

26 Nov 2019 | Affirmation

Fitch Affirms Inter-American Development Bank at 'AAA'; Outlook Stable

Fitch Ratings-London-26 November 2019:

Fitch Ratings has affirmed Inter-American Development Bank's (IADB) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook and Short-Term IDR at 'F1+'. The issue ratings for senior unsecured debt have also been affirmed at 'AAA'.

Inter-American Development Bank; Long Term Issuer Default Rating; Affirmed; AAA; RO:Sta
----; Short Term Issuer Default Rating; Affirmed; F1+
----senior unsecured; Long Term Rating; Affirmed; AAA

Key Rating Drivers

The affirmation and Stable Outlook reflects IADB's intrinsic credit quality with solvency and liquidity assessed at 'aa+' and 'aaa', respectively. The bank's strong business profile translates into a one-notch adjustment over the solvency assessment, resulting in an intrinsic rating of 'aaa'. Despite negative sovereign credit trends in Latin America, Fitch expects IADB's high capital buffers, preferred creditor status (PCS), and important policy mandate will support the bank's resilience against the backdrop of a deteriorating operating environment.

IADB's 'aa+' solvency assessment is underpinned by the bank's 'excellent' capitalisation with an equity-to-adjusted-assets ratio of 25.2% at end-1H19. In line with Fitch's updated Supranationals Rating Criteria, IADB's capitalisation is now also assessed via Fitch's usable capital to risk-weighted assets (FRA) ratio, at 73% as of mid-2019, well above the threshold for an 'excellent' assessment (35%). Usable equity includes a portion (10%) of callable capital from shareholders rated 'AA-' or above and is discounted to reflect a concessional loan balance in IADB's financing portfolio (5% of total loans at end-1H19).

Fitch expects the overall capitalisation assessment to remain 'excellent' over its three-year forecast horizon, primarily driven by a FRA ratio that would remain well above the 'excellent' threshold (60%-70%) and a slightly weaker but close to 25% equity-to-assets ratio.

Fitch assesses IADB's overall exposure to risks as 'low', as 'low' credit risk in its sovereign lending portfolio (94% of the total) balances 'moderate' concentration risk (five-largest banking exposures account for 57.5% of the total after Exposure Exchange Agreements) despite diversification efforts in recent years. The bank's risk management framework is conservative overall and Fitch deems risk management policies to be 'excellent'.

The 'low' credit risk assessment mainly reflects the bank's sovereign repayment performance, which highlights the strength of its PCS. Historically, the non-performing loan ratio on the sovereign portfolio has remained close to nil, barring a few sovereign non-accrual episodes that took place in the past decades. In all cases, the bank was able to recover all amounts due in less than four years. Exposure to Venezuela (in arrears since 2018) represented 2.1% of the loan portfolio as of end-1H19 and is the only sovereign in non-accrual status since 2001. This non-accrual event does not materially impact our solvency or liquidity assessments given the small size of the exposure relative to its portfolio.

Following the downgrades of the sovereign ratings of Mexico (BBB/Stable) and Argentina (CC) over the last year, the bank's average rating of loans deteriorated to 'BB-' at end-1H19 from 'BB' a year before. Risk of further deterioration in the credit quality of the loan portfolio is evidenced by the Negative Outlooks of seven Fitch-rated sovereigns in the region (with no Positive Outlooks). However, the risk of another sovereign falling into arrears with the IADB is much less pronounced given the important source of financing that IADB represents for countries in Latin America. This is especially the case for countries undergoing comprehensive IMF programmes such as Argentina, Ecuador (B-/Stable), and Barbados, supported by the IADB, for which being current with the bank is a condition for compliance with the IMF programme. Fitch expects these countries will remain current with the IADB and exclude the bank from any eventual debt restructuring with other creditors.

IADB's 'aaa' liquidity assessment reflects the bank's excellent liquidity buffers, with liquid assets-to-short-term debt expected to remain well above the 1.5x threshold for 'excellent' assessment through 2022 (1.9x at end-1H19). In Fitch's view, the bank manages a very high credit-quality treasury book (around 90% rated AA- or above) and compares favourably with that of 'AAA'-rated peers.

IADB's overall business environment is assessed as low-risk, which translates into a one-notch positive adjustment from Fitch's solvency assessment. IADB's low-risk business profile is mainly driven by a low-risk strategy, characterised by a strong focus on sovereign lending and moderate lending growth targets. In addition, our assessment captures IADB's very important policy

mandate as the largest multilateral lender for many of the bank's member countries. This assessment balances the medium-risk environment in which IADB operates in.

Fitch assesses shareholders' support at 'a', which is based on its medium-term forecast for coverage of net debt by callable capital. Although net debt was fully covered by callable capital subscribed from shareholders rated 'AAA' as of end-1H19, Fitch expects this indicator to gradually deteriorate to 'a' (full coverage from shareholders rated above 'A') by 2022 if net debt grows in line with the agency's forecasts and callable capital remains static. Fitch views shareholders' propensity to support as strong.

RATING SENSITIVITIES

A prolonged and significant decline in capitalisation metrics, resulting from higher-than-expected lending growth and/or deteriorating asset-quality metrics would be negative for the ratings.

Significant deterioration in the bank's risk profile, stemming from a sovereign non-accrual episode, deteriorated credit risk metrics and/or worsening concentration risk, would be negative for the ratings.

Key Assumptions

Fitch assumes that IADB will abide by its prudential framework and internal limits.

Sources of Information

The sources of information used to assess these ratings were IADB's financial statements and other information provided by IADB.

Contacts:

Primary Rating Analyst

Enrique Bernardez,

Associate Director

+44 20 3530 1964

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf

London E14 5GN

Secondary Rating Analyst

Arnaud Louis,

Senior Director

+33 1 44 29 91 42

Committee Chairperson

Theresa Paiz-Fredel,

Senior Director

+1 212 908 0534

Media Relations: Hannah James, New York, Tel: +1 646 582 4947, Email:

hannah.james@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

[Supranationals Rating Criteria \(pub. 23 May 2019\)](#)

Additional Disclosures

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://www.fitchratings.com). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are

named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.