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Ratings

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Research Update:

IDB Invest Upgraded To 'AA+' On Execution Of Its Mandate; Outlook Stable

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Overview

- IDB Invest has demonstrated a consistent track record of executing and consolidating its expanded mandate and has strengthened its operational capabilities, risk practices, and systems.
- The bank maintains robust capitalization and high liquidity, which we believe counterbalance rising risks from COVID-19 in the region.
- We therefore raised our rating on IDB Invest to 'AA+' from 'AA'.
- The stable outlook reflects our view that over the next 24 months, IDB Invest will continue to execute its mandate and achieve its lending and developmental targets.

Rating Action

On June 24, 2021, S&P Global Ratings raised its long-term issuer credit rating on IDB Invest to 'AA+' from 'AA'. The outlook is stable.

Rationale

The upgrade reflects IDB Invest's (legal name: Inter-American Investment Corp.) track record in executing its expanded mandate under conservative financial risk structures and policies. The bank has been implementing its business plan following approval of a 2015 reorganization and the implementation of an expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group.

Five years after this widening of mandate, we believe IDB Invest has made progress and built a consistent record that underpins a stronger enterprise risk profile. This includes a growing loan book, including equity investments and debt securities, which rose by 71% in 2020 to $4.4 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 $2.3 billion in 2020. In addition, the bank has taken over the entire management of the IADB's private-sector assets, and its assets under management totaled US$16.1 billion as of year-end 2020 (including US$4 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 the resources and expertise of its sister organization, the IADB, which we believe supports the successful execution of its mandate.

IDB Invest proved its role as a countercyclical lender by increasing lending capacity to $7 billion for 2020, which included an increase of $1.5 billion in trade finance operations and an additional $500 million from a new crisis mitigation facility. It managed to approve $6.8 billion in 2020, of which $4.1 billion was in long-term approvals, whereas the rest was in trade and supply chain finance operations.

Along with the increase in the lending portfolio, IDB Invest delivered on its 2020 performance targets and institutional priorities. Financing for micro, small, and medium-size enterprises exceeded the 2020 target of 30%, reaching 37.4% of total commitments. The bank also surpassed the target for gender and diversity financing, which reached close to 30% of total commitments in 2020. About 37% of the financing went to climate change mitigation projects.

The increase in lending reduced IDB Invest's risk-adjusted capital (RAC) ratio to 35.2% as of year-end 2020 from 55.8% as of year-end 2019. We expect continued expansion of the lending book to decrease the RAC ratio further in the next few years, but it should remain above our threshold for extremely strong capital adequacy. Nonperforming loans declined to 0.8% as of year-end 2020 from 1.5% at year-end 2019. IDB Invest did not experience pressure on asset quality during the COVID-19 pandemic, in part due to limited exposure to high-risk sectors such as retail and tourism, combined with the fact that close to half of its exposure is to better-capitalized financial institutions. The bank also has robust risk management oversight.

As of December 2020, IDB Invest had received 87.5% of paid-in capital from the first to fifth installments for a total of US$1.1 billion. Three countries in significant financial distress are in arrears totaling US$153 million on their capital payments to the bank. Two of these countries have agreed to an updated installment plan and have already made payments according to the updated payment schedule. Prepayments from other countries amounting to US$16.8 million, as well as the first, second, and third capital transfers from the IADB for US$356.5 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 history 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. It has expanded the number of offices in regional member countries to 25, from 15 at the beginning of 2016. In parallel, we believe 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 2020 data were 5.41x and 2.04x, respectively, signaling 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 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.

We assess IDB Invest's stand-alone credit profile as 'aa+', the same level as the long-term issuer credit rating, given the bank does not benefit from extraordinary support in the form of callable capital.

Outlook

The stable outlook reflects our view that over the next 24 months, IDB Invest will continue to execute its mandate and achieve its lending and developmental targets, and that shareholders will remain supportive through timely capital payments. We expect IDB Invest will manage its private-sector portfolio conservatively and maintain asset quality. Similarly, we expect that its capital position will remain extremely strong and that the institution will maintain robust liquidity buffers.

Downside scenario

We could take a negative rating action if IDB Invest's financial metrics deteriorate markedly, for example because of insufficient capitalization to absorb new exposures or because of rapid buildup of large nonperforming assets. If IDB Invest's enterprise risk deteriorates, either through weakening shareholder support or if its business consolidation experiences setbacks, we could lower the rating.

Upside scenario

We could take a positive rating action if IDB Invest builds a record of conservative risk management practices through the credit cycle that could compensate for some potential agency risk in its shareholder structure. At the same time, if the bank's relevance and mandate strengthen further, as evidenced by a larger balance sheet and additional capital increases, this could prompt a positive rating action.

Ratings Score Snapshot

Issuer Credit Rating: AA+/Stable/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 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Abridged Supranationals Interim Edition 2021: Comparative Data For Multilateral Lending Institutions, May 11, 2021
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2020
- Supranationals Special Edition 2020 Says Multilateral Lenders Are Addressing Challenges From COVID-19, Oct. 20, 2020
- Introduction To Supranationals Special Edition 2020, Oct. 19, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings List

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

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

Commercial Paper	A-1+	
Upgraded		
	To	**From**
IDB Invest		
Senior Unsecured	AA+	AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.