S&P Global Ratings

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Multibank Inc. y Subsidiarias

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Multibank Inc. y Subsidiarias

SACP	bbb-	+	Support	-1	+	Additional Factors	0

Anchor	bbb-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BB+/Stable/B

Credit Highlights

Key strengths	Key risks
Core subsidiary of Banco de Bogota.	Pressures on its adequate risk-adjusted capital (RAC) ratio due to redemption of preferred stocks and lower profitability.
Diversified funding structure and manageable short-term obligations.	Weakening asset quality metrics due to economic uncertainty from the COVID-19 pandemic.
	High competition in the Panamanian banking system could further pressure net interest margins (NIMs).

We expect Multibank's risk-adjusted capital (RAC) ratio to be about 7.6% in 2021-2022. The bank's total adjusted capital (TAC) significantly decreased last year, mainly due to the redemption of preferred stocks and negative bottom-line results because of one-time events.

We forecast asset quality metrics to weaken this year. Even though they should still be manageable, we expect the challenging business conditions for the Panamanian banking industry to be reflected in the bank's weaker asset quality metrics for the rest of the year.

In our opinion, Multibank will continue to playing an important role in its parent's geographic diversification strategy. Our ratings on Multibank reflect its strategic importance toward its parent, Banco de Bogota (BB+/Stable/B), and its position as the second largest financial group in Panama. Therefore, we equalize our ratings on it with those on Banco de Bogota, based on Multibank's core group status.

Outlook: Stable

Multibank's stable outlook mirrors that on its parent and our expectation that the bank will continue to be a core subsidiary of Banco de Bogota in the next 12-18 months. It also incorporates that Multibank will operate in the same business lines as its parent and will increase its presence in Panama and consolidate its leading position in Central America.

Downside scenario

We could downgrade Multibank in the next 12-18 months if we take a similar action on its parent.

Upside scenario

An upgrade of Multibank would follow a similar action on its parent. However, we consider this unlikely given the stable outlook on Banco de Bogota.

Key Metrics

Multibank Inc. y Subsidiarias--Key Ratios And Forecasts					
	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	(2.9)	(20.8)	12.5-15.5	11.0-13.5	4.0-6.0
Growth in customer loans	0.4	(8.9)	9.5-11.5	4.0-6.0	4.0-6.0
Growth in total assets	(3.2)	2.9	6.0-7.5	3.0-4.0	3.5-4.5
Net interest income/average earning assets (NIM)	2.6	2.1	2.0-2.5	2.0-2.5	2.0-2.5
Cost to income ratio	53.7	62.9	52.0-56.0	51.0-55.0	52.5-56.5
Return on average common equity	9.2	(5.1)	1.5-3.0	6.0-8.5	8.5-12.5
Return on assets	1.0	(0.5)	0.0-0.5	0.4-0.8	0.7-1.3
New loan loss provisions/average customer loans	0.7	2.5	2.0-1.6	1.0-1.5	0.5-1.0
Gross nonperforming assets/customer loans	2.0	2.8	3.0-4.0	2.5-3.5	2.0-3.0
Net charge-offs/average customer loans	0.5	2.1	1.0-2.0	0.0-1.0	0.0-1.0
Risk-adjusted capital ratio	12.0	8.2	7.0-8.0	7.25-8.25	7.5-8.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. N/A--Not applicable.

Anchor: 'bbb-' For Banks Operating In Panama

The anchor--or starting point for our ratings--for banks operating, or with a majority exposure, in Panama is 'bbb-', reflecting our view of economic and industry risks. Our economic risk trend for Panama's Banking Industry Country Risk Assessment (BICRA) is negative, reflecting a one-in-three likelihood that our economic risk assessment on the Panamanian banking sector could worsen. This is because the pandemic's blow to the sovereign's economy has been significant—we don't expect GDP per capita to return to pre-pandemic levels until 2024--and this could hurt the payment capacity of banks' customers and affect banks' asset quality.

The pandemic has weighed heavily on Panama's economy, which contracted by 17.9% in real terms in 2020, the steepest decline in the region and among the most severe globally. We expect only a partial economic recovery of 9.0% in 2021 because of the carryover effect, amid global economic growth. Growth in Panama will largely stem from copper exports, higher revenues from the Panama Canal, and a pickup in private consumption. However, uncertainty is elevated due to persistent risks related to the pandemic, and we assume only a moderate recovery in investment.

To address the economic impact of COVID-19, the regulator allowed banks to undertake loan relief programs until June 30, 2021, with a three-month extension for additional restructures. It also allowed banks to use the accumulated dynamic provisioning and to create a generic provision equivalent to 3% of the gross balance of the modified loan portfolio. About 20% of the system's credits still benefit from these measures. As a result of the difficult economic conditions, credit growth contracted 2.2% in 2020, and we expect a gradual recovery with credit growing 2.0% in 2021 and 4.0% in 2022.

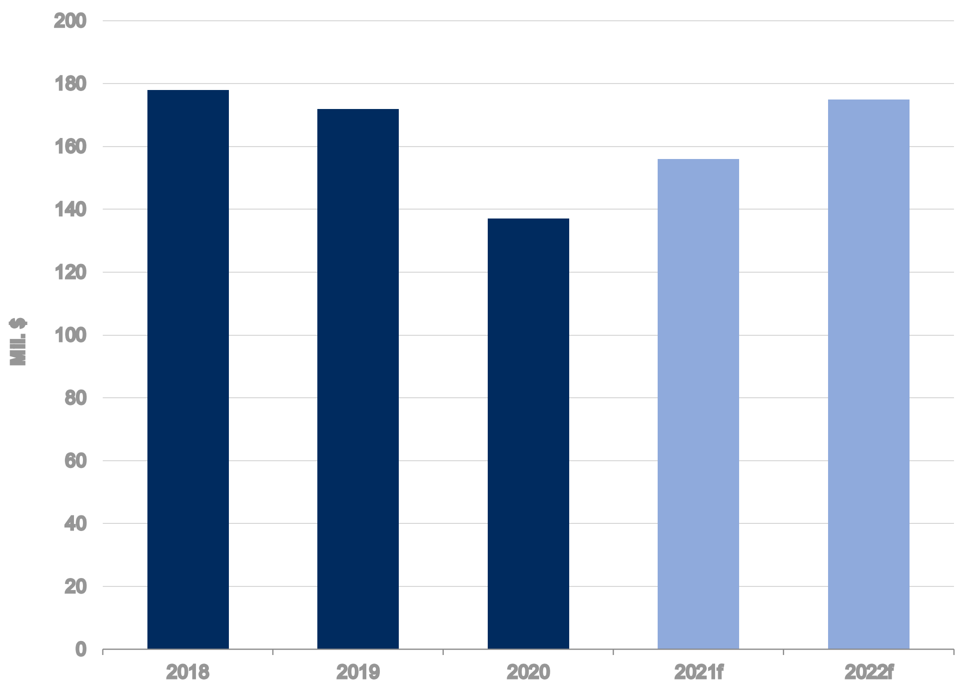
In our view, the persistent downside risks related to the pandemic could significantly damage banks' asset quality, profitability, and capital levels in the next 12 months. We expect credit losses to peak at 1.7% in 2021 and nonperforming assets (NPAs) at 3.7%, from credit losses of 0.6% and NPAs of 2.0% in 2020. In our view, all these factors could reduce the payment capacity in the country and raise the credit risk in the economy, which could lead us to negatively revise our economic risk assessment in Panama's BICRA.

Business Position: A Well-Diversified Business And Stable Operating Revenue

In our view, Multibank has well-diversified business operations, relatively stable operating revenues, and an experienced management team; all supporting its business position. Nevertheless, due to the Panama's economic contraction in 2020, the bank's operating revenue dropped 23% due to a shrinking loan portfolio and pressures on its net interest margin. However, we expect the bank's diversification, with a significant presence in the commercial and mortgage segments will allow the bank to recover its pre-pandemic operating revenue level by end of 2022. We consider Multibank's loan portfolio will grow 10.4% in 2021 and 5.0% in 2022, mainly in those two segments. For instance, as of March 2021, commercial loans represented 53% of total portfolio, followed by consumer with 23%, mortgages with 23%, and other loans 1%.

Chart 2

Multibank's Operating Revenues



f--S&P Forecast. Source: Superintendencia de Bancos de Panamá.

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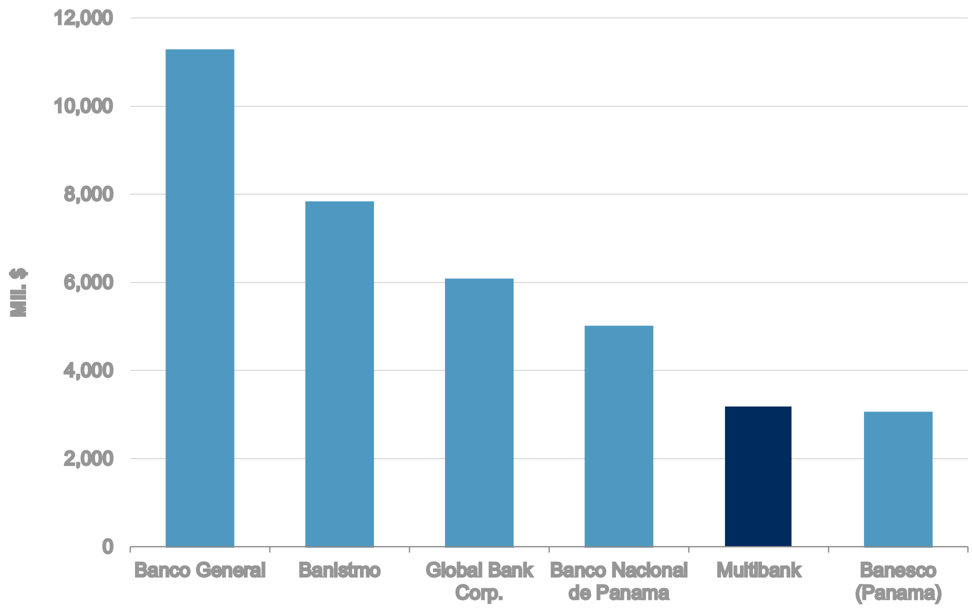
Finally, we expect the bank will continue to expand its business, supported by Banco de Bogota's strong brand recognition and reputation. We think Multibank will replicate the parent's good practices, such as risk control procedures and reducing expenses by creating synergies with other entities in the group.

Chart 3

Loan Portfolio Peer Comparison
Data as of March 2021



Source: Superintendencia de Bancos de Panamá.

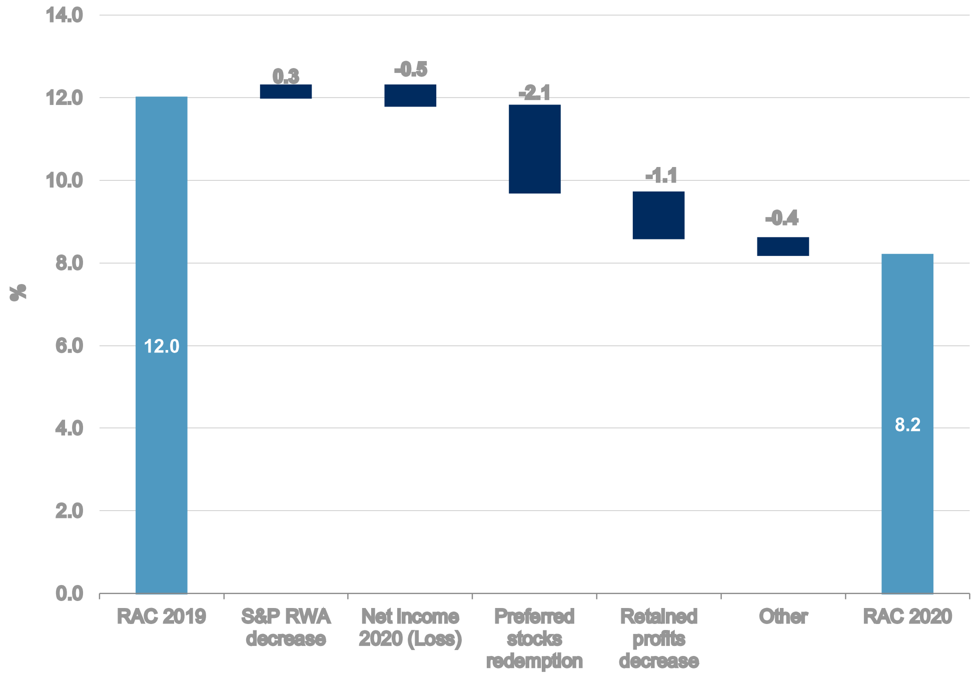
Capital And Earnings: Risk-Adjusted Capital (RAC) Ratio Of About 7.6% In 2021-2022

Multibank's capitalization levels diminished significantly last year, mainly due to the redemption of preferred stocks coupled with negative bottom-line results because of one-time events.

In this context, the bank's total adjusted capital (TAC) decreased 33% in 2020 while its risk-weighted assets remained flat. This in turn decreased the bank's RAC ratio to 8% from our previous expectation of 10% for 2020. The reduction in its TAC is mainly explained by the redemption of preferred stocks for $102 million, last year's bottom-line losses of nearly $23 million, and lower retained profits of $48 million stemming from the splitting of its Colombian subsidiary.

Chart 4

RAC Ratio
2019 versus 2020



RAC--Risk-adjusted capital. RWA--Risk-weighted assets. Source: S&P Global Ratings.
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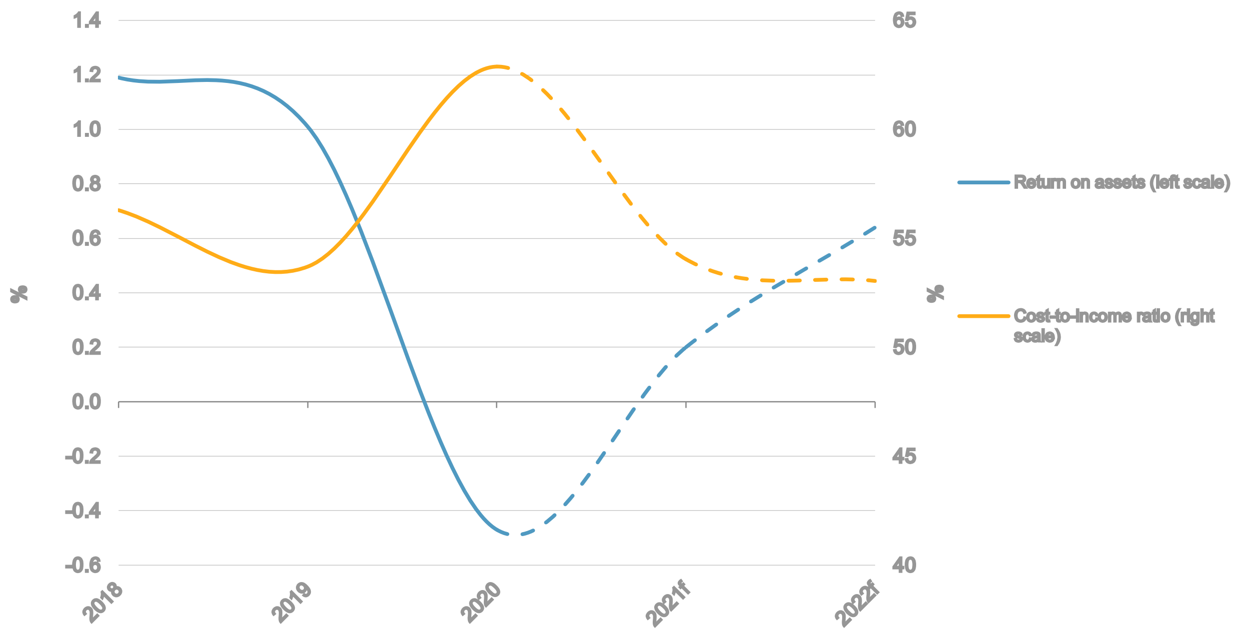
For the next two years, we forecast an average RAC ratio of 7.6%, supported by high single-digit loan portfolio growth and slightly better internal capital generation. Therefore, we revised our assessment of Multibank's capital and earnings to adequate from strong. Finally, the bank's RAC ratio could be pressured if Panama's economic risk worsens. The latter would increase our risk-weighted assets and in turn decrease our RAC ratio.

On the other hand, we think profitability will gradually improve in 2022 due to lower credit loss provisions and increasing net interest margins. At year-end 2020, Multibank reported a loss of $23 million, mainly because of one-time expenses, higher credit loss provisions due to weakening asset quality, tighter margins, and lower fees and commissions. We expect it to recover to its pre-pandemic profitability in 2023 due to challenging business conditions for the Panamanian banking industry. We forecast an average net income of $22 million and a return on adjusted assets (ROAA) between 0.4%-0.6% for 2021-2022, reflecting that its operating revenues will grow due to loan portfolio growth, slightly higher net interest margins, and lower credit loss provisions.

Chart 6

Multibank's Profitability Metrics



f--Forecast. Source: S&P Global Ratings.

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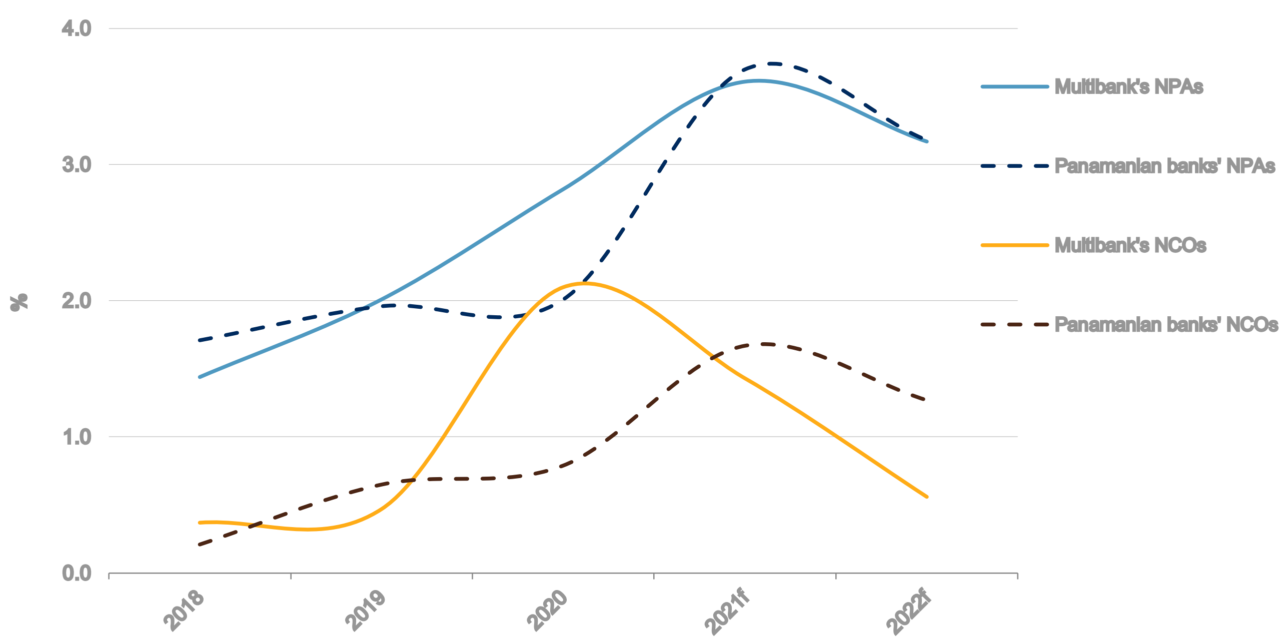
Risk Position: Asset Quality To Weaken In 2021 And Gradually Improve In 2022-2023

We think the continued effects of the COVID-19 pandemic will damage Multibank's asset quality metrics in the next 18 months. The effects include the severe economic downturn of 2020, which was reflected in the domestic decline in demand and the hit to companies' and households' income capacity. To address the economic impact of COVID-19, the regulator allowed banks to undertake loan relief programs until June 30, 2021, with a three-month extension for additional restructures. As of June 2021, 29% of Multibank's total loans were under the forbearance measures ("creditos modificados"), compared with close to 40% at the end of last year.

We expect the bank will continue reducing the share of loans under the relief program, especially in sectors such as corporate and construction; however, the level of loans under the relief programs will remain high compared with other banks we rate in the region, and some clients will not recover. In this context, we expect the NPAs to reach up to 3.6% and net charge-offs (NCOs) to 1.4% in 2021-2022 from the three-year averages of 2.1% and 0.4%, respectively. However, we consider these levels as still manageable and in line with our forecast for the Panamanian banking industry. Finally, we expect the bank's loan portfolio to remain well balanced across sectors, with no above-average concentration in riskier segments (such as construction, tourism, and entertainment) and in line with the Panamanian system.

Chart 7

Asset Quality Comparison



NPA--Non performing assets. f-S&P Forecast. Source: S&P Global Ratings.
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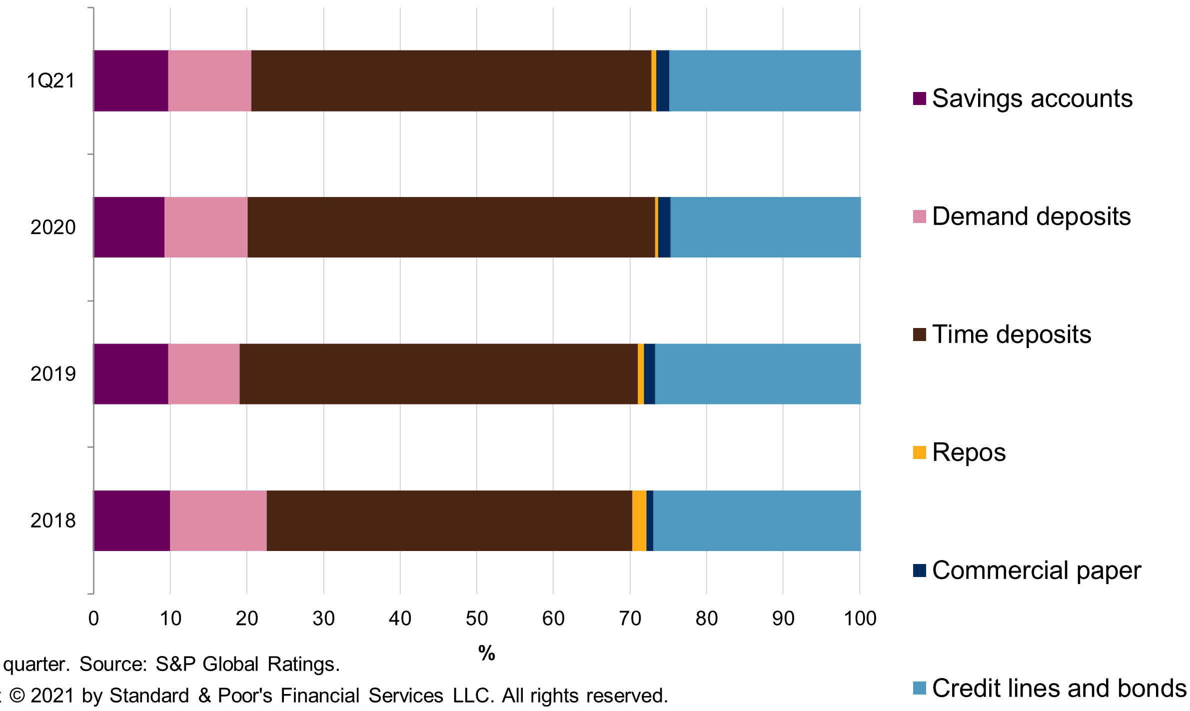
Funding And Liquidity: A Diversified Funding Structure With A Large Deposit Base And Comfortable Liquidity Position

The bank's funding assessment continues to be underpinned by its diversified funding structure, with a broad deposit base and access to international markets. Additionally, the company was able to grow its deposit base 8.4% year-on-year as of the end of March 2021 amid the economic downturn due to clients' contained expenses and increased savings deposits. As of March 2021, Multibank's funding was composed by deposits (73%), credit lines and bonds (25%), and commercial paper and repos (2%). The bank's stable funding ratio was 115%, above its three-year average of 105% and in line with the Panamanian banking system's ratio of 116%. We expect the management will continue its broader funding mix strategy, focusing primarily on customer deposits.

Multibank's liquidity assessment reflects a comfortable maturity profile with modest short-term liquidity needs, which translates into low refinancing risk amid economic turmoil. The bank's broad liquid assets cover in excess its wholesale maturities for the next 12 months, given that the latter dropped to almost zero. However, we expect this trend will return to its historical average of 2x once the bank grows its short-term maturities.

Chart 8

Multibank's Funding Mix



1Q--First quarter. Source: S&P Global Ratings.

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Support: Multibank Is Key For Its Parent's Growth In Panama And For Strengthening Its Leading Position In The Region

Our ratings on Multibank reflect its strategic importance toward its parent, Banco de Bogota, and its position as the second largest financial group in Panama. We expect Multibank will continue representing a relevant proportion of its parent's total assets, loans, and deposits. Therefore, we equalize our ratings on it with those on Banco de Bogota's, based on its core group status.

Environmental, Social, And Governance (ESG)

We view ESG factors as having a neutral influence on Multibank's credit quality compared with its peers and the largest banks in Latin America. The bank's experienced management has resulted in relatively stable operating revenues, despite high competition and the country's regulatory and reputational challenges. Its anti-money laundering policy has been a key element in its corporate governance framework. Social and environmental factors have gained importance for Multibank. In our view, they're relevant for its long-term strategy, but they don't influence its credit quality more than they do that of its peers.

Key Statistics

Table 1

Multibank Inc. y Subsidiarias--Key Figures

	--Year ended Dec. 31--				
(Mil. PAB)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	4,828.2	4,876.8	4,738.8	4,894.3	4,682.9
Customer loans (gross)	3,175.5	3,132.4	3,437.7	3,424.8	3,166.4
Adjusted common equity	393.4	389.0	487.1	452.7	415.9
Operating revenues	32.5	136.6	172.5	177.6	169.9
Noninterest expenses	19.2	85.9	92.6	100.0	88.2
Core earnings	4.4	20.1	48.5	56.9	58.3

*Data as of March 31. PAB--Panama balboa.

Table 2

Multibank Inc. y Subsidiarias--Business Position

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	32.5	136.6	172.5	177.6	169.9
Commercial & retail banking/total revenues from business line	83.1	66.6	80.3	88.7	96.4
Trading and sales income/total revenues from business line	16.0	13.8	6.3	6.4	2.6
Other revenues/total revenues from business line	0.9	19.6	13.3	4.9	1.1
Investment banking/total revenues from business line	16.0	13.8	6.3	6.4	2.6
Return on average common equity	4.3	(5.1)	9.2	12.4	14.3

*Data as of March 31.

Table 3

Multibank Inc. y Subsidiarias--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	13.9	14.7	18.4	16.1	15.7
S&P Global Ratings' RAC ratio before diversification	N/A	8.2	12.0	9.9	10.3
S&P Global Ratings' RAC ratio after diversification	N/A	6.0	8.9	7.4	7.9
Adjusted common equity/total adjusted capital	98.0	98.0	81.6	80.5	79.1
Net interest income/operating revenues	72.3	66.6	67.7	73.4	77.2
Fee income/operating revenues	10.8	12.0	12.7	15.3	19.1
Market-sensitive income/operating revenues	16.0	13.8	6.3	6.4	2.6
Cost to income ratio	59.1	62.9	53.7	56.3	51.9
Preprovision operating income/average assets	1.1	1.1	1.7	1.6	1.8

Table 3

Multibank Inc. y Subsidiarias--Capital And Earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core earnings/average managed assets	0.4	0.4	1.0	1.2	1.3

*Data as of March 31. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Multibank Inc. y Subsidiarias--Risk Position					
	--Year ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Growth in customer loans	5.5	(8.9)	0.4	8.2	7.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	36.4	35.2	34.8	29.9
Total managed assets/adjusted common equity (x)	12.3	12.5	9.7	10.8	11.3
New loan loss provisions/average customer loans	1.1	2.5	0.7	0.3	0.4
Net charge-offs/average customer loans	0.8	2.1	0.5	0.4	0.4
Gross nonperforming assets/customer loans + other real estate owned	2.3	2.8	2.0	1.4	1.0
Loan loss reserves/gross nonperforming assets	70.6	56.0	79.0	90.9	99.6

*Data as of March 31. N/A--Not applicable.

Table 5

Multibank Inc. y Subsidiarias--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	2021*	2020	2019	2018	2017
Core deposits/funding base	72.9	73.4	71.2	70.4	70.4
Customer loans (net)/customer deposits	103.8	102.3	122.2	116.8	111.9
Long-term funding ratio	99.4	99.6	94.4	90.5	89.9
Stable funding ratio	114.7	114.2	102.5	100.0	102.5
Short-term wholesale funding/funding base	0.7	0.4	6.4	10.8	11.4
Broad liquid assets/short-term wholesale funding (x)	33.4	58.4	2.5	1.6	1.7
Short-term wholesale funding/total wholesale funding	2.4	1.5	20.2	33.3	35.2

*Data as of March 31.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	**5**	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	**bbb-**	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 29, 2021)*	
Multibank Inc. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Issuer Credit Ratings History	
26-May-2020	BB+/Stable/B
01-Nov-2019	BBB/Watch Neg/A-2
30-Oct-2019	BBB/Stable/A-2
18-Dec-2018	BBB-/Positive/A-3
22-Jun-2017	BBB-/Stable/A-3
28-Oct-2016	BBB-/Negative/A-3
Sovereign Rating	
Panama	BBB/Negative/A-2
Related Entities	
BAC International Bank Inc.	
Issuer Credit Rating	BB+/Watch Pos/B
Banco de Bogota S.A. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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