FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Multibank Inc. at 'BB+'; Outlook Stable

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Fitch Ratings - Monterrey - 18 May 2022: Fitch Ratings has affirmed Multibank Inc.'s Long- and Short-Term Issuer Default Rating (IDR) at 'BB+' and 'B', respectively. Fitch has also affirmed the bank's National Long- and Short-Term Ratings at 'AA(pan)' and 'F1+ (pan)', respectively. The Rating Outlook for long-term ratings is Stable. Fitch has downgraded the bank's Viability Rating (VR) to 'bb' from 'bb+'.

The VR downgrade reflects a change in Fitch's assessment of Multibank's business profile to 'bb' from 'bb+' due to lower total operating income generation than larger local and regional peers in 2022. In addition, its business model, although favors its portfolio diversification (leading to a good asset quality) it still results in a limited profitability for Multibank's current VR level.

KEY RATING DRIVERS

Shareholder Support: Multibank IDRs, Shareholder Support Rating (SSR), national and senior unsecured debt ratings are based on the potential support it would receive from its shareholder Banco de Bogota, S.A. (Bogota), if required. The bank's Long-Term IDR is equalized to Bogota's Long-Term IDR, reflecting Fitch's assessment of the high propensity of support from its parent. The Stable Outlook on Multibank mirrors that on the parent.

Strategically Important Subsidiary: In Fitch's view, Multibank supports its group's franchise and market position in Panama and contributes to the group's business model and regional strategy, providing key products and services in a market considered core.

Reputational Risk and Integration: Growing integration with Bogota improves Multibank's franchise, provides a relative 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, severely damaging the franchise.

Sound Franchise, Albeit Medium Sized: In Fitch's opinion, Multibank`s restructuring process - following its ownership change in 2020 - is leading to some businesses reorganizations, positive effects of which may take more time to produce effective results. Regardless, Fitch understands the importance of building a solid business model framework, more aligned to the new parent's interests. Also, Multibank's VR still reflect its sound yet medium franchise within the Panamanian banking system, with an estimated market share of around 5%-6% in terms of domestic loans and a 2018-2021 average total operating income of USD157 million. Fitch also considers that the bank's business profile benefits from a relevant integration to Grupo Aval as reflected in growing, strong customer relationships, higher business generation and more robust risk management model.

Reduced Pressure on Asset Quality: Multibank's impaired loans/gross loans ratio of 2.1% at YE 2021 remained above its four-year average of 1.7% but was one of the lowest ratios among peers. Fitch expects the bank to stabilize its delinquency metrics gradually and return to its pre-pandemic level, due to the decreasing proportion of modified portfolio and the improvement in commercial loan placement. The bank's reserve coverage was reasonable and roughly in line with the sector average.

Profitability Still Below Historical Levels: Multibank's reported operating profit/risk-weighted assets (RWA) ratio was around 0.5% as of YE 2021 (four-year average: 0.9%). Decreasing COVID-19 related loan impairment charges, along with higher revenue streams and the absence of extraordinary acquisition-related expenses, favored gradual improvement from the losses generated in 2020. Profitability remains weaker than that of its closest domestic peers, although Fitch recognizes management's strategic focus to recover it.

Adequate Loss Absorption Capacity: Multibank's common equity Tier 1 (CET1) capital ratio declined to 11.3% as of 2021 from 12.2% at YE 2020, reflecting higher RWA. However, this ratio compares favorably with the minimum regulatory requirements (4.5%). Loan loss allowances for impaired loans are sound, which further supports the bank's loss absorption capacity. Fitch's assessment also considers the ordinary support that could receive from its parent if need arises.

Sound Funding and Liquidity: Multibank relies on a solid customer deposits base, strengthened by the support of a strong regional group, and also on diversified funding sources. At YE 2021, its loans to deposit ratio of 118.7% (2020: 105.7%) reflected a mild reduction of deposits by 3.4%. The bank's liquidity position is sound, as reflected in a liquid asset to deposits ratio above 35% for the last four periods.

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

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior Unsecured Debt: Multibank's ratings of its outstanding senior unsecured obligations are at the same level of the company's IDR as the likelihood of default of the obligations is the same as the one of Multibank.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

--Multibank's senior unsecured debt would mirror any potential downgrade on its IDRs.

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.

VR ADJUSTMENTS

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 Earnings & Profitability score has been assigned at 'bb-' above the implied score of 'b' due to the following adjustment reasons: Historical and Future Metrics (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).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Multibank's IDRs are driven by the potential support it could receive from its parent, Banco de Bogota, S.A. if required.

ESG 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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Multibank, Inc.	LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Stable
	ST IDR	B	Affirmed	B
	Natl LT	AA(pan) Rating Outlook Stable	Affirmed	AA(pan) Rating Outlook Stable
	Natl ST	F1+(pan)	Affirmed	F1+(pan)
	Viability	bb	Downgrade	bb+
	Shareholder Support	bb+	Affirmed	bb+
senior unsecured	LT	BB+	Affirmed	BB+
senior unsecured	Natl LT	AA(pan)	Affirmed	AA(pan)
senior unsecured	Natl ST	F1+(pan)	Affirmed	F1+(pan)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

Metodología de Calificación de Bancos (pub. 28 Mar 2022)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Multibank, Inc.	EU Endorsed, UK Endorsed

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