Research Update:

Bladex 'BBB/A-2' Ratings Affirmed On Resilient Asset Quality Despite Uneven Credit Conditions; Outlook Stable

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PRIMARY CREDIT ANALYST

Erick Rubio
Mexico City
(52) 55-5081-4450
erick.rubio
@spglobal.com

SECONDARY CONTACT

Jesus Sotomayor
Mexico City
+ 520445513524919
jesus.sotomayor
@spglobal.com

Overview

- Bladex has been expanding its exposure to countries with higher economic risks. In our view, Latin America's (LatAm's) credit conditions will remain uneven during 2024, while some countries' economic risks will remain elevated due to sluggish growth and lack of investors' confidence. Therefore, we're revising Bladex's blended economic risk to '7' from '6' and its anchor to 'bb+' from 'bbb-'.
- On the other hand, Bladex's solid risk management, low risk appetite, and prudent underwriting standards, resulting in healthier asset quality than those of other banks in the region, balance higher economic risks. In addition, we expect the bank to maintain sound capitalization and stable funding sources while raising profitability, which will support its business stability during the next 12-24 months.
- As a result, we affirmed our global scale 'BBB/A-2' issuer credit ratings on Bladex and our 'BBB' debt ratings on its senior unsecured obligations. We also affirmed our national scale 'mxAAA' issue-level rating on the bank's senior unsecured issuances in Mexican pesos (MXN) and our 'mxA-1+' rating on the short-term issuances.
- The outlook remains stable, reflecting our expectation that Bladex will maintain healthier asset quality metrics through lower nonperforming assets and credit losses than those of other banks in LatAm despite higher economic challenges of some countries where the bank has a presence.

Rating Action

On May 22, 2024, S&P Global Ratings affirmed its global scale 'BBB' long-term and 'A-2' short-term issuer credit ratings on Banco Latinoamericano de Comercio Exterior S.A. (Bladex). We also affirmed our 'BBB' issue-level rating on Bladex's multi-currency senior unsecured notes. Finally, we affirmed our 'mxAAA' issue-level rating on the bank's senior unsecured notes in MXN, and our 'mxA-1+' rating on the short-term issuances. The outlook on the global and national scale ratings remains stable.

Rationale

Bladex has a very broad geographic diversification across countries in LatAm, for some of which we anticipate higher economic risks, weakening the bank's blended anchor. The anchor, or starting point, for our ratings on Bladex reflects our view of the weighted average economic risk in the countries to which the bank has exposure through its loan book and long-term securities portfolio. As of March 2024, Bladex's largest exposures 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.

We forecast uneven credit conditions in LatAm. However, there are common weaknesses amid some countries with high economic risks, such as sluggish economic growth and, in some cases, lower investor confidence than in previous years.

Specifically, our Banking Industry Country Risk Assessment (BICRA) analysis incorporates a negative trend in economic risks in Peru, Chile, and Panama, which together account for about 18% of the bank's loan portfolio. This, coupled with our expectation of a slight shift in Bladex's mix of country exposures during the next two years, prompted us to revise our weighted average economic risk calculation to a higher risk category to '7' from '6'. This resulted in a downward revision of the bank's anchor to 'bb+' from 'bbb-'.

We believe Bladex's prudent risk management and low risk appetite enable it to balance higher economic risks against healthy asset quality metrics and business stability. This led us to revise our comparative rating analysis on the bank to positive from neutral, keeping our rating on it unchanged. Despite our view of a negative trend in economic risks for some countries in the region, we believe Bladex's sound risk management, strict underwriting practices, and moderate risk tolerances will enable it to maintain healthy asset quality metrics and low credit losses, in line with its 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, with credit coverage of more than 6x. Moreover, loans categorized as Stage 1--low-risk credits--represented 97% of its total credits.

In addition, we believe Bladex's broad geographic diversification with a presence in more than 15 LatAm countries-–38% of its operations are in investment-grade countries--and exposure to top-rated countries outside the region mitigate risks. In particular, we consider that its exposures to LatAm countries have very little correlation to each other, since about 36% of its portfolio consists of loans to the regulated financial institutions, while its largest exposures in other sectors are to high-end large corporations and quasi-sovereign entities that operate in key sectors.

Likewise, we expect Bladex to maintain its current risk management portfolio flexibility 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 composition toward sectors that align with its risk profile and appetite framework.

We expect Bladex's low volume of nonperforming assets will continue resulting in a very manageable cost of risk and keep higher profitability than historical levels. Given nonperforming loans totaling $10 million, the bank has maintained low provisions during the last few years despite higher economic challenges of some countries where the bank has a presence. We forecast that this, coupled with Bladex's still-high net interest margins and operating efficiencies, will continue supporting its business stability, and increase bottom-line results and profitability metrics from levels in previous years. In particular, we believe Bladex will maintain its risk appetite profile unchanged and will keep focusing on achieving larger volumes of transactions with high-end customers within its core business, the trade sector in the region.

We forecast Bladex's risk-adjusted capital ratio to be about 12.3% and its return on assets at 1.5%-1.7% for the next two years--compared with its last five-year average of 1.1%.

Finally, we anticipate Bladex will keep its stable deposit base and prudent liquidity management with high-quality securities. Bladex's investment portfolio consists mainly of high-quality liquid securities held at amortized cost and helps the bank to diversify its credit risk exposures. This is 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, which represented 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 mitigate the liquidity risk in case of financial stress.

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 healthier asset quality metrics with lower nonperforming assets and credit losses than other banks in LatAm. We also believe Bladex will maintain its risk-adjusted capital (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 its historical levels and above our expectations with a combined ratio (NPAs and credit losses) 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 an aggressive portfolio growth, sharp increase of provisions, or a drastic rise in dividend distributions above our expectations, 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 a consistent increase of its internal capital generation that bolsters the capital base. Additionally, the bank would have to maintain a sound risk position with nonperforming assets and credit losses in line with historical levels while keeping a stable deposit base to preserve its liquidity in line with those of its main peers.

Ratings Score Snapshot

	To	From
Issuer credit rating	**BBB/Stable/A-2**	**BBB/Stable/A-2**
SACP	bbb	bbb
Anchor	bb+	bbb-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	+1	0
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

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 List

Ratings Affirmed	
Banco Latinoamericano de Comercio Exterior S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Banco Latinoamericano de Comercio Exterior S.A.	
Senior Unsecured	BBB
Senior Unsecured	mxAAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.