

Rating Action: Moody's assigns first-time A2 issuer rating to FONPLATA; stable outlook

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New York, September 27, 2016 -- Moody's Investors Service has today assigned a first-time issuer rating of A2 to the Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLATA). The outlook on the rating is stable.

The key factors supporting FONPLATA's A2 rating are the following:

(1) Moody's 'Medium' assessment of FONPLATA's capital adequacy. The fund's strong balance sheet is tempered by a lack of track record in active lending and an anticipated decline in both asset coverage and leverage ratios as FONPLATA pursues a more aggressive lending and borrowing strategy from 2016-2020 and onward. The assessment also considers the challenging operating environment and economic linkages among member countries.

(2) Moody's 'High' assessment of FONPLATA's liquidity is supported by a very strong liquidity position. The fund has historically operated with little-to-no debt on its balance sheet and pursued a conservative liquid asset management strategy. As a result, FONPLATA has faced extremely limited liquidity risks to date. Looking forward, planned increases in leverage will generate minor liquidity pressures.

(3) Moody's 'Medium' assessment of member support. The weighted median shareholder rating is Ba1, which scores at 'Low,' is countered by the high willingness of its members to provide extraordinary support. The presence of callable capital from an investment grade country, Uruguay, is another supporting factor for a 'Medium' score assessment.

(4) A peer comparison analysis supports an A2 rating, below regional peers Corporacion Andina de Fomento (CAF) (Aa3/stable) and the Central American Bank for Economic Integration (CABEI) (A1/stable), which have similar weighted median shareholder ratings but have a stronger track record of active lending through economic cycles, coupled with tested ample access to diversified financing sources.

RATINGS RATIONALE

FIRST KEY RATING FACTOR: FONPLATA'S MEDIUM CAPITAL ADEQUACY

The first key factor underpinning FONPLATA's A2 rating is Moody's assessment of its 'Medium' capital adequacy. Although FONPLATA enjoys an outstanding capital position, this balance sheet strength is tempered by a lack of track record in active lending coupled with anticipated decline in both asset coverage and leverage ratios as the fund begins to pursue a more aggressive lending and borrowing strategy 2016 onward. The adjustment to the factor score also captures a challenging operating environment given strong macroeconomic linkages among the five member countries and prospects of weak economic and fiscal conditions in four of the countries: Brazil (Ba2/negative), Argentina (B3/stable), Bolivia (Ba3/negative), and to a lesser extent, Uruguay (Baa2 negative).

From 2008 to 2015 FONPLATA's asset coverage ratio averaged 175%. That ratio declined from 2012 to 2016F as the fund began to enlarge lending activities in line with its redefined mission. However, a large increase in paid-in-capital that will begin to be implemented in 2017 will push the ACR back to its original long-term average. Beginning in 2018 the ACR will again begin a continued decline as lending continues to grow.

Over the same period, FONPLATA operated entirely without debt on its balance sheet, and thus reported a debt/equity ratio of zero. This will change beginning in 2016 and debt/useable equity will increase to a projected 4% in 2016, 8% in 2017, 12% in 2018 and continue to rise from 2019 onward. In terms of borrower quality, FONPLATA has been steady at Ba2 over the past three years. Non-performing loans have remained at zero in the last decade -- loans are considered non-performing after 180 days of payment delay.

SECOND KEY RATING FACTOR: FONPLATA'S HIGH LIQUIDITY

The second key factor underpinning FONPLATA's rating is Moody's assessment of 'High' liquidity. FONPLATA's lack of debt has historically limited liquidity risks to the adequate management of its investment portfolio, with most of its treasury assets invested in high-quality instruments. The bank does intend to take on debt going forward and liquidity ratios such as Short-Term Debt + Currently Maturing Long Term Debt/Liquid Assets will deteriorate, but will remain very strong. FONPLATA's 'High' score captures the highly liquid nature of its assets and its conservative risk management policies balanced by a lack of a track record in taking on debt and tapping financing markets.

THIRD KEY RATING FACTOR: MEDIUM STRENGTH OF MEMBER SUPPORT

The third key factor in FONPLATA's A2 rating is Moody's 'Medium' assessment of the strength of member support. This assessment considers a weighted median shareholder rating of Ba1, which scores at 'Low', countered by the high willingness of its members to provide extraordinary support. The presence of callable capital from an investment grade country, Uruguay, is another supporting factor for a 'Medium' score assessment. The strength of member support considers a negative adjustment due to linkages among shareholders and a correlation between members and assets, as the loan book expands in the coming years.

FOURTH KEY RATING FACTOR: A PEER COMPARISON ANALYSIS SUPPORTS AN A2 RATING

A peer comparison analysis supports placing FONPLATA in the middle of the A1-A3 rating range, below regional peers CAF (Aa3 stable) and CABEL (A1 stable), whose track record of active lending provides evidence of their resilience to economic downturns and financial shocks, and ample access to diversified funding sources even in times of stress. FONPLATA, on the contrary, has a short history of active lending operations, has no debt, and is much smaller in size. In terms of total assets, FONPLATA is more than twice as small as the second-smallest peer (BSTDB, A2 negative) and 50 times smaller than CAF.

CAF benefits from the strong performance of its loan portfolio with limited NPLs despite a low borrower quality, a history of support from its nineteen shareholders with several capital increases in recent years, as well as improved credit quality of its membership. CAF's primary weakness is the high regional concentration and low profitability of its loan portfolio as a result of its development mandate. These weaknesses are mirrored in FONPLATA.

Similar to FONPLATA, CABEL also faces a challenging operating environment by focusing in Central America, a region where some countries are undergoing important economic and fiscal challenges (i.e. El Salvador, Costa Rica). Both FONPLATA and CABEL have an average shareholder rating of Ba1, although CABEL has a larger member base (twelve versus five) and has five investment grade member countries, one of them rated Aa3 (Taiwan). FONPLATA only has one investment grade member country (Uruguay, rated at Baa2).

ISSUER PROFILE

FONPLATA is a multilateral bank located in Bolivia whose main objective is to promote the integration and inclusive development in the River Plat Basin, a geographic region that covers nearly a quarter of South American landmass and extends to all five member countries: Argentina (B3 stable), Bolivia (Ba3 negative), Brazil (Ba2 negative), Paraguay (Ba1 stable), and Uruguay (Baa2 negative).

The fund was established in June of 1974 and began operations in 1977. In pursuit of its mission to promote development and regional integration, a majority of loans are centered around infrastructure projects, with a special focus on vulnerable zones and border regions that face inequalities in physical, economic and social development. In addition to lending, FONPLATA provides technical-assistance grants to build capacity in member states.

In 2009 and 2010, in the aftermath of the global financial crisis, FONPLATA underwent a period of redefinition of its mission and did not approve new lending. Since 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 -- before the bank's decision making process required unanimous consensus from the representatives of each member country. 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. Importantly, the bank established a lending niche, concentrating its capacity in projects that are of small-to-medium scale and executed in specific locations, for an average of \$30-\$50 million, and always to the public sector. To date, FONPLATA has never had a non-performing loan.

From 2011 to 2015, the fund approved \$904.6 million in loans, outpacing its originations over the previous

thirty years. The fund has experienced a parallel jump in equity, as country members agreed to two capital increases that began to be executed in 2014. As a result, subscribed capital rose from \$489.6 million in 2009 to \$1.6 billion in 2014, while the second capital increase approved in January of 2016 will increase subscribed capital to \$3 billion in 2017 (paid-in-capital is set to nearly double from \$543 million in 2015 to \$1 billion in 2021).

Historically FONPLATA has never borrowed money to finance its operations, but the fund plans to take on leverage moving forward. Borrowings are capped at 45% of equity. According to management, FONPLATA's borrowing could reach 12% of equity by 2018, and that figure is certain to increase in the following years. FONPLATA is in the process of transforming itself in a more dynamic institution as it seeks to increase the scale of its lending, borrowings and capitalization.

RATING OUTLOOK

The outlook is stable. The expectation that FONPLATA's capital adequacy will weaken as the institution begins to leverage its balance sheet is incorporated into the rating and considers that the asset coverage ratio will likely remain around 100%. Supporting the stable outlook, Moody's also expects that lending going forward will continue to benefit from preferred creditor status as it will continue to lend to the public sector.

WHAT COULD CHANGE THE RATING UP

Positive rating pressures would arise if (a) the implementation of FONPLATA's growth and debt strategies in the 2016-2020 period lead to only marginal deteriorations of capital adequacy and liquidity indicators and (b) the bank builds a track record of accessing diversified funding sources. The incorporation of highly-rated investment-grade members that would bolster the quality of shareholder support would also add positive momentum to the rating.

WHAT COULD CHANGE THE RATING DOWN

A significant deterioration in the credit quality of borrowing sovereigns coupled with a material rise in NPLs would exert downward pressures on FONPLATA's rating. An important deviation from the current growth and borrowing strategy presented for the 2016-2020 period, one that implies a faster than envisioned deterioration in key capital and liquidity metrics, would add negative pressure to the ratings.

The principal methodology used in this rating was Multilateral Development Banks and Other Supranational Entities published in December 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

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