

## ISSUER IN-DEPTH

22 November 2019



### RATINGS

#### FONPLATA

	Rating	Outlook
Long-term Issuer	A2	Stable
Short-term Issuer	--	--

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## FONPLATA – A2 stable

### Annual credit analysis

### OVERVIEW AND OUTLOOK

The credit profile of [Fondo Financiero para el Desarrollo de la Cuenca del Plata](#) (FONPLATA) reflects the development bank's strong and growing balance sheet, which has historically operated with little to no debt. Moreover, the bank's conservative asset management strategy limits liquidity risks. Members' willingness to provide extraordinary support and callable capital from investment-grade [Uruguay](#) (Baa2 stable) also help to support the bank's creditworthiness.

By contrast, credit challenges include high portfolio and shareholder concentration, combined with a limited track record of issuing debt in the capital markets. The bank operates in a relatively weak environment and its member countries have strong macroeconomic linkages: [Argentina](#) (Caa2 RUR-), [Bolivia](#) (Ba3 stable), [Brazil](#) (Ba2 stable), [Paraguay](#) (Ba1 stable), and Uruguay. Relatively high portfolio concentration (consistent with the bank's development mandate) is partially offset by a history of zero nonperforming loans. A relatively low weighted average shareholder rating of Ba3 also weighs on creditworthiness.

Over the medium term, we expect capital adequacy and liquidity metrics to remain strong but gradually decline, as the bank takes on additional leverage to fund its growing development portfolio.

Upward pressure on the credit profile 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. 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.

This credit analysis elaborates on FONPLATA's credit profile in terms of capital adequacy, liquidity and strength of member support, which are the three main analytical factors in Moody's [Supranational Rating Methodology](#).

## Organizational structure and strategy

### FONPLATA to become a more active development bank in the River Plate Basin region

FONPLATA's main objective is to promote integration and inclusive development in the River Plate Basin and its areas of economic influence. The River Plate Basin is a geographic region that covers nearly a quarter of South American landmass and extends to all five member countries: Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Established in 1974 and headquartered in Bolivia, FONPLATA's loans are centered around infrastructure projects, with a special focus on vulnerable zones and border regions that face inequalities in economic and social development. In addition to lending, FONPLATA provides technical assistance grants for capacity building among member states.

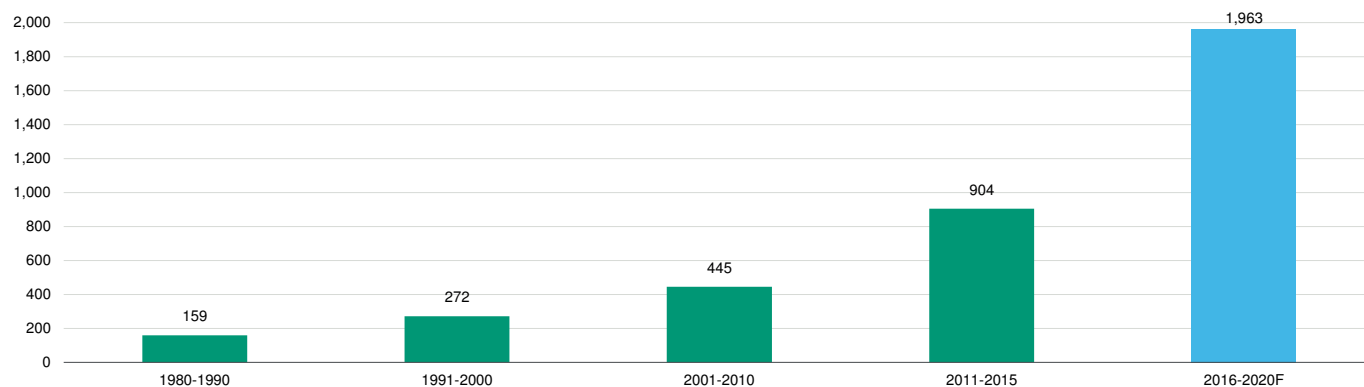
In 2009 and 2010, FONPLATA sought to redefine its mandate and did not approve any new lending during this time. In 2010, the board of governors decided to revamp FONPLATA's management model and take a far more active approach to lending. Among other things, it created the role of an executive president. Since the first executive president took office in 2012, the bank has established a clear timeline of short-term and long-term strategic goals to pursue a more aggressive lending strategy, and has updated its governance and risk management procedures. The bank concentrates its lending capacity in projects that are of small-to-medium scale, averaging \$30-\$50 million, executed in specific locations and always with the public sector, though average loan amounts are set to gradually increase to \$50-\$70 million over the medium term as it expands its overall portfolio.

Under its updated mandate, the bank has targeted a significant increase in loan approvals to a total of nearly \$2.0 billion during the 2016-20 period, resulting in a nearly twofold increase from the 2011-15 period (\$904.6 million), which had outpaced loan originations made over the previous 30 years (see Exhibit 1).

Exhibit 1

#### Loan approvals will continue to far outpace historical figures through 2020

Historical and projected loan approvals, 2016-20 (\$ millions)



Sources: FONPLATA and Moody's Investors Service

FONPLATA has experienced a parallel jump in equity, as country members agreed to two capital increases starting in 2014. As a result, subscribed capital rose from \$450.6 million in 2009 to \$3 billion in 2018. While the bank has historically taken on limited debt to fund its growth strategy, in March 2019, FONPLATA issued the first international bond in its history for a total of CHF150 million (about \$152 million). This follows an estimated \$79 million in loans and non-market debt instruments that the bank had drawn from [Corporacion Andina de Fomento](#) (CAF, Aa3 stable), the Central Bank of Bolivia, the [Inter-American Development Bank](#) (IADB, Aaa stable) and [Agence Francaise de Developpement](#) (AFD) as of 2018. Moving forward, we expect FONPLATA to continue to increase leverage to fund its loan portfolio growth strategy over the medium term.

### Corporate governance

FONPLATA's board of governors is comprised of the finance or planning ministers of the five member countries. This board approves audited financial statements, administrative and capital budgets and the allocation of net income. The board of executive directors,

which reports to the board of governors, consists of representatives of the five member countries and its role is to approve overall credit operations in the countries, approve institutional policies, and authorize financial obligations. Finally, the executive president, appointed for the first time in 2012, is in charge of the institution's management and overall supervision. Before, every single loan was approved by consensus and required unanimity from all country representatives, slowing the decision-making process. The process has been streamlined since the appointment of the president, with the board of governors and executive directors approving by majority and executive management having the capacity to implement a lending strategy based on three-year results guidelines per country.

### Development lending focuses on small- and medium-sized projects

FONPLATA's business focuses primarily on providing concessional loans to promote geographic integration in the river basin and grants in the form of technical assistance. To this effect, a majority of its projects target inland and border towns, which are often the most geographically isolated and tend to be the poorest in the region. Additionally, the bank focuses on small- and medium-sized projects. In contrast to regional peers such as CAF and [Central American Bank of Economic Integration](#) (CABEI, Aa3 stable), FONPLATA's loans tend to be relatively small, usually capped at \$50 million each (see Exhibit 2).

Exhibit 2

#### Examples of loan projects by country

Country	Main Lending Focus	Sample Project
Argentina	Transport Infrastructure	Program to improve railway safety and quality of rail passenger transport services in the Buenos Aires metropolitan area
Bolivia	Social Development	Construction of bridges in the department of Cochabamba to ensure free cargo and passenger transit to education and healthcare centers
Brazil	Transport Infrastructure	Urban and port renewal program in the city of Corumbá on the border with Bolivia
Paraguay	Energy Infrastructure	Construction of transformer substation and power transmission lines in the community of Valenzuela
Uruguay	Transport Infrastructure	Improvement of port access on Rambla Portuaria in Montevideo

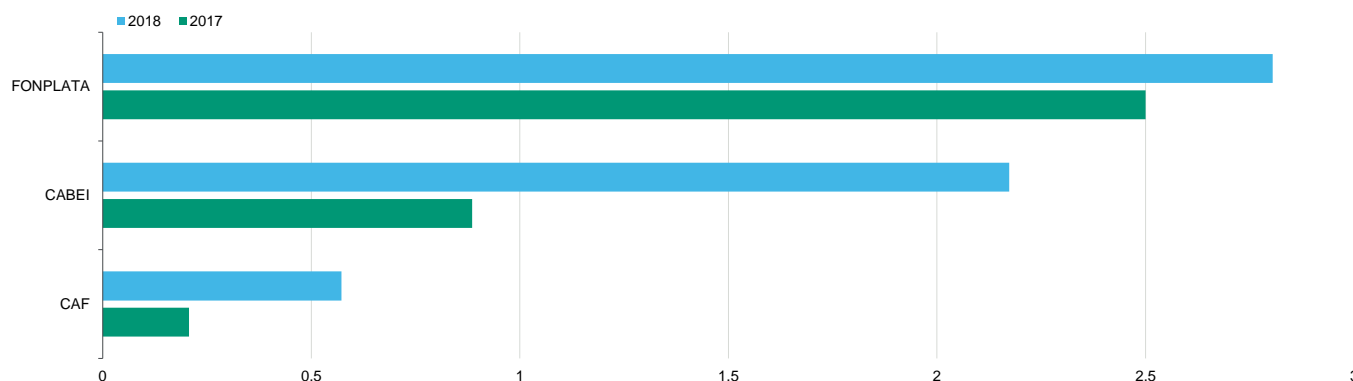
Sources: FONPLATA and Moody's Investors Service

FONPLATA's net income grew healthily in 2018, as interest revenue from its growing loan portfolio increased by 44%. Accordingly, return on average assets (ROA) and return on average equity (ROE) grew to 2.8% and 3.0% in 2018, up from 2.5% and 2.6% in 2017, respectively. ROA continues to compare favorably to regional peers CABEI and CAF (see Exhibit 3).

Exhibit 3

#### FONPLATA's profitability compares favorably to regional peers

Net income/Two-year average assets

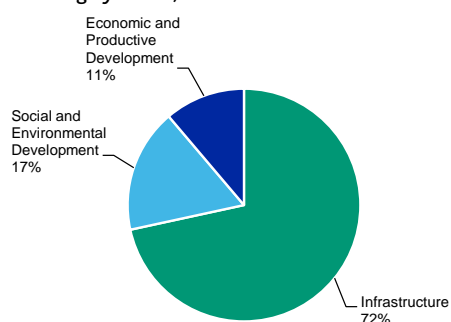


Sources: FONPLATA and Moody's Investors Service

FONPLATA's asset quality remains very strong, demonstrated by a history of zero nonperforming assets (NPAs). Lending by the bank has always been to the public sector, and in instances where the borrower is a local or state government, the loan carries a sovereign guarantee. FONPLATA also enjoys preferred creditor status in its operations.

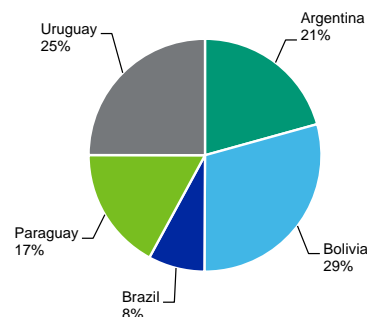
The majority of projects (72%) are for physical infrastructure development (mainly in the transport, logistics and energy sectors). Other focuses include social and environmental development projects (17%), mainly in housing, health and education (see Exhibit 4). The remainder of the portfolio, approximately 11%, is devoted to productive development infrastructure (e.g., support for the development of small and medium enterprises).

Exhibit 4  
**FONPLATA's lending portfolio primarily funds physical and socio-economic infrastructure projects**  
FONPLATA's lending by sector, 2018



Sources: FONPLATA and Moody's Investors Service

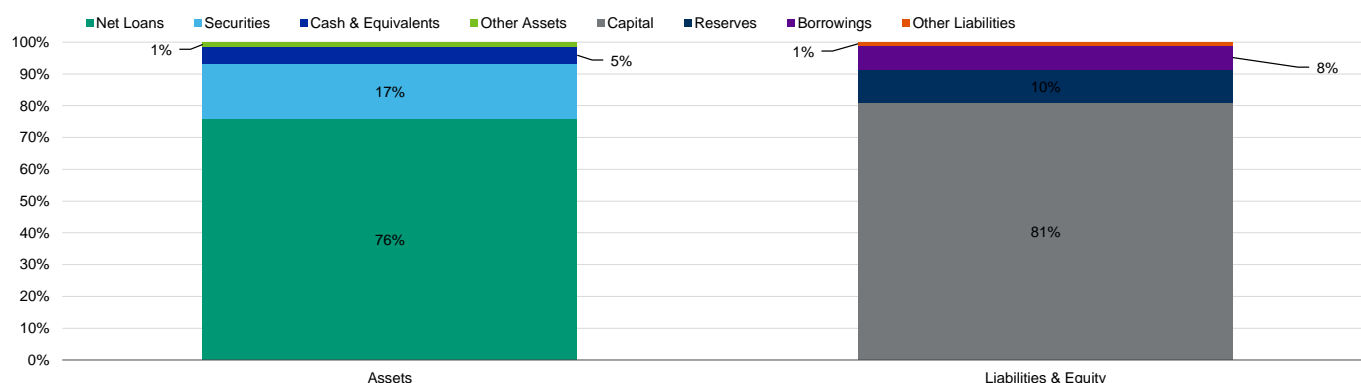
Exhibit 5  
**Half of FONPLATA's loans are for projects in Uruguay and Bolivia**  
% of gross loans by country, 2018



Sources: FONPLATA and Moody's Investors Service

As of 2018, FONPLATA's lending is dedicated entirely to its member countries. Bolivia has the highest share of outstanding loans with 29% (see Exhibit 5), up from 26% in 2017. Assets in Bolivia increased to \$234 million in 2018 from \$169 million in 2017. Brazil's share has decreased from 11% to 8%, and it is the only country that has seen a decrease in assets in nominal terms. There is no direct relationship between the share of paid-in-capital provided by a country and its share of the bank's lending. To date, FONPLATA's lending has favored Bolivia, Paraguay and Uruguay, which have received a large share of the lending relative to their equity contribution. According to the bank's Institutional Strategic Plan for 2018-22, it intends to increase its membership as it expands its lending and development role in the region.

Exhibit 6  
**FONPLATA's 2018 balance sheet was strong and highly capitalized**  
% of assets and liabilities & equity



Sources: FONPLATA and Moody's Investors Service

FONPLATA had a strong balance sheet as of year-end 2018. The fund had more capital than loans and carried just \$79 million in borrowings from CAF, AFD, the IADB and the Central Bank of Bolivia. Just over a fifth of the fund's assets were held either in cash (5%) or in securities (17%). Loans represented 76% of total assets (see Exhibit 6). Looking forward, we expect FONPLATA's balance sheet

to continue to grow and shift toward more debt, including the CHF150 million (about \$152 million) international bond issuance from March 2019. We expect the bank to continue to use leverage as it builds its funding capacity and diversifies its funding sources.

Based on future lending and borrowing plan projections, we estimate that FONPLATA's assets will grow to around \$1.4 billion in 2020 from \$852 million in 2017, with the bank taking on about \$350 million in debt to finance that growth. However, such borrowings would still represent only around 25% of FONPLATA's projected liabilities and equity as annual increases in paid-in capital (approved in 2016) will help to maintain the bank's strong capital buffers.

## CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength. Additional factors that can impact the intrinsic financial strength, including risks stemming from the operating environment or the quality of management, are also considered. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

### Capital adequacy score: aa3

#### Factor 1: Capital adequacy

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+				Assigned																	-

#### Sub-factor scores

Capital position

Development asset credit quality

Asset performance

aa1
ba
aa1

Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the credit quality of the institution's development assets and the risk that these assets could result in capital losses.

*Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.*

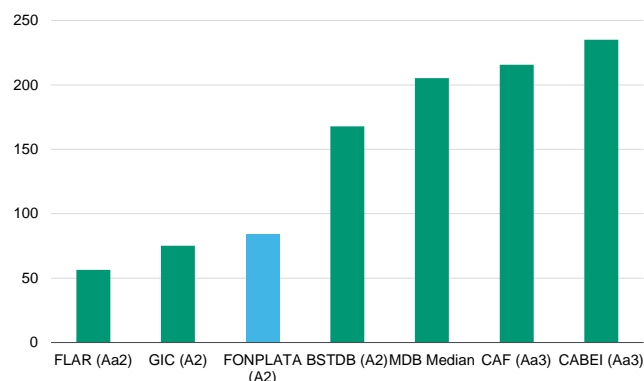
FONPLATA's capital adequacy is assessed as "aa3," which reflects a strong balance sheet and overall capital position, tempered by an anticipated increase in leverage as the bank pursues a more aggressive borrowing and lending strategy. The factor score also captures a relatively challenging operating environment, given strong macroeconomic linkages among its five member countries.

#### Robust capital position to gradually decline as loan portfolio grows

We assess FONPLATA's capital position as "aa1," supported by a strong leverage ratio (development-related assets and liquid assets rated A3 lower/usable equity) of about 85% in 2018. As of 2018, the bank had \$79 million in debt and maintained a relatively small loan portfolio (about \$793 million), qualities that support its very high intrinsic financial strength. FONPLATA's leverage ratio was lower than similarly rated institutions such as the [Gulf Investment Corporation](#) (GIC, A2 stable) and [Black Sea Trade & Development Bank](#) (A2 stable), and nearly three times lower than that of its regional peers (CAF and CABEL) (see Exhibit 7).

At the same time, FONPLATA's capital adequacy assessment also reflects expectations that the leverage ratio will increase as the bank pursues a more aggressive lending and borrowing strategy over the next 2-3 years. FONPLATA's leverage ratio has gradually increased from about 60% in 2012, as the bank has increased its lending activities in line with its redefined mandate (see Exhibit 8). Looking ahead, we expect the leverage ratio to continue to gradually rise as lending outpaces installment payments of paid-in capital, but to remain below 100%, a level consistent with an "aa1" capital position.

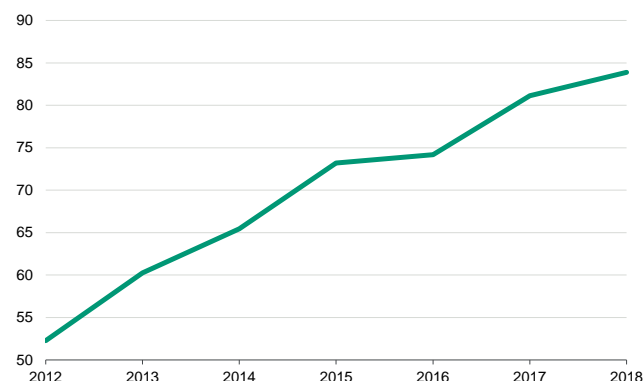
Exhibit 7

**FONPLATA's leverage ratio remains below that of peers**  
 (DRA and liquid assets rated A3 lower)/useable equity, % (2018)


Note: DRA = development-related assets; FLAR = Fondo Latinoamericano de Reservas (Aa2 stable)

Source: Moody's Investors Service

Exhibit 8

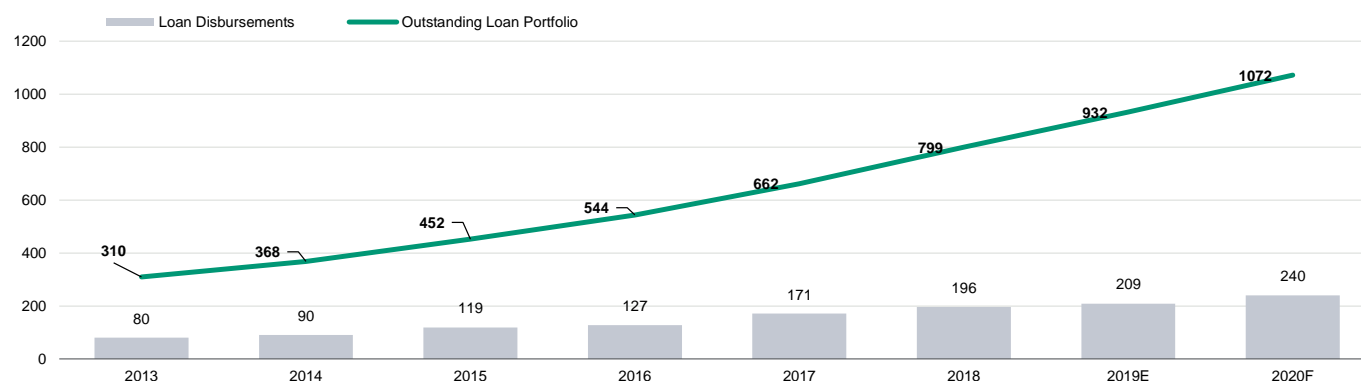
**FONPLATA's leverage ratio has steadily increased since 2012**  
 (DRA and liquid assets rated A3 lower)/useable equity, % (2018)


Note: DRA = development-related assets; FLAR = Fondo Latinoamericano de Reservas

Source: Moody's Investors Service

As part of its new structure and mandate, FONPLATA intends to continue to expand its lending capacity through 2020, taking advantage of capital increases approved in 2013 and 2016 (for a total of \$2.53 billion) and increase its use of leverage. FONPLATA has targeted to increase annual loan approvals to around \$500 million by 2020, from \$284 million in 2015, resulting in about \$2.0 billion cumulatively for the 2016-20 period. The targeted increase for approvals through 2020 (\$2.0 billion) is greater than the amount FONPLATA has lent in the last 25 years combined (a total of \$1.62 billion for the 1991-2015 period) and will contribute to an average annual portfolio growth rate of above 20% per year (see Exhibit 9).

Exhibit 9

**Loan disbursements will increase annually through 2020, expanding the loan portfolio**  
 \$ millions


Sources: FONPLATA and Moody's Investors Service

**Regional concentration contributes to capital adequacy risks**

FONPLATA's development asset credit quality (DACQ) initial score of "baa" reflects a weighted average borrower rating at Ba2 and a portfolio that is fairly diversified in terms of geography and sectors. However, the adjusted score of "ba" accounts for expected deterioration in borrower credit metrics.

Although Brazil, Bolivia, Paraguay and Uruguay maintained stable outlooks as of November 2019, economic prospects have dampened across the region due to both global and domestic factors. 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 contribute to our real GDP growth forecasts of 0.9% and 2.0% in 2019 and 2020, respectively. Meanwhile, Argentina's economic prospects have deteriorated significantly after the primary elections in August. The ensuing run on the peso forced the government to default on its short-term obligations and seek debt restructuring. Since then we have downgraded Argentina's rating four notches to Caa2, with the rating under review for further downgrade (RUR-), from B2. We expect Argentina's economy to contract by 3.8% in 2019 and 2.5% in 2020. In Bolivia, political turmoil following the presidential election in October will likely weigh on the economy, resulting in real GDP growth below 4.0%

The economic outlooks for Paraguay and Uruguay are somewhat more favorable. We expect Paraguay to recover from a moderate contraction in 2019 and grow at 3.5% in 2020, this would make it the second fastest growing economy in South America after Bolivia and, offsets some credit risks to FONPLATA's lending portfolio. We also forecast a recovery in growth in Uruguay to above 2% on the back of increased investment in an additional pulp plant. Nonetheless, strong macroeconomic linkages among the five member countries, particularly as they pertain to trade relationships, continue to pose regional credit risks

The bank's overall borrower quality has remained below investment grade at Ba2, as loans to Uruguay, the sole investment grade member and borrower, accounted for only a quarter of total loans in 2018. Although our rating outlook for Brazil stabilized in 2018, we see very limited upward potential in average borrower quality over the short to medium term, given weaker growth prospects and continued fiscal challenges across member countries.

Looking ahead, while FONPLATA's regional portfolio concentration will remain a credit challenge, as highlighted by the bank's recently approved Strategic Institutional Plan, it is taking initial steps to diversify its shareholder base with the intent to add more members by 2022.

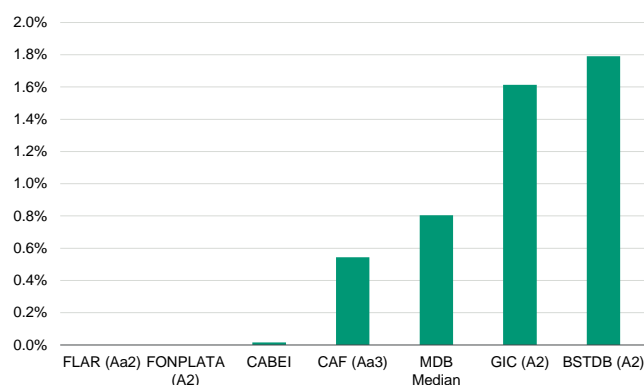
### Asset performance remains very strong

FONPLATA's asset quality performance remains very strong, demonstrated by nonperforming assets (NPA) that have remained at zero over the past decade (see Exhibit 10).

The bank's strong asset performance benefits from the preferred creditor status of its loans, which have been directed exclusively to the public sector and have been supported by sovereign guarantees when the borrower has been at the sub-sovereign level. Although the initial asset performance score has been set at "aaa," we apply a -1 adjustment to account for significant recent and expected growth in development assets, which results in a final adjusted score of "aa1" (see Exhibit 11).

Exhibit 10

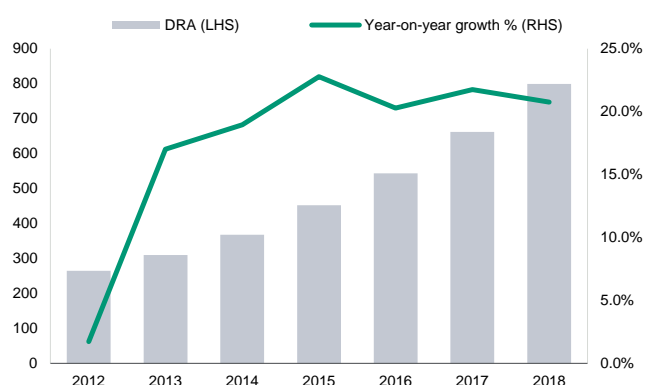
#### Nonperforming assets compare favorably to peers %, year average



Sources: FONPLATA and Moody's Investor Services

Exhibit 11

#### Development related assets have tripled since 2012



Source: Moody's Investor Services

## Liquidity and funding score: baa1

### Factor 2: Liquidity and funding

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c
+								Assigned													-

#### Sub-factor scores

Liquid resources

Quality of funding

aaa
ba

An entity's liquidity is important in determining its ability to meet its financial obligations. We evaluate the extent to which liquid assets cover net cash flows over the coming 18 months and the stability and diversification of the institution's access to funding.

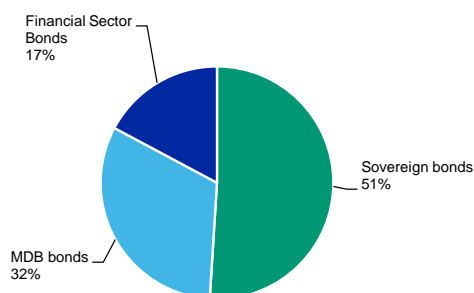
*Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.*

FONPLATA's "baa1" score for liquidity captures the highly liquid nature of its assets and its conservative risk management policies, which are balanced by its limited history of taking on debt and tapping financial markets. 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. The bank started taking on debt in 2016 to fund its growing loan portfolio and will continue to do so over the next three to five years. As such, liquidity coverage will likely decline. However, we expect liquidity indicators to remain above the majority of rated peers, given FONPLATA's adherence to limited liquidity risks.

Most of FONPLATA's treasury assets are in highly liquid and highly rated instruments, with about 53% rated Aaa, only 6% below A3, and only 1% non-investment grade in 2018. FONPLATA follows a conservative approach of using the lowest rating among the three main credit rating agencies when assessing the risk of their investments. Additionally, a vast majority of treasury assets are sovereign (51%) or MDB bonds (32%) with the remainder consisting of financial sector bonds (see Exhibits 12 and 13).

Exhibit 12

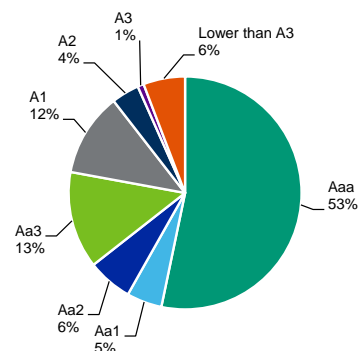
**FONPLATA's treasury portfolio is primarily invested in sovereign and supranational bonds**  
Investment portfolio by asset class, 2018



Sources: FONPLATA and Moody's Investor Services

Exhibit 13

**The vast majority of treasury assets are very highly rated**  
Investment portfolio by rating category, 2018



Sources: FONPLATA and Moody's Investor Services

From a liquidity management perspective, a single instrument cannot represent more than 10% of the total securities portfolio and most instruments are held to maturity. Meanwhile, the duration of financial assets must also be under two years (currently nearly 100% of treasury assets mature in less than one year).

Overall, the bank's liquidity policy requires it to hold the equivalent of 12 months of liquid assets to cover all financial obligations and disbursement commitments in a year. In this calculation, it only takes into account 66% of total upcoming amortization payments and two-thirds of paid-in capital receivables.



## Composition of funding is evolving with increased use of leverage

Limited experience in international capital markets and a short track record of debt issuance leads to a quality of funding assessment of "ba." However, FONPLATA is in the process of gradually changing its funding sources over time.

Since the beginning of its new business strategy in 2016, FONPLATA has relied largely on other multilateral development institutions for funding. Its first credit line for \$75 million was obtained through CAF in November 2016 (see Exhibit 14). In 2017, it received a \$10 million deposit from the Central Bank of Bolivia and a \$100 million credit line from the IADB. By the end of 2018, FONPLATA had more than tripled its multilateral credit lines (to \$270 million) following additional credit lines from institutions including the AFD, [European Investment Bank](#) (EIB, Aaa stable), and [Instituto de Crédito Oficial](#) (ICO, Baa1 stable) (see Exhibit 15). FONPLATA expects to sign additional credit line agreements with other bilateral and multilateral entities in the future.

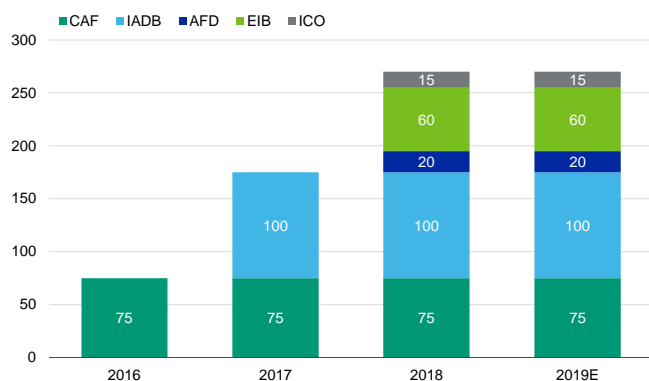
In March 2019, FONPLATA took a significant step toward expanding its funding base by issuing the first international bond in its history, for a total of CHF150 million (about \$152 million) at a tenor of five years and a coupon of 0.578%. The issuance was oversubscribed, with demand reaching CHF225 million. After this latest issuance we expect liquid assets to debt to fall to a ratio of 154% at year-end 2019 from about 298% in 2018.

FONPLATA's tapping of international capital markets follows a steady trend towards expanding its sources of funding. More regular future bond issuances, in different markets and in different currencies, would support an overall higher assessment of its quality of funding.

Exhibit 14

### Credit lines from other development institutions have been a key source of funding

Funding in \$ millions

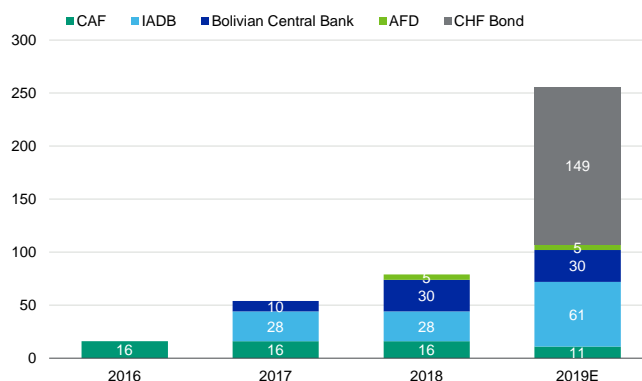


Sources: FONPLATA and Moody's Investor Services

Exhibit 15

### FONPLATA's bond issuance points to a gradual diversification of borrowing sources

Borrowing in \$ millions



Sources: FONPLATA and Moody's Investor Services

## Availability of liquid resources bolstered by credit lines from development institutions

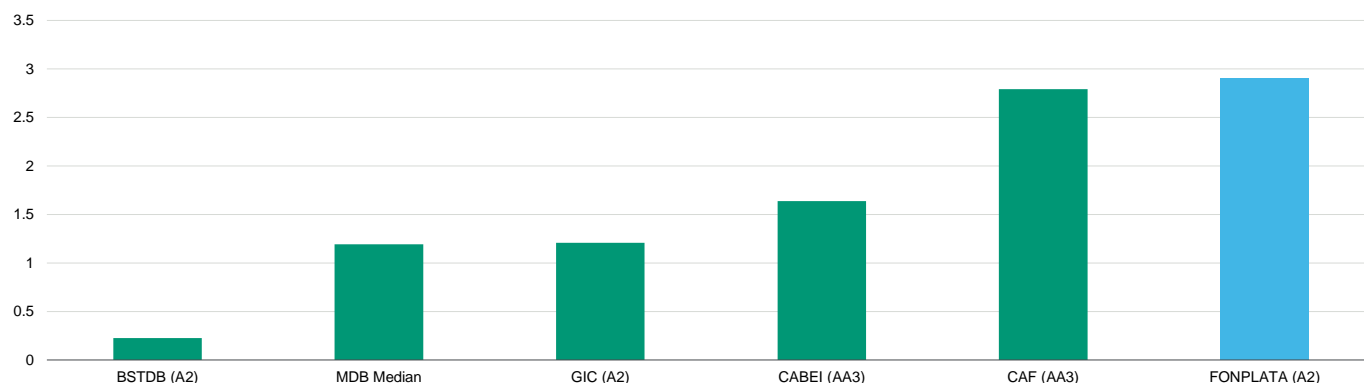
FONPLATA's availability of liquid resources ratio (liquid assets/net cash outflows) of 290% implies a liquid resources sub-factor score of "aaa." Under this liquidity metric, FONPLATA outperforms regional peers with higher ratings like CAF (279%) and CABEL (164%), as well as the median for all rated MDBs of 119% (see Exhibit 16).

FONPLATA's liquidity is sustained by undrawn credit lines that it has with other development institutions, which totaled \$270 million in 2018. Moreover, of the \$235 million in liquid assets FONPLATA held at the end of 2018 only \$2.8 million (1%) had maturities of more than a year, which provides a readily available source of liquidity to cover any short-term repayments. In 2018, liquid assets stood at 8890% of interest expenses, pointing to a significant degree of liquidity coverage of upcoming interest payments, driven in part by relatively low debt service requirements. Meanwhile, liquid assets currently account for 23% of FONPLATA's total assets, which is below the 33% median for 'A' rated MDBs. Nevertheless, the cash raised from the March 2019 bond issuance is expected to increase the ratio of liquid assets to total assets to 30% by the end of 2019.

Exhibit 16

**FONPLATA's availability of liquid resources is higher than that of peers**

Liquid resources/net outflows (%)



**Liquid resources** can include cash and cash equivalents, deposits with a term of less than one year held by financial institutions rated Baa3 or higher, treasury assets rated A2 or higher, and committed, unrestricted and undrawn credit lines with prime lenders with a maturity greater than 18 months. **Net Outflows** are from mandate activities minus inflows from mandate activities plus debt repayments (both principal and interest), net derivative flows and repurchase agreement (repo) flows.

Source: Moody's Investor Services

## Qualitative adjustments

### Qualitative adjustments to intrinsic financial strength

#### Adjustments

Operating environment

Quality of management

0
0

The capital adequacy and liquidity and funding factors represent the key drivers of our assessment of an institution's intrinsic financial strength (IFS). However, assessments of the operating environment and the quality of management are also important components of our analysis. To capture these considerations, we may adjust the preliminary IFS outcome that results from the capital adequacy factor and the liquidity and funding factor. The result of this analysis is the adjusted IFS outcome.

In our credit assessment of MDBs, we also take into account an MDB's operating environment and the quality of its management, including risk management. Despite the challenging operating environment that FONPLATA faces, we do not include a downward adjustment. We account for the potential deterioration of members' credit quality with a -1 DACQ trend adjustment for the DACQ sub-factor of Capital Adequacy. If the regional operating environment weakens further, a negative adjustment could be applied.

We make no adjustment for the quality of management. The bank has been able to pursue its recently expanded mandate without jeopardizing its credit quality, which is indicative of the bank's effective risk management capacities. We also consider that the bank's financial management policies are in line with similarly rated peers.

## Strength of member support score: Medium

### Factor 3: Strength of member support

Scale                      Very High                      High                      Medium                      Low                      Very Low



#### Sub-factor scores

Ability to support

Willingness to support: Contractual

Willingness to support: Non-contractual

**ba3**  
**aaa**  
**Medium**

Shareholders' support for an institution is a function of their ability and willingness. Ability to support is reflected by the shareholders' credit quality. Willingness to support takes into consideration (1) the members' contractual obligations that primarily manifest in the callable capital pledge, a form of emergency support, and (2) other non-contractual manifestations of support to the institution's financial standing and mission. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

*Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.*

The third key factor in FONPLATA's credit profile is our "Medium" assessment of the strength of member support. This assessment considers a weighted average shareholder rating of Ba3 (see Exhibit 17), which implies an ability to support sub-factor score of "ba3," countered by high willingness of its members to provide support. The presence of contractual support from members through callable capital is a key support to our assessment of "Medium" member support, particularly from an investment grade sovereign (Uruguay).

The main constraint to the strength of member support is the significant linkages among shareholders and a correlation between members and assets, as the loan book expands in the coming years. The addition of other investment grade shareholders would be an important development for FONPLATA's credit profile, as it would improve callable capital metrics and enhance its weighted average shareholder rating.

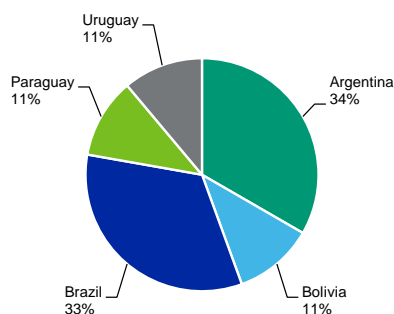
Our methodology determines willingness to support as a combination of contractual support, measured by callable capital as a share of total debt, and non-contractual support as ascertained by the commitment of shareholders to the bank's mission, operations, and objectives.

FONPLATA's high levels of callable capital relative to debt demonstrate a strong contractual obligation to support from the bank's shareholders. FONPLATA's callable capital to debt ratio is one of the highest among rated MDBs at 2108%, and is significantly higher than the MDB median of 120%, as well as the median for 'A' rated MDBs of 142% (see Exhibit 18). Non-contractual support is assessed at "Medium." FONPLATA enjoys a close working relationship with its member countries and is seen as an important player in improving regional integration.

Exhibit 17

#### FONPLATA's callable capital is dominated by non-investment grade shareholders

Callable capital as % of total

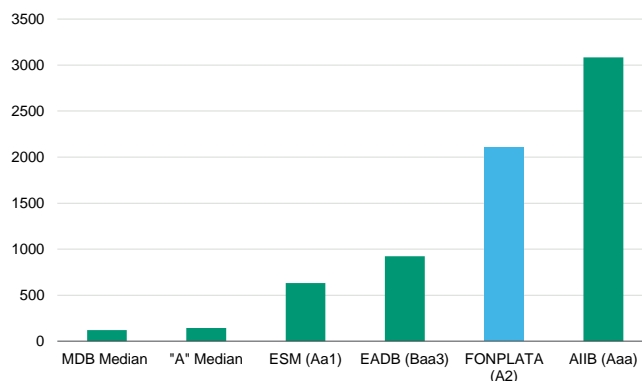


Sources: FONPLATA and Moody's Investor Services

Exhibit 18

#### FONPLATA's callable capital/debt ratio is among the highest compared to all MDBs

Callable capital/debt %



Sources: FONPLATA and Moody's Investor Services

Historically, FONPLATA has had a large amount of subscribed and paid-in capital relative to its lending. In 2008, the bank had \$410 million in paid-in capital and \$40 million in callable capital against a loan portfolio of \$237 million. In 2018, FONPLATA had grown its integrated, paid-in capital to \$818 million and its committed callable capital to nearly \$1.7 billion (see Exhibit 19) against a loan portfolio of \$799 million.

Exhibit 19

**FONPLATA's capital structure as of 2018**  
(\$ millions)

Member Name	Susbscribed Capital	Callable Capital	Payable Capital	Paid-In Capital
Argentina	1,004,758	555,014	449,744	275,576
Bolivia	334,895	184,991	149,904	91,849
Brazil	1,004,758	555,014	449,744	266,410
Paraguay	334,895	184,991	149,904	91,849
Uruguay	334,895	184,991	149,904	91,849
Total	3,014,200	1,665,000	1,349,200	817,533

Note: the chart above refers to already committed callable capital and already integrated paid-in capital.

Source: FONPLATA

## 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:

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.

Social considerations are not material to FONPLATA's credit profile.

FONPLATA has a strong track record of transparent governance and has robust risk management guidelines that help support the bank's credit profile.

All of these considerations are further discussed in the "Credit profile" 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](#).



## Comparatives

This section compares credit relevant information regarding FONPLATA with other supranational entities that we rate. It focuses on a comparison with supranationals within the same rating range and shows the relevant credit metrics and factor scores. FONPLATA is the smallest MDB among its peer group based on total assets. After adjusting for the expected deterioration in its leverage ratio, its capital adequacy compares favorably with the median of the group. Liquidity is high given the bank's liquid assets and limited outstanding debt. Although liquidity ratios will weaken over the next two years, they will remain around the 'A' rated median. The overall ability of its members to support the bank – as defined by the weighted average shareholder rating – is just below the median for 'A' rated MDBs, indicative of FONPLATA's relatively challenging operating environment.

Exhibit 21

### FONPLATA key peers

	Year	FONPLATA	CAF	CABEI	BSTDB	GIC	A Median
Rating/Outlook		A2/STA	Aa3/STA	Aa3/STA	A2/STA	A2/STA	
Total assets (US\$ million)	2018	1,043	40,014	10,850	2,056	3,498	1,712
<b>Factor 1: Capital adequacy</b>		<b>aa3</b>	<b>a2</b>	<b>a1</b>	<b>a3</b>	<b>aa3</b>	
DRA / Usable equity <sup>[1] [2] [4]</sup>	2018	83.9	215.5	235.1	167.8	75.1	143.9
Development assets credit quality score (year-end)	2018	baa	ba	baa	baa	caa	b
Non-performing assets / DRA <sup>[1]</sup>	2018	0.0	0.5	0.0	0.0	0.9	3.5
Return on average assets <sup>[4]</sup>	2018	2.8	0.6	2.2	0.3	2.8	1.6
Net interest margin (X) <sup>[4]</sup>	2018	3.2	1.1	2.3	1.9	0.9	1.9
<b>Factor 2: Liquidity and funding</b>		<b>baa1</b>	<b>aa2</b>	<b>aa2</b>	<b>baa3</b>	<b>baa2</b>	
Quality of funding score (year-end)	2018	ba	aa	aa	baa	ba	baa
Liquid assets / ST debt + CMLTD <sup>[3][4]</sup>	2018	17,856.8	418.5	357.9	190.1	18,257.1	917.5
Liquid assets / Total assets <sup>[4]</sup>	2018	22.5	32.6	31.3	24.7	36.5	32.6
<b>Preliminary intrinsic financial strength (F1+F2)</b>		<b>a2</b>	<b>aa3</b>	<b>aa3</b>	<b>baa1</b>	<b>a2</b>	
<b>Adjusted intrinsic financial strength</b>		<b>a2</b>	<b>aa3</b>	<b>a1</b>	<b>baa1</b>	<b>a2</b>	
<b>Factor 3: Strength of member support</b>		<b>M</b>	<b>L</b>	<b>M</b>	<b>M</b>	<b>L</b>	
Weighted average shareholder rating (year-end)	2018	Ba3	Ba3	Ba2	Ba3	Baa2	baa3
Callable capital / Total debt	2018	2,107.6	6.8	53.3	167.9	--	167.9
Callable capital (CC) of Baa3-Aaa members/Total CC <sup>[4]</sup>	2018	11.1	54.7	31.7	27.6	--	35.5
<b>Rating range (F1+F2+F3)</b>		<b>Aa3-A2</b>	<b>Aa2-A1</b>	<b>Aa2-A1</b>	<b>A2-Baa1</b>	<b>A1-A3</b>	

[1] Development related assets; [2] Usable equity is total shareholder's equity and excludes callable capital; [3] Short-term debt and currently-maturing long-term debt; [4] Ratio not used in Scorecard

Source: Moody's Investors Service

## DATA AND REFERENCES

### Rating history

Exhibit 22

FONPLATA [1]

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Outlook Changed				STA	05/10/2019
RATING AFFIRMATION	Aa2	P-1			05/10/2019
Outlook Changed				STA	04/11/2017
RATING AFFIRMATION	Aa2	P-1			04/11/2017
Outlook Changed				STA	08/28/2015
RATING AFFIRMATION	Aa2	P-1			08/28/2015
Outlook Assigned				STA	11/15/2003
Rating Assigned			Aa2		07/17/2003
Rating Assigned	Aa2	P-1			07/15/2002

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for FONPLATA for the full rating history.

Source: Moody's Investors Service

## Annual statistics

Exhibit 23

## FONPLATA

Balance Sheet, USD Millions	2012	2013	2014	2015	2016	2017	2018
<b>Assets</b>							
Cash & Equivalents	118	116	45	18	31	34	55
Securities	129	94	159	157	180	149	180
Derivative Assets	0	0	0	0	0	0	0
Net Loans	261	306	364	447	540	657	793
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	4	4	5	6	8	11	15
<b>Total Assets</b>	<b>512</b>	<b>520</b>	<b>573</b>	<b>628</b>	<b>759</b>	<b>852</b>	<b>1,043</b>
<b>Liabilities</b>							
Borrowings	0	0	0	0	16	26	79
Derivative Liabilities	0	0	0	0	0	0	0
Other Liabilities	6	6	11	10	10	10	11
<b>Total Liabilities</b>	<b>6</b>	<b>6</b>	<b>11</b>	<b>10</b>	<b>26</b>	<b>36</b>	<b>90</b>
<b>Equity</b>							
Subscribed Capital	489	489	1,639	1,639	3,014	3,014	3,014
Less: Callable Capital	40	40	840	840	1,665	1,665	1,665
Less: Other Adjustments	0	0	303	257	706	643	532
Equals: Paid-In Capital	449	449	496	543	643	706	818
Retained Earnings (Accumulated Loss)	38	46	8	9	15	20	27
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0	0
Reserves	19	19	59	66	75	90	109
Other Equity	0	0	0	0	0	0	0
<b>Total Equity</b>	<b>506</b>	<b>514</b>	<b>562</b>	<b>618</b>	<b>733</b>	<b>816</b>	<b>953</b>

Source: Moody's Investors Service



Exhibit 24

## FONPLATA

Income Statement, USD Millions	2012	2013	2014	2015	2016	2017	2018
<b>Net Interest Income</b>	<b>13</b>	<b>10</b>	<b>10</b>	<b>12</b>	<b>17</b>	<b>23</b>	<b>33</b>
Interest Income	13	10	10	12	17	24	36
Interest Expense	0	0	0	0	0	1	3
<b>Net Non-Interest Income</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>5</b>
Net Commissions/Fees Income	0	2	2	3	3	4	4
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
<b>Other Operating Expenses</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>10</b>
Administrative, General, Staff	4	4	5	5	6	7	10
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	0	0	0	0	0	0	0
<b>Pre-Provision Income</b>	<b>9</b>	<b>7</b>	<b>8</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>28</b>
Loan Loss Provisions (Release)	0	0	0	3	0	0	1
<b>Net Income (Loss)</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>20</b>	<b>27</b>
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	0	0	1
<b>Comprehensive Income (Loss)</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>20</b>	<b>27</b>

Source: Moody's Investors Service

Exhibit 25

## FONPLATA

Financial Ratios	2012	2013	2014	2015	2016	2017	2018
<b>Capital Adequacy, %</b>							
DRA / Usable Equity	52.3	60.2	65.5	73.2	74.2	81.1	83.9
Development Assets Credit Quality (Year-End)	--	--	--	--	--	--	baa
Non-Performing Assets / DRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return On Average Assets	1.7	1.5	1.4	1.2	2.1	2.5	2.8
Net Interest Margin	2.5	2.0	1.8	2.0	2.2	2.7	3.2
<b>Liquidity, %</b>							
Quality of Funding Score (Year-End)	--	--	--	--	--	--	ba
Liquid Assets / ST Debt + CMLTD	--	--	--	--	--	--	17,856.8
Liquid Assets / Total Debt	--	--	--	--	1,318.6	703.9	297.6
Liquid Assets / Total Assets	48.2	40.4	35.6	27.8	27.8	21.5	22.5
<b>Strength of Member Support, %</b>							
Weighted Average Shareholder Rating (Year-End)	Ba3	Ba3	Ba3	Ba3	B1	Ba3	Ba3
Callable Capital / Gross Debt	--	--	--	--	10,406.3	6,403.8	2,107.6
Callable Capital (CC) of Baa3-Aaa Members/Total CC	44.4	44.4	17.6	44.4	11.1	11.1	11.1

Source: Moody's Investors Service

### Moody's related publications

- » **Rating Action:** [FONPLATA - Moody's assigns A2 rating to FONPLATA's proposed CHF 150 million notes due 2024](#), 6 March 2019
- » **Credit Opinion:** [FONPLATA - A2 stable: Regular update](#), 5 September 2019
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 25 June 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

### Related websites and information sources

- » [Sovereign and supranational risk group web page](#)
- » [Sovereign and supranational rating list](#)

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