# INTER-AMERICAN INVESTMENT CORPORATION

Condensed Interim Financial Statements (Unaudited)

September 30, 2020

# Inter-American Investment Corporation

## Balance Sheets (Unaudited)

| *Expressed in thousands of United States dollars* | Notes | September 30, 2020 | December 31, 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 3 | $ 50,598 | $ 22,749 |
| Investment securities | 3 & 10 | 2,126,091 | 1,337,664 |
| Development related investments | | | |
| Loans and debt securities | | | |
| At amortized cost | | 3,480,302 | 2,175,921 |
| Allowance for credit losses | | (166,570) | (97,614) |
| | | 3,313,732 | 2,078,307 |
| At fair value | | 339,569 | 270,827 |
| | | 3,653,301 | 2,349,134 |
| Equity investments | | | |
| At cost-based measurement alternative | | 4,695 | 4,695 |
| At fair value | | 108,462 | 91,980 |
| | | 113,157 | 96,675 |
| Total development related investments, net | 4 & 10 | 3,766,458 | 2,445,809 |
| Derivative assets | 8 | 954 | — |
| Receivables and other assets | 5 | 113,627 | 93,602 |
| **Total assets** | | **6,057,728** | **3,899,824** |
| **Liabilities and capital** | | | |
| Borrowings | 7 | | |
| At amortized cost | | 1,621,274 | 1,648,146 |
| At fair value | | 2,007,440 | — |
| | | 3,628,714 | 1,648,146 |
| Derivative liabilities | 8 | 4,122 | — |
| Payables and other liabilities | 6 | 316,260 | 218,616 |
| **Total liabilities** | | **3,949,096** | **1,866,762** |
| Capital | | | |
| Capital, par value | | 1,640,850 | 1,573,500 |
| Additional paid-in-capital | | 592,226 | 546,751 |
| Receivable from members | | (268,569) | (287,840) |
| Total paid-in-capital | 9 | 1,964,507 | 1,832,411 |
| Retained earnings | | 233,662 | 279,227 |
| Accumulated other comprehensive income/(loss) | | (89,537) | (78,576) |
| **Total capital** | | **2,108,632** | **2,033,062** |
| **Total liabilities and capital** | | **$ 6,057,728** | **$ 3,899,824** |

*The accompanying notes are an integral part of these condensed interim financial statements*

# Inter-American Investment Corporation

## Income Statements (Unaudited)

| *Expressed in thousands of United States dollars* | Notes | Nine months ended September 30 2020 | Nine months ended September 30 2019 |
|---|---|---|---|
| **Income** | | | |
| **Development related investments** | | | |
| Loans, debt securities and guarantees | | | |
| Interest and other income | | $ 133,914 | $ 95,808 |
| Unrealized gain/(loss) from changes in fair value and gain/(loss) from foreign exchange transactions, net | | (55,417) | (16,883) |
| (Provision)/release of provision for credit losses | | (79,454) | (26,338) |
| | | (957) | 52,587 |
| Equity investments | | | |
| Realized gain/(loss) from sales, dividends and other income, net | | 495 | 2,742 |
| Unrealized gain/(loss) from changes in fair value and measurement adjustments, net | | (5,571) | (2,662) |
| | | (5,076) | 80 |
| **Income from development related investments, net** | 4 | **(6,033)** | **52,667** |
| Gain/(loss) from liquid investments, including foreign exchange transactions, net | 3 | 8,283 | 23,787 |
| Borrowings expense | 7 | | |
| Interest and other borrowings costs | | (36,038) | (31,413) |
| Unrealized gain/(loss) from changes in fair value and gain/(loss) from foreign exchange transactions, net | | 72,806 | 17,448 |
| Gain/(loss) from derivative instruments, net | 8 | (979) | — |
| **Income/(expense) from development related investments, liquid assets, borrowings and derivatives, net** | | **38,039** | **62,489** |
| **Advisory services and other income** | | | |
| Service fees from related parties | 12 | 58,664 | 57,295 |
| Mobilization fees and other income | | 6,669 | 3,920 |
| **Total advisory services and other income** | | **65,333** | **61,215** |
| **Operating expenses** | | | |
| Administrative expenses | | 98,558 | 89,525 |
| Other components of pension benefit costs, net | 13 | 1,493 | (3,089) |
| (Gain)/loss on foreign exchange transactions on other assets/liabilities, net | | (332) | (322) |
| Other expenses | | 2,985 | 2,996 |
| **Total operating expenses** | | **102,704** | **89,110** |
| **Net income/(loss)** | | **$ 668** | **$ 34,594** |

*The accompanying notes are an integral part of these condensed interim financial statements*

# Inter-American Investment Corporation
# Statements of Comprehensive Income/(Loss) (Unaudited)
# Statements of Changes in Capital (Unaudited)

## Statements of Comprehensive Income/(Loss)

| *Expressed in thousands of United States dollars* | Notes | Nine months ended September 30 2020 | 2019 |
|---|---|---|---|
| **Net income/(loss)** | | **$ 668** | **$ 34,594** |
| **Other comprehensive income/(loss)** | | | |
| Reclassification to income - amortization of net actuarial (gain)/loss and prior service cost/ (credit) on Pension Plans and Postretirement Benefits Plan | 13 | 4,605 | (150) |
| Recognition of unrealized gain/(loss) related to available-for-sale securities | 3 | (3,172) | 9,665 |
| Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk | 7 | (12,394) | — |
| **Total other comprehensive income/(loss)** | | **(10,961)** | **9,515** |
| **Comprehensive income/(loss)** | | **$ (10,293)** | **$ 44,109** |

## Statements of Changes in Capital

| *Expressed in thousands of United States dollars, except for share information* | Notes | Shares | Total paid-in capital | Retained earnings | Accumulated other comprehensive income/(loss) | Total capital |
|---|---|---|---|---|---|---|
| **As of December 31, 2018** | | **154,286** | **$ 1,622,206** | **$ 235,356** | **$ (38,312)** | **$ 1,819,250** |
| Nine months ended September 30, 2019 | | | | | | |
| Net income/(loss) | | | — | 34,594 | — | 34,594 |
| Other comprehensive income/(loss) | | | — | — | 9,515 | 9,515 |
| Change in shares | 9 | 3,064 | | | | |
| Payments received for capital | | | 99,659 | — | — | 99,659 |
| **As of September 30, 2019** | | **157,350** | **1,721,865** | **269,950** | **(28,797)** | **1,963,018** |
| **As of December 31, 2019** | | **157,350** | **1,832,411** | **279,227** | **(78,576)** | **2,033,062** |
| Nine months ended September 30, 2020 | | | | | | |
| Cumulative effect of adoption of ASU 2016-13 | 2 | | — | (46,233) | — | (46,233) |
| Net income/(loss) | | | — | 668 | — | 668 |
| Other comprehensive income/(loss) | | | — | — | (10,961) | (10,961) |
| Change in shares | 9 | 6,735 | | | | |
| Payments received for capital | | | 132,096 | — | — | 132,096 |
| **As of September 30, 2020** | | **164,085** | **$ 1,964,507** | **$ 233,662** | **$ (89,537)** | **$ 2,108,632** |

*The accompanying notes are an integral part of these condensed interim financial statements*

# Inter-American Investment Corporation

## Statements of Cash Flows (Unaudited)

| | Nine months ended September 30 | |
|---|---|---|
| *Expressed in thousands of United States dollars* | **2020** | **2019** |
| **Cash flows from investing activities** | | |
| Loan disbursements | $ (2,185,660) | $ (880,296) |
| Loan proceeds | 759,201 | 510,590 |
| Equity investment disbursements | (37,824) | (27,439) |
| Equity investment proceeds | 16,014 | 6,972 |
| Development related debt securities purchases | (4,570) | (195,373) |
| Development related debt securities proceeds | 10,198 | 246 |
| Available-for-sale security purchases | — | (149,879) |
| Available-for-sale security proceeds | — | 672,801 |
| Capital asset expenditures | (2,665) | (2,366) |
| **Net cash provided by/(used in) investing activities** | **$ (1,445,306)** | **$ (64,744)** |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of borrowings | 2,047,872 | 475,067 |
| Borrowings repayments | (9,046) | (520,000) |
| Payments received for capital | 132,096 | 99,659 |
| **Net cash provided by/(used in) financing activities** | **$ 2,170,922** | **$ 54,726** |
| **Cash flows from operating activities** | | |
| Net income/(loss) | 668 | 34,594 |
| Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities: | | |
| Change in fair value of equity investments and measurement adjustments | 5,571 | 2,662 |
| Unrealized (gain)/loss from changes in fair value and foreign exchange transactions (gain)/loss of loans and debt securities, net | 55,417 | 16,883 |
| Unrealized (gain)/loss from changes in fair value and foreign exchange transactions (gain)/loss of borrowings, net | (72,806) | (17,448) |
| Change in fair value of derivative instruments | 3,168 | — |
| Provision/(release) of provision for credit losses | 79,454 | 26,338 |
| (Gain)/loss from investment securities, including foreign exchange transactions, net | 3,234 | (3,323) |
| Realized (gain)/loss on sales of equity investments, net | (232) | (2,500) |
| Change in receivables and other assets | (21,348) | (59,295) |
| Change in payables and other liabilities | 34,061 | 98,979 |
| Change in Pension Plans and Postretirement Benefit Plan, net | 11,922 | 1,213 |
| Change in investment securities | (794,834) | (79,234) |
| Other, net | (625) | (2,051) |
| **Net cash provided by/(used in) operating activities** | **$ (696,350)** | **$ 16,818** |
| Change in cash and cash equivalents | 29,266 | 6,800 |
| Effect of exchange rate changes on cash and cash equivalents, net | (1,417) | 15 |
| **Net increase/(decrease) in cash and cash equivalents** | **$ 27,849** | **$ 6,815** |
| Cash and cash equivalents as of January 1 | 22,749 | 9,647 |
| **Cash and cash equivalents as of September 30** | **$ 50,598** | **$ 16,462** |
| Supplemental disclosure: | | |
| Change in ending balances resulting from currency exchange rate fluctuations: | | |
| Liquid assets | (16,094) | (1,205) |
| Loans | (19,554) | (2,112) |
| Debt securities | (34,061) | (14,422) |
| Borrowings | 68,260 | 17,448 |
| Other assets/liabilities | 332 | 337 |
| Gain/(loss) on foreign exchange transactions, net | (1,117) | 46 |
| Interest paid during the period | (23,753) | 31,803 |

*The accompanying notes are an integral part of these condensed interim financial statements*

## Entity and Operations

The Inter-American Investment Corporation (the IIC or IDB Invest), an international organization, was established in 1986 and began operations in 1989, and is owned by its member countries. These members include 26 regional developing member countries, all of which are located in Latin America and the Caribbean (the Regional Developing Member Countries), and 21 members from other countries. The purpose of IDB Invest is to promote the economic development of its Regional Developing Member Countries by encouraging the establishment, expansion, and modernization of private enterprises in such a way as to supplement the activities of the Inter-American Development Bank (IDB). IDB Invest provides financing through loans, investments in debt securities, guarantees and equity investments where sufficient capital is not otherwise available on adequate terms in the market. IDB Invest also arranges additional project funding from other investors and lenders, either through joint financing or through loan syndications, loan participations and guarantees. In addition, IDB Invest provides financial and technical advisory services to clients. IDB Invest is an autonomous international organization and a member of the Inter-American Development Bank Group (the IDB Group), which also includes the IDB and the Multilateral Investment Fund (now commercially known as IDB Lab).

## 1. Basis of Presentation

Certain financial information that is normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP), but is not required for interim reporting purposes, has been condensed or omitted. References to US GAAP issued by the Financial Accounting Standards Board (FASB) in these notes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

All amounts presented in the accompanying financial statements and notes are expressed in United States dollars (US$ or $), which is IDB Invest's functional and reporting currency.

## 2. Summary of Significant Accounting Policies

**Use of estimates** – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for credit losses, the evaluation for other-than-temporary impairment on available-for-sale and held-to-maturity debt securities and equity investments, the fair value of investment securities, loan and equity investments, debt securities, derivative instruments, borrowings, and the determination of the projected benefit obligations of the pension and postretirement benefit plans, the fair value of plan assets, the funded status and net periodic benefit cost associated with these plans. There are inherent risks and uncertainties related to IDB Invest's operations including the potential impacts of changing economic conditions on IDB Invest's clients and the global investment markets that could have an adverse effect on the financial position of IDB Invest.

**Cash and cash equivalents** – Highly liquid investment instruments purchased with original maturities of three months or less are considered cash equivalents. IDB Invest may hold cash deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. In addition, cash and cash equivalents include restricted cash related to third party project origination costs.

**Liquid asset portfolio** – The liquid asset portfolio, as defined by IDB Invest, consists of: Cash and cash equivalents and Investment securities. As part of its overall portfolio management strategy and to provide liquidity and resources to finance development related investments, IDB Invest invests in money market funds and debt securities issued by corporations, governments, supranationals and agencies (Investment securities). These investments may include fixed and floating rate bonds, notes, bills, certificates of deposit, commercial paper and mutual funds.

Securities are classified based on management's intention on the date of purchase. Purchases and sales of securities are recorded on a trade date basis. The first-in, first-out method is used to determine the cost basis of securities sold. The liquid asset portfolio classified as trading is recorded at fair value with unrealized gains and losses reported in earnings in Gain/(loss) from liquid assets, net[1]. The securities classified as available-for-sale are carried at fair value with net unrealized gains or losses included in Other comprehensive income/(loss). Interest and dividends on securities, amortization of premiums, accretion of discounts, and realized gains and losses from both trading and available-for-sale debt securities are reported in income from Gain/(loss) from liquid assets, net. On January 1, 2020, IDB Invest did a one-time reclassification of its remaining available-for-sale debt securities into a trading portfolio. Management concluded that IDB Invest's business model requires greater available liquidity to meet strategic business needs and transferred its debt securities classified as available-for-sale to trading. Unrealized gains of $3.2 million previously recorded to Accumulated other comprehensive income were recognized through earnings on the date of transfer.

Available-for-sale debt securities are evaluated for other-than-temporary impairment. IDB Invest considers various factors in determining whether a decline in fair value is other-than-temporary including the issuer's financial condition, the effects of changes in interest rates or credit spreads, the expected recovery period, and other quantitative and qualitative information. The evaluation of securities for impairment is intended to determine whether declines in fair value of debt securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions and future changes in assessments of the aforementioned factors. It is expected that such factors will change in the future. For impairments that are deemed to be other-than-temporary, the credit portion of the loss is recognized in earnings and the non-credit portion is recognized in Other comprehensive income/(loss). However, when impairment is recorded because IDB Invest intends to sell or considers it more likely than not that it will be required to sell the securities before the recovery of the amortized cost the full impairment is recognized in earnings.

**Loans and development related debt securities (Development related debt investments)** – Loans and debt securities in the development related investments portfolio are recorded when disbursed. These development related debt investments are carried at amortized cost or fair value through earnings, depending on the nature of the instrument. Debt securities designated in the held-to-maturity (HTM) portfolio and loans at amortized cost are adjusted for allowance for expected credit losses.

IDB Invest's loans may be secured or unsecured. Secured loans may be guaranteed by mortgages and other forms of collateral security, as well as third-party guarantees. IDB Invest also enters into standalone insurance contracts as a form of credit enhancements that are generally not transferable. IDB Invest estimates its recovery assets under these contracts and records them as Receivables and other assets in the balance sheets and as Fees and other income in the income statements. Refer to Note 5 for additional information related to Recovery assets.

**Guarantees –** IDB Invest offers credit guarantees covering, on a risk-sharing basis, third party obligations on loans undertaken for or securities issued in support of projects located within a member country to enhance their credit standing and enable them to complete a wide variety of business transactions. These financial guarantees are commitments issued by IDB Invest to guarantee payment performance by a borrower to a third party. IDB Invest's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. Guarantees are regarded as issued when IDB Invest executes the guarantee agreement, outstanding when the underlying financial obligation of the third party is incurred and called when IDB Invest's obligation under the guarantee has been invoked. There are two obligations associated with the guarantees: (1) the stand-ready obligation to perform; and (2) the contingent obligation to make future payments. The stand-ready obligation to perform is recognized at the issuance date at fair value. The contingent liability associated with the financial guarantee is recognized following the current expected credit losses (CECL) methodology. Any stand-ready and contingent liabilities associated with the guarantees are included in Payables and other liabilities in the balance sheets. The expense related to the contingent liability is recorded in (Provision)/release of provision for credit losses on development related investment in the income statements. Guarantee fee income is recognized as IDB Invest is released from risk

[1] References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

and its stand-ready obligation to perform. In the event the guarantees are called, the amount disbursed is recorded as a loan investment and specific reserves are established based on the estimated probable loss.

**Undisbursed commitments** – Under CECL, IDB Invest estimates expected credit losses over the contractual period in which it is exposed to credit risk through a contractual obligation to extend credit unless Management has the discretion to cancel the commitment at any time (unconditionally cancellable). The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Liability for off-balance sheet credit losses are recorded as a contingent liability and included in Payables and other liabilities in the balance sheets. The expense related to the contingent liability is recorded in (Provision)/release of provision for credit losses on development related investments in the income statements.

Prior to January 1, 2020, IDB Invest applied the incurred loss model to account for probable losses in the related loan and guarantee portfolios under US GAAP.

On January 1, 2020, IDB Invest adopted ASC 326, *Financial Instruments – Credit Losses (known as current expected credit losses or CECL)*, which replaces the incurred loss model with a new methodology that reflects expected credit losses for the lifetime of financial assets and certain other instruments that are not measured at fair value through earnings. Furthermore, expected credit losses are measured on a collective basis when similar risk characteristics exist. Development related investments in the scope of CECL for IDB Invest include loans and debt securities at amortized cost, undisbursed commitments and guarantees. IDB Invest recorded a net decrease to retained earnings of $46.2 million as of January 1, 2020 for the cumulative effect of adopting CECL.

IDB Invest's development related debt investments portfolio classes of financing receivables under CECL include loans and debt securities. The development related debt investments portfolio is classified into three portfolio segments: corporates, financial institutions and project finance. The major security type for debt securities in the development related debt investments portfolio at amortized cost are classified as corporate securities. Refer to Note 4 for additional details.

**Collective provision, *Allowance for credit losses under CECL*** – Applied starting January 1, 2020, the allowance for expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable supportable forecasts in the related portfolio as of the balance sheet date and is recorded as a reduction of the respective development related debt investments (i.e. loans or HTM debt securities) at amortized cost and as a contingent liability for undisbursed commitments and guarantees. Changes in the allowance for credit losses are recorded through the (Provision)/release of provision for credit losses in the income statements.

Expected credit losses are estimated over the contractual term of the development related investment and consider each borrower's credit risk rating, country and sector information, adjusted for expected prepayments. Prepayment assumptions are based on historical data from IDB's private sector portfolio given the common portfolio characteristics that include borrower's country, risk rating and industry sector.

IDB Invest assesses credit risk for lending operations using a series of sector specific scorecards to determine borrower risk ratings. IDB Invest's portfolio segments — corporates, financial institutions and project finance — are aligned to the scorecards. Under CECL, the contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: (i) management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or (ii) the extension or renewal options are included in the original or modified contract at the reporting date and are not controlled by IDB Invest (in other words, not unconditionally cancellable by IDB Invest).

The CECL methodology, incorporates Point in Time (PIT) term structures for probability of default (PD), loss given default (LGD) term structures and exposure at default (EAD). In addition, the new CECL methodology incorporates forward looking conditioning, which takes into consideration current market conditions, macroeconomic forecasts and their corresponding impact to the PIT PDs and LGDs. The macroeconomic forecasts in the CECL model include various scenarios, where each scenario represents a different state of the economy in the reasonable and supportable period. For each scenario, a lifetime loss rate for each instrument is calculated using the appropriate PD and LGD for every quarter for the remaining life of the instrument. The results are then multiplied with the instrument's amortized cost. If multiple scenarios are considered, then results are weighted.

The model considers the contractual term of the development related investment. Management currently considers the reasonable and supportable period to be three years, after which the model reverts to historical averages for long-term values. IDB Invest uses PDs published by international rating agencies for similarly rated credits to determine PDs.

To augment the quantitative process described above, qualitative adjustments arising from information lags implicit in the quantitative loss estimation models, known model or data limitations, significant changes in portfolio composition or lending operations and uncertainty associated with economic and business conditions are applied as necessary based on management judgment.

The recent global crisis triggered by COVID-19 is expected to have a direct effect on economies within IDB Invest's Regional Developing Member Countries. The extent of the impact is uncertain and requires judgment. IDB Invest considers the impact of COVID-19 largely in the CECL methodology, including the period of time considered reasonable and supportable for forecasts before reverting back to historical loss experience.

**Collective provision, *Allowance for credit losses under incurred loss model*** – Applied until December 31, 2019, the allowance for credit losses represents management's estimate of probable incurred losses in the related portfolio as of the balance sheet date and is recorded as a reduction of loans and as a contingent liability for guarantees. Changes in the allowance for credit losses are recorded through the (Provision)/release of provision for credit losses in the income statements.

The estimate takes into consideration the rating of each loan or guarantee counterparty which incorporates qualitative and quantitative elements including country risk, industry risk as well as financial risk and the loss given default based on S&P's methodology. IDB Invest utilizes external inputs from S&P to calculate the allowance for credit losses because of IDB Invest's limited historical loss experience, relatively small volume of business, and financial instrument size, sector and geographic dispersion of the portfolio. IDB Invest believes that the allowance for credit losses is adequate as of the balance sheet date; however, future changes to the allowance for credit losses may be necessary. Each financial instrument is individually monitored and rated by assigning an applicable probability of default rate and an LGD ratio on at least an annual basis.

**Specific provision, Individually assessed development related debt investments** – The determination of the allowance for identified probable losses reflects management's best judgment of the creditworthiness of the borrower and is established based upon the periodic review of individual development related debt investments. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the development related investment's contractual effective rate, the fair value of collateral less disposal costs, and other market data. Because of the purpose of IDB Invest and the nature of the development related debt investments, secondary market values are usually not available.

IDB Invest considers a development related debt investment impaired when, based on current information and events, it is probable that IDB Invest will be unable to collect all amounts due according to the investment's contractual terms. Information and events considered in determining that an investment is impaired include the borrower's financial difficulties, the borrower's competitive position in the marketplace, the risk associated with the underlying collateral, the willingness and capacity of the sponsor who organized the project to support the investment, the borrower's management team, as well as geopolitical conflict and macroeconomic crises.

A modification is considered a troubled debt restructuring when the borrower is experiencing financial difficulty and IDB Invest has granted a concession to the borrower that it otherwise would not grant in order to maximize recoveries on the existing development related investment. A development related debt investment restructured under a troubled debt restructuring is considered impaired, until its extinguishment, but it does not need to be disclosed as such after the year it was restructured, if the restructuring agreement specifies an interest rate equal to or greater than the rate that IDB Invest was willing to accept at the time of the restructuring for a new investment with comparable risk, and the investment is not impaired based on the terms specified in the restructuring agreement. Additional information is included in Note 4.

Development related debt investments are partially or fully written off when IDB Invest has exhausted all possible means of recovery through a legal agreement, final bankruptcy settlement or when IDB Invest has determined with a reasonable degree of certainty that the relevant amount will not be collected. IDB Invest reduces the investment and related allowance for credit losses. Such reductions in the allowance are partially offset by recoveries, if any, associated with previously written off development related debt investments.

**Revenue recognition on development related debt investments** – Interest on development related debt investments at amortized cost is included in Income from development related investments in the income statements. Accrued interest income receivable is presented separately from development related debt investments and is included in the balance sheets in Receivables and other assets. IDB Invest has elected the practical expedient permissible under CECL to not record an allowance for credit losses on accrued interest receivable as it has a substantive nonaccrual policy.

Development related debt investments are generally placed in nonaccrual status when collectability is in doubt or payments of interest or principal are past due more than 90 days. IDB Invest does not accrue income and ceases amortization of any premiums or discounts on development related debt investments in nonaccrual status. Any uncollected interest accrued on a development related debt investment placed in nonaccrual status is reversed out of income and is thereafter recognized as income when the payment is received and is included in Interest income in the income statements. A development related debt investment is returned to accrual status once management has concluded that the borrower’s ability to make periodic interest and principal payments has been demonstrated.

Development related debt investment fees and costs, net, are deferred and amortized over the life of the asset on a straight-line basis. Amortization of the net deferred fees and costs is included in Fees and other income in the income statements thereby approximating how fees and costs would be reflected under the effective interest method. The net deferred amounts are included in Payables and other liabilities in the balance sheets.

**Equity investments** – Equity investments include ownership interests in limited partnerships and similar fund structures (LPs) and equity investments primarily in small and medium-sized enterprises and financial institutions.

Equity investments under ASC 321, *Investments–Equity Securities*, are accounted for at fair value through the income statements except for those investments that are accounted for under the cost-based measurement alternative (without a readily determinable fair value).

IDB Invest utilizes the net asset value (NAV) reported by the fund managers as a practical expedient for the fair value measurement of LPs. The NAVs that have been reported by the fund manager are derived from the fair values of the underlying investments.

Equity investments accounted for under the cost-based measurement alternative are recorded at cost less impairment plus or minus adjustments resulting from observable price changes in orderly transactions for the identical investment or a similar investment of the same issuer. Adjustments related to impairment and observable price changes, if any, are recorded in Gain/(loss) from measurement adjustments, net in the income statements. IDB Invest reassesses periodically whether these equity investments continue to qualify for this cost-based measurement alternative. IDB Invest may subsequently elect to measure an equity investment at fair value; such election is irrevocable, and any resulting gains or losses would be recorded in earnings at the time of election and thereafter.

Equity investments not recorded at fair value are assessed for impairment periodically based on the latest financial information, operating performance and other relevant information including macroeconomic conditions, specific industry trends, the historical performance of the company, and IDB Invest’s intent to hold the investment for an extended period. When impairment is identified, the investment is written down to its fair value, which becomes the new carrying value for the investment.

**Revenue recognition on equity investments** – Dividends and profit participations received from equity investments are recorded as income and reported as Dividends and other income in the income statements on a cash basis when dividend distributions are collected. Gains or losses on the sale or redemption of equity investments accounted for under the cost-based measurement alternative are recorded, at disposition, as income/(loss) and reported in Gain/(loss) on sale, net in the income statements.

For equity investments accounted for at fair value, unrealized gains and losses are recorded as Gain/(loss) from changes in fair value, net of equity investments in the income statements. Disbursements and distributions are recorded as changes to the outstanding balance of these equity investments and reflected as such in Equity investments in the balance sheets.

**Variable interest entities** – ASC 810, *Consolidation*, provides for consolidation when a reporting entity is the primary beneficiary of a variable interest entity (VIE), or if an entity does not meet the definitional elements of a VIE, consolidation is required if a reporting entity has a controlling financial interest and/or holds a majority voting interest in an entity. Additional information about VIEs is included in Note 4.

**Revenue recognition for service fees –** A series of service level agreements (SLAs) define the nature of the services and corresponding fees for services provided to the IDB. The most significant of these services relates to loan origination and servicing performed on the IDB's behalf. Revenue is recognized when services are rendered, as the corresponding fees are determinable, and collection is reasonably assured. Similarly, IDB Invest receives project administration and general administrative fees for services provided to several special purpose trust funds affiliated with IDB Invest or the IDB. Additional information about related-party transactions is included in Note 12.

**Fixed and intangible assets** – Fixed and intangible assets (software costs) are presented at cost less accumulated depreciation and amortization and are included in Receivables and other assets in the balance sheets. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets that range from three to seven years. Additional information about fixed and intangible assets is included in Note 5.

**Leases** – In accordance with ASC 842, *Leases*, IDB Invest recognizes lease assets and lease liabilities in the balance sheets. IDB Invest follows lessee accounting related to its operating leases for office space with the IDB at headquarters and in its Regional Developing Member Countries.

IDB Invest recognizes a right-of-use asset and lease liability for its operating leases. The right-of-use assets are nonmonetary assets amortized based on each period's discounted cash flows included in Receivable and other assets and the lease liabilities are monetary liabilities reduced based on each period's discounted cash flows included in Payables and other liabilities in the balance sheets. IDB Invest remeasures its lease liabilities originating in currencies other than US$ at the current market exchange rate in effect at each reporting date. Operating lease expense is recorded on a straight-line basis and included in Administrative expenses in the income statements. Additional information related to IDB Invest's leases is included in Notes 5, 6 and 11.

**Risk management and use of derivative instruments** – IDB Invest uses derivative instruments primarily for market risk management purposes in connection with its principal business activities. IDB Invest enters into currency and interest rate swaps to manage foreign exchange and interest rate risks arising from mismatches between its development related investments and its funding liabilities. None are designated as hedging instruments as meant by ASC 815, *Derivatives.*

Derivatives are recognized in the balance sheet at their fair value and are classified as either Derivative assets or Derivative liabilities, depending on their net fair value amount. Changes in fair value of derivatives are recorded in Gain/(loss) from derivative instruments, net in the income statements. Additional information about derivatives is included in Note 8.

**Borrowings** – To ensure funds are available for its operational liquidity needs, IDB Invest accesses the international capital markets, offering its debt securities to investors. IDB Invest's borrowings are carried at amortized cost or fair value in the balance sheets.

For those borrowings carried at amortized cost, the amortization of premiums and accretion of discounts is calculated following a methodology that approximates the effective interest method and is included in Interest and other borrowing costs in the income statements. The unamortized balance of the borrowing issuance costs related to a recognized debt liability is included as a direct deduction from the carrying amount of the Borrowings in the balance sheets. Interest expense on all borrowings is recognized on an accrual basis and is included in Interest and other borrowing costs in the income statements.

For those borrowings carried at fair value, fair value changes are reported in accordance with ASU 2016-01, *Financial Instruments*. Accordingly, the change in fair value resulting from changes in instrument-specific credit risk is reported in Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk in the statements of other comprehensive income, while the remaining change in fair value is reported in Unrealized gain/(loss), net in Borrowings expense in the income statements. Additional information about borrowings is included in Note 7.

**Remeasurements of foreign currency transactions** – Monetary assets and liabilities denominated in currencies other than the United States dollar are recognized at the market exchange rate in effect at the transaction date or at monthly average rates. Resulting gains and losses from remeasurements are generally included in (Gain)/loss on foreign exchange transactions, net in the income statements.

**Fair value measurements** – The Codification requires entities to disclose information about recurring and non-recurring fair value measurements, as well as the fair value of financial instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transfer between market participants at the measurement date under current market conditions. Fair value measurement further assumes that a transaction to sell the asset or assume a liability takes place either in the principal market or, in the absence of a principal market, in the most advantageous market for the asset or liability.

In determining fair value, IDB Invest uses various valuation approaches, including market, income and/or cost approaches. The Codification establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of IDB Invest. Unobservable inputs are inputs that reflect IDB Invest's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1—Unadjusted quoted prices for identical assets or liabilities in active markets.

    Assets and liabilities utilizing Level 1 inputs include debt securities and equity investments that are actively traded and primarily include debt securities of the United States government and agencies.

- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not actively traded; or pricing models for which all significant inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

    Assets and liabilities utilizing Level 2 inputs include money market funds, investment securities that are not actively traded, and primarily include investments in obligations of banks, governments and agencies or instrumentalities other than the United States, sovereigns, local and regional governments, corporate bonds, and structured borrowings.

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

  Assets utilizing Level 3 inputs include loans, equity investments and development related debt securities that are also measured for impairment or disclosed at fair value.

The availability of observable inputs is affected by a wide variety of factors, including, for example, the type of product, and other characteristics particular to the transaction. To the extent fair value is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Fair value for the majority of IDB Invest's financial instruments is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rate yield curves, credit spreads, creditworthiness of the counterparty, option volatility, and currency rates. In accordance with ASC 820, *Fair Value Measurements* (ASC 820), the impact of IDB Invest's own credit spreads would also be considered when measuring the fair value of liabilities. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality, and market liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs, where available.

**Fair value option** – The Fair Value Option (FVO) under ASC 825 permits the measurement of eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. IDB Invest has elected the FVO for the following classes of financial assets and liabilities: i) investments in LPs, ii) certain development related investments in debt securities that IDB Invest does not have the ability and intent to hold until maturity, iii) certain development related investments with special features iv) certain development related investments in equity securities that do not have quoted market prices, v) certain hybrid instruments that would otherwise require bifurcation of the host and embedded derivative and vi) borrowings that are economically hedged with derivative financial instruments.

Financial assets and borrowings elected under the FVO are measured at fair value on a recurring basis and changes in fair value of these financial instruments are included in the income statements. Interest income on these financial instruments is recognized on an accrual basis.

**Loan participations and co-financing arrangements** – IDB Invest mobilizes funds from commercial banks and other financial institutions (Participants) by facilitating loan participations, without recourse. These loan participations are administered and serviced by IDB Invest on behalf of the Participants in exchange for a fee. Such fees are reported as Mobilization fees and other income in the income statements. IDB Invest also services co-financing arrangements with IDB Group related parties in exchange for a fee. Income for these arrangements are reported as Services fees from related parties in the income statements. The disbursed and outstanding balances of loan participations and co-financing arrangements that meet the applicable accounting criteria for sales are not included in IDB Invest's balance sheets.

**Pension and postretirement benefits** – The IDB Group has three defined benefit pension plans: The Staff Retirement Plan (SRP), the Complementary Staff Retirement Plan (CSRP), and the Local Retirement Plan (LRP) (the Pension Plans and LRP), covering staff of the IDB Group entities. Under the Pension Plans and LRP, benefits are based on years of service and level of compensation, and are funded by contributions from employees, IDB Invest and the IDB, in accordance with the provisions of the Pension Plans and LRP. Any and all contributions to the Pension Plans and LRP are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Pension Plans and LRP.

The IDB Group also provides certain health care, tax reimbursement and other benefits to retirees. Staff who retire, receive a monthly pension from the IDB or IDB Invest, and who meet certain requirements, are eligible for postretirement benefits under the Postretirement Benefit Plan (PRBP). Retirees contribute toward the PRBP based on an established premium schedule. IDB Invest and the IDB contribute the remainder of the actuarially determined cost of future health care and other benefits. While all contributions and all other assets and income of the PRBP remain the property of IDB Invest and the IDB, they are held and administered separately and apart from the other property and assets of each employer solely for the purpose of payment of benefits under the PRBP.

Since both the IDB and IDB Invest are sponsors of the Pension Plans and the PRBP, each employer presents its respective share of these plans. The amounts presented reflect IDB Invest's proportionate share of costs, assets, and obligations of these Pension Plans and PRBP in accordance with ASC 715, *Compensation – Retirement Benefits*.

The service cost component of net periodic benefit costs allocated to IDB Invest is included in Administrative expenses and the other components are included in Other components of pension benefit costs, net in the income statements. The funded status of the Pension Plans and the PRBP is included in Receivables and other assets when the respective plan is in a funded status and included in Payables and other liabilities when the respective plan is in an unfunded status in the balance sheets. Additional information about the Pension Plans and PRBP is included in Note 13**.**

**Taxes** – IDB Invest, its property, other assets, income, and the operations and transactions it carries out pursuant to the Agreement Establishing the Inter-American Investment Corporation are immune from all taxation and from all custom duties in its member countries. IDB Invest is also immune from any obligation relating to the payment, withholding or collection of any tax or duty in its member countries.

**Accounting and financial reporting developments** – In August 2018, the FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement – Changes to the disclosure requirements for fair value measurement*. The amendments in this Update impact disclosure requirements for all entities that are required, under existing US GAAP, to make disclosures about recurring or nonrecurring fair value measurements. This Update eliminates, modifies, and adds to the existing disclosures. For IDB Invest, this Update is effective on January 1, 2020. This Update did not have a material impact on IDB Invest's financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits - Defined Benefit Plans – Changes to the disclosure requirements for defined benefit plans.* The amendments in this Update impact disclosure requirements for all employers that sponsor defined benefit pension or other postretirement plans by eliminating existing disclosures that are no longer deemed to be relevant while at the same time adding new disclosures deemed to improve disclosures and clarifying existing disclosures. Among the new disclosures, the explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period will be required. For IDB Invest, this Update is effective on January 1, 2020. This Update did not have a material impact on IDB Invest's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and other – Internal-use software – Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract*. The amendments in this Update result in consistent capitalization of implementation costs of a hosting arrangement that is a service contract and implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. For IDB Invest, this Update is effective on January 1, 2020. This Update did not have a material impact on IDB Invest's financial statements.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities (VIEs)*. The amendments in this Update eliminate the requirement that entities consider indirect interests held through related parties under common control in their entirety when assessing whether a decision-making fee is a variable interest. Instead, the reporting entity will consider such indirect costs on a proportional basis. For IDB Invest, this Update is effective on January 1, 2020. This Update did not have a material impact on IDB Invest's financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* Investments. The amendments in this Update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. For IDB Invest, this Update is effective on January 1, 2021 and is not expected to have a material impact on IDB Invest's financial statements.

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*. The amendments in this Update improve the Codification or correct its unintended application. The various amendments that affect IDB Invest include clarification on disclosures related to the FV option, clarification on the accounting for fees between debtor and creditor related to modification or extinguishment of debt and instruments. These amendments have distinct effective dates, including January 1, 2020, and are not expected to have a material impact on IDB Invest's financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848).* The amendments in this Update are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. IDB Invest may elect to apply the amendments in this Update beginning March 12, 2020 through December 31, 2022. IDB Invest is in the process of assessing the impact of this ASU on its financial statements.

### 3. Liquid Assets

Liquid assets in the balance sheets consists of the following (US$ thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents [1] | $ 50,598 | $ 22,749 |
| Money market funds | 1,112,037 | 372,822 |
| Debt securities | | |
| Corporate securities | 755,703 | 677,372 |
| Supranational securities | 142,232 | 23,223 |
| Agency securities | 99,028 | 136,336 |
| Government securities | 17,091 | 127,911 |
| **Total debt securities** | **1,014,054** | **964,842** |
| **Total** | **$ 2,176,689** | **$ 1,360,413** |

[1] Includes restricted cash of $22.1 million as of September 30, 2020 ($523 thousand as of December 31, 2019).

The total income from Liquid assets is summarized below (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | 2020 | 2019 |
| Interests and dividends, net | $ 12,834 | $ 20,449 |
| Net gains/(losses) | (4,551) | 3,338 |
| **Total** | **$ 8,283** | **$ 23,787** |

Net unrealized gains recognized in earnings for the nine months ended September 30, 2020 relating to trading securities still held as of September 30, 2020 were $6.6 million ($95 thousand net unrealized losses for the nine months ended September 30, 2019).

The maturity structure of debt securities included in Liquid assets is as follows (US$ thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Less than one year | $ 322,914 | $ 412,570 |
| Between one and five years | 691,140 | 552,272 |
| **Total** | **$ 1,014,054** | **$ 964,842** |

There were no available-for-sale debt securities as of September 30, 2020 due to the one-time reclassification explained in Note 2. The fair value of available-for-sale debt securities as of December 31, 2019 is as follows (US$ thousands):

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Corporate securities | $ 410,019 | $ 3,014 | $ (328) | $ 412,705 |
| Government securities | 80,046 | 184 | (6) | 80,224 |
| Agency securities | 70,139 | 115 | (11) | 70,243 |
| Supranational securities | 23,042 | 183 | (2) | 23,223 |
| **Total** | **$ 583,246** | **$ 3,496** | **$ (347)** | **$ 586,395** |

The length of time that individual available-for-sale debt securities have been in a continuous unrealized loss position is as follows (US$ thousands):

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| Corporate securities | $ 34,975 | $ (51) | $ 74,611 | $ (277) | $ 109,586 | $ (328) |
| Government securities | 6,981 | (6) | — | — | 6,981 | (6) |
| Agency securities | — | — | 52,416 | (11) | 52,416 | (11) |
| Supranational securities | — | — | 7,997 | (2) | 7,997 | (2) |
| **Total** | **$ 41,956** | **$ (57)** | **$ 135,024** | **$ (290)** | **$ 176,980** | **$ (347)** |

Changes in available-for-sale debt securities recognized in Other comprehensive income/(loss) are as follows (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | 2020 | 2019 |
| Unrealized gain/(loss) during the period | $ — | $ 10,539 |
| Reclassification of (gain)/loss to net income/(loss) | (3,172) | (874) |
| **Total recognized in other comprehensive income/(loss) related to available-for-sale investment securities** | **$ (3,172)** | **$ 9,665** |

Sales of available-for-sale debt securities amounted to $290.3 million during the nine months ended September 30, 2019. Gross realized gains were $878 thousand and there were $4 thousand gross realized losses from the sale of available-for-sale debt securities during the nine months ended September 30, 2019.

IDB Invest maintains a strict credit policy that all investment securities must be high quality credit rated investment grade. Unrealized losses on the available-for-sale investment securities are analyzed as part of IDB Invest's ongoing assessment of other-than-temporary impairments. For available-for-sale debt securities, IDB Invest recognizes impairment losses in earnings if IDB Invest has the intent to sell the debt security or if it is more likely than not that IDB Invest will be required to sell the debt security before recovery of its amortized cost. In these circumstances the impairment loss is equal to the full difference between the amortized cost and the fair value of the securities. During the nine months ended September 30, 2019, there were no other-than-temporary impairment losses on debt securities that IDB Invest would be more likely than not required to sell before recovery of the amortized cost. Further, for the remainder of the securities in the available-for-sale portfolio that are in an unrealized loss position, IDB Invest has the intent and ability to hold the securities until recovery of the non-credit portion recognized in Other comprehensive income/(loss).

### 4. Development Related Investments

IDB Invest has specific metrics for concentrations and it monitors the development related investments for credit performance, market risk and any potential related effects of geographic or sectorial concentrations. IDB Invest's development related investments are the result of lending and investing activities that include loans, equity investments, debt securities and guarantees that promote the economic development of IDB Invest's Regional Developing Member Countries through the establishment, expansion and modernization of private enterprises. All development related investments are individually evaluated for purposes of monitoring and evaluating credit performance and market risk.

The cost and carrying amount of development related investments are as follows (US$ thousands):

| | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Cost | Carrying amount | Cost | Carrying amount |
| **Loans** | | | | |
| At amortized cost | $ 3,354,749 | 3,354,749 | $ 2,042,297 | $ 2,042,297 |
| At fair value | 130,594 | 129,769 | 28,432 | 27,527 |
| **Total loans** | **3,485,343** | **3,484,518** | **2,070,729** | **2,069,824** |
| **Debt securities** | | | | |
| At amortized cost | 125,553 | 125,553 | 133,624 | 133,624 |
| At fair value | 211,586 | 209,800 | 243,205 | 243,300 |
| **Total debt securities** | **337,139** | **335,353** | **376,829** | **376,924** |
| **Total development related debt investments** | **3,822,482** | **3,819,871** | **2,447,558** | **2,446,748** |
| **Equity investments** | | | | |
| At cost-based measurement alternative | 4,695 | 4,695 | 4,695 | 4,695 |
| At fair value | 112,794 | 108,462 | 90,534 | $ 91,980 |
| **Total equity investments** | **117,489** | **113,157** | **95,229** | **96,675** |
| Allowance for credit losses | | (166,570) | | (97,614) |
| **Total development related investments, net** | **$ 3,939,971** | **$ 3,766,458** | **$ 2,542,787** | **$ 2,445,809** |

The distribution of the portfolio by country, and a reconciliation of total cost to carrying amount, is as follows (US$ thousands):

| | September 30, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans | Debt securities | Equity investments | Total | Loans | Debt securities | Equity investments | Total |
| Brazil | $ 628,672 | $ 25,223 | $ 31,142 | $ 685,037 | $ 273,290 | $ 45,715 | $ 19,217 | $ 338,222 |
| Colombia | 320,514 | 139,337 | 25,971 | 485,822 | 150,536 | 144,129 | 6,993 | 301,658 |
| Mexico | 414,522 | 3,983 | 37,092 | 455,597 | 187,960 | 3,233 | 13,404 | 204,597 |
| Ecuador | 375,318 | 20,000 | — | 395,318 | 241,783 | 20,000 | — | 261,783 |
| Guatemala | 260,724 | 40,000 | 1,000 | 301,724 | 59,890 | 40,000 | — | 99,890 |
| Peru | 228,425 | 13,000 | 15,500 | 256,925 | 77,878 | 13,000 | — | 90,878 |
| Chile | 188,603 | — | — | 188,603 | 282,164 | — | — | 282,164 |
| Argentina | 177,342 | 10,500 | — | 187,842 | 196,864 | 12,000 | — | 208,864 |
| Panama | 106,067 | 50,000 | — | 156,067 | 66,929 | 50,000 | — | 116,929 |
| El Salvador | 137,011 | 15,000 | — | 152,011 | 27,982 | 15,000 | — | 42,982 |
| Uruguay | 118,248 | 20,096 | — | 138,344 | 79,648 | 17,752 | — | 97,400 |
| Paraguay | 125,999 | — | — | 125,999 | 96,663 | — | — | 96,663 |
| Honduras | 100,655 | — | — | 100,655 | 24,273 | — | — | 24,273 |
| Costa Rica | 93,732 | — | — | 93,732 | 78,690 | — | — | 78,690 |
| Nicaragua | 76,386 | — | 4,695 | 81,081 | 65,717 | — | — | 65,717 |
| Bolivia | 43,165 | — | 2,089 | 45,254 | 38,566 | — | 18,500 | 57,066 |
| Trinidad and Tobago | 37,500 | — | — | 37,500 | 37,500 | — | — | 37,500 |
| Dominican Republic | 17,396 | — | — | 17,396 | 13,265 | — | — | 13,265 |
| Spain | 12,000 | — | — | 12,000 | — | — | — | — |
| Haiti | 9,216 | — | — | 9,216 | 7,032 | — | — | 7,032 |
| Belize | 6,786 | — | — | 6,786 | 7,500 | — | — | 7,500 |
| Suriname | 5,480 | — | — | 5,480 | 6,515 | — | — | 6,515 |
| Bahamas | 1,582 | — | — | 1,582 | 1,891 | — | — | 1,891 |
| Regional(1) | — | — | — | — | 48,193 | 16,000 | 37,115 | 101,308 |
| **Total cost** | **$3,485,343** | **$ 337,139** | **$ 117,489** | **$3,939,971** | **$2,070,729** | **$ 376,829** | **$ 95,229** | **$2,542,787** |
| Fair value adjustments | $ (825) | $ (1,786) | $ (4,332) | $ (6,943) | $ (905) | $ 95 | $ 1,446 | $ 636 |
| **Total carrying value** | **$3,484,518** | **$ 335,353** | **$ 113,157** | **$3,933,028** | **$2,069,824** | **$ 376,924** | **$ 96,675** | **$2,543,423** |
| Allowance for credit losses | (158,356) | (8,214) | — | (166,570) | (97,614) | — | — | (97,614) |
| **Total development related investments, net** | **$3,326,162** | **$ 327,139** | **$ 113,157** | **$3,766,458** | **$1,972,210** | **$ 376,924** | **$ 96,675** | **$2,445,809** |

(1) On January 1, 2020, IDB Invest adopted CECL and refined the exposure tracking methodology for investments in multiple countries to be based on a single country representing the activities and/or location of the borrower or ultimate guarantor (country of risk).

Income from development related investments is summarized below (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | 2020 | 2019 |
| **Loans, debt securities and guarantees** | | |
| Interest income | $ 106,651 | $ 86,962 |
| Fees and other income | 27,263 | 8,846 |
| Unrealized gain/(loss) from changes in fair value and gain/(loss) from foreign exchange transactions, net | (55,417) | (16,883) |
| (Provision)/release of provision for credit losses | (79,454) | (26,338) |
| **Income/(expense) from loans, debt securities and guarantees** | **$ (957)** | **$ 52,587** |
| **Equity investments** | | |
| Realized gain/(loss) from sales, net | 295 | 2,500 |
| Realized dividends and other income | 200 | 242 |
| Unrealized gain/(loss) from changes in fair value and measurement adjustments, net [1] | (5,571) | (2,662) |
| **Income/(expense) from equity investments** | **$ (5,076)** | **$ 80** |
| **Income from development related investments, net** | **$ (6,033)** | **$ 52,667** |

[1] Includes net gains/(losses) for equity investments carried at fair value or observable price change/impairment adjustments for equity investments recorded using the cost-based measurement alternative.

Development related investments committed but not disbursed (net of cancellations) are summarized below (US$ thousands):

| | September 30, 2020 |
|---|---|
| Loans | $ 930,562 |
| Equity investments | 118,232 |
| Debt securities | 47,222 |
| **Total** | **$ 1,096,016** |

The maturity structure of development related debt investments is as follows (US$ thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **Loans** | | |
| Due in one year or less | $ 1,273,392 | $ 622,921 |
| Due after one year through five years | 1,272,276 | 878,165 |
| Due after five years through ten years | 686,240 | 406,723 |
| Due after ten years and thereafter | 256,180 | 167,651 |
| **Total loans** | **$ 3,488,088** | **$ 2,075,460** |
| **Debt securities** | | |
| Due in one year or less | $ 33,277 | $ 24,132 |
| Due after one year through five years | 243,920 | 247,258 |
| Due after five years through ten years | 48,951 | 90,952 |
| Due after ten years and thereafter | 10,991 | 14,487 |
| **Total debt securities** | **$ 337,139** | **$ 376,829** |
| **Total development related debt investments, gross** | **$ 3,825,227** | **$ 2,452,289** |
| Unamortized discounts for loans | (2,745) | (4,731) |
| **Total development related debt investments at cost, net** | **$ 3,822,482** | **$ 2,447,558** |
| Fair value adjustments for loans and debt securities | (2,611) | (810) |
| **Total development related debt investments at carrying amount, net** | **$ 3,819,871** | **$ 2,446,748** |

Development related debt investments by currency and range of contractual interest rates, and a reconciliation of total cost to carrying amount are summarized below (US$ thousands):

| | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Amount | Range | Amount | Range |
| Brazilian real (BRL) | | | | |
| Loans | $ 18,617 | 1.0% | $ — | —% |
| Debt securities | 25,224 | 3.9% - 5.2% | 45,715 | 7.7% |
| | 43,841 | | 45,715 | |
| Colombian peso (COP) | | | | |
| Loans | 46,810 | 8.0% - 11.1% | 41,177 | 10.9% - 11.8% |
| Debt securities | 123,337 | 3.5% - 9.5% | 144,129 | 5.7% - 9.5% |
| | 170,147 | | 185,306 | |
| Dominican Republic peso (DOP) | | | | |
| Loans | 8,549 | 10.5% | 9,418 | 10.5% |
| | 8,549 | | 9,418 | |
| Mexican peso (MXN) | | | | |
| Loans | 32,941 | 6.2% - 9.0% | 34,555 | 8.7% - 12.0% |
| Debt securities | 3,983 | 5.7% | 3,232 | 7.7% |
| | 36,924 | | 37,787 | |
| Paraguayan guarani (PYG) | | | | |
| Loans | 18,054 | 7.9% - 9.0% | 4,650 | 9.0% |
| | 18,054 | | 4,650 | |
| United States dollar (US$) | | | | |
| Loans | 3,115,559 | 1.2% - 11.5% | 1,735,934 | 1.5% - 16.0% |
| Debt securities | 184,596 | 2.4% - 8.0% | 183,753 | 3.5% - 7.9% |
| | 3,300,155 | | 1,919,687 | |
| **Total development related debt investments, before discounted loans** | **$ 3,577,670** | | **$ 2,202,563** | |
| Discounted loans with no stated rate (US$) | 172,472 | | 222,695 | |
| Discounted loans with no stated rate (MXN) | 72,340 | | 22,300 | |
| **Total development related debt investments at cost, net** | **$ 3,822,482** | | **$ 2,447,558** | |
| Fair value adjustments for loans and debt securities | $ (2,611) | | $ (810) | |
| **Total development related debt investments at carrying amount, net** | **$ 3,819,871** | | **$ 2,446,748** | |

Variable rate loans generally reprice within one year. Base rates of variable rate loans reset at each repayment date at least annually or more frequently, but loan margins generally remain constant over the life of the variable rate loan.

### Development related debt investments

An age analysis, based on contractual terms, for development related debt investments at amortized cost by class of financing receivable and major security type as of September 30, 2020 and December 31, 2019 is as follows (US$ thousands):

| | September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | 1-90 days past due | >90 days past due | Total past due | Total current | Total amortized cost portfolio |
| Loans | $ — | $ 17,584 | $ 17,584 | $ 3,337,165 | $ 3,354,749 |
| Debt securities [1] | — | — | — | 125,553 | 125,553 |
| **Total** | **$ —** | **$ 17,584** | **$ 17,584** | **$ 3,462,718** | **$ 3,480,302** |
| As % of total amortized cost portfolio | 0.0 % | 0.5 % | 0.5 % | 99.5 % | 100.0 % |
| Allowance for credit losses | | | | | $ (166,570) |
| Allowance as a % of total amortized cost portfolio | | | | | 4.8 % |

[1] All securities in the portfolio are classified as corporate securities.

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | 1-90 days past due | >90 days past due | Total past due | Total current | Total amortized cost portfolio |
| Loans | $ 6,530 | $ 14,516 | $ 21,046 | $ 2,021,251 | $ 2,042,297 |
| Debt securities [1] | — | — | — | 133,624 | 133,624 |
| **Total** | **$ 6,530** | **$ 14,516** | **$ 21,046** | **$ 2,154,875** | **$ 2,175,921** |
| As % of total amortized cost portfolio | 0.3 % | 0.7 % | 1.0 % | 99.0 % | 100.0 % |
| Allowance for credit losses | | | | | $ (97,614) |
| Allowance as a % of total amortized cost portfolio [2] | | | | | 4.7 % |

[1] All securities in the portfolio are classified as corporate securities.
[2] As of December 31, 2019, the Allowance as a percentage of the total amortized cost portfolio only includes loans as development related debt securities were not provisioned until the adoption of CECL on January 1, 2020.

The recorded investment in nonaccrual development related debt investments at amortized cost is summarized by class of financing receivable and major security type as of September 30, 2020 and December 31, 2019 as follows (US$ thousands):

| | September 30, 2020 | | | | Nine months ended September 30, 2020 | |
|---|---|---|---|---|---|---|
| | Nonaccrual | | | > 90 days past due and accruing | Interest income recognized on nonaccrual status | Accrued interest income written off |
| | Past due | Current | Total | | | |
| Loans | $ 17,584 | $ 14,253 | $ 31,837 | $ — | $ 464 | $ 160 |
| Debt securities [1] | — | — | — | — | — | — |
| **Total** | **$ 17,584** | **$ 14,253** | **$ 31,837** | **$ —** | **$ 464** | **$ 160** |

[1] All securities in the portfolio are classified as corporate securities.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Nonaccrual | | | |
| | Past due | Current | Total | > 90 days past due and accruing |
| Loans[1] | $ 19,415 | $ 11,851 | $ 31,266 | $ 1,501 |
| Debt securities | — | — | — | — |
| **Total** | **$ 19,415** | **$ 11,851** | **$ 31,266** | **$ 1,501** |

[1] Interest income collected and interest income recognized on loans in nonaccrual status was $695 thousand for the nine months ended September 30, 2019.

A current nonaccrual development related debt investment is a financial instrument that was placed in nonaccrual status, where the borrower is now current on payments, but for which ongoing monitoring is necessary to determine whether the borrower has sufficiently demonstrated performance before returning the development related debt investment to accrual status. There were no significant development related debt investments at amortized cost classified as nonaccrual without a related allowance for credit losses as of September 30, 2020 (none as of December 31, 2019).

The investment in impaired loans as of December 31, 2019 was $31.3 million. The total allowance related to impaired loans as of December 31, 2019 was $12.8 million.

As of September 30, 2020, there was one operation in the portfolio considered a troubled debt restructuring with an outstanding balance of $6.4 million and specific allowance for credit losses of $1.9 million (none as of December 31, 2019). IDB Invest does not have commitments to extend additional funds to borrowers whose terms have been modified in a troubled debt restructuring.

Changes in the allowance for expected credit losses by portfolio segment and loan losses by investment type under ASC 310 are summarized below (US$ thousands):

| | Nine months ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Financial institutions | Corporates | Project finance [1] | Total |
| **Loans** | | | | |
| Beginning balance | $ (32,926) | $ (64,688) | $ — | $ (97,614) |
| Cumulative effect of adoption of ASU 2016-13 | 5,490 | 26,988 | (30,082) | 2,396 |
| Loans written off, net | — | — | — | — |
| Recoveries | (33) | — | — | (33) |
| (Provision)/release of provision for credit losses | (30,811) | (30,097) | (2,197) | (63,105) |
| Loans ending balance | $ (58,280) | $ (67,797) | $ (32,279) | $ (158,356) |
| **Debt securities** | | | | |
| Beginning balance [2] | $ — | $ — | $ — | $ — |
| Cumulative effect of adoption of ASU 2016-13 | (3,755) | (3,021) | (732) | (7,508) |
| Debt securities written off, net | — | — | — | — |
| Recoveries | — | — | — | — |
| (Provision)/release of provision for credit losses | (1,365) | 505 | 154 | (706) |
| Debt securities ending balance | $ (5,120) | $ (2,516) | $ (578) | $ (8,214) |
| **Allowance for credit losses** | **$ (63,400)** | **$ (70,313)** | **$ (32,857)** | **$ (166,570)** |
| | | | | |
| **Undisbursed commitments** | | | | |
| Beginning balance [2] | $ — | $ — | $ — | $ — |
| Cumulative effect of adoption of ASU 2016-13 | (3,356) | (10,134) | (18,431) | (31,921) |
| Undisbursed commitments written off, net | — | — | — | — |
| Recoveries | — | — | — | — |
| (Provision)/release of provision for credit losses | (2,718) | (938) | (6,461) | (10,117) |
| Undisbursed commitments ending balance | $ (6,074) | $ (11,072) | $ (24,892) | $ (42,038) |
| **Guarantees** | | | | |
| Beginning balance | $ (187) | $ (314) | $ (2,747) | $ (3,248) |
| Cumulative effect of adoption of ASU 2016-13 | 110 | (542) | (8,768) | (9,200) |
| Guarantees written off, net | — | — | — | — |
| Recoveries | — | — | — | — |
| (Provision)/release of provision for credit losses | (258) | 269 | (5,537) | (5,526) |
| Guarantees ending balance | $ (335) | $ (587) | $ (17,052) | $ (17,974) |
| **Liability for off-balance sheet credit losses** | **$ (6,409)** | **$ (11,659)** | **$ (41,944)** | **$ (60,012)** |
| | | | | |
| (Provision)/release of provision for credit losses | $ (35,152) | $ (30,261) | $ (14,041) | $ (79,454) |

[1] Project finance was not presented as a separate segment prior to the adoption of ASU 2016-13.
[2] Debt securities and undisbursed commitments were not subject to provisioning prior to the adoption of ASU 2016-13.

| | Nine months ended September 30, 2019 | | |
|---|---|---|---|
| **Loans** | **Financial institutions** | **Corporates** | **Total** |
| Beginning balance | $ (24,602) | $ (41,174) | $ (65,776) |
| Loans written off, net | — | 1,552 | 1,552 |
| Recoveries | (127) | — | (127) |
| (Provision)/release of provision for loan losses [1] | (5,180) | (21,064) | (26,244) |
| **Ending balance** | **$ (29,909)** | **$ (60,686)** | **$ (90,595)** |

[1] Does not include changes in (Provision)/release of provision for guarantee losses of $33 thousand that are recorded in the same line item in the income statements.

| | Year ended December 31, 2019 | | |
|---|---|---|---|
| **Loans** | **Financial institutions** | **Corporates** | **Total** |
| Beginning balance | $ (24,602) | $ (41,174) | $ (65,776) |
| Write-offs | — | 2,352 | 2,352 |
| Recoveries | (133) | (44) | (177) |
| (Provision)/release of provision for loan losses [1] | (8,191) | (25,822) | (34,013) |
| **Ending balance** | **$ (32,926)** | **$ (64,688)** | **$ (97,614)** |

[1] Does not include changes (Provision)/release of provision guarantee losses of $(2.7) million that are recorded in the same line item in the statements of income.

A description of credit quality indicators is presented in the table below:

| Rating categories | Credit quality indicator | Internal credit risk classification range | Description |
|---|---|---|---|
| aa- and better | Very strong | aa- or higher | An obligor in these categories has a very strong capacity to meet its financial commitment. |
| a+ to a– | Strong | a+, a, a- | An obligor in these categories has a strong capacity to meet its financial commitment. |
| bbb+ to bbb- | Adequate | bbb+, bbb, bbb- | An obligor in these categories exhibits an adequate financial profile. However, adverse economic conditions or changing circumstances are more likely to lead to a weakening of the obligor's capacity to meet its financial obligations. |
| bb+ to bb- | Moderate | bb+, bb, bb- | An obligor in these categories can face major uncertainties or exposures to adverse business, financial, or economic conditions that could lead to its inadequate capacity to meet its financial obligations. |
| b+ to b- | Weak | b+, b, b- | An obligor in these categories is more vulnerable to nonpayment than obligations rated bb-, but the obligor currently has the capacity to meet its financial obligations. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial obligations. |
| ccc+ and lower | Very weak | ccc+ or lower | An obligor in these categories faces significant challenges, and default may also already be a virtual certainty. The obligor is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial obligations. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial obligations. |

A summary of development related debt investments at amortized cost by credit quality indicator, class of financing receivable and major security type, and vintage as of September 30, 2020 are as follows (US$ thousands):

| | September 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Amortized cost basis by origination year [3] | | | | Revolving loans amortized cost basis [2] | Total |
| | 2020 | 2019 | 2018 | Prior | | |
| **Loans** | | | | | | |
| Adequate | $ 280,000 | $ 62,250 | $ 20,000 | $ 30,291 | $ 138,201 | $ 530,742 |
| Moderate | 664,154 | 322,405 | 317,820 | 131,735 | 203,053 | 1,639,167 |
| Weak | 373,366 | 210,524 | 192,803 | 168,230 | 60,823 | 1,005,746 |
| Very weak | — | 38,922 | 51,925 | 88,247 | — | 179,094 |
| **Total loans** | **$ 1,317,520** | **$ 634,101** | **$ 582,548** | **$ 418,503** | **$ 402,077** | **$ 3,354,749** |
| **Debt securities [1]** | | | | | | |
| Adequate | $ — | $ — | $ — | $ — | $ — | $ — |
| Moderate | — | 50,000 | 45,832 | 6,221 | — | 102,053 |
| Weak | — | — | 13,000 | — | — | 13,000 |
| Very weak | — | — | 10,500 | — | — | 10,500 |
| **Total debt securities** | **$ —** | **$ 50,000** | **$ 69,332** | **$ 6,221** | **$ —** | **$ 125,553** |
| **Total amortized cost loans and debt securities** | **$ 1,317,520** | **$ 684,101** | **$ 651,880** | **$ 424,724** | **$ 402,077** | **$ 3,480,302** |

[1] All securities in the portfolio are classified as corporate securities.
[2] Includes line-of-credit arrangements that may be converted to term loans in a separate column. As of September 30, 2020, line of credit arrangements converted to term loans amounted to $1.5 million.
[3] Includes short-term loans with maturities of less than one year.

A summary of development related debt investments at amortized cost by credit quality indicator and by investment type as of December 31, 2019 are as follows (US$ thousands):

| | December 31, 2019 | | |
|---|---|---|---|
| **Internal credit quality indicator** | **Financial institutions** | **Corporates** | **Total** |
| Adequate | $ 132,500 | $ 141,348 | $ 273,848 |
| Moderate | 402,726 | 484,971 | 887,697 |
| Weak | 246,458 | 537,470 | 783,928 |
| Very weak | 1,000 | 95,824 | 96,824 |
| **Total loans at amortized cost** | **$ 782,684** | **$ 1,259,613** | **$ 2,042,297** |

The fair value of held-to-maturity debt securities and a comparison of the allowance for credit losses with the gross unrecognized holding gains/(losses) that would have been recorded instead of the allowance if the held-to-maturity debt securities were recorded at fair value is as follows (US$ thousands):

| | September 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross unrecognized holding | | |
| | **Amortized cost** | **Allowance for credit losses** | **Net carrying amount** | **gains** | **losses** | **Fair value** |
| Debt securities [(1)] | $ 125,553 | $ (8,214) | $ 117,339 | $ 11,285 | $ (378) | $ 136,460 |
| **Total** | **$ 125,553** | **$ (8,214)** | **$ 117,339** | **$ 11,285** | **$ (378)** | **$ 136,460** |

(1) All securities in the portfolio are classified as corporate securities.

As of December 31, 2019, IDB Invest's development related debt investments accounted for as debt securities classified as held-to maturity were $133.6 million. There was no indication of other-than-temporary impairment losses on these debt securities for the nine months ended September 30, 2019.

### Guarantees

Guarantees entered into by IDB Invest have maturities consistent with those of the guaranteed loan portfolio. No notices of default have been received since inception of IDB Invest's guarantee program.

IDB Invest's current outstanding exposure for guarantees was $170.4 million as of September 30, 2020 ($46.6 million as of December 31, 2019). The maximum potential exposure, which represents the amounts that could be lost under the guarantees in the event the full guaranteed loan disbursed and there were a total default by the guaranteed party without taking into consideration possible recoveries under recourse provisions or from collateral held or pledged, amounted to $228.2 million as of September 30, 2020 ($66.4 million as of December 31, 2019). The allowance for losses on guarantees is $18.0 million as of September 30, 2020 and is recorded in Payables and other liabilities in the balance sheets ($3.2 million as of December 31, 2019).

### Loan participations and co-financing arrangements

As of September 30, 2020, IDB Invest serviced loan participations and co-financing arrangements outstanding of $1.9 billion ($1.8 billion as of December 31, 2019) and recognized servicing fees of $496 thousand for the nine months ended September 30, 2020 ($496 thousand for the nine months ended September 30, 2019) included in Mobilization fees and other income in the income statements.

In addition, IDB Invest serviced co-financing arrangements outstanding of $2.6 billion with IDB Group related parties as of September 30, 2020 ($2.4 billion as of December 31, 2019). As explained in Note 12, income from these arrangements are included in SLA revenue.

**Variable interest entities**

Some of IDB Invest's development related investments are made through VIEs. These VIEs are mainly special purpose vehicles or investment funds, where the sponsor, the general partner or fund manager does not have substantive equity at risk.

IDB Invest has made development related investments amounting to approximately $6.5 million in loans for one VIE for which it is deemed to be the primary beneficiary as of September 30, 2020 ($26.1 million in loans and $3.0 million in debt securities as of December 31, 2019). IDB Invest's involvement with one VIE is limited to development related investments, which are reflected as such in IDB Invest's financial statements as of September 30, 2020 (three as of December 31, 2019). Based on the most recent available data, the size of these VIEs measured by total assets with a notional value of approximately $6.8 million as of September 30, 2020 is considered immaterial compared to the carrying value of $6.5 million, and thus not consolidated in IDB Invest's financial statements ($31.5 million notional value and $29.1 million carrying value at December 31, 2019).

IDB Invest does not have a significant variable interest in any other VIE, which would require disclosure. Similarly, IDB Invest does not hold a controlling financial interest or majority voting interest in any other entity, and it does not have significant influence over any entities.

## 5. Receivables and Other Assets

Receivables and other assets are summarized below (US$ thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Operating lease right-of-use asset | $ 49,503 | $ 52,536 |
| Interest receivable on development related debt investments | 27,994 | 22,538 |
| Recovery assets | 13,915 | 737 |
| Fixed and intangible assets | 10,791 | 11,033 |
| Other assets | 8,810 | 3,169 |
| Interest receivable on investment securities | 2,614 | 3,589 |
| **Total receivables and other assets** | **$ 113,627** | **$ 93,602** |

### 6. Payable and Other Liabilities

Payable and other liabilities are summarized below (US$ thousands):

| | Notes | September 30, 2020 | December 31, 2019 |
|---|---|---|---|
| Pension Plans, net liability | | $ 84,868 | $ 77,920 |
| Liability for off-balance sheet credit losses | 4 | 60,012 | 3,248 |
| Operating lease liability | 11 | 50,823 | 53,388 |
| Other liabilities | | 26,401 | 7,563 |
| Loan origination fees and costs, net | | 26,200 | 17,769 |
| Postretirement Benefit Plan, net liability | | 18,168 | 17,798 |
| Interest and commitment fees payable | | 15,980 | 7,332 |
| Deferred revenue | | 14,584 | 12,884 |
| Employment benefits payable | | 10,673 | 12,288 |
| Due to IDB, net | 12 | 8,551 | 8,426 |
| **Total payables and other liabilities** | | **$ 316,260** | **$ 218,616** |

As of September 30, 2020, and December 31, 2019, the Pension Plans net liability and PRBP net liability reflect the underfunded status of the Pension Plans and PRBP. Deferred revenue includes service fees collected from related parties. Additional information about IDB Invest's related party transactions is included in Note 12.

### 7. Borrowings

Borrowings outstanding by currency are as follows (US$ thousands):

| | Final Maturity | Interest payment terms | September 30, 2020 Amount outstanding | F/V rate[1] | Interest rate | December 31, 2019 Amount outstanding | F/V rate[1] | Interest rate |
|---|---|---|---|---|---|---|---|---|
| **Brazilian real (BRL):** | | | | | | | | |
| 2018 BRL 90 million | 2021 | Quarterly | $ 15,956 | V | 1.1 % | $ 29,776 | V | 4.1 % |
| 2019 BRL 15 million | 2021 | Quarterly | 2,659 | V | 0.9 % | 4,963 | V | 3.9 % |
| 2019 BRL 11 million | 2021 | Quarterly | 1,995 | V | 0.8 % | 3,722 | V | 3.8 % |
| 2019 BRL 11 million | 2021 | Quarterly | 1,995 | V | 0.5 % | 3,722 | V | 3.5 % |
| 2019 BRL 11 million | 2021 | Quarterly | 1,995 | V | 0.7 % | 3,722 | V | 3.7 % |
| 2020 BRL 4 million | 2027 | Quarterly | 739 | V | 3.2 % | — | | |
| 2020 BRL 67 million | 2029 | Quarterly | 11,925 | V | 2.8 % | — | | |
| 2020 BRL 38 million | 2039 | Quarterly | 6,692 | V | 4.0 % | — | | |
| | | | **43,956** | | | **45,905** | | |
| **Colombian peso (COP):** | | | | | | | | |
| 2019 COP 328.5 billion | 2024 | Monthly | 85,739 | V | 2.4 % | 100,192 | V | 4.6 % |
| 2018 COP 144 billion | 2025 | Semi-annual | 37,598 | F | 6.6 % | 43,937 | F | 6.6 % |
| 2018 COP 35 billion | 2030 | Quarterly | 9,226 | V | 8.1 % | 10,782 | V | 8.3 % |
| 2020 COP 30 billion | 2030 | Quarterly | 7,919 | V | 8.1 % | — | | |
| 2019 COP 27 billion | 2030 | Quarterly | 7,070 | V | 8.1 % | 8,262 | V | 8.3 % |
| 2019 COP 47 billion | 2035 | Semi-annual | 12,267 | V | 8.1 % | 14,335 | V | 7.9 % |
| 2020 COP 9 billion | 2035 | Semi-annual | 2,349 | V | 8.1 % | — | | |
| 2019 COP 6 billion | 2035 | Semi-annual | 1,566 | V | 8.1 % | 1,830 | V | 8.4 % |
| 2019 COP 5 billion | 2035 | Semi-annual | 1,305 | V | 8.1 % | 1,525 | V | 8.4 % |
| 2020 COP 5 billion | 2035 | Semi-annual | 1,305 | V | 8.1 % | — | | |
| | | | **166,344** | | | **180,863** | | |
| **Dominican peso (DOP):** | | | | | | | | |
| 2019 DOP 500 million | 2022 | Semi-annual | 8,549 | F | 8.8 % | 9,418 | F | 8.8 % |
| | | | **8,549** | | | **9,418** | | |
| **Mexican peso (MXN):** | | | | | | | | |
| 2018 MXN 1.5 billion | 2021 | Monthly | 67,817 | V | 4.8 % | 79,515 | V | 7.8 % |
| 2019 MXN 1.5 billion | 2022 | Monthly | 67,817 | V | 4.7 % | 79,515 | V | 7.7 % |
| | | | **135,634** | | | **159,030** | | |
| **Paraguayan guarani (PYG):** | | | | | | | | |
| 2018 PYG 26 billion | 2023 | Semi-annual | 3,754 | F | 6.1 % | 4,650 | F | 6.1 % |
| 2020 PYG 100 billion | 2025 | Semi-annual | 14,300 | F | 6.1 % | — | | |
| | | | **18,054** | | | **4,650** | | |
| **United States dollar:** | | | | | | | | |
| 2018 $500 million | 2021 | Quarterly | 500,000 | V | 0.4 % | 500,000 | V | 2.1 % |
| 2019 $250 million | 2021 | Quarterly | 250,000 | V | 0.4 % | 250,000 | V | 2.1 % |
| 2020 $1 billion | 2022 | Annual | 1,000,000 | F | 0.8 % | — | | |
| 2020 $1 billion | 2023 | Annual | 1,000,000 | F | 0.5 % | — | | |
| 2019 $500 million | 2024 | Annual | 500,000 | F | 1.8 % | 500,000 | F | 1.8 % |
| | | | **3,250,000** | | | **1,250,000** | | |
| **Total borrowings, gross** | | | **$ 3,622,537** | | | **$ 1,649,866** | | |
| **Fair value (gain)/loss adjustments, net** | | | 7,847 | | | — | | |
| **Unamortized premiums/ discounts and issuance costs, net** | | | (1,670) | | | (1,720) | | |
| **Total borrowings, net** | | | **$ 3,628,714** | | | **$ 1,648,146** | | |

[1] F: fixed; V: variable

Availability under existing credit facilities by currency are as follows (US$ thousands):

| | | | September 30, 2020 | |
|---|---|---|---|---|
| | Available until | Contractual amount | Available amount | Drawdown amount |
| **Colombian peso (COP):** | | | | |
| 2018 COP 370 billion | 2021 | $ 96,570 | $ 53,563 | **$ 43,007** |
| **Multi-currency:** | | | | |
| 1997 $300 million | 2022 | $ 300,000 | $ 127,293 | **$ 172,707** |

The Borrowings expense, net is as follows (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | 2020 | 2019 |
| Interest expense | $ 33,467 | $ 30,562 |
| Fees expense | 416 | 530 |
| Amortization of premiums/discounts and issuance costs, net | 2,155 | 321 |
| Fair value adjustments | (4,546) | — |
| (Gain)/loss foreign exchange transactions, net | (68,260) | (17,448) |
| **Total borrowings expense, net** | **$ (36,768)** | **$ 13,965** |

Changes in fair value of borrowings attributable to changes in instrument-specific credit risk recognized in Other comprehensive income/(loss) are as follows (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | 2020 | 2019 |
| Unrealized gain/(loss) during the period | $ (12,394) | $ — |
| **Total recognized in other comprehensive income/(loss)** | **$ (12,394)** | **$ —** |

### 8. Derivative instruments

IDB Invest enters into transactions in certain derivative instruments primarily for market risk management purposes in connection with its principal business activities. None of these derivative instruments are designated as hedging instruments under ASC 815.

The location in the balance sheets and the fair value of derivative instruments by type and purpose are summarized below (US$ thousands):

| | | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| **Derivative purpose** | **Derivative type** | **Derivative assets** | **Derivative liabilities** | **Derivative assets** | **Derivative liabilities** |
| Development related debt investments | Interest rate swaps | $ 97 | $ — | $ — | $ — |
| Borrowings | Currency swaps | — | (1,425) | — | — |
| | Interest rate swaps | 857 | (2,697) | — | — |
| **Total** | | **$ 954** | **$ (4,122)** | **$ —** | **$ —** |

The effect of derivative instruments in the income statements are summarized below (US$ thousands):

| | | Nine months ended September 30 | |
|---|---|---|---|
| **Derivative type and purpose** | **Income statement location** | **2020** | **2019** |
| Development related debt investments | | | |
| Interest rate swaps | Gain/(loss) on derivative instruments, net | $ 97 | $ — |
| Borrowings | | | |
| Currency swaps | Gain/(loss) on derivative instruments, net | (1,425) | — |
| Interest rate swaps | Gain/(loss) on derivative instruments, net | 349 | — |
| **Total** | | **$ (979)** | **$ —** |

The income related to each derivative type includes realized and unrealized gains and losses.

As of September 30, 2020, the outstanding volume, measured by notional amount, of swap contracts was $2.3 billion (none as of December 31, 2019).

IDB Invest does not present derivative assets and liabilities related to contracts entered into with the same counterparty under a legally enforceable netting agreement on a net basis in the balance sheets. The following tables provide the gross and net positions of IDB Invest's derivative contracts considering amounts and collateral held or pledged in accordance with enforceable counterparty credit support and netting agreements described below (US$ thousands):

| | Gross amount of assets presented in the balance sheets | Gross amounts not offset in the balance sheets | | Net amount |
|---|---|---|---|---|
| | | Financial instruments | Collateral received [1] | |
| Derivative assets | $ 954 | $ (74) | $ (880) | $ — |

| | Gross amount of liabilities presented in the balance sheets | Gross amounts not offset in the balance sheets | | Net amount |
|---|---|---|---|---|
| | | Financial instruments | Collateral pledged | |
| Derivative liabilities | $ (4,122) | $ 74 | $ 2,150 | $ (1,898) |

[1] Total cash collateral received was $1.4 million as of September 30, 2020 (none as of December 31, 2019).

IDB Invest's derivative contracts with market counterparties are entered into under standardized master agreements published by the International Swaps and Derivatives Association ("ISDA" Agreements). ISDA Agreements provide for a single lump sum settlement amount upon the early termination of transactions following a default or termination event whereby amounts payable by the non-defaulting party to the other party may be applied to reduce any amounts that the other party owes the non-defaulting party. This set off effectively reduces any amount payable by the non-defaulting party to the defaulting party.

IDB Invest's ISDA Agreements are appended by a Credit Support Annex ("CSA") that provides for the receipt and posting of collateral in the form of cash in US$ or U.S. Treasury securities to reduce mark-to-market exposure among derivative market counterparties. IDB Invest recognizes cash collateral received and a corresponding liability in its balance sheets for the obligation to return it. As of September 30, 2020, IDB Invest had $1.4 million of outstanding obligations to return cash collateral under CSAs (none as of December 31, 2019). IDB Invest recognizes a receivable in its balance sheets for its rights to cash collateral posted. As of September 30, 2020, $2.2 million of cash collateral was posted under CSAs (none as of December 31, 2019).

Securities received as collateral are not recognized in the balance sheets. In accordance with the CSAs, IDB Invest may rehypothecate securities received as collateral, subject to the obligation to return such collateral and any related distributions received. In the event of a counterparty default, IDB Invest may exercise certain rights and remedies, including the right to setoff any amounts payable by the counterparty against any collateral held by IDB Invest and the right to liquidate any collateral held.

## 9. Capital

IDB Invest's original authorized share capital was increased to $705.9 million, equivalent to 70,590 shares, through a $500.0 million general capital increase approved in 1999 (GCI-I), and several special increases. These increases allocated a total of $505.9 million for subscriptions by new and existing member countries, with a par value and issuance price of $10,000 per share.

On March 30, 2015, IDB Invest's Board of Governors authorized the Second General Capital Increase (GCI-II) for $2.03 billion. The capital increase is comprised of: (i) $1.305 billion in capital to be paid by IDB Invest shareholders during the 2016-2022 period; and (ii) annual transfers from the IDB, on behalf of its shareholders, to be paid to IDB Invest during the period 2018-2025, totaling $725.0 million for the entire period, and conditional upon annual approval by the IDB Board of Governors. The GCI–II increases the authorized capital stock by 125,474 shares – 80,662 shares corresponding to capital contributions payable by the countries (Annex A Shares) and 44,812 shares corresponding to transfers from the IDB on behalf of its member countries (Annex B Shares) – with a share issuance price of $16,178.60 per share. With this capital increase, total authorized shares amount to 196,064.

All Annex A Shares have been subscribed and are expected to be paid in over time. In the balance sheets, subscribed shares are recorded as Capital, par value, Additional paid-in capital and Receivable from members on the date of the subscription instrument at the share issuance price. Payments are due on October 31 of each year from 2016 to 2022, per a payment plan determined and communicated by management to each subscribing country. The Board of Executive Directors is authorized to extend payment deadlines. The price for Annex A Shares not paid within their corresponding annual installment is adjusted to reflect a 5.0% increase for each year of arrears; except that, shares corresponding to the first installment which were fully paid in by the end of the second installment were not subject to a price adjustment. The price adjustment for shares in arrears is recorded to Additional paid-in capital and to Receivable from members in the balance sheets.

Capital contributions of $23.1 million were received during the nine months ended September 30, 2020 for a total of $1.1 billion in contributions corresponding to Annex A Shares under GCI-II. In March 2020, the Board of Governors approved income distributions corresponding to Annex B Shares transfers from the IDB on behalf of its shareholders that are also member countries of IDB Invest. Following this approval, IDB Invest received $109 million in income distributions (transfers) for a total of $207.9 million contributions corresponding to Annex B Shares under GCI-II, which are included as part of Total paid-in capital in the balance sheets. Total capital contributions of $1.3 billion have been received under GCI-II through September 30, 2020.

Under the Agreement Establishing the Inter-American Investment Corporation, any member may withdraw from IDB Invest, which shall become effective on the date specified in the notice but in no event prior to six months from the delivery date of such notice. Even after withdrawing, a member shall remain liable for all obligations to IDB Invest to which it was subject on the date of delivery of the withdrawal notice. In the event a member withdraws, IDB Invest and the member may agree to the repurchase of the shares of said member on terms appropriate under the circumstances. If such agreement is not reached within three months of the withdrawal notice, or within a term agreed upon between both parties, the repurchase price of the member's shares shall be equal to the book value on the date when the member ceases to belong to IDB Invest, such book value to be determined by the audited financial statements. Payment for shares shall be made in such installments, times, and currencies as IDB Invest shall determine, taking into account its financial position.

The following table lists the capital and receivable from members (US$ thousands, except for share and voting power information):

| | September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital | | | | | | Voting power | |
| | Shares[(1)] | Capital, par value | Additional paid-in capital[(2)] | Receivable from members[(3)] | Total paid in capital | Percent of total paid in capital [(4)] | Number of votes | Percent of total votes[(4)] |
| Argentina | 18,850 | $ 188,500 | $ 66,726 | $ 234 | $ 254,992 | 12.98 | 17,103 | 12.09 |
| Austria | 907 | 9,070 | 3,484 | 1,683 | 10,871 | 0.55 | 803 | 0.57 |
| Bahamas | 335 | 3,350 | 1,184 | 518 | 4,016 | 0.20 | 303 | 0.21 |
| Barbados | 237 | 2,370 | 903 | 189 | 3,084 | 0.16 | 169 | 0.12 |
| Belgium | 211 | 2,110 | 270 | — | 2,380 | 0.12 | 211 | 0.15 |
| Belize | 116 | 1,160 | 95 | — | 1,255 | 0.06 | 116 | 0.08 |
| Bolivia | 1,516 | 15,160 | 5,358 | 2,297 | 18,221 | 0.93 | 1,374 | 0.97 |
| Brazil | 18,850 | 188,500 | 69,253 | 43,913 | 213,840 | 10.89 | 15,396 | 10.88 |
| Canada | 4,607 | 46,070 | 27,556 | 4,659 | 68,967 | 3.51 | 3,866 | 2.73 |
| Chile | 4,860 | 48,600 | 17,666 | 7,458 | 58,808 | 2.99 | 4,399 | 3.11 |
| China | 9,330 | 93,300 | 56,689 | 27,924 | 122,065 | 6.21 | 7,604 | 5.37 |
| Colombia | 4,860 | 48,600 | 17,154 | — | 65,754 | 3.35 | 4,412 | 3.12 |
| Costa Rica | 730 | 7,300 | 2,578 | 453 | 9,425 | 0.48 | 661 | 0.47 |
| Croatia[(5)] | 6 | 60 | 42 | — | 102 | 0.01 | 6 | 0.00 |
| Denmark | 1,093 | 10,930 | 137 | — | 11,067 | 0.56 | 1,093 | 0.77 |
| Dominican Republic | 1,012 | 10,120 | 3,559 | 1,521 | 12,158 | 0.62 | 918 | 0.65 |
| Ecuador | 1,020 | 10,200 | 3,616 | 324 | 13,492 | 0.69 | 923 | 0.65 |
| El Salvador | 730 | 7,300 | 2,686 | 1,116 | 8,870 | 0.45 | 661 | 0.47 |
| Finland | 1,041 | 10,410 | 4,016 | — | 14,426 | 0.73 | 921 | 0.65 |
| France | 3,114 | 31,140 | 5,884 | 2,201 | 34,823 | 1.77 | 2,978 | 2.10 |
| Germany | 1,580 | 15,800 | 1,522 | — | 17,322 | 0.88 | 1,580 | 1.12 |
| Guatemala | 971 | 9,710 | 3,418 | 1,505 | 11,623 | 0.59 | 878 | 0.62 |
| Guyana | 276 | 2,760 | 978 | 340 | 3,398 | 0.17 | 250 | 0.18 |
| Haiti | 730 | 7,300 | 3,068 | 5,220 | 5,148 | 0.26 | 431 | 0.30 |
| Honduras | 730 | 7,300 | 2,649 | 1,191 | 8,758 | 0.45 | 656 | 0.46 |
| Israel | 411 | 4,110 | 1,483 | 745 | 4,848 | 0.25 | 326 | 0.23 |
| Italy | 4,874 | 48,740 | 16,758 | 7,523 | 57,975 | 2.95 | 4,409 | 3.12 |
| Jamaica | 494 | 4,940 | 471 | — | 5,411 | 0.28 | 494 | 0.35 |
| Japan | 5,599 | 55,990 | 19,202 | 7,539 | 67,653 | 3.44 | 5,133 | 3.63 |
| Korea | 8,293 | 82,930 | 50,281 | 24,769 | 108,442 | 5.52 | 6,762 | 4.78 |
| Mexico | 12,071 | 120,710 | 42,422 | — | 163,132 | 8.30 | 10,958 | 7.74 |
| Netherlands | 1,096 | 10,960 | 168 | — | 11,128 | 0.57 | 1,096 | 0.77 |
| Nicaragua | 730 | 7,300 | 2,574 | 1,116 | 8,758 | 0.45 | 661 | 0.47 |
| Norway | 1,038 | 10,380 | 3,986 | 777 | 13,589 | 0.69 | 919 | 0.65 |
| Panama | 1,031 | 10,310 | 4,351 | 1,990 | 12,671 | 0.64 | 908 | 0.64 |
| Paraguay | 764 | 7,640 | 2,701 | 1,197 | 9,144 | 0.47 | 690 | 0.49 |
| Peru | 5,369 | 53,690 | 20,290 | — | 73,980 | 3.77 | 4,787 | 3.38 |
| Portugal | 396 | 3,960 | 1,329 | 663 | 4,626 | 0.24 | 317 | 0.22 |
| Slovenia[(6)] | 3 | 30 | 32 | — | 62 | 0.00 | 3 | 0.00 |
| Spain | 7,217 | 72,170 | 29,195 | — | 101,365 | 5.16 | 6,377 | 4.51 |
| Suriname | 112 | 1,120 | 76 | — | 1,196 | 0.06 | 112 | 0.08 |
| Sweden | 988 | 9,880 | 3,682 | 1,731 | 11,831 | 0.60 | 881 | 0.62 |
| Switzerland | 2,349 | 23,490 | 7,898 | 3,737 | 27,651 | 1.41 | 2,118 | 1.50 |
| Trinidad and Tobago | 727 | 7,270 | 3,081 | 4,804 | 5,547 | 0.28 | 370 | 0.26 |
| United States | 19,915 | 199,150 | 24,079 | — | 223,229 | 11.36 | 19,915 | 14.07 |
| Uruguay | 2,007 | 20,070 | 7,077 | — | 27,147 | 1.38 | 1,820 | 1.29 |
| Venezuela | 10,889 | 108,890 | 50,599 | 109,232 | 50,257 | 2.56 | 4,752 | 3.36 |
| **Total as of September 30, 2020** | **164,085** | **$ 1,640,850** | **$ 592,226** | **$ 268,569** | **$ 1,964,507** | **100** | **141,520** | **100** |
| **Total as of December 31, 2019** | **157,350** | **$ 1,573,500** | **$ 546,751** | **$ 287,840** | **$ 1,832,411** | | **134,785** | |

(1) Includes Annex B shares for which income distributions (transfers) were made by IDB on behalf of its shareholders.
(2) Includes the amount in addition to par value for shares under GCI-II, partial payments in excess of full shares.
(3) Represents receivable from members under GCI-II.
(4) Data are rounded; detail may not add to total because of rounding.
(5) Croatia's voting power is 0.0042.
(6) Slovenia's voting power is 0.0021.

## 10. Fair Value Measurements

Many of IDB Invest's financial instruments are not actively traded in any market. Determining future cash flows for fair value estimation is subjective, and minor changes in assumptions or methodologies may affect the estimated values. Also, there is a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19. Therefore, while disclosure of estimated fair values of certain financial instruments is required, readers are cautioned about using these data for purposes of evaluating the financial condition of IDB Invest as of September 30, 2020.

The methodologies and key assumptions used to estimate the fair values of IDB Invest's financial instruments are summarized below:

**Cash and cash equivalents** – The carrying amount reported in the balance sheets approximates fair value.

**Liquid assets** – Fair values for money market funds and debt securities are based on either unadjusted quoted prices for identical assets or liabilities in active markets or quoted prices in active markets for identical assets or liabilities or prices derived from alternative pricing models when these prices are not available from pricing vendors. These methodologies apply to certain investments in non-U.S. government obligations, agencies, supranationals and corporate bonds. Also included are commercial paper (CP) and certificates of deposit (CD) issued under large U.S. based CP or CD programs. For investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been employed, using yield curves, bond or credit default swap spreads, and recovery rates based on collateral values as key inputs.

**Loans and development related investments in debt securities** – Loans and development related investments in debt securities for which a combination of observable and unobservable inputs is generally available, require the use of estimates and present value calculations of future cash flows. The fair values are estimated using recently executed transactions, market price quotations (where observable), and market observable credit default swap levels along with proprietary valuation models where such transactions and quotations are unobservable. The lack of objective pricing standards adds a greater degree of subjectivity and volatility to these derived or estimated fair values.

IDB Invest's loans are generally carried at the principal amount outstanding. For disclosure purposes, IDB Invest estimates the fair value of its loan portfolio including individually assessed assets. Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value disclosed does not necessarily reflect the realizable values since IDB Invest generally holds investments to maturity with the aim of realizing their contractual cash flows.

**Equity investments** – IDB Invest purchases the share capital of eligible private sector enterprises and invests in LPs. In most cases, market prices are not available, and alternate valuation techniques require a significant degree of judgment. IDB Invest intends to hold investments in LPs until the final liquidation of the underlying assets of the LPs in order to participate fully in the performance of the LP. IDB Invest does not have redemption rights in any of these investments. IDB Invest estimates that the underlying assets of the LPs generally may be liquidated over a period of 10 years.

> **Equity investments at fair value** – Equity investments are recorded at fair value if publicly traded in certain markets, or IDB Invest elects the FVO. For LPs, IDB Invest utilizes the NAVs reported by the fund managers as the basis of the fair value measurement. These NAVs are derived from the fair values of the underlying investments and adjusted further by IDB Invest, as needed.
>
> **Equity investments at cost-based measurement alternative** – IDB Invest's methodology to measure equity investments using the cost-based measurement alternative requires the use of estimates and present value calculations of future cash flows for impairments and/or observable price change

adjustments. IDB Invest relies on third-party valuation specialists when available, internal estimates, or a combination of both.

**Derivative instruments** – These include currency and interest rate swap contracts. Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates.

**Borrowings** – IDB Invest's borrowings are recorded at amortized cost or fair value. The fair value of IDB Invest's borrowings is estimated using traded prices, quoted market prices or discounted cash flow analyses based on IDB Invest's current borrowing rates for similar types of borrowing arrangements.

**Other assets and liabilities** – The carrying value of financial instruments included in Receivables and other assets, and Payables and other liabilities approximates fair value due to their liquid or short-term nature.

### Fair value of financial instruments

IDB Invest's financial instruments recorded or disclosed at fair value have been categorized based on a fair value hierarchy in accordance with ASC 820 and are as follows (US$ thousands):

| | September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value |
| **Investment securities** | | | | | |
| Money market funds | $ 1,112,037 | $ — | $ 1,112,037 | $ — | $ 1,112,037 |
| Corporate securities | 755,703 | — | 755,703 | — | 755,703 |
| Supranational securities | 142,232 | — | 142,232 | — | 142,232 |
| Agency securities | 99,028 | — | 99,028 | — | 99,028 |
| Government securities | 17,091 | — | 17,091 | — | 17,091 |
| | 2,126,091 | — | 2,126,091 | — | 2,126,091 |
| **Loans** | | | | | |
| Amortized cost | 3,354,749 | — | — | 3,349,441 | 3,349,441 |
| Fair value | 129,769 | — | — | 129,769 | 129,769 |
| | 3,484,518 | — | — | 3,479,210 | 3,479,210 |
| **Equity investments** | | | | | |
| Cost-based measurement alternative | 4,695 | — | — | 4,695 | 4,695 |
| Fair value | 38,150 | 991 | — | 37,159 | 38,150 |
| NAV[(1)] | 70,312 | | | | 70,312 |
| | 113,157 | 991 | — | 41,854 | 113,157 |
| **Debt securities** | | | | | |
| Held to maturity | 125,553 | — | — | 136,460 | 136,460 |
| Fair value | 184,464 | — | — | 184,464 | 184,464 |
| NAV[(1)] | 25,336 | | | | 25,336 |
| | 335,353 | — | — | 320,924 | 346,260 |
| **Derivative assets** | | | | | |
| Interest rate swap | 954 | — | 954 | — | 954 |
| | 954 | — | 954 | — | 954 |
| **Borrowings** | | | | | |
| Amortized cost | 1,621,274 | — | 1,659,077 | — | 1,659,077 |
| Fair value | 2,007,440 | — | 2,007,440 | — | 2,007,440 |
| | 3,628,714 | — | 3,666,517 | — | 3,666,517 |
| **Derivative liabilities** | | | | | |
| Currency swap | (1,425) | — | (1,425) | — | (1,425) |
| Interest rate swap | (2,697) | — | (2,697) | — | (2,697) |
| | (4,122) | — | (4,122) | — | (4,122) |

[(1)] In accordance with ASC 820, investments that are recorded using net asset value per share as a practical expedient to fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value |
| **Investment securities** | | | | | |
| Money market funds | $ 372,822 | $ — | $ 372,822 | $ — | $ 372,822 |
| Corporate securities | 677,372 | — | 677,372 | — | 677,372 |
| Supranational securities | 23,223 | — | 23,223 | — | 23,223 |
| Agency securities | 136,336 | — | 136,336 | — | 136,336 |
| Government securities | 127,911 | 2,995 | 124,916 | — | 127,911 |
| | 1,337,664 | 2,995 | 1,334,669 | — | 1,337,664 |
| **Loans** | | | | | |
| Amortized cost | 2,042,297 | — | — | 2,099,284 | 2,099,284 |
| Fair value | 27,527 | — | — | 27,527 | 27,527 |
| | 2,069,824 | — | — | 2,126,811 | 2,126,811 |
| **Equity investments** | | | | | |
| Cost-based measurement alternative | 4,695 | — | — | 4,695 | 4,695 |
| Fair value | 27,239 | 1,298 | — | 25,941 | 27,239 |
| NAV[(1)] | 64,741 | | | | 64,741 |
| | 96,675 | 1,298 | — | 30,636 | 96,675 |
| **Debt securities** | | | | | |
| Held to maturity | 133,624 | — | — | 144,720 | 144,720 |
| Fair value | 197,406 | — | — | 197,406 | 197,406 |
| NAV[(1)] | 45,894 | | | | 45,894 |
| | 376,924 | — | — | 342,126 | 388,020 |
| **Borrowings** | | | | | |
| Amortized cost | 1,648,146 | — | 1,655,632 | — | 1,655,632 |

[(1)]In accordance with ASC 820, investments that are recorded using net asset value per share as a practical expedient to fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

The following table presents changes in carrying value of IDB Invest's Level 3 financial instruments that are carried at fair value as follows (US$ thousands):

| | Nine months ended September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Balance as of January 1, 2020 | Net gains and losses included in earnings | Disbursements, purchases, sales, settlements and other | Balance as of September 30, 2020 | Net unrealized gains/(losses) included in earnings related to assets/ liabilities held at September 30, 2020 |
| Loans | $ 27,527 | $ (631) | $ 102,873 | $ 129,769 | $ (631) |
| Equity investments | 25,941 | 1,523 | 9,695 | 37,159 | 1,272 |
| Debt securities | 197,406 | (16,749) | 3,807 | 184,464 | (16,749) |
| **Total assets at fair value** | **250,874** | **(15,857)** | **116,375** | **351,392** | **(16,108)** |

| | Nine months ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Balance as of January 1, 2019 | Net gains and losses included in earnings | Disbursements, purchases, sales, settlements and other | Balance as of September 30, 2019 | Net unrealized gains/ (losses) included in earnings related to assets/liabilities held at September 30, 2019 |
| Loans | $ 7,714 | $ (731) | $ 4,286 | $ 11,269 | $ (731) |
| Equity investments | — | — | 15,500 | 15,500 | — |
| Debt securities | 60,333 | (8,540) | 133,889 | 185,682 | (8,540) |
| **Total assets at fair value** | **$ 68,047** | **$ (9,271)** | **$ 153,675** | **$ 212,451** | **$ (9,271)** |

| | Year ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Balance as of January 1, 2019 | Net gains and losses included in earnings | Disbursements, purchases, sales, settlements and other | Balance as of December 31, 2019 | Net unrealized gains/ (losses) included in earnings related to assets/liabilities held at December 31, 2019 |
| Loans | $ 7,714 | $ (905) | $ 20,718 | $ 27,527 | $ (905) |
| Equity investments | — | 1,141 | 24,800 | 25,941 | 1,141 |
| Debt securities | 60,333 | (84) | 137,157 | 197,406 | (84) |
| **Total assets at fair value** | **$ 68,047** | **$ 152** | **$ 182,675** | **$ 250,874** | **$ 152** |

The following tables present gross purchases, sales, issuances and settlements related to the changes in the carrying value of IDB Invest's Level 3 financial instruments that are carried at fair value (US$ thousands):

| | Nine months ended September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Disbursements/ Purchases | Repayments/ Sales | Issuances | Settlements and others | Net |
| Loans | $ 103,755 | $ (882) | $ — | $ — | $ 102,873 |
| Equity investments | 10,857 | (1,162) | — | — | 9,695 |
| Debt securities | 3,807 | — | — | — | 3,807 |
| **Total assets at fair value** | **$ 118,419** | **$ (2,044)** | **$ —** | **$ —** | **$ 116,375** |

| | Nine months ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Disbursements/ Purchases | Repayments/ Sales | Issuances | Settlements and others | Net |
| Loans | $ 4,286 | $ — | $ — | $ — | $ 4,286 |
| Equity investments | 15,500 | — | — | — | 15,500 |
| Debt securities | 133,889 | — | — | — | 133,889 |
| **Total assets at fair value** | **$ 153,675** | **$ —** | **$ —** | **$ —** | **$ 153,675** |

| | Year ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Disbursements/ Purchases | Repayments/ Sales | Issuances | Settlements and others | Net |
| Loans | $ 20,718 | $ — | $ — | $ — | $ 20,718 |
| Equity investments | 15,500 | — | — | 9,300 | 24,800 |
| Debt securities | 137,157 | — | — | — | 137,157 |
| **Total assets at fair value** | **$ 173,375** | **$ —** | **$ —** | **$ 9,300** | **$ 182,675** |

The following table presents the valuation techniques and significant unobservable inputs for development related investments classified as Level 3 as of September 30, 2020 and December 31, 2019 (US$ thousands):

| | September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Fair value | Valuation technique | Significant inputs | Range | Weighted average |
| Loans | $ 29,769 | Discounted cash flows | Discount rate | 6.9%-15.0% | 10.1% |
| | 100,000 | Recent transaction | | | |
| | **129,769** | | | | |
| Equity investments | 16,781 | Discounted cash flows | Discount rate | 18.4% | 18.4% |
| | 10,857 | Recent transaction | | | |
| | 9,521 | Various techniques [1] | | | |
| | **37,159** | | | | |
| Debt securities | 184,464 | Discounted cash flows | Discount rate | 2.3%-6.0% | 3.8% |
| | **184,464** | | | | |
| **Total** | **$ 351,392** | | | | |

[1] Includes a combination of valuation techniques including discounted cash flows, recent transactions and valuation multiples.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Fair value | | Valuation technique | Significant inputs | Range | Weighted average |
| Loans | $ | 26,096 | Discounted cash flows | Discount rate | 6.5%-15.0% | 10.1% |
| | | 1,431 | Recent transaction | | | |
| | | **27,527** | | | | |
| Equity investments | | 15,500 | Recent transaction | | | |
| | | 10,441 | Various techniques(1) | | | |
| | | **25,941** | | | | |
| Debt securities | | 177,524 | Discounted cash flows | Discount rate | 3.9%-9.3% | 5.6% |
| | | 19,882 | Listed price | | | |
| | | **197,406** | | | | |
| **Total** | **$** | **250,874** | | | | |

(1) Includes a combination of valuation techniques including discounted cash flows, recent transactions and valuation multiples.

There were no transfers between levels during the nine months ended September 30, 2020 nor September 30, 2019.

## 11. Contingencies and Leases

In the ordinary course of business, IDB Invest is from time to time named as a defendant, co defendant or party in litigation matters inherent to and typical of the operations in which it is engaged. In the opinion of IDB Invest's management, the ultimate resolution of these legal proceedings would not have a material adverse effect on the financial position, results of operations, or cash flows.

### Office Space Leases

IDB Invest has entered into office space leases with the IDB at headquarters and in its Regional Developing Member Countries that are accounted for as either short-term leases or operating leases. The current lease agreement with the IDB at headquarters will expire in 2020 and includes a 10-year renewal option to extend the lease term, of which IDB Invest is reasonably certain to exercise. The remaining current lease agreements with the IDB in the Regional Developing Member Countries are renewed annually with the exception of the Argentina, Brazil and Colombia offices which extend between 2022 and 2023. The lease agreements in Argentina and Colombia include renewal options to extend the lease term, all of which IDB Invest is reasonably certain to exercise for the duration established in the contract.

Refer to Notes 5 and 6 for additional information related to IDB Invest's operating lease right-of-use assets and operating lease liabilities outstanding as of September 30, 2020.

The following table details the lease expenses and quantitative disclosure requirements (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | **2020** | **2019** |
| **Operating leases** | | |
| Operating lease expense | $ 4,588 | $ 3,939 |
| **Total lease expense** | **$ 4,588** | **$ 3,939** |
| Supplemental disclosure: | | |
| Weighted average of lease terms (years) | 10.17 | 11.13 |
| Weighted average discount rate | 3.11 % | 3.11 % |

Discount rate is determined as IDB Invest's incremental borrowing rate under the IDB multi-currency facility.

Maturity analysis of operating lease liabilities with the IDB are as follows (US$ thousands):

| | September 30, 2020 |
|---|---|
| Undiscounted cash flows in 2020 | $ 1,295 |
| Undiscounted cash flows in 2021 | 5,330 |
| Undiscounted cash flows in 2022 | 5,312 |
| Undiscounted cash flows in 2023 | 5,436 |
| Undiscounted cash flows in 2024 | 5,503 |
| Undiscounted cash flows in 2025 and thereafter | 36,664 |
| **Total operating leases** | **$ 59,540** |
| Discount | (8,717) |
| **Operating lease liability** | **$ 50,823** |

## 12. Related Party Transactions

IDB Invest and the IDB entered into SLAs whereby IDB Invest provides certain services to the IDB and the IDB provides certain services to IDB Invest. These services are further described below. IDB Invest has also entered into office space leases with the IDB discussed in Note 11.

### Service Level Agreements

The SLAs with the IDB outline the duration, scope of work, roles and responsibilities, remuneration, and performance metrics of each institution.

### Co-financing Arrangements and SLA Revenue

Following the IDB Group private sector and non-sovereign guaranteed (NSG) reorganization, all new NSG activities are originated by IDB Invest and largely co-financed by IDB Invest and the IDB. IDB Invest and the IDB maintain separate legal and economic interests in their respective share of the loan principal balance for a co-financed loan. IDB Invest's portion is defined as a percentage of the overall transaction subject to certain minimum amounts as agreed between IDB Invest and the IDB.

IDB Invest earns revenue from an annual renewable SLA under which IDB Invest provides loan origination, credit risk evaluation and monitoring, and certain loan administration services for the IDB related to its private sector operations including operations that are co-financed by IDB Invest and IDB. IDB Invest also provides certain advisory services to the IDB Group. These amounts are included in Service fees from related parties in the income statements.

### Management of External Funds

IDB Invest administers on behalf of other related party entities, which include donors and member countries, funds restricted for specific uses that include the co-financing of certain projects, technical studies for borrowers, project-related studies, and research and training programs. These funds are held in trust by IDB Invest and are not commingled with IDB Invest's funds, nor are they included in the assets of IDB Invest. IDB Invest receives a management fee that is generally a percentage of the funds received. These fees are included in Service fees from related parties in the income statements.

### Access to IDB Administered Funds

In addition to the aforementioned funds, IDB Invest provides certain services for trust funds administered by the IDB on behalf of the trust fund donors (the Trust Funds). IDB Invest receives an allocation of the IDB's related Trust Fund fees. Such fees are intended to cover internal and external costs associated with administering the NSG activities for the Trust Funds and related operations over the expected lives of the Trust Funds and the underlying operations. Costs expected to be incurred approximate the allocable fee. The Trust Fund organizational documents provide for either the payment of a lump sum or scheduled payments. The timing of the payments may not correspond to the incurrence of the related costs.

For the nine months ended September 30, 2020, IDB Invest received $3.3 million for these services ($1.2 million for the nine months ended September 30, 2019). As of September 30, 2020, IDB Invest has recorded deferred revenue of $14.5 million related to these services ($12.5 million as of December 31, 2019), which will be recognized as revenue as services are provided. Deferred revenue is presented as a component of Payables and other liabilities in the balance sheets.

Revenue from related party transactions are as follows (US$ thousands):

| | Nine months ended September 30 | |
|---|---|---|
| | 2020 | 2019 |
| SLA revenue | $ 55,766 | $ 54,452 |
| Management of external funds revenue | 1,603 | 1,665 |
| IDB administered funds revenue | 1,295 | 1,178 |
| **Total** | **$ 58,664** | **$ 57,295** |

### SLA Expenses

IDB Invest purchases various general and administrative services from the IDB under a series of annual renewable SLAs. IDB Invest incurred expenses of $11.8 million for receiving these SLA services from the IDB for the nine months ended September 30, 2020 ($11.0 million for the nine months ended September 30, 2019) that are included in Administrative expenses in the income statements. Payables related to these SLA expenses are included in the total due to IDB, net of $8.6 million as of September 30, 2020 ($8.4 million as of December 31, 2019). Refer to Note 6.

### Other Transactions with Related Parties

IDB Invest has a renewable credit facility with the IDB amounting to $300.0 million. On September 21, 2018, this renewable credit facility was modified from a United States dollar facility to a multicurrency facility and the original expiration date of November 2020 was modified and extended to December 2022. As of September 30, 2020, IDB Invest's total drawdowns from the IDB multi-currency credit facility were $172.7 million and $127.3 million remain available ($150.8 million total drawdowns and $149.2 million available as of December 31, 2019). Refer to Note 7 for additional details.

## 13. Pension and Postretirement Benefit Plans

Both the IDB and IDB Invest are sponsors of the Pension Plans and PRBP and each employer presents its respective share of these plans using a December 31 measurement date.

All employer contributions are made in cash during the fourth quarter of the year. As of September 30, 2020, the estimate of contributions expected to be paid for the year 2020 are $7.4 million to the Pension Plans, and $4.3 million to the PRBP, the same amounts disclosed in the December 31, 2019 financial statements. Contributions for 2019 were $7.1 million to the Pension Plans and $4.7 million to the PRBP.

Net periodic benefit costs are included in Operating expenses in the income statements. The following table summarizes the net periodic benefit costs associated with the Pension Plans and the PRPB for the nine months ended September 30, 2020 and 2019 (US$ thousands):

| | Nine months ended September 30 | | | |
|---|---|---|---|---|
| | Pension Plans | | PRBP | |
| | 2020 | 2019 | 2020 | 2019 |
| Service cost [1] | $ 14,038 | $ 9,227 | $ 5,753 | $ 3,921 |
| Interest cost [3] | 7,227 | 6,988 | 4,190 | 4,144 |
| Expected return on plan assets [2][3] | (8,693) | (8,209) | (5,836) | (5,861) |
| Amortization of: [3] | | | | |
| Net actuarial (gain)/loss | 3,143 | 80 | 1,790 | 97 |
| Prior service (credit)/cost | — | — | (328) | (328) |
| **Net periodic benefit cost** | **$ 15,715** | **$ 8,086** | **$ 5,569** | **$ 1,973** |

[1] Included in Administrative expenses.
[2] The expected return of plan assets is 5.75% in 2020 and 6.00% in 2019.
[3] Included in Other components of pension benefit costs, net.

## 14. Subsequent Events

Management has evaluated subsequent events through November 10, 2020, which is the date the financial statements were issued. Management determined that there were no subsequent events that require disclosure under ASC Topic 855, *Subsequent Events.*