

Multibank, Inc.

Update

Key Rating Drivers

Support-Driven Ratings: Multibank, Inc.'s IDRs, Support Rating (SR), and national and senior unsecured debt ratings reflect Fitch Ratings' opinion on the ability and willingness of the bank's ultimate parent, Banco de Bogota, S.A. (BB+/Stable), to provide support if required.

Relevant Role in Group: Fitch's opinion on support is highly influenced by the relevant role that Multibank plays in its parent's consolidated regional strategy in Central America, as it operates in Panama, considered a core market for its parent.

High Implication of Default: Fitch's support assessment considers the implication of default of the recently acquired operation as a high influence factor to the SR since it could involve a material reputational risk to the parent, eventually damaging its franchise.

Challenging Operating Environment: The slow economic recovery stemming from the coronavirus outbreak is pressuring the stability of Multibank's asset quality and profitability. The bank is a commercial bank with a diversified business model, although its franchise remains of moderate size, and its company profile also highly influences its VR.

Risk of Loan Impairment: Limited loan growth, driven by the nonrecurring outflow of part of the loan portfolio following the acquisition by Banco de Bogota, and an increase in delinquencies due to the pandemic affected Multibank's asset quality during 2020. The impaired loans to gross loans ratio was 2.1%. However, reserve coverage provides an adequate buffer against deteriorating loan portfolios (168% at YE20) when considering the dynamic provision and excess reserves in equity.

Decreased Profitability: Fitch expects Multibank's profitability to improve in 2021, supported by higher revenue streams, and as it will no longer have extraordinary expenses related to the acquisition by Grupo Aval. However, Fitch does not expect 2021 profitability metrics to return to pre-pandemic levels, as operating losses represented 1.2% of RWA at YE20 due to the extraordinary expenses related to the bank's change of shareholder, and low business dynamism and borrower payment capacity headwinds could continue to pressure performance.

Stable Capital: Multibank's CET1 ratio slightly decreased during 2020 due to lower profitability. In 2020, the ratio stood at 12.2%, below that of some of its higher-rated peers but still providing an adequate buffer above regulatory requirements.

Funding and Liquidity Stable: Fitch expects Multibank's funding profile to remain generally stable, supported by its good liquidity position. During 2020, Multibank's loan to deposit ratio improved to 106% (2019: 124%), as customer deposits grew nearly 9%, consistent with the financial system average. Multibank's liquid assets represented close to 40% of total deposits, and Fitch does not expect liquidity pressures in the foreseeable future.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A downgrade of Multibank's IDR and National Ratings could be possible only if both its VR and Banco de Bogota's IDRs are downgraded.
- A downgrade of Multibank's SR could result from a multi-notch 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 senior unsecured debt would mirror any potential downgrade on its IDRs.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B

Local Currency	
Viability Rating	bb+
Support Rating	3

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 \(February 2020\)](#)
- [National Scale Rating Criteria \(December 2020\)](#)

Related Research

- [Panamanian Banks: 1H21 Review and Update \(April 2021\)](#)
- [Panama \(March 2021\)](#)
- [Fitch Takes Actions on Colombian and Central American FIs Following Colombia's Sovereign Downgrade \(July 2021\)](#)

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Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating actions on Multibank's IDR, National Ratings and SR could be driven by positive rating actions on Banco de Bogota's IDR.
- Positive rating actions on Multibank's IDR and National Ratings could be driven by positive rating action on its VR.
- Multibank's senior unsecured debt rating 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 at the same level as the company's IDR and National Scale ratings, as the likelihood of default of the obligations is the same as for Multibank due to the absence of subordination and specific guarantees. See "Bank Rating Criteria" (February 2020) for further details.

Significant Changes

Financial Institutions Ratings Following Colombia's Sovereign Downgrade

Fitch conducted a portfolio review of Colombian and Central American Financial Institutions (FI) following Colombia's sovereign downgrade to 'BB+' from 'BBB-'. The review also followed Fitch's adjustment of its OE assessment for Colombian FIs to 'bb'/Stable from 'bb+ '/Negative. The stabilization of the operating environment trend indicates that Fitch expects any additional fallout from the pandemic to be manageable for Colombian FIs at their current rating levels (see "Fitch Downgrades Colombia's Ratings to 'BB+' from 'BBB-'; Outlook Revised to Stable" at www.fitchratings.com).

This portfolio review included Banco de Bogota, whose VR and IDR are rated at the same level of the sovereign. Fitch believes its ratings are more sensitive to OE deterioration, or further actions on the sovereign rating. Furthermore, the agency will not rate Colombian FIs higher than the sovereign rating, based on their current intrinsic credit profiles. These rating actions were reflected in the Colombian FI's Central American subsidiaries, which include Multibank.

Multibank's Ratings Reflecting Banco de Bogota's IDRs Changes

Multibank's IDRs, and its senior unsecured debt ratings were downgraded to mirror the downgrade of its parent Banco de Bogota's rating. Multibank's ratings are equalized with those of Banco de Bogota's, reflecting Fitch's assessment of the potential support they would receive from their parent, if required. Multibank's national ratings were also downgraded to reflect changes in Banco de Bogota's creditworthiness relative to other rated issuers in Panama. The Stable Rating Outlooks on their Long-Term IDRs and Long-Term National Ratings are aligned with Banco de Bogota's Stable Rating Outlook. Multibank's Stable Rating Outlook also considers the bank's standalone rating and the implied support-driven rating at the same level.

Institutional Support Assessment

Multibank's Long-Term IDR is equalized to Banco de Bogota's Long-Term IDR. This reflects Fitch's view that Multibank's activities in Panama are strategically important for the group, as it operates in Panama, considered a core market for the group. Also, Fitch believes there is high reputational risk for Banco de Bogota should a recently acquired operation default, possibly damaging its franchise. Multibank's Support Ratings (SR) were revised to '3' from '2' reflecting a moderate probability of support from its shareholder, given its rating, and Fitch's assessment of moderate ability and propensity to provide support to Multibank, if required.

Summary Financials and Key Ratios

	2020		2019	2018	2017
	USD Mil.	PAB Mil.	PAB Mil.	PAB Mil.	PAB Mil.
(Years Ended Dec. 31)	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified
Summary Income Statement					
Net Interest and Dividend Income	91	90.9	116.0	130.3	140.3
Net Fees and Commissions	16	16.4	21.8	24.3	13.8
Other Operating Income	30	29.6	34.8	23.2	15.8
Total Operating Income	137	136.9	172.6	177.8	169.9
Operating Costs	86	86.4	92.8	100.0	88.3
Pre-Impairment Operating Profit	51	50.5	79.8	77.8	81.6
Loan and Other Impairment Charges	82	81.8	25.3	8.9	12.1
Operating Profit	(31)	(31.3)	54.5	68.9	69.5
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	(0.1)	0.0
Tax	(9)	(8.5)	6.0	11.9	11.2
Net Income	(23)	(22.8)	48.5	56.9	58.3
Other Comprehensive Income	(12)	(12.1)	19.6	(16.6)	12.9
Fitch Comprehensive Income	(35)	(34.9)	68.1	40.3	71.2
Summary Balance Sheet					
Assets					
Gross Loans	3,225	3,224.7	3,474.7	3,456.6	3,190.3
- of which impaired	68	67.7	50.8	43.4	28.9
Loan Loss Allowances	50	49.8	54.6	44.8	33.1
Net Loan	3,175	3,174.9	3,420.1	3,411.8	3,157.2
Interbank	182	182.2	231.2	294.8	381.5
Derivatives	10	9.6	N.A.	1.1	N.A.
Other Securities and Earning Assets	1,059	1,058.9	697.2	833.8	869.9
Total Earning Assets	4,426	4,425.6	4,348.5	4,541.5	4,408.6
Cash and Due From Banks	21	20.6	23.9	27.2	30.5
Other Assets	433	432.7	369.2	327.2	251.9
Total Assets	4,879	4,878.9	4,741.6	4,895.9	4,691.0
Liabilities					
Customer Deposits	3,051	3,051.3	2,811.9	2,937.5	2,832.6
Interbank and Other Short-Term Funding	80	80.4	86.2	790.3	62.0
Other Long-Term Funding	1,017	1,017.1	1,028.3	438.4	1,131.1
Trading Liabilities and Derivatives	6	6.2	5.8	3.8	4.5
Total Funding	4,155	4,155.0	3,932.2	4,170.0	4,030.2
Other Liabilities	295	295.4	231.3	202.9	161.9
Preference Shares and Hybrid Capital	8	8.0	110.0	110.0	110.0
Total Equity	421	420.5	468.1	413.0	388.9
Total Liabilities and Equity	4,879	4,878.9	4,741.6	4,895.9	4,691.0
Exchange Rate		USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

N.A. – Not applicable.
Source: Fitch Ratings.

Summary Financials and Key Ratios

(%, Years Ended Dec. 31)	2020	2019	2018	2017
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	(1.2)	1.8	2.3	2.4
Net Interest Income/Average Earning Assets	2.1	2.6	2.9	3.3
Non-Interest Expense/Gross Revenue	63.1	53.8	56.2	52.0
Net Income/Average Equity	(5.2)	10.9	14.5	16.4
Asset Quality				
Impaired Loans Ratio	2.1	1.5	1.3	0.9
Growth in Gross Loans	(7.2)	0.5	8.4	8.5
Loan Loss Allowances/Impaired Loans	73.6	107.5	103.2	114.5
Loan Impairment Charges/Average Gross Loans	2.1	0.8	0.3	0.3
Capitalization				
Common Equity Tier 1 Ratio	12.2	13.0	10.8	10.2
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	13.6	12.0	11.9
Tangible Common Equity/Tangible Assets	8.2	9.6	8.3	8.0
Basel Leverage Ratio	7.3	8.8	7.1	6.5
Net Impaired Loans/Common Equity Tier 1	5.5	(1.0)	(0.4)	(1.4)
Net Impaired Loans/Fitch Core Capital	N.A.	(0.9)	(0.4)	(1.2)
Funding and Liquidity				
Loans/Customer Deposits	105.7	123.6	117.7	112.6
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	73.4	69.7	68.7	68.5
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. - Not applicable.
 Source: Fitch Ratings.

Environmental, Social and Governance Considerations

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.

FitchRatings Multibank, Inc.

Banks Ratings Navigator

Credit-Relevant ESG Derivation

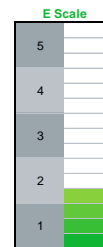
Multibank, Inc. has 5 ESG potential rating drivers

- ➔ 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		
	4	issues	2		
not a rating driver	5	issues	1		

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



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.

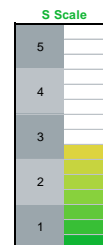
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

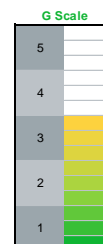
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.

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