



RATING ACTION COMMENTARY

Fitch Affirms Bladex's Long-Term IDR at 'BBB'; Outlook Stable

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Fitch Ratings - Monterrey - 17 Aug 2023: Fitch Ratings has affirmed Banco Latinoamericano de Comercio Exterior, S.A.'s (Bladex) Long-Term Issuer Default Rating (IDR) at 'BBB' and Short-Term IDR at 'F2'. The Rating Outlook on the Long-Term IDR is Stable. Fitch has also affirmed Bladex's Viability Rating (VR) at 'bbb' and the Government Support Rating (GSR) of 'No Support' (ns). The bank's National Long-Term and Short-Term ratings were affirmed at 'AAA(pan)'/Outlook Stable, and 'F1+(pan)', as well as the ratings of its local debt issuances in Panama and Mexico.

KEY RATING DRIVERS

Ratings Driven by Intrinsic Creditworthiness: Bladex's IDRs and national ratings are underpinned on its standalone performance captured in its 'bbb' VR, which is equal to its implied VR and one notch above Panama's sovereign rating. This denotes Bladex high geographic diversification, its well-developed and specialized business model, and its conservative risk profile, which have translated into a robust asset quality despite high debtor concentrations, and consistently good capitalization and liquidity metrics. In Fitch's opinion, Bladex's highly diversified operations by jurisdiction will continue to lead its VR to be one notch above Panama's sovereign rating, since this should counter the effects of the country's operating environment risks.

Jurisdictional Operating Environment: Bladex maintains credit operations in more than 25 countries, highlighting its wide geographical diversity and strong ability to manage different operating environments (OE), adapting its portfolio relatively quickly towards markets with lower risk and more favorable opportunities. As of June 2023, the OE

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indicates that the downside risks still existing in the OEs could be partially mitigated by the bank's geographically diversified businesses.

Robust and Outstanding Business Profile: The bank's business model, which focuses on short-term loans and top-tier clients, together with a solid corporate governance, and the experience, depth, and credibility of its management, have resulted in a highly recognized regional franchise, with strong and enduring relationships with clients, that compares favorably with regional institutions. In Fitch's view, these factors offset lower-than-peers total operating income, which four-year average is USD125 million.

The effective execution of the bank's low-risk strategy, which consistently directs its credit portfolio towards high-quality assets in defensive jurisdictions and sectors, underpins its conservative risk profile. It has all translated into strong financial performance at 2Q23, despite the concentrations by debtor inherent in its model and the challenges on some low-rated OEs.

Strong Loan Quality: Fitch estimates the loan quality to remain robust in the rating horizon, supported by its solid risk profile reflected in consistent and sound underwriting standards, as well as in its focus on top-tier clients. Fitch maintains an asset quality score of 'bbb+', below the recently improved implied score in the 'a' category given the high concentration per debtor inherent to its business model. Although debtor concentration has reduced in recent years, it continues to be a potential risk of credit losses. As of 2Q23, the ratio of non-performing loans (NPLs in Stage 3) was 0.15%, after registering 0.44% at YE 2022 (YE 2019-YE 2021: 0.48%), related with the detriment of a credit prudently written-off in 2Q23 given its low recovery expectation. The reserve coverage for NPLs was 422.8% as of 2Q23.

Improved Profitability: Fitch upgraded Bladex's Earnings and Profitability score to 'bb+' from 'bb' as profitability continued with a favorable trend as of 2Q23, evidencing the materialization of its strategy's benefits. The operating profit to risk-weighted assets (RWA) ratio was 1.8% compared to 1.1% at YE 2022, primarily driven by higher interest income, an improved net interest margin, relatively lower loan impairment charges and better operational efficiency. Fitch expects Bladex's profitability to remain at similar levels to those recently observed and to improve as the actions implemented continue to materialize in the rating horizon.

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The agency expects the CET1 metric will continue to strengthen to levels slightly above 16%, which will remain consistent to the assigned 'bbb' capitalization score, providing headroom to absorb potential impacts stemming from unexpected losses.

Sound Funding Profile: Bladex's greatly diversified financing structure, different from a traditional bank, supports its specialized business model and sticks it out from regional institutions. This has been further strengthened, providing the entity room to face adverse conditions. It is characterized by a very high-quality deposit base, a short-term balance structure, and very broad access to various funding sources in international markets, also encompassing contingent resources.

As of 2Q23, deposits grew significantly (31.6% YoY), accounting for 47.9% of total funding (YE 2022: 40.5%), which is complemented by repos, senior unsecured debt and borrowings from a wide range of international institutions. Fitch also considers in its assessment its liquid balance sheet. Bladex's liquidity (LCR of 136.2% at 2Q23) is made up of high-quality and easily realizable assets, giving it leeway in the prevailing environment.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Bladex's ratings could be downgraded if the risks of the OE materially increase, resulting in a significant deterioration in loan portfolio quality and profitability that pressure the CET1 to RWA ratio to a level consistently below 13.0%;

--A change in the bank's risk profile that results in an increased exposure to higher-risk countries or sectors and weakens Fitch's assessment of its OE, would trigger a downgrade of its ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Bladex's ratings could be upgraded if its asset diversification strategy sustains the improvement in the OE weighted score, which in turn improves profitability (operating profit to RWA) consistently above 1.5% and the CET1 to RWA ratio steadily above 17%;

--Material reductions in concentrations per debtor also could improve Fitch's assessment

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OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Debt - Issues in Panama: The bank's bonos corporativos rotativos issued in the Panamanian market are rated at the same level as Bladex's national ratings, since the senior debt is unsecured and, in Fitch's view, its likelihood of default is equal to that of the rest of the bank's senior unsecured obligations. These bonds are a direct and unsubordinated obligation for Bladex.

Debt - Issues in Mexico: Bladex has debt issuances in Mexico, which Fitch rates at 'AAA(mex)' and 'F1+(mex)'. This debt is not guaranteed; therefore, it ranks as equal with other Bladex debt. The bank's senior unsecured debt national ratings reflect the entity's intrinsic credit strength compared to other issuers rated in the Mexican market.

Government Support: Bladex's GSR indicates that external support, while possible, cannot be relied upon, given Fitch's view of Panama's limited ability to support the banking system's large size regarding economy and weak support stance due to Panama's lack of a lender of last resort.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--The senior unsecured debt national ratings in Panama would reflect any downgrade in Bladex's national ratings;

--The senior unsecured debt national Long-Term rating in Mexico could potentially be downgraded in the event of a downgrade of Bladex's Long-Term IDR, while the Short-Term national rating could decrease by a multi-notch downgrade of Bladex's IDR. National ratings indicate credit quality relativities within a jurisdiction, which in this case are relative to other debt issuers in Mexico;

--Given the GSR is the lowest level in the scale, there is no downside potential for this rating.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

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--As Panama is a dollarized country with no lender of last resort, an upgrade in Bladex's GSR is unlikely.

VR ADJUSTMENTS

The Business Profile Score of 'bbb' has been assigned above the 'bb' category implied score due to the following adjustment reasons: Business Model (positive), Market Position (positive) and Strategy and Execution (positive).

The Asset Quality Score of 'bbb+' has been assigned below the 'a' category implied score due to the following adjustment reason: Concentrations (negative).

The Funding & Liquidity Score of 'bbb+' has been assigned above the 'b & below' category implied score due to the following adjustment reasons: Liquidity Coverage (positive) and Non-Deposit Funding (positive).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this

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information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Banco Latinoamericano de Comercio Exterior, S.A.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
		Affirmed		
	ST IDR	F2	Affirmed	F2
	Natl LT	AAA(pan) Rating Outlook Stable		AAA(pan) Rating Outlook Stable
		Affirmed		
	Natl ST	F1+(pan)	Affirmed	F1+(pan)
	Viability	bbb	Affirmed	bbb
	Government Support	ns	Affirmed	ns
senior unsecured	Natl LT	AAA(mex)	Affirmed	AAA(mex)
senior unsecured	Natl ST	F1+(pan)	Affirmed	F1+(pan)

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[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Metodología de Calificación de Bancos \(pub. 28 Mar 2022\)](#)

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

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