MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the Inter-American Investment Corporation's Aa1 and Aaa.mx rating

24 Mar 2022

Mexico, March 24, 2022 -- Moody's de Mexico S.A. de C.V. ("Moody's") has today affirmed the Inter-American Investment Corporation (IDB Invest) Aa1 senior unsecured global scale ratings and the Aaa.mx senior unsecured national scale ratings of the MXN2,000 million 3-year bond (BIDINV 1-20) issued in October 2020 and the MXN2,500 million 3-year bond (BIDINV 1-21G) issued in March 2021. In a related action, Moody's Investors Service affirmed the IDB Invest's Aa1 long-term issuer rating, its short-term issuer rating and commercial paper rating at Prime-1 (P-1), the senior unsecured MTN program's rating at (P)Aa1 and maintained the stable outlook.

The affirmation of the ratings is supported by: IDB Invest's robust capital adequacy, with a leverage ratio that remains at comparatively strong levels relative to Aa-rated multilateral development banks (MDBs) and very high asset performance in the context of continued expansion of operations and the pandemic response; a strengthened liquidity and funding profile, including the diversification of markets and its investor base, with a particular focus on ESG-linked bonds; and a bolstering of governance that supports IDB Invest's strong credit metrics and developmental impact, which is reflected in a positive assessment of financial strategy and risk management, a Governance consideration under Moody's ESG framework.

LIST OF AFFECTED RATINGS

….Issuer: Inter-American Investment Corporation

BONDS due 20 October 2023 BIDINV 1-20

….Global Scale Rating Senior Unsecured Notes, Affirmed Aa1

….Mexico Long Term National Scale Senior Unsecured, Affirmed Aaa.mx

BONDS due 20 March 2024 BIDINV 1-21G

….Global Scale Rating Senior Unsecured Notes, Affirmed Aa1

….Mexico Long Term National Scale Senior Unsecured, Affirmed Aaa.mx

RATINGS RATIONALE

RATIONALE FOR THE RATING AFFIRMATION OF Aa1 AND Aaa.mx RATINGS

ROBUST CAPITAL ADEQUACY METRICS IN THE CONTEXT OF LENDING EXPANSION AND PANDEMIC RESPONSE

Since the start of the IADB Group's Renewed Vision process for the private sector in Latin America and the Caribbean in 2016, IDB Invest has expanded its developmental operations in the region. This, in turn, has led to an increase in the leverage ratio, which Moody's calculates as development-related assets (DRA) to equity, to 227% in 2021 from below 100% in 2018. The significant response provided by IDB Invest during the pandemic in 2020-21 was also an important driver of the rise in leverage. Moreover, at this level, IDB Invest's capital position is still stronger than most Aa-rated MDBs and consistent with its robust capital adequacy, which has historically been a key strength of IDB Invest's credit profile.

Additionally, the credit quality of its DRA has continued to benefit from prudent lending policies that contribute to a geographical diversification, the use of insurance as a credit enhancement, and a still-low level of equity investments. And while IDB Invest's DRAs have increased rapidly in recent years, its conservative lending practices have contributed to keeping non-performing loans relatively low even during the pandemic. The non-performing asset ratio fell to 0.3% in 2021, having averaged 0.6% in 2017-21. Consequently, IDB Invest has maintained very strong and stable asset performance, particularly when compared with other entities that focus on the private sector.

MARKET DIVERSIFICATION AND ESG FOCUS STRENGTHENED LIQUIDITY AND FUNDING PROFILE

As part of the expansion of its developmental operations, IDB Invest has also enhanced its borrowing practices. Since 2016, it has increased the number of regional and global markets in which it issues leading to a higher diversification in terms of currencies and investor base, larger issuance sizes and extending its maturity profile. The development of its sustainable debt framework has allowed IDB Invest to also enhance its presence in the ESG-focused market. In 2021, all of IDB Invest's issuances had social and environmental features, including gender bonds, transition and decarbonization bonds, and a blue bond. This, in turn, has allowed IDB Invest to lower its borrowing costs to rates closer to those seen by Aaa-rated MDBs.

Importantly, IDB Invest's liquidity remains strong, guided by its conservative liquidity policy. Moody's considers that in a severe stress scenario where IDB Invest is unable to issue debt or receive any additional capital contribution from its shareholders, its liquid assets would cover more than 18 months of debt service, planned disbursements and operational costs. These factors support the IDB Invest's high quality of funding, a key credit feature it shares with Aa1-rated peers.

BOLSTERING OF GOVERNANCE SUPPORTS IDB INVEST'S STRONG CREDIT METRICS AND DEVELOPMENTAL IMPACT

During the expansion of its developmental activities, IDB Invest has continued to bolster its risk management policies, which support its strong capital adequacy and liquidity metrics. These measures include an updated risk appetite policy and the addition of a capital buffer to ensure the preservation of equity under stress scenarios, among other measures, which Moody's considers will continue to help IDB Invest manage the risks posed by its regional and private sector-focused mandate as it reaches its new lending capacity.

IDB Invest has also made progress in incorporating ESG aspects to its policies and practices. IDB Invest was one of the first MDBs to adopt the Task Force on Climate-Related Financial Disclosures (TCFD) reporting standards to ensure transparency in its operations related to environmental issues. IDB Invest now has specific ESG functions for both its risk and strategy departments that allows it to develop programs and projects that seek to meet the IADB Group's climate and social development goals, while also monitoring the performance of projects and private sector entities it funds in terms of their adherence to ESG-related targets or criteria. In addition to supporting its developmental impact, these practices have benefited IDB Invest in terms of its appeal to investors as denoted by its comparatively favorable borrowing costs.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

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.

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 IDB Invest's credit profile.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in Ocotber 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1232238 . Alternatively, please see the Rating Methodologies page on www.moodys.com.mx for a copy of this methodology.

The period of time covered in the financial information used to determine Inter-American Investment Corporation 's rating is between 1 January 2019 and 31 December 2021 (source: audited financial statements).

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale

Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1280297 .

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

Information sources used to prepare the rating are the following: parties involved in the ratings, parties not involved in the ratings and public information.

The ratings have been disclosed to the rated entity prior to public dissemination.

A general listing of the sources of information used in the rating process, and the structure and voting process for the rating committees responsible for the assignment and monitoring of ratings can be found in the Disclosure tab in www.moodys.com.mx.

The date of the last Credit Rating Action was 9 March 2021.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.mx.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

This credit rating is subject to upgrade or downgrade based on future changes in the financial condition of the Issuer/Security, and said modifications will be made without Moody's de México S.A. de C.V accepting any liability as a result.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see Moody's Rating Symbols and Definitions on www.moodys.com.mx for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com.mx for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see our website www.moodys.com.mx for further information.

Please see www.moodys.com.mx for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

The ratings issued by Moody's de Mexico are opinions regarding the credit quality of securities and/or their issuers and not a recommendation to invest in any such security and/or issuer.

Please see the ratings tab on the issuer/entity page on www.moodys.com.mx for additional regulatory disclosures for each credit rating.

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