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

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Table Of Contents

Major Rating Factors

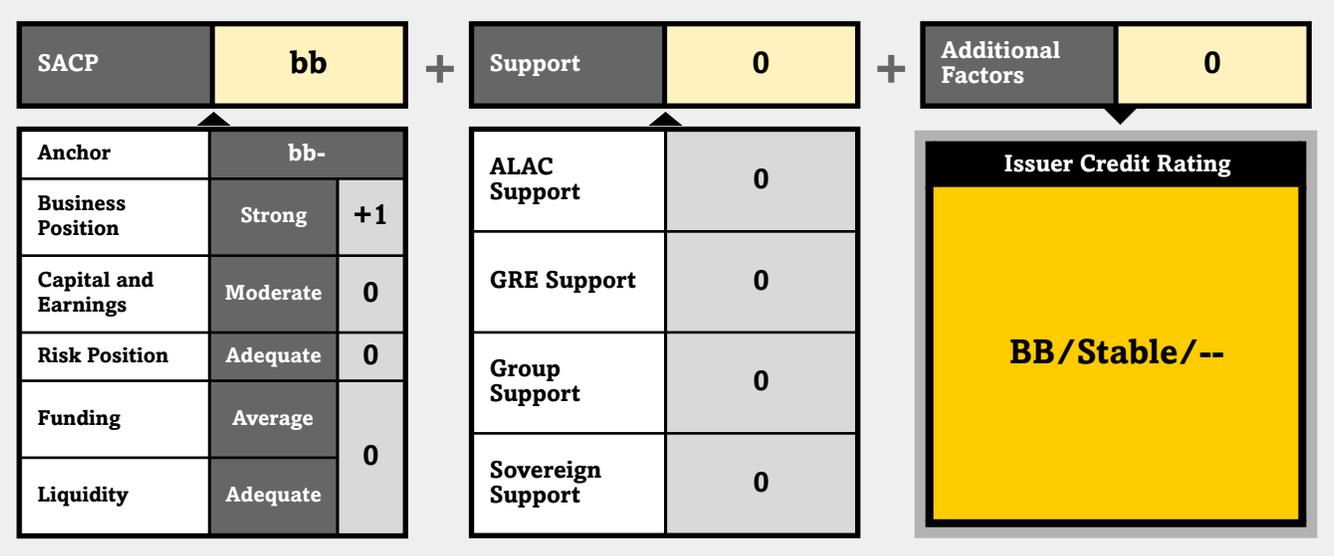
Outlook

Rationale

Related Criteria

Related Research

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



Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Rabo Partnership B.V. (Rabobank; not rated), one of the bank's shareholders, contributes expertise in the agribusiness sector and good corporate governance practices. Leading position in the agribusiness sector and one of the largest banks in Paraguay. 	<ul style="list-style-type: none"> Increased levels of loans renegotiated under the different central bank measures at both the bank and banking system levels. 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.

Outlook: Stable

The stable outlook on Banco Regional for the next 12 months reflects our expectation that the bank's capitalization will improve compared to figures reported at the end of 2019, with a risk-adjusted capital (RAC) ratio consistently above 5% in the coming months, mainly due to lower deferred provisions (which are deducted from capital). In addition, we expect that the different measures taken to contain the deterioration in asset quality will keep Banco Regional's asset quality manageable and in line with the system average.

Downside scenario

We could lower the ratings on the bank in the next 12 months if Banco Regional's capitalization metrics fail to improve, with our RAC ratio remaining consistently below 5%, or if the bank asset quality worsens beyond the system average.

We could also downgrade the bank following a similar action on the sovereign, or if we revise our Banking Industry Country Risk Assessment (BICRA) of Paraguay to a weaker category; both of which have currently a stable outlook and trend.

Upside scenario

Ratings upsides are limited at this point, and would depend on us upgrading the sovereign and revising the 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 (with a 39% minority interest). In 2019, Banco Regional's capital levels declined after a huge increase of deferred provisions related to loans under central bank temporary measures, which we deduct from capital metrics. Nonetheless, we expect the bank to improve its capitalization metrics in the upcoming months from 2019 levels, with a projected RAC ratio of 5.2% for the next 12-18 months because the bank has been focusing on improving asset quality.

Additionally, although the bank's asset quality metrics have weakened since the end of 2019, we think they're still manageable and in line with the system's metrics. The ratings also incorporate Banco Regional's funding structure that 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.

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, where Banco Regional operates, is 'bb-'.

We view economic risks in Paraguay as higher than the global average. Paraguay's economic growth came to a halt in

2019, and while we were expecting real economic growth to resume this year, because of COVID-19 we expect the country's economy to contract 1.5% (although the lowest contraction in the region), and only resume growth in 2021. Paraguay's still evolving political institutions continue to face challenges. Due to a weak economic performance in 2019, credit expansion slowed to 9.7% in nominal terms, and we expect it to stay subdued in 2020. Additionally, we expect asset quality in the system to continue to weaken, with higher 60-day nonperforming loans (NPLs) as well as stock of repossessed assets amid the weaker economic conditions in 2019-2020, mitigated by the central bank's measures. Furthermore, the banking system faces high credit risk given its considerable exposure to dollar-denominated loans and to cyclical sectors such as agriculture and cattle.

The banking sector's industry risk reflects our view of Paraguay's regulatory framework, which is in the process of implementing Basel II standards. The local regulator took several measures--such as liquidity facilities, new set of temporary measures to refinance and restructure loans affected by the pandemic, and programs to provide guarantees to small to midsize enterprises (SMEs)--to mitigate the impact of COVID-19 on the banking system and economy, which are largely similar to those implemented by regulators globally. However, we consider that the presence of relatively large cooperatives (credit unions) and unregulated finance companies introduces market distortions. The banking system continues to rely mostly on deposits for funding both in domestic and foreign currency, which have risen since March 2020. Dollarization remains high because of the economy's exposure to dollar-generator sectors.

Table 1

Banco Regional S.A.E.C.A.--Key Figures					
--Year ended Dec. 31--					
(Mil. PYG)	2020*	2019	2018	2017	2016
Adjusted assets	17,542,671.5	16,950,191.9	17,434,103.3	14,627,122.4	15,026,145.6
Customer loans (gross)	12,035,254.1	13,421,802.0	12,496,187.7	10,853,708.7	10,523,728.0
Adjusted common equity	1,245,344.6	1,061,199.8	1,378,762.9	1,318,199.9	1,198,523.6
Operating revenues	480,194.3	794,299.1	747,514.0	776,009.4	847,631.3
Noninterest expenses	274,267.4	388,515.1	421,548.7	400,123.8	392,681.6
Core earnings	24,901.6	131,704.5	95,789.4	144,869.9	194,725.0

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

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

In our view, Banco Regional has a sound business position as 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 important business stability. Additionally, the presence of Rabobank as one of the bank's minority stakeholders provides Banco Regional with its shareholder's expertise in the agribusiness sector and good corporate governance practices.

In May 2020, Laura Borsato became the bank's new CEO, replacing Eugenio Oze de Morvil. The new CEO has vast experience in the financial sector and came to the entity with plans to boost digital transformation and improve profitability, efficiency levels, and asset quality.

In 2020, Banco Regional closed five branches--it now has 32 branches as of the end of October--and reduced headcount by 7% (with a total 600 employees at the end of October) to improve efficiency. Additionally, Banco's

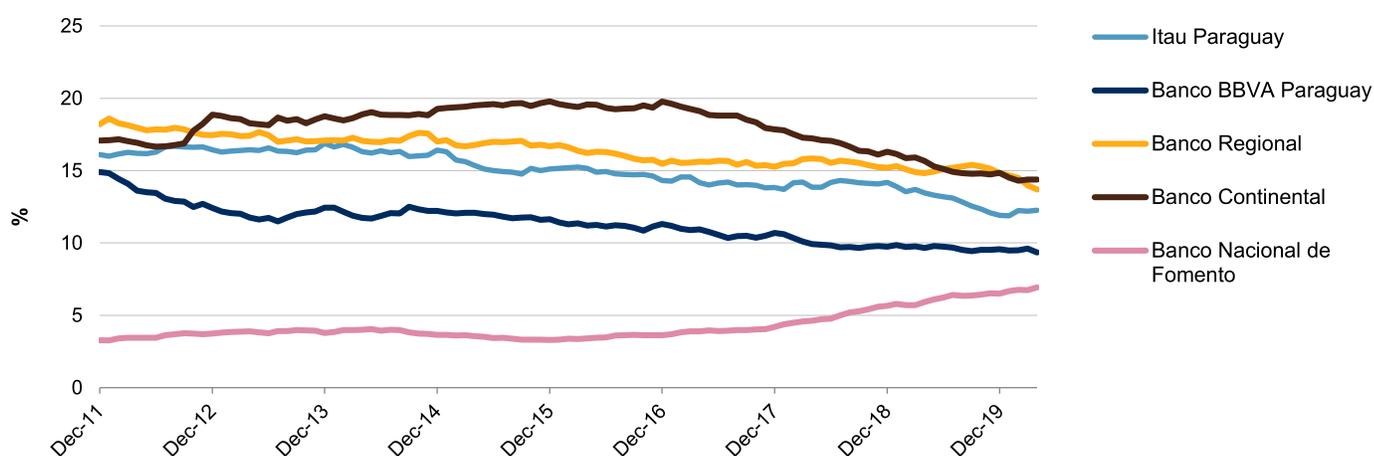
Regional loan portfolio contracted 10% over the first nine months of the year, as the entity took a conservative approach towards risk. However, we expect that in the last quarter of the year (usually the strongest for the bank) the loan portfolio will gain momentum, ending 2020 with flat loan portfolio growth.

As of November 2020, Banco Regional was the second largest lender in terms of loans and the fourth largest in terms of deposits, with a market share of 13% and 10%, respectively. In addition, it maintained its leading position in loans to the agriculture sector with a market share of 24%. Banco Regional offers a wide array of products through 32 branches, 84 ATMs, and 48 auto service terminals throughout Paraguay.

In 2019, in line with its diversification strategy, Banco Regional acquired an insurance company, Regional Seguros S.A. (not rated), and created a new broker house, Regional Casa de Bolsa S.A. (not rated). In the next few years, 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

Market Share Evolution

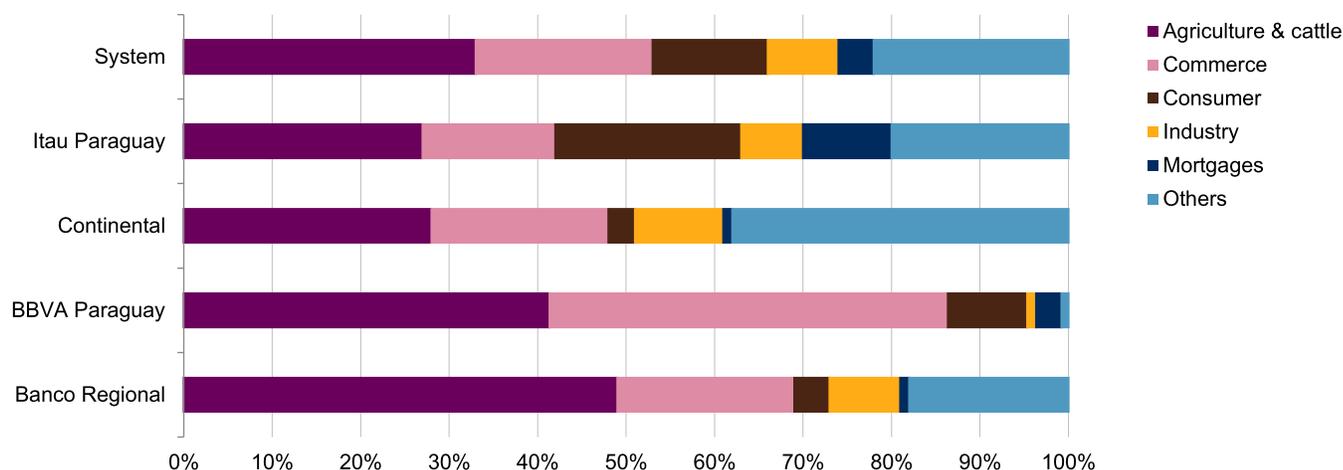


Source: BCP (Paraguayan Central Bank).

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Chart 2

Loan Portfolio Distribution Of Paraguay's Largest Banks As of October 2020



Source: S&P Global Ratings.

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Table 2

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

(%)	--Year ended Dec. 31--				
	2020*	2019	2018	2017	2016
Loan market share in country of domicile	N/A	14.8	15.2	15.3	15.5
Deposit market share in country of domicile	N/A	13.7	12.1	11.1	12.8
Return on average common equity	2.9	8.1	7.2	13.8	17.7

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

Capital and earnings: RAC ratio to improve over the next 12-18 months

We view Banco Regional's capitalization as moderate based on our average forecasted RAC ratio of 5.2% for the next 12-18 months. At the end of 2019, the bank's RAC ratio declined to 4.8% from 5.9% a year before (below our expectations of 5.6%). The decline was explained by the impact of deferred charges related to provisions from loans classified under the temporary measures (that were recognized in the last month of 2019) that represented 5.2% of total loans at the time.

However, we expect capitalization to improve in 2020 and onward, because during the year Banco Regional focused on reducing its stock of loans under the transitory measures and on recognizing provisions in the income statement, reducing the deferred provisions on the balance sheet. In addition, our RAC ratio forecast considers:

- Real GDP to contract 1.5% in 2020 (lowest contraction of the region) and 4% real growth in 2021, contingent on favorable agricultural prospects and a recovery in external demand.
- Flat loan portfolio growth in 2020 (in nominal terms) because we expect loan portfolio to regain momentum in the

last quarter of the year and to increase more in line with historical figures in 2021 on a nominal basis.

- Profitability to remain weak this year, hurt by lower origination, lower net interest margins (due lower interest rates in the system), and still high provisioning. We expect ROE to be about 4% in 2020 and partially recover in 2021 to 8% incorporating cost savings done in 2020.
- Preferred stock dividends payout of PYG30.0 billion for 2020 (which are still pending regulatory approval as of October 2020) and for 2021. However, we project zero payout on ordinary stocks in 2020 and only partially resuming in 2021.

As of November 2020, Banco Regional had a total regulatory capital of 18.5% and a Tier 1 regulatory capital of 15.6% compared to the 12% and 8% minimum regulatory requirements, respectively.

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 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 calculations do include preferred stocks as part of the bank's capital, to which we assign intermediate equity content.

Table 3

Banco Regional S.A.E.C.A.--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Tier 1 capital ratio	13.9	12.1	13.6	14.6	13.8
Adjusted common equity/total adjusted capital	83.3	80.9	84.7	84.1	82.7
Net interest income/operating revenues	80.2	80.4	79.1	81.5	82.0
Fee income/operating revenues	15.4	15.0	15.9	14.5	13.4
Market-sensitive income/operating revenues	5.4	3.8	3.2	3.4	4.0
Cost to income ratio	57.1	48.9	56.4	51.6	46.3
Preprovision operating income/average assets	1.6	2.3	2.0	2.5	3.0
Core earnings/average managed assets	0.2	0.8	0.6	1.0	1.3

*Data as of Sept. 30.

Risk position: A key factor to monitor in coming quarters

Banco Regional continues to have manageable asset quality metrics, despite some weakening since the end of 2019 due to the impact of the 2019 drought and the global pandemic. In this sense, the bank's nonperforming assets (NPAs) over total loans (including NPLs and repossessed assets) increased to 5.1% as of September 2020 compared to 3.0% and 2.5% in 2019 and 2018, respectively.

In addition, the bank increased its use of central bank transitory measures that allow loans to be rescheduled, delaying provisioning requirements, as well as the exceptional measures related to COVID-19. However, Banco Regional has

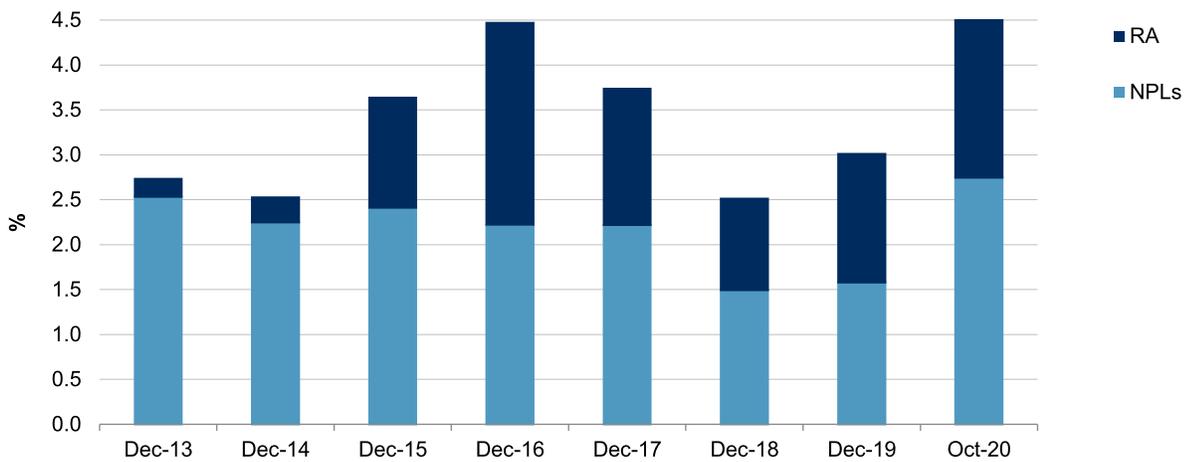
been focusing on improving its asset quality metrics, taking different measures to reduce the stock of loans under the transitory measures and reducing the stock of repossessed assets.

We foresee that NPAs will remain near 5% in 2020 but gradually improve in 2021, because we expect a decline in the stock of repossessed assets. Coverage should remain around 100% because the bank has constituted a significant amount of provisions over the year to the detriment of higher profitability. We will closely monitor the evolution in asset quality in conjunction with capital.

Chart 3

Asset Quality Evolution

NPAs include NPLs and RA (Repossessed Assets)



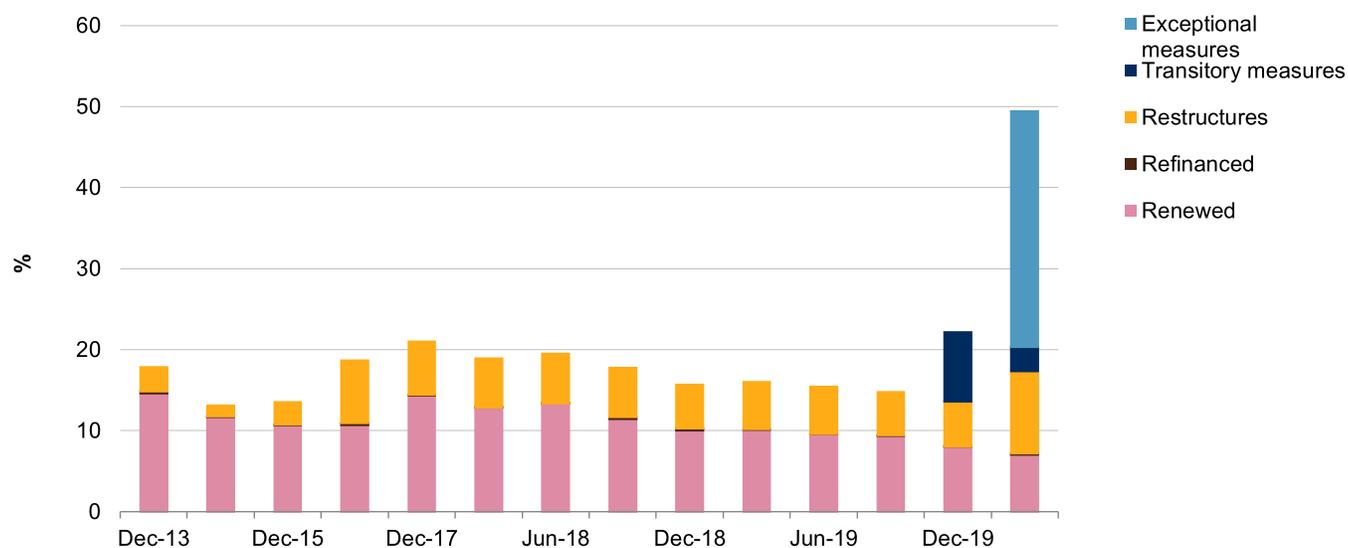
NPL--Nonperforming loans. Source: S&P Global Ratings.

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Chart 4

Extended Asset Quality Measures

Renewed, refinanced, or restructured* loans, plus central bank temporary measures



Renewed: Renewed loans, which aren't overdue. Refinanced: Past due loans that had their maturities extended (with same loan conditions). Restructured: Past due loans with maturities that are extended together with changes in interest and principal term conditions. Source: S&P Global Ratings.

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Banco Regional continues to focus on agribusiness lending, which represents about 49% of the bank's total loan portfolio, compared with the financial system's 33% average. As a result, the bank's exposure to dollarization is higher than the system average because agribusiness produces commodities priced in dollars. However, Banco Regional operates with a prudent policy for managing currency mismatches, and originates loans in dollars mainly for customers that are dollar generators. As of September 2020, the bank maintained its low complexity of operations and manageable single-name exposure concentrations, with the top 20 exposures representing about 15% of its total loan portfolio and 1x its equity.

Table 4

Banco Regional S.A.E.C.A.--Risk Position

(%)	--Year ended Dec. 31--				
	2020*	2019	2018	2017	2016
Growth in customer loans	(13.8)	7.4	15.1	3.1	(7.4)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	60.5	63.0	59.3
Total managed assets/adjusted common equity (x)	14.3	16.3	12.7	11.1	12.5
New loan loss provisions/average customer loans	1.9	1.7	1.5	1.6	1.8
Net charge-offs/average customer loans	0.9	1.0	1.6	1.6	2.3

Table 4

Banco Regional S.A.E.C.A.--Risk Position (cont.)					
(%)	--Year ended Dec. 31--				
	2020*	2019	2018	2017	2016
Gross nonperforming assets/customer loans + other real estate owned	5.1	3.0	2.5	3.7	4.1
Loan loss reserves/gross nonperforming assets	126.8	178.3	86.8	71.7	62.5

*Data as of Sept. 30. N/A--Not applicable. RWA--Risk weighted assets.

Funding and liquidity: Stable deposit base with prudent liquidity management during the first month of the pandemic

Banco Regional's funding structure relies mainly on a stable customer deposit base, which represented 72% of the funding base as of September 2020. This is somewhat lower than the system average where customer deposits represent 84% of total deposits. The remaining funding base of the bank is composed of loans from foreign and local financial institutions (25%) and a small amount of local market senior and subordinated debt (3%).

In the first nine months of 2020, Banco Regional's deposits increased only 3%, compared to the 15% system average. The lower deposits increase corresponds to a 12% contraction of certificates of deposits, given the bank's lower funding needs during the period due to its conservative approach to risk. However, sight deposits increased at the same rate as the system, at about 27%, due to the ample liquidity in the system. We expect Banco Regional's funding mix to remain similar in coming months: mainly composed of customer deposits.

The bank's stable funding ratio (SFR) was 116% as of September 2020 compared to 106% at the end of 2019, and is in line with those of the rated peers. Banco Regional's top 20 depositors represented 21% of total deposits as of December 2019. Instituto de Prevision Social (IPS, pension system in the country) is the main depositor with 6% of total deposits.

In our view, Banco Regional has prudent liquidity management, with no significant stress during the pandemic, and has been supported by different central bank liquidity measures.

Banco Regional's liquid instruments (mainly cash, money market instruments, and central bank securities) amounted to 42% of total deposits up from 27% at the end of 2019, explained in part by the contraction in the loan portfolio that further boosted liquidity. We expect liquidity to decline in the last quarter of 2020 as the loan portfolio starts growing, but liquidity will remain adequate.

The bank's liquidity position can comfortably meet short-term obligations, with a broad of liquid assets to short-term wholesale funding ratio of 2.1x as of September 2020 compared to 1.6x as of December 2019.

Table 5

Banco Regional S.A.E.C.A.--Funding And Liquidity					
(%)	--Year ended Dec. 31--				
	2020*	2019	2018	2017	2016
Core deposits/funding base	68.4	67.6	64.8	68.5	71.5
Customer loans (net)/customer deposits	104.2	122.5	121.7	120.8	107.7
Long-term funding ratio	86.8	88.7	80.1	86.7	93.4

Table 5

Banco Regional S.A.E.C.A.--Funding And Liquidity (cont.)					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
Stable funding ratio	116.5	105.6	102.9	108.2	124.1
Short-term wholesale funding/funding base	14.5	12.3	22.0	14.9	7.3
Broad liquid assets/short-term wholesale funding (x)	2.1	1.6	1.2	1.6	4.0
Net broad liquid assets/short-term customer deposits	28.0	13.0	8.4	17.4	38.1
Short-term wholesale funding/total wholesale funding	43.8	36.3	59.8	44.7	24.1

*Data as of Sept. 30.

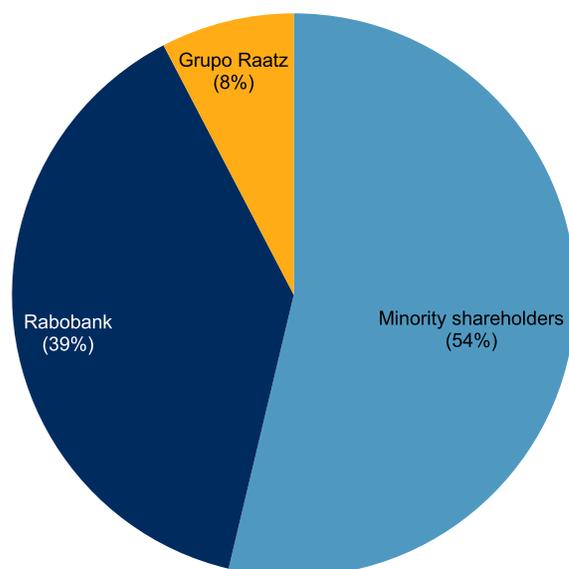
Support: No notches of support from the government or group

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 (38.40%) in the bank.

Chart 5

Banco Regional Shareholders

As of September 2020



Source: Company data.

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Environmental, social, and governance (ESG)

Banco Regional is one of the largest entities in the Paraguayan financial system and focuses on loans to the agriculture and livestock sectors, which exposes the bank to a climate-sensitive industry more than other banks in the industry. Despite this, in our view, Banco Regional's ample knowledge in this sector and the expertise provided from Rabobank helps contain the impact on the bank. Therefore, the balance between risks and opportunities leads us to assess the impact of environmental factors on Banco Regional's credit quality as neutral.

Additionally, we believe governance is a strength for Banco Regional's credit quality because the bank benefits from the good corporate governance practices introduced by its minority shareholder, Rabobank, when compared with local peers. We also assess the risk and opportunities from social factors as neutral for the bank.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- 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

Related Research

- Four Key Risks Could Make 2021 The Toughest Year For Global Banks Since 2009, Nov. 17, 2020
- Banking Industry Country Risk Assessment: Paraguay, July 13, 2020

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 14, 2021)*

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

Issuer Credit Rating BB/Stable/--

Issuer Credit Ratings History

09-Apr-2018 BB/Stable/--

08-Feb-2017 BB/Negative/--

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

Sovereign Rating

Paraguay BB/Stable/B

*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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