



RATING ACTION COMMENTARY

Fitch Affirms IDB Invest at 'AAA'; Outlook Stable

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Fitch Ratings - London - 19 Jan 2024: 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, aaa), underpinned by its solvency and liquidity assessments of 'aaa' and a 'medium' risk business environment. The Stable Outlook reflects our view that IDB Invest's SCP will remain consistent with its 'AAA' rating over the medium term. Moderation of growth in banking exposures and capital transfers from Inter-American Development Bank (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 (42.0% at end-September 2023) and 'excellent' equity/assets ratio (29.7%). Both capital ratios have declined significantly since 2020, partly as a result of the bank's policy response to the pandemic. Fitch expects both ratios to further decline but remain above the 'excellent' thresholds of 35% and 25%, respectively.

Capital Increase to Support Growth: IDB Invest is in the process of seeking additional capital from its shareholders in 2024, with plans to be submitted for the governor's approval in early 2024, to support the bank's transition to its new business model (IDB Invest 2.0). The previous, on-going capital increase (approved in 2015) is almost 90% paid.

Fitch notes that the non-paid shares of Venezuela (USD123 million) have been reallocated to other shareholders.

NPLs Increase But Remain 'Low': Non-performing loans (NPLs) increased to 2.3% as of end-September 2023 (vs. 0.5% at end-September 2022). IDB Invest's NPL rate is 'low' compared with other private sector-focused peers, but the increase relative to last year reflects two NPLs originated from Chile (A-/Stable) and Brazil (BB/Stable). Given the weaker macroeconomic and financial conditions in the region, Fitch expects NPLs to stay high in the next years but for the overall level to remain in the 'low' threshold (defined as 1-3% of total loans).

Risk Transfers Support Credit Risk: Since 2020, IDB Invest has had recourse to unfunded credit protection (UCP) to mobilise private capital and transfer the credit risk on a portion of the bank's loan portfolio (17% as of end-September 2023) to highly-rated insurers. When assessing the credit risk of IDB Invest's operations, Fitch applies a six-notch uplift to the credit quality of the exposures covered by UCP. UCP has supported the bank's weighted average rating of loans and guarantees (WARLG) at 'BB' as of end-September 2023, unchanged from last year.

The WARLG also reflects the stability of the credit quality of the bank's borrowers as well as the lending focus to relatively highly-rated private sector borrowers in Latin America and the Caribbean, including large exposure to financial institutions (52% of total loans). Fitch expects the WARLG to be maintained at 'BB' over the medium term.

'Low' Risks: Fitch assesses IDB Invest's risk as 'low'. This is supported by the bank's 'very low' equity (4.1% 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 2023, the five largest banking exposures accounted for 11.4% of TBE, consistent with a 'very low' risk assessment.

Excellent Liquidity: Fitch assesses IDB Invest's liquidity at 'aaa'. As of end-September 2023, liquid assets (including discounted short-term trade finance loans) increased to 488.3% 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 (87.1% of total). The bank's liquidity assessment is also supported by its increasing access to capital markets. The bank raised USD2.3 billion in medium- and long-term bond issuances issues in 2023.

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 negative rating action/downgrade:

- **Solvency (Credit Risk):** Increased credit risk, potentially driven by sustained higher levels of NPLs (above 3%) and/or a decline in the average rating of loans and guarantees below the 'BB' category.
- **Solvency (Capitalisation):** Decline in capitalisation metrics beyond Fitch's current expectations; with an FRA ratio close to or below 35% and/or an equity to assets and guarantees ratio sustained at a level close to or below 25%. This could be driven by losses, rapid growth in banking operations, and/or a significant increase in risk-weighted assets.
- **Business Environment (Operating Environment):** Significant deterioration in the macroeconomic and political environment in the bank's countries of operations in Latin America, which impacts Fitch's 'medium risk' operating environment assessment.

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.

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Inter-American Investment Corporation (IDB Invest)	LT IDR	AAA Rating Outlook Stable		AAA Rating Outlook Stable
	Affirmed			
	ST IDR	F1+	Affirmed	F1+

senior unsecured

LT

AAA

Affirmed

AAA

senior unsecured

Nat'l LT

AAA(mex)

Affirmed

AAA(mex)

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Khamro Ruziev, CFA**

Director

Primary Rating Analyst

+44 20 3530 1813

khamro.ruziev@fitchratings.com

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf London E14 5GN

Nick Perry

Director

Secondary Rating Analyst

+44 20 3530 2727

nick.perry@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**

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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 \(pub. 11 Apr 2023\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación de Supranacionales \(pub. 12 May 2023\)](#)

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UK Issued, EU Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade

scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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