

Acción de calificación: Moody's Ratings aumenta las calificaciones de dos bancos paraguayos; la perspectiva se cambió a estable

29 de julio de 2024

Nueva York, 29 de julio de 2024 -- Moody's Ratings (Moody's) subió hoy la calificación de emisor a largo plazo en moneda local de Agencia Financiera de Desarrollo (AFD) a Baa3, desde Ba1, y las calificaciones de depósitos a largo plazo en moneda local y extranjera y de deuda sénior no garantizada en moneda extranjera de Banco Continental S.A.E.C.A. (Continental) a Baa3, desde Ba1. La perspectiva de las calificaciones se cambió a estable, desde positiva. Las calificaciones de riesgos de contraparte a largo y corto plazo en moneda local y extranjera de AFD también aumentaron a Baa3/Prime-3, desde Ba1/Not Prime, así como sus evaluaciones de riesgos de contraparte a largo y corto plazo a Baa3(cr)/Prime-3(cr), desde Ba1(cr)/Not Prime(cr). También subimos la calificación de emisor a corto plazo de AFD y las calificaciones de depósitos a corto plazo de Continental a Prime-3, desde Not prime, respectivamente.

Asimismo, afirmamos la evaluación del riesgo crediticio base (BCA, por sus siglas en inglés) y la BCA ajustada de ambas instituciones. La BCA y la BCA ajustada de AFD se afirmaron en ba2; y la de Continental, en ba1. También afirmamos las calificaciones de riesgos de contraparte a largo y corto plazo en moneda local y extranjera de Continental en Baa3/Prime-3, así como sus evaluaciones de riesgos de contraparte a largo y corto plazo en Baa3(cr)/Prime-3(cr).

Estas acciones se derivan del alza de la calificación de bonos soberanos del Gobierno de Paraguay a Baa3, desde Ba1, y del cambio de perspectiva a estable, desde positiva. Para obtener más información sobre la acción de calificación soberana, consulte el comunicado de prensa de Moody's "Moody's Ratings upgrades Paraguay's ratings to Baa3; changes outlook to stable from positive", del 26 de julio de 2024:

https://www.moodys.com/research/Moodys-Ratings- upgrade-Paraguays-ratings-to-Baa3-changes-outlook-to-Rating-Action--PR_492771.

FUNDAMENTOS DE LAS CALIFICACIONES

El alza de las calificaciones de deuda sénior no garantizada y de depósitos a largo plazo de Continental, así como de la calificación de emisor de AFD, se deriva del alza de la calificación de deuda soberana del Gobierno de Paraguay a Baa3 desde Ba1. En el caso de Continental, consideramos un alto apoyo por parte del gobierno impulsado por su importancia sistémica como el segundo banco más importante del sistema, con una participación de mercado en materia de depósitos del 15% a marzo de 2024. Las calificaciones de emisor de AFD incorporan nuestra evaluación de apoyo

por parte del gobierno, el cual garantizará las obligaciones financieras de AFD, además de su condición jurídica como banco de desarrollo propiedad en su totalidad del gobierno. La perspectiva estable de la calificación de emisor de AFD y las calificaciones de depósitos a largo plazo y de deuda sénior no garantizada de Continental son acordes a la perspectiva estable de las calificaciones del Gobierno de Paraguay.

La acción de calificación soberana refleja una combinación de factores, incluyendo un crecimiento económico sólido y sostenido y nuestra expectativa de que la economía se ha vuelto más resiliente a los choques, así como un historial de reformas institucionales que ha mejorado nuestra evaluación de la fortaleza institucional y de gobierno. Las sucesivas administraciones han seguido una estrategia de diversificación económica e inversión pública en infraestructura, además de preservar la fortaleza fiscal de Paraguay, y aumentar y diversificar el acceso al fondeo del mercado. La inversión en infraestructura está aliviando los cuellos de botella del transporte en Paraguay, que respaldarán la continuidad del fuerte flujo de inversión privada en sectores no tradicionales.

AFIRMACIÓN DE LA BCA Y LA BCA AJUSTADA

La afirmación de la BCA de AFD en ba2 considera la sólida calidad de sus activos y alta capitalización, además de reflejar su baja rentabilidad en comparación con sus pares del sector privado, debido a su función pública, así como su dependencia inherente del fondeo del mercado como institución financiera no depositaria. AFD es la única agencia de desarrollo estatal de segundo piso en Paraguay, que brinda financiamiento para viviendas, pequeñas empresas, y proyectos de infraestructura y agricultura. La BCA de ba2 refleja los riesgos de concentración y de activos que surgen de una ley recientemente promulgada que le permite a la agencia asumir una exposición crediticia directa a proyectos de construcción pesada.

La BCA de ba1 asignada a Continental refleja su gestión disciplinada de riesgos, constante generación de ingresos y reposición de capital frente a eventos climáticos y fluctuaciones económicas en los últimos cinco años. La BCA de ba1 también considera que el banco seguirá creciendo por encima del promedio del mercado, como ha sido su trayectoria de crecimiento en los próximos 12 a 18 meses. Además, si bien es inferior a la concentración promedio de la industria, Continental tiene un largo historial de mantener una exposición crediticia elevada al sector agrícola, que es inherentemente vulnerable a las condiciones climáticas, eventuales embargos y fluctuaciones en los precios en moneda extranjera y de los productos básicos.

EL PERFIL MACRO DEL GOBIERNO DE PARAGUAY CAMBIÓ A MODERADO

Moody's aumentó el perfil macro del Gobierno de Paraguay a "Moderado" desde "Moderado-", lo que refleja un entorno operativo más favorable y mejores condiciones crediticias, en consonancia con las sólidas expectativas de crecimiento del producto interno bruto (PIB) para los

próximos años.

Además, Paraguay ha atravesado un camino de diversificación económica y se expandió a sectores que requieren sumas elevadas de capital, como infraestructura, industrias ligeras, silvicultura y energía limpia. Estos cambios reforzarán la originación de créditos y la rentabilidad de los bancos, y ayudarán a mitigar los riesgos de concentración agrícola del sistema y su susceptibilidad a choques externos y climáticos.

El perfil macro Moderado del Gobierno de Paraguay también incorpora el historial de reformas institucionales del país para mejorar la eficacia de las políticas públicas y reducir la corrupción en la prestación de servicios públicos. La mejora de los marcos institucionales y de gobierno influye positivamente en el entorno legal y regulatorio.

FACTORES QUE PODRÍAN GENERAR UN ALZA O UNA BAJA DE LAS CALIFICACIONES

Las calificaciones de AFD enfrentarían presión al alza si se incrementaran las calificaciones del Gobierno de Paraguay. Por el contrario, una baja de las calificaciones del Gobierno de Paraguay llevaría a una baja de las calificaciones de AFD. La BCA de AFD podría bajarse en caso de un fuerte deterioro de su riesgo de activos o capital. Sin embargo, de no haber una baja de la calificación soberana del Gobierno de Paraguay, es poco probable que la calificación de emisor de AFD se vea afectada.

Las calificaciones de Continental solo enfrentarían presión al alza si la calificación soberana y su BCA intrínseca aumentaran simultáneamente. Podría haber presión positiva sobre la BCA de Continental por una mayor diversificación de su cartera de préstamos e ingresos, y una mejora sostenida de su capitalización. Por el contrario, una baja de la calificación del Gobierno de Paraguay llevaría a una baja de las calificaciones de Continental. Las calificaciones y la BCA de Continental también podrían rebajarse si la calidad de sus activos se deteriorara significativamente o si sus condiciones de capitalización o liquidez se debilitaran persistentemente.

La metodología principal utilizada en estas calificaciones fue “Metodología de bancos”, publicada en marzo de 2024, disponible en <https://ratings.moodys.com/rmc-documents/417546>.

De otro modo, consulte la página de metodologías de calificación en <https://ratings.moodys.com> para obtener una copia de esta metodología.

ACLARACIONES REGULATORIAS

Para obtener más información sobre los supuestos clave de calificación y el análisis de sensibilidad de Moody's, consulte las secciones “Supuestos de la metodología” y “Sensibilidad a los supuestos” del formulario de revelación. El documento “Símbolos y definiciones de calificaciones” de Moody's se puede encontrar en <https://ratings.moodys.com/rating-definitions>.

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Con respecto a las calificaciones provisionales, este anuncio de calificación crediticia proporciona ciertas aclaraciones regulatorias con relación a la calificación provisional asignada y a la calificación definitiva que podría asignarse con posterioridad a la emisión final de deuda, siempre que la estructura y los términos de la transacción no hayan cambiado antes de la asignación de la calificación definitiva de manera tal que hubieran afectado la calificación.

Moody's no siempre publica un anuncio de calificación crediticia por separado para cada calificación asignada en el proceso de calificación anticipada o en el proceso de calificación posterior.

Estas calificaciones fueron solicitadas. Consulte la política de Moody's para designar y asignar calificaciones crediticias no solicitadas en <https://ratings.moody.com>.

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Consulte la página del emisor/transacción en <https://ratings.moody.com> para obtener las aclaraciones regulatorias adicionales de cada calificación crediticia.

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MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades two Paraguayan banks' ratings; outlooks changed to stable

29 Jul 2024

New York, July 29, 2024 -- Moody's Ratings (Moody's) today upgraded the long-term local currency issuer rating assigned to Agencia Financiera de Desarrollo (AFD) to Baa3, from Ba1, and the local and foreign currency long-term deposit and foreign-currency senior unsecured debt ratings assigned to Banco Continental S.A.E.C.A. (Continental) to Baa3, from Ba1. The outlook on these ratings was changed to stable, from positive. AFD's long- and short-term local and foreign currency counterparty risk ratings were also upgraded to Baa3/Prime-3 from Ba1/Not prime, as well as its long and short-term counterparty risk assessments to Baa3(cr)/Prime-3(cr), from Ba1(cr)/Not Prime(cr). We also upgraded AFD's short-term issuer rating and Continental's short-term deposit ratings to Prime-3, from Not prime, respectively.

At the same time, we affirmed both institutions' BCAs and adjusted BCAs. AFD's BCA and Adjusted BCA were affirmed at ba2, and Continental's at ba1. We also affirmed Continental's long and short-term local and foreign currency counterparty risk ratings at Baa3/Prime-3, as well as the bank's long and short-term counterparty risk assessments at Baa3(cr)/Prime-3(cr).

These actions follow the upgrade of the Government of Paraguay's sovereign bond rating to Baa3, from Ba1, and the outlook change to stable, from positive. For details about the sovereign rating action, please refer to Moody's press release "Moody's Ratings upgrades Paraguay's ratings to Baa3; changes outlook to stable from positive" dated 26 July 2024: https://www.moody.com/research/Moodys-Ratings-upgrades-Paraguays-ratings-to-Baa3-changes-outlook-to-Rating-Action--PR_492771.

RATINGS RATIONALE

The upgrade of Continental's supported long-term deposit and senior unsecured debt ratings as well as AFD's issuer rating was prompted by the upgrade of the Government of Paraguay's sovereign debt rating to Baa3, from Ba1. For Continental, we assign a high government support driven by its systemic importance as the

second largest bank in the system with 15% deposit market share as of March 2024. AFD's issuer ratings incorporate our government-backed assessment based on the government's guarantee to AFD's financial obligations as well as its legal status as a development bank wholly-owned by the government. The stable outlook on AFD's issuer rating and Continental's long-term deposit and senior unsecured debt ratings are in line with the stable outlook on the Government of Paraguay's ratings.

The sovereign rating action reflects a combination of factors, including robust and sustained economic growth and our expectation that the economy has become more resilient to shocks, and a track-record of institutional reforms that has improved our assessment of institutional and governance strength. Successive administrations have pursued a strategy of economic diversification and public investment in infrastructure, while preserving Paraguay's fiscal strength and increasing and diversifying access to market funding. Investment in infrastructure is alleviating Paraguay's transportation bottlenecks that will support continued robust flow of private investment in non-traditional sectors.

AFFIRMATION OF BCA AND ADJUSTED BCA

In affirming AFD's ba2 BCA, we acknowledge its track record of strong asset quality and high capitalization, while it also reflects its profitability that is low relative to private sector banking peers given its public policy role, as well as its inherent reliance on market funding as a non-depository financial institution. AFD is the sole government-owned second-floor development agency in Paraguay, committed to supporting the financing of housing, small business, infrastructure and agriculture projects. The ba2 BCA reflects the concentration and asset risks arising from a newly enacted law that allows the agency to take on direct credit exposure to heavy construction projects.

The ba1 BCA assigned to Continental reflects its disciplined risk management, consistent earnings generation and capital replenishment amid climate shocks and economic fluctuations over the last five years. The ba1 BCA also considers that the bank will continue to grow above market average as has been its growth path over the next 12 to 18 months. Moreover, whilst lower than industry-average concentration, Continental has a long-track record of maintaining elevated credit exposure to the agriculture sector, which is inherently vulnerable to weather conditions, eventual embargos and fluctuations in foreign-currency and commodity prices.

MACRO PROFILE OF GOVERNMENT OF PARAGUAY CHANGED TO MODERATE

Moody's raised the Government of Paraguay's Macro Profile (MP) to 'Moderate' from 'Moderate-', reflecting a more supportive operating environment and enhanced credit conditions, consistent with robust GDP growth expectations for the coming years. Additionally, Paraguay has been on a path of economic diversification, expanding into capital-intensive sectors like infrastructure, light manufacturing, forestry, and clean energy. These shifts will bolster bank credit origination and profitability, and help to mitigate the system's agricultural concentration risks and susceptibility to external and

climate-related shocks.

The Moderate MP for the Government of Paraguay also incorporates the country's track record of institutional reforms to enhance public policy effectiveness and curtail corruption in public service delivery. Improving institutional and governance frameworks positively influence the legal and regulatory environment.

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

AFD's ratings would face upward pressure if the Government of Paraguay's ratings are upgraded. Conversely, a downgrade in the Government of Paraguay's ratings would lead to a downgrade in the rating of AFD. AFD's BCA could be downgraded should its asset risk and/or capital deteriorate sharply. However, absent a downgrade of the Government of Paraguay's sovereign rating, this is unlikely to affect AFD's issuer rating.

Continental's ratings would only face upward pressure if both the sovereign rating and its standalone BCA were upgraded simultaneously. Positive pressure on Continental's BCA could stem from increased diversification of the loan book and earnings, and sustained improvement in capitalization. In contrast, a downgrade in the Government of Paraguay's rating would lead to a downgrade in Continental's ratings. Continental's ratings and BCA could also be downgraded if its asset quality materially deteriorates or its capitalization or liquidity conditions persistently weaken.

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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CREDIT OPINION

2 August 2024

Update

Send Your Feedback

RATINGS

Agencia Financiera de Desarrollo

Domicile	Paraguay
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Issuer Rating	Not Available
Type	Not Available
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Agencia Financiera de Desarrollo

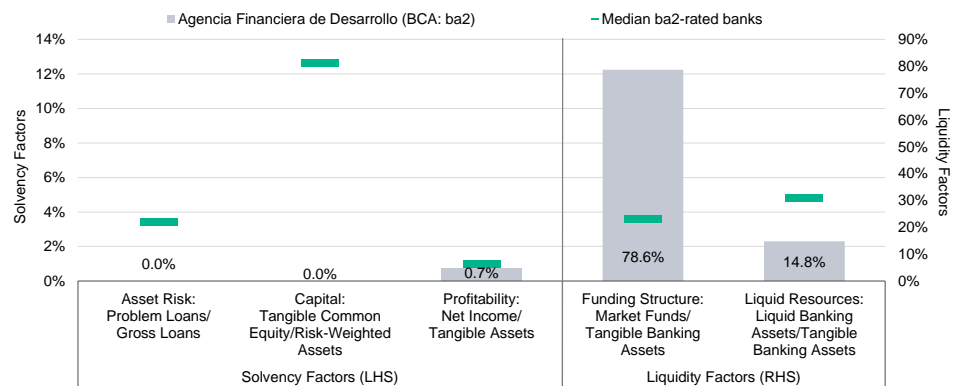
Update following ratings upgrade, outlook changed to stable

Summary

[Agencia Financiera de Desarrollo's](#) (AFD) Ba2 BCA mirrors its track record of strong asset quality and high capitalization, while it also reflects its profitability that is low relative to private sector banking peers given its public policy role, as well as its inherent reliance on market funding as a non-depository financial institution. AFD is the sole government-owned second-floor development agency in Paraguay, committed to supporting the financing of housing, small business, infrastructure and agriculture projects. The ba2 BCA incorporates the concentration and asset risks arising from a newly enacted law that allows the agency to take on direct credit exposure to heavy construction projects.

AFD's issuer rating is underpinned by the agency's ba2 Baseline Credit Assessment (BCA) and two-notches uplift stemming from our assessment of support from the [Government of Paraguay](#) (Baa3 stable). The support assessment incorporates the government's guarantee on AFD's financial obligations and the agency's important policy role as a wholly owned government development bank. As a result, AFD's ratings are at the same level as the Paraguayan government bond rating.

Exhibit 1
Rating Scorecard - Key Financial Ratios
Scorecard data as of March 2024



For the asset-risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data, if available, and the ratio used is the weaker of the average versus the latest period. For the capital ratio, we use the latest reported figure. For the funding structure and liquid resources ratios, we use the latest year-end figures.

Source: Moody's Financial Metrics™

Credit strengths

- » Strong asset quality, as illustrated by a history of zero delinquencies
- » Robust capitalization
- » Strong level of government support, as attested by regular capital injections and debt guarantees

Credit challenges

- » Complete dependence on wholesale funding because of its status as a non-deposit taking institution
- » Low profitability, reflecting the agency's development role

Rating outlook

The stable rating outlook is in line with the stable outlook on the Government of Paraguay's rating, and reflects our expectation that AFD's asset quality and capital will remain robust.

Factors that could lead to an upgrade

- » AFD's ratings would face upward pressure if the Government of Paraguay's rating is upgraded.
- » We could raise AFD's BCA if it were to consistently diversify its funding or increase its holdings of liquid assets. However, without an upgrade of the sovereign rating, this would have no effect on AFD's issuer rating.

Factors that could lead to a downgrade

- » A downgrade of Paraguay's bond rating would lead to a downgrade of AFD's issuer ratings.
- » We would lower AFD's BCA should its asset quality materially deteriorates and its capitalization or liquidity conditions persistently weaken. However, absent a downgrade of Paraguay's sovereign rating, this is unlikely to affect AFD's issuer rating.

Key Indicators

Exhibit 2

Agencia Financiera de Desarrollo (Consolidated Financials) [1]

	03-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total Assets (PYG Billion)	9,508.8	9,539.7	8,384.1	7,226.6	7,352.6	8.2 ⁴
Total Assets (USD Million)	1,286.1	1,310.9	1,143.6	1,050.3	1,064.7	6.0 ⁴
Tangible Common Equity (PYG Billion)	1,963.2	1,915.3	1,817.1	1,769.2	1,670.4	5.1 ⁴
Tangible Common Equity (USD Million)	265.5	263.2	247.9	257.1	241.9	2.9 ⁴
Net Interest Margin (%)	1.1	1.0	1.1	1.4	1.5	1.2 ⁵
Net Income / Tangible Assets (%)	0.8	0.6	0.5	1.0	1.0	0.8 ⁵
Cost / Income Ratio (%)	34.1	43.0	45.3	26.0	24.1	34.5 ⁵
Market Funds / Tangible Banking Assets (%)	78.1	78.6	77.1	74.4	76.2	76.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	7.0	14.8	13.6	11.4	20.0	13.4 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.

Moody's Ratings and company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

Founded in 2006 under Law 2640/05, modified in 2021 by Law 6769/21, Agencia Financiera de Desarrollo is the sole "second floor" bank in Paraguay, on-lending to financial institutions to promote the development and employment goals of the Paraguayan government.

The agency is headquartered in Asuncion and, as of March 2024, it had total loans of PYG8,796 billion and total assets of PYG9,509 billion.

Detailed credit considerations

Under its new mandate, AFD's credit portfolio composition could change in the mid term

We assign a baa2 Asset Risk score to reflect AFD's track record of very strong asset quality metrics, as well as the agency's inherent sector concentration in the banking industry. AFD's asset quality is supported by its history of zero delinquencies since its inception because of its conservative underwriting standards and exclusive focus on lending to solid financial institutions in Paraguay, as well as legal provisions that protect the agency's exposures.

As of March 2024, 81.8% of AFD's PYG6.6 trillion loan book was directed to banks, 16.9% to cooperatives, and the remainder mainly to finance companies (empresas financieras). Under the terms of the contracts signed with AFD, financial institutions need to ensure that their loans funded with AFD's resources should remain classified under the lowest-risk levels (I-II) on the Paraguayan central bank's scale. In accordance with Paraguayan law, AFD's loans to financial institutions have a privileged status and, in bankruptcy, would have senior claims over depositors and secured creditors. Despite its history of zero delinquencies and the preferential status of its loans, AFD provisions against its loan exposures under a scale vetted by the Central Bank of Paraguay (BCP).

As of March 2024, on a sectoral basis, 44.7% of AFD's on-lending was used to finance the development of the housing sector. The other 15 products that AFD offers are directed to the agricultural sector (FIMAGRO and PROCAMPO), small and medium-sized enterprises (SMEs) (PROPYMES and PRORECER), cooperatives (PROCOOP), as well as education (PROEDUC).

In line with Government plans to foster the infrastructure development in Paraguay, a recently enacted law allows AFD to take on direct exposure to infrastructure projects, capped at 30% of its net worth. AFD is in the process of outlining the roles, policies and procedures associated with this new mandate, and we do not anticipate a material shift in its loan book composition over the next 12 to 18 months.

Capitalization remains sound despite consistent, double-digit balance sheet growth

We assign a baa1 Capital score based on our estimation of AFD's very strong capitalization levels, even though it does not report a regulatory capital ratio or risk-weighted assets (RWA). Development banks that we rate in the region had RWA/total assets of 78.5% on average as of March 2024. Applying the same ratio to AFD would match to a very strong 26.5% tangible common equity (TCE)/RWA. Even assuming RWA/total assets of 150% (which would be extremely conservative for the agency because of its focus on secured lending to financial institutions), AFD would still have a capitalization ratio of 13.8% TCE/RWA.

However, AFD's capital to total assets ratio has been decreasing in recent years as the growth in capital consumption outpaced the effect of capital injections and earnings retention. As of March 2024 AFD's total assets grew at 11.4% year-over-year, whereas its TCE grew 7.4%. As AFD's role is expanded, we expect its TCE to continue to decline as a percentage of assets, but nevertheless remain high.

Higher for longer rates will keep pressuring AFD's profitability

The ba3 score for profitability incorporates AFD's development role and our assessment that the continuous expansion in AFD's low-margin lending operations will particularly strain earnings in times of still-elevated interest rates.

AFD's strategic focus is on development and job creation rather than maximizing profitability. As 91.3% of its revenue comes from interest income, its low return on assets directly stems from its concessional lending rates, as illustrated by its low net interest margin of 1.1% as of March 2024.

In addition, the agency earns fee income by managing certain state funds such as FOGAPY, FONACIDE, IPS and PPP (Public Private Partnership project funds) that accounted for 13.8% of its pretax net income as of March 2024. The agency's strong efficiency levels

also drive its profitability, with operating costs representing 34.1% of its gross income as of March 2024, which is lower than that of the commercial banks in Paraguay, but higher than that of its regional peers.

Access to more stable funding sources mitigates wholesale-based funding risk

We assign a Funding score of caa3, reflecting the limitations related to AFD's mainly market-funded structure, inherent to a development agency. As a non-deposit taking institution, AFD's funding mix is primarily composed of local-currency bonds and US dollar-denominated cross-border loans. Despite AFD's heavy reliance on wholesale resources, refinancing risk is limited because of agency's government ownership and guarantee, as well as its social mission.

Most financial obligations are guaranteed by the Paraguayan government, and nearly half of its issued bonds are financed by the Central Bank of Paraguay's deposit guarantee fund (Fondo de Garantía de Depósitos). AFD has been allowed to raise debt without government guarantees since the approval of Law 6769 in 2021.

The remaining financing is provided by multilateral agency lenders Banco Interamericano de Desarrollo (IDB) and [Kreditanstalt fuer Wiederaufbau](#) (KfW, Aaa stable), the German state-owned development bank, which account for 18.1% and 0.4% of AFD's total funding, respectively. In 2022, Bank also raised \$100 million through a 7-year tenor loan with Citibank/Commerzbank (guaranteed by the Multilateral Investment Guarantee Agency – MIGA), which represented the first AFD's funding transaction without government guarantee.

As of March 2024, liquid resources accounted for 13.8% of tangible banking assets, from 12.1% a year earlier, and was basically represented by central bank reserves and deposits at domestic banks.

AFD's scores are influenced by Paraguay's Moderate Macro Profile

AFD operates in a relative small and agriculture-dependent economy, subject to high growth volatility. Moody's acknowledges, however, that Paraguay has been on a path of economic diversification, expanding into capital-intensive sectors like infrastructure, light manufacturing, forestry, and clean energy. These shifts will bolster banks' credit origination and profitability, and help to mitigate the system's susceptibility to external and climate-related shocks.

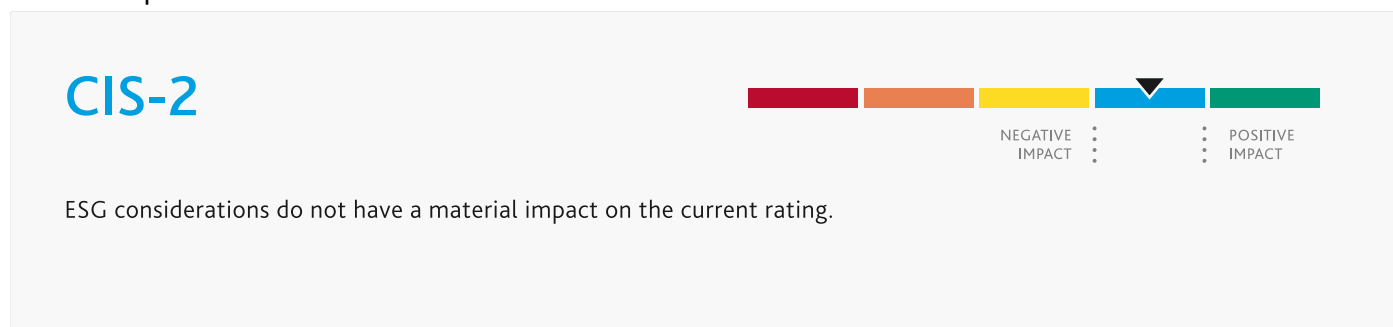
Paraguay has a track record of institutional reforms to enhance public policy effectiveness and curtail corruption in public service delivery. Improving institutional and governance frameworks positively influence the legal and regulatory environment.

Paraguay's credit conditions remain stable, supported by a moderate intermediation level of 53% of GDP. Despite high financial dollarization, risks to banks are mitigated as foreign currency credit is mainly extended to naturally hedged exporters. Paraguayan banks enjoy favorable funding conditions, with a robust and steady customer deposit base largely meeting their funding needs.

ESG considerations

Agencia Financiera de Desarrollo's ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

AFD's **CIS-2** indicates that ESG considerations are not material to the rating. Social risks are limited at AFD given its development role as the only on-lender in Paraguay's financial system, focused on housing. Although AFD is part of the Government of Paraguay, governance risks are mitigated by adequate risk management and policies.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

AFD's **E-3** score reflects its indirect exposures to physical climate risks because of its credit portfolio concentration on domestic financial institutions that in turn provide funding for agricultural development projects as well as housing.

Social

AFD's **S-3** score factors agency's only moderate exposure to social risks related to customer relations, because, as a second-floor bank, it lends only to financial institutions and cooperatives and has no direct relationships with the end client. Responsible production has low risk for AFD as it provides long term funding for housing development and other development projects in line with the government's policy objectives.

Governance

AFD's **G-2** score takes into account that the agency's risk management, policies and procedures are in line with industry best practices. AFD is part of the Government of Paraguay, which sets its board members.

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.

Support and structural considerations

Government Support

The Baa3 local-currency issuer rating assigned to AFD incorporates two notches of uplift from the entity's BCA of ba2 based on our assessment that the Government of Paraguay will support the agency in an event of stress, because of its legal status as a development bank wholly owned by the government, legally mandated annual capital injections from government sources, and the government guarantee on its financial obligations.

Rating methodology and scorecard factors

Exhibit 5

Rating Factors

Macro Factors							
Weighted Macro Profile		Moderate	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	-	-	-	baa2	Sector concentration	Quality of assets	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)				baa1			
Profitability							
Net Income / Tangible Assets	0.7%	ba2	↔	ba3	Earnings quality		
Combined Solvency Score				baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	78.6%	caa3	↔	caa3			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	14.8%	ba3	↔	ba3			
Combined Liquidity Score		b3		b3			
Financial Profile							
				ba2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa3			
BCA Scorecard-indicated Outcome - Range				ba1 - ba3			
Assigned BCA				ba2			
Affiliate Support notching				0			
Adjusted BCA				ba2			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	ba1	-	Baa3	Baa3	
Counterparty Risk Assessment	1	0	ba1 (cr)	-	Baa3(cr)		

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
AGENCIA FINANCIERA DE DESARROLLO	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Issuer Rating -Dom Curr	Baa3
ST Issuer Rating -Dom Curr	P-3

Source: Moody's Ratings

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