

Research Update:

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

June 4, 2020

Overview

- IDB Invest has a consistent track record of executing and consolidating its expanded mandate--evidenced by its growing and diversified loan book and mobilized private capital with a robust developmental approach--and has strengthened its operational capabilities, risk practices, and systems.
- IDB Invest maintains robust capitalization and high levels of liquidity, which we believe could counterbalance rising risks in the region from COVID-19.
- We are affirming our 'AA/A-1+' issuer credit ratings on IDB Invest.
- The positive outlook reflects our expectation that IDB Invest will continue its growth momentum in line with strategic targets and contain significant pressure on asset quality stemming from rising stress in the region.

Rating Action

On June 4, 2020, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on IDB Invest. The outlook remains positive.

Rationale

We base our 'AA' ratings on IDB Invest on its strong 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 an expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group.

Now in its fourth year, we believe IDB Invest (legal name: Inter-American Investment Corp.) has made progress and built a consistent track record that underpins a stronger enterprise risk

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profile. This includes a growing loan book, including equity investments and debt securities, which rose by 45% in 2019 to \$2.5 billion, with a strong developmental focus as it shifts toward more corporate and infrastructure lending.

At the same time, IDB Invest has demonstrated its franchise value by becoming an important partner in key projects in the region, mobilizing third-party co-investing alongside IDB Invest projects, which reached \$1.4 billion in 2019. In addition, IDB Invest has taken over the entire management of IADB's private-sector assets, and its assets under management (AUM) totaled US\$13.5 billion as of year-end 2019 (including US\$5 billion in third-party trust funds, including treasury assets and B-loans).

A key strength, in our view, is IDB Invest's ability to leverage resources and expertise of its sister organization, IADB, which we believe supports the successful execution of its mandate.

We expect the bank to continue providing support to its clients following the economic fallout from COVID-19. IDB Invest has increased its lending capacity to \$7 billion for 2020, which includes an increase of \$1.5 billion in trade finance operations and an additional \$500 million from the new crisis mitigation facility.

IDB Invest has ample capital with a risk-adjusted capital (RAC) ratio of 56% as of year-end 2019, placing the bank in a position to increase lending significantly in its target countries. We expect a continued quick expansion of the lending book, although COVID-19 and the economic crisis could lead to a deterioration in the institution's asset quality. This could, in turn, lead to a capital position that, in comparison with peers, would not significantly stand out as positively. Nonperforming loans declined to 1.5% as of year-end 2019 from 1.9% at year-end 2018.

As of December 2019, IDB Invest received 89% of paid-in capital from the first, second, third, and fourth installments for a total of US\$955.4 million. Three countries that are in significant financial stress are in arrears on their capital payments to the bank, totaling US\$113 million. One country has agreed to an updated installment plan and has already made payments according to the updated payment schedule. Prepayments from other countries amounting to US\$71.5 million, as well as the first, second, and third capital transfers from the IADB for US\$208 million, 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 don't incorporate PCT in our assessment of IDB Invest. 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 expect that as capital controls become more restrictive in Argentina, the government will continue to allow IDB Invest borrowers access to foreign exchange.

IDB Invest has upgraded its operational capabilities, risk practices, and systems. To date, it has expanded the number of offices in regional member countries to 25 from 15 at the beginning of 2016. In parallel, we believe that the institution has strengthened its risk management with the implementation of its financial risk management framework in December 2017 and, more recently, the internal economic capital model to improve the allocation of capital and the pricing of its loan book.

Our 12-month and six-month liquidity coverage ratios using year-end 2019 data of 1.9x and 2.0x, respectively, signal 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 stressed 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.

Outlook

The positive outlook reflects our view that over the next 24 months, IDB Invest will maintain its growth momentum as well as support mobilization of funds in line with its strategic targets. We believe that its lending activities will be underpinned by a robust risk framework and solid operational structure and directed toward projects with a strong developmental impact. Similarly, we expect that IDB Invest will contain nonperforming assets as risks from COVID-19 rise in the region, supporting a stronger capital position compared with peers, which would prompt an upgrade.

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 take a negative rating action.

Ratings Score Snapshot

Issuer credit rating: AA/Positive/A-1+

SACP: aa

Enterprise risk profile: Strong

- Policy importance: Strong
- 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

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- 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

- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020
- Supranationals Special Edition 2019, Oct. 25, 2019

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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