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Banco Regional S.A.E.C.A.

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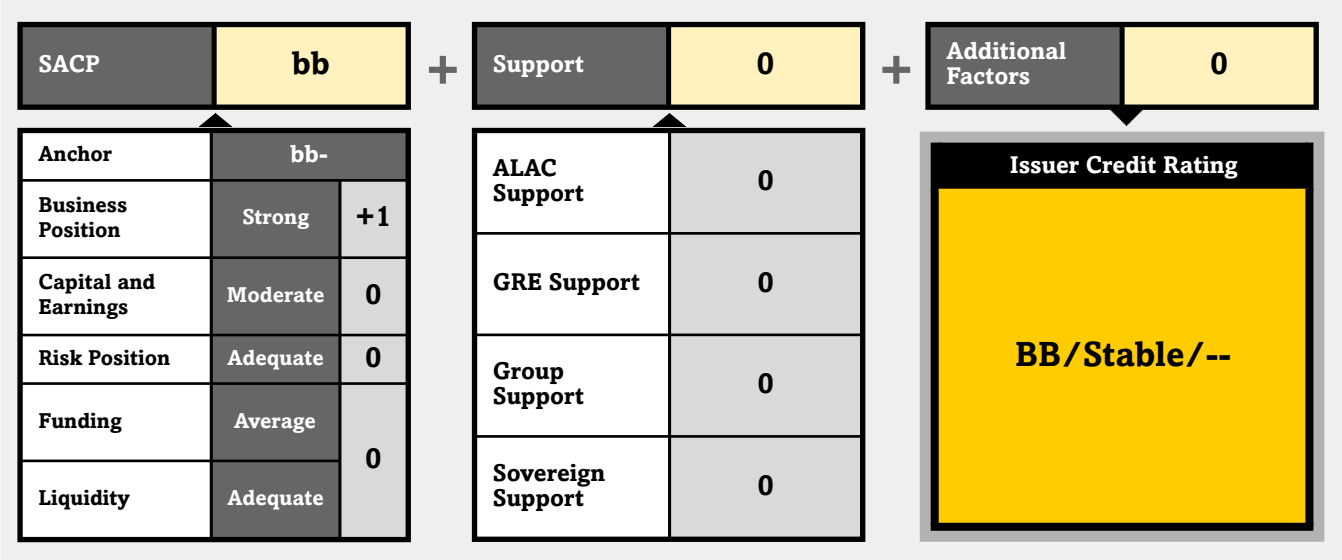
Major Rating Factors

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Related Criteria

Banco Regional S.A.E.C.A.



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Good market position in the Paraguayan banking system. Rabo Partnership B.V.(Rabobank; not rated), one of the shareholders, contributes expertise in the agribusiness sector and good corporate governance practices. 	<ul style="list-style-type: none"> Higher-than-average loan portfolio concentration in the agribusiness sector that's exposed the bank to economic cycles. High degree of dollarization in the banking system. Weak public institutions and structural challenges that continue to hamper effective policymaking in the country.

Outlook: Stable

The stable outlook on Banco Regional for the next 12 months reflects our expectation that the bank will maintain its sound competitive position in the Paraguayan financial system and a leading position in the agribusiness sector. We also expect that the bank will keep its stable capitalization and stronger asset quality metrics.

Downside scenario

We could lower the ratings on the bank in the next 12 months if we were to see its asset quality metrics significantly worsen, with high increases in non-performing assets (NPAs; which includes stock of repossessed assets) and credit losses.

Upside scenario

Ratings upsides are limited at this point, and would depend on us upgrading the sovereign and revising the Banking Industry Country Risk Assessment (BICRA) score for Paraguay to a stronger category while all other credit factors of the bank remain stable.

Rationale

The ratings on Banco Regional reflect its sound competitive position as one of the largest financial entities in Paraguay, with a leading position in the agribusiness lending segment (including agriculture and cattle), and the benefits it gains from the expertise in the agribusiness sector and good corporate governance practices introduced by its shareholder, Rabobank. We expect the bank to maintain current capitalization metrics, with a projected risk-adjusted capital (RAC) ratio of 6.2% for the next 12-18 months. Additionally, the ratings reflect the improving asset quality metrics over recent quarters as the bank resolved punctual cases and implemented more conservative underwriting standards. The ratings also incorporate Banco Regional's funding structure which remains stable and benefits from a healthy deposit base, in line with that of the banking system. We also factor in its liquidity position that provides adequate cushion to meet short-term obligations. Banco Regional has a \$300 million bond due in January 2019, but we don't see refinancing risk.

Anchor: 'bb-' for banks operating only in Paraguay

Our bank criteria use our BICRA economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Paraguay is 'bb-'.

Paraguay's economy has been resilient to the region's economic struggles, with real GDP growth of 5% in 2017 and should average 4.2% in 2018-2021, driven by the agricultural sector, and we expect inflation to average 4% through 2021, suggesting a credible policy commitment and well-anchored inflation expectations. However, Paraguay continues to face institutional challenges that we don't think it's likely to resolve in the near term, but its policy choices will continue to support sustainable public finances and economic growth. We think Paraguay's financial system is in an expansionary phase, even though credit expansion significantly slowed in 2016-2017 after years of high growth mainly resulting from strong commodity prices. We don't believe economic imbalances, such as credit-fueled asset bubbles, pose a significant risk. The banking sector has high credit risk given its considerable exposure to foreign

currency lending and to cyclical sectors such as agriculture and cattle.

The banking sector's industry risk reflects our view of Paraguay's regulatory framework that, although improving, is still behind international standards. In our view, the government doesn't have a record of effective support to the banking sector. In terms of competitive dynamics, we believe that high profitability and rapid credit and asset growth in past few years reflect an aggressive risk appetite. Furthermore, we consider that the presence of relatively large unregulated cooperatives (credit unions) introduce market distortions. The banking system continues to rely mostly on deposits for funding.

Table 1

Banco Regional S.A.E.C.A. Key Figures					
--Year-ended Dec. 31--					
(Mil. PYG)	2018*	2017	2016	2015	2014
Adjusted assets	15,917,783.7	14,627,122.4	15,026,145.6	15,297,794.6	13,700,262.0
Customer loans (gross)	12,262,258.8	10,868,266.8	10,565,174.9	11,418,392.6	9,486,232.5
Adjusted common equity	1,356,793.9	1,318,199.9	1,198,523.6	1,000,698.7	828,510.5
Operating revenues	557,676.3	779,853.2	848,158.8	794,623.1	612,901.2
Noninterest expenses	302,123.8	400,123.8	392,681.6	384,352.6	366,720.5
Core earnings	75,526.1	148,713.7	195,252.4	174,739.2	98,612.7

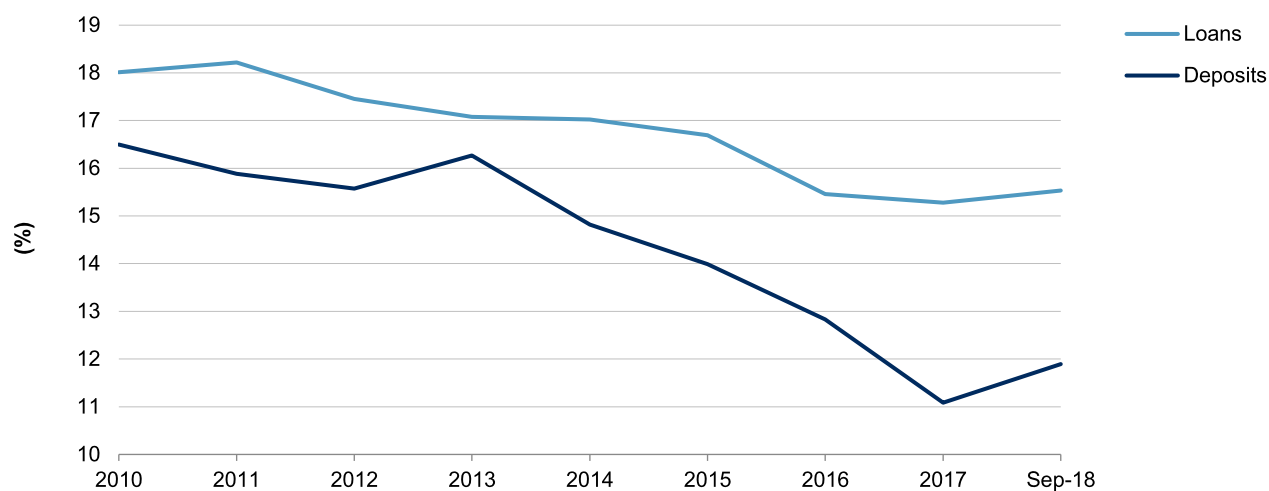
*Data as of Sept. 30. PYG--Paraguayan guarani.

Business position: Sound competitive position as one of the largest financial entities in Paraguay

We view Banco Regional's business position as a credit strength given the bank's sound competitive position in the Paraguayan financial system. It's one of the largest financial entities in the country, with a leading position in the agribusiness lending sector and longstanding customer relationships, all of which confer significant business stability.

As of September 2018, Banco Regional was the second largest lender in terms of loans and the third largest in terms of deposits, with a market share of 15.3% and 11.1%, respectively. Also, it maintained its leading position in loans to the agriculture sector, with a market share of 22%. Banco Regional offers a wide array of products through 37 branches, 83 ATMs, and 52 auto service terminals throughout Paraguay.

As a diversification strategy, during 2018, among other things, Banco Regional's shareholders approved the acquisition of an insurance company, Regional Seguros S.A., as well as the constitution of a new subsidiary that will start operating under the name Regional Casa de Bolsa S.A. (security firm) in the first quarter of 2019. Both companies will enable Banco Regional to develop new businesses and expand, as well as modernize its offerings of financial products, which should help to diversify and provide greater stability to the bank's revenues as they grow.

Chart 1**Banco Regional's Market Share Evolution**

Source: BCP (Paraguayan Central Bank).

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Table 2**Market Share of Loans As Of September 2018**

	%
Banco Continental	16.38
Banco Regional	15.53
Banco Itaú Paraguay	14.17
BBVA Paraguay	9.66
Sudameris Bank	7.04
Banco GNB Paraguay	6.20
Visión Banco	5.91
Banco Nacional de Fomento	5.28
Banco Atlas	4.50
Banco BASA	4.40

Table 3**Market Share Of Deposits As Of September 2018**

	%
Banco Itaú Paraguay	16.72
Banco Continental	14.45
Banco Regional	11.89
BBVA Paraguay	11.45
Banco Nacional de Fomento	9.39
Sudameris Bank	5.90
Visión Banco	5.82

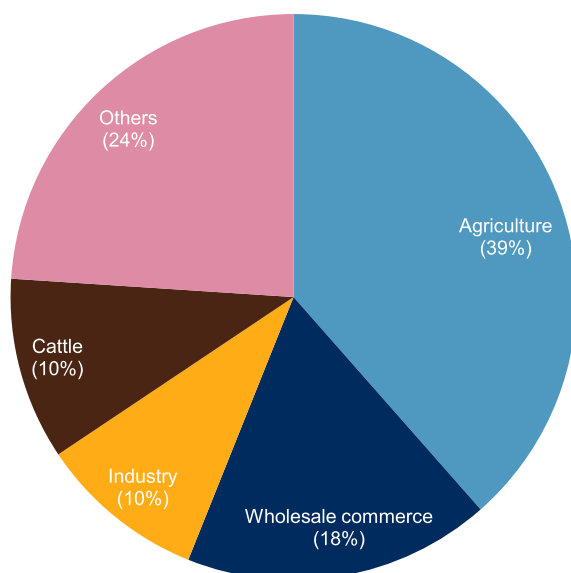
Table 3

Market Share Of Deposits As Of September 2018 (cont.)	
	%
Banco GNB Paraguay	5.01
Banco Atlas	4.78
Banco BASA	3.95

The bank focuses on lending to the corporate and small- and mid-size enterprise (SME) segments, which accounted for 95% of its total loans as of September 2018, with special focus on the agribusiness sector, which represents 48.9% of the bank's total portfolio. Consumer loans accounted for 3.4% of the bank's total loans, compared with the 12.7% industry average. For the next 12-18 months, we expect Banco Regional to maintain its competitive position, with the agribusiness-lending unit accounting for the largest share of the loan portfolio. The bank will focus on enhancing cross-selling in the retail and SME segments, and on improving efficiency by encouraging the use of its self-service technology platform and automated channels, with strict control of administrative expenses.

Chart 2

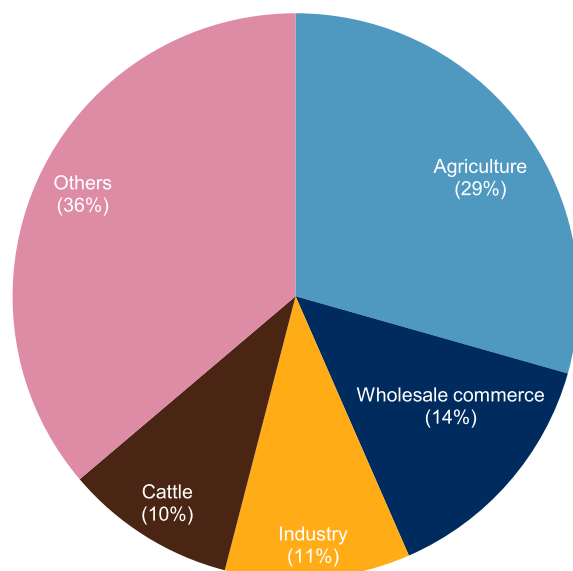
Banco Regional Portfolio Breakdown
As of September 2018



Source: BCP (Paraguayan Central Bank).
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Chart 3

Banking System Portfolio Breakdown
As of September 2018



Source: BCP (Paraguayan Central Bank).
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Table 4

Banco Regional S.A.E.C.A. Business Position					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Total revenues from business line (currency in millions)	557,676.3	779,853.2	848,158.8	794,623.1	612,901.2
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	7.2	13.8	17.7	18.5	11.8

*Data as of Sept. 30.

Capital and earnings: RAC ratio of about 6.2% for the next 12-18 months

We view Banco Regional's capitalization as moderate based on our average forecasted RAC ratio of 6.2% during the next 18-24 months. Our RAC ratio compares our definition of total adjusted capital (TAC) to our risk-weighted assets (RWAs). We apply our risk-adjusted capital framework (RACF) to banks consistently across the globe, and it's independent of national regulations and banks' internal risk measurements. Our RACF is intended to adjust the banks' capital and the value of assets and exposures to reflect degrees of risk in a more consistent fashion than are reflected in regulatory ratios. These adjustments can result in significant differences between our capital ratios and the regulatory ones. For example, in Paraguay, we have RWA for market and operating risk and we apply a higher risk weight to the

majority of the credit risk exposures. We deduct goodwill and in the case of Banco Regional exclude Tier 2 subordinated hybrid capital, because of their residual maturity.

Our RAC ratio forecast considers our base-case scenario assumptions, which include:

- Paraguay's real GDP growth of 4.6% in 2018, 4.2% in 2019, and 4.0% in 2020.
- Lower net interest margins (NIMs) in 2018, given the high competition in the banking system and gradually recovering in 2019-2020, due to lower funding cost and somewhat lower competition on the agribusiness segment.
- Loan portfolio growth of 14% in 2018 -2020, in line with the banking system's growth pace.
- Core earnings on average adjusted assets of about 0.7% in 2018, 1.1% in 2019, and 1.3% in 2020 given higher interest income and improving efficiency metrics (measured as non-interest expenses to operating revenue) below 50% in 2019-2020, given the bank's efforts to control administrative expenses.
- No dividends payment in 2019 for ordinary stocks and resuming in 2020, and a PYG30.0 billion dividend payment for preferred stocks in 2019-2020.
- Improving asset quality metrics (nonperforming loans [NPLs] + repossessed assets) and cost of risk as the company continues to focus on improving NPLs and reducing stock of repossessed assets. In the long term, we expect NPLs close to 1%, fully covered by loan loss provisions; cost of risk at around 1x; and net charge-offs to average customer loans at about 1%.

Our RAC ratio calculations include preferred stocks as part of the bank's capital, to which we assign intermediate equity content. We don't assign equity content to subordinated bonds, according to our criteria for hybrid instruments.

As of September 2018, Banco Regional had a total regulatory capital of 15.5% and a Tier 1 regulatory capital of 14.2% compared to the 12% and 8% minimum regulatory requirements, respectively. However, Paraguay capital definitions are under Basel I international standards, which we view as more lax than Basel III.

Congress approved a new banking law at the end of 2016 that moves towards Basel II. The law includes changes to weights and the regulatory capital composition, with potential increases in capital per year of no more than 100 basis points. However, the law hasn't yet been fully implemented and we don't expect it to be in the short term. We will monitor how the implementation of this new law evolves and the implications it could have for Banco Regional's capitalization metrics.

During 2018, Banco Regional earnings were negatively impacted by lower net interest margin (NIM) due to lower interest rates in the system explained by higher competition in the agribusiness segment and higher non-recurrent administrative expenses. We expect that in following years the bank will be able to improve results as it improves interest income and no expected other non-recurrent administrative expenses.

Table 5

Banco Regional S.A.E.C.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Adjusted common equity/total adjusted capital	84.4	84.1	82.7	80.0	76.8
Net interest income/operating revenues	79.7	81.1	82.0	81.6	79.0

Table 5

Banco Regional S.A.E.C.A. Capital And Earnings (cont.)					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Fee income/operating revenues	16.0	14.4	13.4	13.6	16.6
Market-sensitive income/operating revenues	3.3	3.4	4.0	4.5	4.2
Noninterest expenses/operating revenues	54.2	51.3	46.3	48.4	59.8
Provision operating income/average assets	2.2	2.6	3.0	2.8	1.9
Core earnings/average managed assets	0.7	1.0	1.3	1.2	0.8

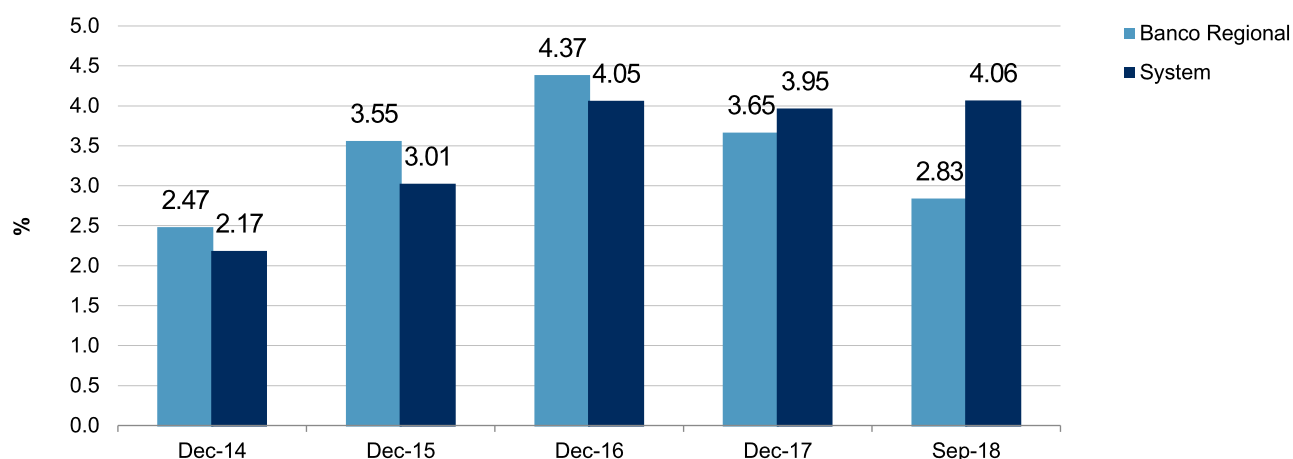
*Data as of Sept. 30.

Risk position: Improved asset quality metrics

Banco Regional has manageable asset quality metrics that have improved to levels better than the industry average and incorporate a reduction in repossessed assets of about 11% between December 2017 and September 2018 (and negative 38% since December 2016). Repossessed assets accounted for 1.2% of total loans as of September 2018, down from its highest level of 2.2% as of December 2016. Furthermore, resolution of punctual cases reduced the company's NPLs to 1.6% as of September 2018 from 2.2% as of December 2017. As a result, the bank's NPAs over total loans (which includes NPLs and repossessed assets) improved to 2.9% as of September 2018 from 3.7% in December 2017, below the banking industry average of 4.4% as of September 2018. Loan-loss reserves coverage accounted for 78% of NPAs, compared with 72% and 58% at the end of 2017 and 2016, respectively (coverage goes up to 133%, 121% and 117%, respectively, when excluding repossessed assets). Additionally, net charge-offs to average customer loans reached 1.4% as of September 2018 from 1.5% at the end of 2017.

Chart 4**Asset Quality Evolution**

NPAs include NPLs and RA (repossessed assets)



Source: BCP (Paraguayan Central Bank).

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The bank maintained its low complexity of operations and manageable single-name exposure concentrations, with the top 10 exposures representing about 8% of its total loan portfolio and 0.7x its equity as of September 2018. Banco Regional continues to focus on agribusiness lending, which represents about 43% of the bank's total loan portfolio, compared with the financial system's 30% average. As a result, the bank's exposure to dollarization is higher than the system average because this segment produces commodities priced in dollars. However, Banco Regional operates under a prudent policy for managing currency mismatches, and originates loans in dollars only for customers that are dollar generators. For the next 12-18 months, we expect the bank to maintain its improved asset quality metrics but to also gradually further strengthen them over the long run, because it should maintain its origination standards, controls over delinquency, and will manage its repossessed assets.

Table 6**Dollarization Of Banco Regional Versus The System****As of September 2018**

	Banco Regional		System	
	LC	FC	PYG	FC
Total assets	39%	61%	55%	45%
Total loans	36%	64%	52%	48%
Total liabilities	32%	68%	52%	48%
Total deposits	39%	61%	56%	44%

LC--Local currency. FC--Foreign currency.

Table 7**Banco Regional S.A.E.C.A. Risk Position**

(%)	--Year-ended Dec. 31--				
	2018*	2017	2016	2015	2014
Growth in customer loans	17.1	2.9	(7.5)	20.4	18.8
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	59.3	N/A	N/A
Total managed assets/adjusted common equity (x)	11.7	11.1	12.5	15.3	16.6
New loan loss provisions/average customer loans	1.5	1.6	1.8	1.7	1.1
Net charge-offs/average customer loans	1.3	1.4	2.3	0.5	1.3
Gross nonperforming assets/customer loans + other real estate owned	2.9	3.7	4.4	3.6	2.5
Loan loss reserves/gross nonperforming assets	77.7	71.8	58.3	81.0	89.2

*Data as of Sept. 30. N/A--Not applicable.

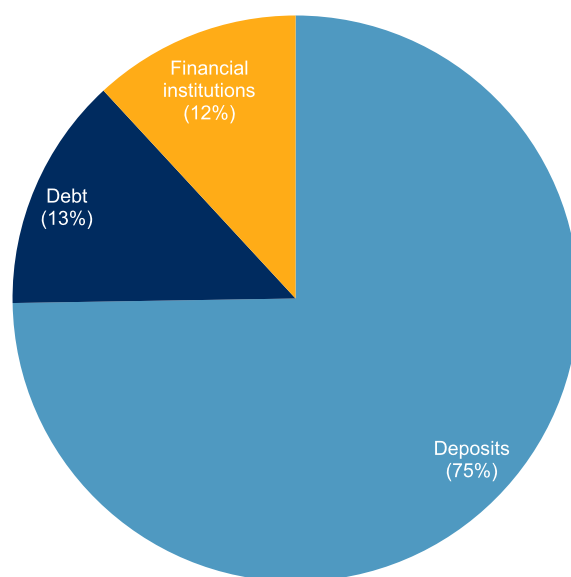
Funding and liquidity: Stable and diversified deposit base and prudent liquidity management

We believe that Banco Regional's funding has a similar structure to that of the industry. It relies on a stable customer deposit base, which represented 74% of funding as of September 2018. The remaining 26% is composed of senior unsecured notes (12% of total funding), loans from financial institutions (13%), and a small amount of local market subordinated debt (1%). The bank's stable funding ratio (SFR) was 101% as of September 2018 compared to 108% at the end of 2017, and is in line with those of the rated peers. We calculate the ratios as available stable funding (mainly composed of customer deposits [73%], loans from financial institutions [14%], and equity [12%]) divided by stable funding needs (mainly customer loans). This ratio declined in 2018 compared to 2017 because Banco Regional has a

\$300 million international bond that matures at the end of January 2019. We expect that the bank will be able to fully repay the notes, replacing this funding with lines from international funding lines as well as local deposits until international market issuances becomes more attractive. Nonetheless, we expect deposits to remain the main funding source and the minor composition change of international debt and multilateral lines not to affect the bank's funding structure.

Chart 5

Banco Regional's Funding Breakdown As of September 2018



Source: BCP (Paraguayan Central Bank).

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Banco Regional has prudent liquidity management. Its liquidity position can comfortably meet short-term obligations, with a broad of liquid assets to short-term wholesale funding ratio of 1.1x as of September 2018 compared to 1.6x as of December 2017. Also as of the same date, Banco Regional's liquid instruments (mainly cash, money market instruments, and central bank securities) represented 30% of total deposits. Like other banks in the country, Banco Regional uses the central bank's securities as a primary instrument for liquidity management. For the next 12-18 months, we expect Banco Regional's liquidity to remain adequate given the manageable refinancing risk.

Table 8

Banco Regional S.A.E.C.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Core deposits/funding base	68.2	68.5	72.1	71.1	71.6

Table 8

Banco Regional S.A.E.C.A. Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2018*	2017	2016	2015	2014
Customer loans (net)/customer deposits	125.0	121.0	108.1	113.5	106.0
Long-term funding ratio	83.8	86.6	94.0	93.1	90.6
Stable funding ratio	100.7	107.8	122.5	116.8	120.8
Short-term wholesale funding/funding base	18.1	15.0	6.6	7.5	10.2
Broad liquid assets/short-term wholesale funding (x)	1.1	1.6	4.3	3.3	3.0
Net broad liquid assets/short-term customer deposits	4.3	17.2	38.2	29.8	35.3
Short-term wholesale funding/total wholesale funding	53.9	45.0	22.3	24.4	33.5

*Data as of Sept. 30.

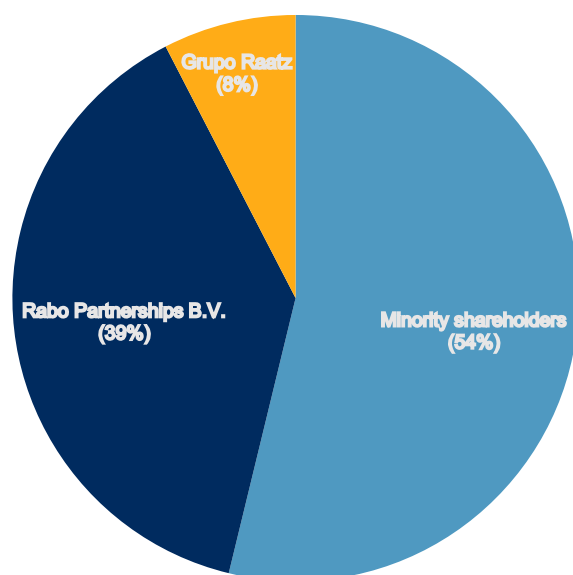
Support: No notches of support from the government or group

The 'BB' issuer credit rating on the bank reflects its 'bb' stand-alone credit profile (SACP) because the latter doesn't incorporate any external support from the government or the group. Banco Regional is owned by local investors that each have a minority stake. Additionally, we do not incorporate any extraordinary support from Rabobank because it only owns a minority stake (38.65%) of the bank.

Chart 6

Banco Regional's Shareholders

As of September 2018



Source: Company data.

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Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 11, 2019)

Banco Regional S.A.E.C.A.

Issuer Credit Rating BB/Stable/--

Senior Unsecured BB

Issuer Credit Ratings History

09-Apr-2018 BB/Stable/--

08-Feb-2017 BB/Negative/--

26-Jun-2014 BB-/Stable/--

11-Jun-2014 BB-/Watch Pos/--

Sovereign Rating

Paraguay BB/Stable/B

Ratings Detail (As Of January 11, 2019) (cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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