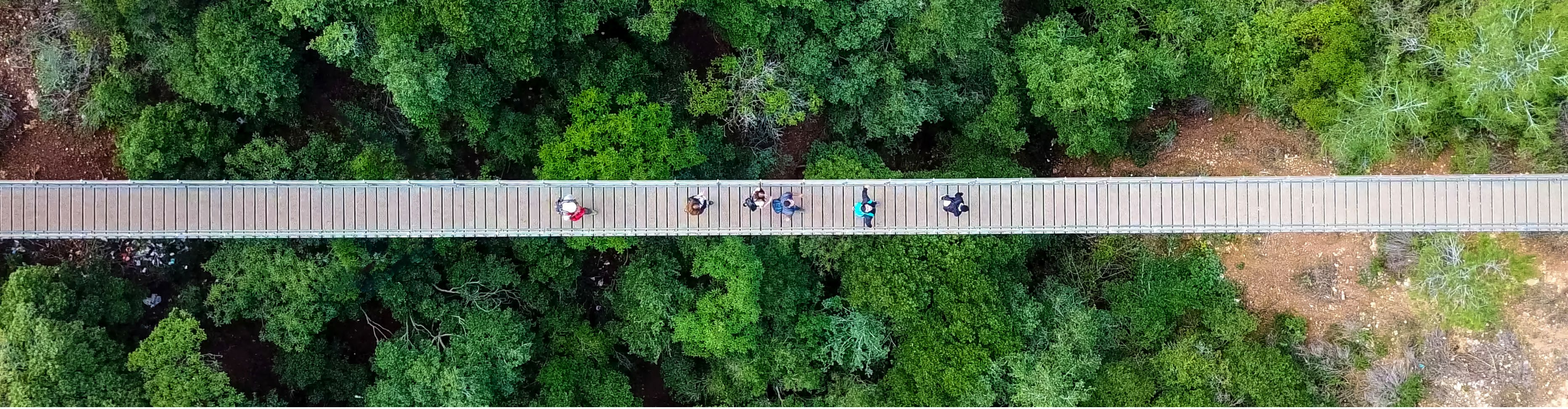

Latin America Structured Finance
Surveillance Chartbook

August 2023

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S&P Global
Ratings

This report does not constitute a rating action

Outlook For Structured Finance

- Issuance volumes in Brazil are rising, and we continue to observe interest in the cross-border market across the region. Therefore, our new issuance forecast is unchanged.
- We still expect cross-border market new issuance to fuel an approximately 11% growth in total issuance across the region this year, despite potential weaknesses in collateral performance, and that Brazil will remain the most active market in the region.
- There are signs of stabilizing fiscal and monetary policies in Brazil. This could bolster economic growth and lift issuance volumes, particularly of repackaged securities. Inflationary pressures and high interest rates increased the financial burden on household leverage; however, inflation is cooling down and we expect that Brazil will be one of the first countries in the region to lower interest rates. This may improve the performance of consumer credit and residential financings.
- Issuance remains subdued in Mexico across all asset classes. Nevertheless, activity could pick up in the second half of the year as companies plan to secure funding ahead of next year's elections. Performance remains solid amid stable collateral performance.
- Despite the very challenging macroeconomic environment in Argentina, we continue to observe new issuance activity in the ABS consumer sector.
- Ratings performance has been stable year to date, and there are few ratings on CreditWatch, which we believe reflects strong collateral performance across the region.

Macroeconomic Highlights And Credit Conditions

- We revised our growth expectations for Latin America slightly higher this year, on the back of better-than-expected first-quarter performance, but lowered our 2024 growth forecast. The solid first-quarter performance was mostly due to a positive contribution from net exports, which, in turn, was mostly a result of a decline in imports.
- Meanwhile, domestic demand continues to weaken in every major Latin American economy, except for Mexico, where strong remittances have contributed to resilient consumption. Sluggish growth in key partners, mainly the U.S., will keep exports subdued in the region next year even as domestic demand rebounds on lower inflation and looser monetary policy.
- Inflation in the region has started to ease more noticeably in recent months on lower food prices. Core inflation has also slowed. Weakness in domestic demand, lower commodity prices than last year, and stronger exchange rates will help inflation continue to moderate in the coming months, which we expect will allow central banks to start lowering interest rates.

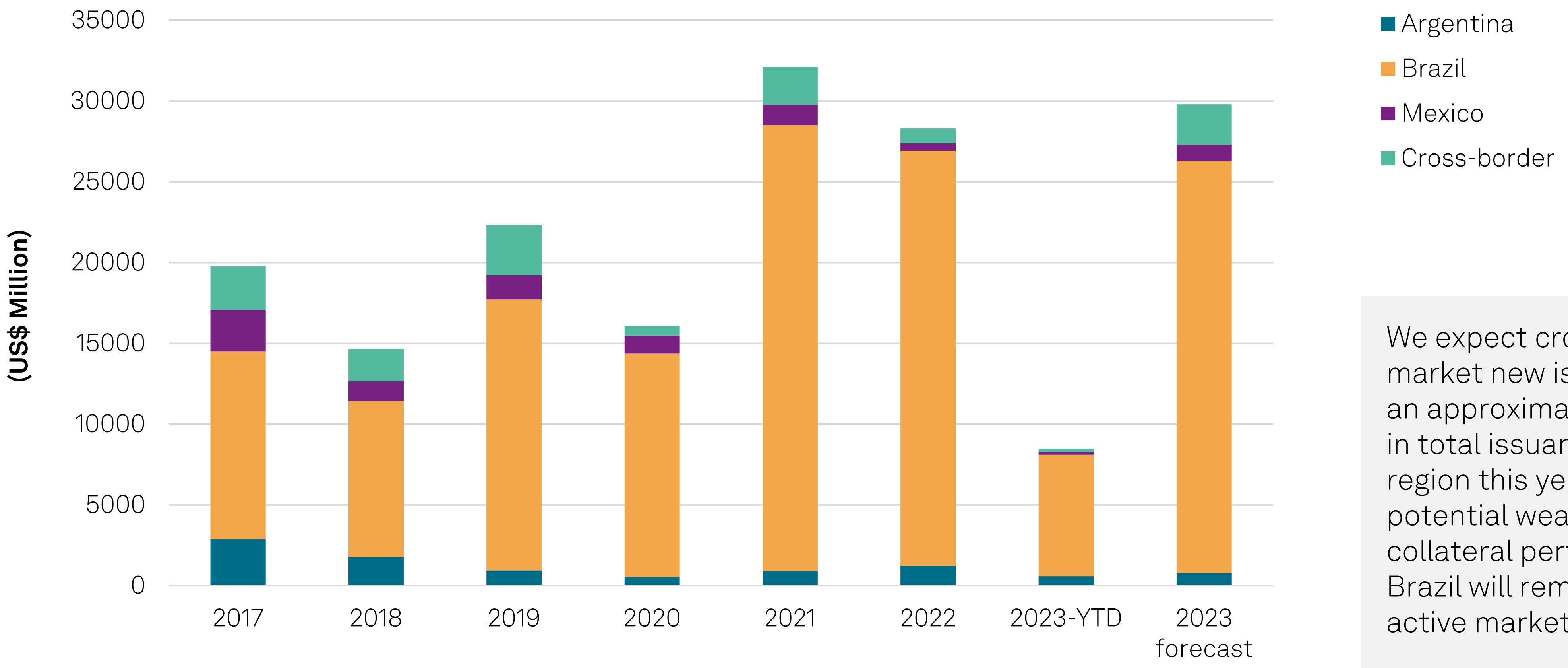
Latin America: GDP Growth And S&P Global Ratings' Forecasts

Real GDP (%)	2019	2020	2021	2022	2023f	2024f	2025f	2026f
Argentina	-2	-9.9	10.4	5.2	-2	0.5	2	2.1
Brazil	1.2	-3.6	5.3	3	1.7	1.5	1.8	1.9
Chile	0.7	-6.2	11.9	2.5	0.3	2.4	2.8	2.9
Colombia	3.2	-7.3	11	7.3	1.4	2	2.9	3
Mexico	-0.2	-8.2	4.9	3	1.8	1.5	2.1	2.1
Peru	2.2	-11.1	13.5	2.7	1.8	2.6	2.8	3
EM-LatAm	0.5	-6.7	7.2	3.7	1.1	1.5	2.1	2.2

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

Structured Finance Issuance Should Increase 11% In 2023

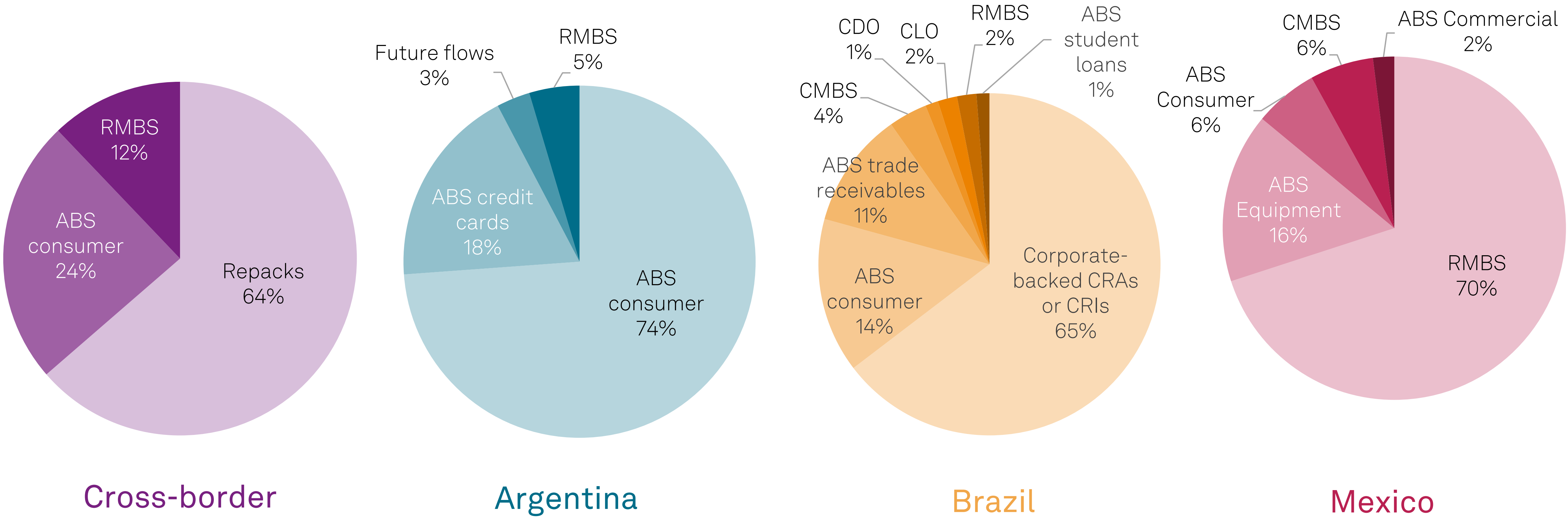
SF market-wide new issuances



f– Forecast. Source: S&P Global Ratings

We expect cross-border market new issuances to fuel an approximately 11% growth in total issuance across the region this year despite potential weaknesses in collateral performance, and Brazil will remain the most active market in the region.

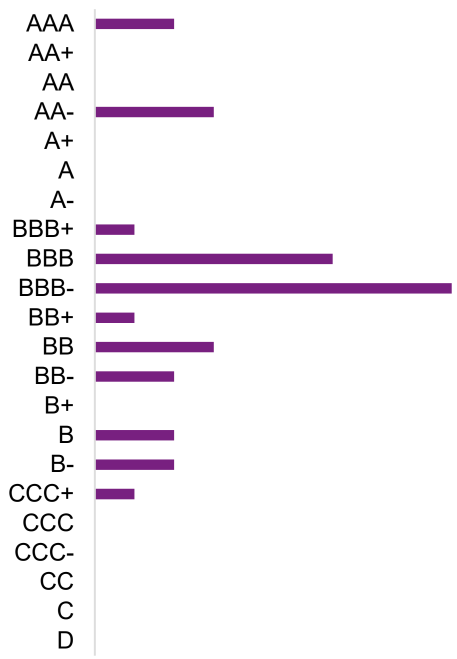
S&P Global Ratings' Rated Portfolio Composition By Asset Type



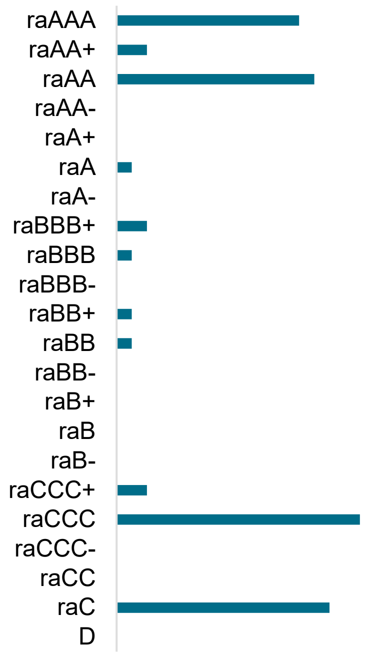
Source: S&P Global Ratings

S&P Global Ratings' Portfolio Composition By Rating

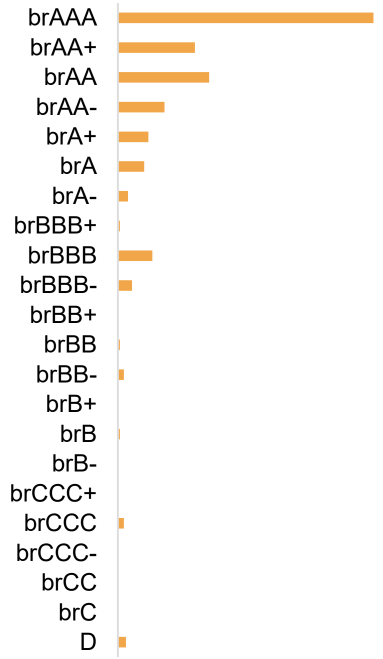
Cross-border



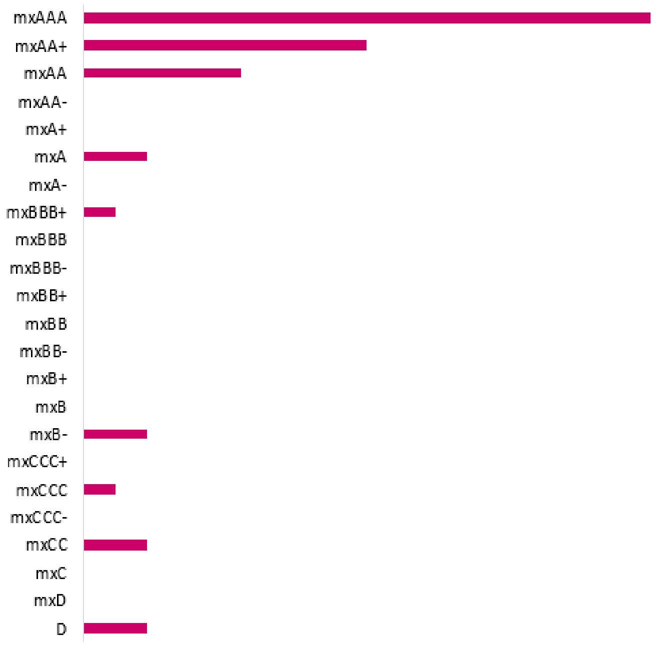
Argentina



Brazil



Mexico



- 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 'BBB' rating category.

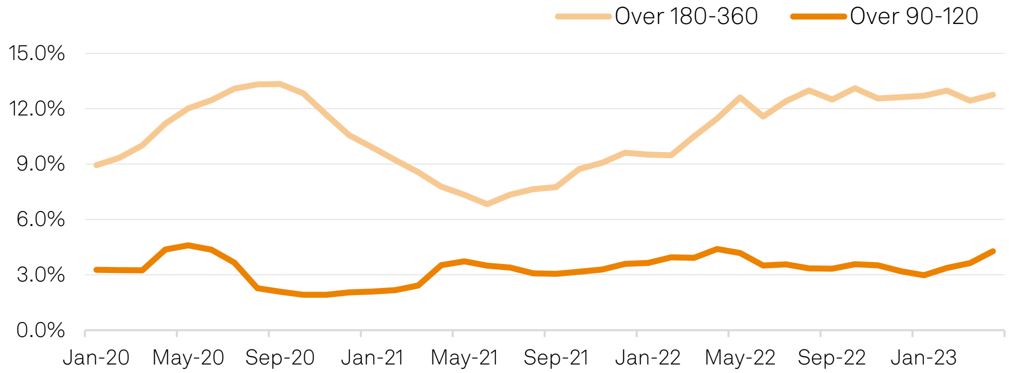
Brazil – The Bumpy Road May Be Behind Us

ABS consumer loans were highly impacted by the elevated interest rate environment, with credit card receivables deteriorating the most. Lower inflation and the likely easing of the monetary policy should provide some relief in the middle-term, but we could still see some volatility in the short-term. Despite increases in delinquencies, losses have remained within our assumed stressed default levels as credit protection has proved adequate, with no negative rating action on the senior shares. Other asset classes, such as payroll deductible loans, student loans, and auto loans, were mostly limited to tighter excess spreads, were impacted, but performance remained stable.

Small and medium enterprise (SME) loans have also faced significant challenges in recent quarters, mostly due to the deterioration of the credit quality or liquidity of corporate obligors following the increased interest burden amid restricted access to credit. This is likely to continue to pose risks for SME loans in the short term. The trade receivable class, has maintained resilient performance, driven by active management of the portfolios, sustaining still comfortable cushions given current credit enhancement levels to senior shareholders.

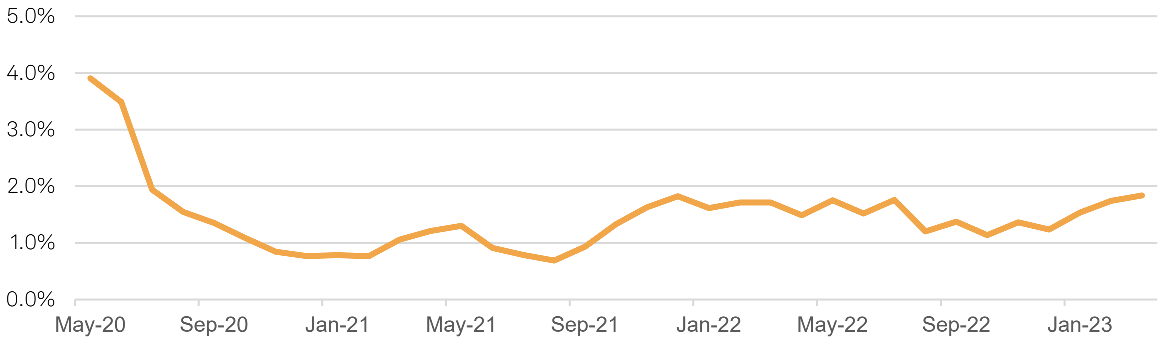
We observe increasing penetration of home equity loans securitizations in Brazil, mostly driven by new originators and fintechs. Performance track records, although limited, continue to display stable trends, with somewhat high prepayment levels, as expected for the asset type. Meanwhile, we expect to see some volatility in the securitization of assets in the agribusiness segment, given the recent turn in commodity prices and the more adverse scenario for poultry and pork producers.

ABS credit card



Source: S&P Global Ratings

ABS trade receivables - delinquencies*



* weighted average of multi-seller trade receivables. Delinquencies = 3 month moving average of delinquencies > 60 days + repurchases. Source: S&P Global Ratings

S&P Global Ratings

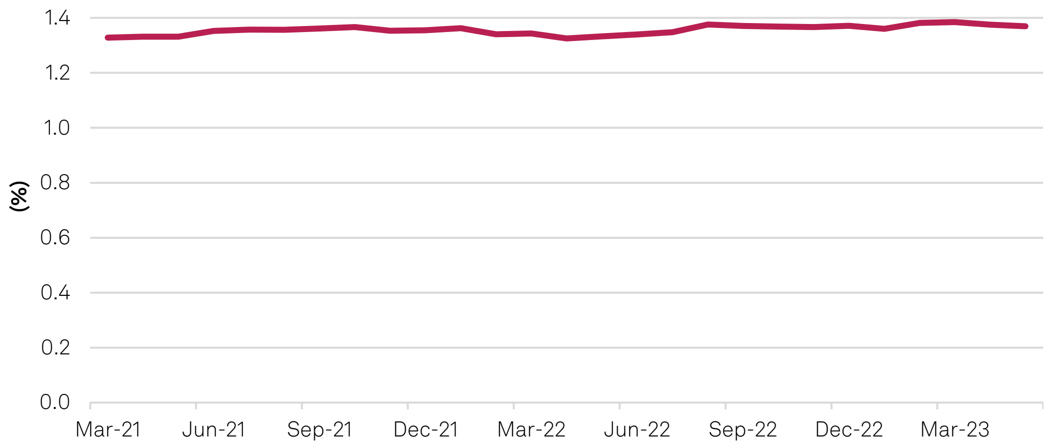
Mexico Asset And Ratings Performance Stability Should Continue

We expect equipment-backed deals to continue presenting stable protection levels for the remainder of the year. Credit enhancement levels of equipment ABS transactions continue to be stable despite the challenging financing conditions that Mexican non-banking financial institutions (NBFIs) have been experiencing during the last 2 years. As of May 2023, credit enhancement levels of equipment ABS transactions rated by S&P Global Ratings, on average, increased to 1.37x compared to 1.33x in May 2022. Furthermore, although we expect a modest economic recovery and slightly higher unemployment levels than last year, we do not envision an impact on obligors' payment capacity that could affect the current performance of ABS transactions.

Aggregate non-performing loans on RMBS transactions remained stable, reaching, on average, 8.2% as of May 2023. Considering performance by sector, we have observed that defaults on deals from NBFIs remained stable and continued decreasing during the first half of the year, averaging 6.5% as of May 2023. Moreover, the deals from FHipo have presented a strong performance, averaging defaults of 0.7% as of May 2023. In addition, deals from Infonavit and Fovissste continue presenting the largest deterioration, as a result of higher unemployment rates during the last two years with defaults averaging 14.8% and 11.0%, respectively, as of May 2023. However, we expect these transactions to continue presenting increasing credit enhancement levels that allow them to support their current ratings.

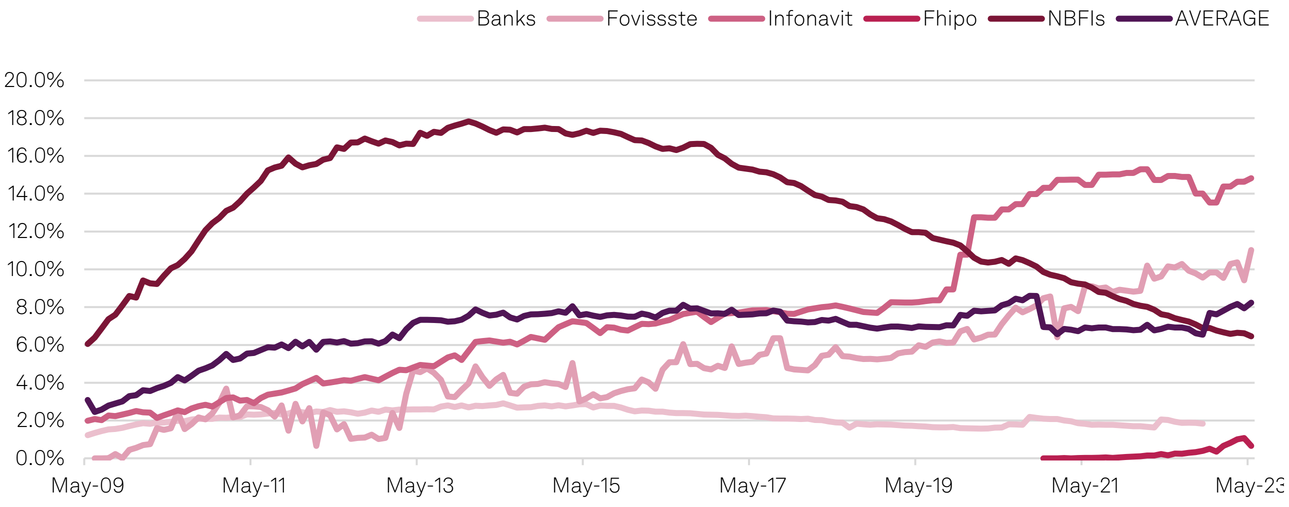
ABS equipment

Average Overcollateralization



Source: S&P Global Ratings

RMBS non-performing loans—Delinquencies greater than 90 days



Source: S&P Global Ratings

Argentina Asset Performance Remains Strong Amid Challenging Conditions

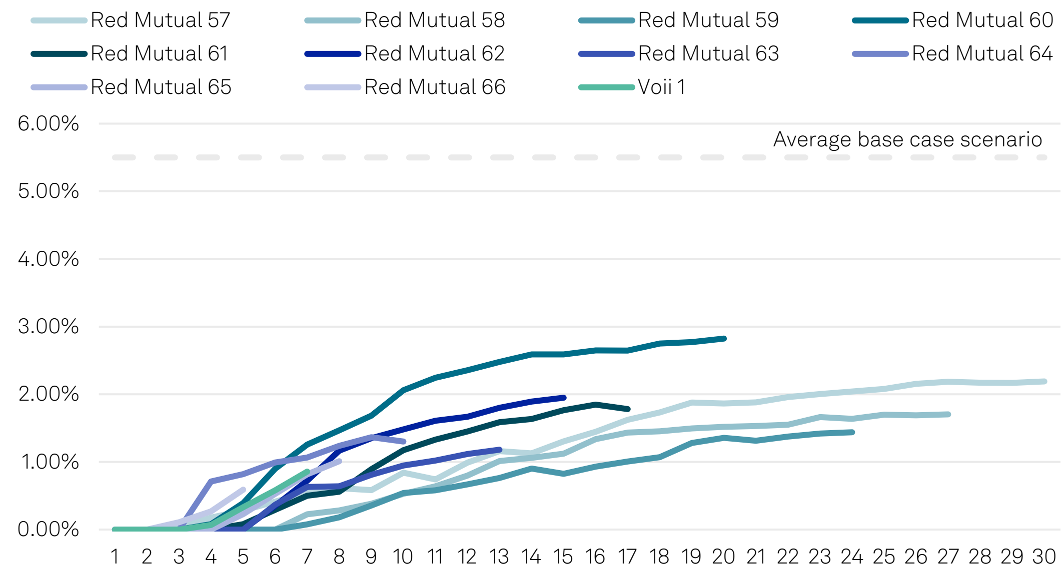
Personal loan performance has been solid and stable during the year despite the macroeconomic challenges. These loans are granted mostly to public employees and are collected through payroll deductions from their salaries.

After the peak of charged-off credits during the COVID-19 pandemic, credit card companies adapted their underwriting standards to only originate to clients with good track records and performance history. In line with this, charged-off credits remain low in Argentina.

Average base case scenario

ABS personal loans--delinquencies greater than 90 days

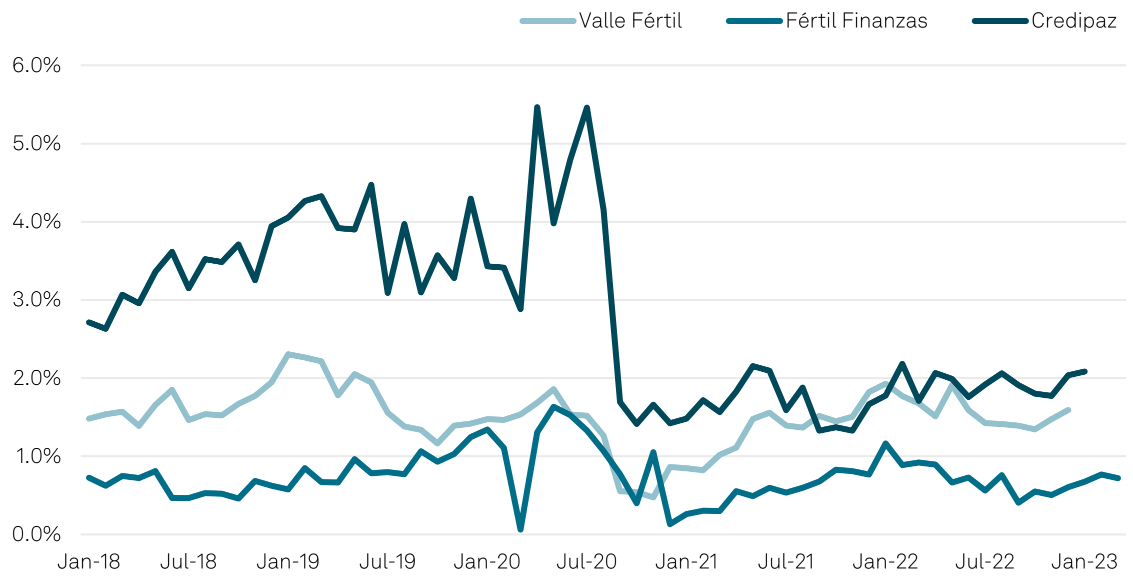
Selected personal loans' outstanding series vis a vis average base case



Source: S&P Global Ratings

ABS credit cards--charged-off credits

Select credit card companies



Source: S&P Global Ratings

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