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CREDIT OPINION
26 April 2023

Update

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RATINGS

Banco de los Trabajadores

Domicile	Guatemala City, Guatemala
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba2
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.

Contacts

Susana Almeida +52.55.1253.5734
Analyst
susana.almeida@moodys.com

Saul Atlatenco +52.55.1253.5735
Associate Analyst
saul.atlatenco@moodys.com

Rodrigo Marimon Bernales +52.55.4840.1315
Analyst
rodrigo.bernales@moodys.com

» Contacts continued on last page

Banco de los Trabajadores

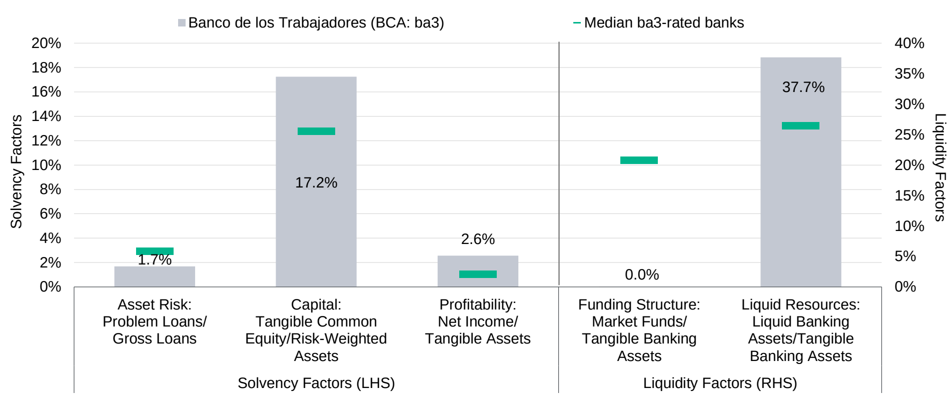
Update following upgrade to Ba2, outlook remains stable

Summary

Banco de los Trabajadores' (Bantrab) Baseline Credit Assessment (BCA) is ba3, which reflects the constant improvements in its capital position and the stable metrics in terms of profitability and asset quality. However, the BCA is constrained by the higher risk inherent to the bank's focus on unsecured consumer lending and a funding structure concentrated in large term deposits, which reduces funding granularity and leads to relatively higher funding costs.

Furthermore, Bantrab's local- and foreign-currency deposit ratings of Ba2 incorporates our assessment of a moderate probability of support from the Government of Guatemala (Ba1 stable) to the bank in case of stress. This support assumption reflects Bantrab's deposit market share of 7.3% as of December 2022, and its importance as a retail bank that provides financial services and credit to public workers in Guatemala.

Exhibit 1
Rating Scorecard - Key financial ratios
As of December 2022



For the asset risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data if available, and the ratio used is the weaker of the average compared with the latest period. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Strong capitalization

» Solid profitability supported by high net interest margins (NIMs)

» Adequate asset quality backed by Bantrab's preferential creditor status

» Robust volume of liquid assets

Credit challenges

» Limited business diversification, focused on riskier unsecured consumer lending

» Funding structure remains intrinsically concentrated with low granularity and diversification

» Ratings constrained by Guatemala's Weak + macro profile

Outlook

The stable rating outlook incorporates our view that the bank's financial fundamentals will be consistent with a ba3 BCA over the next 12-18 months.

Factors that could lead to an upgrade

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. The reestablishment of the bank's correspondent relationships with foreign banks would improve funding diversification, a positive for the bank's BCA.

Factors that could lead to a downgrade

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. Downward pressure on the bank's long-term ratings could also develop through a deterioration in the sovereign's credit profile indicating a lower government capacity to provide support and/or a deterioration in the operating environment that would lead to a lower macro profile of Guatemala (Weak +).

Key indicators

Exhibit 2

Banco de los Trabajadores (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (GTQ Million)	35,078.9	31,177.3	27,940.5	26,340.4	24,652.2	9.2[4]
Total Assets (USD Million)	4,467.4	4,039.0	3,585.0	3,421.4	3,186.3	8.8[4]
Tangible Common Equity (GTQ Million)	5,184.3	4,316.5	3,624.6	3,078.4	2,475.3	20.3[4]
Tangible Common Equity (USD Million)	660.2	559.2	465.1	399.9	319.9	19.9[4]
Problem Loans / Gross Loans (%)	1.7	1.9	1.2	1.4	1.9	1.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.2	16.1	14.9	13.3	11.7	14.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.4	7.0	4.6	6.1	9.4	6.7[5]
Net Interest Margin (%)	8.3	8.1	7.8	7.4	6.5	7.6[5]
PPI / Average RWA (%)	4.7	4.4	4.9	4.4	3.4	4.4[6]
Net Income / Tangible Assets (%)	2.6	2.3	2.9	2.7	2.1	2.5[5]
Cost / Income Ratio (%)	53.1	53.4	47.3	49.7	56.1	51.9[5]
Market Funds / Tangible Banking Assets (%)	0.0	0.0	0.0	4.4	4.7	1.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.7	43.0	43.3	38.9	43.9	41.4[5]
Gross Loans / Due to Customers (%)	78.0	70.0	68.7	69.6	68.1	70.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; LOCAL GAAP. [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 I periods.

Sources: Moody's Investors Service and company filings

Profile

Banco de los Trabajadores (Bantrab) is the sixth-largest bank in Guatemala, with $4.5 billion in consolidated assets as of December 2022, coupled with loan and deposit market shares of 8.0% and 7.3%, respectively, during the same period. The bank is focused on unsecured consumer lending to public-sector employees under the aegis of a preferential creditor status, according to the bank's Organic Law.

Bantrab's capital is predominantly owned by Guatemalan workers, at 99% of total shares. The remaining 1% is owned by the Guatemalan state, which allows the president of the Republic to appoint the bank's president.

Detailed credit considerations

Asset quality will remain supported by Bantrab's preferential creditor status

Bantrab's asset quality metrics remain strong despite the high asset risk inherent to the bank's unsecured lending business. Bantrab's loan portfolio is mainly composed of personal loans to Guatemalan public sector employees from which loan installments are deducted directly from payroll checks.

In December 2022, the bank's nonperforming loan (NPL) ratio stood at 1.7%, compared with 1.9% a year earlier, and in line with its 1.6% average for 2018-21. In addition, the bank maintains an adequate reserve coverage, representing 111% of problem loans and 1.9% of gross loans as of December 2022.

The bank's gross loan book grew 23.3% in twelve months ended in December 2022, up from the 12.2% a year earlier and above the pre-pandemic average (2017-2019) of 9.3%. This trend is explained by the low share of population with private credit coverage in the country and the bank's strategy to broaden financial services to public-sector workers in Guatemala. In this sense, the bank is also diversifying its product offering, such as mortgages, SME credit and enhancing its digital capabilities. Consumer loans represent 96% of gross loans as of December 2022.

Loans denominated in foreign currency and granted to local-currency earners represent 0.6% of the bank's portfolio which significantly reduces the FX risk in case of a depreciation of the local currency. This is a strength compared with other banks in the Guatemalan banking system.

Despite inflationary pressures on households' disposable income that strain on costumers' repayment capacity, the deterioration in loan delinquencies is mitigated by the bank's preferential creditor status (payment preference in relation with other authorized deductions).

In addition, the bank's focus on lending to public-sector employees supports its asset quality because of the resilience of this sector to volatility in employment dynamics.

The negative adjustment to the assigned Asset Risk score captures the bank's concentration in consumer loans and the asset quality pressures stemming from the accelerated expansion in the loan portfolio which will mature in a more challenging economic outlook.

Capitalization will remain strong but slightly pressured by credit growth

In December 2022, as per Moody's preferred ratio of tangible common equity to adjusted risk weighted assets, Bantrab's capital position reached 17.2%, up by more than 200 basis points in two years, reflecting the strong capital replenishment capacity and a conservative dividend policy that has supported its growth strategy. The bank's regulatory Tier 1 capital ratio of 14.2% in December 2022 was the highest in the Guatemalan banking system. We expect a slight moderation in capital generation as rapid credit growth continues, however, the bank's capitalization will remain a strength over the next 12-18 months maintaining adequate cushioning to absorb unexpected credit or investment losses.

Bantab's capitalization benefits from moderate holdings of sovereign securities as proportion of total assets, as we weigh government securities at 100% (as prescribed by Basel for Ba-rated sovereigns). In December 2022, government securities represented 21% of total assets, down from 25% in 2019. Bantrab's preferred shares, amounting to GTQ158 million, were not included in the calculation of tangible common equity because they have nondeferrable payment features.

Profitability will remain stable, underpinned by steady net interest margins (NIMs) and credit costs

The bank's ample margins and steady generation of recurring earnings have supported its profitability during the past 18 months. As of December 2022, Bantrab’s net income/tangible assets slightly increased to 2.6% from 2.3% a year earlier, and was in line with the past five-year average of 2.4%.

The bank's good pricing power is illustrated by its dominant position within the consumer finance segment in the country, which, in turn, sustained its NIM at 8.3% in December 2022. The bank's high NIM stemmed from the predominant share of high-yield consumer finance operations in the bank's loan book. Although Bantrab's bottom-line results increased in absolute terms, in relative value it was undermined by still high level of loan loss provisioning, which increased 126% and represented 1.7% of gross loans as of December 2022, up from the 1.0% reported one year earlier. This increase in cost of credit was mostly explained by the end of COVID related forbearance measures at the end of 2022, and the gradual increase in provisioning expenses to historic levels.

Moreover, the increase of interest rates in Guatemala had also pressured Bantrab's cost of funding since May 2022, reflecting the high share of term deposits, which will continue to weigh on its future bottom-line results. However, the bank has been able to gradually shift resources to lower-cost sight deposits and savings accounts over time, from term deposits (down to 63% of total funding in 2022 from 75% in 2018).

In addition, Bantrab's efficiency indicators remain relatively stable as the cost-to-income ratio decreased only 33 bps to 53.1% from 53.4% one year prior, remaining in line with its 53.5% average for the previous five years.

Strong liquidity buffers will remain partly offset by weak funding granularity

Bantrab has a relatively expensive funding structure of large term deposits despite its traditional very low reliance in market funding. Deposits represent 92% of total liabilities and funding granularity remains weak with top 20 deposits accounting for 29% of total funding.

The bank’s credit profile continues to be supported by ample liquidity buffers, which accounted for 38% of tangible banking assets as of December 2022, mainly in the form of required liquidity reserves at the central bank and Ba1-rated Guatemalan government securities. Government securities represent 21% of total assets and most of Bantrab's investment portfolio (93%) is carried at fair value. We expect liquidity metrics to remain stable despite the rapid growth of the loan portfolio.

The negative adjustment to the Funding Structure score is explained by the bank's still-limited access to diversified correspondent banking lines and the wholesale nature of its deposit base.

Improving corporate governance

We have closely monitored the evolution of the organization structure, control and risk management practices implemented to address the governance shortcomings the bank faced in 2016. Since then, the management team has maintained track record in delivering its strategic goals and remains highly committed with maintaining and continue strengthening the corporate governance standards. We have removed from our scorecard the adjustment of one notch for Corporate Behavior and will continue to oversee the changes in governance practices which still need to be tested in the long term.

Bantrab's ratings are constrained by Guatemala's Weak + Macro Profile

The “Weak +” Macro Profile of Guatemala's banking system reflects its stable economic growth during the last decade and prudent fiscal and monetary management despite weak revenue generation. The Macro Profile is also constrained by the country's long-term challenges, such as weak rule of law and governance indicators, and low income per capita. Although the country has remained unaffected by political and economic turmoil in recent years, it remains susceptible to political event risk, given the high income inequality, the large share of the population living in poverty and government corruption.

The banking sector in the country has moderate credit penetration, slightly lower than that for its regional peers. Credit growth has been in line with nominal GDP over the last few years, except for 2020 when the multiple was about 7.2x as a result of the deceleration of economic activity. The banking system maintains adequate levels of asset risk, given the relatively low delinquencies and ample reserve coverage. Demand and time deposits are the main source of funding; however, the relatively high loan-to-deposit ratio in foreign currency exposes some banks to funding risks in global markets. The banking system is concentrated, with the top three banks accounting for 64% of the system’s assets. Most banks are privately owned, while most overseas banks operating in Guatemala are subsidiaries of Colombian and Central American banks.

ESG considerations

Banco de los Trabajadores' ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 3
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody’s Investors Service

Banco de los Trabajadores's (Bantrab) ESG Credit Impact Score is moderately negative (**CIS-3**) reflecting the management shortcomings that the banks reported in 2016, as well as the potential of government interference in Bantrab's decision making, even considering these risks have not materialized in past years. For the last six years, the bank has restructured the processes of assessing and managing risks and strengthened its control policies which have limited to bank’s exposure to corporate governance issues, supported its credit profile, and reduced reputational risks. The score also reflects the limited credit impact of environmental and social factors on the rating to date.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-3	G-3
Neutral-to-Low	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
Bantrab faces lower-than-industry average exposure to environmental risks. The bank has limited exposure to carbon transition risks because its loan book is concentrated in unsecured consumer lending to Guatemalan government employees.

Social
Bantrab faces moderately negative industrywide social risks given its particular owner-customer structure, depsite the bank's focus on consumer lending. Opportunities from financial inclusion and digital growth strategy focus are reflected in a better-than-industry-average exposure to demographic and societal trends.

Governance
Bantrab's exposure to governance risks is moderately negative. In 2016, the bank reported strong challenges related to reputation and corporate governance shortcomings. Since then, the bank has focused on strengthening its governance standards, along with its organizational structure, control policies and risk management practices.

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

Government support considerations
We assess that there is a moderate likelihood that the Guatemalan government will provide support for Bantrab's bank deposits. This assessment stems from the fact that Bantrab was established by the Guatemalan government, and the bank's deposit market share of 7.3% as of December 2022, comprised predominantly of deposits from government employees. Consequently, Bantrab's Ba2 deposit ratings benefit from one notch of uplift from its ba3 BCA.

Counterparty Risk (CR) Assessment
Bantrab's CR Assessment is positioned at Ba2(cr)/Not Prime(cr)
The CR Assessment is placed at the level of the bank's deposit rating.

Counterparty Risk Ratings (CRRs)
Bantrab's CRRs are positioned at Ba2/Not Prime
Banco de los Trabajadores CRR's is positioned at the same level as the deposits rating.

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
Banco de los Trabajadores

Macro Factors		
Weighted Macro Profile	**Weak +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.7%	ba1	↔	b1	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel I)	17.2%	baa2	↔	ba1	Expected trend	
Profitability						
Net Income / Tangible Assets	2.6%	baa1	↔	ba1	Expected trend	
Combined Solvency Score		baa3		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	0.0%	baa1	↔	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.7%	ba1	↔	ba2	Expected trend	
Combined Liquidity Score		baa2		ba1		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba1		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba3		
Affiliate Support notching				0		
Adjusted BCA				ba3		

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	ba2	0	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba2 (cr)	0	Ba2(cr)	
Deposits	0	0	ba3	1	Ba2	Ba2

[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
BANCO DE LOS TRABAJADORES	
Outlook	Stable
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba2/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Investors Service

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Contacts

Susana Almeida +52.55.1253.5734
Analyst
susana.almeida@moodys.com

Rodrigo Marimon Bernales +52.55.4840.1315
Analyst
rodrigo.bernales@moodys.com

Saul Atlatenco +52.55.1253.5735
Associate Analyst
saul.atlatenco@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
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