Fitch Ratings

Fitch Affirms IDB Invest at 'AAA'; Outlook Stable

Fitch Ratings - London - 05 February 2020:

Fitch Ratings has affirmed the Inter-American Investment Corporation’s (IDB Invest) Long-Term Issuer Default Rating (IDR) at 'AAA'. The Outlook is Stable.

Key Rating Drivers

IDB Invest's 'AAA' Long-Term IDR reflects the bank's intrinsic credit profile, underpinned by liquidity and solvency assessments of 'aaa'. The Stable Outlook reflects Fitch's view that the bank will maintain excellent capitalisation levels and liquidity buffers as it ramps up the growth in its lending activities in line with the bank's 2020-2022 business plan.

Fitch assesses IDB Invest's capitalisation as 'excellent'. At 57.6% as of end-September 2019, IDB Invest has one of the highest equity/adjusted assets ratios among multilateral development banks (MDBs) rated 'AAA' by Fitch. In line with Fitch's updated Supranationals Rating Criteria, IDB Invest's capitalisation is now also assessed via Fitch's usable capital to risk-weighted assets (FRA) ratio, at 73% as of end-September 2019, well above the threshold for an 'excellent' assessment (35%).

Fitch expects the overall capitalisation assessment to remain 'excellent' over its three-year forecast horizon despite rapid projected growth in the bank's balance sheet. The bank's loan portfolio grew 77% during 2018 and 33% in the first three quarters of 2019, reflecting the expanded mandate of executing private sector operations for the Inter-American Development Bank (IADB) Group. This increased activity is consistent with the goals approved by shareholders in 2015 and is supported with a USD2 billion capital increase with contributions through 2025.

In Fitch's view, IDB Invest's overall risk profile is 'low'. This balances the bank's 'very low' concentration, equity and market risk assessments as well as its 'excellent' risk management policies against the 'moderate' credit risk in its banking operations. Fitch estimates the weighted average rating of the bank's credit portfolio was 'BB-' as of end-September 2019, unchanged from previous years.

Non-performing loans (NPLs) have been low compared with private sector-focused peers, with the five-year average NPL ratio (2014-2018) at 1.8%. The 'low' NPL track-record primarily reflects the fully performing exposure to financial institutions, which historically have accounted for over 50% of total loans (44% of loans at end-September 2019). This ratio was 1.7% at end-September 2019 compared with 1.5% a year before.

In Fitch's view, the relatively rapid projected growth rate of development-related assets (DRA; loans, guarantees and equity investments) over the forecast period represents a potential source of risk to asset quality. However, growth will be partly supported with the bank's ongoing capital increase and Fitch expects management to maintain its prudent lending standards, mitigating any pressure on asset quality from the fast expansion of the balance sheet.

Concentration risk is assessed as 'very low'. Concentration risk by borrower is low relative to other regional MDBs, with the top five exposures accounting for 15.4% of total banking exposure at end-September 2019.
Sector concentration remains high, as evidenced by the share of exposure to financial institutions in the DRA portfolio (44% of total at end-September 2019) but has improved markedly in recent years. At the country level, concentration metrics are broadly in line with regional MDBs, with the five largest countries accounting for 52% of total banking exposures.

We assess IDB Invest's risk management framework as 'excellent'. Although not subject to banking regulations, IDB Invest abides by its own prudential framework. Management 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. These include a leverage ratio that limits debt to 3x equity and strictly enforced country (15%) and sector (20%) exposure limits, with a higher limit set for financial institutions.

Fitch assesses liquidity as 'aaa'. IDB Invest's liquid assets/short-term debt ratio should remain well above the 150% threshold that is consistent with an 'excellent' assessment as per our criteria, over the medium term. The quality of treasury assets is 'excellent', with 70% of the portfolio rated 'AA-' or above. The bank's sound liquidity profile is also supported by its increasing access to capital markets, as well as alternative sources of liquidity from committed credit facilities with the IADB (AAA/ Stable).

IDB Invest's overall business environment is assessed as medium risk, which does not translate into an adjustment from Fitch's solvency or liquidity assessments of 'aaa'. IDB Invest's medium-risk business profile is mainly driven by a medium-risk strategy, characterised by ambitious lending growth targets. In addition, our assessment captures IDB Invest's limited, albeit increasingly important, policy mandate, and medium-risk operating environment.

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

IDB Invest's Long-Term IDR is materially above Mexico's sovereign rating (BBB/Stable), therefore the issue rating on the Mexican national rating scale is 'AAA(mex)'.

**RATING SENSITIVITIES**

The factors that could, individually or collectively, lead to a downgrade are:

- Prolonged and significant decline in capitalisation metrics related to losses on the asset portfolio, faster-than-projected growth in operations, or failure to receive paid-in capital commitments.

- Significant deterioration in the bank's risk profile, potentially stemming from deteriorated credit risk metrics or worsening concentration risk.

- Substantial decline in liquid assets/short-term debt coverage and/or deterioration in the bank's liquidity profile.

**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 IDB Invest's private sector borrowers from any measures that may impact the transfer and/or convertibility of their debt service payments to IDB Invest.

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

Sources of Information

The sources of information used to assess these ratings were IDB Invest's financial statements and other information provided by IDB Invest.

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