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ISSUER IN-DEPTH
30 March 2020

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RATINGS

IIC

	Rating	Outlook
Long-term Issuer	Aa1	STA
Short-term Issuer	P-1	--

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Inter-American Investment Corporation - Aa1 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of the Inter-American Investment Corporation (IIC) – commercially rebranded as IDB Invest – reflects its robust capitalization and financial management, and strong asset performance despite its private sector focus. The institution's close relationship with the Inter-American Development Bank (IADB, Aaa stable) also supports the credit profile. The IIC's conservative risk management practices keep its leverage low and capital adequacy ratios very strong.

The IIC's credit challenges stem from its mandated operations. In particular, this involves the IIC's lending operations to riskier segments of the private sector without sovereign guarantees and the moderate borrower, region, and sector concentration risks stemming from the development-related portfolio.

The stable outlook reflects our view that the IIC will continue to effectively manage credit risks as it expands its mandate in a challenging operating environment due to the countries in which it carries out its lending and investment activities. The outlook incorporates our expectations that while leverage will increase, the IIC will maintain a strong capital adequacy. This, combined with still strong liquidity, will continue to support the IIC's high intrinsic financial strength, a key feature of its credit profile.

Upward credit pressures are limited by the challenging operating environment in which the IIC carries out its lending and investment activities, in addition to potential risks stemming from the IIC's private sector focused operations. Although unlikely, the introduction of callable capital as an additional backstop for investors would enhance the IIC's credit profile and could place upward pressure on the credit profile.

Downward credit pressures would emerge should there be significant credit losses, for instance stemming from a more acute challenging operating environment, that materially affect the IIC's financial performance, or a weakening of support from the IADB or highly-rated shareholders. A sharp deterioration in capital adequacy driven by an excessive increase in leverage would weigh on the IIC's credit profile.

This credit analysis elaborates on IIC's credit profile in terms of capital adequacy, liquidity and funding and strength of member support, which are the three main analytical factors in Moody's Supranational Rating Methodology.

Organizational structure and strategy

Private sector arm of the IADB group

The IIC was established in 1986 as part of the IADB group. Although the IIC is a member of the IADB group, it is legally autonomous, and its resources and management are separate from those of the IADB. The IIC receives its share capital from 47 member countries with voting power proportional to each country's paid-in shares. All the powers of the IIC are vested in its Board of Governors, which has in turn delegated most of its powers to the Board of Executive Directors responsible for the IIC's operations.

The IIC's charter mandates promoting the economic development of regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises in Latin America and Caribbean (LAC). To fulfill its mandate, the IIC conducts operations with private sector companies, state-owned enterprises, and financial institutions in its 26 LAC member countries, offering a range of financial products and services. The IIC does not seek to crowd out available financing from private sector entities, rather to supplement and to mobilize third party resources where it is lacking.

The products offered include direct loans, guarantees, debt securities, and equity investments as well as indirect lines of credit through local financial intermediaries that provide funding for corporate investments, refinancing, trade financing, and working capital to the target client. The IIC also provides structured loans, financing for private equity funds, and loans for supply chain support programs. All IIC financial products are made without the benefit of a sovereign guarantee.

A renewed vision for private sector operations in the IADB group

The operational consolidation of the IADB group's private sector activities into the IIC for purposes of supporting the implementation of the Renewed Vision for the activities of the IADB group with the private sector became effective on 1 January 2016.

Between 2013 and 2015, the IADB and IIC worked to develop a renewed vision for the activities of the IADB group with the private sector, which focuses on strengthening the development impact while also optimizing the use of resources and synergies between public and private sector activities. This effort resulted in the decision by the Boards of Governors of the IADB and IIC to expand the IIC's mandate to carry out the group's private sector operations. In terms of operational considerations, credit risk assessment resources for private sector activity were consolidated at the IIC. On 30 March 2015, the Boards of Governors approved the reorganization and authorized a capital increase plan for the IIC.

There will be a transitional period through 2022 during which the IIC and the IADB will co-finance private sector operations (until the IIC reaches a size that allows it to perform all the new expected operations on its own). Once the transition period is completed, the IADB will stop financing the private sector, although it will keep its previously originated private sector portfolio on its balance sheet until maturity. The IADB will not transfer its private sector portfolio to the IIC but will transfer capital on behalf of its member countries to the IIC. The IADB governors' annual approval of the IADB transfers on behalf of member countries will take into account the IADB's revised capital adequacy policy, ensuring that the Aaa credit rating of the IADB is safeguarded.

Annex A shareholders began paying annual installments of the capital increase in 2016 and Annex B capital transfers from the IADB on behalf of its member countries started in 2018. Co-financing of private sector lending with the IADB started in 2016. Risk assessment functions and loan originations are now carried out at the IIC. The IIC has offices in the region with presence in 25 countries, where it will increase its staff over the coming years, allowing it to enhance its client interactions. Additionally, as part of its expanded mandate, the IIC has rebranded itself as IDB Invest.

Until 31 December 2015, the IADB group's private sector activities were carried out through the Structured and Corporate Finance Department (SCF) and the Opportunities for the Majority Sector (OMJ) of the IADB. The Multilateral Investment Fund (MIF), administered by the IADB, continues to carry out private sector activities.

CREDIT PROFILE

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength. Additional factors that can impact the intrinsic financial strength, including risks stemming from the operating environment or the quality of management, are also considered. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

Capital adequacy score: a1

Factor 1: Capital adequacy

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c	
+					Assigned																	-

Sub-factor scores

Capital position	aa2
Development asset credit quality	ba
Asset performance	aa2

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 credit quality of the institution's development assetsand the risk that these assets could result in capital losses.

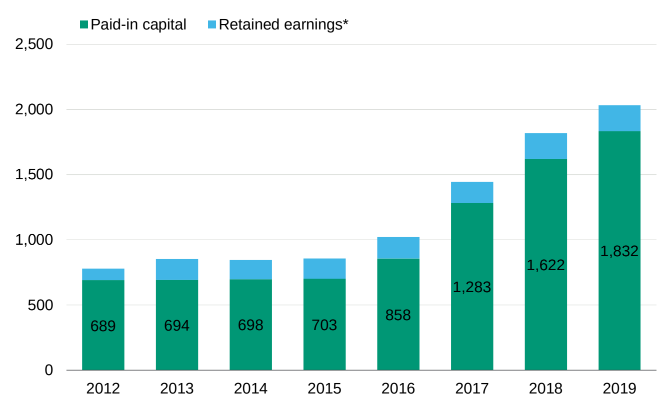
Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

IIC's "a1" capital adequacy score reflects its "aa2" capital position that incorporates our expectation that leverage will continue to rise over the coming years, a "ba" development asset credit quality (DACQ) that incorporates IIC's focus on private sector operations and the diversification of its portfolio within the Latin American and Caribbean region, and low nonperforming assets (NPAs) that support a "aa2" asset performance. The "a1" score is shared with Central American Bank for Economic Integration (CABEI, Aa3 stable), Council of Europe Development Bank (CEB, Aa1 stable), IADB and European Investment Bank (EIB, Aaa stable).

Capital increase supporting accumulation of equity and expansion of the loan book

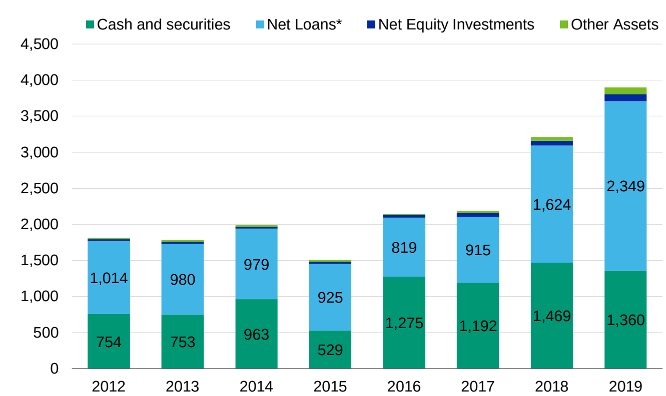
Shareholder's paid-in capital contributions as part of the GCI-II process began to flow in 2016, which has allowed the IIC to double its equity between 2016 and 2019 (see Exhibit 1). The increase in equity combined with a more active borrowing program has also driven an expansion in IIC's development related assets (DRA), with loans experiencing large growth in 2018 and 2019 (see Exhibit 2). As the IADB Group continues to consolidate its private sector operations within the IIC, its development assets will continue to grow significantly over the medium term.

Exhibit 1
IIC's usable equity has doubled as part of GCI-II since 2016...
US$ million



*Net of accumulated other comprehensive income
Sources: IIC, Moody's Investors Service

Exhibit 2
Contributing to increase in development-related assets
US$ million

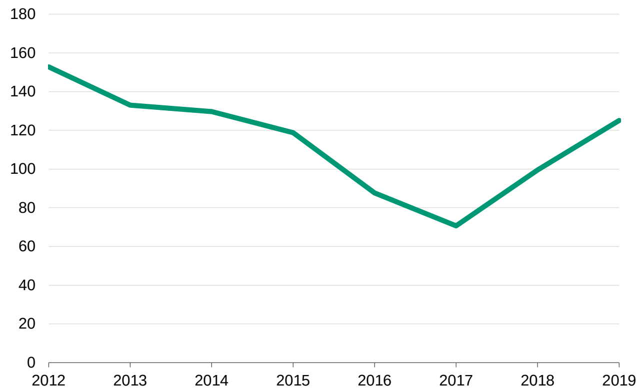


*Includes investments in debt securities for development purposes
Sources: IIC, Moody's Investors Service

As IIC expands its operations in the context of a capital increase, its leverage will rise

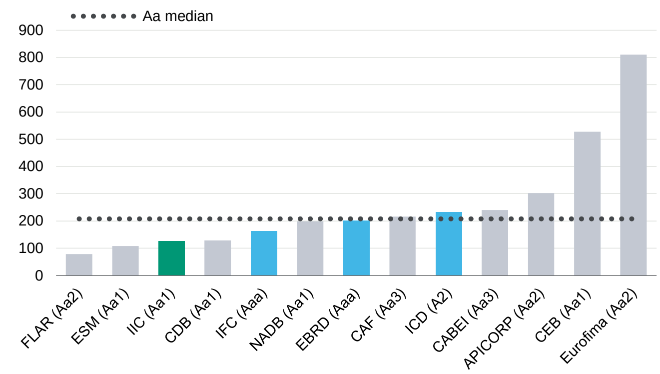
IIC's capital position has historically been strong, with the ratio of assets-to-equity declining to 70.7% in 2017. Moreover, in the context of the expanded mandate to increase its private sector operations as part of its second general capital increase, leverage rose to 125.1% in 2019 (see Exhibit 3). At this level, the IIC scores "aa2" in terms of its capital position. We expect that the IIC will continue to increase its leverage at a moderate rate but will maintain a relatively stronger position than similarly rated peers (see Exhibit 4).

Exhibit 3
Leverage has begun to trend up as lending rises...
Assets/Equity in %



Sources: IIC, Moody's Investors Service

Exhibit 4
But capital position remains stronger than most peers
Assets/Equity in %, 2019 or latest available



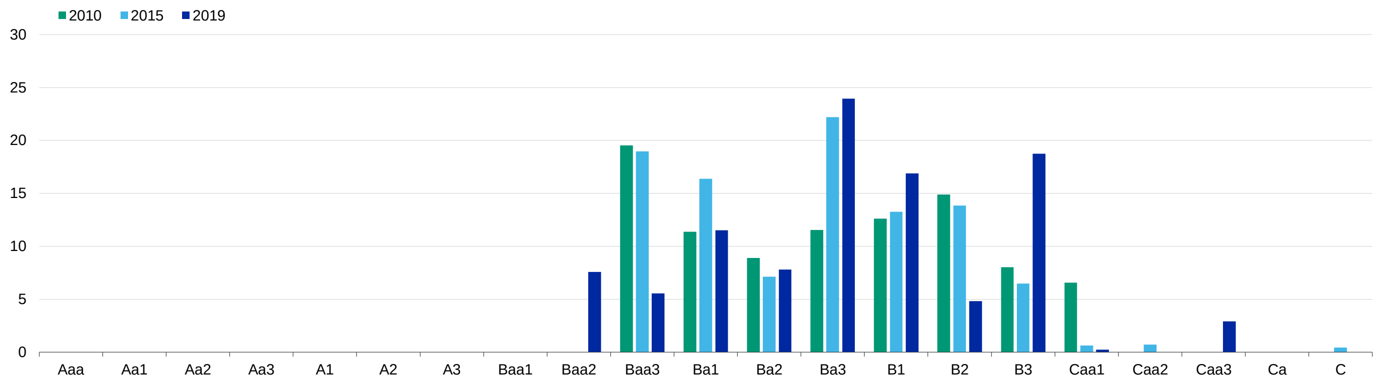
Note: Blue denotes other MDBs with similar business profiles.
Sources: IIC, Moody's Investors Service

We expect the IIC to continue to score strongly in the capital position assessment because of its very conservative policies. Decisions involving the maximum amount of borrowings the IIC can undertake (which are set at three times the sum of its subscribed capital, earned surplus and reserves in the charter) effectively translate in a minimum required capitalization of 25%, weighing all assets (development-related assets + treasury portfolio + other assets) at 100% and taking into consideration contingent liabilities.

Asset quality remains moderate despite exposure to private sector

We assess the IIC's development assets' credit quality as "ba" as the credit profile of its development portfolio reflects risks derived from its regional mandate and the market segment it serves. These risks are the greatest challenge that the IIC faces and it mitigates it through risk management policies and practices. The starting point of our analysis of the IIC's development asset credit quality is the weighted average borrower rating (WABR) of its loan book. Loans represented 81% of IIC's DRA in 2019. Additionally, the IIC has begun investing in debt securities for development purposes – for example the purchase of thematic bonds (green, social and gender) in the LatAm region – that we also include in this initial assessment. Debt securities represented 15% of total DRA in 2019. The WABR was Ba3 last year, the same level as in 2018 and one notch higher than in 2017. While the size of the of the development portfolio has increased significantly over the past decade, the distribution of ratings of these DRAs has remained broadly the same at around the Ba3-B1 range (see Exhibit 5).

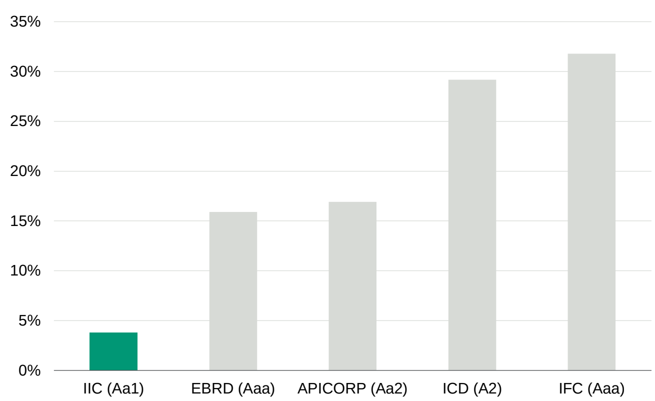
Exhibit 5
Loan and debt securities rating distribution concentrated around the Ba3 level
% of total loans and debt securities



Sources: IIC, Moody's Investors Service

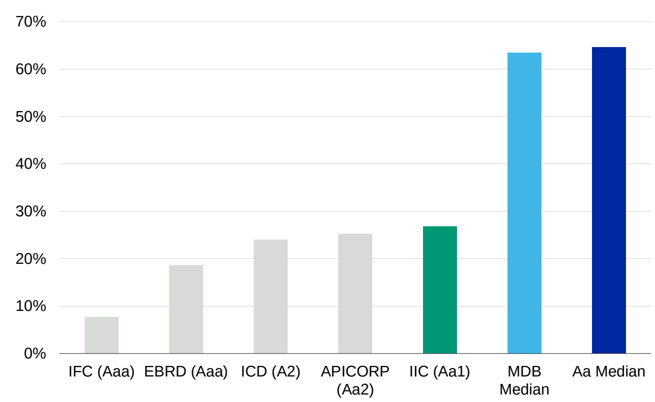
An additional feature that affects the credit quality of development portfolios of MDBs with private sector mandates is the share of equity investments. In the case of the IIC, equity investments made up just 4% of DRA in 2019. This share is particularly small compared to other MDBs with similar business profiles (see Exhibit 6). In terms of portfolio concentration, IIC's top ten exposures represent 27% of total DRA. This is the highest level for MDBs with similar business profiles, but significantly lower than the median for all rated MDBs and Aa-rated peers (see Exhibit 7).

Exhibit 6
Share of equity investments is lowest among private sector focused MDBs
% of DRA, 2019 or latest available



Sources: IIC, Moody's Investors Service

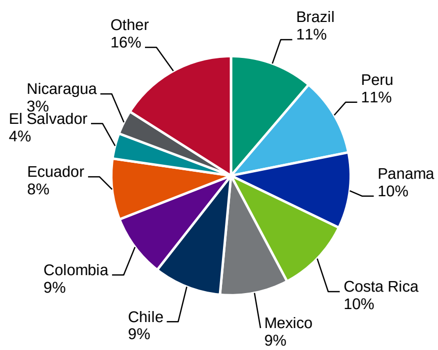
Exhibit 7
Top 10 exposures relatively low compared to most MDBs
% of DRA, 2019 or latest available



Source: Moody's Investors Service

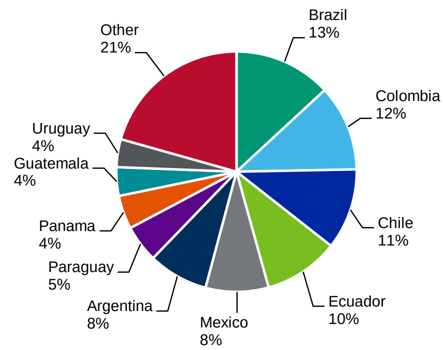
While the IIC's regional mandate could foster additional concentration risks, the IIC has maintained a well-distributed portfolio by country. The Herfindahl-Hirschman Index for country exposure was 7.9% in 2019, and has remained around 8% over the past eight years. That said, specific country exposures can vary from year to year, with only Brazil (Ba2 stable) and Mexico (A3 negative) remaining in the top five country exposures in recent years (see Exhibit 8 & 9). As part of its expanded mandate, the IIC has increased its exposures to C&D countries (smaller economies in the Latin America and Caribbean region), which now represent 45% of DRAs approvals.

Exhibit 8
Country exposures in 2015
% of DRA



Sources: IIC, Moody's Investors Service

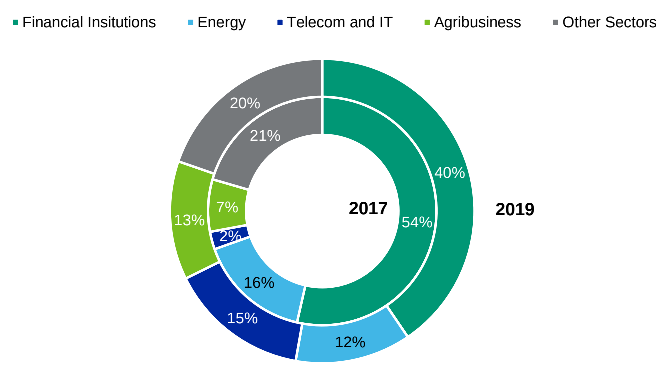
Exhibit 9
Country exposures in 2019
% of DRA



Sources: IIC, Moody's Investors Service

In terms of sector concentration, the IIC has also further diversified its development assets. Although small and medium enterprises, which receive financing through financial institutions, remain a policy priority, the IIC has increased its direct support to other sectors. This in turn has reduced the share of financial institutions as recipients of IIC funding.

Exhibit 10
Sector concentration is also favorable
% of total DRA

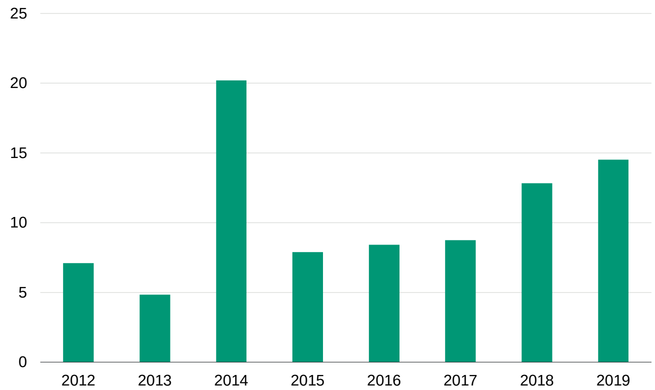


Sources: IIC, Moody's Investors Service

Asset performance stronger than other private sector focused MDBs

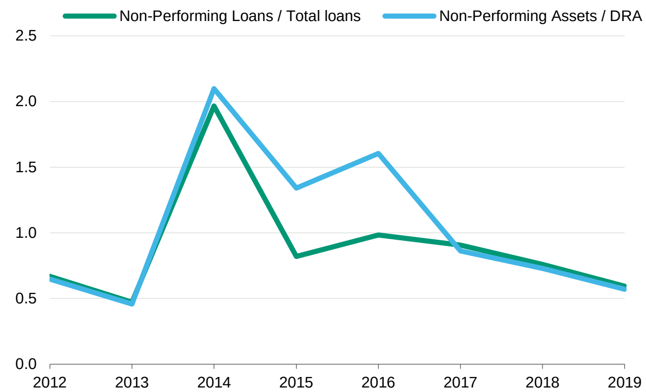
The IIC's asset performance is very strong, which is notable for an MDB that lends to the private sector because it does not receive as high of a preferred creditor status (PCS) as MDBs that lend to the public sector. Notably, despite weaker economic growth in LatAm over the past five years, nonperforming loans (NPLs) have only risen moderately in that period (see Exhibit 11). We assess an MDB's asset performance by looking at the ratio of nonperforming assets over total DRA (NPA ratio), which would include NPLs, losses on equity investments and called guarantees. Since 2014 this ratio has been improving for the IIC (see Exhibit 12), in part due to the growing development portfolio. We note that the ratio of nonperforming loans to total loans, which make up the bulk of IIC's DRA, has remained below 1% for the past five years and has averaged 0.9% since 2006. Additionally, even when the LatAm region experienced a significant shock as commodity prices fell in 2014-16, the NPA ratio reached about 2% at its worst point – the difference between the NPA and NPL ratios are attributable to equity investment realized losses in 2014-16. With an NPA ratio of 0.6% in 2019, the IIC scores "aa2" for asset performance.

Exhibit 11
Nonperforming loans have risen slightly in recent years
US$ million



Sources: IIC, Moody's Investors Service

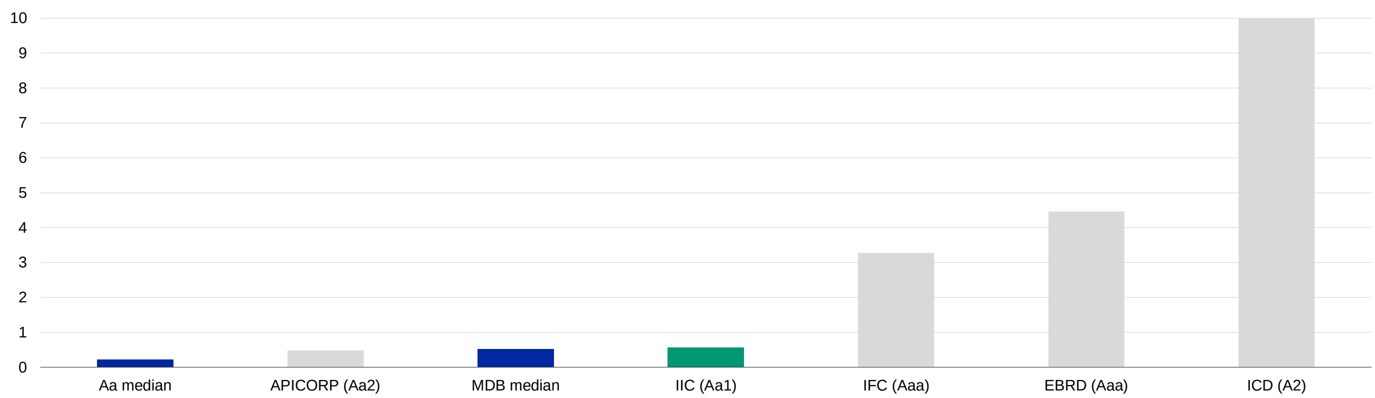
Exhibit 12
But asset performance ratios remain strong
% of DRA



Sources: IIC, Moody's Investors Service

This strength in terms of asset performance also differentiates the IIC from other MDBs that focus on private sector operations that tend to have higher NPA ratios (see Exhibit 13). IIC's asset performance is more in line with the median for the rated supranational universe, although it is worth noting that many MDBs lend to sovereigns or the public sector and therefore benefit more from preferred creditor status.

Exhibit 13
Asset performance stronger than that of MDBs with similar business profiles
% of total DRA, 2019 or latest available



Sources: IIC, Moody's Investors Service

While the IIC will always have more volatility in its asset performance indicators compared to MDBs that direct their lending only to sovereigns, it is likely to score well in this category over the medium term. We make this assessment based on the IIC's internal credit risk rankings and improvements in the IIC's credit risk management. The IIC's internal credit risk rankings are useful forward-looking indicators of asset performance. Mapped to the Moody's rating scale, IIC's weighted average borrower rating comes out to Ba3. Average borrower quality has been fairly stable for the IIC over the years, remaining mostly in the Ba2-B1 range for over a decade. Exposures to Caa1-equivalent and lower ratings make up only 3% of the loan portfolio, while B3-equivalent exposures were 19% in 2019. We currently do not expect a rapid deterioration in asset performance.

Liquidity and funding score: aa2

Factor 2: Liquidity and funding

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca	c	
+			Assigned																			-

Sub-factor scores

Liquid resources	aa1
Quality of funding	aa

An entity's liquidity is important in determining its ability to meet its financial obligations. We evaluate the extent to which liquid assets cover net cash flows over the coming 18 months and the stability and diversification of the institution's access to funding.
Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

The IIC's "aa2" liquidity and funding is supported by a strong liquidity coverage that scores "aa1" and a quality of funding assessment of "aa."

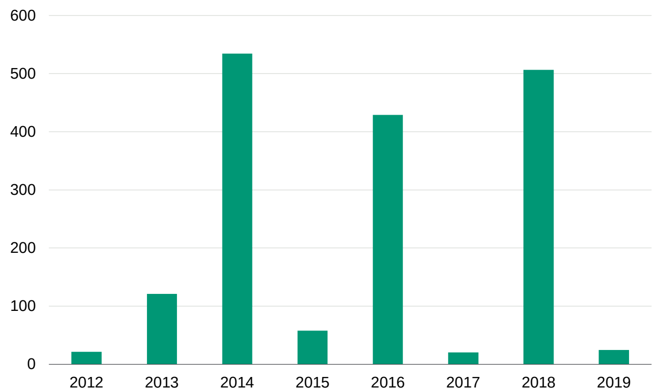
Liquidity coverage is strong due to favorable maturity profile and strong liquidity policy

We assess IIC's liquidity coverage to be strong in case of a stress scenario, which would include the Corporation not being able to tap financial markets and for members to suspend the ongoing capital contributions. IIC's liquid resources ratio, which sizes its high-quality liquid assets relative to its net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs, shows that the Corporation holds enough assets to sustain its functioning for more than 18 months. That said, we consider that IIC's liquidity is stronger than this ratio indicates because in case of severe stress it could tap its contingent credit line with the IADB (for which we include a positive adjustment), and, also, members have continued to provide their capital contributions on a timely basis (with some prepaying).

The IIC updated its liquidity policy in December 2017. Under the new framework, the IIC calculates a liquidity coverage ratio (LCR) that aims to assess its liquidity requirements under stressed conditions and also provides guidance for borrowing. The LCR considers the IIC's existing liquidity, which includes its treasury investments net of haircuts as well as the unused portions of committed lines rated Aa3 or higher. This is measured against the IIC's required liquidity under stress, which is based on the expected inflows and outflows net of haircuts in a stress scenario. A coverage period, in months, and a target LCR level are determined by management as part of the annual financial management planning presented to the Board. The LCR must exceed 105% (which includes a 5% buffer) for the liquidity requirements expected during the coverage period. Management presents updates of the LCR to the Board on a quarterly basis, and if the LCR falls below the target level it is required to present actions to improve the LCR. The IIC has consistently exceeded the LCR minimum.

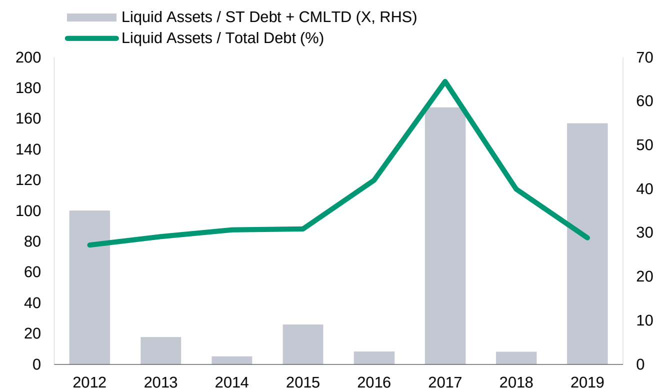
The IIC's debt maturity profile has been somewhat lumpy over the past seven years as larger maturities only occurred in 2014, 2016 and 2018 (see Exhibit 14). Moreover, we note that even during those years the debt service coverage provided by liquid assets was about three times (see Exhibit 15). Overall, since 2013, the IIC has maintained liquid assets that represent at least 80% of total debt.

Exhibit 14
Borrowings' maturity profile in past years
US$ million, as of December 2019



Sources: IIC, Moody's Investors Service

Exhibit 15
Liquid assets provide high coverage of debt service
%

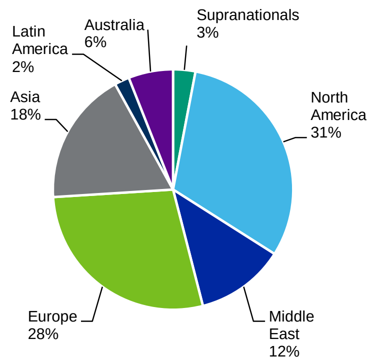


Sources: IIC, Moody's Investors Service

Liquid assets have short duration and high quality

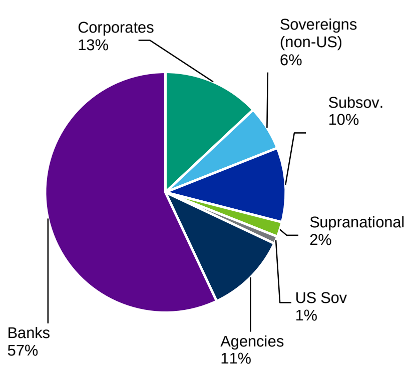
Because of its liquidity policy, the IIC manages its treasury portfolio so as to be able to rapidly mobilize its resources. The total liquidity portfolio in 2019 amounted to $1.4 billion, of which $968 million were investment securities. The duration of this portfolio was 0.66 years and the weighted average rating was Aa3. The liquidity portfolio is also diversified by geography.

Exhibit 16
Liquidity portfolio by geography
% of total, 2019



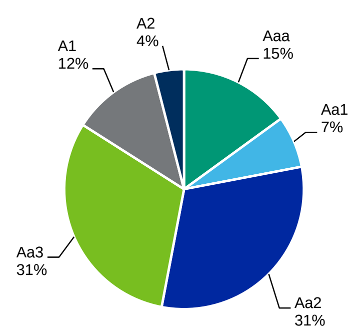
Source: IIC

Exhibit 17
Liquidity portfolio by issuer
% of total, 2019



Source: IIC

Exhibit 18
Liquidity portfolio by rating
% of total, 2019



Source: IIC

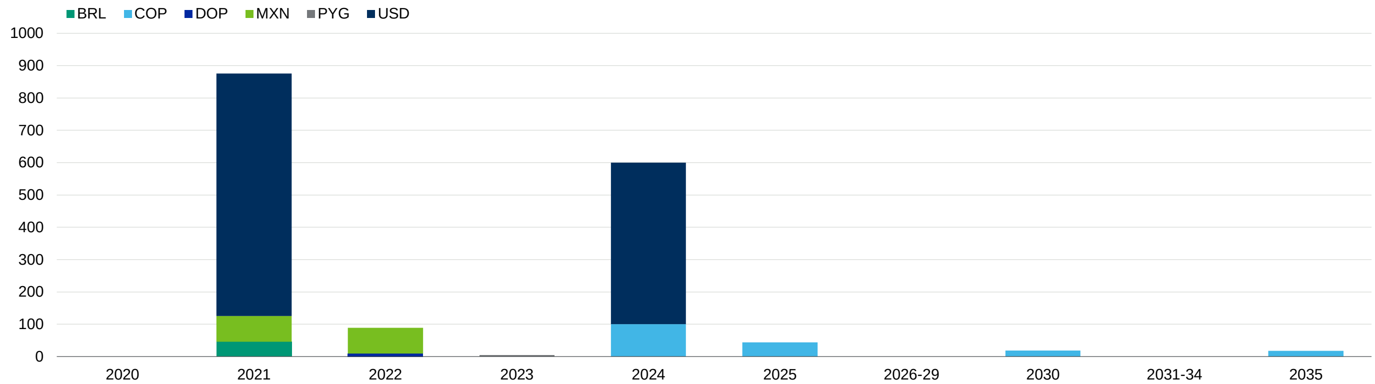
Strong market access at favorable terms and growing market diversification

Over the past decade, IIC's borrowings outstanding amount per year has averaged $950 million but reached $1.6 billion in 2019. We expect its borrowing program will more likely grow over time because of the IIC's expanded mandate related to the GCI-II. Borrowings consist of medium-term notes, bonds issued in domestic Latin American markets and revolving credit facilities with financial institutions. US dollar bonds have made up the majority of its borrowings, although it increased its issuance activity in local regional markets in the last few years (see Exhibit 19).

Exhibit 19

US dollar bond still make up the bulk of borrowings but IIC is diversifying its local market issuances

US$ million



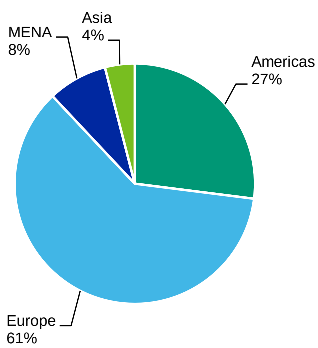
Sources: IIC, Moody's Investors Service

Supporting the IIC's strong market access, despite its borrowing program still being relatively small when compared to other larger highly-rated MDBs, is the favorable terms at which it is able to issue its US dollar bonds. The IIC's overall US dollar borrowing spread was 15 basis points above the 3-month Libor rate after swaps last year. When comparing IIC's two large US dollar bonds to the reference yield curve for Aaa-rated MDBs, the spread during 2019 was about 10 basis points. This is also reflected in a bond implied rating that has ranged between Aa1 and Aa3 over the past six months. The IIC also benefits from a diverse investor base for its bonds (see Exhibits 20 & 21).

Exhibit 20

Borrowings maturity profile in past years

US$ million

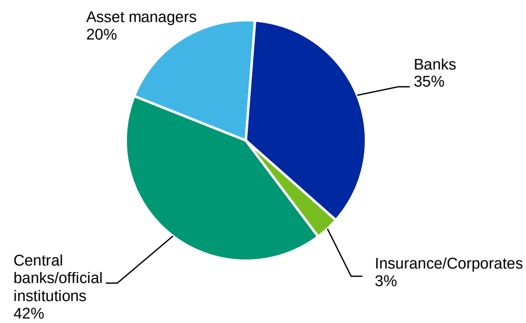


Sources: IIC, Moody's Investors Service

Exhibit 21

Liquid assets provide high coverage of debt service

%



Sources: IIC, Moody's Investors Service

Qualitative adjustments

Qualitative adjustments to intrinsic financial strength

Adjustments	
Operating environment	0
Quality of management	0

The capital adequacy and liquidity and funding factors represent the key drivers of our assessment of an institution's intrinsic financial strength (IFS). However, assessments of the operating environment and the quality of management are also important components of our analysis. To capture these considerations, we may adjust the preliminary IFS outcome that results from the capital adequacy factor and the liquidity and funding factor. The result of this analysis is the adjusted IFS outcome.

The qualitative factors that we additionally consider include an MDB's operating environment and the quality of its management. We do not apply an adjustment for the operating environment. While we also do not apply an adjustment for the quality of management, we consider that the IIC has continued to strengthen its risk management practices, particularly in the context of the consolidation of the IADB Group's private sector operations. Nonetheless, these conservative policies and risk management practices are reflected in its strong credit metrics.

Strength of member support score: Medium

Factor 3: Strength of member support

Scale		Very High	High	Medium	Low	Very Low	
	+			Assigned	Adjusted		-

Sub-factor scores	
Ability to support	ba2
Willingness to support: Contractual	ca
Willingness to support: Non-contractual	Very High

Shareholders' support for an institution is a function of their ability and willingness. Ability to support is reflected by the shareholders' credit quality. Willingness to support takes into consideration (1) the members' contractual obligations that primarily manifest in the callable capital pledge, a form of emergency support, and (2) other non-contractual manifestations of support to the institution's financial standing and mission. Strength of member support can increase the preliminary rating range determined by combining factors 1 and 2 by as many as three scores.

Note: In case the Adjusted and Assigned scores are the same, only the Assigned score will appear in the table above.

Our assessment of the IIC's strength of member support is "Medium," adjusted one notch up from "Low." This assessment incorporates the absence of members' contractual obligations in the form of callable capital but a very strong willingness of members to provide non-contractual support, as exemplified by the shareholders' support for the GCI-II process and the IIC's expanded mandate. We also consider that the members' ability to provide support is higher than what is implied by the weighted average shareholder rating metric.

IIC is in the process of its second general capital increase

The IIC was established with initial paid-in capital of $200 million in 1986 with 21 members. All member countries agreed to a $500 million general capital increase (GCI) in 1999. Since then, the IIC received a series of selective capital increases to allow entry of new members and capital reallocations. In 2015, in the context of the reorganization initiative, the IIC's Board of Governors approved the second GCI (GCI-II) to increase the organization's authorized capital stock by $2.03 billion. GCI-II includes two components: $1.3 billion in new capital contributions from existing member countries (Annex A) and $725 million in capital transfers from the IADB on behalf of its member countries (Annex B). Shares issued as part of GCI-II were sold at 62% above their nominal value, resulting in the creation of additional paid-in capital on the IIC's balance sheet. The new shares authorized for issuance under Annex A were first offered to members on a pro-rata basis. Although several high-profile members, most notably the US (Aaa stable) and Germany (Aaa stable), chose not to subscribe, all shares were ultimately allocated in proportions that would allow the IIC to maintain the balance between regional and highly-rated non-regional members.

The IIC's paid-in capital will increase to $2.7 billion by 2025 as a result of the capital increase, with fresh contributions accounting for two-thirds of the increase and IADB transfers on behalf of its member countries representing the remainder. As of year-end 2019, IIC had received capital payments from Annex A for $955.4 million for the first four installments. Additionally, by December 2019 the IIC had also received $45 million (30%) of the fifth installment that corresponds to those payments due by October 2020, and another $26.5 million in advanced payments for the sixth and seventh installments. Additionally, in April 2019, the IIC received the second Annex B capital transfer ($49.6 million) from the IADB, which followed a $49.5 million transfer in March 2018. To incentivize timely payment of future installments, beginning with the second installment the IIC increased the price per share not paid within their corresponding annual installment by 5% for each year of arrears.

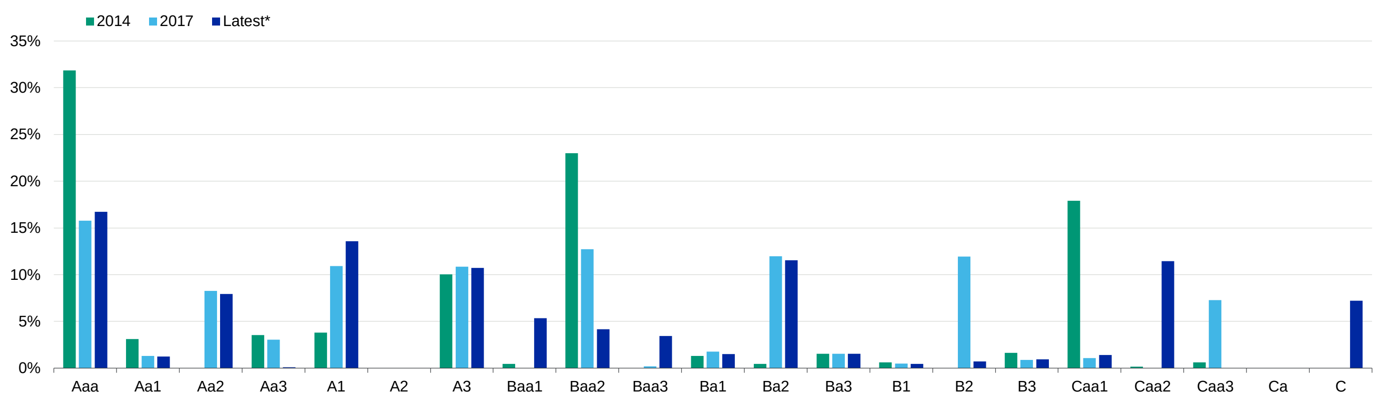
In the context of the GCI-II, the US will remain the largest shareholder based on its paid-in capital, and hence will retain the largest voting power within the IIC Board. Because some members declined to subscribe to these types of shares, the remaining unsubscribed shares were picked up by other members, including some highly-rated non-regional members like Canada (Aaa stable), China (A1 stable) and Korea (Aa2 stable). These three governments will see their shareholding increase over the GCI-II process and will become part of the top 10 shareholders.

Also related to the GCI-II process, Croatia (Ba2 positive) and Slovenia (Baa1 positive) became full members in April 2019. This brought the total number of members to 47 as of year-end 2019.

Ability to support stronger than implied by average credit quality of members

We consider IIC's member base to have a moderate ability to provide support as reflected by a weighted average shareholder rating (WASR) of Ba2. Since 2014, this metric has hovered between Baa3 and Ba2 (see Exhibit 22). Two factors likely influence these dynamics: (1) the US, which is rated Aaa, will see its share of subscribed capital decline through the course of the GCI-II process although these shares are being picked up by relatively highly rated sovereigns, and (2) the volatility in Argentina's and Venezuela's ratings can pull down the WASR given its important share at 11.4% and 7.2% of total subscribed capital, respectively. Moreover, notwithstanding Argentina's rating downgrades in recent years – from B2 in July 2019 to Caa2 at present – the government has made its paid-in capital payments on time.

Exhibit 22
Distribution of subscribed capital by rating
% of total



*Based on capital distribution as of end-2019 and ratings as of 6 March 2020
Sources: IIC, Moody's Investors Service

ESG considerations

How environmental, social and governance risks inform our credit analysis of IIC

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing a supranational issuer's credit profile. In the case of the IIC, the materiality of ESG to the credit profile is as follows:

Environmental considerations are not material for IIC's rating. However, we note that as part of its mission, the IIC supports several private sector projects (including renewable energy generation), which look to address or mitigate climate change risks in the Latin America region.

Social considerations are not material for IIC's rating. We do not expect that social risks affecting its borrowers will affect IIC's capital adequacy or liquidity.

Governance is strong and manifests through very strong capital adequacy and liquidity metrics that underpin its Aa1 rating

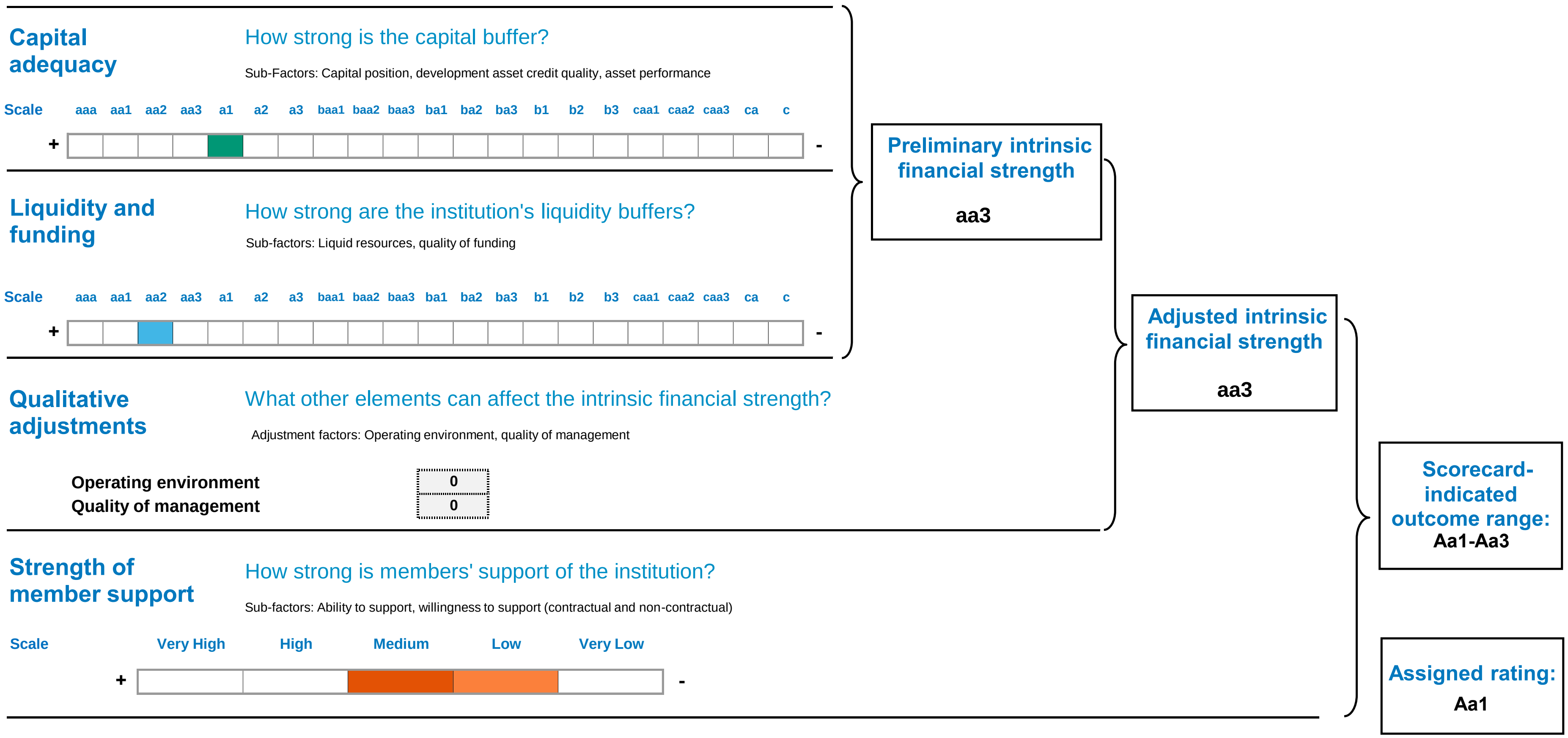
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

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.

Exhibit 23

Supranational rating metrics: IIC



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding IIC 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 IIC is small compared to Aa1 peers, but its capital adequacy metrics are stronger. Asset performance is strong compared to other MDBs that operate exclusively or primarily in the private sector (the IFC and ICD) and comparable to those that operate in the public sector. Its liquidity profile is relatively strong, while member support is weaker.

Exhibit 24
IIC's key peers

	Year	IIC	IFC	CEB	EBRD	NADB	CDB	Aa Median
Rating/Outlook		**Aa1/STA**	**Aaa/STA**	**Aa1/STA**	**Aaa/STA**	**Aa1/STA**	**Aa1/STA**	
Total assets (US$ million)	2018	3,209	94,272	27,879	70,820	1,959	1,718	8,902
Factor 1: Capital adequacy		**a1**	**a3**	**a1**	**baa1**	**a3**	**aa3**	
DRA / Usable equity[1] [2] [4]	2018	96.5	161.2	492.3	186.2	196.7	128.9	215.5
Development assets credit quality score (year-end)	2018	ba	baa	aa	baa	baa	ba	baa
Non-performing assets / DRA[1]	2018	0.7	2.1	0.0	4.5	1.1	0.4	0.5
Return on average assets[4]	2018	0.9	1.4	0.4	0.4	1.0	0.9	0.9
Net interest margin (X)[4]	2018	2.2	1.6	0.7	1.4	1.7	1.4	1.3
Factor 2: Liquidity and funding		**aa2**	**aa1**	**aa2**	**aa1**	**a1**	**aa2**	
Quality of funding score (year-end)	2018	aa	aaa	aa	aaa	a	aa	aa
Liquid assets / ST debt + CMLTD[3][4]	2018	290.0	407.4	228.6	169.1	15,186.3	995.7	324.0
Liquid assets / Total assets[4]	2018	45.8	54.0	33.1	46.8	40.8	26.7	32.3
Preliminary intrinsic financial strength (F1+F2)		**aa3**	**aa3**	**aa3**	**a1**	**a2**	**aa2**	
Adjusted intrinsic financial strength		**aa3**	**aa2**	**aa2**	**aa3**	**a2**	**aa3**	
Factor 3: Strength of member support		**M**	**H**	**M**	**H**	**VH**	**H**	
Weighted average shareholder rating (year-end)	2018	Ba2	Baa1	Baa1	A2	A1	Ba2	baa3
Callable capital / Total debt	2018	--	--	24.9	54.9	399.4	172.7	39.5
Callable capital (CC) of Baa3-Aaa members/Total CC[4]	2018	--	--	97.0	91.0	100.0	47.3	96.7
Scorecard-indicated outcome range (F1+F2+F3)		**Aa1-Aa3**	**Aaa-Aa2**	**Aaa-Aa2**	**Aaa-Aa2**	**Aa1-Aa3**	**Aaa-Aa2**	

[1] Development related assets; [2] Usable equity is total shareholder's equity and excludes callable capital; [3] Short-term debt and currently-maturing long-term debt; [4] Ratio not used in Scorecard
Source: Moody's Investors Service

DATA AND REFERENCES

Rating history

Exhibit 25

Inter-American Investment Corporation (IIC) [1]

	Issuer Rating		Senior Unsecured	Outlook	
	Long-term	Short-term			Date
Outlook Changed				STA	03/15/2018
Outlook Changed				STA	03/31/2016
Rating Raised	Aa1	P-1	Aa1		03/31/2016
Outlook Changed				POS	04/14/2015
Rating Assigned			Aa2		03/14/2012
Rating Assigned		P-1			08/19/2008
Outlook Assigned				STA	11/15/2003
Rating Assigned	Aa2				10/01/2001

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

Annual statistics

Exhibit 26

Inter-American Investment Corporation (IIC)

Balance Sheet, USD Thousands	2013	2014	2015	2016	2017	2018	2019
Assets							
Cash & Equivalents	18,273	7,571	14,946	23,459	20,755	9,647	22,749
Securities	734,342	955,914	513,661	1,251,454	1,171,565	1,459,799	1,337,664
Derivative Assets	0	0	0	0	0	0	0
Net Loans	979,603	979,259	924,526	819,498	915,215	1,623,799	2,349,134
Net Equity Investments	26,052	25,178	29,476	32,071	48,723	66,556	96,675
Other Assets	28,535	21,564	22,687	20,242	29,137	49,452	93,602
Total Assets	**1,786,805**	**1,989,486**	**1,505,296**	**2,146,724**	**2,185,395**	**3,209,253**	**3,899,824**
Liabilities							
Borrowings	903,502	1,099,241	598,456	1,062,383	646,741	1,286,372	1,648,146
Derivative Liabilities	0	0	0	0	0	0	0
Other Liabilities	31,477	45,108	49,516	62,359	94,074	103,631	218,616
Total Liabilities	**934,979**	**1,144,349**	**647,972**	**1,124,742**	**740,815**	**1,390,003**	**1,866,762**
Equity							
Subscribed Capital	704,400	705,900	1,253,520	2,010,858	2,014,011	2,066,809	2,120,251
Less: Callable Capital	0	0	0	0	0	0	0
Less: Other Adjustments	10,700	7,547	550,357	1,153,056	730,597	444,603	287,840
Equals: Paid-In Capital	693,700	698,353	703,163	857,802	1,283,414	1,622,206	1,832,411
Retained Earnings (Accumulated Loss)	156,810	170,144	173,146	190,917	208,471	235,356	279,227
Accumulated Other Comprehensive Income (Loss)	1,316	-23,360	-18,985	-26,737	-47,305	-38,312	-78,576
Reserves	0	0	0	0	0	0	0
Other Equity	0	0	0	0	0	0	0
Total Equity	**851,826**	**845,137**	**857,324**	**1,021,982**	**1,444,580**	**1,819,250**	**2,033,062**

Source: Moody's Investors Service

Exhibit 27
Inter-American Investment Corporation (IIC)

Income Statement, USD Thousands	2013	2014	2015	2016	2017	2018	2019
Net Interest Income	**38,997**	**39,494**	**41,770**	**38,138**	**44,990**	**68,109**	**102,973**
Interest Income	55,360	51,974	51,213	50,693	62,030	94,721	147,543
Interest Expense	16,363	12,480	9,443	12,555	17,040	26,612	44,570
Net Non-Interest Income	**12,933**	**9,077**	**4,967**	**57,410**	**86,342**	**93,760**	**111,419**
Net Commissions/Fees Income	0	0	0	0	0	0	0
Income from Equity Investments	4,386	-1,204	-4,763	-4,930	2,380	1,983	3,064
Other Income	8,547	10,281	9,730	62,340	83,962	91,777	108,355
Other Operating Expenses	**42,828**	**35,145**	**50,006**	**81,249**	**99,635**	**119,500**	**133,824**
Administrative, General, Staff	31,568	30,344	35,428	71,109	100,185	121,358	130,031
Grants & Programs	447	346	745	0	0	0	0
Other Expenses	10,813	4,455	13,833	10,140	-550	-1,858	3,793
Pre-Provision Income	**9,102**	**13,426**	**-3,269**	**14,299**	**31,697**	**42,369**	**80,568**
Loan Loss Provisions (Release)	-10,104	92	-6,271	-3,472	14,143	18,313	36,697
Net Income (Loss)	**19,206**	**13,334**	**3,002**	**17,771**	**17,554**	**24,056**	**43,871**
Other Accounting Adjustments and Comprehensive Income	49,730	-24,676	4,375	-7,752	-20,568	11,822	-40,264
Comprehensive Income (Loss)	**68,936**	**-11,342**	**7,377**	**10,019**	**-3,014**	**35,878**	**3,607**

Source: Moody's Investors Service

Exhibit 28
Inter-American Investment Corporation (IIC)

Financial Ratios	2013	2014	2015	2016	2017	2018	2019
Capital Adequacy, %							
DRA / Usable Equity	124.2	124.5	115.6	86.7	70.2	96.5	125.1
Development Assets Credit Quality (Year-End)	-	-	-	-	-	ba	ba
Non-Performing Assets / DRA	0.5	2.1	1.3	1.6	0.9	0.7	0.6
Return On Average Assets	1.1	0.7	0.2	1.0	0.8	0.9	1.2
Net Interest Margin	2.3	2.0	2.9	1.8	2.1	2.2	2.8
Liquidity, %							
Quality of Funding Score (Year-End)	--	--	--	--	--	aa	aa
Liquid Assets / ST Debt + CMLTD	621.3	180.3	912.9	297.1	5,861.1	290.0	5,497.1
Liquid Assets / Total Debt	83.3	87.7	88.3	120.0	184.4	114.2	82.5
Liquid Assets / Total Assets	42.1	48.4	35.1	59.4	54.6	45.8	34.9
Strength of Member Support, %							
Weighted Average Shareholder Rating (Year-End)	Baa3	Baa3	Ba1	Ba1	Baa3	Ba2	Ba2
Callable Capital / Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Callable Capital (CC) of Baa3-Aaa Members/Total CC	-	-	-	-	-	-	-

Source: Moody's Investors Service

Moody's related publications

» **Rating Action**: Moody's affirms the Inter-American Investment Corporation's Aa1 ratings; maintains stable outlook, 20 March 2020

» **Credit Opinion**: Inter-American Investment Corporation – Aa1 stable: Update following rating affirmation, outlook unchanged, 20 March 2020

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 25 June 2019

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

» Sovereign and supranational risk group web page

» Sovereign and supranational rating list

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