

# **FITCH AFFIRMS BANTRAB'S IDRS AT 'B+'; OUTLOOK REMAINS POSITIVE**

Fitch Ratings-Monterrey-04 May 2018: Fitch Ratings has affirmed Banco de los Trabajadores' (Bantrab) Long-Term Issuer Default Ratings (IDRs) at 'B+'. The rating Outlook remains Positive. In addition, Fitch has affirmed Bantrab's Long-Term National Rating at 'BBB+' / Positive Outlook. A full list of rating actions follows at the end of this release.

The Positive Outlook on both Bantrab's Long-term IDRs and National Rating reflects Fitch's expectation that Bantrab's recent measures to strengthen its corporate governance and risk management framework, in addition to its stronger capital base, have improved the bank's overall risk profile. Fitch believes the bank's operational capacity to make future debt payments has also improved. Nevertheless, the agency will continue to monitor the evolution of Bantrab's relationship with correspondent banks.

Following a series of events that led to the arrest of various former executives and members of the Board of Directors by the Guatemalan authorities on charges of fraud, illicit associations and embezzlement, to the detriment of the bank's shareholders in mid-2016, the bank is under new management and is in the process of restructuring its operations. In Fitch's view, these changes are positive but its long-term effects and sustainability are yet to be seen.

In line with the rating actions on Bantrab, Fitch has affirmed Bantrab Senior Trust's (BST) Long-Term Rating at 'B+' / 'RR4'.

Fitch affirmed Fintrab's National scale ratings since they are driven by support from Bantrab.

## **KEY RATING DRIVERS**

### **IDRs, VR and NATIONAL RATINGS - Bantrab**

Bantrab's risk appetite and capitalization highly influence its ratings. The ratings also consider Bantrab's sound profitability, good asset quality, concentrated funding structure and adequate liquidity.

Bantrab has improved its risk controls by strengthening its internal management control framework. The bank's plans to investment in technology should provide a robust capacity for further growth. Additionally, this will bring Bantrab's risk management practices closer to that of its higher rated domestic peers. Solid capitalization helps support Bantrab's growth prospects, which compares favorably with the industry average and its main competitors.

Bantrab's profitability is sound and is based on a high net interest margin, acceptable operational efficiency and moderate loan loss provisions. Moreover, the bank registers good loan quality indicators for its consumer focused business model, given the debt collection via automatic payroll deductions.

The issuer's funding structure is based on term deposits of higher than average cost but with high stability. Liquidity is also sound and able to respond in a timely manner to liquidity needs that may arise.

### **SUPPORT RATING AND SUPPORT RATING FLOOR - Bantrab**

Bantrab's SR and SRF of '5' and 'NF', respectively, indicate that, although possible, external support cannot be relied upon given the currently low state ownership and limited systemic importance.

#### SENIOR DEBT - Bantrab Senior Trust

Bantrab Senior Trust's (BST) seven-year U.S.-dollar loan participation notes' rating is in line with Bantrab's VR, reflecting that the senior unsecured obligations rank equally with the bank's unsecured and unsubordinated obligations.

BST's 'RR4' Recovery Rating reflects Fitch's expectations of an average recovery in the event of a default.

#### NATIONAL RATINGS-Fintrab -

Fintrab's National ratings are underpinned by institutional support it would likely receive from its shareholder, Bantrab. Fitch's opinion of support is based on the high integration of the subsidiary with the parent and the significant reputational risk that a default would pose to Bantrab. As a result, Fintrab's National ratings are aligned with Bantrab's credit profile.

#### RATING SENSITIVITIES

##### IDRs, VR, AND NATIONAL RATINGS, -Bantrab

Fitch believes that if Bantrab's structural changes consolidate and yield positive, material and sustainable results in terms risk management while maintaining its financial profile, a positive rating action could be triggered.

However, while not Fitch's base case scenario, the Outlook could be revised to Stable if no sustainable and material progress is perceived in the bank's risk management framework thus stalling its overall development.

##### SUPPORT RATING AND SUPPORT RATING FLOOR - Bantrab

Guatemala's propensity or ability to provide timely support to Bantrab is not likely to change given the bank's low systemic importance. As such, the SR and SRF have no upgrade potential.

##### SENIOR DEBT - BST

Changes in the notes' Long Term Rating and Recovery Rating are contingent upon rating actions for Bantrab.

##### NATIONAL RATINGS - Fintrab

The National ratings of Fintrab would mirror changes in the National scale ratings of its parent.

Fitch has affirmed the following:

Banco de los Trabajadores:

- Long-Term Foreign Currency IDR at 'B+'; Outlook Positive;
- Short-Term Foreign Currency IDR at 'B';
- Long-Term Local Currency IDR at 'B+'; Outlook Positive;
- Short-Term Local Currency IDR at 'B';
- National Long-Term Rating at 'BBB+(gtm)'; Outlook Positive;
- National Short-term Rating at 'F2(gtm)';
- Viability Rating at 'b+';
- Support Rating at '5';
- Support Rating Floor at 'NF'.

Financiera de los Trabajadores, S.A.

--National Long-term Rating at 'BBB+(gtm)'; Outlook Positive;

--National Short-term Rating at 'F2(gtm)';

Bantrab Senior Trust

--Long-term Foreign Currency Loan Participation Notes at 'B+'/'RR4'.

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Summary of Financial Statement Adjustments - Prepaid expenses and other deferred assets were reclassified as intangible assets and were deducted from FCC since the agency considers these to have low capacity to absorb losses.

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023430>

Metodología Global de Calificación de Instituciones Financieras no Bancarias (pub. 21 Oct 2016)

<https://www.fitchratings.com/site/re/889541>

Metodología de Calificaciones en Escala Nacional (pub. 27 Mar 2017)

<https://www.fitchratings.com/site/re/896229>

Metodología de Calificación Global de Bancos (pub. 09 Jan 2017)

<https://www.fitchratings.com/site/re/892947>

National Scale Ratings Criteria (pub. 07 Mar 2017)

<https://www.fitchratings.com/site/re/895106>

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