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Ratings

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

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Table Of Contents

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/Stable/--

Major Rating Factors

Strengths:	Weaknesses:
• Leading market position in the microfinance segment and ample client base; and • Adequate management track record and good knowledge of its lending segment.	• Concentration in a high-risk lending segment that's more affected by COVID-19 relative to others; • Weak regulatory framework in Paraguay's financial system, although improving; and • Overall frail institutions in the country that limit effective policymaking.

Outlook: Stable

The stable outlook on Vision Banco S.A.E.C.A. (Vision) for the next 12 months reflects our expectation that the impact from COVID-19 on the bank's profitability will delay improvement on its capital, despite the conclusion of its capitalization plan, leading to capital ratios in the upper range for the rating category. We also expect asset quality metrics to weaken more than the system average due to the bank's focus on lending to segments more vulnerable to COVID-19's impact, although mitigated by the central bank's measures and Vision's capitalization plan.

Downside scenario

We could lower the ratings on the bank if the asset quality deterioration is much more severe than the industry average.

Upside scenario

We could upgrade Vision if it's able to improve capitalization levels consistently due to adequate profitability and finalization of its capitalization plan, while maintaining manageable credit losses once the full impact from COVID-19 on the economy is concluded. This scenario is unlikely at this point, and could only materialize in the next few years.

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 4.7% in the next 12-18 months even after the completion of the bank's capital increase plan. Vision has asset quality metrics weaker than those of the banking system's average, and we expect this to continue, because we foresee that the impact from COVID-19 will be somewhat larger given Vision's 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 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-'.

We view economic risks in Paraguay to be higher than the global average. Paraguay's economic growth came to a halt in 2019, following adverse climate conditions, subdued economic growth in its main trading partners, and political uncertainty. While we were expecting real economic growth to resume this year, following the impact from COVID-19 we now expect the country's GDP to contract 2.5% and only to regain growth in 2021 (at about 4.5%). Following a weaker economic performance in 2019, credit expansion slowed to 9.7% on nominal terms and we expect it to remain within low single digits credit growth in 2020. Additionally, we expect asset quality in the system to continue to weaken, with higher 60-day nonperforming loans (NPLs) as well as higher stock of repossessed assets amid the weaker economic conditions over 2019-2020, only partially mitigated by central bank measures. Furthermore, the banking system has high credit risk given its considerable exposure to foreign currency loans 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. Nonetheless, the local regulator took several measures in terms of liquidity facilities, loan moratoriums, and different programs to provide guarantee to SMEs in order to mitigate the impact of COVID-19 on the banking system and the local economy. We consider that the presence of relatively large cooperatives (credit unions) and unregulated finance companies introduce market distortions. The banking system continues to rely mostly on deposits for funding both in local and foreign currency, which have showed an upward trend during month due to COVID-19 impact. Dollarization remains high because of the economy's exposure to dollar-generator sectors.

Table 1

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

	--Year ended Dec. 31--				
(Mil. PYG)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	7,405,260.8	6,792,547.6	6,304,701.6	5,619,532.9	5,679,901.4
Customer loans (gross)	5,483,605.6	5,102,701.6	4,741,860.2	4,223,009.6	3,925,698.5
Adjusted common equity	472,557.9	444,031.8	401,797.6	341,656.0	292,317.1
Operating revenues	806,632.1	753,092.4	692,705.9	670,570.2	794,716.0
Noninterest expenses	425,832.7	404,941.0	413,026.4	416,366.2	411,035.2
Core earnings	29,453.0	60,786.7	65,642.5	60,880.9	17,419.7

PYG--Paraguayan guarani.

Business position: Leading position in microfinance with good geographic diversification

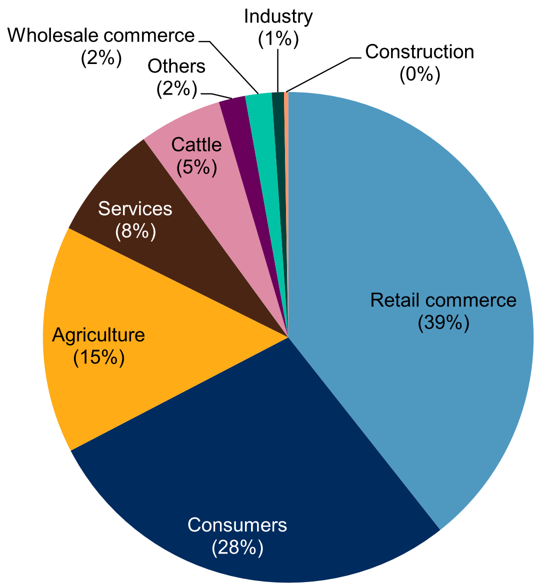
We maintain our view of Vision's satisfactory competitive position in the Paraguayan financial system based on its leading position in the microfinance segment, where it has about 42% of its portfolio; its broad presence and franchise in the country; and its large and stable customer base, all of which confer business stability.

As of April 2020, the bank was the eighth largest financial institution in Paraguay in terms of loans and deposits, with market shares of 5.9% and 5.6%, 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 67% of Vision's total loan portfolio, compared with the 23% industry average.

For the next 12-18 months, we expect Vision to focus on helping current clients face the impact of COVID-19 with the support of measures taken by the regulator in Paraguay. Over the next few years, the bank should keep focusing on its existing client base, with no major changes in its loan portfolio composition. We expect the bank to continue to enhance its digital channels by digitalizing its operations.

Chart 1

Vision Banco Portfolio Breakdown
As of April 2020



Source: Banco Central de Paraguay (BCP).

Table 2

Deposit Market Share Evolution (%)

Bank	**Apr-20**	Dec-19
Visión Banco S.A.E.C.A.	35.63	35.80
Banco Continental S.A.E.C.A.	16.64	17.01
Banco Regional S.A.E.C.A.	12.22	13.65
Banco Familiar S.A.E.C.A.	8.22	7.53
Banco Itaú Paraguay S.A.	7.26	6.31
Banco GNB Paraguay S.A.	5.54	5.86
Banco Atlas S.A.	3.60	3.86
Banco BASA S.A.	3.19	3.02
Grupo Internacional de Finanzas S.A.E.C.A. - INTERFISA BANCO	2.47	2.34
Banco Río S.A.E.C.A.	1.58	1.47

Source: BCP.

Table 3

Loan Market Share Evolution (%)		
Bank	**Apr-20**	**Dec-19**
Banco Itaú Paraguay S.A.	25.02	26.21
Banco Nacional de Fomento	24.54	24.04
Visión Banco S.A.E.C.A.	10.06	10.02
Banco Familiar S.A.E.C.A.	9.28	8.90
Banco Bilbao Vizcaya Argentaria Paraguay S.A.	7.43	7.03
Banco Atlas S.A.	6.53	6.36
Banco Regional S.A.E.C.A.	4.81	4.70
Banco Continental S.A.E.C.A.	3.69	3.86
Banco Río S.A.E.C.A.	2.44	2.77
Banco BASA S.A.	1.86	1.88

Source: BCP - Retail: Consumer loans + Mortgages.

Table 4

Vision Banco S.A.E.C.A.--Business Position					
	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Loan market share in country of domicile	5.9	6.1	6.5	6.0	5.6
Deposit market share in country of domicile	5.9	5.8	5.8	5.2	5.6
Return on average common equity	3.5	11.6	9.4	11.6	2.7

Capital and earnings: RAC ratio of about 4.7% 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 remain at 4.7% in the coming 12-18 months despite the conclusion of its capital increase plan. This is because we believe that uncertainties about the impact of COVID-19 on the bank's profitability, credit losses, and capital levels will more than compensate for the integration of the pending capital increase.

In April 2018, Vision's shareholders agreed to increase the bank's capital for a total of PYG110 billion. The capital strengthening was going to occur through preferred and ordinary stocks during the next two years. Vision planned to issue the committed common stock for PYG55 billion in halves during 2019 and 2020, while issuing preferred stock for another PYG55 billion in the local market during 2018. By the end of 2019, the shareholders integrated PYG12.3 billion in new common stocks, while the remaining amount to reach the committed PYG27.5 billion for the year was done through retained earnings. The remaining committed amount for 2020 will be integrated in a mix of new capital and retained earnings.

Additionally, Vision was able to place only PYG32.5 billion in preferred stocks in the local market in two tranches during 2018 and 2019. The remaining PYG22.5 billion will be proposed at the upcoming shareholders meeting to be integrated with retained earnings, and no dividend payments from 2019 results.

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

- Paraguay's real GDP to contract about 2.5% in 2020 and to grow 4.5% in 2021;

- Low single digit loan portfolio growth in 2020 and picking up to 8%-10% in 2021, in line with our expectations for the banking system;
- Lower profitability because we expect lower NIMs and higher cost related to provisioning expenses;
- Nonperforming assets (NPAs; which include nonperforming loans [NPLs] and repossessed assets) of about 5.0%-6.5% for the next two years;
- Gradual conversion of preferred stocks into common stocks; and
- No dividend payment in 2020 on ordinary stocks.

Table 5

Vision Banco S.A.E.C.A.--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	9.9	9.2	9.0	9.2	9.7
S&P Global Ratings' RAC ratio before diversification	4.7	4.7	4.8	N/A	N/A
S&P Global Ratings' RAC ratio after diversification	3.3	3.4	3.3	N/A	N/A
Adjusted common equity/total adjusted capital	82.3	83.5	81.8	74.6	71.1
Net interest income/operating revenues	67.5	69.6	72.7	68.5	61.6
Fee income/operating revenues	26.3	22.8	25.3	25.6	20.2
Market-sensitive income/operating revenues	1.7	1.1	(0.7)	2.8	2.4
Noninterest expenses/operating revenues	52.8	53.8	59.6	62.1	51.7
Preprovision operating income/average assets	5.3	5.3	4.7	4.5	7.3
Core earnings/average managed assets	0.4	0.9	1.1	1.1	0.3

N/A--Not applicable.

Risk position: Asset quality metrics remain weaker than the industry average amid COVID-19 impact

Vision's asset quality metrics are still weaker than the system average and we expect them to remain so due to the impact of COVID-19. 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.

At the end of last year, NPAs amounted to 4.4%, down from 5.1% one year before. However, net charge-offs (NCOs) rose to 4.5% from 4.0% the previous year and 3.5% in 2017, still higher than historical levels, but lower than 8.5% in 2015. Nevertheless, we expect Vision's asset quality to weaken in upcoming months because we believe that the social distancing measures will have a larger impact on the bank's loan portfolio given its higher exposure to microfinance and consumer businesses (with middle- and lower-income borrowers), which represent about 67% of the total portfolio. In this context, NPAs increased to 5.5% as of April 2020, but are largely mitigated by measures taken by the central bank to allow loan refinancing without changing the loan category to help clients affected by COVID-19 (new set of "temporary measures"). As of April 2020, Vision has reported a higher use of these temporary measures compared to peers in the same segments, but usage and refinancing methodologies have varied from bank to bank, which makes it more difficult to compare the central bank data in terms of these measures.

Vision's exposure to dollarization remains 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.

Table 6

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

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	7.5	7.6	12.3	7.6	10.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	41.3	40.2	44.4	N/A	N/A
Total managed assets/adjusted common equity (x)	15.8	15.4	15.7	16.5	19.5
New loan loss provisions/average customer loans	6.2	5.3	4.2	4.1	9.1
Net charge-offs/average customer loans	4.5	4.0	3.5	2.6	8.8
Gross nonperforming assets/customer loans + other real estate owned	4.4	5.1	5.7	5.3	5.4
Loan loss reserves/gross nonperforming assets	83.4	82.1	68.0	77.3	58.3

N/A--Not applicable.

Funding and liquidity: Diversified and granular 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 2019, 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%) in line with a year before. Vision's stable funding ratio (SFR) was 111% as of December 2019, 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. During the first four months of 2020, deposits declined 1% due to a 4% decline in local currency deposits, partially compensated for by a 12.5% increase in foreign currency deposits (11.6% measured in dollars). For the next 12-18 months, we expect Vision to continue funding its operations with local deposits.

Vision has adequate liquidity levels, although they're somewhat lower than industry levels because the industry has significantly increased its liquidity position in the first four months of the year. In this sense, Vision's liquid assets and transitory investments represented about 30% of total deposits at the end of April 2019 compared to 42% of industry average (and 30% and 36%, respectively at the end of 2019). Vision's broad liquid assets to short-term wholesale funding ratio was 2.1x as December 2019 and 2.3x 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 in terms of market debt maturities.

Table 7

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

	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	78.5	79.4	75.5	72.4	68.6
Customer loans (net)/customer deposits	100.3	103.0	104.4	110.7	106.6
Long-term funding ratio	90.3	91.6	90.5	91.2	84.2
Stable funding ratio	111.1	110.6	113.0	111.8	112.4

Table 7

Vision Banco S.A.E.C.A.--Funding And Liquidity (cont.)					
	--Year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Short-term wholesale funding/funding base	10.6	9.1	10.3	9.6	17.0
Broad liquid assets/short-term wholesale funding (x)	2.1	2.6	2.2	2.3	1.7
Net broad liquid assets/short-term customer deposits	18.5	22.8	19.6	22.0	20.8
Short-term wholesale funding/total wholesale funding	45.9	41.5	39.5	32.1	50.6

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

Related Research

- Vision Banco S.A.E.C.A. Outlook Revised To Stable From Positive On Pandemic-Induced Uncertainty, 'B' Ratings Affirmed, May 13, 2020

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 24, 2020)*

Vision Banco S.A.E.C.A.	
Issuer Credit Rating	B/Stable/--
Issuer Credit Ratings History	
13-May-2020	B/Stable/--
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/--
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.