Bladex

Q1 2025 EARNINGS CALL

Date: 5.06.2025

Participants:

- Jorge Salas, Chief Executive Officer
- Samuel Canineu, Chief Commercial Officer
- Annette van Hoorde, Executive VP and Chief Financial Officer

Operator
Good morning, ladies and gentlemen, and welcome to Bladex First Quarter 2025 Earnings Conference Call. A slide presentation is accompanying today's webcast and is also available on the Investors section of the company's website, www.bladex.com. There will be an opportunity for you to ask questions at the end of today's presentation. Please note, today's conference call is being recorded.

I would now like to turn the call over to Mr. Jorge Salas, Chief Executive Officer. Sir, please go ahead.

Jorge L. Salas
Chief Executive Officer

Good morning, everyone, and thank you for joining us today to discuss Bladex's results for the first quarter of 2025. I will begin by reviewing our performance during the year, and then Annette, our CFO, will walk you through the financials in more detail. Finally, before opening the call for questions, I will share our thoughts on the current tariff environment and the potential implications for the region and for Bladex.

2025 began in line with expectations, with a solid first quarter that reflects the disciplined execution we've seen in previous quarters. While the first quarter is traditionally less active due to seasonal factors, this time around we saw a pickup in activity and client engagement, setting a strong tone for the rest of the year. This is not accidental. Throughout last year, our commercial team has been consistently building a robust and diversified pipeline with long-standing clients across the region, particularly in sectors less exposed to the ongoing tariff discussion. The pipeline includes medium-term transactions, some of which were executed in the first quarter, while the bulk of them still are in progress and expected to materialize in the upcoming quarters. These deals are not only well structured, but also generate attractive margins and fee income, contributing even more to our top line in the near future.

This proactive commercial execution, underpinned by close client relationships and deep local market insight, has positioned us to enter 2025 with powerful momentum and a high level of confidence in our ability to deliver on our guidance. For the year, our commercial loan portfolio reached $10.7 billion, reflecting a solid 6.5% increase quarter over quarter and a 23% increase year over year. Growth was well distributed, with particularly strong performance in Argentina, Mexico, and Guatemala. Importantly, asset

quality remained pristine, with nonperforming loans close to 0. Deposits rose to $5.9 billion, up 8% quarter over quarter and 24% year over year, and now represent almost 60% of our total funding.

As discussed during our previous call, in the last days of December, deposit volumes declined slightly due to year-end seasonality.
However, since the beginning of January, they have resumed their upward trajectory, will allow us not only to maintain an average quarterly balance in line with the levels of the fourth quarter 2024, but also to achieve another record quarter end with balances as of March 31.

Moving on to the P&L. Net interest income reached $65.3 million, interest margin of 2.36%, remains resilient and in line with guidance for the year. Looking ahead, we see potential for margin improvement. Since the end of the quarter, increased market volatility and uncertainty have begun to drive credit spreads wider in certain countries, particularly in Mexico and Brazil.

Fee income totaled $10.6 million, up 12% year over year, reflecting our ongoing efforts to strengthen noninterest income generation.
Performance was led by our letters of credit business, followed by syndications, both of which continue to benefit from strong client demand. Our syndications team was particularly active during the quarter, successfully executing 4 transactions with a combined value of roughly $500 million across key markets, including Brazil, Costa Rica, Mexico, and the Dominican Republic.

On expenses, we continue to execute our strategic initiatives while maintaining efficiency. Our cost-to-income ratio improved to 26.9%, in line with expectations, a notable achievement given our investing in transformation. As a result, we reported a net income of $51.7 million, in line with the previous quarter, and a return on equity of 15.4%. Our capital ratio remained strong above 15%.

Let me now hand it over to Annette, our CFO, for a detailed financial analysis. Annette, please go ahead.

Annette van Hoorde
Executive VP and Chief Financial Officer

Thank you, Jorge, and good morning, everyone. I'll start by taking through the highlights of our financial performance for this quarter, beginning with a closer look at the credit portfolio growth on Slide 3. Total loan portfolio reached a new record of $8.7 billion, up 18% from a year ago and 4% quarter over quarter. This result reflects sustained loan demand even in the context of a seasonally slower first quarter and increased market volatility. It reinforces Bladex's position in the region and highlights the consistency of our short-tenure, high-rotation business model.

In addition, our contingency portfolio, which includes letter of credits and guarantees, grew to nearly $2 billion, up 20% quarter over quarter and 49% year over year, driven mainly by a strong and sustained demand from our letter of credit business. At the same
time, we continue to maintain a well-diversified commercial portfolio across countries and industry, with growth this quarter mainly
concentrated in Mexico, Panama, Guatemala, and Argentina, where the bank is gradually

rebuilding its loan portfolio in view of the significant improvement of the country's economic outlook. Looking ahead, we maintain a healthy deal pipeline, including longer
tenure structured transactions, which will complement our core short-term lending business and support our strategic loan portfolio growth.

Turning to our investment portfolio in the top right. Balances increased to $1.3 billion, up 6% from the prior quarter and 15% year
over year. This portfolio remains focused on investment-grade issuers outside Latin America, diversifying our credit and country risk exposures.

I would like to highlight the short duration of this high-quality portfolio in the zone of 2 years, which mitigates mark-to-market volatility. It must also be noted that with very few exceptions, the bonds are recorded at amortized costs, with no impact from market price fluctuations on our OCI or P&L. In short, our strong asset growth and well-diversified credit profile reinforces Bladex's resilience and positions us well to continue delivering sustainable growth across market cycles.

Let's now take a look at Slide 4. Bladex maintained a strong liquidity position at the end of the first quarter with $1.9 billion of liquid assets, representing 15% of total assets. Most of these liquid assets are placed with the Federal Reserve Bank of New York, demonstrating our proactive and prudent liquidity management approach. In addition, our investment portfolio continues to serve as an additional liquidity buffer as a significant portion of these securities are held through our New York agency and are eligible as collateral at the Federal Reserve discount window, reinforcing our contingent liquidity position. As a result, our liquidity coverage
ratio, or LCR, remained well above the regulatory minimum, further strengthening Bladex's flexibility to navigate changing market conditions and continue supporting our clients' financing needs.

Moving on to asset quality. As shown on Slide 5, Bladex's disciplined risk management framework continues to deliver outstanding credit performance. At quarter end, nonperforming loans classified as Stage 3 remained at $17 million, representing just 0.1% of total exposure, with a robust reserve coverage of 5.3x. The credit portfolio continues to be predominantly low risk with 97.9% of exposures classified as Stage 1 and 2% as Stage 2.

Total credit provision for the quarter were $5.2 million, mainly allocated to Stage 1 exposures, driven by growth in our letter of credit business. In addition, coverage reserve for Stages 2 and 3 strengthened compared to the prior quarter, further reinforcing the portfolio resilience. In summary, our outstanding credit quality and strong reserve coverage highlights the discipline of our risk management approach and the strength of our client base.

Let's now cover funding detail on Slide 6. Total deposits reached $5.9 billion at the end of the first quarter, representing an 8% increase over the prior quarter and 24% growth year over year. Deposits now represent nearly 60% of total funding, highlighting their growing importance and consistent contribution to the bank's funding structure. This positive trend reflects strong client engagement, complemented by the continued success of our Yankee CD program, which adds granularity and diversification through broker-dealer distribution.

Our funding structure reflects broad access to diversified sources across markets and tenure. Short-term funding levels, together with repos, remained stable compared to the previous quarter, continuing to play a significant role in supporting portfolio growth.
Meanwhile, long-term funding remained solid at $2.8 billion, representing 27% of total financial liabilities, highlighting our ongoing effort to strengthen our maturity profile and maintain a resilient liability structure.

Consistent with our risk management policy, we hedge all non-U.S. dollar funding, except for that procured to fund our relatively small Mexican peso portfolio. As we have consistently stated, there is no material foreign exchange risk on our balance sheet. Additionally, during periods of volatility, our funding benefits from a flight to quality dynamic, reflecting the strength of our credit profile and client franchise. This has enabled us to maintain access to funding at stable spreads while preserving the strategic flexibility.

Let's now turn to capital on Slide 7. Our total capital increased to $1.37 billion, up 3% from the prior quarter and 11% year over year, providing sustained earnings generation. Looking at capital ratios, our Tier 1 ratio remained in line with our internal targets at 15.1% under Basel III, slightly lower than year-end levels due to growth in the credit portfolio. The regulatory capital adequacy ratio remained stable at 13.5%, well above Panamanian regulatory requirements.

Given our strong earnings performance and healthy capital position, the Board approved a quarterly dividend of $0.625 per share, representing a payout ratio of 45%. This reflects our confidence in the bank's earnings outlook while preserving the flexibility to support future growth and maintain our investment-grade ratings.

Next, we will look at our P&L performance, starting with the net interest income on Slide 8. NII for the quarter totaled $65.3 million, reflecting a 4% increase year over year and a 3% decline versus the prior quarter. This result continues to be supported by a strong credit portfolio growth even as we navigate a softer interest rate environment. Our net interest margin stood at 2.36%, down from 2.47% a year ago and 2.44% in the prior quarter, reflecting the impact of lower market rates and an inverted yield curve.

Given the short-tenure nature of our balance sheet, liabilities tend to reprice faster than assets. And in a declining rate environment with an inverted curve, this repricing structure leads to temporary compression of the net interest spreads. As a result, our net interest spread declined to 1.65% compared to 1.69% in the previous quarter. At the same time, lending spreads remain aligned with year-end levels with ample market liquidity driving competitive pricing. As we look ahead, current market volatility and economic uncertainty could create opportunities for wider spreads, which together with the execution of our strong pipeline of longer-term opportunities, position Bladex to potentially benefit from an improved margin environment in the upcoming quarters.

Now moving to the fee income on Slide 9. Fee-based revenue remained strong at $10.6 million, up 12% year over year. As expected, results came in lower compared to the record levels

achieved in the previous quarter, which benefited from the exceptionally high
transactional activity in loan restructuring. Our letter of credit activity, which consistently accounts for around 60% of total fee income, generated $6.7 million in fees, up 12% year over year and in line with the prior quarter. Growth in this business reflects successful cross-selling initiatives, process improvements, and new client onboardings, reinforcing its role as a stable and growing source of revenue closely tied to our core financing activities.

Our loan structuring and syndications team also delivered a strong performance, closing 4 transactions across the energy, agribusiness, manufacturing, and financial sectors, totaling $468 million and generating $2.4 million in fees. We are optimistic about the
momentum in this business line and expect a solid pipeline of syndicated deals to contribute to fee growth in the upcoming quarters. Additionally, income from credit commitments and other fees totaled $1.5 million, further complementing the resilience of our transaction-driven revenue model. These results reaffirm the consistency of our fee income streams and the momentum we are building to drive sustainable non-interest income growth.

We now turn to expenses and efficiency. Operating expenses for the quarter totaled $21 million, reflecting a 15% increase year over year and an 8% decline compared to the previous quarter. The annual increase is a direct result of the ongoing execution of our
strategic plan, including continued investments in technology and business initiatives and the full impact of higher headcount. The quarter-on-quarter decline mostly reflects seasonally lower expenses related to investment and the strategy execution and to a lesser extent, lower performance-based variable compensation following last year's strong result, which led to higher incentive accruals in the fourth quarter. As a result, our efficiency ratio improved to 26.9%, down from 29.2% in the prior quarter and remains well within our target range. Driving this result is our ongoing focus on efficiency, ensuring sustainable growth by balancing strategic investments with disciplined cost control.

Finally, let's wrap up with the net income and ROE on Slide 11. Despite market volatility and starting the year in a lower interest rate environment, Bladex continued to deliver strong results. To put this in perspective, net income has grown significantly since the start of our strategic plan, resulting in a strong first quarter of 2025 with $51.7 million in net income, slightly above both the prior quarter and the same period last year. This result was supported by strong top line performance, continued credit portfolio growth, resilient fee income, and contain [credit provisions].

Alongside net income growth, we have also seen a significant improvement in returns over the course of our strategic plan. Our ROE stood at a strong 15.4%, well above pre-strategic plan levels and consistent with our long-term profitability objectives. Overall, these
results demonstrate the strength of Bladex's business model and the disciplined execution of our strategy, providing a solid foundation to continue generating sustainable and profitable growth.

With that, I will now turn the call over to Jorge for closing remarks. Thank you, all.

Jorge L. Salas
Chief Executive Officer

Thank you very much, Annette. Great job. Before we open the call for questions, let me share a few thoughts on the macroeconomic context and its implications for Bladex. Clearly, global economic environment has shifted notably in recent months as governments around the world reassess their trade policies. This shift has pushed uncertainty to historically high levels, leading to a downward bias in global growth forecasts. While macro indicators, particularly in the U.S. and China, remain broadly stable for now, there are early signs of behavioral changes in response to this uncertainty.

In the U.S., we've seen firms accelerate imports and build up inventories, while in China, front-loaded activity has temporarily supported stronger-than-expected growth in the first quarter. These dynamics have not yet been reflected in hard data, but we do anticipate that if uncertainty persists, their effects are likely to spill over into a real economic activity. For now, the main impact has been a deterioration in business and consumer confidence, compounded by financial market volatility and divergent policy signals globally.

Meanwhile, so far, Latin America has remained relatively insulated from the direct effects of recent tariff announcements. With the exception for Mexico and Costa Rica, most countries in the region are net importers in their trade with the U.S., therefore, limiting their exposure to the immediate trade friction. In fact, we foresee that potentially the region may benefit from shifts in global supply chains, particularly by stepping in to replace U.S. imports that previously came from Asia, such as coffee, tea, spices, and plastics.

Most of Latin America's exports to the U.S. are heavily concentrated in Mexico, as much as 80%, which continues to enjoy 0 tariffs under the USMCA, except for general tariffs on steel and aluminum as well as on the automotive sector. In the case of automotive sector, in particular, the deep integration of cross-border supply chains makes any sudden shift both costly and complex for U.S. manufacturers. On the other hand, so far, remittance flows into the region have remained resilient with no significant impact from recent shifts in U.S. immigration policy.

From a Bladex perspective, our exposure remains well contained. We are well positioned to manage our exposures and take advantage of the opportunities that keep arising in this environment. It is worth mentioning that only 15% of our trade finance portfolio is linked
to transactions involving the U.S. and roughly 90% of it consists of imports from the U.S. into Latin America. Our short-term, highly flexible business model, focused on large corporates and financial institutions across a diversified set of countries and sectors, gives us the flexibility to respond quickly if conditions deteriorate. Once again, with the strength of our capital base, ample liquidity, and robust asset quality, we are confident in our capacity to operate through this cycle. We remain focused on prudent execution and long- term value creation, even amid a more uncertain global landscape. Lastly, despite the current global uncertainty, we want to reaffirm the full year guidance shared at the beginning of the year. We remain on track to deliver on our objectives, supported by consistent execution and the solid fundamentals of our business.

With that, let me now turn over the call to questions. Thank you.

Q&A Section of the Call

Operator

Our first question comes from [John Sutton].

John Sutton

Congratulations. I have a question on expenses. Operating costs have increased significantly. What is driving this increase, and what could we expect going forward?

Jorge L. Salas

Chief Executive Officer

Thank you for that question. Yes, cost increases are mainly due to headcount growth, but also IT investments and also consulting fees that are all tied to the execution of the strategic plan. All the expenses are grounded in detailed business cases that quantify both obviously the cost and the revenues of all the initiatives we move forward.

Now if you take a step back and look at we've done since we started executing the plan A bit over 3 years ago, true, expenses have doubled, but revenues have almost tripled in the same period. This is why we have better efficiency ratio today than 3 years ago. Now, looking ahead, the bulk of the hiring occurred during the first 3 years of the plan.

Now in fact, 80% of the hires were made in the first 2 years to what we call traditional functions aligned with Phase 1 of the plan. So primarily focused on improving balance sheet efficiency and strengthening the core operations of the bank, that is frontline team, credit teams, and so on.

Now, more recently, around 80% of the hires have been specialized profiles tied to Phase 2 and Phase 3 of the plan with a completely different set of skills. These are product development experts, technology experts, digital infrastructure experts. I would say going forward, the pace of hiring will materially decelerate, and the profile of new hires will continue to be highly targeted. So we expect efficiency ratio to be around 27%, which is our guidance for the year.

Operator

Our next question comes from Inigo Vega with Jefferies.

Iñigo Vega Zabala

Jefferies LLC, Research Division

Can you hear me?

Jorge L. Salas

Chief Executive Officer

Yes, we do.

Iñigo Vega Zabala
Jefferies LLC, Research Division

A question on growth. I'm looking at the numbers, this 6.4% growth quarter-on-quarter on the commercial book. That includes like 20% growth in off-balance sheet, like guarantees and all that. It's impressive growth. But obviously, that is higher than what you are expected for the run rate for the full year. Can you comment if there's anything specific you see in the market, or it's just seasonality, opportunistic growth in some of the guarantee business? And can it be sustained for the rest of the year because it's obviously much higher than you are expecting on the guidance? And I'm also thinking about our capital. Obviously, growth is great, but that is also leading to 19% growth in risk-weighted assets. So you probably -- you wouldn't have the capital at this level of payout for that sort of growth. So if you can comment on that level of growth in Q1, it would be great.

Jorge L. Salas
Chief Executive Officer

Inigo, so yes, particularly the off-balance sheet growth was higher than expected. That's for sure. But I would like to take the opportunity to make a couple of points here, not only on capital, but the growth of off-balance sheet itself. As we have said, and we've talked about this before, the essence of the strategy is to build a business model that is -- that can consistently generate fee income to make our results less sensitive to interest rate fluctuations. I mean, this is crucial. If you consider that our balance sheet is essentially matched and has floating rates on both sides, both in assets and liabilities. This is why -- this is exactly why we're doubling down on our bet on the letters of credit. This is why we have invested in the state-of-the-art tech platform that should be up and running soon, I mean, for sure, in the third quarter.

Now letters of credit is not only a basic trade financial instrument, but it's also low capital allocation and therefore, very attractive returns. We expect -- given the network of correspondent banks, the commodity traders, and clients of Bladex in the region, we can, and we will scale this business in the future.

Now, going particularly to your question on the growth in the last quarter, it's basically related to the oil and gas sector in Argentina. These are commitments to confirm 45 to 60 days letters of credit issued by Banco de la Nacion Argentina, who is our Class A shareholder in that country. And we do anticipate continuous increase from this sector in this country, but overall in LCs in the future. I don't know, Sam, if you want to comment also.

Samuel Canineu
Chief Commercial Officer

Yes. No, thanks, Jorge. I just want to remind that particularly the letters of credit and guarantee business, which is the bulk of the volume of the contingencies, it's a very short-term book. We're talking about even shorter than the average book of Bladex. It's about around 4 months. So within the quarter, more than half of our exposure will be renewed. And particularly this business, even though we're growing, the core of the business has been growing, the recurrence of the business has been growing, the number of the clients in that business have been growing, and were all positive in the first quarter. From one quarter to the other, there can be differences. For example, the first quarter tends to be, in terms of seasonality, less -- there has been historically less [money] in the first quarter. So we took advantage, and we have done more volumes in the first quarter to make sure that our top line in that business continue to be at a good level. But those mature fast. And given they are capital efficient, we can make use of those to really -- or more volumes to compensate when there are situations of less -- lower fees. So the more important to focus is that the core of the business is in a growing direction, and we expect that to

remain throughout the year, given the investments that we're making, not only in terms of technology, but also in how we originate and the people who originate that business.

Jorge L. Salas
Chief Executive Officer

Thank you, Sam. And Inigo, regarding the capital usage and our capital ratios going forward. We might see tighter title capital ratios moving forward, but we're sticking to our long-term guidance on capital here. And we might see tightening because precisely of the pipeline. Now [via] earnings generation that will tend to -- we'll tend to finish where we said we were going to be.

Operator
Our next question comes from Ricardo Buchpiguel from BTG.

Ricardo Buchpiguel
Banco BTG Pactual S.A., Research Division

I have 2 here on my side. So first, you mentioned that the high volatility for following Trump's Liberation Day had a positive effect on your spreads. But can you please elaborate more on that comment, explaining to what extent have spreads been looking better in Q2 and if it could eventually trigger potential upside risk to your NIM guidance, taking into account that this event wasn't expected for this year?

And for my second question, a quick one. You guys have been mentioning that letters of credit business has been an important driver for the commercial portfolio growth this quarter. But when I look at the fee income breakdown, I see that the letters of credit decreased quarter over quarter. So if you could also explain a little bit the difference from the off-balance sheet dynamics and the fee income performance would be helpful.

Jorge L. Salas
Chief Executive Officer

Thank you, Ricardo. Great questions. On the first question, I'm going to let Annette talk about spreads. And then on the second question, maybe Sam, our Chief Commercial Officer, can jump in and explain a little bit more the dynamics of the commitments and the letters of credit and why our fees not -- apparently not consistent with growth. So Annette, do you want to tackle that one?

Annette van Hoorde
Executive VP and Chief Financial Officer

Sure. Ricardo, thank you for your question. As we have mentioned before and as you might already know, Bladex is naturally sensitive to interest rate movements because most of our loan portfolio is U.S. dollar denominated and is mostly all tied to variable rates. And the 100 basis points cut that we saw at the end of the last year, along with the expectations of further rate cuts during this year, has pushed asset yields down and reduced the benefits of the equity we have invested in these assets. And this adds pressure to our NIM.

That said, despite a competitive pricing environment in Q1, we kept our lending margins above December 2024 and slightly below the

Q2 average that we saw last year. This really shows the discipline we have in loan pricing, allowing us to maintain the margins where we're expecting them to be at. The bigger impact on margin is coming from the balance sheet repricing, especially in an inverted curve environment. Our loans typically reprice with longer tenure reference rates than deposits, and this puts pressure both in our NIM and the NIS that we are publishing. But looking ahead, our active balance sheet management and the strong pipeline of medium-term transactions has positioned us well to benefit from a potentially higher margin environment. And with that, we feel confident that we can continue to offset that margin pressure as we move forward.

Samuel Canineu
Chief Commercial Officer

And on the second question, it's actually rather simple, Ricardo. What happened was that the increase in the balance, it came mostly towards the end of the quarter and particularly the one that Jorge mentioned related to the confirmation of letters of credit in Argentina, came at the very end. So we don't have the -- you see the balance, but you don't see the benefit of the income yet in the quarter, and that should reflect more in the second quarter. And also, you do see the reserves. So in a way, the first quarter is subsidizing the second quarter in that regard.

The second is also, I think, tied to my previous answer. This quarter, I think there was a bit of a shift on the portfolio that is just momentarily and that we went to -- we increased the volumes to compensate lower in fees, but that increase in volumes were more with high-grade names and particularly a couple of quasi sovereign names that are very low risk that comes at a very low margin or low fees, and that drove the volume up, but the fees down. And also that trend should be, I would say, normalized in the second quarter. So again, it's a business that is very short term and recurrent. And we see, yes, like I mentioned, better prospects to normalize in the second quarter of the year.

Jorge L. Salas
Chief Executive Officer

Yes. Good point, Sam. I think, Ricardo, the most important point is that we do not see spreads tightening in the near future. Quite the opposite. As Annette mentioned and as I said before, we see margin expansion in the upcoming quarters for 2 reasons: one, we're no longer seeing spreads compressing in the region, as you mentioned. I mean, I think uncertainty may have more of a positive effect on lending spreads. And also because, as I mentioned, we do have a robust medium-term -- I mean, aside of the letters of credit, a very robust medium-term pipeline of deals with higher margins than our stock.

Operator
Okay. Thank you very much. That's all the questions we have for today. I'll pass the line back to the Bladex team for their concluding
remarks.

Jorge L. Salas
Chief Executive Officer

No. Thank you, everyone, for your support and for the questions, and we look forward to talking to you in our next call. Thank you very much.

Operator
Bladex conference call is now closed. You may disconnect and have a nice day.