FitchRatings

Multibank, Inc.

Update

Banks
Universal Commercial Banks
Panama

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	BBB–
Country Ceiling	AA–
Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative

Key Rating Drivers

Shareholder Support: Multibank, Inc.'s (Multibank) ratings are based on the potential support it would 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 its parent. The Stable Rating Outlook on Multibank mirrors that of the parent.

Parent's Ability to Support: Bogota's ability to provide support to Multibank is closely linked to its IDR of 'BB+' as well as the size of Multibank, as it represents around 15% of Banco de Bogota's consolidated assets.

Core Subsidiary: 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, which is considered a core market for the group.

Reputational Risk and Integration: Growing integration with Bogota improves Multibank's local franchise, provides business model stability and benefits the subsidiary's business generation. Fitch also weighs with high importance the reputational risk that an event of default by Multibank would constitute to its shareholder, as it would result in huge damage to Bogota's reputation and franchise.

Viability Rating: Multibank's VR is primarily driven by its diversified business model and relevant market position in some lending segments, sound risk profile, pressured asset quality and broad funding access. Its business profile weighs the moderate four-year average total operating income of USD149 million, which is lower than international peers.

Increased Credit and Market Risks: Fitch's assessment of Multibank's risk profile considers the growing integration with the parent's risk management structure and practices, but also weighs its less conservative loan loss allowances position than some of its peers and exposure to interest rate risk, which have had a negative impact on its capital due to unrealized losses.

Pressured Asset Quality: Multibank's NPL ratio (Stage III loans) remains high, reflecting the challenged operating environment (EO), particularly pressures from high interest rates. As of September 2023 (3Q23), the bank's NPL ratio was 8.0%, but collateral structure positively weighs on the agency's asset quality assessment as roughly 70% of its commercial portfolio is backed by guarantees. Also, the 90 day past due loans ratio is an adequate 2.4%.

Challenged Profitability: Multibank's positive profitability trend reversed due to increased credit costs; as of 9M23, the bank's operating profit to risk-weighted assets (RWA) ratio declined to 0.3% from 0.9% in YE2022. Meanwhile, the loans and securities impairment charges (LICs) to pre-impairment operating profit ratio increased to 69.1% from 56.9%, while the net interest margin (NIM) also tightened.

Ordinary Support Benefits Loss Absorption Capacity: The bank maintains lower loss absorption capacity compared with regional peers, which is offset by ordinary or extraordinary support from its ultimate shareholder, in case of need. As of 3Q23, Multibank's CET1-to-RWAs ratio declined to 9.2% due to moderate earnings.

Sound Funding and Liquidity: Multibank's funding structure continues to rely on its stable customer deposit base, but lags in comparison with larger peers due to higher concentrations per depositor. As of 3Q23, the bank's loan to deposit ratio improved to 114.1% due to the decrease of its loan portfolio. Fitch's assessment of funding and liquidity consider as positive the support from a strong regional group.

Applicable Criteria

Bank Rating Criteria (September 2023)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Multibank's IDR at 'BB+'; Outlook Stable (May 2023)

Panama Banks' Operating Environment Unaffected by Negative Sovereign Outlook (October 2023)

Fitch Affirms Banco De Bogota and Grupo Aval; Outlook Stable (November 2023)

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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 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 ratios consistently above 2.5% and a CET1 of at least 15%.

Other Debt and Issuer Ratings

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

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.

Subordinated Debt: The subordinated debt issuance rating is two notches below Multibank's long-term national anchor rating of 'AA(pan)'. The discount is due to its subordination and the lower expected recovery of the subordinated debt in case of default.

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.
- A downgrade in the national rating subordinated debt would be of the same magnitude as a negative action on Multibank's national ratings, as it would remain two notches below the issuer's rating.

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.
- An upgrade in the national rating subordinated debt would come from a positive action on Multibank's long-term national ratings.

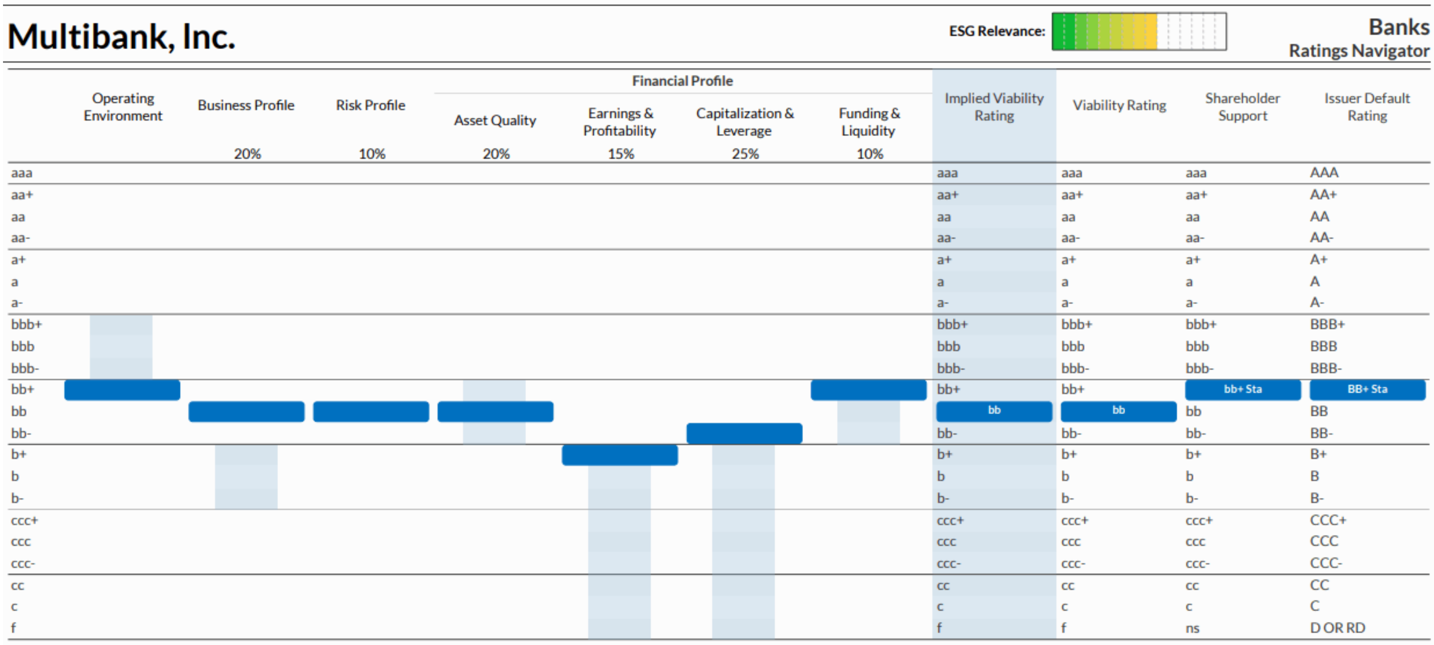
Significant Changes from Last Review

In 9M23, Multibank's profitability deteriorated, after a positive trend in 2021 and 2022, driven by increased funding and credit costs. The bank's LICS to pre-impairment operating profit ratio increased to 69.1% from 56.9% in YE2022, given the persistently high NPL. Also, increased funding costs, driven by higher interest rates, have tightened the bank's NIM to 1.7% from 2.3%.

As of 3Q23, the bank's NPL ratio slightly improved to 8.0% from 8.3% in December 2022, but remains significantly high, comparing unfavorably to other banks rated at the same level. Fitch assesses the bank's strong collateral structure positively, partially mitigating the impaired loans, along with its 90 days past due loans, which remains at an adequate 2.4%.

Multibank's capitalization continued to decline, as its CET1 to RWA ratio decreased to 9.2% from 9.6% in December 2022. While unrealized losses from securities fair-value, which significantly curbed capital in 2022, have ceded, capital metrics are constrained by a modest internal capital generation and growth in RWA (+7%).

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 upwards or downwards 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 reasons: 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 reasons: Business Model (positive), Group Benefits and Risks (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).

Financials

Summary Financials and Key Ratios

	9/30/23					
	9 Months - 3rd Quarter USD mil. Unaudited	9 Months - 3rd Quarter PAB mil. Unaudited	12/31/22 Year End PAB mil. Unaudited	12/31/21 Year End PAB mil. Audited — Unqualified	12/31/20 Year End PAB mil. Audited — Unqualified	12/31/19 Year End PAB mil. Audited — Unqualified
Summary Income Statement						
Net Interest and Dividend Income	58	57.8	106.0	99.1	90.9	116.0
Net Fees and Commissions	17	16.6	21.4	18.8	16.4	21.8
Other Operating Income	11	10.8	15.7	24.3	29.6	34.8
Total Operating Income	85	85.2	143.1	142.2	136.9	172.6
Operating Costs	64	63.5	86.9	84.2	86.4	92.8
Pre-Impairment Operating Profit	22	21.7	56.2	58.0	50.5	79.8
Loan and Other Impairment Charges	15	15.0	32.0	43.4	81.8	25.3
Operating Profit	7	6.7	24.2	14.6	-31.3	54.5
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	3	2.6	1.9	-0.6	-8.5	6.0
Net Income	4	4.1	22.3	15.2	-22.8	48.5
Other Comprehensive Income	3	3.2	-69.4	-24.4	-12.1	19.6
Fitch Comprehensive Income	7	7.3	-47.1	-9.2	-34.9	68.1
Summary Balance Sheet						
Assets						
Gross Loans	3,669	3,669.1	3,723.8	3,497.3	3,224.7	3,474.7
- of which impaired	294	293.6	308.1	168.2	141.4	64.4
Loan Loss Allowances	67	67.0	70.8	79.1	49.8	54.6
Net Loan	3,602	3,602.1	3,653.0	3,418.2	3,174.9	3,420.1
Interbank	157	156.7	194.7	161.7	182.2	231.2
Derivatives	1	1.2	0.1	0.3	9.6	N.A.
Other Securities and Earning Assets	836	835.5	924.8	918.3	1,058.9	697.2
Total Earning Assets	4,596	4,595.5	4,772.6	4,498.5	4,425.6	4,348.5
Cash and Due from Banks	26	26.4	25.6	22.0	20.6	23.9
Other Assets	323	322.6	328.2	357.3	432.7	369.2
Total Assets	4,945	4,944.5	5,126.4	4,877.8	4,878.9	4,741.6
Liabilities						
Customer Deposits	3,217	3,216.7	3,026.5	2,946.7	3,051.3	2,811.9
Interbank and Other Short-Term Funding	42	41.9	114.9	26.2	80.4	86.2
Other Long-Term Funding	1,182	1,182.2	1,503.0	1,312.1	1,017.1	1,028.3
Trading Liabilities and Derivatives	N.A.	N.A.	0.2	5.0	6.2	5.8
Total Funding and Derivatives	4,441	4,440.8	4,644.6	4,290.0	4,155.0	3,932.2
Other Liabilities	134	134.3	119.8	177.2	295.4	231.3
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	8.0	110.0
Total Equity	369	369.4	362.0	410.6	420.5	468.1
Total Liabilities and Equity	4,945	4,944.5	5,126.4	4,877.8	4,878.9	4,741.6
Exchange Rate		USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

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

Summary Financials and Key Ratios

	9/30/23	12/31/22	12/31/21	12/31/20	12/31/19
Ratios (annualized as appropriate)					
Profitability					
Operating Profit/Risk-Weighted Assets	0.3	0.9	0.5	-1.2	1.8
Net Interest Income/Average Earning Assets	1.7	2.3	2.2	2.1	2.6
Non-Interest Expense/Gross Revenue	74.5	60.7	59.2	63.1	53.8
Net Income/Average Equity	1.5	6.0	3.7	-5.2	10.9
Asset Quality					
Impaired Loans Ratio	8.0	8.3	4.8	4.4	1.9
Growth in Gross Loans	-1.5	6.5	8.5	-7.2	0.5
Loan Loss Allowances/Impaired Loans	22.8	23.0	47.0	35.2	84.8
Loan Impairment Charges/Average Gross Loans	0.6	0.9	1.3	2.1	0.8
Capitalization					
Common Equity Tier 1 Ratio	9.2	9.6	11.3	12.2	13.0
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	N.A.	13.9	14.7	13.6
Tangible Common Equity/Tangible Assets	7.3	6.9	8.2	8.2	9.6
Basel Leverage Ratio	5.9	5.5	7.1	7.3	8.8
Net Impaired Loans/Common Equity Tier 1	82.3	88.5	27.5	28.0	2.5
Net Impaired Loans/Fitch Core Capital	N.A.	N.A.	22.4	23.2	2.4
Funding and Liquidity					
Gross Loans/Customer Deposits	114.1	123.0	118.7	105.7	123.6
Gross Loans/Customer Deposits + Covered Bonds	N.A.	N.A.	N.A.	N.A.	N.A.
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	72.4	65.2	68.8	73.4	69.7
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

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

Support Assessment

Shareholder Support	
Parent IDR	BB+
Total Adjustments (notches)	0
Shareholder Support	**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

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 17.9% 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 which is considered a core market for the group.

The colors indicate the weighting of each KRD in the assessment.
Higher influence | Moderate influence | Lower influence

Environmental, Social and Governance Considerations

FitchRatings **Multibank, Inc.**

Banks
Ratings Navigator

Credit-Relevant ESG derivation

Multibank, Inc. has 5 ESG potential 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
driver	0	Issues
potential driver	5	Issues
not a rating driver	4	Issues
	5	Issues

Overall ESG: 5, 4, 3, 2, 1

Environment (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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale: 5, 4, 3, 2, 1

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	Business Profile (incl. Management & governance); Risk Profile
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
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	Business Profile (incl. Management & governance); Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale: 5, 4, 3, 2, 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.

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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.