,685,287 shares outstanding as of December 31, 2002, which could adversely affect the market price of the Class E shares.

Political events in Panama could adversely affect the Bank s operations.

The government of Panama is a republican and presidential system with a legislative body and an independent judiciary branch. In May 1999, presidential elections took place in an orderly fashion. The new democratically elected government was installed in September 1999. Should any significant political crisis occur in Panama in the future, the Bank s operations may be adversely affected.

The Bank faces competition from banks that offer similar financing services; the Bank also depends upon its competitors to fund and support its activities.

Most of the competition the Bank faces in the trade financing area and within the markets it serves is from international banks, mostly European and North American, which provide similar financing services to those provided by the Bank. These banks have substantially greater resources and access to less expensive funding than is the case with the Bank, which puts the Bank at a competitive disadvantage. Due to recent economic developments in the Region, the Bank has fewer competitors because many international banks have reduced their exposure in the Region or have withdrawn from the Region altogether. Although some of these international banks compete with the Bank, they are also providers of funding for the Bank and represent a source of business. For example, most of these international banks provide credit facilities to the Bank to finance trade finance activity. The Bank also lends to branches or subsidiaries of certain international banks in the Region. If the Bank s competitors cease to fund and support its activities as they have done in the past, the Bank may be unable to compete effectively in the markets that it serves.

A substantial consolidation of the banking business in Latin America has occurred and is continuing. This has reduced the number of local banks in the Region, which are the Bank s primary customers for trade finance loans, and increased the concentration and importance of international banks and their agencies in the Region which are the Bank s primary competitors. These changes in the business and in the markets of the Region could potentially place the Bank at a competitive disadvantage with respect to scale, resources and its ability to develop and diversify its sources of income.

Bank regulation to which the Bank is subject in Panama and the Cayman Islands is less comprehensive than bank regulation in the United States.

The Superintendence of Banks of Panama regulates, supervises and examines the Bank. In addition, BLADEX Cayman is regulated, supervised and examined by government authorities in the Cayman Islands and the New York Agency is regulated, supervised and examined by the New York Banking Department and the Federal Reserve Board. The regulation of the Bank and BLADEX Cayman by relevant Panamanian and Cayman Islands authorities differs from, and is less comprehensive than, the regulation generally imposed on banks in the United States by federal and state regulatory authorities, although banking regulation in Panama is moving towards uniformity with other, more comprehensive, bank regulatory systems, such as in the United States. Less comprehensive regulation of the Bank by banking authorities in Panama and the Cayman Islands could allow the Bank to operate using less conservative banking practices than would be the case if the Bank were fully subject to U.S. banking regulations.

Item 4. Information on the Company

History and Development of the Company

The Bank, headquartered in Panama City, Panama, is a specialized multinational bank established to finance trade in the Region. The Bank was established pursuant to a May 1975 proposal of the XX Assembly of Governors of central banks in the Region, which recommended the creation of a multinational organization to increase the foreign trade financing capacity of the Region. The Bank was incorporated under the laws of Panama on November 30, 1977. Panama was selected as the location of the Bank s headquarters because of the importance of the country as a banking center, the benefits of a fully dollarized economy, the absence of foreign exchange controls, the geographic location of Panama and the quality of its communications facilities. Under special legislation enacted in 1978, the Bank was granted certain privileges by the government of Panama, including an exemption from the payment of income taxes in Panama. The Bank is considered a regional risk rather than a Panamanian risk by the Federal Reserve Board. Management believes that this classification is based upon the Bank s ownership structure and the absence of Panamanian concentration in the Bank s loan portfolio. The central banks of France, the United Kingdom and Spain do not consider the Bank a Panamanian country risk. The Bank began business operations on January 2, 1979. The Bank commenced operations with common stockholders equity of $25 million paid by 186 stockholders. The Bank s common stockholders equity was $329 million at December 31, 2002.

Central banks from 23 countries in the Region, or governmental financial institutions designated by such countries, own all of the Bank s Class A shares, which at December 31, 2002 comprised 28% of the Bank s common stock. 147 commercial banks, mostly from the Region, own the Bank s Class B shares, which at December 31, 2002 comprised 22% of the Bank s common stock. The Bank s Class E shares, which at December 31, 2002 comprised 50% of its common stock, are listed on the New York Stock Exchange.

The Bank is principally engaged in providing short-term financing to selected commercial banks in the Region, which in turn lend to businesses primarily engaged in foreign trade and to state and private export institutions. As of December 31, 2002, the Bank provided financing to approximately 60 of its 170 stockholder banks and to 101 non-stockholder institutions. Until very recently, the Bank also made loans directly to non-bank private entities, most of which are engaged in foreign trade in the Region, primarily through co-financing, loan syndications and participations with other banks. The majority of the Bank s short-term financing is extended in connection with specific foreign trade transactions that have been identified by the Bank. In response to recent developments in the Region and the effect of such developments on the Bank (as more fully described Key Information Risk Factors), the Bank s management has decided to focus the Bank s business activities on providing short-term trade financing to banks. In connection therewith, the Bank s Board of Directors recently amended the Bank s by-laws to focus its business activities on providing trade related financing.

The Bank s lending activities are funded by inter-bank deposits, primarily from central banks and financial institutions in the Region, by short-term and medium-term borrowings and by floating and fixed rate placements made with financial institutions and investors in Japan, Europe and North America. The Bank does not provide retail-banking services to the general public such as retail savings accounts or checking accounts and does not take retail deposits.

On April 16, 2002 at the Bank s annual shareholders meeting (the 2002 Annual Meeting), shareholders approved an amendment to the Bank s Articles of Incorporation (as so amended, the 2002 Articles of Incorporation) to change the structure and composition of the Bank s Board of Directors. Pursuant to the 2002 Articles of Incorporation, the number of Directors comprising the Board of Directors was increased from nine Directors prior to the approval of the amendment to ten Directors, in order to increase Board representation of holders of Class A shares.

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The composition of the Board of Directors is as follows: three Directors representing holders of the Class A common shares; two Directors representing holders of the Class B common shares; three Directors representing holders of the Class E common shares; and two Directors representing all classes of common shares.

The Bank held a special meeting of stockholders (the Special Meeting) on November 18, 2002 at its headquarters in Panama. At the Special Meeting holders of the Bank s common shares approved an amendment to Article 4 of the Articles of Incorporation which increased the authorized capital of the Bank from 75,000,000 to 185,000,000 shares for the purpose of permitting the Bank to raise needed additional equity capital, initially through a rights offering to the Bank s common stockholders. See Business Overview Developments During 2002 .

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

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

At December 31, 2002, BLADEX Cayman and the New York Agency held $346.6 million and $160.4 million in assets, respectively.

Business Overview

Developments During 2002

The operating results reported for the year ended December 31, 2002 reflect the challenges the Bank faced during a difficult year. Largely as a result of the $278.8 million additional provision taken during 2002 for possible credit losses and the $44.3 million of impairment losses on securities, both relating to the Bank s Argentine portfolio, the Bank reported a net loss for the year of $268.8 million. The resulting reduction in the Bank s capital base, along with the increased risk perception in the Region, lead to the managed contraction of the Bank s assets from $6.0 billion at January 1, 2002 to $2.9 billion at December 31, 2002, a decline of 51%.

In the second half of 2002, immediately following the establishment of the additional provisions, the Bank returned to profitability, recording net income for the third and fourth quarters of $15.8 million and $15.0 million, respectively.

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

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The problems in Argentina soon became a contagion, dramatically escalating risk perception throughout Latin America, significantly contributing to a decreasing availability of credit and investment in the Region. This increasing risk perception contributed to the lowering of the Bank s credit ratings discussed under Key Information Risk Factors.

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

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

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

In spite of a difficult environment, the Bank s efforts at reducing its risk in Argentina, coupled with the benefit of its preferred creditor status, have yielded encouraging results. During 2002, the Bank reduced its credit exposure in Argentina by $340 million, while collecting all but $5.9 million or 87% in interest due on Argentine credit obligations. Despite Argentina s continuing difficulties, the Bank is encouraged by the improving tone of the dialogue and the limited agreement between its government and the IMF, which the Bank hopes will set the stage for the start of a gradual economic recovery.

In addition to managing credit risk in a particularly challenging environment, the Bank had to adjust to a general liquidity shortage in Latin America. In mid-year, credit flows to the Region began to decrease significantly. Many banks in both the United States and Europe, the traditional sources of credit facilities for Latin America, faced credit, trading and/or profitability difficulties in their home markets, which forced them to focus their resources on their core franchises. Under the circumstances, these banks turned more risk adverse and many credit lines to Latin American borrowers were sharply reduced. As a result, the Bank s funding became more scarce and more expensive.

As a result of the Bank s lower credit ratings and the need for liquidity on the part of some of its depositors, deposits fell in the first half of 2002 and were down by $1,019 million to $552 million at year-end. Beginning late in 2002, however, deposit levels and funding stabilized. The generally increased cost of funds has been offset by higher lending margins.

Adequate liquidity provides support and comfort to the Bank s creditors. Liquidity is being managed in a conservative fashion and the Bank s cash position was $479 million at December 31, 2002, representing more than 87% of the Bank s total deposit base and 16% of assets, which is significantly above historic levels.

During the year, the Bank implemented a significant cost reduction program, which by the fourth quarter of 2002 resulted in a decline in the Bank s operating expenses (excluding one-time items) by approximately 20% compared to the same period in 2001.

In spite of the Bank s proactive management of the impact of events as described, the Bank s capital ratios, while well above the minimum required by Panama and Basle guidelines, are weaker than their strong historical levels, which has threatened the Bank s investment-grade credit ratings. A further reduction of these

credit ratings to below investment-grade could dramatically limit the amount of funding available for the Bank s lending activities, while substantially increasing its cost. This would result in shrinking profits and an unacceptable reduction in the Bank s ability to provide needed trade financing in the Region. The Bank s Board of Directors and management have thus agreed that the Bank must regain its strong capitalization, and that it is neither prudent nor convenient from a business perspective to wait to achieve it gradually through the accumulation of retained earnings.

With these objectives in mind, a plan of recapitalization has been developed with the assistance of outside advisors to raise at least $100 million of additional Tier 1 equity capital through a rights offering. On November 18, 2002, shareholders approved an increase in the number of authorized shares to 185 million. On December 17, 2002, the Bank filed a Registration Statement with the Securities and Exchange Commission relating to a proposed rights offering to the holders of the Bank s Class A, Class B and Class E common stock. The Bank currently has preliminary commitments or expressions of interest from a group of existing Class A and Class B shareholders and a small number of other institutions, including multilateral organizations and development banks (the Core Support Group), to purchase for investment approximately $100 million of shares to the extent that shareholders do not subscribe for such shares in the rights offering.

With this as a background, the Bank s focus in 2003 will be on four strategic objectives: to conclude the Bank s recapitalization, to diversify its funding and product revenue sources, to gradually re-leverage the Bank s balance sheet while adhering to the Bank s traditionally high credit standards and to control expenses aggressively. Furthermore, the Bank will continue to manage its liquidity in a conservative manner.

Lending Policies

The Bank s Articles of Incorporation state that the Bank may not lend to an institution in a country in the Region unless the central bank or a designated government entity of that country is a holder of Class A shares of the Bank. It generally has been an operating policy of the Bank to extend credit directly to banks and state-owned export organizations within the Region. Until very recently, the Bank also made loans to non-bank private entities, mostly through co-financing, loan syndications and participations with other banks. At December 31, 2002, total loans outstanding to non-bank private entities constituted 22.8% of the Bank s total loans. All credit requests from eligible borrowers are analyzed in the light of commercial criteria, including economic and market conditions. The Bank maintains a consistent lending policy and applies the same credit criteria in evaluating the credit worthiness of all clients.

The Bank has 27 officers responsible for marketing the Bank s financial products and services to existing and potential customers. This includes the personnel in its representative offices in Argentina, Brazil and Mexico, and the New York Agency.

The Bank finances export and import transactions for all types of goods and products, with the exception of the export or import of armaments, ammunition, military equipment, hallucinogenic drugs or narcotics that are not utilized for medical purposes, and any article the trading of which is widely prohibited due to its environmental hazards or due to trading limitations established by international agreements. Exports financed by the Bank are destined for buyers in countries both inside and outside the Region. In the same manner, imports financed by the Bank originate from sellers in countries both inside and outside the Region.

At regular intervals (at least once a year), the Bank conducts a credit review of each of its borrowers and of each country in the Region. The Bank s credit review includes an analysis of the borrower s financial condition, trends in the borrower s financial condition, peer group comparisons, a review of credit references and a review of general economic conditions in the borrower s home country, and may include discussions with bank regulatory authorities in the borrower s home country. On the basis of its credit review, the Bank establishes credit limits for each country in the Region and for each of its borrowers. In order to prevent excessive

concentration, the outstanding credit portfolio in a given country cannot exceed the lesser of (i) 40% of the total credit portfolio of the Bank, (ii) four times the Bank s total capital (defined according to the Basle capital adequacy principles), and (iii) the country limit established by management and approved by the Board of Directors. As a result of the net loss due to the increase in the allowance for credit losses, the cap on country exposures at four times the Bank s total capital was temporarily exceeded during 2002 in the case of Brazil.

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

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

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

For existing borrowers, the Bank s management has authority to approve credit lines up to the lending limit prescribed by Panamanian law (see Regulation Panamanian Law), provided that such credit lines are within the country credit limit for the borrower s country of domicile approved by the Board of Directors. As of December 31, 2002, the lending limit prescribed by Panamanian law for any one borrower amounted to approximately $99 million. For new borrowers, the Bank s management has authority to approve credit lines of up to $60 million. Any approval of credit lines by the Bank s management is subject to the concurrence of the Bank s Credit Committee, which is comprised of the Bank s Chief Executive Officer, the Chief Operating Officer, and the heads of Risk Management and Credit and Marketing or their designees. In addition, the Bank s management may approve credit lines consisting of credits classified as 7 (special mention) of up to $25 million for existing borrowers. The Credit Policy and Risk Assessment Committee of the Board of Directors (the Board Credit Committee) must approve credit lines to new borrowers exceeding $60 million and credit lines to existing borrowers consisting of credits classified as 7 (special mention) exceeding $25 million. In view of the portfolio reduction and the reduced number of new prospects reviewed during 2002, only one of the existing 205 lines of credit, representing 3.5% of the available amount under the Bank s existing lines of credit, required approval of the Board Credit Committee. In addition, the entire impaired Argentine portfolio, along with non-impaired credits rated 7 or higher, are reviewed quarterly by this committee.

The Bank s general lending guidelines limit the amount of total credit that may be extended to any borrower to (i) an amount ranging from 10% to 50% of that borrower s equity, depending on the type of borrower and its credit-worthiness, and the term and nature of the transaction, (ii) up to 30% of the Bank s total capital and reserves, depending on the type of borrower and its credit-worthiness, and (iii) up to 5% of the Bank s total outstanding credit portfolio. The Board of Directors has made exceptions to the foregoing policies with respect to some of the Bank s borrowers in the past and, subject to the limits imposed by applicable law may make further exceptions in the future. As a result of the Bank s decision to increase its allowance for credit losses and to take a

charge for impairment losses on securities in 2002 and the corresponding reduction in the Bank s total assets and capital, the Bank exceeded this 30% limit with respect to several borrowers. The Superintendence of Banks of Panama granted the Bank a waiver of this requirement in July of 2002 which allows it one year to reduce its credits to non-Argentine borrowers to the 30% limit, and an unspecified period to reduce its exposure to Argentine clients to the 30% limit, as market conditions allow. The Panamanian Banking Law also contains certain concentration limits, which are strictly adhered to by the Bank. See Regulation Panamanian Law.

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

Until very recently, the Bank has also engaged in lending transactions not related to trade finance in order to service demand and to complement its overall credit relationship with high quality borrower clients. The Bank has developed credit information on its borrowers over an extended period of time. Many of the Bank s borrowers have been customers and stockholders for periods of over ten years. At December 31, 2002, total non-trade-related loans amounted to $628 million or 34% of the Bank s total loans (excluding Argentine loans).

In response to recent developments in the Region and the effect of such developments on the Bank, the Bank s management has decided to focus the Bank s business activities on providing short-term trade financing to banks. In addition, the Bank s Board of Directors recently amended the Bank s by-laws to focus its business activities on providing trade related financing.

Credit Portfolio by Country

The Bank s credit portfolio declined from $6.4 billion at December 31, 2001 to $3.2 billion at December 31, 2002. The decline in the credit portfolio resulted from management s decision to (i) maintain an adequate level of capitalization following Argentine credit loss provisions and charges, (ii) reduce credit exposure commensurate with increasing risk levels in some countries in the Region, and (iii) adapt the balance sheet to smaller funding levels. The reductions were implemented through portfolio run-offs, primarily in Brazil and Mexico.

The following table sets forth the distribution of the Bank s credit portfolio, consisting of loans, selected investment securities held to maturity and available for sale, securities purchased under agreements to resell, letters of credit, customers liabilities under acceptances and guarantees, by country at December 31 of each year set forth below. Investment securities are considered part of the Bank s credit portfolio (and therefore included in the chart below) when the acquisition of such securities is subject to the same lending policies, including credit approval criteria, as the rest of the credit portfolio. At December 31, 2002, 97% of the Bank s investment securities were considered part of its credit portfolio. The value of all securities included in the following table has been calculated using the estimated fair value of such securities.

	At December 31,									
	1998	**%**	**1999**	**%**	**2000**	**%**	**2001**	**%**	**2002**	**%**
	(in millions, except percentages)									
Argentina	$ 1,209	17.7	$ 1,198	19.6	$ 1,471	22.7	$ 1,114	17.4	$774	23.9
Bolivia	50	0.7	66	1.1	21	0.3	26	0.4	14	0.4

Brazil	2,346	34.4	2,159	35.3	2,351	36.2	2,461	38.5	1,115	34.5
Chile	69	1.0	81	1.3	88	1.4	114	1.8	49	1.5
Colombia	242	3.6	257	4.2	177	2.7	195	3.0	105	3.2
Costa Rica	11	0.2	27	0.4	29	0.4	69	1.1	49	1.5
Dominican Republic	117	1.7	112	1.8	178	2.7	221	3.5	220	6.8

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	At December 31,									
	1998	%	1999	%	2000	%	2001	%	2002	%
	(in millions, except percentages)									
Ecuador	69	1.0	94	1.5	113	1.7	95	1.5	79	2.4
El Salvador	27	0.4	38	0.6	41	0.6	62	1.0	9	0.3
Guatemala	23	0.3	19	0.3	42	0.7	28	0.4		