

# Ratings On Two Paraguayan Financial Institutions Affirmed After Upgrade Of Sovereign; Outlooks Unchanged

February 7, 2024

## Overview

- On Feb. 1, 2024, we raised our long-term sovereign credit ratings on Paraguay to 'BB+' from 'BB', reflecting our view that macroeconomic stability and excess supply of renewable energy are attracting investments, which would sustain growth and gradual economic diversification.
- Based on that, we now see improving economic conditions for financial institutions operating in Paraguay. Despite this improvement, our Banking Industry Country Risk Assessment for Paraguay is unchanged, considering stable industry risk conditions.
- As a result, we affirmed our ratings on Agencia Financiera de Desarrollo and Vision Banco, as the ratings are not constrained by the sovereign ratings.
- The rating outlooks on these financial institutions are unchanged.

SAO PAULO (S&P Global Ratings) Feb. 7, 2024--S&P Global Ratings today affirmed its 'BB' issuer credit rating on Agencia Financiera de Desarrollo (AFD) and its 'B' issuer credit rating on Vision Banco following the upgrade of Paraguay. Our rating outlook on AFD remains stable, and our rating outlook on Vision Banco remains negative.

We raised our long-term sovereign ratings on Paraguay based on its track record of evolving but prudent macroeconomic policies, moderate fiscal deficits and general government debt, and strong external position. All of these characteristics have bolstered the Paraguayan economy's resilience against external shocks, and caused GDP per capita to rise consistently.

We now see the economic risk for financial institutions operating in Paraguay as somewhat lower than before because we believe that the country is more resilient to adverse developments. In addition, we think the level of credit losses will gradually ease as a consequence of a more benign environment.

Nevertheless, our overall assessment of Paraguay's banking risk, the Banking Industry Country Risk Assessment (BICRA), remains at group '8', while the anchor for Paraguayan-based banks remains at 'bb-'. (BICRAs are on a scale from '1' to '10', with group '1' representing the lowest-risk banking systems and group '10' the highest-risk ones.) Our industry risk assessment on the banking sector is unchanged at this point, incorporating our view of market distortions caused by a somewhat high share of narrowly regulated cooperatives and other participants in the financial

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system, and by significant dollarization in banking activities. The trend in both economic risk and industry risk assessments is still stable.

## **Agencia Financiera de Desarrollo**

The affirmation of our ratings on AFD indicates our view that its stand-alone credit profile remains 'bb'. Our ratings continue to reflect AFD's role as the only second-floor state-owned bank in Paraguay--it's a key loan grantor to other financial institutions in the country. AFD also has robust capitalization ratios, which we view as a relative strength, and benefits from the government's ongoing support, as most of AFD's financial obligations have the explicit guarantee of the government.

### **Outlook**

The outlook on AFD is stable because we expect that the bank will maintain sound capitalization levels, with a risk-adjusted capital ratio above 15% in the next 12-18 months, and that the government of Paraguay will continue supporting AFD to a certain degree.

**Downside scenario.** Downside is limited at this point. We could lower the ratings only in the case of a deterioration of the entity's stand-alone credit quality in combination with a downgrade of the sovereign.

**Upside scenario.** We could upgrade AFD if we were to raise our sovereign ratings on Paraguay. An upgrade of AFD could also result from an upward revision of Paraguay's BICRA or if AFD's stand-alone credit fundamentals improve.

## **Vision Banco**

The affirmation of our ratings on Vision Banco indicates our view that its stand-alone credit profile remains unchanged at 'b'. Our ratings continue to reflect the bank's relevant presence in the microfinance segment in Paraguay and its diversified funding sources, offset by its below-industry-average capitalization rates and the challenges in restoring profitability after experiencing increased delinquency rates.

In addition, Vision Banco and Ueno Bank announced their agreement to merge. Under the proposed structure, Ueno Bank will absorb Vision Banco's assets and liabilities. The closing of the merger is subject to approval from the boards of directors of both entities and the central bank. The announcement doesn't have an immediate impact on credit fundamentals or the rating on Vision Banco, which continues to reflect its operations as a sole entity. We will continue monitoring the merger's progress to evaluate the potential credit impact on Vision Banco.

## Outlook

The outlook is negative because of the persistent pressures on asset quality metrics, with potential implications on the bank's risk position and losses, and on the ratings.

**Downside scenario.** In the next 12-18 months, we could lower the ratings if:

- The bank is unable to improve asset quality, reducing the gap with the system average and reaching metrics more in line with historical levels, or
- Portfolio risk increases, as evidenced by a higher concentration by single names and economic sectors.

**Upside scenario.** We could revise the outlook to stable if Vision Banco's asset quality stabilizes, which would depend on its ability to reduce nonperforming assets (including nonperforming loans and repossessed assets) to historical levels. We would also consider any potential credit impact of the merger with Ueno Bank.

## Ratings Score Snapshot

### Agencia Financiera de Desarrollo

Issuer Credit Rating	BB/Stable/--
SACP	bb
Anchor	bb-
Business position	Moderate (-1)
Capital and earnings	Very Strong (2)
Risk position	Adequate (0)
Funding and liquidity	Adequate and adequate (0)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

## Vision Banco

Issuer Credit Rating	B/Negative/--
SACP	b
Anchor	bb-
Business position	Adequate (0)
Capital and earnings	Constrained (-1)
Risk position	Moderate (-1)
Funding and liquidity	Strong and adequate (0)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

## Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Paraguay Long-Term Ratings Raised To 'BB+' On Greater Economic Resiliency; Outlook Stable, Feb. 1, 2024

## Ratings List

### Ratings Affirmed

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#### Agencia Financiera De Desarrollo

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Issuer Credit Rating BB/Stable/--

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### Ratings Affirmed

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#### Vision Banco S.A.E.C.A.

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Issuer Credit Rating B/Negative/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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