MOODY'S INVESTORS SERVICE

CREDIT OPINION
18 October 2019

Update

Rate this Research

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

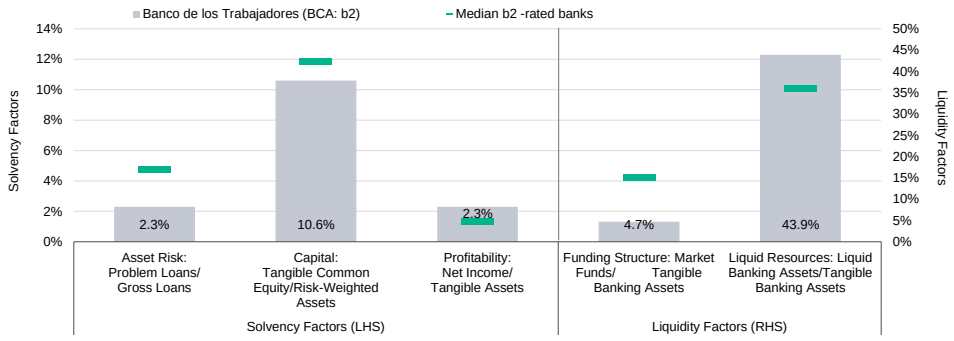
Update following rating upgrade, outlook changed to stable

Summary

On 16 October 2019, all long-term ratings and assessments assigned to Banco de los Trabajadores (Bantrab) were upgraded, including the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to b2 from caa1, deposit ratings to B1 from B3 and Counterparty Risk Ratings (CRRs) to Ba3 from B2. The upgrades incorporate the material improvements in corporate governance, risk management and control practices, combined with growing profitability and capital. We also upgraded to B2 from Caa1 the backed foreign-currency senior unsecured debt rating of Bantrab Senior Trust (BST), a Cayman Islands-based trust guaranteed by Bantrab, because of the reduction in external payment risks as the bank is gradually recovering its corresponding banking relationships (CBRs). The outlook on both Bantrab's and BST's ratings were changed to stable from positive.

Bantrab's deposit ratings incorporate our assessment of a moderate probability of support from the Government of Guatemala (Ba1 stable) to the bank in case of stress, reflecting Bantrab's relevant deposit market share of about 8%, which makes it a systemically important bank. In addition, Bantrab was established by the Guatemalan government and is largely owned by Guatemalan workers. Our assessment results in a one-notch uplift to the bank's b2 BCA. However, our assessment of government support for BST's global bond remains low, given the absence of any indication of public support following the loss of its previous corresponding banking lines in 2016. Consequently, the B2 rating on BST's bond remains in line with Bantrab's BCA.

Exhibit 1
Rating Scorecard - Key financial ratios



Bantrab's data as of June 2019.
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

Credit challenges

» Weak funding granularity

» Limited business diversification

» Ratings constrained by Guatemala's Weak Macro Profile

Outlook

The outlook on all of Bantrab's ratings is stable, reflecting our expectation that over the next 12-18 months the bank will maintain its strong profitability and ample liquidity buffers, balanced by its weak funding granularity and limited business diversification.

Factors that could lead to an upgrade

The ratings could be upgraded if Bantrab's financial fundamentals, particularly capital, profitability and funding profiles continue to improve as the bank grows, without hurting its asset quality. Continued corporate governance enhancements that could guarantee the access to an increasing number of CBRs could create upward rating pressure.

Factors that could lead to a downgrade

The ratings could be downgraded if the recent and expected organizational changes intended to improve corporate governance fail to deliver the expected results. The ratings could also be downgraded if the bank's asset risk, capital, profitability or funding structure deteriorate materially.

Key indicators

Exhibit 2

Banco de los Trabajadores (Consolidated Financials) [1]

	06-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (GTQ Million)	25,604.4	24,652.2	21,611.1	18,282.7	16,944.5	12.5[4]
Total Assets (USD Million)	3,321.7	3,186.3	2,942.4	2,430.1	2,219.8	12.2[4]
Tangible Common Equity (GTQ Million)	2,347.5	1,960.4	1,542.9	1,101.3	838.2	34.2[4]
Tangible Common Equity (USD Million)	304.5	253.4	210.1	146.4	109.8	33.8[4]
Problem Loans / Gross Loans (%)	1.7	1.9	2.9	2.7	2.4	2.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.6	9.3	8.4	6.5	5.4	8.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.9	11.5	18.8	19.3	18.0	15.3[5]
Net Interest Margin (%)	7.5	6.5	7.4	7.1	8.5	7.4[5]
PPI / Average RWA (%)	3.9	3.4	3.6	3.5	3.2	3.5[6]
Net Income / Tangible Assets (%)	2.5	2.1	2.3	2.5	2.6	2.4[5]
Cost / Income Ratio (%)	53.8	56.1	61.1	62.0	65.9	59.8[5]
Market Funds / Tangible Banking Assets (%)	4.6	4.7	5.2	6.3	7.1	5.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	44.0	43.9	41.4	38.4	45.9	42.7[5]
Gross Loans / Due to Customers (%)	68.7	68.1	71.5	76.1	65.2	69.9[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; LOCAL GAAP. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel I periods presented.

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.

Profile

Banco de los Trabajadores (Bantrab) is the sixth-largest bank in Guatemala, with $3.5 billion in consolidated assets as of August 2019, coupled with loan and deposit market shares of 7.5% and 8.1%, respectively. 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.

Bantrab Senior Trust (BST) is a Cayman Islands-based trust established for the sole purpose of acquiring a 100% participation interest in a senior unsecured loan granted by Deutsche Bank AG, London Branch (senior unsecured A3 negative) to Bantrab to secure the bond issuance governed by New York Law. The payment of principal and interest is absolutely, unconditionally and irrevocably guaranteed by Bantrab.

Detailed credit considerations

Diminished external payment risks

Bantrab has taken several credit-positive measures to address the governance shortcomings it faced in 2016, including the replacement of most of its board of directors and senior management. The changes have resulted in a gradual recovery of its CBRs, which the bank had lost in 2016, and are key to reducing the uncertainties over Bantrab's ability to pay its cross-border obligations.

Since 2017, 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. 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 has been able to make timely payments on all coupon obligations since 2016, and managed to recently add new CBRs. Nevertheless, the lines remain limited and a further diversification of Bantrab's payment channels would reduce its exposure to the loss of any one of them, lowering future payment risks.

Moderate, although improving, capitalization

The recent rating action also reflected Bantrab's improved capitalization, reflected in the increase in the bank's Moody's-adjusted tangible common equity ratio (tangible common equity/risk-weighted assets) to 10.6% in the second quarter of 2019 from 6.6% in Q4 2016. 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.

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

Bantrab's profitability was strong at 2.5% annualized net income/tangible assets in Q2 2019, which is better than the 2.1% reported in 2018 and the past 10 years' average (also 2.1%). Its profitability has been supported by a wide net interest margin, consistent with its consumer lending focus and contained asset risk, backed by its preferential creditor status. Efficiency, although still moderate, improved significantly in the last two years, supporting Bantrab's profitability. Bantrab's cost-to-income ratio fell to 56% in 2018 and 53% in June 2019, from 61% in 2017 and from the 64% average for the past five years.

Asset quality supported by the bank's preferential creditor status

After deteriorating to 3% in 2017, the bank's nonperforming loans (NPLs) fell to 1.7% in June 2019, below the 2.4% system average, despite slower loan growth. However, part of the improvement was caused by higher charge-offs, while overall asset quality remained stable. Bantrab's loan growth decelerated to 9% in 2018 and H1 2019 from the 19% average for 2016-17, and NPLs declined by 36%

in absolute terms during 2018 and the first six months of 2019 to 1.7% of gross loans, from 3.1% in 2017. In addition, reserve coverage, although still adequate, declined to 112% of NPLs as of June 2019 from 154% in 2015.

Bantrab's asset quality continues to benefit from its preferential creditor status (for example, payment preference in relation with other authorized deductions), according to its Organic Law. The b1 assigned score for asset risk incorporates a negative one-notch adjustment, which captures the bank's concentration in consumer loans.

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 44% of tangible banking assets as of June 2019, mainly in the form of required liquidity reserves at the central bank and Ba1-rated 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 80% are term deposits, and its funding granularity continues to be weak. Market funding is solely comprised of BST debt.

The negative three-notch 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.

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.

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, 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 65% 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.

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 August 2019.

Consequently, Bantrab's B1 deposit ratings continue to benefit from one notch of uplift from its b2 BCA. On the contrary, we assess that there is a low likelihood of government support for BST's senior unsecured debt obligations because of the absence of any indication of public support for the bank following the loss of its earlier correspondent lines in May 2016. As a result, BST's B2 foreign-currency senior unsecured debt rating is positioned at the level of Bantrab's 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	2.3%	ba3	←→	b1	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel I)	10.6%	b2	←→	b2		
Profitability						
Net Income / Tangible Assets	2.3%	baa3	←→	ba1	Expected trend	
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	4.7%	ba1	←→	b1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.9%	ba1	←→	ba1		
Combined Liquidity Score		ba1		ba3		
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		
Scorecard Calculated BCA 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)
BANTRAB SENIOR TRUST	
Outlook	Stable
Bkd Senior Unsecured	B2

Source: Moody's Investors Service

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