

CREDIT OPINION

17 May 2024

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.

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Banco de los Trabajadores

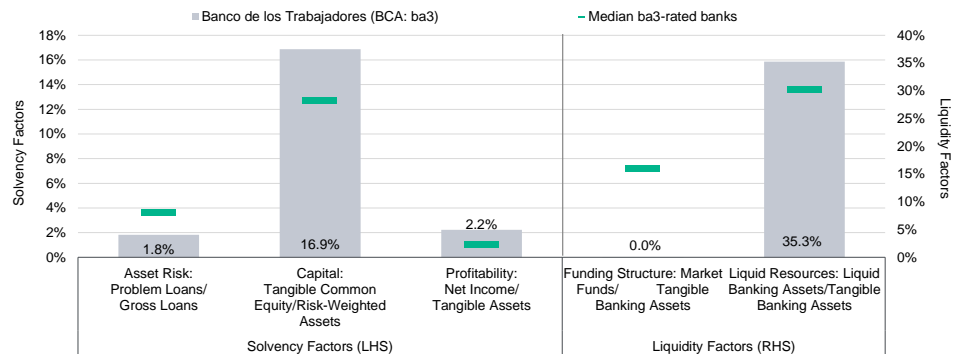
Update to credit analysis

Summary

[Banco de los Trabajadores](#)' (Bantrab) Baseline Credit Assessment (BCA) is ba3, which reflects its good capital position supported by a stable profitability and asset quality. The BCA is constrained by the higher risk inherent to the bank's concentration on unsecured consumer lending and a funding structure highly reliant on 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 8.0% as of December 2023, 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 2023



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 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 +).

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

Key indicators

Exhibit 2

Banco de los Trabajadores (Consolidated Financials) [1]

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (GTQ Million)	41,259.2	35,078.9	31,177.3	27,940.5	26,340.4	11.9 ⁴
Total Assets (USD Million)	5,271.4	4,467.4	4,039.0	3,585.0	3,421.4	11.4 ⁴
Tangible Common Equity (GTQ Million)	5,984.5	5,184.3	4,316.5	3,624.6	3,078.4	18.1 ⁴
Tangible Common Equity (USD Million)	764.6	660.2	559.2	465.1	399.9	17.6 ⁴
Problem Loans / Gross Loans (%)	1.8	1.7	1.9	1.2	1.4	1.6 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	16.9	17.2	16.1	14.9	13.3	15.7 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.3	6.4	7.0	4.6	6.1	6.3 ⁵
Net Interest Margin (%)	--	8.3	8.1	7.8	7.4	7.9 ⁵
PPI / Average RWA (%)	--	4.7	4.4	4.9	4.4	4.6 ⁶
Net Income / Tangible Assets (%)	2.2	2.6	2.3	2.9	2.7	2.5 ⁵
Cost / Income Ratio (%)	50.9	53.1	53.4	47.3	49.7	50.9 ⁵
Market Funds / Tangible Banking Assets (%)	0.0	0.0	0.0	0.0	4.4	0.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	35.3	37.7	43.0	43.3	38.9	39.6 ⁵
Gross Loans / Due to Customers (%)	80.4	78.0	70.0	68.7	69.6	73.4 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 Ratings and company filings

Profile

Banco de los Trabajadores (Bantrab) is the sixth-largest bank in Guatemala, with \$5.3 billion in consolidated assets as of December 2023, coupled with loan and deposit market shares of 8.2% and 8.0%, 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, which amounts to 94.4% of total loans. The bank's lending portfolio is mainly composed of personal loans to Guatemalan public sector employees from which loan installments are deducted directly from payroll checks.

In December 2023, the bank's nonperforming loan (NPL) ratio stood at 1.8%, compared with 1.7% a year earlier, slightly above its 1.6% average for 2018-21. Bantrab holds a still adequate reserve coverage, covering 100% of problem loans as of December 2023. This is a decrease from 111% in 2022 and is also lower than the 2017-19 average of 113.5%. The deterioration in loan delinquencies is mitigated by the bank's preferential creditor status (payment preference in relation with other authorized deductions) applicable to 53.6% of its total loan portfolio.

The bank's gross loan book grew 21.6% in twelve months ended in December 2023, similar to the 23.3% a year earlier and above the banking system (15.0%). The bank is capitalizing on the country's steady consumption trends and limited private credit coverage. Bantrab continues to focus its strategy on expanding financial services to public-sector workers while aiming to grow its private-sector client base to 15% of its consumer lending in the medium term. Furthermore, Bantrab seeks to diversify its product offering through mortgages, SME credit, and corporate lending, which currently make up 6% of all loans.

Loans denominated in foreign currency and granted to local-currency earners represent 0.4% 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.

Capitalization will remain strong but slightly pressured by credit growth

In December 2023, Bantrab's tangible common equity to adjusted risk weighted assets reached 16.9%, up by around 200 basis points between 2021 and 2023. This demonstrates the strong ability to replenish capital and a cautious dividend policy that has bolstered its growth strategy. The bank's regulatory Tier 1 capital ratio of 13.3% in December 2023 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.

Bantrab'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 2023, government securities represented 21% of total assets, down from 30% in 2019. Bantrab's preferred shares, amounting to GTQ158 million, were not included in the calculation of tangible common equity because they have non-deferrable 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 2023, Bantrab's net income/tangible assets slightly decreased to 2.2% from 2.6% a year earlier but remains consistent with the 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 sustained its NIM at 8.1% in December 2023, with higher business volumes compensating pressures from higher funding costs. The bank's high NIM stems from the predominant share of high-yield consumer finance operations in the bank's loan book.

While Bantrab's net results grew in absolute terms, relative value was impacted by a high level of loan loss provisioning, which rose 67% year-over-year to represent 2.4% of gross loans as of December 2023, up from 1.7% a year earlier. This credit cost increase is tied to new regulations for credit asset segmentation and valuation, requiring higher provisioning levels which will continue to negatively impact Bantrab's profitability in 2024.

Bantrab's efficiency indicators improved as the cost-to-income ratio decreased 220 bps to 50.9% from 53.1% one year prior, remaining below 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 low reliance in market funding. However, the bank has been able to gradually shift resources to lower-cost sight deposits and savings accounts over time. As of December 2023, term deposits made up 71% of the total deposit base, a decrease from 82% in 2019. Bantrab's deposits account for 92% of total liabilities, but funding granularity remains low due to high single-name concentration.

The bank's credit profile maintains its strength from ample liquidity buffers, comprising 35% of tangible banking assets as of December 2023, primarily in the form of required liquidity reserves at the central bank and Ba1-rated Guatemalan government securities. These government securities make up 21% of total assets, and most of Bantrab's investments (85%) are held at fair value. Despite the swift expansion of the loan portfolio, liquidity metrics are anticipated to remain stable.

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.

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

Guatemala's (Ba1 stable) "Weak +" bankings system [macro profile](#) reflects the country's steady economic growth in the last decade and prudent fiscal and monetary management despite weak revenue generation. Long-term difficulties, such as weak rule of law and governance indicators and low income per capita, constrain the macro profile assessment. Guatemala's susceptibility to event risk reflects its political risk, which stems from high income inequality and the possibility that high levels of corruption would lead to a significant backlash against the government.

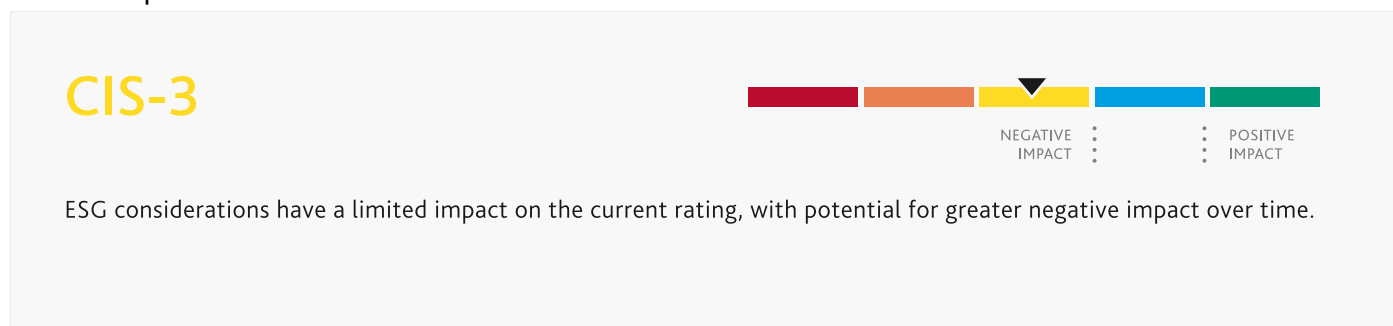
The banking system has moderate credit penetration below that of its regional peers. Since 2021, credit growth has accelerated at a double-digit annual pace, driven by a robust domestic market backed by significant remittance inflows that have kept consumer trends and confidence strong. Consequently, banks have demonstrated a heightened risk appetite, specifically for consumer lending.

The banking system maintains adequate asset quality with 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 the system to currency mismatches, outflow of dollar deposits and refinancing risks during periods of volatility in global markets. The banking system is concentrated, with the top three banks accounting for almost 62% of its assets. Most banks are privately owned and most overseas banks operating in Guatemala are subsidiaries of Colombian and Central American banking conglomerates.

ESG considerations

Banco de los Trabajadores' ESG credit impact score is CIS-3

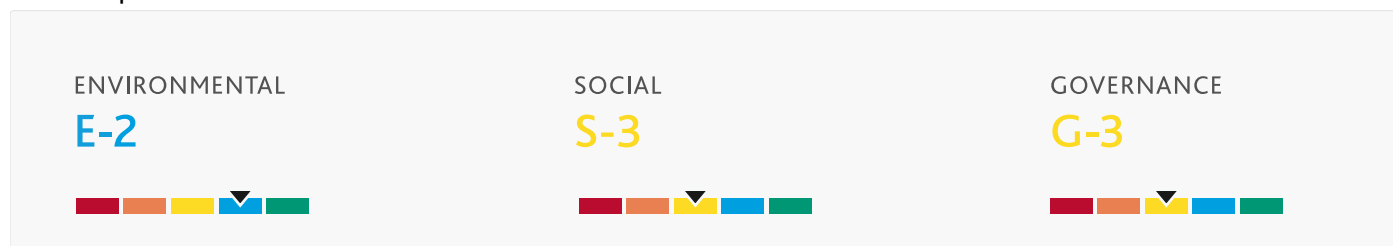
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

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



Source: Moody's Ratings

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 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 8.0% as of December 2023, 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	1.8%	ba1	↔	b1	Sector concentration		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)	16.9%	baa2	↔	ba1	Expected trend		
Profitability							
Net Income / Tangible Assets	2.2%	baa2	↔	ba2	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	35.3%	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 Ratings

Ratings

Exhibit 6

<u>Category</u>	<u>Moody's Rating</u>
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 Ratings

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