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CREDIT OPINION

28 May 2018

Update

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RATINGS

Banco de los Trabajadores

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

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

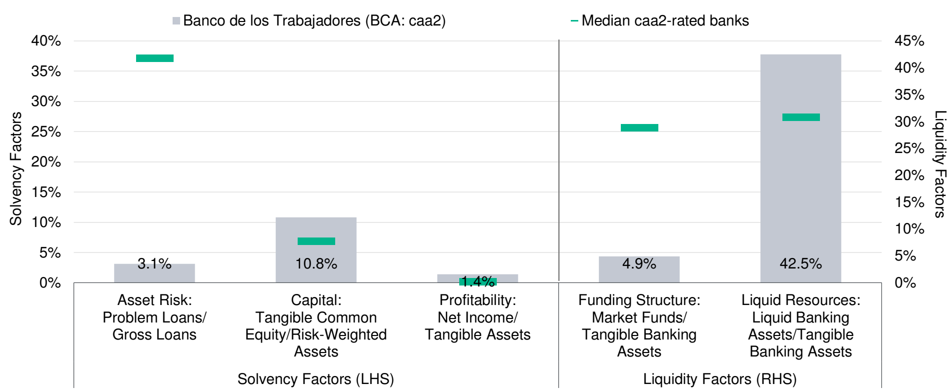
Update to credit analysis

Summary

Banco de los Trabajadores' (Bantrab) standalone Baseline Credit Assessment (BCA) of caa2 reflects its still elevated external payment risks, given the bank now has only one international correspondent banking relationship (CBR), while its facility with the local brokerage house needs to be more fully tested. On the contrary, the BCA is supported by the bank's resilient financial fundamentals.

The Caa1 local- and foreign-currency deposit ratings assigned to Bantrab incorporate one notch of uplift from the bank's caa2 BCA owing to our assessment of a moderate probability of support from the Government of Guatemala (Ba1 stable), based on its importance as a lender to Guatemalan public-sector workers as well as its government inception. At the same time, the Caa2 foreign-currency senior unsecured debt rating assigned to Bantrab Senior Trust (BST, a Cayman Islands-based trust guaranteed by Bantrab) does not benefit from such an uplift owing to the absence of any indication of extraordinary government support for BST's bonds, following the loss of its correspondent lines in May 2016.

Exhibit 1
Rating Scorecard - Key financial ratios
Bantrab's data as of March 2018



Source: Moody's Financial Metrics

Credit strengths

» Still strong profitability, despite the bank's narrowing net interest margin (NIM) and weak efficiency

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

Credit challenges

» Still elevated external payment risks

» Moderate capitalization, which provides a limited buffer to absorb unexpected losses

» Ratings constrained by Guatemala's Weak Macro Profile

Outlook

The outlook on the long-term ratings of Bantrab and BST is positive. The positive outlook reflects the timely payment of the coupon on BST's global bond in November 2017 and May 2018, as well as the establishment of a new international payment mechanism via a Guatemalan brokerage house, which complements Bantrab's sole direct international CBR.

The positive outlook also incorporates Bantrab's recent initiative to strengthen the bank's corporate governance by reshuffling a part of senior management and by starting to improve risk management and control practices.

Factors that could lead to an upgrade

The ratings could eventually be upgraded if Bantrab is able to obtain alternative international CBRs and put in place robust risk management controls to avoid a recurrence of the corporate governance shortcomings that led to its recent challenges.

Factors that could lead to a downgrade

If the abovementioned measures are not successful, the outlook could be stabilized. Moreover, if Bantrab loses its sole remaining CBR or its arrangement with the local brokerage house, or both — owing to which it is unable to make any payment related to BST's global bond or other obligations in a timely manner — the bank's ratings could be lowered, possibly by multiple notches, depending on the prospects of recovery in the future and the expected timing of such a recovery. The bank's ratings would also be lowered in the case of further disclosures of corporate governance flaws.

Key indicators

Exhibit 2
Banco de los Trabajadores (Consolidated Financials) [1]

	3-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (GTQ million)	22,936	21,611	18,283	16,945	14,144	16.0[4]
Total Assets (USD million)	3,100	2,942	2,430	2,220	1,861	17.0[4]
Tangible Common Equity (GTQ million)	2,115	1,648	1,101	838	638	44.6[4]
Tangible Common Equity (USD million)	286	224	146	110	84	45.8[4]
Problem Loans / Gross Loans (%)	3.1	3.0	2.7	2.4	1.3	2.5[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.8	9.0	6.6	5.4	4.9	7.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.6	17.8	19.3	18.0	12.5	16.7[5]
Net Interest Margin (%)	6.7	7.6	8.4	8.5	9.3	8.1[5]
PPI / Average RWA (%)	2.0	3.6	3.5	3.2	3.9	3.2[6]
Net Income / Tangible Assets (%)	1.4	2.3	2.5	2.6	2.2	2.2[5]
Cost / Income Ratio (%)	73.2	60.5	61.5	65.9	63.7	64.9[5]
Market Funds / Tangible Banking Assets (%)	4.9	5.2	6.3	7.1	9.2	6.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	42.5	40.3	37.3	44.8	38.2	40.6[5]
Gross Loans / Due to Customers (%)	68.2	71.5	76.1	65.2	74.2	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

Profile

Banco de los Trabajadores (Bantrab) is the sixth-largest bank in Guatemala, with $3.1 billion in consolidated assets as of March 2018, coupled with loan and deposit market shares of 7.3% and 8.2%, respectively, as of April 2018. 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 around 700,000 Guatemalan shareholders. 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 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 Baa2 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

Still elevated external payment risks

Notwithstanding the timely payment of the coupons on BST's global bond so far, Bantrab is still challenged to further diversify its access to international correspondent banking relationships.

Currently, the bank has just one CBR, along with an alternative method of international payments via a Guatemalan brokerage house. Additionally, management claims that it is actively seeking new CBRs with US- and Europe-based banks, which, if achieved, will diversify Bantrab's payment channels and reduce its exposure to the loss of any one of the correspondent lines. Unless and until these redundant CBRs are put in place, and the new arrangement with the brokerage house is more fully tested, external payment risks will remain elevated.

Bantrab has also been taking steps toward improving its corporate governance framework and controls. Furthermore, the aforementioned developments have not led to a material deterioration in the bank's other financial fundamentals thus far. Bantrab maintains a large store of liquid assets on its balance sheet, with a ratio of liquid banking assets to tangible banking assets of around 43% as of March 2018. The bank's liquidity is chiefly in the form of required liquidity reserves at the central bank and Ba1-rated government securities. The latter provide the bank with financial flexibility in the event of a funding squeeze.

Moderate capitalization provides a limited buffer to absorb credit and investment losses

Though Bantrab's core capitalization has improved owing to an increase in capital reserves, it remains moderate in the light of high loan growth in the past years, despite a relatively moderate payout ratio. As of March 2018, the bank's tangible common equity stood at around 11% of risk-weighted assets, whereby government securities are 100% weighted (as prescribed by Basel for Ba-rated sovereigns), and intangibles and goodwill are deducted. The seized preferred shares, amounting to GTQ157 million, were not included in the calculation of tangible common equity because they have non-deferrable payment features.

Strong profitability despite narrowing NIM and weak efficiency

In 2017, Bantrab reported a robust net income of 2.3% of tangible assets, well above the system average of 1.4%. However, profitability decreased significantly in the first quarter of 2018, though to a still good 1.4% vis-à-vis 2.8% reported for the same period in 2017, mainly owing to a sharp decline in fee income and net losses attributable to foreign-exchange valuations amid an appreciation in the Quetzal vis-à-vis the US dollar . The contraction in fees is largely explained by a regulatory accounting change which prescribes a more spread-out recognition of lending commissions according to the duration of the loan, as opposed to recognizing them upfront.

Bantrab's NIM, although 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 in 2916. For the first three months of 2018, the bank's NIM stood at 6.7%, lower than the 2015-17 average of 8.2%. The declining margins are also explained by the issuance of the global, senior long-term bond that carries a 9% coupon, higher than the average of 7.6% of the bank's total funding cost. At the same time, returns are also hampered by the bank's weak efficiency, measured as the cost-to-income ratio, which stood at a high 73% as of March 2018.

Asset quality supported by the bank's preferential creditor status

Bantrab's asset quality benefits from its preferential creditor status (for example, payment preference vis-à-vis other authorized deductions) according to its Organic Law. The key risk to asset quality is a hefty loan growth in the past years, especially amid the current economic deceleration in the country. In 2015-17, gross loans grew 16% on average; although in Q1 2018, loan growth slowed down to 11% from the year-earlier period. Nonperforming loans rose 16%, in absolute terms during the same period, to 3.1% of gross loans from 3%. At the same time, reserves coverage declined to 100% of nonperforming loans and 3.1% of gross loans, from 132% and 3.95%, respectively.

A lack of full board independence, especially given the bank's existing business links with the government, increases its asset risks because there is no 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 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 risks related to the ongoing corruption investigations, coupled with high income inequality.

Rapid loan growth and foreign-exchange mismatches in the borrowers' balance sheets represent key risks to Guatemala's currently sound asset quality, supported by a focus on high-quality domestic corporate borrowers. The funding conditions have worsened because international banks' risk aversion toward Central America and the Caribbean has increased, which could result in further reductions in correspondent banking lines and limit access to external funding.

Support and structural considerations

Government support

We believe that there is a moderate likelihood of government 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 March 2018. Consequently, Bantrab's Caa1 deposit ratings continue to benefit from one notch of uplift from its caa2 BCA.

On the contrary, we assess a low likelihood of government support for BST's senior unsecured debt obligations owing to the absence of any indication of public support for the bank following the loss of its prior correspondent lines in May 2016. As a result, BST's Caa2 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 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 (for example, swaps), letters of credit, guarantees and liquidity facilities.

Bantrab's CR Assessment is positioned at B3(cr)/Not Prime(cr)

The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of caa2 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 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 to reduce contagion and preserve a bank's critical functions.

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	3.1%	ba3	←→	b1	Loan growth	Sector concentration
Capital						
TCE / RWA	10.8%	b2	←→	caa2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.4%	ba3	←→	ba3	Expected trend	
Combined Solvency Score		b1		b2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	5.2%	ba1	←→	caa1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	40.3%	ba1	←→	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**
Counterparty Risk Assessment	1	0	caa1 (cr)	1	B3 (cr)	--
Deposits	0	0	caa2	1	Caa1	Caa1

Source: Moody's Financial Metrics

Ratings

Exhibit 4

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

Source: Moody's Investors Service

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