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INVESTORS SERVICE

CREDIT ANALYSIS

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RATINGS

Inter-American Development Bank

	Rating	Outlook
Long-term Issuer	Aaa	STA
Short-term Issuer	P-1	STA
Senior Unsecured	Aaa	STA

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Inter-American Development Bank and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Inter-American Development Bank

Supranational

Overview and Outlook

The Inter-American Development Bank's (IADB) credit strengths are its (i) solid capital base, (ii) strong commitment from non-borrowing shareholders, (iii) sound financial management, and (iv) preferred creditor status. Prudent financial management and strict compliance with conservative financial policies have consistently supported the Bank's fundamental credit strengths, which include a strengthened capital adequacy and a strong liquidity position. The Bank's preferred creditor status ensures that sovereign debt owed to the IADB is excluded from debt restructuring efforts undertaken by official borrowers and that resources are made available to service debt due to the Bank. Support from IADB shareholders represents a fundamental factor behind the Aaa rating. Over time, member countries have explicitly recognized the importance of preserving the Bank's financial soundness and its premier credit status, conditions necessary to assure its readily available access to diversified funding sources.

Credit challenges for the IADB are (i) credit concentration in high-risk countries with volatile macroeconomic environments, and (ii) balancing a development mandate with sound financial practices and reasonable profitability. The Bank primarily lends to the public sector, which, combined with its regional focus, creates a highly-concentrated loan portfolio, similar to other highly-rated regional development banks. Compounding this risk is the moderate overall creditworthiness of the countries to which it lends, which include some highly-volatile economies. Brazil and Mexico were the Bank's largest public-sector borrowers at end-2014, followed closely by Argentina, and then Colombia and Ecuador.

The stable outlook on the rating reflects the credit quality and support of the Bank's owners and the institution's ample capital base and preferred-creditor status. Downward pressure on the rating could emerge if more than one of the largest debtors to the Bank were to go into non-accrual status and member countries were perceived to be unable or unwilling to take the necessary actions to preserve the financial health of the Bank.

This Credit Analysis elaborates on the IADB's credit profile in terms of Capital Adequacy, Liquidity and Strength of Member Support, which are the three main analytic factors in Moody's [Supranational Rating Methodology](#).

Institutional Investor

#1 US Credit
Rating Agency:
2012, 2013, 2014

**ASIAMONEY
FIXED
INCOME
POLL
2014**

#1 Asia Credit
Rating Agency:
2012, 2013, 2014

**FIXED
INCOME
POLL 2014
FinanceAsia**

Most Influential
Credit Rating Agency:
2013, 2014

**SMITH'S
2014 Municipal
All-Star Team**

#1 US Municipal
Research Team in Smith's
All-Star Voting: 2014

**KANGAROO
AWARDS
2014**

Australia's Rating
Agency of the Year:
2014

Organizational Structure and Strategy

LAC Mandate Makes IADB the First Regional Development Bank

The IADB was established in 1959 to address the social and economic development needs of Latin America and the Caribbean, making it the world's first regional development bank. The Bank's members include 26 borrowing countries and 22 non-borrowing countries. The five largest members by subscribed shareholding are the US, Argentina, Brazil, Mexico, and Japan. As of year-end 2014, the relative voting power among member countries is as follows: (i) Latin America and the Caribbean: 50.04%; (ii) the United States: 30.02%; (iii) Canada: 4.00%; and (iv) non-regional members: 15.94%.

The Bank channels most of its financing through its Ordinary Capital (OC) lending program. The resources of the OC window consist of member countries' paid-in capital, the Bank's retained earnings and borrowings protected by shareholders' callable capital. The Bank does not pay dividends but allocates earnings to its general reserve. The financial information of this report solely reflects the Bank's OC operations.¹

Primarily Public Sector Lending Exclusively to Member Countries Limited by Capital Base

Although the IADB can extend non-sovereign-guaranteed financing outside of the region, effectively all of its loan exposure and technical assistance is to entities in its member countries within the region. These entities are primarily governments, government agencies, and development institutions (the sovereign-guaranteed portfolio) but also include private-sector businesses and sub-sovereign entities (the non-sovereign guaranteed portfolio).

Sovereign-guaranteed lending involves primarily project-based and policy-based loans. Project-based loans are used to finance economic and social development projects in a broad range of sectors, while policy-based loans support social, structural and institutional reforms with the aim of promoting sustainable growth in borrowers' economies. Additionally, as part of its sovereign-guaranteed lending, the Bank has instituted a program of "emergency" lending to address financial or economic crises.

Lending operations are constrained by the Bank's capital base. The Bank's Charter sets an overall constraint, as it limits total lending exposure to the subscribed capital plus reserves and surplus, exclusive of income assigned to certain reserves. However, the Bank's lending capacity is also limited by the capital adequacy policy and borrowing policy.

General Capital Increase Strategically Important for Mandate Fulfillment

On 29 February 2012, the 9th General Capital Increase (GCI) in the Bank's history entered into effect. As a result of the GCI, the Bank's Ordinary Capital will increase by \$70 billion,² of which \$1.7 billion will be paid in during the years 2012-2016 and the remainder is callable capital. Members made the first three installments, which amounted to \$1.02 billion in total on 2012-14. Only two countries, the Netherlands and Venezuela, did not subscribe to the GCI, both for domestic political reasons. Their shares were allocated to other member countries, with no change in voting power of the borrowing member countries as a group.

The objective of the GCI is to assure that the Bank has adequate capital to fulfill its role as a promoter of economic and social development in Latin America and the Caribbean in the coming years. The rationale behind the GCI proposal involved concerns about the IADB's ability to comply with such mandate given that, according to its own estimates, the Bank's financial capacity could be inconsistent with the

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

¹ Another channel of financing is the Fund for Special Operations (FSO) from which only the Bank's lesser-developed member countries are eligible for borrowing on concessional terms. The Bank created in 1983 an interest-subsidizing mechanism for selected OC loans, the Intermediate Financing Facility (IFF). In June 2007, the Board of Governors approved the creation of the IADB Grant Facility (GRF) for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. The Bank also administers trust funds set up for specific purposes. The resources, assets, and liabilities of the FSO, the IFF, the GRF, and the trust funds are completely segregated from those of the OC.

² In 2011, the Board also agreed to vote on a resolution to increase the resources of the FSO. Instruments of contribution amounting to \$473 million were received, of which \$437 million has been paid in as of December 31, 2014.

development finance needs of the region over the next decade. Management noted that the Bank's financial capacity had decreased relative to the region's financing needs since the last capital increase in 1996.³

Rating Rationale

Our determination of a supranational's rating is based on three rating factors: Capital Adequacy, Liquidity and Strength of Member Support. For Multilateral Development Banks (MDB), the first two factors combine to form the assessment of Intrinsic Financial Strength, which provides a preliminary rating range. The Strength of Member Support can provide uplift to the preliminary rating range. For more information please see our [Supranational Rating Methodology](#).

Capital Adequacy: Very High

Policies and Preferred Creditor Status Effectively Mitigate Inherent Risks of Operations

Factor 1



Capital adequacy assesses the solvency of an institution. The capital adequacy assessment considers the availability of capital to cover assets in light of their inherent credit risks, the degree to which the institution is leveraged and the risk that these assets could result in capital losses.

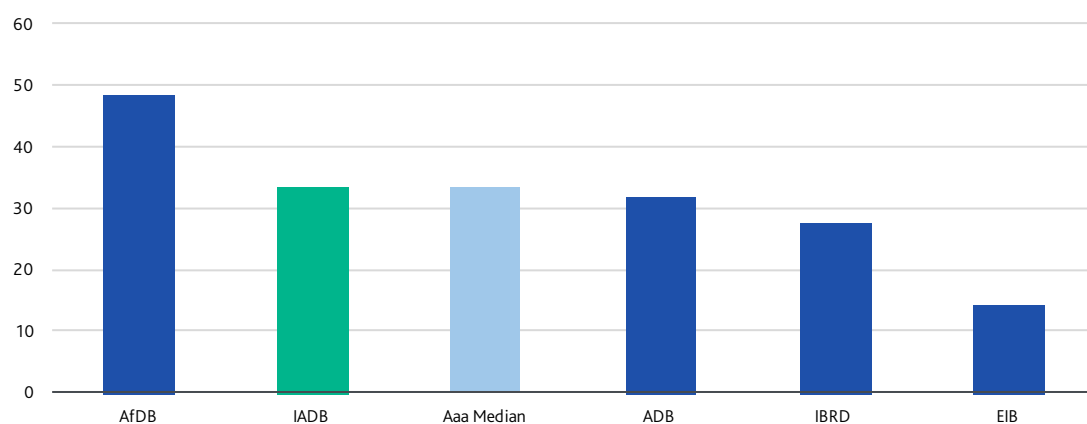
Strong Capital Position Resulting from High Asset Coverage that Mitigates...

The IADB's asset coverage is strong, as indicated by the usable equity-to-gross loans outstanding ratio of 32% at year-end 2014. This ratio had been trending down until 2012 when the GCI payments started to flow in, stabilizing the ratio in the 30-33% range. The GCI will continue to support the strength and stability of this ratio over the medium term as well as support the Bank's management of capital adequacy. At these levels the IADB compares well relative to Aaa-rated peers (see Exhibit 1).

EXHIBIT 1

Capitalization Ratios In Line With Aaa Peers

(Asset coverage ratio, calculated as usable equity divided by total development-related exposure in %, 2013)



Source: Moody's

³ Resources available for concessional lending have also decreased substantially due to debt relief initiatives undertaken in previous years, leading management to conclude that - if not reversed - these conditions would eventually deplete the FSO.

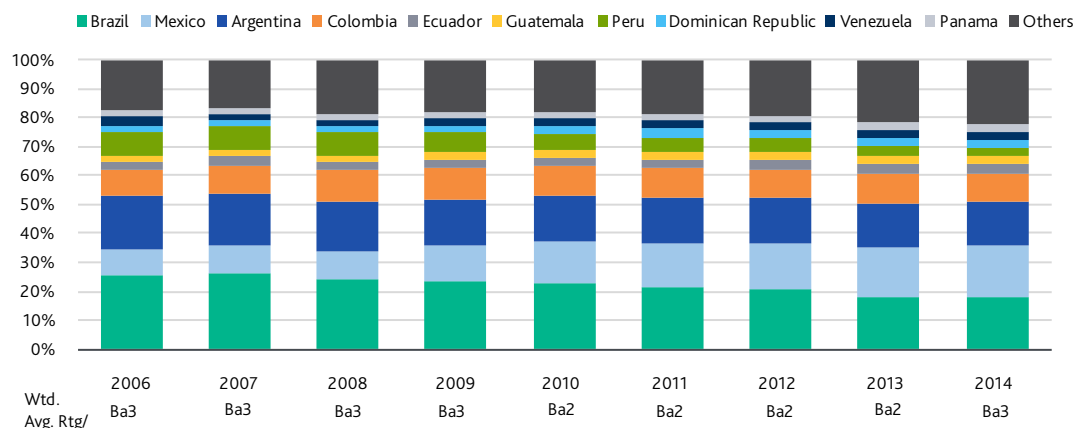
The IADB's capital adequacy mandate aims to ensure that the Bank has sufficient equity to enable it to operate with adequate capital buffers and maintain its Aaa rating status. The key measure that the Bank's management uses is a Capital Utilization Ratio (CUR) which is the ratio of Economic Capital to Total Equity⁴ (where Economic Capital is capital requirements given total current risks). It represents the extent to which equity is "utilized" by the risks to which the Bank is exposed. A CUR of 100% would indicate that, while the Bank is sufficiently capitalized relative to current risks, it is also unable to take on additional risk. The policy states that economic capital has to be managed to assure that the CUR remains well below 100% and within a "desired band." A CUR of less than 100% also implies that the Bank would be capable of adopting a countercyclical stance in its operations with member countries when required. During 2014 the Bank's CUR was within policy.

...Risks from Exposure to Borrowers with Moderate Quality

Given that the Bank's key operation is lending, credit risk is the primary risk that it faces. As a development bank, its mandate requires that it lend to borrowers that are not necessarily of the lowest credit risk. The weighted average borrower rating of the Bank's total portfolio as of December 31, 2014 was Ba3. The composition of lending by country has remained relatively constant over the last five years (see Exhibit 2).

EXHIBIT 2

Loan Portfolio Is Highly-Concentrated on Borrowers with Moderate Credit Quality



Source: IADB and Moody's

The Bank's loan book is highly concentrated in 10 countries that consistently account for around 80% of the total. Brazil and Mexico were the Bank's largest public-sector borrowers in 2013 and 2014, followed closely by Argentina, and then Colombia and Ecuador. We note that considering the whole portfolio, the concentration by country is relatively low, even though the top three recipients represent about half of the total. In order to reduce the potential of concentration risks growing, the Bank introduced a set of risk-based and nominal-based country limits with the ultimate goal of preserving the IADB's capital strength.

Moderate Leverage

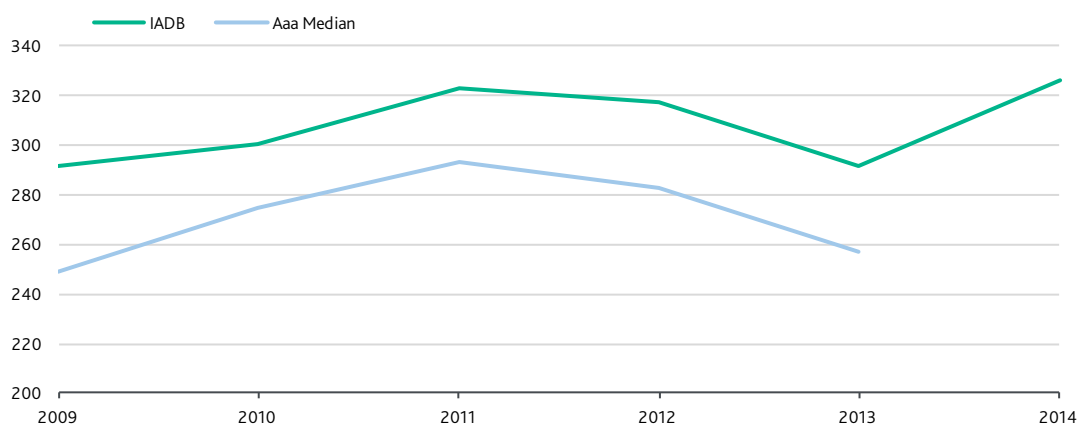
The IADB's leverage scores medium based on a Debt-to-Usable Equity ratio of 326% at end-2014. This ratio fell below 300% in 2013, but returned to its 2011-12 levels in the subsequent year. Although the IADB's leverage ratio has remained relatively higher than the Aaa-median in recent years, the overall trends have stayed the same (see Exhibit 3).

⁴ "Total Equity" is defined as Paid-in capital stock, net of Capital subscriptions receivable, less Receivable from members, plus Retained earnings and the allowance for loan and guarantee losses, minus borrowing countries' local currency cash balances, and the cumulative effects of Net fair value adjustments on non-trading portfolios and foreign currency transactions.

EXHIBIT 3

Leverage is Slightly Higher than Aaa Peer Median and Has Followed Same Trend

(Debt-to-equity, %)



Source: IADB and Moody's

The leverage ratio will remain stable within our medium or high assessments because of the Bank's borrowing policy, which limits its net borrowings to the callable capital stock of non-borrowing member countries.⁵ At year-end 2014, the IADB's total outstanding debt amounted to \$77.3 billion excluding swaps, up from \$68.7 billion in 2013. The Bank's unused borrowing capacity at the end of 2014 amounted to \$20.2 billion. Over the past 20 years the Bank's leverage ratio has never gone over 400%, with the highest level reached in 2000 (341%) and the lowest in 2006 (225%).

Bank's Exceptional Asset Performance Results from Preferred Creditor Status

The Bank's asset performance has been very strong throughout its history. At year-end 2014, the Bank's loan book had only \$177 million of loans with payments late by 90+ days, which translates to a non-performing loans-to-total loans ratio of 0.2%, unchanged from the previous year. This is slightly worse than the 0.1% NPL ratio posted in 2012 and 0.0% for the six years prior to that. Over the years, the entire amount of NPLs has been associated with the non-sovereign-guaranteed loan portfolio. The sovereign-guaranteed portfolio has had no NPLs since Suriname's arrears were cleared in 2001.

The IADB's extraordinary repayment record is explained by the special relationship that it enjoys with its borrowing countries, reflected by its preferred creditor status. Historically, the borrowing countries have been less likely to default on IADB loans than on their financial obligations with commercial or private creditors, with only five sovereigns ever going into non-accrual status. Each borrowing country is a part owner of the Bank, which makes the Bank a cooperative undertaking in which borrowing countries collectively own a slight majority holding of the Bank's capital. Failure to pay the IADB could be seen as a failure to maintain a country's commitment to the other members. As loans enter into arrears, the Bank increasingly applies sanctions including the suspension of new disbursements and loan commitments. The Bank does not reschedule sovereign-guaranteed loans and has never written off such loans.

Two events are illustrative of the Bank's preferred creditor status: (i) when Ecuador defaulted on its bonds in 1999 the country continued to service IADB loans without interruption; and (ii) after Argentina fell into arrears at the peak of the crisis in 2002, risking a 7-day disbursement suspension with the IADB,⁶ the country cleared the arrears just prior to the end of the grace period and has serviced its IADB loans in a full and timely manner ever since.

⁵ "Net Borrowings" are borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps). At the end of 2014, net borrowings were \$49.9 billion, equivalent to 71.2% of that limit, down from 74% in 2013 and 80% in 2012.

⁶ A disbursement suspension is imposed after an initial 30-day arrears period.

Loan Charge Structure's Unique Feature Allows For More Flexibility To Generate Additional Revenue To Support Capital Base

Like many public-sector lending MDBs, the IADB is a cost pass-through lender and does not seek to maximize profit. As such, the Bank's profitability is low as indicated by a return on average assets (ROAA) ratio of 0.4% during 2014, marginally below its ten-year average level of 0.6%. The 2014 results marked a decrease from the Bank's performance in 2013, its strongest year since 2004. The decrease was attributed primarily to lower net unrealized mark to market gains from non-trading derivatives and borrowings, the expected reduction in investment gains, a non-recurring gain associated with loan prepayments in 2013, and greater loan loss provisions, partially offset by a reduction in pension expense.

Supporting our overall capital adequacy assessment of the IADB is its loan charge structure on the sovereign-guaranteed portfolio. The Bank is unique in that changes to the lending spread⁷ apply to substantially the entire portfolio, including loans already disbursed and outstanding. As a result, the IADB has a greater ability than other MDBs to quickly raise revenue by increasing the lending spread that it charges. An example of this came during the global financial crisis, when, in the second semester of 2009, the Bank increased loan charges significantly to a 0.95% spread from 0.30% spread. It did this in order to quickly raise the revenues with which to increase lending capacity in order to serve as a counter-cyclical agent for its members. As a result of the increase, the Bank generated an additional \$355 million in revenue during 2009.

It is important to note that members vote on loan charge increases and since the IADB is a borrower-controlled institution, any increase is supported by the countries that will be incurring the higher costs.

Liquidity: Very High

Conservative Risk Management the Foundation of Very Strong Liquidity Assessment

Factor 2



A financial institution's liquidity is important in determining its shock absorption capacity. We evaluate the extent to which liquid assets cover debt service requirements and the stability of the institution's access to funding.

Strong Liquidity Position to Remain Stable as a Result of Conservative Liquidity Management

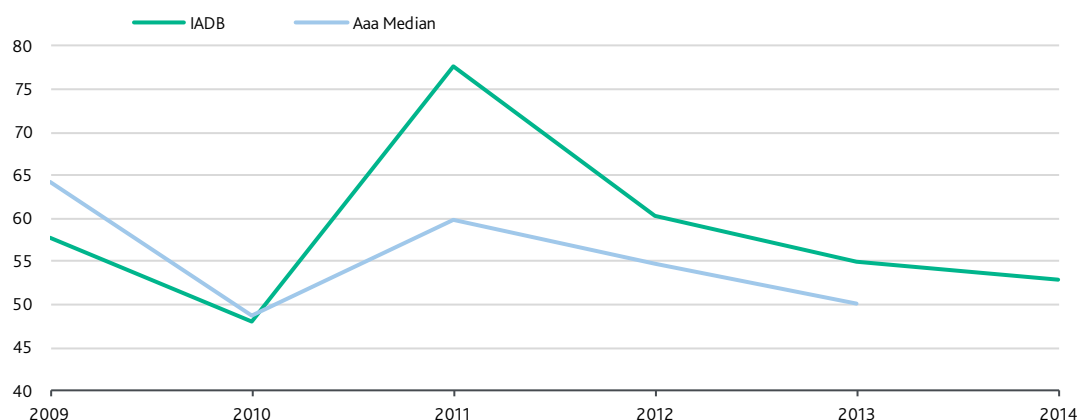
The IADB scores high for its liquidity position as measured by the ratio of short-term and currently-maturing long-term debt to liquid assets. As of year-end 2014 the ratio was 53.0%. Over the period 2009-13 the ratio ranged from roughly 48% to 77%, consistently qualifying for at least a high assessment for liquidity position. Although the IADB's debt service coverage ratio was less favorable than for most peers in recent years, it remains in line with Aaa peers (see Exhibit 5).

⁷ Lending rates applicable to floating-lending-rate sovereign loans are based on the Bank's Libor funding cost plus the Bank's lending spread. Lending rates applicable to adjustable-lending-rate sovereign loans are based on the average cost of the pool of borrowings funding these loans, plus the Bank's lending spread. Lending rates applicable to floating-lending-rate non-sovereign loans are based on Libor plus a lending spread based on the credit risk.

EXHIBIT 5

Debt Service Coverage Remains High

(Debt service coverage ratio, currently maturing long- and medium-term debt plus short-term debt-to-liquid assets, %)



Source: IADB and Moody's

Looking at a broader maturity breakdown of the IADB's total outstanding debt stock (see Exhibit 6), this is stable and favorable with most bonds falling in the medium- and long-term buckets during the past three years.

EXHIBIT 6

Maturity of Outstanding Borrowings

(% of total)

	2011	2012	2013	2014
1 year or less	17.1	13.1	16.0	19.0
1-5 years	52.4	55.5	56.4	57.8
Over 5 years	30.5	31.4	27.6	23.2

Source: IADB and Moody's

The Bank's liquidity position will remain stable in the high assessment as a result of its liquidity policy, which is currently being reviewed. The policy manages liquidity based on expected future cash outflow needs. It dictates that the Bank's liquid assets must cover between six and 12 months, plus 30% of the 12 month target,⁸ of debt repayments and loan disbursements. The IADB's policy is different from many other MDBs because it stipulates coverage of gross cash outflows, that is, without relying on loan collection ability. Many MDBs' policies use a net cash outflow base. The Bank excludes assets funded with debt from the discount note program from the calculation of liquid holdings. The Bank is consistently compliant with its policy.

Large and Diversified Borrowing Program Underpins Very Strong and Stable Access to Funding

The Bank has very strong and stable market access. The primary objective of its borrowing policy is to obtain the necessary resources to finance its lending program at the best possible cost for its borrowing members while ensuring that it achieves its volume and investor diversification strategies in various markets. This diversification supports our very high assessment of market access, which was reinforced during 2008-09 when the Bank significantly increased its borrowings despite the global financial markets' near collapse. Medium- and long-term borrowings of the Bank consist mostly of bonds. The Bank has short-term borrowing facilities such as its discount note program.

⁸ The additional 30% was an amendment to the policy and was approved by the Board during the final months of 2013. In addition, the amendment allows the Bank to target more than 12 months if it deems it appropriate to do so.

The Bank's large, established annual borrowing program includes strategic benchmark global bond issues and smaller transactions targeted to particular segments of demand. The 2014 program consisted of 88 total transactions for an aggregate face value amount of \$21.0 billion that generated proceeds of \$20.9 billion. The borrowing program has a global scope with 46% of the bond placements during 2014 taking place in Europe, the Middle East and Africa, 31% in Asia, and 23% in the Americas.

While 77.4% of the total debt stock as of end-2014 is denominated in US dollars, the Bank has bonds in 19 different currencies. FX risk is effectively eliminated by the Bank's Charter, which requires the matching of after-swap borrowing obligations in any one currency with assets in the same currency. As of end-2014, 100% of total medium- and long-term borrowings after swaps are in US dollars.

Strength of Member Support: Very High

Membership Structure and Debt Policy Underpins Strength of Member Support

Factor 3



Contractual support primarily manifests itself in the callable capital pledge, which is a form of emergency support. Extraordinary support is a function of shareholders' ability and willingness to support the institution in ways other than callable capital. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Favorable Member Structure

The IADB's member base consists of borrowing regional developing members and non-borrowing regional and non-regional advanced members (see Exhibit 7). Despite the US owning 30%, the overall shareholding distribution exhibits low concentration. The Bank has a very favorable member base profile in that it results in low financial and economic linkages among members as well as low correlation among members and assets.

The IADB has regional members as well as non-regional members from North America, Europe, and Asia. This geographic diversification reduces the likelihood that financial and economic linkages among members would weaken the ability of a large portion of its members to provide financial assistance as a result of one country's woes. This differs from other regional development banks that have low diversification of their member base, dominated by the countries from the region in which they lend. This results in a higher likelihood of contagion risk among members, which weakens the overall strength of member support.

EXHIBIT 7

Capital Subscriptions of the Largest Members

(December 31, 2014, \$ Million)

Member Countries	FC Gov Bond Rating	Paid-in	Callable	Subscribed	Subscribed % Total	Voting Power % Total
Regional Developing						
Argentina	Caa1/Negative	590	15,403	15,993	11	11
Brazil	Baa2/Negative	590	15,403	15,993	11	11
Mexico	A3/Stable	379	9,902	10,281	7	7
Venezuela	Caa3/Stable	249	5,569	5,818	4	4
Chile	Aa3/Stable	162	4,230	4,392	3	3
Colombia	Baa2/Stable	162	4,230	4,392	3	3
Others		541	13,925	14,426	10	10
Total Regional Developing		2,673	68,662	71,295	50	50

EXHIBIT 7

Capital Subscriptions of the Largest Members

(December 31, 2014, \$ Million)

Member Countries	FC Gov Bond Rating	Paid-in	Callable	Subscribed	Subscribed % Total	Voting Power % Total
United States	Aaa/Stable	1,609	41,303	42,912	30	30
Canada	Aaa/Stable	215	6,896	7,111	5	4
Non-Regional						
Japan	A1/Stable	268	6,883	7,151	5	5
Spain	Baa2/Positive	103	2,678	2,781	2	2
France	Aa1/Negative	102	2,609	2,710	2	2
Germany	Aaa/Stable	102	2,609	2,710	2	2
Italy	Baa2/Stable	102	2,609	2,710	2	2
Others		177	4,510	4,687	3	3
Total Non-Regional		787	19,223	20,010	15	16
Grand Total		5,357	138,902	144,258	100	100

Source: IADB and Moody's

The presence of non-borrowing members adds to the strength of the IADB's member support because it results in low correlation among members and assets. The Bank would face stress if a large number of its borrowers were to default on its loans. Those defaulted members, in turn, would be highly unlikely to be able to provide financial assistance to the Bank. The non-borrowers, who did not already contribute to the Bank's stress, would be more likely able to step in and provide financial assistance.

Contractual Support Assessment Likely to Remain Very High Due to Borrowing Policy

The Bank's contractual support is assessed as very high based on the callable capital (CC) coverage of debt stock indicator. At end-2014 the ratio of debt to discounted CC was 73.6%, a very strong level. This ratio will always remain in the very high bucket because of the Bank's policy of limiting its net borrowings to the CC stock of non-borrowing member countries. In our ratio, we include the CC of all members rated Baa3 or higher, whether or not they are non-borrowers. At end-2014, members rated Baa3 or higher pledged 78.4% of the Bank's CC; this ratio had been increasing steadily since 2006 before peaking at 82.7% in 2013. Given the likely long-term rating distribution of the IADB's non-borrowing members, and the presence of some borrowing members rated Baa3 or higher, the IADB's policy is likely to always limit its debt such that our ratio would not go over 100%.

As with many MDBs, the portion of the IADB's subscribed capital that is callable is high at 96%. The Bank's callable capital can be used only to meet the Bank's obligations on borrowings and guarantees that arise from its OC operations. Callable capital is considered a "full faith and credit obligation" of each member government. Each member's requirement to pay its callable capital is independent of that of the other members. Should the Bank need to make a capital call, that call must be proportionate among all of the members. If any member should fail to meet its obligations, the Bank must make successive calls until the full amount required is obtained; no country, however, can be required to pay more than its total callable subscription. The IADB has never called capital.

A Portion of the US Callable Capital is Already Authorized and Appropriated by Congress

At year-end 2014, the total subscription of the United States was \$42.9 billion, of which \$1.6 billion was paid-in capital and \$41.3 billion callable capital. Regarding the callable portion, \$3.8 billion have been authorized and appropriated – without fiscal year limitation – by Congress implying that no further appropriation is necessary to enable the US Treasury to pay this amount, if any part were to be called upon.

The balance of the United States' callable capital (\$37.5 billion) has been authorized by Congress, but not yet appropriated. An opinion of the General Counsel of the Treasury dating to 1979 stated that: (a) appropriations were not legally required to back subscriptions to callable capital unless - and until - payment was required of the United States on a call made by the Bank; (b) an appropriation was not required to make United States callable capital a binding obligation backed by the full faith and credit of the United States; (c) an obligation contracted by the United States - pursuant to a Congressional grant of authority - is fully binding for constitutional purposes, notwithstanding that a future appropriation might be necessary in order to fund that obligation.

Ability and Willingness of Members to Provide Extraordinary Support Is Very High

We assess the IADB's members to have very high extraordinary support for the organization. Members' ability to financially support the Bank is moderate based on a weighted median shareholder rating of A3 (using capital subscription data and foreign currency government bond ratings as of December 31, 2014).

Member's willingness to support the Bank is very strong based on a very high assessment of both the propensity and priority to support. Helping form our assessment of propensity to support are: (i) the recent general capital increase which indicates that the members remain supportive of the Bank's mandate and are satisfied with its effectiveness in meeting that mandate; (ii) the actions of Canada in 2009⁹ in providing temporary callable capital to support the Bank's counter-cyclical lending efforts; (iii) the very strong sense of ownership resulting from the borrowing members having majority voting power which avoids the situation where members feel under-represented; and (iv) the Bank's strong international standing and brand which indicates important political linkages and reputation risk that could compel members to provide support.

We also assess the priority of member's support of the IADB to be very high. The U.S., as the largest owner, subscribes a significant portion of capital at 30%. This level of ownership is among the highest shareholding that the US has among all of the MDBs in which it participates, indicating a relatively strong sense of ownership. The other largest shareholders, Argentina, Brazil, and Mexico, are also likely to prioritize support of the IADB over other MDBs because they do not participate as significantly in other MDBs.

⁹ In order to expand the Bank's Ordinary Capital short-term lending envelope, the Bank accepted in 2009 an offer from Canada to increase its callable capital on a temporary basis and with no voting rights attributed to the increased subscription. This resulted in an increase in the Bank's borrowing capacity, and thus its lending capacity, by the same amount. Canada increased its callable capital by \$4 billion; the paid-in capital stock of the Bank remained unchanged. The terms and conditions of Canada's subscription stipulated that the subscription was on a temporary basis, with Canada having the right to replace it with shares issued under a future capital increase, as and when effective. Accordingly, on 29 February 2012, Canada exercised its right and, effective on 29 February 2012 and 28 February 2013, replaced 40,358 non-voting callable shares, in the amount of \$487 million each year, with an equal amount of voting callable shares, representing the first and second installments, respectively, of shares allocated under the current general capital increase ("IDB-9"). As of December 31, 2014, Canada has replaced a total of 135,909 non-voting callable shares in the amount of \$1,640 million with an equal amount of voting callable shares. In addition, in July 2014 Canada returned 83,722 callable shares in the amount of \$1,010 million. The full amount of non-voting callable shares will be replaced or returned by the end of 2015.

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our [Supranational Rating Methodology](#).

Supranational Rating Metrics: Inter-American Development Bank

Capital Adequacy

How strong is the capital buffer?

Sub-Factors: Capital Position, Leverage, Asset Performance

Very High High Medium Low Very Low

+  -

Liquidity

How strong is the institutions' shock absorption capacity?

Sub-Factors: Position, Funding

Very High High Medium Low Very Low

+  -

Strength of Member Support

How strong is members' support of the institution?

Sub-Factors: Contractual Support, Extraordinary Support

Very High High Medium Low Very Low

+  -

Intrinsic Financial Strength

Very High High Medium Low Very Low

+  -

Rating Range:
Aaa-Aa2

Assigned Rating:
Aaa

Comparatives

This section compares credit relevant information regarding the IADB with other supranationals rated by Moody's Investors Service. It focuses on a comparison with supranationals within the same rating range and shows selected credit metrics and factor scores.

The IADB is the third largest MDB of the peer group, based on total assets. Its capital adequacy is similar to the median for the entire Aaa-rating category. Its asset performance, as measured by the NPL ratio, stands out as very strong. Liquidity is strong as well with indicators right around the Aaa median. Regarding member support, the IADB scores well in terms of the contractual support assessment, largely because of its conservative debt limit. While the overall ability of its members to support the Bank – as defined by the weighted median shareholder rating – is significantly below the median for Aaa-rated MDBs, the Bank is not the weakest in the peer group.

EXHIBIT 8

IADB Key Peers

	Year	IADB[5]	IBRD[6]	ADB	AfDB	EBRD	NIB	Aaa Median
Rating/Outlook		Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	--
Total Assets (US\$ million)	2013	106,299	358,883	115,868	32,335	67,518	32,395	67,518
Factor 1		Very High	Very High	Very High	High	Very High	Very High	--
Usable Equity/Gross Loans Outstanding + Equity Operations (%) ^[1]	2013	31.8	25.3	31.8	48.4	56.3	19.3	32.8
Debt/Usable Equity (%) ^[1]	2013	326.2	413.0	359.6	222.0	209.7	663.9	222.0
Gross NPLs/Gross Loans Outstanding (%) ^[2]	2013	0.2	0.3	0.0	2.9	3.3	0.0	0.3
Factor 2		Very High	Very High	Very High	Very High	Very High	Very High	--
ST Debt + CMLTD/Liquid Assets (%) ^[3]	2013	53.0	78.7	54.6	37.3	40.8	67.0	54.6
Bond-Implied Ratings (Long-Term Average)		--	--	Aaa	Aaa	Aa2	Aaa	Aaa
Intrinsic Financial Strength (F1+F2)		Very High	Very High	Very High	Very High	Very High	Very High	--
Factor 3		Very High	Very High	Very High	Very High	Very High	Medium	--
Total Debt/Discounted Callable Capital (%) ^[4]	2013	73.6	92.8	46.2	47.5	145.4	329.7	83.3
Weighted Median Shareholder Rating (Year-End)	2013	A3	Aa3	Aa3	Ba3	Aa1	Aaa	Aa1
Rating Range (F1+F2+F3)		Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	Aaa-Aa2	--

Notes:

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

[2] Non performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledge by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings

[5] IADB data is for the year ending December 31, 2014

[6] IBRD data is for the year ending June 30, 2014

Where:

IBRD=International Bank for Reconstruction and Development (World Bank)

ADB=Asian Development Bank

AfDB=African Development Bank

EBRD=European Bank for Reconstruction and Development

NIB=Nordic Investment Bank

Source: Moody's, respective MDB financial statements

Appendices

Rating History

Inter-American Development Bank

	Issuer Rating		Senior Unsecured	Outlook	Date
	Long-term	Short-term			
Rating Affirmed	Aaa	--	--	--	September-14
Rating Assigned	--	P-1	--	--	January-01
Outlook Assigned	--	--	--	Stable	March-97
Rating Assigned	Aaa	--	--	--	December-94
Rating Assigned	--	--	Aaa	--	February-75

Annual Statistics

Inter-American Development Bank

	2007	2008	2009	2010	2011	2012	2013	2014
Balance Sheet (USD Millions)								
Assets	69,907	72,510	84,006	87,217	89,432	92,209	97,007	106,299
Cash	200	301	242	242	1,189	1,021	421	535
o/w Unrestricted Convertible Currencies	65	170	111	106	1,016	860	269	395
Investments	16,165	16,234	20,114	16,356	13,703	14,399	21,015	27,395
Gross Loans Outstanding	47,954	51,173	58,049	63,007	66,130	68,640	70,679	74,585
Less Provision for Loan Losses	-51	-136	-116	-145	-150	-180	-244	-370
Equals Net Loans Outstanding	47,903	51,037	57,933	62,862	65,980	68,460	70,435	74,215
Receivable from Currency Swaps	3,026	3,460	3,895	5,932	7,040	6,803	3,440	2,861
Other Assets	2,613	1,478	1,822	1,825	1,520	1,526	1,696	1,293
Liabilities	49,554	53,066	63,332	66,257	69,638	71,528	73,457	82,602
Total Borrowings	47,049	49,394	60,307	62,953	63,923	65,565	68,701	77,309
Payable for Currency Swaps	1,024	1,917	1,219	1,628	2,532	2,567	2,774	2,669
Other Liabilities	1,481	1,755	1,806	1,676	3,183	3,396	1,982	2,624
Equity	20,353	19,444	20,674	20,960	19,794	20,681	23,550	23,697
Subscribed Capital	100,953	100,938	104,980	104,980	104,980	116,880	128,781	144,258
Less Callable Capital	-96,613	-96,599	-100,641	-100,641	-100,641	-112,240	-123,840	-138,901
o/w Callable Capital of Aaa-Baa3 Members	58,979	58,979	74,389	75,223	78,025	88,343	102,357	108,887
o/w Callable Capital of Non-Borrowing Members	48,302	48,288	52,330	52,330	52,330	57,884	63,438	70,095
Equals Paid-in Capital	4,340	4,339	4,339	4,339	4,339	4,640	4,941	5,357
Capital Subscriptions Receivable	--	--	--	--	--	-18	-1	-84
Receivable from Members	--	--	--	--	--	--	-262	-246
Retained Earnings	14,576	14,647	15,441	15,771	15,488	16,392	17,699	18,247
Accumulated Other Comprehensive Income (Loss)	1,437	458	894	850	-33	-333	1,173	423
Total Liabilities and Equity	69,907	72,510	84,006	87,217	89,432	92,209	97,007	106,299
Memo:								
Undisbursed Balances of Approved Loans	16,428	19,820	21,555	22,357	23,994	26,987	29,207	31,601
Total Guarantees	689	1,035	988	814	980	761	871	251

Inter-American Development Bank

	2007	2008	2009	2010	2011	2012	2013	2014
Income Statement (USD Millions)								
Total Gross Income	2,942	1,393	2,848	2,482	1,980	2,189	2,284	1,943
Interest on Loans	2,404	2,301	1,934	1,764	1,683	1,601	1,768	1,659
Credit Commission	32	54	68	66	59	67	90	82
Investment Income	487	-973	831	624	108	382	215	114
Other	19	11	15	28	130	139	211	88
Total Gross Expenses	2,659	2,365	1,554	1,230	1,144	1,279	1,403	1291
Borrowing Expenses	2,135	1,764	951	550	462	519	401	398
Administrative Expenses	500	439	530	573	600	663	813	668
Provision for Loan Losses	-13	93	-21	24	3	22	58	118
Other	37	69	94	83	79	75	131	107
Income before Net Fair Value Adjustments on Non-Trading Portfolios and Foreign Currency Transactions and Board of Governors Approved Transfers	283	-972	1,294	1,252	836	910	881	652
Net Fair Value Adjustments on Non-Trading Portfolios and Foreign Currency Transactions	-149	950	-500	-850	-919	194	626	96
Board of Governors Approved Transfers	--	--	--	-72	-200	-200	-200	-200
Total Net Income (Loss)	134	-22	794	330	-283	904	1,307	548

Inter-American Development Bank

	2007	2008	2009	2010	2011	2012	2013	2014
FINANCIAL RATIOS								
Capital Adequacy (%)								
Usable Equity/Gross Loans Outstanding ^[1]	42.4	38.0	35.6	33.3	29.9	30.1	33.3	31.8
Debt/Usable Equity	231.2	254.0	291.7	300.3	322.9	317.0	291.7	326.2
Gross NPLs/Gross Loans Outstanding ^[2]	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2
Allowance for Loan Losses/Gross NPLs ^[2]	--	--	--	--	--	204.5	212.2	209.0
Return on Average Assets	0.2	0.0	1.0	0.4	-0.3	1.0	1.4	0.5
Interest Coverage Ratio (x)	1.1	1.0	1.8	1.6	0.4	2.7	4.3	2.4
Liquidity (%)								
Liquid Assets/Total Assets	23.2	22.6	24.1	18.9	16.5	16.5	21.9	26.1
Liquid Assets/Total Debt	34.5	33.2	33.5	26.1	23.0	23.3	31.0	35.9
ST Debt + CMLTD/Liquid Assets ^[3]	59.5	55.0	57.7	48.0	77.7	60.2	54.9	53.0
Bond-Implied Ratings (Average)	Aaa	Aaa	Aa1	Aaa	Aaa	Aaa	Aa1	Aa1
Strength of Member Support (%)								
Callable Capital of Aaa-Baa3 Members/Total Callable Capital	61.0	61.1	73.9	74.7	77.5	78.7	82.7	78.4
Total Debt/Discounted Callable Capital ^[4]	80.8	84.8	83.4	86.1	84.8	78.7	73.3	73.6
Weighted Median Shareholder Rating (Year-End)	A2	A2	Aa2	Aa2	Aa3	Baa1	Baa1	A3

Notes:

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

[2] Non-performing loans

[3] Short-term debt and currently-maturing long-term debt

[4] Callable capital pledged by members rated Baa3 or higher, discounted by Moody's 30-year expected loss rates associated with ratings

Source: IADB and Moody's

Moody's Related Research

Credit Opinion:

- » [Inter-American Development Bank](#)

Rating Methodologies:

- » [Multilateral Development Banks and Other Supranational Entities, December 2013 \(161372\)](#)
- » [Sovereign Bond Ratings, September 2013 \(157547\)](#)

Moody's Website Links:

- » [Sovereign Risk Group Webpage](#)
- » [Supranational Ratings List](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites

For additional information, please see:

- » The IADB's website: www.iadb.org

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