

Research Update:

Banco Regional Downgraded To 'BB-' From 'BB' Amid Higher Provisions Arising From Its Legacy Portfolio; Outlook Stable

September 30, 2022

Overview

- In the past few years, Paraguayan bank Banco Regional has had higher-than-average credit provisioning, incorporating legacy credit cases in the wake of relief measures implemented by the regulator in the country to cope with climate events and the pandemic.
- The higher provisions, combined with the need to clean up problematic loans in its portfolio, has weakened the bank's profitability and limited growth, harming its business performance and competitiveness.
- As a result of the erosion in the entity's risk position, we lowered our long-term rating on Banco Regional to 'BB-' from 'BB' and assigned a stable outlook.
- The stable outlook reflects our view the bank will advance in the clean-up of its problematic portfolio, while the focus on its business strategy could lead to a recovery on its overall business performance.

PRIMARY CREDIT ANALYST

Celio P Porto Fernandes Neto

Sao Paulo
+55 11 3039 4827

Celio.Netto
@spglobal.com

SECONDARY CONTACT

Ivana L Recalde

Buenos Aires
+ 54 11 4891 2127

ivana.recalde
@spglobal.com

Rating Action

On Sept. 30, 2022, S&P Global Ratings lowered its long-term issuer credit rating on Banco Regional S.A.E.C.A. to 'BB-' from 'BB'. The outlook is stable.

Rationale

In the last few years, Banco Regional's loan portfolio has been hurt by difficult conditions in Paraguay. The bank acknowledged a deterioration in its loan book, exacerbated by the challenging economic scenario in Paraguay, stemming from negative shocks such as the droughts in the 2018-2019 and 2021-2022 seasons and the COVID-19 pandemic. These shocks increased the risk perception within the financial system and led the Central Bank of Paraguay to sponsor the so-called "Transitory and Exceptional Measures."

In this context, Banco Regional's credit provisioning has been higher than peers, considering its above-average exposure to the agriculture sector, indicating higher risk and a lack of enough provision coverage in its legacy portfolio. In parallel to that, the bank went through a transformation process to strengthen its credit risk management that included the clean-up of problematic loans. Although we recognize both the need for and importance of such a clean-up, the combination of factors has led to a weakening in the bank's profitability and capitalization. This has limited its growth capacity and hurt its overall business performance, weighing on our credit analysis of the bank.

Banco Regional is focusing on its business strategy to revamp profitability. The bank's current business strategy involves restoring profitability by diversifying its loan portfolio, increasing its presence in the retail segment, and accelerating its digital transformation, while still keeping its leading position in the agriculture loan business. To execute this strategy, the bank has been working to incorporate a new strategic partner that would provide fresh resources.

Outlook

The stable outlook on Banco Regional for the next 12-18 months reflects our view the bank will continue and conclude the clean-up of its problematic portfolio, while the focus on its business strategy could lead to recovering profitability and internal capital generation capacity, allowing for credit growth.

Downside scenario

We could downgrade Banco Regional if it undergoes significant financial losses that further hamper either its capital, asset quality, or its overall business performance and competitive position in the system.

Upside scenario

The scenario for an upgrade is limited at this stage.

Ratings Score Snapshot

Issuer Credit Rating	BB-/Stable/--
SACP	bb-
Anchor	bb-
Business position	Strong (+1)
Capital and earnings	Moderate (0)
Risk position	Moderate (-1)
Funding	Adequate (0)
Liquidity	Adequate (0)
Support	0
ALAC support	0
GRE support	0

Issuer Credit Rating BB-/Stable/--

Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-3, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Banco Regional S.A.E.C.A.		
Issuer Credit Rating	BB-/Stable/--	BB/Negative/--

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