FitchRatings

RATING ACTION COMMENTARY

Fitch Revises IDB Invest's Outlook to Stable; Affirms at 'AAA'

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Fitch Ratings - London - 28 Jan 2022: Fitch Ratings has revised the Outlook on Inter-American Investment Corporation's (IDB Invest) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'AAA'.

KEY RATING DRIVERS

The revision of the Outlook to Stable from Negative is driven by stronger-than-expected asset performance and reduced downside risks to IDB Invest's capitalisation metrics. Fitch expects the bank to continue to operate with 'excellent' capitalisation levels and limited non-performing loans (NPLs) over the medium term. Moderation of growth targets, strong asset performance, and capital contributions should support the bank's solvency profile, despite a challenging operating environment in Latin America and the Caribbean (LAC).

IDB Invest's 'AAA' Long-Term IDR is underpinned by the bank's Standalone Credit Profile (SCP), with liquidity and solvency assessed at 'aaa'. The solvency assessment reflects the bank's 'excellent' capitalisation and 'low' risk profile.

The bank's 'excellent' capitalisation assessment is a key rating strength, although capital buffers have significantly diminished in recent years. This partly reflects the increase in lending in 2020 and 2021 as a result of the bank's Covid-19 response, as well as its long-term strategy to fulfil its mandate of investing and mobilising capital for the private sector in LAC. Total commitments and private-sector mobilisations totalled USD8.8 billion in 2021, a record level for IDB Invest.

The equity/adjusted assets (e/a) ratio fell to 29.1% as of end-September 2021 from 33.9% a year prior, compared with an 'excellent' e/a threshold of 25%. The bank's Fitch's usable capital to risk-weighted assets (FRA) ratio was also well above the 'excellent' threshold (35%) at 45%. Loan disbursements through end-September 2021 exceeded USD2.2 billion, a similar level to the same period the previous year. However, loan repayments were markedly higher than the previous year, highlighting the short-term nature of the bank's increased trade-finance and supply-chain financing operations. Capital contribution and improved profitability partly offset the decline in capitalisation metrics.

Fitch now expects capitalisation ratios to remain well above the 'excellent' thresholds in the medium term as the bank's net loan growth converges towards a sustainable lending level. Paid-in capital transfers from the Inter-American Development Bank (AAA/Stable) on behalf of shareholders, and internal capital generation should continue to support expansion of the loan book. The bank's capital adequacy policy, which includes a recently adopted capital buffer of 10%, and leverage limit should also contribute to arresting the recent deterioration in capitalisation metrics.

The bank's 'low' risk profile balances the inherent risk in its private-sector lending and investing activities against a record of operating with 'low' NPLs and 'very low' obligor concentration risk metrics.

The Covid-19 crisis has had a limited impact on the performance of IDB Invest's loan book. The bank extended temporary payment deferrals to borrowers, which accounted for approximately 1.7% of total loans. Only one exposure, representing around 1% of loans with payment deferrals, became impaired and no other impairments were recorded in 2021. As a result, the NPL ratio has remained at a 'very low' level (0.7% as of end-September 2021). Fitch expects an uptick in the NPL ratio to a 'low' level (1-3%) as the loan portfolio seasons and given the prospective tightening of international financing conditions.

The solvency assessment is also supported by the bank's 'very low' equity and market risks, as well as its 'excellent' risk management policies. Comprehensive limits on countries, sectors, and obligors are conservative and well managed. Most limits are based on a maximum economic capital utilisation or a percentage of the bank's equity. As of end-

September 2021, the five largest banking exposures accounted for 9.9% of total banking exposure (TBE), which highlights the diversification across individual exposures.

Country-level exposures are much higher, with the five largest accounting for 56.1% of TBE as of end-September 2021. This is comparable with regional multilateral development banks (MDBs). However, the largest country-level exposures are skewed towards the larger economies and higher-rated sovereigns, such as Mexico (BBB-/Stable; 14.6% of TBE), Brazil (BB-/Negative; 13.2%), and Chile (A-/Stable; 12.5%).

Equity risk is assessed as 'very low' as the exposure to equity investments was 4.5% of TBE as of end-September 2021. Most equity exposures are investments in funds. Fitch expects equity risk to remain 'very low' (below 5% of TBE) over the medium term.

Fitch assesses liquidity at 'aaa'. IDB Invest's liquidity portfolio was USD3.3 billion as of end-September 2021 (40% of total assets) and the ratio of liquid assets to short-term debt was 1.91x. The large stock of liquid assets held was partly driven by debt redemptions and loan disbursements anticipated for 4Q21.

We expect the liquidity buffer to remain well above the 150% threshold that is consistent with an 'excellent' assessment as per our criteria, over the medium term. The credit quality of treasury assets is 'excellent', with 91.5% of the portfolio rated 'AA-' or above as of end-September 2021. The bank's liquidity assessment is also supported by its increasing access to capital markets, with the bank raising USD1.6 billion in 100% sustainable bond issues in 2021.

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 affected by its 'high' risk growth strategy and private sector focus. In addition, our assessment captures the increased importance of the bank's policy mandate, and its 'medium-risk' operating environment. Risks to the operating environment have reduced, with less than a quarter of TBE located in countries where the sovereign has a Negative Outlook (compared with about half a year prior).

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 only reflects the bank's SCP.

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

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings are at the highest level on Fitch's scale and cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Solvency (Capitalisation): Continued decline in capitalisation metrics with an equity to assets and guarantees ratio sustained at a level close to or below 25% or a FRA ratio close to or below 35%. This could be driven by losses, continued rapid growth in banking operations, and/or a significant increase in risk-weighted assets.

- Solvency (Risk): Higher levels of NPLs (above 3%) and/or a decline in the average rating of loans and guarantees below 'BB-'.

- Business Environment (Business Profile/Operating Environment): Continued rapid growth in the bank's operations relative to its capital resources that affects our assessment of the bank's strategy. Further deterioration in the macroeconomic environment in the bank's countries of operations in Latin America.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

IDB Invest has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

IDB Invest has an ESG Relevance Score of '4' for Exposure to Social Impacts. IDB's policy response to the coronavirus crisis was one of the largest policy responses of the MDBs in the portfolio (in comparison with initial lending plans for 2020). This has diminished the capital buffers of the bank. This has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

The ESG Relevance Score assigned to 'Labour Relations and Practices' (SLB) has been changed to '2' from '3', given that restrictions on recruitment based on nationality or quotas is no longer considered to be relevant to MDBs' ratings.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Inter-American Investment Corporation (IDB Invest)	LT IDR Affirmed	AAA Rating Outlook Stable	AAA Rating Outlook Negative

	ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AAA	Affirmed	AAA
senior unsecured	Natl LT	AAA(mex)	Affirmed	AAA(mex)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Supranationals Rating Criteria (pub. 20 May 2021) (including rating assumption sensitivity)

Metodología de Calificación de Supranacionales (pub. 19 Jul 2021)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Inter-American Investment Corporation (IDB Invest)	UK Issued, EU Endorsed

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