

Rating Action: Moody's upgrades Bantrab's ratings to Ba3, outlook stable

30 Sep 2021

New York, September 30, 2021 -- Moody's Investors Service, ("Moody's") has today upgraded to Ba3, from B1, the long-term local and foreign currency deposit ratings assigned to Banco de los Trabajadores (Bantrab), as well as its baseline credit assessment (BCA) to b1, from b2, its long-term counterparty risk ratings to Ba2, from Ba3, both in local and foreign currency, and its long-term counterparty risk assessment (CRA) to Ba2(cr), from Ba3(cr). All short-term ratings were affirmed. The outlook on ratings remain stable.

A full list of the affected ratings and assessments is provided at the end of this press release.

RATINGS RATIONALE

The upgrade of Bantrab's standalone BCA to b1 reflects the improvement of the bank's capitalization over the last two years, as a result of its conservative dividend distribution policy and its consistent financial performance and risk discipline in the past 18 months. In 2020, during the COVID-19 pandemic, earnings contributed to enhance internal capital generation, with the bank's capitalization reaching a high historical level. This is important as Bantrab continues to expand its loan book above the system's average growth rate in 2022. Over the last five years, the bank has strengthened its anti-money laundering policies, risk management, compliance functions and the selection process for board members in line with its commitment to improve corporate governance practices, a positive development for its credit profile.

Bantrab's capitalization has benefited from stable profitability and low dividend distribution limited to about 30% of annual net income. In June 2021, Moody's preferred ratio of tangible common equity to adjusted risk weighted assets reached 15.1% and reflected the weighting of government securities at 100% according to Basel guidelines for Ba-rated sovereigns. On the same date, the bank's regulatory Tier 1 capital ratio was 15.18%, showing adequate cushioning to absorb unexpected credit or investment losses.

Bantrab reported a problem loan ratio of 1.94% in June 2021, remaining below the average ratio of 2.11% for the 3 years before the pandemic. Pressure on Bantrab's asset quality will likely continue in the second half of 2021 as its loan book continues to incorporate the effects from the end of government relief measures and loan deferrals in the economy. However, with a portfolio comprised 90% of personal loans to public employees, delinquency risk is mitigated by a strong collateral structure around the deductibility of loan installments directly from customers' bank accounts. In addition, credit losses are partially mitigated by adequate loan loss reserves that accounted for 143.74% of problem loans and 2.8% of gross loans as of June 2021.

Bantrab maintained good profitability metrics during the first half of 2021, supported by high net interest margins and that reflected the predominant share of high-yield consumer finance operations in the bank's loan book and lower credit costs compared to one year prior. The bank's ratio of net income to tangible assets of 2.49% in June 2021 was higher than the 3-year average annual ratio of 2.36% before the pandemic outbreak. Conversely, Bantrab's large balance of term deposits, which have higher funding costs than retail deposits, continues to weigh on the bank's bottom-line results. Despite that, in the next 12 months, profitability will continue to benefit from the recovery of economic activity in the country.

Bantrab's deposit ratings incorporate our assessment of a moderate probability of support from the Government of Guatemala (Ba1 negative) to the bank, in case of stress. The support assumption reflects Bantrab's consistent deposit market share of about 8%. In addition, Bantrab was established by the Guatemalan government and is largely owned by Guatemalan workers. Bantrab's deposit ratings receive one notch of uplift from its b1 BCA stemming from government support.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade in Bantrab's standalone BCA would result from a consistent reporting of strong profitability metrics, combined with sustainable good levels of asset quality. The capacity to maintain a robust capital base while posting loan growth would also result in upward pressure on Bantrab's BCA. Moreover, continuous improvement to corporate governance policies would also be positive for Bantrab's BCA. Deposit ratings would go up in tandem with a BCA upgrade because of an assumption of moderate government support.

Bantrab's BCA could be downgraded if asset quality deteriorates significantly, causing the bank's profitability to decline and, eventually a reduction in its capital position. The bank's deposit ratings would also decline in the event of a BCA downgrade.

METHODOLOGY USED

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED RATINGS AND ASSESSMENTS

The following ratings and assessments of Banco de los Trabajadores were upgraded:

- Long-term local currency deposit rating, to Ba3 from B1, stable outlook
- Long-term foreign currency deposit rating, to Ba3 from B1, stable outlook
- Long-term local currency counterparty risk rating, to Ba2 from Ba3
- Long-term foreign currency counterparty risk rating, to Ba2 from Ba3
- Baseline credit assessment, to b1 from b2
- Adjusted baseline credit assessment, to b1 from b2
- Long-term counterparty risk assessment, to Ba2(cr) from Ba3(cr)

The following ratings and assessments of Banco de los Trabajadores were affirmed:

- Short-term local currency deposit rating of Not Prime
- Short-term foreign currency deposit rating of Not Prime
- Short-term local currency counterparty risk rating of Not Prime
- Short-term foreign currency counterparty risk rating of Not Prime
- Short-term counterparty risk assessment of Not Prime(cr)

..Outlook Actions:

.Outlook, Remains Stable

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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