S&P Global Ratings

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IDB Invest

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IDB Invest

Stand-alone credit profile	aa	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	Strong	**Adequate**	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

AA/Positive/A-1+

Outlook

The positive outlook on IDB Invest reflects S&P Global Ratings' view that over the next 24 months, we could see consistent progress in the execution and consolidation of its expanded mandate. We believe the continued expansion of loan approvals, increasing mobilization of private capital, and its continued shift to more direct corporate and infrastructure lending strengthen 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.

Issuer Credit Rating

Foreign Currency
AA/Positive/A-1+

CaVal (Mexico) National Scale
mxAAA/Stable/--

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.

Rationale

IDB Invest has been implementing its business plan following the approval of the 2015 reorganization and implementation of an expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group. Progress on various fronts, including developing a pipeline of diversified projects with a strong developmental focus and shifting toward more corporate and infrastructure lending, combined with upgrading its operational capabilities, risk practices, and systems, underpin our view of IDB Invest's enterprise risk profile. We expect IDB Invest's role and public mandate to strengthen over time as it consolidates its presence in the region which, in our view, will likely enhance its enterprise risk profile.

We assess IDB Invest's financial risk profile as extremely strong based on ample capital, with a risk-adjusted capital (RAC) ratio of 72% as of year-end 2018 placing the bank in a comfortable position to increase lending significantly in its target countries. While IDB Invest's funding needs were limited in the past, it has been increasing its market presence in line with its business growth and enjoys robust liquidity buffers.

Enterprise Risk Profile: Strengthened Operational And Risk Capabilities Support Expanding Its Mandate

- IDB Invest is successfully growing and diversifying its loan book as it fulfils its expanded mandate to manage all private-sector lending within the IADB group.
- This has been coupled with the institution strengthening its operational capabilities, which includes a growing presence in the region, combined with upgraded risk practices and systems.

Policy importance

IDB Invest was founded by international treaty in 1986 as a member of the IADB Group with the mission of promoting economic development of its Latin American and Caribbean member countries through direct and indirect financing to the private sector. Loans are IDB Invest's primary financing vehicle, although it also provides financing through debt securities, and guarantees and makes equity investments, with the latter representing a smaller share of assets. Traditionally, the institution provided financing directly or indirectly to small and midsize enterprises (SMEs), which limited our view of the institution's policy mandate relative to that of larger multilateral institutions (MLIs) that may lend countercyclically to governments during periods of economic recession.

In 2015, IDB Invest embarked on a full-scale reorganization of the institution to manage all private-sector lending within the IADB group. The renewed mandate to strengthen the group's private-sector footprint essentially broadens its lending activities to corporate and infrastructure sectors and was accompanied by a US$2.03 billion capital increase to support larger lending volumes. Shareholders committed to US$1.3 billion over seven years (2016-2022) and US$725 million in transfers from IADB on behalf of its shareholders from 2018-2025. This capital increase comes after an uneven track record of shareholder support during the last few decades.

As of December 2018, IDB Invest received 91% of paid-in capital from the first, second, and third installments for a total of US$750 million. A few countries are in arrears on their capital payments to the bank, totaling US$76 million. Given the significant financial stress in these countries, we do not expect these capital arrears to be cleared in the near future. Prepayments from other countries amounting to US$117 million, as well as the first and second capital transfers from the IADB for US$100 million, counterbalance this stress, in our view. Three new countries agreed on joining IDB Invest by using proceeds of the IADB transfer to buy IDB Invest shares. Croatia and Slovenia fulfilled all the requirements for membership on April 2019, while the U.K. is still in the process of becoming a member.

We expect IDB Invest's role and public mandate to strengthen over time as it consolidates its presence in the region by focusing on projects with larger ticket sizes, increases its share of financing to the nonfinancial sector, and progressively lends more to smaller member countries (C&D countries, by its internal definition). The execution of this expanded mandate is anchored by a 10-year strategic framework (2016-2025), which contains business targets and key initiatives accompanied by the operational blueprint.

The institution has largely met its increasing lending targets and diversification efforts. The lending portfolio, including equity investments and debt securities, grew by 73% in 2018 to $1.8 billion, supported by IADB Group's private-sector approvals and disbursements of US$4.0 billion and US$3.2 billion. IDB Invest booked 43% of these approvals on its balance sheet. While all loans are originated by IDB Invest, a portion are funded by the IADB until 2022, with IDB Invest progressively assuming a larger share, given the phase-in of capital contributions to leverage lending activity under IDB Invest.

At the same time, IDB Invest delivered on portfolio growth in its new priority lines of business and sectors, strengthening infrastructure and energy while expanding further into transport. It also created new product offerings, notably the Trade Finance and Facility Program (TFFP), purchased debt securities, guarantees, mezzanine financing, and the expansion of local bond issuances in Colombia, Mexico, and Paraguay. The share of lending to financial institutions decreased to 41% as of December 2018 compared with 69% as of year-end 2016. Similarly, the share of loans going to C&D countries also increased to 45% as of year-end 2018, from 23% the year prior.

The renewed mandate has largely supported the increase in general ticket sizes of projects from an average size of US$4 million in 2015 to US$36 million in 2018 ($US22 million just for IDB Invest loans).

A growing part of IDB Invest's business model is advisory work to unlock new markets, as well as its focus on private-sector mobilization, which we believe points to an important role that cannot be readily fulfilled by other private or domestic public institutions. IDB Invest uses the resources and expertise of its sister organization the IADB to enhance its role as a knowledge broker and unlock new private-sector markets. The two institutions share the same country representatives.

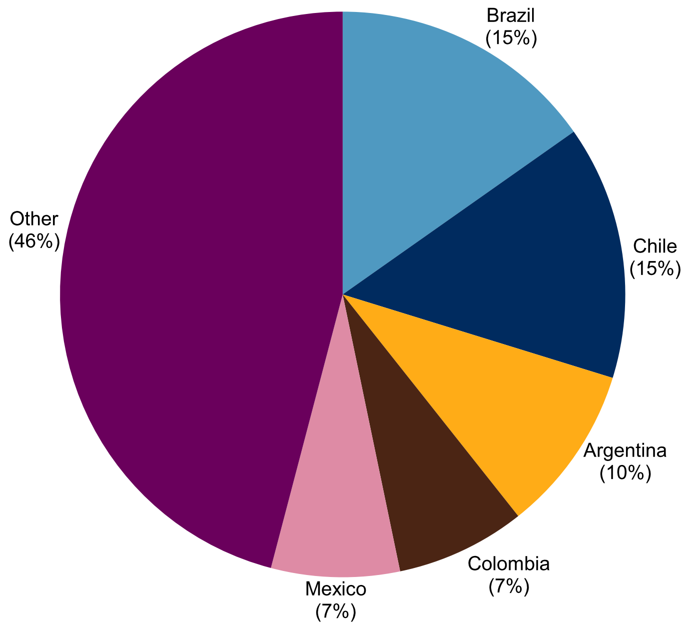
IDB Invest has also taken over the entire management of the IADB's private-sector assets, and its assets under management (AUM) was US$13.6 billion as of year-end 2018 (including US$4.5 billion in third-party funds and B-loans). We believe IDB Invest has created a robust framework including the organization's structure, incentives, and systems to support larger mobilization volumes.

Central to IDB Invest's expanded mandate is increasing its presence in the region. The number of offices in regional member countries increased to 25 from 15 at the beginning of 2016, which represents 24% of the overall workforce (up from 14% in 2016). Three of the four hubs are fully operational (Bogota, Buenos Aires, and Panama) and the fourth hub in Kingston, Jamaica, is in the process of being implemented. IDB Invest has also increased its presence in countries including Guatemala, Guyana, Suriname, Belize, and Trinidad and Tobago, where it was not present previously.

Chart 1

MLI Five Largest Countries Purpose-Related Exposures As Of Year-End 2018

As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

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.

Governance and management expertise

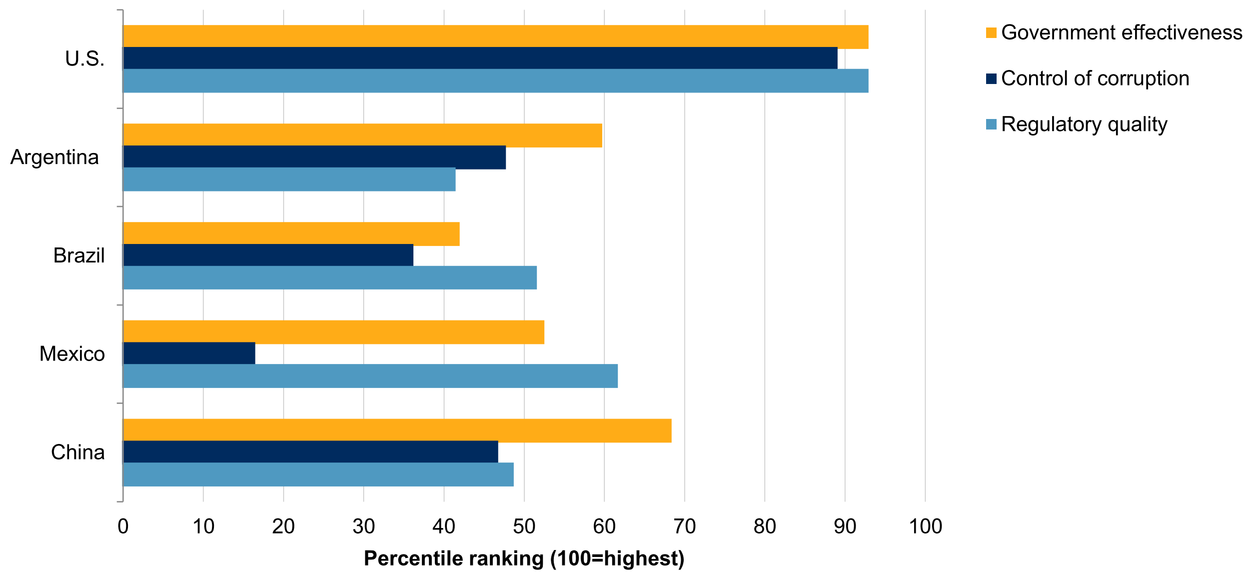
IDB Invest has a diverse ownership structure with 47 government shareholders and no private-sector shareholders. Following IDB Invest's 2015 restructuring, shareholder concentration has been declining, although the voting power of regional borrowing members represents 54%, which is the minimum established by treaty.

The U.S. is the largest shareholder (14%), followed by Argentina (12%), Brazil (11%), Mexico (8%), and China (5%). The capital increase resulted in a redistribution of voting shares with the dilution of U.S. shares, which was counterbalanced by other nonborrowing members (China, South Korea, and Spain) increasing their participation in the institution.

Generally, we believe the institution has a robust governance system in place, although the slightly larger concentration of borrowing member countries, combined with somewhat lower assessments in governance effectiveness, control of corruption, and regulatory quality, can be a potential source of agency risk.

Chart 2

Five Largest Shareholders
Selected World Bank governance indicators



Source: S&P Global Ratings.

IDB Invest does not pay dividends or make contributions to special off-balance-sheet funds; therefore it has a high earnings retention ratio.

To support the large growth in its lending activities, IDB Invest has retooled and upgraded its operational capabilities, risk practices, and systems. We believe IDB Invest has been successful implementing its business plans defined by its 10-year strategic framework.

In December 2017, IDB Invest approved its enhanced financial risk management framework, which encompasses the risk appetite statement and its capital adequacy and liquidity policies. More recently, the bank operationalized its internal economic capital model to improve the allocation of capital and the pricing of its loan book.

To support its mandate, IDB Invest continues to strengthen its entire executive team. Key hires were completed in 2018, including the appointment of a new chief risk officer, the treasury division chief, and other critical roles throughout the organization.

By January 2019, IDB Invest had 392 employees (up from 307 as of January 2016) and is looking to grow significantly in the next two years, many of which will be located in the regional offices.

The resources it can draw from the IADB is also a key strength of the institution and supports, in our view, IDB Invest's management expertise in its major business lines and institutional continuity.

Financial Risk Profile: Extremely Strong Capital Position Supports Expanded Mandate, Combined With Robust Liquidity Buffers

- As IDB Invest continues to execute its expanded mandate, we expect downward pressure on its RAC ratio, although we believe it will remain above our 23% threshold for the extremely strong assessment.
- IDB Invest has strong liquidity, with sufficient buffers to support increased disbursements.

Capital adequacy

IDB Invest's RAC ratio was 72% as of Dec. 31, 2018, and 70% as of June 30, 2019, with ratings parameters as of Sept. 19, 2019. This is a decrease from the 2017 RAC ratio of 109%, which we largely expected given growth in business volumes as it executes its expanded mandate.

We expect, however, the ratio to remain comfortably above our 23% threshold for the extremely strong capital adequacy assessment. The RAC ratio is among the highest in its peer group.

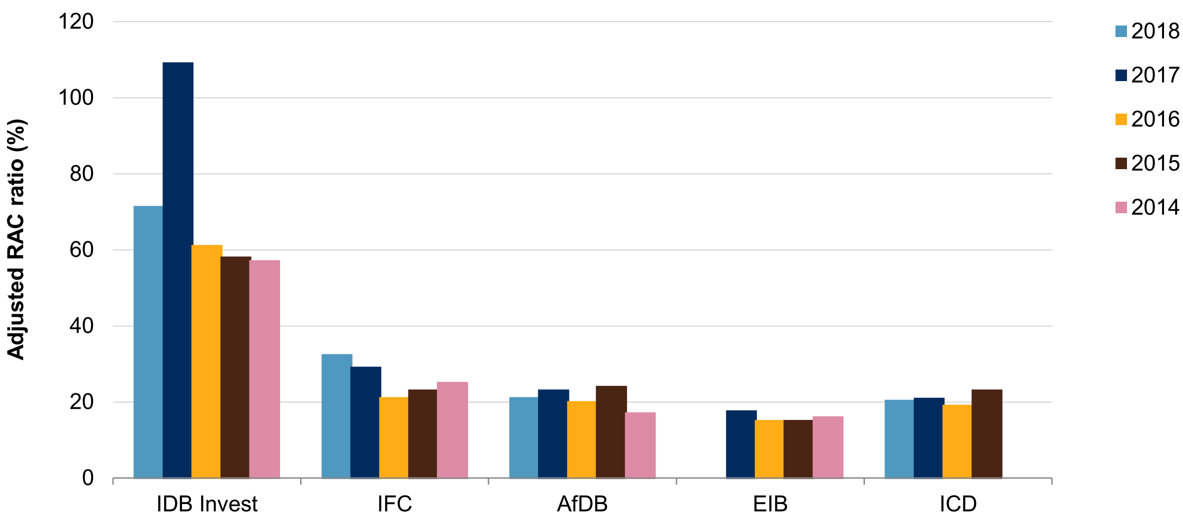
IDB Invest's country exposures are diversified, with no single country representing more than 15% of the economic capital assigned to the business. The top three and top five countries represented 39% and 54% of the total outstanding portfolio respectively as of year-end 2018. While Brazil, Chile, and Argentina account for the largest exposures, the expanded mandate includes increasing lending to C&D countries.

As of year-end 2018, IDB Invest had 41% of its exposure in financial institutions, followed by energy (16%), telecom/IT (15%), and agribusiness (13%).

Unlike IADB, IDB Invest does not have callable capital--although it maintains a high level of shareholders' equity, which as of Dec. 31, 2018, totaled $1.82 billion, up from $857 million in 2015.

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



IFC--International Finance Corp. AfDB--African Development Bank. EIB--European Investment Bank.
ICD--Islamic Corporation for the Development of the Private Sector. Source: S&P Global Ratings.

IDB Invest has a record of benefiting from preferential treatment granted by the governments of countries in which it operates. We expect this will continue, and we incorporate this into its financial risk profile by adjusting the risk weights on IDB Invest's exposures to financial institutions and corporate entities.

Nonaccrual loans that are also past due decreased to 1.88% in 2018 from 2.19% in 2017. At year-end 2018, IDB Invest's allowance for loan losses ($66 million) covered nonaccrual loans by 2.3x. As IDB Invest approves larger volumes of loans and books on its balance sheet, we expect the share of nonperforming loans to increase from earlier low levels but to remain in line with peers.

Funding and liquidity

Funding. IDB Invest maintains a conservative funding profile, in our view. The institution's charter sets its leverage limit at 3x debt to the sum of its subscribed capital, earned surplus, and reserves. IDB Invest has not approached either limit during the past 10 years.

While historically IDB Invest's funding needs were limited, with its expanded mandate the bank will begin to increase its market presence. To support larger volumes of issuances, IDB Invest has rebuilt its treasury operations. During 2018, IDB Invest created an asset-liability group, as well as a treasury solutions group.

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. In 2019, IDB Invest's expected funding program will be close to US$1 billion, with a strong focus on local currency financing.

IDB Invest does not rely on short-term financing vehicles and does not issue certificates of deposit or commercial paper. We expect that IDB Invest will begin to issue commercial paper in 2020 to finance short-term assets, and to also optimize its liquidity management.

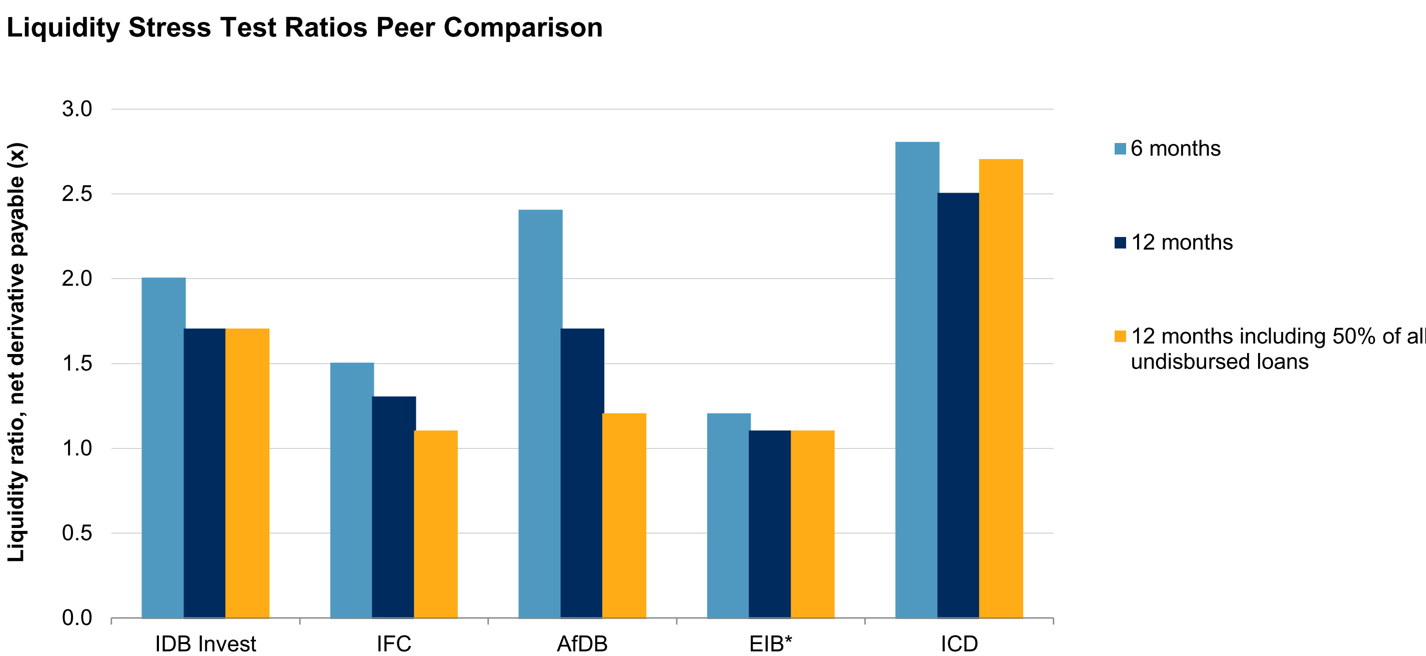
Because of the institution's small size and infrequency of borrowing, its annual debt amortization profile can be uneven, and we expect it will remain so until the institution can issue more frequently, increase its assets, and thereby build a stronger and more diversified global investor base.

Notwithstanding, our funding ratios indicate that IDB Invest would be able to fund its scheduled loan disbursements under normal market conditions. The 2018 one-year static funding gap, calculated as maturing assets divided by maturing liabilities, was 1.4x with scheduled loan disbursements and 2.2x without scheduled loan disbursements.

Liquidity. IDB Invest maintains a high level of liquidity on its balance sheet, accounting for 51% of adjusted total assets at year-end 2018. Its US$1.5 billion in liquid assets is invested in highly rated securities, with a weighted average rating of 'AA-'.

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.

Chart 4



IFC--International Finance Corp. AfDB--African Development Bank. EIB--European Investment Bank. ICD--Islamic Corporation for the Development of the Private Sector. Source: S&P Global Ratings. *EIB is as of December 2017 since we do not have 2018 figures.

Extraordinary Shareholder Support

IDB Invest's sovereign shareholders have not provided the institution with callable capital. We therefore do not incorporate any uplift to our issuer credit rating for the likelihood of extraordinary shareholder support.

Table 1

IDB Invest Selected Indicators

	2018	2017	2016	2015	2014
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.)	1,756.1	1,013.6	886.5	990.7	1,052.3
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	-	-	-	-	-
Private-sector loans/purpose-related exposures (%)	95.8	95.1	96.1	96.3	95.6
Gross loan growth (%)	58.0	12.1	(11.1)	(6.4)	0.1
PCT ratio	-	-	-	-	-
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	50.0	50.2	54.0	54.0	54.0
Concentration of top two shareholders (%)	23.0	23.0	23.0	27.6	34.2
Eligible callable capital	-	-	-	-	-
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio	71.5	109.0	61.0	58.0	57.0
Net interest income/average net loans (%)	6.2	6.1	5.0	4.7	4.3
Net income/average shareholders' equity (%)	1.5	1.4	1.9	0.4	1.6
Impaired loans and advances/total loans (%)	2.0	2.8	1.0	1.0	1.7
Funding and liquidity					
Liquidity ratios					
Liquid assets/adjusted total assets (%)	46.0	54.9	59.4	35.1	48.4
Liquid assets/gross debt (%)	127.9	185.4	120.0	88.3	87.7
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables)	2.0	22.9	23.0	2.9	3.5
12 months (net derivate payables)	1.7	12.9	2.4	2.2	1.3
12 months (net derivate payables) including 50% of all undisbursed loans	1.7	6.6	2.3	2.6	1.4
Funding ratios					
Gross debt/adjusted total assets (%)	40.1	29.6	49.5	39.8	55.3
Short-term debt (by remaining maturity)/gross debt (%)	38.9	3.2	40.4	9.7	48.6
Static funding gap (with planned disbursements)					
12 months (net derivate payables)	1.4	7.9	1.8	1.6	1.0
24 months (net derivate payables)	2.5	1.4	2.0	1.1	1.4

Table 1

IDB Invest Selected Indicators (cont.)

	2018	2017	2016	2015	2014
SUMMARY BALANCE SHEET					
Total assets	3,209.3	2,185.4	2,146.7	1,505.3	1,989.5
Total liabilities	1,390.0	740.8	1,124.7	648.0	1,144.4
Shareholders' equity	1,819.3	1,444.6	1,022.0	857.3	845.1

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital.

Table 2

IADB Invest Peer Comparison

	IDB Invest	AfDB	IFC	EIB*	ICD
Total purpose-related exposure	1,756	29,351	47,552	517,041	1,541
PCT	0	1.8	0	0.1	0
RAC	71.5	21	32.3	17.5	20.3
Liquidity ratio 12 months (net derivate payables)	1.68	1.67	1.32	1.12	2.51
Funding gap 12 months (net derivate payables)	1.37	1.58	1.53	1.21	3.05

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. IFC--International Finance Corp. AfDB--African Development Bank. EIB--European Investment Bank. ICD--Islamic Corporation for the Development of the Private Sector. *EIB is as of December 2017 since we do not have 2018 figures.

Ratings Score Snapshot

Enterprise Risk Profile	Extremely strong	Very strong	Strong	**Adequate**	Moderate	Weak	Very weak
Policy Importance	Very strong	Strong	**Adequate**	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Methodology For National And Regional Scale Credit Ratings, June 25, 2018

- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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 Detail (As Of December 12, 2019)*		
IDB Invest		
Issuer Credit Rating		
Foreign Currency		AA/Positive/A-1+
CaVal (Mexico) National Scale		mxAAA/Stable/--
Senior Unsecured		
CaVal (Mexico) National Scale		mxAAA
Senior Unsecured		AA
Issuer Credit Ratings History		
30-Apr-2018	*Foreign Currency*	AA/Positive/A-1+
29-Jul-2010		AA/Stable/A-1+
15-Jul-2008		AA-/Positive/A-1+
12-Feb-2018	*CaVal (Mexico) National Scale*	mxAAA/Stable/--
02-Apr-2014		NR/--/--
11-Dec-2012		mxAAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.