

## CREDIT OPINION

8 November 2022

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	Ba3
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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## Banco de los Trabajadores

### Update to credit analysis

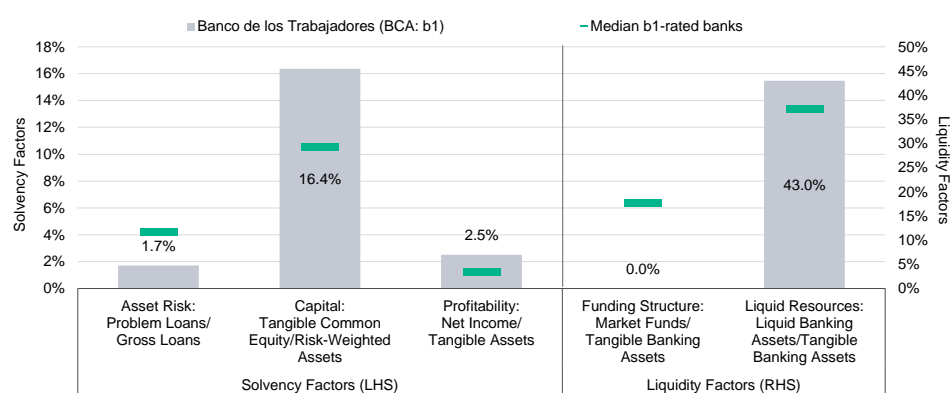
#### Summary

[Banco de los Trabajadores'](#) (Bantrab) Baseline Credit Assessment (BCA) is b1, which reflects its strong capital position and consistent financial performance despite the difficult operating environment. Bantrab's BCA is also supported by its sound profitability metrics stemming from high interest margins originated mostly from the large share of consumer finance operations in the bank's loan book. The bank's adequate problem loan ratio is also positive for its credit profile. Conversely, the BCA is constrained by a funding structure that is concentrated in large term deposits, which reduces funding granularity and leads to higher funding costs.

Furthermore, Bantrab's local- and foreign-currency deposit ratings of Ba3 incorporates our assessment of a moderate probability of support from the [Government of Guatemala](#) (Ba1 stable) to the bank in case of stress and reflects Bantrab's deposit market share of about 7% as of June 2022.

Exhibit 1

#### Rating Scorecard - Key financial ratios As of June 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

- » Profitability supported by high net interest margins (NIMs) and adequate levels of loss provisioning
- » Adequate asset quality benefits from the bank's preferential creditor status
- » Robust volume of liquid assets
- » Large capital base provides additional protection against potential loan losses

## Credit challenges

- » Funding structure remains intrinsically concentrated, with low granularity
- » Limited business 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 b1 BCA over the next 12-18 months.

## Factors that could lead to an upgrade

An upgrade of Bantrab's standalone BCA would result from the 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, a continuous improvement in corporate governance policies would be positive for Bantrab's BCA. Deposit ratings would be upgraded in tandem with a BCA upgrade because of our assumption of moderate government support.

## Factors that could lead to a downgrade

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

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.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Banco de los Trabajadores (Consolidated Financials) [1]

	06-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (GTQ Million)	32,840.3	31,177.3	27,940.5	26,340.4	24,652.2	8.5 <sup>4</sup>
Total Assets (USD Million)	4,234.1	4,039.0	3,585.0	3,421.4	3,186.3	8.5 <sup>4</sup>
Tangible Common Equity (GTQ Million)	4,714.4	4,316.5	3,624.6	3,078.4	2,475.3	20.2 <sup>4</sup>
Tangible Common Equity (USD Million)	607.8	559.2	465.1	399.9	319.9	20.1 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.7	1.9	1.2	1.4	1.9	1.6 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	16.4	16.1	14.9	13.3	11.7	14.5 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.5	7.0	4.6	6.1	9.4	6.7 <sup>5</sup>
Net Interest Margin (%)	8.3	8.1	7.8	7.4	6.5	7.6 <sup>5</sup>
PPI / Average RWA (%)	4.3	4.4	4.9	4.4	3.4	4.3 <sup>6</sup>
Net Income / Tangible Assets (%)	2.5	2.3	2.9	2.7	2.1	2.5 <sup>5</sup>
Cost / Income Ratio (%)	54.8	53.4	47.3	49.7	56.1	52.3 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	0.0	0.0	0.0	4.4	4.7	1.8 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	39.5	43.0	43.3	38.9	43.9	41.7 <sup>5</sup>
Gross Loans / Due to Customers (%)	74.9	70.0	68.7	69.6	68.1	70.3 <sup>5</sup>

[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 \$4.2 billion in consolidated assets as of June 2022, coupled with loan and deposit market shares of 7.9% and 7.3%, respectively, during the same period. The bank is focused mainly 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

### Adequate asset quality benefits from Bantrab's preferential creditor status

Bantrab's asset-quality metrics continue to recover, despite the slight deterioration over the last few years. In June 2022, the bank's problem loans/gross loans was 1.72%, compared with 1.94% a year earlier, but still higher than its average of 1.6% for 2018-21. Bantrab's loan portfolio comprises more than 96% of personal loans to public employees, which contributes in mitigating asset risk because loan installments are deducted directly from customers' bank accounts.

The bank's loan book grew about 12% in the first six months of 2022, while its problem loans only increased 0.8%. As of June 2022, Bantrab's nonperforming loan (NPL) ratio of 1.7% was lower than the industry average of 2.1%. This trend will likely continue in the following quarters as part of the bank's strategy to service workers in Guatemala and because of the limited credit coverage in the country. At the same time, the bank is diversifying its product offering, such as mortgages, and enhancing its digital capabilities.

The bank continues to maintain a large balance of loan loss reserves against likely credit losses, representing 120% of problem loans and 2.1% of gross loans as of June 2022. Bantrab's asset quality is still supported by the bank's preferential creditor status (payment preference in relation with other authorized deductions), according to its Organic Law. In addition, the bank's focus on lending to public-sector employees supports its asset quality because this sector remains less affected by unemployment dynamics in light of the economic challenges ahead. The negative adjustment to the assigned Asset Risk score captures the bank's concentration in consumer loans.

### Robust capital metrics, benefiting from reinvestment of earnings

Bantrab's capitalization has improved significantly in recent years, as illustrated by the increase in the bank's Moody's-adjusted tangible common equity/risk-weighted assets to 16.4% as of June 2022, compared with 165.1% a year earlier, 14.9% in 2020 and 13.3% in 2019. The improvement stemmed from the bank's stable profitability, relatively low dividend payout ratio and loan growth since 2018. In June 2022, the bank's regulatory Tier 1 capital ratio was 15.60%, reflecting an adequate buffer to absorb unexpected credit or investment losses.

We weigh government securities at 100% (as prescribed by Basel for Ba-rated sovereigns), and deduct intangibles and goodwill. Bantrab's preferred shares, amounting to GTQ158 million, were not included in the calculation of tangible common equity because they have nondeferrable payment features.

### Sound profitability benefiting from steady margins from consumer lending and adequate loss provisioning

The bank's ample margins and steady generation of recurring earnings have supported its profitability during the past 18 months. As of June 2022, Bantrab's net income/tangible assets increased slightly to 2.52% from 2.49% a year earlier, but was in line with the past five-year average of 2.4%. During the last decade, the same ratio has ranged between 1.34% and 2.9%.

The bank's good pricing power is illustrated by its continued high interest income, which, in turn, sustained its NIM at 8.3% in June 2022. The bank's high NIM stemmed from the predominant share of high-yield consumer finance operations in the bank's loan book and lower credit costs as of June 2022 than those a year earlier. 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 hiked over 115% as of June 2022 coming back to pre-pandemic levels of 1.6% of gross loans as of June 2022, compared to the 0.88% reported one year earlier, which is explained by the effect of COVID related forbearance-measures which ended in 2022.

Also, Bantrab's efficiency indicators showed a slight deterioration in the 12 months that ended June 2022, when its cost-to-income ratio rose to 55% as of June 2022, from 53% in December 2021 and from a 53% average for the past five years. Operating expenses/total assets increased to 4.4% in June 2022 from 4.1% a year earlier because of a 20.3% increase in total operating expenses in the same period.

### High liquidity buffers partly offset its weak funding granularity

The bank's credit profile continues to be supported by ample liquidity buffers, which accounted for 39.5% of tangible banking assets as of June 2022, mainly in the form of required liquidity reserves at the central bank and Ba1-rated Guatemalan government securities. Bantrab has a relatively expensive funding structure, which, despite its very low reliance on market funds, remains concentrated in large term deposits. The bank is 94% deposit funded, of which 69% are term deposits, and its funding granularity continues to be weak.

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

Since 2017, and to address the governance shortcomings it faced in 2016, Bantrab has made structural changes that led to improvements in the selection process of board members and internal processes regarding anti-money laundering policies, risk management and compliance functions. These measures demonstrate management's commitment to operate under the best governance and risk management practices, which have contributed to the reduction of reputational risk, leading to a gradual reestablishment of the bank's correspondent relationships with foreign banks, which the bank had lost in 2016.

We have closely monitored the recent positive changes in corporate governance and these risks have not materialized in past years. However, Bantrab remains exposed to headline and reputational risks from potential investigations, although risks continue to wind down. As a result, we continue to incorporate a one-notch negative adjustment for Corporate Behavior in the bank's scorecard.

### 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.

he 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 Highly Negative CIS-4

Exhibit 3

#### ESG Credit Impact Score

# CIS-4

## Highly Negative

For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.



Source: Moody's Investors Service

Banco de los Trabajadores's (Bantrab) ESG Credit Impact Score is highly negative (**CIS-4**), reflecting the corporate governance shortcomings that the bank reported in 2016, as well as the potential of government interference in Bantrab's management and decision making, even considering these risks have not materialized in past years. In addition, for the last six years, Bantrab has restructured its risk management and control policies, which has 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

# E-2

Neutral-to-Low



SOCIAL

# S-3

Moderately Negative



GOVERNANCE

# G-4

Highly 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, despite 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 highly negative, reflecting the strong challenges related to reputation and corporate governance the bank reported in 2016. Since then, the bank has focused on strengthening its corporate governance practices, along with its strategy, risk management functions as well as organizational structure.

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 about 7% as of June 2022, comprised predominantly of deposits from government employees. Consequently, Bantrab's Ba3 deposit ratings benefit from one notch of uplift from its b1 BCA.

### Counterparty Risk (CR) Assessment

#### Bantrab's CR Assessment is positioned at Ba2(cr)/Not Prime(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of b1 and, therefore, above the deposit ratings, reflecting our view that its probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will more likely be preserved to limit contagion, minimize losses and avoid the disruption of critical functions.

The CR Assessment also benefits from one notch of uplift for government support, in line with our support assumption on the deposit ratings. This reflects our view that any support provided by government authorities to a bank, which benefits deposits, is very likely to benefit operating activities and obligations, reflected by the CR Assessment. This is consistent with our belief that governments are likely to maintain such operations as a going concern to reduce contagion and preserve a bank's critical functions.

### Counterparty Risk Ratings (CRRs)

#### Bantrab's CRRs are positioned at Ba2/Not Prime

The CRRs, before government support, are positioned one notch above the Adjusted BCA of b1 and, therefore, above the deposit ratings, reflecting our view that CRR liabilities have a lower probability of default than the bank's deposits because they will more likely be preserved to minimize banking system contagion, minimize losses and avoid the disruption of critical functions.

The CRRs also benefit from one notch of uplift for government support, in line with our support assumption 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

### Banco de los Trabajadores

Macro Factors						
<b>Weighted Macro Profile</b>	<b>Weak +</b>	<b>100%</b>				
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)	16.4%	baa2	↔	ba2	Expected trend	
Profitability						
Net Income / Tangible Assets	2.5%	baa1	↔	ba1	Expected trend	
Combined Solvency Score		baa3		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	0.0%	baa1	↔	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.0%	baa3	↔	ba3	Expected trend	
Combined Liquidity Score		baa2		ba2		
Financial Profile				ba3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				-1		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Ba1		
BCA Scorecard-indicated Outcome - Range				ba3 - b2		
Assigned BCA				b1		
Affiliate Support notching				0		
Adjusted BCA				b1		
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	ba3	1	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba3 (cr)	1	Ba2(cr)	
Deposits	0	0	b1	1	Ba3	Ba3

[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
<b>BANCO DE LOS TRABAJADORES</b>	
Outlook	Stable
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Investors Service

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