Research Update:

Vision Banco Outlook Revised To Negative From Stable On Pressured Asset Quality, 'B' Rating Affirmed

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Overview

- During 2023, Vision Banco S.A.E.C.A.'s asset quality metrics deteriorated to weaker than historical levels, widening the gap with the system average. This was because of the bank's focus on microfinance and retail lending that traditionally have higher delinquency rates than other lending segments.
- In addition, over the last few quarters, and within the entity's overall portfolio risk limits, Vision Banco started to increase lending to larger entities. Although many of these loans are granted to existing clients and part of them are covered with guarantees, we will monitor the risks on the effect of the change in the portfolio mix.
- Despite some potential improvements toward the end of the year, we're revising the outlook on Paraguay-based Vision Banco to negative from stable. This reflects the one-in-three chance of a downgrade if the bank is unable to stabilize its asset quality metrics. We also affirmed our 'B' issuer credit rating on the bank. This analysis will also incorporate implications of changes in the portfolio mix and individual concentrations.

Rating Action

On Sept. 5, 2023, S&P Global Ratings revised the outlook on Vision Banco to negative from stable and affirmed the 'B' issuer credit rating on the bank.

Rationale

The rating action incorporates a worsening of the bank's credit portfolio quality compared with that of the system. We could revise our assessment of the bank's risk position if its asset quality doesn't recover in the upcoming quarters. During 2022 and the first half of 2023, Vision Banco's delinquency rates continued to rise because of the 2022 drought's residual effects, and to a lesser extent, by the pandemic, among other factors. In this sense, nonperforming loans (NPLs; 60-day past-due loans) rose to 7.5% of total loans at the end of July 2023 from 5.7% at the end of 2022 and 4.3% in 2021. These metrics were higher than system averages of 3.4%, 2.9%, and 2.2%, respectively. In addition, the amount of the bank's repossessed assets doubled to about 2.2% of loans as of July 2023 from the historical average of about 1%, due to the impact of one large problematic loan that should be solved in the upcoming months. The loan-loss reserve coverage dropped to 76% at the end of June 2023 from 118% at the end of 2022 (including 100% of repossessed assets).

Although metrics should improve slightly in the second half of the year given the resumption in lending growth because seasonal cycles (with more credit demand from the agricultural segment) and resolution of larger cases, we will continue to monitor asset quality, as we believe that there are other variables that could exert pressure on asset quality and single-name loan concentrations. More recently, within the entity's overall portfolio risk limits, Visión Banco started increasing lending to larger entities. Even though many of these loans are to existing clients and part of them are covered with guarantees, we will monitor the effect of the change in the portfolio mix and the bank's management of lending exposures.

Outlook

The negative outlook reflects the persistent pressures on asset quality metrics, with potential implications on the bank's risk position, losses, and on the ratings.

Downside scenario

In the next 12 to 18 months, we could lower the ratings if the bank is unable to improve asset quality, reducing the gap with system average, and reaching metrics more in line with historical levels or the portfolio increases its risk evidenced by higher concentration by single names and economic sectors.

Upside scenario

We could revise the outlook to stable if the entity stabilizes asset quality, which would depend on its ability to reduce non-performing assets (including NPLs and repossessed assets) to historical levels. This analysis will also incorporate implications of changes in the portfolio mix in terms of loan portfolio concentration and management of exposures.

Ratings Score Snapshot

Issuer credit rating	B/Negative/--
SACP	b
Anchor	bb-
Business position	Adequate
Capital and earnings	Constrained
Risk position	Moderate
Funding	Strong

Liquidity	Adequate
Comparative rating análisis	0
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional factors	0

ALAC: Additional loss absorbing capacity

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 List

Ratings Affirmed; CreditWatch/Outlook Action

	To	**From**
Vision Banco S.A.E.C.A.		
Issuer Credit Rating	B/Negative/--	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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.