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

Primary Credit Analyst:
Sofia Ballester, Buenos Aires + 54 11 4891 2136; sofia.ballester@spglobal.com

Secondary Contact:
Ivana L Recalde, Buenos Aires (54) 114-891-2127; 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/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.	• Risks inherent in operating in a high-sovereign-risk country; and • Concentration in a high-risk lending segment.

Outlook: Positive

The positive outlook on Vision Banco S.A.E.C.A. (Vision) over the next 12 months reflects a potential upgrade if the bank enhances its capital and earnings profile through a capital injection, with a risk-adjusted capital (RAC) ratio consistently above 5%, and if other credits factors remain stable. We expect Vision to maintain manageable asset quality metrics that are nevertheless weaker than the system average. The bank should also maintain its satisfactory competitive position, and a stable funding and liquidity profile.

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 loss or strong credit growth. We could also lower the rating if the bank's credit losses are higher than expected and asset quality deteriorates.

Rationale

The rating on Vision reflects our view of its leading market position and its expertise in the microfinance segment in Paraguay; its RAC ratio of 4.7% for the next 12-18 months; and asset quality metrics that are still weaker than those of the banking system's average, given the bank'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 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-'.(Please refer to "Banking Industry Country Risk Assessment: Paraguay," published on May 17, 2018).

Paraguay's economy has been resilient to the region's economic struggles, with real GDP growth of almost 3% in the third quarter of 2017 and inflation contained at 4.5% in 2017. However, Paraguay continues to face institutional challenges that we don't think it's likely to resolve in the near term, but its policy choices should continue to support sustainable public finances and economic growth. We think Paraguay's financial system is in an expansionary phase, even though credit expansion significantly decelerated in 2016-2017 after years of high growth mainly resulting from strong commodity prices. We don't believe economic imbalances, such as credit-fueled asset bubbles, pose a significant risk. The banking sector has a 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 view, the government doesn't 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)	2017	2016	2015	2014	2013
Adjusted assets	6,304,701.6	5,619,532.9	5,679,901.4	4,797,154.4	4,268,490.7
Customer loans (gross)	4,837,545.0	4,306,782.0	4,007,033.6	3,598,694.7	3,133,152.6
Adjusted common equity	401,797.6	341,656.0	292,317.1	307,664.8	254,021.9
Operating revenues	692,705.9	670,570.2	794,716.0	629,012.6	542,013.1
Noninterest expenses	413,026.4	416,366.2	411,035.2	386,032.3	349,187.4

Table 1

Vision Banco S.A.E.C.A. Key Figures (cont.)					
	--Year-ended Dec. 31--				
(Mil. PYG)	**2017**	**2016**	**2015**	**2014**	**2013**
Core earnings	65,642.5	60,880.9	17,419.7	73,998.1	61,861.9

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 March 2018, the bank was the sixth-largest financial institution in Paraguay in terms of loans and deposits, with market shares of 6.2% and 5.8%, respectively. The bank continues to focus on the microfinance and retail segments, which generate higher net interest margins (NIMs) than the those of the largest banks operating in the country. These two lending segments together account for 73% 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.

Table 2

Vision Banco S.A.E.C.A. Business Position					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (currency in millions)	692,705.9	670,570.2	794,716.0	629,012.6	542,013.1
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average equity	13.5	14.0	1.8	19.0	19.7

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 average 4.7% during the next 18-24 months. Our current forecast considers our base-case scenario assumptions, which include the following factors:

- Paraguay's real GDP growth of about 4% in 2018 and 2019, with inflation averaging 4% for both years;
- Loan portfolio growth of 10% in 2018 and 12% in 2019, in nominal terms, above the banking system's likely growth of 8% and 10%, respectively;
- Slightly lower NIMs, given the high competition in the banking system;
- Core earnings to average adjusted assets of about 1.1%, with efficiency metrics (measured as non-interest expenses to operating revenue) of 55%-57%;
- Nonperforming assets (NPAs; which include nonperforming loans [NPLs] and repossessed assets) of about 5.4% for the next two years. Reserves will fully cover NPLs in 2019, and net charge offs (NCOs) to average customer loans will be 3.1% in the same year;
- Gradual conversion of preferred stocks into common stocks; and

- Dividend payout of about 37% in 2018 and 43% in 2019.

Vision's recent stakeholder meeting approved the issuance of Paraguay guarani (PYG) 55 million ($9.8 million) of preferred stocks in 2018, PYG27.5 million ($4.9 million) of common equity in 2019, and the same amount in 2020, which 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.

Table 3

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

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted common equity/total adjusted capital	81.8	74.6	71.1	74.2	75.2
Net interest income/operating revenues	72.7	68.5	61.6	71.5	72.6
Fee income/operating revenues	23.5	24.1	19.0	22.7	21.8
Market-sensitive income/operating revenues	(0.7)	2.8	2.4	2.8	2.9
Noninterest expenses/operating revenues	59.6	62.1	51.7	61.4	64.4
Preprovision operating income/average assets	4.7	4.5	7.3	5.3	4.9
Core earnings/average managed assets	1.1	1.1	0.3	1.6	1.6

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

Vision's asset quality metrics are still weaker than the system average, and they slipped further in 2017. But the bank's low complexity of operations, diversified portfolio by single-name exposures, and smaller exposure to dollarization than the industry average, given its core business, mitigated the drop. We also consider that our RAC framework adequately captures all the risk to which the bank is exposed. As of December 2017, NPAs amounted to 5.5%, up from 5.1% one year before. NCOs rose to 3.5%, which is more in line with their historical level, from 2.5% in 2016, but lower than 8.5% in 2015. These levels are higher than the system average for NPAs (3.9% as of December 2017). As of the same date, the bank's credit portfolio expanded 12.3% against the 4.4% 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 24% of its credits in foreign currency, compared with 48% 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.

Table 4

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

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	12.3	7.5	11.3	14.9	17.7
Total managed assets/adjusted common equity (x)	15.7	16.5	19.5	15.7	16.9
New loan loss provisions/average customer loans	4.1	4.0	9.0	4.2	3.9
Net charge-offs/average customer loans	3.4	2.5	8.6	3.5	3.1
Gross nonperforming assets/customer loans + other real estate owned	5.5	5.1	5.3	2.9	2.7

Table 4

Vision Banco S.A.E.C.A. Risk Position (cont.)					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Loan loss reserves/gross nonperforming assets	68.2	78.0	58.9	112.4	115.8

Funding and liquidity: Diversified and relatively stable deposit base

We base our assessment of Vision's funding on a diversified and stable deposit base thanks to a nationwide branch network and granular retail depositors. As of December 2017, deposits continued to be the bank's main funding source, accounting for about 85% of its funding, while the remainder was composed of credit lines from financial institutions (11%) and subordinated debt (4%). Vision's stable funding ratio (SFR) was 113% as of December 2017, with an average of 111% 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 remains 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 2.2x as December 2017 and 2.1x on average for the past three years. Like other banks in the country, Vision uses the central bank securities as a primary instrument for liquidity management. For the next 12-18 months, we expect Vision's liquidity to remain adequate given the manageable refinancing risk.

Table 5

Vision Banco S.A.E.C.A. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	74.7	71.7	68.3	72.7	73.7
Customer loans (net)/customer deposits	107.7	114.2	110.0	110.8	106.5
Long-term funding ratio	90.5	91.2	84.7	85.3	89.4
Stable funding ratio	113.1	111.9	112.4	107.7	115.0
Short-term wholesale funding/funding base	10.3	9.6	16.5	16.2	11.6
Broad liquid assets/short-term wholesale funding (x)	2.2	2.3	1.7	1.5	2.2
Net broad liquid assets/short-term customer deposits	20.0	22.3	N.M.	N.M.	N.M.
Short-term wholesale funding/total wholesale funding	38.4	31.3	48.6	53.7	39.5

N.M.--Not meaningful.

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 1, 2018)

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/--
11-Jun-2014	BB-/Watch Pos/--
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.