

FONPLATA

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FONPLATA

Rationale

The ratings on Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA) reflect S&P Global Ratings assessment of a very strong financial profile and a moderate business profile. Together, these assessments result in

Issuer Credit Rating

Foreign Currency
A-/Stable/A-2

FONPLATA's 'a-' stand-alone credit profile (SACP). The issuer credit rating does not incorporate extraordinary shareholder support from callable capital because we rate all of FONPLATA's members shareholders lower than the institution.

The institution's mission is to support the integration and development of member countries through loans and grants within the geographical boundaries of the River Plate watershed and its surrounding regions. Our assessment of FONPLATA's moderate business profile is mostly based on our forward-looking view that the institution is now well placed in achieving its mission. In particular, it has developed a market niche in acting as an ancillary lender with other multilateral lending institutions (MLI) focusing on smaller aspects of larger projects, which it can deliver more effectively due to its proximity and to lower cost base. Whereas some of this role could be executed by private-sector institutions or national development banks, we find that MLIs are often best placed to undertake projects whose benefits extend beyond their direct profitability. Although our assessment of FONPLATA's business profile is mostly forward-looking, we do take into account its shareholders past uneven treatment of FONPLATA as a preferred creditor and their at times patchy record in making capital contributions on time.

FONPLATA's very strong financial profile reflects its high capitalization and liquidity. The institution has no debt, thus its funding by definition is undiversified.

FONPLATA's risk-adjusted capital (RAC) ratio after adjustments was 61% in 2015. Following the 2012 reform, shareholders approved two capital increases. In 2013, shareholders voted to raise \$1,150 million in five installments beginning in 2014 and ending 2018. In 2016, they voted to raise an additional \$1,375 million in seven installments beginning in 2017 and ending 2024. These general capital increases will raise FONPLATA's equity by about 6x and they demonstrate shareholder support for the institution.

During the first half of 2016 FONPLATA was profitable and with robust loan portfolio growth. All other credit metrics remained broadly unchanged.

We estimate that FONPLATA is structurally able to cover its scheduled loan disbursements without recourse to debt issuance. FONPLATA currently has no debt. It has only an uncommitted undrawn line of credit from another MLI, although it is negotiating additional facilities. Due to its free capital, FONPLATA's liquidity on its balance sheet is ample to fund its scheduled obligations for up to one year without capital market access under a stress scenario.

FONPLATA was founded in 1974 by its five member countries: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. They established the institution by ratifying the Tratado de la Cuenca del Plata. The treaty is governed by the Vienna Convention. Shareholding currently is limited to founding members. Brazil and Argentina hold one-third of the share

capital, but all members have equal voting rights and board representation. All members borrow from the institution, and FONPLATA's \$447 million outstanding loans, as of December 2015, is broadly balanced among them.

For the first 38 years of FONPLATA's history, the institution was not effective in achieving its mandate in part because accountability was diffused, management reported to more than one line ministry of shareholders, and major decisions required unanimity. In 2012, shareholders reformed the institution's governance. It centered managerial authority in an executive president, reduced accountability to a single ministry per shareholder, and relaxed rules on unanimity. With new management in place, the institution approved a strategic business plan in 2013 and created several new offices in operational, financial, and administrative functions along the lines of modern banking.

Outlook

Our stable outlook signals that we see upward and downward pressure on the institution's rating as being balanced over the next two years. As FONPLATA successfully lengthens its track record since its 2012 reform, its business profile could strengthen, which in turn could lead us to raise the rating.

On the other hand, should the performance of its lending disappoint, its financial indicators slip, or the institution experience further delays in the payment of its general capital increases, we could lower the ratings.

Stand-Alone Credit Profile

We assess FONPLATA's SACP at 'a-', which results from a combination of a moderate business profile and very strong financial profile.

FONPLATA's SACP mainly reflects a high level of capitalization, a role that has competitive regional advantages even when, in our opinion, it could be partially fulfilled by another private or domestic public institution. We believe that despite the institution's short track record of fulfilling its public policy mandate, it is now well positioned to do so, despite having a weaker-than-peers' shareholder relationship.

Table 1

Selected Comparative Statistics For FONPLATA And Peers

As of year-end 2015

	Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA)	African Development Bank (AFDB)	Black Sea Trade and Development Bank (BSTDB)	Caribbean Development Bank (CDB)	Central American Bank for Economic Integration (CABEI)	Corporación Andina de Fomento (CAF)	Eurasian Development Bank (EDB)
Total adjusted assets (Mil. US\$)	628	35121	1,400	1,355	8,813	32,470	2,896
RAC ratio after adjustments (%)	61*	24	34	29	10	17	19

Table 1**Selected Comparative Statistics For FONPLATA And Peers (cont.)**

	Fondo Financiero para el Desarrollo de la Cuenca del Plata	African Development Bank	Black Sea Trade and Development Bank	Caribbean Development Bank	Central American Bank for Economic Integration	Corporación Andina de Fomento	Eurasian Development Bank
Purpose-related assets (gross)/adjusted total assets (%)	73.62	56	86	76	69	64	58.5
Liquid assets/adjusted total assets (%)	26.25	38.1	14.66	18.87	26.9	33.2	45.44
Static funding gap at one year (x)	>100	1.4	1.9	14.4	1.7	1.8	3.2
ACE/adjusted total assets (%)	98.39	25.6	56	60.7	29.2	29.3	52.3
Gross debt/adjusted common equity (x)	0	2.54	0.75	0.61	1.95	2	0.79

RAC--Risk adjusted capital ratio. Ratings parameters as of July 31, 2016. Source: Supranationals Special Edition 2016. RAC with ratings parameters as of June 27, 2016.

Business Profile

FONPLATA has a moderate business profile, in our opinion, reflecting the institution's role, public policy mandate, and governance.

Policy Importance Assessment

FONPLATA was founded in 1974 by its five member countries, established by Tratado de la Cuenca del Plata, and governed by the Vienna Convention. The fund came into force as El Fondo Financiero para el Desarrollo de la Cuenca del Plata in October 1976.

FONPLATA's mission is to support the integration of member countries through loan transactions and nonrefundable resources to achieve an inclusive development within the geographical boundaries of the River Plate basin and surrounding regions.

The fund's objective is to help reduce socioeconomic differences and prioritize collaboration with local development agencies and other multilateral institutions by contributing to small and midsize projects (as opposed to program lending, the average loan in FONPLATA's portfolio is \$30 million) in its member countries focused to enhance infrastructure. As FONPLATA has a lower cost base, the fund is co-financing projects with other multilateral institutions (similar to the Caribbean Development Bank and World Bank).

FONPLATA has a shorter track record of fulfilling its public policy mandate than its regional peers. Its policy mandate has been weaker than peers such as Central American Bank for Economic Integration (CABEI) which has disbursed almost half of the official loans to the Central American region in the past 10 years, and Corporacion Andina de Fomento (CAF), which is positioned as a prominent lender in the Latin America and a consistent net lender in economic downturns. This is partly explained by institutional overhauls, which the fund has gone through since its creation. Even in 2009-2010 FONPLATA had no loan approvals, and in 2010 there was a new institutional plan for providing a complete entity renovation.

FONPLATA has only begun to fulfill its mandate after the 2012 reform with the creation and staffing of the executive president's position and the 2013 first strategic business plan. Reform was implemented to change voting rules for majority instead of unanimity, and address governance issue for dual governance of ministry of finance and foreign ministry.

FONPLATA has demonstrated its ability to increase its lending capacity (at 15% on average over the last five years) and is projecting a ramp up in loan disbursements, reaching about \$1.3 billion in new projects in the pipeline for the next three years. For this reason, our assessment of the fund's moderate business profile is supported by our view that the institution is now well positioned to fulfil its mandate.

Table 2

	--As of Dec. 31--				
	2015	2014	2013	2012	2011
Purpose-related assets (gross)/adjusted total assets (%)	73.62	68.25	75.6	70.43	69.41
Net loans/adjusted total assets (%)	71.27	63.56	59.09	51.23	51.37
Public-sector (including sovereign-guaranteed) loans/total loans (%)	100	100	100	100	100
Private-sector loans/total loans (%)	0	0	0	0	0

As a regional institution, FONPLATA has developed competitive advantages that differentiate it from other MLIs, even when, in our opinion, this role could be partially executed by private-sector institutions or national development banks. FONPLATA has also shown it is a strategic institution that gives agile funding compared with regional banks. It is also easy to gain access to FONPLATA because it's located in the region, and it has shown better understanding of the rules of their country members.

Our assessment of FONPLATA's business profile takes into account shareholders support. Even when no shareholder has withdrawn the fund, back in 2008 Uruguay blocked most activity to press for reform. In addition, we consider that proper shareholder support dates from 2012 reform but is still uneven, reflected in the delays of capital contributions from one of its members.

Table 3

Date of capital increase	Paid-in capital subscriptions approved including callable capital (mill. US\$)
2016*	1,375
2013	1,150
1979	100

Table 3**History Of FONPLATA's Capital Increases And Initial Funding (cont.)**

Date of capital increase	Paid-in capital subscriptions approved including callable capital (mill. US\$)
Initial funding 1964	100

*As of June 30.

Weighing on our assessment of FONPLATA's business profile is a weaker-than-peers' shareholder relationship, reflected in the track record of borrowing members not treating the fund as a preferred creditor in periods of economic, external, and fiscal stress. This supported by the following events:

- In 2002 to 2004, Argentina, Brazil, and Paraguay went over 90 days overdue (about 450 days);
- Bolivia was granted debt relief through the Heavily Indebted Poor Countries (HIPC) initiative in the mid-2000s;
- FONPLATA held Argentine government bonds in its liquidity portfolio that were rescheduled in 2005; and
- Loans outstanding to Brazil markedly fell off due since 2008, but without exceeding 90 days.

Governance And Management Expertise

Our appraisal of FONPLATA's governance is constrained by the absence of nonborrowing member countries. FONPLATA is not predominantly controlled by one or two shareholders; nevertheless, borrowing member countries have control and a significant influence over decision-making. Argentina and Brazil are FONPLATA's two larger shareholders (holding a combined 66% of the capital participation), but in the constitutive agreement each member country has equal voting rights (one vote per country) in the board of governors regardless of the country's capital participation in the total capital of the fund.

Following the approval of the modernization process of the fund in 2010, several policies were approved by the Board of Governors. Among others, the rule that approvals and policies required unanimity was rescinded. Now approval requires only four out of five votes.

The executive president is in charge of leading the institutional transformation of FONPLATA. The first executive president took office in September 2012 with a five-year term. Renewed management framework consisted of:

- Redesign of the efficiency in the projects cycle,
- Framework for budget assignation based on results,
- Enhanced accountability, transparency and decision making process, and
- Stronger bonds for working and cooperating with other MLIs

In the fund's 2013 enhanced governance, new offices were created to manage operational, financial and administrative functions. This was accompanied with the Strategical Planning Division and Risk management, along with the positions for Internal Auditor and Compliance Officer.

In our opinion, FONPLATA relies on one or a small number of managers and the loss of key personnel would seriously affect the organization's operations. Management faces the challenge to maintain the operational and financial achievements to date.

Table 4

Shareholder Concentrations: FONPLATA's Membership, Capital, And Voting Shares			
Share of votes controlled by borrowing member countries (%)	100		
Member countries	% of votes	Paid-in capital	Callable capital
Argentina	20	266.4	280.0
Bolivia	20	88.8	93.3
Brazil	20	266.4	280.0
Paraguay	20	88.8	93.3
Uruguay	20	88.8	93.3
Total		799.2	840.0

As of December 2015.

FONPLATA has no dividend policy, but in practice dividends are not distributed.

PricewaterhouseCoopers (Bolivia), independent external auditors of the bank, issued a clean opinion of FONPLATA's annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the period ending Dec. 31, 2015.

Financial Profile

In our opinion, FONPLATA has a very strong financial profile, reflecting our assessment of its capital adequacy as well as its funding and liquidity profile.

Capital Adequacy

FONPLATA maintains high levels of capitalization. Its RAC ratio before adjustments was 95% in 2015, while its RAC ratio after adjustments was 61%. The quality of FONPLATA's cash capital, what we call adjusted common equity (ACE) is strong. It is composed primarily of paid-in capital and retained earnings. In the next two years we expect FONPLATA's capital adequacy to remain very strong by fairly matching the growth of its net loans to the growth of its ACE.

Earnings

Akin to other MLIs, FONPLATA's public policy mandate imparts a lower rate of profitability than a commercial bank would sustain.

FONPLATA's comprehensive and net income remained stable, and in 2015 net income was 1.2% of its average adjusted assets.

Table 5

	Profitability				
	--As of Dec. 31--				
	2015	2014	2013	2012	2011
Net income / average adjusted assets (%)	1.2	1.4	1.5	1.7	N/A
Net income / average adjusted common equity (%)	1.2	1.4	1.5	1.7	N/A
Comprehensive income / average adjusted assets (%)	1.1	1.4	1.5	1.7	N/A
Comprehensive income / average adjusted common equity (%)	1.1	1.4	1.5	1.7	N/A
Net interest income / average net loans (%)	3.0	3.1	3.5	4.8	N/A
Administrative expense / average adjusted common equity (%)	0.9	0.9	0.9	0.8	N/A
Memo:					
Net income (US\$ mil.)	7.0	7.7	7.6	8.7	7.6
Net increase (decrease) in cash and cash equivalents during the year (US\$ mil.)	(27.6)	12.0	(84.4)	7.2	48.0

During the first half of 2016 FONPLATA was profitable, with robust loan portfolio growth. All other credit metrics remained broadly unchanged.

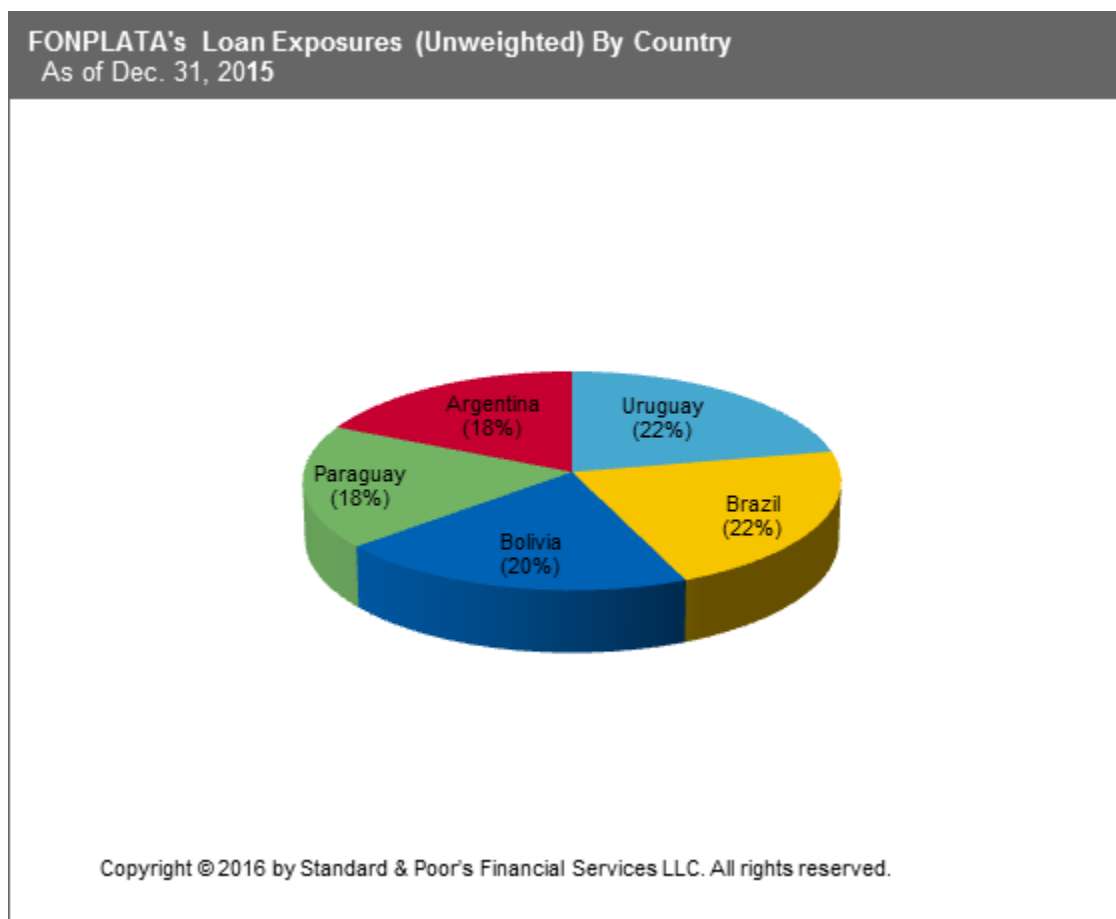
Treasury risk

Exchange rate risk. FONPLATA denominates all its loan assets and debt service receivable in U.S. dollars and reports its financial position in the same. Its most recent general capital increase installments are also payable in dollars.

Credit risk. Exposure limits by country are aiming for a more balanced loan portfolio.

The fund's top three loan exposures represented 64% of total loans and 47% of ACE at the end of 2015 (see chart 1). Exposure concentration has dropped over the past three years, as FONPLATA's top three loan exposures represented 83% of the 2012 total loan portfolio.

Chart 1



Purpose-related exposure of the last 10 years was distributed as follows: 69% transportation communications energy and logistics infrastructure, 22% infrastructure for socioeconomic development, and 9% in productive development.

Investment policies set a minimum rating of 'BBB-' (the institution achieved an average portfolio rating equal to or higher than 'AA-' as of December 2015), diversification by asset class and issuer, and a duration of less than two years.

Interest rate risk. Market risk comes from fluctuations in LIBOR (interest rate at which FONPLATA grants its loans), but movements on LIBOR are not expected to significantly affect its net income.

Risk Position

Regarding financial management, FONPLATA has prudent policies and risk tolerance. It currently has no outstanding debt, no derivative agreements, investments are not subject to market volatility, and has gradually diversified its loan concentration.

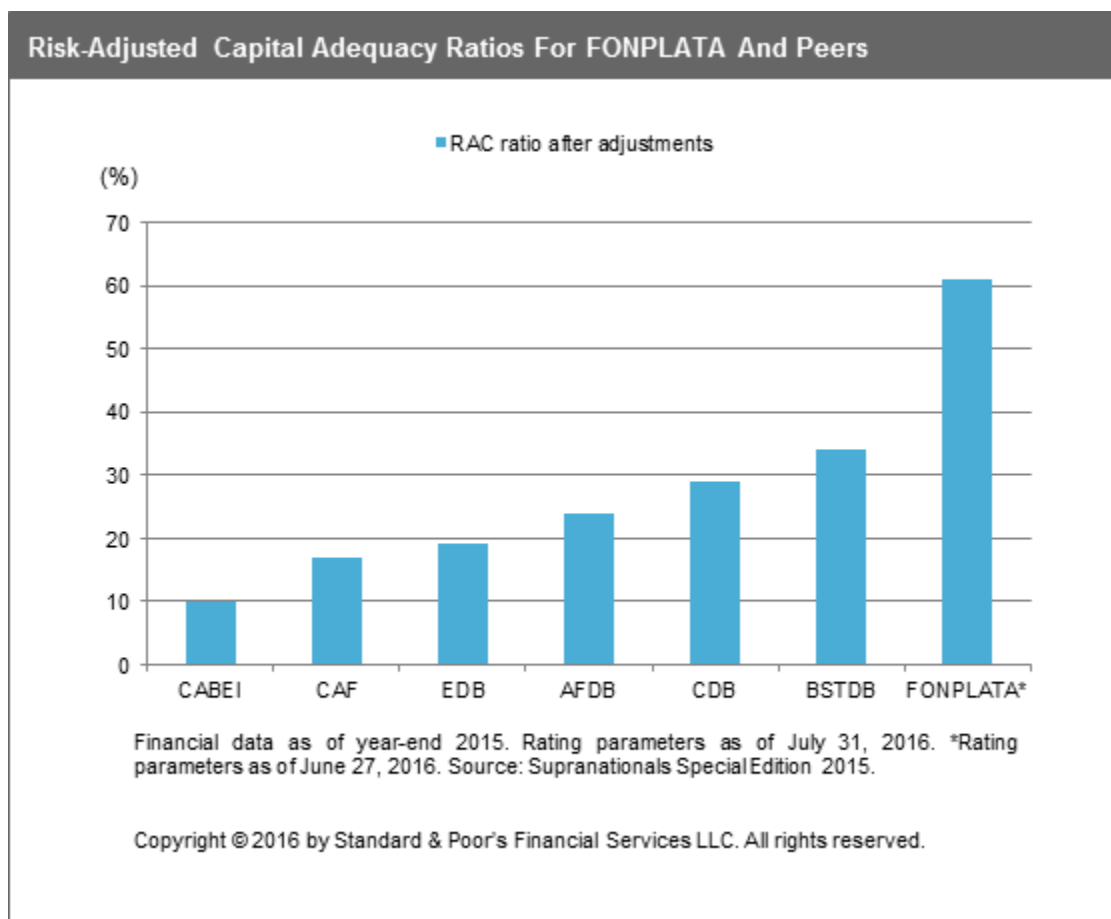
Table 6

FONPLATA's Risk-Adjusted Capital (RAC) Adequacy			
(US\$, 000s)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	785,826	604,477	77
Institutions	41,200	15,128	37
Corporate	0	0	--
Securitization	0	0	--
Other assets	2,513	6,283	250
Total credit risk	829,539	625,888	75
Market risk			
Equity in the banking book	0	0	--
Trading book market risk	--	0	--
Total market risk	--	--	--
Operational risk			
Total operational risk	--	28,757	--
RWA before MLI adjustments		654,645	100
MLI adjustments			
Industry and geographic diversification		(57,527)	(9)
Preferred creditor treatment		(157,135)	(26)
Single-name concentration		567,018	94
High-risk exposure cap			
Total MLI adjustments		352,356	54
RWA after MLI adjustments		1,007,001	154
		Adjusted common equity	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments		617,510	95
Capital ratio after adjustments			61

Note: Ratings parameters as of June 27, 2016. MLI--Multilateral lending institutions. RW--Risk weighting. RWA--Risk-weighted assets. ACE--Adjusted common equity. RAC ratio--Defined as ACE divided by RWA.

In comparison with peers, FONPLATA is well-capitalized for its risk position. As of year-end 2015, FONPLATA maintained higher relative capital adequacy than all peers.

Chart 2



Our outlook assumptions for FONPLATA's countries of operation can be seen in our Sovereign Risk Indicators, published Oct. 13, 2016.

Exposure concentrations

FONPLATA has diversified its exposure concentration, with almost 40% of its loan portfolio concentrated in Argentina and Brazil. The sovereign single-name concentration adjustment for the potential loss on these exposures and our expectation of preferred creditor treatment explain the difference between the 95% RAC ratio before MLI-specific adjustments and the 61% RAC ratio after as of December 2015.

Asset quality: loan loss experience

We view FONPLATA having a weaker loss experience than regional peers such as CAF, CABEL, and CDB. However, FONPLATA has never had to call upon a guarantee from a sovereign for loans to subsovereigns (mainly municipalities). Also, this assessment is based on our view that current fiscal conditions in Brazil could bring more arrears in this country's outstanding loans.

Funding And Liquidity

Funding

We estimate that the fund is structurally able to cover its scheduled loan disbursements without recourse to new issuance, as seen in a very large static funding gap at one year (note that FONPLATA's funding ratio is very high given that it has not outstanding debt and slow disbursement plans as of December 2015)

Despite this, FONPLATA has limited access to external sources of liquidity or inadequate available market access relative to current or future funding needs as reflected in the fund being an infrequent issuer (it has not issued debt).

FONPLATA has only an uncommitted undrawn line of credit from CAF of \$75 million.

Liquidity

Under our liquidity stress scenario, the fund would be able to continue fulfilling its mandate, even under extremely stressed market conditions, without access to the capital markets. FONPLATA no longer buys bonds issued by member countries. It does not lend against intergovernmental transfers.

Likelihood Of Extraordinary Shareholder Support

The 'A-' long-term foreign-currency issuer credit rating on FONPLATA does not incorporate extraordinary shareholder support coming from its US\$840 million of callable capital because we rate all its member shareholders lower than the fund.

Related Criteria And Research

Related Criteria

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- How Much Can Multilateral Lending Institutions Up The Ante?, April 12, 2016
- How An Erosion Of Preferred Creditor Treatment Could Lead To Lower Ratings On Multilateral Lending Institutions, Aug. 26, 2013
- Introduction To Supranationals Special Edition 2016, Sept. 29, 2016

Ratings Detail (As Of November 1, 2016)

FONPLATA

Issuer Credit Rating

Foreign Currency

A-/Stable/A-2

Issuer Credit Ratings History

27-Sep-2016

Foreign Currency

A-/Stable/A-2

*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

Ratings Detail (As Of November 1, 2016) (cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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