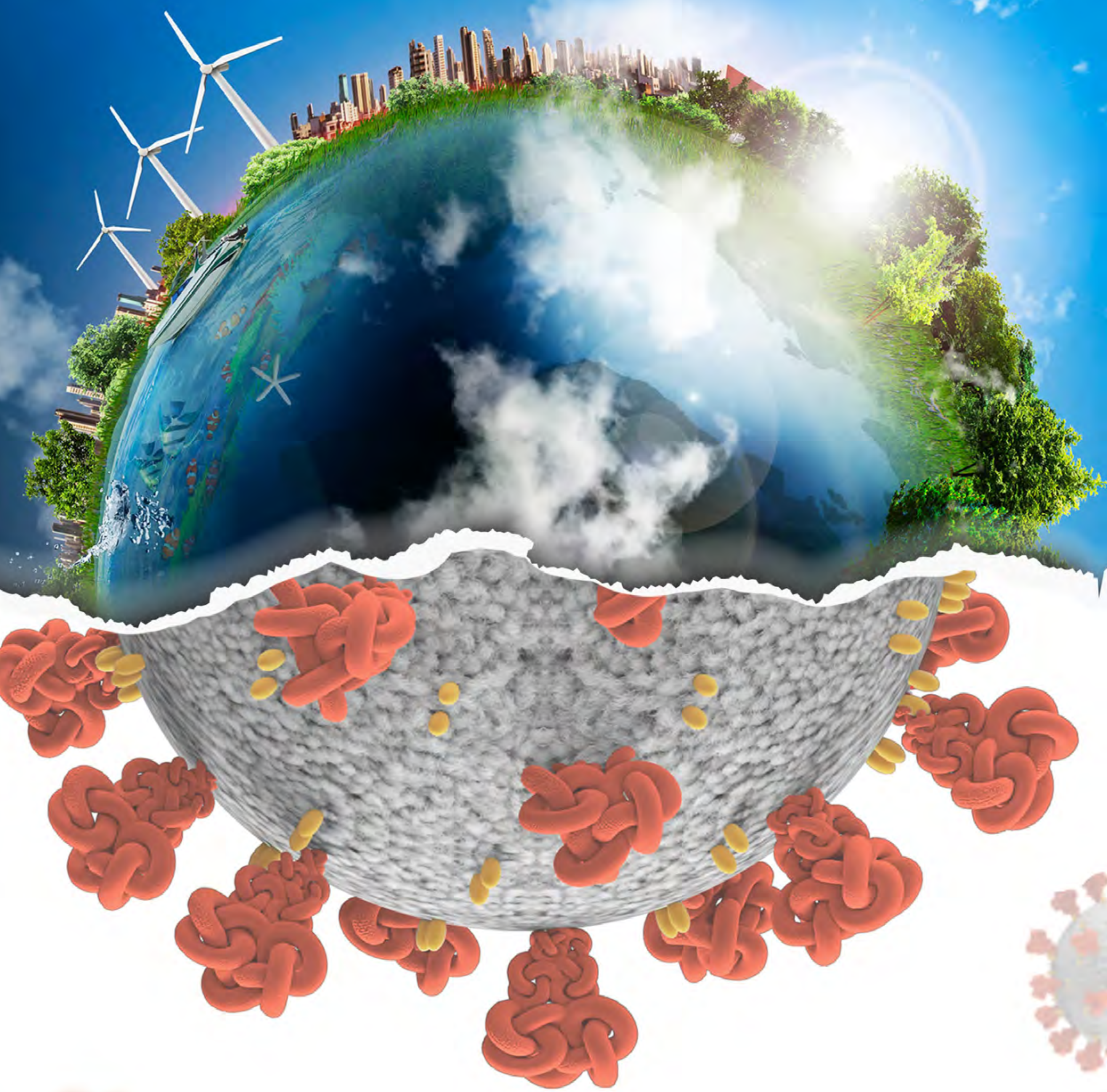
IDB | Invest



2020

ANNUAL REPORT

APENDIX 1

US$ in thousands	Year ended December 31				
Financial Highlights	**2020**	**2019**	**2018**	**2017**	**2016**
Statement of Income					
Total income [(1)]	192,668	223,063	170,168	134,229	111,575
Total income, net of borrowings expense [(1)]	144,711	178,493	143,556	117,189	99,020
Total other expenses [(1)]	153,175	130,265	119,500	99,635	81,249
Net income	6,888	43,871	24,056	17,554	17,771
Balance Sheet					
Total development related investments, net	4,176,889	2,445,809	1,690,355	963,938	851,569
Total assets	6,424,312	3,899,824	3,209,253	2,185,395	2,146,724
Borrowings	3,908,457	1,648,146	1,286,372	646,741	1,062,383
Equity	2,108,214	2,033,062	1,819,250	1,444,580	1,021,982
Ratios					
Return on average assets	0.1%	1.2%	0.9%	0.8%	1.0%
Return on average equity	0.3%	2.3%	1.5%	1.4%	1.9%
Debt to equity	186%	81%	71%	45%	104%
Equity to assets	33%	52%	57%	66%	48%
Liquidity to total assets	33%	35%	46%	55%	59%
Allowance for credit losses to development related investments	4.8%	4.7%	4.3%	5.2%	4.1%
Non-performing loans	0.5%	0.7%	0.8%	0.9%	1.0%

[(1)] IDB Invest refined its income statement presentation related to valuation adjustments on loans and debt securities in the development related investment portfolio during 2020, impacting the 2020 and 2019 presentation only.

Definitions

Return on average assets: Net income divided by the average of current and previous year's Total assets.

Return on average equity: Net income divided by the average of current and previous year's Equity.

Debt to equity: Borrowings plus Interest and commitment fees payable divided by Equity.

Equity to assets: Equity divided by Total assets.

Liquidity to total assets: Cash and cash equivalents plus Investment securities divided by Total assets.

Allowance for credit losses to development related investments: Allowance for credit losses divided by development related loans and debt securities at amortized cost.

On January 1, 2020, IDB Invest adopted the current expected credit loss (CECL) model. This ratio is related to development related assets only, and does not consider the liability for undisbursed commitments and financial guarantees. Prior to 2020, this ratio was defined as Allowance for loan losses as a percentage of Loan portfolio.

Non-performing loans: Nonaccrual loans over 90 days past due divided by total Loan portfolio.

Financial Results

IDB Invest marked its fifth year of operations of its expanded mandate after the private sector reform in 2016, ***pursuing smart growth*** and a ***prudential approach*** in its COVID-19 response. With a clear focus to protect, alleviate and reignite the private sector within its Regional Developing Member Countries (the LAC Region) through a time of crisis, IDB Invest delivered a record program of operations financed with a ***record-setting funding program*** in 2020. At the same time, IDB Invest made progress towards key initiatives to fortify the long-term stability and financial sustainability of the institution.

In 2020, IDB Invest also marked its fifth year of consecutive profits with net income of $6.9 million in 2020 (compared to $43.9 million for 2019). The reduction in net income compared to the prior year was mainly driven by significant continued portfolio growth along with the recent global crisis triggered by COVID-19 resulting in a higher provision for credit losses of $75.1 million that was significantly impacted by the adoption of CECL.

Total income, net of borrowings expense, amounted to $144.7 million in 2020. On a positive note, income from gross development related investments on a larger outstanding portfolio grew by $51.8 million higher despite a lower global interest rate environment. However, this was offset by an increase of $75.1 million in provisions for credit losses as detailed above, and $15.6 million lower gains from the liquid assets portfolio. These factors explain the decrease of $33.8 million in total income as compared to the prior year. An additional contributor was $3.4 million higher borrowings expense on a $2.3 billion larger outstanding borrowings portfolio at the end of 2020 compared to the end of 2019 driven by IDB Invest's benchmark bond issuances under the Euro Medium Term Note Program to support its COVID-19 response.

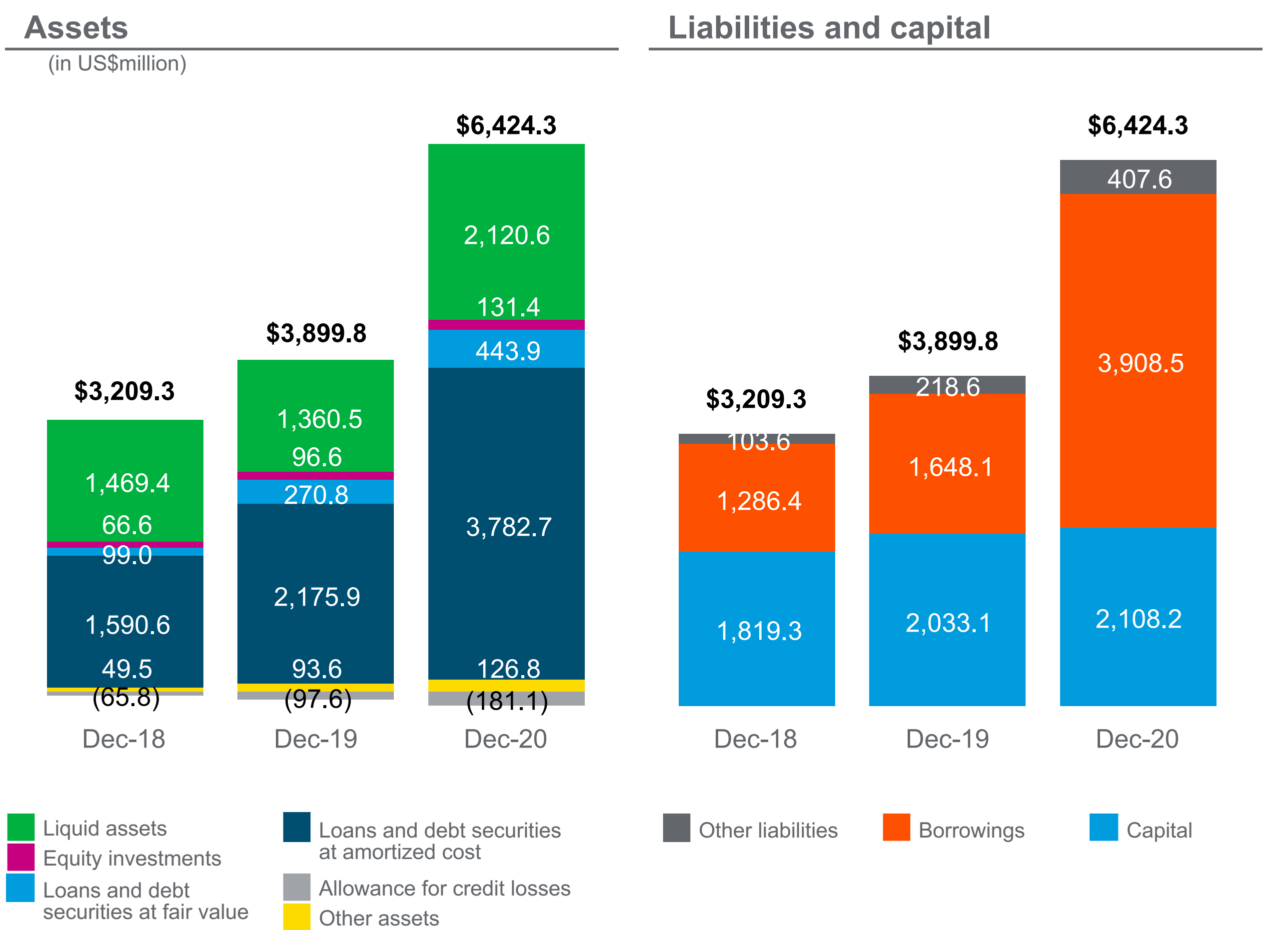
Administrative expenses increased from $130.0 million in 2019 to $147.2 million in 2020 (or 13%). The main driver for this increase was higher workforce expenses related to pension costs driven by historically low discount rates detailed further below. Compared to gross development related investments growth of 71%, the limited increase in workforce costs is a signal of IDB Invest's operational efficiencies and strategy towards a results-oriented budget in its first five years of operations. IDB Invest also delivered on strengthening the backbone with the creation of the Operations Division and investments in processes and systems improvements.

Pension Plans and Post Retirement Benefit Plan

The volatility in the equity and credit markets affects the funded status of the Pension Plans and Postretirement Benefits Plan. IDB Invest's Pension Plans are 68% funded ($123.1 million underfunded) and the Post Retirement Benefit Plan (PRBP) is 84% funded ($34.7 million underfunded) as of December 31, 2020. The funded status of the Pension Plans decreased by $45.2 million and the PRBP decreased by $16.9 million from 2019. The changes to the funded status of the Pension Plans and PRBP were driven by a decrease in the discount rates of 73 bps and 71 bps, respectively, maintaining the trend of historically low discount rates despite a recovery in asset values from the economic impacts of COVID-19 on financial markets. IDB Invest, in coordination with the IDB, actively monitors management strategies to address the short-term and long-term performance of the Pension Plans and PRBP.

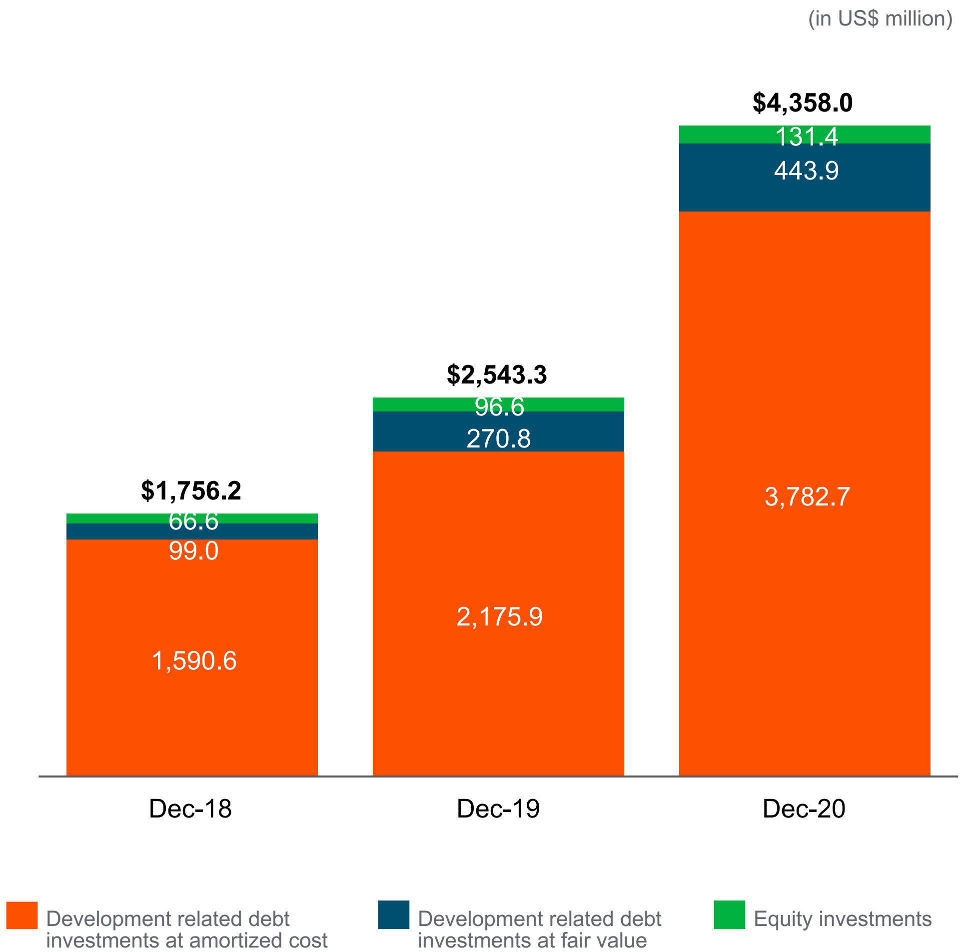
Development Related Investments

The COVID-19 pandemic spurred the adoption of alleviation measures at IDB Invest including an expansion of new financial instruments and mobilization products, substantial increase in short-term financing, more long-term commitments, and a continued expansion of local currency financing including in Trinidad and Tobago dollars. IDB Invest entered into its first interest rate and cross currency swaps during 2020. These swaps are used as risk management tools to hedge the interest and currency risks inherent in development related assets and borrowings.



IDB Invest's gross development related investments, comprised of loans, debt securities and equity investments, increased approximately 71% in 2020, from $2.5 billion in 2019 to $4.4 billion in 2020. In addition, undisbursed commitments related to development related investments were 72% higher as compared to the prior year, providing evidence of continued growth in IDB Invest's portfolio.

Development related investments portfolio



Allowance for credit losses

$(65.8)	$(97.6)	$(181.1)

Asset Quality

IDB Invest's gross development related investments portfolio continued to grow from prior year end while maintaining a consistent level of portfolio credit quality over the period of growth. The allowance for credit losses as a percentage of development related investments outstanding remained constant compared to the end of 2019 (4.8% at the end of 2020 vs. 4.7% at the end of 2019). Also, the ratio of impaired loans to loan portfolio outstanding improved from 1.5% in 2019 to 0.8% in 2020. Further, despite the LAC Region facing the challenges of the COVID-19 pandemic, the ratio of development related debt investments portfolio past due 90 days compared to the total portfolio decreased slightly from 0.7% at the end of 2019 to 0.5% at the end of

2020, demonstrating the limited impact to date of the pandemic on the portfolio and continued health of the portfolio.

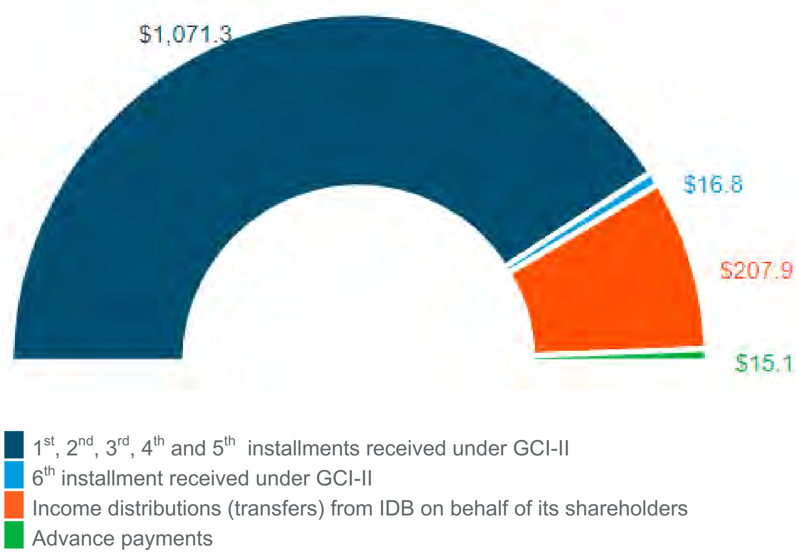
Capital, Leverage and Liquidity Adequacy

During 2020, IDB Invest's total capital increased by 4%, from $2.0 billion in 2019 to $2.1 billion in 2020. This increase in IDB Invest's capital base resulted from $184.7 million in capital contributions during 2020 contributing to $1.3 billion in total capital contributions received under the Second General Capital Increase demonstrating continued shareholder support. Positive net income further improved IDB Invest's capital base that was partially offset by accumulated other comprehensive losses of $70.2 million, primarily comprised of unrealized valuation adjustment losses on pension obligations and losses in the fair value of borrowings resulting from changes in IDB Invest's own credit risk spread.

Capital Contributions

As of December 31, 2020 (in US$ million)

Total GCI-II capital contributions: $1,311.1



IDB Invest has a solid financial risk management framework. In 2020, IDB Invest's capital adequacy ratio, liquidity coverage ratio and debt to equity ratio remained in full compliance with financial risk management policies and targets.

IDB Invest's solvency and liquidity ratios remained within established thresholds in 2020 despite the events caused by the COVID-19 crisis. IDB Invest's capital-to-total-assets ratio shifted to 33% at the end of 2020 as compared to 52% at the end of 2019 as a result of the aforementioned portfolio growth. The leverage ratio maintained below the maximum of 3.0x established by the Agreement Establishing the Inter-American Investment Corporation, with a debt-to-equity ratio of 186% in 2020 compared to 81% in 2019. IDB Invest's liquidity-to-total-assets ratio was 33% in 2020 (35% in 2019) and the liquidity-to-debt ratio was 54% in 2020 (82% in 2019).

The soundness of IDB Invest's business and financial profiles was reflected in its external ratings. As of December 31, 2020, IDB Invest was rated AAA, Aa1, and AA by Fitch[1], Moody's and S&P, respectively.

[1]On February 2, 2021, Fitch Ratings revised its outlook from stable to negative.