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Banco Latinoamericano de Comercio Exterior S.A.

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

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

Strong and stable capitalization supporting expected loan growth in 2023-2024

Healthier asset quality than most banks in the region thanks to high-credit-quality loan portfolio and prudent risk appetite

Stable deposit base and access to diversified geographic markets to raise wholesale funding

Key risks

High concentration in the trade finance business, which could constrain new business opportunities

Cyclical slowdown and subdued recovery in diverse Latin American economies where the bank has exposures

Lagging, though rising, profitability compared with main banks in Panama and the region

We believe Bladex's bottom-line results will continue benefiting from high margins, operational enhancements, and expansion of its customer base in the next 12 months. We expect Bladex to continue growing its customer base through its technological investments and commercial partnerships. However, we expect a slowdown of its loan portfolio growth rate—to about 4.0% in 2023—compared with previous years, due to constrained economic growth across the region. But we believe the bank's high margins will offset the enduring risks and slow growth that will challenge corporations across Latin America in the next 12-24 months.

We anticipate Bladex will maintain strong capitalization and prudent management to maintain its healthy asset quality metrics in 2023-2024. We expect the bank will keep a healthy portfolio thanks to its prudent risk management, sound underwriting practices, and moderate risk tolerances, which will translate ultimately to the strong capitalization metrics. Even though we expect rising provisioning and higher noninterest expenses in 2023, we forecast the bank's

high net interest margin will enable it to maintain sound internal capital generation and strong capital metrics, which we view as one of the bank's main strengths.

Outlook

Our stable outlook for the next 12 months reflects our expectation that the bank will continue benefiting from diverse trade business segments' recovery, as well as continue increasing its customer base and growing its loan portfolio. We also believe Bladex will maintain low nonperforming loans and credit losses while its risk-adjusted capital (RAC) ratio will stay above 10% in the next 12-24 months.

Downside scenario

We could lower the ratings on Bladex in the next 12-24 months if the bank drastically increases its exposure to countries with weaker economic risk, resulting in a lower anchor. We also could lower our ratings if Bladex's RAC ratio falls below 10% during the next 12-24 months. This could stem from a sharp increase of its provisioning or credit losses above our expectations, which would dent its internal capital generation.

Upside scenario

We could upgrade Bladex in the next 12-24 months if the bank sharply increases its portfolio loan exposure to countries with lower economic risk, leading to a higher anchor. Additionally, the bank would have to maintain a sound risk position with nonperforming assets and credit losses below 1%, while keeping a stable deposit base to preserve its liquidity metrics at historical levels and in line with those of its main peers.

Key Metrics

Bladex--key ratios and forecasts*

(%)	--Fiscal year ended Dec. 31 --				
	2020a	2021a	2022a	2023f	2024f
Growth in operating revenue	(21.8)	5.5	58.8	17.1-20.9	(1.8)-(2.2)
Growth in customer loans	(16.6)	16.5	18.4	3.6-4.4	3.1-3.8
Growth in total assets	(13.3)	27.8	15.5	3.6-4.3	3.3-4.1
Net interest income/average earning assets (NIM)	1.4	1.2	1.7	1.9-2.0	1.7-1.9
Cost to income ratio	37.5	38.0	33.1	34.7-36.5	40.0-42.0
Return on equity	6.2	6.2	8.9	9.1-10.1	8.5-9.4
Return on assets	0.9	0.9	1.1	1.0-1.2	1.0-1.2
New loan loss provisions/average customer loans	(0.0)	0.0	0.3	0.3-0.3	0.1-0.1
Gross nonperforming assets/customer loans	0.0	0.0	0.4	0.5-0.5	0.4-0.5
Net charge-offs/average customer loans	N.M.	(0.0)	N.M.	N.M.	0.1-0.1
Risk-adjusted capital ratio	14.9	12.7	11.8	11.6-12.2	11.7-12.3

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. N/A--Not applicable. N.M.--Not meaningful.

Anchor: 'bbb-' Anchor According To Bladex's Country Risk Exposures

The anchor, or starting point, for our ratings on Bladex is 'bbb-', which reflects our view of the weighted average economic risk in the countries to which the bank has exposure through its loan book and its long-term securities portfolio. As of March 2023, Bladex's largest exposures by loans were Mexico (13%), Brazil (12%), Colombia (12%), and Guatemala (10%), while its exposure to developed economies outside Latin America represented 7%. The bank's credit investment portfolio consists of high-quality liquid debt instruments, with 52% readily quoted U.S. securities.

Panama's regulatory framework continues to improve and reduce the gap with international regulatory standards, such as Basel III rules. Core deposits fund most banks' operations; nevertheless, the absence of a lender of last resort and a formal framework to provide contingent liquidity to the system continue to limit Panama's systemwide funding. We expect the structure of the banking industry to remain stable, with large banks dominating the market, as has been the case for the past decade. While the domestic debt capital market continues to develop, it hasn't yet achieved the depth and breadth of other markets in Latin America.

Business Position: Rising Operating Revenue Because Of Growing Customer Base And Higher Efficiencies

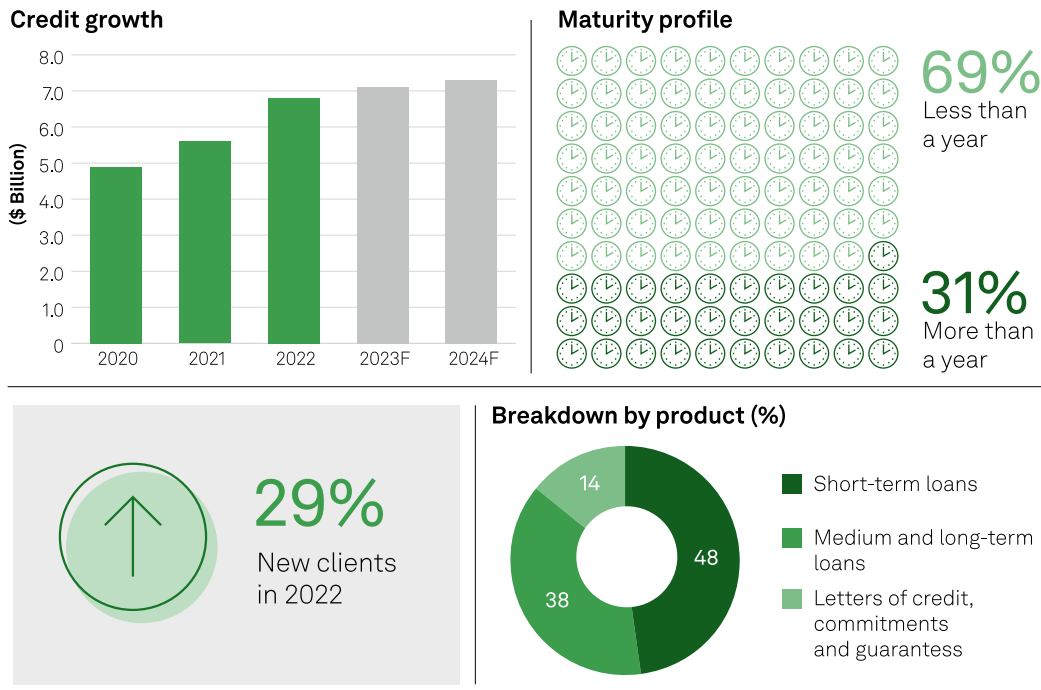
Bladex's leading role in trade finance in Latin America, along with the high credit quality of its short-term portfolio, provides business stability even under stressed market conditions, which supports our view of the bank's business position. We believe Bladex will grow its loan book at about 4.0% during 2023-2024. Even though that's a slower pace than in the past couple of years, we believe the bank will still benefit from the steady credit demand of specific sectors and high-end customers within the trade sector in the region.

Additionally, we forecast the bank will keep increasing its customer base--which grew 29% in 2022--thanks to its continual operating enhancements and investments in its labor force. These improvements have enabled the bank to shorten its onboarding and origination processes, while attending to higher volumes of transactions in some of its core products--such as letters of credit and lending lines to importers and exporters---boosting the bank's revenue last year.

We also believe the bank will maintain its commercial partnerships to offer a broader variety of trade finance products through different channels and cross-businesses, like structured deals, market placing, and digital platforms. In our view, the bank will maintain a healthy and diversified portfolio without erosion of its capital metrics, and therefore we expect the bank's operating revenue to increase 17%-20% in 2023 and then gradually moderate to low single-digit growth in 2024.

Chart 1

Bladex's portfolio loan breakdown



Source: S&P Global Ratings.
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Capital And Earnings: Sound Capitalization Metrics And Improving Bottom-Line Results

We believe Bladex's sound capitalization will remain one of the bank's credit strengths during 2023-2024. We expect its RAC ratio to be about 11.9% for the next two years due to our expectations for improving bottom-line results, still-high net interest margins, and operating efficiencies. The bank's persistent internal capital generation enables it to maintain a solid capital base and its recurrent dividend payout policy, with \$36 million distributed in 2022.

We base our projections on the following assumptions:

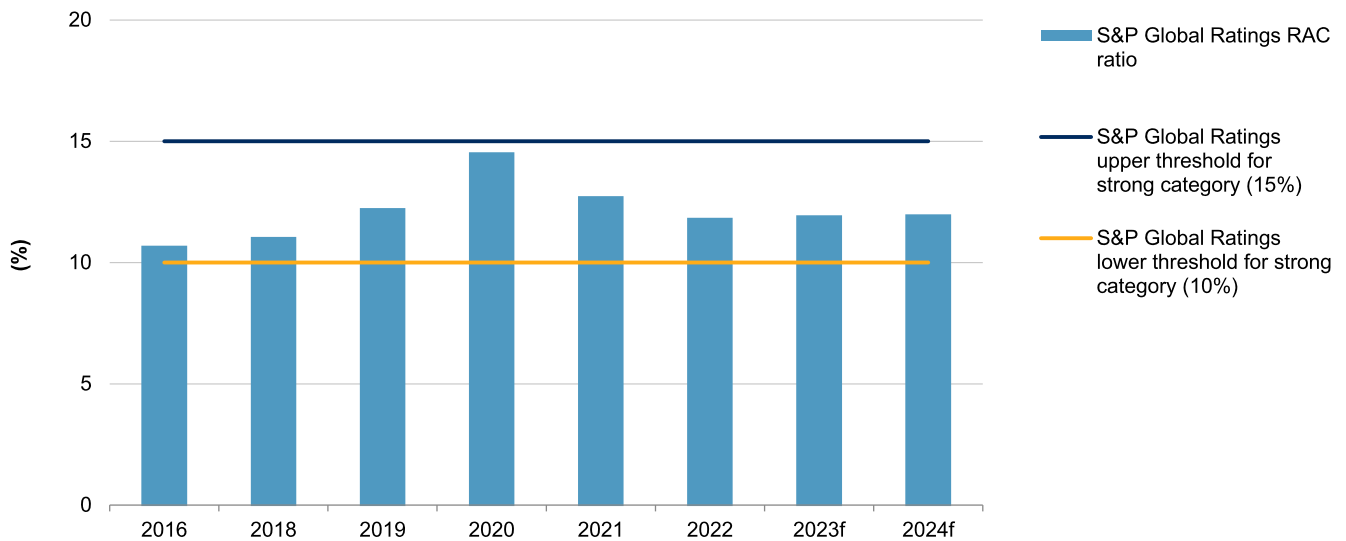
- Average GDP growth in Latin America's largest six economies at 0.8% in 2023 and 2.2% in 2024;
- Average loan portfolio growth at about 4.0% in 2023-2024;
- A cost-to-income ratio of 36%-39% in the next two years;
- A return on adjusted assets of about 1.1%-1.3% and return on adjusted common equity at about 9.3% in the next two years;
- Healthy asset quality with nonperforming assets (NPAs) to loans below 0.5% in the next two years;
- Loan loss reserves as a percentage of customer loans at about 2.1x; and
- A dividend payout of \$1 per share in 2023-2024.

We expect Bladex will benefit from high interest margins in the next 12 months, and therefore the bank will achieve better bottom-line results than in previous years. On the other hand, we believe the bank will keep growing its labor force, leading its administrative expenses to increase at a double-digit pace during 2023-2024.

We anticipate the bank will face challenges in maintaining its profitability metrics, especially due to our expectation of a gradual slowdown of its credit growth and a normalization of its net interest margin from 2024 onward. We forecast Bladex's return on assets at 1.1%-1.3% for the next two years.

Chart 2

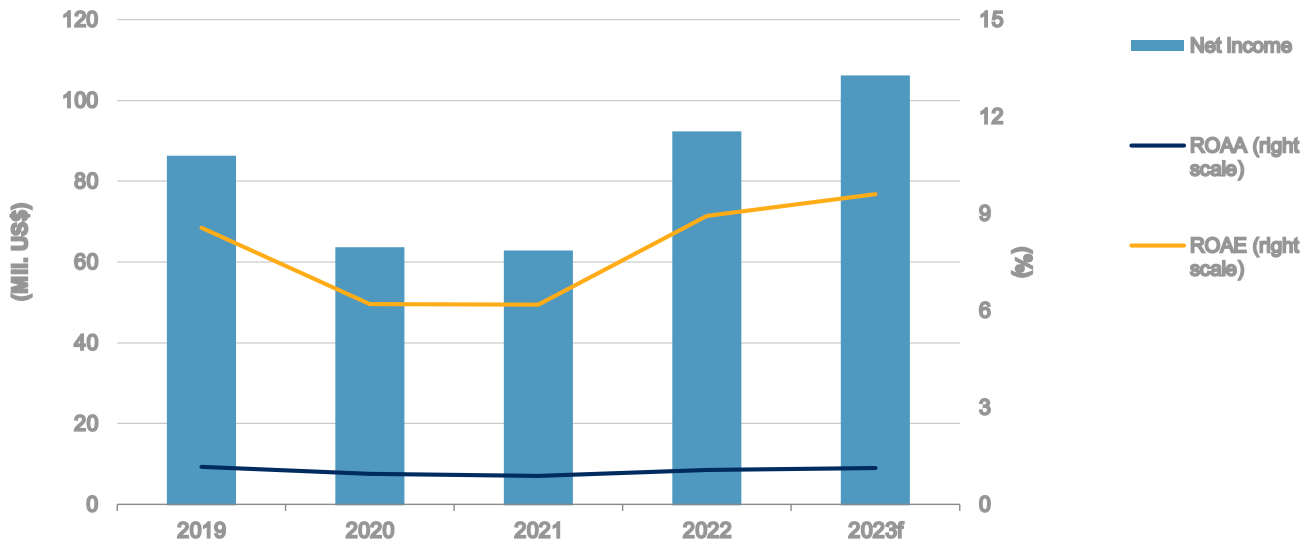
Bladex RAC ratio



Total capital ratio = total capital / risk-weighted assets. RAC--Risk-adjusted capital. f--Forecast. Sources: S&P Global Ratings and Comision Nacional Bancaria de Valores. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 3

Bladex profitability



f--Forecast. ROAA--Return on average assets. ROAE--Return on adjusted equity. Source: S&P Global Ratings.

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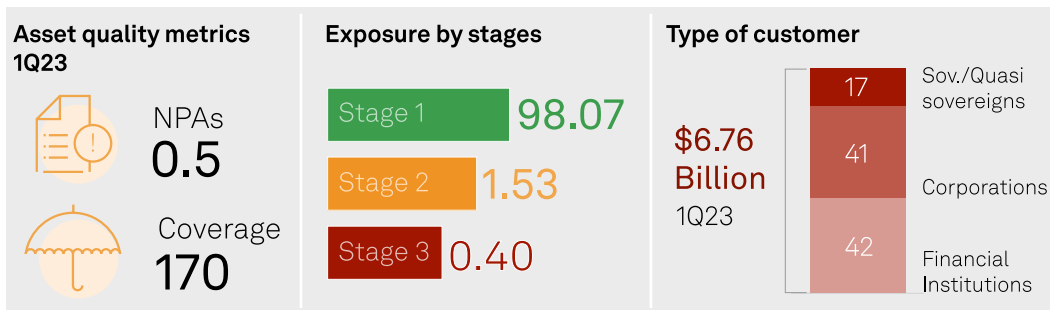
Risk Position: Healthy Asset Quality Metrics Supported By Broad Geographic And Sector Diversification

Our view of Bladex's risk position reflects its healthy asset quality metrics, historically low credit losses, and risk management portfolio flexibility, given the short-term nature of its business--69% maturing in less than one year. We expect the bank to maintain its record of prudent risk management, strict underwriting practices, and moderate risk tolerances to maintain very low impaired loans and credit losses during the next 12-24 months. Even though Bladex's impaired credits increased to \$35 million in 2022, it was mainly because of a single creditor, and the bank has 96% of the exposure already provisioned. Additionally, as of March 2023, the bank's NPAs represented only 0.5% of its total portfolio, with credit coverage of 170%, while loans categorized as Stage 1--low-risk credits--represented 98% of its total credits.

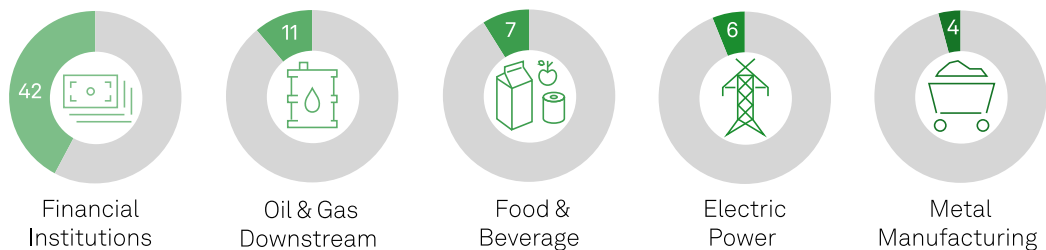
We believe the bank will also maintain broad geographic diversification and more than 40% of its portfolio exposure to regulated financial institutions across the region. In addition, we anticipate the bank's largest exposures in other sectors will remain with high-end large corporates and quasi-sovereign entities--some of them state-owned oil companies--that operate in key sectors of the countries where they participate. Therefore, we don't anticipate a drastic increase of Bladex's NPAs or a persistent deterioration of the bank's loan portfolio in the next two years.

Chart 4

Bladex's asset quality & exposure (%)



Main exposures by industry



Source: S&P Global Ratings.
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Funding And Liquidity: Stable Deposit Base With Wide Access To Wholesale Funding Sources And No Large Maturities In The Next 12 Months

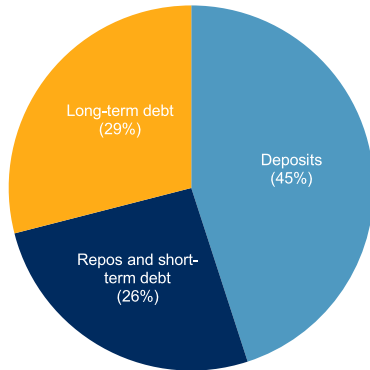
Our view of Bladex's funding incorporates its stable deposit base, with central banks, Bladex's Class A stockholders, accounting for 42% of total deposits. We anticipate Bladex's total deposits will represent about 40% of its total funding sources in the next 12-24 months with growing deposits from corporates, which we believe will enable the bank to increase its cross-selling opportunities and strengthen its business relationships with these companies. We also expect the bank to keep benefiting from other funding sources in the wholesale market, specifically from its ample access to international markets to continue raising long- and short-term debt capital in diverse currencies. Likewise, Bladex has investment-grade securities of about \$560 million that it could use in the Federal Reserve discount window to borrow funds if required.

In addition to the bank's euro medium-term notes program and its issuances in U.S. dollars and Mexican pesos, we believe the bank will continue tapping the Panamanian market in the next 24 months, after the recent authorization of its corporate bond revolving program for up to \$300 million.

We expect Bladex will maintain its prudent liquidity management with a large cash and cash-like position, mostly consisting of cash and due from banks, as well as highly rated corporate debt securities. Additionally, close to 85% of Bladex's total liquid assets are in a deposit account with the Federal Reserve Bank of New York, which is a comfortably sufficient metric to cover the bank's needs over the next 12 months.

Chart 5

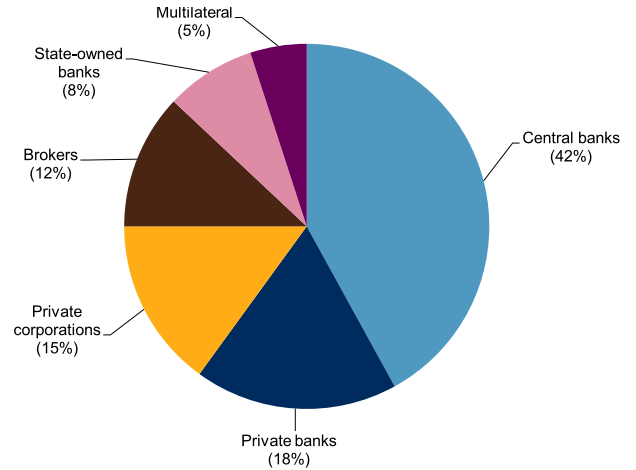
Bladex funding breakdown
As of March 2023



Source: S&P Global Ratings.
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Chart 6

Bladex deposits breakdown
As of March 2023



Source: S&P Global Ratings.
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Support: No Uplift To The SACP

The long-term rating on Bladex is the same as the stand-alone credit profile.

Environmental, Social, And Governance

ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We consider environmental, social, and governance factors for Bladex to be broadly in line with those of the industry, and they have a neutral influence on the bank's credit quality. We think the bank has experienced management and governance, reflected in its prudent underwriting standards, preservation of sound capitalization metrics, and targeted markets for growth. We expect the bank will continue developing policies and key performing indicators regarding environmental matters; nonetheless, we don't expect a drastic shift in the bank's business in the next few years. Finally, social risks are not distinctive credit factors for Bladex's credit quality relative to its main peers.

Key Statistics

Table 1

Bladex--key figures					
	--Year ended Dec. 31--				
(Mil. \$)	2023*	2022	2021	2020	2019
Adjusted assets	9,246.3	9,281.8	8,036.5	6,288.9	7,249.7
Customer loans (gross)	6,759.9	6,815.6	5,754.5	4,937.8	5,922.6
Adjusted common equity	1,093.2	1,067.2	990.2	1,037.9	1,016.2
Operating revenues	59.2	166.7	104.9	99.5	127.2
Noninterest expenses	15.9	55.1	39.9	37.3	40.7
Core earnings	37.0	92.0	62.7	63.6	86.1

*Data as of March 31.

Table 2

Bladex--business position					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	59.2	166.7	104.9	99.5	127.2
Commercial banking/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Retail banking/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Trading and sales income/total revenues from business line	2.9	(0.8)	(0.5)	(4.5)	(0.7)
Corporate finance/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Brokerage/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Insurance activities/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Agency services/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Payments and settlements/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Asset management/total revenues from business line	0.0	0.0	0.0	0.0	0.0
Other revenues/total revenues from business line	0.1	0.2	0.4	1.1	2.3
Investment banking/total revenues from business line	2.9	(0.8)	(0.5)	(4.5)	(0.7)
Return on average common equity	13.7	8.9	6.2	6.2	8.6

*Data as of March 31.

Table 3

Bladex--capital and earnings					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	15.3	15.3	19.1	26.0	19.8
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	12.7	N/A	12.2
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	10.3	N/A	9.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	88.9	88.8	82.7	93.0	86.1
Fee income/operating revenues	8.1	11.9	17.4	10.5	12.3
Market-sensitive income/operating revenues	2.9	(0.8)	(0.5)	(4.5)	(0.7)
Cost-to-income ratio	26.9	33.1	38.0	37.5	32.0
Provision operating income/average assets	1.9	1.3	0.9	0.9	1.2

Table 3

Bladex--capital and earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core earnings/average managed assets	1.6	1.1	0.9	0.9	1.2

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

Table 4

Bladex--risk position					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	(3.3)	18.4	16.5	(16.6)	1.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	22.9	N/A	30.3
Total managed assets/adjusted common equity (x)	8.5	8.7	8.1	6.1	7.1
New loan loss provisions/average customer loans	0.4	0.3	0.0	(0.0)	0.0
Net charge-offs/average customer loans	N.M.	(0.0)	(0.0)	N.M.	0.0
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.4	0.2	0.2	1.0
Loan loss reserves/gross nonperforming assets	169.4	183.3	377.1	374.5	160.7

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

Table 5

Bladex--funding and liquidity					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	44.6	39.3	43.5	60.3	46.7
Customer loans (net)/customer deposits	186.8	210.9	188.2	156.0	201.6
Long-term funding ratio	70.7	71.2	72.3	92.5	76.7
Stable funding ratio	93.1	93.6	96.1	114.6	91.5
Short-term wholesale funding/funding base	33.3	32.6	31.6	8.9	27.2
Broad liquid assets/short-term wholesale funding (x)	0.8	0.8	0.9	2.6	0.7
Broad liquid assets/total assets	23.7	23.7	25.2	19.4	16.7
Broad liquid assets/customer deposits	61.0	68.7	66.6	38.8	41.8
Net broad liquid assets/short-term customer deposits	(17.1)	(17.7)	(7.8)	30.0	(20.4)
Short-term wholesale funding/total wholesale funding	60.1	53.8	56.0	22.5	51.0

*Data as of March 31.

Bladex--rating component scores	
Issuer Credit Rating	BBB/Stable/A-2
SACP	bbb
Anchor	bbb-
Economic risk	6
Industry risk	5
Business position	Adequate
Capital and earnings	Strong

Bladex--rating component scores (cont.)

Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
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

- 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
- General Criteria: Methodology For National And Regional Scale Credit Ratings , June 25, 2018
- 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 May 31, 2023)***Banco Latinoamericano de Comercio Exterior S.A.**

Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured <i>CaVal (Mexico) National Scale</i>	mxAAA
Senior Unsecured	BBB
Short-Term Debt <i>CaVal (Mexico) National Scale</i>	mxA-1+

Issuer Credit Ratings History

14-Apr-2021	<i>Foreign Currency</i>	BBB/Stable/A-2
03-Apr-2019		BBB/Negative/A-2
22-Jun-2017		BBB/Stable/A-2
14-Apr-2021	<i>Local Currency</i>	BBB/Stable/A-2
03-Apr-2019		BBB/Negative/A-2
22-Jun-2017		BBB/Stable/A-2

Ratings Detail (As Of May 31, 2023)*(cont.)

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.

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