Bladex

Q2 2025 EARNINGS CALL

Date: 08.05.2025

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's Second 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. As a reminder, all participants will be in a listen-only mode.

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 second quarter of 2025. And I will begin with the highlights of our performance during the quarter. And then as usual, Annette, our CFO, will walk you through the financials in more detail. After that, I will share a few thoughts on the macro environment and update you on the progress of Bladex's transformation journey before we open the call for questions.

The second quarter stands as one of the strongest quarters in our bank's history. Not only because of the record bottom line number, but perhaps more importantly, because of the earnings quality. Furthermore, it reaffirms the resilience and adaptability of our business model in the face of an increasingly complex macro environment in a particularly volatile trade environment. In the second quarter, we delivered record earnings strong revenue growth, propelled by fee income while maintaining pristine asset quality and robust capital levels.

While the results include a meaningful contribution from a landmark structure transaction executing during the quarter. It is important to highlight that even without this transaction, the quarter would still have marked a record performance. Driven by well-diversified commercial activity and disciplined execution across all business lines. Our commercial portfolio grew to $10.8 billion that is up 1% quarter-over-quarter and 18% year-over-year.

Growth was broad-based with strong momentum in Central America. As I said, Credit quality remained exceptional with nonperforming loans close to 0 and over 97% of exposures classified as Stage 1.

On the funding side, deposits increased to $6.4 billion, 10% above the prior quarter and 23%

higher than a year ago. Deposits now represent 62% of our total funding. This is obviously key to keep our funding costs under control.

The growth in deposits was driven by continued strength in our long-standing institutional deposit base, including central banks, our Class A shareholders, and a solid performance of our Yankee CD program as well as a sustained increase in corporate client deposits, which have grown more than 30% in the last 12 months.

Net interest income totaled nearly $68 million, up 4% from the previous quarter and 8% versus last year. Our net interest margin stood at 2.36%, slightly above expectations. Fee income deserves a special mention. Fee income stood at $20 million for the quarter, up 88% quarter-over-quarter and 59% year-over-year.

A significant part of this increase was due to the structured syndicated deal I mentioned before. In such instruction, Bladex acted as global coordinator and mandated lead arranger alongside a global bank and a multilateral institution. For a $1.6 billion senior secured syndicated facility for Staatsolie, Suriname's national oil company and top contributor to the country's GDP. Suriname has been a Class A shareholder of Bladex since 1997. The transaction received a strong reception from the market, attracting 18 financial institutions from all over the world. It is once again the proof of our ability to selectively execute high-impact deals that align with both our risk appetite and our mission.

Bladex has a long-standing track record of supporting state-owned enterprises in strategic sectors such as oil and gas in Staatsolie with the strong fundamentals and excellent government is a company we followed closely for many, many years. While our loan book remains predominantly short term, this facility with a weighted average life of approximately 5 years fits comfortably within our usual medium-term exposure limits and reflects our ability to support longer-dated well-structured transactions when the restructuring profile is attractive.

But beyond this transaction, commercial activity remains strong, and our pipeline continues to be active and as strong as ever. Particularly in the trade finance and structured lending. These dynamics give us the confidence in our ability to continue delivering recurring and high-quality fee income.

Operating expenses were stable quarter-over-quarter, and our efficiency ratio improved to 23.1%, a 380 basis point gain versus the prior quarter and comfortably within our full year guidance.

Finally, net income reached a record of $64 million, up over 24% on from the first quarter and 28% from a year ago. Return on equity stood at 18.5%, the highest quarterly ROE in over 2 decades, a clear reflection of the strength and scalability of our business model. Capital levels [Audio Gap].

Annette van Hoorde de Solís
Executive VP & CFO

[Audio Gap]

Our total credit portfolio stood at $12.2 billion, up 18% year-over-year, reflecting sustained growth in commercial activity across the region. The commercial portfolio, which includes loans and contingencies, reached $10.8 billion, up 1% quarter-over-quarter and 18% year-over-year. Growth this quarter was primarily driven by our off-balance sheet business which rose 11% quarter-over-quarter and 25% year-over-year, supported by higher demand across all segments that are credits, guarantees and credit commitments.

This help us to deepen client engagement while preserving capital and enhancing risk-adjusted returns. The loan portfolio closed this quarter at $8.6 billion, up 16% year-over-year. While end-of-quarter balances were slightly below March levels, the average balances were higher than the ones in the first quarter, reflecting healthy origination.

In a context of continued margin compression and elevated liquidity, we remain focused on sound underwriting and high-quality opportunities. Bladex continued to grow its commercial portfolio by executing opportunities aligned with our strategic focus. High- value transactions, such as the Staatsolie financing facility and other syndicated deals demonstrated the strength of our origination and distribution capabilities, helping to offset tighter pricing and ample market liquidity.

Many of these transactions were in the works for several quarters, highlighting the depth of our pipeline and consistency in execution. Our commercial exposure remains well diversified across sectors and geographies with our main exposures in Brazil, Guatemala and Mexico. This quarter, we also saw relative growth in Costa Rica, Paraguay and Suriname. We continue to find opportunities across the region to strengthen client relationships, capitalize on market dislocations and grow our presence in key markets.

Looking ahead, we see strong momentum in the execution of medium-term structured transactions, which offer higher margins and better capital efficiency, complemented by short-term transactions that keep us agile and responsive to our client needs.

Turning now to the investment portfolio. Balances increased 8% quarter-over-quarter and 20% year-over-year, reaching just over $1.3 billion. The portfolio is short in duration with an average duration around 2 years and remains concentrated in investment-grade non- LatAm issuers, providing liquidity and credit diversification.

Most of the securities are held through our New York agency and are eligible for the Fed discount window, reinforcing our already strong liquidity position by providing contingent access to a lender of last resort.

Lastly, total assets reached $12.7 billion, up 2% quarter-over-quarter and 16% year-over-year, reflecting both commercial momentum and our flexible balance sheet strategy. We continue to grow with discipline, reserving capital, sustaining client activity and reinforcing our balance sheet strength.

Moving on to asset quality. Credit performance remained strong in the second quarter and continues to reflect our disciplined and proactive approach to risk. As of June, nonperforming loans for Stage 3 totaled $19 million or just 0.2% of total exposure with a robust reserve coverage of 5 times while Stage 2 exposures remained stable at $240 million or 2% of total credit portfolio. In turn, nearly 98% of our portfolio is classified as Stage 1 with no signs of deterioration or weakening credit trends.

Provisions for credit losses totaled $5 million this quarter. Most of it was tied to strengthening reserves for exposures in higher risk credit profiles, primarily related to Stage 2 rather than new permits or downgrades. Overall, the credit portfolio remains in solid shape backed by strong client performance and no material credit events or emerging risks.

Let's now turn to funding. Deposits reached $6.4 billion at quarter end, up 10% quarter-over-quarter and 23% year-over-year. Beyond the increase in absolute terms, deposits have also continued to grow in relative importance, now representing 62% of total funding compared to 57% last quarter. This tendency highlights the growing strength of our client relationships and the central role deposits play in our funding strategy. This strong performance was supported by steady growth in bank and corporate deposits.

As Jorge mentioned, corporate deposits grew over 30% year-over-year, reflecting our ability to expand and diversify our funding base. In addition, Class A shareholder deposits which remain a core pillar accounted for 37% of total deposits at quarter end. Our Yankee CD program also continues to scale effectively. Balances reached $1.3 billion representing 20% of total deposits, providing both granularity and duration to our deposit base. Outside deposits, short-term funding and repo balances remain stable, continuing to play a key role in supporting portfolio growth.

Meanwhile, long-term funding totaled $2.5 billion or 24% of total financial liabilities. We are pleased to share that this past July, as part of our funding diversification strategy, we issued a local bond in the Mexican market for MXN 4,000 million, the transaction was very well received and oversubscribed confirming strong demand from local investors and reinforcing our position as a recurring issuer in Mexico.

The proceeds were swapped to U.S. dollars at very attractive levels, providing cost-efficient funding to support portfolio growth. In short, we continue to develop a robust and stable funding base that is cost-effective, increasingly diversified and aligned with the evolving requirements of our commercial strategy. In addition, at quarter end, liquid assets represented over 15% of total assets, providing a solid buffer and ample flexibility. We are building a funding base that give us flexibility to support growth, respond to market shift and optimize our liability structure over time.

Now let's take a look at capital. Total equity reached $1.4 billion, up 3% quarter-over-quarter and 12% year-over-year, reflecting the strength of our earnings generation and retained capital. Our CET1 ratio remained solid at 15%, while the total capital adequacy ratio improved to 13.9%, both in line with internal targets and well above regulatory minimums. This reflects a balanced approach between supporting portfolio growth and preserving capital strength while reinforcing our firm commitment to maintaining an investment- grade profile.

In line with this performance, the Board approved a quarterly dividend of $0.625 per share, unchanged from the prior quarter. This reflects the consistency of our financial results and our confidence in the durability of the bank's earnings. Our capital position remains robust, allowing us to grow, return capital and defend our credit ratings with confidence.

Let's go now to the top line, starting with the net interest income. Net interest income totaled $67.7 million, up 4% quarter-over- quarter and 8% year-over-year. Driven by increasing average loan balances and disciplined pricing across the credit portfolio. Our net interest margin remained stable at 2.36% and our net interest spreads improved to 1.7%, up 5 basis points versus the first quarter. These results confirm that our margins have now stabilized at target levels. even in the face of falling interest rates.

While origination remains pressured by tighter pricing and high liquidity across the region, we have successfully turned our funding strategy and disciplined underwriting into solid and consistent earnings. Our growing and more diversified deposit base continues to lower our cost of funds and support margin stability. As a result, we remain confident in our full year NIM guidance in the range of 2.30%, assuming no major changes in rate projections or portfolio mix. With spreads and NIM holding steady, we are proving that strong origination and proactive asset liability management can sustain earnings even in challenging rate environment.

Turning now to fee income. Noninterest income reached $19.9 million this quarter, nearly doubling from the prior quarter and making a record high for Bladex. The standout performance was the closing of the transaction for Suriname National Oil Company, Staatsolie, a $1.6 billion syndicated loan in which Bladex acted as a global bookrunner. This has been the largest syndicated facility ever arranged by Bladex in 46 years of history. As a result, syndicated transactions and recurring fees from our role as admin agent contributed $10 million during the quarter, reinforcing the strength of our structuring and distribution franchise and our increased relevance in providing medium-term solutions.

Credit commitment also added $2.8 million in fee income. Demonstrating the importance of contingent lending within our product offering. That said, the record fee generation in the quarter wasn't solely driven by syndicated transactions. Recurring activity across the other business lines remain strong. Fees from letter of credits rose to $7.8 million, up 17% quarter-over-quarter and 20% year- over-year, reflecting healthy volumes in our core trade finance flows.

As we continue to roll out our new trade finance platform, we expect this revenue stream to grow further supported by enhanced client experience and processing efficiency. While transactions like Staatsolie are not frequent our fee generation reflects the steady growth of our structure and higher value-added trade finance businesses. Record fees this quarter reflect more than one big deal. They validate the depth strength and reach of our multiline origination capabilities.

Let's now turn to expenses and efficiency. Operating expenses totaled $20.8 million essentially in line with both the previous quarter and our estimate for the period. This consistency reflects our disciplined approach to cost management as we advance in key strategic initiatives. During the quarter, we continued executing on our transformation agenda with a focus on technology and digital capabilities. This includes the deployment of our new trade finance platform which is expected to be fully operational for the letter of credit products by the end of the third quarter.

With the platform now live, we anticipate that the related depreciation expenses will begin to impact costs towards the end of the third quarter. That said, this will not impact our full year efficiency guidance. Importantly, we expect this investment to enhance client experience and unlock incremental fee income over time. Aside from project-related costs, the underlying expense base remains stable with no material increases in personnel or overhead costs. As a result, our efficiency ratio improved to 23.1%, well above our full year target range.

While this quarter's result was supported by elevated fee income, we continue to expect efficiency to remain below 30% even as we sustained investment in growth and modernization. We continue to manage expenses with a long-term mindset, balancing strategic investment with cost discipline to enable scalable and profitable growth.

Let me close with a look at earnings and returns. Net income for the second quarter reached $64.2 million, up 24% from the first quarter and 28% year-over-year, driven by strong top line performance, stable credit provisions and disciplined cost management. This marks the highest quarterly operating income in the bank's history and reflects the strength of our commercial model, the scalability of our platform and the disciplined execution of our strategy.

Return on equity expanded to 18.5%, also a record high in the last 2 decades. To put this in perspective, even after normalizing for the extraordinary fee from the Staatsolie transaction ROE would have remained well within our guidance range, demonstrating the strength of our underlying profitability. This performance reflects a combination of solid revenue growth, pre diversification, a more efficient funding base and a strong cost control, all achieved without compromising our risk standards.

In conclusion, even excluding the significant fee income from the Staatsolie transaction, our core earnings would still rank among the strongest in recent years. This reinforces that our profitability is not driven by one-off transactions, but by a disciplined strategy that continues to deliver attractive and sustainable returns for our shareholders.

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

Jorge L. Salas
Chief Executive Officer

Thank you very much, Annette. Very clear, great job. Turning now to the macro backdrop. The global environment remains complex, trade tensions and shifting policy priorities continue to fuel market volatility and uncertainty.

Geopolitical risks have also intensified with a renewed conflict between Iran and Israel contributing to a spike in oil prices. Governments are shifting towards more protection policies. That said, the actual impact so far has been lower than initially expected.

In Latin America, the picture remains broadly resilient. Consumption continues to drive growth while investment lags. The IMF expects regional growth to ease slightly in 2025, mainly due to slower activity in Brazil and Mexico. In contrast, several economies such as Colombia, Chile, Panama, Costa Rica and Guatemala are expected to accelerate their growth trajectory in the second half of this year. [Global] vulnerabilities remain a key risk in a high interest rate environment. That said, trade shifts and low regional tariff offer new opportunities for Latin America, particularly in manufacturing and exports. Also, remittance flows remained stronger than anticipated, with many countries still seeing double-digit growth here.

In general, Latin America's fundamentals remain solid. In this context, as a regionally focused institution, Bladex is well positioned to support clients navigating this environment through a disciplined credit execution and deep experience in cross-border flow. We remain cautious and at the same time, constantly evaluating opportunities with an attractive risk/reward balance.

Let me now quickly update you on the execution of our strategic plan. Exactly 1 year ago, we announced our partnership with CGI, a global leader in trade finance technology. The plan was to implement a new digital platform to modernize our trade operations, particularly our management of letters of credit and working capital solutions. At the time, we share our intentions to roll out this solution within a 12-month timeline.

Today, I'm proud to report that we have delivered exactly as promised. 12 months later with flawless execution and no delays the platform is fully up and running. This was a complex and very demanding IT project that was run by our project management office. The project involved more than 50 professionals across the organization, working in close collaboration with our vendor. Final testing was successfully completed during the second quarter of this year. We rolled out the platform to a group of pilot clients in July, and today, we're operating entirely on the new system. I want to recognize the dedication and professionalism of the entire team.

But this is not just a system upgrade. It marks the beginning of a new era for Bladex in additional transformation of its trade finance operations. Our new trade platform significantly enhances our efficiency, our security and the client experience and reinforces our commitment to offering world-class solutions to our clients across the region. We are now entering a transition phase where new trade operations are already being processed through the new platform, while existing transactions will naturally run their course in the legacy system. As this transition occurs, we expect the platform to reach full operational capacity over the next 18 months, gradually becoming the backbone of our trade finance offering.

Before we move to the Q&A, let me close by saying that we are pleased with how the year overall is unfolding. Our results for the first half of the year gives us confidence to reaffirm our full year guidance, and we remain optimistic about the outlook for the second half. The fundamentals across the region remain constructive our pipeline is stronger than ever. Bladex is well positioned to continue delivering solid, consistent results. With that, let's now open the line for questions.

Question and Answer

Operator

Our first question comes from Ricardo Buchpiguel with BTG.

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

I have two questions here on my side. This was a particularly strong quarter for syndication fees, as you mentioned. So it would be interesting to hear exactly what drove this strong performance in this line, if there is something in terms of market conditions that helped a little bit in this quarter? And why should we expect going forward, especially because considering the second half of the year is usually a bit stronger in the syndication line.

And for my second question, back in Q1 conference call, you guys mentioned that you're already expecting some widening of spreads following terms Liberation Day. And we did see that in future results, right? But since then, markets have come down quite a bit, and I would like to hear your take on how you're seeing the competitive environment now, especially with more active capital markets towards the second half of the year and whether we should see or expect spread tightening in the coming quarters pressing a little bit more of NIM.

Jorge L. Salas
Chief Executive Officer

Thank you, Ricardo, for your question. A few things here. I'm going to answer the first question and then turn it over to Sam, our Chief Commercial Officer, to answer the spreads question. But as far as the results and how sustainable -- the record results include, as we said, this one-off transaction that had exceptional syndication and structuring fees. But as I said before, even if you include that, exclude that transaction, we would have had a record quarter anyways. So I think the ROE would have been close to 17% even without that transaction.

Now if you zoom out and look at this bank over the last 3.5 years, what you see is a systematic increase in fee income not only in nominal terms but also as a percentage of total [earnings], which is exactly -- which it was exactly the idea and will continue to be the idea. Remember that you have a bank Ricardo, that has essentially a match book, and we'll continue to have a match. And that has floating rates on both sides of the balance sheet. So the whole idea of this plan is to make our results less dependent on market rates. And so fees is basically the name of the game.

In our case, as a Trade Bank, the letter of credit fees are essential, and that's why we have invested in this platform that's going to start scaling soon. So in other words, I'm not ready to give you exact guidance for 2026. I mean it will depend on market rates among other things. What I can tell you is that we see we still see substantial potential in basically all of our business lines as we keep scaling the bank in the future. Sam, do you want to tackle the spreads question?

Samuel Canineu
Chief Commercial Officer

Yes. Well, in terms of market conditions, I think the market continues to be pretty liquid and competitive. But this has been, I would say, business as usual for us this year, and yet we continue to grow profitably. We see more margin pressure definitely on the FI lending market. And we so far have been able to compensate with higher spreads on the structured trade and working capital business as we continue to roll out new solutions. I think I see more stabilization on the -- for short-term margins. And for the rest of the year, we don't expect major changes. I think there could be maybe some upside in case of -- the trade wars continue. But so far, we haven't seen such trade wars affecting so much the margins.

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

Very, very clear. And with that you guys mentioned, would it make sense to expect you guys approaching closer to the top end of the guidance or even surprising a little bit at the top end of the guidance in terms of ROE given that you already delivered a lot in the first half of the year. And right now, the guidance is implying like a big deceleration in terms of bottom line.

Jorge L. Salas
Chief Executive Officer

Yes, for sure. We're going to be very close to the guidance. But if some, we're going to be closer to the upper end of our guidance. Remember that the amortization of the platforms will start in the second quarter, but it seems like they're going to be -- today, what I can say is it seems like we're going to be slightly above our guidance.

Operator

Our next question comes from Santiago Martinez with CrediCorp.

Santiago Martinez Mejia
Credicorp

Congratulations for these results. I have 2 questions on my side. The second one -- the first one, sorry, is regarding if we should observe an increase in fees and letters of credit in the upcoming quarters due to the new platform of letter of credit? And how much could this increase in terms of fees and profitability?

And then the second question is, how do you perceive the current uncertainty in global trade as it impacted loan demand in different sectors and countries?

Jorge L. Salas
Chief Executive Officer

Thank you, Santiago. Good question. As far as the letters of credit and the new trade platform, I mean, the point here is that there's a big upside in processing smaller transactions with better margins. And that will be from both existing clients and also new clients. I mean the new platform will allow us to do that in a cost-efficient manner with much better service with a new digital client interface, but also reducing operational risk. So over the medium term, you're going to see significant increase in transactional volume and better margins.

We do anticipate a reduction in the average ticket size. But the overall strategy is focused on scaling the business through higher transaction throughput. The platform is now live, and we anticipate, as I said, the depreciation expenses to start impacting costs now. But LCs are a very profitable business, especially given its low capital consumption. And this is, for sure, an important strategic investment, but we expect it to pay off within 18 months. So it's going to be -- it's a very straightforward business case. Do you want to tackle the second one, Sam?

Samuel Canineu
Chief Commercial Officer

Yes. I think it's pretty straightforward. So far, we have not seen so much affection in volume, given the volume or pricing, given the new tariffs. I think, I mean, we're speaking with our clients on a daily basis about that. I think the important thing, everybody is preparing to reroute their -- I mean, the region will continue to export. And if not to the U.S., to other regions, most of what comes

from it is commodities and commodities can be, let's say, it's easier to reroute them. And the demand, I would say, at least in the short term, the demand for financing such exports will -- should be there. I think on the long term, then yes, I think it's something that we're evaluating and also preparing for. But we don't know how it's going to be.

Santiago Martinez Mejia
Credicorp

And just to make, considering the record fee income and the expected pipeline in syndication fees for the upcoming quarters, can we still consider net fees at current levels? Or how sustainable is these quarters in terms of fees?

Jorge L. Salas
Chief Executive Officer

So in terms of -- so you have basically 2 fees. You have syndication fees. You have that one-off transaction that is very meaningful. We do have a very strong pipeline. As I said, in syndications, I would say, stronger than ever. Perhaps not with transactions not as big as this $1.6 billion transaction, but steady and healthy pipeline. And as far as the letters of credit fees, I mean, you've seen -- I mean, they're up 20% from last year. And as the platform starts rolling out and we're including new clients from different segments, then you will see sustained increase in [LL] -- letters of credit fees as well.

Operator

Our next question comes in written form by Jeffrey Oto and it's the following. Congratulations on the continued execution of your growth plan. Expanding into factoring accounts receivable financing has been mentioned by Bladex in the past. It will seem to be a natural niche for Bladex. Is the bank making an effort to expand in this space? And if so, do you expect this to become a meaningful profit center?

Jorge L. Salas
Chief Executive Officer

Yes. Let me -- yes, very good question. And factoring is obviously an essential part of our working capital solutions strategy. It is a natural fit. Sam, I don't know if you want to give some color on because we've done some -- we've made some progress already there.

Samuel Canineu
Chief Commercial Officer

Yes. We have been putting a lot of resources to grow the business, not only through single invoice discounting, but also portfolio solutions as securitization and other forms of portfolio discounts. This is a growing business for us, and we see ample room for growth in the many countries that we operate. This is a common need from our clients, let's say, the sell side of their accounts, short-term working capital. And yes, there is definitely focus to grow that in the short and the medium run.

Jorge L. Salas
Chief Executive Officer

Not only -- I would say I would add only not only international factoring, but also potentially in local currency as long as we don't run any FX risk, and there are some ways to hedge that. But there are some markets where the regulation favors the synthetic factoring. So we're looking into that, yes.

Operator

Our next question comes from Ricardo Vallarino. Congratulations once again on a magnificent quarter, both ROE and the efficiency ratio at record levels. How should see these 2 in the near and midterm outlook?

Jorge L. Salas
Chief Executive Officer

Thank you, Ricardo. I think we tackled that question before. These are record results. They are impacted by this one-off transaction. They would have been record results anyway even without accounting for that transaction. As far as the guidance for the year, we expect for sure to be below -- I mean, better than the efficiency guidance and for sure, in the upper end of our ROE and bottom-line results. As far as going forward, will depend on market rates, but the whole idea of the plan is to make, again, this bank less dependent on market rates. So very promising.

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

Well, thank you. Thank you, everybody, for the questions. Again, we see substantial potential in all of our business lines, and we look forward to having you in the next call. Thank you so much.

Operator

This concludes Bladex's call. You may now disconnect, and have a nice day.