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Update

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RATINGS

**CAF**

| | Rating | Outlook |
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| Long-term Issuer | Aa3 | STA |
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# Corporacion Andina de Fomento – Aa3 stable

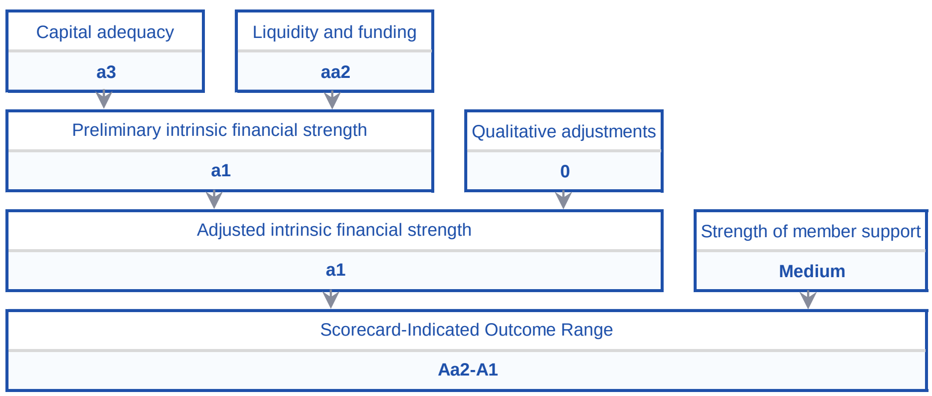
## Update following rating affirmation, outlook unchanged

## Summary

The credit profile of Corporacion Andina de Fomento (CAF) balances the bank's history of strong asset performance and sound growth against its high exposure to low borrower credit quality. CAF's credit profile also incorporates its ample liquidity, underpinned by a robust liquidity risk management policy and prudent financial management. While CAF's loan book remains somewhat concentrated, it continues to diversify its lending portfolio and shareholder base.

Exhibit 1

**CAF's credit profile is determined by three factors**




*Source: Moody's Investors Service*

## Credit strengths

- Strong availability of liquid resources underpinned by a conservative liquidity policy
- Prudent financial management reflected in diversified funding sources
- Record of strong asset performance and very low nonperforming loans (NPLs)

## Credit challenges

- Significant, although declining, credit exposure to low-rated countries
- Limited presence of highly rated shareholders
- Although declining, exposure to Venezuela is likely to weigh on future asset performance

## Rating outlook

The stable rating outlook reflects our expectation that CAF's capitalization and liquidity levels will remain consistent with its Aa3 rating, as the bank continues to expand its operations, balancing loan growth with adequate liquidity and capitalization buffers, while successfully managing operating and credit risks from its exposure to Venezuela (C senior unsecured).

## Factors that could lead to an upgrade

Upward credit pressure on CAF's rating is unlikely unless the bank significantly reduces its exposure to its lowest rated borrowers, decreases its leverage and improves its capitalization and liquidity ratios significantly. The inclusion of new, highly rated non-borrowing members responsible for a significant amount of capital, which reduced the correlation between members and assets, would also support improved creditworthiness.

## Factors that could lead to a downgrade

Downward credit pressure would arise if the bank's asset quality were to deteriorate significantly because of credit events involving borrowers other than Venezuela; if large borrowers were to fall into arrears on their obligations to CAF, this would challenge the notion of CAF's preferred creditor status (PCS). Additionally, negative credit pressure would arise if CAF's capital and liquidity buffers eroded because of the rapid expansion of its loan book not sufficiently compensated for by additional capital contributions.

## Key indicators

Exhibit 2

| Corporacion Andina de Fomento (CAF) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Total Assets (USD million) | 38,111.6 | 40,014.2 | 42,293.6 | 46,845.9 | 47,592.4 | 50,376.7 |
| Development-related Assets (DRA) / Usable Equity [1] | 216.3 | 215.5 | 210.9 | 219.7 | 225.8 | 226.0 |
| Non-Performing Assets / DRA | 0.6 | 0.5 | 0.3 | 0.3 | 0.4 | 0.4 |
| Return on Average Assets | 0.2 | 0.5 | 0.8 | 0.6 | 0.2 | 0.4 |
| Liquid Assets / ST Debt + CMLTD | 277.0 | 418.5 | 266.1 | 295.6 | 232.4 | 160.4 |
| Liquid Assets / Total Assets | 33.4 | 32.6 | 32.8 | 31.4 | 33.9 | 30.5 |
| Callable Capital / Gross Debt | 6.9 | 6.8 | 6.2 | 5.6 | 5.5 | 5.8 |

[1] Usable equity is total shareholder's equity and excludes callable capital

*Source: Moody's Investors Service*

### Profile

Corporacion Andina de Fomento's (CAF) mission is to support sustainable development and economic integration among its shareholder countries by helping them diversify their economies, making them competitive and more responsive to social needs. CAF seeks to encourage foreign investment and capital market development, promote the expansion of regional trade and exports, and support the development of small and medium-sized enterprises. However, its principal activity is to provide loans to finance economic and social infrastructure projects, as well as working capital and trade activities in its shareholder countries. Available products include short-, medium- and long-term loans, co-financing arrangements, guarantees and select equity investments. While the large majority of its loan operations are to the public sector, CAF offers its products to both member states, and the public and private financial institutions and corporations that operate within them.

## Detailed credit considerations

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 (MDBs), the first two factors combine to form the assessment of intrinsic financial strength (see Exhibit 1). Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information, please see our Multilateral Development Banks and Other Supranational Entities Rating Methodology.

### FACTOR 1: Capital adequacy score: a3

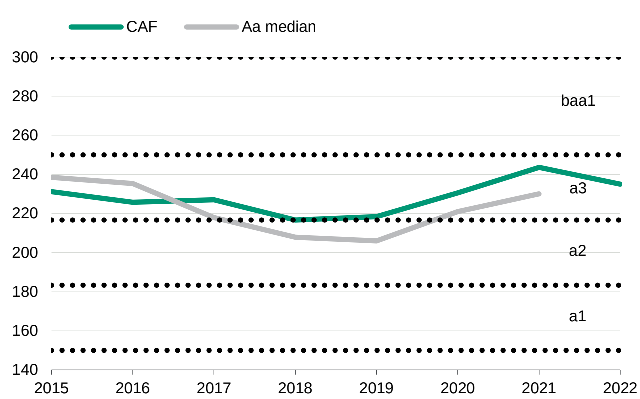
We assess CAF's capital adequacy to be "a3", which incorporates the institution's modestly leveraged capital position and "b" development asset credit quality (DACQ), the latter of which reflects CAF's moderate portfolio concentration and low borrower quality (as measured by the weighted average borrower rating). Portfolio concentration and low borrower quality reflect CAF's development mandate and, as a result, are unlikely to change significantly over the medium term. Nevertheless, prudent financial and risk management has resulted in strong portfolio performance that is underpinned by a track record of very low nonperforming assets (NPA), even during severe credit stress among some of the institution's largest borrowers.

**Capital position reflects modest leverage**

CAF's capital position incorporates the coverage of development-related assets (DRA) in relation to its available capital. An institution's leverage ratio is measured as, (Liquid Assets Rated A3 or Lower + DRA) / Usable Equity. CAF's leverage decreased slightly to 235% in 2022 from 244% as of year-end 2021, remaining well in line with the Aa median (see Exhibit 5).

Exhibit 3

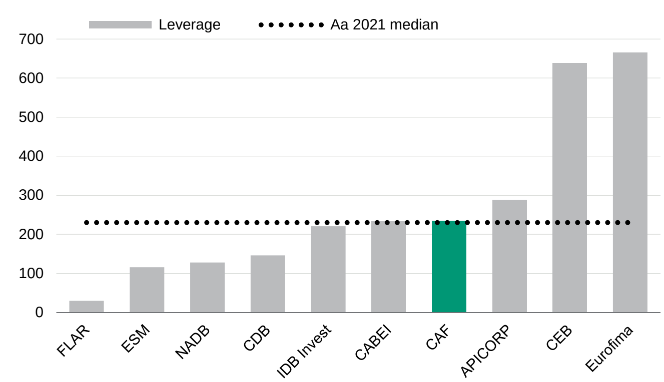
**Leverage has increased slightly since 2019...**
**(Liquid Assets Rated A3 or Lower + DRA) / Usable Equity (%)**




*Sources: CAF and Moody's Investors Service*

Exhibit 4

**...but remains in line with the Aa median**
**(Liquid Assets Rated A3 or Lower + DRA) / Usable Equity (%), 2022 or latest available**




*Sources: CAF and Moody's Investors Service*

CAF's debt fell to $27.9 billion in 2022 from $28.8 billion a year earlier. The decrease was driven largely by the stock of outstanding bonds, which fell to $21.3 billion, down from $24.3 billion in 2021. With this decrease, bonds comprised 76% of total debt (relative to 84% in 2021) and commercial paper 17% (10% in 2021). This reflects tighter financing conditions globally as CAF has increased its reliance on less costly, shorter-term debt within its funding mix and shifted away from more costly, longer-dated debt, expecting interest rates to decline.

Usable equity, the denominator for the leverage ratio, rose to $13.7 billion in 2022 from $13.3 billion in 2021 and $13.0 billion in 2020, reflecting the continued increase in the bank's member base and capital contributions. CAF's capital adequacy and leverage are bolstered by high levels of paid-in capital relative to total subscribed capital, given that, in 2022, 70.4% of capital was paid, 10.3% was unpaid subscribed[1] and 19.3% was callable[2].

CAF's modest leverage reflects regular capital injections from members. CAF is currently in its 10th and largest general capital increase to date, with a fresh injection of $7 billion in paid-in capital that will facilitate an expansion in lending activities. The compound annual growth rate of CAF's total portfolio from 2012 to 2022 was 6.3%. In 2022, loan growth slowed to 3.5%, from 5.3% in 2021.

Net income grew to $169 million in 2022 after declining between 2020 and 2021. The increase was driven by income from interest on interest-bearing securities and loans, reflecting higher interest rates and tighter financing conditions in international capital markets.

**DACQ is constrained by low ratings of sovereign borrowers and portfolio concentration**

Our assessment of CAF's DACQ is constrained by low borrower quality (which, by design, is consistent with the institution's mandate) including its exposure to Venezuela, which is mitigated by a strong track record of PCS, and a moderate degree of portfolio concentration, which are the two main credit challenges for CAF. Portfolio concentration is reflected by the fact that most (69%) outstanding loans were to non-investment-grade countries in 2022, and this percentage has remained relatively steady over the last five years. Consequently, the weighted average borrower rating remains below investment grade. CAF has made great strides in diversifying country exposure within its portfolio, but the top five geographic exposures — Ecuador (Caa3 stable), Argentina (Ca stable), Panama (Baa2 negative), Colombia (Baa2 stable) and Brazil (Ba2 stable) — account for 57% of the portfolio. In particular, CAF has actively managed the credit risk from exposure to Venezuela (see Exhibit 7). Efforts began before the sovereign defaulted on its external debt in 2017 and have continued through its lengthy, ongoing crises without compressing CAF's balance sheet.

The vast majority of CAF's loans are to sovereigns (96%)[3], with nonsovereign loans[4] making up 4% of the portfolio. The most significant concentration risk for the bank relates to the fact that its top 10 country exposures make up 72% of the loan portfolio; the top five exposures amount to 57% of the portfolio, but these traits are common in regional MDBs.

**Strong asset performance is a key credit strength**

Per our methodology, we measure asset performance through the ratio of NPA to total DRA, which includes the performance of loans, guarantees and equity investments. However, because CAF has relatively minimal equity exposure ($382 million in 2022), its asset performance largely reflects the strength of its lending operations.

CAF's asset performance is very strong, reflected by our initial score of "aaa". However, in anticipation of the potential incurrence of NPLs from Venezuela, we have assigned a "-3" trend adjustment, resulting in the "aa3" score for this metric. NPLs fell slightly to $108 million in 2022 from $112 million in 2021, but equity impairments rose slightly to $1 million in 2022 from zero in 2021, such that relative to CAF's DRA, NPA remained flat at 0.4%. Since its inception, CAF has had virtually no NPLs despite sustained growth of its portfolio and the low credit quality of some of its public-sector borrowers. Repayment capacity from lower-quality nonsovereign borrowers has been impaired in the past, mainly because of currency depreciation, but NPA have not yet exceeded 1% of DRA.

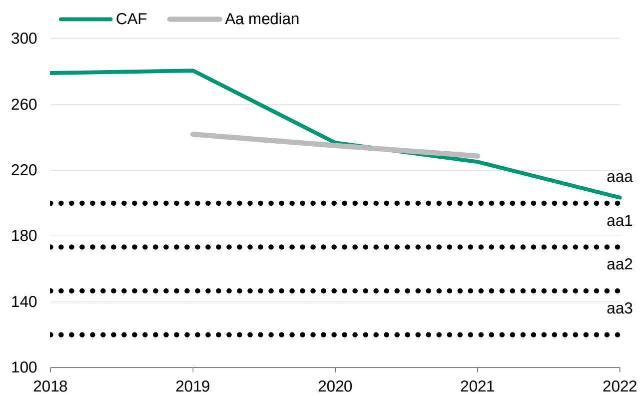
## FACTOR 2: Liquidity and funding score: aa2

CAF's "aa2" liquidity and funding score is supported by strong liquidity coverage of "aaa" and a quality of funding assessment of "aa". The "aa2" liquidity and funding score is in line with that of APICORP (Aa2 stable) and Eurofima (Aa2 stable).

**CAF's highly liquid position provides strong coverage of debt and operations**

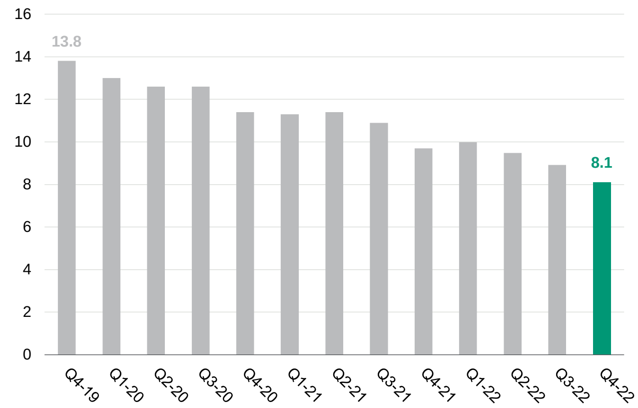
Since most MDBs are not eligible to access emergency lines offered by central banks, we assign a high value to strong liquidity positions in the credit assessment of MDBs. CAF's liquid resources ratio, measured as high-quality liquid assets/net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs, scores "aaa" and shows that the bank holds enough liquid assets to sustain operations for more than 18 months. Despite falling for the second year in a row in 2022, CAF's liquid asset coverage of currently maturing debt payments over the past three years is 229% on average, which is in line with the median for Aa-rated MDBs (see Exhibit 6).

Exhibit 5
**CAF continues to maintain strong liquidity...**
**Availability of liquid resources (ALR) = Net outflows/discounted liquid assets, %**




*Sources: CAF and Moody's Investors Service*

Exhibit 6
**...and reduce its exposure to Venezuela**
**Venezuela as a percentage of the loan portfolio**




*Sources: CAF and Moody's Investors Service*

CAF's strong liquidity position is the result of its conservative liquidity policy, which was updated in September 2014 to bring it more in line with the bank's established practice of over-compliance with its previously more relaxed minimum liquidity requirements. The policy requires CAF to maintain sufficient liquid assets to cover at least 12 months of net cash requirements.

Total liquidity as of December 2022 covers 24 months of net cash requirements, with liquidity more than twice the minimum liquidity required under its stringent liquidity policy. This suggests that CAF could stay out of funding markets for two years and still fulfill all its debt servicing commitments during that time.

**Consistent and diversified access to capital markets and private funding**
CAF's credit profile is supported by a relatively high quality of funding, which we score “aa”, reflected by its regular access to the capital markets across a wide range of currencies.

CAF has an established and recognised presence in the international capital markets, and has demonstrated its ability to raise funds in difficult market conditions. The bank benefits from significant diversification in the financial markets that it accesses. As of 31 December 2022, CAF had $21.3 billion in bonds outstanding across 16 different currencies. The top three currencies in which CAF issues debt (US dollar, euro and Swiss franc) represent about 76% of outstanding bond debt. Furthermore, CAF established a green bond program in 2018 and has issued $1.8 billion in bonds including an issuance of CHF350 million in February 2022.

## Qualitative adjustments to intrinsic financial strength

**Operating environment**
We do not apply any negative adjustments to CAF's intrinsic financial strength because of its operating environment. Although we expect some shareholder countries to likely face macroeconomic challenges in the near term, considering high consumer prices and more moderate economic growth than 2022, these factors will not significantly weigh on CAF's credit metrics beyond what the intrinsic financial strength ratios already capture.

**Quality of management**
As discussed in the above sections, CAF has strong liquidity management policies and effective risk management practices exemplified by the prudent management of its lending exposure to Venezuela. We make no adjustment for the quality of management.

## FACTOR 3: Strength of member support score: Medium

We assess CAF's strength of member support as “Medium”. The ability of the bank's membership to provide support — as measured by the weighted average shareholder rating (WASR) — is low, reflecting the relatively low credit quality and limited fiscal space of the bank's largest shareholders. At the same time, because most of CAF's capital is paid-in, it has limited callable capital, further constraining contractual member support. However, limited shareholder ability to provide extraordinary support is offset by a strong and demonstrated willingness to support the institution, as illustrated by its PCS and regular capital contributions from its membership base.

**Ability to provide support is moderate**

We measure ability to provide support using the WASR, which in the case of CAF is "b2", down from "ba3" in 2017. One factor that has particularly weighed on this metric in the past few years has been the volatility in the ratings of Argentina and Venezuela, which led to a decline in the WASR given their high shares of 9.2% and 9.3% of total subscribed capital, respectively. Despite rating downgrades for Argentina, Ecuador and Bolivia in recent years, these governments have made their paid-in capital payments on time, demonstrating their ability to support CAF despite their own macroeconomic challenges.

**Contractual support from members is low...**

In our assessment of strength of member support, we also consider the members' willingness to provide contractual support, as measured by callable capital coverage of the debt stock. Because most of CAF's capital is paid-in, it has limited callable capital. Only 19.3% of CAF's total subscribed capital is callable. As a result, callable capital only covers 5.8% of CAF's outstanding stock of debt, resulting in a very low level of contractual support.

**...but members have strong willingness to provide extraordinary, non-contractual support**

CAF's greatest credit weaknesses, the absence of highly rated non-borrowing members from outside the region and low levels of callable capital, are arguably also one of its key strengths. CAF is a development institution in which its borrowers are also its shareholders. This results in members' very strong willingness to support the institution. Although not counted as "contractual support" in our Supranational Rating Methodology, the bank's high level of paid-in capital reflects this commitment, as do the significant capital increases to which members have subscribed over the last few years. Without recent capital increases, relatively high levels of capital contributions through 2022 would have shortened the distance to the limit of authorized capital, eventually curtailing lending growth. The continued capital increase programs underscore members' commitment to CAF and afford the institution more room to boost its future operations and fulfill its countercyclical mandate.

## ESG considerations

### Corporacion Andina de Fomento's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7

**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*

CAF's credit impact score is neutral to low (**CIS-2**) reflecting a moderately negative environmental risk exposure as well neutral-to-low exposures to social and governance risks. CAF's mission is to support sustainable development and economic integration among its shareholders by helping them diversify their economies, making them more competitive and more responsive to social needs. The effectiveness in the fulfillment of CAF's development mandate within its operating region has led to strengthened member support in the form of various, continued, general capital increases reflecting the strong sense of ownership among members and the value that they derive from the institution in addressing environmental, social and governance challenges.

Exhibit 8
**ESG Issuer Profile Scores**

| ENVIRONMENTAL | SOCIAL | GOVERNANCE |
|---|---|---|
| E-3 | S-2 | G-2 |
| Moderately Negative | Neutral-to-Low | Neutral-to-Low |

*Source: Moody's Investors Service*

### Environmental

CAF's environmental issuer profile score is moderately negative (**E-3**) as a result of carbon transition risks through its lending exposure within hydrocarbon-producing countries in Latin America. These risks affect CAF's balance sheet indirectly given that CAF has had a longstanding commitment to developing sustainable projects, including hydroelectric generation and clean energy. Exposure to other environmental risks is neutral-to-low, reflecting CAF's diversified lending exposures throughout Latin America.

### Social

CAF's social issuer profile score is neutral-to-low (**S-2**) reflecting a strong track record of customer relations that has helped the institution grow its member base and lending portfolio substantially. CAF's public consultation processes are an integral part of its lending decision and include affected communities and key stakeholders, which supports our assessment of responsible production.

### Governance

CAF's governance issuer profile score is neutral-to-low (**G-2**) reflecting its prudent risk management and the pro-active approach to dealing with problematic loan exposures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.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 "Detailed credit considerations" 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.

## Recent developments

### Chile returns as a full member after 30 years

On 6 March, Chile (A2 stable) rejoined the CAF as a full member and also its highest rated, a credit positive development. The sovereign pledged $1.5 billion in paid-in capital and $122 million in additional callable capital, amounts similar to those of the largest current shareholder, Peru (Baa1 negative). The continued expansion of the membership base comes on top of the $7 billion general capital increase approved in 2022, the largest in the institution's history, which will add to CAF's $9.8 billion paid-in capital.

In addition to gradually buffering CAF's capital position and increasing its lending capacity as the country pays in its pledged contributions over time, Chile is an investment-grade sovereign that will strengthen CAF's member support and buffer the WASR. Furthermore, now as a voting member of CAF, Chile will be able to contribute to organizational decisions, expand its financing access and benefit from public- and private-sector knowledge tools. The addition of Chile as a member comes at an opportune time for CAF as other major member sovereigns like Bolivia (Caa1 review for downgrade) have seen a deterioration in their credit quality because of external liquidity pressure and Argentina facing severe balance-of-payments stress.

## Rating methodology and scorecard factors: CAF - Aa3 Stable

| Factor / Subfactor | Metric | Initial score | Adjusted score | Assigned score |
|---|---|---|---|---|
| **Factor 1: Capital adequacy (50%)** | | | a3 | a3 |
| **Capital position (20%)** | | | a3 | |
| | Leverage ratio | a3 | | |
| | Trend | 0 | | |
| | Impact of profit and loss on leverage | 0 | | |
| **Development asset credit quality (10%)** | | | b | |
| | DACQ assessment | b | | |
| | Trend | 0 | | |
| **Asset performance (20%)** | | | aa3 | |
| | Non-performing assets | aaa | | |
| | Trend | -3 | | |
| | Excessive development asset growth | 0 | | |
| **Factor 2: Liquidity and funding (50%)** | | | aa2 | aa2 |
| **Liquid resources (10%)** | | | aaa | |
| | Availability of liquid resources | aaa | | |
| | Trend in coverage outflow | 0 | | |
| | Access to extraordinary liquidity | 0 | | |
| **Quality of funding (40%)** | | | aa | |
| **Preliminary intrinsic financial strength** | | | | a1 |
| **Other adjustments** | | | | 0 |
| **Operating environment** | | 0 | | |
| **Quality of management** | | 0 | | |
| **Adjusted intrinsic financial strength** | | | | a1 |
| **Factor 3: Strength of member support (+3,+2,+1,0)** | | | Low | Medium |
| **Ability to support (50%)** | | | b2 | |
| | Weighted average shareholder rating | b2 | | |
| **Willingness to support (50%)** | | | | |
| | Contractual support (25%) | caa3 | caa3 | |
| | Strong enforcement mechanism | 0 | | |
| | Payment enhancements | 0 | | |
| | Non-contractual support (25%) | | Very High | |
| **Scorecard-Indicated Outcome Range** | | | | Aa2-A1 |
| **Rating Assigned** | | | | Aa3 |

**Note:** Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

## Related websites and information sources

» Moody's Supranational webpage

» Moody's Sovereign and supranational rating list

» Corporacion Andina de Fomento webpage



## Endnotes

1 Unpaid subscribed capital is capital that has been subscribed and will be paid in future years.

2 As with most MDBs, CAF has a share of its capital that is callable — an unconditional and full-faith obligation of each member country to provide additional capital for the sole purpose of servicing debt, the fulfillment of which is independent of the action of other shareholders.

3 Sovereign loans include those granted to national, regional, or local governments or decentralised institutions and other loans fully guaranteed by national governments.

4 Nonsovereign loans include those granted to corporate and financial sectors, among others, which are not guaranteed by national governments (for both public and private sectors).

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