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

Primary Credit Analyst:
Maria M Cangueiro, Buenos Aires + 54 11 4891 2149; maria.cangueiro@spglobal.com

Secondary Contact:
Ivana L Recalde, Buenos Aires + 54 11 4891 2127; ivana.recalde@spglobal.com

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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/Stable/--

Credit Highlights

Key strengths	Key risks
Ample client base and a significant participation in the microfinance segment.	Concentration in a high-risk lending segment that's more affected by business cycles and COVID-19 relative to others.
Digitalization efforts will better prepare the bank for the new and competitive digital landscape and clients' needs.	Despite improvement, still lower capitalization metrics than industry average.
	Uncertainties about the final impact of the pandemic on the industry's credit losses.

Strategy focused on digitization, with a broad client base and significant participation in microfinance segment. Vision Banco's (Vision) leading market position and vast expertise in the microfinance segment in Paraguay help it sustain business volumes. In addition, the bank's latest digital strategy, which it's undertaken in the last couple of years (and accelerated in 2020 during the pandemic) will allow it to handle the new and competitive digital landscape and clients' needs, and further supports our view of its competitive position in the Paraguayan banking system.

Significant relief measures have contained asset quality. The significant support that the bank provided to its clients in terms of grace periods, extending maturities, and reducing interest rates (in line with the measures allowed by the regulator), helped contain asset quality. In addition, in recent years the bank has been more selective in its loan origination, although metrics are still weaker than the banking system average.

We will closely monitor how the bank's asset quality metrics evolve this year because we expect them to somewhat worsen as support measures end. A slower economic recovery than expected could hurt the already weaker payment capacity of Vision's clients and result in a greater dip in the bank's asset quality.

Diversified funding sources and a nationwide network. We think Vision has a diversified and stable deposit base, thanks to a nationwide branch network--with more than 70% of participation in term of nonbank correspondents (corresponsales). In addition, Vision is enhancing digital platforms to complement its extensive physical network. The bank also has adequate liquidity and a shorter credit portfolio duration than liabilities, which provides extra liquidity cushion.

Outlook: Stable

The stable outlook on Vision Banco (Vision) for the next 12 months reflects our expectation that Vision will continue to execute its digitalization strategy, focusing on serving its clients while keeping asset quality and credit losses under control, despite the pandemic's effects. We foresee capitalization 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 we expect and much higher than the industry average.

Upside scenario

We could upgrade Vision if it's able to improve capitalization levels consistently due to improved profitability (derived from significant efforts to improve efficiency) and finalize its capitalization plan while maintaining manageable credit losses once the full impact from COVID-19 on the economy is concluded. This scenario may materialize in the next several years.

Anchor: 'bb-' For Banks Operating In Paraguay

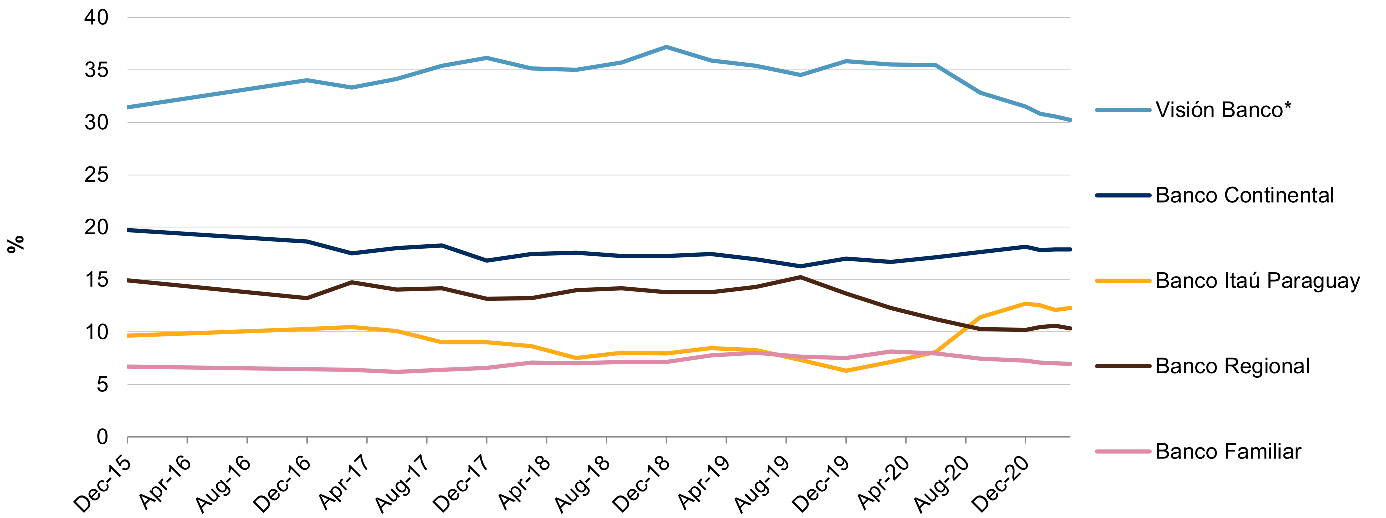
Our bank criteria use our Bank Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Paraguay, where Vision Banco operates, is 'bb-'. Please see "Banking Industry Country Risk Assessment: Paraguay," July 13, 2020.

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

We maintain our view of Vision's satisfactory competitive position in the Paraguayan financial system based on its relevant position in the microfinance segment, where it has about 60% of its portfolio; its broad presence and franchise in the country; and its large and stable customer base, all of which confer stable business volume.

Chart 1

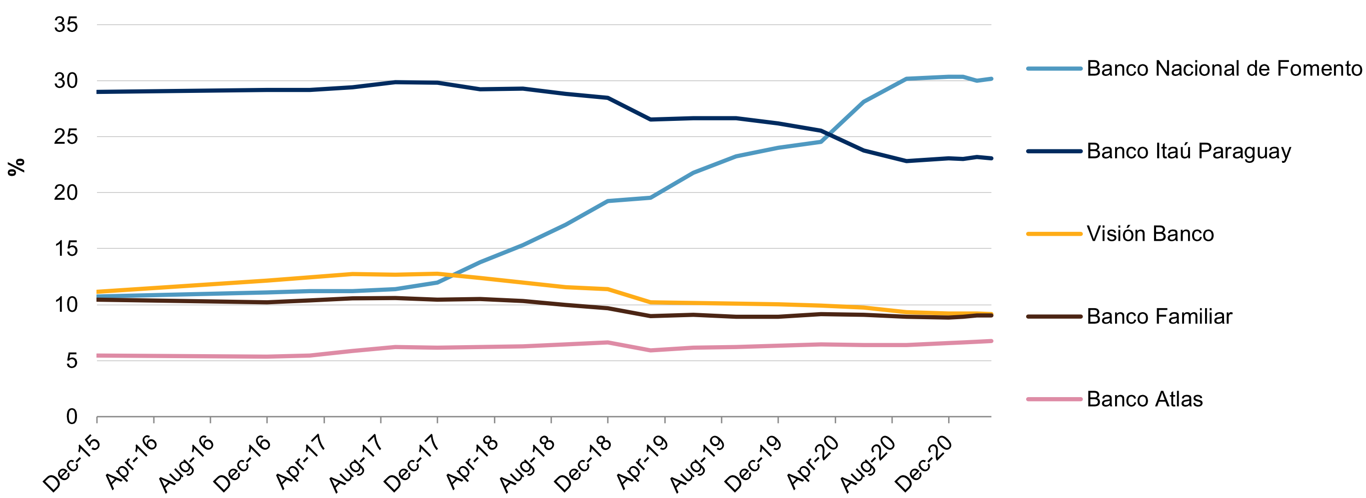
Vision Is Largest Player In Paraguay's Microfinance Segment
Top five players in Paraguayan banking industry



*Since May-20 we include for Vision some loans classified as wholesale commerce. Source: S&P Global Ratings.

Chart 2

Vision Is Third Largest Player In Retail Segment*
Top five players in Paraguayan banking industry



*Including consumer and mortgages loans. Source: S&P Global Ratings.

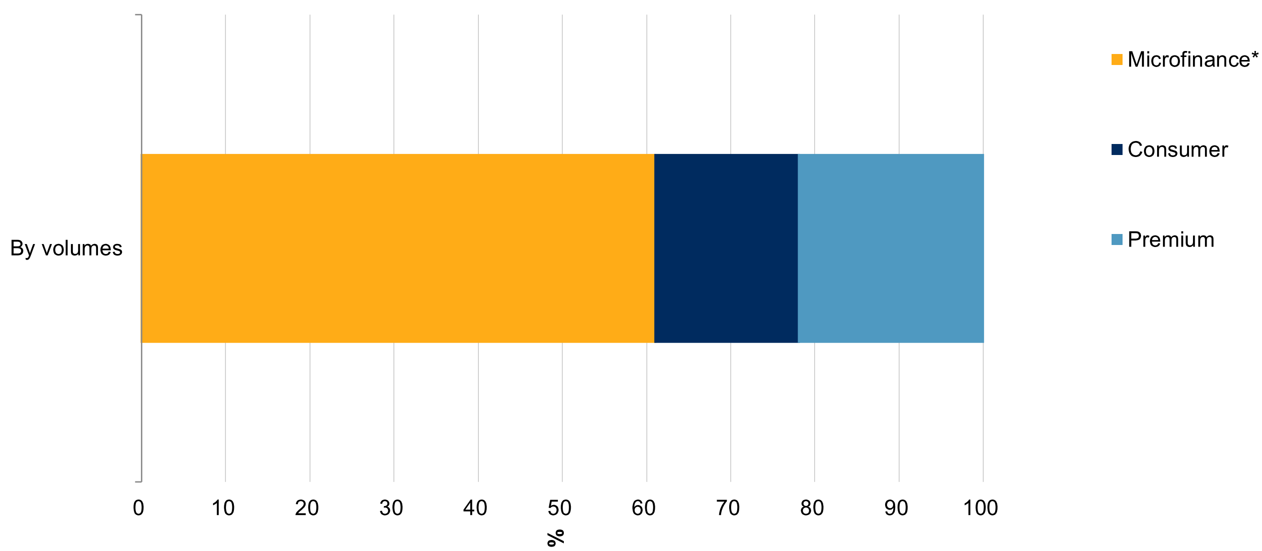
The bank's loan portfolio continues to have a significant participation in the microfinance and retail segments--a higher proportion than industry average. This mix results in higher net interest margins (NIMs) than those of the country's largest banks, but also includes the higher risk associated with these segments.

In addition, in the last couple of years, Vision's strategy has included digitalization efforts to improve its efficiency and provide a better customer experience. The bank has automated manual and repetitive process, is developing bots, and has improved its data analytics and business intelligence. Also, Vision enhanced its mobile app and online platform for its clients to allow QR payments, money transfer 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 to face the accelerated use of digital channels because of the pandemic.

Because of its digital efforts, Vision has consolidated and closed some of its branches (20 branches since 2018), but it continues to strengthen its nonbank correspondents' network (opening more than 1,200 new ones in the same period). In addition, the bank has adjusted its workforce size after automation efforts.

Chart 3

Vision Banco Portfolio Mix Has A Higher Proportion Of Microfinance And SMEs



*Retails and SMEs. Source: S&P Global Ratings based on Vision Banco 2020 Annual Sustainability Report.

For the next 12-18 months, we expect Vision to have prudent credit growth, focusing in its clients with high credit quality in current segments while supporting those clients still affected by the pandemic. We also expect digital and cost savings efforts to continue to improve efficiency and for Vision to keep developing digital offers for clients.

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

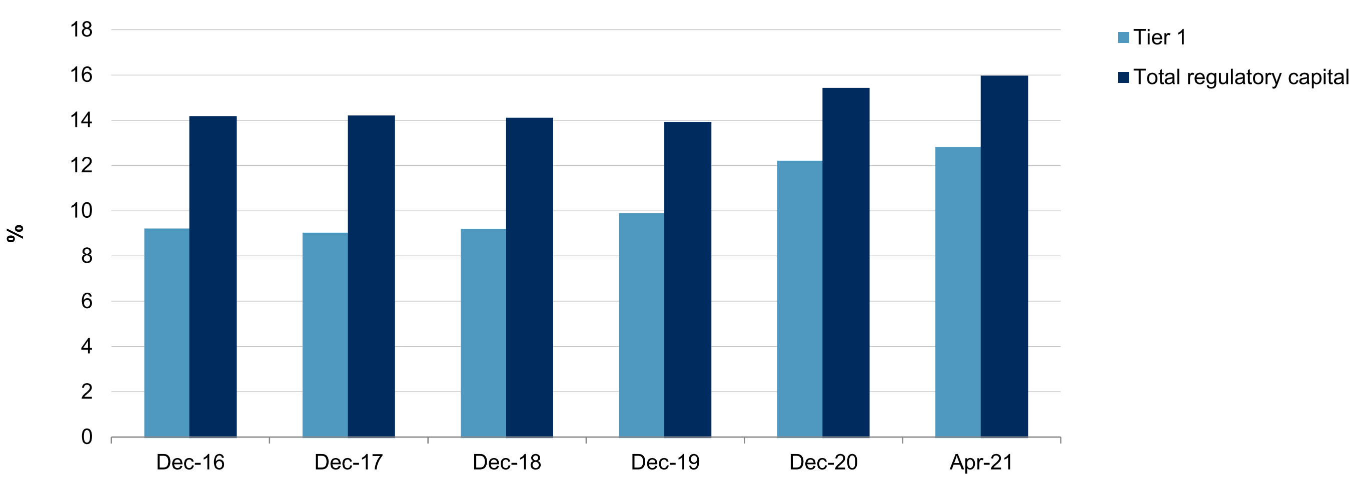
Our assessment of Vision's capital and earnings remains weak based on our forecast RAC ratio at 4.5% in the coming 12-18 months that incorporates the company's capitalization plan and earnings retention.

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

- Paraguay's real GDP to grow about 3.5% in 2021 and 4.0% in 2022;
- Loan portfolio to grow about 4% (nominal) in 2021 and 2022, because the bank will focus on its current clients and containing credit risk;
- Improving profitability in 2021 and 2022 due to cost control actions and low funding cost to compensate for still low interest rates;
- Nonperforming assets (NPAs; which include 60-day nonperforming loans [NPLs] and repossessed assets) of about 5.0% for the next two years. Reserve coverage above 100%;
- Gradual conversion of preferred stocks into common stocks; and
- Resume dividend payment in 2021 on preferred stocks.

Chart 4

Vision's Regulatory Capital Improved In 2020



Source: S&P Global Ratings.

Risk Position: Asset Quality Metrics Contained By Significant Support Measures

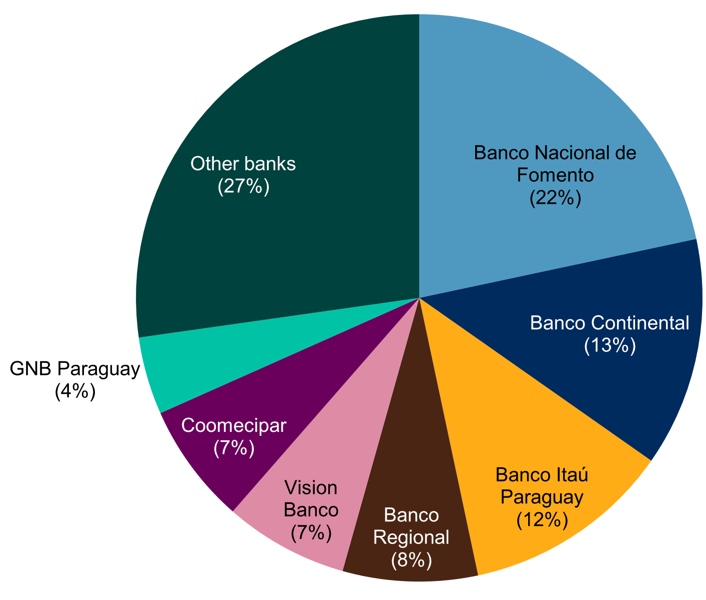
Vision's asset quality metrics are weaker than the system average due to the segments in which it operates--it's more exposed to microfinance and middle- and lower-income borrowers. Asset quality and credit losses have remained contained amid the COVID-19 pandemic due to the significant support Vision has provided to its clients. We expect the bank's asset quality to worsen as support measures conclude by the end of the year, but to remain manageable. In addition, 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 its weaker asset quality metrics.

In 2020, NPAs were 4.3% compared to 4.4% at the end of 2019, while charge-offs increased to 4.7% compared to 4.5% a year before (compared to 4.0% in 2017-2018). In addition, coverage of past-due loans increased to 117% from 104% a year before (and to 92% from 84% when including repossessed assets). These contained asset quality metrics are explained by the substantial support Vision provided to clients in terms of financial relief and rescheduling installments using the new set of temporary measures allowed by the regulator. Asset quality was also supported by Vision's focus in recent years on existing clients with higher credit quality. In addition, Vision has reported higher use of these temporary measures compared to peers in the same segments, but use and refinancing methodologies have varied from bank to bank, making it difficult to compare how much each bank has used the measures.

In addition, Vision granted new loans with sovereign guarantee (FOGAPY), which represented almost 4% of its loan portfolio at the end of last year.

Chart 5

Vision Banco is One Of Top Five Lenders In FOGAPY Program
Participation by loans granted by bank



Source: S&P Global Ratings.

Vision's exposure to dollarization remains below the industry average, given its core business, with about 20% of its credits in foreign currency, compared with 40% in the banking system. We think the management has conservative asset and liability mismatch controls in order to mitigate currency risk.

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 network and varied retail depositors. As of December 2020, 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%). This mix was in line with the year before, but had a slightly higher share of sight deposits because individuals preferred to maintain higher available liquidity.

Vision's stable funding ratio (SFR) was 118% as of December 2020, 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 higher share of transactional deposits), and more granular than those of its peers. Additionally, Vision has the largest deposit base by depositors in the system, although it's the eighth largest by volume. For the next 12-18 months, we expect Vision to continue mainly funding its operations with local deposits.

Table 1

Vision Has Largest Amount Of Depositors In System

Amount of depositors

	Entity	Dec-20	Dec-19
1	Visión Banco	750,241	689,319
2	Banco Familiar	698,161	613,449
3	Banco Itaú Paraguay	422,999	391,341
4	BBVA Paraguay	178,582	181,300
5	Banco Continental	13,419	118,874
6	Banco Internacional de Finanzas (Interfisa)	127,949	116,083
7	Banco Regional	99,525	103,097
8	Banco Atlas	85,293	73,736
9	Sudameris Bank Paraguay	82,053	76,766
10	BancoRío	48,838	48,183
11	Banco BASA	41,563	35,489
12	Banco GNB Paraguay	24,122	23,512
13	BANCOP	15,627	13,793
14	Banco de la Nacion Argentina	3,694	3,691
15	Citibank Paraguay	196	206
16	Banco do Brasil	182	176

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. Finally, Vision increased fiduciary services related to payment companies (EMPEs; the Spanish acronym), which provide an additional funding source.

Vision has adequate liquidity, although it's somewhat lower than industry average. Vision's liquid assets and transitory investments represented about 35% of total deposits at the end of April 2020, compared to the 42% industry average (and 31% and 41%, respectively, at the end of 2020). However, Vision's loan portfolio has a short tenor compared to its liabilities, providing an additional liquidity source. The bank's broad liquid assets to short-term wholesale funding ratio was 3x as December 2020 and 2.3x on average for the past three years.

Support: No Uplift To The SACP

Our ratings on Vision 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 is not part of any group).

Environmental, Social, And Governance

We view Vision's exposure to ESG risks and opportunities as broadly in line with those of domestic and industry peers.

In general, we believe Paraguayan banks have low exposure to environmental risk and Vision is no exception. This is because banks are not exposed to disruptive events from catastrophic events such as earthquakes or significantly damaging weather events. Additionally, we don't see risk from a transition to a cleaner energy mix because Paraguay's energy matrix is already more sustainable than other countries--the Itaupú hydroelectric dam is the largest energy provider.

In addition, social factors have a neutral impact on the ratings on Vision because 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'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)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	7,973,299.5	7,405,260.8	6,792,547.6	6,304,701.6	5,619,532.9
Customer loans (gross)	5,771,156.4	5,483,605.6	5,102,701.6	4,741,860.2	4,223,009.6
Adjusted common equity	446,631.7	472,557.9	444,031.8	401,797.6	341,656.0
Operating revenues	758,639.8	806,632.1	753,092.4	692,705.9	670,570.2
Noninterest expenses	388,423.6	425,832.7	404,941.0	413,026.4	416,366.2

Table 2

Vision Banco S.A.E.C.A.--Key Figures (cont.)					
	--Year ended Dec. 31--				
(Mil. PYG)	**2020**	**2019**	**2018**	**2017**	**2016**
Core earnings	68,596.2	29,453.0	60,786.7	65,642.5	60,880.9

PYG--Paraguayan guarani.

Table 3

Vision Banco S.A.E.C.A.--Business Position					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Loan market share in country of domicile	5.7	5.9	6.1	6.5	6.0
Deposit market share in country of domicile	5.5	5.9	5.8	5.8	5.2
Return on average common equity	5.7	3.5	11.6	9.4	11.6

Table 4

Vision Banco S.A.E.C.A.--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	12.2	9.9	9.2	9.0	9.2
S&P Global Ratings' RAC ratio before diversification	4.4	4.7	4.7	4.8	N/A
S&P Global Ratings' RAC ratio after diversification	3.0	3.3	3.4	3.3	N/A
Adjusted common equity/total adjusted capital	79.9	82.3	83.5	81.8	74.6
Net interest income/operating revenues	69.7	67.5	69.6	72.7	68.5
Fee income/operating revenues	23.8	26.3	22.8	25.3	25.6
Market-sensitive income/operating revenues	1.5	1.7	1.1	(0.7)	2.8
Cost to income ratio	51.2	52.8	53.8	59.6	62.1
Preprovision operating income/average assets	4.8	5.3	5.3	4.7	4.5
Core earnings/average managed assets	0.9	0.4	0.9	1.1	1.1

RAC--Risk-adjusted capial. N/A--Not applicable.

Table 5

Vision Banco S.A.E.C.A.--Risk Position					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	5.2	7.5	7.6	12.3	7.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	44.0	41.3	40.2	44.4	N/A
Total managed assets/adjusted common equity (x)	18.1	15.8	15.4	15.7	16.5
New loan loss provisions/average customer loans	5.2	6.2	5.3	4.2	4.1
Net charge-offs/average customer loans	4.7	4.5	4.0	3.5	2.6
Gross nonperforming assets/customer loans + other real estate owned	4.3	4.4	5.1	5.7	5.3
Loan loss reserves/gross nonperforming assets	92.4	83.4	82.1	68.0	77.3

RWA--Risk-weighted assets. N/A--Not applicable.

Table 6

Vision Banco S.A.E.C.A.--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	81.5	78.5	79.4	75.5	72.4
Customer loans (net)/customer deposits	92.7	100.3	103.0	104.4	110.7
Long-term funding ratio	92.6	90.3	91.6	90.5	91.2
Stable funding ratio	117.7	111.1	110.6	113.0	111.8
Short-term wholesale funding/funding base	7.9	10.6	9.1	10.3	9.6
Broad liquid assets/short-term wholesale funding (x)	3.0	2.1	2.6	2.2	2.3
Net broad liquid assets/short-term customer deposits	24.7	18.5	22.8	19.6	22.0
Short-term wholesale funding/total wholesale funding	39.7	45.9	41.5	39.5	32.1

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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 29, 2021)*	
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/--
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.