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## Research Update:

# Vision Banco S.A.E.C.A. 'B' Credit Rating Affirmed; Outlook Remains Stable


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**Research Update:**

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## Overview

- Paraguay-based Vision Banco has stanched asset quality deterioration throughout 2016, and we expect it to remain at manageable levels but above the system average for the next 12-18 months given the bank's exposure to sectors more susceptible to soft economic conditions.
- We're affirming our 'B' issuer credit rating on the bank.
- The stable outlook reflects our view that the bank's asset quality metrics will remain stable, while profitability and capitalization gradually improve, although we expect its risk-adjusted capital (RAC) ratio to remain below 5% for the next two years.

## Rating Action

On June 2, 2017, S&P Global Ratings Services affirmed its 'B' long-term issuer credit rating on Vision Banco S.A.E.C.A. (Vision). The outlook remains stable.

## Rationale

The rating on Vision reflects our view of its leading market position and strong expertise in the microfinance segment in Paraguay; weak capital and earnings despite recent improvements based on our forecasted RAC ratio 4.5%-4.7% for the next 18-24 months; weaker-than-average asset quality indicators given the bank's exposure to the microfinance and consumer businesses (middle and lower income segments), which are more susceptible to soft economic conditions, although mitigated by a more fragmented and less dollarized loan portfolio compared with those of its peers. We also incorporate in our ratings Vision's diversified and stable deposit base thanks to a nationwide branch network and its adequate liquidity, with liquidity metrics in line with those of other rated banks in the country.

Our bank criteria use our Banking Industry Country Risk Assessment's 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 is 'bb-' (please see "Banking Industry Country Risk Assessment: Paraguay," published on Dec. 7, 2016.)

Vision's business position stems from its leading position in the microfinance segment, where about 42% of its portfolio is allocated, and its extensive branch network and non-bank correspondent business model that serves the large informal sector in the country. As of December 2016, the bank was the sixth-largest financial institution in Paraguay in terms of loans and the seventh largest in terms of deposits, with market shares of 5.7% and 5.2%, respectively. The bank continues to focus on the microfinance and retail segments, which together accounted for 76% of total loans, compared with the 28% industry average. We expect Vision to continue focusing on its core businesses, which have higher credit growth rates, than other banks for the next two years given subdued demand for corporate and agriculture lending, which represents the bulk of the system's portfolio. Moreover, Vision's profitability improved due to stricter underwriting standards that reduced credit loss provisions during 2016. We expect it to gradually improve going forward, although the bank is exposed to segments more susceptible to economic fluctuations and trade conditions to neighboring countries.

Vision's weak capital and earning position is based on our expectation that its RAC ratio will average 4.5%-4.7% during the next 18-24 months. The bank should gradually enhance capitalization levels for the next two years given expected recovery in internal capital generation capacity and stabilization of credit losses. Vision has an adequate regulatory capital ratio, with a Tier 1 capital ratio of 9.17%, which includes preferred stocks, and a regulatory ratio of 14.1% as of December 2016, compared to minimum requirements of 8% and 12%, respectively.

Our current forecast considers our base-case scenario assumptions, which include the following factors:

- Paraguay's real GDP growing 3.7% in 2017 and 4.0% in 2018;
- Loan growth of 10% and 12% in 2017 and 2018, respectively, in nominal terms;
- Stable net interest margins (NIMs) close to 10% for the following years;
- Nonperforming loans (NPLs) below 5%, fully covered by reserves, and net charge-offs to average customer loans (NCOs) of 2.5% during the next 18 months; and
- Preferred and common dividends in line with historical figures, and gradual conversion of preferred stocks into common stocks.

In 2016, the bank has succeeded to stanch the asset quality deterioration stemming from regulatory changes and sluggish economic conditions in the past two years. As of December 2016, NPLs decreased to 4.4% from 4.9% one year before, while NCOs dropped to 2.5% from 8.6%. We expect the bank to maintain manageable asset quality indicators and sufficient reserves for the next two years. Still, these levels are fairly higher than the system average NPLs of 2.8% as of December 2016, which is reflected in our risk position assessment of Vision. Moreover, the bank's credit portfolio grew 7.5% against a flat lending growth of the overall system, mainly due to consumer lending growth. Aggressive growth rates could add risks if they're not accompanied by gradual improvements in local and regional economic dynamics. Nevertheless, credit risks for Vision are mitigated by a fragmented loan portfolio with no significant single name concentration. In addition, dollarization represents 24% of the bank's total loans against the system's 49%.

Vision's funding is based on a diversified and stable deposit base thanks to a nationwide branch network and granular retail depositors. As of December 2016, deposits continued to be the bank's main funding source, accounting for about 81% of its funding, while the remainder was composed of financial institutions lines (14%) and subordinated debt (5%). Vision's stable funding ratio (SFR) was 113% as of December 2016, with an average of 111% for the last three fiscal years. Although this ratio is similar to those of its peers, we consider the bank's deposit base to be more stable, less confidence-sensitive (given the lower sophistication of retail deposits, and the high share of transactional deposits), and more granular than those of its peers. The 20 largest deposits represented only 7.3% of total deposits as of Dec. 31, 2016.

We view the bank's liquidity position as adequate because its liquidity metrics, such as broad liquid assets over short-term wholesale funding, have historically been at comfortable levels and in line with other rated peers. As of December 2016, the ratio increased to 2.3x from 1.7x in December 2015. We expect Vision to maintain its adequate liquidity, with conservative asset and liability management (ALM), keeping liquidity above 2x given the bank's lower growth prospects for the next 12-18 months and deposit stability. In addition, net customer loans to customer deposits remained stable at 113%, averaging 111% in the last three years.

## Outlook

The stable outlook reflects our view that the bank's asset quality metrics will stabilize and remain at manageable levels in the next 12 months, but they will still be higher than the system average. In addition, we expect Vision's profitability to gradually recover in the next 18-24 months, although we expect its RAC ratio to remain below 5%, according to our base-case scenario.

### Downside scenario

We could lower the rating on the bank within 12 months if credit losses are higher than expected, asset quality significantly deteriorates, or if loan loss reserves don't sufficiently cover NPLs. We could also lower our capital and earnings assessment if the RAC ratio drops below 3%. Still, we believe those scenarios are unlikely at this moment given improving results and favorable prospects for economy in the next 12 months.

### Upside scenario

We could raise the ratings if the bank consistently registers RAC ratios above 5% for the next 18-24 months.

## Ratings Score Snapshot

| | |
|---|---|
| Counterparty Credit Rating | B/Stable/-- |
| SACP | b |

| | |
|---|---|
| Anchor | bb- |
| Business Position | Adequate (0) |
| Capital and Earnings | Weak (-1) |
| Risk Position | Moderate (-1) |
| Funding and Liquidity | Above Average and Adequate (0) |
| | |
| Support | 0 |
| GRE Support | 0 |
| Group Support | 0 |
| Sovereign Support | 0 |
| | |
| Additional Factors | 0 |

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed

| | |
|---|---|
| Vision Banco S.A.E.C.A. | |
| Counterparty Credit Rating | B/Stable/-- |

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.