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ISSUER IN-DEPTH
26 March 2019

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RATINGS

IADB

	Rating	Outlook
Long-term Issuer	Aaa	STA
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Inter-American Development Bank - Aaa stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit strengths of the Inter-American Development Bank (IADB, Aaa stable) include 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 profile. 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, as reflected in the capital adequacy mandate from the Bank's governors, which are conditions necessary to ensure the IADB's access to diversified funding sources.

Credit challenges for the Bank include 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, which 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 from a large number of the IADB's sovereign-guaranteed loans going into nonaccrual 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 other extraordinary 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 REPORT WAS REPUBLISHED ON 28 MAR 2019 TO CORRECT NUMBERS FOR 2016 AND 2017 NONPERFORMING LOANS ON PAGE 6 AND IN THE TABLE ON PAGE 18.

Organizational structure and strategy

Latin America and Caribbean 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 (Aaa stable), Argentina (B2 stable), Brazil (Ba2 stable), Mexico (A3 stable), and Japan (A1 stable). As of year-end 2018, the relative voting power among member countries is as follows: (i) Latin America and the Caribbean: 50.013%; (ii) the US: 30.019%; (iii) Canada (Aaa stable): 4.002%; 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 began paying dividends in 2018 as income distributions (capital transfers) to the IIC, for $50 million last year, in addition to its practice of allocating 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 borrowing 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 Inter-American Investment Corporation (IIC, also known as IDB Invest) at the 2015 annual meetings in Busan began a process under which the IADB Group's private sector operations would be transitioned toward 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, the IADB will cofinance lending operations to the private sector with the IIC. 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 primarily constrained by the Bank's capital base. In 2017, the Board of Executive Directors approved a proposal to replace its previous borrowings limits policy with a non-risk based leverage limit based on the debt-to-equity ratio of 4.0x. As of year-end 2018, the ratio was 2.73x, well below the limit.

Member support of IADB's capital base shows importance assigned to development mandate fulfillment

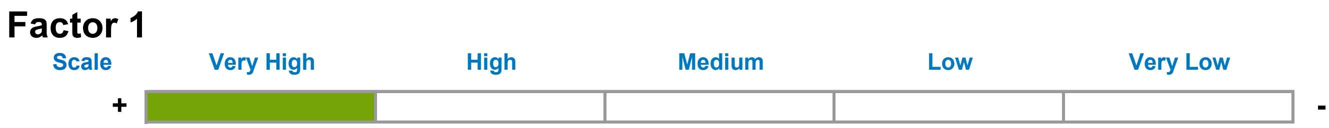
Over the years, IADB shareholders have shown their strong willingness to support the Bank in fulfilling its development mandate in the Latin American and Caribbean region. In 2012, the 9th General Capital Increase (GCI) in the Bank's history entered into effect. As a result of the GCI, the Bank's Ordinary Capital increased by $70 billion, of which $1.7 billion was due during the years 2012-16 (final payments were collected in 2017) and the remainder was callable capital. Furthermore, the IADB Board of Governors approved the transfer of net assets from the Fund for Special Operations (FSO) to the IADB, effective 1 January 2017. The transfer resulted in the recognition of $5.8 billion of additional paid-in capital by the IADB, partially offset by receivable capital from members and contribution quotas receivable, and helping resource lending to the IADB's least developed borrowing member countries.

These measures show that shareholders value the IADB's role as a promoter of economic and social development in Latin America and the Caribbean, as these higher capital levels help ensure the Bank can provide a meaningful contribution to finance the development needs of the region over the next decade.

CREDIT PROFILE

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



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.

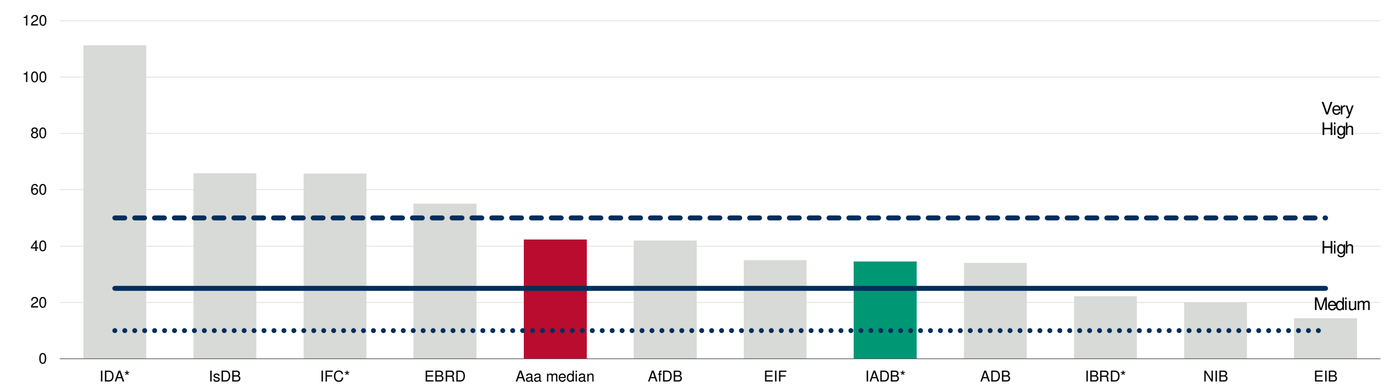
Strong capital position resulting from high asset coverage

The IADB's asset coverage ratio (ACR) is strong, as indicated by the usable equity-to-gross loans outstanding ratio of 34.5% in 2016-18, which is up from 32% in 2014-16. The increase reflects the transfer of net assets from the Fund for Special Operations (FSO) that became effective on 1 January 2017 (see highlight box on the next page). This ratio had been trending down until 2012, when the GCI payments started to flow in, which stabilized the ratio in the 30%-33% range in 2012-16. 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 median

Asset coverage ratio, calculated as usable equity divided by total development-related exposures in %, 3-year average, latest data available



Note: * refers to 2016-18 average
Sources: IADB and Moody's Investors Service

The IADB's capital adequacy mandate aims to ensure that the Bank has sufficient equity to enable it to maintain its Aaa rating during times of economic distress. In October 2015, the IADB revised its CAP, and approved a revised Income Management Model (IMM). The IMM establishes requirements for the accumulation of capital "consistent with the Bank's capital adequacy policy" and requires charges on sovereign guaranteed loans plus 90% of charges from non-sovereign guaranteed loans to cover 90% of Ordinary Capital's administrative expenses on a three-year rolling basis. The bank also has the ability re-price the lending spread on its portfolio to raise revenue if required. As of year-end 2018, the Bank's capital adequacy position remained very strong and well above the internal capital coverage ratio buffer zone.

Transfer of net FSO assets to the IADB's 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.

Because 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 have diminished over time without the addition of new resources. 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 transfer the net assets of the FSO to 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.

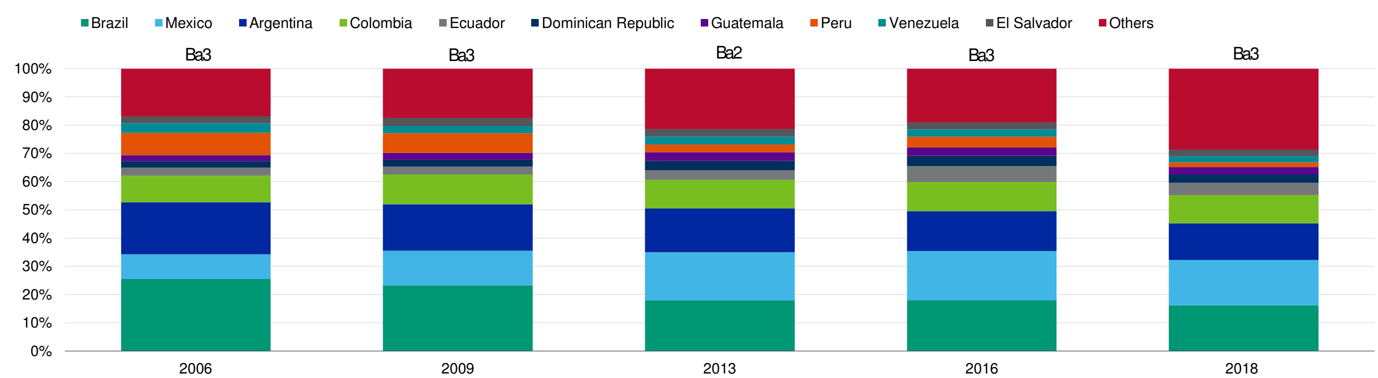
On 1 January 2017, the transfer of assets and liabilities of the FSO to the Bank's OC became effective. The transfer entailed $5.4 billion in assets added to the OC balance sheet, of which $4.5 billion were outstanding loans. The FSO only held $0.3 billion in liabilities.

The IADB faces risks from exposure to borrowers with moderate credit 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 31 December 2018 was Ba3, a constant level since 2014. The composition of lending by country has remained also 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, including the effect of the Exposure Exchange Agreement for 2018



Sources: IADB and Moody's Investors Service

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 (Baa2 negative) and Ecuador (B3 negative). However, the Bank has shown a declining trend in concentration levels, particularly regarding the three largest 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 (Aaa stable) and the World Bank (IBRD, Aaa stable). The EEA is an instrument to exchange sovereign risk synthetically 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.

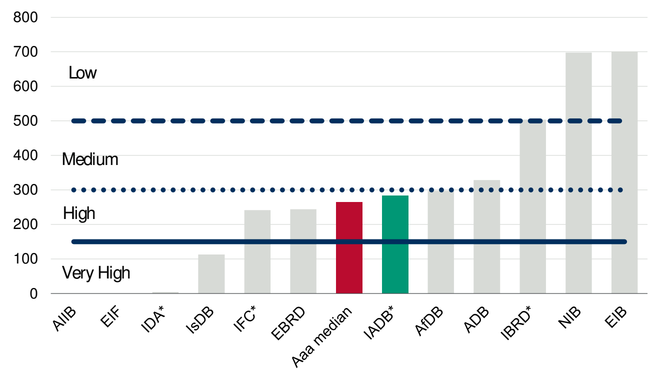
» If a nonaccrual event occurs for one of the countries that are part of the EEA transactions, the EEA seller compensates the EEA buyer at an agreed upon rate set at US dollar six-month Libor + 75 basis points.

With the EEA, the IADB top 10 sovereign-guaranteed loan exposures drop to 71.4% in 2018 from a historical average of about 80% 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 45% of the total. To reduce the potential for growing concentration risk, 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 tracks peers

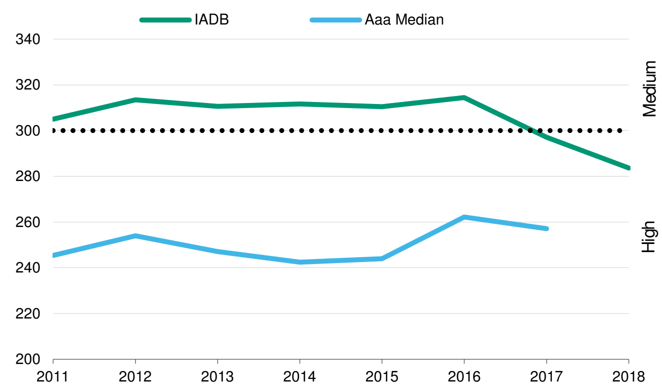
The IADB's leverage scores "High" based on a debt-to-usable equity ratio of 273% in 2018, relatively stable compared to 2017 but down from 304% at end-2016. This ratio fell below 300% in 2013, but returned to its 2011-12 levels in subsequent years as retained earnings accumulation and members' capital contributions were outpaced by debt buildup. The transfer of the net FSO assets into the OC balance sheet contributed to the decline in the leverage ratio in 2017. Although the IADB's leverage ratio has remained somewhat higher than the Aaa median in recent years, the median includes entities such as the Asian Infrastructure Investment Bank (AIIB) and the International Development Association, which began issuing debt in 2018 – the median for Aaa-rated peers that had debt in 2017 was the IADB at 274% (see Exhibits 3 and 4).

Exhibit 3
Leverage slightly higher than Aaa-median ...
Debt-to-equity in %, 3-year average



Note: * refers to 2016-18 average
Sources: IADB and Moody's Investors Service

Exhibit 4
... but the ratio has been improving
Debt-to-equity in %, 3-year average



Sources: IADB and Moody's Investors Service

The leverage ratio will remain stable because of the Bank's financial policy framework. Until 2016, the IADB limited its net borrowings to the callable capital stock of its non-borrowing member countries (the US' share of such capital stock was 60.1% with the balance from Canada, Japan and the other non-regional members). In 2017, the Board of Executive Directors approved a proposal to replace its previous borrowing limits policy with a non-risk based leverage limit based on the debt-to-equity ratio at a maximum of 4.0x, which complements the current risk-based capital constraint.

Despite Venezuela's arrears, IADB maintains exceptional asset performance thanks to preferred creditor status

The IADB's asset performance has historically been very strong. As of year-end 2018, non-sovereign-guaranteed loans with payments late by 90+ days were $103 million, down from $273 million in 2017. This figure in addition to the stock of nonperforming loans from the government of Venezuela translated into a nonperforming loans-to-total loans ratio (NPL ratio) of 0.4% in 2018, marginally higher than 0.3% in 2017.

Historically, NPLs have corresponded to the Bank's non-sovereign guaranteed loan book. However, in May 2018, the IADB announced that Venezuela had missed payments on its loans for over 180 days. As a consequence, the bank placed Venezuela on nonaccrual status, the first instance for an IADB-sovereign borrower to receive that designation since Suriname (B2 stable) in 2000-01. Venezuela's non-payment is a credit-negative development for the IADB but it has a very small impact on the bank's credit profile, as we consider it to have strong policies in place to ensure that this type of event does not materially affect its capital adequacy and liquidity metrics.

The IADB has specific guidelines for when sovereign-guaranteed exposures fall into arrears. As a matter of policy, the bank does not reschedule its sovereign-guaranteed loans. Additionally, the bank would take different actions depending on how long the sovereign loan has been in arrears (see Exhibit 5). After a sovereign borrower is late beyond 180 days, the bank cannot undertake any lending activities with this borrower until its arrears are cleared.

Exhibit 5
IADB's treatment of sovereign-guaranteed loans in arrears

Days overdue	Action
30 days after loan due date	The Bank suspends disbursements on the loan in arrears and all other loans to the borrower. The Bank informs the guarantor of the arrears by the borrower and requests prompt payment of the amount in arrears. No loan contract with any borrower in the country in question is signed by the Bank and no loan proposal is approved.
120 days after loan due date	The Bank suspends disbursements on all loans to the guarantor and to other borrowers guaranteed by the same guarantor, if the guarantor fails to pay the amounts due.
180 days after loan due date	The Bank places in non-accrual status all loans for the country in question of which the government, the central bank or any government entity is a borrower or guarantor, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. Placement in non-accrual status implies a reversal of all accrued income to date and no further income accumulation until all pending amounts are received. All Bank missions to the country intended for programming, preparing or processing of loans are suspended.

Source: IADB

Since being established in 1959, only five borrowing countries had been placed in nonaccrual status by the IADB (see Exhibit 6). The maximum aggregate balance in nonaccrual status had never exceeded 8% of total loans outstanding at the time. Panama (Baa1 stable) was in nonaccrual status the longest at almost four years, while Peru (A3 stable) had the largest amount in nonaccrual. We note that these episodes of nonaccrual did not reflect an unwillingness to repay the IADB but rather the governments were unable to pay because of political and/or economic crises. The fact that Venezuela had payments overdue for more than 180 days with the IADB shows that its current liquidity position is very constrained, particularly as declining oil production has increased its cash flow stress.

Exhibit 6

IADB's prior instances of sovereign-guaranteed loans in nonaccrual status

Loans outstanding shown in US$ million

Country	In Non-Accrual	Out of Non-Accrual[1]	Days	Maximum Outstanding Loan Balances[2]
Panama	29-Mar-88	18-Mar-92	1,450	$320
Nicaragua	11-May-88	17-Sep-91	1,224	$78
Peru	1-Mar-89	17-Sep-91	930	$674
Honduras	4-Dec-89	6-Jul-90	214	$223
Suriname	10-Nov-92	23-Dec-92	43	$12
Suriname	9-Nov-93	14-Feb-94	97	$13
Suriname	13-Dec-00	6-Jun-01	175	$27
Panama[3]	Mar-88	Mar-92	1,450	$198
Peru[3]	Feb-89	Feb-91	942	$267
Suriname[3]	Oct-93	Feb-94	123	$2
Suriname[3]	Dec-00	Jun-01	175	$2
Venezuela	14-May-18	[4]	231	$2,011

[1] Repayment dates, [2] Maximum outstanding loan balances as of any given year-end during the period the country was in nonaccrual, [3] Due to transfers of net assets from the FSO in 2017, countries that have been in nonaccrual while the FSO had operations are included, [4] Remained in nonaccrual as of end-2018

Source: IADB

As per the IADB's treatment of nonperforming sovereign-guaranteed loans, its full exposure to Venezuela ($2,011 million) was placed in nonaccrual status. However, as of end-2018 only $227 million had been overdue more than 180 days. Even if we take the full exposure amount, Venezuela only accounts for 2.1% of total loans and 6.1% of equity. The IADB has a specific reserve for the loan impairment of $17 million, to account for potential credit losses on missed interest payments by Venezuela. The IADB, as per its guidance, is not disbursing any additional loans to Venezuela, and would need to be repaid the amount past due before any new disbursements could be considered.

Despite the current situation with Venezuela, the IADB's extraordinary repayment record has been a reflection of its preferred creditor status with borrowing members. Historically, the borrowing countries have been less likely to default on IADB loans than on their financial obligations with commercial or private creditors. 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. The Bank does not reschedule sovereign-guaranteed loans and has never written off such loans.

Events that are illustrative of the Bank's preferred creditor status include: (i) when Ecuador defaulted on its bonds in 1999 and 2008, the country continued to service IADB loans without interruption; (ii) after Argentina fell into arrears at the peak of its crisis in 2002, the country came within a single day of a disbursement suspension,[2] but made the payments necessary to avoid the suspension; (iii) Belize restructured its debt with private bondholders in 2017, its third restructuring since 2006, while continuing to service its loans with the Bank without interruption.

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, with a return on average assets (ROAA) ratio of 0.7% in 2018, in line with 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[3] apply to 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.

For example, during the global financial crisis, in the second half of 2009 the Bank increased loan charges significantly to a 0.95% spread from 0.30%. It did this to quickly raise revenue and increase lending capacity to serve as a countercyclical 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 the second half of 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 that year. As this measure contributed to fully built capital buffers and a surplus in the capital position, the Bank lowered the lending spread again in 2017 and 2018.

Importantly, 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

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.

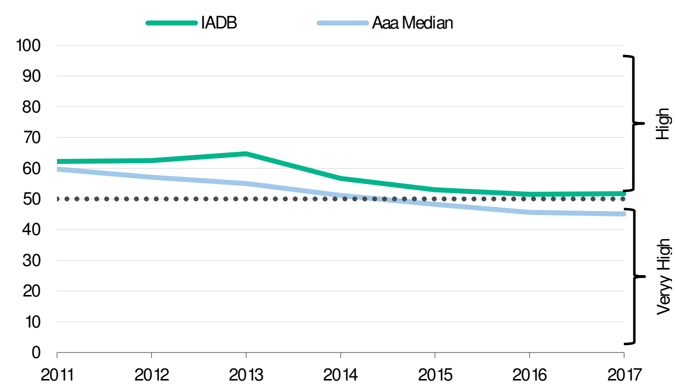
Liquidity position will remain strong as a result of conservative liquidity management

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 2018, the ratio was 52.3%. Over the period 2009-17, the ratio ranged from roughly 48%-78%, consistently qualifying for at least a "High" score for its 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 7 and 8).

Exhibit 7

Debt service coverage remains high ...

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

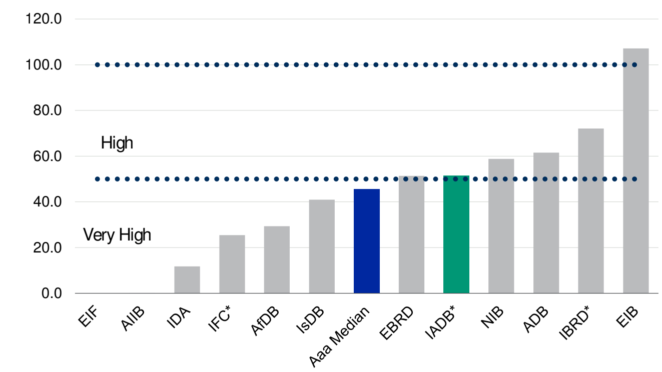


Sources: IADB and Moody's Investors Service

Exhibit 8

... and in line with the Aaa median

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



Note: * refers to 2016-18 average

Sources: IADB and Moody's Investors Service

The broader maturity breakdown of the IADB's total outstanding debt stock (see Exhibit 9) remains stable and favorable, with most bonds falling in the medium- and long-term buckets over the past several years.

Exhibit 9
Maturity of outstanding borrowings
% of total

	2012	2013	2014	2015	2016	2017	2018
1 year or less	13	16	18	18	15	20	18
1-5 years	56	56	58	61	62	60	61
Over 5 years	31	28	23	21	23	20	21

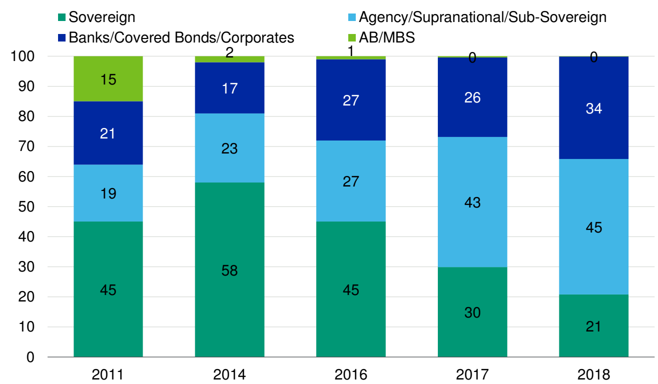
Sources: IADB and Moody's Investors Service

The Bank's liquidity position will remain stable 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

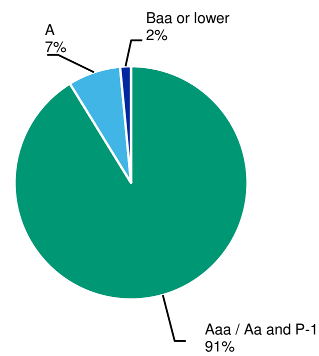
To comply with its liquidity policy, the Bank's investments are highly liquid and are held in high quality securities. As of end-2018, the Bank held $32.7 billion in liquid assets. Of these assets, the majority were held in sovereign bonds, while other types of investments such as agency, supranational and sub-sovereign assets have increased their share in recent years (see Exhibit 10). Additionally, these assets are of high quality, with over 90% rated Aaa-Aa3 (see Exhibit 11).

Exhibit 10
Treasury portfolio asset composition is highly liquid
% of total



Source: IADB

Exhibit 11
High quality assets in treasury portfolio
% of total, 2018



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, including a 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 2018 program consisted of 114 total transactions that generated proceeds of $19.5 billion, above the $18.9 billion raised in 2017 (88 total transactions).

While 83% of the total debt stock as of end-2018 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 12). Foreign-currency 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-2018, 99% of outstanding medium- and long-term borrowings after swaps were in US dollars.

Exhibit 12

Outstanding borrowings by currency in 2018 and 2017

US$ million

Currency	2018 USD amount (mn)	2018 % of total	2017 USD amount (mn)	2017 % of total
Australian dollars	6,993	7.9	7,952	9.1
Brazilian reais	246	0.3	348	0.4
British pound	2,258	2.5	1,014	1.2
Canadian dollars	1,276	1.4	1,373	1.6
Colombian pesos	34	0.0	28	0.0
Euro	40	0.0	350	0.4
Indian rupees	369	0.4	325	0.4
Indonesian rupiahs	918	1.0	1047	1.2
Japanese yen	98	0.1	121	0.1
Mexican pesos	657	0.7	513	0.6
New Turkish liras	469	0.5	325	0.4
New Zealand dollars	906	1.0	338	0.4
Peruvian new soles	9	0.0	0	0.0
South African rands	25	0.0	28	0.0
Swedish krona	45	0.1	0	0.0
Swiss francs	509	0.6	513	0.6
United States dollars	74,074	83.3	72,773	83.6
Total	88,926	100.0	87,048	100.0

Sources: IADB and Moody's Investors Service

Strength of member support: Very High

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 13). 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 13

Capital subscriptions of the largest members

Capital subscriptions and ratings as of 31 December 2018, $ million

Member Countries	FC Gov Bond Rating	Paid-in	Callable	Additional Paid-In	2018 Subscribed	Subscribed, % Total	Voting Power, % Total
Regional Developing							
Argentina	B2/Stable	672.9	18,742.5	303.3	19,718.7	11.2	11.4
Brazil	Ba2/Stable	672.9	18,742.5	325.5	19,740.9	11.2	11.4
Mexico	A3/Stable	432.6	12,048.4	197.4	12,678.4	7.2	7.3
Venezuela	C/Stable	249.3	5,568.5	171.0	5,988.8	3.4	3.4
Chile	A1/Stable	184.8	5,147.2	94.0	5,426.0	3.1	3.1
Colombia	Baa2/Negative	184.8	5,147.2	91.0	5,423.0	3.1	3.1
Others		623.0	17,075.1	315.9	18,014.0	10.2	10.4
Total Regional Developing		**3,020.3**	**82,471.4**	**1,498.1**	**86,989.8**	**49.2**	**50.01261**
United States	Aaa/Stable	1,813.1	49,500.7	2,923.3	54,237.1	30.7	30.01857
Canada	Aaa/Stable	241.7	6,598.8	184.1	7,024.6	4.0	4.00166
Non-Regional							
Japan	A1/Stable	302.1	8,248.8	326.6	8,877.5	5.0	5.0
Spain	Baa1/Stable	117.4	3,241.8	120.0	3,479.2	2.0	2.0
Italy	Baa3/Stable	117.4	3,241.8	121.0	3,480.2	2.0	2.0
France	Aa2/Stable	114.5	3,126.4	123.3	3,364.2	1.9	1.9
Germany	Aaa/Stable	114.5	3,126.4	127.8	3,368.7	1.9	1.9
Others		198.2	5,344.8	387.8	5,930.8	3.4	3.2
Total Non-Regional		**964.1**	**26,330.0**	**1,206.5**	**28,500.6**	**16.1**	**15.97900**
Grand Total		**6,039**	**164,901**	**5,812**	**176,752**	**100.0**	**100.0**

Sources: IADB and Moody's Investors Service

In addition to its regional borrowing members, the IADB has non-borrowing regional members (US and Canada) as well as non-regional members from 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 member base diversification, where countries from the region in which they lend dominate. 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 able to provide financial assistance to the Bank. The non-borrowers, who did not already contribute to the Bank's stress, would more likely be able to step in and provide financial assistance.

Contractual support assessment likely to remain very high because of borrowing policy

We assess the Bank's contractual support as "Very High" based on the callable capital (CC) coverage of debt stock indicator. At end-2018 the ratio of debt to discounted CC was 84%, a very strong level. This ratio includes the CC of all member 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, we expect this ratio to always remain in the "Very High" bucket.

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 US Congress

At year-end 2018, the US' total subscription was $54.2 billion, of which $1.8 billion was paid-in capital stock, $2.9 billion is additional paid-in capital and $49.5 billion is callable capital. In terms of the callable portion, $3.8 billion was authorized and appropriated without fiscal year limitation by the US 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 has not yet been appropriated. An opinion of the General Counsel of the Treasury dating back 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 to fund that obligation.

Ability and willingness of members to provide extraordinary support is high

We assess extraordinary support for the IADB by its members at "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 31 December 2018).

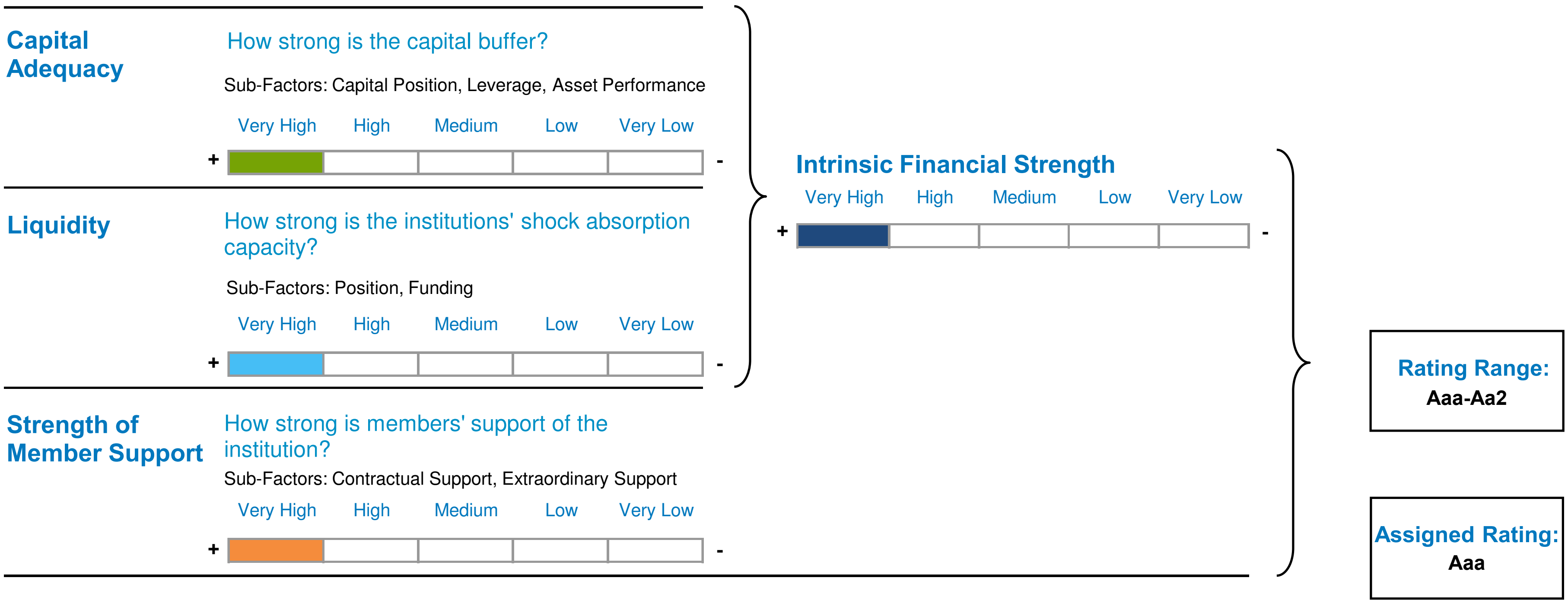
Members' willingness to support the Bank is very strong based on a very high assessment of both the propensity and priority to support. Helping form our assessment of propensity to support are: (i) the recent general capital increase, which indicates that the members remain supportive of the Bank's mandate 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 countercyclical lending efforts; (iii) the very strong sense of ownership resulting from the borrowing members having majority voting power, which prevents the situation where members feel underrepresented; 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 for 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 that we rate. 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 15

IADB's key peers

	Year	IADB	IBRD	EIB	ADB	AfDB	IsDB	Aaa Median
Rating/Outlook		Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	Aaa/STA	--
Total Assets (US$ million)	2017	126,240	405,898	658,782	182,381	46,108	27,546	67,556
Factor 1		**Very High**	**High**	**Very High**	**Very High**	**High**	**Very High**	**--**
Usable Equity/Gross Loans Outstanding + Equity Operations (%)[1]	2017	36.2	22.2	15.1	49.2	38.1	63.7	38.1
Debt/Usable Equity (%)[1]	2017	274.2	518.4	651.7	174.4	326.8	122.8	235.5
Gross NPLs/Gross Loans Outstanding (%)[2]	2017	0.3	0.2	0.1	0.0	2.4	0.9	0.6
Factor 2		**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**--**
ST Debt + CMLTD/Liquid Assets (%)[3]	2017	53.9	52.9	94.1	50.8	41.0	20.8	41.0
Bond-Implied Ratings (Long-Term Average)	2011-2017	Aa1	Aa3	Aa1	Aa1	Aa1	A1	Aaa
Intrinsic Financial Strength (F1+F2)		**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**Very High**	**--**
Factor 3		**Very High**	**Very High**	**High**	**Very High**	**Very High**	**Very High**	**--**
Total Debt/Discounted Callable Capital (%)[4]	2017	82.6	107.0	215.7	68.9	94.1	53.4	88.3
Weighted Median Shareholder Rating (Year-End)	2017	A3	A1	Aa2	A1	Ba1	Ba1	Aa2
Rating Range (F1+F2+F3)		**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**--**

[1] Usable equity is total shareholder's equity and excludes callable capital
[2] Nonperforming 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
Sources: Moody's Investors Service and respective MDB financial statements

DATA AND REFERENCES

Rating history

Exhibit 16

IADB[1]

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Rating Assigned	--	P-1	--	--	Jan-01
Outlook Assigned	--	--	--	STA	Mar-97
Rating Assigned	Aaa	--	--	--	Dec-94
Rating Assigned	--	--	Aaa	--	Feb-75

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for Inter-American Development Bank for the full rating history.
Source: Moody's Investors Service

Annual statistics

IADB

	2012	2013	2014	2015	2016	2017	2018
Balance Sheet, USD Millions							
Assets							
Cash & Equivalents	1,021	421	535	641	599	896	835
Securities	14,399	21,015	27,395	27,901	27,292	33,154	31,918
Derivative Assets	6,803	3,440	2,861	2,224	2,054	1,688	1,307
Net Loans	68,460	70,435	74,215	78,301	81,420	88,536	92,969
Other Assets	1,526	1,676	1,271	2,049	1,960	1,966	2,430
Total Assets	**92,209**	**96,987**	**106,277**	**111,116**	**113,325**	**126,240**	**129,459**
Liabilities							
Borrowings	65,565	68,701	77,309	79,160	80,326	88,428	89,923
Derivative Liabilities	2,567	2,774	2,669	3,615	3,843	2,827	3,334
Other Liabilities	3,396	1,982	2,624	3,111	2,696	2,738	3,273
Total Liabilities	**71,528**	**73,457**	**82,602**	**85,886**	**86,865**	**93,993**	**96,530**
Equity							
Subscribed Capital	116,880	128,781	144,258	156,939	170,940	170,940	170,940
Less: Callable Capital	112,240	123,840	138,901	151,240	164,901	164,901	164,901
Equals: Paid-In Capital	4,622	4,678	5,027	5,394	5,800	11,038	11,023
Retained Earnings (Accumulated Loss)	16,392	17,699	18,247	19,207	20,055	20,670	21,446
Accumulated Other Comprehensive Income (Loss)	-333	1,173	423	652	605	539	460
Total Equity	**20,681**	**23,550**	**23,697**	**25,253**	**26,460**	**32,247**	**32,929**

Sources: IADB and Moody's Investors Service

IADB

	2012	2013	2014	2015	2016	2017	2018
Income Statement, USD Millions							
Net Interest Income	**1,171**	**1,429**	**1,335**	**1,541**	**1,726**	**1,683**	**1,549**
Interest Income	1,690	1,830	1,733	1,950	2,523	2,906	3,804
Interest Expense	519	401	398	409	797	1,223	2,255
Net Non-Interest Income	**693**	**1,080**	**306**	**555**	**31**	**-201**	**134**
Net Commissions/Fees Income	67	90	82	107	128	116	116
Other Income	626	990	224	448	-97	-317	18
Other Operating Expenses	**938**	**1,144**	**975**	**1,063**	**767**	**840**	**876**
Administrative, General, Staff	663	813	668	768	676	736	769
Grants & Programs	275	331	307	295	91	104	107
Pre-Provision Income	**926**	**1,365**	**666**	**1,033**	**990**	**642**	**807**
Loan Loss Provisions (Release)	22	58	118	73	142	27	-35
Net Income (Loss)	**904**	**1,307**	**548**	**960**	**848**	**615**	**842**
Other Accounting Adjustments and Comprehensive Income	-300	1,506	-750	229	-48	-66	-79
Comprehensive Income (Loss)	**604**	**2,813**	**-202**	**1,189**	**800**	**549**	**763**

Sources: IADB and Moody's Investors Service

IADB

	2012	2013	2014	2015	2016	2017	2018
Financial Ratios							
Capital Adequacy, %							
Usable Equity / (Loans + Equity)	30.1	33.3	31.8	32.1	32.3	36.2	35.3
Debt/Usable Equity	317.0	291.7	326.2	313.5	303.6	274.2	273.1
Allowance For Loan Losses / Gross NPLS	204.5	212.2	209.0	238.7	190.7	200.0	126.8
NPL Ratio: Non-Performing Loans / Gross Loans	0.1	0.2	0.2	0.2	0.3	0.3	0.4
Return On Average Assets	1.0	1.4	0.5	0.9	0.8	0.5	0.7
Interest Coverage Ratio (X)	2.7	4.3	2.4	3.3	2.1	1.5	1.4
Liquidity, %							
St Debt + CMLTD / Liquid Assets	60.2	55.0	54.1	49.6	50.8	52.4	52.2
Bond-Implied Rating	Aaa	Aa1	Aa1	Aa1	Aa2	Aa1	Aa1
Liquid Assets / Total Debt	23.3	30.9	35.2	35.4	34.1	37.9	34.8
Liquid Assets / Total Assets	16.6	21.9	25.6	25.2	24.2	26.5	24.2
Strength of Member Support, %							
Callable Capital (CC) of Baa3-Aaa Members/Total CC	78.7	78.8	78.4	78.4	67.3	66.8	66.8
Total Debt/Discounted Callable Capital	78.7	73.3	73.6	79.8	74.8	82.6	84.1
Weighted Median Shareholder Rating (Year-End)	Aa3	Aa3	A3	A3	A3	A3	A3

Sources: IADB and Moody's Investors Service

Moody's related publications

» **Credit Opinion:** Inter-American Development Bank – Aaa stable: Regular Update, 20 September 2018

» **Rating Methodology:** Multilateral Development Banks and Other Supranational Entities, 17 September 2018

» **Rating Methodology:** Sovereign Bond Ratings, 27 November 2018

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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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 separate from those of the OC.

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

3 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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