



Rating Action: **Moody's affirms Bladex's Baa2 ratings; changes outlook to stable**

28 Nov 2023

New York, November 28, 2023 -- Moody's Investors Service ("Moody's") has today affirmed all ratings and assessments assigned to Banco Latinoamericano de Comercio Exterior ("Bladex"), including the Baa2 long-term foreign currency deposit rating, the Baa2 long-term foreign currency senior unsecured debt rating, the (P)Baa2 long-term foreign currency senior unsecured MTN program rating as well as the Baa1(cr) and Baa1 long-term counterparty risk assessment and counterparty risk rating, respectively. In addition, Moody's also affirmed Bladex's baa2 baseline credit assessment ("BCA") and adjusted BCA, the P-2 short-term counterparty risk rating and deposit rating, the P-2(cr) short-term counterparty risk assessment, and the (P)P-2 short-term foreign currency senior unsecured MTN program rating. At the same time, Moody's changed the debt level outlook on the long-term foreign currency deposit rating and senior unsecured debt ratings to stable from negative.

RATINGS RATIONALE

The affirmation of Bladex's Baa2 deposit and senior unsecured debt ratings, as well as the baa2 BCA reflects the bank's conservative asset risk discipline and strategic plans to enhance earnings generation will improve its profitability structure to support capital replenishment and business expansion. At the same time, Bladex's baa2 BCA incorporates Bladex' 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.

As the bank resumes loan growth in 2024, we expect Bladex's asset quality to remain strong and stable 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. As of September 2023, the bank's stage 3 loans remained at a low 0.1% of gross loans. Moody's foresees that Bladex's expanding its product offering and customer base towards more direct lending and higher risk taking that will support future earnings generation and internal capital replenishment. In the first nine months of 2023, Bladex's annualized net income improved notably to 1.6% of its tangible assets, well above the 0.9% 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, to 2.4% in September 2023 from 1.5% a year earlier, with higher interest income and contained expenses.

Bladex's focus on increasing its customer base has also benefited funding diversification since 2021, with total deposits increasing 24% in last 12 months ended in September 2023, while total market funds, including borrowings and corporate securities holdings, contracted 1%. However, while Bladex's funding profile remains mainly concentrated in market-based resources, its short-term balance structure, broad access to various funding sources in international markets and increasing and very high-quality deposit base offsets interest rate risks and potential liquidity stresses. In addition, 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 September 2023, Bladex's investment portfolio was 77% held in investment grade instruments.

In September 2023, Bladex's capital position, measured as tangible common equity to risk weighted assets (TCE/RWA), have increased 130 basis points, recovering to 13.4% from 12.1% a year earlier, following the 700 basis points plunge between 2021 and 2022 in response to robust loan book loan origination.

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 OR DOWNGRADE OF THE RATINGS

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.

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.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Rodrigo Marimon Bernales
Asst Vice President - Analyst
Financial Institutions Group
JOURNALISTS: 1 888 779 5833
Client Service: 1 212 553 1653

Ceres Lisboa
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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