Bladex (NYSE: BLX)

Q3 2026 Earnings Call Transcript

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Call Participants

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Presentation

Operator
Good morning, ladies and gentlemen, and welcome to the Bladex Third Quarter 2026 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. 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 third quarter of 2026. I will begin with the key highlights. Annette, our CFO, will then take the call to walk you through the financial results in more detail. After that, I will return with an update on strategy and our outlook for the rest of the year. Finally, we will open the call for questions.

This was an outstanding quarter for Bladex. Our commercial portfolio and net interest income both reached new record levels. Also, net interest income grew significantly from a year ago, and we delivered

strong earnings. We did this while maintaining strong credit quality, further improving the portfolio's risk profile as Stage 2 exposures declined and preserve a strong capital position. It is an encouraging combination of financial KPIs as we enter the final part of the year.

Our commercial portfolio reached a record of $15 billion, up 15% from the second quarter and 38% from a year ago. The quarter included a $1 billion 1 year sovereign loan to the Republic of Panama in support of the government's liability management program. This was a onetime opportunity distinct from the transactions we typically originate. There is a sovereign exposure to Panama, which S&P and Moody's rate investment grade with relatively low capital consumptions for its size and the spread well above the sovereign bond curve. This transaction clearly demonstrates our ability to execute at scale, supported by our funding flexibility.

Even excluding that single Panama sovereign loan, loans grew 7% from the second quarter and 29% from a year ago. That growth included trade and working capital financing with established clients as well as medium-term financing for acquisitions and energy projects, mostly in Colombia and Argentina. Needless to say, we have not relaxed our underwriting standards to achieve this growth. Most of the growth this quarter came from the higher-grade segments, where we found attractive arbitrage opportunities. We know the sponsors, we understand the exposures, and we know the risks.

Competition for high-quality assets continue to pressure lending spreads across the region. Latin American assets continue to attract investors' interest, supported by the region's relative distance from major conflicts and its role as a supplier of energy and other commodities. Regional sovereign risk premiums remain near historical lows. Net interest income reached a record of $79.8 million, up 9% from the second quarter and net interest margin rose to 2.30%. It is worth mentioning, however, that this quarter's margin improvement reflected lower funding costs and a temporary benefit from loan prepayments even as lending spreads remain under pressure. Annette will comment more on that shortly.

As planned, deposits continue to grow. Average deposits increased 6% quarter-over-quarter and 22% year-over-year, helping lower our funding costs and supporting margins while the commercial portfolio expanded. Our fee-generating businesses keep making good progress. Noninterest income reached $19.3 million, up 26% from a year ago. Letters of credit generated record quarterly income, supported by stronger trade finance activity, particularly in the commodity sector.

In addition, we completed 4 structured transactions, bringing our total to 13 for the first 9 months of 2026. Our syndication and project finance teams continue to generate strong distribution fees while working closely with our client derivatives teams to provide hedges that help mitigate risk, improve cross-sell and boost client profitability.

Total revenues reached $99.1 million, nearly 20% higher than a year ago. Our efficiency ratio stood at 25.8% for the quarter. Revenue growth is allowing us to advance our strategic initiatives while maintaining cost discipline. With budgeted planned investments underway next quarter, we expect the full year efficiency ratio to move closer to our guidance of 27% for the year. Provision expense increased as a result of portfolio growth and additional reserve coverage on existing Stage 3 exposures, reinforcing our conservative approach to credit risk management. Credit performance remains solid. Net income reached $63.2 million, 15% higher than a year ago and adjusted ROE was 15%. Our Tier 1 ratio ended the quarter at 16.2%. Both our ROE and our capital ratios are at the higher end of the range of our guidance for the year.

In summary, we are pleased with the profitability we delivered this quarter as the business continues to grow and we expect a solid business pipeline for the remainder of the year.

With that overview, let me turn it over to Annette for a closer look at the financial results. Annette, over to you.

Annette van Hoorde de Solís
Executive VP & CFO

Thank you, Jorge, and good morning, everyone. As Jorge highlighted, the third quarter was another strong quarter for Bladex, demonstrating the strength of our balance sheet and our ability to execute at scale.

Turning to our financial performance. Net income reached $63.2 million, up 15% year-over-year. Compared with the second quarter, net income was 5% lower, mainly reflecting the normalization of transaction-driven fee income, higher operating expenses and increased provisions, partially offset by higher net interest income. Return on average assets was 1.8% and adjusted return on equity was 15%, in line with our full year guidance. For the first 9 months of the year, net income totaled $186 million, up 9% year-over-year with a return on average assets of 1.9% and an adjusted return on equity of 15.2%.

Let me now walk you through the key financial drivers behind these results, beginning with the commercial portfolio. The commercial portfolio reached a record $15 billion at quarter end, up 15% from the second quarter and 38% year-over-year. Two factors explain this growth, a landmark sovereign transaction and continued expansion with established top-tier clients in markets and sectors we know well. The Panama sovereign transaction accounted for around half of our commercial portfolio growth during the quarter and includes flexibility for early repayment.

I want to highlight this transaction because it demonstrates 5 strengths of our business model. First, execution capacity, our ability to underwrite and execute large transactions capturing significant market opportunities. Second, asset quality, a short-term exposure to an investment-grade sovereign, consistent with our risk appetite. Third, capital efficiency, relatively low capital consumption under Basel III, generating a very attractive risk-adjusted return on capital. Fourth, funding flexibility, our ability to mobilize funding quickly through our correspondent banking network aligned with the tenor of the transaction. And fifth, earnings, a positive contribution to absolute net interest income despite temporarily diluting reported NIM.

Beyond this transaction, the growth was broad-based across our loan portfolio. Total loans reached $12.3 billion, up 18% quarter-over-quarter and 41% year-over-year. Growth was concentrated primarily in short-term lending, including increased financing requirements associated with higher oil prices and regional trade flows. Medium-term lending also contributed, supported by acquisition financing and energy sector transactions with attractive risk-adjusted returns.

Contingencies reached $2.5 billion, up 5% quarter-over-quarter and 16% year-over-year, supported by letter of credits and commitments, the latter related mainly to project finance and infrastructure. From a geographic perspective, Panama became our largest country exposure at 17%. Excluding the sovereign transaction, Panama would have represented nearly 10%, broadly in line with other major markets such as Colombia and Brazil. Importantly, this growth has not come at the expense of credit quality. Our portfolio remains focused on financial institutions, top-tier corporations and sovereign exposures with 68% scheduled to mature within 1 year, preserving flexibility to reprice and redeploy capital. Looking ahead, excluding the Panama transaction, we expect our full year commercial portfolio growth to be around 25%.

Turning now to asset quality. Credit quality remains strong despite the significant expansion of our portfolio, reflecting our disciplined underwriting standards and proactive credit risk management. At quarter end, 99% of total credit exposure or $16.4 billion was classified as Stage 1 compared with 98.4% in the prior quarter. Stage 2 exposure declined to $82 million or just 0.5% of the portfolio from $162 million in the second quarter, reflecting the sale of one exposure, the scheduled amortizations and credit rating improvements.

Importantly, exposures requiring closer monitoring continue to decline even as our portfolio expands, with no new exposure migrating to impaired status during the quarter. Additionally, Stage 3 exposure remained stable at $75 million, while their share of the credit portfolio declined to 0.4% as the portfolio expanded. Credit provisions for the quarter totaled $10.4 million compared with $8.6 million in the prior quarter. The

additional provisions primarily reflect increased reserve coverage on existing Stage 3 exposures rather than new credit deterioration, together with provisions associated with the portfolio growth.

This is consistent with our proactive credit oversight and prudent provisioning approach. As a result, total reserve coverage of impaired credits increased to 1.4x compared with 1.25x in the prior quarter. Overall, these results reinforce the strength of our credit portfolio and our proactive and prudent approach to credit risk management even as we continue to grow our business.

Turning now to funding. This quarter clearly demonstrates the strength and flexibility of our funding platform. We expanded our balance sheet by $2 billion, supported by a diversified deposit franchise, broad access to international capital markets and a deep network of long-standing correspondent banking relationships. Deposits remain a central pillar of our funding strategy. Average deposits grew 6% quarter-over-quarter and 22% year-over-year, supporting an improved funding mix and more competitive funding spreads.

At quarter end, deposits stood at $7.9 billion, up 16% year-over-year. Our deposit base remains well diversified. Central banks and Class A shareholders accounted for 36% of deposits, corporations, 26%; financial institutions, 23%; brokers, 13% and multilaterals 2%. Yankee CDs continue to perform well with average balances increasing 19% during the quarter, further supporting diversification and the depth of our deposit franchise.

What distinguished this quarter, however, was our ability to leverage our broader funding platform to support significant balance sheet growth. The $1 billion Panama sovereign transaction was mostly funded through short-term facilities from our correspondent banking network aligned with the tenor of the transaction. This demonstrates the depth of our strategic banking relationships and our ability to mobilize substantial funding efficiently.

We also continue to diversify our medium-term funding, raising approximately $450 million across 3 debt programs: a public issuance in Mexico, public offerings in Panama and private placements under our EMTN program. The Mexican issuance also generated additional demand, allowing for a reopening executed during the quarter. Together, these funding capabilities provide diversification across products, maturities, geographies and investor types, giving us the flexibility to support significant business opportunities while maintaining a prudent approach to liquidity and balance sheet management. Regarding liquidity, we maintained a solid and conservative position with nearly $2 billion in liquid assets, representing 12% of total assets, consistent with our internal liquidity risk appetite and regulatory requirements.

Let me now turn to capital. The Basel III Tier 1 ratio ended the quarter at 16.2% compared with 16.6% in the second quarter, remaining above our 15% to 16% operating range. The regulatory capital adequacy ratio under Panama's framework stood at 14.3%, well above the regulatory minimum and consistent with our internal risk appetite. What is important this quarter is what these ratios show.

Loan growth was supported by our available capital with the Tier 1 ratio adjusting by less than 50 basis points. This is because most of the incremental growth came from investment-grade sovereigns and quasi sovereign exposures, which carry a lower capital consumption under Basel III and do not compute under Panama's local methodology. This is consistent with the capital management strategy we outlined following our AT1 issuance, deploying capital selectively into attractive opportunities while preserving financial flexibility. Looking ahead, we expect our Tier 1 ratio to move towards our operating range, supporting continued business growth.

Finally, reflecting our solid earnings performance, the Board approved to maintain a quarterly cash dividend of $0.6875 per share, reinforcing our commitment to shareholder returns while retaining capital to support our growth and protect our investment-grade credit profile.

Moving now to net interest income and margins. Net interest income reached a record of $79.8 million in the third quarter, up 9% from the prior quarter and 18% year-over-year. For the first 9 months, NII totaled

$223 million, up 11% compared with the same period last year. The main driver was volume. Average loan balances increased 8% during the quarter, more than offsetting continued pressure on underlying lending spreads. Net interest margin stood at 2.30% in the quarter, 6 basis points higher than in the second quarter, while net interest spread improved to 1.73%.

Three factors contributed to this improvement. First, the accelerated recognition of deferred fees following early repayments of certain medium-term loans, providing a temporary benefit to lending yields. Second, improved funding spreads supported by continued growth in average deposits and optimization of our funding mix. And third, efficient yet prudent liquidity management, maintaining adequate liquidity levels with our risk appetite.

Importantly, underlying lending spreads remain under pressure, particularly in the highly competitive market for high-quality assets. As for the Panama Sovereign transaction, it was originated during the second half of September, so its impact on the third quarter NIM was limited. In the fourth quarter, its full quarter contribution is expected to temporarily dilute reported NIM while adding meaningfully to absolute NII. We are not managing our business to maximize NIM in isolation.

Our focus remains on generating attractive risk-adjusted returns and sustainable earnings while maintaining strong asset quality. With the significant growth in average earning assets and our strong ending loan portfolio, we entered the fourth quarter with a solid base to sustain strong net interest income generation, supported by our diversified and efficient funding platform.

Let me now turn to noninterest income, which continues to be a key pillar of our revenue diversification strategy. For the first 9 months of the year, noninterest income, excluding the impact of hedging derivatives, reached a record $57.9 million up 19% year-over-year. In the third quarter, noninterest income reached $19 million, up 15% year-over-year, following an exceptionally strong second quarter. Within this total, fees and commissions amounted to $16.3 million. Letter of credits and guarantees generated $9.6 million, their highest historical quarterly level, supported by a strong trade finance activity.

Credit commitments contributed $3.6 million, primarily from project finance transactions and medium-term committed facilities, providing an additional source of stable fee income. Structuring and distribution generated $3.9 million in upfront structuring and syndication fees. During the quarter, we closed 4 transactions across the region, mobilizing $470 million with Bladex retaining $365 million. This financing also created opportunities for Bladex to arrange and distribute longer-term takeout facilities, which we expect to execute between the fourth quarter of 2026 and the first quarter of 2027. Year-to-date, we have completed 13 transactions mobilizing about $2.7 billion.

Client derivatives doubled to $2.6 million in the quarter. These pilot transactions continue to perform well, mainly linked to interest rate hedges on project finance transactions and provide a solid starting point as we prepare to launch our new treasury platform. Overall, noninterest income represented 19% of total revenues, reinforcing the growing contribution of these activities to our business. While these revenues are transactional in nature and may fluctuate between quarters, the breadth of contributions across business lines reflect continued progress in our revenue diversification strategy. And for the full year, we expect noninterest income to be closer to 18% of total revenues.

Turning now to expenses and efficiency. Operating expenses totaled $25.6 million up 7% from the prior quarter. The increase was mainly driven by higher personnel expenses, including specialized talent to support our strategic initiatives and variable compensation reflecting the bank's performance. For the first 9 months of the year, expenses totaled $71.4 million with an efficiency ratio of 25.4%, while the third quarter ratio stood at 25.8% compared with 24.1% in the second quarter.

Looking ahead, we expect operating expenses to increase in the fourth quarter, reflecting the usual seasonality of our business and the timing of planned strategic initiatives, which concentrate certain operating expenses at year-end. Based on our year-to-date performance and expected fourth quarter expenses, we now anticipate a full year efficiency ratio better than our original guidance.

Before I hand the call back to Jorge, let me briefly sum up. We entered the fourth quarter with a solid earning asset base, supporting continued strong net interest income generation. Looking ahead, 2 variables would influence fourth quarter profitability, the timing of transaction-driven fee income and seasonally higher operating expenses as we continue to execute on our strategic initiatives. And as Jorge mentioned, the main market challenge remains the continued pressure on lending spreads. Overall, this quarter shows that we can grow at scale while preserving the asset quality, capital strength and returns that define Bladex.

With that, I'll turn the call back to Jorge.

Jorge L. Salas
Chief Executive Officer

Thank you, Annette. Great job as always. Let me close with a few comments on strategy and execution and our outlook for the rest of the year. Growth in our commercial business and fee income showed that 2 pillars of our plan are delivering results. The third pillar, as you all know, is improving funding costs through transactional services. Almost a dozen of important corporate clients have shown interest in being part of our cash management pilot and expect to onboard them in stages, beginning with basic capabilities early next year.

In the transactional correspondent banking business for cross-border payments, we are close to completing onboarding of our second client and 3 additional institutions have begun the process. We remain firmly on track to ending the year with 3 to 5 correspondent banking clients, consistent with the gradual ramp-up we presented at our Investor Day earlier this year. As we have said, these services will ultimately enable us to capture more of the transactional flows we already finance, strengthening the relationship and activity associated with our existing businesses. Over time, this should also contribute to a more ample and stable funding base with lower costs. We are taking a measured approach to onboarding, ensuring that the necessary services and controls are in place as the business grows.

Now regarding guidance for the year, we expect commercial portfolio growth of around 35%. Excluding the Government of Panama transaction, growth for the year will be around 25%, still significantly above our original guidance of 13% to 15%. Average deposit growth should end the year at around 20%, also above guidance. As we mentioned earlier, because of ample liquidity and increased competition in the region, we expect net interest margin compression of around 5 basis points with NIM ending the year at roughly 2.25%.

The efficiency ratio will be around 27%, slightly better than guidance. We reaffirm our adjusted return on equity guidance of 14% to 15% and our Tier 1 operating range of 15% to 16%. This year's growth pace is exceptional, especially given the one-off Panama transaction. We do not expect to repeat it. Having said that, we do expect to sustain the larger commercial portfolio we have built as individual transactions mature.

Before I finish, let me briefly address our view on Brazil following Sunday's presidential election. The result has brought a pullback in equities and a weaker real, following the gains ahead of the vote. Regardless of Sunday's election outcome, the key challenge for Brazil's next administration will be addressing the fiscal imbalance and put public debt on a sustainable trajectory. Achieving this will require credible fiscal consolidation while navigating a more fragmented Congress. Making consensus building and coalition management will be essential to advancing the necessary reforms.

Brazil has a large, diversified economy and deep financial markets that provide important buffers during periods of uncertainty. In Bladex, we remain comfortable with our exposures in Brazil for 3 main reasons. One, by design, our credits were underwritten to perform well irrespective of this election's outcome. Two, we have been even more cautious in the last few quarters given the sharp increase in corporate defaults in the country. And three, since over 75% of the exposures in the country matures in less than 12 months, we believe we are well positioned to capture any potential repricing upside or even to reduce exposures if market conditions deteriorate. We entered the final quarter with strong momentum. We will

continue to pursue profitable growth, maintain our risk discipline and advance the transactional services that will deepen our client relationships. That concludes our review of the third quarter. Operator, please open the line for questions.

Question and Answer

Operator

Our first question comes from Ricardo Buchpiguel with BTG Pactual.

Ricardo Buchpiguel

Banco BTG Pactual S.A., Research Division

I wanted to ask about 2 topics here. So we continue to see the acceleration in the portfolio growth, now approaching 25% when you exclude the Panama loan. I understand what you mentioned that this growth not necessarily should repeat itself. The 2030 guidance kind of points to a CAGR of around like 10% and the duration of the portfolio is low. But given the stronger activity you have been seeing so far, do you believe at least like 15% in 2027 is something feasible to expect? And to help on that, if you could explain in more details, which loan products have been driving more of this pickup and comment why potentially these loans might not necessarily be renewed and the portfolio growth would decelerate?

And to my second question, you discussed here that one of the challenging aspects of the year was the spread compression we have been seeing given the strong activity on LatAm bonds capital markets. But more recently, we have been seeing that global bond spread has been widening around the world. And I believe we start to see some widening also in LatAm bonds, right, more towards the end of September. So with that, do you believe it could be approaching some sort of inflection point on the spread side?

Jorge L. Salas

Chief Executive Officer

Ricardo, thank you for your 2 questions. Regarding growth in 2027, we are in the process of putting together our budget for next year. So I'm not ready to say what the growth for next year is going to be. I mean, between 13% and 15% looks reasonable, but we will give guidance for next year during next quarter call. As far as the products that have been driving growth, I think they're pretty spread over all our product suite. But maybe, Sam, you can complement on which products have been responsible for growth this year.

Samuel Canineu

Executive Vice President of Business & Chief Commercial Officer

Yes. Just quickly on the growth, I just want to make a comment that I think we have 2 levers, the spreads and the volumes, right, and which we play constantly depending on where the market is. I think our view or my opinion, at least, is that we are in the moment of exuberance in the credit markets in LatAm all across, which we see that spreads are not necessarily reflecting the risk. In that scenario, I think this year, we've been opting to weight more our growth towards short-term exposure, not to trap medium-term capital in low profitability transactions. And of course, meanwhile, we'll continue to deploy our higher value-added products or product initiatives, which helps us to alleviate some of the margin pressure.

We do note that we are -- we see some though we haven't seen, let's say, a much change in demand for medium-term transactions, we've noticed what you mentioned, the slowdown in the DCM transactions, which clearly is a competitor to us and a modest increase in the spreads. If that persists, I think this could be a positive for us, and we are positioned to take advantage of it. And most of the growth you're seeing is on short-term exactly to gain time and to use our balance sheet and not trapped capital and have a good dry powder to absorb this repricing that you mentioned.

We, for example, start seeing possibilities of companies that have bonds maturing mid or end of next year that not necessarily think is a good moment to go to the bond market. Those we're talking about

investment grade or quasi-investment grade companies that have an open access that they just want to delay, and this is a perfect moment to -- for us for bridge to bonds and give them more time, but of course, price accordingly or better than it will be if we would lend them directly in other circumstances.

In terms of product, we are -- for example, we're seeing -- given where the oil prices are, we're seeing very strong demand for trade finance, and we are definitely capturing that. That explains some of the growth in the short-term. We're also seeing still, I would say, good demand for project finance or event-driven transaction or M&A financing. But like Jorge said, I think it's well spread across our various product initiatives.

Jorge L. Salas
Chief Executive Officer

I don't know if that is a sufficient answer for your first question. On spread compression, you're right. I mean spreads in the global bonds have been widening. It's not our base case that we're going to be conservative, most likely going forward. We do see a lot -- as I said before, we do see a lot of demand for Latin American assets. So it could -- there could be upside in spreads in 2027. I mean it's --I think it's too early to predict what's going to happen.

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

That's super clear. One quick follow-up on your revised NIM estimate, are you assuming any increase in the Fed fund rate, or this would be kind of an upside risk for 2026?

Jorge L. Salas
Chief Executive Officer

Annette?

Annette van Hoorde de Solís
Executive VP & CFO

As you know, the bank maintains a relative neutral position in our interest rate gap. So we expect that, yes, the capital benefit that we receive from the interest rate hikes that already happened and may happen in the future will have a gradual effect in our balance sheet as we reprice both the asset and the liability side. However, in the short-term, we'll see an impact initially on the deposits that will be then partially offset at the beginning with the liquidity also repricing. But as in the following weeks and months, then the loans will start to reprice and then that impact will be neutral going forward. But as long as we keep a positive curve on interest rates, that should benefit the bank.

Operator

The next question comes from Daniel Mora with Credicorp Capital.

Daniel Mora
CrediCorp Capital, Research Division

I have a couple of questions. The first one is related to the $1 billion, 1 year transaction with the government of Panama. I would like to understand what is the transaction expected contribution to net interest income and NIM while it remains on the balance sheet and also to understand the impact on NIM, if it is related to the size of the operation of the transaction, the maturity, the yield or, if the impact is coming from the increase in the funding cost given the use of short-term borrowings. That's the first question.

And the second question is also a follow-up on margins. Given the ongoing pressure that you mentioned on U.S. dollar lending spreads and the benefit from the accelerated deferred fee recognition this quarter, what do you consider to be a normalized NIM level, excluding these benefits? And also looking ahead, how sensitive is the need to defer rates and if we could see the benefits coming from a higher for longer interest rates come from the Fed?

Jorge L. Salas
Chief Executive Officer
Let me just give a brief introduction to the first question on the Panama sovereign loan. I mean it's more earnings contribution and capital efficiency than maximizing NIM. It's actually dilutive to our NIM ratio, but the risk-adjusted return on that loan is probably one of the best ones we've had this year. I don't know, do you want to give more details, Annette on...

Annette van Hoorde de Solís
Executive VP & CFO
I think it's clear. The transaction -- it does have a very high RAROC in our own calculations. As you mentioned, it is due mainly to the fact that this is a short-term exposure to an investment-grade sovereign. Therefore, it consumes very low capital and the credit cost associated with the transaction is very low. As you mentioned, it was funded very efficiently in a much thinner through our correspondent banking network. So this is already reflected in the RAROC that it represents.

And as we move forward to the fourth quarter, we do see an impact in the NIM since this transaction was closed towards the end of September, the impact that we see in the NIM this quarter was limited. So as we move forward to this fourth quarter, the impact will be a little bit higher diluting the NIM a little bit. However, the significant benefit that we will have in the NII will be important as well.

Jorge L. Salas
Chief Executive Officer
And then regarding the second question on NIM, I think we already -- we're targeting 2.25%, we're already -- today, we're at 2.30% NIM, we think we'll close the year at 2.25% for the year, but we are seeing pressures on net interest margin. I mean the way to go around is to simply gather more deposits. Deposits, as you saw, are growing substantially. I don't know, Annette, if you want to -- and we do expect that -- obviously, as Annette said before, any rate hikes, potential rate hikes will benefit our net interest margin.

Annette van Hoorde de Solís
Executive VP & CFO
And I think we already provided the guidance for the growth of deposits. We do expect the growth of deposits to be around 20% this year. So we will be complementing the -- supporting the growth of the portfolio going forward, although -- I mean, the growth for the fourth quarter is a little -- a lot more normalized than the one that we saw during the third quarter. This will be supported by a mix of different funding sources as we move forward.

Operator
Our next questions are written questions from Juan Soto, Bancolombia. What level of total allowances for losses on impaired credit do you expect to reach over the medium term? Given your intention to increase this ratio, should we expect a substantial increase in the impairment losses to achieve the target?

Jorge L. Salas
Chief Executive Officer
No, I mean, our cost of risk has been very stable. It's probably, as you know, 20 basis points per year, and we expect to project that going forward. So we are not expecting a substantial increase in impairment losses to achieve the target. I mean it averages out, right? So it's -- it will be 20 basis points. That's our base case going forward. And it'll probably be what we're going to assume for next year's projections as well.

Operator
Next question comes from Andres Soto with Santander.

Andres Soto
Santander Investment Securities Inc., Research Division
I have a few questions. The first one is regarding your NIM evolution this quarter. In the release, you mentioned the 6 basis points expansion was held by some recognition of deferred fees from some prepayments. You have also mentioned that this Panama transaction is going to put pressure into NIM for the fourth quarter. So can you help us better understand what is going to be the NIM trajectory going into the fourth quarter? How big is the compression considering the reversal of this one-off that you had in the third quarter plus the NIM pressure that you are seeing coming from the Panama transaction?

Jorge L. Salas
Chief Executive Officer
Okay. So yes. So this is the prepayments and the accounting treatment under IFRS, I'm going to let Annette explain. But we are seeing pressure, as I've said a couple of times before. Do you want to...

Annette van Hoorde de Solís
Executive VP & CFO
Sure. Andres, I think we've partially answered this, but we'll try to be as thorough as possible to address your question. So as we mentioned during the call, there have been different factors that helped the NIM improve during the third quarter. An important one was the efficient management of our liquidity levels, keeping them within our internal risk appetite and obviously complying with regulatory minimum. That was an important part of the improvement in the NIM. Also a slight improvement in funding spreads given that the average deposit balances were higher than in the second quarter that also helped the NIM in the third quarter.

And another important factor was the acceleration of amortized fees. Under IFRS, when you -- the fact that you receive payments upfront doesn't mean that they are recognized upfront accounting-wise. So when -- in general terms, when fees are associated with the origination of a loan that we retain solely in our balance sheet, these are paid upfront, but amortized during the life of the transaction, recognized as part of the net interest income.

And when we carry a lead role or when we arrange or syndicate a transaction, that's when the fees can be recognized upfront. Once that service is completed, given that the transaction is completed, that's when we recognize. So that's the kind of the difference. And some of the transactions that we have in the balance sheet have a combination of both. And that's when some of these medium-term transactions that are prepaid, the remainder of the fees that are not yet amortized, those are the ones that are accelerated, providing a temporary increase in our net interest income.

However, it is important to mention that the normal course of our loan portfolio does have recurrent prepayments from our clients. But this quarter, we did have an increase on prepayments that was about 2 to 3x higher than what we have seen in prior periods. So that was -- we decided to mention it in the call that the NIM was affected by 3 different factors, not only by liquidity and funding as it usually is. And obviously, tighter margins. That was the kind of the negative impact that we saw in the NIM. I don't know if I finished answering the question, Andres, or I don't know if I left something out.

Andres Soto
Santander Investment Securities Inc., Research Division
No. I was just trying to get a sense of magnitude of the 6 basis points, yes.

Annette van Hoorde de Solís
Executive VP & CFO
Yes. I mean, like I said, most of the impact comes from liquidity. The prepayment does help the NIM. The prepayments were higher this quarter than in prior quarters, and we keep seeing pressure on margins. So I think those are the main conclusions for the third quarter. Going -- looking forward to the fourth quarter, as I mentioned before, the Panama transaction was closed towards the second half of September. It will

have an important impact in the dilution of the NIM, but it will also have an important increase in our net interest income. And that's already in our guidance for the year.

Jorge L. Salas
Chief Executive Officer
It's probably worth mentioning that the Panama transaction allows for -- it could be prepaid. And in that case, it will also accelerate the fees.

Andres Soto
Santander Investment Securities Inc., Research Division
And on that specific transaction, is there any tax implication? Because I understand the fact that you are tax-exempt for as long as you don't do business within Panama. Does this transaction changes that?

Annette van Hoorde de Solís
Executive VP & CFO
No, there are no tax implications with that transaction.

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
All right. So thank you, everybody, for connecting and for your questions. Looking forward to a strong end of 2026 and see you in the next call. Goodbye.

Operator
This concludes today's conference call. You may now disconnect.