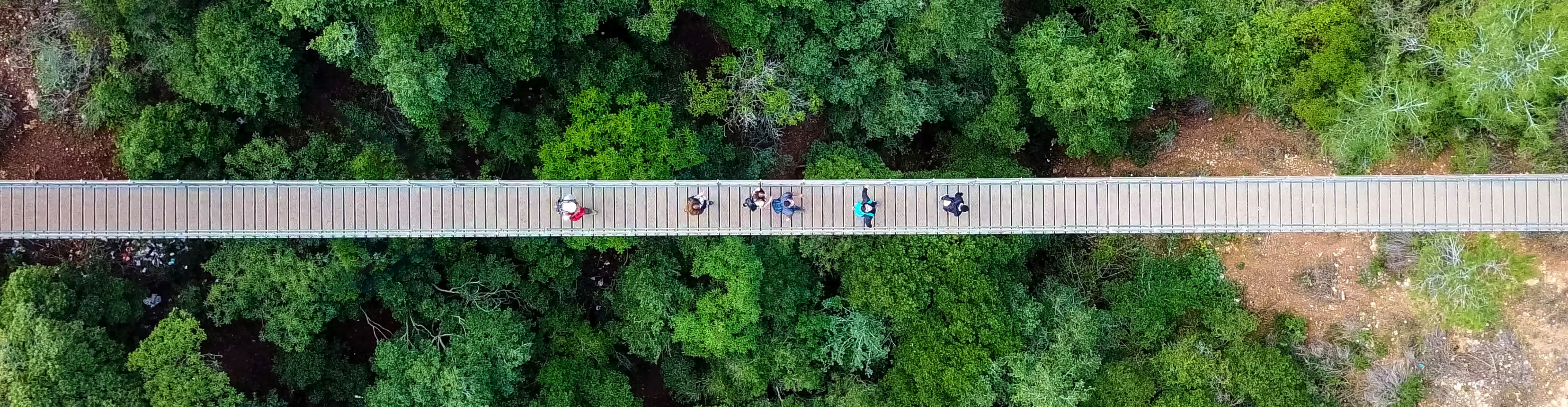


Latin America Structured Finance
Surveillance Chartbook

August 2024

S&P Global
Ratings

This report does not constitute a rating action

Outlook For Structured Finance

- We continue to expect market-wide issuance in Latin America to reach about $29 billion in 2024. Issuance year-to-date stands at $18.1 billion.
- Brazil remains the most active market in the region, and prospects for economic growth have improved. Repackaged securities remain the most active asset class, and overall issuance of CRIs and CRAs has remained stable, when compared to 2023, as traditional industry participants are able to access the markets with more favorable conditions. We anticipate stable scenarios for sugar, ethanol, and beef producers, and somewhat more favorable scenarios for poultry and pork proteins for the next few quarters, which should support the issuance levels of CRAs this year.
- Issuance remains subdued in Mexico. Investor sentiment toward nonbank financial institutions remains negative . However, interest rates are coming down, which should favor new issuance. Interest in CMBS in the country remains high and is beginning to materialize.
- The environment in Argentina remains challenging, and issuance levels remain low. We have observed a drop in interest rates and an increase in the use of digital platforms. Both trends could favor structured finance issuance.
- We continue to observe interest in future flows, repacks, and diversified payment rights in the cross-border market.

Macroeconomic Highlights And Credit Conditions

- The regional real GDP growth forecast is unchanged at 1.2%, but we made several country adjustments.
- We raised our GDP forecast on Brazil to 2.0% due to the strong growth observed in first-quarter 2024. We are waiting for economic data that shows the impact on GDP growth of devasting floods in the southern state Rio Grande do Sul in late April and early May.
- We lowered Mexico's growth forecast to 2.2% as manufacturing and construction activity has moderated. Election results have led to uncertainty over proposed reforms. For now, we assume broad continuity in Mexico's fiscal, monetary, and trade policies under the incoming administration.
- Our forecast for Argentina is unchanged. We continue to expect that the government's fiscal adjustment will lead to a contraction of 3.5%. We expect the decline in GDP will be more acute in the first half of 2024 before a gradual recovery begins in the second half.
- A more protracted or severe conflict in the Middle East is a major risk to our growth outlook for emerging markets, due to the potential consequences for shipping and energy prices. The risk that the U.S. economy falls into recession is also a significant downside risk. This would have significant penalties for the global economy, with an outsize effect on emerging markets that share strong economic ties with the U.S., such as several Latin American countries.

Latin America: GDP Growth And S&P Global Ratings' Forecasts

S&P Global Ratings' GDP growth forecasts

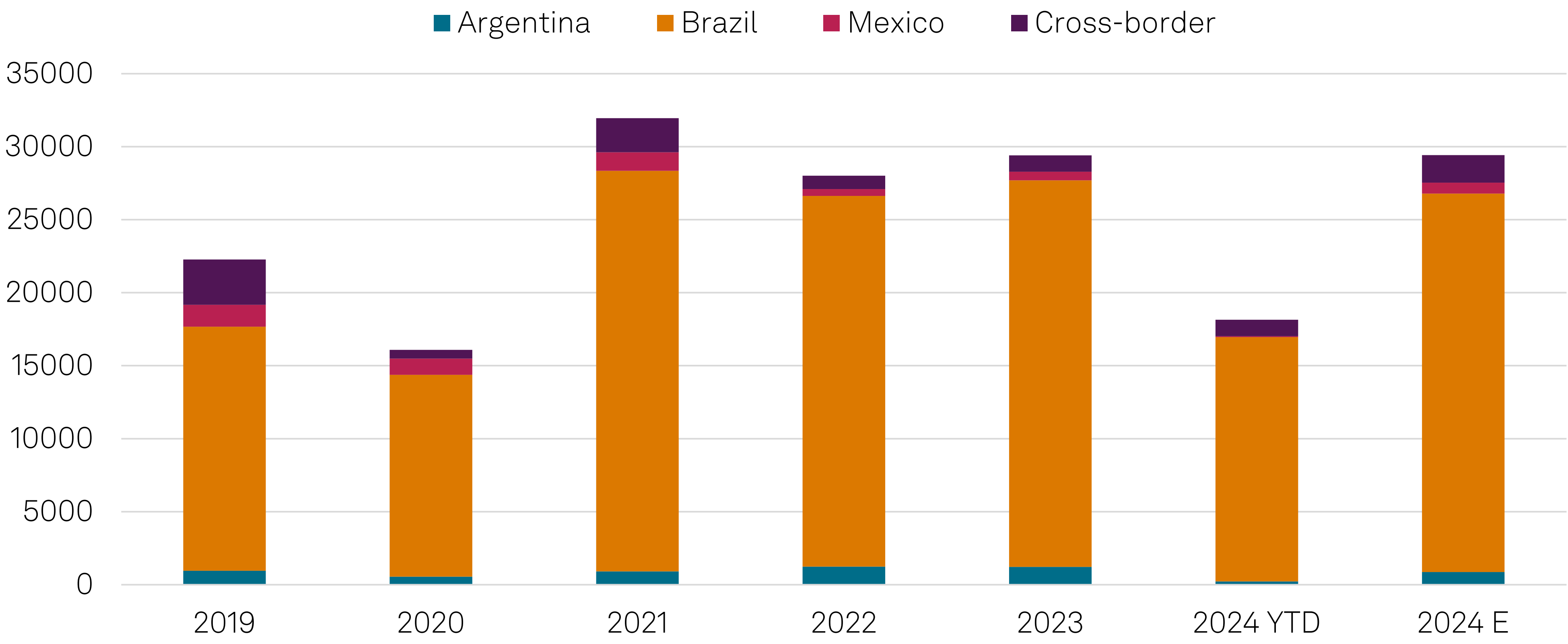
Real GDP (%)

EM countries	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Argentina	-2	-9.9	10.7	5	-1.6	-3.5	3.3	2.2	2.5
Brazil	1.2	-3.6	5.1	3.1	2.9	2	2	2.1	2.2
Chile	0.7	-6.4	11.6	2.1	0.3	2.4	2.6	2.6	2.7
Colombia	3.2	-7.2	10.8	7.3	0.6	1.1	2.8	3	3.1
Mexico	-0.3	-8.8	6.3	3.7	3.2	2.2	1.7	2.1	2.2

Aggregates are weighted by PPP GDP (2017-2021 average) share of total. f--S&P Global Ratings forecasts. Source: S&P Global Market Intelligence.

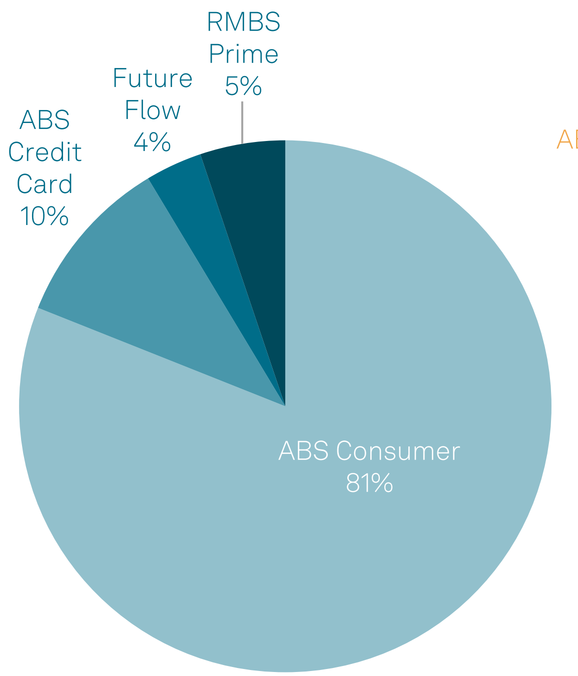
Structured Finance Issuance Should Increase $29 Billion In 2024

SF market-wide new issuances (USD mil. $)

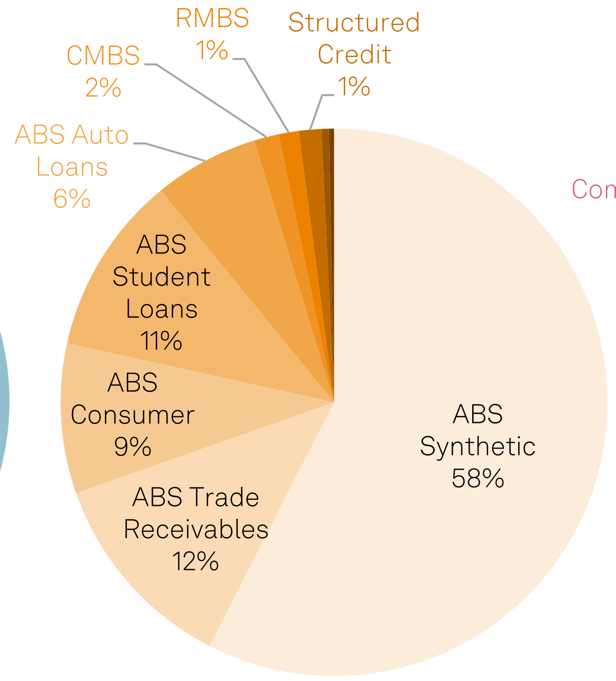


f—forecast. Source:S&P Global Ratings.

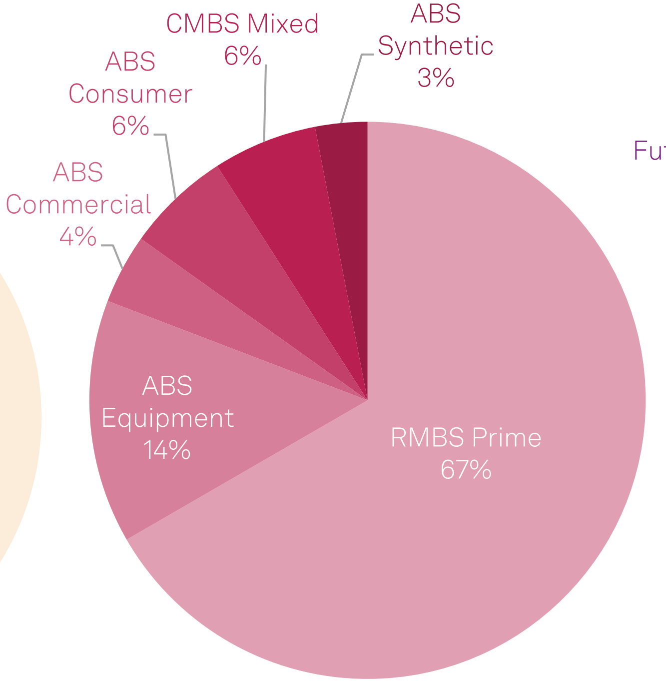
S&P Global Ratings' Rated Portfolio Composition By Asset Type



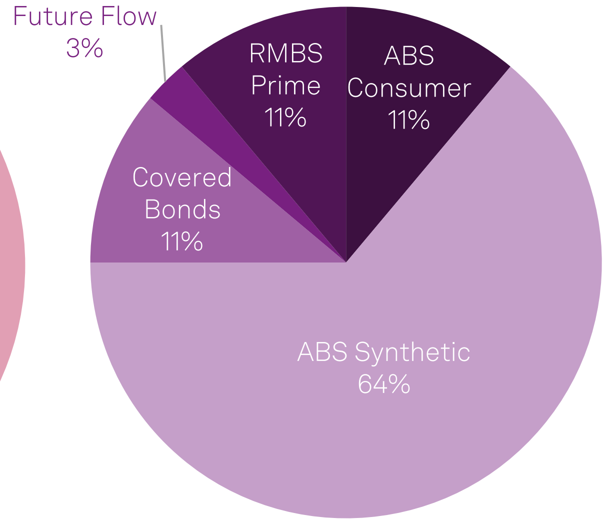
Argentina



Brazil



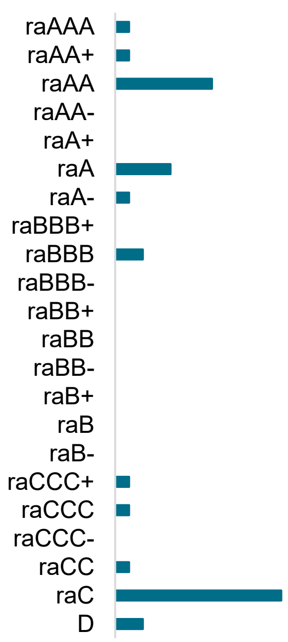
Mexico



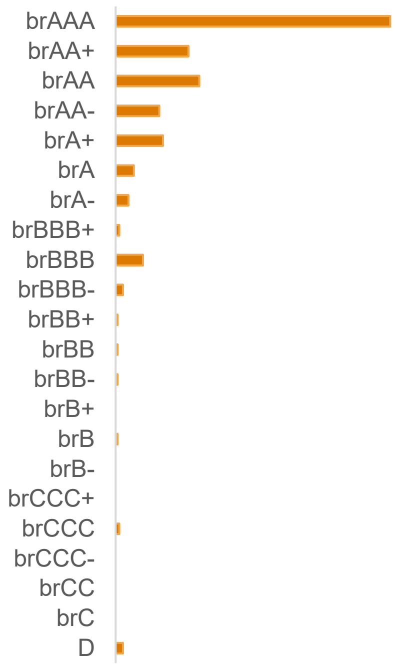
Cross-border

S&P Global Ratings' Portfolio Composition By Rating

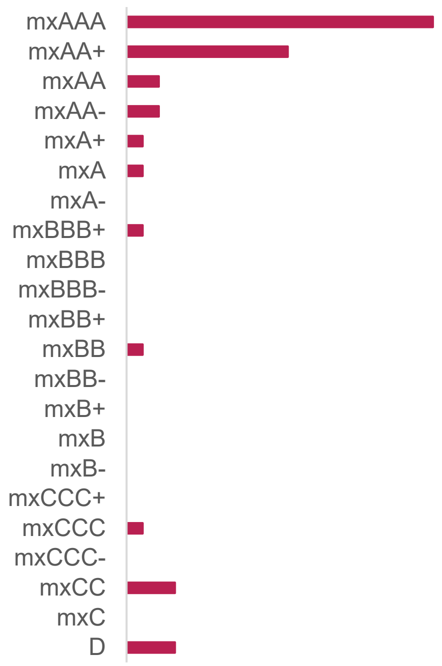
Argentina



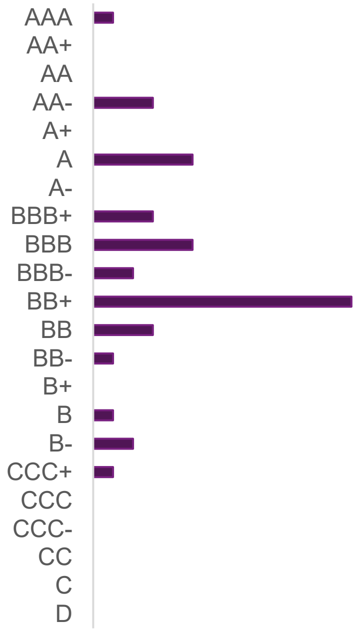
Brazil



Mexico



Cross-border



- The credit quality of our rated universe in the region is high, and the majority of ratings remain at the higher end of our national scales in Argentina, Brazil, and Mexico.
- The majority of ratings on the lower end of the national scale in Argentina correspond to the most subordinate tranches or residuals.
- Cross-border ratings are concentrated in the 'BB+' rating category.

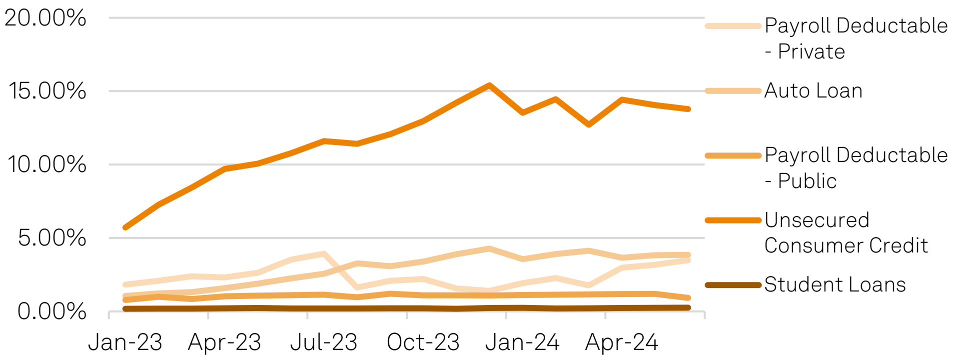
Brazil: Resilience Amid Challenging Conditions

Delinquency levels in the ABS Consumer segment have stabilized in 2024 compared to 2023, but consumers' households are still pressured from high leverage amid high interest rates. Delinquency levels have generally remained within our base case stressed default levels, which are adjusted for macroeconomic risk and/or deal- specific characteristics. The subordination and/or over collateralization levels, along with higher interest rates, effectively balanced the higher default levels of the portfolios, sustaining the credit quality of the senior shares.

We also continue to see repackaged securities (ABS Synthetic) as the most active asset class in Brazil, despite recent changes in the CRA and CRI regulation limiting corporate entities that can access such instruments. Overall issuance amounts of CRIs and CRAs have remained stable when compared to 2023 as traditional industry participants have been able to access the markets with more favorable conditions. In agribusiness, there has been volatility in asset securitization. High crop input costs have led to squeezed margins for rural producers in recent harvests, resulting in a significant increase in judicial recovery filings in Brazil and the default of several unrated deals. Although recent reductions in fertilizer prices may provide some relief in margins in the upcoming quarters, the volatility of commodity prices, the drought in several regions, and higher leverage still pose a threat to recovery. However, we anticipate stable scenarios for sugar, ethanol, and beef producers, and somewhat more favorable circumstances for poultry and pork proteins for the next few quarters, which should support the issuance levels of CRAs this year.

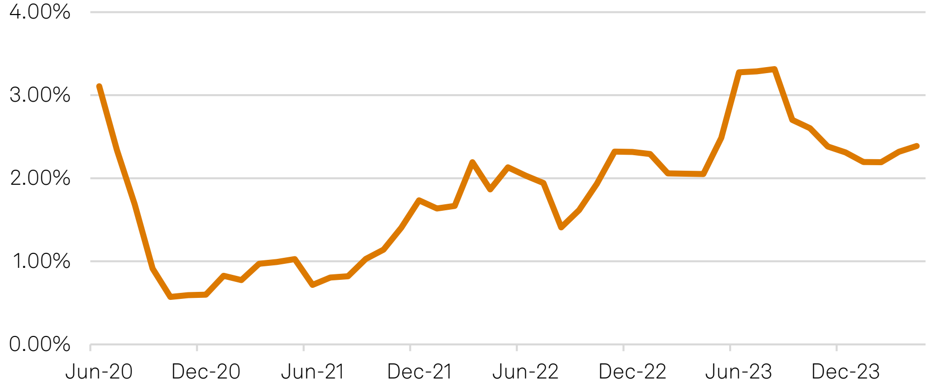
Small and medium sized enterprises continue to be pressured by persistently high inflation rates and challenging operating environment, affecting overall access to credit and liquidity. Nonetheless, we continue to see overall delinquency levels to have remained comparatively low in multi-seller trade receivables transactions given the active management of the portfolios by managers and consultants. Meanwhile, the performance of single-seller trade receivables can present greater volatility given potential impacts to the seller to continue serving adequately its pool of clients.

Arrears 180 to 360 days – Consumer ABS



Source: CVM and S&P Global
arrears 180-360 days over total loan balance of rated transaction

ABS Trade Receivables - Delinquencies*



* weighted average of multseller trade receivables

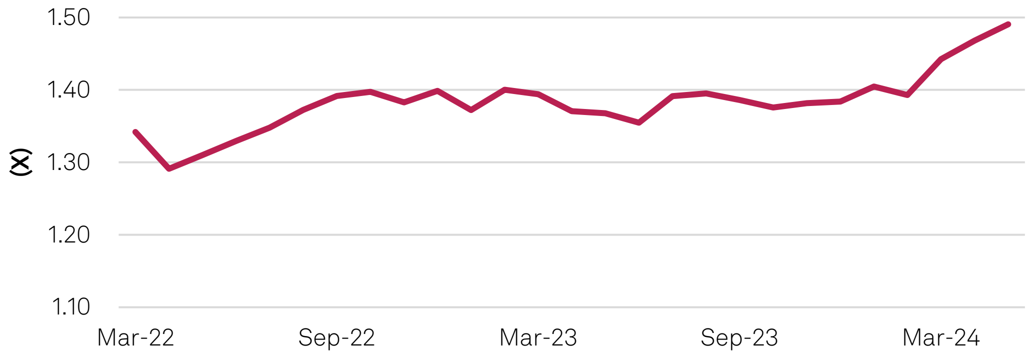
Mexico: Asset And Ratings Performance Stability Should Continue

We expect equipment-backed deals to maintain a stable performance for the remainder of the year, despite the challenging financing conditions that originators have faced the last three years due to the nonbank financial institution (NBFI) crises. Several deals from our rated portfolio are entering their amortization period in 2024, which could either trigger the need for refinancing or further strengthen the deals' credit enhancement levels as they deleverage. As of May 2024, credit enhancement levels of equipment ABS transactions rated by S&P Global Ratings, on average, increased to 1.49x compared to the 1.37x figure observed in May 2023. In addition, despite uncertainty over proposed reforms after the election results, we expect broad continuity in fiscal, monetary, and trade policies. Therefore, we do not envision economic conditions affecting obligors' payment capacity, which could affect the current performance of ABS transactions.

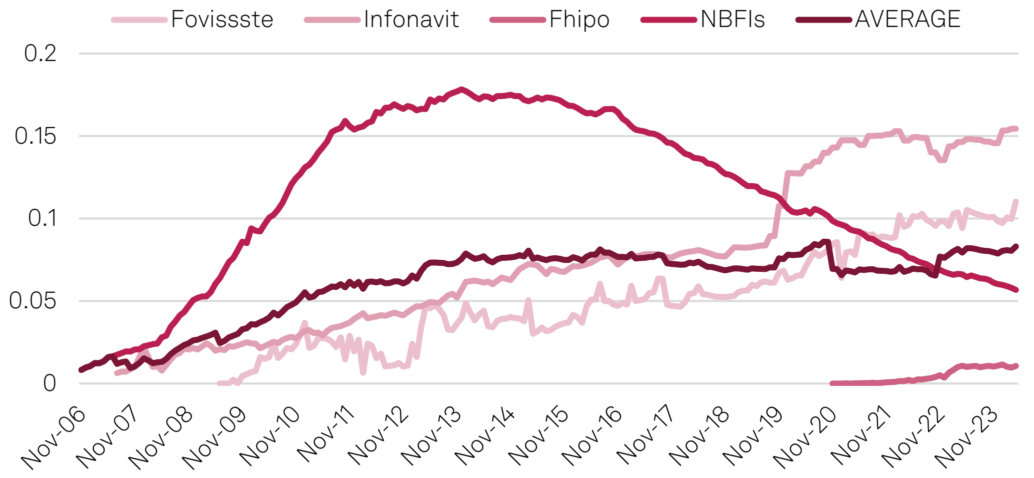
Aggregate NPLs on RMBS transactions remained stable, reaching, on average, 8.3% as of April 2024. Considering performance by sector, we observed that defaults on deals from NBFIs remained stable and continued decreasing during the first half of the year, averaging 5.7%, as of April 2024. Moreover, the deals from FHipo have presented strong performance, averaging defaults of 1.1%, as of April 2024. In addition, deals from Infonavit and Fovissste continue presenting the largest deterioration with defaults averaging 15.4% and 11%, respectively, as of April 2024. However, we expect these transactions to continue presenting increasing credit enhancement levels that allow them to support their current ratings.

ABS Equipment

Average Overcollateralization



RMBS Non-Performing Loans—Delinquencies > 90 Days



Argentina: Stability Amidst Economic Challenges

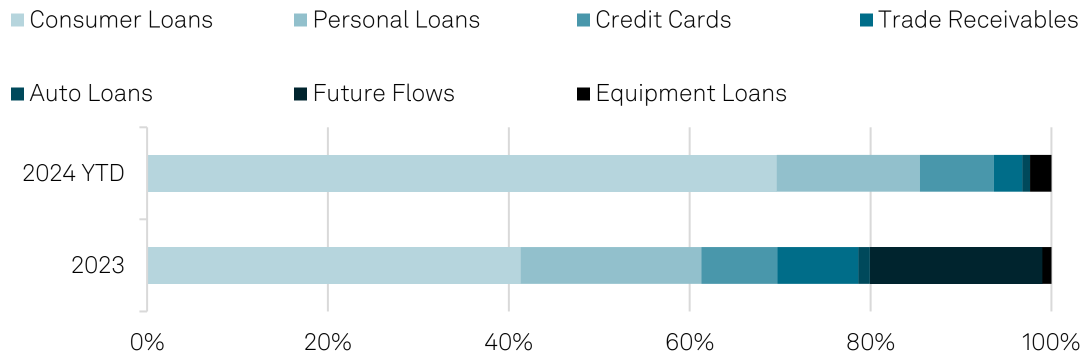
Argentina's macroeconomic environment presents significant challenges. Inflation remains a persistent issue, affecting purchasing power and investor confidence. Additionally, the lack of private financing limits expansion and growth options for many companies, further complicating the economic scenario.

Although there has been a recent uptick in the issuance of financial instruments, activity remains modest compared to previous years, concentrating on consumer trusts primarily backed by consumer and personal loans. Since the administration of Javier Milei took office in December 2023, the monetary policy rate has sharply decreased to 40% from 133%.

An interesting development is the growing role of companies with digital businesses in the issuance of structured finance. Digital payment platforms and loans granted through applications are gaining prominence, adapting to the needs and behaviors of modern consumers.

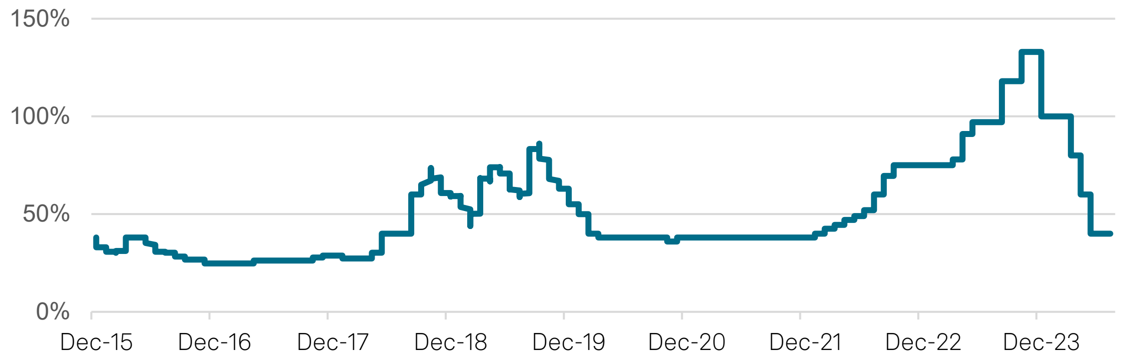
Issuance by asset type in Argentina

Concentration in consumer trusts



Evolution of the Monetary Policy Rate

Significant change from 133% to 40% since December 2023.



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