MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 December 2020

Update

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RATINGS

Banco de los Trabajadores

Domicile	Guatemala City, Guatemala
Long Term CRR	Ba3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	B1
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

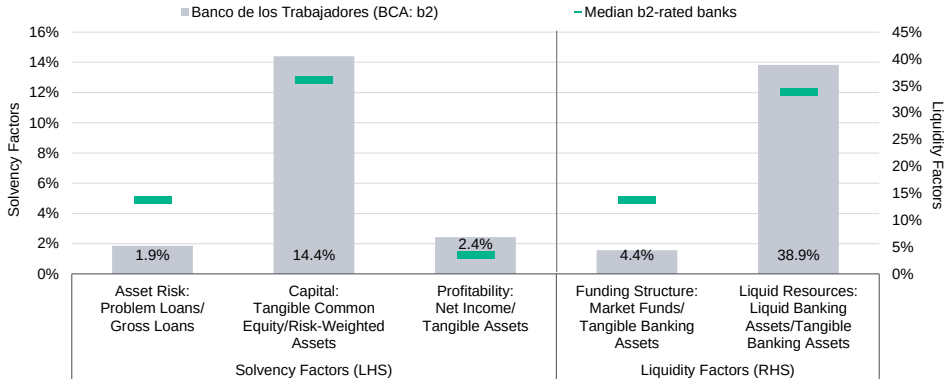
Summary

Banco de los Trabajadores' (Bantrab) b2 Baseline Credit Assessment (BCA) reflects the bank's robust profitability and adequate asset quality, coupled with its growing capital base. The bank's credit profile is supported by its wide net interest margins despite higher than peers funding costs and the preferential creditor status on a significant part of its loan portfolio. The bank's non performing loans represented only 1.2% of gross loans as of September 2020. However, as is the case of most local and regional peers, the impact of loan restructurings mandated by regulation to provide relief to households and commercial borrowers in 2020 in response to the pandemic is not yet fully captured by the reported asset quality metrics. Despite the bank's limited reliance on market funds, its funding is concentrated in large term deposits, which limits its funding granularity and lead to higher funding costs, which is offset by the bank's sizeable liquidity buffers that represent more than 40% of its tangible assets.

Bantrab's B1 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, reflecting Bantrab's relevant deposit market share of about 8%, which makes it a systemically important bank. This assessment results in a one-notch uplift to the bank's b2 BCA.

Exhibit 1

Rating Scorecard - Key financial ratios



Bantrab's data as of September 2020.
Source: Moody's Financial Metrics

Credit strengths

» Strong profitability, supported by a wide net interest margin and improving efficiency

» Adequate asset quality, supported by the bank's preferential creditor status

» Sizable liquidity buffers and a growing capital base

Credit challenges

» Weak funding granularity

» Limited business diversification

» Ratings constrained by Guatemala's Weak Macro Profile

Outlook

The stable outlook incorporates our view that the bank's financial fundamentals will be consistent with a b2 BCA over the next 12-18 months.

Factors that could lead to an upgrade

Bantrab's ratings could be upgraded if the bank maintained elevated levels of capital for a prolonged period, if the granularity of its funding improved, or if the operating environment in Guatemala improved. Also, the bank's ratings could face upward pressure as the continued corporate governance enhancements that the bank has presented in recent years are tested over time.

Factors that could lead to a downgrade

Bantrab's ratings could suffer downward pressure if the asset quality deterioration caused by the pandemic were larger than expected, causing a significant reduction in the bank's profitability and capital. Also, a deterioration of the bank's operating environment in Guatemala could lead to a downgrade of the ratings.

Key indicators

Exhibit 2

Banco de los Trabajadores (Consolidated Financials) [1]

	09-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (GTQ Million)	28,645.5	26,340.4	24,652.2	21,611.1	18,282.7	12.7[4]
Total Assets (USD Million)	3,679.1	3,421.4	3,186.3	2,942.4	2,430.1	11.7[4]
Tangible Common Equity (GTQ Million)	3,502.4	3,078.4	2,475.3	2,042.1	1,101.3	36.1[4]
Tangible Common Equity (USD Million)	449.8	399.9	319.9	278.0	146.4	34.9[4]
Problem Loans / Gross Loans (%)	1.2	1.4	1.9	2.9	2.7	2.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.4	13.3	11.7	11.1	6.5	11.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.6	6.1	9.4	14.9	19.3	10.9[5]
Net Interest Margin (%)	8.0	7.4	6.5	7.4	7.1	7.3[5]
PPI / Average RWA (%)	4.6	4.4	3.4	3.6	3.5	3.9[6]
Net Income / Tangible Assets (%)	2.7	2.7	2.1	2.3	2.5	2.5[5]
Cost / Income Ratio (%)	48.4	49.7	56.1	61.1	62.0	55.5[5]
Market Funds / Tangible Banking Assets (%)	4.1	4.4	4.7	5.2	6.3	4.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	45.5	38.9	43.9	41.4	38.4	41.6[5]
Gross Loans / Due to Customers (%)	67.7	69.6	68.1	71.5	76.1	70.6[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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Recent developments

Reflecting the strain of the coronavirus disruption, our outlook for Central American banking systems is negative, in line with our overall outlook for Latin American banking systems, capturing our view that the disruption related to the coronavirus outbreak has exacerbated an existing slowdown in the region's economic growth. This has increased the strain on the region banks' operating environments and will continue to erode their asset quality. The authorities' broad supplemental policy actions will provide support to banks' liquidity, and their adequate capitalization will help cushion stress losses. However, the recovery will likely be relatively more muted in the region than in advanced economies, in which case the credit-negative implications for banks will intensify. We expect the greatest negative credit effects to particularly affect undiversified banks with exposures to regions most acutely disrupted or with concentrated lending to the most affected sectors, as well as more thinly capitalized banks and non-bank lenders.

The global spread of the coronavirus has resulted in simultaneous supply and demand shocks, which have materially slowed economic activity in the first half of this year. The nascent global recovery is under threat from rising COVID-19 cases in the US and Europe, and we expect the pace of improvement to be asymmetric across countries. The recovery will be highly dependent on: (1) the development and distribution of a vaccine, (2) effective pandemic management, and (3) government policy support. We expect advanced economies to continue to benefit from fiscal support for the next several quarters. Policy response from emerging countries has generally been much smaller and we expect that the scope for additional rate cuts or quantitative easing is limited.

Profile

Banco de los Trabajadores (Bantrab) is the sixth-largest bank in Guatemala, with $3.7 billion in consolidated assets as of September 2020, coupled with loan and deposit market shares of 7.7% and 7.6%, respectively as of September 2020. 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 widely held, with 99% of it owned by Guatemalan workers. The remaining 1% is retained by the Guatemalan state, which allows the president of the republic to appoint the bank's president.

Detailed credit considerations

Asset quality supported by the bank's preferential creditor status, although pressure arise from challenging economic conditions

Bantrab's asset quality metrics are relatively strong considering its consumer lending focus, as the bank's nonperforming loans (NPLs) have ranged between 1% and 3% in the last ten years. After deteriorating to 3% in 2017, the bank's NPLs have consistently fell and reached 1.2% in September 2020, below the 2.2% system average. However, as is the case of most local and regional peers, the impact of loan restructurings mandated by regulation to provide relief to households and commercial borrowers in 2020 in response to the pandemic is not yet fully captured by the reported asset quality metrics and we therefore expect deterioration in the coming quarters. The bank has however built prudential provisions against expected credit losses, leading to an improvement of its reserve coverage of problem loans to 167% as of September 2020 from 111% a year prior.

Bantrab's asset quality continues to be supported by its preferential creditor status (for example, payment preference in relation with other authorized deductions), according to its Organic Law. In addition, the bank focus on lending to public-sector employees also supports its asset quality as this sector is less affected by the recent increase in unemployment led by the pandemic outbreak. The negative adjustment to the assigned score for asset risk captures the bank's concentration in consumer loans.

Strong profitability, supported by a wide net interest margin and improving efficiency

The bank's ample margins, relatively contained credit costs despite its consumer focus and improving efficiency has allowed it to sustain strong profitability metrics. The bank's net income to tangible assets ratio ranged between 1.4% and 2.7% in the last ten years, which is above local peers and shows the bank's strong earnings generation. Bantrab's profitability remained strong at 2.7% annualized net income/tangible assets in Q3 2020, slightly above the 2.6% reported a year prior and the past 5 years´average (2.5%). The bank's strong pricing power is evidenced by its continued high interest income, which in turn sustains its ample net interset margins -at 8.0% in September 2020. The bank's funding reliance on term deposits leads to relatively high funding costs, which however have gradually been reduced in recent years and have also supported the bank's earnings.

Efficiency, although still moderate, improved significantly in the last two years, also supporting Bantrab's profitability. Bantrab's cost-to-income ratio fell to 52% in September 2019, and 48% in September 2020 from 61% in 2017 and from the 56% average for the past five years.

Improving capitalization supported by strong earnings and low dividend payouts

Bantrab's capitalization has improved significantly in recent years, reflected in the increase in the bank's Moody's-adjusted tangible common equity ratio (tangible common equity/risk-weighted assets) to 14.4% in the third quarter of 2020 from 11.1% in 2017. The improvement has been driven by sound and stable profitability, relatively low dividend payouts and slower loan growth since 2018.

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 GTQ157 million, were not included in the calculation of tangible common equity because they have nondeferrable payment features.

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 46% of tangible banking assets as of September 2020, mainly in the form of required liquidity reserves at the central bank and Ba1-rated Guatemalan government securities. This strength is partially counterbalanced by a relatively expensive funding structure, which, despite its limited reliance on market funds, remains concentrated in large term deposits. The bank is 90% deposit funded, of which 78% are term deposits, and its funding granularity continues to be weak.

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

Improving corporate governance

Since 2017 and in order to address the governance shortcomings it faced in 2016, Bantrab has undertaken 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. However, despite the progress made to date, Bantrab remains exposed to headline and reputational risks from potential investigations on past events, and therefore, the recent positive changes in corporate governance will need to be tested over time.

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

Guatemala's economy has grown steadily in recent years, but the country's GDP per capita is still well below that of its Ba-rated peers. Despite a long track record of prudent fiscal and monetary policies, and a solid relationship with the International Monetary Fund and other multilaterals, institutional strength remains weak overall, particularly in the areas of rule of law, government effectiveness and control of corruption. Although it has so far proven resilient to political turmoil in recent years, the country also remains susceptible to political event risk, given the high income inequality and ongoing investigations into government corruption.

We expect the Guatemalan economy to contract in 2020 because of the coronavirus pandemic, and return to positive growth in 2021. The government has responded to the coronavirus pandemic with a countercyclical fiscal policy that will expand the fiscal deficit to about 6% of GDP in 2020. These measures will result in an increase in the debt burden to 34% of GDP in 2021 from 27% in 2019.

The banking sector has moderate penetration in the economy, and credit growth has decelerated since 2016, after years of rapid loan growth. A deceleration in economic and credit growth led to an increase in loan delinquencies in 2016 and 2017, but levels have remained stable and manageable since then. Looking ahead, significant foreign-currency mismatches in borrowers' balance sheets could also undermine asset quality. Funding risks are driven by high refinancing requirements and modest liquidity buffers in foreign currency. The banking system is concentrated, with the top three banks accounting for 63% 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.

Environmental, social and governance considerations

Bantrab's exposure to environmental risks is low, consistent with our general assessment for the global banking sector. See our Environmental risk heatmaps for further information.

Overall, we consider banks face moderate social risks. 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 is partly 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 a further social risk. 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 impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. See our social heat maps for further information.

Governance is highly relevant for Bantrab, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit a bank's credit profile. Bantrab's governance shortcomings led to the loss of all of the bank's previous CBRs in 2016, which in turn significantly increased payment risks on its cross-border debt. The improvements that the bank has shown since then in terms of risk management, control practices and overall corporate governance have significantly reduced its governance-related risks, although it remains exposed to headline and reputational risks from ongoing investigations on past events.

Support and structural considerations

Government support

We believe that there is a moderate likelihood of the Guatemalan government providing support for Bantrab's bank deposits. This assessment reflects (1) the fact that Bantrab was established by the Guatemalan government, and (2) the bank's large base of public sector deposits and significant overall deposit market share of about 8% as of September 2020. Consequently, Bantrab's B1 deposit ratings continue to benefit from one notch of uplift from its b2 BCA.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Bantrab's CR Assessment is positioned at Ba3(cr)/Not Prime(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of b2 and, therefore, above deposit ratings, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions.

The CR Assessment also benefits from one notch of government support, in line with our support assumption on deposits 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 as well, 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)

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements.

Bantrab's CRRs are positioned at Ba3/Not Prime

The CRRs, before government support, are positioned one notch above the Adjusted BCA of b2 and, therefore, above 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 disruption of critical functions

The CRRs also benefits from one notch of government support, in line with our support assumption on deposits 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

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		1.9%	ba2	↔	b1	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)		14.4%	ba2	↔	b2		
Profitability							
Net Income / Tangible Assets		2.4%	baa3	↔	ba1	Expected trend	
Combined Solvency Score			ba2		b1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		4.4%	ba1	↔	b1	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		38.9%	ba2	↔	ba3		
Combined Liquidity Score			ba1		b1		
Financial Profile					b1		
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					b1 - b3		
Assigned BCA					b2		
Affiliate Support notching					0		
Adjusted BCA					b2		

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	b1	1	Ba3	Ba3
Counterparty Risk Assessment	1	0	b1 (cr)	1	Ba3(cr)	
Deposits	0	0	b2	1	B1	B1

[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
BANCO DE LOS TRABAJADORES	
Outlook	Stable
Counterparty Risk Rating	Ba3/NP
Bank Deposits	B1/NP
Baseline Credit Assessment	b2
Adjusted Baseline Credit Assessment	b2
Counterparty Risk Assessment	Ba3(cr)/NP(cr)

Source: Moody's Investors Service

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