

ISSUER IN-DEPTH

14 December 2020

 Rate this Research

RATINGS

FONPLATA

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

TABLE OF CONTENTS

OVERVIEW AND OUTLOOK	1
Organizational structure and strategy	2
CREDIT PROFILE	4
Capital adequacy score: aa3	4
Liquidity and funding score: baa1	7
Qualitative adjustments	9
Strength of member support score: Medium	10
ESG considerations	11
Rating range	12
Comparatives	13
DATA AND REFERENCES	14

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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 high capital adequacy and very strong liquidity position, supported by a strong risk management framework and preferred creditor status that fosters 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.

Credit challenges include rising leverage, the operating environment, portfolio and shareholder concentration and more limited funding sources. The bank is growing its presence in a relatively weak regional environment where member countries have strong macroeconomic linkages: [Argentina](#) (Ca stable), [Bolivia](#) (B2 stable), [Brazil](#) (Ba2 stable), [Paraguay](#) (Ba1 stable) and Uruguay. High concentration among borrowers and shareholders, along with a more limited track record of market-based debt funding, further constrain the credit profile.

The stable outlook reflects a balance of risks to the rating. Even as FONPLATA continues to grow and leverage its balance sheet, its capital adequacy and liquidity position 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 decline in capital adequacy into the rating. Despite a high regional concentration of lending, we expect that asset performance will remain very strong, supported by the bank's preferred creditor status and public sector focus. In addition, we do not expect any material changes to shareholders' support of the bank in the coming years.

Upward pressure on the rating would arise if: (1) the implementation of FONPLATA's growth and debt management strategies led to a much smaller decline in capital adequacy and liquidity indicators than we anticipate; (2) the bank builds a track record of accessing more diversified funding sources, including through market-based debt issuance; and/or (3) the shareholder base expands 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 anticipated, below the metrics of similarly rated peers, as a result of FONPLATA'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.

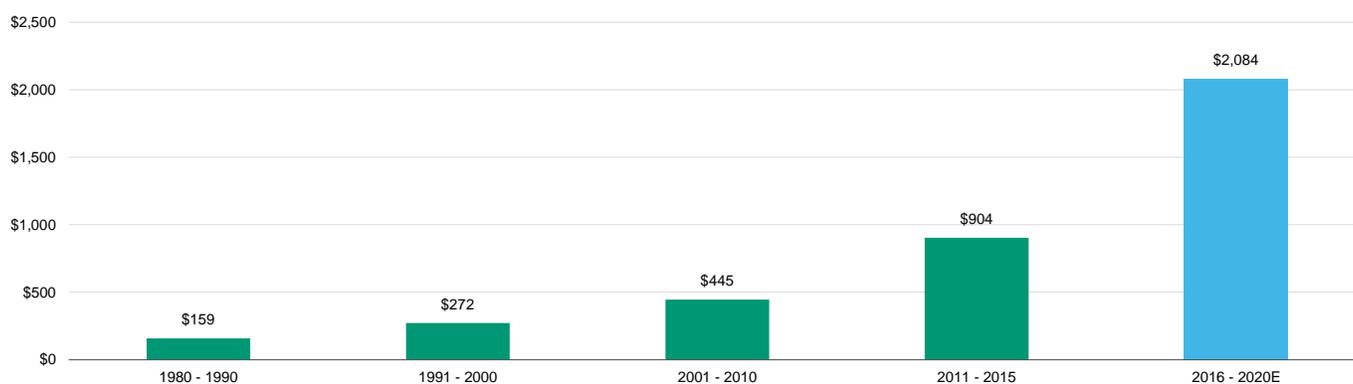
Established in 1974 and headquartered in Bolivia, FONPLATA's loans have historically been centered around infrastructure projects, with a special focus on vulnerable zones and border regions that face inequalities in economic and social development. In addition to lending, FONPLATA provides technical 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.

Under its updated mandate, the bank has targeted a significant increase in loan approvals to a total of about \$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). Portfolio growth increased even further 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 loan approvals to moderate slightly over the next two to three years following the coronavirus-driven increase in 2020, as the bank adjusts to a greater scale of lending activity, but to continue their steady rise over the medium term in line with the bank's growth strategy.

Exhibit 1

Loan approvals will continue to far outpace historical figures through 2020 Historical and projected loan approvals, 2016-20 (\$ millions)



Sources: FONPLATA, 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 billion in 2019. 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). Moving forward, we expect FONPLATA to continue to 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 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. 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	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

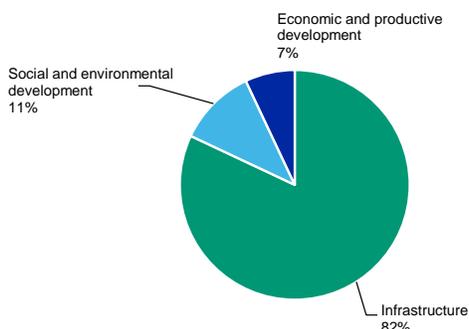
Sources: FONPLATA, Moody's Investors Service

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 public sector banks for on-lending to small- and medium-sized enterprises (SMEs) in the region.

The vast majority of the bank's loans go to projects (82%) for physical infrastructure development (mainly in the transport, logistics and energy sectors). Other focuses include social and environmental development projects (11%), mainly in housing, health and education (see Exhibit 3). The remainder of the portfolio, approximately 7%, is devoted to productive development infrastructure (e.g., support for the development of SMEs). However, borrower interest in non-infrastructure loans related to social, economic and environmental development projects grew significantly in 2020, as the coronavirus shifted government spending priorities. These borrowing patterns are likely to become more entrenched over the next few years, resulting in a future loan portfolio that is more equally balanced among infrastructure, social and economic development projects.

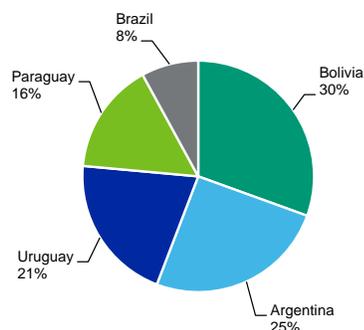
As of 2019, FONPLATA's lending is dedicated entirely to its member countries, with Bolivia holding the highest share of outstanding loans at about 30% of the total portfolio (see Exhibit 4). There is no direct relationship between the share of paid-in capital provided by a country and its share of the 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 Institutional Strategic Plan for 2018-22, it intends to expand its membership as it increases its lending and development role in the region.

Exhibit 3
FONPLATA's lending portfolio primarily funds physical and socio-economic infrastructure projects
 Loan portfolio by sector, 2019



Sources: FONPLATA, Moody's Investors Service

Exhibit 4
Bolivia and Argentina represent over half of FONPLATA's lending operations
 Gross outstanding loans by country, % of total, 2019



Sources: FONPLATA, 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

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.

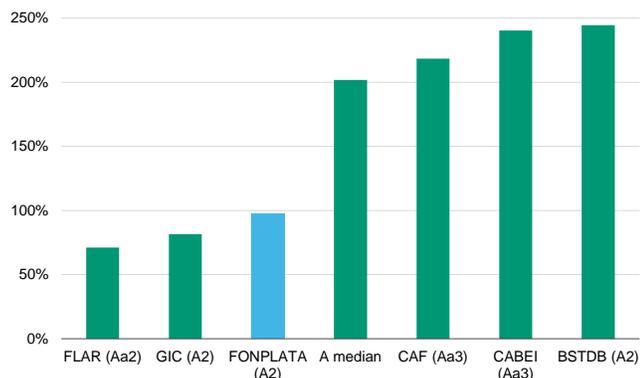
FONPLATA's capital adequacy is assessed as "aa3," which reflects the bank's strong capital position, tempered by an anticipated increase in leverage as the bank continues to expand its balance sheet. The factor score also captures the bank's relatively low Development Asset Credit Quality (DACQ), with low-rated borrowers and a high regional portfolio concentration.

Very strong 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 (DRA) and liquid assets rated A3 and lower/usable equity) of about 97% in 2019 (see Exhibit 5). At year-end 2019, the bank had \$265 million in debt and maintained a relatively small loan portfolio (about \$936 million), qualities that support its very high intrinsic financial strength. Although FONPLATA's leverage ratio was lower than similarly rated [Gulf Investment Corporation](#) (GIC, A2 stable), it stands at less than half the A-rated MDB median and its regional peers, CAF and CABEL.

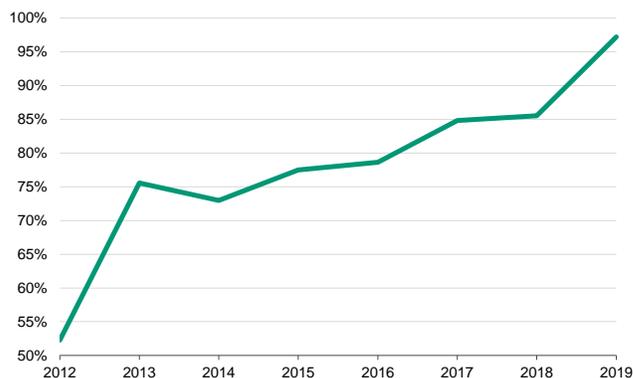
FONPLATA's capital adequacy assessment also reflects expectations that the leverage ratio will increase as the bank continues to expand its lending and borrowing. FONPLATA's leverage ratio has gradually increased to about 97% in 2019 from about 52% in 2012, as the bank has increased its lending activities in line with its redefined mandate (see Exhibit 6).

Exhibit 5
FONPLATA's leverage ratio remains below that of peers
 (DRA and liquid assets rated A3 lower)/useable equity, % (2019)



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

Exhibit 6
FONPLATA's leverage ratio has steadily increased since 2012
 (DRA and liquid assets rated A3 and lower)/useable equity, % (2019)



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

Looking ahead, we expect the leverage ratio to continue to gradually rise as lending outpaces installment payments of paid-in capital. Nonetheless, we expect it to remain comfortably below FONPLATA's 2.0x leverage limit for the next two to three years, supporting the bank's strong capital position. Despite our expectation of increased leverage, debt will likely continue to 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.

Although we expect FONPLATA's lending portfolio growth to continue to outpace capital increases, its robust growth rate will ease somewhat over the next two years as the bank adjusts to an increased amount of lending activity following higher near-term demand for its resources to support countries' coronavirus emergency response programs. The bank's loan portfolio grew by 32% in 2020, nearly twice its compound annual growth rate of 20% between 2013-19, as FONPLATA ramped up its lending operations to meet its members' increased needs during the pandemic (see Exhibit 7). Given the increased scale of lending activity, we expect loan approvals and disbursements to grow at much slower annual compound rates between 2020-22, compared to rates of between 30% and 18% in 2013-19, respectively. Slower growth will offer the bank time to further adjust to the expanded scale of its lending operations.

Exhibit 7
Loan disbursements will increase annually through 2020, expanding the loan portfolio
 Annual loan disbursements and total loan portfolio, \$ millions



Sources: FONPLATA, Moody's Investors Service

Regional concentration contributes to capital adequacy risks

FONPLATA's DACQ score of "ba" reflects a weighted average borrower rating of B1 and a highly concentrated portfolio with all loans split among five South American borrowers. Despite these challenges, over 98% of FONPLATA's outstanding loans are sovereign-guaranteed and the bank benefits from a demonstrated strong track record of preferred creditor status.

FONPLATA's DACQ score has diminished over the last three years. Bolivia and Argentina, which represented a cumulative 55% of the loan portfolio in 2019, have undergone severe credit stress over the last two years, which has been further magnified by the coronavirus pandemic. Reflecting these increased credit challenges, Bolivia's issuer rating was downgraded to B2 in September 2020, its second downgrade of the year. Argentina's outlook was revised to stable following the conclusion of its debt restructuring, but its Ca issuer rating has undergone a series of downgrades over the last three years and 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. Despite significant credit challenges, Bolivia and Argentina's stable outlooks reflect our expectation that further deterioration in the ratings is unlikely over the next 12 to 18 months.

Brazil, Paraguay and Uruguay account for the remaining 45% of FONPLATA's loan portfolio and all have stable outlooks as of December 2020. Nonetheless, economic prospects have dampened throughout the region due to the pandemic and are likely to remain difficult through 2021. Loans to Uruguay, the sole investment grade member sovereign, are only about 21% of the bank's total portfolio.

Although we expect rebounds in economic activity next year, strong macroeconomic linkages among the five member countries, particularly as they pertain to trade relationships, continue to pose regional credit risks. While FONPLATA's regional portfolio concentration will remain a credit challenge over the foreseeable future, it is taking initial steps to attempt to broaden its shareholder base with the intent to diversify its membership by 2022.

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

DRAs have tripled since 2012, though growth is moderating

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

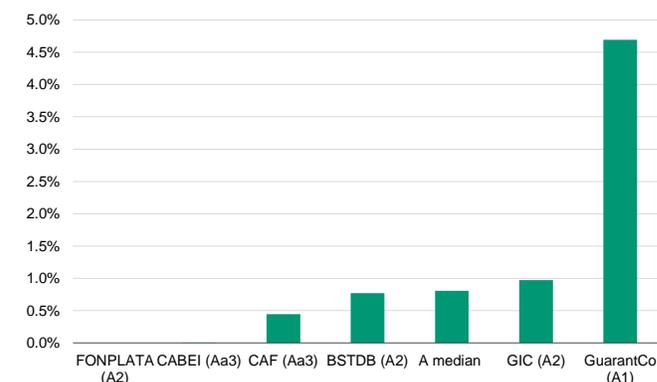


Sources: FONPLATA, Moody's Investors Service

Exhibit 9

FONPLATA's asset performance is stronger than most peers

Nonperforming assets, % of total, 3-year average



Sources: FONPLATA, 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 have been 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 public sector banks in 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 public sector banks accounted for only around 4.2% of the total projected portfolio in 2020, 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

aa1
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" liquidity score reflects the highly liquid nature of its assets and its conservative risk management policies, balanced against a quality of funding assessment that accounts for its more limited track record of market-based debt issuance. As the bank's leverage increases, we expect liquidity coverage to decline, but remain robust and above the majority of FONPLATA's rated MDB peers.

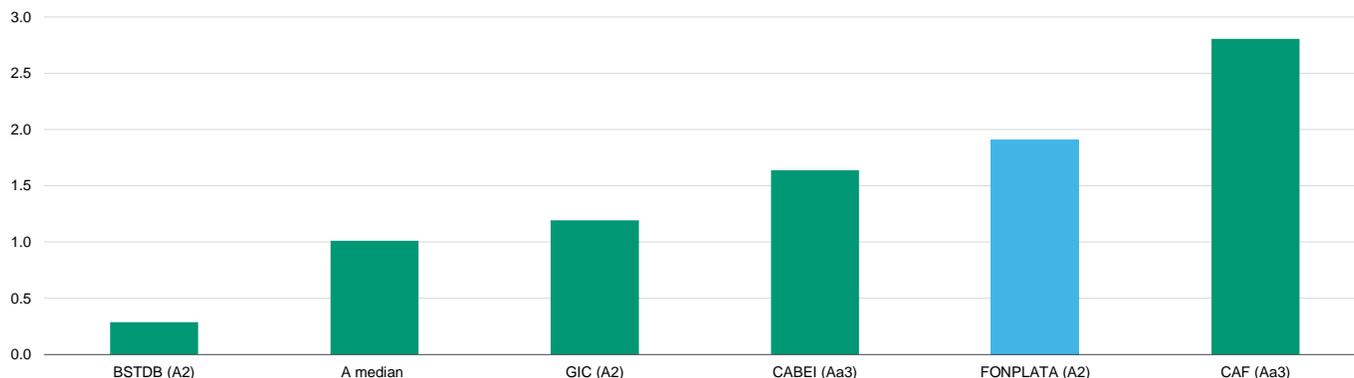
Availability of liquid resources bolstered by credit lines from development institutions

We assess FONPLATA's liquidity coverage to be strong in case of a stress scenario, which would include the bank not being able to tap the international financial markets. FONPLATA's liquid resources ratio of 191%, which dimensions its high-quality liquid assets relative to its net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs, is assessed as "aa1" and demonstrates that the bank holds more than enough liquid assets to sustain its functioning for more than 18 months. Under this liquidity metric, FONPLATA outperforms regional peers with higher ratings like CABEL (167%), and is in line with the A-rated MDB median of 101% (see Exhibit 10).

Exhibit 10

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.

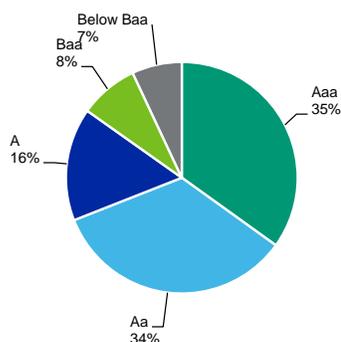
Source: Moody's Investors Service

FONPLATA's liquidity is sustained by undrawn credit lines that it has with other development institutions, which totaled about \$75 million as of October 2020. Meanwhile, of the \$369 million in liquid assets FONPLATA held at the end of 2019, only \$2.8 million (1%) had maturities of more than one year, providing a readily available source of liquidity to cover any short-term repayments. In 2019, \$369 million in liquid assets provided about 100x coverage of interest expenses (\$3.6 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 currently account for 28% of FONPLATA's total assets, just below the 33% median for A-rated MDBs.

FONPLATA's liquidity is also supported by a highly liquid treasury portfolio. Most of FONPLATA's treasury assets are in highly liquid and highly rated instruments, with about 85% rated 'A' and above, with only 15% below A3, and only 7% non-investment grade in 2019. 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 (62%) or MDB bonds (32%) with the remainder consisting of financial sector bonds (see Exhibits 11 and 12).

Exhibit 11

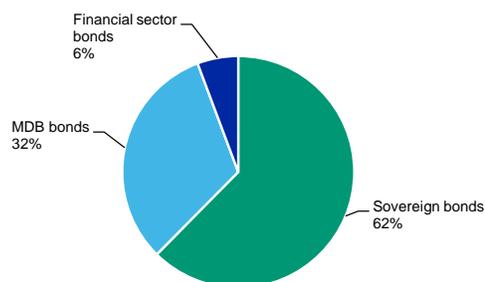
The vast majority of treasury assets are very highly rated Investment portfolio by rating category, 2019



Sources: FONPLATA, Moody's Investors Service

Exhibit 12

FONPLATA's treasury portfolio is primarily invested in sovereign and supranational bonds Investment portfolio by asset class, 2019



Sources: FONPLATA, 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 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. This calculation 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

FONPLATA's limited experience in the international capital markets and short track record of debt issuance is the basis of our quality of funding assessment of "ba." However, the bank is in the process of gradually expanding and diversifying its funding sources.

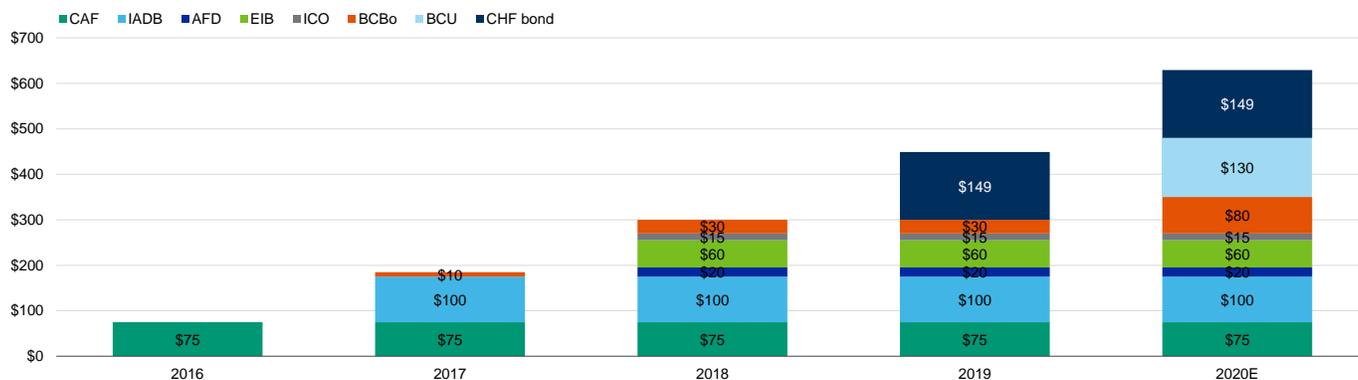
Since the beginning of its new business strategy in 2016, FONPLATA has relied largely on non-market based sources of funding from other multilateral development institutions and member central banks. Its first credit line for \$75 million was obtained through CAF in November 2016. Since then, it has grown its MDB credit lines to \$270 million and expanded its funding base to include financing from the AFD, the IADB, EIB 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).

In March 2019, FONPLATA took a significant step toward expanding its funding base by issuing its first international bond for a total of CHF150 million (about \$149 million) at a tenor of five years and a coupon of 0.578%. The issuance was oversubscribed, with demand

reaching CHF225 million. Although the bank's liquidity ratios have declined in recent years as a result of increased leverage, they remain very strong with liquid assets providing 1.4x cover of the bank's total debt as of year-end 2019.

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

Exhibit 13
FONPLATA grew and diversified its funding sources over the last five years
 FONPLATA's signed borrowings, \$ millions, 2019



Sources: FONPLATA, Moody's Investors Service

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, 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



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.

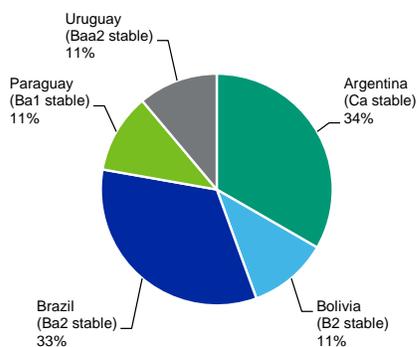
Our methodology determines willingness to support as a combination of contractual support, measured by callable capital as a share of total debt, and non-contractual support as ascertained by the demonstrated commitment of shareholders to the bank's mission, operations and objectives.

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 629%, and is significantly higher than the MDB median of 120% as well as the median for A-rated MDBs of 240% (see Exhibit 15).

Exhibit 14

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

Callable capital by shareholder, % of total

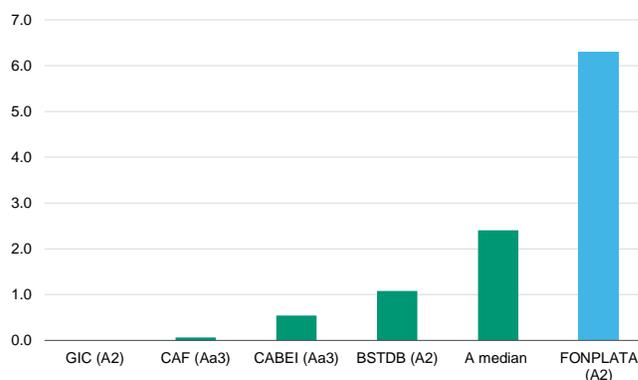


Sources: FONPLATA, Moody's Investors Service

Exhibit 15

FONPLATA's callable capital provides strong debt coverage

Callable capital, % of total debt



Sources: FONPLATA, 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. In 2019, FONPLATA had grown its integrated, paid-in capital to \$865 million and its committed callable capital to nearly \$1.7 billion (see Exhibit 16) against a loan portfolio of \$937 million.

Exhibit 16

FONPLATA's capital structure, 2019, \$ thousands

Member name	Subscribed capital	Callable capital	Payable capital	Paid-in capital
Argentina (Ca stable)	1,004,758	555,014	449,744	299,411
Bolivia (B2 stable)	334,895	184,991	149,904	99,793
Brazil (Ba2 stable)	1,004,758	555,014	449,744	266,759
Paraguay (Ba1 stable)	334,895	184,991	149,904	99,793
Uruguay (Baa2 stable)	334,895	184,991	149,904	99,793
Total	3,014,200	1,665,000	1,349,200	865,549

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:

Environmental considerations are material for FONPLATA's rating. Climate change can affect the projects that FONPLATA finances and is thus material to the bank's credit profile, as rising sea levels can affect important economic centers along the River Plate Basin and more severe weather events can damage infrastructure projects.

Social considerations are not material for FONPLATA's rating. We do not expect social risks affecting FONPLATA's borrowers to impact its financial strength.

Governance considerations are material. FONPLATA has a strong track record of transparent governance and a robust risk management framework that help to support the bank's credit profile, as evidenced by its long history of zero nonperforming assets.

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 likely weaken over the next two years, we expect them to remain around the A-rated median level. The overall ability of its members to support the bank – as defined by the weighted average shareholder rating – is below that of most peers, indicative of FONPLATA's relatively challenging operating environment.

Exhibit 18

FONPLATA's 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)	2019	1,308	3,534	2,529	11,611	306	42,294	2,028
Factor 1: Capital adequacy		aa3	a2	ba2	a1	ba1	a2	
DRA / Usable equity ^{[1] [2] [4]}	2019	91.1	70.8	140.3	224.6	322.4	210.9	158.3
Development assets credit quality score (year-end)	2019	baa	caa	b	baa	b	ba	b
Non-performing assets / DRA ^[1]	2019	0.0	1.2	18.2	0.0	3.3	0.3	1.6
Return on average assets ^[4]	2019	2.4	3.7	-3.8	2.0	0.7	0.8	1.6
Net interest margin (X) ^[4]	2019	3.1	0.5	3.6	2.3	2.3	1.1	2.3
Factor 2: Liquidity and funding		baa1	baa2	a3	aa2	a2	aa2	
Quality of funding score (year-end)	2019	ba	ba	baa	aa	baa	aa	baa
Liquid assets / ST debt + CMLTD ^{[3][4]}	2019	6,917.2	--	451.6	353.8	0.0	266.1	420.4
Liquid assets / Total assets ^[4]	2019	28.2	43.5	47.1	33.9	91.0	32.8	36.0
Preliminary intrinsic financial strength (F1+F2)		a2	a3	baa2	aa3	baa1	aa3	
Adjusted intrinsic financial strength		a2	a3	baa2	a1	baa1	aa3	
Factor 3: Strength of member support		M	L	H	M	H	L	
Weighted average shareholder rating (year-end)	2019	b2	baa3	baa3	ba2	aa3	b3	--
Callable capital / Total debt	2019	629.0	--	--	54.4	--	6.2	107.9
Callable capital (CC) of Baa3-Aaa members/Total CC ^[4]	2019	11.1	--	-	38.0	100.0	54.7	70.7
Scorecard-indicated outcome range (F1+F2+F3)		Aa3-A2	A2-Baa1	A2-Baa1	Aa2-A1	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 19

FONPLATA [1]

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Rating Assigned			A2		03/01/2019
Outlook Changed				STA	11/01/2018
Outlook Changed				STA	09/27/2016
Rating Assigned	A2				09/27/2016
Ratings Withdrawn				RWR	03/05/2004
Outlook Assigned				STA	11/15/2003
Rating Assigned	Aa3				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 20

FONPLATA

Balance Sheet, USD Millions	2013	2014	2015	2016	2017	2018	2019
Assets							
Cash & Equivalents	116	45	18	31	34	55	37
Securities	94	159	157	180	149	180	332
Derivative Assets	0	0	0	0	0	0	0
Net Loans	306	364	447	540	657	793	920
Net Equity Investments	0	0	0	0	0	0	0
Other Assets	4	5	6	8	11	15	18
Total Assets	520	573	628	759	852	1,043	1,308
Liabilities							
Borrowings	0	0	0	16	26	79	265
Derivative Liabilities	0	0	0	0	0	0	0
Other Liabilities	6	11	10	10	10	11	15
Total Liabilities	6	11	10	26	36	90	280
Equity							
Subscribed Capital	489	1,639	1,639	3,014	3,014	3,014	3,014
Less: Callable Capital	40	840	840	1,665	1,665	1,665	1,665
Less: Other Adjustments	0	303	257	706	643	532	484
Equals: Paid-In Capital	449	496	543	643	706	818	866
Retained Earnings (Accumulated Loss)	46	8	9	15	20	27	28
Accumulated Other Comprehensive Income (Loss)	0	0	0	0	0	0	0
Reserves	19	59	66	75	90	109	134
Other Equity	0	0	0	0	0	0	0
Total Equity	514	562	618	733	816	953	1,028

Source: Moody's Investors Service

Exhibit 21

FONPLATA

Income Statement, USD Millions	2013	2014	2015	2016	2017	2018	2019
Net Interest Income	10	10	12	17	23	33	40
Interest Income	10	10	12	17	24	36	48
Interest Expense	0	0	0	0	1	3	8
Net Non-Interest Income	2	2	3	4	4	5	6
Net Commissions/Fees Income	2	2	3	3	4	4	5
Income from Equity Investments	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	2
Other Operating Expenses	5	5	5	6	7	8	9
Administrative, General, Staff	4	5	5	6	7	8	9
Grants & Programs	0	0	0	0	0	0	0
Other Expenses	0	0	0	0	0	0	0
Pre-Provision Income	7	8	10	15	20	29	36
Loan Loss Provisions (Release)	0	0	3	0	0	3	8
Net Income (Loss)	8	8	7	15	20	27	28
Other Accounting Adjustments and Comprehensive Income	0	0	0	0	0	1	1
Comprehensive Income (Loss)	8	8	7	15	20	27	29

Source: Moody's Investors Service

Exhibit 22

FONPLATA

Financial Ratios	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy, %							
DRA / Usable Equity	60.2	65.5	73.2	74.2	81.1	83.9	91.1
Development Assets Credit Quality (Year-End)	--	--	--	--	--	baa	baa
Non-Performing Assets / DRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return On Average Assets	1.5	1.4	1.2	2.1	2.5	2.8	2.4
Net Interest Margin	2.0	1.8	2.0	2.2	2.7	3.2	3.1
Liquidity, %							
Quality of Funding Score (Year-End)	--	--	--	--	--	ba	ba
Liquid Assets / ST Debt + CMLTD	--	--	--	--	1,830.2	4,408.7	6,917.2
Liquid Assets / Total Debt	--	--	--	1,318.6	703.9	298.6	139.4
Liquid Assets / Total Assets	40.4	35.6	27.8	27.8	21.5	22.5	28.2
Strength of Member Support, %							
Weighted Average Shareholder Rating (Year-End)	Ba3	Ba3	Ba3	B1	Ba3	Ba3	B1
Callable Capital / Gross Debt	--	--	--	10,406.3	6,403.8	2,114.3	629.0
Callable Capital (CC) of Baa3-Aaa Members/Total CC	44.4	17.6	44.4	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: Update following rating affirmation, outlook unchanged](#), 10 December 2020
- » **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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REPORT NUMBER

1254182