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23 March 2017

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# Inter-American Development Bank - Aaa Stable

## Annual Credit Analysis

RATINGS

IADB

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

TABLE OF CONTENTS



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## Overview and Outlook

The Inter-American Development Bank's (IADB) credit strengths are its solid capital base, strong commitment from shareholders, sound financial management and preferred creditor status. Prudent financial management and compliance with conservative financial policies have consistently supported the IADB's credit. The bank's preferred creditor status ensures that debt owed by sovereign borrowers are excluded from restructurings and that resources are made available to service debt that is due to the bank. Support from shareholders represents a fundamental factor behind the Aaa rating. Member countries recognize the importance of preserving the Bank's financial soundness and premier credit status, reflected in the capital adequacy mandate from the Bank's governors, which are conditions necessary to assure the IADB's access to diversified funding sources.

Credit challenges for the Bank are the concentration of loans in high-risk countries with volatile macroeconomic environments, and balancing a development mandate with sound financial practices and reasonable profitability. The Bank has a regional focus and primarily lends to the public sector. That 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.

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 (1) asset quality were to deteriorate should a large number of the IADB's sovereign-guaranteed loans go into non-accrual status, or (2) in the case of severe financial stress, member countries were perceived to be unable or unwilling to provide aid to the Bank in the form of contractual or another extraordinary form of support to preserve its financial health. We consider these low-probability outcomes.

This Credit Analysis elaborates on the Inter-American Development Bank's 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 2016, the relative voting power among member countries is as follows: (i) Latin America and the Caribbean: 50.015%; (ii) the United States: 30.006%; (iii) Canada: 4.001%; and (iv) non-regional members: 15.979%.

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 callable capital which provides the ultimate backing for borrowings and guarantees. 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]

### Public Sector Lending Exclusively to Member Countries is 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).

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.

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.

Lending operations are constrained by the Bank's capital base and other limits imposed by the Capital Adequacy Policy (CAP) and the Unused Borrowing Capacity (UBC). 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. In addition to limits imposed by the CAP, the UBC also acts as a constraint that limits the Bank's borrowings and therefore its lending capacity.

### 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 increased by $70 billion, of which $1.7 billion was paid in during the years 2012-2016 and the remainder is callable capital. In 2016 members made the fifth and last installments, completing over 98% of the paid-in capital portion by year-end with reminder expected to be completed in 2017. 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 a significant increase in demand for IADB resources prior to and after the crisis, which led to a reevaluation of the Bank's capital levels to ensure the Bank can provide a meaningful contribution to finance the development 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 1995.

## 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.

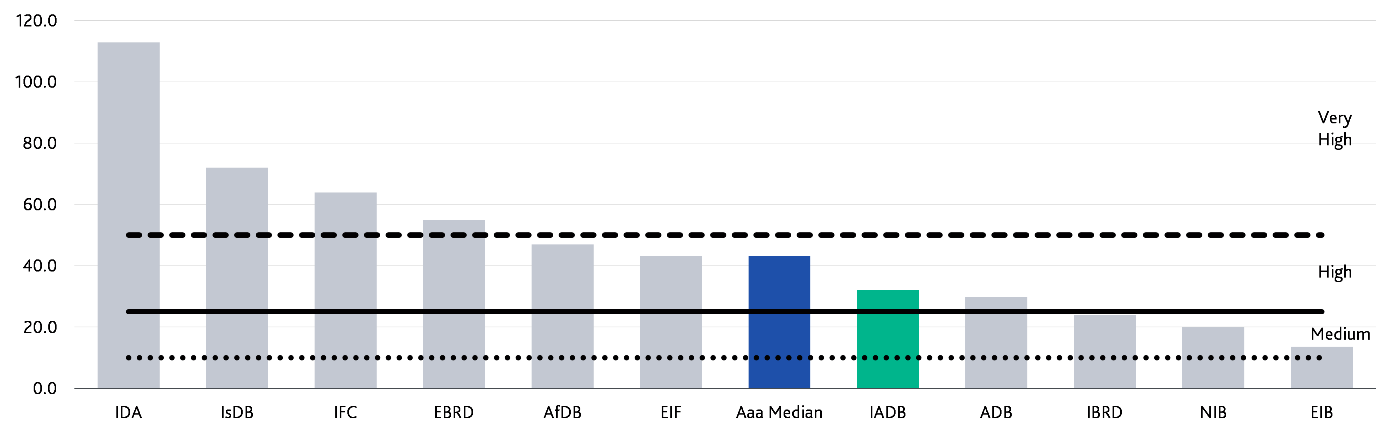
**Strong Capital Position Resulting from High Asset Coverage**

The IADB's asset coverage ratio (ACR) is strong, as indicated by the usable equity-to-gross loans outstanding ratio of 32.3% in 2016, in line with its 2014 and 2015 levels. This ratio had been trending down until 2012 when the GCI payments started to flow in, stabilizing the ratio in the 30-33% range. At these levels the IADB compares well relative to the larger Aaa-rated MDBs (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 %, 3-year average, latest data available)**




*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 2016, the Bank's CCR-ICR metric was positioned in the Buffer Zone at 141%, up from 124.6% in 2015. Following the transfer of the FSO's assets on 1 January, 2017, the CCR-ICR rose to 165%, within the "Surplus Capital Zone".

### Transfer of the FSO assets to the IADB Balance Sheet

The Fund for Special Operations (FSO) is the Bank's concessional lending window, which provides loans for the region's most vulnerable member countries. The Charter establishing the IADB in 1959 created the FSO as the Bank's concessional lending window.

As the FSO did not raise funds in capital markets and relied solely on its own resources to meet disbursements and expected commitments, its lending capacity would diminish over time without new resources added. This in turn would have limited the FSO's ability to provide concessional assistance in line with projected future demand. The Bank's proposal to merge the FSO with its OC to ensure that the IADB would be able to continue providing concessional assistance to the region was approved by the Board in September 2016.

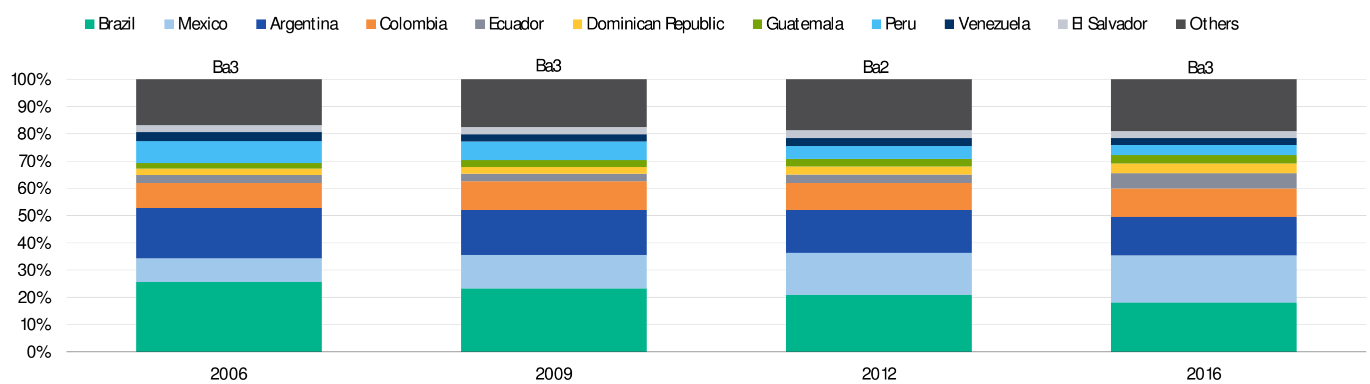
On 1 January, 2017, the transfer of assets and liabilities of the FSO to the Bank's OC became effective. The transfer entailed $5.4 billion in assets added to the OC balance sheet, of which $4.5 billion were outstanding loans. The FSO only held $0.3 billion in liabilities.

The overall impact from the transfer for the IADB capital adequacy metrics as measured by Moody's is a likely small increase in the ACR and a decline in the leverage ratio to be reflected in its year-end 2017 figures.

## 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, 2016 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 Among 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. However, the Bank has shown a declining trend in concentration levels, particularly regarding the largest top three borrowers, and the IADB is committed to delivering more resources to smaller and medium sized countries, which will help reduce these high concentration levels.

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.

» For the IADB, 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.

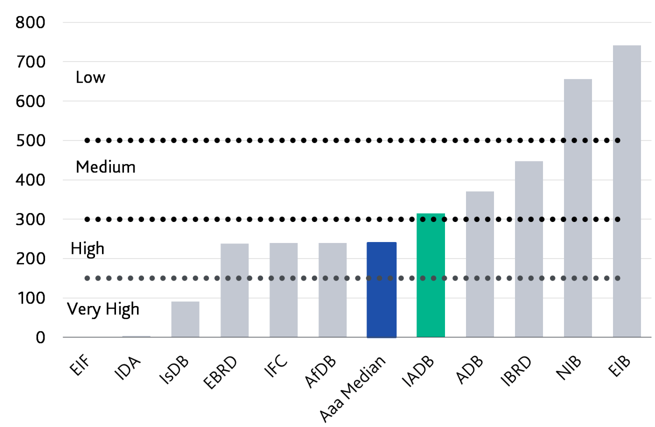
With the EEA, the IADB top 10 sovereign-guaranteed loan exposures drop to 76.6% in 2016 from 83.9% without the exchange. Moreover, we note that considering the whole portfolio, the concentration by country is relatively low, even though the top three recipients represent about half of the total. In order 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 303.6% at end-2016. 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. The addition of the FSO assets into the OC balance sheet will likely contribute to a decline in the leverage ratio, which could transition into the "high" range from "medium" currently. 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 Exhibits 3 and 4).

Exhibit1 3

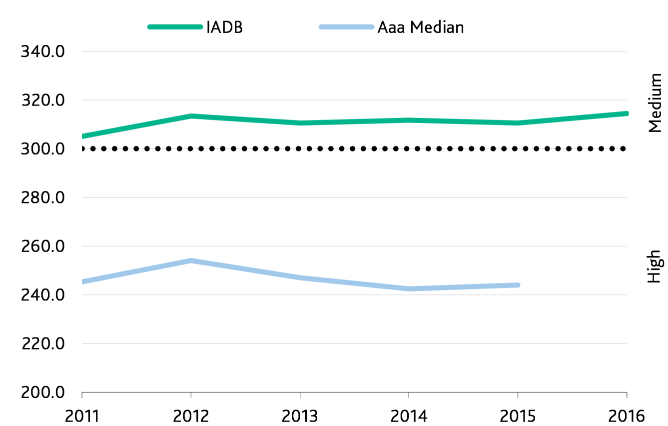
**Leverage is Slightly Higher Than The Median For Aaa-Rated Peers...**
**(Debt-to-equity in %, 3-year average)**




*Source: IADB and Moody's*

Exhibit2 4

**...But Has Followed The Same Trend**
**(Debt-to-equity in %, 3-year moving average)**




*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.[2] At year-end 2016, the IADB's total outstanding debt amounted to $80.3 billion excluding swaps, up from $79.2 billion in 2015. 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 2016, the Bank's loan book had only $279 million of loans with payments late by 90+ days (up from $186 million in 2015), which translates to a non-performing loans-to-total loans ratio (the NPL ratio) of 0.3%, marginally higher than the 0.2% recorded in 2014 and 2015. 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,[3] 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 0.8% in 2016, though above its ten-year average level of 0.6%.

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 spread[4] 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 retroactive to July 2015. This higher lending spread was maintained by the Board during 2016, which contributed to increased net interest income last year. This measure contributed to an increase in operating income to $1.0 billion in 2016 from $717 million in 2015, in addition to net investment gains, as well as a decrease in net non-interest expense, partially offset by an increase in provisions for loan and guarantee losses.

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.

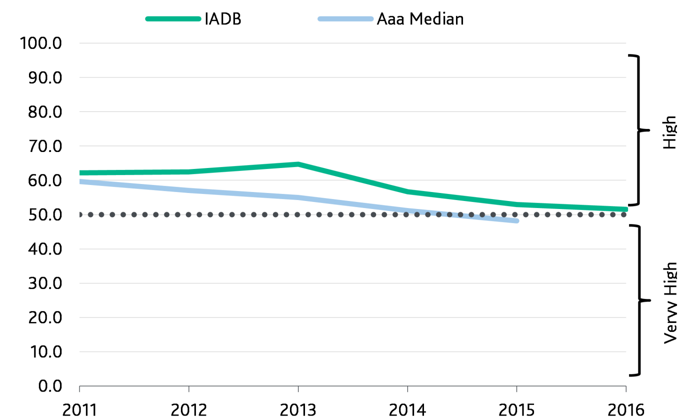
### Strong Liquidity Position to Remain Stable as a Result of Conservative Liquidity Management

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 2016 the ratio was 50.7%. Over the period 2009-15 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 Exhibits 5 and 6).

Exhibit 3 5

**Debt Service Coverage Remains High**

**(Currently maturing long- and medium-term debt plus short-term debt-to-liquid assets in %, 3-year moving average)**

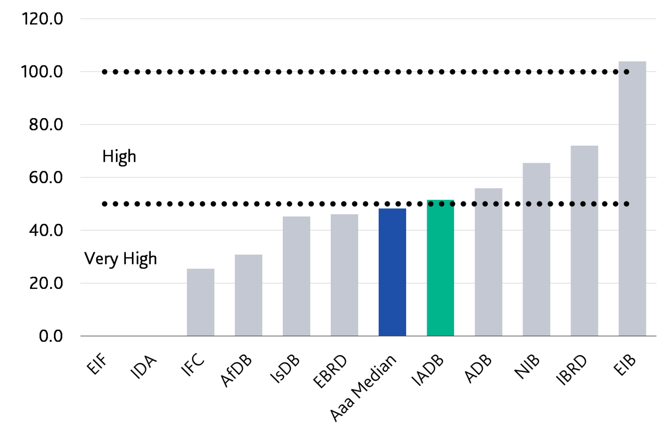



*Source: IADB and Moody's*

Exhibit 4 6

**And In Line With Aaa Median**

**(Currently maturing long- and medium-term debt plus short-term debt-to-liquid assets in %, 3-year average)**




*Source: IADB and Moody's*

Looking at a broader maturity breakdown of the IADB's total outstanding debt stock (see Exhibit 7), this is stable and favorable with most bonds falling in the medium- and long-term buckets during the past three years.

Exhibit 7

**Maturity of Outstanding Borrowings**

**(% of total)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| 1 year or less | 13.1 | 16 | 18.3 | 17.6 | 15.3 |
| 1-5 years | 55.5 | 56.4 | 58.3 | 61.2 | 61.9 |
| Over 5 years | 31.4 | 27.6 | 23.4 | 21.2 | 22.8 |

*Source: IADB and Moody's*

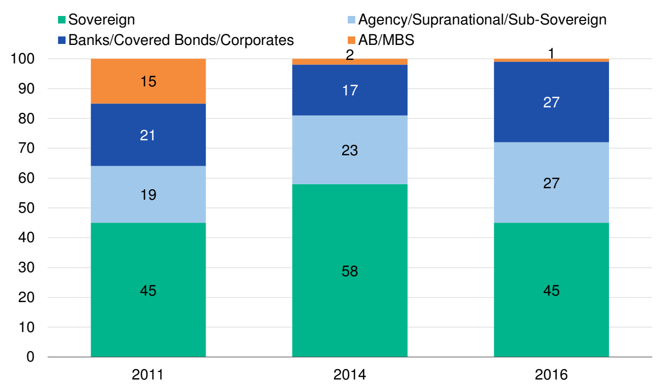
The Bank's liquidity position will remain stable in the high assessment as a result of its liquidity policy. The policy manages liquidity based on expected future cash outflow needs. It dictates that the Bank's liquid assets must cover at a minimum 12 months of projected net cash requirements, after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

### Treasury Portfolio Is Highly Liquid and Has Strong Quality

In order to comply with its liquidity policy, the Bank's investments are highly liquid and are held in high quality securities. As of end-2016, the Bank held $27.4 billion in liquid assets. Of these assets, the majority were held in sovereign bonds, while other types of investments such as have increased their share in recent years (see Exhibit 8). Derivative investments have declined over time, representing just 1% of the total in 2016. Additionally, these assets have a high quality, with an average rating in 'Aa' range (see Exhibit 9).

Exhibit5 8

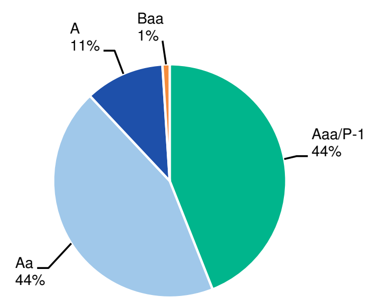
**Treasury Portfolio Asset Composition Is Highly Liquid**
**(% of total)**




*Source: IADB*

Exhibit6 9

**High Quality Assets in Treasury Portfolio**
**(% of total, 2016)**




*Source: IADB*

### 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 2016 program consisted of 86 total transactions that generated proceeds of $15.6 billion, below the $18.8 billion raised in 2015 due to lower liquidity needs last year.

While 82% of the total debt stock as of end-2016 is denominated in US dollars, the Bank has bonds in 17 different currencies, supporting our view that the IADB has a global investor base (see Exhibit 10). 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-2016, 99% of outstanding medium- and long-term borrowings after swaps are in US dollars.

Exhibit 10

**Outstanding Borrowings by Currency as of End-2016**
**(USD million)**

| Currency | USD amount | % of total |
|---|---|---|
| Australian dollars | 7,328 | 9.2 |
| Brazilian reais | 458 | 0.6 |
| British pound | 1,395 | 1.8 |
| Canadian dollars | 1,264 | 1.6 |
| Colombian pesos | 40 | 0.1 |
| Euro | 623 | 0.8 |
| Indian rupees | 466 | 0.6 |
| Indonesian rupiahs | 828 | 1.0 |
| Japanese yen | 331 | 0.4 |
| Korean won | 35 | 0.0 |
| Mexican pesos | 428 | 0.5 |
| New Turkish liras | 103 | 0.1 |
| New Zealand dollars | 738 | 0.9 |
| Peruvian new soles | 58 | 0.1 |
| South African rands | 3 | 0.0 |
| Swiss francs | 491 | 0.6 |
| United States dollars | 64,681 | 81.6 |
| **Total** | **79,298** | **100.0** |

Medium- and long-term borrowings net of unamortized discounts and debt issuance costs (before swaps and fair value adjustments).
*Source: IADB*

## Strength of Member Support: Very High

**Membership Structure and Debt Policy Underpins Strength of Member Support**

**Factor 3**

**Scale** Very High High Medium Low Very Low

\+ -

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 11). 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 11

**Capital Subscriptions of the Largest Members**

**(Capital subscriptions as of December 31, 2016, $ Million; Ratings as of March 20, 2017)**

| Member Countries | FC Gov Bond Rating | Paid-in | Callable | Subscribed | Subscribed, % Total | Voting Power, % Total |
|---|---|---|---|---|---|---|
| **Regional Developing** | | | | | | |
| Argentina | B3/Positive | 672.9 | 18,742.5 | 19,415.4 | 11.4 | 11.4 |
| Brazil | Ba2/Stable | 672.9 | 18,742.5 | 19,415.4 | 11.4 | 11.4 |
| Mexico | A3/Negative | 432.6 | 12,048.4 | 12,480.9 | 7.3 | 7.3 |
| Venezuela | Caa3/Negative | 249.3 | 5,568.5 | 5,817.8 | 3.4 | 3.4 |
| Chile | Aa3/Stable | 184.8 | 5,147.2 | 5,332.0 | 3.1 | 3.1 |
| Colombia | Baa2/Stable | 184.8 | 5,147.2 | 5,332.0 | 3.1 | 3.1 |
| Others | | 623.0 | 17,075.1 | 17,698.3 | 10.4 | 10.4 |
| **Total Regional Developing** | | **3,020.3** | **82,471.4** | **85,491.8** | **50.0** | **50.0** |
| United States | Aaa/Stable | 1,813.1 | 49,500.7 | 51,313.8 | 30.0 | 30.0 |
| Canada | Aaa/Stable | 241.7 | 6,598.8 | 6,840.4 | 4.0 | 4.0 |
| **Non-Regional** | | | | | | |
| Japan | A1/Stable | 302.1 | 8,248.8 | 8,550.9 | 5.0 | 5.0 |
| Spain | Baa2/Stable | 117.4 | 3,241.8 | 3,359.2 | 2.0 | 2.0 |
| Italy | Baa2/Negative | 117.4 | 3,241.8 | 3,359.2 | 2.0 | 2.0 |
| France | Aa2/Stable | 114.5 | 3,126.4 | 3,240.9 | 1.9 | 1.9 |
| Germany | Aaa/Stable | 114.5 | 3,126.4 | 3,240.9 | 1.9 | 1.9 |
| Others | | 198.2 | 5,344.8 | 5,543.2 | 3.2 | 3.3 |
| **Total Non-Regional** | | **964.1** | **26,330.0** | **27,294.3** | **16.0** | **16.0** |
| **Grand Total** | | **6,039** | **164,901** | **170,940** | **100.0** | **100.0** |

*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-2016 the ratio of debt to discounted CC was 74.8%, a very strong level. This ratio includes the CC of all members countries rated Baa3 or higher but excludes CC pledged by members rated Baa3 if their ratings carry a negative outlook or are under review for downgrade. 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.

As with many MDBs, the portion of the IADB's subscribed capital that is callable is high at 96.5%. 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 Was Authorized and Appropriated by Congress

The total subscription of the United States was $51.3 billion, of which $1.8 billion was paid-in capital and $49.5 billion callable capital at year-end 2016. In terms of the callable portion, $3.8 billion was authorized and appropriated without fiscal year limitation by Congress. That implies that no further appropriation is necessary to enable the US Treasury to pay this amount, if any part were to be called.

The balance of the US' callable capital of $45.7 billion was 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 US on a call made by the Bank; (b) an appropriation was not required to make US callable capital a binding obligation backed by the full faith and credit of the US; and (c) an obligation contracted by the US - 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 IABD's extraordinary support of the organization from members at very high. 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, 2016).

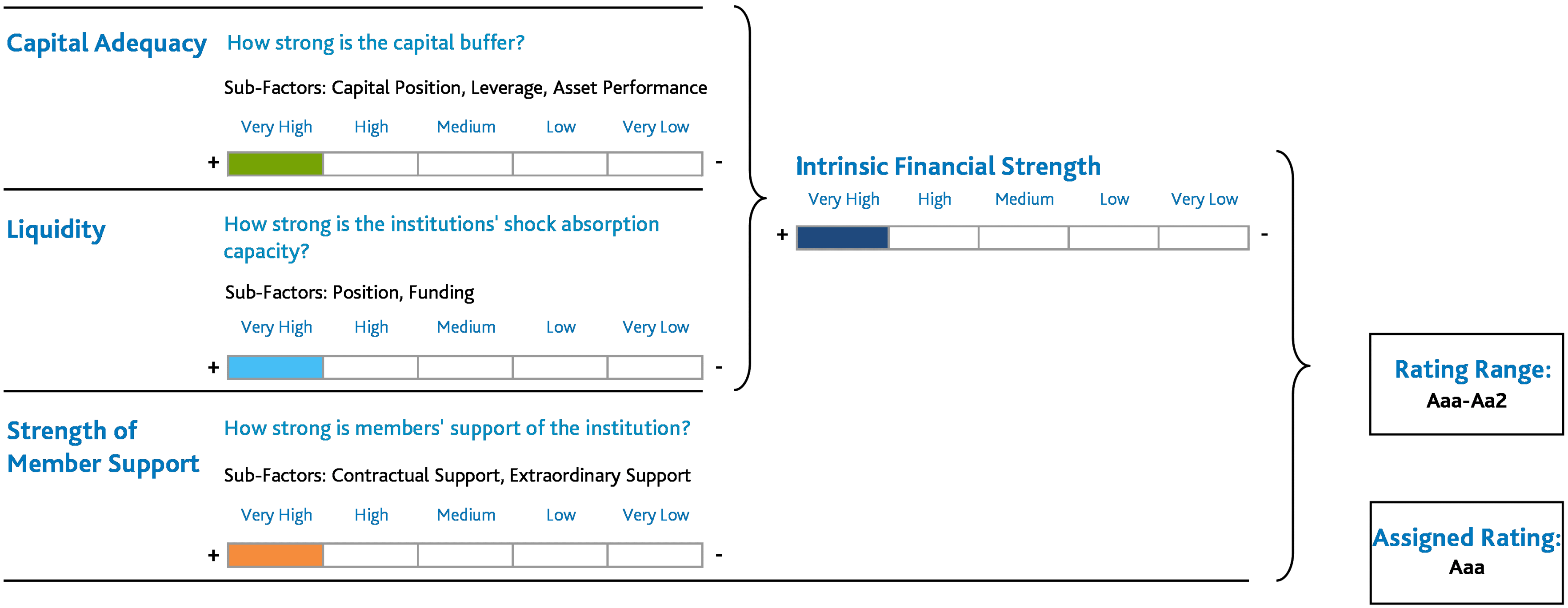
Member's willingness to support the Bank is very strong based on a very high assessment of both the propensity and priority to support. Helping form our assessment of propensity to support are: (i) the recent general capital increase which indicates that the members remain supportive of the Bank's mandate 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 US, 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**




*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 among 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 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 10

**IADB's Key Peers**

| | Year | IADB | IBRD[5] | ADB[6] | AfDB[6] | EBRD[6] | NIB[6] | Aaa Median |
|---|---|---|---|---|---|---|---|---|
| Rating/Outlook | | Aaa/STA | Aaa/STA | Aaa/STA | Aaa/STA | Aaa/STA | Aaa/STA | -- |
| Total Assets (US$ million) | 2016 | 113,325 | 371,260 | 117,697 | 48,672 | 59,752 | 29,734 | 73,650 |
| **Factor 1** | | Very High | Very High | Very High | High | Very High | Very High | -- |
| Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1] | 2016 | 32.3 | 21.8 | 27.8 | 47.0 | 53.5 | 20.3 | 39.6 |
| Debt/Usable Equity (%)[1] | 2016 | 304 | 495 | 379 | 254 | 253 | 667 | 254 |
| Gross NPLs/Gross Loans Outstanding (%)[2] | 2016 | 0.3 | 0.3 | 0.0 | 4.1 | 5.9 | 0.1 | 0.8 |
| **Factor 2** | | Very High | Very High | Very High | Very High | Very High | Very High | -- |
| ST Debt + CMLTD/Liquid Assets (%)[3] | 2016 | 50.7 | 63.1 | 58.8 | 38.6 | 47.5 | 63.9 | 45.0 |
| Bond-Implied Ratings (Long-Term Average) | 2016 | Aa1 | Aaa | Aa1 | Aa1 | Aa1 | Aa1 | 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] | 2016 | 74.8 | 96.1 | 53.1 | 60.0 | 178.5 | 368.2 | 79.8 |
| Weighted Median Shareholder Rating (Year-End) | 2016 | A3 | Aa3 | Aa3 | Ba1 | Aa1 | Aaa | Aa2 |
| **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] IBRD data is as of its most recent FY-end, 30 June 2016
[6] Based on data as of reporting year 2015
*Source: Moody's, respective MDB financial statements*

## Rating History

### IADB

| | Issuer Rating | | Senior Unsecured | Outlook | |
|---|---|---|---|---|---|
| | Long-term | Short-term | | | Date |
| Rating Affirmed | Aaa | -- | -- | -- | March-17 |
| 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

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| **Balance Sheet, USD Millions** | | | | | | | |
| **Assets** | | | | | | | |
| Cash & Equivalents | 242 | 1,189 | 1,021 | 421 | 535 | 641 | 599 |
| Securities | 16,356 | 13,703 | 14,399 | 21,015 | 27,395 | 27,901 | 27,292 |
| Derivative Assets | 5,932 | 7,040 | 6,803 | 3,440 | 2,861 | 2,224 | 2,054 |
| Net Loans | 62,862 | 65,980 | 68,460 | 70,435 | 74,215 | 78,301 | 81,420 |
| Other Assets | 1,825 | 1,520 | 1,526 | 1,696 | 1,293 | 2,072 | 1,960 |
| ***Total Assets*** | **87,217** | **89,432** | **92,209** | **97,007** | **106,299** | **111,139** | **113,325** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Borrowings | 62,953 | 63,923 | 65,565 | 68,701 | 77,309 | 79,160 | 80,326 |
| Derivative Liabilities | 1,628 | 2,532 | 2,567 | 2,774 | 2,669 | 3,615 | 3,843 |
| Other Liabilities | 1,676 | 3,183 | 3,396 | 1,982 | 2,624 | 3,111 | 2,696 |
| ***Total Liabilities*** | **66,257** | **69,638** | **71,528** | **73,457** | **82,602** | **85,886** | **86,865** |
| | | | | | | | |
| **Equity** | | | | | | | |
| Subscribed Capital | 104,980 | 104,980 | 116,880 | 128,781 | 144,258 | 156,939 | 170,940 |
| Less: Callable Capital | 100,641 | 100,641 | 112,240 | 123,840 | 138,901 | 151,240 | 164,901 |
| Equals: Paid-In Capital | 4,339 | 4,339 | 4,622 | 4,678 | 5,027 | 5,394 | 5,800 |
| Retained Earnings (Accumulated Loss) | 15,771 | 15,488 | 16,392 | 17,699 | 18,247 | 19,207 | 20,055 |
| Accumulated Other Comprehensive Income (Loss) | 850 | -33 | -333 | 1,173 | 423 | 652 | 605 |
| ***Total Equity*** | **20,960** | **19,794** | **20,681** | **23,550** | **23,697** | **25,253** | **26,460** |

*Source: IADB, Moody's*

### IADB

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| **Income Statement, USD Millions** | | | | | | | |
| **Net Interest Income** | **1,838** | **1,329** | **1,171** | **1,429** | **1,335** | **1,541** | **1,726** |
| Interest Income | 2,388 | 1,791 | 1,690 | 1,830 | 1,733 | 1,950 | 2,523 |
| Interest Expense | 550 | 462 | 519 | 401 | 398 | 409 | 797 |
| **Net Non-Interest Income** | **-756** | **-730** | **693** | **1,080** | **306** | **555** | **31** |
| Net Commissions/Fees Income | 66 | 59 | 67 | 90 | 82 | 107 | 128 |
| Other Income | -822 | -789 | 626 | 990 | 224 | 448 | -97 |
| **Other Operating Expenses** | **728** | **879** | **938** | **1,144** | **975** | **1,063** | **767** |
| Administrative, General, Staff | 573 | 600 | 663 | 813 | 668 | 768 | 676 |
| Grants & Programs | 155 | 279 | 275 | 331 | 307 | 295 | 91 |
| **Pre-Provision Income** | **354** | **-280** | **926** | **1,365** | **666** | **1,033** | **990** |
| Loan Loss Provisions (Release) | 24 | 3 | 22 | 58 | 118 | 73 | 142 |
| **Net Income (Loss)** | **330** | **-283** | **904** | **1,307** | **548** | **960** | **848** |
| Other Accounting Adjustments and Comprehensive Income | -44 | -883 | -300 | 1,506 | -750 | 229 | -48 |
| **Comprehensive Income (Loss)** | **286** | **-1,166** | **604** | **2,813** | **-202** | **1,189** | **800** |

*Source: IADB, Moody's*

## IADB

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| **Financial Ratios** | | | | | | | |
| **Capital Adequacy, %** | | | | | | | |
| Usable Equity / (Loans + Equity) | 33.3 | 29.9 | 30.1 | 33.3 | 31.8 | 32.1 | 32.3 |
| Debt/Usable Equity | 300.3 | 322.9 | 317.0 | 291.7 | 326.2 | 313.5 | 303.6 |
| Allowance For Loan Losses / Gross NPLS | -- | -- | 204.5 | 212.2 | 209.0 | 238.7 | 190.7 |
| NPL Ratio: Non-Performing Loans / Gross Loans | 0.0 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 |
| Return On Average Assets | 0.4 | -0.3 | 1.0 | 1.4 | 0.5 | 0.9 | 0.8 |
| Interest Coverage Ratio (X) | 1.6 | 0.4 | 2.7 | 4.3 | 2.4 | 3.3 | 2.1 |
| **Liquidity, %** | | | | | | | |
| St Debt + CMLTD / Liquid Assets | 47.9 | 77.5 | 60.2 | 55.0 | 54.1 | 49.6 | 50.7 |
| Bond-Implied Rating | Aaa | Aa1 | Aaa | Aa1 | Aa1 | Aa1 | Aa2 |
| Liquid Assets / Total Debt | 26.2 | 23.1 | 23.3 | 30.9 | 35.2 | 35.4 | 34.1 |
| Liquid Assets / Total Assets | 18.9 | 16.5 | 16.6 | 21.9 | 25.6 | 25.2 | 24.2 |
| **Strength of Member Support, %** | | | | | | | |
| Callable Capital (CC) of Baa3-Aaa Members/Total CC | 74.7 | 77.5 | 78.7 | 78.8 | 78.4 | 78.4 | 67.3 |
| Total Debt/Discounted Callable Capital | 86.1 | 84.8 | 78.7 | 73.3 | 73.6 | 79.8 | 74.8 |
| Weighted Median Shareholder Rating (Year-End) | Aa2 | Aa3 | Aa3 | Aa3 | A3 | A3 | A3 |

*Source: IADB, Moody's*

## Moody's Related Research

» **Credit Opinion:** Inter-American Development Bank – Update Following Affirmation of Rating and Outlook, March 2017

» **Rating Methodology:** Multilateral Development Banks and Other Supranational Entities, December 2013

» **Rating Methodology:** Sovereign Bond Ratings, December 2016

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

MOODY'S has provided links or references to third party World Wide Websites or URLs ("Links or References") solely for your convenience in locating related information and services. The websites reached through these Links or References have not necessarily been reviewed by MOODY'S, and are maintained by a third party over which MOODY'S exercises no control. Accordingly, MOODY'S expressly disclaims any responsibility or liability for the content, the accuracy of the information, and/or quality of products or services provided by or advertised on any third party web site accessed via a Link or Reference. Moreover, a Link or Reference does not imply an endorsement of any third party, any website, or the products or services provided by any third party.

## Endnotes

1 Another channel of financing is the Intermediate Financing Facility (IFF), which the Bank created in 1983 as an interest-subsidizing mechanism for selected OC loans. 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 IFF, the GRF, and the trust funds are completely segregated from those of the OC.

2 "Net Borrowings" are borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps). At the end of 2016, net borrowings were $55.5 billion, equivalent to 67.4% of that limit, down from 70.8% in 2015 and 71.4% in 2014.

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

4 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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