

## CREDIT OPINION

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Update

✓ Rate this Research

### Contacts

**William Foster** +1.212.553.4741  
 VP-Sr Credit Officer  
 william.foster@moodys.com

**Gabriel Agostini** +1.212.553.8882  
 Associate Analyst  
 gabriel.agostini@moodys.com

**Mauro Leos** +1.212.553.1947  
 Associate Managing Director  
 mauro.leos@moodys.com

**Yves Lemay** +44.20.7772.5512  
 MD-Sovereign/Sub Sovereign  
 yves.lemay@moodys.com

## FONPLATA – A2 stable

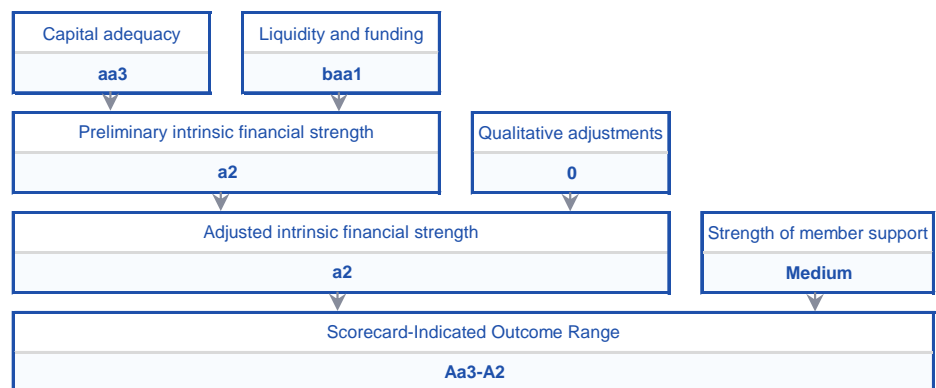
Regular update

### Summary

FONPLATA's credit profile balances the development bank's strong capital adequacy and healthy liquidity position, with our expectation of their gradual decline over the medium term as the bank takes on additional leverage to fund its growing portfolio. FONPLATA's credit profile also reflects its high portfolio and shareholder concentration, combined with its limited track record of issuing debt in the capital markets. Despite significant lending concentration, the bank enjoys a long history of zero nonperforming assets (NPAs).

Exhibit 1

**FONPLATA's credit profile is determined by three factors**



Source: Moody's Investors Service

### Credit strengths

- » Strong balance sheet and capital position
- » Long history of zero NPAs
- » Healthy liquidity position to continue despite plans to increase leverage

### Credit challenges

- » Challenging operating environment
- » High concentration in the loan portfolio and shareholder base
- » Limited track record of issuing debt in the capital markets

## Rating outlook

The stable outlook reflects a balance of risks to the rating. Our expectation that FONPLATA's capital adequacy will gradually weaken, as the institution begins to leverage its balance sheet, is incorporated into the rating and considers that the leverage ratio will likely remain around 100%. We also expect that future lending will continue to benefit from preferred creditor status and focus on the public sector, which provides further support to the stable outlook.

## Factors that could lead to an upgrade

Upward pressure on the rating would arise if: (1) the implementation of FONPLATA's growth and debt strategies in the 2018-21 period led to a deterioration in capital adequacy and liquidity indicators that is much smaller than we anticipate; and (2) the bank builds a track record of accessing diversified funding sources. The inclusion of highly rated investment grade members that would bolster the quality of shareholder support would add further support to the rating.

## Factors that could lead to a downgrade

Downward pressure on the rating would arise if key capital and liquidity metrics were to deteriorate more significantly than anticipated, below the metrics of similarly rated peers, as a result of the bank's growth strategy.

## Key indicators

FONPLATA	2014	2015	2016	2017	2018	2019
Total Assets (USD million)	573.2	627.6	758.6	851.6	1,042.9	1,307.7
Development-related Assets (DRA) / Usable Equity [1]	65.5	73.2	74.2	81.1	83.9	91.1
Non-Performing Assets / DRA	0.0	0.0	0.0	0.0	0.0	0.0
Return on Average Assets	1.4	1.2	2.1	2.5	2.8	2.4
Liquid Assets / ST Debt + CMLTD	--	--	--	18,302.0	44,087.0	69,173.0
Liquid Assets / Total Assets	35.6	27.8	27.8	21.5	22.5	28.2
Callable Capital / Gross Debt	--	--	10,406.3	6,403.8	2,114.3	629.0

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Investors Service

## Detailed credit considerations

We assess FONPLATA's **capital adequacy** to be "aa3," which balances the bank's very strong capital position and asset performance against lower development asset credit quality (DACQ) and rising leverage. We expect FONPLATA's leverage ratio (development-related assets/usable equity) to continue its trend increase as the bank pursues a more aggressive lending and borrowing strategy over the medium term. FONPLATA's leverage ratio was about 60% in 2013, but has increased gradually to about 91% in 2019 as the bank has expanded its lending activities in line with its redefined mission as a development bank. We expect the leverage ratio to continue its gradual rise as lending outpaces installment payments of paid-in capital.

FONPLATA's DACQ will remain low, reflecting a high level of portfolio concentration to relatively low-credit-quality borrowers, consistent with the institution's development mandate and regional role. Despite these portfolio challenges, NPAs have remained at zero over the past decade and we expect strong asset performance to continue, despite the coronavirus outbreak, supported by preferred creditor status.

We set **liquidity and funding** at "baa1" to balance FONPLATA's strong availability of liquid resources with its limited track record of market-based debt issuance. FONPLATA's limited, albeit rising, leverage and highly liquid treasury portfolio supports the bank's strong liquidity position. Although increased leverage and higher debt repayments will gradually lead to declines in the bank's liquidity ratios over the medium term, we expect availability of liquid resources to remain strong relative to MDB peers, underpinned by a liquidity policy that requires the bank to hold the equivalent of 12 months of liquid assets to cover all financial obligations and disbursement commitments for a year.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

Our liquidity assessment is balanced against a weaker quality of funding assessment which reflects FONPLATA's limited experience in international capital markets and a short track record of market-based debt issuance. Since the beginning of its new business strategy in 2016, FONPLATA has relied largely on member central banks and other multilateral development institutions for funding. However, in March 2019 FONPLATA took a significant step toward expanding its funding base by issuing the first international bond in its history (for a total of CHF150 million).

We assess FONPLATA's **strength of member support** as "Medium." The bank has a relatively low weighted average shareholder rating of B2, which we consider to be a measure of shareholders' ability to provide extraordinary support. However, this is countered by the high willingness of FONPLATA's members to provide extraordinary support. The presence of callable capital from an investment grade country, [Uruguay](#) (Baa2 stable), is another supporting feature for a "Medium" score assessment.

## ESG considerations

### How environmental, social and governance risks inform our credit analysis of FONPLATA

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing supranational issuers' credit profile. In the case of FONPLATA, the materiality of ESG to the credit profile is as follows:

Environmental considerations are material for FONPLATA's rating. Climate change can affect the projects that FONPLATA finances and is thus material to the bank's credit profile, as rising sea levels can affect important economic centers along the River Plate Basin and more severe weather events can damage infrastructure projects. The bank's diversified lending among member states and its risk management strategy is an important mitigant to these potential challenges. FONPLATA is increasing its operational focus to climate change, as evidenced by recent technical cooperations intended to help reduce the effects of flooding and forest fire in two member countries.

Social considerations are not material for FONPLATA's rating. Although social risks do affect FONPLATA's shareholders and borrowers, we do not expect social considerations to have a direct affect on the bank's credit profile.

Governance considerations are material for FONPLATA's rating. The bank has a strong track record of transparent governance and has robust risk management guidelines that help support its operations and overall credit profile.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).

## Recent developments

FONPLATA continued to expand its development loan portfolio in 2019, with gross loans reaching a record of \$936 million, up from \$799 million the year prior. The bank's lending has continued to support its mission of improving infrastructure and integration across its five member countries through expansion of portfolio commitments. In line with growth in loan approvals, the lending portfolio expanded by 17% last year, maintaining a robust average annual growth rate of nearly 20% since 2013. Despite strong contractions in economic activity across the region in 2020, we expect FONPLATA's robust lending growth to continue as the relevance of multilateral financing grows during the pandemic and borrowing members look to the bank for comparatively affordable financial support.

Consistent with its long-term capital plan, FONPLATA increased leverage further last year. In March 2019, FONPLATA issued the first international bond in its history for a total of CHF150 million (about \$151.5 million) at a tenor of five-years and a coupon of 0.578%. The issuance was oversubscribed, with demand reaching CHF225 million. FONPLATA's recent entrance into international capital markets follows a steady trend toward expanding the sources of its funding, which began with an arrangement with [CAF](#) (Aa3 stable) in November 2016 to establish a revolving line of credit up to \$75 million to supplement liquidity. In 2017, FONPLATA took in \$10 million worth of US dollar-denominated deposits from the Central Bank of Bolivia, the first operation of its kind in FONPLATA's history, and received an additional \$30 million the following year. Aside from the bond issuance, the bank has further diversified its funding since 2018 by drawing down varying amounts from lines of credit with the [Inter-American Development Bank](#) (IADB, Aaa stable) the Agence Francaise de Developpement (AFD) and the Instituto de Crédito Oficial E.P.E. (ICO).

The bank has continued to increase its income since it began expanding its loan book in 2015, benefiting from both a growing loan book and improving performance ratios. Net income increased to \$28.3 million, up 6.5% from \$26.5 million in 2018, driven primarily by steady growth in net interest income, which was up 20% over the year prior. However, the bank's return on assets (ROA) and return on equity (ROE) dipped slightly to 2.4% and 2.9% in 2019, respectively, down from 2.8% and 3.0% in 2018.

FONPLATA's capital base continues to expand, but its membership's ability to support the bank remains low. The bank's January 2016 capital increase brought in additional paid-in capital last year and will be fully implemented by 2024. Paid-in capital increased to \$865 million in 2019, up from \$818 million the year prior. Meanwhile, the bank's callable capital stood at \$1.7 billion. While the steady increase in paid-in capital demonstrates a strong willingness of members to support the institution, we note that shareholders' ability to support the bank in times of stress remains relatively low, as proxied by FONPLATA's weighted average shareholder rating of B2.

The macroeconomic climate of FONPLATA's five member countries is an important factor in the bank's overall credit profile, due to the concentration of loans and economic linkages among members. We estimate that the coronavirus outbreak will lead to deep economic recessions in each of the bank's borrowing member countries, with [Argentina's](#) (Ca negative) economy experiencing the sharpest decline in real GDP (-8.0%), followed by [Brazil](#) (Ba2 stable, -6.2%), [Bolivia](#) (B1 negative, -3.5%), Uruguay (-3.3%) and [Paraguay](#) (Ba1 stable, -2.5%). Despite the global pandemic's severe economic shock to the region, we expect FONPLATA's asset performance to remain resilient. The bank's entire loan portfolio at year-end 2019 carried sovereign guarantees, which we expect will help preserve asset performance. At the same time, FONPLATA's small loan size, which averages less than \$50 million per loan, will also help reduce the likelihood of missed payment on behalf of sovereigns in the portfolio.

## Rating methodology and scorecard factors

Rating factor grid - Fondo Financiero para el desarrollo de la Cuenca del Plata	Initial score	Adjusted score	Assigned score
<b>Factor 1: Capital adequacy (50%)</b>		<b>aa3</b>	<b>aa3</b>
<b>Capital position (20%)</b>		<b>aa1</b>	
Leverage ratio	aaa		
Trend	-1		
Impact of profit and loss on leverage	0		
<b>Development asset credit quality (10%)</b>		<b>ba</b>	
DACQ assessment	baa		
Trend	-1		
<b>Asset performance (20%)</b>		<b>aa1</b>	
Non-performing assets	aaa		
Trend	0		
Excessive development asset growth	-1		
<b>Factor 2: Liquidity and funding (50%)</b>		<b>baa1</b>	<b>baa1</b>
<b>Liquid resources (20%)</b>		<b>aa1</b>	
Availability of liquid resources	aa1		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
<b>Quality of funding (30%)</b>		<b>ba</b>	
<b>Preliminary intrinsic financial strength</b>			<b>a2</b>
<b>Other adjustments</b>			<b>0</b>
<b>Operating environment</b>	0		
<b>Quality of management</b>	0		
<b>Adjusted intrinsic financial strength</b>			<b>a2</b>
<b>Factor 3: Strength of member support (+3,+2,+1,0)</b>		<b>Medium</b>	<b>Medium</b>
<b>Ability to support - weighted average shareholder rating (50%)</b>		<b>b2</b>	
<b>Willingness to support (50%)</b>			
Contractual support (25%)	aaa	aaa	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		<b>Medium</b>	
<b>Scorecard-Indicated Outcome Range</b>			<b>Aa3-A2</b>
<b>Rating Assigned</b>			<b>A2</b>

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

## Moody's related publications

- » **Issuer In-Depth:** [FONPLATA -A2 stable: Annual credit analysis](#), 22 November 2019
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 25 June 2019

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