

## RATING ACTION COMMENTARY

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

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Fitch Ratings - Monterrey - 29 May 2024: Fitch Ratings has affirmed Banco Latinoamericano de Comercio Exterior, S.A.'s (Bladex) Long-Term Issuer Default Rating (IDR) at 'BBB', Short-Term IDR at 'F2', Viability Rating (VR) at 'bbb' and the Government Support Rating (GSR) of 'No Support' (ns). The Rating Outlook on the Long-Term IDR is Stable. Fitch also affirmed Bladex's National Long-Term and Short-Term ratings at 'AAA(pan)'/Outlook Stable, and 'F1+(pan)', respectively, as well as the ratings of its local debt issuances in Panama and Mexico.

## KEY RATING DRIVERS

**Ratings Based on Standalone Performance:** Bladex's IDRs and national ratings are driven by its 'bbb' VR, reflecting Bladex's extensive geographic diversification, sound business and funding profiles, with a conservative risk appetite, leading to a resilient financial performance with outstanding asset quality, improved profitability and good capitalization. Bladex's broad jurisdictional diversification, along with its inherently strong creditworthiness, will continue to boost its VR to be above Panama's sovereign rating of 'BB+' with a Stable Outlook, as Fitch considers this should offset the effects of the country's operating environment (OE) risks.

**Highly Diversified Operating Environment:** Bladex has demonstrated a solid ability to effectively manage the various OEs where it has operations, redirecting its portfolio relatively quickly toward markets with more opportunities and lower risk. The entity stands out for its geographically diversified businesses with exposure in more than 25 jurisdictions. Fitch assesses Bladex's blended OE by weighting total earnings assets according to where they are allocated, resulting in a 'bbb-' score as of March 2024, level mostly observed consistently in recent years. In the agency's opinion, the advantages of diversification allow Bladex's credit profile to be resilient to adverse events in the jurisdictions where it has presence, mitigating the downside risks prevailing in the OE.

**Solid and Steady Business Profile:** Bladex's highly recognized regional franchise has been underpinned by its robust and well-developed business model, sound corporate governance and experienced senior management team, giving it a relevant position in its market served, comparing well with regional entities.

The long track record of the bank's effective execution of its low-risk strategy, allocating its portfolio to high-quality assets in defensive countries and sectors, is reflected in a resilient financial performance, despite its inherent concentration by debtor, and allowing it to withstand difficulties in the OE. Fitch believes these factors offset the small four-year total operating income average of USD159 million, relative to peers.

**Consistently Strong Loan Quality:** Bladex's asset quality reflects its consistent and robust underwriting standards, along with its solid risk management framework, which Fitch expects will continue to underpin loan quality at levels similar to those recently observed in the rating horizon.

In March 2024, the Stage 3 loans to gross loans ratio remained sound at 0.1%, equal to 2023, and below 0.3% on average from 2020 to 2022, while the reserve coverage was a high 590.1%. The bank's business model that entails high concentration per debtor, although it has been reduced, remains a potential risk of credit losses, in the agency's opinion.

**Sustained Enhanced Profitability:** Fitch revised Bladex's profitability factor score to 'bbb-' from 'bb+' based on improvement in the bank's performance, which suggests it will remain consistent with said score in the foreseeable future. Operating profit to risk-weighted assets (RWA) ratio was 2.3% as of March 2024, and 1.9% in 2023. Fitch estimates that profitability will stabilize, steadily reaching a four-year average above 1.5%. This is supported by a well-managed net interest margin (NIM), stable loan impairment charges (LIC) in line with expected robust loan quality, and increased operational efficiencies.

**Capitalization with Upward Trend:** Fitch expects the common equity Tier 1 (CET1) ratio to remain around 16%, considering moderate loan growth and consistent internal capital generation, supported also by improved profitability, and despite quarterly dividend payment. As of March 2024, the CET1 to RWA metric was 16.3% (2023: 15.4%), commensurate with the 'bbb' capitalization score, which gives Bladex room to absorb potential unexpected losses.

**Notable Funding and Liquidity Profiles:** Bladex's differentiated and greatly diversified financing structure continued to strengthen as of 1Q24, providing it higher flexibility to

navigate the different OE's challenges. It is characterized by a short-term balance structure, very high-quality deposit base, which is complemented by ample financing options and wide access to diverse sources in international markets, also encompassing contingent resources.

As of 1Q24, the deposits accounted for 52.7% of total funding. Fitch's liquidity assessment heavily weighs the bank's high-quality liquid balance sheet and easily realizable assets, mitigating potential headwinds in the OE.

**GSR:** Bladex's 'ns' GSR denotes that external support, while possible, cannot be relied upon, due to Fitch's view of Panama's limited ability to support the banking system's large size relative to the local economy and weak support stance due to Panama's lack of a lender of last resort.

## **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 pressures 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, could trigger a downgrade of its ratings;

--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**

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

--Material reductions in concentrations per debtor, along with a consistent improvement in the OE weighted score, also could improve Fitch's assessment of the bank's asset quality and risk profile, benefiting the VR;

--Bladex's national ratings are at the highest level of the national rating scale and therefore have no upside potential;

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

## **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

**Senior Debt - Panama:** The bank's senior unsecured debt (bonos corporativos rotativos) issued in the Panamanian market is rated at the same level as Bladex's national ratings, as 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.

**Senior Debt - 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 Bladex's intrinsic creditworthiness compared to other entities rated in the Mexican market.

## **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 National Short-Term 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.

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

--There is no upside potential of the senior unsecured debt national ratings, both in Panama and Mexico, since the debt ratings are at the highest level of the national rating scale.

## **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 Earnings and Profitability Score of 'bbb-' has been assigned above the 'bb' category implied score due to the following adjustment reason: Historical and Future Metrics (positive).

The Funding and 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).

## 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 section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://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 Affirmed	BBB Rating Outlook Stable

	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)

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)[Metodología de Calificación de Bancos – Efectiva del 28 de marzo de 2022 al 27 de septiembre de 2023 \(pub. 28 Mar 2022\)](#)[Metodología de Calificación de Bancos \(pub. 28 Sep 2023\)](#)[Bank Rating Criteria \(pub. 15 Mar 2024\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

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