

BANCO G&T CONTINENTAL SUBORDINATED LOAN

(GU-L1067)

PROJECT ABSTRACT

The proposed transaction is part of the LACC Subordinated Debt Facility (RG-X1088) approved by the Bank's Board of Executive Directors in August 2010 and consists of a subordinated financing (which qualifies as Tier II capital under local regulatory requirements) for up to US\$45 million to Banco G&T Continental, S.A. ("G&TC").

The Subordinated Loan ("The Subordinated Loan" or "The Loan") will support its capital enhancement by qualifying as Tier II capital as per local regulatory requirements. Such capital enhancement will allow G&TC to support the growth of their lending portfolio in high social impact areas such as Micro, Small and Medium Enterprises ("MSMEs"), Microfinancial Institutions ("MFIs") and housing finance. The proposed project responds to one of the Bank's strategic priorities established in the 9th General Capital Increase, which states that to "foster Institutions for Growth and Social Welfare," one of the specific value objectives for the region is "strengthening SME lending through second-tier vehicles and financial services." In this sense, the Facility addresses SCF's strategic target of channeling financing to 250,000 SMEs by 2015, and in alignment with accessBanking¹ by promoting social inclusion and financial access.

Banco G&T Continental was formed in October 2000 by the merger of two of the most important financial institutions in the country: Banco Granai & Townson and Banco Continental. G&TC continues as the second largest bank in Guatemala and is one of the largest in the Central American region. It has evolved as a relevant player in the local financial system as well as in the microfinance segment. Currently, G&TC has operations in Guatemala, El Salvador, Panama and Costa Rica.

IDB's participation in the transaction will support G&TC's growth strategy by providing support to its capital structure and the funding and tenor needed to increase the loan portfolio while maintaining an adequate balance sheet position. The proposed transaction is in line with Bank's developmental objectives as it (i) would help to improve the competitiveness and efficient development of the Guatemalan private sector, specifically the MSME segment and (ii) supports the reduction of the housing gap in the country by increasing mortgage lending including housing microfinance, and for the low and middle income households.

The Project Team is analyzing with G&TC the feasibility of developing an impact study regarding its MSMEs portfolio. The proposed consultancy represents an accessBanking initiative to assess the economic and social impact of financial institutions' (FIs') on-lending activities in the MSME client market with the support of G&TC.

¹ Report on the Ninth General Increase in the resources of the Inter-American Development Bank, May, 21. 2010; SCF Strategy 2011-2015, November 10, 2010; for more information on the beyondBanking program, visit www.iadb.org/beyondbanking