

CREDIT OPINION

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Update

✓ Rate this Research

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FONPLATA – A2 stable

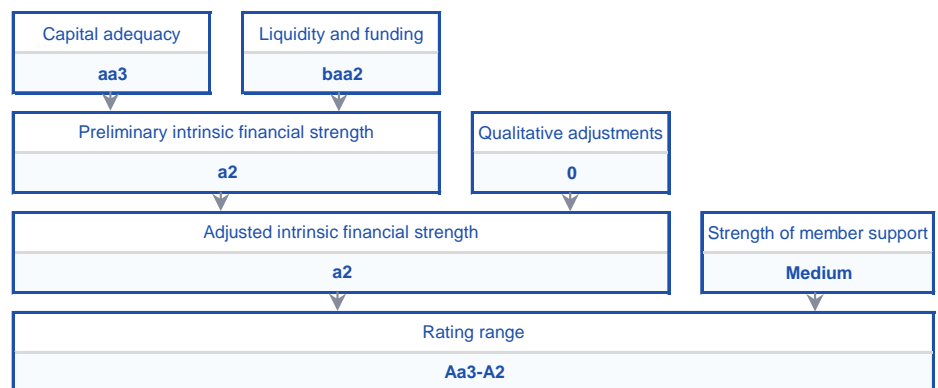
Regular update

Summary

FONPLATA's credit profile balances the development bank's strong capital adequacy and healthy liquidity metrics, 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 loans (NPLs).

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 NPLs
- » 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

Conversely, 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	2013	2014	2015	2016	2017	2018
Total Assets (USD million)	519.5	573.2	627.6	758.6	851.6	1,042.9
Development-related Assets (DRA) / Usable Equity [1]	60.2	65.5	73.2	74.2	81.1	83.9
Non-Performing Assets / DRA	0.0	0.0	0.0	0.0	0.0	0.0
Return on Average Assets	1.5	1.4	1.2	2.1	2.5	2.8
Liquid Assets / ST Debt + CMLTD	--	--	--	--	--	17,856.8
Liquid Assets / Total Assets	40.4	35.6	27.8	27.8	21.5	22.5
Callable Capital / Gross Debt	--	--	--	10,406.3	6,403.8	2,107.6

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

Source: Moody's Investors Service

Detailed credit considerations

The "Fondo Financiero para el Desarrollo de la Cuenca del Plata" (FONPLATA) is a multilateral development bank (MDB) focused mainly on the South American region of its five member countries ([Argentina \(Caa2 RUR\)](#), [Bolivia \(Ba3 stable\)](#), [Brazil \(Ba2 stable\)](#), [Paraguay \(Ba1 stable\)](#) and [Uruguay \(Baa2 stable\)](#)) and their integration into the global marketplace.

FONPLATA's A2 rating is based on our assessment of the bank's intrinsic financial strength and strength of member support. In particular, the bank's financial strength is supported by: (1) our expectation that strong solvency metrics will persist, despite the expected increase in leverage; and (2) a strong liquidity position.

We assess **capital adequacy** to be "aa3," which reflects the bank's strong capital position and history of zero nonperforming loans. Although FONPLATA enjoys an outstanding capital position, this balance sheet strength is tempered by an anticipated increase in the leverage ratio (development-related assets/usable equity) as the bank pursues a more aggressive lending and borrowing strategy over the next 2-3 years. FONPLATA's leverage ratio was about 60% in 2013, but has increased gradually to about 84% in 2018 as the bank has expanded its lending activities in line with its redefined mission. Looking forward, we expect the leverage ratio to continue its gradual rise as lending outpaces installment payments of paid-in capital. FONPLATA's borrower quality has remained steady at Ba2 over the past three years, and nonperforming loans have remained at zero over the past decade.

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.moody's.com for the most updated credit rating action information and rating history.

We set **liquidity and funding** at "baa2" which reflects of our expectation that metrics will remain sound despite the bank's plans to gradually increase leverage over the medium term. FONPLATA's lack of debt has historically limited liquidity risks to the adequate management of its investment portfolio, with most of its treasury assets invested in high-quality instruments. Looking forward, as the bank increases leverage, liquidity ratios will deteriorate somewhat, but still compare relatively favorably to MDB peers. Our assessment also captures the highly liquid nature of its assets and conservative risk management policies, balanced by a limited track record of issuing debt in the capital markets.

Finally, we assess the **strength of member support** as "Medium." FONPLATA has a relatively low weighted average shareholder rating of Ba3, a measure of shareholders' ability to provide extraordinary support. However, this is countered by the high willingness of its members to provide extraordinary support. The presence of callable capital from an investment grade country, Uruguay, is another supporting feature for a "Medium" score assessment.

Recent developments

FONPLATA continued to expand its portfolio in 2018, with gross loans reaching a record of \$803 million. The bank's lending has continued to support its mission of improving infrastructure and integration across the five member countries. In line with growth in loan approvals, the lending portfolio expanded by 21% in 2018, maintaining a robust average annual growth rate of 21% since 2013. Looking forward, FONPLATA will continue to expand its loan book in accordance with the business plan presented during its second capital increase.

On 11 March 2019, FONPLATA issued the first international bond in its history for a total of CHF 150 million (\$151.5 million) at a tenor of five-years and a coupon of 0.578%. The issuance was oversubscribed, with demand reaching CHF 225 million. FONPLATA's recent entrance into international capital markets follows a steady trend towards 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.

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 grew to about \$27 million from about \$20 million in 2017, a 32% increase, driven primarily by steady growth in net interest income. For 2018, net interest income grew by 44%, higher than the average growth rate of the past four years of 34%. Meanwhile, the bank's return on assets (ROA) increased to 2.8% in 2018 from 2.5% in 2017 and return on equity (ROE) increased to 3.0% in 2018 from 2.6% in 2017.

The bank's capital increase approved in January 2016 brought in additional paid-in capital in 2018 and will be fully implemented by 2024. Authorized capital remained stable at \$3 billion, while paid-in capital rose to \$818 million from \$706 million in 2017. Meanwhile, callable capital stood at \$1.7 billion.

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. Although Brazil, Bolivia, Paraguay and Uruguay maintain stable outlooks as of September 2019, economic prospects have dampened across the region due to the negative impact of rising trade and geopolitical tensions. This is reflected in our average real GDP growth forecast for the five member countries, which is a modest 1.3% for 2019.

In Brazil, weak industrial production and investment have led to a downward revision of our real GDP growth forecasts to 0.9% and 2.0% in 2019 and 2020, respectively. Meanwhile, Argentina's economic prospects have deteriorated significantly after the primary elections in August. We expect Argentina's economy to contract by 2.5% in 2019 and 1.0% in 2020. The results of the primary implied a high probability of victory in the October presidential election for the opposition candidate, which put significant pressure on the Argentine currency and financial assets. The government's subsequent announcement to delay more than \$8 billion of short-term debt payments and intention to conduct a 'voluntary reprofiling' of long-term debt, contributed to Moody's decision to downgrade Argentina's sovereign rating to Caa2 with review for further downgrade. Even after capturing the downgrade, our assessment of FONPLATA's "Medium" strength of member support will not change. In addition, despite the lower growth prospects for the region, the bank's track record of zero non-performing loans and its preferred creditor status continue to support the rating and stable outlook.

Rating methodology and scorecard factors

Rating factor grid - Fondo Financiero para el desarrollo de la Cuenca del Plata	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		aa3	aa3
Capital position (20%)		aa1	
Leverage ratio	aaa		
Trend	-1		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		ba	
DACQ assessment	baa		
Trend	-1		
Asset performance (20%)		aa1	
Non-performing assets	aaa		
Trend	0		
Excessive development asset growth	-1		
Factor 2: Liquidity and funding (50%)		baa1	baa2
Liquid resources (20%)		aaa	
Availability of liquid resources	aaa		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (30%)		ba	
Preliminary intrinsic financial strength			a2
Other adjustments			0
Operating environment	0		
Quality of management	0		
Adjusted intrinsic financial strength			a2
Factor 3: Strength of member support (+3,+2,+1,0)		Medium	Medium
Ability to support - weighted average shareholder rating (50%)		ba3	
Willingness to support (50%)			
Contractual support (25%)	aaa	aaa	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		Medium	
Rating range			Aa3-A2
Rating			A2

Note: While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Additional considerations that may not be currently captured by the metrics used in the scorecard can be reflected in differences between the adjusted and assigned factor scores. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range.

For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

- » **Credit Opinion:** [FONPLATA - A2 stable, regular update](#), 13 June 2019
- » **Rating Action:** [Moody's affirms FONPLATA's A2 rating, maintains stable outlook](#), 1 November 2018
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 25 June 2019

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