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# Banco Latinoamericano de Comercio Exterior S.A.

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## Table Of Contents

## Table Of Contents (cont.)

# Banco Latinoamericano de Comercio Exterior S.A.

## Ratings Score Snapshot

| Issuer Credit Rating |
|---|
| BBB/Stable/A-2 |

**SACP: bbb** → **Support: 0** → **Additional factors: 0**

| | | |
|---|---|---|
| Anchor | bb+ | |
| Business position | Adequate | 0 |
| Capital and earnings | Strong | +1 |
| Risk position | Adequate | 0 |
| Funding | Adequate | 0 |
| Liquidity | Adequate | |
| CRA adjustment | | +1 |

| | |
|---|---|
| ALAC support | 0 |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |

| Issuer credit rating |
|---|
| **BBB/Stable/A-2** |

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Strong and stable capitalization, supported by its sound capital base and improving bottom-line results. | High concentration in trade finance could constrain new opportunities. |
| Sound asset quality due to prudent risk appetite, high credit profile of customers, highly diversified loan book, and short-term loan portfolio. | Uneven credit conditions in Latin America, with exposure to economies facing sluggish growth. |
| Stable deposit base and broad geographic diversification to raise wholesale funding. | |

***We expect Banco Latinoamericano de Comercio Exterior S.A. (Bladex) to continue improving its bottom-line results during 2024-2025 because of steady net interest margins (NIMs) and a growing customer base.*** We believe Bladex will keep focusing on increasing transactions with high-end customers within its core business, the trade sector in the region, while maintaining its risk appetite profile unchanged. Although we expect economic growth to slow slightly across the region, we forecast the bank's loan portfolio will grow about 7.5%-8.0% on average in the next two years.

***In our view, Bladex's prudent risk management and low risk appetite enable it to maintain healthy asset quality despite higher economic risks.*** Bladex has been expanding its exposure to countries with higher economic risks. In our view, credit conditions in Latin America (LatAm) will remain uneven during 2024, and some countries' economic risks will remain elevated due to sluggish growth and lack of investor confidence.

Nevertheless, we believe Bladex's sound risk management, strict underwriting, and moderate risk tolerance will enable it to maintain healthy asset quality and low credit losses, in line with historical levels, during the next two years. As of March 2024, the bank's nonperforming assets (NPAs) represented only 0.1% of its total portfolio.

***We anticipate Bladex will maintain strong capitalization and prudent liquidity management in the next 12-24 months.*** We forecast the bank's persistent internal capital generation will enable it to maintain strong capital metrics with a risk-adjusted capital (RAC) ratio of about 12.4% in 2024-2025, which we view as one of the bank's main strengths. Likewise, we anticipate Bladex will continue to prudently manage its funding and liquidity given the broad geographic diversification of its funding sources and its high-quality, liquid securities portfolio.

## Outlook

Our stable outlook for the next 12 months reflects our expectation that the bank will continue increasing its customer base and loan portfolio while maintaining healthy asset quality, with lower NPAs and credit losses than other banks in LatAm. We also believe Bladex will keep its RAC ratio above 10% in the next 12-24 months.

### Downside scenario

We could lower the ratings on Bladex in the next 24 months if its asset quality deteriorates sharply from historical levels, with a combined ratio (NPAs and credit losses) consistently above 3%. We also could lower our ratings if Bladex's RAC ratio falls below 10% during the next two years. This could stem from aggressive portfolio growth; a sharp increase in provisions; or a drastic rise in dividend distributions, which would dent its internal capital generation.

### Upside scenario

We could upgrade Bladex if the projected RAC ratio is consistently above 15% in the next 12-24 months thanks to sustainably higher internal capital generation that bolsters the capital base. Additionally, the bank would have to maintain a sound risk position, with NPAs and credit losses in line with historical levels, and a stable deposit base to preserve its liquidity--in line with those of its main peers.

## Key Metrics

**Banco Latinoamericano de Comercio Exterior S.A.--Key ratios and forecasts**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2021a** | **2022a** | **2023a** | **2024f** | **2025f** |
| Growth in operating revenue | 5.5 | 58.8 | 59.7 | 9.4-11.5 | 4.8-5.8 |
| Growth in customer loans | 16.5 | 18.4 | 6.8 | 7.2-8.8 | 6.8-8.3 |
| Growth in total assets | 27.8 | 15.5 | 15.7 | 8.2-10.0 | 8.6-10.6 |
| Net interest income/average earning assets (NIM) | 1.2 | 1.7 | 2.4 | 2.3-2.5 | 2.2-2.4 |
| Cost to income ratio | 38.0 | 33.1 | 27.2 | 28.9-30.3 | 30.4-32.0 |
| Return on average common equity | 6.2 | 8.9 | 14.6 | 14.1-15.6 | 13.5-15.0 |
| Return on assets | 0.9 | 1.1 | 1.7 | 1.5-1.8 | 1.4-1.7 |

| Banco Latinoamericano de Comercio Exterior S.A.--Key ratios and forecasts (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year ended Dec. 31-- | | | | |
| **(%)** | **2021a** | **2022a** | **2023a** | **2024f** | **2025f** |
| New loan loss provisions/average customer loans | 0.0 | 0.3 | 0.4 | 0.3-0.3 | 0.2-0.2 |
| Gross nonperforming assets/customer loans | 0.0 | 0.4 | 0.1 | 0.2-0.2 | 0.2-0.2 |
| Net charge-offs/average customer loans | 0.0 | 0.0 | 0.4 | 0.3-0.3 | 0.2-0.2 |
| Risk-adjusted capital ratio | 12.7 | 11.8 | 12.1 | 12.0-12.6 | 12.1-12.7 |

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

## Anchor: 'bb+ 'Anchor According To Our View of Bladex's Country-Risk Exposures

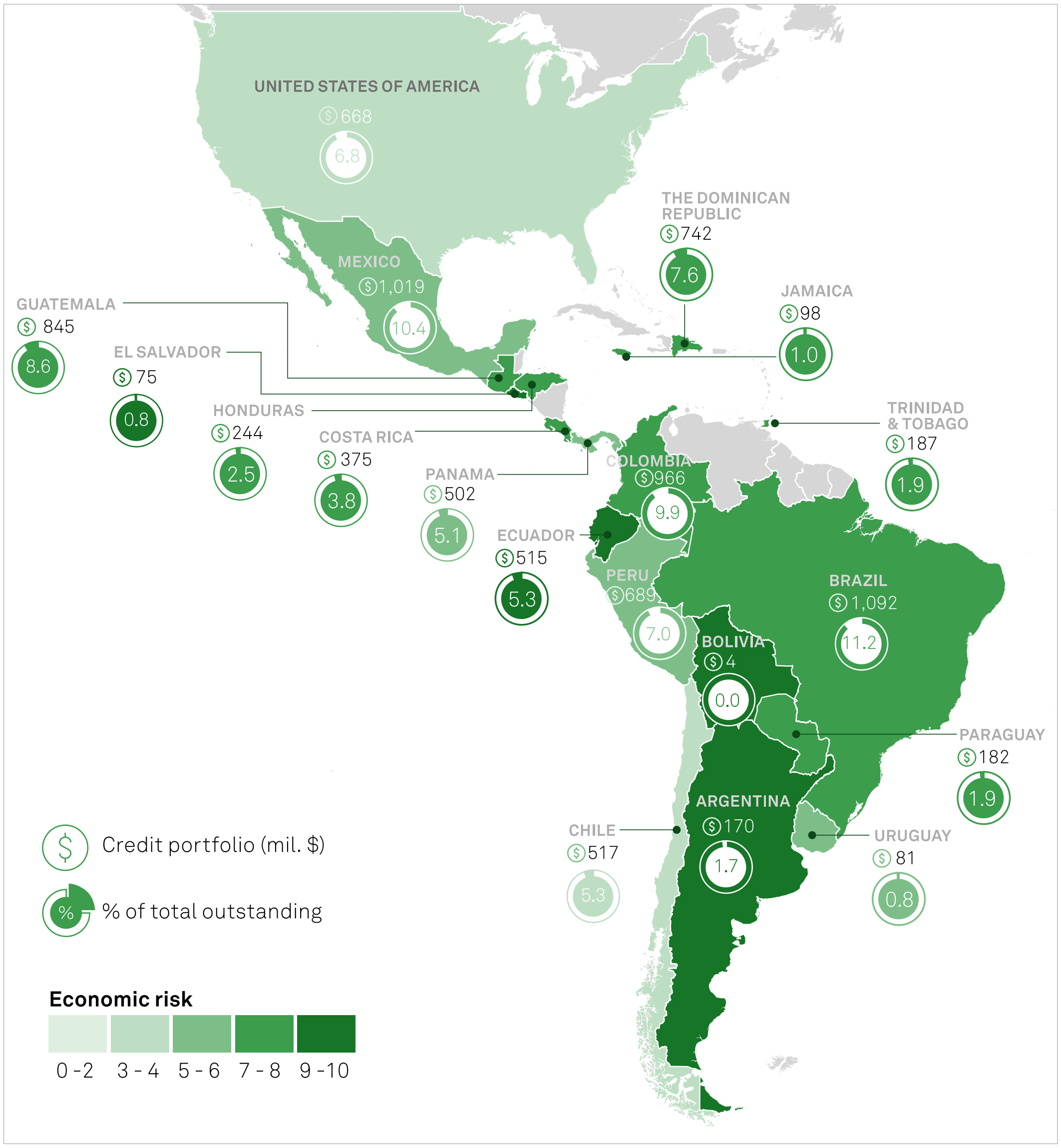
The anchor or starting point for our ratings for Bladex is 'bb+', which reflects our view of the weighted average economic risk in the countries in which the bank has exposure through its loan book and its long-term securities portfolio.

As of March 2024, Bladex's largest exposures by commercial portfolio were Brazil (12%), Colombia (11%), and Mexico (11%), while its exposure to developed economies represented 7%. Exposures of 5%-10% of its loan portfolio include Guatemala, the Dominican Republic, Peru, Ecuador, Chile, and Panama. The remainder is spread across other countries in the region with minimal country exposure. Likewise, the bank's credit investment portfolio comprises high-quality liquid debt instruments, where 51% consist of readily quoted U.S. securities.

Panama is gradually aligning with global reporting standards and strengthening its institutional framework, but absence of lender of last resort continues limiting systemwide funding. Panama has fully adopted International Financial Reporting Standards (IFRS) 9, Basel III capital requirements, and its liquidity coverage ratio (LCR) to enhance the banking system's liquidity and resilience. In fourth-quarter 2023, the regulator established a capital conservation buffer for banks operating in Panama with gradual adoption over the next two years.

We expect solid profitability for the Panamanian banking system during the next two years, stemming from relatively stable NIMs, manageable noninterest expenses, and controlled credit losses. However, one of the main challenges for banks is the system's lack of lender of last resort or an effective deposit insurance system to support distressed financial institutions. Still, we think the government, through Banco Nacional de Panama (BBB-/Negative/A-2), could provide liquidity to the banking system if needed.

**Bladex's credit portfolio distribution by country**




Source: S&P Global Ratings.



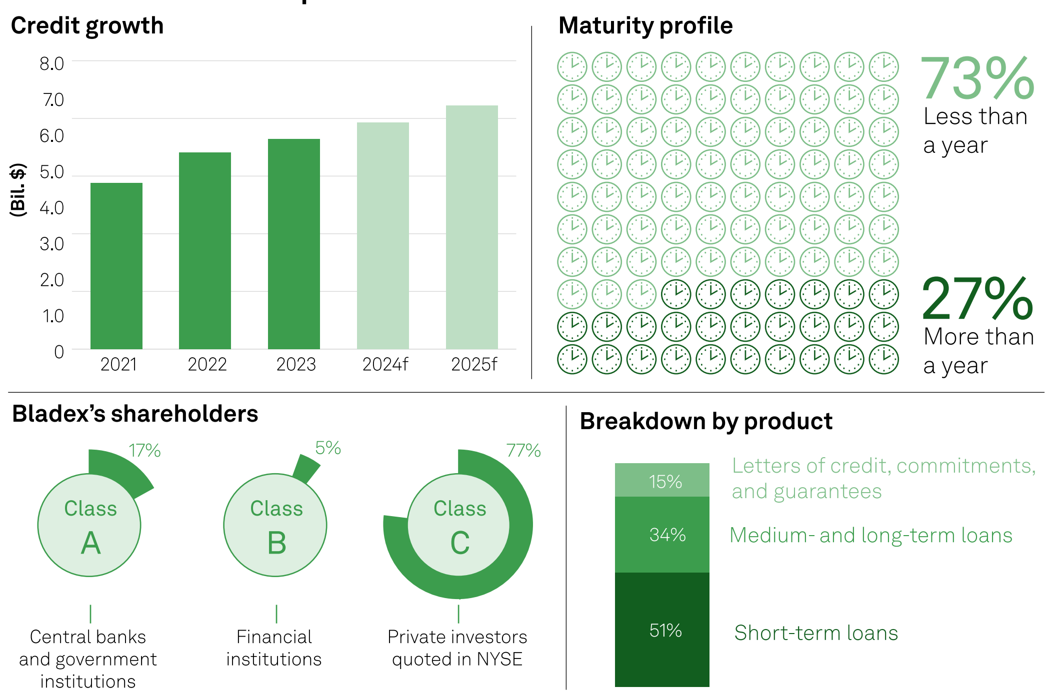
## Business Position: Rising Operating Revenue Because Of A Growing Customer Base And Steady Credit Growth

Bladex benefits from its business resilience and our expectation that the bank will continue consolidating its leading role in trade finance in Latin America during the next 12-24 months. We believe this fact coupled with the high credit profile of its short-term portfolio and the historical stickiness from its Class A shareholders-–central banks and their designees--provides the bank business stability even under stressed market conditions.

Although we anticipate credit conditions for various countries in Latam will remain challenging given their expected economic growth, high interest rates and financing costs, we expect Bladex to benefit from steady credit demand from specific sectors and high-end customers within the region's trade sector. We also believe the bank will keep increasing its customer base--especially from corporates, which grew 6% during 2023 and now represents 46% of its total commercial portfolio.

The expanded customer base has also enabled the bank to offer a wider range of trade finance products and rise its margins. We believe the bank will continue focusing on improving its internal operations to manage increased transactions in some of its core products, such as letters of credit and lending lines to importers and exporters. Therefore, we believe Bladex will grow its loan book at about 7.5%-8.0% during 2024-2025, and maintain a healthy and diversified portfolio without eroding its capital. This will lead the bank to increase its operating revenue by about 10% during 2024 and then gradually moderate at 4%-6% in the next two years.

**Bladex's commercial portfolio breakdown**




f--forecast. NYSE--New York Stock Exchange. Source: S&P Global Ratings.


## Capital And Earnings: Sound, Stable Capitalization And Improving Bottom-Line Results

In our view, Bladex's sound and stable capitalization will remain a credit strength during the next 12-24 months. We expect Bladex's RAC ratio to be about 12.4% for the next two years based on our expectation of increasingly improving bottom-line results and higher NIMs compared to historical levels.

We believe the bank's persistent internal capital generation will enable it to maintain a solid capital base, despite our expectation that it will pay dividends of about $75 million in 2024-2025 (compared to $36 million distributed during

2023).

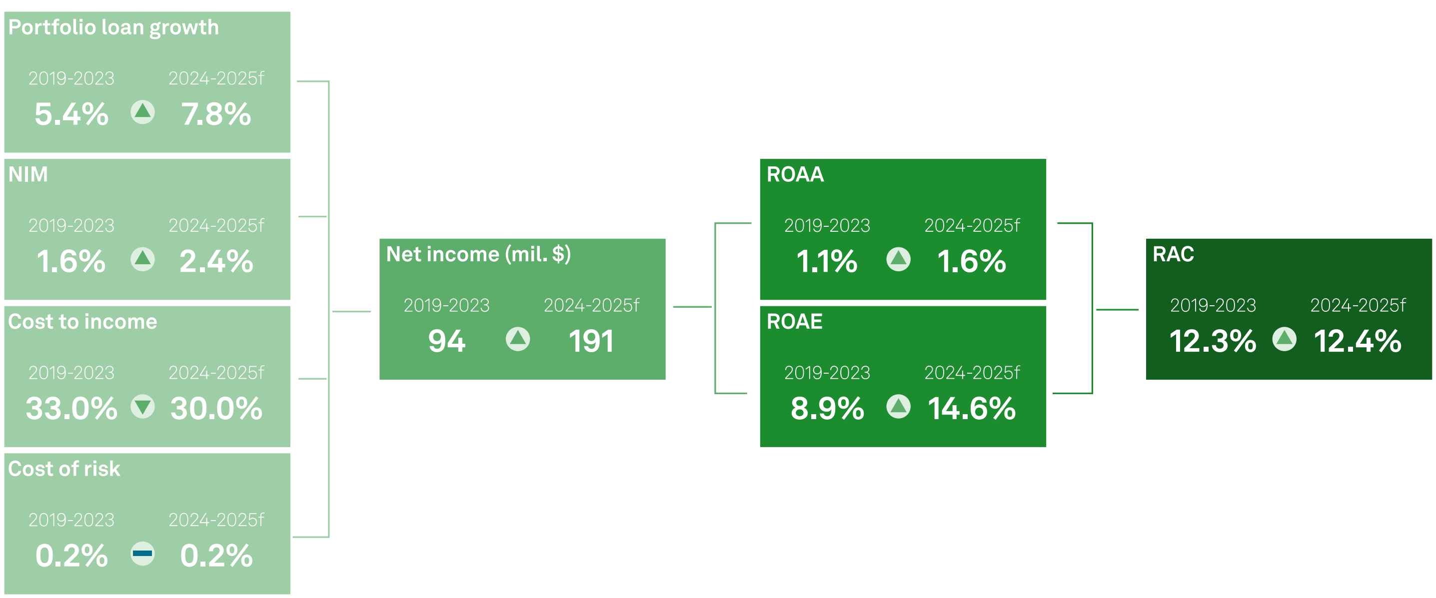
We base our projections on the following assumptions for 2024-2025:

- Average GDP growth in Latin America's largest five economies (Brazil, Mexico, Chile, Peru, and Colombia) at 2.2% in 2024 and 2.5% in 2025;
- Average loan portfolio growth of about 7.5%-8.0%;
- Cost-to-income ratio of about 31%;
- Healthy asset quality, with NPAs to loans below 0.5%;
- Cost of risk (measured as new loan-loss reserves as a percentage of average customer loans) of about 0.3%; and
- A dividend payout ratio of about 40%-43%.

We foresee Bladex's NIMs to be about 2.2%-2.4% in the next two years--compared to a five-year average of 1.6%. This, coupled with more transactions given its operation efficiencies, will enable the bank to continue improving its bottom-line results during 2024-2025, despite the bank's higher administrative expenses given its recurrent investment in digital enhancements and growing labor force.

We expect the bank's rising revenue and manageable cost of risk due to its healthy loan portfolio will translate into a return on adjusted assets of about 1.6%-1.8% for the next two years, compared with a five-year average of 1.1%.

**Bladex's capital and earnings metrics**



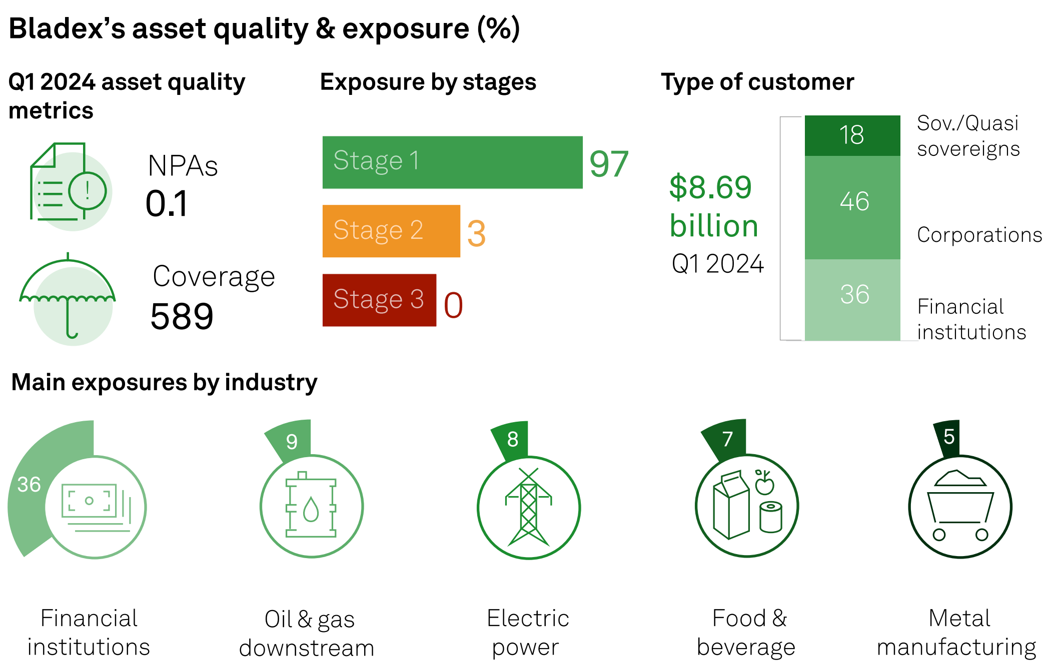

Note: Green arrows indicate improved metrics. f--Forecast. NIM--Net interest margin. ROAA--Return on average assets. ROAE--Return on average equity. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

## Risk Position: Prudent Risk Management And Broad Geographic And Sector Diversification Support Healthy Asset Quality

Bladex has healthy asset quality, historical low credit losses and broad geographic and sector diversification. We believe Bladex's presence in more than 15 LatAm countries, with 38% of operations in countries with investment-grade sovereign ratings, and exposure to top-rated countries outside the region mitigate risks.

In particular, we believe Bladex's exposures to LatAm countries have very little correlation to each other. About 36% of its portfolio consists of loans to regulated financial institutions, and its largest exposures in other sectors are to high-end, large corporations and quasi-sovereign entities--some of them state-owned oil companies-—that operate in key sectors.

In addition, we expect Bladex to continue to manage risk through its flexible portfolio, given the short-term nature of its loans: 73% of its commercial loan portfolio matures in less than one year. This enables the bank to rebalance its portfolio toward sectors that align with its risk profile and appetite. Likewise, we believe Bladex will maintain manageable provisioning in the next 12-24 months given its low volume of NPAs ($10 million) and despite increased economic challenges in some countries where the bank operates. We forecast the bank's NPAs will remain less than 0.5% of its total portfolio, with a credit coverage of more than 5x during 2024-2025.




NPAs--Nonperforming assets. Source: S&P Global Ratings.

## Funding And Liquidity: Stable Deposit Base, Wide Access To Wholesale Funding, And Prudent Liquidity Management

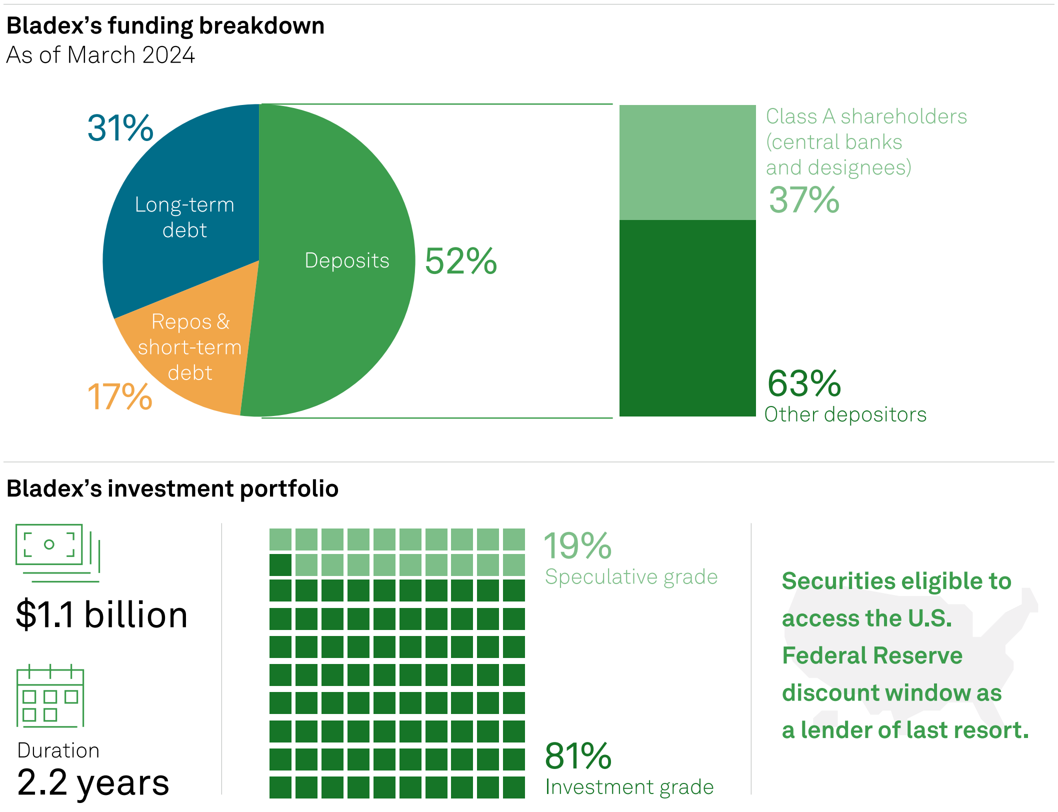
Bladex benefits from broad geographic and product diversification and a stable deposit base, which we anticipate will continue to represent about 40% of its total funding sources in the next 12-24 months. Bladex's deposit base benefits from a large presence of central banks, which are Bladex's Class A stockholders, and account for 37% of the bank's total deposits.

We expect Bladex to continue increasing deposits from corporates, enabling the bank to increase its cross-selling opportunities with these customers while reducing exposure to its largest depositors. Bladex has shrunk its top 20 depositors of its total deposits in 2023 more than 20% compared to 2019. In addition, we believe the bank will benefit from other funding sources in the wholesale market, specifically its ample access to international markets to raise long- and short-term debt in diverse currencies, such as U.S. dollars, Mexican peso, and euros.

Likewise, we anticipate Bladex will continue its prudent liquidity management. Bladex's investment portfolio consists mainly of high-quality, liquid securities held at amortized cost. This helps the bank to diversify its credit risk exposures, because most of these securities have low or no correlation with exposures to countries in LatAm.

Bladex's investment portfolio totaled $1.1 billion as of March 2024, or about 10% of total assets. The average maturity of this portfolio is 2.2 years and 81% of it consists of investment-grade credit securities--51% readily quoted U.S. securities--eligible for the U.S. Federal Reserve discount window, which mitigates liquidity risk in case of financial stress.

**Bladex's funding and liquidity key figures**




Source: S&P Global Ratings.


## Additional Ratings Factors

We have a positive comparable ratings adjustment on the bank--equivalent to one notch--reflecting Bladex's solid risk management, low risk appetite, and prudent underwriting standards. We believe these factors result in healthier asset quality than that of other banks in the region. Additionally, we expect the bank to maintain sound capitalization and stable funding sources while improving bottom-line results, which will support its business stability during the next 12-24 months.

## Environmental, Social, And Governance

We consider environmental, social, and governance factors for Bladex to be broadly in line with those of the industry, and we believe they have a neutral influence on the bank's credit quality. We think the bank's prudential underwriting standards, sound capitalization preservation, and targeted markets for growth reflect experienced management and governance.

We expect the bank will develop policies and key performance indicators regarding environmental matters according to its broad geographical presence, but we don't expect a shift in the bank's core business in the next few years. Finally, social risks are not distinctive credit factors for Bladex's credit quality compared to those of its main peers.

## Key Statistics

**Table 1**

| Banco Latinoamericano de Comercio Exterior S.A.--Key figures | | | | | |
|---|---|---|---|---|---|
| | | --Year ended Dec. 31-- | | | |
| **(Mil. $)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Adjusted assets | 10,685 | 10,741 | 9,282 | 8,037 | 6,289 |
| Customer loans (gross) | 7,443 | 7,280 | 6,816 | 5,754 | 4,938 |
| Adjusted common equity | 1,235 | 1,201 | 1,067 | 990 | 1,038 |
| Operating revenues | 73 | 266 | 167 | 105 | 99 |
| Noninterest expenses | 18 | 72 | 55 | 40 | 37 |
| Core earnings | 51 | 166 | 92 | 63 | 64 |

*Data as of March 31.

**Table 2**

| Banco Latinoamericano de Comercio Exterior S.A.--Business position | | | | | |
|---|---|---|---|---|---|
| | | --Year ended Dec. 31-- | | | |
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Total revenues from business line (currency in millions) | 73 | 266 | 167 | 105 | 99 |
| Trading and sales income/total revenues from business line | 0.22 | -0.02 | -0.85 | -0.53 | -4.52 |
| Other revenues/total revenues from business line | 0.10 | 0.17 | 0.17 | 0.40 | 1.09 |
| Investment banking/total revenues from business line | 0.22 | -0.02 | -0.85 | -0.53 | -4.52 |
| Return on average common equity | 16.80 | 14.62 | 8.93 | 6.18 | 6.19 |

*Data as of March 31.

**Table 3**

| Banco Latinoamericano de Comercio Exterior S.A.--Capital and earnings | | | | | |
|---|---|---|---|---|---|
| | | --Year ended Dec. 31-- | | | |
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Tier 1 capital ratio | 16.30 | 15.40 | 15.30 | 19.10 | 26.00 |
| S&P Global Ratings’ RAC ratio before diversification | N/A | 12.14 | 11.59 | 12.72 | 15.59 |
| S&P Global Ratings’ RAC ratio after diversification | N/A | 9.79 | 9.15 | 10.35 | 10.72 |
| Adjusted common equity/total adjusted capital | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Net interest income/operating revenues | 86.63 | 87.62 | 88.80 | 82.69 | 92.96 |
| Fee income/operating revenues | 13.05 | 12.22 | 11.87 | 17.44 | 10.48 |
| Market-sensitive income/operating revenues | 0.22 | -0.02 | -0.85 | -0.53 | -4.52 |
| Cost to income ratio | 25.20 | 27.24 | 33.07 | 38.04 | 37.53 |
| Preprovision operating income/average assets | 2.03 | 1.93 | 1.29 | 0.91 | 0.92 |
| Core earnings/average managed assets | 1.91 | 1.66 | 1.06 | 0.88 | 0.94 |

*Data as of March 31. N/A--Not applicable.

**Table 4**

## Banco Latinoamericano de Comercio Exterior S.A.--Risk position

| | | --Year ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Growth in customer loans | 8.97 | 6.81 | 18.44 | 16.54 | -16.63 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A | 23.99 | 26.65 | 22.92 | 45.52 |
| Total managed assets/adjusted common equity (x) | 8.65 | 8.94 | 8.70 | 8.12 | 6.06 |
| New loan loss provisions/average customer loans | 0.16 | 0.39 | 0.31 | 0.04 | -0.03 |
| Net charge-offs/average customer loans | N.M. | 0.38 | 0.00 | 0.00 | N.M. |
| Gross nonperforming assets/customer loans + other real estate owned | 0.13 | 0.14 | 0.44 | 0.19 | 0.22 |
| Loan loss reserves/gross nonperforming assets | 596.00 | 594.00 | 183.35 | 377.05 | 374.55 |

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

**Table 5**

## Banco Latinoamericano de Comercio Exterior S.A.--Funding and liquidity

| | | --Year ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2024*** | **2023** | **2022** | **2021** | **2020** |
| Core deposits/funding base | 51.00 | 47.15 | 39.33 | 43.45 | 60.26 |
| Customer loans (net)/customer deposits | 154.56 | 162.22 | 210.91 | 188.16 | 156.00 |
| Long-term funding ratio | 78.08 | 78.42 | 71.16 | 72.28 | 92.54 |
| Stable funding ratio | 106.81 | 109.57 | 93.57 | 96.05 | 114.65 |
| Short-term wholesale funding/funding base | 24.81 | 24.32 | 32.61 | 31.64 | 8.95 |
| Broad liquid assets/short-term wholesale funding (x) | 1.18 | 1.29 | 0.83 | 0.91 | 2.62 |
| Broad liquid assets/total assets | 25.73 | 27.62 | 23.73 | 25.16 | 19.38 |
| Broad liquid assets/customer deposits | 57.57 | 66.66 | 68.73 | 66.61 | 38.83 |
| Net broad liquid assets/short-term customer deposits | 11.16 | 18.84 | -17.74 | -7.77 | 29.98 |
| Short-term wholesale funding/total wholesale funding | 50.62 | 46.02 | 53.75 | 55.96 | 22.51 |

*Data as of March 31.

## Banco Latinoamericano de Comercio Exterior S.A.--Rating component scores

| **Issuer Credit Rating** | **BBB/Stable/A-2** |
|---|---|
| SACP | bbb |
| Anchor | bb+ |
| Economic risk | 7 |
| Industry risk | 5 |
| Business position | Adequate |
| Capital and earnings | Strong |
| Risk position | Adequate |
| Funding | Adequate |
| Liquidity | Adequate |
| Comparable ratings analysis | +1 |
| Support | 0 |
| ALAC support | 0 |

| Banco Latinoamericano de Comercio Exterior S.A.--Rating component scores (cont.) | |
|---|---|
| **Issuer Credit Rating** | **BBB/Stable/A-2** |
| GRE support | 0 |
| Group support | 0 |
| Sovereign support | 0 |
| Additional factors | 0 |

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

| Ratings Detail (As Of July 5, 2024)* | | |
|---|---|---|
| **Banco Latinoamericano de Comercio Exterior S.A.** | | |
| Issuer Credit Rating | | BBB/Stable/A-2 |
| Senior Unsecured<br>*CaVal (Mexico) National Scale* | | mxAAA |
| Senior Unsecured | | BBB |
| Short-Term Debt<br>*CaVal (Mexico) National Scale* | | mxA-1+ |
| **Issuer Credit Ratings History** | | |
| 14-Apr-2021 | *Foreign Currency* | BBB/Stable/A-2 |
| 03-Apr-2019 | | BBB/Negative/A-2 |
| 22-Jun-2017 | | BBB/Stable/A-2 |
| 14-Apr-2021 | *Local Currency* | BBB/Stable/A-2 |
| 03-Apr-2019 | | BBB/Negative/A-2 |
| 22-Jun-2017 | | BBB/Stable/A-2 |
| **Sovereign Rating** | | |
| Panama | | BBB/Negative/A-2 |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.