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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.

SACP	b	+	Support	0	+	Additional Factors	0

Anchor	bb-	
Business Position	Adequate	0
Capital and Earnings	Weak	-1
Risk Position	Moderate	-1
Funding	Above Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
B/Positive/--

Major Rating Factors

Strengths:	Weaknesses:
• Leading market position in the microfinance segment and ample client base; and • Sound management track record and good knowledge of its lending segment.	• Concentration in a high-risk lending segment; • Weak regulatory framework in Paraguay's financial system, although improving; and • Overall frail institutions in the country that limit effective policymaking.

Outlook: Positive

The positive outlook on Vision Banco S.A.E.C.A. (Vision) over the next 12 months reflects that we could potentially upgrade the bank if it enhances its capital and earnings profile through a capital injection--with a risk-adjusted capital (RAC) ratio consistently above 5%--and if other credit factors remain stable. We expect Vision to maintain manageable asset quality metrics that are nonetheless weaker than the system average due to its loan portfolio focus, but in line with peers that operate in the same segment. The bank should also maintain its satisfactory competitive position in the segment where it operates, and a stable funding and liquidity profile that incorporates its focus on retail funding, which tends to be more stable than wholesale.

Downside scenario

We could revise the outlook to stable over the next 12 months if stakeholders don't complete the capital injection and the bank's RAC ratio remains below 5%, or if the capital injection is offset by factors such as a significant losses or strong credit growth. We could also lower the rating if the bank's credit losses are higher than expected and asset quality worsens to levels seen at the end of 2015.

Rationale

The rating on Vision reflects our view of its leading market position and its expertise in the microfinance segment in Paraguay. Additionally, it incorporates our belief that the bank's RAC ratio will average 4.5% in the next 12-18 months. Vision has asset quality metrics weaker than those of the banking system's average given its exposure to the microfinance and consumer businesses (with middle- and lower-income borrowers). We also incorporate Vision's diversified and stable deposit base, thanks to a nationwide branch network; and its adequate liquidity, with metrics in line with those of other rated banks in the country.

The ratings are the same as the bank's 'b' stand-alone credit profile (SACP) because we don't incorporate notching from external support from either the government or the group.

Anchor: 'bb-' for banks operating in Paraguay

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic 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-'.

Paraguay's economy has been resilient to the region's economic struggles, with real GDP growth of 3.7% and with inflation contained at 4% last year, within the central bank's target of 2%-6%. For 2019, we expect economic growth to slow with a real GDP expansion of 2.5% due to weather issues and sluggish growth in Brazil and Argentina, with Paraguay's GDP per capita at $5,830. Paraguay also continues to face institutional challenges that we don't think it is likely to resolve in the near term, but its policy choices will continue to support sustainable public finances and economic growth. Domestic credit increased 15.3% in nominal terms in 2018, following two years of sharp deceleration. We believe the current credit expansion, together with the low variation in real estate prices, signal a low likelihood of asset bubble imbalances. However, the rapid credit expansion amid still low GDP per capita, which is about $5,800, could raise risks to the financial system, given that household and corporate debt is climbing. Still, in light of lower economic growth we forecast credit growth of 9% this year and 10% next year. The banking sector also has high credit risk given its considerable exposure to foreign currency lending and to cyclical sectors such as agriculture and cattle.

The banking sector's industry risk reflects our view of Paraguay's regulatory framework that, although improving, is still behind international standards. In our opinion, the government does not have a record of effective support to the banking sector. In terms of competitive dynamics, we believe that high profitability and rapid credit and asset growth in past few years reflect an aggressive risk appetite. Furthermore, we consider that the presence of relatively large unregulated cooperativas (credit unions) introduce market distortions. The banking system continues to rely mostly on deposits for funding.

Table 1

Vision Banco S.A.E.C.A. Key Figures

	--Year-ended Dec. 31--				
(Mil. PYG)	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	6,792,547.6	6,304,701.6	5,619,532.9	5,679,901.4	4,797,154.4

Table 1

Vision Banco S.A.E.C.A. Key Figures (cont.)

	--Year-ended Dec. 31--				
(Mil. PYG)	**2018**	**2017**	**2016**	**2015**	**2014**
Customer loans (gross)	5,102,701.6	4,741,860.2	4,223,009.6	3,925,698.5	3,555,895.2
Adjusted common equity	444,031.8	401,797.6	341,656.0	292,317.1	307,664.8
Operating revenues	753,092.4	692,705.9	670,570.2	794,716.0	629,012.6
Noninterest expenses	404,941.0	413,026.4	416,366.2	411,035.2	386,032.3
Core earnings	60,786.7	65,642.5	60,880.9	17,419.7	73,998.1

PYG--Paraguayan guarani.

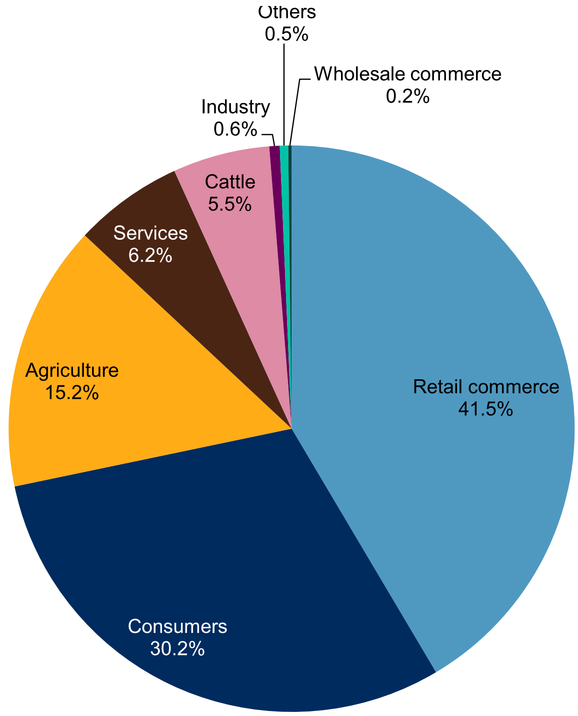
Business position: Leading position in microfinance with good geographic diversification

We maintain our view of Vision's satisfactory competitive position in the Paraguayan financial system based on its leading position in the microfinance segment, where it has about 43% of its portfolio; its broad presence and franchise in the country; and its large and stable customer base, all of which confer business stability.

As of April 2019, the bank was the seventh-largest financial institution in Paraguay in terms of loans and deposits, with market shares of 5.6% and 5.7%, respectively. The bank continues to focus on the microfinance and retail segments, which generate higher net interest margins (NIMs) than those of the country's largest banks that operate in multiple segments. These two lending segments together account for 72% of Vision's total loan portfolio, compared with the 22% industry average. For the next 12-18 months, we expect Vision to continue expanding its core businesses, with a focus on its existing client base and on improving cross-selling, with strict control over administrative expenses and no major changes in its loan portfolio composition. We expect the bank to continue to focus on enhancing its digital channels by digitalizing its operations.

Chart 1

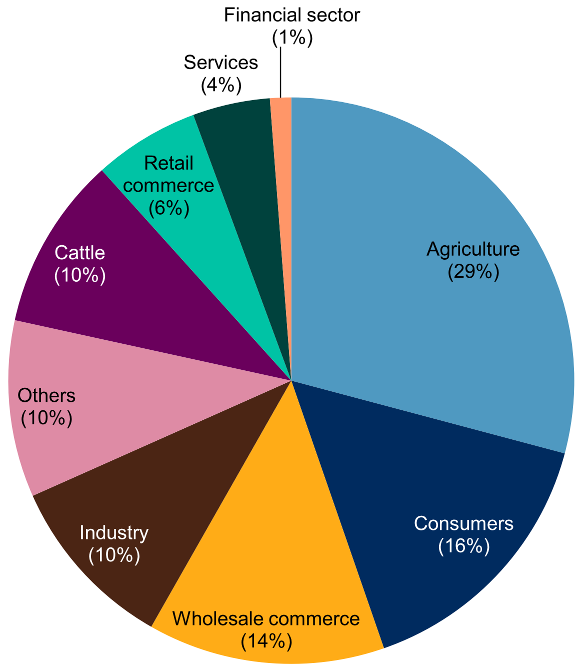
Vision Banco Portfolio Breakdown
As of April 2019



Source: Banco Central de Paraguay (BCP).

Chart 2

Banking System Portfolio Breakdown
As of April 2019



Source: Banco Central de Paraguay (BCP).

Table 2

Loan Market Share Evolution (%) -- Commercial (Retail)

Domestic market share in commercial (retail) segment

	Apr-19	Dec-18
Visión Banco S.A.E.C.A.	35.70	37.20
Banco Continental S.A.E.C.A.	17.56	17.27
Banco Regional S.A.E.C.A.	14.03	13.80
Banco Itaú Paraguay S.A.	8.49	7.96
Banco Familiar S.A.E.C.A.	7.79	7.15
Banco GNB Paraguay S.A.	4.45	4.34
Banco Atlas S.A.	2.70	2.94
Banco Amambay S.A.	2.33	2.49
Grupo Internacional de Finanzas S.A.E.C.A. - INTERFISA BANCO	2.27	2.44
Banco Rio S.A.E.C.A.*	1.66	1.41

Source: BCP. Retail--Consumer loans + mortgages. *Previously Banco Itapua S.A.E.C.A before merger in February 2019 with Financiera Rio.

Table 3

Loan Market Share Evolution (%) -- Retail

Domestic market share in retail segment

	Apr-19	Dec-18
Banco Itaú Paraguay S.A.	33.49	35.24
Visión Banco S.A.E.C.A.	12.70	14.08
Banco Familiar S.A.E.C.A.	11.36	11.95
Banco Bilbao Vizcaya Argentaria Paraguay S.A.	8.57	9.01
Banco Atlas S.A.	7.86	8.23
Banco Rio S.A.E.C.A.*	7.34	1.54
Banco Regional S.A.E.C.A.	5.57	5.62
Banco Continental S.A.E.C.A.	5.43	6.13
Banco Amambay S.A.	2.14	2.17
Sudameris Bank S.A.E.C.A.	2.06	2.29

Source: BCP. Retail--Consumer loans + mortgages. *Previously Banco Itapua S.A.E.C.A before merger in February 2019 with Financiera Rio.

Table 4

Vision Banco S.A.E.C.A. Business Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Loan market share in country of domicile	6.1	6.5	6.0	5.6	6.2
Deposit market share in country of domicile	5.8	5.8	5.2	5.6	5.7
Return on average common equity	11.6	9.4	11.6	2.7	22.2

Capital and earnings: RAC ratio of about 4.5% for the next 18-24 months

Our assessment of Vision's capital and earnings remains weak, based on our expectation that its RAC ratio will average 4.5% during the next 18-24 months. Our current forecast considers our base-case scenario assumptions, which include the following:

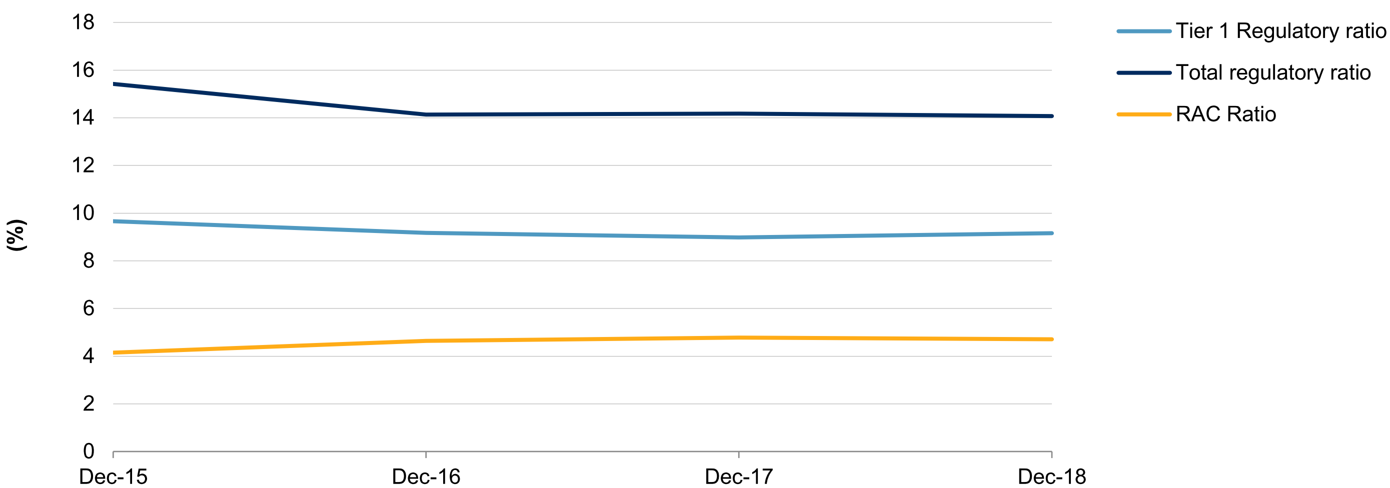
- Paraguay's real GDP growth of about 2.5% in 2019 and 4.5% in 2020, with inflation averaging 4% for both years;
- Loan portfolio growth of 10% in both 2019 and 2020, in nominal terms, above the banking system's likely growth of 9%;
- Slightly lower NIMs given the high competition in the banking system;
- Core earnings to average adjusted assets of about 1.0%-1.2%, with efficiency metrics (measured as non-interest expenses to operating revenue) of 54%;
- Nonperforming assets (NPAs; which include nonperforming loans [NPLs] and repossessed assets) of about 5% for the next two years. Reserves will fully cover NPLs in 2020, and net charge offs (NCOs) to average customer loans will be 4% in 2019-2020;
- Gradual conversion of preferred stocks into common stocks; and
- Dividend payout of about 57% in 2019 and 43% in 2020.

In April 2018, Vision's stakeholder meeting approved the issuance of Paraguayan guarani (PYG) 55 million ($8.8 million) of preferred stocks and PYG27.5 million ($4.5 million) of common equity in 2019, and the same amount in 2020. In December 2018, PYG14.8 million of preferred stocks have been integrated, and the remaining amount should be integrated this year.

The integration of the remaining preferred and ordinary stocks could prompt us to raise our capital and earning assessment and our ratings on the bank in the next 12 months, as long as our base-case scenario assumptions and all other credit fundamentals remain stable.

Chart 3

Regulatory Capital Versus RAC Ratio



RAC--Risk-adjusted capital. Source: BCP & S&P Global Ratings.

Table 5

Vision Banco S.A.E.C.A. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	9.2	9.0	9.2	9.7	9.7
S&P Global Ratings' RAC ratio before diversification	4.7	4.8	4.6	4.1	--
Adjusted common equity/total adjusted capital	83.5	81.8	74.6	71.1	74.2
Net interest income/operating revenues	69.6	72.7	68.5	61.6	71.5
Fee income/operating revenues	22.8	25.3	25.6	20.2	23.8
Market-sensitive income/operating revenues	1.1	(0.7)	2.8	2.4	2.8
Noninterest expenses/operating revenues	53.8	59.6	62.1	51.7	61.4
Preprovision operating income/average assets	5.3	4.7	4.5	7.3	5.3
Core earnings/average managed assets	0.9	1.1	1.1	0.3	1.6

N/A--Not applicable.

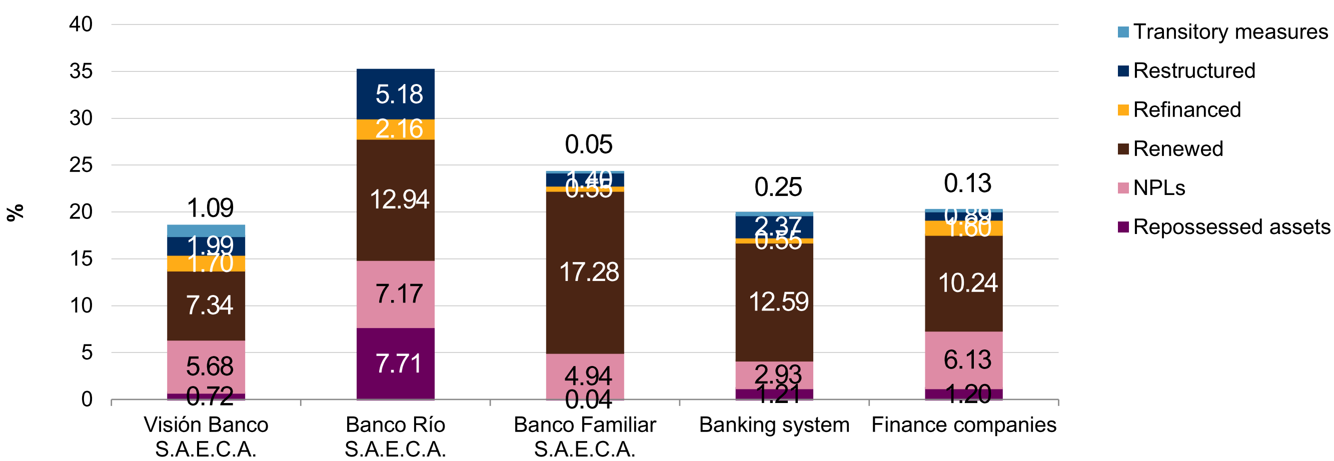
Risk position: Asset quality metrics remain weaker than the industry average

Vision's asset quality metrics are still weaker than the system average, but are in line with peers that operate in the same segment and better than in previous years. Nonetheless, 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 all mitigate its weaker asset quality metrics.

As of December 2018, NPAs amounted to 5.1%, down from 5.5% one year before. However, NCOs rose to 4.0% from 3.5% the previous year and 2.6% in 2016, still higher than historical levels, but lower than 8.5% in 2015. Current NPAs are higher than the system average for NPAs (4.1% as of December 2018). As of the same date, the bank's credit portfolio expanded 8% against the 15% lending growth in the overall system, mainly due to consumer and microfinance lending growth. Aggressive growth rates could add risks if they aren't accompanied by gradual improvements in domestic and regional economies. In addition, the bank's exposure to dollarization is smaller than the industry average, given its core business, with about 23% of its credits in foreign currency, compared with 49% in the banking system. We believe the management has conservative asset and liability mismatch controls in order to mitigate currency risk. For the next 12-18 months, we expect the bank to maintain manageable asset quality indicators and sufficient reserves, without major shifts in its loan portfolio, as the bank focuses on existing clients.

Chart 4

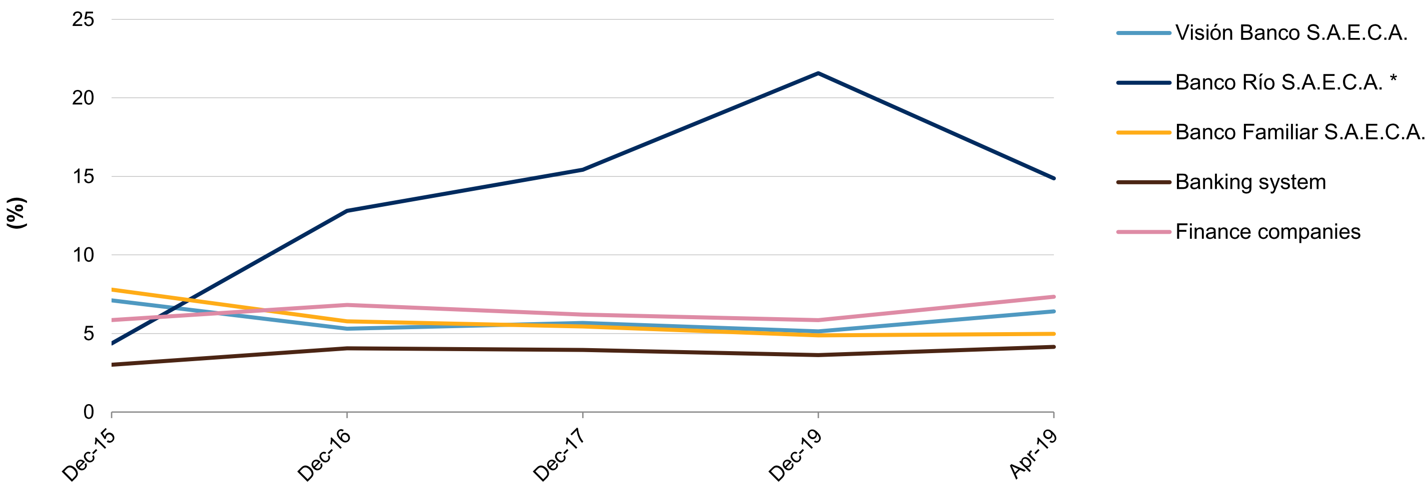
NPAs + Renewed, Refinanced, And Restructured Composition
As of April 2019



Source: BCP

Chart 5

NPAs Evolution



Source: BCP. *Previously Banco Itapua S.A.E.C.A before merger in Feb. 2019 with Financiera Rio.

Table 6

Vision Banco S.A.E.C.A. Risk Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	7.6	12.3	7.6	10.4	15.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	44.4	N/A	N/A	N/A
Total managed assets/adjusted common equity (x)	15.4	15.7	16.5	19.5	15.7
New loan loss provisions/average customer loans	5.3	4.2	4.1	9.1	4.3
Net charge-offs/average customer loans	4.0	3.5	2.6	8.8	3.6
Gross nonperforming assets/customer loans + other real estate owned	5.1	5.7	5.2	5.4	2.9
Loan loss reserves/gross nonperforming assets	82.6	68.2	78.0	58.9	112.4

N/A--Not applicable.

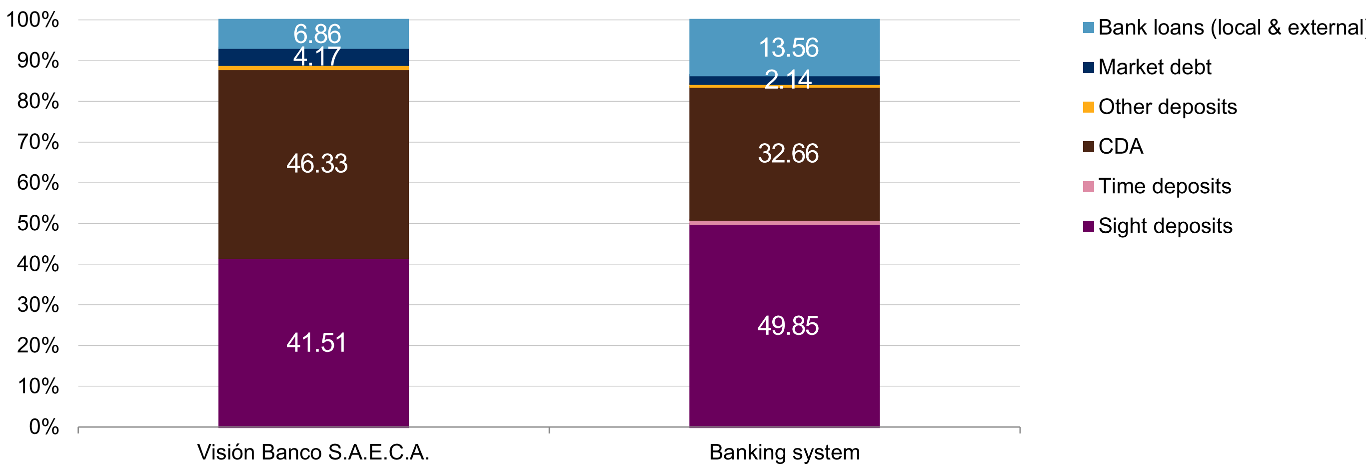
Funding and liquidity: Diversified and relatively stable deposit base

We base our assessment of Vision's funding on its diversified and stable deposit base thanks to a nationwide branch network and varied retail depositors. As of December 2018, deposits continued to be the bank's main funding source, accounting for about 88% of its funding, while the remainder was composed of credit lines from financial institutions (8%) and subordinated debt (4%). Vision's stable funding ratio (SFR) was 111% as of December 2018, with an average of 112% for the last three fiscal years. Although this ratio is similar to those of Vision'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 high share of transactional deposits), and more granular than those of its peers. For the next 12-18 months, we expect this funding structure and its characteristics to remain similar, while the bank's SFR stays above 100%.

In our view, the bank's liquidity position provides a comfortable cushion to meet its short-term obligations, with broad liquid assets to short-term wholesale funding of 2.6x as December 2018 and 2.0x on average for the past three years. For the next 12-18 months, we expect Vision's liquidity to remain adequate given its low refinancing risk and comfortable levels of liquidity.

Chart 6

Funding Breakdown
As of April 2019



Source: BCP.

Table 7

Vision Banco S.A.E.C.A. Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	79.4	75.5	72.4	68.6	72.6
Customer loans (net)/customer deposits	103.0	104.4	110.7	106.6	109.6
Long-term funding ratio	91.6	90.5	91.2	84.2	85.3
Stable funding ratio	110.6	113.0	111.8	112.4	107.5
Short-term wholesale funding/funding base	9.1	10.3	9.6	17.0	16.2
Broad liquid assets/short-term wholesale funding (x)	2.6	2.2	2.3	1.7	1.5
Net broad liquid assets/short-term customer deposits	22.8	19.6	22.0	20.8	13.0
Short-term wholesale funding/total wholesale funding	41.5	39.5	32.1	50.6	53.5

Related Criteria

- 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

- 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: 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

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 June 25, 2019)*

Vision Banco S.A.E.C.A.	
Issuer Credit Rating	B/Positive/--
Issuer Credit Ratings History	
22-May-2018	B/Positive/--
06-Jul-2016	B/Stable/--
04-Mar-2016	B+/Negative/--
16-Oct-2015	BB-/Negative/--
03-Aug-2015	BB-/Stable/--
20-Aug-2014	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.