

FITCH AFFIRMS IDB INVEST AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-08 February 2019: Fitch Ratings has affirmed the Inter-American Investment Corporation's (IDB Invest) Long-Term Issuer Default Rating (IDR) at 'AAA'. The Rating Outlook is Stable. A full list of IDB Invest's ratings follows at the end of this release.

KEY RATING DRIVERS

IDB Invest's intrinsic credit quality drives its 'AAA' IDR. IDB Invest's solvency assessment of 'aaa', underpinned by its excellent capitalization and low risk profile, as well as its liquidity assessment of 'aaa', results in an overall rating of 'AAA'. Fitch's assessment of IDB Invest's operating environment as medium risk does not result in any adjustment to IDB Invest's solvency assessment.

Fitch assesses IDB Invest's capitalization as excellent. At 53.9% as of Sept. 30, 2018, IDB Invest has one of the highest equity/adjusted assets ratios among multilateral development banks (MDBs) rated 'AAA' by Fitch. Unlike most MDBs, all of IDB Invest's capital is paid-in. Capitalization ratios will remain strong over the forecast horizon as IDB Invest expands its mandate to execute all private sector operations for the Inter-American Development Bank (IADB) Group as part of its 10-year capitalization plan that started in 2016.

Despite delays in capital payments from some member states, the capitalization plan remains on track as advance payments from other member states have offset these delays. As of Nov. 15, 2018, the bank had received 44% of the total capital payments scheduled under its 10-year capitalization plan, for a total amount of \$886.5 million.

In Fitch's view, IDB Invest's overall risk is 'low' as the bank's 'very low' concentration, equity and market risks, as well as its 'excellent' risk management policies offset the 'moderate' credit risks as reflected in the weighted average rating of its credit portfolio. Fitch estimates the weighted average rating of IDB Invest's loan portfolio at 'BB-' as of end-September 2018.

Loans past due more than 90 days accounted for 1.5% of gross loans at this same date. Historically, loans past due more than 90 days have been maintained at manageable levels despite IDB Invest's focus on providing financing to small and medium-sized enterprises (SMEs). Under IDB Invest's current mandate, the proportion of direct loans to SMEs continues to decline. The relatively rapid projected rate of loan growth over the forecast period (above 30% in each of 2019 and 2020) represents a potential source of risk to asset quality, in Fitch's view. However, the projected growth rate remains in line with the bank's ongoing capital increase and Fitch expects management to maintain its prudent lending standards, mitigating any downward pressure on asset quality from the fast expansion of the balance sheet.

Concentration risk is assessed as 'very low'. Concentration risk by borrower is low relative to other regional MDBs, with the top five exposures accounting for 18.7% of total banking exposure at end-September 2018. No single exposure exceeds 3.5% of equity. However, sector concentration remains high, with 48% of loans extended to financial institutions at end-September 2018 (56% at end-September 2017). Additionally, Fitch highlights that the bank's exposure to the Argentine private sector has increased substantially over the past two years, reaching 10% at end-September 2018 compared to 1% at YE16. Nevertheless, given low borrower concentration, IDB Invest's lending portfolio is not as vulnerable to potential downgrades of individual exposures as are its peers.

IDB Invest's risk management framework is assessed as 'excellent'. Although not subject to banking regulations, the IDB Invest abides by its own prudential framework. Management carefully monitors capital adequacy, liquidity and credit risk through conservative risk-management policies based on self-imposed prudential ratios and limits and consistently operates well within these guidelines. Risk management policies have been updated and implemented to reflect internationally accepted standards for financial institutions.

Liquidity is assessed as 'aaa'. IDB Invest's liquid assets/short-term debt ratio reached 243% at end-September 2018. This ratio will remain well above 150%, the threshold within our criteria consistent with an 'excellent' assessment, over the medium term. The quality of treasury assets is 'excellent', with 71% of the portfolio rated at 'AA-' or above. The bank's sound liquidity profile is also supported by its access to capital markets, as well as alternative sources of liquidity from committed credit facilities of USD200 million with the IADB (AAA/Stable) and USD110 million with commercial banks.

Consistent with Fitch's Supranationals criteria, support from shareholders is not currently a factor in the overall rating, as the average rating of IDB Invest's key shareholders is 'BBB+' and there is no callable capital. IDB Invest's 'AAA' rating therefore reflects purely the bank's intrinsic strengths.

RATING SENSITIVITIES

The factors that could, individually or collectively, lead to a downgrade of IDB Invest's ratings are:

- A prolonged and significant decline in capitalization related to losses on the asset portfolio, unbalanced growth in operations, increased earnings volatility or failure to receive paid-in capital commitments.
- A substantial decline in liquid assets/short-term debt coverage and/or a deterioration in the bank's ability to access other sources of liquidity.
- A stress situation in a country of operations that significantly impairs asset quality or results in transfer and convertibility restrictions.

KEY ASSUMPTIONS

The ratings and Outlook are sensitive to a number of assumptions as follows:

- Fitch assumes that member countries, even if experiencing severe difficulties, will continue to exempt IDB Invest's private sector borrowers from any measures that may impact the transfer and/or convertibility of their debt service payments to IDB Invest.
- Fitch assumes that IDB Invest will maintain its conservative risk management and governance policies.

Fitch affirms IIC's ratings as follows:

- Long-Term IDR at 'AAA'; Outlook Stable;
- Short-Term IDR at 'F1+';
- Senior unsecured medium-term note program at 'AAA';
- Senior unsecured notes at 'AAA'.

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Applicable Criteria
Supranationals Rating Criteria (pub. 24 May 2018)
<https://www.fitchratings.com/site/re/10031448>

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