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Ratings

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IDB Invest

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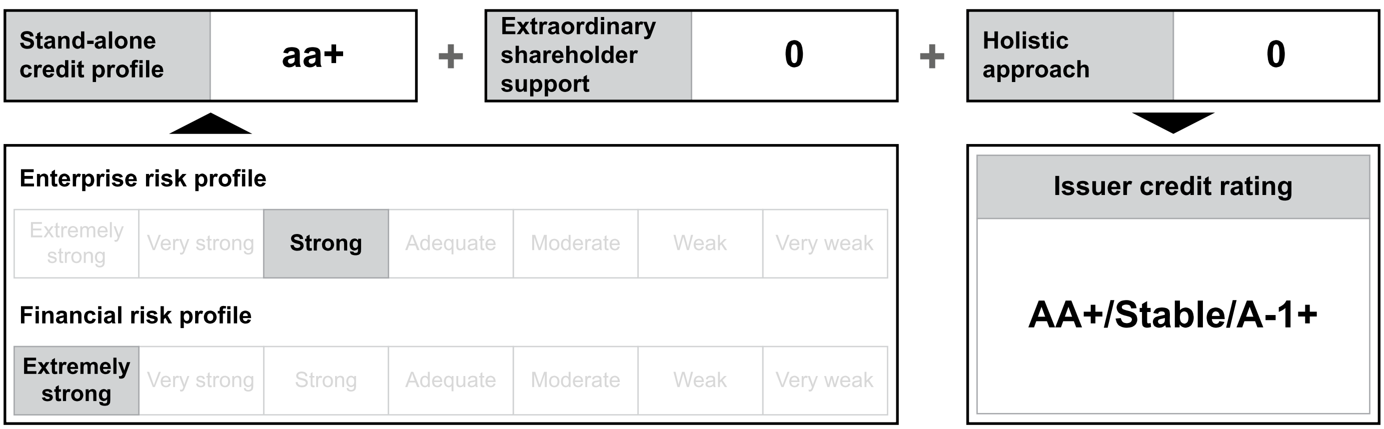
IDB Invest

This report does not constitute a rating action.

Ratings Score Snapshot

Issuer Credit Rating
Foreign Currency
AA+/Stable/A-1+
CaVal (Mexico) National Scale
mxAAA/Stable/--



Credit Highlights

Overview

Enterprise risk profile	Financial risk profile
Fulfilling expanded mandate to manage all private-sector lending within the IDB Group	Extremely strong capital and robust liquidity buffers
Governors have expressed support for exploring a capitalization proposal to expand the mandate	We expect some use of capital as it consolidates lending, although we expect the risk-adjusted capital ratio to remain above 23%
Increasing membership base and generally timely capital payments	Excellent asset quality metrics due to limited exposure to high-risk sectors and good risk management oversight
Sound governance system, with strengthened operational and risk capabilities	Strong liquidity, with sufficient buffers to support increased disbursements

In S&P Global Ratings' view, IDB Invest has successfully implemented its expanded mandate over the last seven years. The bank has been implementing its business plan following approval of a 2015 reorganization and the implementation of an expanded mandate to manage all private-sector lending within the Inter-American Development Bank (IADB) group. The institution, in our view, is now consolidating its expanded mandate with an annual approval level of approximately $4.75 billion, supported by a reorganization that has included efforts to increase staff and grow its regional presence. We also believe IDB Invest has demonstrated robust operational and risk capabilities, evidenced by excellent financial and nonfinancial risk management.

During the annual meetings in March 2023, the IDB Group's board of governors mandated the development of a capital increase proposal, which in our view could translate to a meaningfully larger institution with a wider reach that could lead to a stronger policy importance. At the same time, we think that the proposed capital increase indicates robust shareholder support and an endorsement of the institution's success and importance in recent years. IDB Invest also received a significant amount of capital in 2022, and various countries that were in arrears are now current, except for Venezuela. Following the rules laid out in the 2015 Busan resolution, Venezuela's unpaid shares will be subject to allocation to other members in 2023. In addition, the U.K. joined the institution in 2023, becoming the 48th member.

We expect that IDB Invest will continue to keep its financial risk profile at our highest level, supported by extremely strong capitalization. As of December 2022, IDB Invest's risk-adjusted capital (RAC) ratio was 34%. While it could use some capital as the institution continues to consolidate its lending--combined with limited capital payments coming due as it reaches the conclusion of its 2015 capitalization--we think it will manage this prudently and keep the RAC ratio above the 23% threshold. Asset quality remains excellent, with nonperforming loans (NPLs) less than 1%. At the same time, IDB Invest has robust liquidity buffers and has developed a more comprehensive funding program. It's also diversifying in terms of tenor, markets, and currencies it issues in.

Outlook

The stable outlook reflects our view that over the next 24 months, IDB Invest will continue to execute its mandate and achieve its lending and developmental targets, and that shareholders will remain supportive. We expect IDB Invest will manage its private-sector portfolio conservatively and maintain asset quality. Similarly, we expect that its capital position will remain extremely strong and that the institution will maintain robust liquidity buffers.

Downside scenario

We could take a negative rating action if IDB Invest's financial metrics deteriorate markedly, for example because of insufficient capitalization to absorb new exposures or because of rapid buildup of large nonperforming assets (NPAs). If IDB Invest's enterprise risk worsens, either through weakening shareholder support or if its business consolidation experiences setbacks, we could also lower the rating.

Upside scenario

We could take a positive rating action if IDB Invest continues to build a record of conservative risk management practices through the credit cycle that could compensate for some potential agency risk in its shareholder structure. At the same time, if the bank's relevance and mandate strengthen further, illustrated by a larger balance sheet and additional capital increases, this could also prompt a positive rating action.

Environmental, Social, And Governance

IDB Invest is a private-sector lender in Latin America. Its largest exposures are to Chile, Mexico, Brazil, and Colombia. These are less vulnerable to natural disaster risk, on average, than other countries and regions.

Of its loans, 35% are to financial intermediaries, which tend to make less use of physical operating infrastructure but may have material indirect environmental exposure from their lending and investing activities. IDB Invest requires all financial institution borrowers to take mandatory environmental, social, and governance (ESG) training and encourages the rest of its clients to do so. It also invests in energy (20%), agribusiness (14%), and telecommunications and information technology (8%). Some of these borrowers may be exposed to higher environmental and social risks, particularly those in the energy sector, although IDB Invest has taken significant steps to manage its ESG risks.

The institution's development impact framework assesses environmental and social risks before and after projects are funded. It also has a comprehensive set of tools to measure its performance against key social and environmental objectives. These include various targets, such as at least 30% of its loan commitments addressing climate change and 30% of its long-term commitments having a gender component.

IDB Invest has a diverse ownership structure and robust governance system, though with a slightly higher concentration of borrowing member countries, combined with somewhat lower assessments in governance. We believe this is largely counterbalanced by a strong management team and conservative risk management practices.

Enterprise Risk Profile: Stronger Operational And Risk Capabilities Support Expanded Mandate

Policy importance: Promoting economic development of its Latin American and Caribbean (LAC) member countries through direct and indirect financing to the private sector.

Founded by international treaty in 1986 as a member of the IADB Group, IDB Invest's primary financing vehicle is loans. However, it also provides financing through debt securities and guarantees, and makes equity investments--although the latter represents a smaller share of assets. In 2015, IDB Invest embarked on a full-scale reorganization to manage all private-sector lending within the IADB group. The renewed mandate to strengthen the group's private-sector footprint broadens its lending activities to corporate and infrastructure sectors, and was accompanied by a $2.03 billion capital increase to support larger lending volumes. Shareholders committed to $1.3 billion over seven years (2016-2022) and $725 million in transfers from IADB Group on behalf of its shareholders from 2018-2025.

IDB Invest has demonstrated its franchise value and has become an important partner in key projects in the region, mobilizing third-party co-invested funds in IDB Invest projects. By the end of 2022, its total commitments were $6.6 billion. The share of loans to financial institutions decreased to 35% as of December 2022 from 69% as of year-end 2016, because the institution has promoted its infrastructure and energy financing. The share of loans to smaller member countries ("C&D countries," by its internal definition) was 42% as of year-end 2022, up from 23% as of year-end 2017. Core mobilization peaked at $3.1 billion in 2022. We believe its focus on private-sector mobilization underpins an important role that cannot be readily fulfilled by other private or domestic public institutions. IDB Invest has also taken over the entire management of IADB's private-sector assets, and its assets under management were $18.7 billion as of year-end 2022.

IDB Invest's larger presence in the region has been central to its expanded mandate. The number of offices in regional member countries rose to 26 (and 37% of the overall workforce) in 2022 from 15 (14% of the workforce) at the beginning of 2016. All of the four regional hubs in Argentina, Colombia, Panama, and Jamaica are fully operational. IDB Invest has also expanded into Guatemala, Guyana, Suriname, Belize, and Trinidad and Tobago, where it was not present previously.

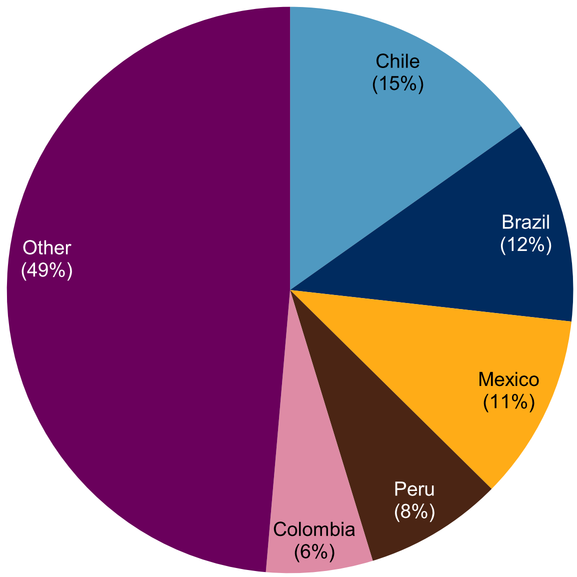
IDB Invest provided counter-cyclical support during the COVID-19 pandemic while also delivering on its core performance targets and institutional priorities. During the peak of the pandemic, it was able to significantly increase its lending portfolio, approvals, and planned disbursements. The net loan book increased by a significant 72% in 2020 and 26% in 2021. Consequently, we expect lending growth to moderate, and we think the institution has entered into a period of consolidation. We forecast an annual level of approvals of about $4.75 billion.

Shareholders remain very supportive of the institution, as illustrated during the 2023 annual meeting when the board of governors mandated the development of a capitalization proposal. The governors have expressed support for IDB Invest by mandating the development of a capitalization proposal to implement the new strategy and business model, which would allow IDB Invest to scale up its investments and impact across LAC countries. We expect IDB Invest to prepare an implementation plan to present to the board of executive directors in September 2023.

As of Jan. 31, 2023, all seven installments by member countries were fully paid, except for Venezuela. Countries that were previously in significant financial distress with the institution are now current. Shares of Venezuela amounting to $99.3 million are pending to be reallocated this year. Capital payments, which are transfers from IDB, are 78% paid-in with a total cumulative amount of $582 million.

Chart 1

IDB Invest--Five largest countries purpose-related exposures
As a percentage of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

As a fully specialized private-sector lender, IDB Invest doesn't benefit from preferred creditor treatment (PCT), which we only apply to sovereign exposures. Consequently, we do not incorporate PCT in our assessment of IDB Invest's enterprise risk. However, there is a track record of member governments affording preferential treatment by not restricting borrowers' access to foreign exchange for debt service or dividend payments to IDB Invest. We expect that as capital controls become more restrictive in Argentina, the government will continue to allow IDB Invest borrowers access to foreign exchange.

Governance and management expertise: Diverse and balanced composition of government shareholders along with well-established governance standards

IDB Invest has a diverse ownership structure with 48 government shareholders and no private-sector shareholders. Following IDB Invest's 2015 restructuring, shareholder concentration has been declining, although the voting power of regional borrowing members represents 54%, which is the minimum established by the Busan Resolution adopted by the board of governors. The U.S. is the largest shareholder (15%), followed by Argentina (12%), Brazil (11%), Mexico (8%), and China (5%), as of year-end 2022. The capital increase resulted in a redistribution of voting shares. U.S. shares were diluted, which was counterbalanced by other nonborrowing members (China, Canada, South Korea, and Spain) increasing their participation in the institution.

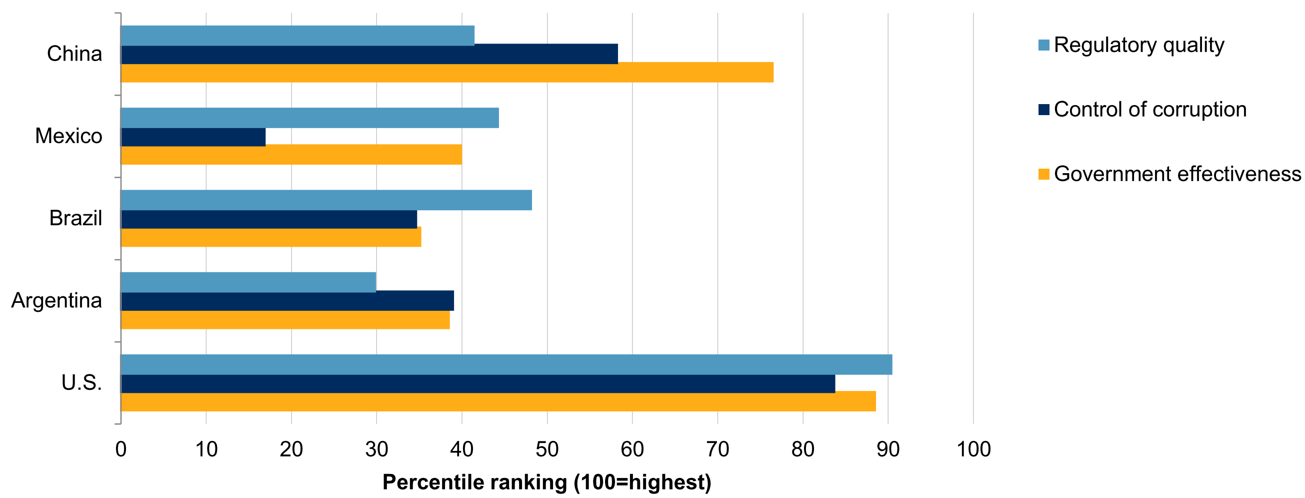
We think the institution generally has a robust governance system. However, the slightly larger concentration of regional member countries, combined with somewhat lower assessments in governance effectiveness, control of corruption, and regulatory quality, could be a source of agency risk.

We believe the institution has strengthened its risk management framework. To support its significant loan growth, IDB Invest retooled and upgraded its operational capabilities, risk practices, and systems. In our view, IDB Invest has been successful in implementing its business plan, as defined by its 10-year strategic framework. Key hires were completed in 2018, including the appointment of a new chief risk officer, the treasury division chief, and other critical roles throughout the organization. The resources it can draw from IADB are also a key strength and, in our view, support IDB Invest's management expertise in its major business lines and institutional continuity. The IDB Group's new president, Mr. Ilan Goldfajn, who took the role in December 2022, is also aligned with IDB Invest's new vison and business model.

Chart 2

Five largest shareholders

Selected World Bank governance indicators



Voting powers taken from Investor Presentation Q1 2023. Source: https://databank.worldbank.org/source/worldwide-governance-indicators.

Financial Risk Profile

Capital adequacy: We expect the capital ratio to be resilient

IDB Invest's RAC ratio improved to 34.1% as of Dec. 31, 2022, using parameters as of May 2023 and supported by capital from members over the past few years. As of April 2023, IDB Invest had received 92% of paid-in capital from all the seven installments of the capital increase for a total of $1.2 billion, except from Venezuela. Shares from Venezuela worth $99.3 million will be reallocated in 2023. Continued growth in outstanding loans could decrease the RAC ratio over the next few years, but we expect it to remain above our threshold for extremely strong capital adequacy because the institution targets an annual sustainable lending level and manages its capital according to its internal financial risk framework.

Asset quality metrics are strong, with lower NPLs than peers, particularly other private-sector lenders. The NPLs ratio remained stable at 0.5% as of year-end 2022 compared to last year. At the same time, IDB Invest's asset quality wasn't pressured during the COVID-19 pandemic, in part due to limited exposure to high-risk sectors such as retail and tourism, as well as the fact that 35% of its exposure is to well-capitalized financial institutions. The bank also has comprehensive risk management oversight.

Profitability remained strong in 2022, despite multiple global challenges related to high inflation, rising interest rates, and uncertainties about the Russia-Ukraine conflict. Net income was $104.6 million in 2022 compared to $130.9 million in 2021. During 2021, net income increased significantly from $6.9 million in 2020, supported by growth in loan portfolio and decrease in provisions for credit losses. Net income declined significantly in 2020 (84% drop from 2019) mainly because of an increase in provisioning for credit losses triggered by the COVID-19 pandemic and adoption of current expected credit losses (CECL) methodology.

Table 1

IDB Invest--RACF (Risk-Adjusted Capital Framework), data as of December 2022

(Mil. $)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	1,293	62	5
Institutions	3,358	2,645	79
Corporate	4,979	6,402	129
Retail			
Securitization	287	423	147
Other assets	0	0	0
Total credit risk	9,917	9,532	96
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	226	663	293
Trading book market risk		0	
Total market risk		663	
Operational risk			
Total operational risk		621	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		10,816	100
MLI adjustments			
Single name (on corporate exposures)		838	13
Sector (on corporate portfolio)		-485	-7
Geographic		-1,835	-17
Preferred creditor treatment (on sovereign exposures)		0	0

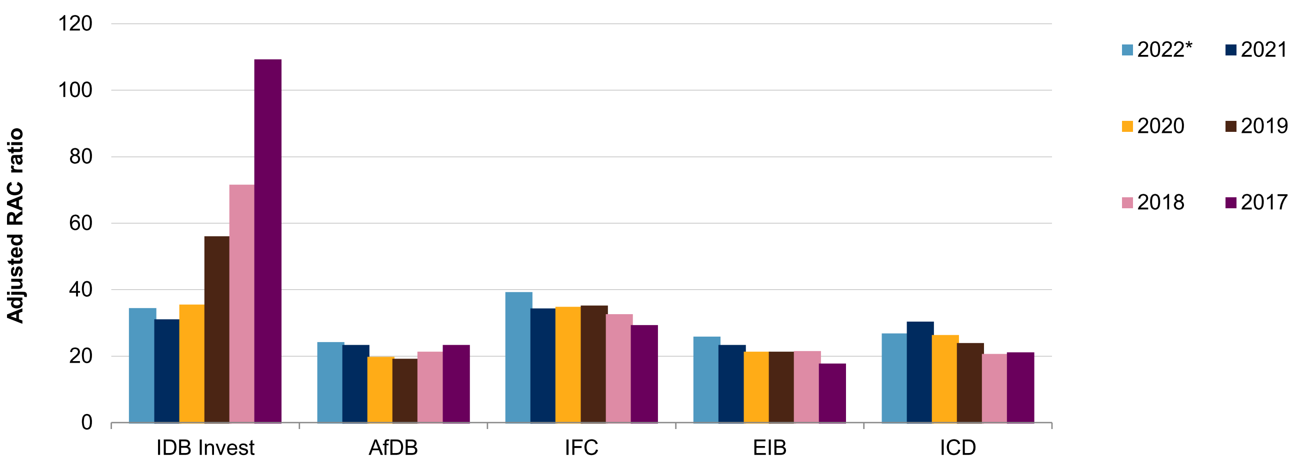
Table 1

IDB Invest--RACF (Risk-Adjusted Capital Framework), data as of December 2022 (cont.)		
Preferential treatment (on FI and corporate exposures)	-843	-9
Single name (on sovereign exposures)	0	0
Total MLI adjustments	-2,325	-21
RWA after MLI adjustments	8,491	79
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	2,898	26.8
Capital ratio after adjustments	2,898	34.1

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3

Risk-adjusted capital ratio peer comparison



*Data for EIB and ICD as of June 2022. Source: S&P Global Ratings.

Funding: We think IDB Invest has a conservative funding profile and is gradually expanding its capital market activities in local and international markets

The institution's total borrowing program for 2022 increased by more than 50% to $2.5 billion compared to $1.6 billion in 2021. In 2022, IDB Invest made the following inaugural issuances:

- A three-year $1 billion sustainability bond,
- A five-year €650 million ($649.8 million) social bond,
- Green bonds in the Australian market, and
- A 10-year A$103 million ($69.3 million) silver economy bond promoting the financial inclusion of senior citizens.

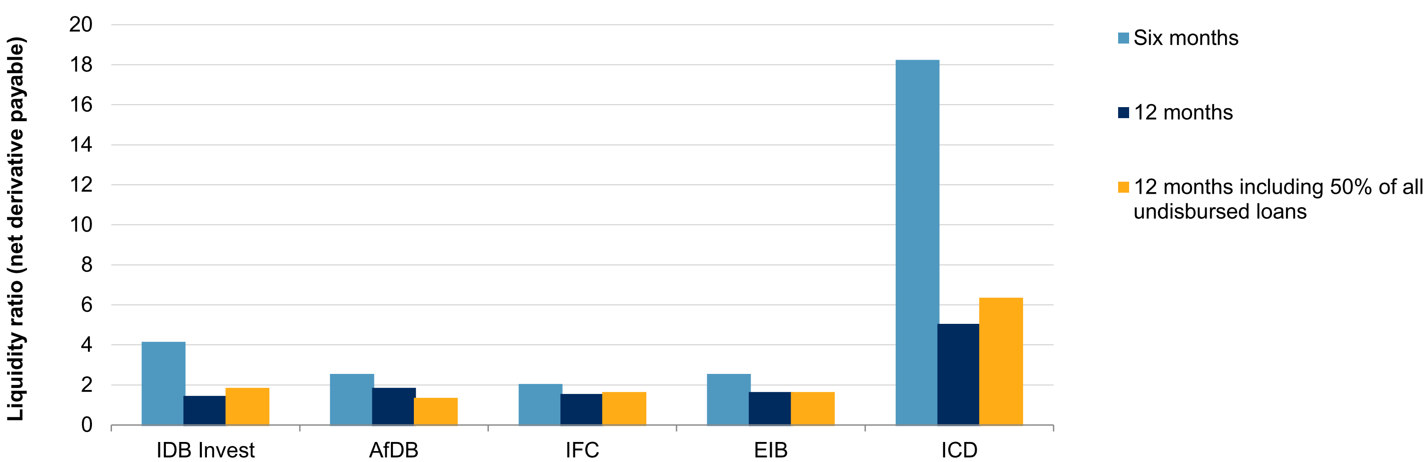
IDB Invest has improved its annual debt amortization profile, supported by the increased size of its annual funding program combined with its ability to issue smaller benchmark bonds and private placements to improve its profile. Our funding ratios indicate that IDB Invest would be able to fund its scheduled loan disbursements under normal market conditions. The 2022 one-year static funding gap, calculated as maturing assets divided by maturing liabilities, was 1.8x with scheduled loan disbursements and 4.0x without scheduled loan disbursements.

Liquidity: We expect IDB Invest's liquidity will remain robust in the next couple of years

Its six- and 12-month liquidity coverage ratios were 4.1x and 1.4x, respectively, as of year-end 2022, indicating that IDB Invest would be able to finance its expansion mandate, disburse scheduled loans, and service its debt obligations without capital market access for at least one year. IDB Invest maintains high liquidity on its balance sheet, accounting for 28% of adjusted total assets as of year-end 2022. Its $2 billion in liquid assets is invested in highly-rated securities, with a weighted average rating of 'AA'. In addition, we believe that IDB Invest would have room to accelerate disbursements as measured by our stress scenario, which takes into account 50% of all undisbursed loans, regardless of planned disbursement date, as if they were coming due in the next 12 months.

Chart 4

Liquidity stress test ratios peer comparison



Note: Data for EIB and ICD as of June 2022. Source: S&P Global Ratings.

Extraordinary Shareholder Support

IDB Invest's sovereign shareholders have not provided the institution with callable capital. We therefore do not incorporate any uplift to our issuer credit rating for the likelihood of extraordinary shareholder support.

Table 2

IDB Invest--Selected indicators

	2022	2021	2020	2019	2018
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. $)	6,633	5,720	4,465	2,590	1,773
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	0.0	0.0	0.0	0.0	0.0
Private-sector loans/purpose-related exposures (%)	95.6	95.0	97.0	96.2	96.2
Gross loan growth (%)	16.2	25.6	72.7	44.8	75.1
Preferred creditor treatment ratio (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	49.0	49.0	50.0	50.0	50.0
Concentration of top two shareholders (%)	27.0	27.0	25.5	25.4	26.5
Eligible callable capital (mil. curr)	N.A.	N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	34.1	30.8	35.2	55.7	71.3
Net interest income/average net loans (%)	5.7	4.2	4.0	6.4	5.8
Net income/average shareholders' equity (%)	3.9	5.7	0.3	2.3	1.5
Impaired loans and advances/total loans (%)	0.5	0.5	0.8	1.3	1.8
Liquidity ratios					
Liquid assets/adjusted total assets (%)	27.5	25.9	33.0	34.9	45.8
Liquid assets/gross debt (%)	44.7	42.5	54.3	82.5	114.2
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	4.1	2.5	5.4	2.0	2.0
12 months (net derivate payables) (x)	1.4	1.7	2.0	1.9	1.7
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.8	2.4	2.9	3.2	1.7
Funding ratios					
Gross debt/adjusted total assets (%)	61.5	61.1	60.8	42.3	40.1
Short-term debt (by remaining maturity)/gross debt (%)	19.5	23.8	19.2	N.M.	38.9
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	4.0	3.3	6.0	61.6	2.2
SUMMARY BALANCE SHEET					
Total assets (mil. $)	9,401	7,551	6,424	3,900	3,209
Total liabilities (mil. $)	6,437	5,077	4,316	1,867	1,390
Shareholders' equity (mil. $)	2,964	2,475	2,108	2,033	1,819

N/A--Not applicable. N.M.--Not meaningful. Source: S&P Global Ratings.

Table 3

IDB Invest--Peer comparison

	IDB Invest	African Development Bank	International Finance Corp.	European Investment Bank	Islamic Corp. for the Development of the Private Sector
Issuer credit ratings	AA+/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	A-/Stable/--
Total purpose-related exposure (mil.$)	6,633	31,303	49,502	511,104	1,115
Preferred creditor treatment ratio (%)	N.A	1.8	N.A.	0.2	N.A.
Risk adjusted capital ratio (%)	34	28	39	25	26
Liquidity ratio 12 months (net derivative payables; %)	1.4	1.8	1.6	1.6	5.0
Funding gap 12 months (net derivative payables; %)	4.0	1.5	1.7	1.5	2.5

Note: ICD RAC and F&L data as of June 2022 and PRE data as of Dec-2021, EIB PRE as of Dec 2021, all other data as of end-June 2022. N.A.--Not available. Source: S&P Global Ratings.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	Strong	**Adequate**	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology , Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017

- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Abridged Supranationals Interim Edition 2023: Comparative Data For Multilateral Lending, May 23, 2023
- Abridged Supranationals Interim Edition 2023: Multilateral Lending Institutions Sector Updates, May 23, 2023
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

Ratings Detail (As Of June 20, 2023)*		
IDB Invest		
Issuer Credit Rating		
Foreign Currency		AA+/Stable/A-1+
CaVal (Mexico) National Scale		mxAAA/Stable/--
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured *CaVal (Mexico) National Scale*		mxAAA
Senior Unsecured		AA+
Issuer Credit Ratings History		
24-Jun-2021	*Foreign Currency*	AA+/Stable/A-1+
30-Apr-2018		AA/Positive/A-1+
29-Jul-2010		AA/Stable/A-1+
12-Feb-2018	*CaVal (Mexico) National Scale*	mxAAA/Stable/--
02-Apr-2014		NR/--/--
11-Dec-2012		mxAAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.