S&P Global Ratings

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Update: Multibank Inc. y Subsidiarias

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Ratings Score Snapshot

Issuer Credit Rating
BB+/Stable/B

SACP: bbb- → **Support: -1** → **Additional factors: 0**

Anchor	bbb-	
Business position	Adequate	0
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	-1
Sovereign support	0

Issuer credit rating
BB+/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Well-diversified business operations that support revenue stability.	Pressures on its risk-adjusted capital (RAC) ratio due to Panama's negative economic risk trend.
Diversified funding structure mostly based on pulverized deposits and manageable short-term obligations.	Stiff competition among Panamanian banks amid the modest economic rebound.
Support from parent Banco de Bogota, if needed.	

The bank will continue to be a key growth tool for its parent company in the region. We believe that Multibank will be key to Banco de Bogota's (BB+/Stable/B) long-term strategy in Central America, because Panama is an important market for development and growth in the region. We also consider that Multibank's operations are highly integrated with those of its parent company, so it could benefit from solid support through funding and even capital injections, if necessary. In this sense, we think that its parent company would provide support under any foreseeable circumstances, including an adverse economic scenario.

We expect loan portfolio growth of about 5% on average for 2022-2023, supporting rising operating revenues. In our opinion, Multibank's modest portfolio loan growth--about 5%--and higher net interest income will allow the bank to gradually return to its pre-pandemic level of operating revenues by the end of this year. In addition, its solid market position--mainly in the commercial and mortgage segments--will enable the bank to keep its revenues stable. We expect operating revenues will grow at about 8% per year for the next 24 months. Furthermore, we don't expect significant changes in its business mix; we anticipate management will remain focused on its areas of expertise, even after Multibank's acquisition by Banco de Bogota. Therefore, we expect that commercial loans will represent about

50% of the total loan portfolio, followed by consumer and mortgages making up about 25% each.

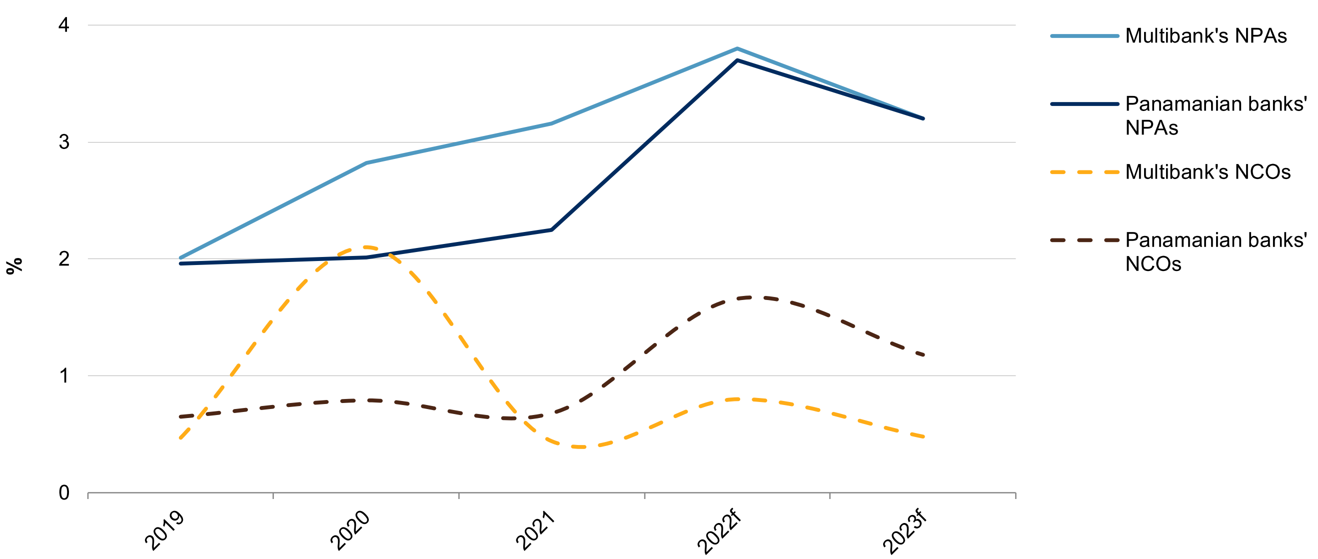
We expect profitability to gradually recover due to lower provisioning. In our opinion, profitability will gradually improve in 2022 due to lower credit loss provisions and increasing net interest margins and fees and commissions. However, we expect profitability not to reach pre-pandemic levels until after 2023 due to still challenging business conditions for the Panamanian banking industry. We expect core earnings to average adjusted assets (ROAA) of 0.7% on average for 2022-2023 compared to the 1.0% Multibank reported at year-end 2019.

On the other hand, we forecast a RAC ratio of 7.8% on average for the next 24 months, supported by higher internal capital generation and modest loan portfolio growth. However, these capital levels might tighten if Panama's Banking Industry Country Risk Assessment's (BICRA) negative economic risk trend materializes. The latter would result in higher risk-weighted assets (RWA) under our risk-adjusted capital framework, pressuring Multibank's RAC ratio, but it would stay within the current assessment.

Still high proportion of loans under relief programs, which could squeeze asset quality metrics in 2022. Multibank still has a notable amount of relief loans --22% of total loans as of December 2021--with the majority of them ending during 2022. In our view, this could weaken the bank's asset quality metrics because some clients will not be able to recover from the pandemic. Therefore, we forecast that our nonperforming assets (NPAs) ratio will increase to 3.8% in 2022, and then gradually recover to near 3.2% in 2023. In addition, we expect our credit loss ratio to be less than 1%, while the bank maintains a coverage ratio above 75% during the same timeframe. We believe these figures will be in line with our expectations for the Panamanian banking system and will remain manageable.

Chart 1

Asset Quality Comparison
As of December 2021



NPAs--Nonperforming assets. NCOs--Net charge-offs. f--Forecast. Source: S&P Global Ratings.

The ample and sticky deposit base will support a stable funding structure and a comfortable maturity profile. In our opinion, Multibank's funding structure will continue to be a credit strength and will focus on deposit growth, which we expect to represent about 70% of the total funding base. In addition, we view deposits as more stable funding source during adverse market and economic situations. This, coupled with ample access to the international debt markets and interbank lines, will support the bank's business growth in the coming years. In addition, the bank's liquidity position will be underpinned by a comfortable debt maturity profile with modest short-term liquidity needs that translates into low refinancing risk amid global uncertainties. We forecast that the bank's broad liquid assets will cover in excess its wholesale maturities for the next 12 months.

Outlook

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

Downside scenario

We could lower the ratings in the next 12 months if we take a similar action on its parent.

Upside scenario

We could raise the ratings in the next 12 months if we upgrade the 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**	**2021a**	**2022f**	**2023f**
Growth in operating revenue (%)	(2.9)	(20.8)	4.1	10.0-12.0	4.0-6.0
Growth in customer loans (%)	0.4	(8.9)	8.5	4.0-6.0	4.0-6.0
Growth in total assets (%)	(3.2)	2.9	(0.0)	3.0-5.0	3.0-5.0
Net interest income/average earning assets (NIM) (%)	2.6	2.1	2.2	2.2-2.6	2.2-2.6
Cost to income ratio (%)	53.7	62.9	59.1	53.0-56.0	54.0-57.0
Return on equity (%)	9.2	(5.1)	3.7	6.0-8.0	9.0-11.0
Return on assets (%)	1.0	(0.5)	0.3	0.5-0.7	0.7-0.9
New loan loss provisions/average customer loans (%)	0.7	2.5	1.3	1.1-1.7	0.5-1.1
Gross nonperforming assets/customer loans (%)	2.0	2.8	3.2	3.5-3.8	3.0-3.3
Net charge-offs/average customer loans (%)	0.5	2.1	0.4	0.6-1.0	0.3-0.7
Risk-adjusted capital ratio (%)	12.0	8.2	N/A	7.4-7.8	7.7-8.1

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Key Statistics

Table 1

Multibank Inc. y Subsidiarias--Key Figures

	--Year ended Dec. 31--				
(Mil. PAB)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	4,875.7	4,876.8	4,738.8	4,894.3	4,682.9
Customer loans (gross)	3,399.5	3,132.4	3,437.7	3,424.8	3,166.4
Adjusted common equity	397.1	389.0	487.1	452.7	415.9
Operating revenues	142.2	136.6	172.5	177.6	169.9
Noninterest expenses	84.1	85.9	92.6	100.0	88.2
Core earnings	15.2	20.1	48.5	56.9	58.3

PAB--Panamanian 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)	142.2	136.6	172.5	177.6	169.9
Commercial & retail banking/total revenues from business line	82.9	66.6	80.3	88.7	96.4
Trading and sales income/total revenues from business line	10.8	13.8	6.3	6.4	2.6
Other revenues/total revenues from business line	6.3	19.6	13.3	4.9	1.1
Investment banking/total revenues from business line	10.8	13.8	6.3	6.4	2.6
Return on average common equity	3.7	(5.1)	9.2	12.4	14.3

Table 3

Multibank Inc. y Subsidiarias--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	13.3	14.7	18.4	16.1	15.7
S&P Global Ratings' RAC ratio before diversification	N/A	8.2	12.0	9.9	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	6.0	8.9	7.4	N/A
Adjusted common equity/total adjusted capital	100.0	98.0	81.6	80.5	79.1

Table 3

Multibank Inc. y Subsidiarias--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Net interest income/operating revenues	69.7	66.6	67.7	73.4	77.2
Fee income/operating revenues	13.2	12.0	12.7	15.3	19.1
Market-sensitive income/operating revenues	5.0	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	1.2	1.1	1.7	1.6	1.8
Core earnings/average managed assets	0.3	(0.5)	1.0	1.2	1.3

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Multibank Inc. y Subsidiarias--Risk Position

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	8.5	(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	N/A
Total managed assets/adjusted common equity (x)	12.3	12.5	9.7	10.8	11.3
New loan loss provisions/average customer loans	1.3	2.5	0.7	0.3	0.4
Net charge-offs/average customer loans	0.4	2.1	0.5	0.4	0.4
Gross nonperforming assets/customer loans + other real estate owned	3.2	2.8	2.0	1.4	1.0
Loan loss reserves/gross nonperforming assets	73.0	56.0	79.0	90.9	99.6

N/A--Not applicable. RWA--Risk-weighted assets.

Table 5

Multibank Inc. y Subsidiarias--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	68.8	73.4	71.2	70.4	70.4
Customer loans (net)/customer deposits	112.7	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	115.1	114.2	102.5	100.0	102.5
Short-term wholesale funding/funding base	0.6	0.4	6.4	10.8	11.4
Broad liquid assets/short-term wholesale funding (x)	31.8	58.4	2.5	1.6	1.7
Broad liquid assets/total assets	17.1	19.2	13.4	14.7	16.8
Broad liquid assets/customer deposits	28.3	31.1	22.9	24.9	28.2
Short-term wholesale funding/total wholesale funding	2.0	1.5	20.2	33.3	35.2

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of April 5, 2022)*	
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
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.