S&P Global Ratings

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Corporacion Andina de Fomento

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Corporacion Andina de Fomento

Stand-alone credit profile	a+	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak

Issuer credit rating

A+/Stable/A-1

Issuer Credit Rating

Foreign Currency

A+/Stable/A-1

Outlook

The stable outlook reflects our expectation that over the next two years Corporacion Andina de Fomento's (CAF) shareholders will continue to support and make timely capital payments, which will stabilize its capital position in light of increased lending in response to COVID-19. We also expect CAF will maintain high levels of liquidity and members will continue to treat CAF as a preferred creditor.

We could raise the ratings within the next 24 months if CAF sustainably improves its capital position to more than offset risks in its portfolio.

If, contrary to our expectations, any of CAF's shareholders fail to treat the bank as preferred or if we believe shareholder support for member countries has weakened, this could lead to a downgrade.

Rationale

In our view, CAF is a key partner to its borrowing members, having built a track record of fulfilling its public policy mandate through credit cycles and more recently, supporting the region as it weathers the economic fallout from COVID-19. The institution's strong enterprise risk profile demonstrates unparalleled support from shareholders--approving its 10th capital increase in 2015, totaling $4.5 billion. On the other hand, the recurrent payment delays from a key borrowing member, Venezuela, weighed on CAF's preferred creditor treatment (PCT) assessment. In March 2020, CAF implemented a mechanism that allows CAF to repurchase Venezuela's shares to pay down the debt coming due from the sovereign, which we believe removes the near-term risk of a protracted nonaccrual and stabilizes its enterprise risk profile. Consequently, we revised CAF's outlook to stable from negative.

CAF's very strong liquidity position and robust funding underpin our assessment of its financial risk profile. Its risk-adjusted capital (RAC) ratio as of December 2019, with rating parameters as of July 2020, is 14.7%. This already reflects the significant credit stresses experienced in the region--with two key members, Argentina and Ecuador, entering selective default, although we continue to assume they will uphold PCT with CAF. The capital adequacy assessment captures Venezuela's share repurchase to pay down its debt as a constraint since it was not compensated by additional capital.

Environmental, Social, And Governance

CAF's lending concentration in Argentina, Ecuador, Colombia, Bolivia, and Venezuela creates environmental risks because natural disaster risks can damage buildings and infrastructure. Social and governance risks tend to be higher because some areas lack adequate access to basic needs such as housing, education, and health, exacerbated by political and institutional dynamics. Over half of CAF's portfolio (51.2%) is in productive infrastructure--energy, transport, and telecommunications--which can be high-risk sectors.

Environmental sustainability and water sanitation form a key pillar of CAF's lending strategy. This implicitly addresses and manages environmental risks. In fact, 21% of 2019 approvals were for green projects. As a development bank, CAF finances key social sectors, including education, equity and social inclusion projects, and gender development projects. It also supports institutional strengthening and capacity building in its member countries.

Underpinning its lending activities are robust environmental and social safeguards that include minimum technical benchmarks to ensure sustainable and socially responsible environmental management. CAF has recently increased its environmental and climate commitments through various accreditations and green frameworks.

The bank's governance and management assessment has a neutral impact on the ratings. It is predominantly owned by borrowing member countries that generally have lower scores, based on the World Bank's governance effectiveness indicators. This may result in agency risk, which we capture in the bank's governance score; although we consider that it is largely counterbalanced by the highly skilled management team and generally conservative financial policies.

Enterprise Risk Profile: Strong Shareholder Support Combined With Robust Policy Importance

- CAF has been fulfilling its public policy mandate through credit cycles. We expect the institution to be a key partner as its members weather the health and economic effects of COVID-19.

- The bank has continued to receive larger and more frequent general capital increases that underscore the importance of the institution to the region.
- In March 2020, CAF introduced a mechanism to support Venezuela's debt service payments using its paid-in capital, which removed the near-term risk of a protracted nonaccrual event and stabilized its enterprise risk.

Policy importance

CAF was created in 1970 as a regional development bank serving Latin America. 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 focuses on infrastructure and energy sectors (combined equivalent to 47% of the total portfolio), with 85% of its loans to the public sector and the remaining to the private sector. The bank aims to limit its exposure to the private sector to below 20% of its total loan portfolio.

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 19 countries--of which 17 are in Latin America and the Caribbean. This underscores our view of its strong role and public policy mandate.

CAF began experiencing recurrent payment delays from Venezuela since 2017 resulting from the complex and deteriorating economy and politics in the country. While the payment delays never exceeded 180 days, we viewed this as a precursor to a protracted arrears event, which weighed on the rating and informed the negative outlook.

On March 3, 2020, CAF's shareholders assembly approved a support program for liquidity management in exceptional situations. This effectively allows CAF to repurchase specific member countries' shares and apply the proceeds to the countrries' 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 and, in our view, removes the risk of a nonaccrual event and limits the downside risk to its PCT and the rating over our two-year rating horizon. We therefore revised the outlook on CAF to stable from negative. That said, we maintain that the share repurchasing mechanism does not reflect an improvement in payment capacity, or credit fundamentals, reflected by our calculated PCT ratio of 4.3%. With exposure of $3.5 billion as of March 2020, this program will only cover the sovereign's debt service until 2024, though we may positively adjust our view of the country's PCT if there is evidence that Venezuela can begin repurchasing its shares or repays the remaining balance after this program expires.

The past 10 years have been characterized by exceptional shareholder support--evidenced by larger, more frequent general capital increases. In 2015, the board of directors approved the largest general capital increase in its history, equivalent to US$4.5 billion (or $4.2 billion excluding Venezuela capital payments). Shareholders continue to pay on time and in full--except for Venezuela.

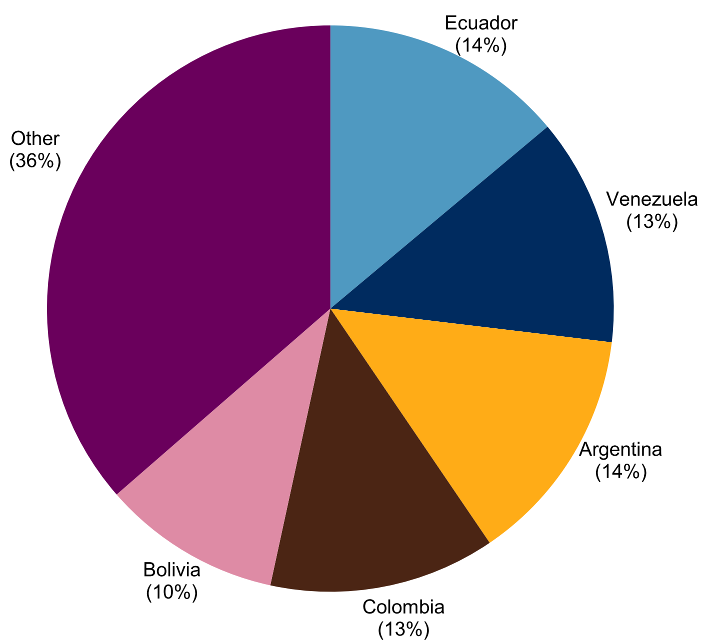
In 2019, paid-in capital contributions totaled $610 million and an additional $600 million is expected to be paid in during 2020. This is in addition to the capital from members that are increasing their participation. Costa Rica is expected to join as a full member in 2020 and the Dominican Republic is expected to join as a full member in 2022, with their corresponding capital contributions. We also expect other non-regional countries to incorporate as CAF members within the next 24 months.

CAF is a key partner to its members, particularly as the region experiences increased credit stress exacerbated by COVID-19. While CAF's lending portfolio grew 5% in 2019 to $26.7 billion, it is likely that growth will double in 2020 given its important relief package. CAF allocated $2.5 billion toward an emergency credit line for rapid disbursements to mitigate the effects of COVID-19. Earlier in March, the board announced a contingent credit line of up to $300 million to shareholders to provide direct attention to public health systems. This reinforces our view of its important role and policy importance, sustained by exceptional shareholder support.

Chart 1

CAF--Five Largest Countries Purpose-Related Exposures

As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise

We view CAF's shareholder structure without nonborrowing member countries as potentially vulnerable to agency risk, meaning the interests of borrowing members could differ from those of creditors. CAF has indicated it could expand its membership to countries outside of Latin America and the Caribbean.

Three members (Peru, Venezuela, and Colombia) account for 49% of total shares, followed by Argentina and Brazil, accounting for 10% and 8.4% respectively. CAF's shareholders, on average, have somewhat lower rankings in terms of World Bank indicators on governance effectiveness compared with other highly rated multilateral lending institution (MLI) peers.

Shareholders allow CAF's earnings to be retained to provide solid growth.

We view CAF's management as robust given its strategic implementation track record, solid risk-management policies, and its ability to withstand loss of key personnel without disruptions to operations.

CAF has actively diversified its loan book and increased its relative exposure to investment grade borrowing countries--representing 38% of the total portfolio as of 2019, versus 34% in 2015.

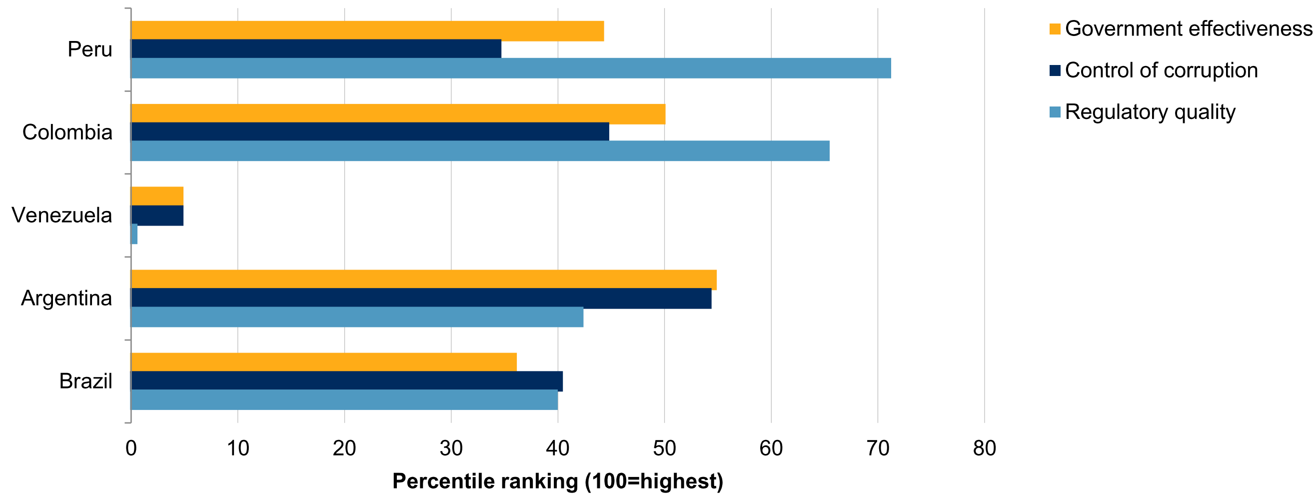
At the same time, CAF adheres to robust risk-management practices within its liquidity and derivatives portfolio. CAF's liquidity policy focuses primarily on capital preservation, while the management of liquidity and profitability are additional objectives.

We also believe CAF has the ability to withstand loss of key personnel and significant disruptions to operations as it has made important strides over the past few years to decentralize its workforce throughout Latin America. CAF's headquarters are in Caracas, Venezuela, although it has a total of 13 offices, including three regional offices. Approximately 50% of CAF personnel reside outside of the Caracas-based headquarters which helps offset the operational risks and potential disruptions.

We believe management has considerable expertise, experience, and a successful track record operating the entity. Enrique Garcia ended his 25-year mandate as president of CAF at the end of March 2017 and was replaced by the former minister of economy in Peru, Luis Carranza Ugarte. Despite this important change, we have not seen any significant changes in the management or the overall bank strategy.

Chart 2

CAF--Five Largest Shareholders
Selected World Bank Governance indicators



Source: S&P Global Ratings.

Financial Risk Profile: High Levels Of Liquidity And Strong Access To Funding

- CAF has maintained high liquidity buffers, and we view its funding as robust.
- Higher credit stress in the region, combined with the downsizing of Venezuela's capital to support debt-servicing, weighs on CAF's capital adequacy assessment.

Capital adequacy

CAF's risk-adjusted capital (RAC) ratio was 14.7% as of December 2019, with rating parameters as of July 2020, down from 16.2% as of June 2019. This already reflects the significant credit stresses experienced in the region--with two key members, Argentina and Ecuador, entering selective default. Although we continue to assume they will uphold PCT with CAF.

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. Ecuador, Venezuela, and Argentina were the largest exposures--accounting for 42% as of December 2019, slightly lower than the 43% as of December 2018. Although this is balanced by 38% of exposure to investment-grade sovereigns.

We expect capital payments from its 10th general increase will help offset risks as CAF increases its lending to address the economic and health effects of COVID-19. Lending is expected to grow by 10% in 2020, compared with 5% in 2019--although CAF's capital base could strengthen as members increase their participation, which could translate into an improvement of its RAC ratio.

While risk of a nonaccrual event from Venezuela has been removed, the clearing of arrears does not reflect an improvement in payment capacity or credit fundamentals compared with before the arrears started accumulating. This is the first time a large founding sovereign member is using its capital to offset its loan exposure. The loans coming due are cleared with a downsizing of capital from Venezuela and are not otherwise compensated. This marks a special event beyond our assumptions in the risk-adjusted capital model, and we have therefore incorporated it as a constraint in our capital assessment for CAF.

CAF's capital is high quality. Stockholders' equity reached $12.8 billion as of year-end 2019, of which $9.4 billion was paid-in capital, and retained earnings and reserves accounted for the remaining $3.4 billion.

On its private-sector exposure, CAF has historically maintained low to nonexistent nonperforming loans (NPLs). But, in light of economic pressures in the region, we expect NPLs to increase, which can weigh on earnings in 2020--although we believe this will be consistent with trends we are seeing in the asset class.

Table 1

CAF Risk-Adjusted Capital Framework As Of Dec. 31, 2019

(Mil. $)	Exposure	S&P Global Rating's RWA	Average S&P Global Rating's RW (%)
Credit risk			
Government and central banks	29,316,756	64,031,875	218
Institutions	13,918,895	5,750,458	41
Corporate	2,293,880	2,527,024	110
Retail	11,373	33,292	293
Securitization	343,745	859,362	250
Other assets	-	-	-
Total credit risk	45,884,649	73,202,011	160
Credit valuation ajustement			
Total credit valuation adjustment	--	--	--
Market risk			
Equity in the banking Book	364,909	2,480,107	680
Trading book market risk	--	2,701,781	--
Total market risk	364,909	5,181,889	--
Operational risk			
Total operational risk	--	5,042,589	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA	--	--	--
RWA before MLI adjustments		83,426,489	100
MLI adjustments			
Single name (on corporate exposures)		1,499,863	59
Sector (On Corporate Portfolio)		(101,717)	-3
Geographic		(8,263,291)	-11
Preferred creditor treatment (on sovereign exposures)		(24,700,589)	-39

Table 1

CAF Risk-Adjusted Capital Framework As Of Dec. 31, 2019 (cont.)

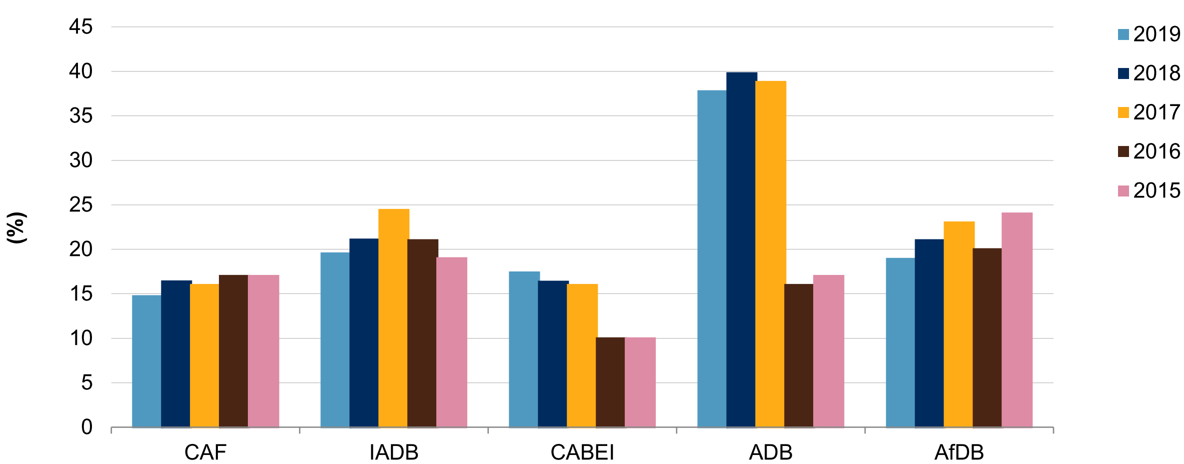
(Mil. $)	Exposure	S&P Global Rating's RWA	Average S&P Global Rating's RW (%)
Preferential treatment (On FI and corporate exposures)		(717,492)	-9
Single name (on sovereign exposures)		35,156,973	55
Total MLI adjustments		2,873,746	3
RWA after diversification		86,300,234	103

	Adjusted common equity	S&P Global Rating's RAC Ratio (%)
Capital ratio before adjustments	12,697,744	15.2
Capital ratio after adjustments	12,697,744	14.7

MLI -- Multilateral Lending Institutions RW -- Risk Weight RWA -- Risk-Weighted Assets.

Chart 3

CAF--Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

Funding and liquidity

Funding. 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 80% bonds, 10% term deposits, 5% commercial paper, and 6% long-term loans. As of March 2020, CAF had $23.3 billion in outstanding bonds in 14 different currencies, with U.S. dollars and euros accounting for roughly 37% each. The bank also has diverse loans from multilaterals and export credit agencies, such as the French Development Agency (AFD), Caribbean Development Bank (CDB), Official Credit Institute (ICO), and Japan Bank for International Cooperation (JBIC), and most of it is denominated in U.S. dollars or euros.

CAF recently issued two benchmark bonds in May 2020. The first was under the U.S. Shelf Programme for US$800 million and the second was a €700 million bond--its inaugural social responsibility bond focused on managing the COVID-19 outbreak. In 2018, CAF created its Green Bond Program, in which it has issued approximately $950 million in bonds.

CAF has conservative funding, with cumulative assets consistently exceeding cumulative debt for maturities up to one year and no significant gap for five years. We estimate that CAF is structurally able to cover its scheduled short-term debt liabilities without recourse to new issuance. Its static funding gap (without loan disbursements) improved substantially to 2.3x at the one-year horizon as of December 2019.

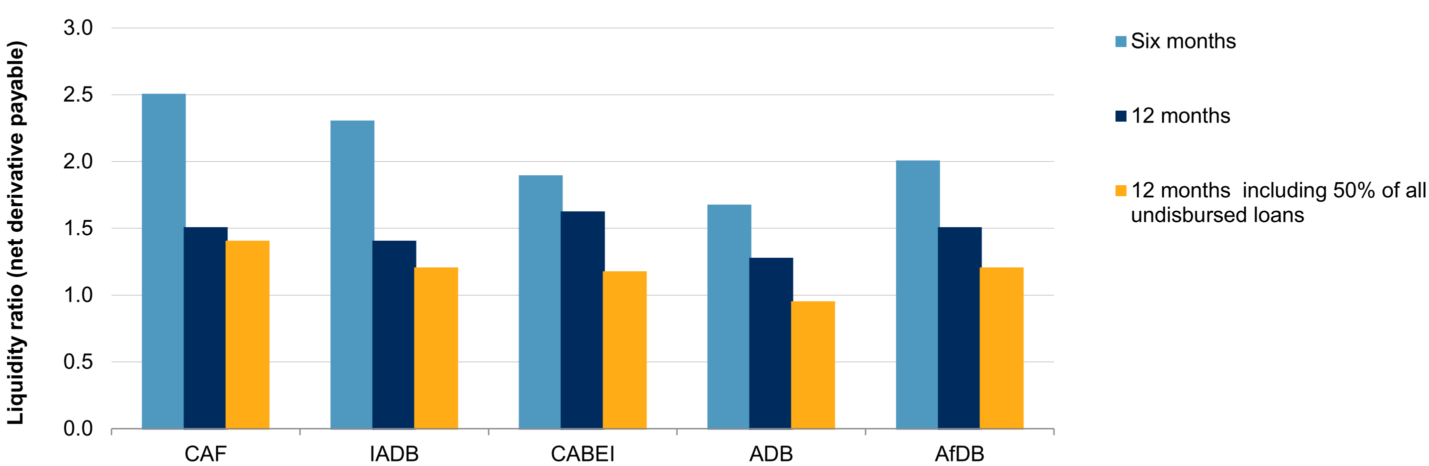
Liquidity. CAF liquidity's has been consistently improving since 2013. Liquid assets have remained substantial over the past five years and accounted for 33% of total assets as of December 2019. The bank's ratio of liquid assets (including cash, due from banks, deposits, and investment securities less restricted currencies, without any haircuts) to gross debt was 54.5% as of year-end 2019.

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. For year-end 2019, our 12-month liquidity ratio was 1.5x with scheduled disbursements, while the six-month ratio was 2.5x.

We estimate that CAF would not need to slow down disbursements under a stress scenario, which takes into account 50% of all undisbursed loans coming due in the next 12 months.

Chart 4

CAF--Liquidity Stress Test Ratios Peer Comparison



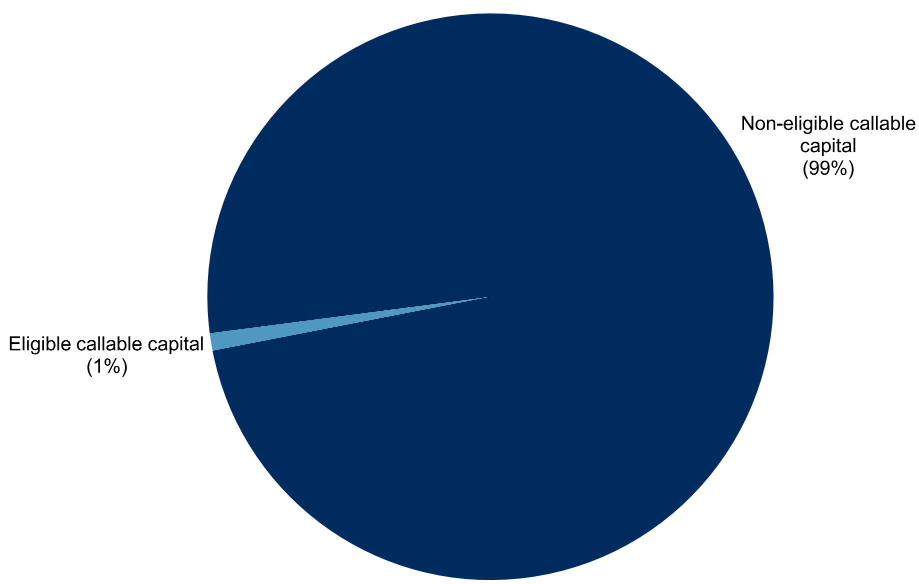
Source: S&P Global Ratings.

Extraordinary Shareholder Support

We factor extraordinary support in the form of callable capital from Chile (long-term foreign currency rating 'A+'), although it is insufficient to provide additional uplift to our RAC ratio. CAF has a total of $1.6 billion in callable capital, but our measure of eligible callable capital includes sovereigns rated at least equal to an MLI's stand-alone credit profile. For CAF, this would include shareholders rated 'A+' or above, for a total amount of $4 million.

Chart 5

CAF--Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

CAF Selected Indicators					
	2019	2018	2017	2016	2015
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.)	27,023.9	25,634.7	24,144.0	22,464.9	20,930.7
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	83.7	84.4	83.9	83.9	81.0
Private-sector loans/purpose-related exposures (%)	14.5	13.8	14.3	14.3	17.4
Gross loan growth (%)	5.6	6.3	7.5	7.6	6.7
PCT ratio	4.3	4.4	4.1	N/A	N/A

Table 2

CAF Selected Indicators (cont.)

	2019	2018	2017	2016	2015
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 (%)	35.0	35.1	36.0	36.0	36.0
Eligible callable capital	4.0	4.0	4.0	4.0	4.0
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio	14.7	16.4	16.0	17.0	17.0
Net interest income/average net loans (%)	2.6	2.0	1.7	1.6	1.4
Net income/average shareholders' equity (%)	2.6	2.0	0.7	1.2	0.9
Impaired loans and advances/total loans (%)	0.3	0.5	0.6	0.6	-
Funding and liquidity					
Liquidity ratios					
Liquid assets/adjusted total assets (%)	32.8	32.6	33.4	33.6	33.2
Liquid assets/gross debt (%)	54.5	55.4	55.5	58.0	56.5
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables)	2.5	1.8	1.8	1.7	1.4
12 months (net derivate payables)	1.5	1.7	1.4	1.3	1.1
12 months (net derivate payables) including 50% of all undisbursed loans	1.4	1.6	1.4	1.3	1.1
Funding ratios					
Gross debt/adjusted total assets (%)	60.2	58.8	60.1	58.0	58.8
Short-term debt (by remaining maturity)/gross debt (%)	20.5	13.2	20.0	20.8	24.3
Static funding gap (with planned disbursements)					
12 months (net derivate payables)	2.3	2.6	2.2	2.0	1.8
SUMMARY BALANCE SHEET					
Total assets	42,293.6	40,014.3	38,111.6	35,669.0	32,469.7
Total liabilities	29,496.9	28,150.9	26,989.8	25,195.3	22,945.6
Shareholders' equity	12,796.7	11,863.4	11,121.7	10,473.6	9,524.1

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital.

Table 3

CAF Peer Comparison

	CAF	AfDB	CABEI	IADB	ADB
Total purpose-related exposure	27,024	31,384	7,801	97,221	121,417
PCT	4.3	1.7	0.0	2.2	0.1
RAC	14.7	18.9	17.4	19.5	37.7
Liquidity ratio 12 months (net derivate payables)	1.5	1.5	1.6	1.4	1.3
Funding gap 12 months (net derivate payables)	2.3	1.4	1.9	1.3	1.2

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital.

Ratings Score Snapshot

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 | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 17, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 17, 2019

Ratings Detail (As Of August 31, 2020)*		
Corporacion Andina de Fomento		
Issuer Credit Rating		
Foreign Currency		A+/Stable/A-1
Commercial Paper		
Foreign Currency		A-1
Senior Unsecured *CaVal (Mexico) National Scale*		mxAAA
Senior Unsecured		A+
Issuer Credit Ratings History		
16-Jun-2020	*Foreign Currency*	A+/Stable/A-1
21-Feb-2019		A+/Negative/A-1
12-Jun-2018		AA-/Negative/A-1+
30-Jun-2017		AA-/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.