

ISSUER IN-DEPTH

21 January 2022

 Rate this Research

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 capital adequacy and liquidity position, supported by a risk management framework and preferred creditor status that foster very strong asset performance. The presence of callable capital, including from an investment grade sovereign, [Uruguay](#) (Baa2 stable), is an additional strength that demonstrates high willingness of shareholders to support the bank.

Key credit challenges include rising leverage in a difficult operating environment, along with high borrower and shareholder concentration among weakly rated sovereigns. The bank is growing its presence in a relatively weak regional environment where member countries have strong macroeconomic linkages and a high concentration of sovereigns with sub-investment grade ratings: [Argentina](#) (Ca stable), [Bolivia](#) (B2 negative), [Brazil](#) (Ba2 stable), [Paraguay](#) (Ba1 stable) and Uruguay. The bank's more limited track record of market-based debt funding has also historically constrained the credit profile, but has gradually improved with more diversified funding sources and multiple recent debt issuances.

The stable outlook reflects a balance of risks to the rating. Even as FONPLATA continues to increase its balance-sheet leverage, its capital adequacy and liquidity will remain strong and provide sufficient shock-absorption capacity for the bank to preserve its intrinsic financial strength. We incorporate the expectation of a gradual rise in leverage and a decline in capital adequacy into the rating. Despite a high regional concentration of lending, we expect asset performance to remain very strong as future lending continues to benefit from the bank's preferred creditor status and focus on the public sector. In addition, we do not expect any significant changes to shareholders' support to the bank in the coming years.

Upward pressure on the rating would arise if the implementation of FONPLATA's growth and debt management strategies led to a much smaller decline in capital adequacy and liquidity indicators than we expect; the bank continues to build a track record of accessing more diversified funding sources, including through market-based debt issuance; and/or the shareholder base expanding to include highly rated investment-grade members that would bolster the quality of shareholder support. Conversely, downward pressure on the rating would arise if key capital and liquidity indicators were to deteriorate more significantly than expected, below the metrics of its peers with a similar rating, as a result of FONPLATA's growth strategy.

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

Organizational structure and strategy

FONPLATA has become a more active development bank supporting 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.

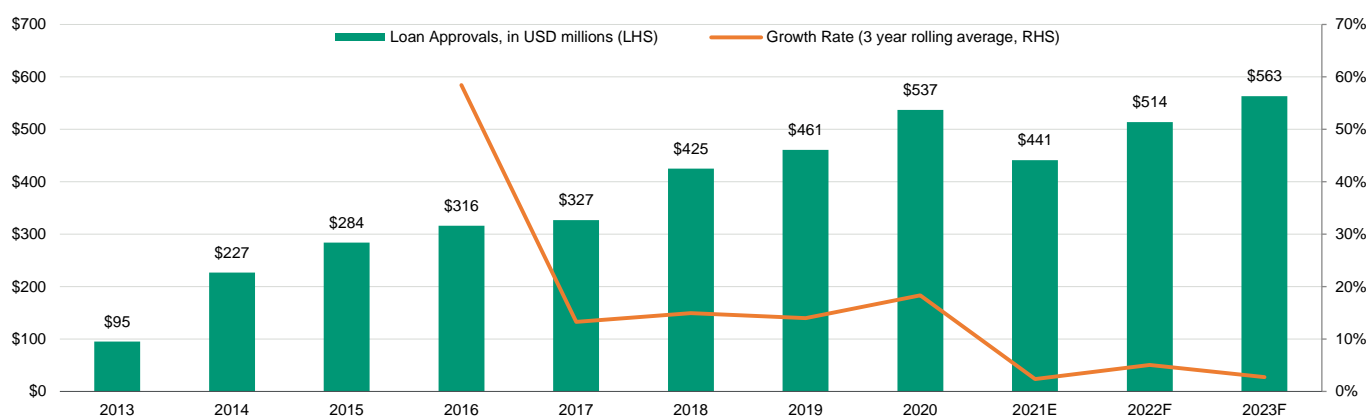
Established in 1974 and headquartered in Bolivia, FONPLATA's loans have historically been centered around infrastructure projects, with a special focus on vulnerable zones and border regions that face inequalities in economic and social development. In addition to lending, FONPLATA provides technical 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, although average loan amounts are set to gradually increase to \$50-\$70 million over the medium term as the bank expands its overall portfolio.

Following the approval of the bank's 2022-26 strategic plan, the bank plans to continue to increase its loan approvals at a moderate pace from 2021-23 to a total of \$1.5 billion compared to \$1.4 billion during the 2018-20 period. The slower growth rate reflects a readjustment in loan approvals in 2021, following a record breaking \$537 million of approvals in 2020 as a result of the coronavirus pandemic (see Exhibit 1). Portfolio growth increased significantly in 2020 as the global coronavirus pandemic increased member sovereigns' needs for low-cost, multilateral financing to assist with their emergency pandemic responses. We expect that growth in loan approvals will remain moderate in the near term, with no major increases expected until the planned increase in subscribed capital in 2024-25.

Exhibit 1

Following a surge of pandemic lending in 2020, loan approvals have moderated and are expected to grow at a more gradual pace
Historical and projected loan approvals, 2013-23 (\$ millions)



Sources: FONPLATA and Moody's Investors Service

FONPLATA has experienced a parallel jump in equity, as member countries agreed to two capital increases starting in 2014. As a result, subscribed capital rose from \$450.6 million in 2009 to \$3.0 billion in 2021. While the bank has historically taken on limited debt to fund its growth strategy, in March 2019, FONPLATA issued its first international bond for a total of CHF150 million (about \$149 million). The bank's first debt issuance in the international capital markets has accompanied growth and diversification of its funding sources, with increased loans and non-market debt instruments from member country central banks and multilateral institutions, including the Central Banks of Bolivia and Uruguay, [Corporacion Andina de Fomento](#) (CAF, Aa3 stable), the [Inter-American](#)

[Development Bank](#) (IADB, Aaa stable), [European Investment Bank](#) (EIB, Aaa stable), [Instituto de Credito Oficial](#) (ICO, Baa1 stable) and [Agence Francaise de Developpement](#) (AFD).

In 2021, the bank continued to issue new debt in foreign capital markets, with issuances in both March (CHF200 million) and December (CHF150 million), and continued to diversify its funding sources through a \$100 million loan from [Banco Bilbao Vizcaya Argentaria](#) (BBVA, A3 stable) and a \$15 million credit line from ICO. Moving forward, we expect FONPLATA to gradually increase leverage and diversify its funding sources to grow its loan portfolio 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, all loans were approved by consensus and required unanimity from all country representatives, which delayed 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 a four-fifths majority and executive management having the capacity to implement a lending strategy based on three-year results guidelines per country.

Development lending targets geographic integration and 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 within the banks five member countries. 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 ranging between \$20-\$80 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	Temporary employment of vulnerable population through small-scale urban and rural infrastructure projects, supplier company opportunities, and street paving
Brazil	Transport and Sanitation Infrastructure	The project located in Santa Catarina will include expansion of the North Structural Corridor and bikeways, and investments in the area's water treatment plant
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

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. In 2020, the bank started allocating a small portion of its future lending to the non-sovereign public sector, comprised of public sector banks, for on-lending to small- and medium-sized enterprises (SMEs) in the region, and enterprises where the majority share is state-owned and controlled.

The vast majority of the bank's loans go to projects (73%) for physical infrastructure development (mainly in the transport, logistics and energy sectors). Other focuses include productive development infrastructure (e.g., support for the development of SMEs) (14%) (see Exhibit 3). The remainder of the portfolio, approximately 13%, is devoted to socioeconomic development projects (7%, such as education-related projects) and non-sovereign guaranteed loans (6%) to non-government public sector entities (such as development banks). We expect the loan portfolio to become more equally balanced among infrastructure, social, and economic development as

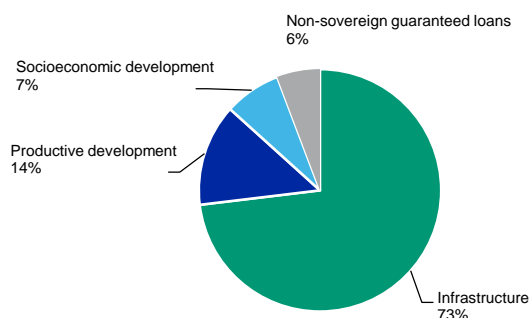
part of the bank's post-pandemic inclusive regional recovery plan. In addition, we expect the portion of non-sovereign guaranteed loans to increase moderately as the bank expands its support to other non-government public sector entities.

FONPLATA's lending is dedicated entirely to its member countries. As of June 2021, Argentina held the highest share of outstanding loans at about 28% of the total portfolio (see Exhibit 4). 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 loans relative to their equity contribution. According to the bank's strategic plan for 2022-26, it intends to eventually expand its membership as it increases its development role in the region, potentially starting in 2024-25.

Exhibit 3

FONPLATA's loan portfolio primarily funds physical and productive infrastructure projects

Loan portfolio by sector, 2020

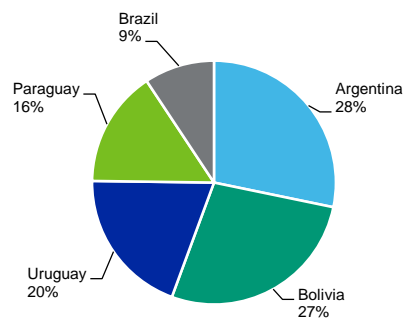


Sources: FONPLATA and Moody's Investors Service

Exhibit 4

Argentina and Bolivia represent over half of FONPLATA's lending operations

Gross outstanding loans by country, % of total, June 2021



Sources: FONPLATA and Moody's Investors Service

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

aa2
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.

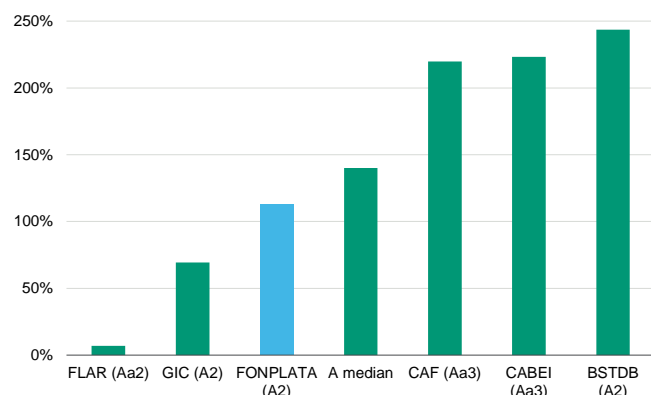
We assess FONPLATA's capital adequacy as "aa3," which reflects the bank's strong capital position, tempered by a trend increase in leverage as the bank continues to expand its balance sheet. The factor score also captures the bank's relatively low Development Asset Credit Quality (DACQ), constrained by a relatively low weighted average borrower rating and a high degree of regional portfolio concentration.

Very strong capital position to gradually decline as loan portfolio grows

We assess FONPLATA's capital position as "aa2," one notch below the initial score of "aa1," to account for the recent and future expected trend rise in leverage. Nonetheless, the bank's capital position is supported by a fundamentally strong leverage ratio (development-related assets (DRA) and liquid assets rated A3 and lower/usable equity) of about 116% in 2020 (see Exhibit 5).

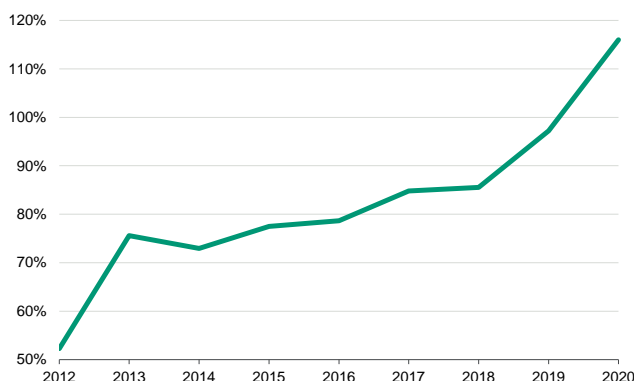
FONPLATA's leverage ratio increased to about 116% in 2020 from about 52% in 2012, as the bank steadily expanded its lending activities in line with its redefined mandate (see Exhibit 6). However, leverage levels remain lower than the A-rated MDB median and its regional peers, CAF and CABEL. At year-end 2020, the bank's debt had increased to \$568 million, more than double the \$265 million it had during year-end 2019. Gross loans increased at a more moderate pace reaching \$1,251 million in 2020 from \$936 million in 2019.

Exhibit 5

FONPLATA's leverage ratio remains below that of peers
 (DRA and liquid assets rated A3 or lower)/useable equity, % (2020)


Note: DRA = development-related assets
 Source: Moody's Investors Service

Exhibit 6

FONPLATA's leverage ratio increased at a fast pace in 2020
 (DRA and liquid assets rated A3 or lower)/useable equity, % (2020)


Note: DRA = development-related assets; FLAR = Fondo Latinoamericano de Reservas
 Source: Moody's Investors Service

Looking ahead, we expect the pace of the rise in the leverage ratio to moderate along with loan growth. While we expect leverage to continue its trend rise over the medium term, when including liquid assets we expect it to remain comfortably below FONPLATA's 2.0x leverage limit over the next two to three years, supporting the bank's strong capital position.

In 2021, FONPLATA's loan portfolio growth moderated as the bank adjusted from higher than normal loan approvals and disbursements in 2020 to support member countries' pandemic response. Ultimately, we expect the loan portfolio to grow on average 20% a year between 2021-23, lower than the 34% year-over-year growth seen between 2019 and 2020 as FONPLATA ramped up its lending operations in response to the pandemic (see Exhibit 7).

Exhibit 7

Loan disbursements moderated in 2021 following a sharp rise in 2020 driven by the pandemic
 Annual loan disbursements and total loan portfolio, \$ millions


Sources: FONPLATA and Moody's Investors Service

Regional concentration contributes to capital adequacy risks

FONPLATA's DACQ score of "ba" reflects a relatively low weighted average borrower rating of Caa1 and a highly concentrated portfolio with all loans split among its five South American member borrowers. Despite these challenges, over 94% of FONPLATA's outstanding loans are sovereign-guaranteed and the bank benefits from a demonstrated strong track record of preferred creditor status with a history of no nonperforming assets.

FONPLATA's DACQ score has diminished over the last three years. Bolivia and Argentina, which represented a cumulative 53% of the loan portfolio in 2021, have undergone severe credit stress over the last two years, which has been further magnified by the coronavirus pandemic. To reflect these increased credit challenges, Bolivia's sovereign rating outlook was moved from stable to negative in September 2021, driven by credit risks related to Bolivia's deteriorating fiscal and external positions. Argentina's outlook remains stable following the conclusion of its debt restructuring, but its Ca issuer rating is among the lowest in the rated sovereign universe, a reflection of our expectation of significant economic and fiscal challenges over the next two to three years.

As of January 2022, Brazil, Paraguay and Uruguay, which account for the remaining 47% of FONPLATA's loan portfolio, all had stable outlooks. Nonetheless, the economic recovery remains fragile in the region, especially in the wake of a resurgence in coronavirus cases caused by the omicron variant. Loans to Uruguay, the sole investment-grade member sovereign, account for about 20% of the bank's total portfolio.

Although we expect the region's economy to continue to recover in 2022, strong macroeconomic linkages among the five member countries, particularly as they pertain to trade relationships, pose regional credit risks. While FONPLATA's regional portfolio concentration will remain a credit challenge for the foreseeable future, it is taking initial steps to try to broaden its shareholder base with the intent of diversifying its membership with more countries by 2024-25.

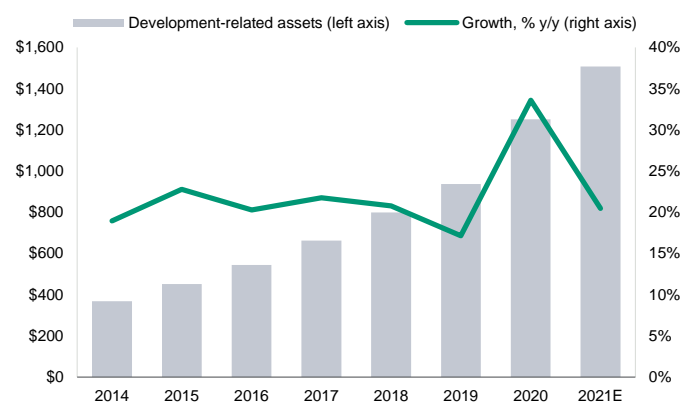
Asset performance remains very strong

We set FONPLATA's asset performance score to "aa1," one notch below the initial score of "aaa," to account for significant recent and expected growth in development assets. Development-related assets (DRAs) have grown above 15% annually since 2013, and although we expect growth to moderate over the coming years, it will likely remain strong (see Exhibit 8). Indeed, FONPLATA's asset quality performance remains exceptionally strong, demonstrated by nonperforming assets (NPA) that have remained at zero over the past decade (see Exhibit 9). This is one of the strongest ratios in the MDB-rated universe.

Exhibit 8

Following a large increase in 2020 as a result of the pandemic, DRA growth has begun to moderate

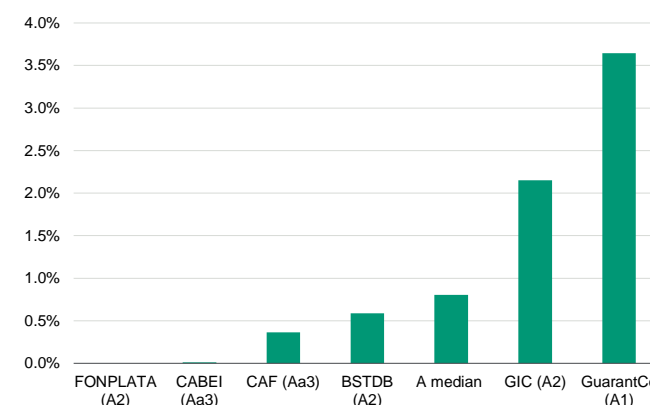
Development-related assets (\$ thousands) and annual growth (% y/y)



Sources: FONPLATA and Moody's Investors Service

Exhibit 9

FONPLATA's asset performance is stronger than most peers Nonperforming assets, % of total, three-year average



Sources: FONPLATA and Moody's Investors Service

The bank's very strong asset performance benefits from the preferred creditor status of its loans, which have historically been directed exclusively to the public sector and supported by sovereign guarantees when the borrower has been at the sub-sovereign level. In 2020, however, FONPLATA introduced a new line of business and expanded its lending operations to include non-government public sector banks and enterprises that are majority state-owned and controlled within member countries without sovereign guarantees. Through on-lending to public sector banks, FONPLATA expects to be able to better reach SMEs, particularly in each country's export sector, that have close financial relationships with the public banks in each country. Although non-sovereign guaranteed loans to non-government public sector entities accounted for only around 6% of the total projected portfolio in 2021, and 3.3% of overall lending capacity, management expects to increase this exposure over the coming years but to permanently limit the overall concentration of non-sovereign loans within the portfolio to below 6% of lending capacity (or 18% of equity).

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

a2
baa

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" liquidity score reflects the liquid nature of its assets and its conservative risk management policies, balanced against a quality of funding assessment that accounts for its more limited, albeit improving, track record of market-based debt issuance.

Availability of liquid resources bolstered by liquid treasury portfolio and credit lines from other development and financial institutions

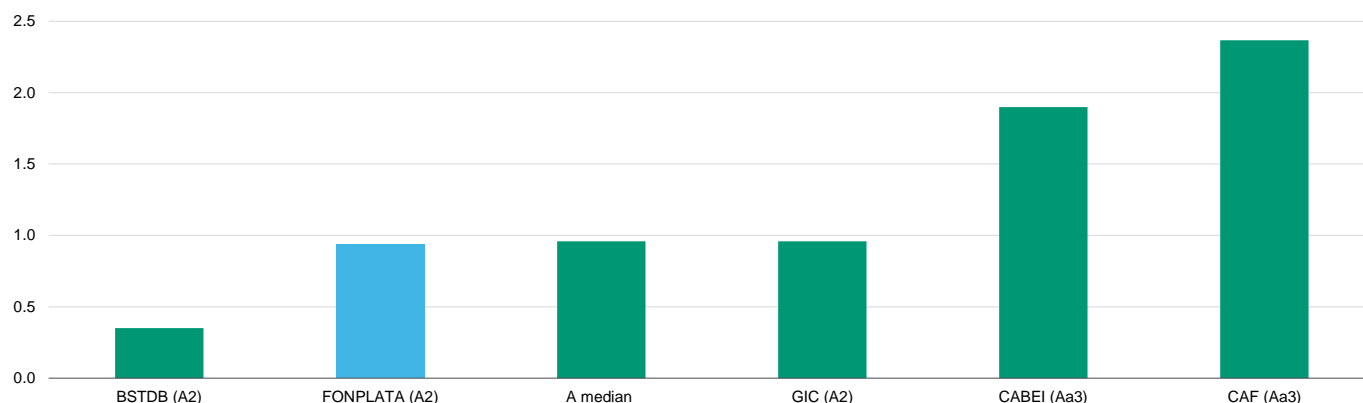
We assess FONPLATA's liquidity coverage of "a2" to be moderate in case of a stress scenario. We measure the availability of liquid resources as the percentage of liquid assets of estimated net cash outflows over the next 18 months. With a ratio of about 94% as of 2020, FONPLATA's liquid resources are ample and we expect them to gradually improve despite gradual increases in leverage.

FONPLATA's liquid resources ratio of 94% reflects an accelerated disbursement schedule in 2020 due to significantly increased demand for borrowing during the coronavirus pandemic. As a result, the ratio declined from around 191% during the same period in 2019. Net outflows doubled in 2020 to \$505 million relative to \$238 million in 2019, while discounted liquid assets increased slightly to around \$474 million during 2020. As a result, FONPLATA's availability of liquid resources declined in 2020 and is now roughly in line with A-rated MDB peers (see Exhibit 10). Looking ahead, we expect liquidity to improve as the bank's disbursements are adjusted to lower levels.

Exhibit 10

FONPLATA's availability of liquid resources declined in 2020 due to accelerated cash disbursements

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.

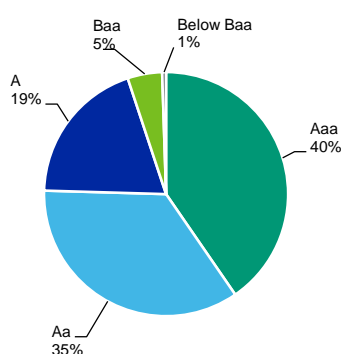
Source: Moody's Investors Service

FONPLATA's liquidity is supported by a highly liquid treasury portfolio and undrawn credit lines that it has with other development and financial institutions (which totaled about \$65 million as of December 2020). In 2020, \$474 million in liquid assets provided about 60x coverage of interest expenses (\$8.6 million), pointing to a significant degree of liquidity coverage of upcoming interest payments, driven in part by relatively low debt-service requirements. Meanwhile, liquid assets accounted for about 26% of FONPLATA's total assets in 2020, just below the 33% median for A-rated MDBs.

Most of FONPLATA's treasury assets are in highly liquid and highly rated instruments, with about 95% rated 'A' and above, only 5% below A3, and only 1% non-investment grade in 2020. 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 (57%) or MDB bonds (36%) with the remainder consisting of financial sector bonds (see Exhibits 11 and 12).

Exhibit 11

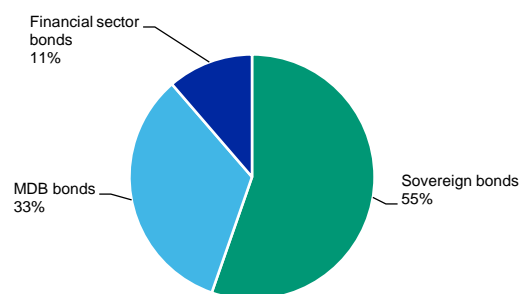
The vast majority of treasury assets are very highly rated
Investment portfolio by rating category, 2020



Sources: FONPLATA and Moody's Investors Service

Exhibit 12

FONPLATA's treasury portfolio is primarily invested in sovereign and supranational bonds
Investment portfolio by asset class, 2020



Sources: FONPLATA and Moody's Investors Service

From a liquidity management perspective, the bank's internal policy requires that a single instrument cannot represent more than 10% of the total securities portfolio, and no more than 5% in case of financial sector bonds, and most instruments are available for sale. 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. This calculation only takes into account 66% of total upcoming amortization payments and two-thirds of paid-in capital receivables.

Composition of funding continues to expand and diversify with increased use of leverage

In recent years, FONPLATA started to expand and diversify its funding sources, including through debt issuance in the international capital markets. As a result of this steady diversification and gradual establishment of a track record of market-based debt issuance, we have set the bank's quality of funding assessment at "baa."

Since the beginning of its new business strategy in 2016, FONPLATA has relied largely on non-market based sources of funding from other multilateral development institutions and member central banks. Its first credit line for \$75 million was obtained through CAF in November 2016. Since then, it has grown its MDB credit lines to \$285 million and expanded its funding base to include financing from the AFD, the IADB, EIB, BBVA and ICO. It has also expanded its funding sources to include member central banks, which have provided an additional \$210 million in credit lines, \$130 million from the Central Bank of Uruguay (BCU) and \$80 million from the Central Bank of Bolivia (BCBo). FONPLATA expects to sign additional credit line agreements with other bilateral and multilateral entities in the future (see Exhibit 13).

FONPLATA took its first significant step toward expanding its market-based funding base by issuing its first international bond in March 2019 for CHF150 million (about \$149 million) at a tenure of five years. In March and December 2021, FONPLATA continued expanding

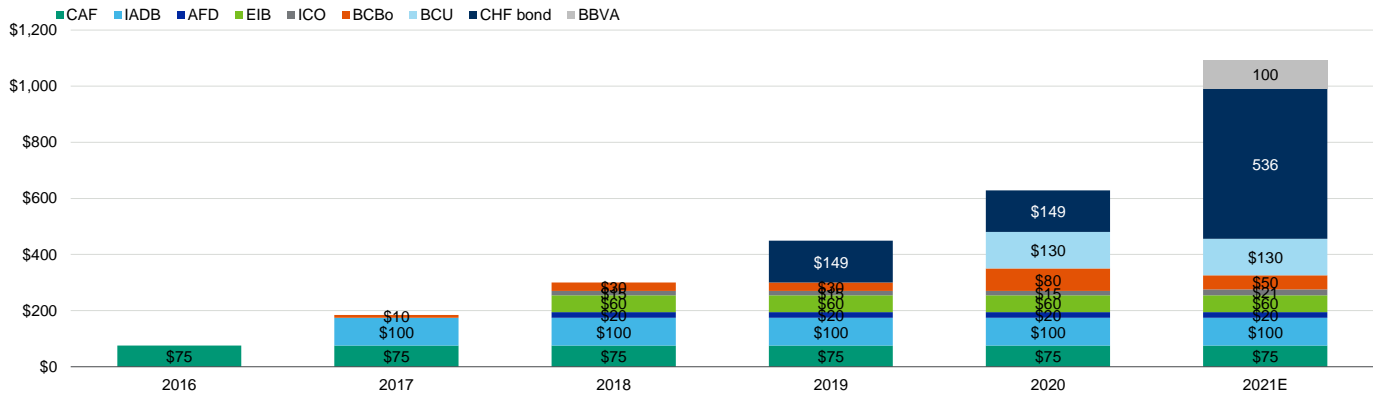
its funding base by issuing a second and third international bond for a total of CHF350 million (about \$380 million), at tenures of five and seven years, respectively.

FONPLATA's tapping of the international capital markets follows a steady trend toward expanding and diversifying its sources of funding through lines of credit. Over time, more regular future bond issuances, in different markets and in different currencies, could support an overall higher assessment of its quality of funding.

Exhibit 13

FONPLATA has significantly expanded and diversified its funding sources over the last five years

FONPLATA's signed borrowings, \$ millions, 2021



Sources: FONPLATA and Moody's Investors Service

Qualitative adjustments

Qualitative adjustments to intrinsic financial strength

Adjustments

Operating environment

0

Quality of management

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.

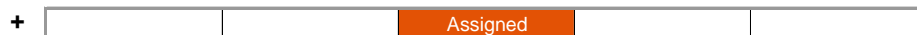
In our credit assessment of MDBs, we also take into account an MDB's operating environment and the quality of its management, including risk management. Despite the challenging operating environment that FONPLATA faces, we do not include a downward adjustment, given that the bank's low DACQ score already captures the credit challenges in the region. However, if the regional operating environment were to weaken further, a negative adjustment could be applied.

We make no adjustment for the quality of management. The bank has been able to pursue its expanded mandate without jeopardizing its asset performance or overall credit quality, which demonstrates the bank's effective implementation of its risk management framework. We also consider the bank's financial management policies to be 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

b2
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 B2 (see Exhibit 14), which implies an ability to support sub-factor score of "b2," 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 given that it would improve callable capital metrics and likely enhance its weighted average shareholder rating.

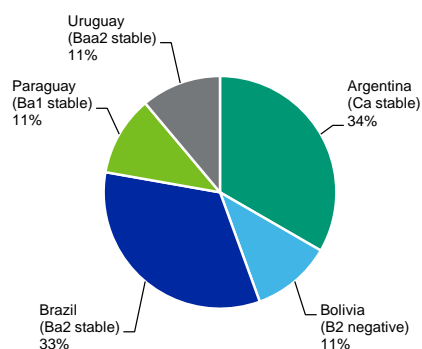
Our methodology determines willingness to support as a combination of contractual support, measured by callable capital as a share of total debt, and non-contractual support as ascertained by the demonstrated commitment of shareholders to the bank's mission, operations and objectives.

FONPLATA's high level of callable capital relative to debt demonstrates 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 293%, and is significantly higher than the MDB median of 98% as well as the median for A-rated MDBs of 81% (see Exhibit 15).

Exhibit 14

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

Callable capital by shareholder, % of total

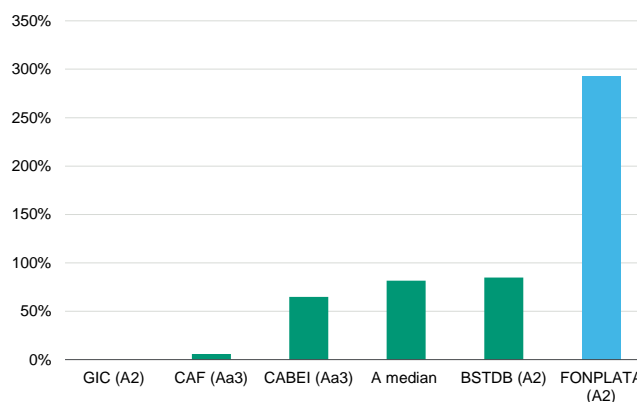


Sources: FONPLATA and Moody's Investors Service

Exhibit 15

FONPLATA's callable capital provides strong debt coverage

Callable capital, % of total debt



Sources: FONPLATA and Moody's Investors Service

Non-contractual support is assessed at "Medium," supported by the fact that FONPLATA enjoys a close working relationship with its member countries and is viewed as an important player in improving regional integration.

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. As of June 2021, FONPLATA had grown its integrated, paid-in capital to \$975 million and its committed callable capital to nearly \$1.7 billion (see Exhibit 16) against a loan portfolio of \$1.3 billion.

Exhibit 16

FONPLATA's capital structure, June 2021, \$ thousands

Member name	Subscribed capital	Callable capital	Payable capital	Paid-in capital
Argentina (Ca stable)	911,257	555,014	356,243	356,243
Bolivia (B2 negative)	293,340	184,991	108,349	108,349
Brazil (Ba2 stable)	849,024	555,014	294,010	294,010
Paraguay (Ba1 stable)	293,340	184,991	108,349	108,349
Uruguay (Baa2 stable)	293,339	184,990	108,349	108,349
Total	2,640,300	1,665,000	975,300	975,300

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

Source: FONPLATA

ESG considerations

FONPLATA's ESG Credit Impact Score is Neutral-to-Low CIS-2

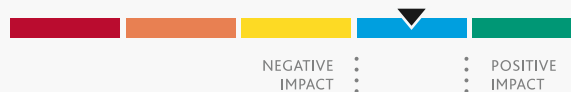
Exhibit 17

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

FONPLATA's credit impact score is neutral-to-low (**CIS-2**), reflecting neutral-to-low exposure to environmental and social risk, as well as sound governance.

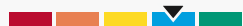
Exhibit 18

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

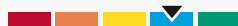
Neutral-to-Low



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

FONPLATA's neutral-to-low environmental issuer profile score (**E-2**) reflects regional concentration among its five sovereign South American borrowers with moderately negative environmental exposure, balanced by a diversified lending portfolio in non-carbon intensive sectors and environmental project safeguards in line with global MDB standards.

Social

FONPLATA's neutral-to-low social issuer profile score (**S-2**) reflects its strong customer relations with borrowers, along with a strong focus on responsible production that aligns with global MDB peers.

Governance

FONPLATA's neutral-to-low governance issuer profile score (**G-2**) reflects its prudent financial strategy and risk management practices, which is conducive to building its credibility and track record as the institution grows.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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](#).

Rating range

Combining the scores for individual factors provides an indicative rating range. 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. 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 [Supranational Rating Methodology](#).

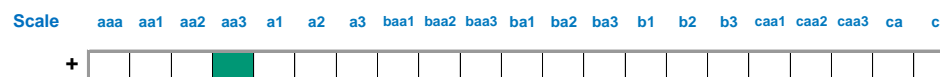
Exhibit 19

Supranational rating metrics: FONPLATA

Capital adequacy

How strong is the capital buffer?

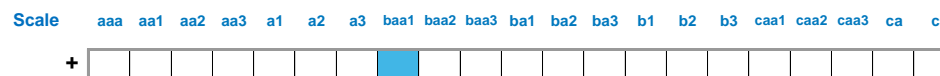
Sub-Factors: Capital position, development asset credit quality, asset performance



Liquidity and funding

How strong are the institution's liquidity buffers?

Sub-factors: Liquid resources, quality of funding



Qualitative adjustments

What other elements can affect the intrinsic financial strength?

Adjustment factors: Operating environment, quality of management

Operating environment
Quality of management



Strength of member support

How strong is members' support of the institution?

Sub-factors: Ability to support, willingness to support (contractual and non-contractual)



Preliminary intrinsic financial strength

a2

Adjusted intrinsic financial strength

a2

Scorecard-indicated outcome range:
Aa3-A2

Assigned rating:
A2

Source: Moody's Investors Service

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. Among its A-rated MDB peers, FONPLATA is among the smallest MDBs based on total assets, has higher capital adequacy, somewhat weaker liquidity, and strength of member support that is in line with the median.

Exhibit 20

FONPLATA key peers

	Year	FONPLATA	GIC	ICD	CABEI	GuarantCo	CAF	A Median
Rating/Outlook		A2/STA	A2/STA	A2/STA	Aa3/STA	A1/NEG	Aa3/STA	
Total assets (US\$ million)	2020	1,695	3,271	3,268	13,295	378	46,846	1,989
Factor 1: Capital adequacy		aa3	a2	ba2	a2	baa3	a2	
DRA / Usable equity ^{[1] [2] [4]}	2020	112.8	69.3	116.9	223.2	309.3	219.7	163.0
Development assets credit quality score (year-end)	2020	ba	caa	b	baa	b	ba	b
Non-performing assets / DRA ^[1]	2020	0.0	4.6	12.9	0.0	3.5	0.3	4.1
Return on average assets ^[4]	2020	2.4	-1.0	-0.5	1.2	0.6	0.5	0.6
Net interest margin (X) ^[4]	2020	2.1	0.6	3.0	1.9	1.4	0.9	1.5
Factor 2: Liquidity and funding		baa1	baa2	a3	aa2	a2	aa2	
Quality of funding score (year-end)	2020	ba	ba	baa	aa	baa	aa	baa
Liquid assets / ST debt + CMLTD ^{[3] [4]}	2020	324.3	--	275.3	484.4	0.0	295.6	275.3
Liquid assets / Total assets ^[4]	2020	25.9	47.4	67.5	38.9	78.1	31.4	47.4
Preliminary intrinsic financial strength (F1+F2)		a2	baa1	baa3	aa3	baa1	aa3	
Adjusted intrinsic financial strength		a2	baa1	baa3	aa3	baa1	aa3	
Factor 3: Strength of member support		M	L	H	M	H	L	
Weighted average shareholder rating (year-end)	2020	b2	baa3	baa3	ba3	aa2	b2	baa3
Callable capital / Total debt	2020	293.0	--	--	64.9	--	5.6	81.4
Callable capital (CC) of Baa3-Aaa members/Total CC ^[4]	2020	11.1	--	--	37.4	100.0	54.7	97.1
Scorecard-indicated outcome range (F1+F2+F3)		Aa3-A2	A3-Baa2	A3-Baa2	Aa1-Aa3	A1-A3	Aa2-A1	

[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 21

FONPLATA^[1]

Supranational	Long-Term Ratings		Short-Term	Outlook	Date
	Senior	Subordinate	Ratings		
FONPLATA	A2	-	-	STA	03/01/2019
FONPLATA	A2[1]	-	-	STA	09/27/2016
FONPLATA	WR	-	-	RWR	03/05/2004
FONPLATA	Aa3[1]	-	-	STA	11/15/2003
FONPLATA	Aa3[1]	-	-	-	06/19/2001

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 22

FONPLATA

Balance Sheet, USD Millions	2014	2015	2016	2017	2018	2019	2020
Assets							
Cash & Equivalents	45	18	31	34	55	37	32
Securities	159	157	180	149	180	332	407
Derivative Assets	0	0	0	0	0	0	0
Net Loans	364	447	540	657	793	920	1,237
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	5	6	8	11	15	18	19
Total Assets	573	628	759	852	1,043	1,308	1,695
Liabilities							
Borrowings	0	0	16	26	79	265	568
Derivative Liabilities	0	0	0	0	0	0	0
Other Liabilities	11	10	10	10	11	15	17
Total Liabilities	11	10	26	36	90	280	585
Equity							
Subscribed Capital	1,639	1,639	3,014	3,014	3,014	3,014	3,014
Less: Callable Capital	840	840	1,665	1,665	1,665	1,665	1,665
Less: Other Adjustments	303	257	706	643	532	484	432
Equals: Paid-In Capital	496	543	643	706	818	866	917
Retained Earnings (Accumulated Loss)	8	9	15	20	27	28	36
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0	0
Reserves	59	66	75	90	109	134	157
Other Equity	0	0	0	0	0	0	0
Total Equity	562	618	733	816	953	1,028	1,110

Source: Moody's Investors Service

Exhibit 23

FONPLATA

Income Statement, USD Millions	2014	2015	2016	2017	2018	2019	2020
Net Interest Income	10	12	17	23	33	41	36
Interest Income	10	12	17	24	36	49	44
Interest Expense	0	0	0	1	3	8	9
Net Non-Interest Income	2	3	4	4	5	5	7
Net Commissions/Fees Income	2	3	3	4	4	5	7
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0
Other Operating Expenses	5	5	6	7	8	9	9
Administrative, General, Staff	5	5	6	7	8	9	9
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	0	0	0	0	0	0	0
Pre-Provision Income	8	10	15	20	29	36	33
Loan Loss Provisions (Release)	0	3	0	0	3	8	-2
Net Income (Loss)	8	7	15	20	27	28	36
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	1	1	-1
Comprehensive Income (Loss)	8	7	15	20	27	29	35

Source: Moody's Investors Service

Exhibit 24

FONPLATA

Financial Ratios	2014	2015	2016	2017	2018	2019	2020
Capital Adequacy, %							
DRA / Usable Equity	65.5	73.2	74.2	81.1	83.9	91.1	112.8
Development Assets Credit Quality (Year-End)	--	--	--	--	baa	baa	ba
Non-Performing Assets / DRA	0.0	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	2.4
Net Interest Margin	1.8	2.0	2.2	2.7	3.2	3.2	2.1
Liquidity, %							
Quality of Funding Score (Year-End)	--	--	--	--	ba	ba	ba
Liquid Assets / ST Debt + CMLTD	--	--	--	1,830.2	4,408.7	6,917.2	324.3
Liquid Assets / Total Debt	--	--	1,318.6	703.9	298.6	139.4	77.2
Liquid Assets / Total Assets	35.6	27.8	27.8	21.5	22.5	28.2	25.9
Strength of Member Support, %							
Weighted Average Shareholder Rating (Year-End)	Ba3	Ba3	B1	Ba3	Ba3	B1	B2
Callable Capital / Gross Debt	--	--	10,406.3	6,403.8	2,114.3	629.0	293.0
Callable Capital (CC) of Baa3-Aaa Members/Total CC	17.6	44.4	11.1	11.1	11.1	11.1	11.1

Source: Moody's Investors Service

Moody's related publications

- » **Rating Action:** [Moody's affirms FONPLATA's A2 rating; maintains stable outlook](#), 10 December 2020
- » **Credit Opinion:** [FONPLATA – A2 stable: Regular update](#), 20 August 2021
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 28 October 2020

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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