

# **FITCH AFFIRMS INTER-AMERICAN INVESTMENT CORP. (IDB INVEST) AT 'AAA'; OUTLOOK STABLE**

Fitch Ratings-New York-12 February 2018: Fitch Ratings has affirmed the Inter-American Investment Corporation's (IIC, commercially known as "IDB Invest") Long-Term Issuer Default Rating (IDR) at 'AAA'. The Rating Outlook is Stable. A full list of IIC's ratings follows at the end of this release.

## **KEY RATING DRIVERS**

The affirmation and Stable Outlook reflect the following key rating drivers:

IIC's intrinsic credit quality drives its 'AAA' IDR. IIC's solvency assessment of 'aaa', which considers its excellent capitalization and low risk profile, as well as its liquidity assessment of 'aaa' results in an overall rating of 'AAA'. Our assessment of IIC's operating environment as medium risk does not result in any adjustment to IIC's solvency assessment.

Fitch assesses IIC's capitalization as excellent. At 52.9% IIC has one of the highest equity/adjusted assets ratios among multilateral development banks (MDBs) rated 'AAA' by Fitch. Unlike most MDBs, all of IIC's capital is paid-in. Capitalization ratios will remain strong over the forecast horizon as IIC expands its mandate to execute all private sector operations for the Inter-American Development Bank (IADB) Group as part of its 10-year capitalization plan.

Despite delays in receiving the first and second installments under IIC's capitalization plan in 2016 and 2017, mostly due to budgetary deadline issues in member countries, the plan is now back on track as a result of advance payments from some member states. As of end-September 2017, 90% of the new capital contributions were received for the first installment and 79% for the second installment. Including the advance payments from several countries, IIC has received 99.6% of the paid-in capital expected during this period under its 10-year capitalization plan.

In Fitch's view, IIC's overall credit risk is low. Fitch estimates the weighted average rating of IIC's loan portfolio at 'BB-' as of end-September 2017. Historically, non-accrual loans have been maintained at manageable levels despite IIC's focus on providing financing to small and medium-sized enterprises (SMEs). Under the IIC's current mandate, the proportion of direct loans to SMEs has declined substantially compared with prior years.

Concentration risk is assessed as 'low'. Concentration risk by borrower and country is low relative to other regional MDBs. However, although it has declined significantly over the past year, sector concentration remains high, with 58% of loans extended to financial institutions at end-September 2017 (66% at end-September 2016). Given the low borrower concentration, IIC's lending portfolio is not as vulnerable to potential downgrades of individual exposures as are its peers.

IIC's risk management framework is assessed as 'excellent'. Although not subject to banking regulations, the IIC abides by its own prudential framework. Management carefully monitors capital adequacy, liquidity and credit risk through conservative risk-management policies based on self-imposed prudential ratios and limits and consistently operates well within these guidelines. Risk management policies have been updated and implemented to reflect internationally accepted standards for financial institutions.

Liquidity is assessed as 'aaa'. IIC's liquid assets/short-term debt ratio reached 364% at end-September 2017. This ratio will remain well above 150%, the threshold within our criteria consistent with an 'excellent' assessment, over the medium term. The quality of treasury assets

is 'strong', with 50% of the portfolio rated at 'AA-' or above. The bank's sound liquidity profile is also supported by its access to capital markets as well as alternative sources of liquidity from a committed credit facility for USD200 million with the IADB (AAA/Stable) and an additional USD102 million with commercial banks as of end-September 2017.

Consistent with Fitch's Supranationals criteria, support from shareholders is not currently a factor in the overall rating, as the average rating of IIC's key shareholders is 'BBB-' and there is no callable capital. IIC's 'AAA' rating therefore reflects purely the intrinsic strengths of the bank.

Since the last review, IIC has undertaken a rebranding to change its trade name to IDB Invest. This is the culmination of the IADB group's consolidation efforts that began two years ago and reflects the entity's new identity as well as synergies with IADB. The rebranding did not entail a change in the legal name of the institution, which remains Inter-American Investment Corporation, as established in the Agreement Establishing the Inter-American Investment Corporation, and which continues to be used to identify the institution in documents of a legal nature.

## RATING SENSITIVITIES

The factors that could, individually or collectively, lead to a downgrade of IIC's ratings are:

- A prolonged and significant decline in capitalization related to losses on the asset portfolio, unbalanced growth in operations, increased earnings volatility or failure to receive paid-in capital commitments.
- A substantial decline in liquid assets/short-term debt coverage and a deterioration in the bank's ability to access other sources of liquidity.
- A stress situation in a member country that significantly affects asset quality or results in transfer and convertibility restrictions would be negative for creditworthiness.

## KEY ASSUMPTIONS

The ratings and Outlook are sensitive to a number of assumptions as follows:

Fitch assumes that member countries, even if experiencing severe difficulties, will continue to exempt IIC's private sector borrowers from any measures that may impact the transfer and/or convertibility of their debt service payments.

Fitch assumes that IIC will maintain its conservative risk management and governance policies.

Fitch affirms IIC's ratings as follows:

- Long-Term IDR at 'AAA'; Outlook Stable;
- Short-Term IDR at 'F1+';
- Senior unsecured medium-term note program at 'AAA';
- Senior unsecured notes at 'AAA'.

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Applicable Criteria  
Supranationals Rating Criteria (pub. 18 May 2017)  
<https://www.fitchratings.com/site/re/898344>

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