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CREDIT OPINION
22 May 2017

Update

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RATINGS

Banco de los Trabajadores

Domicile	Guatemala City, Guatemala
Long Term Debt	Not Assigned
Type	Not Assigned
Outlook	Not Assigned
Long Term Deposit	Caa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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

Semiannual Update

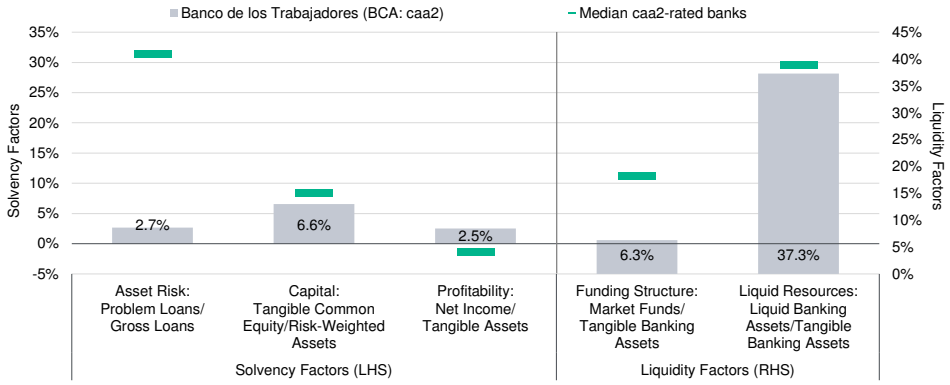
Summary Rating Rationale

Moody's assigns a baseline credit assessment (BCA) of caa2 to Guatemala's Banco de los Trabajadores (Bantrab). The BCA was confirmed on 21 November 2016, taking into consideration the timely payment of the coupon on Bantrab Senior Trust's (BST, a Cayman Islands based trust guaranteed by Bantrab) global bond in November 2016. The bank also paid the May 2017 coupon on schedule. Notwithstanding this payments, the current negative outlook on the bank's and BST's ratings considers that it faces heightened headline and reputational risk following corporate governance issues during 2016, which could still have consequences for the bank's ability to make future coupon payments, particularly as the bank managed to secure only one international correspondent banking relationship after having lost them all in May 2016.

The Caa1 local and foreign currency deposit ratings assigned to Bantrab incorporate one notch of uplift from the caa2 BCA due to our assessment of a moderate probability of government support, based on the bank's importance as a lender to Guatemalan public sector workers, as well as its government inception.

On the other hand, the Caa2 foreign currency senior unsecured debt rating assigned to BST does not benefit from an uplift from the caa2 BCA. This is based on our assessment of a low probability of public support given the absence of any indication of government support for the bank following the loss of its correspondent lines.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source:Moody's Financial Metrics

Credit Strengths

» Asset quality supported by the bank's preferential creditor status

» Strong profitability, despite narrowing net interest margins and a weak efficiency

Credit Challenges

» Payment risks are still present for the bank's international financial obligations

» Weak capital provides limited buffer to absorb credit and investment losses

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

Rating Outlook

All the long-term ratings and assessments of Bantrab and BST are negative. The negative outlook on these ratings considers that the bank faces heightened headline and reputational risk following corporate governance issues during 2016, which could still have consequences for the bank's ability to make future coupon payments. These are being executed using the sole international correspondent banking relationship the bank has.

Factors that Could Lead to an Upgrade

There are limited upward pressures on the ratings at this juncture in light of the negative outlook. However, the outlook could be stabilized if corporate governance flaws are resolved without any direct consequences for the bank itself and no further related issues arise in the interim. The ratings could eventually face upward pressure if the bank is able to obtain alternative correspondent banking relationships and take appropriate action to address the alleged shortcomings in its corporate governance framework.

Factors that Could Lead to a Downgrade

If the bank is unable to make any payment related to BST's global bond or other obligations in a timely manner, its ratings could be lowered further, possibly by multiple notches, depending upon the prospects for recovery in the future and the expected timing of such recovery.

Key Indicators

Exhibit 2

Banco de los Trabajadores (Consolidated Financials) [1]

	12-16[2]	12-15[2]	12-14[2]	12-13[2]	12-12[2]	CAGR/Avg.[3]
Total Assets (GTQ million)	18,283	16,944	14,144	12,600	9,624	17.4[4]
Total Assets (USD million)	2,430	2,220	1,862	1,607	1,218	18.9[4]
Tangible Common Equity (GTQ million)	1,101	838	638	499	487	22.6[4]
Tangible Common Equity (USD million)	146	110	84	64	62	24.1[4]
Problem Loans / Gross Loans (%)	2.7	2.4	1.3	1.5	2.4	2.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	6.6	5.4	4.9	4.8	5.7	5.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.3	18.0	12.5	15.5	19.6	17.0[5]
Net Interest Margin (%)	8.4	8.5	9.3	10.5	9.8	9.3[5]
PPI / Average RWA (%)	3.5	3.2	3.9	5.8	4.2	4.1[6]
Net Income / Tangible Assets (%)	2.5	2.6	2.2	1.8	1.4	2.1[5]
Cost / Income Ratio (%)	61.5	65.9	63.7	64.9	65.1	64.2[5]
Market Funds / Tangible Banking Assets (%)	6.3	7.1	9.2	11.6	5.0	7.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.3	44.8	38.2	43.6	39.4	40.7[5]

Gross Loans / Due to Customers (%)	76.1	65.2	74.2	69.9	69.4	71.0[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
Source: Moody's Financial Metrics

Detailed Rating Considerations

PAYMENT RISKS ARE STILL PRESENT FOR THE BANK'S INTERNATIONAL FINANCIAL OBLIGATIONS

Notwithstanding the timely payment of the coupon on BST's global bond in May 2017 and in November 2016, the bank still faces highted headline and reputational risk following the corporate governance developments of 2016, which could still have consequences for the bank's ability to make future coupon payments. Last October, arrest warrants were issued to four of Bantrab's board members in conjunction with allegations related to money laundering, and in April, Guatemala's Public Ministry seized the bank's non-voting preferred shares held by DHK Finance Inc, under allegations that the funds used to purchase these shares were obtained illegally, and that wrongdoing might have occurred during the sale of those shares to DHK.

Further, the bank's ratings reflect increased payment risks for its international financial obligations given its dependence on just one correspondent banking facility to make bond payments following the loss of its last facility in May. The arrest warrants increase the potential that complications could arise with that relationship. The lack of redundant facilities means that if the bank were to lose the current facility as well, it could be left without any means to pay bondholders. Its reported difficulty in securing even this one facility suggests that it might not be able to arrange any alternatives in such a circumstance on a timely manner. The Caa1 deposit ratings reflect the risk of contagion to Bantrab's funding if there is a failure to make a coupon payment on BST's bond in a timely manner.

The probability that the bank will receive public support to avoid a default on its global bond remains low, given the absence of indications of public support for the bank following the loss of its last correspondent relationship earlier this year. Nevertheless, Moody's continues to believe that the Superintendency of Banks and the central bank remain more willing and able to support Bantrab's domestic deposits should that prove necessary, and the rating agency continues to assess a moderate probability of public support for these. This assessment considers the fact that Bantrab was established by the Guatemalan government, as well as its large base of public sector deposits and significant overall deposit market share of about 7% as of December 2016. Consequently, Bantrab's Caa1 deposit ratings continue to benefit from one notch of uplift from the caa2 BCA.

Bantrab has been taking steps towards improving its corporate governance framework and controls. Further, we note that the aforementioned developments have not led to a material deterioration of the bank's other financial fundamentals thus far, such as the bank's good asset quality supported by its preferential creditor status and ample liquidity. In addition, liquidity buffers can help withstand funding volatilities. 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 2016. Liquidity is chiefly in the form of required liquidity reserves at the central bank and Ba1-rated, with a negative outlook, government securities. The latter provide the bank financial flexibility in the event of a funding squeeze.

LIMITED CORE CAPITAL MAY CONSTRAIN FRANCHISE DEVELOPMENT

Bantrab's core capital remains weak, having been pressured by high loan growth despite a relatively moderate payout ratio. As of December 2016, the bank's tangible common equity stood at 6.6% of risk-weighted assets, when government securities are 100%-weighted as prescribed by Basel for Ba-rated sovereigns, and intangibles and goodwill are deducted. The seized preferred shares amounting GTQ157 million were not included in the calculation of the TCE, because they have non-deferrable payment features.

STRONG PROFITABILITY, DESPITE NARROWING NET INTEREST MARGINS AND A WEAK EFFICIENCY

Bantrab's net income stood at a robust 2.5% of tangible assets as of December 2016, well above the 1.3% average for the system. Nevertheless, we note that the bank's net interest margin, though still ample, has been constantly declining in the past years as a result of competitive pressures on lending rates and higher funding costs, particularly amid the corporate governance events of last year. Declining margins are also explained by the issuance of the global senior long-term bond which carries a 9% coupon, higher than the 7.8% average of the bank's total funding cost. At the same time returns are also dragged by the bank's weak efficiency, measured as the cost to income ratio, that stood at around 60%.

ASSET QUALITY SUPPORTED BY THE BANK'S PREFERENTIAL CREDITOR STATUS

The bank's asset quality benefits from its preferential creditor status (e.g. payment preference vis-à-vis other authorized deductions) per its Organic Law. The key risk to asset quality is the aforementioned hefty loan growth, especially amid the current economic deceleration in the country. As of December 2016, gross loans leaped 26% year-on-year, up from the 9% posted as of December 2015.

NPLs rose to a still manageable 2.7% of gross loans as of December 2016 from 1.5% as of December 2013, in part explained by an internal policy change that reduced charge-offs. At the same time, reserves remained thick at 140% of NPLs and 3.8% of gross loans.

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 bank's Board.

BANTRAB'S RATINGS ARE CONSTRAINED BY GUATEMALA'S "WEAK" MACRO PROFILE

Guatemala (Ba1, stable) has experienced steady economic growth over the past several years, but the country still has a low GDP per capita and exhibits weak human development indicators. Monetary and fiscal institutions are strong, but institutional strength remains weak overall, particularly in tax administration and rule of law, despite the government's fight against corruption and its effort to improve transparency and accountability. The country also remains susceptible to political event risk related to the ongoing corruption investigations coupled with high income inequality.

Notching Considerations

Government Support

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

On the other hand, we assess a low likelihood of government support for the bank's senior unsecured debt rating given the absence of any indication of public support for the bank following the loss of its correspondent lines in May 2016.

Counterparty Risk Assessment

The CR Assessment is positioned at B3(cr).

The CR Assessment is positioned two notches above the adjusted BCA of caa2, and 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 governmental 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 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 Methodology and Scorecard Factors

Exhibit 3

Banco de los Trabajadores

Macro Factors		
Weighted Macro Profile	**Weak**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.7%	ba3	← →	b1	Loan growth	Sector concentration
Capital						
TCE / RWA	6.6%	caa2	← →	caa2	Expected trend	
Profitability						
Net Income / Tangible Assets	2.4%	baa3	↓	ba3	Expected trend	
Combined Solvency Score		b1		b2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	6.3%	ba1	← →	caa1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.3%	ba2	← →	ba2	Quality of liquid assets	
Combined Liquidity Score		ba1		b2		
Financial Profile				b2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				-3		
Total Qualitative Adjustments				-3		
Sovereign or Affiliate constraint:				Ba1		
Scorecard Calculated BCA range				caa1-caa3		
Assigned BCA				caa2		
Affiliate Support notching				0		
Adjusted BCA				caa2		

Instrument class	**Loss Given Failure notching**	**Additional Notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	**Moody's Rating**
BANCO DE LOS TRABAJADORES	
Outlook	Negative
Bank Deposits	Caa1/NP
Baseline Credit Assessment	caa2[1]
Adjusted Baseline Credit Assessment	caa2[1]
Counterparty Risk Assessment	B3(cr)/NP(cr)[2]
BANTRAB SENIOR TRUST	
Outlook	Negative
Bkd Senior Unsecured	Caa2

[1] Placed under review on November 3 2016 [2] Rating(s) within this class was/were placed on review on November 3 2016

Source: Moody's Investors Service

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