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

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

SACP	bb-	+	Support	0	+	Additional Factors	0

Anchor	b+	
Business Position	Strong	+1
Capital and Earnings	Weak	0
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:	Weaknesses:
• 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.	• Risk inherent in operating in a high sovereign risk country • Higher-than-average loan portfolio concentration in the agribusiness sector that is exposed to cycle swings, mitigated by good guarantee base and low historical losses.

Outlook: Stable

The stable outlook reflects our expectation that the bank will continue to expand its operations in the Paraguayan market while maintaining a strong business position, and adequate liquidity (in levels rather in line with peers in the country). We expect the bank to register a RAC ratio above 3% and to maintain manageable asset quality metrics including restructured loans and relatively low charge-offs (of about 1%). Rating upside is limited at this point, and will depend on improvements in sovereign ratings and in economic and industry risks for the Paraguayan banking industry, all other credit factors being equal. We could lower the ratings on the bank if the ratings on the sovereign deteriorate or if economic and industry risks for Paraguayan banks increase. Ratings could also be negatively affected by a weakening in capitalization metrics (with RAC ratios declining to levels below 3%) resulting from a more aggressive than expected growth strategy of the bank; and by a deterioration in risk position derived from 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.

Rationale

The ratings on Banco Regional reflect its "strong" business position in the Paraguayan banking system, "weak" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity (as our criteria define these terms). The 'BB-' issuer credit rating on the bank reflects its 'bb-' stand-alone credit profile (SACP), as it does not incorporate any external support. The bank is 40% owned by Rabobank Financial Institutions Development B.V., but controlled by local shareholders.

Anchor: "b+" based on economic and industry risk in Paraguay

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Paraguay is 'b+'.

Our economic risk assessment on Paraguay reflects its very low-income levels, developing and volatile economy, evolving political institutions, and limited monetary flexibility. Paraguay's institutional framework is weak in terms of debt management and financial supervision. Economy is vulnerable to political dynamics because Paraguay's political institutions are still evolving. Monetary flexibility suffers from the high, albeit declining, level of dollarization in the economy (40% of loans are dollar denominated as of mid-2013), rapid credit growth, and customer and sector loan concentration. We also consider payment culture and rule of law as "very weak."

Our industry risk assessment views Paraguay's regulatory framework, although improving, as still lagging international standards. The government doesn't have a track record of effective support to its banking sector. Although the banking sector's competitive dynamics, risk appetite, and asset quality have remained stable during the past five years, the central bank doesn't regulate or supervise deposit-taking financial institutions (cooperatives) that have a large market share in terms of loans and deposits. We believe that these entities could create market distortions by increasing their market shares. The banks mostly rely on deposits for funding, but they're increasingly tapping external funding sources due to the rising demand for export-oriented loans and the need to match balance sheets.

Table 1

Banco Regional S.A.E.C.A. Key Figures					
	--Year-ended Dec. 31--				
(Mil. PYG)	**2013**	**2012**	**2011**	**2010**	**2009**
Adjusted assets	11,973,824.2	9,206,168.9	8,552,307.6	7,100,962.4	6,488,539.3
Customer loans (gross)	7,986,428.1	6,560,046.2	5,957,250.6	4,783,723.7	3,684,831.5
Adjusted common equity	667,484.8	567,959.2	479,775.0	373,955.4	326,792.3
Operating revenues	563,955.3	517,953.2	516,762.7	394,323.5	376,100.3
Noninterest expenses	331,170.2	289,898.1	305,914.1	247,824.0	229,224.4
Core earnings	104,826.0	92,526.3	104,588.7	78,330.7	110,286.1

PYG--PYG-Paraguayan guarani.

Business position: strong as one of the largest financial institutions in Paraguay

We believe Banco Regional has a "strong" business position due to its status as one of the largest financial entities in

Paraguay, focusing on the agribusiness sector. These factors provide strong business stability to the entity. As of Dec. 31, 2013, Banco Regional was positioned as the second-largest player in the Paraguayan banking system in terms of loans and deposits, with market participations of 17.24% and 16.27%, respectively, and third in terms of assets with a market share of 15.76%. The bank offers a wide range of products through its 40 branches and focuses on the corporate and small and medium size enterprise (SME) segments, which together account for 94% of its loan portfolio. Exposure to the consumer segment is about 6% compared to the 15% industry average. Over the short to intermediate term, we expect the bank to maintain its position in the corporate segment and to gradually increase its exposure in the SME and consumer segments, which presents higher margins.

In the consumer segment, the bank expects to increase its presence in payroll segment and have no exposure to the low-income population segments. The bank plans on internal expansion, and we don't expect acquisitions in the near term.

Banco Regional's most important competitors are Banco Continental S.A.E.C.A. (which is focused in the corporate and medium-size enterprise segment), Banco Itaú Paraguay S.A. (with participation in the corporate segment, but with a higher-than-average exposure to retail), and Banco Bilbao Vizcaya Argentaria Paraguay S.A. (focused in the corporate segment and with some diversification in retail). We expect competition in the market to remain intense, especially from Banco Itau Paraguay which benefits from the significant commercial relations between Paraguay and Brazil, and Banco Continental.

Table 2

Banco Regional S.A.E.C.A. Business Position

	--Year-ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Total revenues from business line (currency in millions)	563,955.0	517,953.0	516,763.0	394,323.5	376,100.3
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on equity	16.7	17.2	23.4	10.7	32.8

Capital and earnings: weak influenced by the exposure to the Paraguayan banking system

Our assessment of the bank's "weak" capital and earnings is based on our expectation that its risk-adjusted capital ratio (RAC) ratio, under our methodology, will average about 3.9% for the next 12-18 months. Our projections assume a loan portfolio growth at above-average system levels (of between 25% and 27% for the next two years);lower net interest margins than in 2013 (given higher funding costs after the bond issuance for $300 million in January 2014 in part offset by an increased participation of sight deposits in the funding mix); dividend payout at about 35% in 2014 and 29% in 2015; and a capital infusion in 2014 (of about $24 million). Our RAC ratio calculations included preferred stocks, to which we assign intermediate equity content and we are 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 2013, compared to minimum requirements of 8% and 12%, respectively. The bank generates moderate profitability compared with its national peers, with a return on assets of 0.9% as of December 2013. This ratio deducts preferred dividends from total earnings (reported ratio of 1.3% in that period). We expect return on assets to remain at about 1% in the coming years, with increased participation in SME and consumer lending segments (which present higher profitability than large corporate lending) and efficiencies, factors that would offset higher funding costs . We expect Banco Regional to gradually improve efficiency ratios in the coming years, leveraging growth mostly on its existing network. Its efficiency ratio--measured as noninterest expenses over operating revenues--totaled about 59%, which is still somewhat higher than the system average.

The bank presents relatively diversified earnings; about 78% of revenues come from interest, 16% from fees and commissions, and low 6% participation of higher risk revenues.

Table 3

Banco Regional S.A.E.C.A. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Adjusted common equity/total adjusted capital	75.2	75.2	75.2	75.2	75.2
Net interest income/operating revenues	78.4	79.5	78.1	76.8	68.9
Fee income/operating revenues	16.4	15.5	13.2	13.6	16.7
Market-sensitive income/operating revenues	0.0	0.0	0.0	0.0	0.0
Noninterest expenses/operating revenues	58.7	56.0	59.2	62.8	60.9
Preprovision operating income/average assets	2.2	2.6	2.7	2.1	3.1
Core earnings/average managed assets	1.0	1.0	1.3	1.1	2.3

Risk position: adequate risk position and practices.

We assess Banco Regional's risk position as "adequate." With the exception in 2009, when it completed the merger with ABN, Banco Regional has registered loan growth rates in line or slightly lower than banking industry averages--compounded growth rate of loans in the banking system totaled 24.1% in 2009-2012, compared to 21.8% for Banco Regional. In 2013, the bank exhibited growth in its loan portfolio of 22%, which was slightly lower than the system's 23.5% of banking system average. For 2014-2015, we expect Banco Regional to increase loans at higher than industry average levels at about 25% to 27%, also given the recent bond issuance of the bank and then to align to system average levels.

Since its inception in 1991, the bank has focused on the agribusiness sector, which represents about 52% of the bank's total loan portfolio (including agriculture and cattle), compared to the system's 36% average. The bank's client loan portfolio concentration is in line with those of its national peers; its 20 largest loans account for about 15% of the total loan portfolio. Banco Regional's reported asset quality metrics are somewhat higher than the industry's, with nonperforming asset (including repossessed assets) accounting for 2.7% of total loans as of December 2013. Nonperforming loans to total loans were 2.5%, compared with the 2.0% system average. However, its asset quality metrics compare unfavorably if we include restructured loans. Delinquency ratio including restructurings totaled 5.4%, compared with the system's 3.5% average. Restructured loans are mainly coming from the agribusiness sector and related industries. Nonetheless, the bank's relatively low charge-offs and losses mitigate these factors.

Risk-adjusted capital framework includes credit and operational risks. In Paraguay, the regulator has not yet established capital requirements for market risks, but implemented formal processes and procedures for decision making. The fact that almost all investments are in short term government bonds mitigates the lack of market risk capital requirements. Banco Regional is exposed to foreign currency (mainly dollars) in its loans, deposits, and other funding sources, but its policy is to minimize mismatches. It provides loans in dollars exclusively to sectors which generate revenues in that currency, mainly the agribusiness segment. As of the end of December 2013, the bank's assets in foreign currencies totaled $1.324 billion (51% of total assets) and liabilities at $1.321 billion (55% of total liabilities), with an increased participation in the exposure to foreign currency compared to the end of 2012 (with 47% of assets and 52% of liabilities). We expect position in dollars to increase after the projected bond issuance that took place in Jan. 2014 but keeping positions matched.

Table 4

Banco Regional S.A.E.C.A. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	21.7	10.1	24.5	29.8	96.7
Total managed assets/adjusted common equity (x)	18.0	16.2	17.9	19.1	20.0
New loan loss provisions/average customer loans	1.0	1.3	1.0	1.5	1.0
Net charge-offs/average customer loans	0.4	0.5	0.4	0.7	(1.3)
Gross nonperforming assets/customer loans + other real estate owned	2.7	2.7	2.0	2.1	2.7
Loan loss reserves/gross nonperforming assets	109.4	106.5	120.2	117.4	89.1

Funding and liquidity: average funding and adequate liquidity with a strong reliance on deposits as funding source

In our view, the bank has "average" funding due to a strong reliance on deposits and adequate funding metrics. As of December 2013, stable funding ratio of the bank amounted to 117.6% (compared to 115.8% as of Dec. 2012), values that are in line with other rated peers. As of Dec. 31, 2013, customer deposits represented 83% of the bank's funding base. About 47% of total deposits were term deposits (compared to the 40% system average) and 50% were from individuals. Despite the recent bond issuance of $300 million, we expect deposits to continue to be the bank's largest funding source accounting for 75% to 80% of total funding base. The bank has gradually diversified its funding base with loans from first tier lenders (such as IFC, Proparco, BID, Citibank among others) accounting for 16% of its funding base, subordinated bonds represent 1%. Banco Regional deposit base concentration is in line with its national peers, with the 20 largest depositors accounting for 19% of total deposits.

We consider the bank to have "adequate" liquidity, with high broad liquid assets over short term of 2.1x as of Dec. 2013 in line with other rated banks in the country. As of Dec. 31, 2013, liquid instruments (mainly cash, money market instruments, and Central Bank securities) represented 27% of total assets and 37% of total deposits (levels higher than 22% of assets and 29% as of Dec. 2012). 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--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	77.7	80.5	77.9	85.2	83.8
Customer loans (net)/customer deposits	93.4	98.1	98.6	87.7	74.6

Table 5

Banco Regional S.A.E.C.A. Funding And Liquidity (cont.)					
Long term funding ratio	85.6	89.1	85.7	91.0	87.9
Stable funding ratio	117.6	115.8	114.0	124.0	140.4
Short-term wholesale funding/funding base	15.6	12.1	15.7	9.9	13.3
Broad liquid assets/short-term wholesale funding (x)	2.1	2.4	2.0	3.3	3.3
Net broad liquid assets/short-term customer deposits	28.1	26.9	23.9	34.0	45.6
Short-term wholesale funding/total wholesale funding	63.5	53.3	61.6	52.7	64.8

Related Criteria And Research

Related Criteria

- 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 Hybrid Capital Methodology And Assumptions, Nov. 1, 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 14, 2014)	
Banco Regional S.A.E.C.A.	
Counterparty Credit Rating	BB-/Stable/--
Senior Unsecured	BB-
Counterparty Credit Ratings History	
27-Jun-2013	BB-/Stable/--
Sovereign Rating	
Paraguay (Republic of)	BB-/Stable/B

*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.