

CREDIT OPINION

28 March 2023

Update

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RATINGS

IDB Invest

	Rating	Outlook
Long-term Issuer	Aa1	STA
Short-term Issuer	P-1	--

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Inter-American Investment Corporation – Aa1 stable

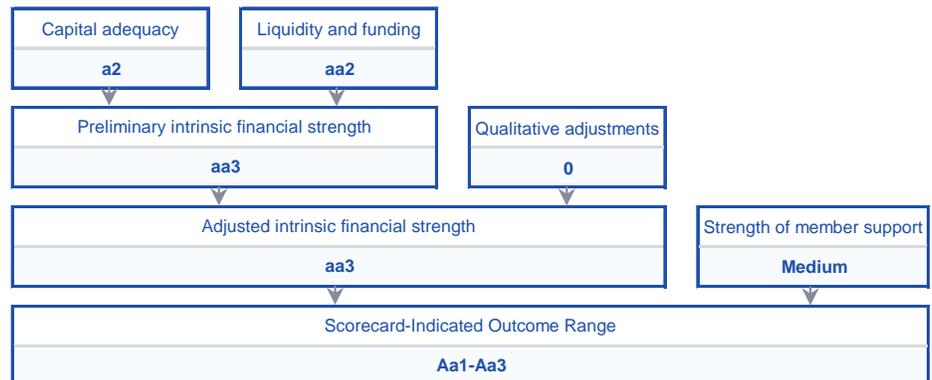
Regular update

Summary

The [Inter-American Investment Corporation's](#) (IDB Invest) credit profile reflects its robust capitalization and strong asset performance in the context of its private-sector focus. The institution's close relationship with the [Inter-American Development Bank](#) (IADB, Aaa stable) also supports the credit profile. IDB Invest's conservative risk-management practices keep its capital adequacy and liquidity ratios strong.

Exhibit 1

IDB Invest's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

- » Strong capital position supported by moderate leverage ratio
- » Robust asset performance despite its private-sector focus
- » Strong liquidity coverage and market funding access

Credit challenges

- » Lending without sovereign guarantees to the private sector
- » Moderate concentration risks stemming from the portfolio

Rating outlook

The stable rating outlook reflects our view that IDB Invest will effectively manage credit risks emerging from a sometimes difficult operating environment. The outlook also incorporates our expectation that as IDB Invest reaches a new steady state at its higher lending capacity, leverage will stabilize over the coming years well within its own policy limits. We also expect members to continue to demonstrate their support for IDB Invest because of the IADB group's focus on private-sector development in Latin America.

Factors that could lead to an upgrade

Upward rating pressure is limited by the difficult operating environment in which IDB Invest carries out its lending and investment activities, in addition to potential risks from its private sector-focused operations. Although unlikely, the introduction of callable capital as an additional backstop for investors would enhance IDB Invest's credit profile.

Factors that could lead to a downgrade

Downward rating pressure would emerge if there were significant credit losses, for instance, from a more acutely difficult operating environment that substantially limits IDB Invest's financial performance or a weakening of support from IADB or its highly rated shareholders. A sharp deterioration in capital adequacy as a result of an excessive increase in leverage would weigh on its credit profile.

Key indicators

Exhibit 2

IDB Invest	2017	2018	2019	2020	2021	2022
Total Assets (USD million)	2,185.4	3,209.3	3,899.8	6,424.3	7,551.4	9,401.2
Development-related Assets (DRA) / Usable Equity [1]	70.2	96.5	125.1	206.7	225.7	217.8
Non-Performing Assets / DRA	0.9	0.7	0.6	0.4	0.3	0.4
Return on Average Assets	0.8	0.9	1.2	0.1	1.9	1.2
Liquid Assets / ST Debt + CMLTD	5,861.1	290.0	5,497.1	248.1	178.7	229.8
Liquid Assets / Total Assets	54.6	45.8	34.9	33.0	25.9	27.5
Callable Capital / Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Investors Service

Profile

IDB Invest was established in 1986 as a separate legal entity within the IADB Group. It has its own governance structure, including a separate Board of Governors, Board of Executive Directors, management, and staff. IDB Invest is owned by 48 member countries, which include 26 developing countries in Latin America and the Caribbean (LAC). Voting power is proportional to each member's paid-in shares.

The purpose of IDB Invest is to promote the economic development of its Regional Developing Member Countries by encouraging the establishment, expansion, and modernization of private sector projects in LAC that do not benefit from a sovereign guarantee and that aim to bolster competitiveness, inclusive economic growth, and sustainable practices. Since 2016, IDB Invest manages all private sector operational and administrative functions for the IADB Group to better serve and maximize development impact for clients and partners in LAC. IDB Invest provides financing through loans, guarantees, investments in debt securities, and equity investments where sufficient capital is not otherwise available on adequate terms in the market. IDB Invest also arranges financing from other investors through loan participations, co-financing arrangements, and unfunded participations. In addition, IDB Invest provides financial and technical advisory services to its clients.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding, and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: a2

Our "a2" capital adequacy score for IDB Invest reflects its moderate leverage and strong asset performance, which balance its exposure to riskier development-related assets (DRA). Other MDBs with the same capital adequacy score are [Fondo Latinoamericano de Reservas](#) (FLAR, Aa2 stable) and the Central American Bank for Economic Integration (CABEL, Aa3 stable).

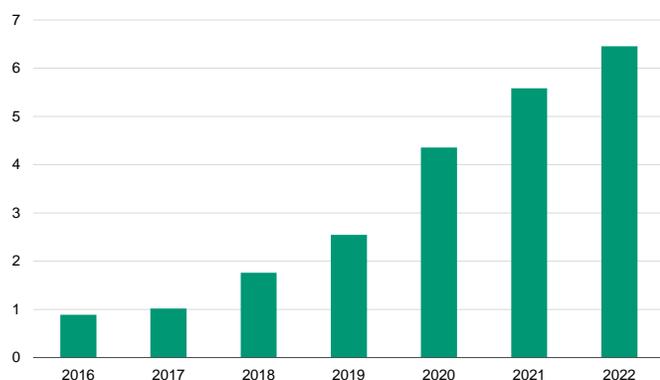
After pandemic-driven increase in development operations, leverage is stabilizing

Since 2016, the IADB group's renewed vision for its private-sector activities has been accompanied by a general capital increase (GCI) that will more than triple its equity by 2025. However, IDB Invest's DRA have also grown rapidly. The increase in development operations has been pronounced in response to the coronavirus pandemic, with DRA of \$4.4 billion in 2020, \$5.6 billion in 2021 and \$6.5 billion in 2022, well above the \$1 billion average for DRA between 2012 and 2017 (see Exhibit 3). The expansion of IDB Invest's loan book has contributed to an increase in its leverage ratio — determined as DRA/usable equity — to 221% in 2022, down from 227% in 2021, but still significantly higher than 125% in 2019 (see Exhibit 4). A significant portion of this increase is attributed to pandemic-related support measures for the private sector in the LAC region. However, as IDB Invest reaches a new steady state of lending, we expect this ratio to remain broadly stable in the coming years, supporting a more moderate capital position.

Exhibit 3

DRA have drastically increased since 2016

DRA in \$ billion

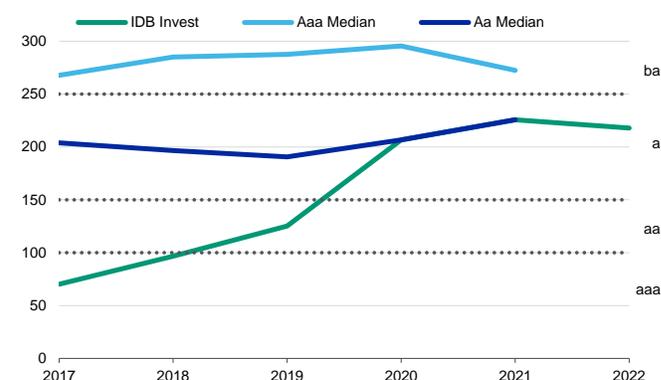


Sources: IDB Invest and Moody's Investors Service

Exhibit 4

IDB Invest's leverage will stabilize following increase related to larger mandate

DRA/usable equity (%)



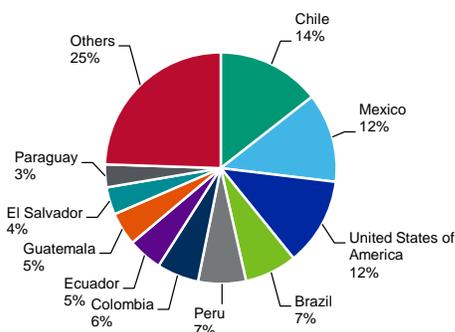
Aa and Aaa medians only available until 2021 because not all rated MDBs have published their 2022 financial statements.

Sources: IDB Invest and Moody's Investors Service

Asset quality remains moderate despite exposure to private sector

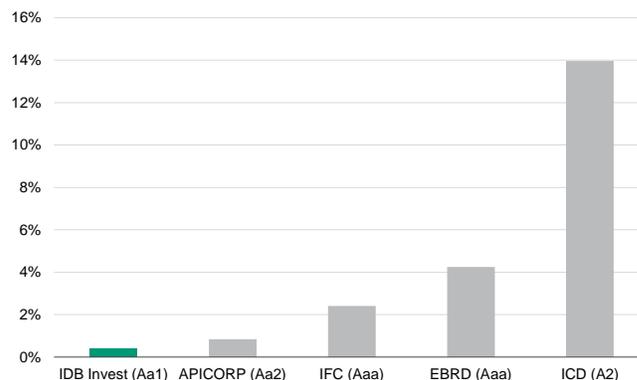
We assess IDB Invest's development assets' credit quality (DACQ) as "ba" given the risks derived from its regional mandate and from the market segment it serves. These risks are the greatest challenges that IDB Invest faces and it mitigates them through its risk management policies and practices. The starting point of our analysis of IDB Invest's DACQ is the weighted average borrower rating (WABR) of its loan book, which was Ba3 as of 31 December 2022, the same level as 2020. In 2022, IDB Invest's loans and securities investments accounted for 95.6% of DRA, with equity investments of just 4.4% of total DRA. In terms of portfolio concentration, IDB Invest has maintained a well-distributed portfolio by country. The Herfindahl-Hirschman Index for country exposure was 7.6% in 2022, up from 7% in 2021, with only [Brazil](#) (Ba2 stable) and [Mexico](#) (Baa2 stable) consistently in the top five country exposures in recent years (see Exhibit 5). In terms of sector concentration, IDB Invest has also further diversified its development assets.

Exhibit 5
DRA exposures by country
Percentage of DRA, 2022



Sources: IDB Invest and Moody's Investors Service

Exhibit 6
NPA compare favorably with peers with similar mandate
NPA % (three-year average, latest)



Sources: IDB Invest and Moody's Investors Service

Asset performance remains strong despite marginal rise in pandemic-related NPLs

IDB Invest's asset performance is very strong, as reflected in our score of "aaa" for this metric. We assess an MDB's asset performance by taking into account nonperforming assets/total DRA (NPA ratio), which includes nonperforming loans (NPLs), losses on equity investments and called guarantees. Despite weaker economic growth in Latin America over the past five years, IDB Invest's NPLs have remained broadly stable as NPLs averaged \$18.5 million in 2020-22 from \$14.5 million in 2019. In 2022, IDB Invest recorded a loss on an equity investment for \$6.95 million, with no such losses in 2018-21.

Since 2014, the NPA ratio has been improving because of a combination of rapid DRA growth and stable NPA, reaching 0.4% in 2022 and a three-year average of 0.4%. Asset performance remains stronger than other MDBs with similar missions (see Exhibit 6); for example, the NPA ratio of the [International Finance Corporation](#) (Aaa stable) was 0.8% in 2022.

IDB Invest's strong asset performance has been driven by its capital adequacy policies, which have guided a prudent expansion in the institution's operations and contributed to improvements in its credit risk management. During the pandemic, IDB Invest's management reviewed its project pipeline on a country-by-country basis, implementing differentiated limits for long- and short-term transactions. It also used stress testing to identify potential losses.

FACTOR 2: Liquidity and funding score: aa2

IDB Invest's "aa2" liquidity and funding score is supported by strong liquidity coverage that we assess at "aa1" and a quality of funding assessment of "aa." Other MDBs with a similar score for liquidity and funding include the [Council of Europe Development Bank](#) (Aaa stable), CABEL and the [Caribbean Development Bank](#) (Aa1 stable).

Liquidity coverage is strong because of favorable maturity profile and strong liquidity policy

IDB Invest's liquidity coverage is strong enough to withstand a stress scenario, which would include the bank not being able to access financial markets and members suspending their capital contributions. The institution's liquid resources ratio — which compares the size of its high-quality liquid assets with its net outflows from uninterrupted net loan disbursements, debt repayment and administrative costs — shows that it holds enough assets to enable it to function for more than 18 months. However, IDB Invest's liquidity is stronger than is indicated by this ratio for several reasons. During a severe stress scenario, it could access its contingent credit line with IADB (for which we include a positive adjustment). Additionally, IDB Invest has consistently exceeded the minimum liquidity coverage ratio of 105% (which includes a 5% buffer), as required by the liquidity policy framework that IDB Invest implemented in December 2017 and updated in March 2021.

Changing borrowing patterns will smooth out debt-service coverage ratio

IDB Invest's increased debt issuance in the past four years has changed the structure of its maturity profile. Before the expansion of activities and borrowing, its amortization schedule was somewhat uneven, with larger maturities only occurring every other year since 2014. Moreover, even during years when larger maturities were due, liquid assets amounted to more than double the amount of short-

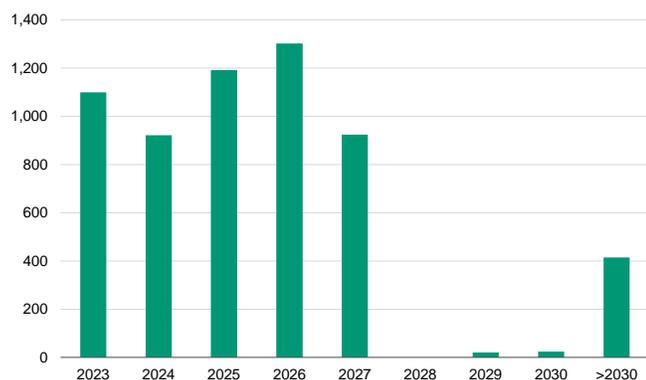
term and maturing long-term debt due during the next 12 months. The higher frequency and size of issuances have led to a smoother maturity profile (see Exhibit 7). While most debt falls due within the one- to five-year range, IDB Invest has extended maturities to 20 years. We expect IDB Invest to maintain its strong debt-service coverage and its liquidity to become more stable.

Thematic bond issuance continues to increase

A core element of IDB Invest's work in recent years has been the issuance of thematic bonds that fall into three categories: sustainable, social and green. IDB Invest issued \$2.1 billion in sustainable bonds in 2022, setting a record. Sustainability bonds currently make up a little more than half of outstanding thematic borrowings at 54%, followed by 34% for social bonds and 12% for green bonds (see Exhibit 8).

Exhibit 7

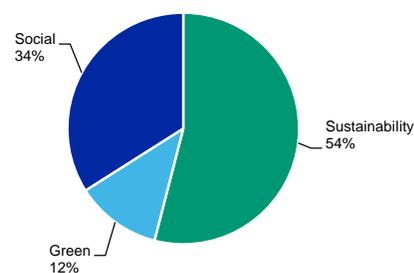
Maturity profile will be smoother as IDB Invest borrows more \$ million, maturities



Sources: IDB Invest and Moody's Investors Service

Exhibit 8

Outstanding borrowings by theme Percentage of total



Sources: IDB Invest and Moody's Investors Service

Liquid assets have a short duration and are of high quality and diversified

Because of its liquidity policy, IDB Invest manages its treasury portfolio to be able to rapidly mobilize its resources. Total liquid resources in 2022 amounted to \$2.6 billion, of which 62% were investment securities and 38% money market investments. Nearly 78% of the investment securities had a duration of less than one year, and the rest of the portfolio has a duration of between one and five years. The liquidity portfolio is diversified by geography.

Strong market access at favorable terms and growing market diversification

The pandemic-driven rapid expansion of IDB Invest's DRA reflects a significant shift in its borrowing strategy, with much larger authorized borrowing amounts in recent years. While larger issuances have remained primarily in the US dollar market, IDB Invest maintains a presence in regional markets and has also begun issuing in Australian dollars and euros. The introduction of the global bond program will enable IDB Invest to expand its presence in other major currency markets.

This is leading to increased diversification of its borrowings not only in terms of currency but also in the geography and type of investor. More than half of its bonds are held by central banks and other official institutions, followed by banks and asset managers.

The introduction of IDB Invest's sustainable debt framework in early 2021 also contributed to an increase in ESG-related issuances. This, in addition to the more diversified investor base, has contributed to a tightening of the spread in its issuances relative to Aaa-rated MDBs, thus lowering its borrowing costs and demonstrating IDB Invest's strong market access.

Qualitative adjustments to intrinsic financial strength

Operating environment

We do not apply an adjustment for the operating environment. Although parts of the LAC region could face macroeconomic challenges, especially given IDB Invest's private-sector focus, we do not expect it to face additional risks that could significantly weigh on its credit metrics beyond what the intrinsic financial strength ratios already capture.

Quality of management

While we also do not apply an adjustment for the quality of management, IDB Invest has continued to strengthen its financial strategy and risk management practices, particularly in the context of the consolidation of the IADB group's private-sector operations. Following the introduction of the Financial Risk Management Framework (FRF) in 2017, which included risk appetite, capital adequacy and liquidity policies, IDB Invest's board of directors approved further enhancements to the FRF in 2021. These included limits based on exposure, a reduction in single-name limits for equity and quasi-equity, a reduction in limits for financial institutions, the establishment of a capital buffer of 10%, increased reporting frequency and an improved stress-testing regime and action plans. These risk policies provide a strong governance framework for IDB Invest and, given strong compliance with these limits, support our expectation that IDB Invest's financial metrics are highly likely to remain very strong.

FACTOR 3: Strength of member support score: Medium

Our assessment of IDB Invest's strength of member support is "Medium," adjusted up by one notch from "Low." Other MDBs with the same strength of member support include CABEL and FLAR.

This assessment incorporates the absence of members' contractual obligations in the form of callable capital but a very strong willingness of members to provide non-contractual support, as exemplified by the shareholders' support for the second GCI (GCI-II) process and IDB Invest's expanded mandate. The members' ability to provide support is higher than what is implied by the weighted average shareholder rating (WASR) metric.

IDB Invest's GCIs and expanded mandate demonstrate members' strong willingness to provide support...

Since IDB Invest was first established in 1986 with initial paid-in capital of \$200 million, it has received several selective capital increases to allow the entry of new members and capital reallocations. In 1999, it received a \$500 million GCI. In 2015, IDB Invest's board of governors approved GCI-II to increase the organization's authorized capital stock by \$2.03 billion. Shares issued as part of GCI-II were sold at 62% above their nominal value, with the result that, as of year-end 2022, IDB Invest had received capital payments for \$1.2 billion. IDB Invest's paid-in capital will further increase to \$2.7 billion by 2025 as a result of this capital increase, with fresh contributions accounting for two-thirds of the increase and IADB transfers on behalf of its member countries the remainder.

Overall, IDB Invest's shareholders' decision to expand the mandate and support the GCI-II process demonstrates their strong willingness to provide non-contractual support. In the context of the GCI-II, the [United States of America](#) (Aaa stable) remains the largest shareholder based on its paid-in capital and will therefore retain the largest voting power on IDB Invest's board. [Canada](#) (Aaa stable), [China](#) (A1 stable) and [Korea](#) (Aa2 stable) will see their shareholding increase as a result of the GCI-II process and will become part of the top 10 shareholders. [Croatia](#) (Baa2 stable) and [Slovenia](#) (A3 stable) became full members in April 2019, while the [United Kingdom](#) (Aa3 negative) became the 48th member on 1 March 2023.

...but ability to support is moderate given the average credit quality of members

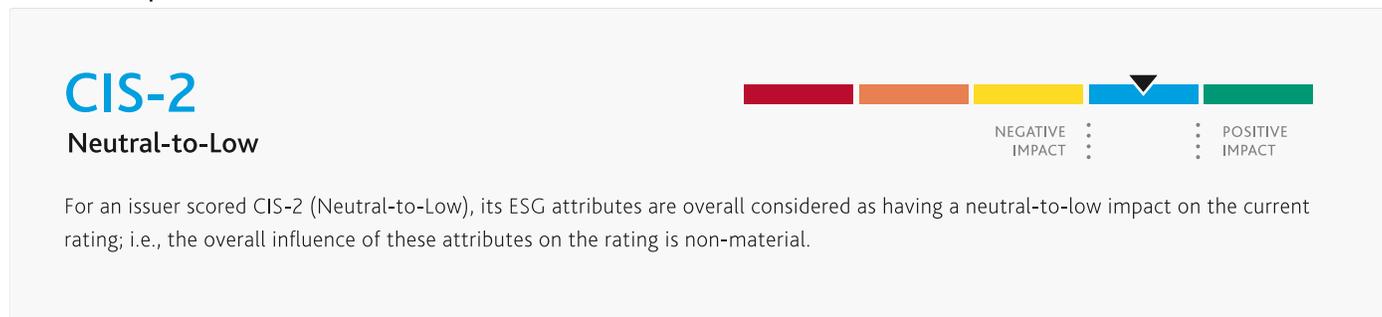
IDB Invest's member base has a moderate ability to provide support, as reflected by a WASR of Ba2, down from Baa3 in 2017. One factor that has particularly weighed on this metric in the past few years has been the volatility in the ratings of [Argentina](#) (Ca stable) and [Venezuela](#) (C stable), which weakened the WASR given their important shares at 11.5% and 6.3% of total subscribed capital, respectively. Notwithstanding Argentina's and [Ecuador's](#) (Caa3 stable) rating downgrades in recent years, these governments have made their paid-in capital payments on time, demonstrating their willingness and ability to support IDB Invest despite their own macroeconomic challenges.

ESG considerations

Inter-American Investment Corporation's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9

ESG Credit Impact Score



Source: Moody's Investors Service

IDB Invest's neutral-to-low credit impact score (**CIS-2**) reflects neutral-to-low exposures to environmental, social and governance risks. Despite the moderate exposure to environmental and social risks of the countries where it operates, IDB Invest's operations within the private sector contribute to the development of the LAC region, enhancing its importance to shareholders. Governance at IDB Invest has strengthened over the past several years, as it has been able to prudently manage credit risks that could have stemmed from a rapidly growing development portfolio in line with its expanded mandate.

Exhibit 10

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

IDB Invest's neutral-to-low environmental issuer profile score (**E-2**) balances the overall exposure to environmental risks of its borrowers in Latin America and the Caribbean and its development operations related to renewable energy and climate risk mitigation projects supporting carbon transition goals in the region.

Social

IDB Invest has a neutral-to-low social issuer profile score (**S-2**), with strong customer relations delivering important financing products for private sector development in Latin America and the Caribbean. Additionally, it demonstrates a high degree of responsible production by providing instruments to its clients that enhance its impact on socioeconomic development, including the issuance of social bonds in domestic markets to serve as benchmarks for local issuers.

Governance

IDB Invest's neutral-to-low governance issuer profile score (**G-2**) reflects its prudent risk management practices that translate into strong credit metrics, in particular asset performance, given its exposure to private sector operations in Latin America.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).

Recent developments

High level of development activity continued in 2022

IDB Invest led the IADB group's private-sector activities that reached \$8.3 billion in 2022, down from \$8.8 billion in 2021 but still at a very high level. The 2022 breakdown of activities included \$5.2 billion in net own-account — \$2.7 billion in medium- and long-term commitments and \$3.9 billion in short-term commitments — and \$3.1 billion in core mobilization. The cross-booking of private-sector activities with IADB ended in 2022. IDB Invest will continue to manage these operations for the whole group as part of its expanded mandate.

We expect the expansion of DRA to continue over the coming years but at a lower rate than in 2020-22. This, combined with the increase in equity as the GCI-II process continues through 2025, will lead to the stabilization of the leverage ratio at levels close to the 230%-250% range, well within IDB Invest's leverage limit.

Moreover, during the IADB group's annual meeting in March 2023, IDB Invest received the mandate to develop a capitalization proposal to implement the new vision and business model that would allow it to scale its level of investment and impact across LAC.

ESG-related issuances were the main source of funding in 2022

Last year, IDB Invest issued its first benchmark-sized \$1 billion sustainability bond and its inaugural euro-denominated social bond for €650 million. Additionally, IDB Invest has continued to extend its maturity profile with the issuance of two Australian dollar-denominated blue bonds with 15- and 20-year maturities and a 10-year social (silver economy) bond. The issuance in regional markets also continued in 2022, with a social bond issuance in Mexico, and two others in Paraguay and Trinidad and Tobago. In 2022, IDB Invest also launched a report to show the allocation and impact of their borrowings.

Rating methodology and scorecard factors: IDB Invest - Aa1 stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			a2	a2
Capital position (20%)			a3	
	Leverage ratio	a3		
	Trend	0		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			ba	
	DACQ assessment	ba		
	Trend	0		
Asset performance (20%)			aaa	
	Non-performing assets	aaa		
	Trend	0		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			aa2	aa2
Liquid resources (10%)			aa1	
	Availability of liquid resources	aa2		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	+1		
Quality of funding (40%)			aa	
Preliminary intrinsic financial strength				aa3
Other adjustments				0
Operating environment		0		
Quality of management		0		
Adjusted intrinsic financial strength				aa3
Factor 3: Strength of member support (+3,+2,+1,0)			Low	Medium
Ability to support (50%)			ba2	
	Weighted average shareholder rating	ba2		
Willingness to support (50%)				
	Contractual support (25%)	ca	ca	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range				Aa1-Aa3
Rating Assigned				Aa1

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Related websites and information sources

- » [Moody's Supranational web page](#)
- » [Moody's Sovereign and supranational rating list](#)
- » [IDB Invest web page](#)

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