MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first time Ba1 deposit ratings to Multibank, stable outlook

15 Jul 2022

New York, July 15, 2022 -- Moody's Investors Service ("Moody's") has assigned today a Ba1/Not Prime long- and short- term foreign currency deposit rating to Multibank, Inc. (Multibank), as well as a ba1 baseline credit assessment (BCA) and adjusted BCA. At the same time, Moody's assigned Multibank long and short-term counterparty risk ratings of Baa3 and P-3, respectively, and long and short-term counterparty risk assessments of Baa3(cr) and P-3(cr), respectively. The outlook is stable.

The following ratings and assessments were assigned to Multibank, Inc. (821896045):

Long-term Global Scale foreign currency deposit rating of Ba1, stable outlook

Short-term Global Scale foreign currency deposit rating of Not Prime

Long-term counterparty risk assessment of Baa3(cr)

Short-term counterparty risk assessment of P-3(cr)

Long-term foreign currency counterparty risk rating of Baa3

Short-term foreign currency counterparty risk rating of P-3

Adjusted baseline credit assessment of ba1

Baseline credit assessment of ba1

Assigned outlook: Stable

RATINGS RATIONALE

Multibank's ba1 BCA incorporates the bank's good capitalization metrics, which are supported by the low dividend payout policy and a well-established franchise in the corporate banking as a leading lender to certain economic segments and car financing segments in Panama (Baa2 stable).

The BCA of ba1 reflects the recent deterioration of the bank's level of problem loans measured as loans classified as Stage 3 (IFRS9) that reached 5.9% in March 2022, up from 4.8% of gross loans in December 2021, and above pre-pandemic 1.9% at the end of 2019. Over the next two to three quarters, problem loans are expected to reduce supported by the consistent economic recovery in Panama, anticipated for 2022 and 2023, that continue to benefit borrowers' repayment capacity and companies' performance. Multibank's low reserve coverage to Stage 3 loans at only 35.8% in March 2022, also remained well below the 80% average reported by its peers in Panama in the same period. However, the bank's loan book benefits from a high level of loan over-collateralization, and low borrower concentration (Top 20 borrowers represented 6% of gross loans and 0.5x of Tangible common equity (TCE) in March 2022), factors that mitigate the low loan loss coverage ratio maintained by the bank under IFRS standards. In addition, exposures to inherently risky segments of the economy, such as loans to the Commercial Real Estate (CRE) segment, are also relatively low compared to peers.

Multibank's capital position is a positive credit driver as the bank has historically maintained strong capitalization, which will be supported by more conservative dividend policy in the next years, as well as recovery in earnings generation expected for 2022. In March 2022, the bank's TCE to risk weighted assets ratio (TCE/RWAs), Moody's preferred capital metric, remained at around 14%.

In terms of profitability, the weak performance reported in 2020 and 2021 resulted from higher loan loss provisioning, lower margin on loans and low growth limited by weakened business conditions in the period. In the first quarter of 2022, the economic recovery has been supporting business volume and lower provisioning needs, which improved the quarter's bottom line results relative to previous periods. In March 2022, net income increased to 0.42% of tangible assets, from 0.31% in December 2021, though remaining still below 1.02% posted in 2019. The higher interest rates in Panama combined with an acceleration in credit origination will continue to support Multibank's net interest income and margins. In March 2022, net interest margin improved to 2.6% from 2.2% at the end of 2021, reaching pre pandemic levels.

As a medium size bank, Multibank is largely funded by market-based resources, that accounted for 30.2% of tangible banking assets in March 2022, higher than its peers in the country. This concentrated funding mix increases the bank's vulnerability in times of global volatility. Multibank's liquidity strategy has focused on expanding its domestic core deposits in the next 3 years, which will reduce the reliance on market funding, increase resources granularity and reinforce liquidity management.

Multibank's Ba1 foreign currency deposit rating is at the same level of its BCA and adjusted BCA of ba1. Moody's incorporates a very high probability of support from its ultimate parent, Banco de Bogotá S.A. (Baa2 stable, ba1) which, however, does not result in any rating uplift by affiliate support, because Banco de Bogotá's BCA is also ba1, at the same level of Multibank's BCA.

Corporate governance is highly relevant to banks' creditworthiness, and are largely internal rather than externally driven, and for Multibank we do not have any governance concerns. Multibank shows an appropriate risk management framework commensurate with its risk appetite and has improved since its acquisition by Banco de Bogota, and offsets risks stemming from concentrated shareholder ownership and a complex organizational structure. As such, corporate governance remains a key credit consideration and requires ongoing monitoring.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Multibank's ratings would arise from a sustainable reduction in the level of problem loans, combined with an increase in loan loss reserve coverage that would support the loss absorption capacity as the bank expands its business beyond its current focus. Positive pressure would also be exerted by consistent improvement in profitability benefiting capital ratios.

Conversely, the rating could be downgraded in case of further deterioration in asset metrics, high problem loans and low coverage ratios that could persist if the bank's high level of modified loans result in higher credit losses. This scenario would, in turn, impair profitability and capital buffers.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

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