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Ratings

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Global Bank Corporation y Subsidiarias

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Global Bank Corporation y Subsidiarias

SACP	bbb-	+	Support	0	+	Additional Factors	0

Anchor	bbb-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:

- Solid market position in the corporate and commercial segments;
- Resilient customer base that provides business stability, which will help the bank navigate the pandemic crisis; and
- Diversified funding structure, coupled with manageable short-term financial obligations.

Weaknesses:

- Last acquisition has slightly pressured the capitalization levels;
- Stiff competition in Panama has weighed on the bank's net interest margins (NIMs)and profitability; and
- Weakening asset quality metrics, reflecting recent economic slowdown in Panama.

Outlook: Stable

The stable outlook on Global Bank for the next 24 months incorporates our belief that the bank will be able to cope and maintain its risk-adjusted capital (RAC) ratio around 7.5% despite weaker asset quality metrics (but still at manageable levels) and lower earnings. In addition, we consider that the bank will be able to retain a solid funding profile, supported primarily by deposits, which will give the bank enough financial flexibility to meet all of its financial obligations.

Downside scenario

We could lower the ratings in the next 24 months if Global Bank's consolidated RAC ratio consistently drops below 7%. This could happen if loan-loss reserves rise above our expectations, hurting its bottom-line and retained earnings. Additionally, we could lower the ratings if the bank's asset quality deteriorates beyond our expectations and is no longer in line with the average of the rest of the Panamanian banks.

Upside scenario

We consider that given the challenging macroeconomic conditions stemming from the pandemic, an upgrade of Global Bank in the next 24 months is unlikely.

Rationale

The issuer credit ratings (ICRs) on Global Bank continue to reflect its satisfactory business stability, supported by consistent operating revenue generation and a substantial market position in the highly competitive Panamanian banking system. The ratings also incorporate our belief that the consolidated bank's projected RAC ratios for the next 24 months will remain at around 7.5% despite lower internal capital generation. We also expect asset quality metrics to slip but remain at manageable levels. Finally, the ratings take into account Global Bank's diversified funding structure that leans on a sticky deposit base with manageable short-term financial obligations. The stand-alone credit profile for Global bank is 'bbb-'.

Anchor:'bbb-' for banks operating solely in Panama

Table 1

Global Bank Corporation y Subsidiarias Key Figures

		--Year-ended June 30--			
(Mil. PAB)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	8,525.4	8,328.2	6,538.5	6,608.2	6,015.1
Customer loans (gross)	6,390.9	6,384.2	4,997.2	5,117.4	4,741.2
Adjusted common equity	657.8	681.3	579.8	544.8	470.6
Operating revenues	181.5	212.1	193.2	208.0	202.2
Noninterest expenses	99.1	136.3	107.6	103.6	100.7
Core earnings	49.9	46.0	66.8	76.4	80.1

*Data as of March 31.

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 around 3% in 2020 and grow 4% in the following 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 disruption in international trade would increase downside risks for the country's economic growth, potentially damaging growth prospects. For 2021, GDP could grow around 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 in Panama City, will likely maintain 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 crisis. We forecast NPLs and credit losses to reach 2.4% and 1% during 2020, respectively, from around 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, 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. FATF's missing recommendations are primarily outside the Panamanian financial sector, limiting the possibility of a significant impact on it.These factors, along with the regulator's efforts to strengthen the banking system's institutional framework, should allow market confidence to remain unaffected so far, in our view.

Business position: Lower origination focusing on existing clients and asset quality

Table 2

Global Bank Corporation y Subsidiarias Business Position

		--Year-ended June 30--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	181.5	212.1	193.2	208.0	202.2
Commercial & retail banking/total revenues from business line	92.1	95.1	95.0	100.0	100.0
Trading and sales income/total revenues from business line	1.2	0.4	1.2	N/A	N/A
Other revenues/total revenues from business line	1.4	4.5	3.8	N/A	N/A
Investment banking/total revenues from business line	1.2	0.4	1.2	N/A	N/A
Return on average common equity	8.6	6.6	11.2	14.0	16.6

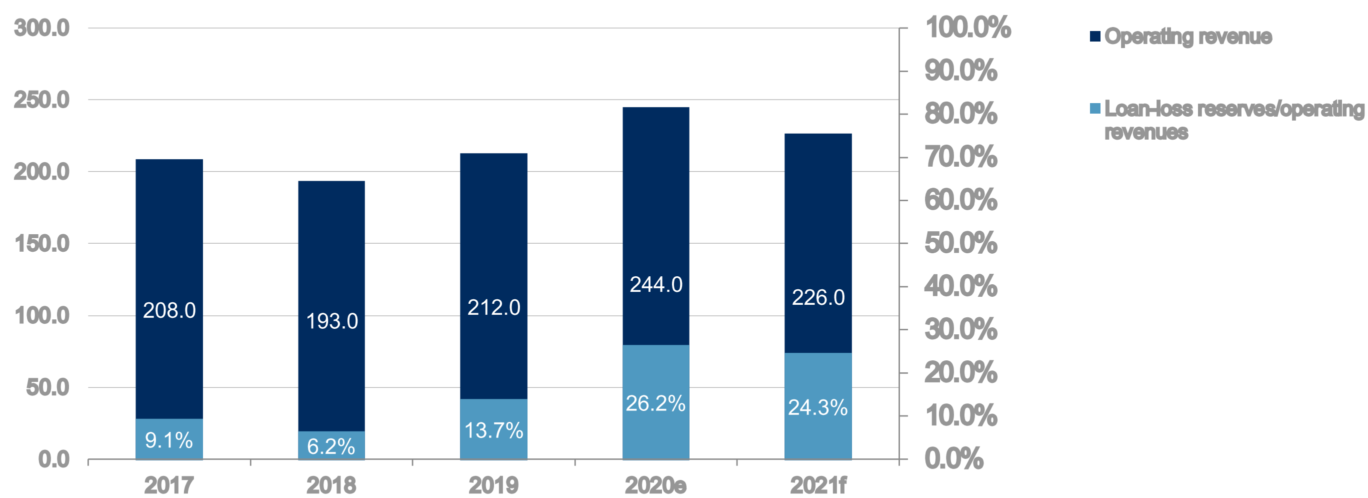
*Data as of March 31. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

The bank's strategy, in response to the COVID-19 pandemic, is to focus on maintaining higher liquidity levels, controlling asset quality metrics, and keeping conservative originating standards. In our view, this is consistent with other banks in the region are doing. Global Bank provided forbearance to almost all its consumer loan portfolio in which around 60% of them continue to make some payments, improving the bank's revenue generating ability during these challenging times. On the other hand, the bank is taking a case-by-case approach to its commercial loans, providing relief to 40%-45% of such loans. Therefore, Global Bank's provision of loan forbearance accounts for almost 50% of its total portfolio, which is in line with the rest of the Panamanian financial system.

With the relatively recent acquisition of Banvivienda, Global Bank became the third-largest bank in Panama with a market share of around 12% as of March 2020. Through this acquisition, the bank was aiming to increase its margins and diversify revenue sources through an expanded mortgage portfolio. However, due to the pandemic-induced economic crisis, this strategy will take more time to realize the benefits. However, the bank's operating revenue during the first nine months of its fiscal year (June 2019 – March 2020). As of the latter date, the bank generated $181 million in operating revenue, and we forecast operating revenues to reach $230 million by June 2020.

Chart 2

Operating Revenues Versus Loan-Loss Reserves

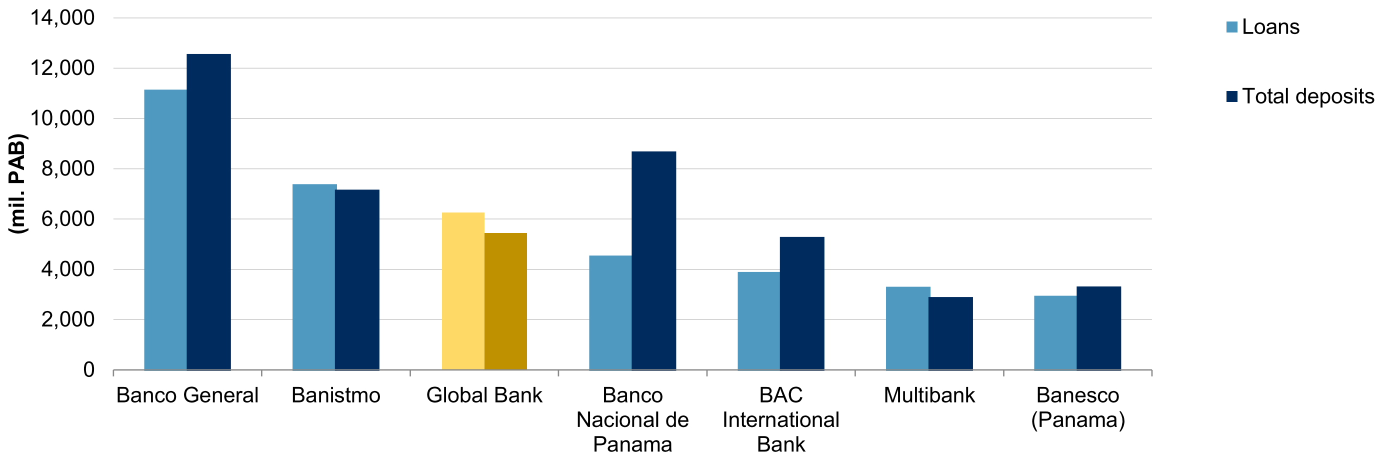


e--Estimate. f--Forecast. Source: S&P Global Ratings.

Finally, given the tough macroeconomic conditions in the region, Global Bank's credit portfolio has remained flat for the past nine months, and our base-case scenario assumes that prepayments and lower loan originations will cause portfolio to contract around 2% during 2020. However, we expect the bank to turn this around in the upcoming years because of likely better economic conditions in the country.

Chart 1

Prominent Position In Terms Of Loans And Deposits
Main Panamanian banks



PAB--Panama balboa. **Data as of March 2020. ***BAC International is not considered in a consolidated basis, only its presence in Panama. Source: Superintendencia de Bancos de Panama.

Capital and earnings: Consolidated projected RAC ratio at about 7.5% for the next 24 months

Table 3

Global Bank Corporation y Subsidiarias Capital And Earnings

		--Year-ended June 30--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	14.2	13.8	14.3	13.5	11.1
Adjusted common equity/total adjusted capital	84.1	81.7	83.4	83.0	95.4
Net interest income/operating revenues	73.2	73.6	74.7	73.9	74.5
Fee income/operating revenues	18.9	21.4	20.2	21.7	21.0
Market-sensitive income/operating revenues	1.2	0.4	1.2	0.9	2.6
Noninterest expenses/operating revenues	54.6	64.3	55.7	49.8	49.8
Preprovision operating income/average assets	1.3	1.0	1.3	1.6	1.8
Core earnings/average managed assets	0.8	0.6	1.0	1.2	1.4

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

We base our capital and earnings assessment on the bank on our consolidated forecast RAC ratio, which we expect to average 7.5% for the next 24 months. This capital base is sustained by internal capital generation and an expected decrease of the bank's loan portfolio. Our RAC forecast for Global Bank also considers the following assumptions:

- Panama's GDP contraction of 3.0% in 2020 and growth of 4.2% in 2021 and 2022.
- Flat total loan growth for June 2020 and a 2% contraction for 2021.
- Net interest margins (NIM) at 2.2% for June 2021. Nonperforming assets (NPAs) deteriorating to around 2.1% for

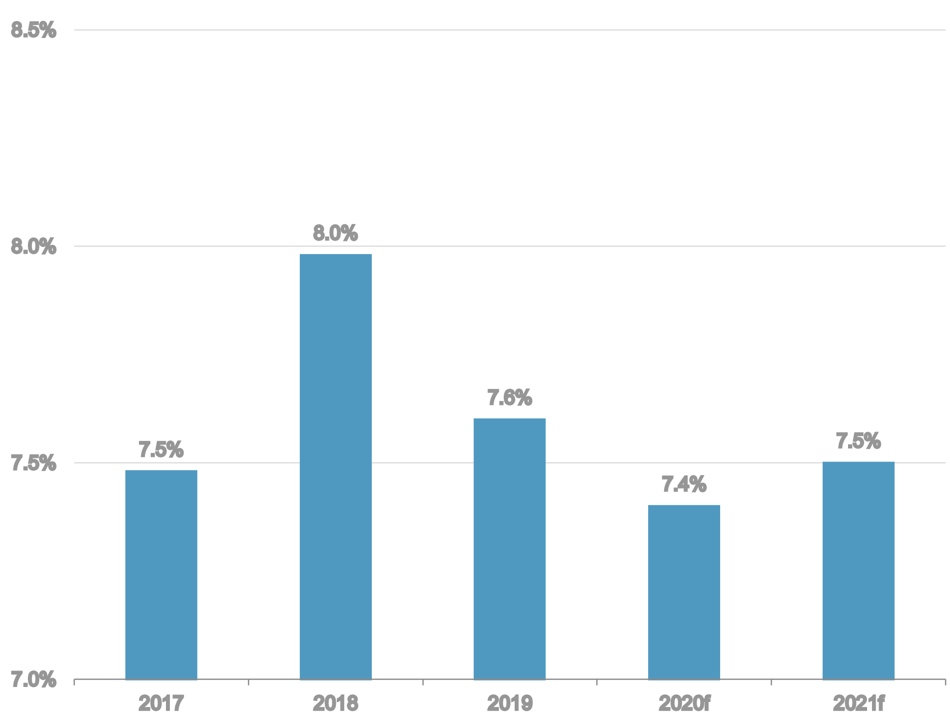
June 2020 and around 3.7% for 2021 as the loans that were granted forbearance begin to show on the bank's balance sheet.

- A sharp increase in loan-loss reserves to around $65 million for June 2020 and increasing further to $78 million for 2021, compared with $29 million for the end of 2019.
- An increase in credit losses to around 0.9% for June 2021 , particularly among unsecured loans that will be affected by the pandemic.
- Return on assets (ROA) of around 0.4% and efficiency ratios around 56%.
- A dividend payout of $36 million for 2020 and $20 million for 2021.

Given the higher loan-loss provisions, we expect profitability to decrease for the next two years. We forecast ROAA to drop to 0.49% by June 2020 and drop towards 0.35% next year, compared with around 1% in 2018 and 0.6% in 2019.

Chart 3

Risk-Adjusted Capital Ratio



f--Forecast. Source: S&P Global Ratings.

Risk position: Rising NPAs amidst a crisis environment but still at manageable levels

Table 4

Global Bank Corporation y Subsidiarias Risk Position

		--Year-ended June 30--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	0.1	27.8	(2.3)	7.9	13.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	36.5	N/A	N/A	N/A
Total managed assets/adjusted common equity (x)	13.1	12.4	11.3	12.2	12.8
New loan loss provisions/average customer loans	0.7	0.5	0.2	0.4	0.2
Net charge-offs/average customer loans	0.3	0.2	0.2	0.3	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.2	2.0	1.8	1.3	0.8
Loan loss reserves/gross nonperforming assets	95.5	92.7	53.0	65.5	98.6

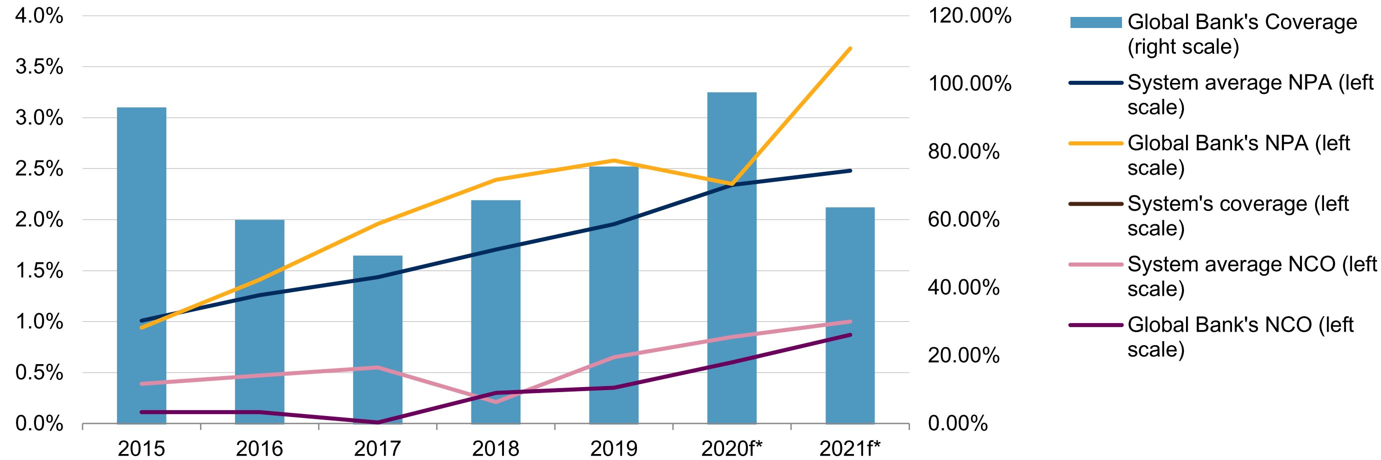
*Data as of March 31. N/A--Not applicable.

We expect NPAs to rise, because of the pandemic crisis, but to remain at manageable levels. Given the forbearance plans ("prestamos modificados") until December 2020, we expect asset quality to weaken until next year. In this sense, we are forecasting NPA at around 3.7% by June 2021, while the bank's three-year average was 1.7%. However, the bank will start increasing loan loss reserves during 2020 to be prepared for this deterioration. In this sense, the bank's reserves will grow almost 120% compared with June 2019 and almost 135% for June 2021. Finally, we believe credit losses will increase during this period reaching almost 1% coming from 0.24% in 2019

On the other hand, the bank's loan portfolio has not changed significantly since Banvivienda acquisition. Commercial loans account for 54% of total, followed by mortgages (28%), consumer loans (17%), and leasing (1%). The bank's commercial loans are fairly diversified by industries, with only 6% to small- to mid-size enterprises (SMEs). However, construction loans account for 22% of the total commercial loans, which is higher than the average of the industry (12.5%). We will closely monitor the behavior of these loans. Finally, the bank also has no significant concentrations in terms of clients because its top 20 clients represent only around 13% of its total loan portfolio.

Chart 4

Asset Quality Metrics In Line With Those Of The System



*As of June. Source: S&P Global Ratings.

Funding and liquidity:Diversified funding base mainly consisting of an ample and sticky deposit base

Table 5

Global Bank Corporation y Subsidiarias Funding And Liquidity

		--Year-ended June 30--			
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	68.0	65.9	61.7	58.9	62.4
Customer loans (net)/customer deposits	122.1	129.7	142.5	149.1	140.1
Long-term funding ratio	92.8	93.4	91.7	89.6	89.3
Stable funding ratio	106.7	104.8	101.5	100.1	99.3
Short-term wholesale funding/funding base	8.0	7.3	9.4	11.6	11.7
Broad liquid assets/short-term wholesale funding (x)	2.1	2.0	1.6	1.3	1.2
Net broad liquid assets/short-term customer deposits	16.6	14.4	11.0	6.8	4.4
Short-term wholesale funding/total wholesale funding	23.7	20.4	23.3	27.0	30.8

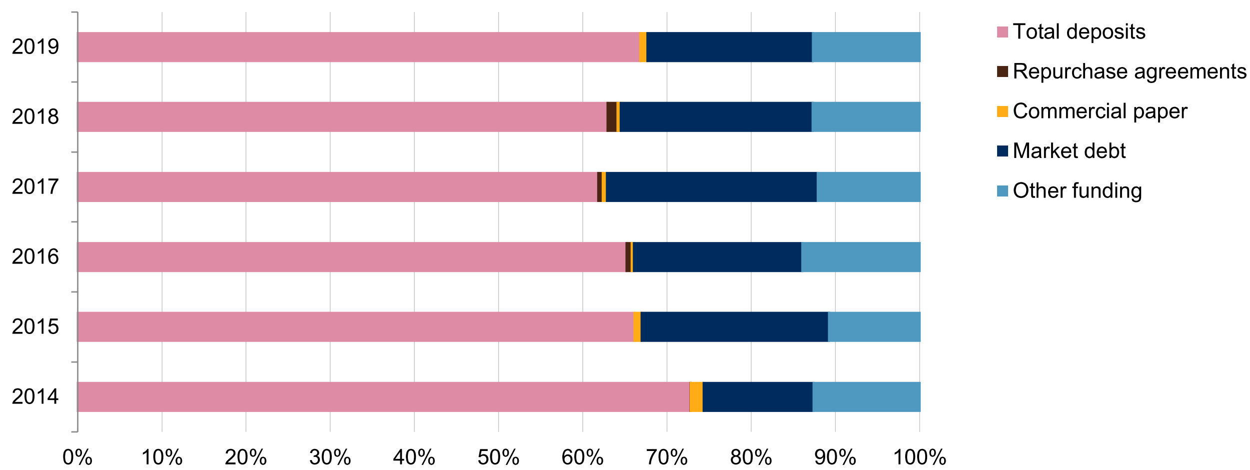
*Data as of March 31.

The bank entered the pandemic crisis with a diversified funding structure that's primarily based on a sticky and ample deposit base. The latter represents 68% of the total funding base as of March 2020 and mostly consisting of retail clients (90% of the total base). Furthermore, the bank has benefited from a fly-to-quality scenario that attracted deposits from smaller banks. The remainder of Global Bank's funding base consists of market debt (16.2%), banking lines (14.9%), and leasing liabilities and subordinated debt for the rest (0.4%). This funding structure results in a stable funding ratio (SFR) of 106.7%, which compares favorably with the three-year average of 102.1%.

In terms of liquidity, the bank has implemented a strategy that strengthened its cash and money market to around $800 million as of March 2020 from $556 million as of December 2019. Global Bank plans to maintain such liquidity levels in case of any eventuality that could arise, given the difficult economic conditions. As a result, the bank's broad liquid assets to short-term wholesale funding ratio was 2.13x coming from a three-year average of 1.6x. Finally, even if the bank doesn't have any significant maturities in the next 12 months, it has a considerable maturity in October 2021 of $620 million. This bond represents nearly 54% of the bank's total market debt and about 8.3% of total funding. Global Bank is monitoring the market for a possible refinance; however, if market conditions are unfavorable, the bank is exploring different bilateral facilities plus internal liquidity to repay the upcoming maturity.

Chart 5

Deposits Support Diversified Funding Base



Source: S&P Global Ratings.

Related Criteria

- 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
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment 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 August 14, 2020)*

Global Bank Corporation y Subsidiarias	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
22-Jun-2017	BBB-/Stable/A-3
28-Oct-2016	BBB-/Negative/A-3
18-Mar-2013	BBB-/Stable/A-3
Sovereign Rating	
Panama	BBB+/Negative/A-2

*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.