

**CREDIT OPINION**

2 July 2024

Update

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**RATINGS**

**Banco Latinoamericano de Comercio Exterior**

Domicile	PANAMA CITY, Panama
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# Banco Latinoamericano de Comercio Exterior

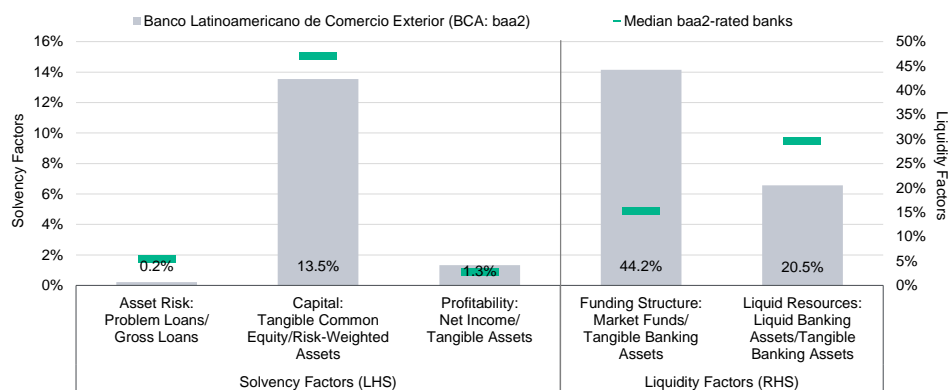
Update to credit analysis

**Summary**

[Banco Latinoamericano de Comercio Exterior's](#) (Bladex) baa2 standalone Baseline Credit Assessment (BCA) and its Baa2 foreign-currency deposit and debt ratings reflect the bank's asset quality fundamentals and its strategic plans to enhance earnings generation that will improve its earnings generation and overall profitability structure, supporting capital replenishment and business expansion. At the same time, Bladex's baa2 BCA considers the bank's adequate liquidity profile and short-term loan book that provides financial flexibility amid more challenging market conditions and helps to mitigate asset risk pressures arising from weaker economic environments in some countries in Latin American, such as Peru and Colombia.

Exhibit 1

**Rating scorecard - Key financial ratios**  
Bladex's scorecard ratios as of 31 March 2024



For the problem loan and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.

Source: Moody's Financial Metrics

## Credit strengths

- » Strong asset-risk profile supported by the bank's short-term trade finance products, low-risk structured deals and top-tier clients
- » Relatively stable shareholder deposits and increasing share of customers' deposits
- » Ample access to capital markets limits refinancing and repricing risks
- » Improved profitability as the company implements its strategy to strengthen earnings generation

## Credit challenges

- » Funding profile remains mainly concentrated in market-based resources
- » Challenging market conditions and weaker economic environments in some countries in Latin American, such as Peru and Colombia

## Outlook

The stable outlook considers Moody's expectation that Bladex's capitalization will stabilize at current levels, supported by improving earnings generation, more diversified funding structure that helps to reduce cost of funding.

## Factors that could lead to an upgrade

Moody's could upgrade Bladex's ratings if the bank continues implementing its strategy to enhance earnings generation, managing to diversify its income sources, and expanding its deposit base, which would support capital replenishment in the medium and long-term, while the bank's asset quality metrics remain on track. In addition, a favorable operating environment for the Latin American countries would lead to better business prospects for the bank and could add positive pressure to the BCA.

## Factors that could lead to a downgrade

The ratings of Bladex could be downgraded if Latin American sovereigns' debt ratings where the bank operates face heightened macroeconomic and political risks that would affect the bank's asset quality and profitability profile. The bank's ratings would also face downward pressure if the issuer's intrinsic credit fundamentals deteriorate unexpectedly, such as further pressure on the bank's core capital levels and a significant deviation from the bank's forecasted financial performance.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Banco Latinoamericano de Comercio Exterior (Consolidated Financials) [1]

	03-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (USD Million)	10,484.4	10,557.4	9,283.9	8,038.1	6,288.9	17.0 <sup>4</sup>
Tangible Common Equity (USD Million)	1,228.1	1,193.8	1,059.1	1,001.7	1,035.3	5.4 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.1	0.1	0.4	0.2	0.2	0.2 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	13.5	13.4	13.0	15.4	19.9	15.0 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	0.8	0.8	2.7	1.0	1.0	1.3 <sup>5</sup>
Net Interest Margin (%)	2.4	2.4	1.7	1.3	1.4	1.9 <sup>5</sup>
PPI / Average RWA (%)	2.4	2.3	1.4	1.1	1.2	1.7 <sup>6</sup>
Net Income / Tangible Assets (%)	2.0	1.6	1.0	0.8	1.0	1.3 <sup>5</sup>
Cost / Income Ratio (%)	25.2	27.2	33.1	38.0	37.5	32.2 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	41.1	44.2	51.2	46.8	31.9	43.0 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	18.3	20.5	15.8	19.8	18.6	18.6 <sup>5</sup>
Gross Loans / Due to Customers (%)	156.2	164.1	213.2	189.6	157.2	176.1 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

## Profile

Banco Latinoamericano de Comercio Exterior (Bladex), a bank headquartered in Panama, specializes in trade finance loans across Latin America through lending and the provision of letters of credit. As of March 2024, the bank's credit portfolio was largely spread across Brazil (11% the portfolio), Colombia (10%), Mexico (10%), Peru (7%), Dominican Republic (8%), Guatemala (9%), the United States (7%) and Chile (5%). Financial institutions extend 36% of the bank's commercial portfolio, and 73% of its portfolio matures within a year. Of the bank's total stake, 17% was held by different central banks in the region (or their designees [Class A shareholders]), while 77% of the stake was listed on the New York Stock Exchange as of March 2024.

As of the end of March 2024, the bank reported \$10.7 billion in total assets and \$7.5 billion in gross loans.

## Detailed credit considerations

### Superior asset quality supported by robust risk management practices

Bladex's asset quality is supported by its core business on short-term trade finance products and the origination of structured deals that have historically incurred in low credit losses. The risk associated to the exposures across riskier economies in Latam, is partly compensated by the bank's historically robust risk management practices such as maintaining high reserve coverage and focusing in countries with stronger economic prospects. Moody's foresees that Bladex's expanding its product offering and customer base towards more direct lending will increase risk taking, but pressures on asset quality will be marginal.

As of March 2024, the bank's stage 3 loans remained at a low 0.1% of gross loans. The bank's loan portfolio expanded 10.1%, year-over-year as of March 2024, up from the 6.9% in 2023. According to management's guidance, Bladex's annual portfolio growth should moderate to 5% - 7%. Approximately 73% of commercial loans are short-term, which helps to mitigate risks arising from more challenging market conditions in weaker economic environments where the bank operates including Peru and Colombia. Bladex's exposure to Chile, Peru and Colombia together accounted for 22% of its credit portfolio as of March 2024, up from 15% as of December 2018. Exposure to Argentina, Costa Rica and Ecuador, countries that entail higher credit risk, declined to 11% from 23% in 2018. Brazil continues to account for 11% of its credit exposures. Moreover, until March 2024, Bladex lending to financial institutions accounted for 36% of its commercial loan book (including letters of credit), followed by oil & gas, with 17% of total.

### Capitalization will stabilize at current levels

In March 2024, Bladex's capital position, measured as tangible common equity to risk weighted assets (TCE/RWA), increased to 13.5% from 13.3% a year earlier, recovering following a fall between 2021 and 2022 in response to robust loan book loan origination.

Moody's expects Bladex to continue to operate with stable capital levels around 13-14%, below the 2017-2020 average of 18.0%. Historically Bladex has proven its capacity to build capital quickly and future earnings generation and higher business growth will likely help to enhance internal capital generation.

#### **Future earnings generation supported by increasing business volumes and higher for longer rates**

In the first three months of 2024, Bladex's annualized net income improved notably to 2.0% of its tangible assets, well above the 1.6% reported in the year-earlier period and above the 0.8% average for 2018-22. The improvement was driven by the bank's wider net interest margin (NIM) in line with high interest rates, that reached 2.4% in March 2024, above as the 2.30% reported in the year earlier, with higher interest income and contained expenses.

Net fee income, largely related to letters of credit business and loan syndications, rose almost 97% from the year-earlier level during the three months of 2024 and contributed 13% of net revenues.

Likewise, the bank's profitability is supported by high efficiency and low credit costs, in line with its conservative business strategy. Operating expenses went up by 15.1% year-over-year in March 2024 driven by higher personal cost and costs related to the new business strategy and increasing volumes, but just accounting for an annualized rate of 0.7% of total assets as of March 2024. Loan loss provisions represented 0.3% of pre-provision income as of March 2024.

Moody's foresees that Bladex's profitability will moderate its rise as the bank moderate its growth and rates remain stable in our outlook horizon. Its product offering expansion towards more direct lending and higher yielding products that will support future earnings generation at current robust levels, with sound NIMs and internal capital replenishment.

#### **Continued growth of deposits from corporate customers helps funding diversification**

Bladex's focus on increasing its customer base has benefited funding diversification, with total deposits increasing 33% in last 12 months ended in March 2024, while total market funds, including borrowings and corporate securities holdings, contracted 0.4% in the same period. However, potential interest rate risks and liquidity stresses are largely offset by the bank's broad access to various funding sources in international and domestic markets and an increasing high-quality deposit base. Deposits from corporates have increased at faster pace, 44% in the twelve-months ended in March 2024, which also help containing costs of funding.

The deposits from the bank's Class A shareholders, which are comprised of Latin American central banks or their designees, are a stable and important source of funding that accounted for 19% of total liabilities and 37% its total deposits as of March 2024. In addition, the bank will continue to have ample bilateral loans available and access to capital markets in different countries. As a result, market funding, which equaled 41% of Bladex's tangible banking assets as of March 2024, below the 44% in 2023 and the 51% in 2022.

Finally, the recent improvement in liquidity profile through the contingent financing lines, including access to the Federal Reserve's discount window, is positive for asset and liability management strategy, particularly amid the volatile financial conditions in 2023 and 2024. In March 2024, Bladex's investment portfolio was 81% held in investment grade instruments

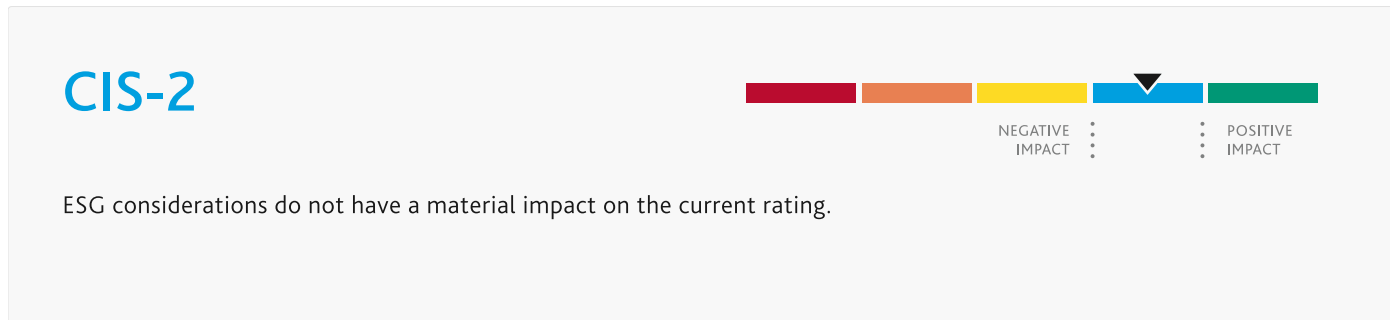
The bank complies with the Basel III liquidity coverage ratio, with a ratio well above the recommended minimum of 100%, and as of March 2024 stands at 210.4%, enhancing its liquidity position. Moreover, the short-term nature of Bladex's loan portfolio will allow it to accumulate liquidity buffers fairly quickly when needed, as demonstrated in 2020 and 2021.

## ESG considerations

### Banco Latinoamericano de Comercio Exterior's ESG credit impact score is CIS-2

Exhibit 3

#### ESG credit impact score

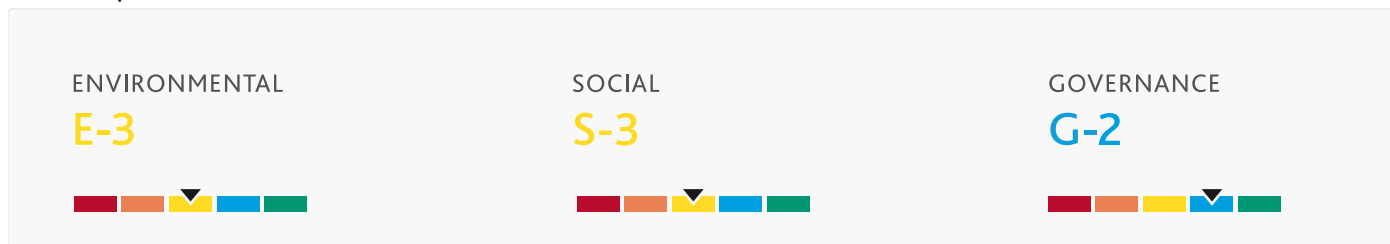


Source: Moody's Ratings

Bladex's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social factors on the rating to date and bank's low governance risks. Bladex has a loan book with large participation of the oil and gas sector, which has high exposure to carbon transition risks. Bladex follows good corporate governance practices and maintains disciplined risk management, which support its consistently strong asset quality.

Exhibit 4

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Bladex faces moderate exposure to carbon transition risk stemming from its large corporate loan book, particularly from loans to the oil and gas sector. This risk is mitigated by Bladex's active development of its climate risk and portfolio management capabilities.

### Social

Bladex faces moderate social risks related to customer relations. This risk exposure is lower than the industry average, reflecting its focus on lending to corporates and financial institutions and the relatively simple suite of financial products related to trade finance, which reduces risks related to mis-selling or misrepresentation. On the other hand, this business focus limits potential benefits for the bank from demographic and social trends in the region.

### Governance

Bladex has neutral-to-low governance risks and its risk management policies and procedures are in line with industry best practices. Bladex is a supranational bank established by central banks and government institutions of certain Latin American and Caribbean countries that hold the rights to determine its corporate existence and mission. Despite that, most of the bank's shares are traded on the New York Stock Exchange. Bladex's prudent risk management is evidenced by its consistently strong asset quality and ample capital buffers.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Affiliate support

Although Bladex's BCA incorporates the implicit support of its Class A shareholders, different central banks in the region or their designees, its deposit and debt ratings do not derive a further uplift from its BCA. This is because of the consortium nature of Bladex's ownership structure and the fact that the bulk of the bank's shares are publicly traded. However, there is a reputational incentive for Bladex's sovereign shareholders to ensure that the bank's obligations are met. The sovereign shareholders have consistently demonstrated their support for Bladex for 45 years through deposit placements and active positions on the board of directors. This implicit support is incorporated into the bank's BCA. Bladex has never defaulted on or had to restructure its obligations even when it came under stress during Argentina's 2001 financial crisis, mainly because of the implicit support of its shareholders.

### Government support considerations

We do not incorporate government support into Bladex's ratings because it is a suprarregional, US dollar-denominated bank with no true lender of last resort.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the scorecard-indicated outcome may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard-indicated outcome and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 5

### Rating Factors

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>	<b>Moderate</b>	<b>100%</b>					
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.2%	a2	↔	a3	Expected trend	Geographical diversification	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.5%	baa2	↔	baa2	Expected trend		
Profitability							
Net Income / Tangible Assets	1.3%	baa2	↔	baa2	Expected trend	Earnings quality	
Combined Solvency Score		baa1		baa1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	44.2%	b3	↔	ba3	Deposit quality	Term structure	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	20.5%	ba1	↔	ba1	Expected trend		
Combined Liquidity Score		b1		ba2			
Financial Profile				baa2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa3			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			
<b>Instrument Class</b>	<b>Loss Given Failure notching</b>	<b>Additional notching</b>	<b>Preliminary Rating Assessment</b>	<b>Government Support notching</b>	<b>Local Currency Rating</b>	<b>Foreign Currency Rating</b>	
Counterparty Risk Rating	1	0	baa1	-		Baa1	
Counterparty Risk Assessment	1	0	baa1 (cr)	-	Baa1(cr)		
Deposits	0	0	baa2	-		Baa2	
Senior unsecured bank debt	0	0	baa2	-		Baa2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 6

Category	Moody's Rating
<b>BANCO LATINOAMERICANO DE COMERCIO EXTERIOR</b>	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured	Baa2
Other Short Term	(P)P-2

Source: Moody's Ratings



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