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

Primary Credit Analyst:
Sofia Ballester, Buenos Aires (54) 11-4891-2136; sofia.ballester@standardandpoors.com

Secondary Contact:
Ivana L Recalde, Buenos Aires (54) 114-891-2127; ivana.recalde@standardandpoors.com

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

SACP	bb-	+	Support	0	+	Additional Factors	0

Anchor	bb-	
Business Position	Strong	+1
Capital and Earnings	Weak	-1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BB-/Stable/--

Major Rating Factors

Strengths:

- Sound business position in the Paraguayan banking system.
- Rabobank as shareholder of the bank contributes expertise in the agribusiness sector and good corporate governance practices.

Weaknesses:

- High risks inherent to operating in Paraguay's financial system, largely because of high sovereign risk
- Higher-than-average loan portfolio concentration in the agribusiness sector that is exposed to cycle swings
- Still weak risk adjusted capital (RAC) position despite improvements (according to Standard & Poor's capital model).

Outlook : Stable

The stable outlook reflects our expectation that the bank will maintain its solid competitive position in the Paraguayan market, RAC ratio of about 4.9% for the next 12-18 months, gradually improving asset quality metrics, and liquidity levels in line with those of its domestic.

Upside scenario

We could raise the rating if the bank strengthens its capitalization to comfortable RAC levels of above 5% without increasing loan portfolio concentration, while all other credit factors remain unchanged.

Downside scenario

A downgrade is possible if the bank's risk position weakens due to consistently adverse conditions in the agribusiness segment (in terms of weather and/or international commodity prices), with recurrent increases in restructured loans and credit losses, or if we perceive a rise in loan portfolio concentration that could push up credit losses.

Rationale

The issuer credit rating on Banco Regional reflects its "strong" business position, as one of the largest financial entities in Paraguay, "weak" capital and earnings based on our forecasted risk-adjusted capital (RAC) ratio, "adequate" risk position due to its healthy quality metrics, "average" funding, and "adequate" liquidity. The 'BB-' issuer credit rating on the bank reflects its 'bb-' stand-alone credit profile (SACP) because it doesn't incorporate any external support (neither from the government nor group). Rabobank Financial Institutions Development B.V. owns 39% of the bank, but local shareholders control it.

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

Our bank criteria use our BICRA economic risk 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-'.

We view economic risks in Paraguay to be higher than the global average, although gradually diminishing. We expect the government to maintain cautious macroeconomic policies and implement legislation that is likely to boost investment. Legislation consists of an ambitious investment plan for the country's physical infrastructure to bolster long-term GDP growth. We expect that such growth strategy will set the stage for economic diversification and lower economic volatility. As a result, we consider that economic resilience in Paraguay has improved and economic risks for the banking sector have lessened, consistent with the recent change in Paraguay's BICRA group score to '8' from '9'. Nevertheless, we believe that Paraguay's low-income levels limit the private sector's leverage capacity while the financial system's high dollarization increases credit risk in the economy. Rising real estate prices and rapid credit growth--mostly due to higher consumer and agribusiness lending—increase the risks of economic imbalances of the country.

The banking sector's industry risk reflects our view of Paraguay's regulatory framework that, although improving, is still lagging international standards. In our view, the government doesn't have a track 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 are a reflection of an aggressive risk appetite. Furthermore, we consider that the presence of relatively large unregulated cooperativas (credit unions) introduce market distortions. The banks rely mostly on deposits for funding, but they're increasingly tapping external funding sources due to the rising demand for longer-maturity, export-oriented loans and the need to match balance sheets. We believe these factors increase the banking sector's vulnerability to a potential global liquidity squeeze.

Table 1

Banco Regional S.A.E.C.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. PYG)	**2014**	**2011**	**2010**	**2009**	**2008**
Adjusted assets	13,700,262.0	8,552,307.6	7,100,962.4	6,488,539.3	3,072,467.1
Customer loans (gross)	9,488,785.0	5,957,250.6	4,783,723.7	3,684,831.5	1,873,343.2
Adjusted common equity	828,510.5	479,775.0	373,955.4	326,792.3	285,903.1
Operating revenues	612,901.2	516,762.7	394,323.5	376,100.3	187,857.1
Noninterest expenses	369,988.3	305,914.1	247,824.0	229,224.4	94,892.2
Core earnings	140,344.9	104,588.7	78,330.7	110,286.1	76,964.5

PYG--PYG-Paraguayan guarani.

Business position:One of the largest financial institutions in the country.

We maintain our view of Banco Regional's business position as "strong" due to its status as one of the largest financial entities in Paraguay, focusing on the agribusiness sector. These factors provide significant business stability to the entity. As of March 31, 2015, Banco Regional ranked as the second-largest bank in terms of loans, with a market share of 17%, and third largest in terms of assets and deposits, with a share of 15%. Despite a drop of about 110 basis points in market share in terms of deposits compared with the end of 2013 given the issuance of $300 million notes in early 2014, the bank maintains a significant deposit base. And we expect it to expand in line with industry average for the next two years. The bank continues to focus on lending to the corporate segment and small and medium size enterprise (SME) segments, which accounted for 94% of total loans. Consumer loans accounted for 6% of the bank's loans, compared with the 15% industry average. Over the short to intermediate term, we expect the Banco Regional to maintain its current position in the corporate segment and to gradually increase its exposure in the SME and consumer segments, with focus on the payroll segment, which generates higher margins.

Table 2

Banco Regional S.A.E.C.A. Business Position					
	--Year-ended Dec. 31--				
(%)	**2014**	**2011**	**2010**	**2009**	**2008**
Total revenues from business line (currency in millions)	612,901.2	516,763.0	394,323.5	376,100.3	187,857.1
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on equity	N/A	23.4	10.7	32.8	N/A

N/A--Not applicable.

Capital and earnings:RAC ratio of about 4.9% for the next 12-18 months.

Our assessment of the bank's "weak" capital and earnings is based on our expectation that its RAC ratio, under our methodology, will average about 4.9% for the next 12-18 months. Our RAC forecast takes into consideration our base-case scenario assumptions, which include:

- Paraguay's real GDP growth of 4.5% in 2015 and 2016;
- Loan portfolio growth of 8.6% in 2015 and 15% in 2015, in nominal terms, lower than banking system's 12%-15%;
- A slight increase in the NIM to 4.5% in 2015 and 2016 from 4.46% in 2014;
- A 9% rise in noninterest expenses in 2015 and 11% in 2016;
- Equity issuance for an equivalent of $14 million in 2015;
- Dividend payout of 34% in 2015 (16% dividend rate for preferred stocks and 9% dividend payout for ordinary stocks) and 28% in 2016 (16% dividend rate for preferred stocks and 10% dividend payout for ordinary stocks); and
- NPLs of 2.3%, fully covered by reserves, and net charge-offs to average customer loans of 0.5% during the next 18 months.

Our RAC ratio calculations include preferred stocks, to which we assign intermediate equity content, while we're not assigning equity content to subordinated bonds, according to our criteria for hybrid instruments.

Banco Regional's regulatory capital ratios are adequate, with a Tier 1 capital ratio of 11.8% (which include preferred stocks), and regulatory ratio of 13.5% as of December 2014, compared to minimum requirements of 8% and 12%, respectively. The bank's profitability ratios are lower than its national peers, with core earnings over adjusted assets of 1.0% in 2014 and 0.9% in 2013, which deduct preferred dividends from total earnings (reported ratios were 1.1% in 2014 and 1.3% in 2013). Such ratios are due to lower interest margins, which in turn are the result of higher costs of bonds after the issuance in early 2014 and weaker efficiency metrics (with noninterest expenses over operating revenues metrics of about 60%).We expect Banco Regional to gradually improve efficiency ratios in the coming years, leveraging growth mostly on its existing network and encouraging the usage of self-service technology platforms and automated channels. We expect return on assets to remain at about 1% over the next two years.

Table 3

Banco Regional S.A.E.C.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2014	2011	2010	2009	2008
Adjusted common equity/total adjusted capital	76.8	75.2	75.2	75.2	75.2
Net interest income/operating revenues	79.4	78.1	76.8	68.9	70.3
Fee income/operating revenues	16.6	13.2	13.6	16.7	16.2
Market-sensitive income/operating revenues	(0.3)	0.0	0.0	0.0	0.0
Noninterest expenses/operating revenues	60.4	59.2	62.8	60.9	50.5
Preprovision operating income/average assets	N/A	2.7	2.1	3.1	N/A
Core earnings/average managed assets	N/A	1.3	1.1	2.3	N/A

N/A--Not applicable.

Risk position:System-average growth and satisfactory risk practices.

We assess Banco Regional's risk position as "adequate" with growth in the loan portfolio in line with system average, satisfactory risk practices, and business focused mainly on lending. Since its inception in 1991, the bank has focused on the agribusiness sector, which represents about 45% of the bank's total loan portfolio (including agriculture and cattle), compared with the system's 36% average. The bank's loan portfolio concentration is manageable and in line with those of its national peers; its 20 largest loans account for about 14% of the total loan portfolio and 1.2x of total equity. Banco Regional's reported asset quality metrics are somewhat higher than industry average, with nonperforming asset (including repossessed assets) accounting for 2.5% of total loans as of December 2014. Nonperforming loans to total loans were 2.2%, compared with the 1.8% system average. During 2014, the bank's charge-offs were 1.3% of average customer loans, up from 0.4% in 2013 due to the solving of a punctual case). We expect metrics to return to historical levels of 0.5% in 2015, due to relatively low changes in loan portfolio mix despite plans to increase exposure to consumer and SME segments.

Table 4

Banco Regional S.A.E.C.A. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2014**	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	N.M.	24.5	29.8	96.7	N.M.
Total managed assets/adjusted common equity (x)	16.6	17.9	19.1	20.0	10.8
New loan loss provisions/average customer loans	N/A	1.0	1.5	1.0	N/A
Net charge-offs/average customer loans	N/A	0.4	0.7	(1.3)	N/A
Gross nonperforming assets/customer loans + other real estate owned	2.5	2.0	2.1	2.7	1.6
Loan loss reserves/gross nonperforming assets	89.2	120.2	117.4	89.1	85.8

N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity:Stable and diversified deposit base.

In our view, Banco Regional's funding is "average" because the bank benefits from a stable and diversified deposit base, which represents 76% of its funding, and adequate funding metrics. As of December 2014, the bank's stable funding ratio was 120% and it has averaged 117% for the last three fiscal years, which is in line with the bank's rated peers. The bank has gradually diversified its funding base with financial obligations representing 12%, mainly comprised of medium- to long-term loans from first-tier financial institutions (such as IFC, Proparco, BID, Citibank among others), while senior bond issuance and subordinated bonds accounted for 11% and 1%, respectively. We expect the bank to maintain a similar funding structure for the next 12-18 months.

The bank's liquidity is "adequate" based on its high broad liquid assets over short term of 2.2x as of December 2014, which is higher than that of other rated banks in the country. As of Dec. 31, 2014, liquid instruments (mainly cash, money market instruments, and central bank securities) represented 28% of total assets and 42% of the bank's total deposits. The bank invests its liquid assets in short-term notes, which the central bank issues to regulate liquidity in the banking system.

Table 5

Banco Regional S.A.E.C.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2014**	**2011**	**2010**	**2009**	**2008**
Core deposits/funding base	71.6	77.9	85.2	83.8	77.3
Customer loans (net)/customer deposits	106.0	98.6	87.7	74.6	110.4

Table 5

Banco Regional S.A.E.C.A. Funding And Liquidity (cont.)					
Long term funding ratio	87.5	85.7	91.0	87.9	81.7
Stable funding ratio	116.7	114.0	124.0	140.4	91.9
Short-term wholesale funding/funding base	13.5	15.7	9.9	13.3	21.6
Broad liquid assets/short-term wholesale funding (x)	2.2	2.0	3.3	3.3	1.7
Net broad liquid assets/short-term customer deposits	29.4	23.9	34.0	45.6	25.0
Short-term wholesale funding/total wholesale funding	44.4	61.6	52.7	64.8	78.7

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology and Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

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 April 30, 2015)	
Banco Regional S.A.E.C.A.	
Counterparty Credit Rating	BB-/Stable/--
Senior Unsecured	BB-
Counterparty Credit Ratings History	
26-Jun-2014	BB-/Stable/--
11-Jun-2014	BB-/Watch Pos/--
27-Jun-2013	BB-/Stable/--
Sovereign Rating	
Paraguay (Republic of)	BB/Stable/B

Ratings Detail (As Of April 30, 2015) (cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.