Panamá, 21 de septiembre de 2020
MB-NR-163-2020

Licenciado
Julio Javier Justiniani
Superintendente
Superintendencia del Mercado de Valores
Ciudad

Ref.: Notificación de Hecho de Importancia.
Calificación de Riesgo.

Respetado Señor Superintendente:

En cumplimiento a lo establecido en el Artículo 4 del Acuerdo No. 3-2008, Texto Único de 31 de marzo de 2008, modificado por el Acuerdo No. 2-2012 de 28 de noviembre de 2012, que trata sobre eventos que constituyen hechos de importancia, le comunicamos que la agencia calificadora **Standard & Poor´s Global Ratings** con fecha 14 de septiembre de 2020, emitió informe de calificación de riesgo a Multibank Inc. en donde ratifican la calificación crediticia de emisor de largo y corto plazo en escala global en 'BB+' y 'B', respectivamente, con perspectiva estable.

Adjuntamos el informe emitido por **Standard & Poor's Global Ratings**, en donde asignan la calificación arriba descrita.

Sin otro particular por el momento, nos suscribimos de Usted.

Atentamente,

Donna Falcón de Trujillo

Multibank Inc.
multibank
República de Panamá

DF/dg

c.c. Bolsa de Valores de Panamá.
Central Latinoamericana de Valores, S.A.

Adjunto lo indicado.

S&P Global
Ratings

RatingsDirect®

Multibank Inc. y Subsidiarias

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Multibank Inc. y Subsidiarias

SACP	bbb
Anchor	bbb-	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	-2
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
BB+/Stable/B

Major Rating Factors

Strengths:	Weaknesses:
• Core subsidiary for Banco de Bogota; and • Diversified funding structure and manageable short-term obligations.	• Worsening asset quality metrics due to the economic uncertainty from the COVID-19 pandemic; • Lower profitability levels due to tighter margins and higher credit loss provisions; and • High competition in the Panamanian banking system could further pressure net interest margins.

Outlook: Stable

Multibank's stable outlook reflects the outlook on its parent, and our expectation that it will continue to be a core subsidiary to Banco de Bogota (BB+/Stable/B) in the next 24 months. It also incorporates that Multibank will operate in the same lines as its parent, and that its integration with the group will be helped by its product and business expertise.

Downside scenario

We could downgrade Multibank in the next two years following 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 Banco de Bogota's stable outlook.

Rationale

Our ratings on Multibank continue to reflect its strategic importance as a core subsidiary for Banco de Bogota, as it increases its presence in Panama and consolidates its leadership in the region. In addition, the ratings incorporate our view that despite the current economic crisis, the bank will continue to have positive operating revenue stemming from its broad business diversity and solid corporate governance. The ratings also reflect our expectation that its risk-adjusted capital (RAC) ratio will average 10.26% in the next 24 months, and its asset quality metrics will erode but remain manageable. Finally, we expect the bank's funding will remain composed by a large retail deposit base, and it will continue to have prudent liquidity management and manageable short-term obligations.

Anchor:'bbb-' for banks operating in Panama

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating, or with a majority exposure in Panama, is 'bbb-'.

We expect Panama's economy to contract about 3.0% in 2020 and grow around 4.0% in the next three years. We expect the construction, tourism, and retail sectors to be severely hurt by policies to contain the pandemic. The ramping-up of Cobre Panama's copper production at a new mine--which started in October 2019--might be slower than expected due to the virus outbreak. Given the importance of Panama's logistics sector, a persistent disruption in international trade would increase downside risks for the country's economic growth, potentially damaging growth prospects. For 2021, GDP could grow close to 4.2%, led by a recovery in private consumption, investment, and exports. Completion of large infrastructure projects, such as a new bridge over the Panama Canal and a third metro line, will likely sustain growth momentum in the next couple of years. However, long-term growth also depends on improving the country's productivity and competitiveness. Finally, we believe that adequate lending and underwriting standards, restrained risk appetite, and a diversified loan portfolio will keep the banking system's asset quality resilient and manageable during the COVID-19 outbreak. We forecast nonperforming loans and net charge-offs to reach 2.4% and 1.00% in 2020, respectively, from about 1.9% and 0.65% in 2019. In our view, both indicators are still lower than most of Panama's BICRA peers.

Panama doesn't have a central bank or formal lender of last resort, or an effective deposit insurance system to support distressed financial institutions. To address the economic impact of COVID-19, the regulator allowed banks to use the accumulated dynamic provisioning (about $1.3 billion or 2% of GDP) to absorb the impact of credit losses. It also allowed banks to undertake voluntary loan restructurings with troubled borrowers. Finally, in the past, the government has successfully used the public-owned bank, Banco Nacional de Panama (BNP), as the vehicle to provide adequate liquidity to the banking system under stressful conditions through a short-term liquidity facility. On the other hand, the country's financial system regulation continues to improve, reducing the gap with international regulators, although implementation challenges remain. In 2019, the FATF placed Panama back on its "grey" list of countries for legal and regulatory shortcomings related to insufficient preventative measures against money laundering and financing terrorism. Panama's missing recommendations are primarily outside the Panamanian financial sector, limiting the possibility of a significant impact on the financial system. These factors, along with the regulator's efforts to strengthen the banking system's institutional framework, should allow market confidence to remain unaffected, in our view.

Table 1

Multibank Inc. y Subsidiarias Key Figures

		--Year-ended Dec. 31--			
(Mil. $)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	4,964.0	4,738.8	4,894.3	4,682.9	4,260.5
Customer loans (gross)	3,252.9	3,437.7	3,424.8	3,166.4	2,941.1
Adjusted common equity	409.7	487.1	452.7	415.9	368.1
Operating revenues	60.7	172.5	177.6	169.9	159.8
Noninterest expenses	41.3	92.6	100.0	88.2	82.5
Core earnings	(28.2)	48.5	56.9	58.3	52.2

*Data as of June 30.

Business position: Broad business diversity will partially mitigate COVID-19 impact on operating revenues

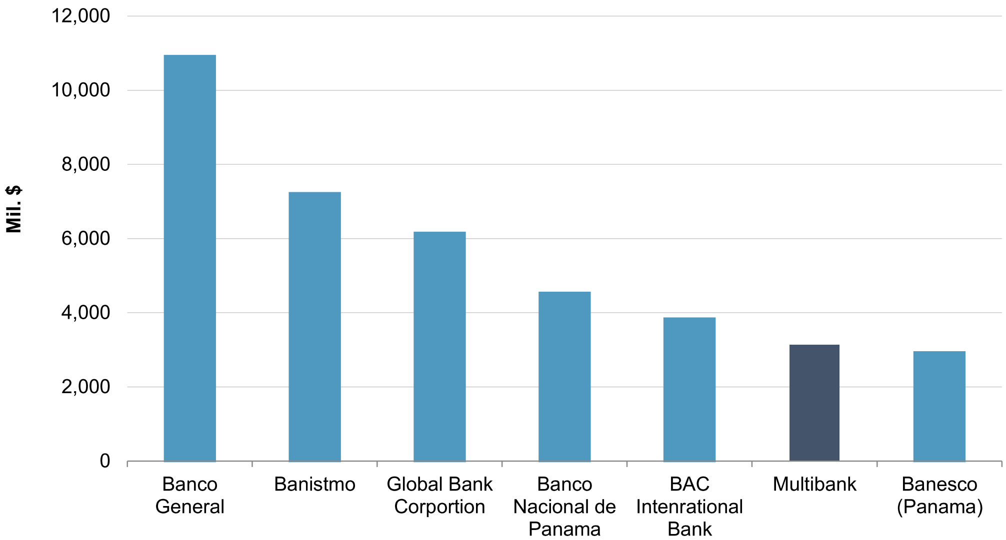
Despite COVID-19 impacts; we anticipate the bank will continue to have well-diversified business operations, positive operating revenues, and solid corporate governance; supporting its business position. During this pandemic, the bank's strategy will focus on liquidity levels and keeping manageable asset quality metrics. The bank is closely monitoring its existing clients--especially the ones already under the forbearance program--in order to maintain collection levels. In this context, we expect the loan portfolio to contract this year, with an important impact on the bank's operating revenues. We forecast a 20% revenue drop for 2020 versus its five-year compound annual growth rate (CAGR) of 5.6%.

In our view, Multibank's business diversification efforts make it relatively less vulnerable to the economic slowdown than smaller participants. The bank remains in line with the Panamanian banking system average, with an important presence in the commercial and mortgage segment. As of June 2020, commercial loans represented 48% of total revenues, while mortgages were 22%. We do not expect significant changes in business activities since we anticipate management will remain focused on areas of expertise.

After Multibank's acquisition by Banco de Bogota, we don't expect changes in its corporate governance and conservative practices. On the contrary, we anticipate it will continue with its business expansion, supported by Banco de Bogota's strong brand recognition and reputation, and replicating its good practices, such as risk control procedures and expense reduction by creating synergies with other entities in the group.

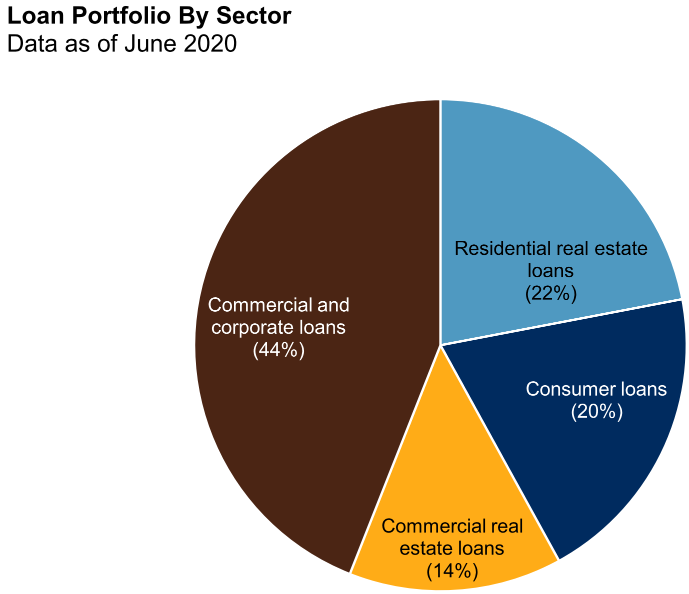
Chart 1

Lending Volume Comparison
Data as of June 2020



Source: S&P Global Ratings.

Chart 2



Source: S&P Global Ratings.

Table 2

Multibank Inc. y Subsidiarias Business Position

		--Year-ended Dec. 31--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	60.7	172.5	177.6	N/A	N/A
Commercial & retail banking/total revenues from business line	84.8	80.3	88.7	N.M.	N.M.
Trading and sales income/total revenues from business line	15.3	6.3	6.4	N.M.	N.M.
Other revenues/total revenues from business line	(0.0)	13.3	4.9	N.M.	N.M.
Investment banking/total revenues from business line	15.3	6.3	6.4	N.M.	N.M.
Return on average common equity	(14.6)	9.2	12.4	14.3	15.1

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Lower profitability due to higher loan loss provisions

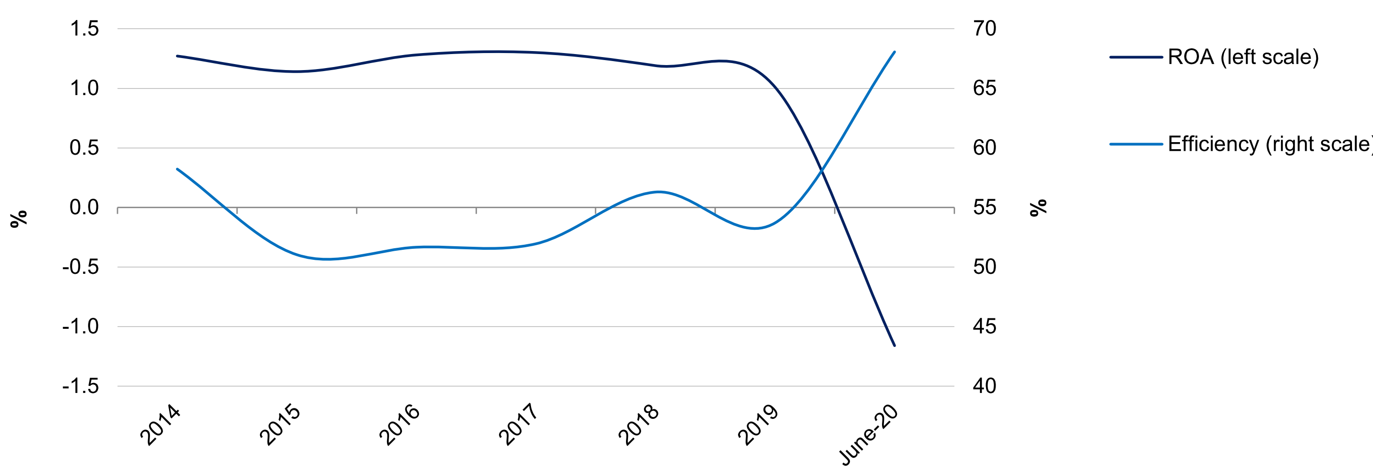
Our assessment of Multibank's capital and earnings reflects a projected RAC ratio of about 10.26%, on average, for the next two years. This indicator reflects a contraction of about 150 basis points (bps) from 2019 figures due to significantly lower profitability, mainly driven by the Panamanian economy's contraction in 2020 and the redemption of the preferred stocks by $102 million, no additional dividend payments in the next year, and a common dividend payment of $2 million in 2022. Our forecast includes the following assumptions:

- GDP contraction in Panama of 3.0% in 2020 and a recovery of 4.2% in 2021;
- Loan contraction of 6.5% during 2020, followed by 5.5% growth in 2021;
- Return on assets (ROA) at negative 0.11% in 2020 and 0.45% during 2021;
- Average efficiency ratio at 55% for 2020-2021;
- Nonperforming assets (NPAs) of about 3.7% of total loans, with loan loss reserves at 63%, and net charge-offs representing 1.2% of total loans;
- Redemption of the preferred stocks by $102 million during 2020; and
- No common dividends during 2020-2021.

We expect Multibank's profitability will significantly decrease in the next two years, with net income declining by $5 million for 2020 and then a positive $21 million for 2021--resulting in 2020's return on average assets and return on equity of negative 0.11% and negative 1.1%, respectively. The latter is primarily explained by higher credit loss provisions due to eroding asset quality, lower fees, and lower commissions because of lower credit origination and to a lesser extent, a contraction in net interest margins. As of June 2020, the bank had already reported a loss of $28 million due to an increase in the credit loss provisions in the second quarter of 2020 and a 5% contraction in its loan portfolio. We expect the results will improve by end of the year, given that we don't expect additional credit loss provisions in the second half of the year; nonetheless, bottom-line results will remain negative.

Chart 3

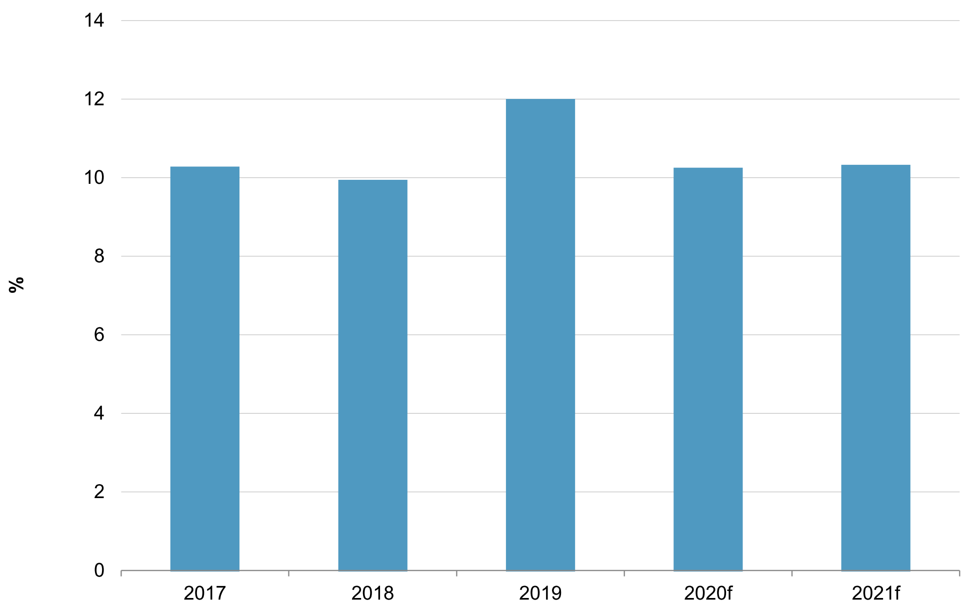
Multibank's Profitability Metrics
Data as of June 2020



ROA--Return on assets. Source: S&P Global Ratings.

Chart 4

Multibank's RAC Ratio Evolution



f--Forecast. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Table 3

Multibank Inc. y Subsidiarias Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	18.1	18.4	16.1	15.7	14.8
Adjusted common equity/total adjusted capital	78.8	81.6	80.5	79.1	77.0
Net interest income/operating revenues	73.3	67.7	73.4	77.2	73.7
Fee income/operating revenues	11.5	12.7	15.3	19.1	20.5
Market-sensitive income/operating revenues	15.3	6.3	6.4	2.6	6.2
Cost to income ratio	68.1	53.7	56.3	51.9	51.7
Preprovision operating income/average assets	0.8	1.7	1.6	1.8	1.9
Core earnings/average managed assets	(1.2)	1.0	1.2	1.3	1.3

*Data as of June 30. N/A--Not applicable.

Risk position: COVID-19 pandemic will impair the bank's NPAs and NCOs in the next 12 months

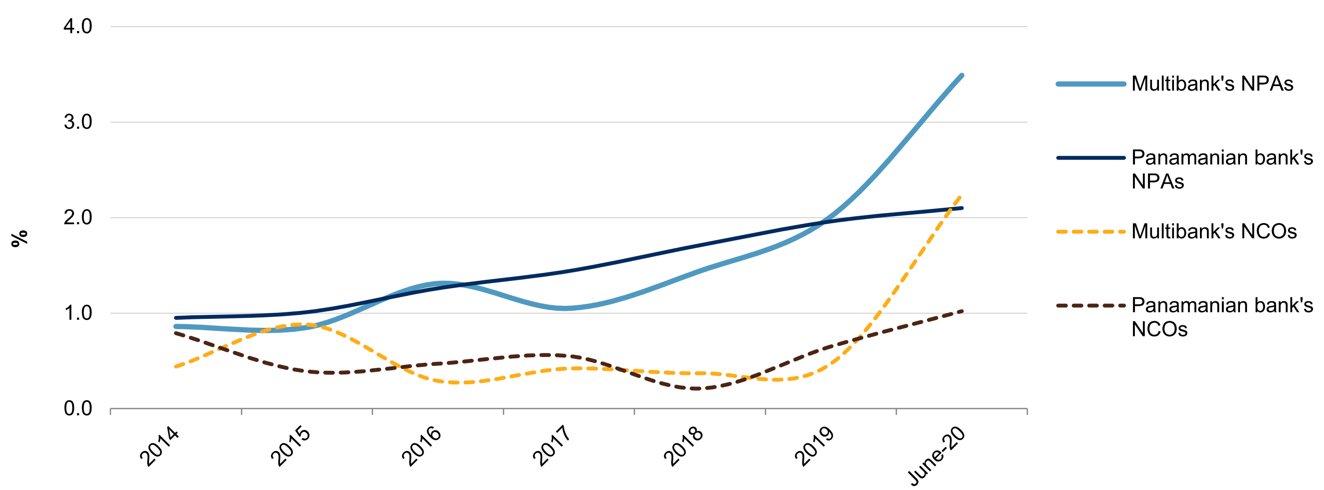
Historically, Multibank has shown healthy origination standard practices, and loan portfolio diversification, reflected in asset quality metrics aligned with the Panamanian banking industry. However, we expect COVID-19 pandemic will impair the bank's NPAs and NCOs in the next 12 months due to the economic contraction, the decline in domestic demand, and the depressed consumer segment.

Aligned with the loan forbearance measures authorized by the Panamanian regulator, Multibank already implemented several initiatives to closely monitor its clients--39% of its total clients. After the first wave of forbearance measures, there will be clients that will not recover from the pandemic. Therefore, for 2020 we forecast higher NPAs and NCOs, reaching 3.7% and 1.2%, respectively. These will peak at 3.9% and 1.5% during 2021, since the most affected clients won't feel the full effects until next year, after the forbearance period finishes in December 2020. These levels are above past years but we still consider them as manageable, slightly higher than our expectations for the Panamanian banking industry.

On the other hand, we expect that Multibank's loan portfolio will remain well balanced among commercial segment, mortgages, and consumer operations. As of June 2020, commercial loans represented 48% of total loans, while mortgages were 22% and consumer 22%. Additionally, its top 20 loan exposures remain low, with 12% of its total loan portfolio and 0.75x its total adjusted capital; mitigating asset quality deterioration. Finally, Multibank's commercial loans are fairly distributed across sectors, with no above-average concentrations in riskier segments compared with the Panamanian system (such as construction, tourism, entertainment, among others).

Chart 5

Asset Quality Comparison
Data as of June 2020



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

Table 4

Multibank Inc. y Subsidiarias Risk Position					
		--Year-ended Dec. 31--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	(5.4)	0.4	8.2	7.7	10.3

Table 4

Multibank Inc. y Subsidiarias Risk Position (cont.)

		--Year-ended Dec. 31--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	34.8	N/A	N/A
Total managed assets/adjusted common equity (x)	12.1	9.7	10.8	11.3	11.6
New loan loss provisions/average customer loans	3.4	0.7	0.3	0.4	0.6
Net charge-offs/average customer loans	2.2	0.5	0.4	0.4	0.3
Gross nonperforming assets/customer loans + other real estate owned	3.5	2.0	1.4	1.0	1.3
Loan loss reserves/gross nonperforming assets	54.1	79.0	90.9	99.6	93.4

*Data as of June 30. N/A--Not applicable.

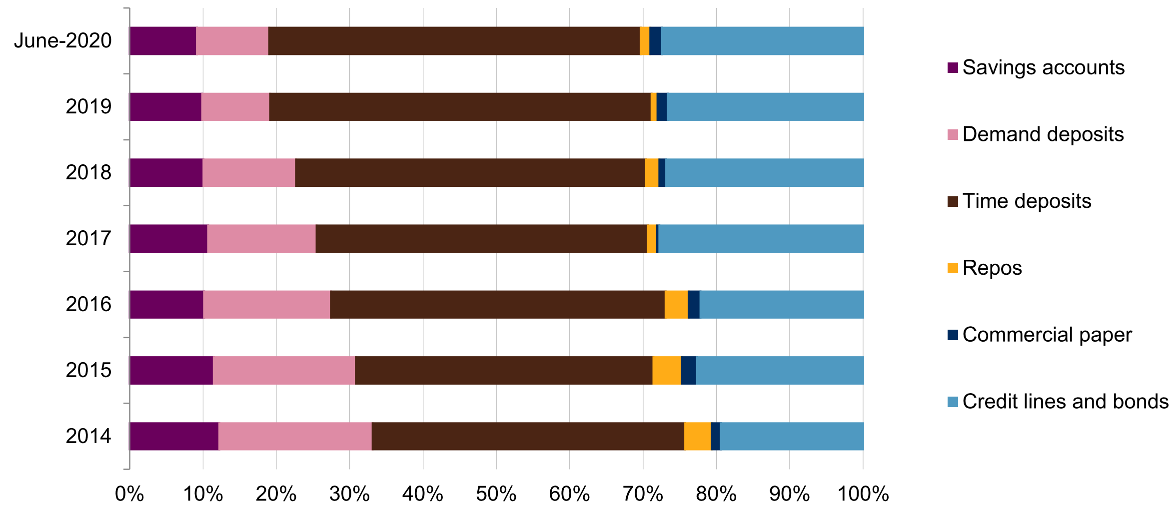
Funding and liquidity: Diversified funding structure, with a broad deposit base, and comfortable liquidity position

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 has been able to grow its deposit base 5% year-to-date amid the economic downturn. As of June 2020, Multibank's funding was composed by deposits (70%), interbank facilities (17%), and market debt issuances (13%). The bank's stable funding ratio stood at 106%, above its three-year average of 102% and in line with the Panamanian banking system's indicators (108% and 107%, respectively). 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 the economic turmoil. The bank's broad liquid assets accounted for $1.04 billion as of June 2020, covering in excess (3.2x) its wholesale maturities for the next 12 months. We expect this trend to continue; therefore, we have no significant concerns regarding Multibank's liquidity position for the next 12 months.

Chart 6

Multibank's Funding Mix



Source: S&P Global Ratings.

Table 5

Multibank Inc. y Subsidiarias Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	69.7	71.2	70.4	70.4	73.1
Customer loans (net)/customer deposits	110.1	122.2	116.8	111.9	107.3
Long-term funding ratio	93.0	94.4	90.5	89.9	85.8
Stable funding ratio	110.7	102.5	100.0	102.5	98.6
Short-term wholesale funding/funding base	7.9	6.4	10.8	11.4	15.8
Broad liquid assets/short-term wholesale funding (x)	3.2	2.5	1.6	1.7	1.2
Short-term wholesale funding/total wholesale funding	23.8	20.2	33.3	35.2	53.0

*Data as of June 30.

Support: Growing its parent's presence in Panama and consolidating its leadership in the region

In our opinion, Multibank is a core subsidiary to Banco de Bogota. We consider Multibank's acquisition of Grupo Aval an important transaction in order to increase its presence in Panama. With this, Banco de Bogota is the second largest financial group in the country, with nearly 12% of market share. In addition, we expect Multibank will continue to be a relevant market participant, maintaining its current risk appetite and operating in the same business lines as its parent, and we consider that its management will be similar to its parent's. Based on figures as of June 2020, we expect Multibank makes up about 9% of Banco de Bogota's total assets and consumer loans, 7% of total deposits, and 9% of total equity.

Environmental, social, and governance:

We view environmental, social, and governance 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 corporate governance characteristics are in line with the Panama banking system average, resulting in solid business stability despite the 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. The bank's long record of sound corporate governance and the clarity of its long-term financial goals have supported our view of Multibank's governance practices in Panama. Social and environmental factors have gained importance for Multibank. They're relevant for its long-term strategy, but they don't influence its credit quality more than they do that of its peers.

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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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 14, 2020)*

Multibank Inc. y Subsidiarias	
Issuer Credit Rating	BB+/Stable/B

Ratings Detail (As Of September 14, 2020)*(cont.)	
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+/Stable/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.