

ISSUER IN-DEPTH

30 March 2016

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RATINGS

IADB

	Rating
Senior Unsecured	Aaa
Long-Term Issuer Rating	Aaa
Other Short Term	(P)P-1

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Contacts

Renzo Merino Analyst renzo.merino@moody's.com	212-553-0330
Matt Kulakovskiy Associate Analyst matt.kulakovskiy@moody's.com	212-553-2755
Jaime Reusche VP-Senior Analyst jaime.reusche@moody's.com	212-553-0358
Mauro Leos VP-Sr Credit Officer mauro.leos@moody's.com	212-553-1947

Inter-American Development Bank - Aaa Stable

Annual Credit Analysis

Overview and Outlook

The Inter-American Development Bank's (IADB) credit strengths are its (i) solid capital base, (ii) strong commitment from 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 shareholders represents a fundamental factor behind the Aaa rating. 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. 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-2015.

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 Inter-American Development Bank's (IADB, Aaa stable) credit profile in terms of Capital Adequacy, Liquidity and Strength of Member Support, which are the three main analytical factors in Moody's [Supranational Rating Methodology](#).

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

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 2015, the relative voting power among member countries is as follows: (i) Latin America and the Caribbean: 50.01%; (ii) the United States: 30.01%; (iii) Canada: 4.00%; and (iv) non-regional members: 15.98%.

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

The IADB makes loans and provides technical assistance exclusively to entities in its member countries in the region. These entities are primarily governments, government agencies, and development institutions (the sovereign-guaranteed portfolio) but also include private-sector businesses (the non-sovereign guaranteed portfolio).

A resolution adopted by the Boards of Governors of the IADB and the IIC at the 2015 Annual Meetings in Busan began a process under which the IADB Group's private sector operations would be transitioned towards the IIC. The process involves a capital increase for the IIC in 2016-22, in addition to conditional capital transfers from the IADB to IIC in 2018-25 (total of \$725 million). During this period IADB will cross-book lending operations to the private sector with the IIC and maintain its portion of the loans in its balance sheet, including its existing non-sovereign guaranteed loans. In our view, this refocusing of private sector activities within the IADB Group will not have an impact on the IADB's creditworthiness.

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.

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, of which \$1.7 billion will be paid in during the years 2012-2016 and the remainder is callable capital. Members made the first four installments, which amounted to \$1.36 billion in total over 2012-15. 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 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 previous capital increase in 1996.²

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, 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

Scale Very High High Medium Low Very Low



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.

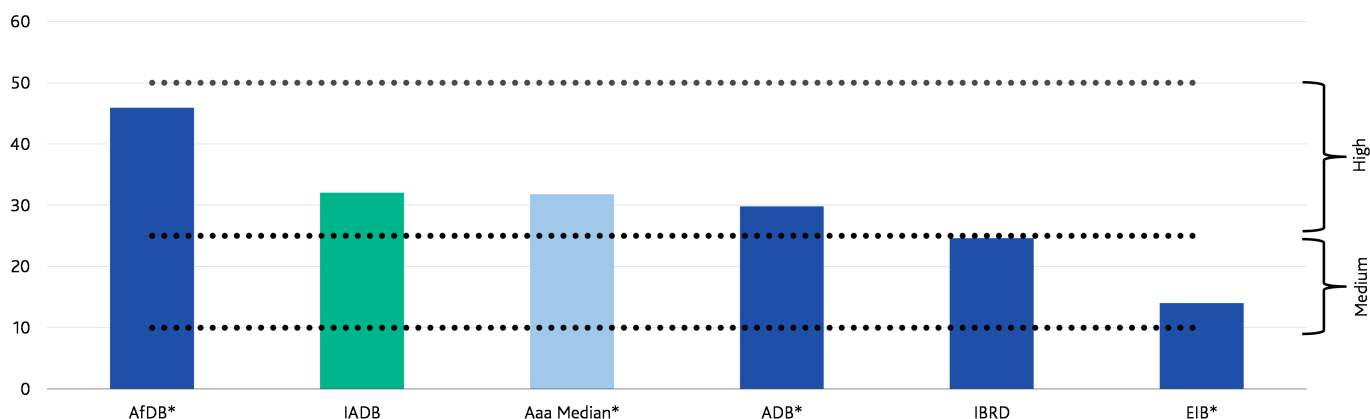
Strong Capital Position Resulting from High Asset Coverage

The IADB's asset coverage is strong, as indicated by the usable equity-to-gross loans outstanding ratio of 32% at year-end 2015, essentially unchanged from 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 in 2016 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 %)



* - based on 2014 financials

Source: IADB and Moody's

The IADB's capital adequacy mandate aims to ensure that the Bank has sufficient equity to enable it to maintain its Aaa rating status during times of economic distress. In October 2015, IADB revised its Capital Adequacy Policy (CAP), and approved a revised Income Management Model (IMM). Management now targets a Capital Coverage Ratio (CCR), which replaces the previous CAP metric of Capital Utilization Ratio. The CCR is constructed as the ratio of Adjusted Equity and Base Capital Requirements. Adjusted Equity is computed summing paid-in capital and retained earnings, and subtracting restricted local currency cash and receivables from members. The CCR can be calculated in terms of both an Issuer Credit Rating (ICR), which includes Aaa-callable capital, and a Stand-Alone Credit Profile (SACP), which does not include any callable capital. In accordance with the CAP, the Bank's capitalization is determined by either the CCR-ICR or CCR-SACP, whichever is most binding at any given point in time. Depending on the level of the

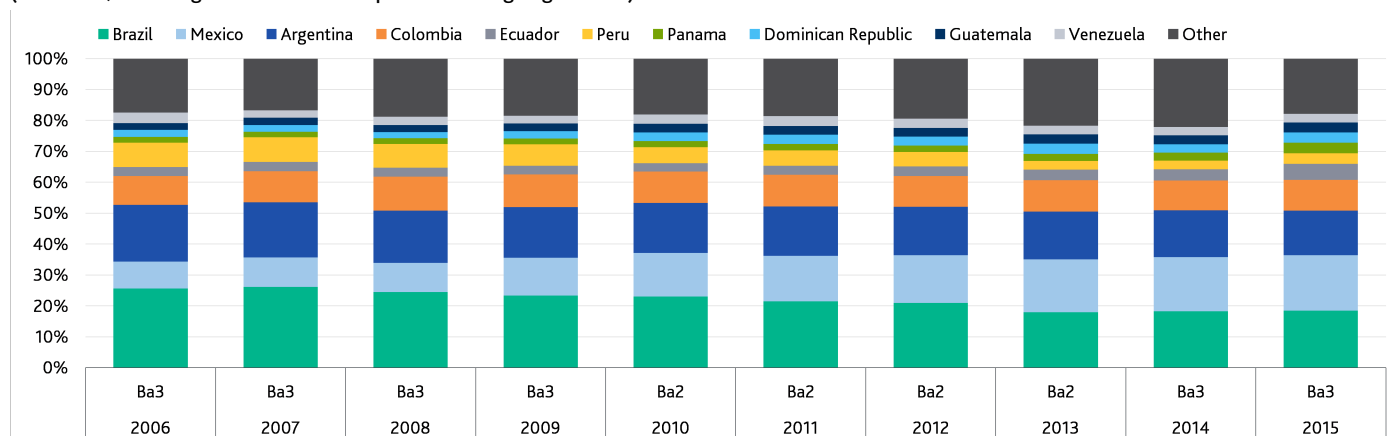
CCR, management will pursue an action plan to ensure the CCR returns to the "Buffer Zone". As of year-end 2015, the Bank's CCR metric was positioned in the Buffer Zone at 124.6% with the inclusion of callable and 118.2% excluding callable capital.

IADB Faces 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, 2015 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 (% of total, excluding the effect of the Exposure Exchange Agreement)



Source: IADB and Moody's

The Bank's loan exposure is highly concentrated in 10 countries that consistently account for around 80% of the total. Brazil and Mexico have been the Bank's largest public-sector borrowers since 2013, followed closely by Argentina, and then Colombia and Ecuador. With the goal of reducing this concentration risk, the IADB entered into an Exposure Exchange Agreement (EEA) in December 2015 with the African Development Bank and the World Bank (IBRD). The EEA is an instrument to exchange sovereign risk synthetically in order to reduce portfolio concentration and thus lower capital requirements. Some details on the EEA include:

- » The EEA does not involve a direct exchange of credit exposures or loan assets and all aspects of the client relationship remain with the originating MDB.
- » Each MDB is required to retain a minimum of 50% of the total exposure to each country that is part of the EEA.
- » The Bank's EEA transactions must remain within 10% of the sovereign outstanding loan balance and individual country exposures are not to exceed the Bank's 10th largest SG exposure.
- » If a non-accrual event occurs for one of the countries that are part of the EEA transactions, the EEA Seller compensates the EEA Buyer at an agreed upon rate set at USD six-month LIBOR+75bps.

With the EEA, the IADB top 10 loan exposures drop to 72.2% in 2015 from 77.7% without the exchange. Moreover, 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.

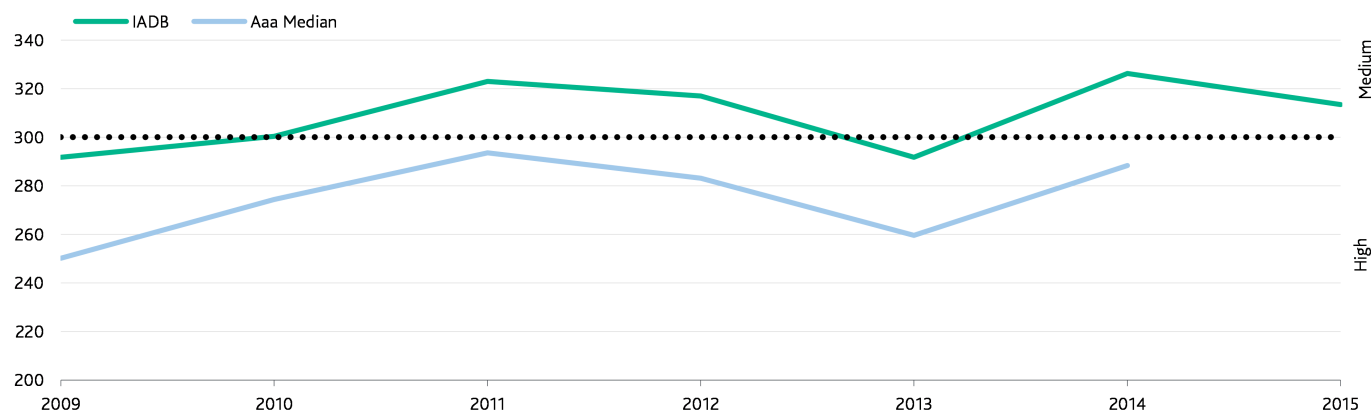
Moderate Leverage That Tracks Peers

The IADB's leverage scores medium based on a Debt-to-Usable Equity ratio of 313.5% at end-2015. This ratio fell below 300% in 2013, but returned to its 2011-12 levels in subsequent years as retained earnings accumulation and members' capital contributions were

outpaced by debt build-up. Although the IADB's leverage ratio has remained somewhat higher than the Aaa-median in recent years, the overall trends have stayed the same (see Exhibit 3).

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 financial policy framework.³ At year-end 2015, the IADB's total outstanding debt amounted to \$79.2 billion excluding swaps, up from \$77.3 billion in 2014. 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 2015, the Bank's loan book had only \$186 million of loans with payments late by 90+ days, which translates to a non-performing loans-to-total loans ratio (the NPL ratio) of 0.2%, unchanged from 2014. All incidents of non-performance stemmed from the bank's non-sovereign-guaranteed loan book. As there were no payments missed by 90+ days on any sovereign-guaranteed loans, the NPL ratio for the bank's core sovereign business remained unchanged at 0.0%. 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 and 2008 the country continued to service IADB loans without interruption; and (ii) after Argentina fell into arrears at the peak of the crisis in 2002, forcing the IADB to implement a 7-day disbursement suspension,⁴ the country serviced its IADB loans in a full and timely manner.

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 0.9% in 2015, though above its ten-year average level of 0.5%. The 2015 results marked an improvement from the Bank's performance in 2014, when its bottom line was adversely affected by a shrinking net interest margin, but still fell short of profits reported in 2013, the Bank's strongest year since 2004. The

2015 reversal was attributed primarily to higher unrealized fair-value gains on non-trading instruments, widening net interest margin, and lower provisions, partially offset by higher operating expenses.

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 spread⁵ 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. More recently, to support capital accumulation, build capital buffers, and maintain coverage of administrative expenses the Bank restated its Income Management Model (IMM) in H2 2015 and increased its previously approved 2015 lending spread and credit commission fee by 30 and 25 basis points, respectively.

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

Scale Very High High Medium Low Very Low

+  -

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.

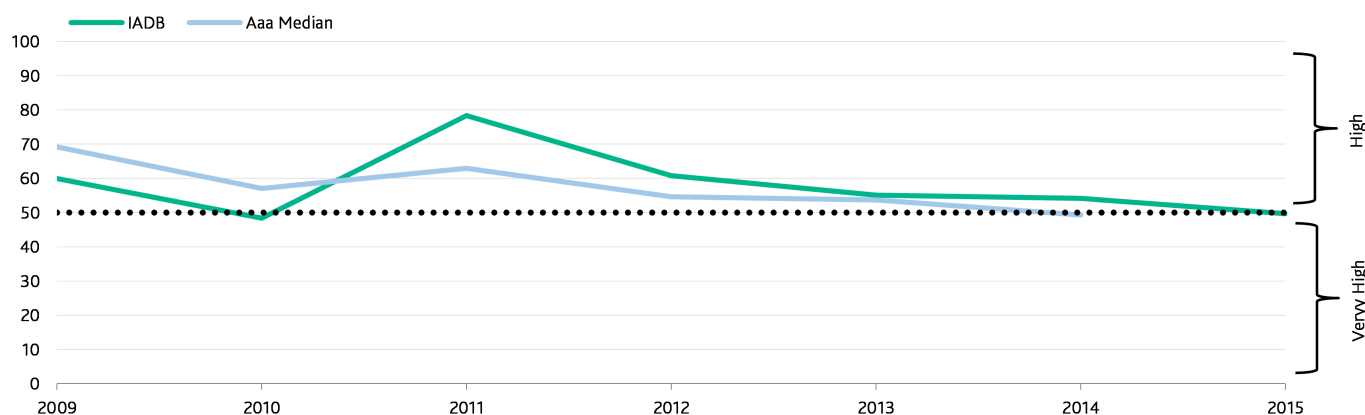
Strong Liquidity Position to Remain Stable as a Result of Conservative Liquidity Management

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 2015 the ratio was 49.6%. Over the period 2009-14 the ratio ranged from roughly 48% to 78%, 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 4).

Exhibit 4

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 5), this is stable and favorable with most bonds falling in the medium- and long-term buckets during the past three years.

Exhibit 5

Maturity of Outstanding Borrowings

(% of total)

	2011	2012	2013	2014	2015
1 year or less	17.1	13.1	16	18.3	17.6
1-5 years	52.4	55.5	56.4	58.3	61.2
Over 5 years	30.5	31.4	27.6	23.4	21.2

Source: IADB and Moody's

The Bank's liquidity position will remain stable in the high assessment as a result of its liquidity policy. The policy manages liquidity based on expected future cash outflow needs. It dictates that the Bank's liquid assets must cover at a minimum 12 months of projected net cash requirements, after accounting for liquidity haircuts. 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.

The Bank's large, established annual borrowing program includes strategic benchmark global bond issues and smaller transactions targeted to particular segments of demand. The 2015 program consisted of 94 total transactions that generated proceeds of \$18.8 billion. The borrowing program has a global scope with 52% of the bond placements during 2015 taking place in Europe, the Middle East and Africa, 28% in Asia, and 20% in the Americas.

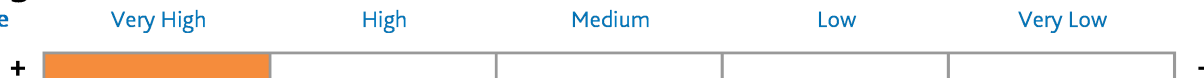
While 81% of the total debt stock as of end-2015 is denominated in US dollars, the Bank has bonds in 18 different currencies. FX risk is effectively eliminated by the Bank's Charter, which requires the matching of after-swap borrowing obligations in any one currency with assets in the same currency. As of end-2015, 99% of outstanding 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

Scale



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 6). 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.

Exhibit 6

Capital Subscriptions of the Largest Members (December 31, 2015, \$ Million)

Member Countries	FC Gov Bond Rating	Paid-in	Callable	Subscribed	Subscribed, % Total	Voting Power, % Total
Regional Developing						
Argentina	Caa1/Positive	631.4	17,072.70	17,704.10	11.3	11.3
Brazil	Baa3/RUR-	631.4	17,072.70	17,704.10	11.3	11.3
Mexico	A3/Stable	405.9	10,975.00	11,380.90	7.3	7.3
Venezuela	Caa3/Stable	249.3	5,568.50	5,817.80	3.7	3.7
Chile	Aa3/Stable	173.4	4,688.50	4,861.90	3.1	3.1
Colombia	Baa2/Stable	173.4	4,688.50	4,861.90	3.1	3.1
Others		585.5	15,572.60	16,158.10	10.3	10.3
Total Regional Developing		2,850.30	75,638.50	78,488.80	50.0	50.0
United States	Aaa/Stable	1,711.10	45,401.90	47,113.00	30.0	30.0
Canada	Aaa/Stable	228.1	6,052.20	6,280.30	4.0	4.0
Non-Regional						
Japan	A1/Stable	285.1	7,565.70	7,850.80	5.0	5.0
Spain	Baa2/Positive	110.3	2,959.70	3,070.00	2.0	2.0
Italy	Baa2/Stable	110.3	2,959.70	3,070.00	2.0	2.0
France	Aa2/Stable	108	2,867.50	2,975.50	1.9	1.9
Germany	Aaa/Stable	108	2,867.50	2,975.50	1.9	1.9
Others		187.9	4,927.10	5,115.00	3.3	3.3
Total Non-Regional		909.6	24,147.20	25,056.80	16.0	16.0
Grand Total		5,699.10	151,239.80	156,938.90	100.0	100.0

As of March 20, 2016: Brazil downgraded to Ba2/Negative; Venezuela outlook changed to Negative; Spain outlook changed to stable
Source: IADB and Moody's

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.

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-2015 the ratio of debt to discounted CC was 79.8%, a very strong level. Absent a wave of multi-notch downgrades below investment grade in Western Europe, 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 they are borrowers or not. Furthermore, CC pledged by members rated Baa3 is excluded if their ratings carry a negative outlook or are under review for downgrade. Brazil's callable capital contribution of \$17.1 billion as of year-end 2015 was therefore excluded from the calculation. At end-2015, members meeting those criteria accounted for 78.4% of the Bank's CC.

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 2015, the total subscription of the United States was \$47.1 billion, of which \$1.7 billion was paid-in capital and \$45.4 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 (\$41.6 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, 2015).

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 2009 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.

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: IADB

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

Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding the IADB with other supranational entities rated by Moody's Investors Service. It focuses on a comparison with supranationals within the same rating range and shows the relevant 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, is relatively strong. Liquidity is robust 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 7

IADB's 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)	2014	111,139	343,225	115,660	33,251	63,724	30,195	67,518
Factor 1		Very High	Very High	Very High	High	Very High	Very High	--
Usable Equity/Gross Loans Outstanding + Equity Operations (%) ^[1]	2014	32.1	24.6	29.8	45.9	54.8	20	32.8
Debt/Usable Equity (%) ^[1]	2014	313.5	425.9	370.2	236.4	250.6	680.4	222
Gross NPLs/Gross Loans Outstanding (%) ^[2]	2014	0.2	0.3	0	3.1	5.6	0.1	0.3
Factor 2		Very High	Very High	Very High	Very High	Very High	Very High	--
ST Debt + CMLTD/Liquid Assets (%) ^[3]	2014	49.6	74.1	57.9	16.6	43.7	64.2	54.6
Bond-Implied Ratings (Long-Term Average)	2014	Aa1	Aaa	Aaa	Aa1	Aa1	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	High	Medium	--
Total Debt/Discounted Callable Capital (%) ^[4]	2014	79.8	87.4	48.5	52.1	165.3	356.4	83.3
Weighted Median Shareholder Rating (Year-End)	2014	A3	Aa3	Aa3	Ba2	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 as of its most recent FY-end, 31 December 2015

[6] IBRD data is as of its most recent FY-end, 30 June 2015

Source: Moody's, respective MDB financial statements

Rating History

IADB

	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

Source: Moody's

Annual Statistics

IADB

	2009	2010	2011	2012	2013	2014	2015
Balance Sheet, USD Millions							
Assets							
Cash & Equivalents	242	242	1,189	1,021	421	535	641
Securities	20,114	16,356	13,703	14,399	21,015	27,395	27,901
Derivative Assets	3,895	5,932	7,040	6,803	3,440	2,861	2,224
Net Loans	57,933	62,862	65,980	68,460	70,435	74,215	78,301
Other Assets	1,822	1,825	1,520	1,526	1,696	1,293	2,072
Total Assets	84,006	87,217	89,432	92,209	97,007	106,299	111,139
Liabilities							
Borrowings	60,307	62,953	63,923	65,565	68,701	77,309	79,160
Derivative Liabilities	1,219	1,628	2,532	2,567	2,774	2,669	3,615
Other Liabilities	1,806	1,676	3,183	3,396	1,982	2,624	3,111
Total Liabilities	63,332	66,257	69,638	71,528	73,457	82,602	85,886
Equity							
Subscribed Capital	104,980	104,980	104,980	116,880	128,781	144,258	156,939
Less: Callable Capital	100,641	100,641	100,641	112,240	123,840	138,901	151,240
Equals: Paid-In Capital	4,339	4,339	4,339	4,622	4,678	5,027	5,394
Retained Earnings (Accumulated Loss)	15,441	15,771	15,488	16,392	17,699	18,247	19,207
Accumulated Other Comprehensive Income (Loss)	894	850	(33)	(333)	1,173	423	652
Total Equity	20,674	20,960	19,794	20,681	23,550	23,697	25,253

Source: IADB, Moody's

IADB

	2009	2010	2011	2012	2013	2014	2015
Income Statement, USD Millions							
Net Interest Income	1,814	1,838	1,329	1,171	1,429	1,335	1,541
Interest Income	2,765	2,388	1,791	1,690	1,830	1,733	1,950
Interest Expense	951	550	462	519	401	398	409
Net Non-Interest Income	-417	-756	-730	693	1,080	306	555
Net Commissions/Fees Income	68	66	59	67	90	82	107
Other Income	-485	-822	-789	626	990	224	448
Other Operating Expenses	624	728	879	938	1,144	975	1,063
Administrative, General, Staff	530	573	600	663	813	668	768
Grants & Programs	94	155	279	275	331	307	295
Pre-Provision Income	773	354	-280	926	1,365	666	1,033
Loan Loss Provisions (Release)	-21	24	3	22	58	118	73
Net Income (Loss)	794	330	-283	904	1,307	548	960
Other Accounting Adjustments and Comprehensive Income	436	-44	-883	-300	1,506	-750	229
Comprehensive Income (Loss)	1,230	286	-1,166	604	2,813	-202	1,189

Source: IADB, Moody's

IADB

	2009	2010	2011	2012	2013	2014	2015
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	35.6	33.3	29.9	30.1	33.3	31.8	32.1
Debt/Usable Equity	291.7	300.3	322.9	317.0	291.7	326.2	313.5
Allowance For Loan Losses / Gross NPLS	--	--	--	204.5	212.2	209.0	238.7
NPL Ratio: Non-Performing Loans / Gross Loans	0.0	0.0	0.0	0.1	0.2	0.2	0.2
Return On Average Assets	1.0	0.4	-0.3	1.0	1.4	0.5	0.9
Interest Coverage Ratio (X)	1.8	1.6	0.4	2.7	4.3	2.4	3.3
Liquidity, %							
St Debt + CMLTD / Liquid Assets	59.6	47.9	77.5	60.2	55.0	54.1	49.6
Bond-Implied Rating	Aa1	Aaa	Aa1	Aaa	Aa1	Aa1	Aa1
Liquid Assets / Total Debt	32.5	26.2	23.1	23.3	30.9	35.2	35.4
Liquid Assets / Total Assets	23.3	18.9	16.5	16.6	21.9	25.6	25.2
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	73.9	74.7	77.5	78.7	78.8	78.4	78.4
Total Debt/Discounted Callable Capital	83.4	86.1	84.8	78.7	73.3	73.6	79.8
Weighted Median Shareholder Rating (Year-End)	Aa2	Aa2	Aa3	Aa3	Aa3	A3	A3

Source: IADB, Moody's

Moody's Related Research

Credit opinion:

- » [Inter-American Development Bank, March 2015 \(1020683\)](#)

Sector In Depth:

- » [Global Funding From Multilateral Development Banks Will Continue To Increase, September 2015 \(1008025\)](#)

Rating Methodologies:

- » [Multilateral Development Banks and Other Supranational Entities, December 2013 \(161372\)](#)
- » [Sovereign Bond Ratings, December 2015 \(186644\)](#)

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 and Information Sources

- » [The IADB website](#)

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Authors

Renzo Merino
Analyst

Matt Kulakovskiy
Associate Analyst

Endnotes

- 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 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.
- 3 "Net Borrowings" are borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps). At the end of 2015, net borrowings were \$53.5 billion, equivalent to 70.8% of that limit, down from 71.4% in 2014 and 74.0% in 2013
- 4 A disbursement suspension is imposed after an initial 30-day arrears period.
- 5 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.

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