



Rating Action: **Moody's affirms FONPLATA's A2 rating, maintains stable outlook**

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New York, February 02, 2024 – Moody's Investors Service (Moody's) has today affirmed the Fondo Financiero para el Desarrollo de la Cuenca del Plata's (FONPLATA) A2 long-term issuer and senior unsecured ratings, and maintained the stable outlook.

The decision to affirm the ratings reflects the following key drivers:

1. FONPLATA's high intrinsic financial strength supported by strong capital adequacy, ample liquidity, and very strong asset performance, despite the low weighted average borrower rating and high regional concentration of its loan portfolio
2. Low strength of member support given the relatively low weighted average shareholder rating of FONPLATA's member countries, counterbalanced by a high cushion of callable capital

The stable outlook reflects Moody's expectation that even as FONPLATA continues to leverage its balance sheet to grow its loan portfolio, its capital adequacy and liquidity position will remain strong and broadly stable around current levels. At the same time, Moody's expects shareholders to continue to support the bank, including through authorized capital contributions in the coming years.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF THE A2 RATING

HIGH INTRINSIC FINANCIAL STRENGTH SUPPORTED BY STRONG CAPITAL ADEQUACY AND AMPLE LIQUIDITY DESPITE A LOW WEIGHTED AVERAGE BORROWER RATING

Moody's assessment of FONPLATA's capital adequacy of "a1" balances the development bank's very strong capital position and exceptional asset performance against relatively low development asset credit quality (DACQ).

FONPLATA's capital adequacy reflects relatively low, but rising, leverage. The bank's leverage ratio (development-related assets and treasury assets rated A3 and lower/ usable equity) has steadily increased to around 133% in 2022 from around 52% in 2012. Moody's expects the leverage ratio to continue to gradually rise as the bank expands its loan portfolio to support its regional development objectives in line with its mission as a development bank.

The credit quality of FONPLATA's loan portfolio is relatively weak and reflects a high level of regional concentration to its members whose weighted average borrower rating is low at Caa1. FONPLATA's borrowers are comprised of its

sovereign shareholders: Government of Argentina (Ca stable), Government of Bolivia (Caa1 negative), Government of Brazil (Ba2 stable), Government of Paraguay (Ba1 positive) and Government of Uruguay (Baa2 positive). Despite these portfolio challenges, Non-Performing Assets (NPAs) have remained at zero over the past decade, one of the strongest asset performance ratios of all multilateral development banks (MDBs) rated by Moody's.

Moody's assessment of FONPLATA's liquidity and quality of funding of "a3" balances its strong liquidity position with more limited, but improving, access to market-based funding. Moody's measures an MDB's availability of liquid resources as the percentage of liquid assets of estimated net cash outflows over a period of 18 months. With a ratio of about 150% in 2022, FONPLATA's liquid resources more than fully covered potential outflows and is assessed as "aa2." The bank's strong liquidity position is underpinned by a liquidity policy that requires it to hold the equivalent of 12 months of liquid assets to cover all financial obligations and disbursement commitments for a year. This helps limit FONPLATA's exposure to potential market disruptions that might affect funding. The bank'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 99% rated A and above. Additionally, a vast majority of treasury assets are sovereign or MDB bonds.

FONPLATA's robust liquidity position is balanced against a weaker quality of funding of "baa" from more limited experience in international capital markets and a relatively short track record of market-based debt issuance. Since the beginning of its new business strategy in 2016, FONPLATA has relied largely on non-market based sources of funding from member country central banks and other MDBs, as well as lines of credit from official and private sector sources, which it continues to develop. However, in March 2019 FONPLATA took a significant step toward expanding its funding base by issuing the first international bond in its history (for a total of CHF150 million) at a tenure of five years. In March and December 2021, it issued a second and third international bond for a total of CHF350 million, at tenures of five and a half and seven years, respectively. Most recently, in March 2023, the bank issued two private placement sustainable bonds in the Japanese market for a combined value of JPY7.2 million at tenures of five and six years.

Over time, more regular bond issuances in different markets and different currencies, along with the establishment of a track record of successful refinancing of maturing debt, could support an overall higher assessment of quality of funding.

LOW STRENGTH OF MEMBER SUPPORT FROM RELATIVELY LOW WEIGHTED AVERAGE SHAREHOLDER RATING COUNTERBALANCED BY HIGH CUSHION OF CALLABLE CAPITAL

Moody's assessment of FONPLATA's member support as "low" reflects the bank's low weighted average shareholder rating of B3, which serves as an indicator of shareholders' ability to support. Over the past year, the bank's weighted average shareholder rating declined by one notch due to Moody's downgrade of Bolivia to Caa1 from B2 in March 2023. This is counterbalanced by a large cushion of contractual callable capital which demonstrates a high willingness of shareholders to support the bank, including an investment grade sovereign (Uruguay). As of 2022, FONPLATA's callable capital was equivalent to about 171% of its total debt, resulting in a "aaa" assessment of contractual support.

In May 2023, the governors of FONPLATA announced that Argentina had expressed its intent to withdraw from membership, in an effort to rationalize its resources, and ensured their commitment to supporting the bank's financial

standing. However, following a subsequent presidential election in Argentina that resulted in new government leadership, Argentina announced on 22 January 2024 that it would remain members of FONPLATA. Looking ahead, Moody's expects that the bank's five member countries will continue to support the bank, including through authorized capital contributions in the coming years.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects a balance of risks to the rating. Moody's expects that even as FONPLATA continues to 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. Moody's incorporates the expectation of a gradual rise in leverage and decline in capital adequacy into its rating. Despite a high regional concentration of lending and a low weighted average borrower rating, Moody's expects that asset performance will remain very strong as future lending continues to benefit from the bank's preferred creditor status and focus on the public sector. In addition, Moody's does not expect any material changes to shareholders' support of the bank.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

FONPLATA's ESG credit impact score is CIS-2, indicating that ESG considerations are not material to the rating. For FONPLATA, this reflects neutral-to-low exposure to environmental and social risk, as well as sound governance.

FONPLATA's exposure to environmental risks is neutral-to-low (E-2) reflecting 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.

FONPLATA's exposure to social risks is neutral-to-low (S-2) reflecting its strong customer relations with borrowers, along with a strong focus on responsible production that aligns with global MDB peers.

FONPLATA's neutral-to-low governance risk (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.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the rating would arise if the bank continues to build a track record of accessing more diversified funding sources, including through the broadening of market-based debt issuance into a variety of different international markets and currencies, along with the successful refinancing of maturing market-based debt. Expansion of the bank's shareholder base to include highly rated investment-grade members that would bolster the quality of shareholder support would provide additional support to the rating.

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.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational

Entities published in February 2024 and available at <https://ratings.moodys.com/mmc-documents/414557>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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