

Rating Action: Moody's affirms Corporacion Andina de Fomento's Aa3 rating; maintains stable outlook

20 Apr 2021

New York, April 20, 2021 -- Moody's Investors Service, ("Moody's") has today affirmed the long-term issuer rating and senior unsecured debt rating of Corporacion Andina de Fomento (CAF) at Aa3. The foreign-currency senior unsecured MTN program rating and the senior unsecured shelf rating have been affirmed at (P)Aa3. Other short-term rating, the commercial paper and backed commercial paper ratings have been affirmed at Prime-1 (P-1), while the foreign-currency short-term program rating has been affirmed at (P)P-1. The outlook remains stable.

The decision to affirm the rating reflects the following key factors:

- 1) CAF's intrinsic financial strength remains robust with solid asset quality, robust capital buffers and liquidity, despite continued challenges from high credit risk on its loan exposures.
- 2) Exposure to Venezuela continues to be managed using an unconventional mechanism that reduces Venezuela's shareholding and outstanding loans.

The stable outlook reflects Moody's expectation that CAF's capitalization and liquidity levels will remain consistent with its Aa3 rating, as CAF continues to expand its operations, balancing loan growth with adequate liquidity and capitalization buffers. The stable outlook also reflects Moody's expectation that the institution will be able to successfully manage operating and credit risks from its exposure to Venezuela within the context of the reduction in exposure to Venezuela via its declining borrowings and shareholding vis-a-vis CAF.

RATINGS RATIONALE

RATIONALE FOR AFFIRMING THE Aa3 RATING

FIRST DRIVER: CAF'S INTRINSIC FINANCIAL STRENGTH REMAINS ROBUST WITH SOLID ASSET QUALITY, ROBUST CAPITAL BUFFERS AND LIQUIDITY, DESPITE CONTINUED CHALLENGES FROM HIGH CREDIT RISK ON ITS LOAN EXPOSURES

CAF's robust intrinsic financial strength continues to reflect strong asset performance and high levels of paid in capital that underpin solid capital adequacy. Strong liquidity coverage and ample access to capital markets support Moody's assessment of CAF's robust liquidity and funding performance.

CAF's capital position has remained relatively steady over the past five years, reflecting sustained lending activity that has grown at a compound annual rate of 5.0% in 2016-20. CAF's leverage has been stable and has improved modestly over the past five years, standing at 219.7% at the end of 2020, broadly stable from 218% in 2015 and comparable to the Aa-rated median. Additional capital will be provided by incoming shareholders Costa Rica and Mexico and CAF's continuing profitability also adds to reserves and useable equity. Overall net income decreased to \$239.9 million in 2020, down from \$325.6 million in 2019. The decrease was largely driven by a much lower interest rate environment and its negative impact on net interest income, as well as some base effects.

One of CAF's key credit strengths has been its good asset performance despite lending to lowly-rated sovereigns. In 2020, non-performing loans (NPLs) decreased to 0.2% from 0.3% in 2019, reflecting no new NPLs combined with continued growth in CAF's lending portfolio. Deteriorating credit quality in 2021-22, as a result of a lagged pass-through from the coronavirus shock within CAF's operating region, could push non-performing assets (NPAs) higher, but Moody's expects they will remain contained. This expectation rests on Moody's assumption that even if more of CAF's borrowers face a challenging environment, they will continue to repay CAF, as they have continuously done in previous crisis situations.

Secondly CAF's liquidity cushion is an important credit support. Although its liquidity policy requires CAF to maintain sufficient liquid assets to cover at least 12 months of net cash requirements, in practice, the institution holds 24 months of net cash requirements and has done so consistently since at least 2014. The strong

liquidity buffer is confirmed in Moody's own metrics, which sizes its high-quality liquid assets relative to its net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs. The Bank holds enough liquid assets to sustain operations for more than 18 months.

CAF's credit profile continues to be constrained by low borrower quality (which, by design, is consistent with the institution's mandate) including its exposure to Venezuela, and a relatively high level of portfolio concentration. Borrower quality, as measured by the weighted average borrower rating, is low at caa2. This is because the majority (69%) of outstanding loans were to non-investment grade countries in 2020, and has remained relatively steady over the last five years, despite great strides in diversifying country exposure within the lending portfolio.

SECOND DRIVER: EXPOSURE TO VENEZUELA CONTINUES TO BE MANAGED USING AN UNCONVENTIONAL MECHANISM THAT REDUCES VENEZUELA'S SHAREHOLDING AND OUTSTANDING LOANS

CAF's loan exposure to Venezuela (senior unsecured C stable) represented 11.4% of the total lending portfolio, the third largest behind Ecuador (Caa3 stable) and Argentina (Ca stable), and a decrease from 2019 when it represented 13.8% of the portfolio.

In anticipation of the potential incurrence of NPLs from Venezuela, CAF approved the so-called Support Program for Liquidity Management in Exceptional Situations. The program allows CAF to repurchase Venezuela's shares in the corporation, and apply those proceeds toward debt service owed by the sovereign to CAF. By the end of 2020 the plan had reduced Venezuela's shareholding in CAF to 11.5% from just under 16% in 2019. The Program has since been closed and as such would not be available to other borrowers in distress.

Although unconventional and despite the reduction in capital and loans related to Venezuela from implementing the plan, CAF's balance sheet did not compress. This reflects CAF's continued profitability and inflow of fresh capital from the latest general capital increase program and the expansion of the membership base. Moody's anticipates that CAF will avoid a compression of its balance sheet in the coming years until Venezuela's capital has been exhausted.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that CAF will manage its sustained increase in lending prudently, while maintaining adequate liquidity and capitalization buffers.

The stable outlook also reflects Moody's expectation that the institution will be able to successfully manage operating and credit risks from its exposure to Venezuela. Moody's expects CAF to continue to implement the Support Program for Liquidity Management in Exceptional Situations, using Venezuela's remaining shares to fund payments due.

Once Venezuela's capital will be exhausted, an accumulation of NPLs from Venezuela is likely, should there be no change in the sanctions that remain in place against the country. This is likely to exert pressure on CAF's creditworthiness.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Environmental considerations are not material for CAF's rating. However, Moody's note that as part of its mission, CAF has committed to increase its lending for projects that look to address or mitigate climate change risks in the Latin America region.

Social risks are not material for CAF's rating. Moody's does not expect that social risks affecting its borrowers will affect CAF's capital adequacy or liquidity.

Governance considerations are material. CAF's governance, and in particular its risk management policies and practices, are strong and in line with similarly rated MDBs.

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

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

creditworthiness.

Conversely, downward credit pressure would arise if the Venezuela exposure were to cause a deterioration of asset performance due to missed payments, as it would signal the potential for material pressure on the balance sheet of the bank over a 12-18 month time horizon. Negative pressure would also develop if CAF were to face a strong deterioration in asset quality due to credit events involving other borrowers, or if it were to experience an erosion of its capital and liquidity buffers due to a rapid expansion of its loan book not sufficiently compensated for by additional capital contributions.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1232238. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK

endorsement status and on the Moody's office that issued the credit rating is available on www.moody's.com.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Jaime Reusche
VP - Senior Credit Officer
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Alejandro Olivo
MD-Sovereign/Sub Sovereign
Sovereign Risk Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS

AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's

Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.