Fitch Affirms IDB Invest at 'AAA'; Outlook Stable

Wed 25 Jan, 2023 - 11:11 AM ET

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 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**

<table>
<thead>
<tr>
<th>ENTITY / DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Investment Corporation (IDB Invest)</td>
<td>LT IDR AAA Rating Outlook Stable Affirmed</td>
<td>AAA Rating Outlook Stable</td>
</tr>
<tr>
<td>ST IDR F1+ Affirmed</td>
<td></td>
<td>F1+</td>
</tr>
<tr>
<td>senior unsecured LT AAA Affirmed</td>
<td></td>
<td>AAA</td>
</tr>
<tr>
<td>senior unsecured Natl LT AAA(mex) Affirmed</td>
<td></td>
<td>AAA(mex)</td>
</tr>
</tbody>
</table>

**VIEW ADDITIONAL RATING DETAILS**

**FITCH RATINGS ANALYSTS**

Enrique Bernardez, CFA
Director
Primary Rating Analyst
+44 20 3530 1964
enrique.bernardez@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Theresa Paiz-Fredel
Senior Director
Secondary Rating Analyst
+1 212 908 0534
theresa.paiz-fredel@fitchratings.com

Carlos Masip
Senior Director
Committee Chairperson
+34 91 702 5773
carlos.masip@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-
party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not
a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.
The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

**ENDORSEMENT POLICY**

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s [Regulatory Affairs](https://www.fitchratings.com) page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.