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Ratings

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

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

Ratings Score Snapshot

Issuer Credit Rating
B/Stable/--

SACP: b → **Support: 0** → **Additional factors: 0**

SACP: b		
Anchor	bb-	
Business position	Adequate	0
Capital and earnings	Constrained	-1
Risk position	Moderate	-1
Funding	Strong	0
Liquidity	Adequate	
CRA adjustment		0

Support: 0	
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
B/Stable/--

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Ample client base and significant participation in the microfinance segment.	Concentration in a high-risk lending segment that's more affected by business cycles.
Digitalization efforts better prepare the bank for the new and competitive digital landscape and clients' needs.	Lower capitalization metrics than industry average.

Relevant presence in the microfinance segment in Paraguay, supported by digitization initiatives. Despite a reduction in market share, Vision Banco still has a leading market position and vast expertise in the microfinance segment in Paraguay that helps it sustain business volumes. More recently, the entity started focusing its growth on lending to midsize enterprises. Although many of these loans are with existing clients and part of them are covered with guarantees, we will monitor the effect of the change in the portfolio mix.

The bank's digitalization initiatives will allow to handle the new and competitive digital landscape, fulfill clients' needs, and support its competitive position in the Paraguayan banking system.

Tighter profitability in 2022, influenced by measures taken during the pandemic, with similar conditions expected for 2023. In 2022, the bank's return on average common equity (ROAE) decreased to 9.2% from 12.2% in December 2021, given an increase in credit loss provisions of about 20% year-on-year. Results exclude deferrals on loan-loss provisions that are accounted as intangibles, rather than as expenses, as part of regulatory measures to cope with the pandemic. Part of these intangibles were amortized (which affected results) in 2021-2022, and the remaining stock will be mostly amortized in 2023.

For 2023, we expect ROAE to remain at similar levels to 2022, considering the amortization of intangibles, although in part compensated by the full impact of cost containment actions taken by Vision Banco, and the increased fees from transactions with more than 1 million users of its digital platform.

Asset quality hurt by climate events in 2022 and residual effects of the pandemic, although we expect some improvements in the second half of 2023. During 2022, the bank's asset quality deteriorated due to the lifting of the support measures granted during the pandemic, the severe drought in the country, and higher inflation. Nonperforming loans (NPLs; 60-days past due) were 6.6% of total loans at the end of May 2023, compared to 5.7% at the end of 2022 and 4.3% in 2021 (compared to the system average of 3.7%, 2.9%, and 2.2%, respectively). Although metrics should improve in the second part of the year, we will continue to monitor asset quality and losses.

Diversified funding sources and a nationwide network. We think Vision Banco has a diversified and stable deposit base, thanks to its nationwide branch network--with more than 70% of branches operated by nonbank correspondents ("corresponsales"). In addition, Vision Banco is enhancing its digital platform, which offers a variety of services, to complement its extensive physical network.

Outlook

The stable outlook on Vision Banco for the next 12 months reflects our expectation that it will continue to execute its digital strategy, focusing on serving its clients while keeping asset quality and credit losses under control. We forecast capitalization (measured according to S&P Global Ratings' methodology) to improve in coming years, but to remain below 5%.

Downside scenario

We could lower the ratings on the bank if the asset quality deterioration and credit losses are much more severe than the industry average.

Upside scenario

We could raise the ratings if the entity consistently improves its capitalization metrics while maintaining manageable credit losses.

Key Metrics

Vision Banco S.A.E.C.A.--Key ratios and forecasts*

	--Fiscal year ended Dec-31 --				
	2020a	**2021a**	**2022a**	**2023f**	**2024f**
Growth in operating revenue (%)	-5.9	9.6	9.7	5,0-5,5	5,0-5,5
Growth in customer loans (%)	5.2	1.3	-7.2	11,7-14,3	5,4-6,6

Vision Banco S.A.E.C.A.--Key ratios and forecasts* (cont.)					
	--Fiscal year ended Dec-31 --				
	2020a	**2021a**	**2022a**	**2023f**	**2024f**
Growth in total assets (%)	8.3	1.9	-7.4	9,9-12,2	6,1-7,4
Net interest income/average earning assets (NIM) (%)	8.2	8.7	8.6	8,1-8,9	7,2-8,0
Cost to income ratio (%)	51.2	49.6	48.8	51,0-53,6	55,7-58,6
Return on equity (%)	5.7	12.2	9.2	6,2-6,8	6,6-7,3
Return on assets (%)	0.4	0.9	0.8	0,7-0,9	0,8-1,0
New loan loss provisions/average customer loans (%)	5.2	4.8	5.9	4,1-4,5	4,2-4,7
Gross nonperforming assets/customer loans (%)	4.4	5.3	7.9	6,5-7,2	6,0-6,6
Net charge-offs/average customer loans (%)	4.7	4.4	2.8	3,5-3,5	3,5-3,5
Risk-adjusted capital ratio (%)	4.4	4.3	4.3	4,7-5,0	4,6-4,8

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Anchor: 'bb-' For Banks Operating In Paraguay

Our bank criteria use our Bank 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. The anchor for banks operating only in Paraguay, where Vision Banco operates, is 'bb-'. Please see "Banking Industry Country Risk Assessment: Paraguay," published Oct. 26, 2022.

Business Position: Strategy Focused On Digitization And Diversification, With A Broad Customer Base

Despite a reduction in market share from previous years, Vision Banco continues to have a relevant presence in the microfinance segment in Paraguay, with a market share of 24% of loans in the segment, which accounted for 55% of its total loan portfolio at the end of 2022. The bank also has some presence in the retail segment (consumer loans), which accounted for 16% of total loans. More recently, Vision Banco started focusing its lending growth on midsize enterprises, which represent 30% of total loans. This presence and franchise in the country, and its large and stable customer base, sustains its satisfactory business volumes.

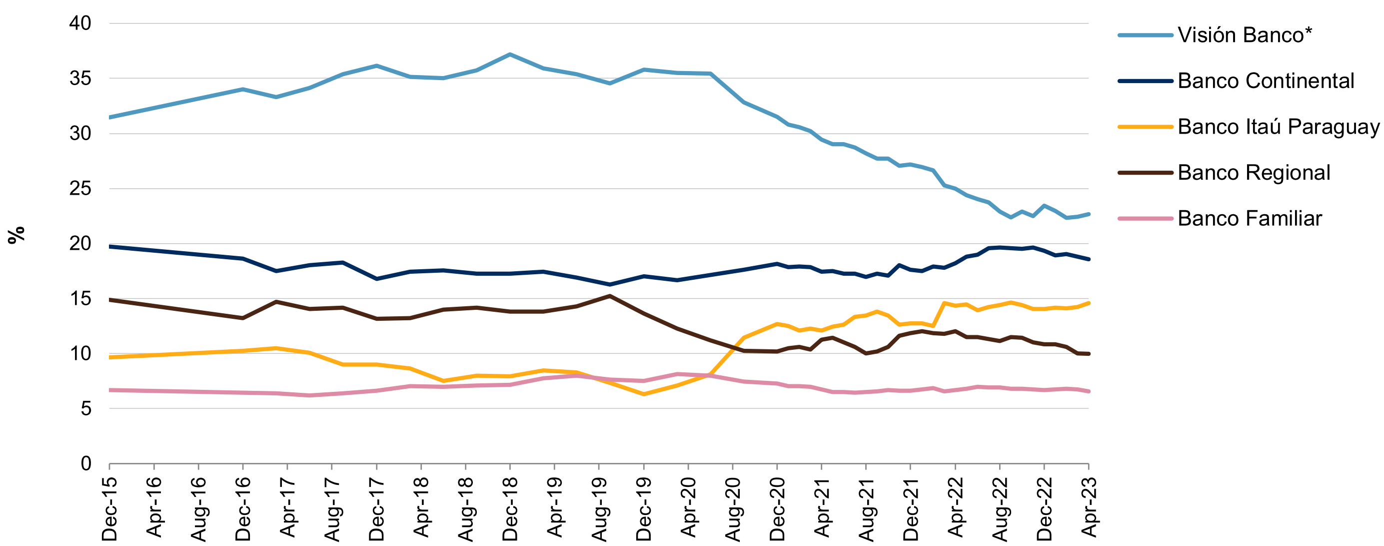
In addition, in the last couple of years, Vision Banco's strategy has included digitalization efforts to improve its efficiency and provide a better customer experience. The bank has automated manual and repetitive process, developed bots, and improved its data analytics and business intelligence. Also, Vision Banco enhanced its mobile app and online platform for its clients to allow QR payments, money transfers and deposits at any time, and other improvements, while also focusing on security for its digital operations (in terms of fraud, money laundering, and data security). These digital efforts prepared Vision Banco to face the accelerated use of digital channels because of the pandemic.

Because of its digital efforts, Vision Banco has consolidated and closed some of its branches (it now has 63 as of the end of March 2023, from 96 at the end of 2018) and adjusted its workforce, but has continued strengthening its nonbank correspondent network (comprising 5,900 members).

For the next 12-18 months, driven by the higher exposure to bigger enterprises, we forecast higher credit growth, focusing on larger clients with high credit quality. We also expect digital and cost savings efforts to continue to improve efficiency and for Vision Banco to keep developing digital offers for clients.

Chart 1

Vision Banco is the largest player in Paraguay's microfinance segment
Top five players in Paraguayan microfinance industry



*Since May 2020, we include for Vision Banco some loans classifed as wholesale commerce. Source: S&P Global Ratings.

Capital And Earnings: RAC Ratio Of 4.5%-5.0% For The Next 18-24 Months

Our assessment of Vision Banco's capital and earnings remains constrained based on our forecast RAC ratio at 4.5%-5.0% in the next 18-24 months that incorporates the bank's capitalization plan and earnings retention.

To evaluate banks' capitalization level, we apply globally our risk-adjusted capital framework (RACF), regardless of regional regulations and banks' internal risk measures. Our RAC compares our definition of total adjusted capital (TAC) to our risk-weighted assets, reflecting a risk metric that's globally more comparable than regulatory ratios. In 2022, Vision Banco raised Paraguayan guarani (PYG) 6.5 billion in preferred shares (Preferidas Clase M), which we view as having intermediate equity content given its characteristics, which benefited Vision Banco's adjusted capital base. However, the still significant amount of intangibles--due to the deferral of provisions that we deduct from our capital calculation--offsets these benefits.

Our forecast incorporates our base-case scenario assumptions, which include:

- Better economic conditions in 2023 after the recovery from last year's severe drought.
- Loan portfolio expansion of 12% in 2023 and 6% in 2024.
- Sixty-day NPLs of about 5.5% by the end of 2023 and reduction in repossessed assets to about 1% of its portfolio in 2023-2024 (from the current 2%).
- Deferred loan loss provisions to continue to be recognized as expenses in results, following regulations.
- Gradual conversion of preferred stocks into common stocks.

Risk Position: Asset Quality Weaker than System Average Given The Portfolio Mix

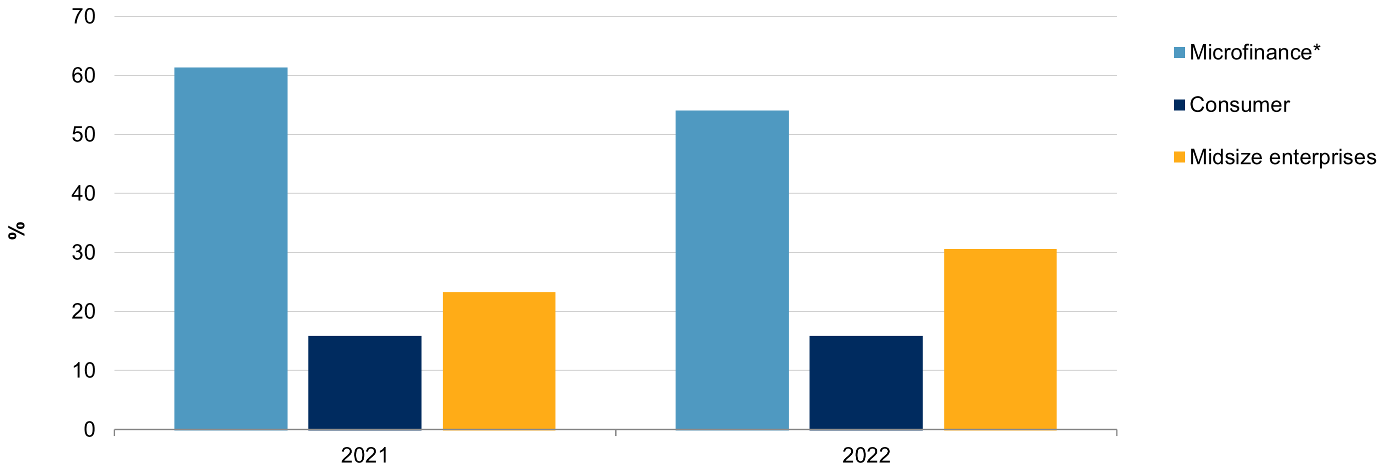
Vision Banco's asset quality metrics are weaker than the system average because it's more exposed to microfinance and middle- and lower-income borrowers that are more sensitive to changes in economic cycles. On the other hand, the bank's low-complexity operations, diversified portfolio by single-name exposures, and smaller exposure to dollarization than the industry average given its core business partially mitigate the impact of its weaker asset quality metrics.

During 2022, Vision Banco's asset quality deteriorated, as mentioned above. As of May 2023, NPAs (nonperforming assets, considering 60-days NPLs and repossessed assets) amounted to 8.8%, compared to 8.0% at the end of 2022 and 5.3% in 2021. The increase is partly explained by the incorporation of repossessed assets (in August 2022) that we think should be resolved in 2023 or early 2024. The entity had adequate coverage of past-due loans of about 118% as of May 2023 (87% when including repossessed assets).

Although metrics should improve in the second half of the year and 2024, we will continue to monitor asset quality and losses and the effects of the bank's strategy to increase exposure to the midsize enterprises segment.

Chart 2

Vision Banco's portfolio mix still has a high proportion of microfinance and SME loans



*Retails and SMEs. Source: S&P Global Ratings based on Vision Banco 2022 Annual Sustainability Report.

Vision Banco's exposure to dollarization remains below the industry average, given its core business. It has about 25% of its loans in foreign currency, compared with 48% in the banking system. We believe the management has conservative asset and liability mismatch controls to mitigate currency risk.

Funding And Liquidity: Diversified And Granular Deposit Base

We base our assessment of Vision Banco's funding on its diversified and stable deposit base thanks to a nationwide network and varied retail depositors. As of March 2023, deposits continued to be the bank's main funding source, accounting for about 92% of its funding, while the remainder was composed of credit lines from financial institutions (5%) and subordinated debt (3%).

Vision Banco's stable funding ratio (SFR) was 131% as of March 2023, with an average of 119% for the last three fiscal years (ending Dec. 31). Although this ratio is similar to those of Vision Banco's peers, we consider the bank's deposit base to be more stable, less confidence-sensitive (given the lower sophistication of retail deposits and the higher share of transactional deposits), and more granular than those of its peers. Vision Banco has one of the largest deposit bases by depositors in the system, although it's the eighth largest by volume. For the next 12-18 months, we expect Vision Banco to continue mainly funding its operations with local deposits.

Table 1

Vision Banco has one of the largest amounts of depositors in the system

# of depositors

	Entity	Dec-22	Dec-21
1	Banco Familiar	998,333	815,306
2	Vision Banco	856,223	797,793
3	Banco Itaú Paraguay	489,292	461,533
4	Banco GNB S.A. (en proceso de fusión por absorción)	272,331	228,496
5	Banco Continental	175,423	148,454
6	Banco Internacional de Finanzas (Interfisa)	117,094	112,060
7	Solar Banco S.A.E.C.A	114,809	
8	Banco Regional	109,687	102,937
9	Banco Atlas	106,217	91,488
10	Sudameris Bank Paraguay	87,059	76,809
11	Banco BASA	70,210	54,923
12	Banco Río	26,389	43,850
13	BANCOP	22,580	18,999
14	Banco de la Nación Argentina	4,786	4,293
15	Citibank Paraguay	210	207
16	Banco do Brasil	196	190

Source: S&P Global Ratings.

In addition, the improvement of the bank's digital platforms, which offer a wide variety of services and easy access, allows for increasing volume of clients and deposits, complementing its extensive physical network.

Vision Banco has adequate liquidity. As of March 2023, its broad liquid assets covered 16.8x its short-term wholesale funding, averaging 3.6x for the past three years.

Support: No Uplift To The Stand-Alone Credit Profile (SACP)

Our ratings on Vision Banco don't incorporate notching from external support from either the government (because we view the sovereign support to the banking system as uncertain) or the group (because Vision Banco is not part of any group).

Environmental, Social, And Governance

ESG Credit Indicators

Environmental	Social	Governance
E-1 E-2 **E-3** E-4 E-5	S-1 **S-2** S-3 S-4 S-5	G-1 **G-2** G-3 G-4 G-5
- Physical risks	- N/A	- N/A

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Vision Banco. We believe banks operating in Paraguay are exposed to climate risk due to their significant exposure to the agriculture and livestock sectors (about 35% of total loans), which expose the banking system to the cyclicality of the agriculture segment and weather events (including droughts and floods). Vision Banco has less direct exposure to these segments than peers, but its indirect exposure is in line with the industry.

In addition, social factors have a neutral effect on the ratings on Vision Banco. Despite the significant presence the bank has in the microfinance segment--supporting our view of better business stability--it's counterbalanced by higher credit risk from operations in this segment. Lastly, Vision Banco's governance is largely in line with industry practice, although the bank has been strengthening governance and risk monitoring practices over the last few years.

Key Statistics

Table 2

Vision Banco S.A.E.C.A.--Key figures

	--Year-ended Dec. 31--				
(Mil. PYG)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	7,566,563.5	7,349,552.2	8,004,638.3	7,973,299.5	7,405,260.8
Customer loans (gross)	5,357,596.5	5,428,033.8	5,847,433.2	5,771,156.4	5,483,605.6
Adjusted common equity	471,862.7	392,959.8	389,616.8	446,631.7	472,557.9
Operating revenues	213,996.1	911,868.6	831,571.1	758,639.8	806,632.1
Noninterest expenses	126,305.0	444,810.8	412,635.0	388,423.6	425,832.7
Core earnings	14,018.0	128,676.4	130,691.0	68,596.2	29,453.0

*Data as of March 31.PYG--Paraguayan guarani.

Table 3

Vision Banco S.A.E.C.A.--Business position

	--Year-ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Loan market share in country of domicile	4.4	4.4	5.3	5.7	5.9
Deposit market share in country of domicile	4.6	4.7	5.3	5.5	5.9

Table 3

Vision Banco S.A.E.C.A.--Business position (cont.)					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Return on average common equity	6.7	9.2	12.2	5.7	3.5

*Data as of March 31.

Table 4

Vision Banco S.A.E.C.A.--Capital and earnings					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	14.4	14.7	13.5	12.2	9.9
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	N/A	4.4	4.7
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	N/A	3.0	3.3
Adjusted common equity/total adjusted capital	75.2	75.2	74.9	79.9	82.3
Net interest income/operating revenues	67.6	61.8	70.0	69.7	67.5
Fee income/operating revenues	18.1	20.9	22.0	23.8	26.3
Market-sensitive income/operating revenues	2.5	2.3	2.6	1.5	1.7
Cost to income ratio	59.0	48.8	49.6	51.2	52.8
Preprovision operating income/average assets	4.6	5.9	5.1	4.8	5.3
Core earnings/average managed assets	0.7	1.6	1.6	0.9	0.4

*Data as of March 31. N/A--Not applicable.

Table 5

Vision Banco S.A.E.C.A.--Risk position					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	(5.2)	(7.2)	1.3	5.2	7.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	N/A	44.0	41.3
Total managed assets/adjusted common equity (x)	16.5	19.4	21.1	18.1	15.8
New loan loss provisions/average customer loans	5.3	5.9	4.8	5.2	6.2
Net charge-offs/average customer loans	N.M.	2.8	4.4	4.7	4.5
Gross nonperforming assets/customer loans + other real estate owned	8.0	7.9	5.3	4.4	4.4
Loan loss reserves/gross nonperforming assets	101.8	118.2	141.2	90.0	83.4

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Vision Banco S.A.E.C.A.--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	90.0	85.7	84.0	81.5	78.5
Customer loans (net)/customer deposits	80.1	85.4	87.8	92.7	100.3
Long-term funding ratio	98.3	94.7	92.7	92.6	90.3
Stable funding ratio	130.9	121.7	119.7	117.7	111.1

Table 6

Vision Banco S.A.E.C.A.--Funding and liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Short-term wholesale funding/funding base	1.8	5.8	7.8	7.9	10.6
Broad liquid assets/short-term wholesale funding (x)	15.8	4.3	3.3	3.0	2.1
Broad liquid assets/total assets	25.2	22.2	23.1	21.9	20.0
Broad liquid assets/customer deposits	32.0	29.4	30.8	29.5	28.3
Net broad liquid assets/short-term customer deposits	37.4	28.3	26.9	24.7	18.5
Short-term wholesale funding/total wholesale funding	14.4	34.0	42.7	39.7	45.9

*Data as of March 31.

Vision Banco--Rating Component Scores	
Issuer Credit Rating	**B/Stable/--**
SACP	b
Anchor	bb-
Economic risk	8
Industry risk	8
Business position	Adequate
Capital and earnings	Constrained
Risk position	Moderate
Funding	Strong
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of July 24, 2023)*		
Vision Banco S.A.E.C.A.		
Issuer Credit Rating		B/Stable/--
Issuer Credit Ratings History		
13-May-2020	*Foreign Currency*	B/Stable/--
22-May-2018		B/Positive/--
06-Jul-2016		B/Stable/--
13-May-2020	*Local Currency*	B/Stable/--
22-May-2018		B/Positive/--
06-Jul-2016		B/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.