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CREDIT OPINION
20 July 2022

New Issue

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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	Not Assigned
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.

New issuer

Summary

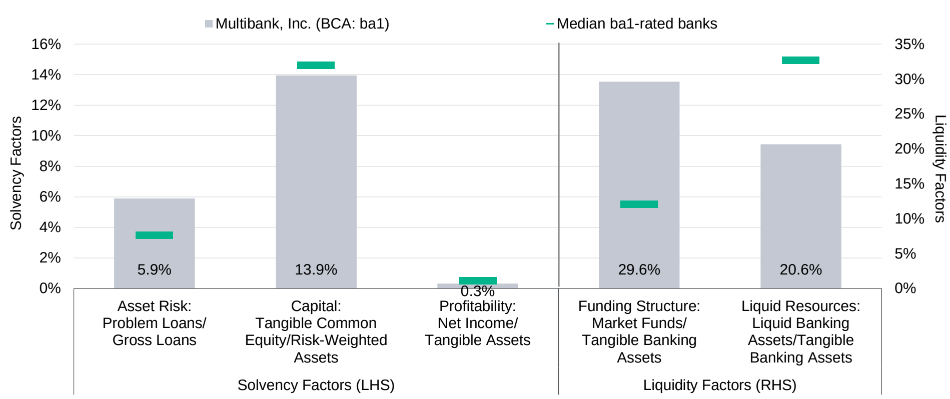
We assign Ba1/Not Prime long- and short-term foreign-currency deposit ratings to Multibank, Inc. (Multibank), as well as a ba1 Baseline Credit Assessment (BCA) and Adjusted BCA. Multibank's ba1 BCA incorporates the bank's good capitalization metrics, which are supported by its low dividend payout policy and well-established franchise in the corporate banking sector as a leading lender to certain economic segments and car financing segments in Panama (Baa2 stable).

Multibank's Ba1 foreign-currency deposit rating is at the same level as its BCA and Adjusted BCA of ba1. We incorporate a very high probability of support from its parent, Banco de Bogotá S.A. (Banco de Bogotá, Baa2 stable, ba1), which, however, does not result in any rating uplift for affiliate support because Banco de Bogotá's BCA is also ba1, at the same level as Multibank's BCA.

Exhibit 1

Rating scorecard - Key financial ratios

Multibank's data as of March 2022



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

» Historically adequate capitalization, supported by prudent loan growth and lower-than-peer dividend payouts

» Low single-name borrower concentration and low exposures to inherently risky segments of the economy, coupled with its high level of loan over-collateralization, will help mitigate the low loan loss coverage

» Higher reliance on interest income, higher rate and accelerated credit origination will continue to support earnings generation and profitability recovery

» Benefits from its parent's management expertise, Banco de Bogota and Grupo Aval Acciones y Valores S.A.'s (Grupo Aval, Ba2 negative) risk management policies and financial support

Credit challenges

» Loan loss reserve coverage has strained to weak levels and provisioning needs may strain profitability as asset quality weaken

» Concentrated market funding mix increases the bank's vulnerability in times of global volatility and will test the bank's financing strategy

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 risks stemming from its elevated asset-risk metrics, while profitability gradually recovers.

Factors that could lead to an upgrade

An upgrade of Multibank's ratings would result from a sustainable reduction in the level of problem loans, combined with an increase in the loan loss reserve coverage that would support the loss absorption capacity as the bank expands its business beyond its current focus. Positive pressure would also be exerted by a consistent improvement in the bank's profitability, thereby benefiting its capital ratios.

Factors that could lead to a downgrade

The rating could be downgraded in case of a further deterioration in asset metrics, high problem loans and low coverage ratios, which could persist if the bank's high level of modified loans result in higher credit losses. This scenario would, in turn, impair its profitability and capital buffers.

Key Indicators

Exhibit 2

Multibank, Inc. (Consolidated Financials) [1]

	03-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (USD Million)	4,905.3	4,877.8	4,879.2	4,741.6	4,895.9	0.1[4]
Tangible Common Equity (USD Million)	428.3	422.3	414.7	474.4	438.9	(0.8)[4]
Problem Loans / Gross Loans (%)	5.9	4.8	4.4	1.9	1.3	3.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.9	14.0	14.6	15.3	13.9	14.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	41.6	33.5	30.4	12.2	9.3	25.4[5]
Net Interest Margin (%)	2.6	2.2	2.1	2.6	2.8	2.4[5]
PPI / Average RWA (%)	2.3	2.0	1.7	2.6	2.5	2.2[6]
Net Income / Tangible Assets (%)	0.4	0.3	-0.5	1.0	1.2	0.5[5]
Cost / Income Ratio (%)	54.1	59.3	65.8	53.7	56.3	57.8[5]
Market Funds / Tangible Banking Assets (%)	30.2	29.6	26.6	26.1	27.4	28.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	19.8	20.6	24.3	18.4	22.0	21.0[5]
Gross Loans / Due to Customers (%)	120.4	118.7	105.8	123.7	117.8	117.3[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 95% 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 March 2022, the bank was the seventh-largest lender in the country, with a 6.0% market share in terms of domestic loans and the nineth-largest bank in terms of domestic deposits, with a 3.1% market share.

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.

As of March 2022, the bank had $4.9 billion in assets and $3.5 billion in gross loans.

Detailed credit considerations

Severe impact of pandemic in Panama, coupled with its holding group's strict risk management practices, led to deterioration in asset quality

While Multibank followed good underwriting policies historically and its asset-quality track record has been supported by strong levels of loan collateralization, the bank's level of problem loans increased significantly between 2020 and 2021 as a result of a high volume of loan restructurings at the onset of the pandemic. Problem loans, measured as loans classified by the bank as Stage 3 under IFRS 9, reached 4.8% of gross loans as of December 2021 and increased to 5.9% as of March 2022, well above the 1.9% as of December 2019. However, problem loans are likely to decline in 2022 and 2023, supported by the consistent economic recovery in Panama that will continue to benefit borrowers' repayment capacity and companies' performance amid solid 6.5% GDP growth in Panama in 2022 and 4.1% in 2023.

On the other hand, the bank's loan delinquencies — measured as 90 days past-due loans — was a relatively low 1.7% in March 2022, below the system average and in line with pre-pandemic levels.

Multibank's corporate portfolio accounted for 52% of total loans as of March 2022, of which wholesale and retail commerce were about 14% of total loans, followed by construction at 15% and agribusiness at 8%, while the consumer lending and residential mortgage portfolios accounted for about 23% and 22% of total loans, respectively, during the same period.

Multibank's low reserve coverage for Stage 3 loans was only 35.8% as of March 2022, remaining well below that of peers (average of 80% during the same period). This risk is mitigated by the availability of strong guarantees on most of the bank's loans. If we measure reserve coverage as a percentage of +90-day past-due loans, the coverage increases to a more adequate 125% as of March 2022. Moreover, as of March 2022, 11% of the bank's loans were still under the government's relief program for borrowers affected by the pandemic, down from its peak of 41% in March 2021. However, the bank's loan book benefits from a high level of loan over-collateralization and low borrower concentration (the top 20 borrowers represented 6% of gross loans and 0.5x of tangible common equity [TCE] as of March 2022), factors that mitigate the low loan loss coverage ratio maintained by the bank under IFRS standards. In addition, exposures to the inherently risky segments of the economy, such as loans to the commercial real estate (CRE) segment, are also relatively low compared with those of its peers.

Historically adequate capitalization, supported by prudent loan growth and lower-than-peer dividend payouts

Multibank's capital position is a credit-positive driver because the bank has historically maintained strong capitalization, which will be supported by its more conservative dividend policy in the next few years, as well as a recovery in earnings generation expected in 2022. In March 2022, the bank's TCE/risk-weighted assets (RWA), our preferred capital metric, remained at around 14%, in line with 2021.

However, Multibank's regulatory capital ratios have fallen since 2019 as the bank started to redeem its $110 million preferred shares, holding 19% of shareholder equity as of December 2019. The regulatory capital ratio and Tier 1 capital ratio were 12.1% and 10.1%, respectively, as of March 2022, well below 18.4% and 13% in 2019. Nonetheless, we expect the bank's conservative dividend payout policy and a likely gradual recovery in earnings in 2022 to help restore its historical capital levels.

Profit improved, yet current levels lag pre-pandemic levels, weakened by ongoing effects of economic downturn in Panama

Although Multibank has a long track record of good profitability, over the last two years (2020-21), performance was affected by a combination of higher loan loss provisioning, a lower margin on loans and low growth limited by weakened business conditions during the period. In 2020, profitability was also hurt by one-off charges related to the acquisition by Banco de Bogota. In the first quarter of 2022, the economic recovery supported business volume and lower provisioning needs, which, coupled with better margins and an improvement in cost efficiency, improved the quarter's bottom-line results relative to previous periods.

In March 2022, net income increased to 0.42% of tangible assets, from 0.31% in December 2021, although remaining still below 1.02% in 2019. Increasing interest rates in Panama, combined with an acceleration in credit origination, have boosted Multibank's net interest margin (NIM), which improved to 2.6% in March 2022 from 2.2% in December 2021, already returning to pre-pandemic levels.

We expect profitability to continue to strengthen as interest rates continue to rise and interest income accounts for a larger share of total revenue. We do not incorporate in our baseline scenario assessment a significant benefit from the expectation of lower credit costs or provision reversal. However, we expect cost efficiency practices and certain support functions, such as IT and operating systems implemented by Banco de Bogota, to support a sustainable recovery in profitability levels.

Concentrated market funding mix increases bank's vulnerability in times of global volatility that will test its financing strategy

Multibank's ratings take into consideration the bank's adequate liquidity buffers and its good level of deposit funding, which accounted for about two thirds of its total liabilities as of March 2022. However, as a medium-sized bank, Multibank is largely funded by market-based resources, which accounted for 30% of tangible banking assets in March 2022, while for peers, this ratio remains below 20% on average.

The relative stability of the bank's deposit base is somehow offset by the concentration on fixed-term deposits sourced from corporate depositors. Despite the deposit base being granular and mostly locally sourced, it is still largely provided by corporate depositors, which compares unfavorably with that of larger retail banks in Panama.

This concentrated funding mix increases the bank's vulnerability in times of global volatility. Multibank will face significant maturities of its market funding over the next 12 months. The bank will seek to refinance its November 2022 $300 million 144A/RegS bond and aims to extend banking credit facilities maturing in 2022. Multibank's liquidity strategy is focused on expanding its domestic core deposits in the next three years, which will reduce its reliance on market funding, increase resource granularity and reinforce liquidity management.

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 to 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 three years and will remain modest in 2022 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's exposure to environmental risks is low, consistent with our general assessment for the global banking sector. See our environmental risk heat map for further information.

Multibank's exposure to social risks is moderate, consistent with our general assessment for the global banking sector. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, aging population concerns in several countries affecting the demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue base. See our social risk heat map for further information.

Governance risks are largely internal rather than externally driven for Multibank, for which we do not have any concerns. Multibank has an appropriate risk management framework commensurate with its risk appetite. The bank has adequate corporate governance and risk management practices, which has improved since its acquisition by Banco de Bogota, supported by the management's good track record of delivering its strategic goals. These strengths mitigate the risks stemming from concentrated shareholder ownership and a complex organizational structure at its holding company level, which stems from its multicountry operations. Therefore, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support considerations

The Ba1 foreign-currency deposit and debt ratings assigned to Multibank are based on its BCA of ba1. We take into consideration our assessment of a very high probability of support to the bank's deposit and debt ratings from its ultimate parent, Banco de Bogota, in case of need. However, Multibank's ratings do not benefit from any uplift for affiliate support because the anchor point for assessing the parent's ability to provide support, its BCA, is at the same level as Multibank's BCA at ba1.

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 3

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	5.9%	ba2	↔	ba2	Expected trend	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.9%	baa2	↔	baa1	Access to capital	Capital retention
Profitability						
Net Income / Tangible Assets	0.3%	b1	↔	ba3	Expected trend	
Combined Solvency Score		ba1		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	29.6%	ba2	↔	ba2	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	20.6%	ba1	↔	ba2	Quality of liquid assets	
Combined Liquidity Score		ba2		ba2		
Financial Profile				ba1		
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				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				0		
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

[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 4

Category	Moody's Rating
MULTIBANK, INC.	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)

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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