MOODY'S
INVESTORS SERVICE

Credit Opinion: Banco de los Trabajadores

Global Credit Research - 11 Jun 2015

Guatemala City, Guatemala

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Ba3/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	b1
Bantrab Senior Trust	
Outlook	Stable
Bkd Senior Unsecured	Ba3

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Key Indicators

Banco de los Trabajadores (Consolidated Financials)[1]

	[2]**12-14**	[2]**12-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	**Avg.**
Total Assets (GTQ million)	**14,097.1**	**12,562.4**	**9,623.8**	**8,178.2**	**6,646.4**	[3]**20.7**
Total Assets (USD million)	**1,855.2**	**1,601.8**	**1,217.7**	**1,046.5**	**831.3**	[3]**22.2**
Tangible Common Equity (GTQ million)	**638.9**	**502.0**	**487.4**	**417.5**	**662.3**	[3]**-0.9**
Tangible Common Equity (USD million)	**84.1**	**64.0**	**61.7**	**53.4**	**82.8**	[3]**0.4**
Problem Loans / Gross Loans (%)	**1.2**	**1.4**	**2.4**	**2.8**	**4.8**	[4]**2.5**
Tangible Common Equity / Risk Weighted Assets (%)	**4.9**	**4.9**	**5.7**	**5.8**	**11.9**	[5]**6.7**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**11.8**	**14.6**	**19.6**	**21.5**	**24.1**	[4]**18.3**
Net Interest Margin (%)	**8.1**	**9.1**	**9.8**	**9.9**	**11.1**	[4]**9.6**
PPI / Average RWA (%)	**3.7**	**5.6**	**4.2**	**4.8**	**5.3**	[5]**4.7**
Net Income / Tangible Assets (%)	**2.1**	**1.7**	**1.4**	**1.6**	**1.9**	[4]**1.7**
Cost / Income Ratio (%)	**64.5**	**65.3**	**65.1**	**61.0**	**59.1**	[4]**63.0**
Market Funds / Tangible Banking Assets (%)	**9.1**	**11.5**	**5.0**	**4.8**	**0.3**	[4]**6.1**
Liquid Banking Assets / Tangible Banking Assets (%)	**37.7**	**43.1**	**39.4**	**40.5**	**29.5**	[4]**38.0**
Gross Loans / Total Deposits (%)	**66.0**	**60.4**	**65.5**	**62.9**	**71.1**	[4]**65.2**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; LOCAL GAAP [3] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [4] LOCAL GAAP reporting periods have been used for average calculation [5] Basel I & LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a baseline credit assessment (BCA) of b1 to Banco de los Trabajadores (Bantrab). The BCA takes into account Bantrab's well-managed asset quality in part as a result of its preferential creditor status, coupled with its relatively stable and granular customer deposit funding. Key constraints to the BCA are Bantrab's weak core capital, particularly amid continued robust loan growth, as well as the bank's modest earnings generation and limited business diversification.

On 3 June 2015, Moody's affirmed with a stable outlook Bantab's ratings and assigned the bank Counterparty Risk Assessments (CR Assessments) of Ba2(cr) and Not Prime(cr), as a result of the implementation of Moody's new bank methodology, published on 16 March 2015. Please refer to Moody's press release "Moody's takes rating actions on Central American and Caribbean banks".

The Ba3 local and foreign currency deposit ratings assigned to Bantrab incorporate one notch of uplift due to our assessment of a moderate probability of government support in case of need. This assumption is based on the bank's importance as a lender to Guatemalan public sector workers, as well as its government inception.

BANTRAB'S RATINGS ARE CONSTRAINED BY GUATEMALA'S WEAK MACROPROFILE

The macro profile reflects the country's low GDP per capita notwithstanding steady growth in recent years, and poor institutional strength that is weak overall despite relatively strong monetary and fiscal institutions. The change in both the macro profile and the government's outlook reflect increasing concerns about the strength of the country's institutional framework in light of ongoing corruption scandals implicating high ranking government officials that have led to widespread street demonstrations. Credit growth has been robust over the past several years, fueled by the still steadily growing economy. Competition within the banking system has recently tightened, in line with the entrance of strong regional franchises.

Rating Drivers

Limited core capital may constrain franchise development

Weak earnings generation reflecting declining profit margins and high operating leverage

Continued double digit loan growth points to future asset quality impairment

Stable and granular customer deposit funding; adequate liquidity

Rating Outlook

The outlook on all ratings is stable.

What Could Change the Rating - Up

Upward movement in Bantrab's standalone ratings would hinge on consistent improvements in core capital and earnings generation.

What Could Change the Rating - Down

The BCA could be downgraded in the case of an elimination of Bantrab's preferential creditor status. Downward pressure on the BCA could also result from a substantial decline in core capitalization, profitability or asset quality.

DETAILED RATING CONSIDERATIONS

LIMITED CORE CAPITAL MAY CONSTRAIN FRANCHISE DEVELOPMENT

Bantrab's core capital remains weak, having been pressured by sturdy loan growth and modest earnings generation, despite arelatively low payout ratio of 23%. As of December 2014, the bank's tangible common equity was about 5% of risk-weighted assets, when government securities (about 25% of total assets) are 100%-weighted as prescribed by Basel for Ba-rated sovereigns and intangibles for about Q.143 million are deducted, including a Q75 million in goodwill from the Banco de la República acquisition. The preferred shares amounting Q157 million issued in 2013 are not included in the calculation of the TCE, becuase they have non-deferrable payment features.

This level of adjusted core capitalization is a key constraint to ratings given its sturdy loan growth which averaged

20% over the past three years. It also impairs its advantage amid tightening competition from domestic banks (e.g. Banrural) and regional players such as BAC and Bancolombia.

WEAK EARNINGS GENERATION REFLECTING DECLINING PROFIT MARGINS AND HIGH OPERATING LEVERAGE

Bantrab's profitability has been burdened by high credit costs following the acquisition of Banco de la República and by a high operating leverage, as the bank expands its sales force and infrastructure to support business growth. Profit margins continue to be hampered by higher than average funding costs and the bank's main focus on providing payroll-linked loans at an advantageous cost to workers, which also curbs its ability to generate fees to cover its growing operating outlays. These challenges have warranted our negative adjustment in the scorecard.

For the twelve months ended in December 2014, net income increased 35% to Q. 289 million (around US$ 37 million) vis-à-vis the ame period of 2013. However, this increase in earnings was in part driven by higher recoveries of legacy loans from Banco de la República, which represented about half of the increase in net income. The PPI, in turn, grew by a more moderate 13%, led by a higher net interest income (+11%) from robust loan growth (+20%). Operating expenses increased by 9%, keeping the cost-income ratio at a high 65%. The net income stood at about 2% of tangible assets as of December 2014, above the historic metric of 1.7%.

The bank's net interest margin (NIM), though wider than the average 5.5% posted by the system because of Bantrab's consumer emphasis, continued to decline to 8% as of December 2014 from 9.8% as of year-end 2012. The decrease reflects lower lending rates due to competition and to higher funding costs largely due to the global senior long-term debt totaling US$ 150 million issued in November 2013, which carries a 9% fixed rate, higher than the 6% average funding cost.

Bantrab's results will be dragged going forward by a lower incidence of recoveries, as the clean-up of Banco de la Republica's portfolio is almost completed. Further, we expect the NIM to continue to decline led by competition, increased funding costs, and a still weak efficiency

CONTINUED DOUBLE DIGIT LOAN GROWTH POINTS TO FUTURE ASSET QUALITY IMPAIRMENT

The bank's asset quality benefits from its dominant focus on lower risk payroll-linked lending, which is largely related to public sector employees, as well as its preferential creditor status (payment preference vis-à-vis other authorized deductions) per its Organic Law. A main concern regarding asset quality going forward lies in the continuation of double-digit loan growth, which management expects to continue to hover around 20% in 2015, which may lead to rapid asset quality deterioration if the Guatemalan economy slows and if a tighter US monetary policy makes domestic interest rates to increase more than expected. These challenges explain our negative adjustment for asset quality.

Bantrab's asset quality has gradually improved since 2009, reflecting the clean-up of legacy consumer and residential mortgage loans inherited after the Banco de la República acquisition. NPLs declined to 1.2% of loans as of December 2014 from a peak of 8.4% in 2009, reflecting considerable charge-off activity between 2008 and 2011.

The bank built reserves to cover problem loans, rising to 159% as of December 2014 from 35% in 2009. However, reserve coverage of gross loans declined to 1.9% as of December 2014 from 3.4% in 2012. Management expects to begin rebuilding reserves again with a target of 200% coverage of NPLs to be achieved by mid 2015.

The lack of full board independence, especially amid the existing business linkages with the government, increases the bank's asset quality risks, given the absence of full independent oversight over how the bank deploys its resources. The President of the Republic directly appoints the Chairman of the Board.

STABLE AND GRANULAR CUSTOMER DEPOSIT FUNDING; ADEQUATE LIQUIDITY

Bantrab's funding has been relatively resilient. Liabilities are largely comprised by deposits (84%), with the majority of these being sourced from individuals, which tend to be more stable than institutional deposit. As of December 2014, the majority, or 80%, is comprised of time deposits, followed by saving accounts (11%) and demand deposits (9%). We note however that interest paid for these deposits are significantly higher than those paid for larger banks in the system, which indicates a potentially less stable funding than that of these larger franchises. Senior debt comprises a 9% of total liabilities while bank borrowings represent 1%, which made market funds to represent a relatively low 10% of total assets, mildly above the 9% historic metric.

Tenor matches have improved with the issuance of US$150 million in term senior debt. Liabilities maturing in more than a year comprised around half of the total amount, now more in line with the long term nature of the loan book (85% due in more than a year). The proceeds of the issuance are progressively being allocated to lending (70%) and security investments (30%). We however note that the bank still shows negative cumulative tenor gaps in the 91-365 days bucket.

Bantrab maintains a large store of liquid assets on its balance sheet with a liquid banking assets to tangible banking assets ratio of 37% as of December 2014, mainly in the form of required liquidity reserves at the central bank and Ba1-rated government securities, the latter providing the bank some financial flexibility in the event of a funding squeeze.

Notching Considerations

Government Support

We believe that there is a moderate likelihood of government support for Bantrab's bank deposits and senior unsecured debt ratings in the event of its failure. This assumption is based on the bank's importance as a lender to Guatemalan public sector workers, as well as its government inception.

CR Assessment

The CR Assessment is positioned at Ba2(cr).

The CR Assessment is positioned two notches above the adjusted BCA of b1, and also benefits from two notches of systemic support, in line with our support assumptions on deposits and senior unsecured debt. This reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or 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 in order to reduce contagion and preserve a bank's critical functions.

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 suffered in the event of default 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 (e.g., swaps), letters of credit, guarantees and liquidity facilities.

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 Factors

Banco de los Trabajadores

Macro Factors	
Weighted Macro Profile	**Weak**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency **Asset Risk**						
Problem Loans / Gross	1.7%	ba2	↓	b1	Loan	Sector

Loans					growth	concentration
Capital						
TCE / RWA	5.0%	caa2	←→	caa2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.7%	ba2	←→	ba3	Expected trend	
Combined Solvency Score		b1		b2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.1%	ba2	←→	ba2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.7%	ba2	←→	ba2	Quality of liquid assets	
Combined Liquidity Score		ba2		ba2		

Financial Profile	**b1**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Ba1
Scorecard Calculated BCA 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**
Deposits	0	0	b1	1	Ba3	Ba3

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