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FEATURED Q&A

Should Argentine Banks Brace for Trouble Ahead?



Argentina's economic problems have led to concerns about the country's banking sector. The headquarters of the country's largest bank is pictured above. // File Photo: Diego Torres Silvestre via Creative Commons.

Q Argentina's Merval stock index fell more than 8 percent in trading June 27. The banking sector took a particularly hard hit, with some bank stocks falling more than 10 percent in value. Fears of a recession among economists are increasing, Bloomberg News reported, as a severe drought has cut economic growth sharply, and pressure continues to weigh on the country's currency, which has lost more than 30 percent of its value against the dollar this year. With this stormy economic backdrop, what does the future hold for Argentina's banks? What forces are most shaping the financial sector's outlook? How resilient are Argentina's banks to further tumult? Will Argentine depositors remain confident in local banks and keep their money in the system?

A Cynthia Cohen Freue, director and sector lead for financial institutions ratings at S&P Global in Buenos Aires: "We expect the currency depreciation, higher interest rates and inflation, and lower economic growth to impair banks' asset quality. Weaker economic prospects will pressure the already struggling small- and mid-size enterprises (SMEs), while households will further struggle to cope with rising living costs, especially those with mortgages and personal loans denominated in UVA (an inflation-linked value unit). However, the low proportion of credit to GDP and banks' low exposures to loans to SMEs and lower-income borrowers will mitigate asset quality deterioration. We consider deposit stability as a major risk, given the country's recent history of unstable deposits. Total deposits have remained relatively stable in light of the recent sharp currency depreci-

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TOP NEWS

BANKING

Scotiabank Closes \$2.2 Bn Deal for BBVA Chile

Scotiabank closed its acquisition of BBVA Chile. The Canadian bank now has a 68 percent stake in the Chilean unit. The Said family holds the remainder.

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REMITTANCES

Paysafe Money Transfer Expands in Latin America

Payment provider Paysafe has expanded its Skrill Send Direct money transfer service to nine new countries, including six in Latin America. The service will now be available in 45 countries.

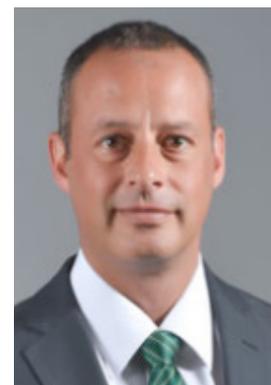
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INSURANCE

Crawford & Co. Names Glaentzlin to Mexico Post

Claims management provider Crawford & Company has named Alejandro Glaentzlin as its new manager for Mexico. Glaentzlin was previously an executive general adjuster for the Atlanta-based company.

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Glaentzlin // File Photo: Crawford & Company.

BANKING NEWS

Scotiabank Closes \$2.2 Bn Acquisition of BBVA Chile

Scotiabank closed its \$2.2 billion acquisition of Spanish banking group Banco Bilbao Vizcaya Argentaria's subsidiary in Chile, or BBVA Chile, the Canadian bank said July 6. The 68 percent stake brings Scotiabank's presence in the South American country to about a 14 percent market share in total loans, making it one of the largest private banks in Chile, Banking Business Review reported. It will begin merging BBVA Chile with its existing Scotiabank Chile branch after approval from the nation's Superintendent of Banks and Financial Institutions, the bank's statement said. Scotiabank intends to reach an agreement with the Said family, which currently holds the remaining 32 percent stake in BBVA Chile, for it to have a "participation of close to 25 percent in the merged bank," the statement said. The transaction is Scotiabank's latest move in a wider strategy to increase its presence in Pacific Alliance countries. In late June, the Canadian banking group announced that its Colombian subsidiary, Banco Colpatria, had completed the acquisition of Citibank Colombia's retail, credit card and small- and medium-sized enterprise operations, expanding its customer base by more than 500,000 and making it a market leader in credit cards, Scotiabank said in a statement.

INSURANCE NEWS

Chubb, Citibanamex Announce Mexico Distribution Deal

Citigroup subsidiary Citibanamex and Chubb Seguros México on June 28 announced a distribution agreement that will allow the insurer to offer several insurance products, not including life insurance, to the bank's clients in Mexico.

Under the terms of the deal, which is subject to regulatory approvals, Citibanamex will distribute the insurance products through Citibanamex branches in Mexico as well as through several digital and direct marketing channels, the companies said in a joint statement. The insurance products Chubb plans to offer include property and casualty coverage for homes, vehicles, and individuals, as well as accident and health insurance for small- and medium-sized enterprises, and commercial property and casualty coverage for larger businesses. In addition, Chubb and Citibanamex have a separate deal to cover surety, under which Chubb will market products to commercial customers of Citibanamex. Chubb will use its Mexican brand, ABA Productos, to distribute its consumer and small-business products, the companies said. Chubb and Citibanamex said they plan to begin distribution early next year. "The agreement is part of Citi's emphasis on expanding access to best-in-class products and offerings, complementing the life insurance products offered by Citibanamex Seguros," Citibanamex and Chubb said in the statement. Citibanamex has approximately 1,500 branches and some 9,000 automated-teller machines.

Mapfre, Banco do Brasil Update Partnership Deal

Spain-based insurer Mapfre and Banco do Brasil have updated a partnership agreement that originally led to the establishment of BB Mapfre in 2010, Reinsurance Journal reported June 27. Under the reworked agreement, Mapfre will boost its control of the nonlife insurance business of BB Mapfre from 50 percent to 100 percent. It is also increasing its control of the partnership's life insurance business from 25 percent to 100 percent. The companies intend to maintain their distribution agreement, and BB Mapfre plans to continue selling life and agricultural insurance as well as mortgage life insurance. The deal will cost Mapfre 546 million euros (\$641 million), according to the International Travel and Health Insurance Journal. "This new configuration of the agreement

NEWS BRIEFS

Paysafe Money Transfer Expands to More Latin American Countries

Payment provider Paysafe has expanded its Skrill Send Direct service to nine new countries, including six in Latin America, the company announced July 5. Skrill customers will now be able to send money to recipient bank accounts in Colombia, Ecuador, El Salvador, Guatemala, Honduras and Venezuela. The service is also expanding to India, Morocco and Vietnam, the company said. Altogether, the service will now be available in 45 countries. The company launched its Skrill service in February.

Crawford & Company Taps Glaentzlin as Mexico Country Manager

Claims management company Crawford & Company has promoted Alejandro Glaentzlin, an executive general adjuster at the company's global technical services unit in Mexico to be the company's country manager, Insurance Business America reported July 10. In his previous role at the company, Glaentzlin had experience in Mexico's engineering, mining, power and energy sectors. The Atlanta-based company is the world's largest provider of claims management services to self-insured entities and insurance companies.

Bradesco, Banco do Brasil Join Apple Pay

Apple on July 4 added two Brazilian banks to its mobile payment and digital wallet service, Apple Pay, MacMagazine reported. Banco Bradesco and Banco do Brasil joined the mobile payment network. The service launched in Brazil in April after Apple CEO Tim Cook discussed it in the company's first-quarter earnings call. Currently, Apple Pay was previously available only to clients of Itaú Unibanco with Visa or MasterCard credit cards, 9to5mac.com reported.

will allow us to renew our alliance with Banco do Brasil, enlarge Mapfre's business in the country, maintain exclusivity for our products in the Banco do Brasil channel, and organize our local businesses in a much simpler and more efficient manner," Mapfre CEO Antonio Huertas said in a statement.

REMITTANCES NEWS

Remittances to Mexico Exceed \$3 Billion in May

The amount of money sent by Mexicans working abroad back to their country reached a new record in May, totaling \$3 billion, El Financiero reported July 3. The figure increased by 19.8 percent in comparison to the same month last year and is 17 percent higher than the previous record, which was \$2.6 billion last October. It is the first time the monthly amount has

“We expect that the growth of remittances ... will stabilize at about 5 percent to 7 percent per year.”

— Alberto Ramos

exceeded \$3 billion since Mexico's central bank started gathering data on remittances in 1995, El Financiero reported. “We expect that the growth of remittances ... will stabilize at about 5 percent to 7 percent per year,” said Alberto Ramos, a Goldman Sachs analyst, the newspaper reported. Given the 3.6 percent devaluation of the peso since May, the real increase in the value of remittances was 24.3 percent on an annual basis, Ramos added. In addition to a decline in unemployment in the United States, where most Mexican workers living abroad reside, the observance of Mother's Day and the dollar's appreciation against the peso com-

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ation. However, further uncertainty about currency fluctuations could result in deposit withdrawals, which would pressure banks' funding and liquidity positions. Banks have been increasingly providing dollar-denominated loans, although most of them are for borrowers that generate income in U.S. dollars, such as exporters, which alleviates the potential risk. We expect lending growth will likely soften due to lower demand from corporations, given that investment will likely moderate and higher interest rates will pressure some companies' operating performances. Demand for mortgages could also stall because property acquisitions tend to be postponed during turbulent market scenarios. Some purchases may not move forward at all, given that property prices in Argentina are set in dollars and these prices will rise following a weaker peso. We think banks will benefit from the higher interest rates environment given that they are mainly funded by deposits, and a high proportion of them are at call deposits that accrue very low or no interest. This will mitigate the impact on profitability of lower credit growth. All these trends could moderate if the government succeeds in gradually reducing the interest rate while lowering inflation and stabilizing the peso.”

A **Santiago Gallo, country head for Argentine financial institutions at FitchRatings:** “The current economic turmoil in Argentina will have a negative impact on the banking system's performance as high inflation, soaring interest rates, a harsh drought and the steady peso depreciation will affect profitability and asset quality. Although a possible recession could be relatively short, GDP growth will be much lower than expected this year, and this will have a marked impact on the banking system's profitability and previously aggressive growth plans for 2018 and maybe even 2019 given the political risks associated with a presidential

election year. While loan growth potential remains high in Argentina given the very low level of credit penetration (only 14.8 percent of GDP at year-end 2017), loan growth will be much lower than previously anticipated, and the tough economic situation will likely lead to some asset quality deterioration. In addition to slower revenue growth, banks' profits will be hit by rising staff costs and increased liquidity requirements set by the central bank to minimize the dollar demand and control inflation. Although profitability will be under pressure, in Fitch's view Argentine banks are well positioned to face this negative environment given the system's good capitalization (core Tier 1 capital ratio of 14.2 percent as of April 30), adequate asset quality (nonperforming loans of 2 percent and loan loss reserves coverage of 132 percent), and ample liquidity (liquid assets equivalent to 42 percent of deposits). In this context, Fitch expects deposits to remain in the banking system, although deposit growth could decelerate significantly if depositors keep dollarizing their excess pesos, which could happen if inflation remains high and the peso depreciation continues.”

A **Valeria Azconegui, vice president and senior analyst at Moody's Investors Service:** “Argentina's banking system has so far remained largely unscathed by the current market volatility. Depositors remain confident in the banking system, and they have not withdrawn deposits as they have in previous crises. Despite the recent market turmoil, overall bank deposits have actually continued to grow mildly over the past month. Moreover, a large portion of the deposits is in pesos, with a contained exposure to foreign currency deposits. In inflation-adjusted terms, however, local currency deposits declined, as savers shifted into dollars and higher-yielding central bank notes following the recent sharp devaluation. Argentine banks' reliance on market

Continued on page 6

pared with previous months contributed to the historic level of remittances in May, according to a report by BBVA analysts David Cervantes and Juan José Li Ng.

POLITICAL NEWS

Mexico's Government Won't Intervene in Venezuela: Ebrard

Mexico's next government will not intervene in the crises of other Latin American nations, such as Venezuela and Nicaragua, Mexico's incoming foreign minister, Marcelo Ebrard, said Monday in an interview with Radio Fórmula. "Mexico will follow a respectful foreign policy of nonintervention ... and right now, we don't expect to abandon that policy," said Ebrard. "That does not mean that we're not concerned about the situation in one country or another, in this case Venezuela. We're going to look into

“The treatment we've received from the United States has been terrible.”

— Marcelo Ebrard

it and see how we can design, or contribute, in the best way." Ebrard added that such a policy of nonintervention would also extend to Nicaragua. In the interview, Ebrard also lamented how the United States has treated Mexico. "The treatment we've received from the United States has been terrible," said Ebrard. "What we have to do now is look for areas of understanding." U.S. President Donald Trump has railed against Mexico since he began campaigning for the office, saying the country is sending rapists and drug traffickers to the United States and also repeatedly vowing to build a multi-billion-dollar wall along the countries' border that he insists Mexico will pay for. Ebrard said U.S. Secretary of State Mike Pompeo will be in Mexico on Friday to meet with Mexican Presi-

THE DIALOGUE CONTINUES

What Is Driving the Growth of Fintech in Latin America?

Q The financial technology sector in Brazil has become the region's largest, with 377 startups, Finnovista, a Mexico-based fintech accelerator said in a May report. Other countries, including Colombia, Argentina and Chile, have also seen strong growth in their fintech sectors. What are the main reasons behind the growth, and which players are best positioned to benefit from the trend? How much promise do fintech companies have for reducing informality and increasing access to financial services? Are new fintech companies proving to be more of a partner or more of a competitor to traditional banks? Which countries in the region have put in place the best frameworks for security and government regulation governing the sector?

A Jaime Jacome, local Panama City-based partner at Diaz, Reus & Targ, LLP: "Loyal to a long tradition of financial services and driven by an increasing number of young entrepreneurs, Panama brings a modern regulation of the fintech market, assuring

high standards of transparency and security while ensuring competitiveness. Recently, the government has proposed a law that introduces services such as electronic payment accounts, transfers, remittances and electronic money issuance, among others. New products are incorporated, such as collective financing centers, crowdfunding platforms, family patrimonial administration offices, new insurance products and legal vehicles that allow the generation of innovative heritage planning structures locally and offshore. As a means to control this development, a sandbox project, led by the City of Knowledge, the financial regulators, the National Secretariat of Science, Technology and Innovation and the Ministry of Economy and Finance, will allow innovators to be able to offer services to a reduced clientele and monitor the development of each product without generating risks."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the June 14-27 issue of the Advisor.

dent-elect Andrés Manuel López Obrador, who was elected July 1.

Brazilian Judge Blocks Order to Release Lula

A Brazilian appeals court's chief justice on July 8 blocked an order from a lower-ranking judge to release former President Luiz Inácio Lula da Silva from prison, O Estado de S.Paulo reported. The ruling from Carlos Eduardo Thompson Flores, the chief justice of the TRF-4 appeals court keeps the former president behind bars,

blocking the order that appeals court judge Rogerio Favreto made earlier in the day to release Lula. The former president has been imprisoned since April after being convicted of accepting bribes from an engineering company in exchange for it to secure lucrative contracts. Favreto had ruled that Lula, who has been seeking to return to Brazil's presidency in this October's election, should have the same conditions to campaign as other presidential candidates, Reuters reported. However, Flores sided with prosecutors who requested that Lula be kept in prison. Brazilian law bars candidates who have been convicted by an appeals court, as Lula was, from running for office for eight years. Still, Lula's Workers' Party announced

NEWS BRIEFS

Colombia's Santos Signs Measure to Encourage Drug Gangs to Surrender

Colombian President Juan Manuel Santos on July 9 signed a law that cuts in half prison sentences for criminal groups that turn themselves in as a group, the Associated Press reported. The measure aims to incentivize the country's largest drug gangs to surrender. Santos said the Gulf clan, a right-wing paramilitary involved in violence and trafficking of cocaine in northern Colombia, has already said it will surrender under the new law, the AP reported. [Editor's note: See [Q&A](#) on Santos' legacy in the July 6 issue of the Latin America Advisor.]

Chile's Piñera Eyes Free Trade Agreement With Caricom

Chilean President Sebastián Piñera said he is interested in entering a free trade agreement with the Caribbean Community (Caricom) at the 39th Regular Meeting of Caricom heads of government on July 6, the Jamaica Information Service reported. Piñera also pledged to continue scientific and technical cooperation with Caricom in the organization's efforts to curb the effects of natural disasters.

Associate of 'El Chapo' Extradited to U.S.

Damaso López, a reputed drug kingpin known as "El Licenciado," was extradited on July 6 from Ciudad Juárez in northern Mexico to the United States, charged with conspiring to distribute cocaine and money laundering, the Associated Press reported. López was formerly the right-hand man of Sinaloa Cartel drug lord Joaquín "El Chapo" Guzmán, who escaped from prison in 2001 with his help. Mexico's acting attorney general Alberto Elías Beltrán said López is "a potential key witness" against Guzmán, who is imprisoned in New York and awaiting trial, the AP reported.

in January that Lula would be its candidate in the election. Lula has denied wrongdoing and has vowed to continue appeals. Polls have consistently put Lula as the front-runner ahead of the country's presidential election,



Lula // File Photo: Lula Institute.

and he has had more than twice the support of his nearest rival, Reuters reported. In polling scenarios that do not include Lula, a third of respondents say they would cast spoiled or blank ballots. Lula was originally sentenced to nine and a half years in prison after being convicted of corruption and money laundering charges. His sentence was lengthened to 12 years and one month when his conviction was upheld in January. Brazil's electoral court has a Sept. 17 deadline to decide whether Lula can run in the election.

ECONOMIC NEWS

FDI to Latin America Declines for Fourth Consecutive Year

Foreign direct investment flows to Latin America and the Caribbean last year declined for the fourth year in a row, according to a new briefing paper by the United Nation's Economic Commission for Latin America and the Caribbean, or ECLAC. FDI in the region amounted to \$161.673 billion, representing a 3.6 percent drop from 2016 and a striking 20 percent drop from 2011. Most countries in the region actually observed an increase in FDI flows, but a sharp downturn in Brazil, Chile and, to a lesser extent, Mexico contributed to the overall decline. Several factors, including tensions

over potential restrictions on trade, a growing trend to relocate production to developed countries and China limiting their FDI recipients in accordance to its new foreign policy strategy, are all reasons for the steady fall in FDI flows to Latin America, the report said. Additionally, lower commodity prices since 2011 reducing investment in the extractive industries and economic recession in 2015 and 2016, particularly in Brazil, also added to the decrease in FDI inflows. These two factors were partially upturned in 2017, and oil and metal prices also picked up, but not enough to reverse the FDI trend, ECLAC said.

Puerto Rico Sues Federal Fiscal Control Board

Puerto Rico on July 5 sued a federal fiscal control board over two proposed budget plans that seek to bring the U.S. territory out of an 11-year recession, the Associated Press reported. Puerto Rico Governor Ricardo Rosselló says that the federal board's \$8.75 billion budget excessively controls every aspect of Puerto Rico's public finances and over-steps its authority. Rosselló also claims the board

Governor Ricardo Rosselló claims the board is attempting to "illegally usurp" the island's leadership.

is attempting to "illegally usurp" the island's leadership and "impose its policy preferences," which include several austerity measures, such as cutting a yearly Christmas bonus, El Vocero reported. The board's budget also eliminates a \$50 million annual fund for cities still grappling with the consequences of Hurricane Maria last September and a \$25 million yearly scholarship fund for the University of Puerto Rico, the AP reported. The governor signed another budget, which legislators had approved on July 2. The lawsuit will decide which budget plan will be implemented.

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funds has risen over the last two years but remains modest at just 14 percent of tangible banking assets at the end of 2017. Moreover, less than a quarter of the system's market debt consists of cross-border obligations, and most of that was issued over the past 18 months with maturities of three to five years. Banks' liquidity in both pesos and U.S. dollars remains ample, with total liquid assets equal to nearly 60 percent of deposits. Moody's expects that banks' liquidity will tend to rise following lending slowdown and larger exposure to central banks' notes. Argentine banks' loan-to-deposit ratios are modest in both currencies, though they have been rising recently. The overall loan-to-deposit ratio is the lowest in the region at 68 percent, showing that local banks still have enough funding sources both to finance additional loan growth and to withstand a sudden withdrawal of a significant portion of their deposits. Moody's foresees challenges in the coming quarters, as a result of the recent interest rates rise that will limit lending expansion, even though we expect net income to tangible assets to increase by 35 bps to 2.7 percent in 2019 from 2.3 percent in 2017. The negative impact of slower loan growth will be offset by higher returns on banks' securities holdings, including central bank notes that now yield 47 percent annually."

A **Pablo F. G. Bréard, Toronto-based independent economic analyst:** "A broad-based defensive tone in emerging markets, courtesy of disturbing trade and monetary policy shifts in the United States and intensified financial market volatility in China, remains a primary factor undermining the value of the Argentine peso. Argentina's fiscal and current account deficits, together with persistently high double-digit inflation, intensified the negative pressure on the Argentine currency. Moreover, heightened foreign-exchange market stress led to

increased dollarization of local investment portfolios and capital flight swings, encouraging the Argentine authorities to request International Monetary Fund assistance to finance a multi-year structural adjustment process. President Macri's administration is committed to introducing structural reforms required to restore fiscal and debt sustainability. The \$50 billion credit facility approved by the IMF implies a vote of confidence in Argentina's path to reforms by the global community, with outright support from the United States. However, the legacy of economic policy misconduct left by former governments still lingers over the economy. Access to multilateral sources of finance during the ongoing financial market turbulence will help the central bank strengthen its international reserves position. The sharp tightening of monetary conditions (with the central bank policy rate set at 40 percent) to combat inflationary expectations will cause a marked slowdown in economic activity through the remainder of the year. In fact, the latest survey of economic projections conducted by the central bank points to annual headline inflation of 30 percent and real GDP growth of 0.5 percent year-over-year in 2018. Unlike Mexico and Brazil, Argentina does not have domestic capital markets of global significance. Also, unlike Chile, Argentina's credit to the private sector remains very low, resulting in little systemic leverage. At present, there are no signs of stress in domestic deposit-taking institutions. Both capital adequacy and liquidity ratios highlight manageable systemic indicators. In response to a moderation in lending activity, however, the central bank recently announced a series of regulatory measures to promote bank credit adjudication to small- and mid-sized firms."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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