

CREDIT OPINION

28 March 2022

Update



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Contacts

Renzo Merino +1.212.553.0330
 VP-Senior Analyst
 renzo.merino@moodys.com

Giovanni Pagan Velez +1.212.553.4515
 Associate Analyst
 giovanni.paganvelez@moodys.com

Mauro Leos +1.212.553.1947
 Associate Managing Director
 mauro.leos@moodys.com

Alejandro Olivo +1.212.553.3837
 Managing Director
 alejandro.olivo@moodys.com

Inter-American Investment Corporation – Aa1 stable

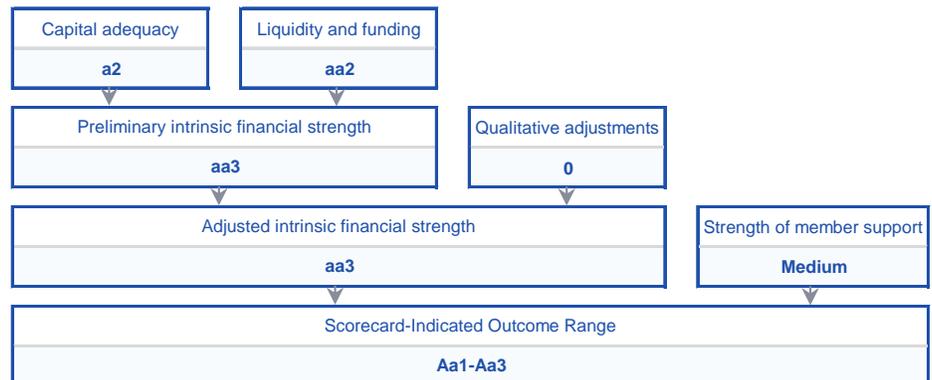
Update following rating affirmation, outlook unchanged

Summary

The [Inter-American Investment Corporation's](#) (IDB Invest) credit profile reflects its robust capitalization and strong asset performance in the context of its private-sector focus. The institution's close relationship with the [Inter-American Development Bank](#) (IADB, Aaa stable) also supports the credit profile. IDB Invest's conservative risk-management practices keep its capital adequacy and liquidity ratios strong.

Exhibit 1

IDB Invest's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

- » Moderate leverage ratio and strong liquidity coverage
- » Strong asset performance despite its private-sector focus
- » Close funding relationship with IADB

Credit challenges

- » Lending without sovereign guarantees to riskier segments of the private sector
- » Moderate concentration risks stemming from the portfolio

Rating outlook

The stable outlook reflects our view that IDB Invest will effectively manage credit risks emerging from a sometimes challenging operating environment. The outlook also incorporates the expectation that as IDB Invest reaches a new steady state at its higher lending capacity, leverage will tend to stabilize over the coming years well within its own policy limits. We also expect members to continue to demonstrate their support for IDB Invest, given the IADB Group's focus on private sector development in Latin America.

Factors that could lead to an upgrade

Upward rating pressure is limited by the difficult operating environment in which IDB Invest carries out its lending and investment activities, in addition to potential risks from its private sector-focused operations. Although unlikely, the introduction of callable capital as an additional backstop for investors would enhance IDB Invest's credit profile and could exert upward pressure on the credit profile.

Factors that could lead to a downgrade

Downward rating pressure would emerge if there were significant credit losses, for instance, from a more acutely difficult operating environment, which substantially limits IDB Invest's financial performance or a weakening of the support from IADB or its highly rated shareholders. A sharp deterioration in capital adequacy as a result of an excessive increase in leverage would weigh on its credit profile.

Key indicators

IDB Invest	2016	2017	2018	2019	2020	2021
Total Assets (USD million)	2,146.7	2,185.4	3,209.3	3,899.8	6,424.3	7,551.4
Development-related Assets (DRA) / Usable Equity [1]	86.7	70.2	96.5	125.1	206.7	225.7
Non-Performing Assets / DRA	1.6	0.9	0.7	0.6	0.4	0.3
Return on Average Assets	1.0	0.8	0.9	1.2	0.1	1.9
Liquid Assets / ST Debt + CMLTD	297.1	5,861.1	290.0	5,497.1	248.1	178.7
Liquid Assets / Total Assets	59.4	54.6	45.8	34.9	33.0	25.9
Callable Capital / Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0

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

Source: Moody's Investors Service

Profile

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

According to IDB Invest's charter, its mandate is the promotion of economic development among developing member countries by encouraging the establishment, expansion and modernization of private enterprises in Latin America and the Caribbean (LAC). To fulfill its mandate, IDB Invest conducts operations with private-sector companies, state-owned enterprises and financial institutions in its 26 LAC-based member countries, offering a range of financial products and services in the form of direct loans, guarantees and equity investments as well as indirect lines of credit. All of IDB Invest's financial products are made without the benefit of a sovereign guarantee. IDB Invest does not seek to crowd out available financing from private-sector entities, but instead aims to supplement and mobilize third-party resources where needed.

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

Detailed credit considerations

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 (MDBs), the first two factors combine to form the assessment of intrinsic financial strength, as illustrated on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

FACTOR 1: Capital adequacy score: a2

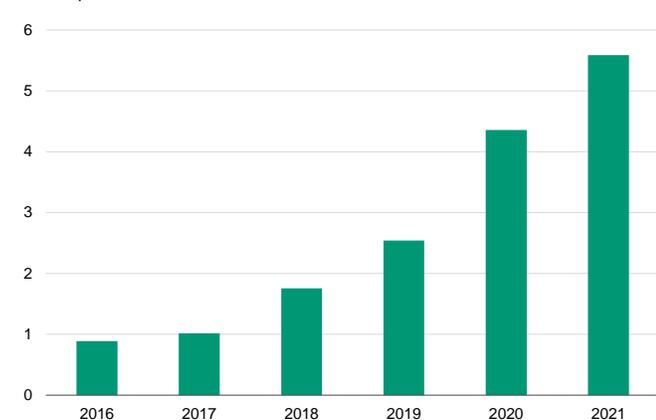
Our "a2" capital adequacy score for IDB Invest reflects its moderate leverage and strong asset performance, which balance its exposure to riskier development-related assets (DRAs). Other MDBs with the same capital adequacy score are the IADB and [Fondo Latinoamericano de Reservas](#) (FLAR, Aa2 stable).

Pandemic contributed to increase in development operations, pushing up leverage ratio

Since 2016, the IADB group's renewed vision for its private-sector activities has been accompanied by a general capital increase that will more than double its equity by 2025. However, IDB Invest's DRAs have also grown rapidly. The increase in development operations has been pronounced in response to the coronavirus pandemic with DRAs of \$4.4 billion in 2020 and \$5.6 billion in 2021, well above the \$1 billion average for DRAs between 2012 and 2017 (see Exhibit 3). The expansion of IDB Invest's loan book has contributed to an increase in its leverage ratio — determined as DRA/Usable equity — to 227% in 2021, slightly above 2020 levels (214%) and nearly twice the leverage (125%) of 2019 (see Exhibit 4). A significant portion of this increase is attributed to pandemic-related support measures for the private sector in the LAC region. We expect this ratio to stabilize over the coming years, supporting a more moderate capital position than in the past.

Exhibit 3

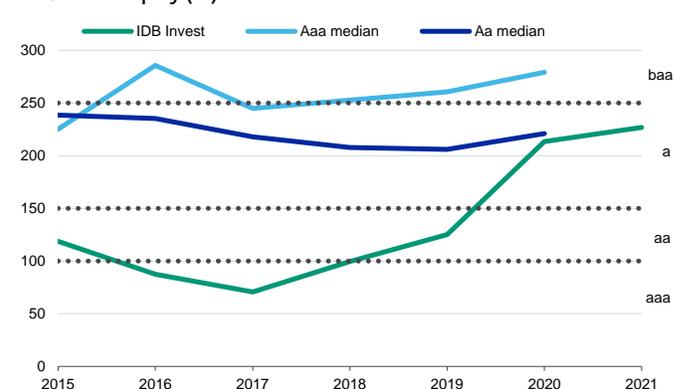
Development Related Assets have drastically increased since 2016



Sources: IDB Invest and Moody's Investors Service

Exhibit 4

IDB Invest's leverage is increasing as operations expand



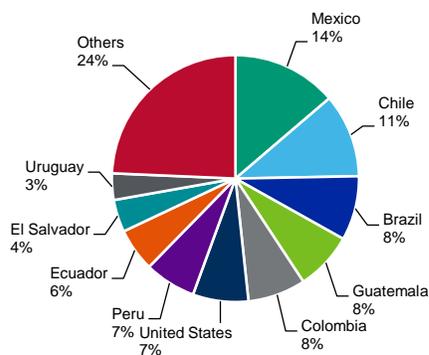
Aa and Aaa medians only available until 2020 because not all rated MDBs have published their 2021 financial statements

Sources: IDB Invest and Moody's Investors Service

Asset quality remains moderate despite exposure to private sector

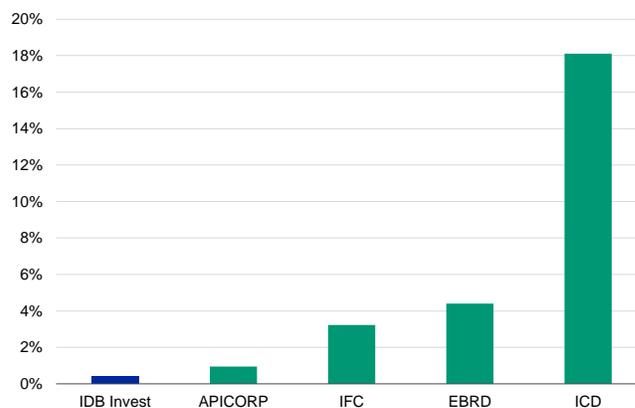
We assess IDB Invest's development assets' credit quality (DACQ) as "ba" given the risks derived from its regional mandate and from the market segment it serves. These risks are the greatest challenge that IDB Invest faces and it mitigates them through its risk management policies and practices. The starting point of our analysis of IDB Invest's development asset credit quality is the weighted average borrower rating (WABR) of its loan book, which was Ba3 as of 31 December 2021, the same level as 2020. In 2021, IDB Invest's loans represented 95% of DRA, with equity investments of just 5% of total DRA. In terms of portfolio concentration, IDB Invest has maintained a well-distributed portfolio by country. The Herfindahl-Hirschman Index for country exposure was 7% in 2021, down from 7.8% in 2020, with only [Brazil](#) (Ba2 stable) and [Mexico](#) (Baa1 negative) consistently in the top five country exposures in recent years (see Exhibit 5). In terms of sector concentration, IDB Invest has also further diversified its development assets.

Exhibit 5
DRA exposures by country
% of DRA, 2021



Sources: IDB Invest and Moody's Investors Service

Exhibit 6
Nonperforming assets compare favorably to peers with similar mandate
NPA % (3-year average, latest)



Sources: IDB Invest and Moody's Investors Service

Asset performance remains strong despite marginal rise in pandemic-related NPLs

IDB Invest's asset performance is very strong, as reflected in our score of "aaa" for this metric. We assess an MDB's asset performance by looking at the ratio of nonperforming assets over total DRA (NPA ratio), which includes NPLs, losses on equity investments and called guarantees. Despite weaker economic growth in LatAm over the past five years, IDB Invest's nonperforming loans (NPLs) have risen only moderately over that period, with a pandemic-driven marginal increase in NPLs to \$17.8 million in 2021 from \$14.5 million in 2019.

Since 2014, the NPA ratio has been improving because of a combination of rapid DRA growth but also stable nonperforming assets, reaching 0.3% in 2021 and a three-year average of 0.4%. Asset performance remains stronger than other MDBs with similar missions (see Exhibit 6 above), for example the NPA ratio of the [International Finance Corporation](#) (IFC, Aaa stable) was 1.5% in 2021.

IDB Invest's strong asset performance has been driven by its capital adequacy policies, which have guided a prudent expansion in the institution's operations and contributed to improvements in its credit risk management. During the pandemic, IDB Invest's management reviewed its project pipeline on a country-by-country basis, implementing differentiated limits for long- and short-term transactions. It also used stress testing to identify potential losses.

FACTOR 2: Liquidity and funding score: aa2

IDB Invest's "aa2" liquidity and funding score is supported by strong liquidity coverage that we assess at "aaa" and a quality of funding assessment of "aa." Other MDBs with a similar score for liquidity and funding include the [Central American Bank for Economic Integration](#) (CABEI, Aa3 stable) and the [Caribbean Development Bank](#) (CDB, Aa1 stable).

Liquidity coverage is strong because of favorable maturity profile and strong liquidity policy

We consider IDB Invest's liquidity coverage to be strong enough to withstand a stress scenario, which would include the bank not being able to access financial markets and members suspending their capital contributions. The institution's liquid resources ratio – which compares the size of its high-quality liquid assets relative to its net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs – shows that it holds enough assets to enable it to function for more than 18 months. However, we consider IDB Invest's liquidity to be stronger than is indicated by this ratio for several reasons. Firstly, during a severe stress scenario, it could access its contingent credit line with the IADB (for which we include a positive adjustment). Secondly, member countries have continued to provide their capital contributions on a timely basis, with some prepaying. Lastly, IDB Invest has consistently exceeded the minimum liquidity coverage ratio of 105% (which includes a 5% buffer), as required by the liquidity policy framework that IDB Invest updated in December 2017.

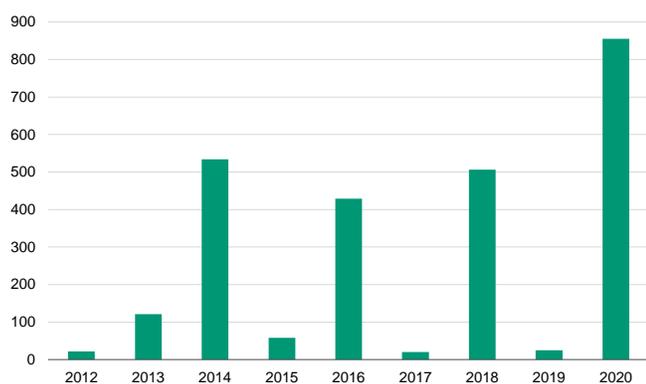
Changing borrowing patterns will smooth out debt-service coverage ratio

IDB Invest's increased debt issuance in the past three years has changed the structure of its maturity profile. Before the expansion of activities and borrowing, its amortization schedule was somewhat uneven, with larger maturities only occurring every other year since 2014 (see Exhibit 7). Moreover, even during years when larger maturities were due, liquid assets amounted to more than double the amount of short-term and maturing long-term debt due during the next 12 months. Going forward, the higher frequency and size of issuances will lead to a smoother maturity profile (see Exhibit 8). While most debt falls due within the 1-5 year range, IDB Invest has extended maturities to about 15 years. We expect IDB Invest to maintain its strong debt-service coverage and for liquidity to become more stable.

Exhibit 7

Large amortizations every two years made past maturity profile lumpy

US\$ million

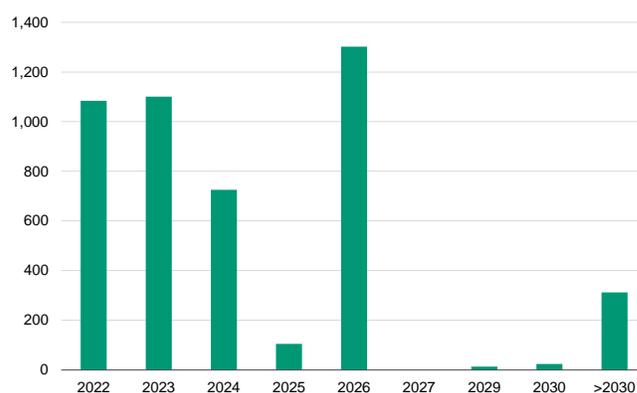


Sources: IDB Invest and Moody's Investors Service

Exhibit 8

Maturity profile will be smoother as IDB Invest borrows more

US\$ million, maturities as of December 2021



Sources: IDB Invest and Moody's Investors Service

Liquid assets have a short duration and are of high quality and diversified

Because of its liquidity policy, IDB Invest manages its treasury portfolio so as to be able to rapidly mobilize its resources. Total liquid resources in 2021 amounted to \$2 billion, of which 83% were investment securities and 12% money market investments. Nearly two-thirds of the liquidity portfolio has a duration of less than one year with the rest of the portfolio has a duration between one and five years. The liquidity portfolio is diversified by geography and its weighted average rating was Aa3 at the end of 2021.

Strong market access at favorable terms and growing market diversification

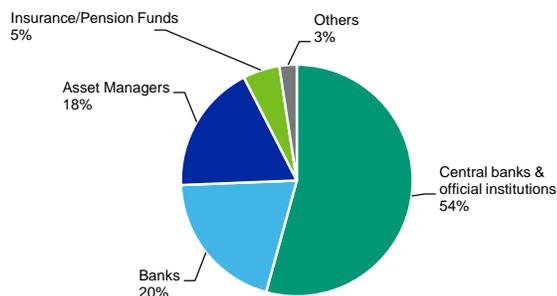
The pandemic-driven rapid expansion of IDB Invest's DRAs reflects a significant shift in IDB's borrowing strategy, with much larger authorized borrowing amounts in 2020 and 2021 compared to previous years. While larger issuances have remained primarily in the USD market, IDB Invest maintains a presence in regional markets and has also begun issuing in Australian dollars. The introduction of the global bond program will enable IDB Invest to expand its presence in other major currency markets.

This is leading to increased diversification of its borrowings not only in terms of currency but also in the geography and type of investor. Over half of its bonds are held by central banks and other official institutions, followed by banks and asset managers (see Exhibit 9).

The introduction of IDB Invest's sustainable debt framework in early 2021 also contributed to an increase in ESG-related issuances. This, in addition to the more diversified investor base, has contributed to a tightening of the spread in its issuances relative to Aaa-rated MDBs (see Exhibit 10), thus lowering its borrowing costs and demonstrating IDB Invest's strong market access.

Exhibit 9

Central banks are the main holders of IDB Invest's bonds % of total borrowings

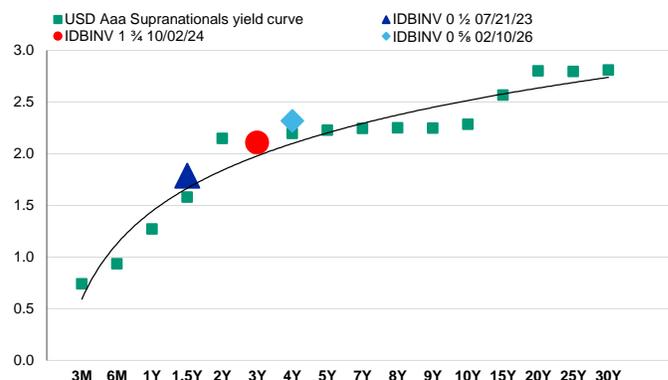


Sources: IDB Invest and Moody's Investors Service

Exhibit 10

Benchmark IDB Invest USD bond yields are very close to Aaa-rated MDBs' yield curve

Bond yields in % as of 15 March 2022



Yield curve constructed using USD outstanding bonds issued by Aaa-rated MDBs

Sources: Bloomberg and Moody's Investors Service

Qualitative adjustments to intrinsic financial strength

Operating environment

We do not apply an adjustment for the operating environment. Although we consider that parts of the LAC region could face macroeconomic challenges, especially given IDB Invest's private sector focus, we do not expect it to face additional risks that could materially weigh on its credit metrics beyond what is already captured by the intrinsic financial strength ratios.

Quality of management

While we also do not apply an adjustment for the quality of management, we consider that IDB Invest has continued to strengthen its financial strategy and risk management practices, particularly in the context of the consolidation of the IADB group's private-sector operations. Following the introduction of the Financial Risk Management Framework (FRF) in 2017, which included risk appetite, capital adequacy and liquidity policies, IDB Invest's Board of Directors approved further enhancements to the FRF in 2021. These included limits based on exposure, a reduction of single-name limits for equity and quasi-equity, reduction in limits for financial institutions, the establishment of a capital buffer of 10%, increased reporting frequency and an improved stress-testing regime and action plans. In our view, these risk policies provide a strong governance framework for IDB Invest and, given strong compliance with these limits, support our expectation that IDB Invest's financial metrics are highly likely to remain very strong.

FACTOR 3: Strength of member support score: Medium

Our assessment of IDB Invest's strength of member support is "Medium," adjusted up by one notch from "Low." Other MDBs with the same strength of member support include CABEL and [Council of Europe Development Bank](#) (Aa1 stable).

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 IDB Invest's expanded mandate. We also think that the members' ability to provide support is higher than what is implied by the weighted average shareholder rating metric.

IDB Invest's general capital increases and expanded mandate demonstrate members' strong willingness to provide support...

Since IDB Invest was first established in 1986 with initial paid-in capital of \$200 million, it has received several selective capital increases to allow the entry of new members and capital reallocations. In 1999, it received a \$500 million general capital increase (GCI). In 2015, IDB Invest's Board of Governors approved the second GCI (GCI-II) to increase the organization's authorized capital stock by \$2.03 billion. Shares issued as part of GCI-II were sold at 62% above their nominal value, with the result that, as of year-end 2021, IDB Invest had received capital payments for \$1,151 million. Looking ahead, IDB Invest's paid-in capital will further increase to \$2.7

billion by 2025 as a result of this capital increase, with fresh contributions accounting for two-thirds of the increase and IADB transfers on behalf of its member countries representing the remainder.

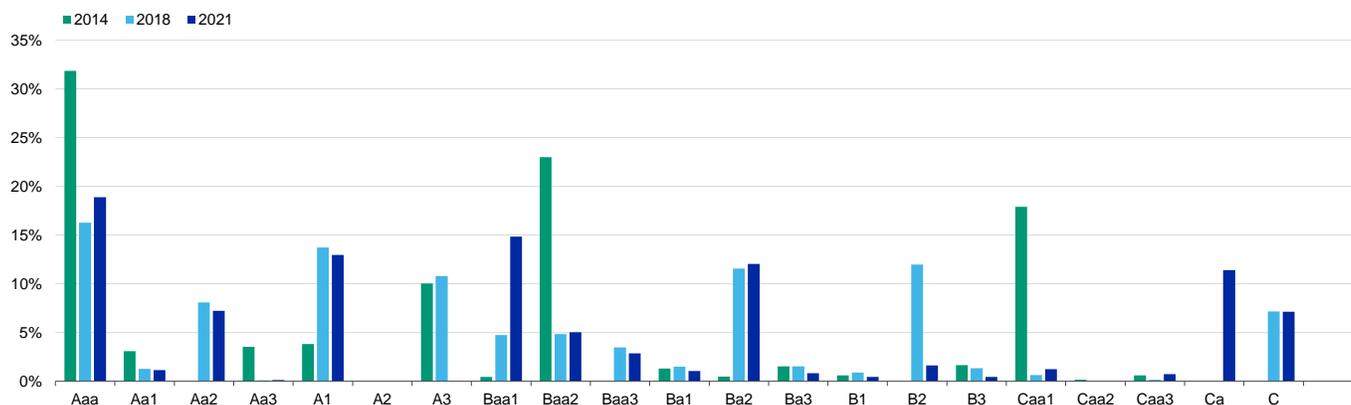
Overall, we consider IDB Invest shareholders' decision to expand the mandate and support the GCI-II process as a demonstration of their strong willingness to provide non-contractual support. In the context of the GCI-II, the [US](#) (Aaa stable) remains the largest shareholder based on its paid-in capital and will therefore retain the largest voting power within IDB Invest Board. [Canada](#) (Aaa stable), [China](#) (A1 stable) and [Korea](#) (Aa2 stable) will see their shareholding increase as a result of the GCI-II process and will become part of the top 10 shareholders. [Croatia](#) (Ba1 stable) and [Slovenia](#) (A3 stable) became full members in April 2019, bringing the total number of members to 47.

...but ability to support is moderate given the average credit quality of members

We consider IDB Invest's member base to have a moderate ability to provide support as reflected by a weighted average shareholder rating (WASR) of Ba3. This metric declined from Baa3 in 2017. One factor that particularly weighed on this metric in the past few years has been the volatility in the ratings of [Argentina](#) (Ca stable) and [Venezuela](#) (C stable), which pulled down the WASR given their important share at 11.4% and 7.1% of total subscribed capital, respectively (see Exhibit 11). Notwithstanding Argentina and [Ecuador's](#) (Caa3 stable) rating downgrades in recent years, these governments have made their paid-in capital payments on time, demonstrating their willingness and ability to support IDB Invest despite their own macroeconomic challenges.

Exhibit 11

Distribution of subscribed capital by rating % of total



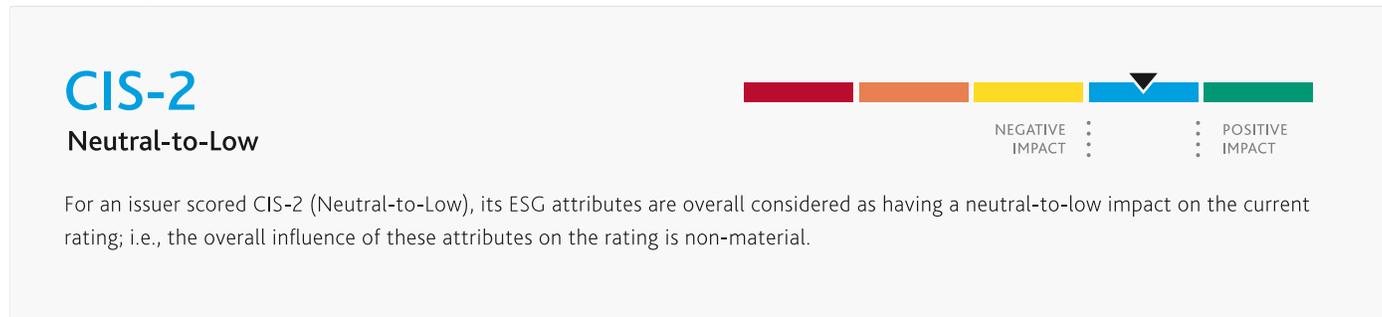
Sources: IDB Invest and Moody's Investors Service

ESG considerations

IDB Invest's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 12

ESG Credit Impact Score



Source: Moody's Investors Service

IDB Invest's neutral-to-low credit impact score (**CIS-2**) reflects neutral-to-low exposures to environmental, social and governance risks.

Exhibit 13

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

IDB Invest's neutral-to-low environmental issuer profile score (**E-2**) balances the overall exposure to environmental risks of its borrowers in Latin America and the Caribbean and its development operations related to renewable energy and climate risk mitigation projects supporting carbon transition goals in the region.

Social

IDB Invest has a neutral-to-low social issuer profile score (**S-2**), with strong customer relations delivering important financing products for private sector development in Latin America and the Caribbean. Additionally, it demonstrates a high degree of responsible production by providing instruments to its clients that enhance its impact on socioeconomic development, including the issuance of social bonds in domestic markets to serve as benchmarks for local issuers.

Governance

IDB Invest's neutral-to-low governance issuer profile score (**G-2**) reflects its prudent risk management practices, which translate into strong credit metrics, in particular asset performance, given its exposure to private-sector operations in Latin America.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" 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](#).

Recent developments

Countercyclical response to the coronavirus pandemic continued in 2021

As part of IDB group's response to the pandemic, IDB Invest increased its approvals and resources deployed to support the private sector in the LAC region in 2020 and 2021. Development-related assets (DRA) reached \$5.6 billion in 2021, up from \$4.4 billion in 2020 and \$2.5 billion in 2019. Own account commitments in 2021 were \$6.3 billion, an increase of \$180 million from 2020, of which about half were short-term commitments related to 71 projects and the other half related to medium and long-term commitments (93 projects). Core mobilization in 2021 amounted to \$2.97 billion and related to 53 projects. We expect that the expansion of DRAs will continue over the coming years but at a lower rate than in 2020-21. This, combined with the increase in equity as the GCI-II process continues through 2025, will lead to the stabilization of the leverage ratio at levels close to the 230%-250% range, well within IDB Invest's leverage limit.

Notwithstanding the rapid expansion in its DRA, their credit quality remained stable in 2020 and 2021 with a weighted-average borrower rating of Ba3, partly reflecting IDB Invest's conservative risk practices. In 2021, nonperforming loans remained stable at \$17.8 million compared to 2021 and up from \$14.5 million in 2019 and the NPA ratio was 0.3%, compared with 0.6% in 2019.

All bond issuances in 2021 were ESG-related

IDB Invest has continued to expand its available funding instruments. In the past two years, IDB Invest established an Australian Debt Program, a Global Program and a Sustainability Debt Framework to expand its presence in liquid capital markets and attract new ESG-focused investors.

In 2021, IDB Invest executed 100% of its funding program under the Sustainable Debt Framework. In February 2021, IDB Invest issued a five-year fixed-rate sustainability bond for \$1 billion. Other sustainable bonds include a "gender" (social) bond in Mexico for up to MXN2.5 billion in March 2021, a social bond for AUD400 million in June, a green decarbonization bond for AUD68 million issued in September 2021, and a green transition bond for \$100 million and a blue bond for AUD50 million both issued in November 2021.

Rating methodology and scorecard factors

Rating factor grid - Inter-American Investment Corporation	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		a2	a2
Capital position (20%)		a3	
Leverage ratio	a3		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		ba	
DACQ assessment	ba		
Trend	0		
Asset performance (20%)		aaa	
Non-performing assets	aaa		
Trend	0		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		aa2	aa2
Liquid resources (10%)		aaa	
Availability of liquid resources	aaa		
Trend in coverage outflow	0		
Access to extraordinary liquidity	+1		
Quality of funding (40%)		aa	
Preliminary intrinsic financial strength			aa3
Other adjustments			0
Operating environment	0		
Quality of management	0		
Adjusted intrinsic financial strength			aa3
Factor 3: Strength of member support (+3,+2,+1,0)		Low	Medium
Ability to support - weighted average shareholder rating (50%)		ba3	
Willingness to support (50%)			
Contractual support (25%)	ca	ca	
Strong enforcement mechanism	0		
Payment enhancements	0		
Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range			Aa1-Aa3
Rating Assigned			Aa1

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Moody's related publications

- » **Outlook:** [Multilateral development banks – Global: 2022 outlook is stable given resilience to challenging economic and financial conditions in emerging markets](#), 31 January 2022
- » **Sector In-Depth:** [Multilateral Development Banks - Global: ESG credit impact is neutral for most, positive for many MDBs](#), 18 January 2022
- » **Rating Methodology:** [Multilateral Development Banks and Other Supranational Entities](#), 28 October 2020

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.

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