

Multibank, Inc.

Update

Key Rating Drivers

Support Driven Ratings: Multibank Inc.'s (Multibank) Issuer Default Ratings (IDRs), are driven by potential support from its ultimate parent, Banco de Bogota, S.A. (Bogota), in case of need. Fitch believes that there is an extremely high likelihood that Bogota would provide support to Multibank as reflected in their SSRs of 'bb+' and their equalized IDRs. The Stable Rating Outlook on Multibank mirrors that of the parent.

Core Operation: Fitch believes that support is extremely likely given Multibank's key and integral role in the group, considered a strategically important subsidiary that supports its parent'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: Fitch also believes that support is extremely likely due to the huge reputational risk to the parent franchise from a default of its Panamanian subsidiary. There are a growing integration and multiple synergies with Bogota that benefit Multibank's franchise, providing a relative business model stability and improved business generation.

Sound Franchise: Multibank's position and financial profile benefit from the integration with Grupo Aval as reflected in growing strong customer relationships, increased business generation and a more robust risk management model. However, Fitch believes that the expected positive effects of the restructuring process undertaken could require some time to reflect effective results. Its sound yet medium-sized franchise within the Panamanian banking system has an estimated market share of around 5%–6% in terms of domestic loans.

Stable Financial Profile: Multibank's financial profile does not have a direct impact on its IDRs but is relevant in Fitch's assessment of the parent's propensity of support and the standalone creditworthiness evaluation, as reflected in the bank's Viability Rating (VR) of bb.

Improved Asset Quality: As of 1H22, the asset quality indicator has improved to 2.0% from 2.1% as of 2021, which compares favorably with the Panamanian banking average. Reserves coverage remains above 100% and roughly in line with the sector average. Fitch expects the bank's NPL metrics will gradually return to pre-pandemic levels, due to the decreasing proportion of the modified portfolio and growth in commercial loan placement.

Profitability Still Below Historical Levels: As of 1H22, the bank's profitability has gradually improved from the losses generated in 2020 as its operating profit/risk weighted assets (RWA) ratio reached 0.9%. The combined effect of higher revenue streams along with decreasing Covid-19-related loan impairment charges have favored the bank's profitability; also, it has caught up with the average of the local banking system.

Capitalization Solid, but Weakening: Multibank's common equity Tier1 (CET1) of 9.2% at end-June 2022 maintains adequate buffers over regulatory requirements. The bank's CET1 kept a downward trend linked to higher RWA. Loan loss allowances for impaired loans are sound, and Fitch's assessment also considers the ordinary support that it could receive from its parent, if the need arises.

Sound Funding and Liquidity: Multibank's funding profile is supported by ample and stable deposits, and by established and sufficiently diversified funding sources. Customer deposits have remained stable and as of 1H22 its loans to deposit ratio was 123.5%, reflecting the moderate increase in loans. The bank's liquidity position is sound, as reflected in a liquid asset to deposits ratio above 35% for the last four years.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
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-
Country Ceiling	A-

Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

- [Bank Rating Criteria \(September 2022\)](#)
- [National Scale Rating Criteria \(December 2020\)](#)

Related Research

- [Banco de Bogota, S.A. \(Update\) \(July, 2022\)](#)
- [Panamanian Banks: 1H22 Review and Update \(Slow Recovery in Progress, but Challenges Ahead\) \(August, 2022\)](#)

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Rating 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%.

Debt Rating Classes

Rating Level	Rating
Senior Unsecured: Long Term	BB+
Senior Unsecured:	AA(pan)
Senior Unsecured:	F1+(pan)
Subordinated	A+(pan)

Source: Fitch Ratings.

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

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 & 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 & 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).

Summary Financials and Key Ratios

(Years Ended Dec. 31)	Six Mos. – Interim 6/30/22		2021	2020	2019
	USD Mil. Unaudited	PAB Mil. Unaudited	PAB Mil. Audited – Unqualified	PAB Mil. Audited – Unqualified	PAB Mil. Audited – Unqualified
Summary Income Statement					
Net Interest and Dividend Income	58	57.7	99.1	90.9	116.0
Net Fees and Commissions	10	10.4	18.8	16.4	21.8
Other Operating Income	6	6.2	24.3	29.6	34.8
Total Operating Income	74	74.3	142.2	136.9	172.6
Operating Costs	42	41.8	84.2	86.4	92.8
Pre-Impairment Operating Profit	33	32.5	58.0	50.5	79.8
Loan and Other Impairment Charges	19	19.0	43.4	81.8	25.3
Operating Profit	14	13.5	14.6	(31.3)	54.5
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	2	1.8	(0.6)	(8.5)	6.0
Net Income	12	11.7	15.2	(22.8)	48.5
Other Comprehensive Income	(58)	(58.3)	(24.4)	(12.1)	19.6
Fitch Comprehensive Income	(47)	(46.6)	(9.2)	(34.9)	68.1
Summary Balance Sheet					
Assets					
Gross Loans	3,642	3,642.3	3,497.3	3,224.7	3,474.7
- of which Impaired	72	72.2	75.0	65.7	50.8
Loan Loss Allowances	79	78.9	79.1	49.8	54.6
Net Loan	3,563	3,563.4	3,418.2	3,174.9	3,420.1
Interbank	146	145.7	161.7	182.2	231.2
Derivatives	N.A.	N.A.	0.3	9.6	N.A.
Other Securities and Earning Assets	880	880.2	918.3	1,058.9	697.2
Total Earning Assets	4,589	4,589.3	4,498.5	4,425.6	4,348.5
Cash and Due from Banks	23	22.9	22.0	20.6	23.9
Other Assets	366	366.0	357.3	432.7	369.2
Total Assets	4,978	4,978.2	4,877.8	4,878.9	4,741.6
Liabilities					
Customer Deposits	2,948	2,948.2	2,946.7	3,051.3	2,811.9
Interbank and Other Short-Term Funding	16	16.1	26.2	80.4	86.2
Other Long-Term Funding	1,461	1,460.5	1,312.1	1,017.1	1,028.3
Trading Liabilities and Derivatives	1	1.4	5.0	6.2	5.8
Total Funding and Derivatives	4,426	4,426.2	4,290.0	4,155.0	3,932.2
Other Liabilities	189	189.1	177.2	295.4	231.3
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	8.0	110.0
Total Equity	363	362.9	410.6	420.5	468.1
Total Liabilities and Equity	4,978	4,978.2	4,877.8	4,878.9	4,741.6
Exchange Rate		USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

N.A. - Not applicable.

Source: Fitch Ratings, Fitch Solutions, Multibank.

Summary Financials and Key Ratios

(Years Ended Dec. 31)	6/30/22	2021	2020	2019
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	0.9	0.5	(1.2)	1.8
Net Interest Income/Average Earning Assets	2.6	2.2	2.1	2.6
Non-Interest Expense/Gross Revenue	56.3	59.2	63.1	53.8
Net Income/Average Equity	6.1	3.7	(5.2)	10.9
Asset Quality				
Impaired Loans Ratio	2.0	2.1	2.0	1.5
Growth in Gross Loans	4.2	8.5	(7.2)	0.5
Loan Loss Allowances/Impaired Loans	109.3	105.5	75.8	107.5
Loan Impairment Charges/Average Gross Loans	1.1	1.3	2.1	0.8
Capitalization				
Common Equity Tier 1 Ratio	9.2	11.3	12.2	13.0
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	11.8	13.9	14.7	13.6
Tangible Common Equity/Tangible Assets	7.1	8.2	8.2	9.6
Basel Leverage Ratio	5.9	7.1	7.3	8.8
Net Impaired Loans/Common Equity Tier 1	(2.4)	(1.3)	4.9	(1.0)
Net Impaired Loans/Fitch Core Capital	(1.9)	(1.0)	4.0	(0.9)
Funding and Liquidity				
Gross Loans/Customer Deposits	123.5	118.7	105.7	123.6
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	66.6	68.8	73.4	69.7
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. - Not applicable.
 Source: Fitch Ratings, Fitch Solutions, Multibank.

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.

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

Overall ESG Scale

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.

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

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.

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.

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.

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