FitchRatings

Multibank, Inc.

Update

Banks
Universal Commercial Banks
Panama

Key Rating Drivers

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

Operating Environment Stabilization: Fitch revised the outlook for Panama's banking system operating environment (OE) score to stable from negative, and affirmed it at 'bb+'. Despite the economic slowdown and high interest rate environment, the banking system's credit growth, asset quality and profitability metrics are performing better than expected. Additionally, GDP growth is projected to reach approximately 4.0% in 2025, following an upward revision to 2.8% for 2024 from 1.5%. This suggests that pressures on business conditions for banks will be lower than in 2024.

Core Subsidiary: Fitch believes Multibank supports its group's regional franchise and market position and contributes to the Grupo Aval business model and diversification strategy, providing key products and services in Panama, which is considered a core market for the group.

Parent's Ability to Provide Support: Bogota's ability to provide support to Multibank is closely linked to its IDR of 'BB+' and considers Multibank's relevant size, as it represents 14.2% of Bogota's consolidated assets as of June 2024.

Low Revenue Generation: Multibank's 'bb-' Viability Rating (VR) reflects its business profile, operating as a universal commercial bank with low, but stable, profitability and asset quality ratios. As of June 2024, the bank's core metric of operating profit to risk-weighted assets (RWA) ratio was 0.46% (2020-2023 average: 0.24%), lagging that of its peers. In addition, the bank shows a high Stage 3 loans ratio (June 2024: 7.72%) and lower reserve coverage levels (23.12%) compared to other banks in the 'bb' category. Nevertheless, Fitch recognizes that the credit portfolio risk is partially offset by the bank's collateral structure. Fitch also considers the benefits that Multibank derives from being part of Grupo Aval.

Weakened Asset Quality Persists: The bank's consistently high Stage 3 ratio and reserve coverage levels compare below those of its peers. As of June 2024, Multibank reported a Stage 3 ratio of 7.7% and low reserve coverage (at 23.1%). Additionally, the bank's top 20 debtors represent significant concentration risk, amounting to above 1.5x its common equity Tier 1 (CET1) capital, higher than that of its closest competitors. Nevertheless, Fitch recognizes that the credit portfolio risk is partially offset by the bank's collateral structure, as about 75% of the loan portfolio is secured. Fitch anticipates that the bank will sustain an NPL ratio above 5%, which is in line with the 'bb-' assessment of this factor.

Low Profitability: As of June 2024, the bank's core metric of operating profit to RWA ratio remained stable, but low, at 0.46% (2020-2023 average: 0.24%), lagging that of its peers. The bank's net income showed a 4x increase compared to the same period in 2023. Additionally, the bank faces a challenging landscape for improvement due to its still-high funding costs and LICs. Therefore, Fitch expects the core ratio to remain near 0.5%, in line with its 'b' assessment.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb–
Shareholder Support Rating	bb+

National Rating

National Long-Term Rating	AA+(pan)
National Short-Term Rating	F1+(pan)

Sovereign Risk (Panama)

Long-Term Foreign-Currency IDR	BB+
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 (March 2024)

Related Research

Panama Banks' Operating Environment Outlook Raised to Stable (October 2024)

Fitch Affirms Six Large Panamanian Banks Ratings Following Operating Environment Stabilization (October 2024)

Fitch Downgrades Panama to 'BB+'; Outlook Stable (March 2024)

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Ordinary Support Benefits Loss-Absorption Capacity: Multibank has a lower loss-absorption capacity compared to its regional peers. However, this is counterbalanced by the potential ordinary support from its ultimate shareholder, if necessary. Fitch also considers the bank's CET1 to RWA ratio and its LLAs (loan loss allowances) coverage of Stage 3 loans, which are lower than those of its peers. As of June 2024, Multibank's CET1 to RWA ratio was below 10%, restrained by moderate earnings.

Fitch positively assesses the additional loss-absorption capacity provided by the regulatory countercyclical buffer (CCyB); the CET1 ratio is 11.6%, including the CCyB. Fitch does not expect any significant changes in the bank's capital structure. Fitch forecasts that the CET1 ratio will remain at about 10%, influenced by moderate asset growth and modest earnings.

Institutional Funding Profile Impacts Performance: While Multibank's liquidity position is sound and its funding structure is diverse, including customer deposits, bilateral loans, and both local and international debt issuances, funding sources tend to have an institutional profile. This results in higher funding costs, contributing significantly to the bank's pressured profitability. That said, reliance on institutional funding sources has decreased.

Rating Sensitivities

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

- A downgrade of Multibank's IDR and SSR could result from a downgrade of Banco de Bogota's (Bogota) IDR or from a reduced propensity of Bogota to support its subsidiary, both of which are unlikely at present.
- Multibank's VR could be downgraded as a result of a sustained asset quality deterioration that further undermines the bank's financial performance and business profile.

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

- Positive rating actions on Multibank's IDRs, senior unsecured debt rating and SSR could be driven by positive rating actions on Bogota's IDR.
- Positive rating actions on Multibank's VR could be driven by the sustained strengthening of its business profile reflected in profitability ratios consistently near 2% and a CET1 ratio including CCyB of at least 13%.

Other Debt and Issuer Ratings

Rating level	Rating
Senior unsecured: long term	BB+
Senior unsecured	AA+
Senior unsecured	F1+
Subordinated	AA-

Source: Fitch Ratings

Senior Unsecured Debt: The ratings of Multibank's outstanding short- and long-term senior unsecured obligations are at the same level as the issuer's ratings, 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 on its ratings.

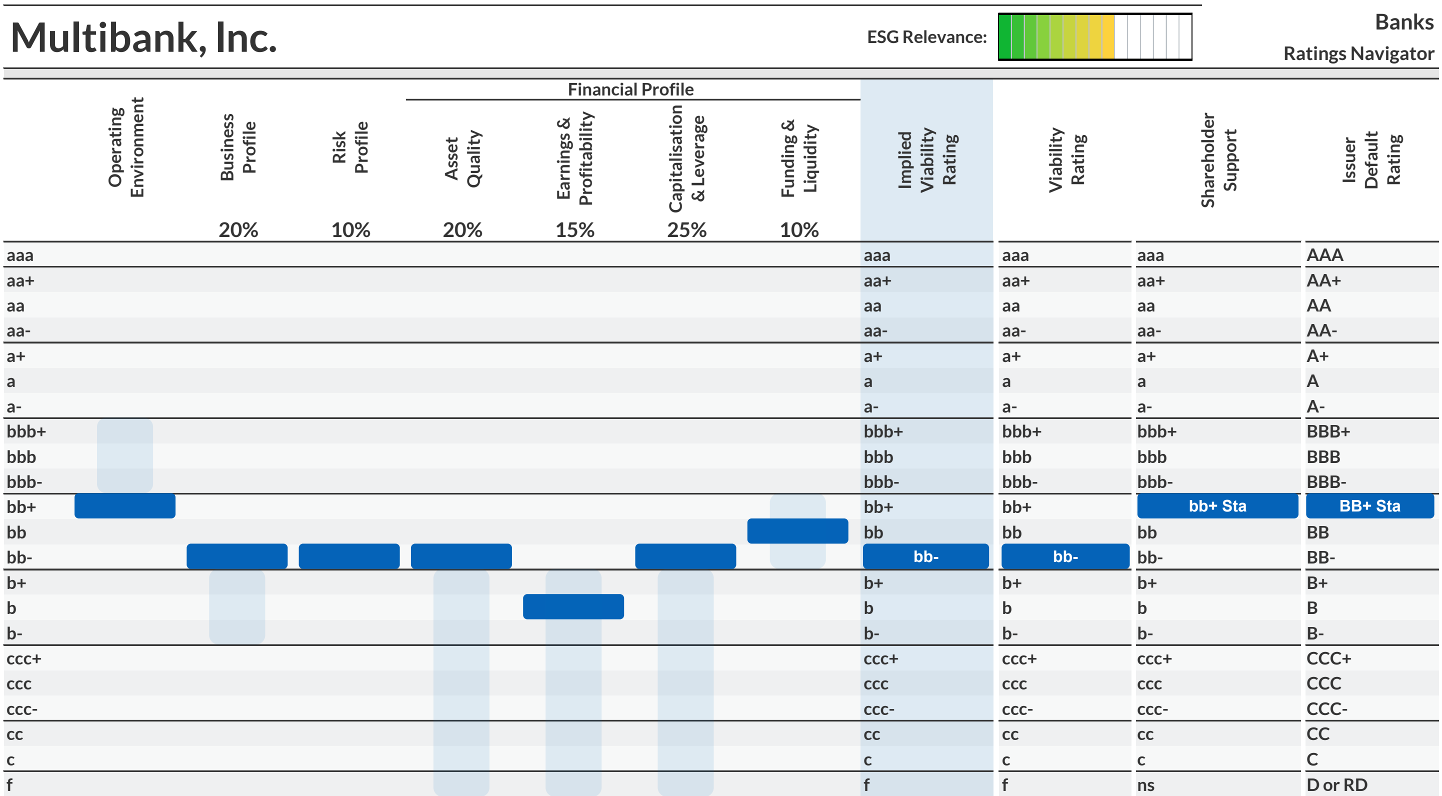
Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

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

Significant Changes from Last Review

Fitch revised the outlook for Panama's banking system OE score to stable from negative, and affirmed it at 'bb+'. Despite the economic slowdown and high interest rate environment, the banking system's credit growth, asset quality and profitability metrics are performing better than expected. Additionally, GDP growth is projected to reach approximately 4.0% in 2025, following an upward revision to 2.8% for 2024 from 1.5%. This suggests that pressures on business conditions for banks will be lower than in 2024.

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 upward or downward 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 Operating Environment score has been assigned at 'bb+', below the implied score of 'bbb', due to the following adjustment reason: Reported and Future Metrics (negative).

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

The Asset Quality score has been assigned at 'bb-', above the implied score of 'b', due to the following adjustment reason: Loan Classification Policies (positive).

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

Financials

Financial Statements

	June 30, 2024 First half (PAB mil.) Unaudited	Dec. 31, 2023 12 months (PAB mil.) Unaudited	Dec. 31, 2022 12 months (PAB mil.) Unaudited	Dec. 31, 2021 12 months (PAB mil.) Audited – unqualified
Summary income statement				
Net interest and dividend income	37	74	106	99
Net fees and commissions	12	23	21	19
Other operating income	10	13	16	24
Total operating income	59	110	144	142
Operating costs	43	80	87	84
Pre-impairment operating profit	16	30	57	58
Loan and other impairment charges	9	18	22	43
Operating profit	7	12	35	15
Other non-operating items (net)	–	0	–	–
Tax	2	3	4	-1
Net income	6	9	30	15
Other comprehensive income	7	18	-69	-24
Fitch comprehensive income	12	26	-39	-9
Summary balance sheet				
Assets				
Gross loans	3,686	3,642	3,724	3,497
- of which impaired	285	280	308	168
Loan loss allowances	66	65	71	89
Net loans	3,620	3,577	3,653	3,409
Interbank	158	159	195	162
Derivatives	–	–	0	0
Other securities and earning assets	929	891	925	918
Total earning assets	4,707	4,627	4,773	4,489
Cash and due from banks	21	25	26	22
Other assets	263	272	324	355
Total assets	4,992	4,924	5,122	4,866
Liabilities				
Customer deposits	3,485	3,334	3,027	2,947
Interbank and other short-term funding	172	42	115	26
Other long-term funding	822	1,046	1,503	1,312
Trading liabilities and derivatives	–	–	0	5
Total funding and derivatives	4,479	4,422	4,645	4,290
Other liabilities	116	118	120	177
Preference shares and hybrid capital	–	–	–	–
Total equity	396	384	358	398
Total liabilities and equity	4,992	4,924	5,122	4,866
Exchange rate	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

Source: Fitch Ratings, Fitch Solutions

Key Ratios

	June 30, 2024	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
Ratios (%; annualized as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.5	0.4	1.2	0.5
Net interest income/average earning assets	1.6	1.6	2.3	2.2
Non-interest expense/gross revenue	72.7	72.8	60.4	59.2
Net income/average equity	3.0	2.4	8.2	3.7
Asset Quality				
Impaired loans ratio	7.7	7.7	8.3	4.8
Growth in gross loans	1.2	-2.2	6.5	8.5
Loan loss allowances/impaired loans	23.1	23.2	23.0	52.7
Loan impairment charges/average gross loans	0.5	0.5	0.6	1.3
Capitalization				
Common equity Tier 1 (CET1) ratio	9.4	9.8	9.6	11.3
Fully loaded CET1 ratio	–	–	–	–
Fitch Core Capital ratio	–	–	–	13.5
Tangible common equity/tangible assets	7.8	7.6	6.8	7.9
Basel leverage ratio	6.4	6.3	5.5	7.1
Net impaired loans/CET1	72.0	73.6	88.5	24.5
Net impaired loans/Fitch Core Capital	–	–	–	20.6
Funding and Liquidity				
Gross loans/customer deposits	105.8	109.3	123.0	118.7
Gross loans/customer deposits + covered bonds	–	–	–	–
Liquidity coverage ratio	–	–	–	–
Customer deposits/total non-equity funding	77.8	75.4	65.2	68.8
Net stable funding ratio	–	–	–	–

Source: Fitch Ratings, Fitch Solutions

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	2+ Notches
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

Multibank's SSR of 'bb+', which is equalized to Banco de Bogota's Long-Term IDR, reflects Fitch's assessment of the high propensity of support from its parent. Bogota's ability to provide support to Multibank is closely linked to its IDR of 'BB+' as well as the relevant size of Multibank, as it represents about 12% of Banco de Bogota's consolidated assets. In Fitch's view, Multibank supports its group's regional franchise and market position and contributes to the group's business model and diversification strategy, providing key products and services in Panama, considered a core market for the group.

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.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
not a rating driver	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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

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