MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the Inter-American Investment Corporation's Aa1 ratings; maintains stable outlook

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New York, March 15, 2018 -- Moody's Investors Service ("Moody's") has today affirmed the Aa1 issuer and senior unsecured ratings of the Inter-American Investment Corporation (IIC) -- commercially rebranded as IDB Invest -- and maintained the stable outlook. The short-term issuer rating of the IIC was affirmed at Prime-1. The senior unsecured MTN program's rating was also affirmed at (P)Aa1.

The key drivers underpinning today's rating affirmation are:

1) The strength of the IIC's capital and liquidity buffers, recently enhanced by its capital raising program;

2) Despite the anticipated significant expansion of its loan book, the IIC's key credit metrics will remain on par or stronger than similarly rated peers.

The stable outlook reflects Moody's 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 also incorporates the moderate credit quality of the IIC's borrowers, as well as the country, regional and sector concentration risks of the lending and equity-investment portfolios that are present as in other multilateral development banks (MDBs) with similar business profiles.

RATINGS RATIONALE

RATIONALE FOR THE RATING AFFIRMATION

FIRST DRIVER: THE STRENGTH OF THE IIC'S CAPITAL AND LIQUIDITY BUFFERS, RECENTLY ENHANCED BY ITS CAPITAL RAISING PROGRAM

In the context of the consolidation of the Inter-American Development Bank (IADB) Group's private sector operations at the IIC and the general capital increase process that began in 2016, Moody's notes that the IIC's capital adequacy and liquidity metrics have remained strong relative to Aa-rated peers.

The IIC expanded its gross loans by 12% in 2017 as it began to increase its development-related operations as part of the consolidation program. Moreover, given the inflow of new equity as part of the general capital increase process, the IIC's capital buffer further strengthened last year. As measured by Moody's asset coverage ratio -- usable equity as a percentage of loans and equity investments -- the IIC's capital buffer rose to 143.5% in 2017 from 115.3% in 2016. This ratio compares very favorably to the Aa-median of 48% in 2016.

In terms of its liquidity buffers, the IIC has maintained a very strong position to cover its debt service requirements as guided by its liquidity policy. Over the past three years, the debt service coverage ratio has averaged a low 15.4% -- compared to the Aa-median of 27% -- denoting the IIC's proactive liquidity management.

Moody's also notes the strong support provided by its shareholders, which in turn supports the IIC's capital and liquidity buffers. The IIC's paid-in capital rose to $1.3 billion in 2017 from $0.7 billion in 2015, having received 85% ($492 million) of the first two installments of the Annex A portion of the capital increase as of December of last year. In addition to this amount, some shareholders prepaid another $85 million in 2016-17. Moody's considers that this continued flow of new equity will allow the IIC to expand its operations over the coming years while also maintaining strong financial metrics.

SECOND DRIVER: DESPITE THE ANTICIPATED SIGNIFICANT EXPANSION OF ITS LOAN BOOK, THE IIC'S KEY CREDIT METRICS WILL REMAIN ON PAR OR STRONGER THAN SIMILARLY RATED PEERS

The IIC's balance sheet is set to increase substantially over the next five years as part of the consolidation process of the IADB Group's private sector operations. While private sector lending is currently co-financed with the IADB (Aaa stable), the IIC's share of loan approvals and disbursements is set to grow rapidly through

2022. This expansion of the IIC's development mandate will take place as the Corporation's equity grows as part of the general capital increase process agreed to by its shareholders in 2015, as well as a higher level of borrowing.

In Moody's view, the IIC will maintain very strong capital buffers over the coming years, both in terms of its asset coverage ratio and its leverage ratio (debt/usable equity). In both cases, Moody's expects the IIC's metrics to deteriorate over time and converge with similarly-rated peers, but remain within the current ranges to score 'Very High' in our assessment of its capital position. These dynamics would also be guided by the IIC's conservative financial policies.

Moody's considers that the strength in the IIC's capital position will allow the Corporation to mitigate potential risks stemming from its private sector operations. As the IIC expanded its lending in countries such as Argentina (B2 stable) last year, the weighted average borrower rating declined by one notch to B1, after remaining constant at Ba3 in 2012-16. Despite this marginal deterioration, Moody's considers that the IIC has strong risk management practices in place to appropriately manage a potential worsening in asset quality and performance. Moody's notes that the IIC's asset performance, as measured by the ratio of non-performing loans after 90 days (NPLs) to total loans, has remained strong when compared to other MDBs that focus on private sector operations. In 2015-17, NPLs averaged 0.9% of total loans, compared to over 5% for the International Finance Corporation and the European Bank for Reconstruction and Development, both Aaa-rated.

Additionally, Moody's expects that the IIC will continue to maintain ample coverage of its debt service requirements due to its strong liquidity policy. The IIC introduced an updated set of risk management policies in 2017, including a Liquidity Coverage Ratio. Relative to other MDBs rated by Moody's, this is a strong policy in terms of both the number of months and the breadth of its coverage. Moody's also expects the IIC to continue to enjoy strong market funding as it accesses financial markets more than in the past.

Overall, Moody's expects that the IIC will maintain strong capital adequacy and liquidity over the coming years, supporting its intrinsic financial strength.

WHAT COULD MOVE RATINGS UP/DOWN

Further 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 Corporation'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 rating.

Downward credit pressures would emerge should there be significant credit losses that materially affect the IIC's financial performance, or a weakening of the support from the IADB or highly-rated shareholders.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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