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Ratings

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Corporacion Andina de Fomento (CAF)

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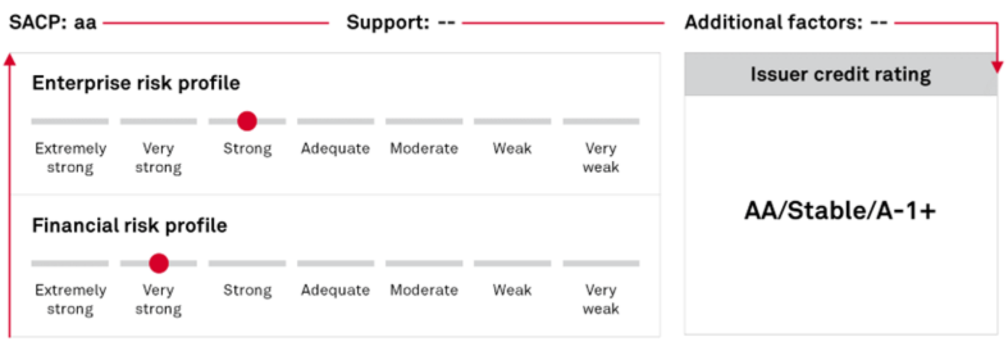
This report does not constitute a rating action.

Ratings Score Snapshot



SACP--Stand-alone credit profile.

Overview

Enterprise risk profile	Financial risk profile
Strong shareholder commitment reflects support for CAF's expanded role in Latin America and the Caribbean.	Robust liquidity and funding profile.
--Extensive track record of shareholder support, including the most recent $7 billion capital increase.	--Capital payments will contribute to resiliency in CAF's capital position despite vulnerabilities in the region.
--Strong preferred creditor treatment, despite nonaccrual status from Venezuela that started in December 2024, following the conclusion of the mechanism for loan payments with capital.	--Strong liquidity buffers.
--Risk management practices partly offset governance constraints due to the absence of a set of nonborrowing member countries.	--Diversified access to the global capital markets, including the issuance of benchmark bonds.

Corporacion Andina de Fomento (CAF)'s balance-sheet growth from continued expansion in Latin America and the Caribbean is accompanied by general capital increases. The institution has doubled in size over the past 10 years and intends to sustain its pace of growth underpinned by strong membership support. CAF is also expanding into new markets with the incorporation of Central American countries, the recent approval of the allocation of shares for Caribbean countries, and incorporation of the Bahamas as the 22nd member country. This has been alongside the approval of various capital increases, the most recent being the 10th general capital increase approved in 2022 for $7 billion, with capital payments to be disbursed between 2023-2036, reinforcing S&P Global Ratings' view of CAF's policy relevance and important multilateral role in the region.

We view the nonaccrual event of Venezuela (which entered arrears with CAF in December 2024) as contained, with a limited impact on its enterprise risk profile and that is reflected in the capital position. In March 2020, CAF's shareholders approved a support program that allowed CAF to repurchase Venezuela's shares and apply the proceeds to the countries' debt service. Given that equity did not entirely cover the remaining loan balance, we already expected that Venezuela was likely to reach nonaccrual status by 2025 and the country reached 180-days in arrears with CAF on Dec. 30, 2024. Venezuela currently represents a small proportion of CAF's balance sheet, at 5.8% of the loan book as of September 2024 (from 14% in 2018), and we expect it will decline over time, limiting the risk to our preferred creditor treatment (PCT) assessment--that already incorporated this expected event--and the overall rating.

CAF remains a regular benchmark issuer and demonstrates robust access to the market. We view CAF's funding program as very diversified by both geography and type of investor, reflecting CAF's frequent issuances in many markets and currencies. CAF's total issuance in 2024 reached a record for the institution of almost $7 billion.

Outlook

The stable outlook reflects our expectation that over the next two years CAF will continue supporting member countries and strengthen its presence in the region following its recent membership expansion and capital increase, which will also underpin its capital adequacy. We assume that members will continue to treat CAF as a preferred creditor and that it will maintain robust shareholder support through timely capital payments and hold high levels of liquidity. We also expect that CAF will continue to prudently manage its exposure to Venezuela without increasing risk on its balance sheet, following the conclusion of its liquidity mechanism and Venezuela's current nonaccrual status with the institution.

Downside scenario

We could lower the ratings if CAF expands its balance sheet significantly beyond our expectations, leading to a weaker capital position. Signs of weakening support from shareholders through delays in capital payments or signs of weaker policy execution could also lead to a downgrade.

Upside scenario

We could raise the ratings if CAF incorporates highly rated shareholders, which could enhance its capital ratio and create more diversity in its governance structure. This assumes members would continue to treat CAF as a preferred creditor amid robust shareholder support as the institution continues to fulfil its countercyclical lending role in the region and maintains high liquidity. An upgrade would also depend on CAF prudently managing its exposure to Venezuela without increasing risk on its balance sheet.

Enterprise Risk Profile

Policy importance: Key source of financing in Latin America and the Caribbean

We expect CAF will continue to strengthen its position in Latin America and the Caribbean following its most recent capital increase and continued expanding membership. Although CAF's scope is more limited than that of larger institutions, members see CAF's value in its proximity to the region and agility in loan approval and disbursements. Additionally, a reflection of CAF's role as a key partner to its members was the institution's response as the region experienced increased credit stress exacerbated by COVID-19 ($2.5 billion emergency credit line, among other forms of support).

CAF was created in 1970 as a regional development bank serving Latin America. CAF's five original members founded the bank in 1968 by its constitutive agreement, and it has grown from a subregional Andean institution to an important infrastructure lender throughout Latin America, owned by 22 countries--of which 20 are in Latin America and the Caribbean. This underscores our view of its strong role and public policy mandate.

It is a key source of multilateral financing in the region in the form of loans, guarantees, letter and lines of credit, and equity investments. CAF's main areas of focus are infrastructure (41% of the loan book as of September 2024); transport warehousing and communications (27%); and electricity, gas, and water supply (16%). Loans to the public sector represent 96% of total loans and the remainder are to the private sector. The bank aims to gradually regain exposure to the private sector, but for it to remain below 20% of its total loan portfolio. Exposure to the private sector is mainly focused on Colombia, Peru, Panama, and Chile.

As of September 2024, CAF increased its lending book by 4.0% year on year, reaching $33.6 billion. At the same time, it has been strengthening its role in promoting green growth in the region. The institution targets ramping up approvals for green financing to 40% by 2026 from about 35% in 2024.

With the most recent increase in capital, CAF aims to focus on four areas: becoming the green bank of Latin America and the Caribbean, supporting subnational governments, promoting regional integration, and strengthening the role of the nonsovereign sector.

Although not its main role, CAF has also been supporting member countries Argentina and Ecuador through an exceptional short-term facility, acting as a bridge before countries receive funds agreed with the International Monetary Fund (IMF). Conditions for eligibility depend on a short-term established repayment source, typically from the IMF. CAF approved two loans to Argentina for $1.0 billion in July 2023 and $960 million in December 2023, both repaid two months after in special drawing rights (SDR). The latest was a $800 million loan approval with Ecuador under this framework in April 2024, which was repaid with the $1 billion disbursement to the country approved by the IMF on May 31, 2024. Although this creates marginal downward pressure and volatility on the risk-adjusted capital (RAC) ratio, we believe it is neutral for the rating so long as CAF manages these exposures prudently.

CAF began experiencing recurrent payment delays from Venezuela since 2017, which, given its high exposure at the time, weighed on our rating. While the payment delays never exceeded 180 days (until Dec. 30, 2024), we viewed this as a precursor to a protracted arrears event, which weighed on the rating.

On March 3, 2020, CAF's shareholder assembly approved a support program for liquidity management in exceptional situations, mainly focused on Venezuela's situation. This effectively allows CAF to repurchase specific member countries' shares and apply the proceeds to the countries' debt service if it shows three consecutive years of two of the following conditions:

- A decrease of more than 15% per year in GDP;
- International reserves at six months of imports; or
- Three years of inflation above 100%.

Countries under the program continue to participate in the board of directors--although to receive new loans, countries would need to acquire the shares repurchased under the program.

This has allowed CAF to begin repurchasing Venezuela's shares and use its paid-in capital to pay down its debt coming due from the sovereign. Moreover, in our view, it has delayed the risk of a nonaccrual event and limited the downside risk to CAF's PCT and the rating now that the program has concluded. However, we maintain that the share repurchasing mechanism does not reflect an improvement in payment capacity, or credit fundamentals.

Given that equity did not entirely cover the remaining loan balance, we already expected that Venezuela would enter arrears in second-half 2024, and would reach nonaccrual status by year end, since we assumed the sovereign would be unable to service its remaining debt in the short term. Our calculated arrears ratio is 6.5% considering the full exposure to Venezuela, which is $1,9 billion using the latest financial information as of June 2024. Venezuela represents a smaller proportion of CAF's balance sheet than in the past, at 5.8% of the loan book (from 14% in 2018), and we expect it will be diluted over time as CAF's portfolio continues to diversify, limiting the risk to our PCT assessment--that already incorporated this expected event--and the overall rating.

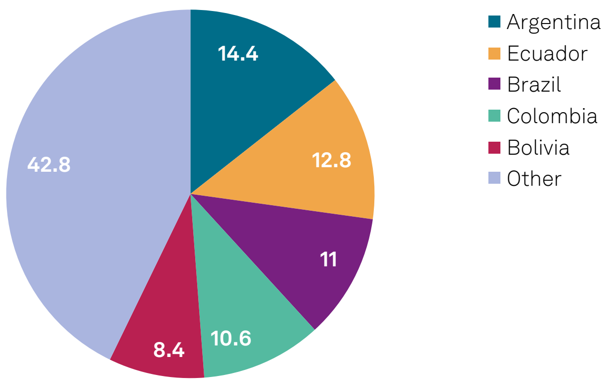
While it is a theoretical possibility, our base-case assumption is that this mechanism will not be used by other countries, and we expect PCT to be upheld by all other members. Beyond the recent arrears from Venezuela, CAF has not experienced any PCT event with any member country over the past 10 years.

The past decade has been characterized by exceptional shareholder support--evidenced by larger, more frequent general capital increases. CAF stands out among its peers in terms of the frequency of capital increases and shareholder support. The institution's 10th capital increase for $7 billion (all paid-in), approved by the board of governors in March 2022, was the largest in its history, with payments that began in 2023. During 2025, CAF is also still to receive a small amount from the ninth general capital increase approved in 2015. Furthermore, CAF will continue to benefit from expanded support from existing members and from incorporating new member countries in recent years. Chile became a full member of the institution in March 2023, and will contribute $1.5 billion of paid-in capital. Also in 2023, the Dominican Republic concluded the process to become a full member (and will contribute $310 million), and Honduras joined the institution as a full member ($460 million). The Bahamas completed the process to become an associated member in November 2024 ($50 million), bringing total shareholders to 22, and Costa Rica completed the process to become a full member. This is in addition to increased participation from other countries like Mexico in recent years.

As part of the bank's strategy to expand in the Caribbean, the board approved the allocation of shares for the Bahamas (that became a member) as well as Dominica, and Grenada in March 2024 and Antigua and Barbuda in July 2024, all of which formally expressed their interest in joining CAF. We view this as a positive development that adds to CAF's enhanced mandate in the broader region and will increase diversification.

Five largest countries for purpose-related exposures

As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings

Governance and management expertise: Absence of a set of nonborrowing members is counterbalanced by appropriate risk management practices

We view CAF's shareholder structure without nonborrowing member countries as potentially vulnerable to agency risk. In our view, CAF's governance is constrained by the absence of a set of nonborrowing member countries, which is a weakness compared with higher-rated multilateral lending institutions (MLIs) with greater shareholder diversity.

As of September 2024, three members (Peru, Colombia, and Argentina) accounted for 50% of paid-in capital, followed by Brazil and Ecuador, accounting for 10.2% and 6.3% respectively. CAF's shareholders, on average, have somewhat lower rankings in terms of World Bank indicators on governance effectiveness than other highly rated MLI peers.

Shareholders allow CAF's earnings to be retained to provide solid growth. 2023 net income was historically high, providing CAF with additional resources for its plans to expand over the next few years. In 2024, net income will also likely be high, which will help absorb the effects from the accounting of Venezuela's nonaccrual status.

We view CAF's management as robust. This reflects its record of implementing its strategy, solid risk-management policies, and its ability to withstand loss of key personnel without disrupting operations.

To strengthen its capital position, CAF has actively diversified its loan book and gradually increased its relative exposure to investment grade borrowing countries. Under its new chief risk officer (CRO) that took office in April 2023, CAF is continuing to enhance risk management practices for increased oversight of its portfolio and improvement in the quantification of different risks.

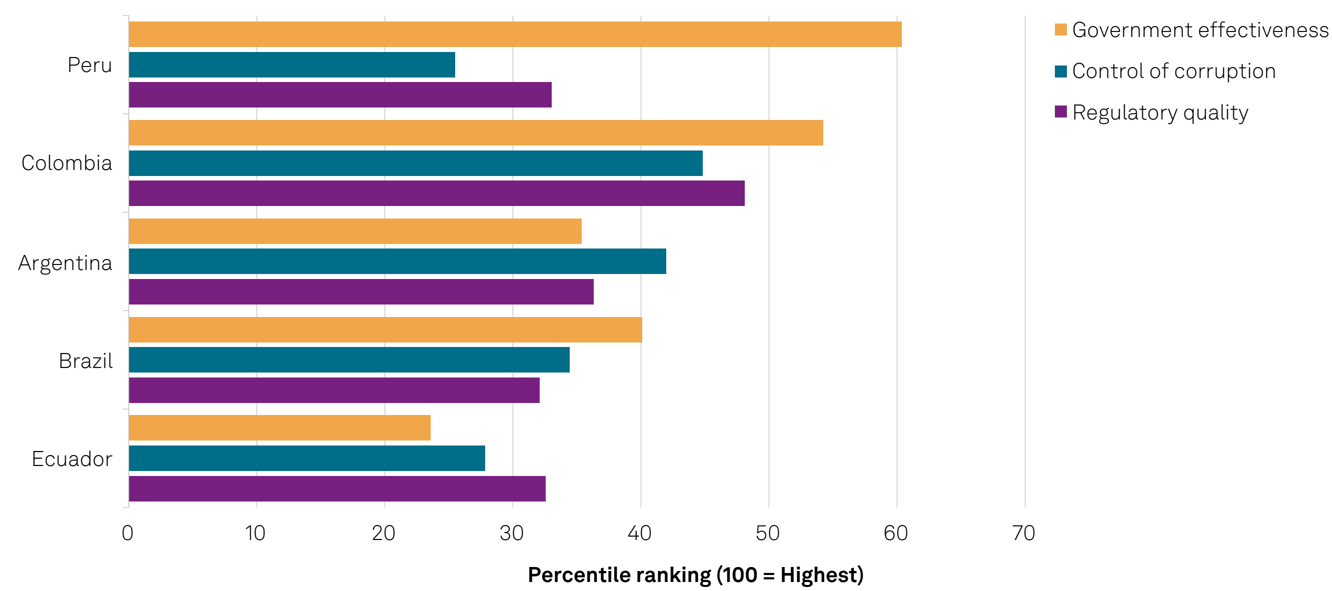
At the same time, CAF adheres to robust risk-management practices within its liquidity and derivatives portfolio. CAF's liquidity policy focuses primarily on capital preservation, while the management of liquidity and profitability are additional objectives.

We also think CAF can withstand the loss of key personnel and significant disruptions to operations given it has made important strides in recent years to decentralize its workforce, with operating systems throughout Latin America despite being headquartered in Caracas, Venezuela.

We think management has considerable expertise, experience, and a successful track record operating the entity. Sergio Diaz Granados replaced former president Luis Carranza Ugarte after he resigned from his role as president in April 2021. The term is for five years. Carranza's presidency followed Luis Enrique García's 25-year tenure (1991-2017). CAF's organizational structure has remained the same, with improvements in the bank's risk management structure and processes.

Five largest shareholders

Selected World Bank governance indicators



Source: S&P Global Ratings.

Financial Risk Profile

Capital adequacy: Continued lending expansion will be backed by additional paid-in capital

We expect CAF's administration will manage balance-sheet growth and capital prudently, especially if rating vulnerabilities emerge across the region. The RAC ratio with financial data as of June 30, 2024, and rating parameters as of Jan 3, 2025, is 19.6%. This also incorporates increased risk weights from the classification of Venezuela as currently in arrears. The improvement in the RAC versus the 17.1% ratio as of Dec. 31, 2023, is mostly explained by the decrease in exposure to Argentina (and a reduction in single-name concentration) due to a temporary bridge loan under the exceptional short-term facility disbursed in December 2023 and repaid in February 2024, with resources disbursed by the IMF under Argentina's agreement. High net income amid still elevated interest rates, and reduced exposure to Venezuela, which carries a high capital charge, also contributed to RAC levels despite CAF's loan expansion.

The bank has a high single-name concentration, which weighs on the RAC ratio given the limited number of borrowing member countries. However, we expect management will continue to diversify its portfolio and gradually increase exposure to investment-grade sovereigns. Argentina, Ecuador, and Colombia were the largest exposures--accounting for 38% as of September 2024. This is partially counterbalanced by the 25% exposure to investment-grade sovereigns.

We also continue to consider the unusual mechanism to pay down loans with equity used by Venezuela to be a constraint on our capital adequacy assessment because the reduction in the country's shares used to repay its debt was not compensated by additional capital. Venezuela will only maintain equity in the institution sufficient to remain a full member.

The most recent capital increase was a key condition to maintain the pace of lending growth to members. We expect capital payments from CAF's 10th general increase and from recent membership expansion will help offset risks as it continues to grow the lending portfolio. The compound annual growth rate in the loan portfolio was 5.7% in the past five years.

At the same time, CAF's capital is high quality. Stockholders' equity was $14.7 billion as of year-end 2023, of which $10 billion was paid-in capital, and retained earnings and reserves accounted for the remaining $4.7 billion. A large part of the 7.3% increase in stockholders' capital in 2023 compared with the previous year was explained by a record high level of net income in a context of high interest rates. Net income reached $810 million in 2023, versus $210 million on average during 2019-2022. Equity reached $15.8 billion by September 2024, with net income reaching $628 million during that period.

On its private-sector exposure, CAF has historically maintained low to nonexistent nonperforming loans (NPLs), standing at 0.15% of total loans in 2023 and 0.28% on average during the past five years.

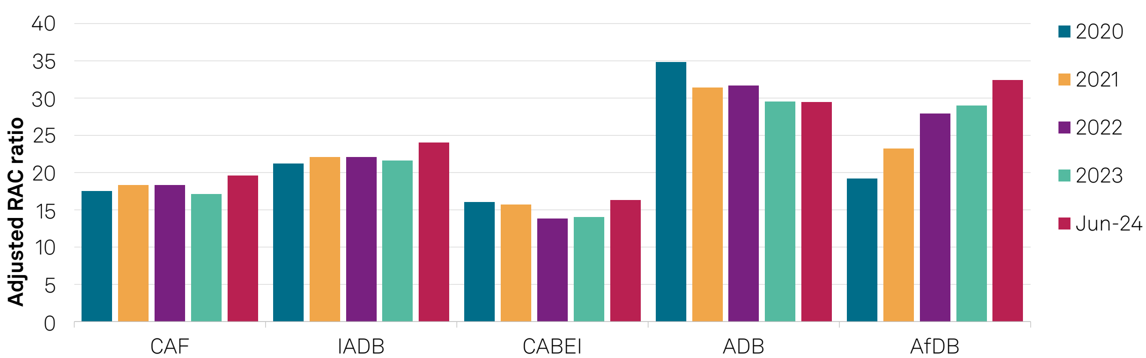
Corporación Andina de Fomento (CAF)--Risk-adjusted capital framework data: June 2024

Mil. US$	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	40,810	60,166	147
Institutions	18,340	5,114	28
Corporate	1,477	1,681	114
Retail	24	72	297
Securitization	371	74	20
Other assets	197	420	213

Total credit risk	61,220	67,527	110
Market risk			
Equity in the banking book	281	1,436	511
Trading book market risk	-	2,910	-
Total market risk	-	4,346	-
Operational risk			
Total operational risk	-	2,180	-
Risk transfer mechanisms			
Risk transfer mechanisms RWA	0	0	0
RWA before MLI Adjustments		74,053	100
MLI adjustments			
Single name (on corporate exposures)		262	16
Sector (on corporate portfolio)		(11)	(1)
Geographic		(6,912)	(10)
Preferred creditor treatment (on sovereign exposures)		(28,917)	(48)
Preferential treatment (on FI and corporate exposures)		(527)	(8)
Single name (on sovereign exposures)		38,637	64
Total MLI adjustments		2,534	3
RWA after MLI adjustments		76,587	103
		Total adjusted capital	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments		14,978.7	20.2
Capital ratio after adjustments		14,978.7	19.6

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. RAC--Risk adjusted capital.

Risk-adjusted capital ratio peer comparison



Source: S&P Global Ratings.

Funding: Strong access to diversified capital markets

CAF's funding program remains diverse in terms of investor base, currency, and maturity, and it has regularly issued benchmark bonds. CAF's funding consists of 77% bonds, 11% commercial paper, 7% term deposits, and 6% long-term loans. As of September 2024, CAF had $29.9 billion in outstanding bonds in 22 different currencies, with U.S. dollars and euros accounting for roughly 32% each. The bank also has diverse loans from multilaterals and export credit agencies, like the French Development Agency (AFD), Official Credit Institute (ICO), and Japan Bank for International Cooperation (JBIC), and most of it is denominated in U.S. dollars or euros.

CAF has been diversifying its funding and issuing benchmark bonds, demonstrating robust access to the global markets. In January 2025, CAF issued the largest bond in its history, for $2.0 billion. This follows previous benchmark records for the institution in 2024. In January 2024, CAF issued $1.75 billion. In February 2024, it issued a Euro denominated bond for €1.5 billion, and one Australian dollar bond for A$500 million, the largest transaction for a Latin American entity in the Australian market. In April and September 2024, CAF issued a British pound bond of £1 billion and a $1.0 billion bond, respectively. Total market issuance in 2024 reached almost $7 billion, which represented a record for the institution.

Issuances in local currencies, all hedged, contribute to local market development in different countries through increased options and sources of diversification.

CAF has a conservative funding profile. Cumulative assets consistently exceed cumulative debt for maturities up to one year and there is no significant gap for five years. We estimate that CAF can cover its scheduled short-term debt liabilities without recourse to new issuance. Its static funding gap (without loan disbursements) was 2.3x at the one-year horizon, as of June 2024, which compares with 1.6x at year-end 2023.

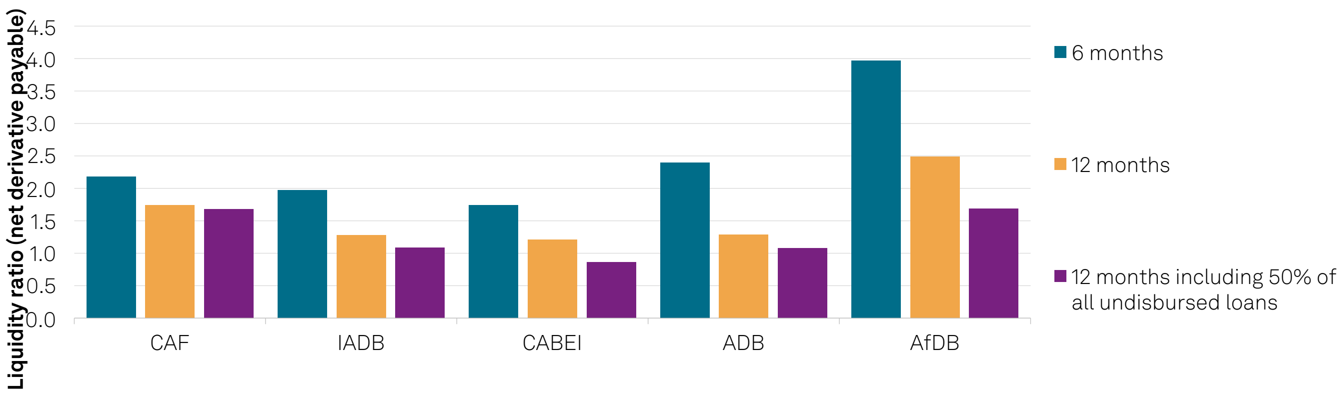
Liquidity: Robust liquidity buffers

We expect CAF’s liquidity can accommodate unplanned disbursements. Our liquidity ratios--which support CAF's extremely strong financial risk profile--indicate that it would be able to fulfill its mandate as planned for at least one year, even under stressed market conditions, without access to the capital markets.

S&P Global Ratings’ calculated 12-month liquidity ratio, including loan disbursements, was 1.7 x as of June 2024, which compares with 1.4x as of December 2023. The six-month ratio was 2.2x as of June 2024 (1.7x as of December 2023). CAF has maintained higher liquidity compared with our additional stress test that considers 50% of all undisbursed loans coming due in the next 12 months.

CAF’s liquidity has been consistently robust. Liquid assets have remained substantial over the past 10 years and accounted for 36% of total assets as of June 2024 (32.5% on average over 2014-2023). The bank's ratio of liquid assets (including cash, due from banks, deposits, and investment securities less restricted currencies, without any haircuts) to gross debt was 51.8% as of year-end 2023.

Liquidity stress test ratios peer comparison



Source: S&P Global Ratings.

Extraordinary Shareholder Support

CAF's stand-alone credit profile is higher than the ratings on all its shareholders, and therefore it currently has no eligible callable capital.

Corporación Andina de Fomento--Selected indicators

	2023	2022	2021	2020	2019
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. USD)*	33,779	30,975	30,005	28,547	27,024
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	94.5	94.6	91.9	89.9	83.3
Private-sector loans/purpose-related exposures (%)	4.1	3.8	6.3	8.2	14.4
Gross loan growth (%)	9.3	3.4	5.2	6.0	5.6
Preferred creditor treatment ratio (%)	1.8	2.2	2.8	3.4	4.3
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100.0	100.0	100.0	100.0	100.0
Concentration of top two shareholders (%)	31.2	31.2	34.0	36.0	35.0
Eligible callable capital (mil. USD)	0	0	0	0	0
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	17.9	18.3	18.3	17.7	14.7

Corporación Andina de Fomento--Selected indicators

	2023	2022	2021	2020	2019
ENTERPRISE PROFILE					
Policy importance					
Net interest income/average net loans (%)	3.5	1.5	1.1	1.8	2.6
Net income/average shareholders' equity (%)	5.7	1.3	0.8	1.9	2.6
Impaired loans and advances/total loans (%)	0.2	0.4	0.4	0.2	0.3
Liquidity ratios					
Liquid assets/adjusted total assets (%)	30.3	30.5	33.9	31.4	32.8
Liquid assets/gross debt (%)	51.8	55.1	55.9	52.3	54.5
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	1.7	1.5	1.4	2.0	2.5
12 months (net derivate payables) (x)	1.4	1.2	1.3	1.5	1.5
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.2	1.1	1.2	1.4	1.4
Funding ratios					
Gross debt/adjusted total assets (%)	58.5	55.5	60.6	60.1	60.2
Short-term debt (by remaining maturity)/gross debt (%)	26.8	34.3	24.0	17.7	20.5
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	1.6	1.3	1.8	2.1	2.3
Summary balance sheet					
Total assets (mil. USD)	53,814	50,377	47,592	46,846	42,294
Total liabilities (mil. USD)	39,085	36,657	34,293	33,851	29,497
Shareholders' equity (mil. USD)	14,730	13,719	13,300	12,995	12,797

* Not including committed disbursements. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available.

CAF--Peer Comparison

	CAF	AfDB	CABEI	IADB	ADB
Issuer credit ratings	AA/Stable/A-1+	AAA/Stable/A-1+	AA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Total purpose-related exposure (mil. USD)*	33,779	34,202	10,836	116,969	153,744
Preferred creditor treatment ratio (%)*	1.8	1.7	0.0	1.8	0.3
Risk adjusted capital ratio (%)	20.0	32.4	16.3	24.0	29.5

CAF--Peer Comparison

	CAF	AfDB	CABEI	IADB	ADB
Liquidity ratio 12 months (net derivative payables; %)	2.0	2.5	1.2	1.3	1.3
Funding gap 12 months (net derivative payables; %)	2.3	2.1	1.5	1.2	1.1

Source: S&P Global Ratings. *As of December 2023, the remaining data is as of June 2024.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- ARCHIVE | Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Supranationals Special Edition 2024, Oct. 31, 2024
- Corporacion Andina de Fomento, July 19, 2024
- Corporacion Andina de Fomento 'AA/A-1+' Ratings Affirmed; Outlook Stable, May 28, 2024

Ratings Detail (as of January 24, 2025)*		
Corporacion Andina de Fomento		
Issuer Credit Rating		
Foreign Currency		AA/Stable/A-1+
Commercial Paper		
Foreign Currency		A-1+
Issuer Credit Ratings History		
23-May-2023	*Foreign Currency*	AA/Stable/A-1+
16-Jun-2022		AA-/Positive/A-1+
14-Jun-2021		A+/Positive/A-1
16-Jun-2020		A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.