FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms IDB Invest at 'AAA'; Outlook Stable

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Fitch Ratings - London - 25 Jan 2023: Fitch Ratings has affirmed Inter-American Investment Corporation's (IDB Invest) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

SCP Drives Rating: IDB Invest's 'AAA' Long-Term IDR reflects its Standalone Credit Profile (SCP), underpinned by its solvency and liquidity assessments of 'aaa' and a 'medium' risk business environment. The Stable Outlook reflects our view that the SCP will remain consistent with IDB Invest's 'AAA' rating over the medium term. Moderation of growth in banking exposures and capital transfers from Inter-American Development Bank (IADB; AAA/Stable) will support the bank's 'excellent' capitalisation assessment, albeit with reduced buffers relative to pre-pandemic levels.

Excellent Capitalisation, Reduced Buffers: IDB Invest's 'excellent' capitalisation reflects its 'excellent' Fitch's usable capital to risk-weighted assets (FRA) ratio (44.2% at end-September 2022) and 'excellent' equity/assets ratio (33.2%). Both capital ratios have declined significantly since 2020, partly as a result of the bank's policy response to the coronavirus pandemic. Fitch expects further declines, but for the FRA and equity/assets ratio to remain above the 'excellent' thresholds of 35% and 25%, respectively.

Potential New Capital Increase: In March 2022, IADB's board of governors approved a roadmap for a series of institutional reforms for the IADB Group and mandated a proposal for a capital increase for IDB Invest, the private-sector arm. The capital increase is being considered along with changes to the bank's business model. This follows the consolidation of the group's private sector activities into IDB Invest since 2016 and a USD2 billion capital increase, with payments scheduled through 2025.

As of end-December 2022, IDB Invest had received 91% of total Annex A payments (USD1.3 billion), which represent new capital contributions from existing shareholders that form part of the USD2 billion capital increase approved in 2015. The balance relates to Annex B payments (USD0.7 billion), for which there is a schedule for annual transfers from IADB.

Robust Asset Performance: Non-performing loans (NPLs) have been low compared with private sector-focused peers, reflecting robust asset performance and strong underwriting standards. The NPL ratio was 0.5% as of end-September 2022, consistent a with a 'very low' risk assessment (below 1%) and in line with the trend in recent years. Fitch expects an uptick in NPLs as the loan portfolio seasons and against the backdrop of weaker macroeconomic and financial conditions for its borrowers, but for it to remain at a 'low' level (1-3%).

Increased Credit Risk Transfers: Since 2020, IDB Invest has had recourse to unfunded credit protection to mobilise private capital and transfer the credit risk on a portion of the bank's loan portfolio (19.6% of loans and guarantees were covered as of end-September 2022) to highly-rated insurers. Fitch factors the impact of these schemes in its assessment of credit risk and this has led to an improvement of the weighted average rating of loans and guarantees (WARLG) to 'BB' as of end-September 2022, from 'BB-' in recent years.

The WARLG also reflects stability of the credit quality of the bank's borrowers as well as the focus of lending to relatively highly-rated private sector borrowers in Latin America and the Caribbean, including large exposure to financial institutions (47% of total loans). Nevertheless, Fitch expects the WARLG to revert to 'BB-' over the medium term, which is higher than the average risk to private sector borrowers in the region.

Low Solvency Risks: The 'low' solvency assessment is also supported by the bank's 'very low' equity (4.6% of total banking exposure/TBE) 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 2022, the five largest banking exposures accounted for 10.8% of TBE, consistent with a 'very low' risk assessment.

Excellent Liquidity: Fitch assesses IDB Invest's liquidity at 'aaa'. As of end-September 2022, liquid assets (including discounted short-term trade finance loans) accounted for 212% of short-term debt, well above the minimum 'excellent' threshold (above 150%). The credit quality of treasury assets is 'excellent', with the bulk invested in 'AAA'-'AA' rated assets (86% of total). The bank's liquidity assessment is also supported by its increasing access to capital markets, with the bank raising USD2.5 billion in medium- and long-term bond issuances issues in 2022.

Medium Risk Business Environment: 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 strategy and private sector focus. In addition, our assessment captures the increased importance of the bank's policy mandate, as the largest private-sector focused multilateral development bank in Latin America and Caribbean, and its 'medium-risk' operating environment.

Mexico National Scale Rating: 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): Increased risk profile, potentially driven by higher levels of NPLs (above 3%), a decline in the average rating of loans and guarantees below 'BB-', and/or increased equity risk.

- 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 ratings in conjunction with other factors.

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 AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
	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. 11 Apr 2022) (including rating assumption sensitivity)

Metodología de Calificación de Supranacionales (pub. 13 Jun 2022)

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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