S&P Global Ratings

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Banistmo S.A.

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Banistmo S.A.

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
Top-tier bank in the Panamanian banking system.	Higher nonperforming loans (NPLs) ratio than the banking industry's average.
Diversified loan portfolio and pulverized deposit base, with large market shares in the retail and corporate segments.	The proportion of loans in its portfolio under relief programs remains high, which could increase credit losses.
Full integration with its parent Bancolombia S.A. y Companias Subordinadas (BB+/Stable/B), which improves Banistmo S.A.'s efficiency and product offerings.	Challenging conditions in Panama due to global and regional economic risks.

We expect Banistmo will preserve its large market share in Panama, as well as its solid business diversification by business line and customer base. In our opinion, Banistmo will continue to be one of the largest banks in the Panamanian banking system. The bank's broad commercial presence in the country and adequate capitalization will allow it to cope with the adverse economic and market conditions. We expect operating revenues to remain resilient, supported by its solid market position, loyal customer base, and strong management team that has ample experience in the banking industry.

We anticipate Banistmo's asset quality metrics will remain slightly weaker than the Panamanian banking system average. We forecast that the worsening performance of customers in the construction segment and the end of the COVID-19 relief programs could weaken the bank's asset quality metrics in the following months. Still, we expect them to remain consistent with our current risk position category.

Banistmo will continue benefiting from a large and broad deposit base within its funding structure. We believe the bank's diversified customer deposit base and lack of any extraordinary cash outflows in the next 12 months will support its liquidity position.

Outlook

The stable outlook on Banistmo mirrors that on its ultimate parent, Bancolombia, which limits our ratings on the Panamanian subsidiary. The ratings on Banistmo will move in tandem with those on its parent due to our group status assessment. Additionally, the outlook also considers our expectation that Banistmo's asset quality metrics will remain manageable, although slightly weaker than those of the Panamanian banking system. Finally, we think the bank's risk-adjusted capitalization (RAC) levels will remain at historical levels despite the challenging conditions and potential increase in credit losses.

Upside scenario

If we upgrade Bancolombia in the next 12-24 months, we will take a similar action on Banistmo. However, we don't view this scenario as likely due to the economic headwinds associated with the COVID-19 pandemic.

Downside scenario

We could downgrade Banistmo if we take the same action on its parent in the next 12 months.

Key Metrics

Banistmo S.A.--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	(10.0)	(0.3)	4.6-5.7	6.8-8.3	7.3-8.9
Growth in customer loans	0.8	1.8	5.8-7.1	6.3-7.7	6.7-8.2
Growth in total assets	1.3	(0.2)	5.3-6.4	6.2-7.5	6.8-8.3
Net interest income/average earning assets (NIM)	3.1	3.1	3.0-3.3	3.0-3.4	3.1-3.4
Cost to income ratio	50.8	57.8	54.7-57.5	52.6-55.3	51.1-53.8
Return on average common equity	(4.1)	5.2	5.1-5.6	5.8-6.4	6.4-7.1
Return on assets	(0.5)	0.6	0.5-0.7	0.6-0.7	0.7-0.8
New loan loss provisions/average customer loans	3.3	1.1	1.0-1.2	1.0-1.1	1.0-1.1
Gross nonperforming assets/customer loans	3.5	3.0	4.3-4.7	3.5-3.8	2.6-2.9
Net charge-offs/average customer loans	0.5	1.1	1.0-1.0	1.7-1.7	1.6-1.6
Risk-adjusted capital ratio	7.9	8.0	7.8-8.2	7.8-8.2	7.9-8.3

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's blow to economy has been significant, and this could hurt the payment capacity of banks' customers and erode banks' asset quality. Additionally, we could also revise the assessment to a lower category if the pronounced hit to per capita GDP--stemming from the pandemic-- curtails Panama's growth trend, damaging the resilience of the banking sector.

Economic recovery was higher than we expected in 2021 at 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 which 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. And per capita GDP growth on a 10-year average basis should return to levels above those of Panama's economic peers.

In our view, the persistent downside risks related to the pandemic could damage banks' asset quality, profitability, and capital levels in the next 12 months. We expect credit losses at 1.5% and NPAs at 3.7% in 2022 from 0.9% and 2% in 2019, respectively. In our view, these factors could reduce the payment capacity in the country and raise the credit risk in the economy, which could lead us to revise our economic risk assessment in Panama's BICRA to a weaker category.

Our stable industry risk trend on the Panamanian financial system reflects the regulator's measures to provide support to cushion the pandemic's impact, the absence of a formal lender of last resort, and the Financial Action Task Force's (FATF's) placement of Panama on its "grey" list and EU's on its blacklist, but which haven't posed significant risks to the domestic financial system.

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 loan restructuring. It also allowed banks to use the accumulated provisions and to create a generic provision equivalent to 3% of the gross balance of the modified loan portfolio. Moreover, the government has been successful in using Banco Nacional de Panama (Banconal) as the vehicle to provide adequate liquidity to the banking system during the pandemic through short-term liquidity facilities. Finally, the FATF and EU's actions haven't damaged economic growth, investment in the country, or its financial system, in our view.

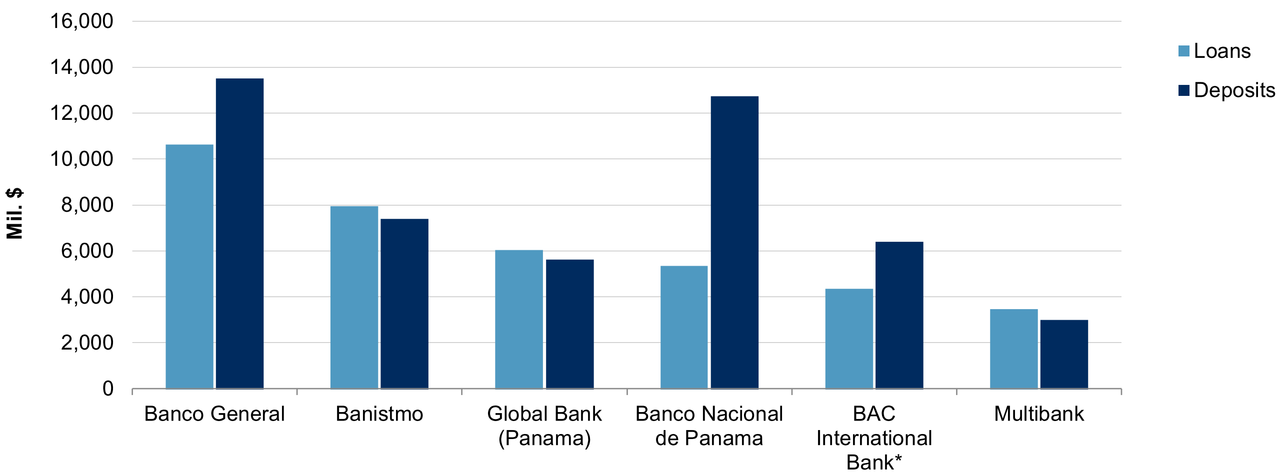
Business Position: Wide Business Diversification And Good Market Share Will Continue To Cushion Against Adverse Economic Conditions

We believe Banistmo's diversified operations and position as the second largest bank in Panama (about 11.6% and

8.6% of market share in terms of loans and deposits, respectively, as of December 2021) have somewhat mitigated the fallout from the pandemic-induced economic shock. While the latter caused the bank's operating revenues to shrink in 2020, they remained flat during 2021 and we expect growth to average 6.3% in 2022-2023. We note that the bank's enhancement of its digital platforms provided a competitive advantage that contributed to its business stability, and we expect this to continue because digitalization remains a pillar of the group's strategy. Monthly active users through mobile banking represent 37% of its customer base and 92% of the bank's total transactions (monetary and nonmonetary). Finally, we project lending to increase about 7% in 2022-2023, mainly in the corporate lending and mortgage sectors. Management's experience operating in the Panamanian banking industry has allowed the bank to maintain its presence and helped overcome economic woes in the past. Overall, we believe Banistmo is better positioned than smaller peers in the country.

Chart 1

Portfolio Loans And Deposits Among Main Panamanian Banks
Data as of December 2021



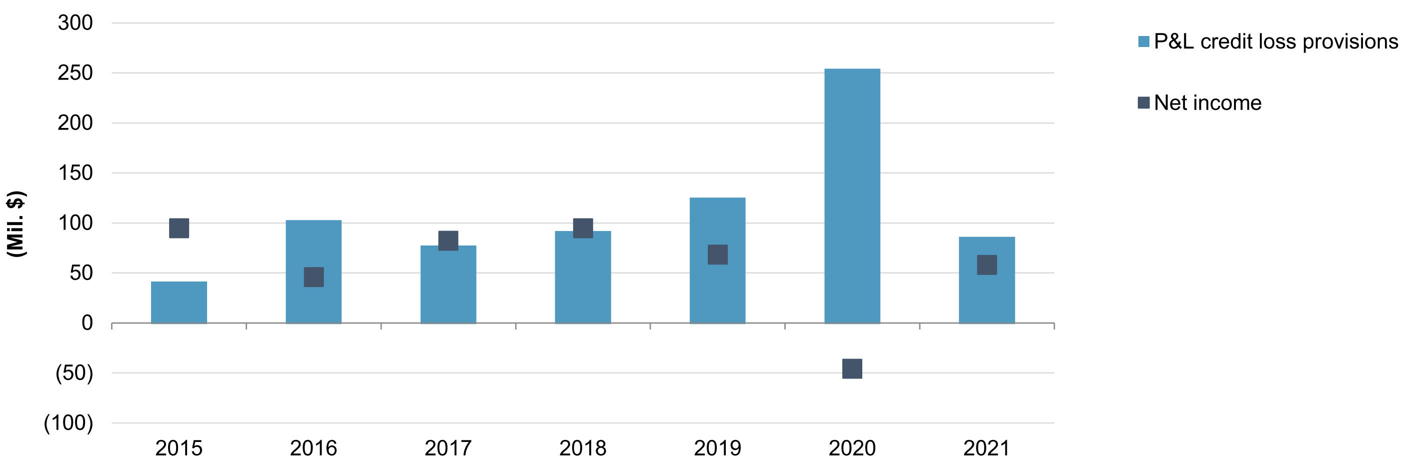
*We don't consider BAC International Bank on a consolidated basis, only its presence in Panama. Source: Superintendencia de Bancos de Panama.

Capital And Earnings: Adequate Capitalization To Absorb Potential Credit Losses In The Next 12-24 Months

Our forecasted risk-adjusted capital (RAC) ratio for 2022-2023 averages 8.1%, which is in line with our RAC ratio of 7.9% at the end of 2021. We believe that Banistmo's capitalization will enable it to withstand further potential effects from the likely asset quality deterioration and the slow recovery of various business segments. We base our opinion on lower reserve consumption going forward, a conservative pay-out policy, and the return to positive net income after the loss in 2020. In this context, we expect positive internal capital generation for the next few years, although still modest compared to its historical generation since we think that profitability will remain below pre-pandemic levels util 2023. On the other hand, the high quality of earnings based on stable income sources--such as interest and fee income that accounts for about 95% of total operating revenues--relatively modest growth prospects, and healthy reserve coverage ratios will prevent the bank's capital and earnings from weakening for at least the next two years. We estimate net income to increase about 7.6% in 2022, reflecting higher business volumes and lower cost of risk as credit conditions have improved for most of the bank's customers. We forecast the bank's return on assets (ROA) to be about 0.6% at year-end 2022 and 0.7% in 2023.

Chart 2

Banistmo's Credit Loss Provisions Versus Net Income



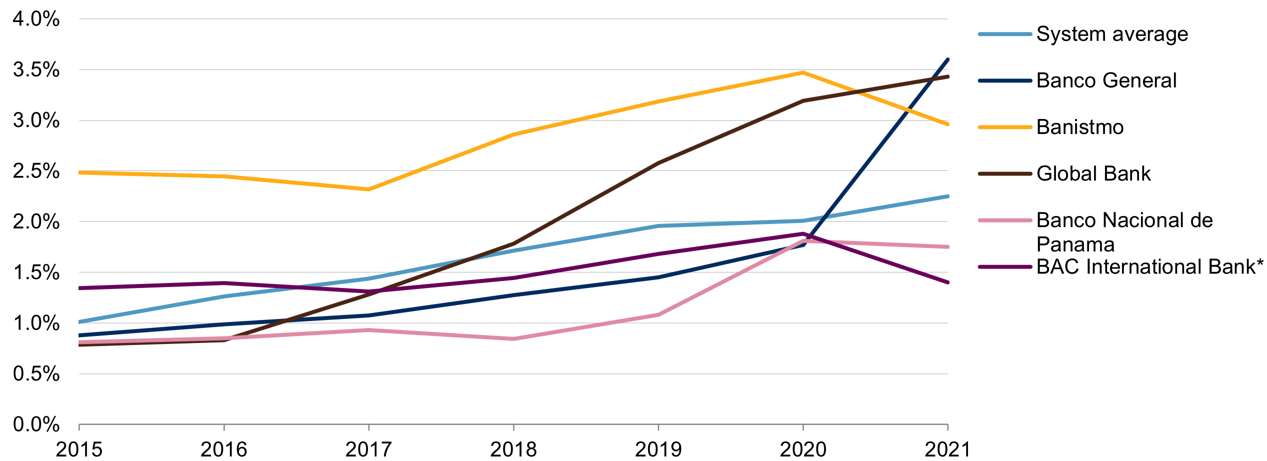
Source: S&P Global Ratings.

Risk Position: We Expect Higher NPLs Than The Panamanian Banking Industry's Average

Banistmo's risk position assessment reflects our view of its still manageable asset quality metrics, although we expect higher delinquency levels and foreclosed assets versus those of the Panamanian banking industry. As of December 2021, Banistmo's NPAs ratio stood at 2.9%, fully covered by reserves, with net charge-offs of 1.1% of total loans. NPAs improved compared to levels observed in 2020 (NPAs of 3.5%); however, we think its asset quality metrics could reflect pressures due to the end of the forbearance programs and our expectation of modest portfolio growth in 2022-2023. Loans under relief programs represented 20.0% of Banistmo's loan book at the end of 2021 (46.4% as of December 2020). For 2022-2023, we expect the bank's NPA ratio to average about 4.1%, reflecting the deterioration of loans classified as doubtful and irrecoverable in the forbearance portfolio. Credit exposures under these classifications are customers that agreed on new terms, but they have either totally or partially breached the terms and conditions agreed to in the last modification. These loans continue to reflect nonpayment vulnerability; therefore, we estimate that they could become nonaccrual loans. As a result, we expect NCOs to be about 1.1% in 2022 and 1.8% in 2023. We'll closely monitor how asset quality metrics evolve in the next 12 months: If the deterioration is more than our expectations, we could revise the bank's risk position assessment to a weaker category. Finally, the bank's portfolio consists of commercial loans (52%), consumer loans (31%), and residential and commercial mortgages (17%). Despite the lack of meaningful economic sector concentration, we note that the bank lends to sectors that are vulnerable to the impact of mobility restrictions.

Chart 3

Banistmo's NPAs Versus Peers



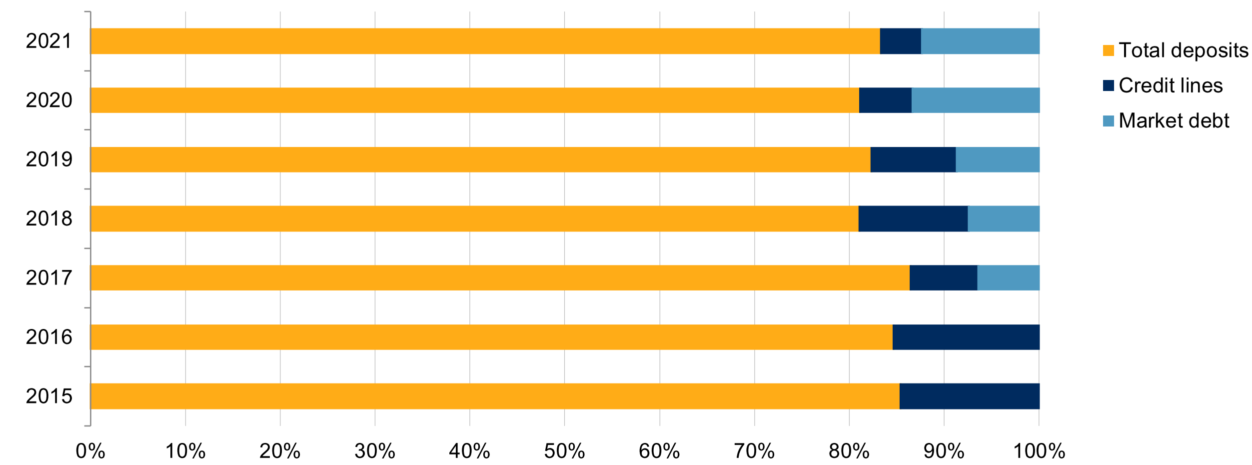
Source: S&P Global Ratings.

Funding And Liquidity: Stable Funding Base Provides Financial Flexibility Under Stressful Conditions And Low Refinancing Risk In The Next 12 Months

We believe Banistmo will maintain a diversified funding structure in the next 12 to 24 months. In our view, the bank will continue to have a broad and stable deposit base composed mainly of customer deposits--about 83% of Banistmo's funding base. The remaining funding sources include market debt--where the bank historically has participated to improve its asset and liability management--and loans from correspondent banks and multilateral agencies. The bank's stable funding ratio (SFR) was 107.4% as of 2021, in line with the three-year average of 110%. Banistmo also has a manageable debt maturity profile and low refinancing risk; therefore, we don't expect significant changes in its liquidity position in the next 12 months. We expect Banistmo's ratio of broad liquid assets to short-term wholesale funding will remain above 1.0x in the next 12 months. This metric indicates the bank has stable funding deposits to cover its funding needs, specifically its customer loans. As of 2021, this ratio was 1.6x, below the average of 2.8x for the previous three fiscal years.

Chart 4

Banistmo's Funding Breakdown



Source: S&P Global Ratings.

Support: One Downward Notch For Group Support

We consider Banistmo as a core subsidiary of Bancolombia, so our ratings on it are at the same level as its ultimate parent. The ratings on the parent also cap those on Banistmo. We think Bancolombia views Panama as a strategic market, and Banistmo has a solid market position in the Panamanian banking system as one of the largest players in the country. Additionally, Banistmo operates in the same business lines as the group and offers a similar range of financial services. Banistmo accounted for about 14% of the group's total assets, 8% of operating revenues, and 15% of the total equity as of 2021. Finally, we assess Banistmo as having high systemic importance in the Panamanian financial system. However, we think it's uncertain that the sovereign would support financial institutions; therefore, this factor doesn't influence the ratings.

Environmental, Social, And Governance Factors (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.

ESG factors have no material influence on our credit rating analysis of Banistmo. Like other banks in Panama, the bank is working to improve its sustainable objectives and policies, with an environmental and social loan book that has been increasing over the last few years. While environmental factors are relevant for the bank's long-term strategy, they don't have more influence on Banistmo's credit quality than for its peers. Moreover, social factors have a neutral effect on its credit quality. Diversity and inclusion remain top priorities and have improved sharply in recent years. In our view, that more inclusion could lead to more a profitable and productive organization. Finally, Banistmo has built sound risk control and governance practices that have enabled it to maintain its reputation, execute its diversification strategy throughout the country, and to face a range of legal and nonfinancial risks. At the same time, we consider that its solid framework will allow the bank to adapt and implement the regulatory changes in the country. In our opinion, the bank's governance standards are prudent and in line with those of peers, therefore, we consider governance factors to have a neutral influence on the bank's creditworthiness.

Key Statistics

Table 1

Banistmo S.A.--Key Figures

	--Year-ended Dec. 31--				
(000s PAB)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	10,154,123.9	10,181,503.4	10,047,956.1	9,543,017.1	9,409,563.0
Customer loans (gross)	7,905,054.4	7,764,453.7	7,706,218.0	7,540,405.4	7,508,423.9
Adjusted common equity	971,293.6	921,733.0	1,011,256.2	965,896.4	987,957.1
Operating revenues	372,919.2	374,065.9	415,464.0	414,956.6	400,480.7
Noninterest expenses	215,533.6	189,872.8	206,150.6	206,276.0	210,550.7
Core earnings	58,060.8	(45,755.3)	68,346.3	94,890.6	82,361.9

PAB--Balboa.

Table 2

Banistmo S.A.--Business Position

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	372,919.2	374,065.9	415,464.0	414,956.6	400,480.7
Commercial & retail banking/total revenues from business line	96.8	95.9	94.6	96.2	96.1
Trading and sales income/total revenues from business line	2.1	2.3	4.0	2.1	2.3
Other revenues/total revenues from business line	1.1	1.7	1.4	1.7	1.7
Investment banking/total revenues from business line	2.1	2.3	4.0	2.1	2.3
Return on average common equity	5.2	(4.1)	6.2	8.7	7.8

Table 3

Banistmo S.A.--Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	12.4	12.4	11.1	14.1	15.2
S&P Global Ratings' RAC ratio before diversification	8.0	7.9	8.5	7.4	7.4

Table 3

Banistmo S.A.--Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
S&P Global Ratings' RAC ratio after diversification	5.8	5.6	6.1	5.3	5.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	82.8	82.2	79.6	80.8	79.8
Fee income/operating revenues	14.0	13.7	15.0	15.4	16.2
Market-sensitive income/operating revenues	2.1	2.3	4.0	2.1	2.3
Cost to income ratio	57.8	50.8	49.6	49.7	52.6
Preprovision operating income/average assets	1.5	1.8	2.1	2.2	2.0
Core earnings/average managed assets	0.6	(0.4)	0.7	1.0	0.9

Table 4

Banistmo S.A.--Risk Position

	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Growth in customer loans	1.8	0.8	2.2	0.4	3.3
Total managed assets/adjusted common equity (x)	10.5	11.1	10.0	10.0	9.6
New loan loss provisions/average customer loans	1.1	3.3	1.6	1.2	1.0
Net charge-offs/average customer loans	1.1	0.5	0.9	1.0	1.4
Gross nonperforming assets/customer loans + other real estate owned	3.0	3.5	3.2	2.9	2.3
Loan loss reserves/gross nonperforming assets	222.1	186.5	124.3	112.8	53.1

Table 5

Banistmo S.A.--Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	2021	2020	2019	2018	2017
Core deposits/funding base	80.7	77.4	77.5	76.8	79.7
Customer loans (net)/customer deposits	103.7	105.3	109.7	115.0	114.2
Long-term funding ratio	89.9	93.5	94.4	92.3	93.3
Stable funding ratio	107.4	114.5	112.7	108.2	107.7
Short-term wholesale funding/funding base	11.3	7.2	6.3	8.6	7.5
Broad liquid assets/short-term wholesale funding (x)	1.9	3.3	3.6	2.4	2.5
Broad liquid assets/total assets	18.9	20.9	19.2	17.6	16.1
Broad liquid assets/customer deposits	27.2	31.0	28.7	26.7	23.5
Net broad liquid assets/short-term customer deposits	16.4	27.1	25.8	19.4	17.6
Short-term wholesale funding/total wholesale funding	58.6	32.0	27.9	37.1	37.1

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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of April 28, 2022)*	
Banistmo S.A.	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Issuer Credit Ratings History	
21-Apr-2020	BB+/Stable/B
23-May-2019	BB+/Positive/B
12-Dec-2017	BB+/Stable/B
Sovereign Rating	
Panama	BBB/Negative/A-2
Related Entities	
Banco Agricola S.A.	
Issuer Credit Rating	B-/Negative/B
Bancolombia Panama S.A.	
Issuer Credit Rating	BB+/Stable/B
Bancolombia S.A. y Companias Subordinadas	
Issuer Credit Rating	BB+/Stable/B

*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.