S&P Global
Ratings

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Multibank Inc. y Subsidiarias

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Multibank Inc. y Subsidiarias

Ratings Score Snapshot

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

Issuer Credit Rating
BB+/Stable/B

Key Risks	Key Strengths
Diversified funding structure mostly based on customer deposits.	Still some loans under relief programs which could hamper the bank's asset quality metrics.
Support from parent Banco de Bogota, if needed.	Pressures on its risk-adjusted capital (RAC) ratio if Panama's negative economic risk trend materializes.
	Stiff competition among Panamanian banks amid the economic rebound.

We project the bank's risk-adjusted capital (RAC) ratio to be 8.0% during 2022-2023. Our assumption is based on a recovery in Multibank Inc. y Subsidiarias' internal capital generation thanks to improving margins, coupled with modest loan portfolio growth and lower loan-loss provisions. However, we expect the bank's profitability to return to pre-pandemic levels after 2024 due to higher-than-historic cost of risk.

Loans under relief programs could pressure the bank's asset quality metrics in 2022. Although Multibank has reached an agreement for most of its loans under forbearance--they accounted for about 11.3% of the total portfolio as of March 2022--we believe that some clients won't recover from the prolonged pandemic-induced shock. This could weaken the bank's asset quality metrics by the end of 2022, but they should start improving during 2023.

The bank will maintain a key role as a growth vehicle of its parent company in the region. We believe that Multibank will remain a core subsidiary of Banco de Bogota's (BBogota; BB+/Stable/B), given the parent's long-term strategy in Central America, particularly Panama. Additionally, Multibank's operations are highly integrated with those of its parent company, so it could benefit from support through funding and capital injections, if necessary. Therefore, we equalize our ratings on it with those on Banco de Bogota.

Outlook

The stable outlook on Multibank mirrors that on its parent for the next 12 months. The outlook on Multibank reflects its key role for BBogota's growth and diversification strategy in Central America, coupled with our view that Multibank operations are highly integrated with its those of its parent. We don't expect this to change during this timeframe.

Downside scenario

We would lower the ratings on Multibank if we take a similar action on its parent. This could happen if BBogota's asset quality metrics worsen beyond our expectations--nonperforming assets (NPAs) and net charge-offs above 8% of total loans. Such a level would deviate from those of its domestic and regional peers.

Upside scenario

We would raise the ratings on the bank if we upgrade the parent. However, we don't consider this as likely given the stable outlook on BBogota.

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	13.1-16.0	12.9-15.7
Growth in customer loans	0.4	(8.9)	8.5	4.5-5.5	4.9-6.0
Growth in total assets	(3.2)	2.9	(0.0)	3.8-4.6	3.9-4.8
Net interest income/average earning assets (NIM)	2.6	2.1	2.2	2.6-2.8	2.8-3.0
Cost to income ratio	53.7	62.9	59.1	55.9-58.7	53.8-56.5
Return on average common equity	9.2	(5.1)	3.7	4.2-4.6	6.5-7.2
Return on assets	1.0	(0.5)	0.3	0.3-0.4	0.5-0.6
New loan loss provisions/average customer loans	0.7	2.5	1.3	1.3-1.4	1.2-1.4
Gross nonperforming assets/customer loans	2.0	2.8	3.2	3.6-4.0	3.3-3.6
Net charge-offs/average customer loans	0.5	2.1	0.4	1.4-1.4	1.1-1.1
Risk-adjusted capital ratio	12.0	8.2	8.0	9.7-10.2	9.6-10.0

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor:'bbb-' For Banks Operating Only 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 negative economic risk trend for Panama's BICRA reflects a one-in-three likelihood that we could revise our assessment of economic risk on the Panamanian banking sector to a weaker category. This is because the pandemic-induced economic shock could hurt the payment capacity of borrowers and erode banks' asset quality. Additionally, we could revise the assessment to a lower category if the pronounced hit to per capita GDP--stemming from the pandemic--curtails Panama's growth, damaging the banking sector's resilience.

Panama's economic recovery in 2021 was stronger than expected, with GDP growth of 15%, stemming from copper exports amid higher prices, rising revenues from the Panama Canal, and a pick-up in private consumption. However, the lack of visibility on the government's economic and reform agenda could hinder private investment. In addition, issues related to the implementation of anti-money laundering legislation and fiscal transparency could hurt medium-term growth prospects through a reduction of capital flows. Nevertheless, we forecast that real GDP growth will average 5.5% in 2022-2023. The persistent risks related to the pandemic could damage banks' asset quality and profitability in the next 12 months. We expect credit losses to rise to 1.5% and NPAs to 3.7% in 2022 from 0.9% and 2.0%, respectively, in 2019. In our view, these factors could reduce the payment capacity of borrowers and raise the credit risk in the economy.

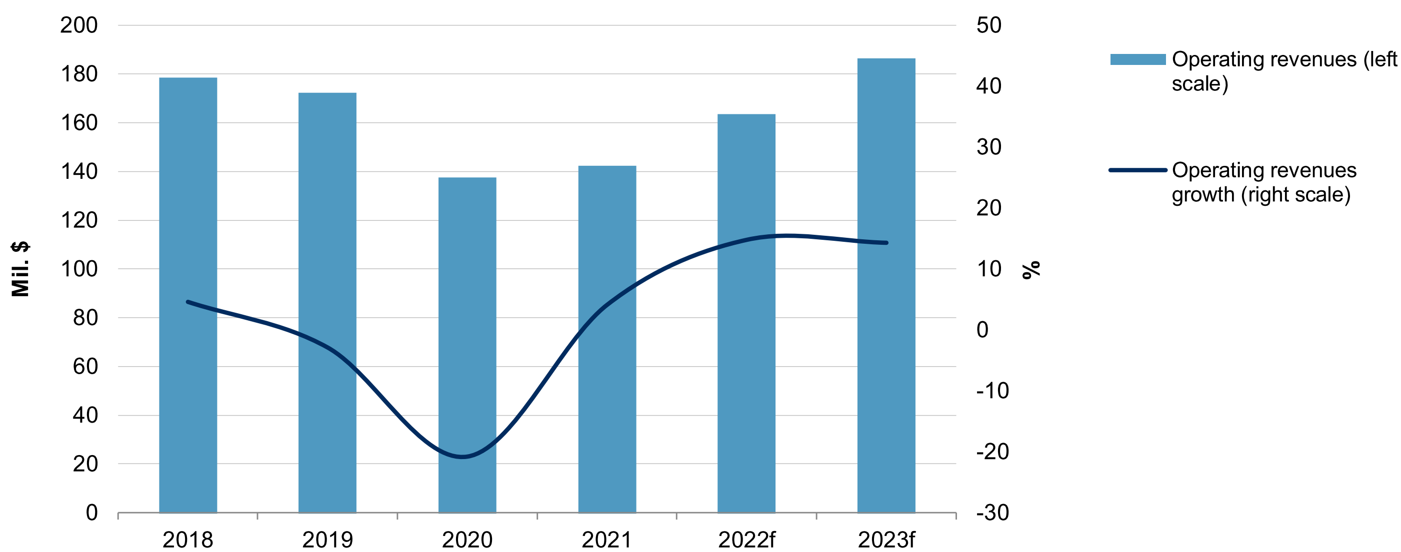
Panama's regulatory framework continues to improve and reduce the gap with international regulatory standards, such as Basel III rules. Core deposits fund the vast majority of the banks' operations; nevertheless, the absence of a lender of last resort and a formal framework to provide contingent liquidity to the system continue to limit Panama's systemwide funding. We expect the structure of the banking industry to remain stable with large banks dominating the market, as was the case for the last decade. Finally, the domestic debt capital market continues to develop but it hasn't yet achieved the depth and breadth of other markets in Latin America.

Business Position: The Strategy To Grow In Niche Sectors Will Support Business Stability And Diversification

Multibank will maintain a diversified loan portfolio, relatively stable operating revenues, and an experienced management team. Moreover, the bank maintains its strategy to increase its portfolio in niche lending segments such as international commercial loans, residential construction, and agrobusiness. In our opinion, these efforts will continue driving the bank's loan portfolio growth as it gradually diversifies its business mix through new retail products. In this sense we expect Multibank to expand its credit portfolio at 5%-6% in the next two years. The latter, coupled with higher margins, will allow the bank's operating revenue in 2023 to return to pre-pandemic level. We expect annual operating revenue to grow about 14% for the next two years. Furthermore, we don't expect material changes in its business mix; we project that commercial loans will represent about 50% of the total loan portfolio, followed by consumer lending and mortgages (about 25% each). Finally, we expect the bank to continue to expand its business thanks to Banco de Bogota's strong brand recognition and reputation. We believe Multibank will adhere to the parent's mode of operations, such as risk-control procedures and reducing expenses by creating synergies with other entities in the group.

Chart 1

Multibank´s Operating Revenues



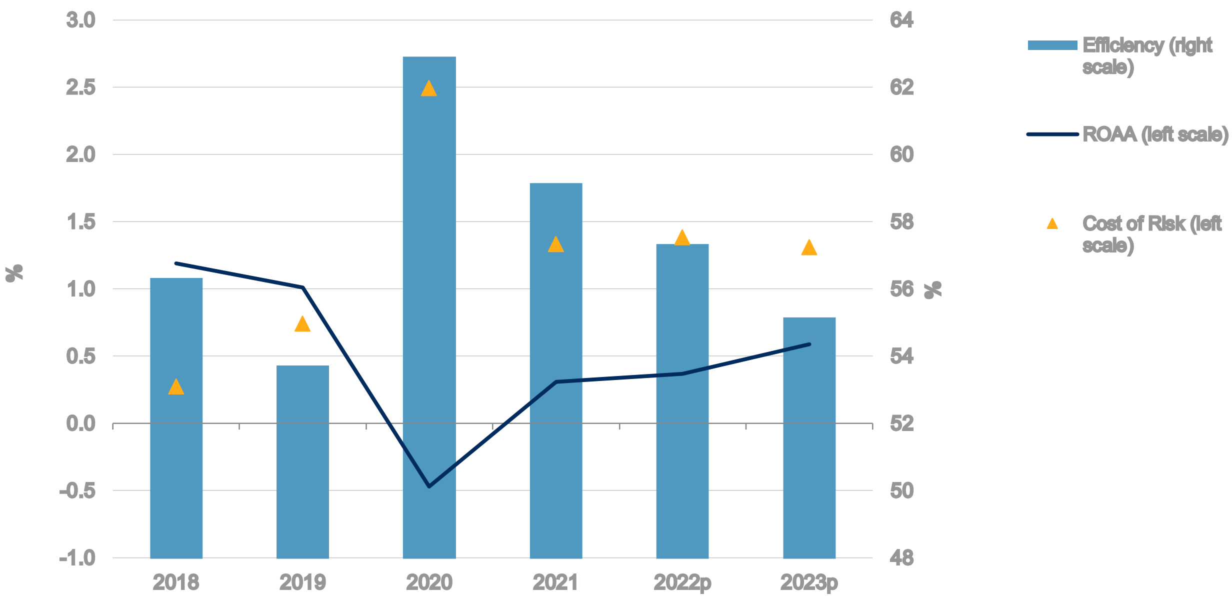
Source: S&P Global Ratings.

Capital And Earnings: Internal Capital Generation To Recover Gradually

Our assessment of Multibank's capital and earnings is based on our projected RAC ratio of about 8.0% during the next two years. Our ratio forecast stems from the recovery in the bank's internal capital generation and modest lending growth. However, the ratio could slip if the negative economic risk trend in Panama's BICRA materializes. This would raise risk-weighted assets (RWA), causing Multibank's RAC ratio to fall to about 7.0%, barely above our threshold for the capital and earnings assessment as adequate. In our opinion, profitability will gradually improve in 2022 due to increasing net interest margins thanks to rising interest rates, and lower credit loan-loss provisions. However, we expect profitability to reach pre-pandemic levels after 2024 mainly due to the bank's still higher cost of risk due to rising nonperforming assets (NPAs) as the loan portfolio grows. We expect core earnings to average adjusted assets (ROAA) to slip to 0.4% during 2022 and 0.6% during 2023 from 1.0% at the end of 2019.

Chart 2

Multibank´s Profitability Metrics



Source: S&P Global Ratings.

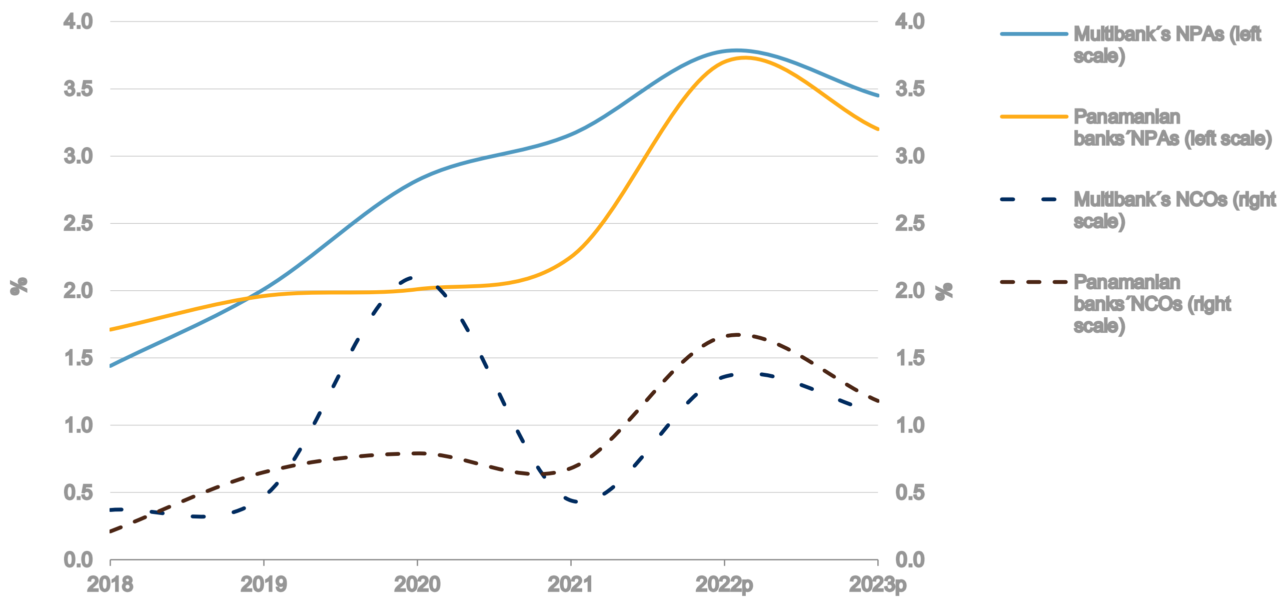
Risk Position: Loans Under The Relief Programs Could Pressure Asset Quality

Such relief program loans account for 11.3% of Multibank's total loans as of March 2022, slightly higher than the system average. In our view, this could weaken the bank's asset quality metrics because some clients won't be able to recover, coupled with the worsening economic conditions. Therefore, we forecast the NPAs ratio to increase to 3.8% in 2022, and edge down to 3.3% in 2023. In addition, we expect credit losses to be about 1.5% during 2022 and slip to 1.1% in 2023. In our opinion, these figures will be in line with our expectations for the Panamanian banking system and will remain manageable. Finally, we project the bank to maintain a coverage ratio of 67%-70% during the same timeframe, slightly below the banking system average but similar to historic levels.

On the other hand, the bank has a large share of construction loans, 27% of total commercial loans, compared with the industry's average (around 15%). We will closely monitor the performance of these loans. Furthermore, the remaining commercial lending portfolio will remain diversified in terms of economic sectors. As of March 2022, commerce loans accounted for 25% of total commercial loans, followed by agrobusiness (15%), general industry (10%), real state (8%), services (7%), finance (3%), hotels and restaurants (3%), and transport and communications (2%). This loan distribution provides resilience to the bank's risk profile because it's not highly reliant on a single or specific industry, diminishing pressures amid economic downturns.

Chart 3

Asset Quality Comparison



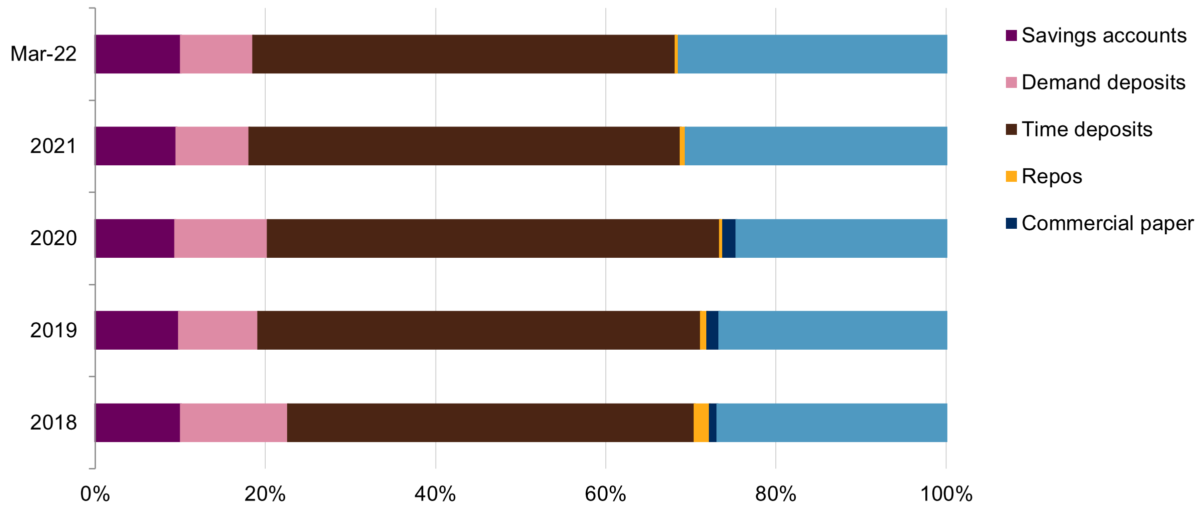
Source: S&P Global Ratings.

Funding And Liquidity: A Broad And Sticky Deposit Base To Keep Funding Stable And Maturity Profile Comfortable

In our opinion, Multibank's funding structure will continue to be a credit strength, while deposits to represent about 70% of the total funding base. The latter, coupled with ample access to the international debt markets and interbank lines, will support the bank's business growth in the coming years. As of March 2022, Multibank's funding consisted of deposits (68%), credit lines and bonds (31%), and commercial paper and repos (1%). We expect the management will continue to maintain its broad funding mix, focusing on customer deposits. Likewise, the bank's stable funding ratio was 115%, still above the four-year average of 105% mainly due to higher deposit base and interbank loans. Moreover, Multibank maintains a comfortable maturity profile with manageable short-term liquidity needs, enabling to keep refinancing risk low. In this sense, as of March 2022, the bank's broad liquid assets will cover short-term wholesale maturities by more than 10x for the next 12 months, which will be higher than those of most of its peers. Such high coverage stems from the bank's protection of its liquidity amid adverse economic conditions. However, we expect this figure to return to historic levels of 1.5x-2.0x, as the bank releases excess liquidity from previous years.

Chart 4

Multibank´s Funding Mix



Source: S&P Global Ratings.

Support: A Key Role For The Parent

Our ratings on Multibank reflect its strategic importance to Banco de Bogota. This is because Panama remains an important market for the parent's growth in the region. We also consider that Multibank's operations are highly integrated with those of Banco de Bogota, potentially benefitting from solid support through funding and capital injections, if necessary. In this sense, we believe the parent would provide support to Multibank under any foreseeable circumstances.

Environmental, Social, And Governance (ESG)

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.

We view ESG factors as having a neutral influence on Multibank's credit quality. The bank's experienced management has resulted in relatively stable operating revenues, despite high competition and the country's regulatory and reputational challenges. Multibank's 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)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	4,896.3	4,865.9	4,876.8	4,738.8	4,894.3
Customer loans (gross)	3,460.9	3,399.5	3,132.4	3,437.7	3,424.8
Adjusted common equity	393.3	387.4	389.0	487.1	452.7
Operating revenues	37.1	142.2	136.6	172.5	177.6
Noninterest expenses	20.3	84.1	85.9	92.6	100.0
Core earnings	5.2	15.2	(22.8)	48.5	56.9

*Data as of March 31. PAB--PAB-Balboa.

Table 2

Multibank Inc. y Subsidiarias--Business Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	37.1	142.2	136.6	172.5	177.6
Commercial & retail banking/total revenues from business line	93.0	82.9	66.6	80.3	88.7
Trading and sales income/total revenues from business line	(2.2)	5.0	13.8	6.3	6.4
Other revenues/total revenues from business line	9.3	12.1	19.6	13.3	4.9
Investment banking/total revenues from business line	(2.2)	5.0	13.8	6.3	6.4
Return on average common equity	5.2	3.7	(5.1)	9.2	12.4

*Data as of March 31.

Table 3

Multibank Inc. y Subsidiarias--Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	12.1	13.3	14.7	18.4	16.1
S&P Global Ratings' RAC ratio before diversification	N/A	8.0	8.2	12.0	9.9
Adjusted common equity/total adjusted capital	100.0	100.0	98.0	81.6	80.5
Net interest income/operating revenues	79.8	69.7	66.6	67.7	73.4
Fee income/operating revenues	13.2	13.2	12.0	12.7	15.3
Market-sensitive income/operating revenues	(2.2)	5.0	13.8	6.3	6.4
Cost to income ratio	54.7	59.1	62.9	53.7	56.3
Preprovision operating income/average assets	1.4	1.2	1.1	1.7	1.6
Core earnings/average managed assets	0.4	0.3	(0.5)	1.0	1.2

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

Table 4

Multibank Inc. y Subsidiarias--Risk Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	7.2	8.5	(8.9)	0.4	8.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	36.4	35.2	34.8
Total managed assets/adjusted common equity (x)	12.5	12.6	12.5	9.7	10.8
New loan loss provisions/average customer loans	1.3	1.3	2.5	0.7	0.3
Net charge-offs/average customer loans	1.8	0.4	2.1	0.5	0.4
Gross nonperforming assets/customer loans + other real estate owned	2.7	3.2	2.8	2.0	1.4
Loan loss reserves/gross nonperforming assets	77.9	73.0	56.0	79.0	90.9

*Data as of March 31. N/A--Not applicable. Growth in customer loans displays annualized figures

Table 5

Multibank Inc. y Subsidiarias--Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	67.9	68.5	73.4	71.2	70.4
Customer loans (net)/customer deposits	114.7	112.7	102.3	122.2	116.8
Long-term funding ratio	99.7	99.4	99.6	94.4	90.5
Stable funding ratio	115.0	115.5	114.2	102.5	100.0
Short-term wholesale funding/funding base	0.4	0.6	0.4	6.4	10.8
Broad liquid assets/short-term wholesale funding (x)	51.4	31.8	58.4	2.5	1.6
Broad liquid assets/total assets	16.8	17.1	19.2	13.4	14.7
Broad liquid assets/customer deposits	27.9	28.3	31.1	22.9	24.9
Short-term wholesale funding/total wholesale funding	1.1	1.9	1.5	20.2	33.3

*Data as of March 31.

Multibank Inc. y Subsidiarias --Rating Component Scores

Issuer Credit Rating	BB+/Stable/B
SACP	bbb-
Anchor	bbb-
Economic risk	5
Industry risk	5
Business position	Adequate
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	-1
ALAC support	0
GRE support	0
Group support	-1

Multibank Inc. y Subsidiarias --Rating Component Scores (cont.)	
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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 July 25, 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
Sovereign Rating	
Panama	BBB/Negative/A-2
Related Entities	
BAC International Bank Inc.	
Issuer Credit Rating	BBB-/Stable/A-3
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.