Fitch Ratings

Banks
Universal Commercial Banks
Panama

Multibank, Inc.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Viability Rating	bb+
Shareholder Support Rating	bb+
National	
National Long-Term Rating	AA(pan)
National Short-Term Rating	F1+(pan)
Sovereign Risk	
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	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (November 2021)

National Scale Rating Criteria (December 2020)

Related Research

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

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

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Key Rating Drivers

Support-Driven Ratings: Multibank, Inc.'s ratings reflect the willingness and ability of parent Banco de Bogota, S.A. (BB+/Stable) to provide support should the need arise. Multibank's Stable Outlook mirrors Banco de Bogota's, which indicates that Fitch Ratings expects any additional fallout from the coronavirus pandemic to be manageable at current rating levels.

Significant Operation for Parent: Fitch believes Banco de Bogota's willingness to support Multibank derives from the significance as its only direct Panamanian subsidiary in the group's business model and regional strategy, providing key services in a core market. Additionally, Fitch's support assessment considers the reputational risk involved in the event of a default of the recently acquired operation, which could materially damage its franchise.

Good Business Profile: Multibank's Viability Rating of 'bb+' considers positively the bank's business profile, given its sound franchise but medium size, and because it benefits from strong customer relationships through its integration with Grupo Aval Acciones y Valores S.A.

Adequate Capitalization: Fitch expects Multibank's capitalization to remain adequate in 2022. Multibank's common equity tier1 (CET1) capital ratio declined to 11.6% at 3Q21 from 12.2% at YE 2020, reflecting higher risk-weighted assets (RWA). However, the ratio is an improvement from its average of 11.3% in 2017–2019. 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 it could receive from its parent as needed.

Controlled Asset Quality Pressured: Multibank's 90-day NPLs improved to 1.9% at 3Q21 from 2.1% at YE 2020, thanks to a better than expected performance in consumer loans after finalizing the relief period in Panama and by improved commercial loan placements related to the moderate economic recovery. However, the overall trend remains negative due to the significant proportion of the modified portfolio, which as of Sept. 30, 2021 represented close to 25% of gross loans, potentially leading to additional loan impairments.

Improved Profitability: Multibank's performance improved in 2021 due to decreasing loan impairment charges from the pandemic, along with higher revenue streams and lack of extraordinary expenses from the previous year related to the acquisition by Grupo Aval. Its operating profit/RWA ratio was 0.6% at 3Q21, above the negative 1.2% at YE 2020, but below the 2.0% average for 2017–2019 and lower than local peers'.

Rating Sensitivities

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

- A downgrade of Multibank's Issuer Default Rating (IDR) and National Long-Term Rating would be possible only if its Viability Rating and Banco de Bogota's IDRs are downgraded;
- A downgrade of Multibank's Shareholder Support Rating (SSR) could result from a downgrade of Banco de Bogota's IDR or from a reduced willingness of Banco de Bogota to support the subsidiary, neither of which is currently likely;
- Multibank's senior unsecured debt rating would mirror any downgrade on its IDRs;
- Multibank's Viability Rating could be downgraded from a sustained deterioration of profitability, with operating profit/RWA below 0.5%, and asset quality ratios that

undermine financial performance, driving a decline in its CET1 ratio consistently below 10% that leads to a downgrade of the Business Profile assessment score.

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

- Positive rating actions on Multibank's IDR, National Long-Term Ratings and SSR could be driven by positive actions on Banco de Bogota's IDR;
- Positive rating actions on Multibank's IDR and National Long-Term Ratings could be driven by positive actions on its Viability Rating;
- Multibank's Viability Rating could be upgraded with sustained strengthening of the Business Profile and its capitalization levels, with a CET1 of at least 15%;
- Multibank's senior unsecured debt upgrade would mirror any potential upgrade on the bank's ratings.

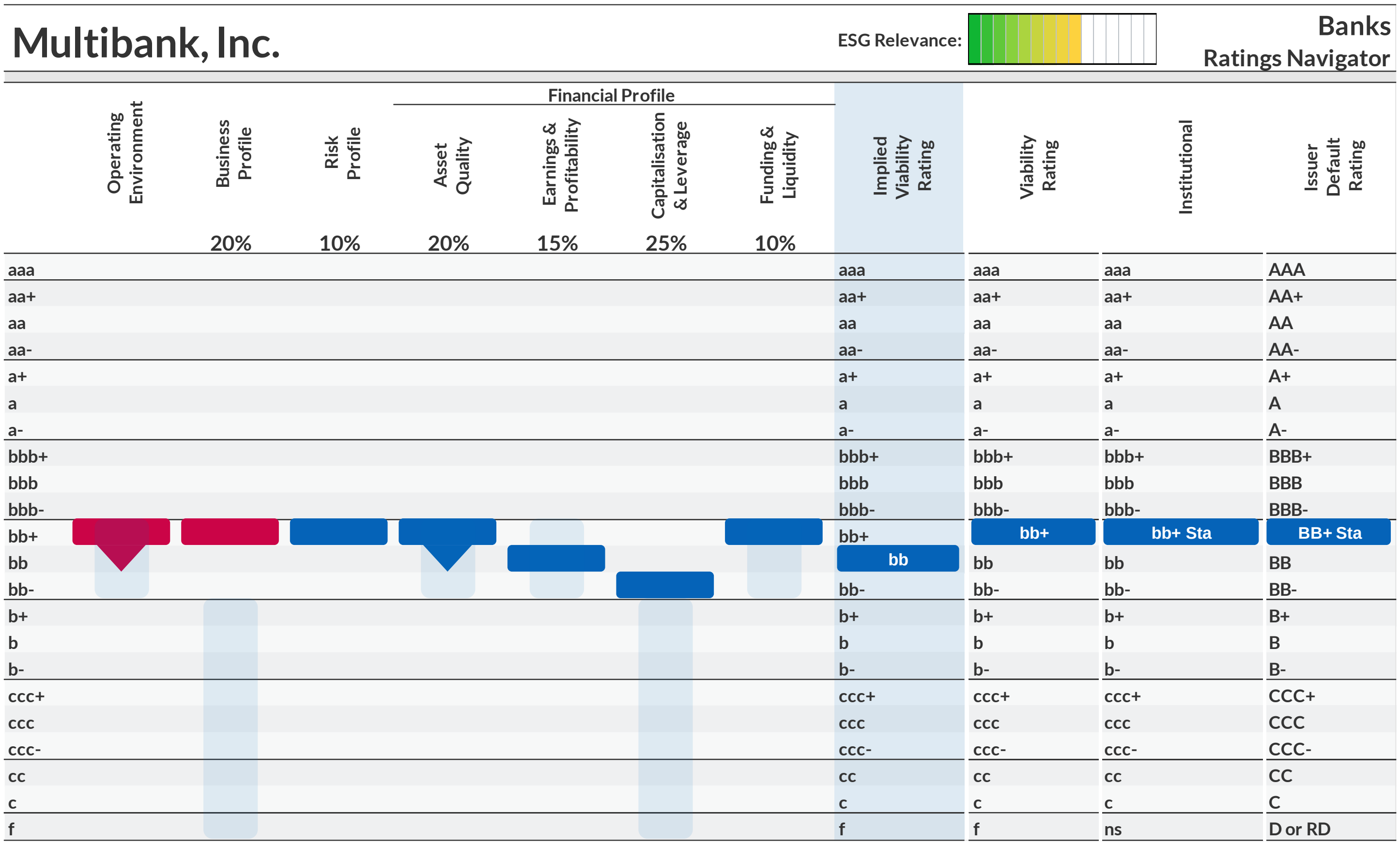
Debt Rating Classes

Rating Level	Rating
Senior Unsecured: Long-Term	BB+
Senior Unsecured: National Long-Term	AA(Pan)
Senior Unsecured: National Short-Term	F1+(Pan)

Source: Fitch Ratings.

Multibank's outstanding senior unsecured obligation ratings are identical to the company's IDR and National Long-Term Ratings, as the likelihood of default on the obligations is the same as for Multibank overall due to the absence of subordination and specific guarantees. See Fitch's "Bank Rating Criteria" for details.

Ratings Navigator



Shareholder Support Rating

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 in the group's business model and regional strategy, providing key services in a market considered to be core.

Multibank's Stable Outlook mirrors Banco de Bogota's, indicating that Fitch expects any additional fallout from the pandemic to be manageable at current rating levels. Multibank's Long-Term IDR and Outlook are equal to those of ultimate parent, Banco de Bogota.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Significant Changes

Modified Loans Still a Drawback for the Banking System

Fitch's assessment of the Panamanian banking operating environment maintains a score of 'bb+' with a Negative Outlook, influenced by the sovereign rating of 'BBB–'/Negative and the effects of the pandemic on the economy. Although Fitch expects an economic recovery of 12.1% GDP growth in 2021, after a 17.9% contraction in 2020, the operating environment is recovering more slowly due to high unemployment of 14.5% in June 2021, versus 18.5% in 2020 and 7.1% in 2019 and the significant share of relief loans in the gross portfolio. Modified loans represented 19% of total gross loans at Sept. 30, 2021, versus 35% at YE 2020. In Fitch's view, Panamanian banks won't start a material credit and performance recovery until these loans are fully addressed.

Withdrawal of Support Rating; Assignment of New SSR

Fitch has withdrawn the Support Rating of '3' of Multibank, as it is no longer relevant to the agency's coverage following the publication of the updated "Bank Rating Criteria" in November 2021. In line with the updated criteria, Fitch has assigned Multibank a 'bb+' SSR.

Brief Company Summary

Company Profile

Fitch believes Multibank continues to have a sound franchise, but medium size. The bank ranked seventh within the local banking system at Sept. 30, 2021, with a market share close to 6%. It has a stronger competitive position in agriculture, construction and vehicle loans, where it ranks second. Fitch believes its medium size franchise benefits from strong customer relationships from its integration into Grupo Aval, one of Colombia's leading financial conglomerates. In addition, the group has deeper risk management practices than those required by the local regulator in Panama, which benefits the bank compared with local peers.

Multibank's consistent business model is oriented toward universal banking, offering a broad range of financial services, mainly corporate, investment and retail banking and insurance. Its loan portfolio is balanced between the corporate and retail segments, and well diversified by sector compared with lower-rated peers. Multibank's revenue diversification is moderate and similar to peers', as it relies mostly on interest income, which averages about 90% of total income. The bank's operating revenue and performance have been sound and consistent under the recent challenging economic conditions, along with the acquisition process.

Multibank has an experienced, stable and deep management team that has successfully steered the bank through the acquisition. The senior management team managed to balance the execution of its strategy with adapting and managing short-term challenges. Corporate governance is effective and compares favorably with Panamanian peers'. Fitch foresees improved corporate governance practices, particularly reduced related-party transactions as part of Grupo Aval.

Risk Profile

Multibank has deeper risk management than required by the local regulator and stands out from local peers. By belonging to Grupo Aval, which has a regional risk management system, the bank has strengthened its risk framework and controls in line with its parent's, while supporting its business volume and earnings.

Underwriting standards are generally in line with industry practices and reflect medium-term expectations. For corporate loans, the bank has a traditional credit process approach, with committees as approval bodies. Multibank has defined exposure limits by individual credit, economic group and sector and limited exposure to foreign loans. For consumer loans, the bank maintains an average loan to value ratio that is more prudent than general market practices in Panama.

Multibank's risk controls exceed local regulatory requirements. An independent risk control unit monitors risk and presents result to the risk committee, which in turn reports to the board of directors. Policies and practices are supported in an integrated risk management system monitoring several risks, such as credit, liquidity, market and operational.

Market risk is monitored by a specialized market risk management team in accordance with the group's strategy and under defined limits. The bank monitors several market risk indicators and risk controls exceed regulatory requirements. Market risk is monitored with regulatory and internal metrics, including the impact on equity and earnings of interest rate changes of 100bps. The bank's exposure to market risk is also linked to operations in U.S. dollars and has limited exposure to other currencies, including euros, Swiss francs and others, which are adequately hedged.

Summary Financials

	Nine Months - Third Quarter 9/30/21		2020	2019	2018
	USD Mil.	PAB Mil.	PAB Mil.	PAB Mil.	PAB Mil.
(Years Ended Dec. 31)	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net Interest and Dividend Income	74	74.2	90.9	116.0	130.3
Net Fees and Commissions	13	13.0	16.4	21.8	24.3
Other Operating Income	17	17.3	29.6	34.8	23.2
Total Operating Income	105	104.5	136.9	172.6	177.8
Operating Costs	63	62.5	86.4	92.8	100.0
Pre-Impairment Operating Profit	42	42.0	50.5	79.8	77.8
Loan and Other Impairment Charges	30	30.0	81.8	25.3	8.9
Operating Profit	12	12.0	(31.3)	54.5	68.9
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	N.A.	(0.1)
Tax	0	0.3	(8.5)	6.0	11.9
Net Income	12	11.7	(22.8)	48.5	56.9
Other Comprehensive Income	(18)	(18.3)	(12.1)	19.6	(16.6)
Fitch Comprehensive Income	(7)	(6.6)	(34.9)	68.1	40.3
Summary Balance Sheet					
Assets					
Gross Loans	3,470	3,470.3	3,224.7	3,474.7	3,456.6
- of Which Impaired	67	67.0	67.7	50.8	43.4
Loan Loss Allowances	71	71.2	49.8	54.6	44.8
Net Loan	3,399	3,399.1	3,174.9	3,420.1	3,411.8
Interbank	144	143.5	182.2	231.2	294.8
Derivatives	0	0.2	9.6	N.A.	1.1
Other Securities and Earning Assets	929	929.0	1,058.9	697.2	833.8
Total Earning Assets	4,472	4,471.8	4,425.6	4,348.5	4,541.5
Cash and Due from Banks	21	20.9	20.6	23.9	27.2
Other Assets	349	349.2	432.7	369.2	327.2
Total Assets	4,842	4,841.9	4,878.9	4,741.6	4,895.9
Liabilities					
Customer Deposits	2,965	2,964.8	3,051.3	2,811.9	2,937.5
Interbank and Other Short-Term Funding	45	44.6	80.4	86.2	790.3
Other Long-Term Funding	1,220	1,219.8	1,017.1	1,028.3	438.4
Trading Liabilities and Derivatives	5	4.9	6.2	5.8	3.8
Total Funding and Derivatives	4,234	4,234.1	4,155.0	3,932.2	4,170.0
Other Liabilities	187	186.5	295.4	231.3	202.9
Preference Shares and Hybrid Capital	8	8.0	8.0	110.0	110.0
Total Equity	413	413.3	420.5	468.1	413.0
Total Liabilities and Equity	4,842	4,841.9	4,878.9	4,741.6	4,895.9
Exchange Rate		USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Interbank, Inc.

Key Ratios

(%, Years Ended Dec. 31)	9/30/21	2020	2019	2018
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	0.6	(1.2)	1.8	2.3
Net Interest Income/Average Earning Assets	2.2	2.1	2.6	2.9
Non-Interest Expense/Gross Revenue	59.8	63.1	53.8	56.2
Net Income/Average Equity	3.8	(5.2)	10.9	14.5
Asset Quality				
Impaired Loans Ratio	1.9	2.1	1.5	1.3
Growth in Gross Loans	7.6	(7.2)	0.5	8.4
Loan Loss Allowances/Impaired Loans	106.3	73.6	107.5	103.2
Loan Impairment Charges/Average Gross Loans	1.2	2.1	0.8	0.3
Capitalization				
Common Equity Tier 1 Ratio	11.6	12.2	13.0	10.8
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	N.A.	13.6	12.0
Tangible Common Equity/Tangible Assets	7.8	8.2	9.6	8.3
Basel Leverage Ratio	7.2	7.3	8.8	7.1
Net Impaired Loans/Common Equity Tier 1	(1.3)	5.5	(1.0)	(0.4)
Net Impaired Loans/Fitch Core Capital	N.A.	N.A.	(0.9)	(0.4)
Funding and Liquidity				
Gross Loans/Customer Deposits	117.1	105.7	123.6	117.7
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	70.0	73.4	69.7	68.7
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings, Fitch Solutions, Interbank, Inc.

Key Financial Metrics – Latest Developments

Asset Quality

The bank has shown relatively sound loan portfolio quality through the cycle and during the pandemic, when it also had to absorb the impact of transferring a portion of its healthy portfolio to its sister bank in Costa Rica. The level of 90 days NPL improved to 1.9% at 3Q21 from 2.1% at YE 2020. The bank has extensively monitored its portfolio under relief measures, which allowed it to keep delinquency under control.

The rate of loan portfolio under relief initiatives has gradually decreased during 2021 to 25% of gross loans as of September, down from close to 40% in March. However, close to 30% are classified as doubtful or unrecoverable, which is nearly 8% of the total portfolio, after relief measures have ended and following the latest regulatory guidance. Fitch believes the bank's collection efforts; higher payment reactivation rate; and expected, albeit moderate, growth due to the economic recovery could lead this indicator to remain stable, though pressured, in the medium term.

Multibank's loan portfolio is generally well diversified by industry and economic group. The loan portfolio has good granularity, with the 20 largest debtors accounting for close to 13% of the total portfolio. All are rated in lower risk categories and have a long record with the bank. The bank stabilized its provisioning requirements in 2021 at levels established by its parent company, reaching an NPL coverage level of 106.3% as of 3Q21, from close to 76% at 2020, and, reflecting the dynamic provision and excess reserves in equity, coverage of 195%, a level considered to be consistent and sustainable.

Multibank has solid real guarantees given its business model, which includes leasing operations and mortgages. As of Sept. 30, 2021, the proportion of loans secured by some type of guarantee was 68% for corporates and 72% for retail, which Fitch considers good.

Earnings and Profitability

Multibank's profitability benefits from an improving net interest margin, supported by adequate cost control. However, during 2020 the sharp reduction in economic activity; higher loan impairment charges, mainly related to conservative provisions for the deteriorated loans related to pandemic; and extraordinary expenses associated with the acquisition from Grupo Aval weighted on profitability.

The extraordinary acquisition expenses are limited to 2020 results and, therefore, the credit expansion and decreasing loan impairment charges aided 2021 profitability. Fitch's core metric ratio of operating profit to RWAs improved to 0.6% at Sept. 30, 2021 from negative 1.2% at YE 2020, but was below the average of 2.0% in 2017–2019. Fitch expects profitability will continue to improve during 4Q21 and into 2022 from higher operating revenue and increased interest rates.

The bank continued its efforts to control operating costs in 2021, and efficiency levels improved to 59.8% from 63.1% in 2020. Loan impairment charges declined in 2021 to 71.4% of pre-impairment operating profit in 3Q21 from 162% at YE 2020, but above the average of 22.0% in 2017–2019. However, Fitch does not expect this ratio to return to pre-pandemic levels in the medium term, as uncertainties persist and the bank would prudently continue to maintain high provisions.

Capitalization and Leverage

Multibank's CET1 capital ratio declined to 11.6% at 3Q21 from 12.2% at YE 2020, reflecting higher RWA. However, this ratio is an improvement from the 11.3% average in 2017–2019 and compares favorably with the minimum regulatory requirement of 4.5%. Loan loss allowances for impaired loans are sound, which further supports the bank's loss absorption capacity. Fitch expects the CET1 ratio to remain adequate in 2022, driven by moderate asset growth, improved earnings and sound reserve coverage. However, the challenging operating environment may affect earnings or an unexpected deterioration in its loan portfolio quality could lead to downward pressure on capitalization. Fitch's assessment also considers the ordinary support it could receive from its parent if the need arises.

Funding and Liquidity

Multibank's loan to deposits ratio of 117.0% as of 3Q21, compared with 105.7% in 2020, reflects a mild 2.8% reduction in deposits, in line with the trend in the system. The bank's deposit structure is mainly concentrated in term deposits at 73%, which implies high pressure on costs. Favorably, the bank maintains a high deposit renewal rate of over 80%, similar to previous years. Multibank has structural mismatches between its assets and liabilities in tranches of time shorter than one year, given the higher proportion of short-term liabilities, mitigated by high renewal rates on time deposits.

The bank has access to international funding and international markets, which compares favorably with some of its peers. Other funding sources include bond issuances and credit lines from global and multilateral banks. As of 3Q21, debt issuances accounted for 10% of total funding, while lines from global and multilateral banks was 19%, as of Sept. 30, 2021.

Multibank's liquidity, mainly cash, bank deposits and its investment portfolio, is reasonable for its size and response to liquidity requirements, reflected in liquid assets representing close to 35% of its deposits. The 30-day regulatory liquidity requirement is a minimum month-end liquidity coverage ratio of 100%, which Multibank's average easily exceeds. Management boosted liquidity rates as a strategic measure in response to the pandemic. The bank has approximately 51% of its liquid investments placed in available for sale U.S. government bonds.

Environmental, Social and Governance Considerations

FitchRatings **Multibank, Inc.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

Multibank, Inc. has 5 ESG potential rating drivers

- Multibank, Inc. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	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

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	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	G Score	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

CREDIT-RELEVANT ESG SCALE

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.

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.