S&P Global
Ratings

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IDB Invest

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IDB Invest

Major Rating Factors

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

Strengths:	Weaknesses:
• The capital position is extremely strong. • Liquidity is ample. • The renewed mandate and capital injection demonstrate shareholder support, and the institution is building up capacity to deliver in its new role.	• The outstanding loan portfolio is concentrated in financial institutions. • While in transition, the corporation's small size has limited its scope and impact on overall economic growth and development in the markets where it operates.

Outlook

The stable outlook on IDB Invest (IDBI) indicates that S&P Global Ratings expects diversification and expansion of IDBI's lending activities will take time, as will establishing a track record of timely capital contributions and shareholder support under the reorganization plan. We believe IDBI can maintain an extremely strong financial profile, low losses, and capital adequacy over the next two years, despite the expected decline in the RAC ratio. Moreover, we assume that shareholder support will remain robust, with IDBI's and IADB's shareholders continuing to make timely contributions under the $2.03 billion capitalization plan.

We could raise the ratings if IDBI meaningfully expands its operational mandate while sustaining appropriate capitalization levels and implementing prudent risk-management policies. IDBI's business profile could improve over the next few years following a track record of increased lending and business diversification, combined with timely paid-in capital contributions, all of which could strengthen the institution's public policy mandate, shareholder support, and the likelihood of preferential treatment.

Conversely, we could lower the ratings if IDBI's financial profile deteriorates markedly, for example as a result of insufficient capitalization to absorb new exposures, if its operations expansion outpaces the buildup of risk-management capacity, or if shareholder support appears to weaken during the newly announced capitalization plan.

Rationale

We consider IDBI to have an adequate business profile and extremely strong financial profile. IDBI does not have callable capital, and we do not factor any uplift from potential extraordinary shareholder support into the long-term issuer credit rating. In our view, IDBI doesn't benefit from a preferred creditor status, given that its role is to lend to the private sector. However, there is a track record of member governments affording IDBI preferential treatment by not restricting borrowers' access to foreign exchange for debt service, or dividend payments to IDBI.

Founded in 1986, IDBI is a member of the Inter-American Development Bank (IADB) group. As part of IDBI's revitalized position as the IADB group's private-sector arm, IDBI's role in the region is expected to evolve and strengthen over time as the corporation establishes a track record of successfully lending larger volumes to a more diverse client base. Its current balance sheet reflects its past focus on providing loans without a sovereign guarantee, directly and indirectly to the private sector, mostly to small and midsize enterprises in Latin America and the Caribbean, as well as guarantees and equity investments.

Over the past year, we have observed improvements in the operational setup within the organization. IDBI is strengthening the majority of its various functions, such as risk management, sales, operations, and executive management, to be able to fulfill its new role as the private-sector lender in the IADB group. The number of employees (including the transfer of IADB staff and consultants) almost doubled during 2016, reaching 326 at the end of the year, underlining the significant change IDBI is undergoing. We see these advances as positive, and also necessary for IDBI to cope with its revitalized role. However, in our opinion, IDBI still faces execution risks in incorporating its new mandate, and we expect it will continue building up its capacity in the coming years.

We believe one of the mainstays of IDBI's ability to deliver under the new mandate is the capital provided by shareholders. The second general capital increase is underway: a total of $2.03 billion to be provided over 10 years. A handful of countries are past due on the first installment, but we anticipate stricter adherence to the time frames for the second and further installments. An important factor in our assessment of IDBI's relationship with its shareholders is the timeliness of their capital contributions to the IDBI, which would underpin the institution's expanded role and balance-sheet growth.

In fulfilling its broader mandate, supported by the expanding capital base, IDBI is now targeting a lending strategy focused on larger transactions in Latin America and the Caribbean, and the average size of new approved loans increased markedly in 2016 to $37 million from $4 million in 2015. This major shift requires significant investments in staff and systems, but we believe IDBI is taking appropriate steps to accommodate its new larger target transactions. In addition, IDBI uses synergies from IADB's regional offices, staff, and expertise. However, the expansion process has been slower than initially planned, and the lending book contracted in 2016 by almost 11% or $100 million. However, in line with IDBI's strategy, we expect the loan book will increase significantly in the years to come, as a result of a group target to increase approvals to $3 billion in 2017, with increasing disbursements being booked on IDBI's balance sheet. We expect IDBI's strategy will progress prudently, and we assume exposures will be in line with its conservative risk appetite while it focuses on the preservation of its balance-sheet strength.

IDBI now manages the IADB's entire private-sector lending portfolio, which will remain on the IADB's balance sheet, however. IDBI will originate and manage new private-sector loans and guarantees, thereby generating fee income. New loans will be cross-booked between IDBI and IADB over the next six years until 2022, with IDBI progressively assuming a larger share, given the phase-in of capital contributions to leverage lending activity under IDBI. As such, IDBI's assets under management have increased by more than 5x and have boosted its profitability. Non-interest revenues now account for 50% of total revenues, but that share is likely to decrease as loans increase.

Although recent changes are, in our view, positive, IDBI's recent history has featured a decreasing lending book and minimal profitability. Furthermore, shareholder support has been historically weaker than that for larger regional and global peers. These factors will continue to inform our opinion of IDBI's policy importance relative to larger peers' until it establishes a track record under its new mandate.

However, if successfully executed, the new mandate would likely enhance IDBI's business profile following consistently increased lending, diversification of activities, and paid-in capital contributions, thereby strengthening its public policy role. At the same time, we expect IDBI's risk-adjusted capital (RAC) ratio will decline gradually over the next few years, but remain extremely strong at above 23% following more rapid growth of the lending portfolio. The RAC ratio after adjustments was 62%, reflecting the institution's financial position as of Dec. 31, 2016, and our ratings parameters as of March 31, 2017. Despite IDBI's focus on private-sector lending, which we consider riskier than sovereign exposure and therefore apply higher risk weights in our capital calculation, its RAC ratio is among the highest in its peer group.

IDBI retains high levels of liquid assets, which reflect its conservative capitalization policies, and they act as a buffer against its limited capital market presence and the unevenness of its debt amortization profile. IDBI issued a three-year $500 million note in April 2016, following the maturity of bullet debt in late 2015. Our funding and liquidity ratios indicate that IDBI 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.

IDBI's static one-year funding gap was 2.0x at year-end 2016, down from 3.7x in 2015, excluding loan disbursements. Using year-end 2016 data, the liquidity ratio for the one-year horizon including scheduled loan/equity disbursements was 2.4x.

Stand-Alone Credit Profile: 'aa'

We assess IDBI's stand-alone credit profile at 'aa', reflecting our assessment of its adequate business profile and its extremely strong financial profile.

Table 1

IDB Invest Selected Indicators					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Balance sheet characteristics					
Liquid assets/adjusted total assets (%)	59.4	35.1	48.4	42.1	41.5

Table 1

IDB Invest Selected Indicators (cont.)					
	--Year ended Dec. 31--				
	2016	**2015**	**2014**	**2013**	**2012**
Purpose-related assets (gross)/adjusted total assets (%)	41.3	65.8	52.9	58.9	60.0
Net loans/adjusted total assets (%)	38.2	61.4	49.2	54.8	55.9
Private-sector loans/total loans (%)	100.0	100.0	100.0	100.0	100.0
Equity investments/adjusted total assets (%)	0.5	0.9	1.0	1.1	1.0
Other indicators					
RAC ratio after adjustments (%)	61.5	58.5	56.8	59.0	64.8
Static funding gap§ at 1 year (x)	2.0	3.7	1.2	3.6	10.2
Gross debt / adjusted common equity (x)	1.0	0.7	1.3	1.1	1.2
Short-term debt (by remaining maturity) / gross debt (%)	40.4	9.7	48.6	13.4	2.2
Net income / average adjusted assets (%)	1.0	0.2	0.7	1.1	0.3

Business Profile: Adequate

IDBI's adequate business profile reflects its role, public policy mandate, and governance.

Policy importance

Founded by international treaty in 1986 as a member of IADB Group, IDBI provides financing directly or indirectly without a sovereign guarantee primarily to the private sector, and to date, mostly SMEs in Latin America and the Caribbean. Loans are IDBI's primary financing vehicle. IDBI also provides guarantees and makes equity investments, although the latter represent a small share of assets. Member governments have afforded IDBI preferential treatment by not restricting borrowers' access to foreign exchange for debt service or dividend payments.

Table 2

IDB Invest Principal Business Activities					
	2016	**2015**	**2014**	**2013**	**2012**
Purpose-related assets (gross) / adjusted total assets (%)	41.3	65.8	52.9	58.9	60.0
Net loans / adjusted total assets (%)	38.2	61.4	49.2	54.8	55.9
Private-sector loans / total loans (%)	100.0	100.0	100.0	100.0	100.0
Equity investments / adjusted total assets (%)	0.5	0.9	1.0	1.1	1.0
Memo:					
(Mil. US$)					
Total guarantees	0.0	0.0	0.0	5.7	6.2
Total adjusted assets*	2,146.7	1,505.3	1,989.5	1,786.8	1,814.5

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets.

Historically, IDBI's regional scope and niche private-sector SME focus have limited our view of the institution's mandate relative to that of larger multilateral institutions (MLIs) that may lend countercyclically to governments during periods of economic recession. Recently, however, the IDBI has strengthened its policy role following the consolidation of all private-sector lending within the IADB Group in the IDBI. Through cross-booking, loans will be originated by IDBI but totally or partly funded by the IADB or IADB-administered funds. Larger loans and operations are more likely to be cross-booked on the IADB's balance sheet until capital contributions strengthen IDBI's capital base. Cross-booking is expected to facilitate a level of approvals consistent with premerger amounts for both IDBI and IDB, keep concentration risk low, and provide IDBI with additional stable income from origination and surveillance fees on cross-booked and legacy business.

At its annual shareholders' meeting in March 2015, the IADB's and IDBI's boards of executive directors approved its "Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IADB Group Private Sector Merge-out," which entails a $2.03 billion capital increase over the next seven years to support consolidation of the group's private-sector lending in IDBI. IDBI's shareholders agreed to contribute $1.3 billion of paid-in capital from 2016 to 2022 while the IADB endorses transfers, subject to annual approval, from its shareholders to IDBI from net income totaling $725 million from 2018 to 2025.

Under the new mandate, IDBI will have a strong focus on infrastructure and larger projects, and in 2016 it increased its approved average loan volume to $37 million from $4 million. This size increase is a significant shift that requires a different operational platform, and over the past year we have observed improvements in the operational setup within the organization. IDBI is strengthening the majority of its various functions, such as risk management, sales, operations, and executive management, to be able to fulfill its new role as the private-sector lender in the IADB group.

In its 2017-2019 business plan, the IDBI has set targets for lending volumes, the portfolio share in the least-developed countries, and mobilization volume. The IDBI aims to achieve $3 billion of approvals and $5.1 billion of mobilization volume in 2017, with 40% of approvals in category C and D countries (under the IADB's regional classification), and increased investment in Caribbean countries by the end of the seven-year capitalization period.

We believe that shareholder support has strengthened, with the commitment of a $2.03 billion capital increase that will result in a re distribution of voting shares for the long term. This capital increase comes after an uneven track record of shareholder support during the last decade.

In addition, the IADB's governors have endorsed transfers from net income to IDBI on behalf of shareholders, subject to the governors' annual approval. The transfers are conditional on the IADB's capital adequacy policy, which envisions the building of buffers to ensure its own countercyclical lending capacity consistent with maintaining a 'AAA' credit rating. The agreed transfers would total $725 million from 2018 to 2025. A final $215 million tranche is to be transferred between 2023 and 2025, subject to IDBI's shareholders having paid in at least 50% of the fresh capital, which should be fully paid by 2023).

As a member of the IADB Group, IDBI works in collaboration with the IADB. For example, IADB leases office space to IDBI for its Washington-based and overseas staff, and the institutions jointly manage their employee pension and health benefit funds. IADB has also provided IDBI with a $300 million committed credit facility until November 2020, under which IDBI drew $100 million with a 15-year tenor in 2008.

In our view, IDBI's sovereign shareholders afford it preferential treatment by not restricting private-sector clients' access to the foreign exchange necessary to repay IDBI.

Governance And Management Expertise

We believe IDBI has transparent, prudent, and independent governance and management, in our view. The ownership structure is diverse, with 45 shareholders; however, the U.S. has a 23% share, which renders it more concentrated than some other MLIs. In addition, regional borrowing members represent more than 54% (minimum established by treaty) of the shareholders, which could create governance issues. Nevertheless, under the $2.03 billion capitalization plan, the shareholder base will likely diversify, resulting in a more even structure by 2025. IDBI does not pay dividends or make contributions to special off-balance-sheet funds; therefore it has a high earnings retention ratio. The institution has well-established governance standards and publishes its operational policies online.

Table 3

IDB Invest Shareholder Concentrations	
	2016
Total votes of shareholders (%)	100
Share of votes controlled by eligible borrower member countries (%)	54
Share of votes controlled by non-borrowing eligible member countries (%)	46

The new expanded mandate requires a stronger operational setup and significant strengthening of the risk management function, in our view. We believe this is being put in place with, for example, additional specialized resources, such as industry expertise in infrastructure. Full-time equivalent employees in the risk function have increased to 44 people and will increase by an additional eight in 2017. In addition, IDBI is developing a comprehensive economic capital model to better monitor and price risk.

At present, IDBI provides almost 70% of its loans to financial institutions in Latin America and the Caribbean, which tend to have lower administrative costs and allow for a larger average transaction size. Under the new mandate, this is expected to change significantly, with larger volumes, and IDBI is targeting direct lending equivalent to 60% of the portfolio.

IDBI has demonstrated management expertise in its major business lines and institutional continuity. It managed through the 2008-2010 economic downturn with a minimal amount of impaired loans, and its special operations unit maintains a high recovery rate. IDBI has strengthened its entire executive team and is now fully prepared to start executing its new mandate.

IDBI received an unqualified auditor's opinion of its Dec. 31, 2016, annual financial statements--which are in accordance with U.S. generally accepted accounting principles, from KPMG.

Financial Profile: Extremely Strong

Our view of IDBI's financial profile reflects the institution's extremely strong capital adequacy and ample balance-sheet liquidity.

Capital Adequacy

IDBI had an extremely strong RAC ratio of 61.5% after adjustments as of Dec. 31, 2016, based on our assumptions as of Aug. 31, 2017 (The criteria correction explained in "Criteria For Assessing Bank Capital Corrected," published on July 11, 2017, is not factored into the RAC ratio after diversification. The impact of the correction on the ratio is not material to the rating). Most of IDBI's exposures at default comprise invested or undisbursed commitments for Latin American financial institutions and nonfinancial corporations. IDBI has a small portfolio of equity investments, which includes direct stakes (including minority stakes in financial institutions) plus equity investment funds.

The second general capital increase plan ($2.03 billion over seven years) is progressing in line with expectations. A handful of countries are past due on the first installment, mainly due to timing of budgetary approvals. But we expect closer adherence to deadline for subsequent installments.

The IDBI--which does not have callable capital--maintains a high quality of shareholders' equity, which as of Dec. 31, 2016 totaled $1.02 billion. It consists of $858 million in paid-in capital, $191 million of retained earnings, and a loss of $27 million in accumulated other comprehensive income.

Table 4

IDB Invest RACF [Risk-Adjusted Capital Framework] Data: 2016

($000s)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	289,678	12,318	4
Institutions	1,444,948	646,287	45
Corporate	495,065	697,658	141
Retail	0	0	0
Securitization	0	0	0
Other assets	0	0	0
Total credit risk	2,229,691	1,356,263	61
Market risk			
Equity in the Banking Book	46,065	482,553	1,048
Trading book market risk	--	0	--
Total market risk	--	482,553	--
Insurance risk	--	0	--
Operational risk	--	213,000	--
RWA before MLI Adjustments		2,051,816	100
MLI adjustments			
Industry and geographic diversification		(260,339)	(13)
Preferred creditor treatment		(547)	(0)
Single-name concentration		278,756	14
High-risk exposure cap		(407,637)	(20)
Total MLI adjustments		(389,767)	(19)
RWA after MLI Adjustments		1,662,049	81

Table 4

IDB Invest RACF [Risk-Adjusted Capital Framework] Data: 2016 (cont.)		
	Adjusted common equity	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before Adjustments	1,021,982	49.8
Capital ratio after Adjustments		61.5

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

Earnings

Like other supranational institutions with a public policy mandate, IDBI turns a smaller profit than commercial banks. Its return on average adjusted assets was 0.97% in 2016, up however from 0.17% in 2015. The institution partly offsets this by retaining nearly 100% of earnings (after technical assistance) in most years. IDBI neither pays dividends nor transfers a large share of earnings to off-balance-sheet special assistance funds.

Higher earnings of $18 million in 2016, compared with $3 million the previous year, were the result of income earned on the transferred management of loans from the IADB, since other items remained stable. Costs were also up as a result of staff increases, due to internal transfers from IADB and external recruitments, as well as investments in systems and processes.

IDBI's comprehensive income showed a 0.55% overall return on average adjusted assets in 2016.

IDBI's ACE has increased only modestly over the past five years, but we expect it will grow quicker as the $2.03 billion of new capital is paid in over 2016-2025. IDBI's shareholders have agreed to contribute $1.3 million of paid-in capital from 2016 to 2022.

Table 5

IDB Invest Profitability					
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Net income/average adjusted assets (%)	1.0	0.2	0.7	1.1	0.3
Net income/average adjusted common equity	1.9	0.4	1.6	2.4	0.7
Net income/average shareholders' equity (%)	1.9	0.4	1.6	2.4	0.7
Comprehensive income/average adjusted assets (%)	0.6	0.4	(0.6)	3.8	(0.3)
Comprehensive income/average adjusted common equity (%)	1.1	0.9	(1.3)	8.5	(0.5)
Net interest income/average net loans (%)	5.0	4.7	4.3	4.2	4.3
Interest expense/average borrowings (%)	1.5	1.1	1.3	1.8	2.1
Administrative expense/average adjusted common equity (%)	8.4	5.1	4.0	5.2	5.1
Net income	17.8	3.0	13.3	19.2	5.6
Net increase (decrease) in cash and cash equivalents during the year	8.5	7.4	(10.7)	(10.2)	(30.8)

Treasury activities

IDBI does not regard its treasury activities as a source of significant income, but as a way to fund its assets and ensure sufficient liquidity.

Credit risk. IDBI invests its liquid assets (cash, due from banks, and securities). Its largest treasury-related investment was in financial securities (63% of liquid assets) as of Dec. 31, 2016, followed by smaller portfolios of government and government-agency securities (16%). The investment portfolio has an average rating of 'AA-'.

IDBI does not use financial derivatives to manage its funding costs, and had no derivative assets or liabilities on its balance sheet as of Dec. 31, 2016.

Exchange rate risk. IDBI reports in U.S. dollars and conducts many transactions in that currency. At year-end 2016, $26.3 million or 3% of the institution's outstanding disbursed loan and equity investments were denominated in foreign currencies (mainly Mexican pesos).

Interest rate risk. The institution's current policy of maintaining moderate leverage reduces its rollover risk. IDBI favors floating-rate instruments for loans and funding, and 98.1% of its borrowings were at variable rates as of Dec. 31, 2016. IDBI does not use interest-rate swaps. If IDBI were to increase the share of debt financing, we expect its interest rate risk would rise if this were not accompanied by implementation of more-sophisticated risk management tools and systems.

According to IDBI's policy, the weighted average life of assets may not exceed that of liabilities. The one-year gap is positive by approximately $50 million and the IDBI's large liquid investments further mitigate duration risk.

Risk position

IDBI's RAC ratio of 61.5% after MLI-specific adjustments as of Dec. 31, 2016, (including our assumptions as of Aug. 31, 2017) remains extremely strong.

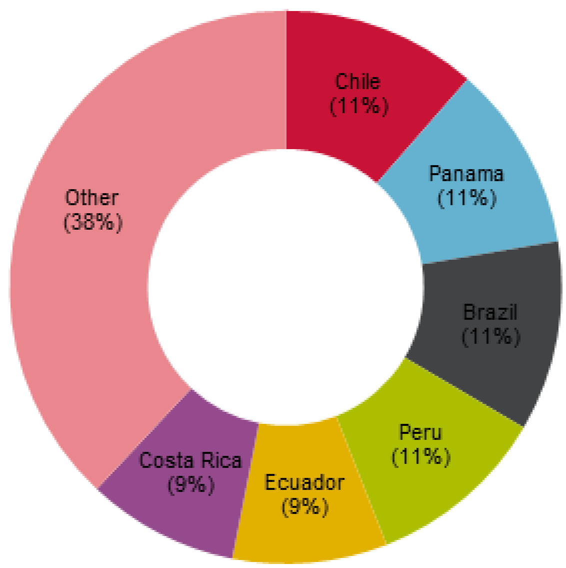
The institution remains one of the most highly capitalized among supranationals, despite its corporate exposures, which carry a much higher risk weight than sovereign exposure. Furthermore, equity covers loans 1.25x. The RAC ratio is somewhat boosted by the lower capital charge on IDBI's large commercial bank exposure compared with that for direct exposure. Since we expect the split to change, this benefit will diminish.

Exposure concentrations

IDBI maintains large sector concentration in Latin American financial institutions. This strategy mitigates the higher default risk of its direct exposure to nonfinancial corporations, but amplifies credit risk from a financial system crisis.

IDBI's country exposures are diversified, with no single country representing more than 15% of its purpose-related (loan and equity investment) exposures. The three largest (Brazil, Chile, and Panama) represented 28% of the institution's ACE as of Dec. 31, 2016, and the five largest 46% of ACE.

IDB Invest's Largest Loan And Equity Investment Exposures By Country (Dec. 31, 2016)



Asset quality: Loan loss experience and equity investment performance

IDBI has a shorter and weaker record (predating the recent financial crisis) of private-sector loan quality than the International Finance Corporation, which also provides funding to private companies without a sovereign guarantee, but on a global scale. IDBI's loan book fared much better over 2008-2016 than during its last stress period of 2001-2002; peak nonaccrual loans reached 4.4% of loans in 2010 (1% in 2016). During 2001-2002--when Argentina experienced an economic crisis--nonaccrual loans increased to 30% of loans. Reflecting this loss experience and improved risk management, IDBI now provisions heavily for the uncollateralized portion of its loan portfolio, quickly charges off impaired loans, and recovers a large share of exposures written off.

IDBI typically does not collateralize loans to financial institutions or have recourse to the underlying loan. In some of IDBI's markets, financial supervisors inhibit this practice to protect depositors. Real or personal security generally collateralizes corporate loans, and an independent firm assesses their value under a distressed liquidation. Most of IDBI's loan contracts are subject to national law.

During 2016, IDBI's nonaccrual loans 90 or more days past due (including impaired loans) decreased to 1.02%. Impaired loans accounted for 0.98%. At year-end 2016, IDBI's allowance for loan losses ($35 million) covered nonaccrual loans 4.1x.

IDBI has a small portfolio of equity investments (0.4% of the adjusted total) on which it realized a $1 million gain in 2016. The fair value of the portfolio appreciated by $46,000, and the investments paid out $879,000 in dividends during the year.

We expect that IDBI's equity investment portfolio will remain a small portion of assets during 2017.

Table 6

IDB Invest Asset Quality					
	2016	**2015**	**2014**	**2013**	**2012**
Loan portfolio					
Loan write-offs/impaired loans at previous fiscal year end (%)	0.7	31.3	2.0	0.0	0.7
Non-accrual loans/total loans (%)	1.0	1.2	3.0	1.9	2.1
Impaired loans/total loans (%)	1.0	1.0	1.7	1.7	1.0
ACE plus loan loss reserves/non-accrual loans net of collateral (x)	114	70	26	41	33
ACE/impaired loans (x)	116	85	50	49	74
Equity portfolio					
Equity investments written off for impairment during the fiscal year/equity investments at previous fiscal year end (%)	20.5	2.8	1.1	0.2	0

ACE--Adjusted common equity.

Guarantees

IDBI had no outstanding guarantees as of Dec. 31, 2016. Its last guarantee was in 2013, totaling $5.7 million.

Funding And Liquidity

Funding

IDBI maintains a conservative funding profile, in our view. It funds nearly half of its assets from shareholders' equity, and loans are covered 1.25x. As of Dec. 31, 2016, IDBI's short-term debt by remaining maturity (including medium- and long-term loans) rose to 20% from 3.8% a year earlier, because its second $400 million global bond issued in 2014 matures in October 2017. A $500 million three-year bond was issued in April 2016. IDBI does not rely on short-term financing vehicles, and does not issue certificates of deposit or commercial paper.

Because of the institution's small size and infrequency of borrowing, its annual debt amortization profile can be uneven, and we expect it will remain so until the institution can issue more frequently, increase its assets, and thereby build a stronger, more diversified global investor base.

Our funding ratios indicate that IDBI would be able to fund its scheduled loan disbursements during 2017 under normal market conditions. IDBI's static funding gap at the one-year horizon was 1x at 2016, with its securities portfolio totaling $1.2 billion and borrowings of $1 billion; excluding loan disbursements, the gap is 2x. However, the capital market funding of the balance sheet is fully dedicated to finance liquid securities so there is no structural asset-liability mismatch.

According to the IDBI, for 2017, its U.S. dollar funding needs are covered by its issuance of a $500 million bond under its medium-term note program, and the focus will be on local currency issues, most likely in Mexico. Last year, IDBI renewed until 2020 a $300 million line the IADB has provided since 2008. IDBI also has two other facilities (($80 million in U.S dollars and $50 million equivalent in Mexican pesos), of which $30 million equivalent on the Mexican peso facility was drawn at year-end 2016.

IDBI has used debt financing conservatively over the past decade. The institution's charter sets its leverage limit at 3x debt to the sum of its subscribed capital, earned surplus and reserves, and IDBI sets a lower prudential limit of 2x. In practice, IDBI has not approached either limit during the past 10 years.

Table 7

IDB Invest Funding Ratios

	2016	2015	2014	2013	2012
Static funding gap at 1 year (x)§	2.0	3.7	1.2	3.6	10.2
Short-term debt (by remaining maturity)/adjusted total assets (%)*	20.0	3.8	26.9	6.8	1.2
Gross debt/adjusted total assets (%)	49.5	39.8	55.3	50.6	53.4
Gross debt net of liquid assets/adjusted total assets (%)	(9.9)	4.6	6.8	8.4	11.9
Short-term liabilities (by remaining maturity)/total liabilities (%)	38.1	8.9	46.7	13.0	2.1
Total liabilities/adjusted total assets (%)	52.4	43.0	57.5	52.3	57.1
Gross debt/adjusted common equity (x)	1.0	0.7	1.3	1.1	1.2
Short-term debt (by remaining maturity)/gross debt (%)	40.4	9.7	48.6	13.4	2.2

*Short-term debt by remaining maturity includes short-term debt (maturing in less than 12 months) and long-term debt maturing in the next 12 months. §The static funding gap is maturing assets divided by maturing liabilities. It is cumulative and based on scheduled receipts and payments.

Liquidity

IDBI maintains a high level of liquidity--60% of adjusted total assets (1.2x gross debt) at the end of 2016--on its balance sheet. We expect this extremely strong position will weaken somewhat with the expansion of the loan portfolio under its new mandate. Similar to other supranational financial institutions that lack access to emergency liquidity from a national central bank, IDBI holds higher liquidity than most regulated commercial banks. The institution's liquidity levels are greater than that of most rated supranational peers.

Likewise, our liquidity ratios--which we adjust to simulate extremely stressed market conditions--indicate that IDBI would be able to fulfil its mandate and disburse scheduled new loans for up to five years, and the ratio for 12 and 24 months would be 2.38x and 2.14x without access to the capital markets.

IDBI's conservative liquidity policy reflects its uneven disbursements (matched during the year to its private-sector borrowers' timing needs) and debt amortization schedule. The liquidity policy sets an operating liquidity coverage target of 18-24 months of scheduled debt service (principal amortization and interest), expected disbursements, and budgeted operational expenditures.

Table 8

IDB Invest Liquidity Ratios

	2016	2015	2014	2013	2012
Liquidity with scheduled loan disbursements (net derivatives payable) at 1 year (x)	2.4	2.2	1.3	N.A.	N.A.
Liquid assets/adjusted total assets (%)	59.4	35.1	48.4	42.1	41.5

Table 8

IDB Invest Liquidity Ratios (cont.)					
	2016	**2015**	**2014**	**2013**	**2012**
Cash and cash equivalents/liquid assets (%)	1.8	2.8	0.8	2.4	3.8
Securities/liquid assets (%)	98.2	97.2	99.2	97.6	96.2
Liquid assets/gross debt (%)	120.0	88.3	87.7	83.3	77.8
Liquid assets/short-term debt by remaining maturity* (%)	297.3	915.2	180.3	621.3	3,506.3
Liquid assets net of deposits/total adjusted assets (%)	59.4	35.1	48.4	42.1	41.5
Liquid assets net of deposits/gross debt (%)	120.0	88.3	87.7	83.3	77.8
Liquid assets net of deposits/short-term debt by remaining maturity (%)	297.3	915.2	180.3	621.3	3,506.3

N.A.--Not available.

Likelihood Of Extraordinary Shareholder Support

IDBI'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.

Financial Statistics

Table 9

IDB Invest Summary Balance Sheet					
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Assets					
Cash and money market instruments	23.5	14.9	7.6	18.3	28.4
Securities	1,251.5	513.7	955.9	734.3	725.3
Liquid assets	1,274.9	528.6	963.5	752.6	753.8
Net loans	819.5	924.5	979.3	979.6	1,014.3
Equity interests/participations (nonfinancial)	11.6	12.8	20.1	19.1	17.5
Inv. in unconsolidated subsidiaries (financial co.)	20.5	16.6	5.1	6.9	9.2
Purpose-related assets (gross)	886.5	990.7	1,052.3	1,052.7	1,088.3
Purpose-related assets (net)	851.6	954.0	1,004.4	1,005.7	1,040.9
Accrued receivables	17.5	17.9	20.2	17.3	15.0
Other assets, other	2.7	4.8	1.4	11.3	4.8
Total assets	2,146.7	1,505.3	1,989.5	1,786.8	1,814.5
Total adjustments to shareholders' equity	0	0	0	0	0
Total adjusted assets*	2,146.7	1,505.3	1,989.5	1,786.8	1,814.5
Liabilities					
Other borrowings (gross debt)	1,062.4	598.5	1,099.2	903.5	969.4
Other liabilities	62.4	49.5	45.1	31.5	66.6
Total liabilities	1,124.7	648.0	1,144.3	935.0	1,035.9
Shareholders' equity					
Paid-in capital and surplus	857.8	703.2	698.4	693.7	689.4

Table 9

IDB Invest Summary Balance Sheet (cont.)

(Mil. $)	2016	2015	2014	2013	2012
Retained earnings	190.9	173.1	170.1	156.8	137.6
Accumulated other comprehensive income (loss)	(26.7)	(19.0)	(23.4)	1.3	(48.4)
Shareholders' equity	1,022.0	857.3	845.1	851.8	778.6
Memo:					
Eligible callable capital	0.0	0.0	0.0	0.0	0.0
Total guarantees	0.0	0.0	0.0	5.7	6.2
Undisbursed loans (%)	97.2	191.0	149.0	136.8	112.8

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets.

Table 10

IDB Invest Income Statement Summary

(Mil. $)	2016	2015	2014	2013	2012
Interest income	56.3	54.4	54.9	57.9	59.0
Interest expense	12.6	9.4	12.5	16.4	17.2
Net interest income	43.7	44.9	42.4	41.5	41.8
Operating noninterest income	57.3	6.7	7.8	9.5	4.5
Other noninterest income	(0.5)	(0.5)	(0.4)	(0.2)	0.1
Operating revenues	113.6	61.1	62.6	67.4	63.5
Noninterest expenses	80.8	48.7	34.4	42.2	40.3
Credit loss provisions (net new)	2.5	(0.8)	2.1	(10.8)	0.2
Operating income after loss provisions	17.8	3.7	13.7	19.7	5.8
Net income	17.8	3.0	13.3	19.2	5.6
Other comprehensive income	(7.8)	4.4	(24.7)	49.7	(9.8)
Comprehensive income	10.0	7.4	(11.3)	68.9	(4.2)
Memo:					
Net increase (decrease) in cash and cash equivalents during the year	8.5	7.4	(10.7)	(10.2)	(30.8)

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology - November 26, 2012
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings Detail (As Of December 8, 2017)

IDB Invest	
Counterparty Credit Rating	
Foreign Currency	AA/Stable/A-1+
CaVal (Mexico) National Scale	NR/--/--

Ratings Detail (As Of December 8, 2017) (cont.)		
Senior Unsecured		AA
Counterparty Credit Ratings History		
29-Jul-2010	*Foreign Currency*	AA/Stable/A-1+
15-Jul-2008		AA-/Positive/A-1+
17-May-2005		AA-/Stable/A-1+
02-Apr-2014	*CaVal (Mexico) National Scale*	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.