FitchRatings

Multibank, Inc.

Banks
Universal Commercial Banks
Panama

Key Rating Drivers

Shareholder Support: Multibank Inc.'s (Multibank) Issuer Default Ratings (IDRs), Shareholder Support Rating (SSR), national and senior unsecured debt ratings are based on the potential support it would receive from its shareholder Banco de Bogota, S.A. (Bogota), if required. The bank's Long-Term IDR is equalized to Bogota's Long-Term IDR, reflecting Fitch Ratings' assessment of the high propensity of support from its parent. The Stable Rating Outlook on Multibank mirrors that of the parent.

Strategically Important Subsidiary: In Fitch's view, Multibank supports its group's franchise and market position in Panama and contributes to the group's business model and regional strategy, providing key products and services in a market considered core.

Reputational Risk and Integration: Growing integration with Bogota improves Multibank's franchise, provides relative business model stability and benefits the subsidiary's business generation. Fitch also weighs with high importance the reputational risk that an event of default by Multibank would constitute to its shareholder, severely damaging the franchise.

Sound Franchise, Albeit Medium-Sized: In Fitch's opinion, Multibank's restructuring process - following its ownership change in 2020 - is leading to some business reorganization, the positive effects of which may take more time to produce effective results. Regardless, Fitch understands the importance of building a solid business model framework, more aligned to the new parent's interests. Also, Multibank's Viability Rating (VR) still reflects its sound yet medium-sized franchise within the Panamanian banking system, with an estimated market share of around 5%–6% in terms of domestic loans and a 2018–2021 average total operating income of USD157 million. Fitch also considers that the bank's business profile benefits from a relevant integration to Grupo Aval as reflected in growing, strong customer relationships, higher business generation and a more-robust risk management model.

Reduced Pressure on Asset Quality: Multibank's impaired loans/gross loans ratio of 2.1% at YE21 remained above its four-year average of 1.7% but was one of the lowest ratios among peers. Fitch expects the bank to stabilize its delinquency metrics gradually and return to its pre-coronavirus pandemic level, due to the decreasing proportion the modified portfolio represents and the improvement in commercial loan placement. The bank's reserve coverage was reasonable and roughly in line with the sector average.

Profitability Still Below Historical Levels: Multibank's reported operating profit/risk-weighted assets (RWA) ratio was around 0.5% as of YE21 (four-year average: 0.9%). Decreasing Covid-19-related loan impairment charges, along with higher revenue streams and the absence of extraordinary acquisition-related expenses, favored gradual improvement from the losses generated in 2020. Profitability remains weaker than that of its closest domestic peers, although Fitch recognizes management's strategic focus to increase profitability.

Adequate Loss Absorption Capacity: Multibank's Common Equity Tier 1 (CET1) capital ratio declined to 11.3% as of 2021 from 12.2% at YE20, reflecting higher RWA. However, this ratio compares favorably to the minimum regulatory requirement (4.5%). Loan loss allowances for impaired loans are sound, which further supports the bank's loss absorption capacity. Fitch's assessment also considers the ordinary support that it could receive from its parent, if the need arises.

Sound Funding and Liquidity: Multibank relies on a solid customer deposits base, strengthened by the support of a strong regional group, and also on diversified funding sources. At YE21, its loans to deposit ratio of 118.7% (2020: 105.7%) reflected a mild reduction of deposits by 3.4%. The bank's liquidity position is sound, as reflected in a liquid assets to deposits ratio above 35% for the last four years.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating[a]	bb
Shareholder Support Rating	bb+
[a]Downgraded from bb+ on May 18, 2022	
National Rating	
National Long-Term Rating	AA(pan)
National Short-Term Rating	F1+(pan)
Sovereign Risk (Panama)	
Long-Term Foreign-Currency IDR	BBB–
Long-Term Local-Currency IDR	BBB–
Country Ceiling	A–
Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Multibank Inc. at 'BB+'; Outlook Stable (May 2022)

Panamanian Banks: 2H21 Review and Update (October 2021)

Fitch Ratings 2022 Outlook: Latin American Banks (December 2021)

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Ratings Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of Multibank's IDR, SSR and National Ratings could result from a downgrade of Banco de Bogota's IDR or from a reduced propensity of Banco de Bogota to support its subsidiary, both of which are unlikely at present.
- Multibank's VR could be downgraded as a result of a sustained deterioration of profitability (operating profit to RWAs below 0.5%) and asset quality ratios that undermine the bank's financial performance, driving a decline in its Common Equity Tier 1 (CET1) ratio consistently below 10%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Positive rating actions on Multibank's IDRs, National Ratings, senior unsecured debt rating and SSR could be driven by positive rating actions on Banco de Bogota's IDR.
- Positive rating actions on Multibank's VR could be driven by the sustained strengthening of the business profile along with profitability indicators consistently above 2.5% and a CET1 of at least 15%.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior Unsecured: Long Term	BB+
Senior Unsecured:	AA
Senior Unsecured:	F1+

Source: Fitch Ratings.

Senior Unsecured Debt: Multibank's ratings of its outstanding senior unsecured obligations are at the same level of the company's IDR as the likelihood of default of the obligations is the same as the one of Multibank.

Factors that could, individually or collectively, lead to negative rating action/downgrade

- Multibank's senior unsecured debt would mirror any potential downgrade of its IDRs.

Factors that could, individually or collectively, lead to positive rating action/upgrade

- Multibank's senior unsecured debt would mirror any potential upgrade of the bank's ratings.

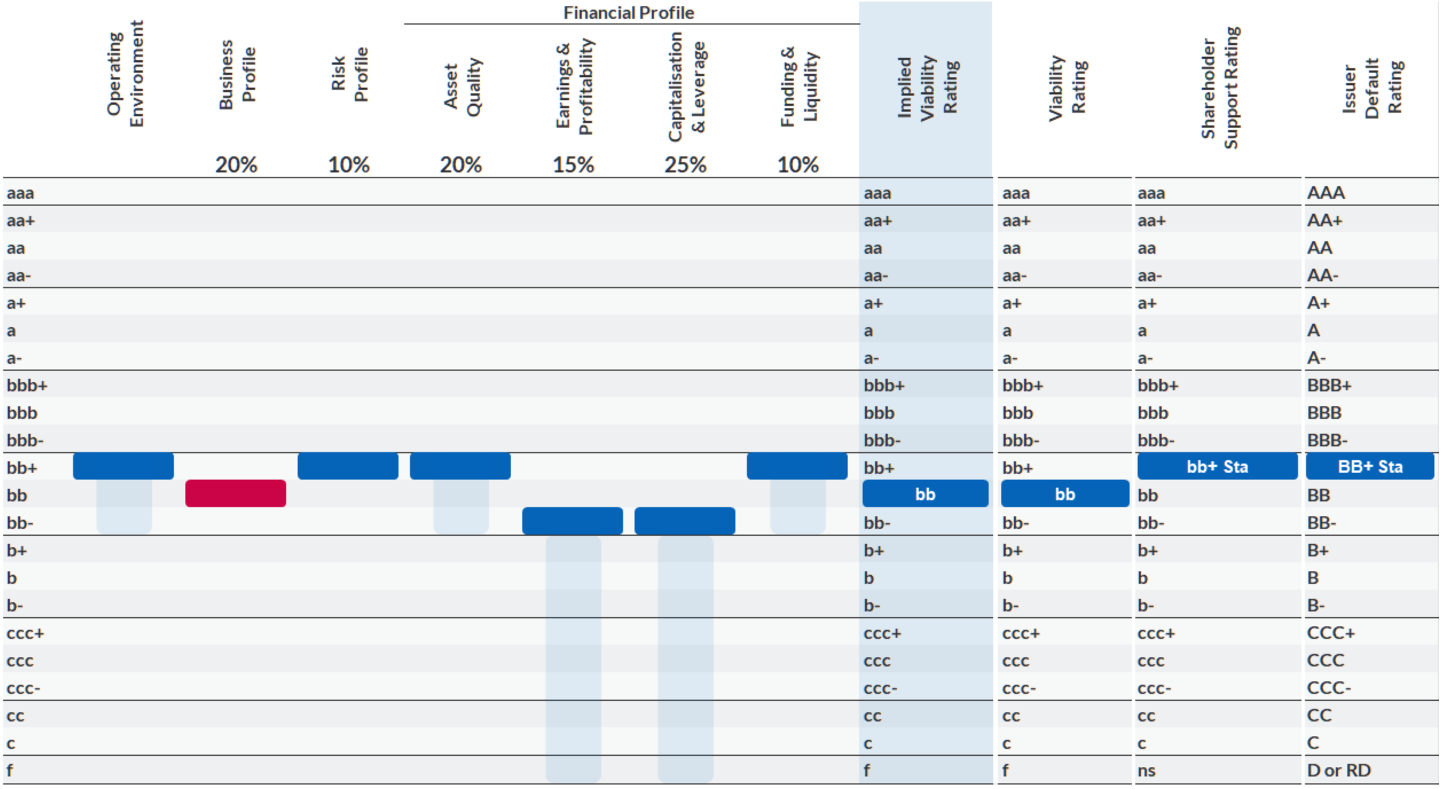
Significant Changes from Last Review

Issuer Level

Organizational Structure Optimization

In December 2020 in order to follow the best practices and for efficiency and transparency, Multibank requested the regulator for approval to return the banking license of its subsidiary Multibank Cayman. Following approval in May 2021, the subsidiary was closed.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The Business Profile score has been assigned at 'bb', above the implied score of 'b' due to the following adjustment reasons: Business Model (positive), Group Benefits and Risks (positive)

The Earnings and Profitability score has been assigned at 'bb–' above the implied score of 'b' due to the following adjustment reasons: Historical and Future Metrics (positive).

The Capitalization and Leverage score has been assigned at 'bb–' above the implied score of 'b' due to the following adjustment reasons: Capital Flexibility and Ordinary Support (positive).

Company Summary and Key Qualitative Factors

Operating Environment

Banks Performance Recovering Dependent on Employment and Modified Loans

Fitch assigned Panama's operating environment (OE) a score of 'bb+'/Stable given the ongoing economic recovery and lower risks that fiscal or economic pressures could affect the recovery prospects of the banks' financial performance. However, in Fitch's opinion, Panama's credit growth rate and the recovery of the banks' loan quality and profitability remain sensitive to the recovery of employment and the management of loans with relief measure, which represented 9.5% of total loans at 1Q22. Credit growth has a slower pace than economic recovery as Fitch estimates a GDP growth of 7% for 2022, while credit growth does not exceed 5%. Furthermore, Fitch expects that the non-performing loans (NPLs) ratio to remain around 2.5% and the return on average assets (ROAA) close to 1.0%.

Business Profile

Multibank's sound franchise remains medium-sized, evidenced by its market share of close to 6% in terms of local loans. However, the bank holds a relevant participation in some segments, such as agriculture, construction and vehicle loans, where it ranks second in each. Fitch believes that Multibank's franchise benefits from its strong integration with Grupo Aval, one of Colombia's leading financial conglomerates, which has allowed the bank to generate a growing business volume backed by the group' s solid brand.

Multibank’s consistent business model is oriented toward universal banking, offering a broad range of financial services, mainly corporate, investment, retail banking and insurance services. Its loan portfolio is balanced between the corporate and retail segments, and diversified by sector. Multibank’s revenue diversification is moderate and similar to its peers’ as it relies mostly on interest income, which averages about 83% of total income. The bank's business model proved its strength and consistency by maintaining stable levels of revenue and operating performance under stressed economic conditions that followed the acquisition process.

Risk Profile

Sound Credit Risk Framework

Multibank has strengthened its risk frameworks, while supporting its business volumes and earnings. Risk management policies and procedures are closely integrated with those of its parent. This includes limits on credit, market and liquidity risk exposures. By belonging to Grupo Aval, the bank's risk management is under its parent’s regional supervision. Therefore, the bank has deeper risk management than that required by the local regulator and stands out from some of its local peers. The bank’s main financial risk is credit risk. This is expected, given the importance of its credit portfolio, which represented about 70% of its assets as of December 2021.

Fitch views Multibank’s underwriting standards as sound and fairly conservative. The bank has defined credit portfolio limits, by economic group, single debtor, sector and by exposure to foreign loans. According to management, there is a close monitoring of relevant corporate operations as reflected in a moderate concentration among its largest debtors, representing less than 15% of its total gross loan and around 1x its total equity. As for the retail portfolio, the loan assessment and approval process is largely automated. Mortgage and consumer loans represent close to 75% of the total retail portfolio. Nearly half of the mortgage loans, and close to 85% of the personal loans, have payroll deduction, which allows good control of delinquency, and favored NPL resilience once the relief ended. The bank maintains an average loan to value (LTV) of 80% for mortgage loans and 100% for construction loans, more prudent than general market practices in Panama. As for the rest of the portfolio, close to 70% of the loan book had an LTV of 70% or higher as of December 2021.

The bank carried out a client-by-client analysis in the moratorium process, reaching agreements with debtors who have started repaying, enabling the bank to reduce its modified portfolio (from 40% in March 2021 to 21% by YE2021). The bank maintains a strict follow-up of certain sectors such as tourism, which still exhibits some sensitivity to economic reactivation; favorably, these segments represent a relatively minor part of the total portfolio.

Financial Profile

Asset Quality

As of 2021, Multibank's asset quality remained relatively in line with that of year-end 2020, reaching a 90-day NPL of 2.1% and compared favorably to some local and regional peers. The stability of the indicator is related to a better than expected performance observed in the consumer segment, after the relief period in Panama ended, and by the improved commercial loan placement in line with the local economic reactivation.

The bank has extensively monitored its portfolio under relief measures, which has allowed it to keep its delinquency under control. During 2021, the percent of the loan portfolio under relief initiatives has gradually decreased reaching 21% of gross loans as of December 2021, down from 40% in March 2021, and the downtrend has continued in 2022. Of these, 1/3 are classified as doubtful or unrecoverable (7.2% of the total portfolio), but due to the bank's collection efforts, the payment reactivation rate is high. Fitch estimates that the pressure on asset quality should gradually decline as pending restructurings are resolved and as economic and labor conditions in the country stabilize.

Multibank's loan portfolio is generally well diversified by industry and economic group. The portfolio is fairly balanced between corporate and retail (52%/48%). The diversification by economic sector is moderate with only two sectors with concentrations above 10% of total loans as of December 2021 (commerce 13% and construction 15%). Multibank's 20 largest exposures accounted on average for less than 15% of total loans, considered moderate by Fitch. Favorably, they are all rated in lower-risk categories and have a long track record with the bank.

In 2021, the bank stabilized its provisioning requirements at a level considered to be consistent and sustainable, reaching an overdue coverage level of 105.5% (2020: 75.8%). The coverage stands at 181% when considering the dynamic provision and excess reserves in equity. Multibank has a solid level of collateral coverage given its business model, which includes leasing operations and mortgages. As of December 2021, the proportion of loans secured by some type of guarantee was close to 70% for corporates and retail.

Earnings and Profitability

Gradual Improvement of Profitability from 2020 Lows

In Fitch's view, profitability should continue to recover, although it is expected to be at a gradual pace, taking advantage of an increasing income earned on a growing loan portfolio, stable net interest margin (NIM) and loan impairment charges (LICs), and improved cost efficiency. However, Fitch believes it will remain below historical levels, relatively influenced by the moderate economic recovery prospects in the region for 2022, which could limit profits in the near term, as the bank would prudentially continue to maintain an important level of provisions.

Multibank's operating performance improved in 2021, driven primarily by the decreasing Covid-19-related LICs. The operating profit to RWA ratio was 0.5% at YE21, still below its moderate pre-pandemic levels, but above the operating losses of -1.2% at YE20. The vast majority of LICs recorded in 2020 were based on the estimation model that considered less favorable conditions, both at the debtor level and in the operating environment. As underlying conditions trended toward a reversal, the provision expense has returned to a more normalized level; however, forecasts indicate that it will continue to weigh on the bank's results.

The bank focused its efforts on generating a higher NIM, primarily by reducing its average cost of funds. At year-end 2021, it reached a NIM of 2.2% from 2% in 2020. Multibank's efficiency improvement was also a key issue. The extraordinary expenses that weighed on 2020 profitability, associated with the acquisition of Grupo Aval, are no longer incurred, and the bank has focused on the automatization of processes and cleaning up obsolescent accounts that come from the previous administration.

Capital and Leverage

Capitalization Supported by Ordinary Support

Multibank's capitalization metrics exhibit adequate levels, according to Fitch's opinion. However, the CET1 capital ratio declined to 11.3% at 2021 from 12.2% at YE20, mostly due to an increase in RWA in line with a growing loan book. This ratio is better than the bank's pre-pandemic average of 11.3% from 2017 to 2019, and better than the minimum regulatory requirements (4.5%). In the capitalization assessment, Fitch considers the support that could be provided by its parent company if needed.

Loan loss allowances for impaired loans are sound, providing a sizeable buffer to absorb higher unexpected impairments, despite its low earnings generation. Fitch does not anticipate any significant changes in Multibank's overall capital structure. The agency expects the CET1 ratio to remain adequate, driven by moderate asset growth, improvement in earnings, and sound reserves coverage, which support the stability of the capital ratio.

Funding and Liquidity

Multibank's strategy aims to expand its funding sources, which as of December 2021 consisted primarily of customer deposits (69%), followed by bank financing (21%), issuances and others (10%). As of YE21, the bank's Fitch-estimated loan-to-deposit ratio was 118.7% (2020:105.7%). Following a new pricing strategy, deposits shrank slightly by 3.4% in 2021, although with a high deposit renewal rate of over 80%, similar to previous years. This contained effect is related to the market's recognition of the group to which it belongs and the expected support it will get, if needed.

The bank has access to international funding and to international markets which compare favorably to some of its peers. The bank, benefiting from being part of Grupo Aval, has re-established relationships with multilaterals and negotiated with new entities. During 2021, negotiations with development banks that focused on SMEs and the agricultural sector resulted in new funding lines.

Multibank's liquid levels, mainly in the form of cash, deposits in banks and investment portfolio, are reasonable for its size and for responding to liquidity requirement scenarios. Its liquid assets represented as of 2021 close to 36% of its deposits. The 30-day regulatory liquidity requirement demands a minimum month-end liquidity coverage ratio (LCR) of 100%; Multibank has shown a level of coverage well above the required minimum.

Senior management continues to favor high liquidity levels. As a result, the bank has approximately 51% of its liquid investments placed in available for sale U.S. government bonds.

Support Assessment

Shareholder Support	
Parent IDR	BB+
Total Adjustments (notches)	0
Shareholder Support Rating:	**bb+**
Shareholder ability to support	
Shareholder Rating	BB+/ Stable
Shareholder regulation	1 Notch
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colors indicate the weighting of each KRD in the assessment.
■ Higher influence ■ Moderate influence ■ Lower influence

Fitch views Banco de Bogota's willingness and ability to provide support as high, because Multibank plays a core and long-term strategic role as the only direct Panamanian subsidiary within the group. The bank contributes to the business profile and regional strategy of its parent providing key product and services in a market considered to be core. The ratings also consider with high importance the huge reputational risk that a potential subsidiary default would pose to its parent, impacting its franchise.

Multibank's IDR is equal to Banco de Bogota's and its Stable Rating Outlook mirrors its parent.

Environmental, Social and Governance Considerations

Overall ESG

5
4
3
2
1

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1		n.a.	n.a.	5
Energy Management	1		n.a.	n.a.	4
Water & Wastewater Management	1		n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.	2
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1		n.a.	n.a.	2
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference	G Scale
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
					1

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.