S&P Global Ratings

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Research Update:

IDB Invest 'AA/A-1+' Ratings Affirmed; Outlook Remains Positive

June 26, 2019

Overview

- We assess IDB Invest's stand-alone credit profile at 'aa', owing to its adequate enterprise risk profile and extremely strong financial risk profile.
- IDB Invest is successfully growing and diversifying its loan book as it fulfils its expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group.
- This has been coupled with the institution strengthening its operational capabilities, risk practices, and systems, while maintaining robust capitalization and high liquidity. We are affirming the ratings at 'AA/A-1+'.
- The positive outlook reflects prospects for an upgrade over the next two years if IDB Invest's transformation into the private-sector arm of the IADB group is successful, which, in our view, consolidates its expanded role and mandate and enhances the enterprise risk profile.

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Rating Action

On June 26, 2019, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on IDB Invest (legal name: Inter-American Investment Corp.). The outlook remains positive.

Rationale

We base our 'AA' ratings on IDB Invest on its adequate enterprise risk profile and extremely strong financial risk profile. We assess IDB Invest's stand-alone credit profile at 'aa', the same level as the long-term issuer credit rating, given that IDB Invest does not benefit from extraordinary support in the form of callable capital.

IDB Invest has been implementing its business plan following the approval of the 2015 reorganization and implementation of its new mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group. IDB Invest has made significant progress on various fronts--notably, increasing its lending activities while shifting toward more corporate and infrastructure lending, which we believe has a stronger developmental impact than providing funds via financial institutions.

The lending portfolio grew by 58% in 2018 to $1.5 billion, supported by the IADB group's private-sector approvals and disbursements of $4.0 billion and $3.2 billion, respectively, largely in line with its business planning targets. At the same time, the share of lending to financial institutions decreased to 41% as of December 2018 compared with 69% as of year-end 2016, and the institution has focused on direct corporate lending as well as energy and infrastructure financing.

In our view, a key strength is IDB Invest's ability to use the resources and expertise of its sister organization IADB, which we believe supports the successful execution of its mandate. The two institutions share the same country representatives, and a large share of projects have specialists from IADB, depending on the sector and expertise required.

We also expect IDB Invest's role and public mandate to strengthen over time, as it consolidates its presence in the region and continues developing a pipeline of diversified projects with a strong developmental focus, which, in our view, will likely enhance its enterprise risk profile. To date, IDB Invest has expanded the number of offices in regional member countries to 25 from 15 at the beginning of 2016.

Furthermore, a growing part of its business model is IDB Invest's advisory work to unlock new markets as well as its focus on private-sector mobilization, which we believe suggests its important role that can not be readily fulfilled by other private or domestic public institutions.

To support the large growth in its lending activities, IDB Invest has retooled and upgraded its operational capabilities, risk practices, and systems. The institution has been strengthening its risk management with the implementation of its Financial Risk Management Framework in December 2017. More recently, IDB Invest operationalized its internal economic capital model to improve the allocation of capital and the pricing of its loan book.

As of December 2018, IDB Invest received 91% of the first, second, and third installments of its second general capital increase for a total of $750 million. The majority of the countries in arrears are experiencing significant financial stress, and we do not expect arrears to be cleared in the near future. Prepayments from other countries and the first and second transfer from the IADB, according to the merge-out plan, counterbalance this stress, in our view.

As a fully specialized private-sector lender, IDB Invest does not benefit from preferred creditor treatment (PCT), which we only apply to sovereign exposures. Consequently, we do not incorporate PCT in our assessment of IDB Invest's enterprise risk profile. However, there is a track record of member governments affording preferential treatment by not restricting borrowers' access to foreign exchange for debt service or dividend payments to IDB Invest.

We believe that a risk adjusted capital (RAC) ratio of 72% as of end-2018 puts IDB Invest in a comfortable position to increase lending significantly in its target countries. This is a decrease from the 2017 RAC ratio of 109%, which we largely expected, as IDB Invest executes its business plan. We expect the share of nonperforming loans to increase from its earlier low levels but to remain in line with or even better than peers, such as International Finance Corp. and The European Bank for Reconstruction and Development.

Our 12-month and six-month liquidity coverage ratios using year-end 2018 data of 2.0x and 1.7x, respectively, signal that that IDB Invest would be able to finance its expansion mandate, disburse scheduled loans, and service its debt obligations without capital market access for at least one year. In addition, we believe that IDB Invest would have room to accelerate disbursements as measured by our stress scenario, which takes into account 50% of all undisbursed loans, regardless of planned disbursement date, as if they were coming due in the next 12 months.

While IDB Invest's funding needs were limited in the past, it has been increasing its market presence in line with its business growth. In fiscal-year 2018, IDB Invest tapped capital markets four times in four different currencies, with approximately one-third of funding in local currency to support its lending activities.

Outlook

The positive outlook reflects our view that over the next 24 months we could see consistent progress in the execution and consolidation of IDB Invest's expanded mandate. We believe the continued expansion of loan approvals, increasing mobilization of private capital, as well as its continued shift to more direct corporate and infrastructure lending, strengthens the institution's developmental impact and could also translate into a stronger role and policy mandate. We also believe IDB Invest's efforts to enhance its risk framework and operational structure should help reduce the execution risk during this period of transformational change.

Conversely, we could revise the outlook to stable if IDB Invest's business expansion loses significant momentum; its financial profile deteriorates markedly, for example because of insufficient capitalization to absorb new exposures; or large nonperforming assets rapidly build up. If IDB Invest's expansion outpaces the increase of risk-management capacity, or shareholder support appears to weaken, we could also take a negative rating action.

Ratings Score Snapshot

Issuer credit rating AA/Positive/A-1+

SACP aa

Enterprise risk profile Adequate

- Policy importance Adequate
- Governance and management Adequate

Financial risk profile Extremely strong

- Capital adequacy Extremely strong
- Funding and liquidity Strong

Extraordinary support 0

- Callable capital 0
- Group support 0

Holistic approach 0

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Criteria Guidance: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Ratings On 32 Multilateral Lending Institutions And Supranationals Placed Under Criteria Observation On Criteria Update, Dec. 14, 2018
- Supranationals Special Edition 2018, Oct. 11, 2018

Ratings List

Ratings Affirmed	
IDB Invest	
Issuer Credit Rating	
Foreign Currency	AA/Positive/A-1+
CaVal (Mexico) National Scale	mxAAA/Stable/--
Senior Unsecured	AA
Senior Unsecured	mxAAA

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