

MAY, 2017

## BANTRAB SENIOR TRUST UPDATE

### **CURRENT RECOMMENDATION: SELL**

This piece will attempt to provide a synopsis of the challenges as well as provide an update on any recent information that may be of interest to investors.

### **SYNOPSIS**

Bantrab is a bank created under the banking laws of the sovereign state of Guatemala. The Bantrab Senior Trust notes are secured by the Trust. Payment of principal and interest on the notes will be absolutely, unconditionally, and irrevocably guaranteed by Bantrab. However, if the bank fails to make payments, investors will have to sue the Trust itself to recover amounts owing.

### **CONCERNS**

*The negative view of Bantrab is based on the heightened headline and reputational risk the company faces following recent corporate governance scandals.* The scandals could have negative repercussions for the bank's ability to repay its coupon and principal on time and in full in the future. In April, 2016 the local authorities seized the bank's non-voting preference shares held by DHK-Finance Inc. due to allegations that

the money used to purchase the shares were obtained illegally. There were also allegations that the sale of the shares to DHK was *not executed legally* and there may have been *fraud or undue influence in the process*.

**In October, 2016 four of Bantrab's board members were issued with arrest warrants associated with allegations/charges related to money laundering.**

*Another key risk that Bantrab's creditors face is the possibility of not being able to receive coupon flows because of Bantrab's heavy dependence on one correspondent banking facility.* A correspondent bank acts as an intermediary between banks in different countries. One function is facilitating the transfer of funds from "Bank A" to "Bank C" through "Intermediary Bank B" which has a presence in both countries. Without "Intermediary Bank B," "Bank A" would need to establish a physical presence in "Bank C's" country. In Bantrab's case correspondent banking facilities were cut by overseas banks due to the uncertainties faced by the financial institution. So even if Bantrab is making payments, it would be difficult for bond holders outside of Guatemala to access their funds.

Bantrab also faces the challenge of weak public support which threatens deposits. The absence of correspondent banking facilities limits the ability to send and receive remittances which is important for most Latin American economies.

## POSITIVE

On the positive side Moody's is of the view that the authorities, namely the government and the central bank are willing to protect depositors. Key to this assessment is the fact that Bantrab was established by the government of Guatemala, the bank has a large public sector deposit base and a significant overall deposit market share of about 7% as at September, 2016.

*The company also made its latest coupon payment in a timely manner on November 14, 2016.* This seems to have given some renewed impetus to the bond price. However in our view the elevated bond price simply means that this is a key opportunity for investors to unwind their position.

## CONCLUSION

**We maintain our SELL recommendation.** Money laundering investigations of principals, allegations of impropriety regarding acquisition of shares

and the withdrawal of correspondent banking facilities are serious challenges. The fact that recent coupon obligations have been met is of little importance, and does not significantly mitigate the overall risk.

Moody's acted four times in 2016; three downgrades and one affirmation of the rating in November. This indicates the challenge the rating agency perceived and its quick action to warn/inform investors.

## MOODY'S RATING ACTIONS

DATE	RATING ACTIONS
29/10/2013	Ba3
24/6/2016	B1
30/08/2016	Caa1
03/11/2016	Caa2
<b>21/11/2016</b>	<b>Caa2</b>

Source: Moody's. [www.imf.org](http://www.imf.org). Bloomberg, Reuters, Cia-factbook

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