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CREDIT OPINION
28 September 2023

Update

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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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Multibank, Inc.

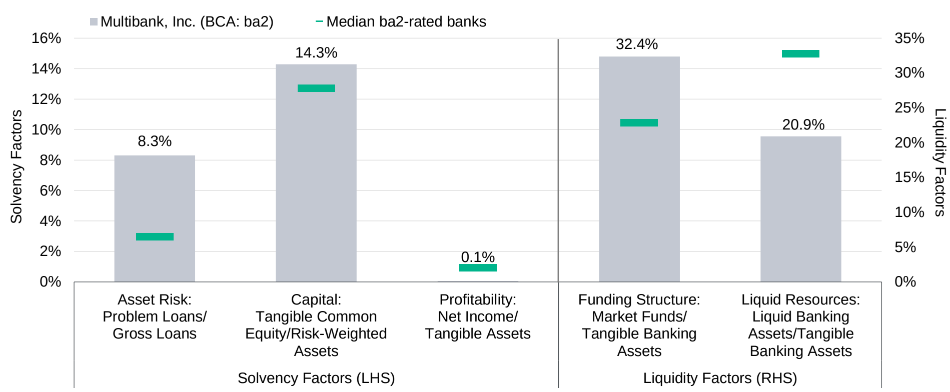
Update following debt ratings affirmation, outlook remains stable

Summary

Multibank, Inc.'s (Multibank), ba2 baseline credit assessment (BCA) that reflects weakened asset quality metrics, and relatively low profitability, which has been affected by a combination of narrower interest margin and higher loan loss provisioning expenses. As a medium-sized bank, Multibank is largely funded by market-based resources, while the bank's sound capitalization level is a key positive credit driver on Multibank's BCA.

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 affiliate support and dependence assumptions from Banco de Bogota, S.A.(Baa2 stable, ba1), which result in a one-notch uplift from its ba2 BCA.

Exhibit 1
Rating scorecard - Key Financial Ratios
Multibank's data as of June 2023



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

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 over-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

Credit challenges

- » Weak asset quality due to certain troubled exposures related to the construction sector
- » Low levels of loan loss reserve coverage relative to peers in Panama
- » Concentrated market funding mix increases the bank's vulnerability in times of global volatility
- » Rising interest expense will continue to pressure interest margins, hurting bottom line results

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

An upgrade of Multibank's rating would arise if the bank reports sustainable and material improvement in the level of problem 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Multibank, Inc. (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (USD Million)	5,023.5	5,126.4	4,877.8	4,879.2	4,741.6	1.7[4]
Tangible Common Equity (USD Million)	447.2	445.3	422.3	414.7	474.4	(1.7)[4]
Problem Loans / Gross Loans (%)	8.3	8.3	4.8	4.4	1.9	5.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.3	15.1	14.0	14.6	15.3	14.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	58.5	59.7	33.5	30.4	12.2	38.9[5]
Net Interest Margin (%)	1.6	2.3	2.2	2.1	2.6	2.1[5]
PPI / Average RWA (%)	0.9	1.8	2.0	1.7	2.6	1.8[6]
Net Income / Tangible Assets (%)	0.0	0.4	0.3	-0.5	1.0	0.3[5]
Cost / Income Ratio (%)	76.5	61.5	59.3	65.8	53.7	63.4[5]
Market Funds / Tangible Banking Assets (%)	28.4	32.3	29.6	26.6	26.1	28.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.0	20.9	20.6	24.3	18.4	20.8[5]
Gross Loans / Due to Customers (%)	117.8	123.1	118.7	105.8	123.7	117.8[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 Investors Service and company filings

Profile

Established in 1990, Multibank, Inc. (Multibank) is a diversified commercial and consumer lender based in Panama, where it holds 94% 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 June 2023, the bank was the seventh-largest lender in the country, with a 6% market share in terms of domestic loans and the nineth-largest bank in terms of domestic deposits, with a 4% market share. In June 2023, the bank had $5.0 billion in assets and $3.7 billion in gross loans.

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, ultimately controlled by Grupo Aval. Multibank benefits from Banco de Bogota's management oversight, which enhances the bank's corporate governance, risk management and compliance standards. In June 2023, Multibank accounted for 15% of the group's total assets.

Detailed credit consideration

Large troubled exposures and tight reserve coverage are relatively mitigated by high portfolio collateralization

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 restructuring and monitoring process is completed. In June 2023, problem loan ratio, measured as loans classified as Stage 3 (IFRS9), stood at 8.3% of gross loans, significantly above the 4.8% at the end of 2021, and above that of its Panamanian peers average. However, the bank's loan delinquencies measured as 90 days past-due loans, was at a relatively low 2.9% of gross loans in June 2023, only 20 basis points below the system average of 2.7% int the same period.

Corporate and SME portfolio accounted for 54% of total loans in June 2023 (16% to construction companies, 14% to commerce and 8% to agribusiness), and consumer and residential mortgage loans accounting for 23% each.

Despite recent reinforcement in provisions for loan losses, Multibank continues to maintain low loan loss reserve buffer that covered just 25% stage 3 loans in June 2023, and 72% when considered the 90-day nonperforming loans. The high level of loan collateralization (with mortgages accounting for almost ¼ of total loans) and low borrower concentration (top 20 exposures equaled to 12% o gross loans) helped to mitigate credit losses.

We expect asset risks to continue strained by a moderation in economic activity over the next 18 months in Panama that will likely further pressure borrowers' repayment capacity.

Sound capitalization recently hit by share redemption and MTM on investment portfolio

Multibank's capital position is a credit-positive driver for its ba2 BCA because the bank has historically maintained stable and adequate capitalization, measured as tangible common equity to risk-weighted assets (TCE / RWAs), Moody's preferred capital metric. The bank has maintained a conservative dividend policy since 2020 and limited credit risk growth, both factors that contributed to preserve capitalization in the past three years. In June 2023, the bank's TCE ratio increased 49 bps maintaining a sound 14.3%.

On a regulatory basis, however, capital ratios have fallen since 2019 as the bank redeemed its $110 million preferred shares, holding 19% of SHE in December 2019 and there was a significant impact of losses related to its investment held at fair value, driving a negative effect of Other comprehensive income (OCI) on the bank's total capital. Total capital and Tier 1 capital ratio were 11.7% and 8.8% respectively in June 2023, well below 18.4% and 16.6% in 2019.

Moody's expects that the bank's capitalization to remain a credit strength supported by its conservative dividend policy and a mild expansion of its loan book.

Weak profitability in last two years amid higher costs and low new loan origination

Multibank's profitability continued to be under rising funding costs pressures in the first six months of 2023, with net in come to tangible banking assets falling to 0.05% in June 2023, down from 0.4% average over the last two years. The bank's financial performance was affected by a sharp increase of interest expenses, combined with still high loan loss provisioning and slower asset repricing. Net interest margin (NIM) dropped almost 90 bps to 1.6% during the first six months of 2023 from 2.5% one year prior, as its funding costs increased around 400 bps in the last 18 months. In February 2023, the bank issued a new 5-year $300 million senior unsecured bond following the maturity of a same size senior notes in November 2022, but at much higher cost amid tighter financial markets, which coupled with Multibank's large concentration on corporate term deposits, drove a sharp increase in its interest expenses, consuming most of its earnings.

While efficiency practices and certain support functions, such as IT and operating systems implemented by Banco de Bogota, will likely translate into synergy gains for Multibank over the next two years, profitability will remain tight because of higher costs of funds, moderate loan origination as the bank continues to adopt conservative underwriting policies to address asset risk pressures.

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

As a medium-sized bank, Multibank is largely funded by market-based resources, which accounted for 28% of tangible banking assets in June 2023, with a low participation in the system's core deposits compared to peers in Panama. The gradual decline in market funds (32% at the end of 2022) and shift towards cheaper deposit base has also benefited the bank's ALM strategy. Deposits, which are still largely corporate and, thus, more expensive than core deposits, are much concentrated on fixed-term deposits, 73% of total deposits in June 2023. At the same time, the bank has maintained adequate levels of liquid assets during the past 3 years, at around 20% of tangible banking assets.

Multibank's ratings incorporate Panama's Moderate Macro Profile

Panama's Moderate Macro Profile (MP) benefits from the country's strong economic growth over the past years, supported by high investments and the global role of the Panama Canal. The dollarized economy has helped ensure macroeconomic stability, but has increased the dependence on offshore financing and limited the scope of economic policymaking. The Moderate MP incorporates the effect caused by the severe economic contraction in 2020 and the ongoing recovery of GDP through 2022, when we expect economic activity will reach 2019 levels, lagging some of its regional peers in this aspect.

The strong economic growth supported the expansion in Panama's banking sector, particularly between 2011 and 2017, taking credit penetration to levels above Latin American averages, although still below global standards. Loan growth has eased over the past years and will remain modest in 2023 because of still-difficult operating conditions, which will likely continue to affect banks' risk appetite. While banks remain largely deposit funded, the absence of a lender of last resort, a significant share of deposits from foreign investors, and concerns about money laundering pose refinancing and repricing risks. The banking sector is relatively fragmented, and some consolidation among smaller participants is likely because of strong competition and their limited economies of scale.

ESG considerations

Multibank, Inc.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Multibank's CIS-2 indicates that ESG considerations are not material to the rating because a very high level of affiliate support mitigates the impact of ESG factors on the ratings. The bank's conservative risk management mitigate moderate governance risks stemming from a concentrated ownership.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-4
Highly Negative

GOVERNANCE
G-3
Moderately Negative

Source: Moody's Investors Service

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 high social risks related to customer relations, associated with regulatory risk and litigation exposure, requiring the bank to meet high compliance standards. 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

Multibank, Inc.

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	8.3%	b1	↔	b1	Expected trend	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.3%	baa1	↔	baa2	Access to capital	Capital retention
Profitability						
Net Income / Tangible Assets	0.0%	caa1	↔	b2	Expected trend	
Combined Solvency Score		ba2		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	32.3%	ba3	↔	ba2	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.9%	ba1	↔	ba2	Quality of liquid assets	
Combined Liquidity Score		ba2		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				Baa2		
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	0	0	ba1	-		Ba1

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

Source: Moody's Investors Service

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 Investors Service

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REPORT NUMBER 1374920

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