Banistmo

HECHO DE IMPORTANCIA

En referencia 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, emitidos por la Superintendencia del Mercado de Valores de Panamá, con relación a los eventos que constituyen hechos de importancia, por medio de la presente notificamos formalmente al público inversionista el cambio de calificación de Banistmo, S.A por parte de la Calificadora de Riesgos Moody´s Investors Service, según Informe emitido el 27 de septiembre de 2023, el cual concluye de la siguiente manera:

MOODY´S INVESTORS SERVICE	
Categoría Internacional	Calificación Septiembre 2023
Outlook	Estable
Bank Deposits	Ba1 / Not Prime
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Senior Unsecured	Ba1
Counterparty Risk Rating	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

Banistmo mantiene su solidez financiera reflejada en sus niveles de capitalización, una estructura de financiación diversificada y un aumento en sus márgenes. Adicional ha venido trabajando de manera sistemática en la definición y ejecución de una hoja de ruta con miras al fortalecimiento de sus resultados.

Nuestra mirada sigue siendo optimista, aún ante los retos inflacionarios y de una realidad socioeconómica global muy desafiante y que no son ajenos al mercado local. No obstante, respaldados en nuestras evaluaciones y la de otros organismos evaluadores calificados sobre Panamá, compartimos la opinión acerca de las grandes oportunidades de crecimiento que sigue presentando el país para los próximos años en comparación a otros mercados de la región.

Panamá, 28 de septiembre de 2023.

Banistmo, S.A.

DAVID MEDRANO
Apoderado Especial

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 September 2023

Update

Send Your Feedback

RATINGS

Banistmo, S.A.

Domicile	PANAMA CITY, Panama
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Ba1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077

Banistmo, S.A.

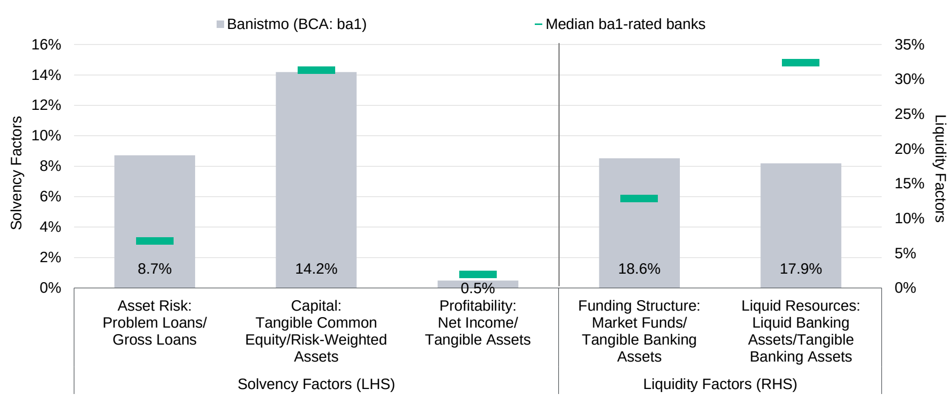
Update following downgrade to Ba1, outlook changed to stable

Summary

Banistmo, S.A.'s (Banistmo) Ba1 long-term deposit and senior unsecured debt ratings are in line with the bank's ba1 Baseline Credit Assessment (BCA), which reflects its strong capitalization, supported by earnings retention and prudent loan growth, and its favorable funding structure, based on a stable and granular deposit base, which in turn benefits from the bank's well-established position as the second largest commercial bank in Panama (Baa2 negative). Banistmo's strong funding profile partially offset risks arising from its moderate liquidity buffers. On the other hand, Banistmo's credit profile is pressured by its weak asset quality, illustrated by the bank's high level of loan impairments, following the unwinding of relief measures implemented in Panama in 2020 and 2021, and preexisting pressures related to portfolio concentrations on the commercial real estate segment.

Banistmo's credit profile also benefits from its integration with its ultimate parent Bancolombia S.A. (Baa2 stable, ba1[1]), including management expertise, risk discipline and compliance practices, although this does not currently translate into a ratings uplift.

Exhibit 1
Rating Scorecard - Key Financial Ratios
Banistmo's Scorecard Ratios as of June 2023



For the problem loan and profitability ratios, we review the latest three year-end ratios, as well as the most recent intra-year ratio where applicable, and base our starting point ratio on the weaker of the average of this period and the latest figure. For the capital ratio, we use the latest figure. For the funding structure and liquid asset ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Strong capitalization, supported by prudent loan growth and earnings retention

» Benefits from its parent Bancolombia management expertise, risk management policies and financial support

» Favorable funding profile, based on highly granular and inexpensive retail deposits

Credit challenges

» Weak asset quality mainly due to some large troubled exposures and the unwinding of relief measures after the pandemic

» Modest profitability as high credit costs offset the bank's ample interest margins

» Moderate liquidity buffers

Outlook

The stable outlook on Banistmo's deposit and senior unsecured debt ratings captures our expectations that the bank's main credit metrics will remain broadly in line with its current BCA, including its strong capital buffers and adequate funding profile, while asset quality and profitability will likely remain its key credit challenges.

Factors that could lead to an upgrade

» Banistmo's ratings could be upgraded if the bank's asset quality metrics consistently recovered, leading to increasing earnings generations as provision needs fall, provided that capital buffers remained stable, and it continued to have access to diversified and granular sources of funding.

Factors that could lead to a downgrade

» Downward pressure on the bank's BCA and ratings could arise from asset quality metrics deteriorating further from already weak levels, particularly if they affect the bank's profitability and ultimately capital levels. However, even if the bank's BCA were downgraded, its ratings could be sustained by our assessment of affiliate support from Bancolombia.

Key indicators

Exhibit 2

Banistmo, S.A. (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[3]	CAGR/Avg.[4]
Total Assets (USD Million)	10,589.4	10,964.5	10,238.8	10,261.7	10,127.6	1.3[5]
Tangible Common Equity (USD Million)	1,053.7	986.9	934.9	895.6	999.5	1.5[5]
Problem Loans / Gross Loans (%)	8.4	8.3	10.1	8.1	7.5	8.5[6]
Tangible Common Equity / Risk Weighted Assets (%)	14.2	13.4	13.4	13.4	12.9	13.5[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	46.1	47.8	54.6	44.8	44.4	47.6[6]
Net Interest Margin (%)	3.6	3.4	3.1	3.1	3.5	3.4[6]
PPI / Average RWA (%)	3.3	2.9	2.4	2.7	3.0	2.9[7]
Net Income / Tangible Assets (%)	1.3	0.5	0.6	-0.4	0.7	0.5[6]
Cost / Income Ratio (%)	47.7	50.7	56.5	49.6	48.6	50.6[6]
Market Funds / Tangible Banking Assets (%)	17.8	18.6	15.3	18.3	17.7	17.5[6]
Liquid Banking Assets / Tangible Banking Assets (%)	15.5	17.9	17.6	19.7	18.0	17.7[6]
Gross Loans / Due to Customers (%)	114.3	111.4	111.0	112.6	114.2	112.7[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] Basel I; IFRS. [4] May include rounding differences because of the scale of reported amounts. [5] Compound annual growth rate (%) based on the periods for the latest accounting regime. [6] Simple average of periods for the latest accounting regime. [7] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Profile

Banistmo, S.A. (Banistmo) is a diversified commercial and consumer lender based in Panama. As of June 2023, the bank was the second-largest lender in the country, with a 12.9% market share in terms of domestic loans and 9.9% in terms of domestic deposits. Moreover, the bank holds significant market shares in most of loan segments and is particularly strong in the construction sector (20% market share). Banistmo's residential mortgage portfolio accounted for about 31% of total loans as of June 2023, followed by commercial (22%), consumer loans and credit cards (16%), construction (14%) and manufacturing (6%).

Banistmo was acquired by Bancolombia in 2013 and it is an important subsidiary of the parent, accounting for about 13% of its total consolidated assets as of June 2023. As of June 2023, the bank reported total assets of $10.6 billion and gross loans of $8.1 billion.

Detailed credit considerations

Asset quality pressured by large troubled exposures on the real estate segment

Banistmo's problem loans, measured as loans classified as stage 3, stood at a high 8.4% of gross loans as of June 2023, albeit gradually improving from the 10.1% peak of 2021 year-end. The bank's high problem loans are mainly driven by certain large impaired loans in the real estate segment -which, however, benefit from a high coverage by real collateral- and also due to the unwinding of relief measures implemented in Panama in 2020 and 2021. In turn, the bank's 90 days past due loans increased to 5.4% of gross loans as of June 2023 from 3.1% as of year-end 2022, higher than the system average of 2.7%.

While the bank holds a relatively large level of reserves in its balance sheet, at 5.3% of gross loans in June 2023, and a high share of real guarantees that helps to mitigate future asset risk pressures, the loan loss reserve coverage stood at 65% of impaired loans in June 2023, a level that is close to peers in Panama but below global peers.

Banistmo's asset quality benefits from relatively low loan-to-value (LTV) in its mortgage portfolio (31% of total loans), with more than 90% of loans with LTVs lower than 90%. On the other hand, the bank has an exposure to the construction and overall commercial real estate sector above that of the Panamanian system, at about 12% of gross loans and 87% its TCE as of June 2023. These segments were among the worst performers in terms of asset quality since 2020 -and even before in some cases- and are one of the main drivers of Banistmo's weak asset quality metrics.

Continued strong capitalization, supported by prudent loan growth and limited dividend payouts

Banistmo's capital position is a key credit strength, and has protected its credit profile from the strain caused by the pandemic. As of June 2023, the bank's capitalization ratio, measured as tangible common equity (TCE)/Moody's-adjusted risk-weighted assets (RWA), was a strong 14.2%. Despite its subdued profitability, the bank's capitalization has benefited from continued earnings retention and conservative dividend payout policy adopted by its shareholder, reflecting Bancolombia's commitment to the financial flexibility and franchise positioning of its subsidiary in Panama. Despite the announced dividend payout of close to $75 million on the third quarter of 2023, we expect our assessment of the bank's capital and overall credit profile to remain commensurate with its current BCA.

The bank's capitalization ratios have remained sound following the increase in expected loss provisioning as a result of the introduction of IFRS 9 in 2018, the introduction of increased capital requirements for market and operational risks in Panama in 2019 and the pressure from weaker bottom line results between 2020 and 2022.

Modest profitability as high credit costs offset the bank's ample interest margins, albeit recently improving

Banistmo's bottom-line results have historically been below peers due to higher credit costs, reporting a five-year average net income to tangible assets (NI/TA) ratio of 0.5% at the end of 2022. In the first half of 2023, performance improved backed by higher margins and lower credit costs, and NI/TA ratio increased to 1.3%, supported by a fall in loan loss provisions to 0.6% of gross loans in June 2023, from 1.6% in 2022 (1.8% last five-years average). Amid still below-trend economic growth and tight refinancing conditions globally in 2024, we expect the bank to continue to reinforce provisions for loan losses, which could continue to pressure future bottom-line results.

Banistmo's profitability has been sustained by relatively high NIMs, which widened in 2022 and first half of 2023 to 3.4% and 3.6%, respectively, from 3.1% in 2021 and 2020, driven by the bank's relatively favorable funding costs and its ability to reprice loans amid the high interest rates environment. We expect Banistmo's profitability to remain supported by interest margins while credit costs could still pressure bottom line results. Despite the reduction in loan loss provisions driving the recovery in the bank's profitability in the first half of 2023, the significant size of impaired loans still poses risks to the stability of the bank's earnings, which are in turn key to the maintenance of its solid capital buffers. In the medium term, Banistmo's inexpensive funding profile and diversified loan book will likely help sustain its ample margins, in turn supporting overall profitability.

Favorable funding profile based on core deposits balances moderate liquidity buffers

Banistmo's funding profile is another key credit strengths because the bank is mostly funded by relatively inexpensive, granular and stable retail deposits. Customer deposits fund about 67% of total assets and are mostly sourced from local retail clients. The bank's market funds, which stood at 17.8% of tangible banking assets as of June 2023, are diversified among global and local issuances, bank borrowings and interbank deposits. In addition, Banistmo has access to an ample base of correspondent banks, supported by the bank's ownership by Bancolombia.

Liquid assets accounted for 15.5% of Banistmo's tangible banking assets as of June 2023, a modest level particularly in light of the absence of a true lender of last resort in Panama and the associated higher liquidity risks for the Panamanian banking system in general. On the other hand, close to 95% of its liquid resources are invested in high-quality assets, such as cash and equivalents, deposits in banks and investment-grade sovereign debt, which in turn support the bank's consistently strong Liquidity Coverage ratios. Moody's liquid assets metric does not include corporate bonds recognized at amortized costs, which account for about 6% of tangible banking assets, as they may be illiquid in times of stress.

Banistmo's ratings incorporate Panama's Moderate Macro Profile

Panama's Moderate Macro Profile incorporates the small size of the economy, the country's relatively high income level and our expectation of still-favorable medium-term economic growth, although at lower rates than over the past decade. The coronavirus pandemic weighed significantly on Panama's economy in 2020, resulting in an 18% real GDP contraction relative to 2019. However, the economy rebounded in 2021-22 and returned to pre-pandemic GDP levels in real terms. As a dollarized economy without a central bank, Panama lacks its own monetary policy. The dollarized financial system has helped ensure macroeconomic stability, but has increased the dependence on offshore financing and limited the scope of economic policymaking.

Strong economic growth in the past fueled banking system expansion over the five years before the outbreak of the coronavirus, and credit penetration is among the highest in Latin America, although moderate by global standards. Loan growth has eased recently, in line with weaker economic activity. Banks remain largely deposit funded, reflecting both depositor confidence and the relatively stable operating environment. However, the absence of a lender of last resort, a significant share of deposits from foreigners and concerns about money laundering pose refinancing and repricing risks, mainly in offshore banks. The banking system is relatively fragmented, and some consolidation among smaller banks is likely because of strong competition and their limited economies of scale.

ESG considerations

Banistmo S.A.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Banistmo's **CIS-2** indicates that ESG considerations do not have a material impact on the rating to date. Banistmo and its parent Bancolombia have a track record of sound risk management practices, which contains governance risks despite the entities' relatively concentrated ownership structure.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Banistmo faces moderate exposure to environmental risks because of its portfolio exposure to carbon transition risk, which benefits from the bank's diversification, being one of the largest lenders in Panama. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Environmental
Banistmo faces moderate exposure to environmental risks because of its portfolio exposure to carbon transition risk, which benefits from the bank's diversification, being one of the largest lenders in Panama. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social
Banistmo faces high industrywide social risks related to customer relations. As one of the largest lenders in Panama with significant retail operations, Banistmo faces regulatory and litigation risks, requiring the bank to meet high compliance standards. Opportunities from financial inclusion are reflected in a better-than-industry-average exposure to demographic and societal trends. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance
Banistmo has low governance risks, as its risk management framework and corporate governance are in line with industry practices. Because Banistmo is fully-owned by Bancolombia S.A., we have aligned the subsidiary's board structure, policies and procedures score with that of its parent -which captures the bank's concentrated ownership- given the bank's strategic importance and public affiliation to the parent, the parent's oversight of its subsidiary and the regulated nature of both entities.

Support and structural considerations

Government support considerations
Banistmo's foreign-currency Baa3 deposit and senior unsecured debt ratings are in line with the bank's Adjusted BCA. We do not assume government support for privately owned banks in Panama because it is a fully and legally dollarized country, with no central bank to act as a true lender of last resort.

Counterparty Risk (CR) Assessment
Banistmo's CR Assessments are Baa2(cr)/P-2(cr)
Banistmo's CR Assessment is positioned one notch above the Adjusted BCA of baa3 and, therefore, above its deposit and senior unsecured debt ratings, reflecting our view that its probability of default is lower than that of deposits or senior unsecured debt. Senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimize losses and avoid the disruption of critical functions.

We do not assume government support for the CR Assessment, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk Ratings (CRRs)

Banistmo's CRRs are Baa2/P-2

Banistmo's CRRs are positioned one notch above the Adjusted BCA of baa3 and, therefore, above its deposit and senior unsecured debt ratings, reflecting our view that CRR liabilities have a lower probability of default because they will more likely be preserved to minimize banking system contagion, minimize losses and avoid the disruption of critical functions.

We do not assume government support for the CRRs, in line with our support assumptions on deposits and senior unsecured debt.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Banistmo, S.A.

Macro Factors		
Weighted Macro Profile	**Moderate**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	8.7%	b1	↔	b1		
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.2%	baa1	↔	baa2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.5%	ba3	↔	ba1	Expected trend	
Combined Solvency Score		ba1		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	18.6%	baa3	↔	baa3		
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	17.9%	ba2	↔	ba2		
Combined Liquidity Score		ba1		ba1		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa2		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa3	0		Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	0	Baa3(cr)	
Deposits	0	0	ba1	0		Ba1
Senior unsecured bank debt	0	0	ba1	0		Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BANISTMO, S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured	Ba1
PARENT: BANCOLOMBIA S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa2
Subordinate	Ba3 (hyb)

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and BCA.

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