CREDIT OPINION

30 September 2024

Update

Multibank, Inc.

Update to credit analysis

Summary

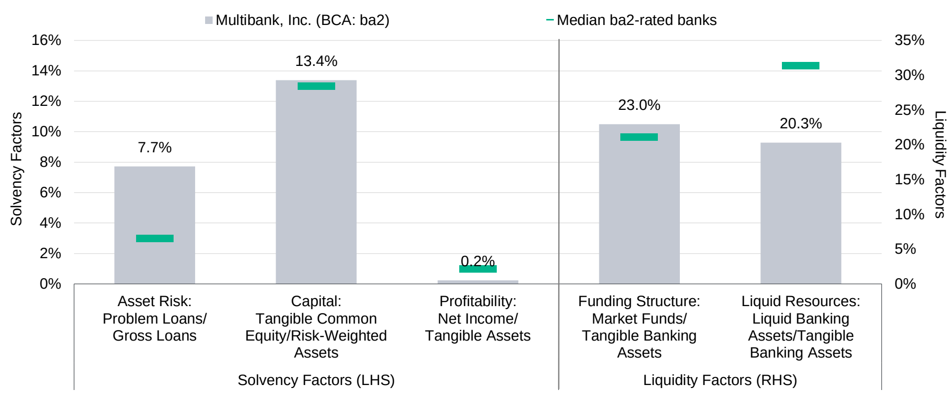
Multibank, Inc.'s (Multibank), ba2 baseline credit assessment (BCA) reflects the recent stabilization of the bank's financial performance, as reflected in higher profitability and a slight improvement in asset quality in the past two quarters, as well as a lower reliance on market-based funding. Furthermore, the bank has maintained robust capitalization in line with moderate growth and earnings retention, which continues to be a significant positive factor in its financial profile. Deterioration of the bank's asset quality metrics beginning in 2022, resulted in much lower profitability, due to a combination of high loan loss provisioning expenses, subdued credit growth, and a sharp increase of funding costs.

Multibank's Ba1 long term foreign-currency deposit and debt rating and ba1 Adjusted BCA are in line with our assessment of the bank's very high probability of support from its ultimate parent, Banco de Bogota, S.A. (Baa2 negative, ba1), which results in a one-notch uplift from its ba2 BCA.

Exhibit 1

Rating scorecard - Key Financial Ratios

Multibank's data as of 30 June 2024



Ratios are from Moody's banking scorecard. The capital ratio is as of the most recent period; the asset risk and profitability ratios are the worse for the most recent year-to-date period or the average of the last three years and the most recent year-to-date; the funding structure and liquid resources ratios are as of the most recent year-end.
Source: Moody's Financial Metrics

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RATINGS

Multibank, Inc.

Domicile	Panama
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Ba1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Ba1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Credit strengths

- Adequate capitalization, supported by subdued loan growth and null dividend payouts
- Low single-name borrower concentration, coupled with its high level of loan collateralization
- Benefits from its parent's management expertise, Banco de Bogotá S.A. and Grupo Aval Acciones y Valores S.A.'s (Grupo Aval, Ba2 negative) risk management policies and financial support
- Increasing funding diversification supported by the replacement of expensive credit lines and market funding

Credit challenges

- Still-elevated asset risks related to certain troubled exposures related to the construction sector
- Low levels of loan loss reserve coverage of its Stage 3 loans relative to peers in Panama, partly mitigated by good levels of collateral
- Interest expense will continue to pressure interest margins, hurting bottom line results and loan growth

Outlook

The stable outlook on Multibank's ratings is based on our expectation that the bank's capitalization and its highly collateralized portfolio will continue to offset the credit risk pressures stemming from its elevated asset-risk metrics, while its profitability gradually recovers.

Factors that could lead to an upgrade

Multibank's rating could be upgraded if the bank reports sustainable and material improvement in the level of problem loans, measured as stage 3 loans, combined with an increase in loan loss reserve coverage that would support the loss absorption capacity. Upward pressures to the BCA would also depend on the bank's ability to enhance its funding profile by adding more granular and lower cost resources that would help to improve margins and earnings profile, and ultimately benefiting capital ratios.

Factors that could lead to a downgrade

Conversely, the ratings could be downgraded in case further weakening in the bank's asset quality metrics, resulting in higher credit losses, which would in turn, impair profitability and capital buffers.

Key Indicators

Exhibit 2
Multibank, Inc. (Consolidated Financials) [1]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (USD Million)	4,991.9	4,924.2	5,122.1	4,877.8	4,879.2	0.7[4]
Tangible Common Equity (USD Million)	456.5	449.9	440.9	422.3	414.7	2.8[4]
Problem Loans / Gross Loans (%)	7.7	7.7	8.3	4.8	4.4	6.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.4	14.3	15.0	14.0	14.6	14.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	54.5	54.4	60.2	33.5	30.4	46.6[5]
Net Interest Margin (%)	1.6	1.6	2.3	2.2	2.1	1.9[5]
PPI / Average RWA (%)	1.0	1.0	1.9	2.0	1.7	1.5[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.6	0.3	-0.5	0.2[5]
Cost / Income Ratio (%)	72.8	72.9	60.4	59.3	65.8	66.2[5]
Market Funds / Tangible Banking Assets (%)	19.5	23.0	32.4	29.6	26.6	26.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	21.0	20.3	20.9	20.6	24.3	21.4[5]
Gross Loans / Due to Customers (%)	105.8	109.3	123.1	118.7	105.8	112.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Established in 1990, Multibank, Inc. (Multibank) is a diversified commercial and consumer lender based in Panama, where it holds 92% of its lending activities. Multibank provides a wide range of financial services, mainly related to corporate, investment, mortgage and consumer banking, as well as insurance, factoring and leasing services, serving more than 100,000 customers. As of 30 June 2024, the bank was the seventh-largest lender in the country, with a 5% market share in terms of domestic loans and the eighth largest bank in terms of domestic deposits, with a 4% market share.

Multibank is a 100%-owned subsidiary of Multi Financial Group Inc. (MFG), which, in turn, is a subsidiary of Multi Financial Holding Inc. MFG was acquired in May 2020 by Colombia-based Banco de Bogotá (accounting 14% of its Total Assets as of 30 June 2024), ultimately controlled by Grupo Aval. Multibank benefits from Banco de Bogotá's management oversight, which enhances the bank's corporate governance, risk management and compliance standards. As of June 2024, the bank had $4.99 billion in assets and $3.69 billion in gross loans.

Detailed credit consideration

Large troubled exposures and tight reserve coverage continue to drive elevated asset risks

Multibank' s asset quality metrics have deteriorated over the past three years, resulting from the transfer of certain corporate exposures in the construction sector to Stage 3 classification, a conservative measure while the lengthy restructuring and monitoring process is completed. As of 30 June 2024, problem loan ratio, measured as loans classified as Stage 3 (IFRS9), stood at 7.7% of gross loans, slightly below the 8% average in 2022-23, yet significantly above the 4.8% at the end of 2021, and above that most of its Panamanian peers. However, the bank's loan delinquencies measured as 90 days past-due loans, was at a relatively low 3.2% of gross loans in June 2024, 70 basis points above the system average of 2.5% in the same period.

At the same time, loan loss reserve coverage has been historically below peers, at 23% of stage 3 loans vs 104% average for the system in June 2024. At the same time, coverage for its past 90 days loans increases marginally to a still low 55% as of June 2024. However, the bank's higher than average exposure to corporate loans and its good levels of collateral partly mitigates asset risks. Almost 70% of Multibanks portfolio is covered by some type of collateral primarily by real estate related with 54% of total loans. Historically, the banks has maintained good levels of collateral.

As of 30 June 2024, corporate and SME portfolio accounted for 50% of total loans (15% to commerce, 13% to construction companies and 7% to agribusiness), while consumer and residential mortgage loans accounting for 25% each.

Likewise, loan growth have remained close to zero during the last year, as the bank has prioritized the use of liquidity to repay market funding sources rather than expanding its credit portfolio to limit the hike in interest expenses and NIMs pressures.

Sound capitalization continues to be a significant positive factor in its financial profile

Multibank's capital position is a credit-positive driver for its ba2 BCA because the bank has maintained robust capitalization in line with moderate growth and earnings retention, which continues to be a significant positive factor in its financial profile. Tangible common equity to risk-weighted assets (TCE / RWAs), our preferred capital metric, remained stable at a sound 13.4% as of June 2024.

The bank has maintained a conservative dividend policy since 2020 and limited credit risk consumption, preserving capitalization levels despite strained bottom line results in the past three years. We expect that the bank's capitalization to remain a credit strength supported by its conservative dividend policy and a mild expansion of its loan book.

Uptick in profitability reflects the recent stabilization of the bank's financial performance

The bank's net income for the first half of 2024 rose to $5.8 million, 4x increase compared to the same period in 2023 and indicating a positive shift in the bank's bottom-line performance following a challenging previous year. However, annualized net income still remains at a relatively modest 0.2% of tangible banking assets as of June 2024. We expect that profitability will gradually recover from current low levels, as the bank restores growth and the interest rate trends benefits its core earnings generation.

The uptick in profitability has been driven by a stabilization in credit performance. The bank has reported a reduction in credit costs, as loan loss provisioning expenses decreased of 17% over the past 12 months ending in June 2024. This drove a lower loan-loss provisioning consumption of core earnings, which improved to 55% in June 2024 from 79% a year earlier. Additionally, there has been a 32.6% reduction in total charge-offs over the last year. Moreover, operating costs have been stable in the past three years, while management expects further synergies with Banco de Bogotá.

Multibank's Net interest margin (NIM) remained farily stable in the last twelve months ending in June 2024, at a low 1.6%, and indicates a slight increase in its interest income that partly mitigated the rise in its interest expenses.

Deterioration of the bank's asset quality metrics beginning in 2022, resulted in much lower profitability, due to a combination of high loan loss provisioning expenses, subdued credit growth, and a sharp increase of funding costs.

Efforts to enhance funding diversification and replace expensive market funds will help funding structure and ALM

Multibank's strategy to diversify funding sources, strengthen its deposit base, and substitute costly bank credit lines with core deposits from individual customers, has resulted in lower market funding at 19.5% of tangible banking assets, down from 32% in 2022.

Deposits, which are still largely corporate and, thus, more expensive than retain demand deposits, are much concentrated on fixed-term deposits, representing 76% of total liabilities as of June 2024. At the same time, the bank has maintained adequate levels of liquid assets during the past 3 years, at around 21% of tangible banking assets. Furthermore, the bank's investment portfolio is predominantly made up of government bonds, constituting 76% of its investments, of which 82% are considered investment-grade securities. These high-quality investments serve as a protective buffer against potential stress situations.

Multibank's ratings incorporate Panama's Moderate Macro Profile

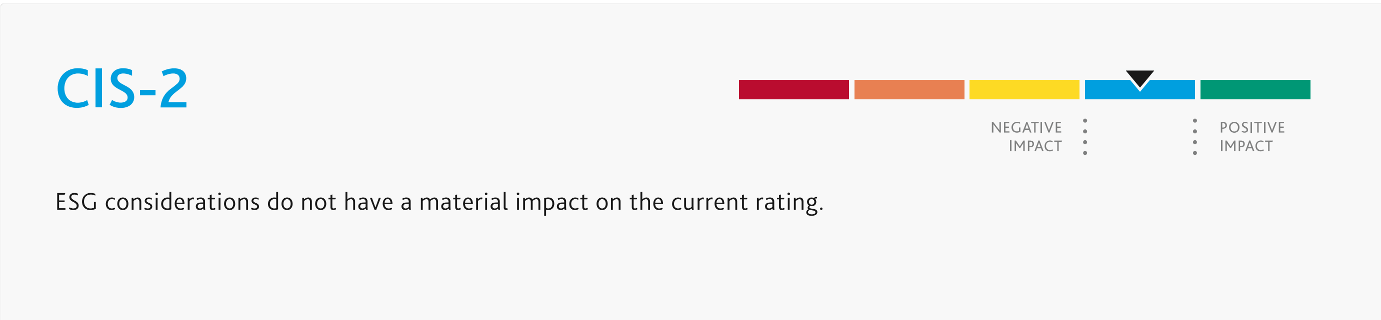
Panama's (Baa3 stable) macro profile (Moderate) reflects the country's continued robust economic performance, favorable growth prospects and broad macroeconomic stability supported by high investment rates and the key role of the Panama Canal in global trade. The long-standing commitment to dollarization has imposed some limits on macroeconomic policymaking, but it has provided a very long track record of macroeconomic stability to Panama.

Panama's credit penetration is relatively high, although we estimate that nominal GDP will continue to outpace credit growth, as it has since 2021, as still-challenging operating conditions for banks will likely continue to weigh on risk appetite. Banks' balance sheet exposure to commercial real estate (CRE), one of the most affected sectors in recent years, has decreased significantly since 2020. Despite the lack of a lender of last resort leading to riskier funding conditions, dollarization supports banks' funding by limiting exposure to external shocks derived from currency mismatches. Market funding has remained stable in the past three years and we do not expect a significant increase because of the still-moderate growth prospects. The banking sector is fragmented and some consolidation among smaller participants is likely because of strong competition and limited economies of scale.

ESG considerations

Multibank, Inc.'s ESG credit impact score is CIS-2

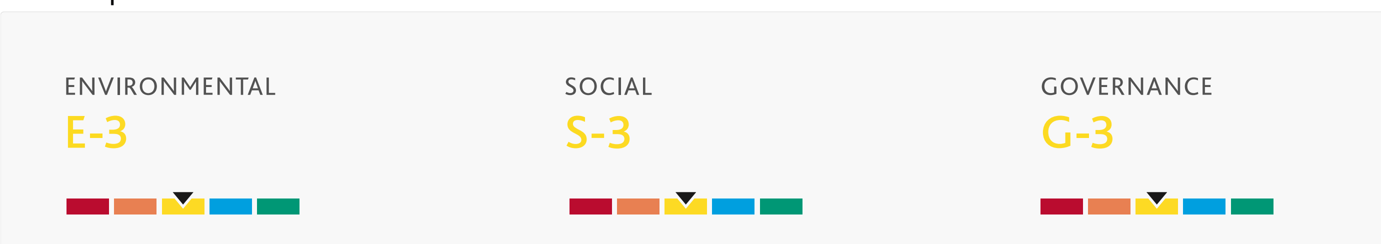
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Multibank's **CIS-2** score indicates that ESG considerations do not have a material impact on the current ratings.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Multibank faces moderate environmental risks, primarily because of its portfolio exposure to carbon transition risk as a diversified bank in Panama, and its overall low exposure to industries that are mostly affected by carbon transition risks. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals.

Social

Multibank faces moderate social risks, associated with the bank's good conduct track record demonstrates the effective management of conduct risks by developed policies and procedures. Opportunities from financial inclusion in Panama are reflected in a better-than-industry average exposure to demographic and societal trends. Further, the bank's long track record of handling sensitive customer data as well as technology solutions and organizational measures to prevent data breaches and business disruption help to manage high cyber and personal data risks.

Governance

Multibank faces moderate governance risks. The bank has adequate corporate governance and risk management practices, further supported by the track record of its management team, that mitigates risks arising from the bank's concentrated ownership structure and a complex organizational structure, reflecting the bank's wholly owned subsidiary without brand/name association to that of its parent bank.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support considerations

Multibank's Ba1 long-term deposit and debt ratings reflects our assessment of a very high probability of support from its ultimate parent, Banco de Bogotá, in case of need, benefiting from one-notch uplift for affiliate support from its BCA of ba2.

Government support considerations

Multibank's foreign-currency Ba1 deposit ratings are in line with the bank's Adjusted BCA. We do not expect government support for privately owned banks in Panama because it is a fully and legally dollarized country with no central bank to act as a true lender of last resort.

Counterparty Risk (CR) Assessment

Multibank's CR Assessment is Baa3(cr)/P-3(cr)

Mulitbank's CR Assessment, before government support, is one notch above the Adjusted BCA of ba1 and, therefore, above its deposit ratings. This reflects our view that its probability of default is lower than that of deposits or senior unsecured debt. We believe senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimize losses and avoid the disruption of critical functions.

We do not assume government support for the CR Assessment, in line with our support assumptions on the deposit ratings.

Counterparty Risk Ratings (CRRs)

Multibank's CRRs are Baa3/P-3

Multibank's CRRs, before government support, are one notch above the Adjusted BCA of ba1 and, therefore, above its deposit ratings. This reflects our view that CRR liabilities have a lower probability of default because they will more likely be preserved to minimize banking system contagion, minimize losses and avoid the disruption of critical functions.

We do not assume government support for Multibank's CRRs, in line with our support assumptions on the deposit ratings.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5
Rating Factors

Macro Factors							
Weighted Macro Profile	**Moderate**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	7.7%	ba3	↔	b1	Expected trend	Collateral and provisioning coverage	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.4%	baa2	↔	baa2	Access to capital	Capital retention	
Profitability							
Net Income / Tangible Assets	0.2%	b3	↔	b2	Expected trend		
Combined Solvency Score		ba2		ba2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	23.0%	ba1	↔	ba2	Deposit quality	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	20.3%	ba1	↔	ba2	Quality of liquid assets		
Combined Liquidity Score		ba1		ba2			
Financial Profile				ba2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa3			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				1			
Adjusted BCA				ba1			

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa3	-		Baa3
Counterparty Risk Assessment	1	0	baa3 (cr)	-	Baa3(cr)	
Deposits	0	0	ba1	-		Ba1
Senior unsecured bank debt	-	-	-	-		Ba1
Senior unsecured holding company debt	-1	0	ba2	-		Ba2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
MULTIBANK, INC.	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured	Ba1
ULT PARENT: GRUPO AVAL ACCIONES Y VALORES S.A.	
Outlook	Negative
Issuer Rating	Ba2
ST Issuer Rating	NP

Source: Moody's Ratings

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