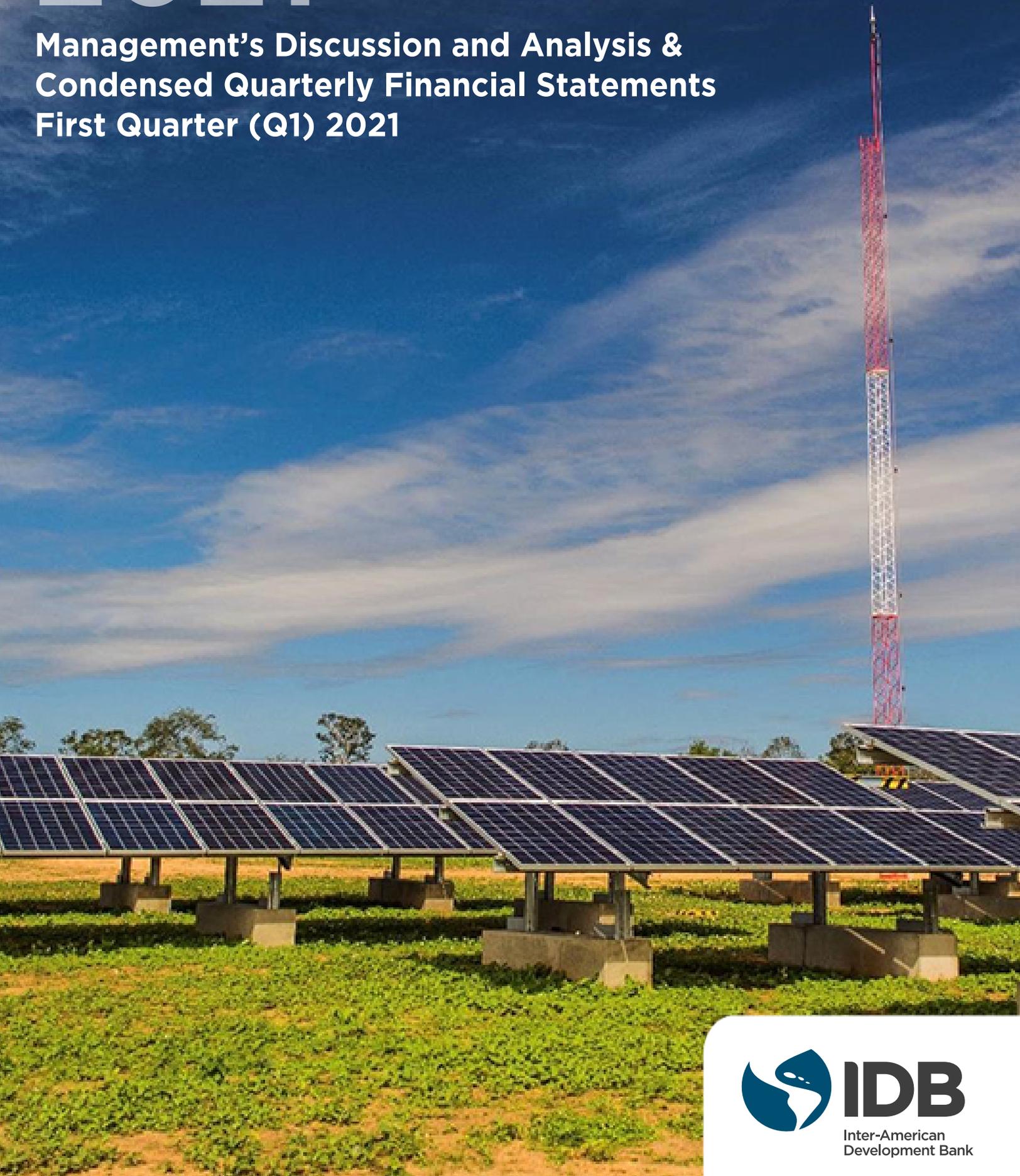


2021

Management's Discussion and Analysis & Condensed Quarterly Financial Statements First Quarter (Q1) 2021



IDB

Inter-American
Development Bank

Inter-American Development Bank

Ordinary Capital



**Management's Discussion and Analysis
and
Condensed Quarterly Financial Statements
March 31, 2021
(Unaudited)**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2021

INTRODUCTION

The primary activities of the Inter-American Development Bank (Bank or IDB) are conducted through the Ordinary Capital, which was supplemented by the Fund for Special Operations (FSO, inactive), and the IDB Grant Facility (GRF). Unless otherwise indicated, all financial information provided in these Condensed Quarterly Financial Statements refers to the Ordinary Capital. Management believes that the Condensed Quarterly Financial Statements reflect all adjustments necessary for a fair presentation of the Ordinary Capital's financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). The results of operations for the three months of the current year are not necessarily indicative of the results that may be expected for the full year.

This document should be read in conjunction with the Bank's Information Statement dated February 26, 2021, which includes the Ordinary Capital financial statements for the year ended December 31, 2020. The Bank undertakes no obligation to update any forward-looking statements.

FINANCIAL STATEMENT REPORTING

The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported results. Management believes that some of the more significant estimates it uses to present the financial results in accordance with GAAP are: the valuation of certain financial instruments carried at fair value, the determination of the adequacy of the allowances for credit losses on developmental assets, and the determination of the benefit obligations of the pension and postretirement benefit plans, the fair value of plan assets, and net periodic benefit cost associated with these plans. These estimates involve a relatively high degree of judgment and complexity and relate to matters that are inherently uncertain.

Most of the Bank's borrowings and all swaps, including borrowing, lending, and equity duration⁽¹⁾ swaps, are measured at fair value through income. The reported income volatility resulting from the non-trading financial instruments is not fully representative of the underlying economics of the transactions as the Bank intends to hold these instruments to maturity. Accordingly, the Bank excludes the impact of the fair value adjustments associated with these financial instruments from Operating Income⁽²⁾. Therefore, Net fair value adjustments on non-trading portfolios and foreign currency transactions are reported separately in the Statement of Income and Retained Earnings.

COVID-19

The global outbreak of SARS-CoV-2 (also referred to as COVID-19) has disrupted economic activity on a global scale and created significant volatility in financial markets. The containment measures adopted by most countries to prevent the spread of the virus amount to a partial, organized closedown of economies. According to the April 2021 IMF World Economic Outlook, Latin America and the Caribbean suffered a recession of 7.0% in 2020, much more significant than that recorded in 2009 (around 2% of GDP), but with expected positive growth of 4.6% in 2021. Based on such expected growth estimates and considering other factors, we have reversed some of the provisions for credit losses during this quarter. However, considerable uncertainty to these projections remain, depending critically on the ongoing health crisis and whether further containment measures are required before the efficacy and effectiveness of the roll-out of available vaccines can be fully determined. The steep fall in economic activity, together with widening inequality, could prompt serious social and economic challenges going

(1) In order to manage the sensitivity to changes in interest rates (duration or modified duration) of its equity, the Bank utilizes equity duration swaps to maintain the modified duration of its equity within a defined policy band of four to six years.

(2) References to captions in the attached condensed quarterly financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in this Management's Discussion and Analysis.

forward. We will continue to monitor the situation and reassess our credit provisioning estimates as necessary.

The Bank remains the main source of multilateral lending to countries in Latin America and the Caribbean and intends to support its borrowing member countries and private sector clients by redirecting resources and increasing disbursements to help finance the response to COVID-19. We expect both Bank approvals and disbursements during 2021 to exceed \$13.8 billion and \$11.8 billion, respectively. The size of our financial support speaks to the unique threat that the pandemic poses to the social and economic development of our borrowing member countries, but still preserves our financial strength and sustainability as mandated by our shareholders who recognize the strategic importance of maintaining IDB's triple-A rating in times of uncertainty like these.

From a development perspective, the Bank continues to focus its support on the following four priority areas: 1) the immediate public health response, supporting countries' preparedness and response capacities to help contain the transmission of the virus and mitigate its impact; 2) safety nets for vulnerable populations, providing funding for countries to adopt measures to protect the income of the most affected populations; 3) protection of the productive sector and employment, supporting the sustainability of micro, small and medium-sized enterprises (MSMEs) that employ approximately 61% of the region's workforce, and; 4) public policies and fiscal management for the amelioration of economic impacts.

From a financial standpoint, Bank policies require Management to balance equity accumulation and growth of (risk weighted) assets through its long-term financial plan. The Bank has built capital buffers to absorb downward shocks stemming from rating downgrades and market volatility events and assesses financial resiliency regularly through stress testing. All internal and external capital and liquidity metrics remain within their respective financial and risk management policy thresholds.

In addition to financial support, IDB continues to leverage its global network of donors and partners to support the member countries in sourcing medical supply, share and curate knowledge around COVID-19 and response measures, as well as provide financial services to our clients in a timely manner.

In order to contribute to the slowdown of the spread of COVID-19 and protect our staff, in March 2020, all staff and consultants at IDB's headquarters in Washington and our offices in Latin America, the Caribbean, Spain, and Japan were placed on mandatory telework until further notice. No meaningful business disruption incidents were recorded. Board meetings resumed shortly thereafter, and changes were adopted to governance procedures to allow for virtual meetings and electronic voting. Management committee meetings have continued to operate uninterrupted and meet regularly to provide follow up and coordinate COVID-19 response.

In June 2020, the Bank developed the Return to the Office Framework (RTO), designed to assist in managing the return of employees to our facilities and to respond to differing situations that may be encountered in our countries as a result of the pandemic crisis. According to the RTO, returning to the office will be a progressive process in four modules to support business continuity while minimizing the potential risk of contagion by limiting the number of employees present at the office and staggering their return.

Given mandatory telework, the Bank has seen an increase in cybersecurity risks and phishing attacks, which have been effectively mitigated thanks to past investments in remote access and cloud technology as well as strengthened operational risk management plans. Management continues to invest in preventive and detective technologies as well as in employee awareness to ensure high standards for cybersecurity.

Resolution approved by the Board of Governors

During the virtual meeting hosted by Barranquilla, Colombia, the Board of Governors reaffirmed its commitment to the IDB's critical role in promoting sustainable social and economic development and reducing poverty and inequality throughout the Latin American and Caribbean region and approved a resolution authorizing the analytic work required to inform the Board of Governors' continuing

consideration of the region's challenges and IDB's role to be played in the region. Management presented to the Board of Governors the "Vision 2025, Reinvest in the Americas" (the Vision) agenda for recovery and sustainable economic growth. The Vision outlines the priorities to advance the Institutional Strategy and to respond to the challenges that Latin America and the Caribbean face and will continue to face in the years to come, including a path to come out of the COVID-19 crisis with more sustainable growth and resilience. The endeavor to establish priorities for IDB's work is centered on advancing the region's efforts toward the Sustainable Development Goals (SDGs), as the Bank remains committed to ensuring that Latin America and the Caribbean meets them by 2030.

Accounting Developments

For a description of new accounting developments, see Note B - Summary of Significant Accounting Policies under "Notes to the Condensed Quarterly Financial Statements" section.

FINANCIAL HIGHLIGHTS

Box 1 presents selected financial data for the three months ended March 31, 2021 and 2020, as well as for the year ended December 31, 2020.

BOX 1: SELECTED FINANCIAL DATA

(Amounts expressed in millions of United States dollars)

	Three months ended		Year ended
	March 31,		December 31,
	2021	2020	2020
Operational Highlights			
Approved developmental assets	\$ 888	\$ 1,211	\$ 14,268
Loans and guarantees ⁽¹⁾	888	1,211	13,948
Debt securities	-	-	320
Undisbursed portion of approved developmental assets ⁽²⁾	28,772	30,583	30,498
Gross disbursements of developmental assets	1,713	2,060	14,846
Net disbursements of developmental assets ⁽³⁾	209	575	7,931
Balance Sheet Data			
Cash and investments-net ⁽⁴⁾ , after swaps	\$ 40,281	\$ 37,102	\$ 37,023
Developmental Assets			
Loans outstanding, net ⁽⁵⁾	103,771	96,118	104,275
Debt securities, net	366	119	392
Total assets	153,975	140,852	151,737
Borrowings outstanding, after swaps	109,948	98,583	106,242
Equity	34,209	34,251	33,677
Income Statement Data			
Operating Income⁽⁶⁾	\$ 265	\$ 86	\$ 453
Net fair value adjustments on non-trading portfolios and foreign currency transactions ⁽⁷⁾	536	(183)	220
Other components of net pension benefit costs	(13)	(3)	1
Board of Governors approved transfers	(92)	(64)	(64)
Net income (loss)	696	(164)	610
Comprehensive income ⁽⁸⁾	683	544	(66)
Ratios			
Total debt ⁽⁹⁾ to equity ⁽¹⁰⁾ ratio	3.2	3.0	3.1
Total assets to equity ⁽¹⁰⁾ ratio	4.4	4.2	4.4
Cash and investments as a percentage of borrowings outstanding, after swaps	36.6%	37.6%	34.8%
Cost to income ratio ⁽¹¹⁾	36.0%	37.2%	39.9%
Return on equity ratio ⁽¹²⁾	3.1%	1.0%	1.3%
Return on assets ratio ⁽¹³⁾	0.7%	0.3%	0.3%

(1) Excludes guarantees issued under the Trade Finance Facilitation Program, non-sovereign-guaranteed loan participations and exposure exchange agreements. In 2020, excludes \$490 million approved under the Flexible Risk Mitigation Facility to Argentina, that was approved in 2018.

(2) As of March 31, 2021, the undisbursed portion of approved loans includes \$22,691 million related to signed loans (2020 - \$22,223 million) and \$23,958 million as of December 31, 2020. In 2021, the undisbursed portion of concessional signed loans amounted \$567 million (2020 - \$571 million) and \$578 million as of December 31, 2020.

(3) Includes gross loan disbursements and debt securities purchased, less loan principal repayments (and prepayments) and collection of debt securities.

(4) Net of Payable for investment securities purchased, Payable for cash collateral received, and Receivable for investment securities sold.

(5) Excludes lending swaps in a net asset position of \$602 million as of March 31, 2021 (2020 - \$346 million in a net asset position) and \$561 million in a net liability position as of December 31, 2020.

(6) See page 11 for a full discussion of Operating Income under Results of Operations.

(7) Net fair value adjustments mostly relate to changes in the fair value of lending and equity duration swaps due to the increase in USD interest rates. Unrealized gain or losses in the net fair value adjustments on non-trading portfolios and foreign currency transactions will tend to zero as the related financial instruments mature.

(8) Includes Net income (loss), Reclassification to income - amortization of net actuarial losses and prior service credit on retirement benefits plans and Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk.

(9) Borrowings (after swaps) and guarantee exposure.

(10) "Total Equity" is defined as Paid-in capital stock and Additional paid-in capital, net of Capital subscriptions receivable, less Receivable from members, plus Retained earnings minus borrowing countries' local currency cash balances and accumulated other comprehensive income (non-GAAP measure). Although the Bank prepares its financial statements in accordance with U.S. GAAP, Management reviews certain results, such as ratios based on equity, on a non-GAAP basis. This measure provides information about the underlying operational performance and financial condition of the Bank while excluding the effects of accumulated other comprehensive income and borrowing countries local currency cash balance, which may be restricted. Refer to Table 6 for a reconciliation of this measure to GAAP equity.

(11) Four year rolling average of Administrative expenses, excluding pension and postretirement benefit costs, divided by four year rolling average of Total income, excluding Investments - net gains (losses) and net of Borrowing expenses.

(12) Annualized operating income divided by average equity.

(13) Annualized operating income divided by average total assets.

Developmental assets

Loan operations: A summary of the loans and guarantees approved, as well as the undisbursed portion of approved loans, during the three month period ended March 31, 2021 and 2020 appears in **Table 1**.

TABLE 1: LOAN AND GUARANTEE APPROVALS

(Amounts expressed in millions of United States dollars)

	2021				2020			
	Concessional		NSG ⁽¹⁾	Total	Concessional			Total
	SG	SG			SG	SG	NSG ⁽¹⁾	
Loans								
Number	11	-	6	17	10	-	24	34
Amount	\$ 778	\$ -	\$ 45	\$ 823	\$ 802	\$ -	\$ 409	\$ 1,211
Guarantees								
Number	2	-	-	2	-	-	-	-
Amount	\$ 65	\$ -	\$ -	\$ 65	\$ -	\$ -	\$ -	\$ -
Total	\$ 843	\$ -	\$ 45	\$ 888	\$ 802	\$ -	\$ 409	\$ 1,211
Undisbursed balance	\$ 26,908	\$ 635	\$ 1,229	\$ 28,772	\$ 28,500	\$ 677	\$ 1,406	\$ 30,583
Related to signed loans	\$ 21,418	\$ 567	\$ 706	\$ 22,691	\$ 20,924	\$ 571	\$ 728	\$ 22,223

(1) There were no loans originated by IIC and co-financed by the Bank (2020 - one loan for \$140 million).

Table 2 presents the sovereign (SG) and non-sovereign-guaranteed (NSG) loans and guarantees portfolio as of March 31, 2021 and December 31, 2020.

TABLE 2: OUTSTANDING LOANS AND GUARANTEES

(Expressed in millions of United States dollars)

	2021	2020
Sovereign Loans	\$ 99,262	\$ 99,562
Sovereign Guarantees	354	357
Sovereign Portfolio	99,616	99,919
Non-Sovereign Loans	4,940	5,199
Non-Sovereign Guarantees	250	431
Non-Sovereign Portfolio	5,190	5,630
Total Loans & Guarantees Outstanding	\$ 104,806	\$ 105,549
NSG Portfolio as a percentage of total loans and guarantees	5.0%	5.3%

For 2021, the approved lending spread and credit commission for the Bank's main non-concessional sovereign-guaranteed loans is 0.90% and 0.50%, respectively (2020 - 0.80% and 0.50%, respectively). No supervision and inspection fees have been applied for said periods.

The concessional funded portions of blended loans are bullet loans with 40-year maturities, and with an interest rate of 0.25%.

Debt Securities: The Bank may also invest in debt securities to further its developmental objectives, mainly co-financed with the Inter-American Investment Corporation (IIC). Generally, debt securities related to development investments are classified as held-to-maturity given the Bank has the intent and ability to hold these securities to maturity. As of March 31, 2021 debt securities outstanding amounted \$382 million (2020 - \$410 million)

Allowance for credit losses on developmental assets: The allowance for credit losses on developmental assets amounted to \$499 million at March 31, 2021 compared to \$567 million at December 31, 2020. The decrease of \$68 million is due to: i) a decrease in the collective allowance of the NSG developmental assets of \$48 million; ii) a decrease in the allowance of individually assessed loans in the NSG portfolio

of \$21 million; and iii) an increase in the allowance of individually assessed loans in the SG portfolio of \$1 million.

The Bank had individually assessed NSG loans with outstanding balances of \$503 million at March 31, 2021, compared to \$528 million at December 31, 2020. As of March 31, 2021, the allowances for credit losses on individually assessed NSG and SG loans were \$159 million and \$54 million, respectively, compared to \$180 million for NSG and \$53 million for SG loans at December 31, 2020. The percentage of the NSG allowance for credit losses on individually assessed loans was 32% as of March 31, 2021, and 34% as of December 31, 2020.

As of March 31, 2021, the total amount of Venezuela's sovereign-guaranteed operations in arrears amounted to \$868 million, including interest, from which \$756 million corresponds to arrearages of more than 180 days. Since 2018, all loans to Venezuela amounting to \$2,011 million (unchanged from 2018), were placed in nonaccrual status. Interest income not recognized amounted to \$13 million during the first three months of 2021 (\$18 million as of March 31, 2020), and the related individually assessed allowance for credit losses was \$54 million (\$53 million as of December 31, 2020). There were no other sovereign-guaranteed loans over 180 days past due, or in nonaccrual status as of March 31, 2021 or December 31, 2020.

Under the IDB's guidelines on arrears, the Bank cannot undertake any lending activities in Venezuela until its arrears are cleared. As a matter of policy, the Bank does not reschedule SG loans outside of the options allowed under the Flexible Financing Facility. Venezuela became a shareholder of the IDB when the institution was founded in 1959, has reiterated its commitment to the Bank and its intention to undertake payments. Even though the nonaccrual period could potentially be lengthy, the Bank still expects to collect all amounts due, including interest at the contractual interest rate for the period of delay, when the balances in arrears are restored to an accrual basis. As a result, the allowance recorded represents the estimated loss from the expected delay in debt service payments as the Bank does not charge interest on delayed interest payments. The assessment and estimation of credit loss is inherently judgmental and reflects Management's best estimate based upon the information currently available. Since the situation in Venezuela continues to evolve, Management will monitor its credit exposure periodically and reassess the credit loss estimate accordingly.

Borrowing operations

During the first three months of the year, the Bank issued bonds for a total face amount of \$7,745 million (2020 - \$5,507 million) that generated proceeds of \$7,745 million (2020 - \$5,504 million), representing increases of \$2,238 million and \$2,241 million, respectively, compared to the same period last year. The average life of new issues was 7.9 years in 2021 (2020 - 4.9 years). The Bank expects that the borrowing program will be approximately \$25 billion in 2021.

During 2021, the Bank continues to be rated Triple-A by the major credit rating agencies.

The Debt-to-Equity ratio at March 31, 2021 was 3.2 compared to 3.1 at the end of last year (See [Table 3](#)).

Financial results

Operating income during the first three months of 2021 was \$265 million, compared to \$86 million for the same period last year, an increase of \$179 million. The increase was mainly due to a decrease in the provision for developmental assets credit losses of \$128 million, and an increase in net investment gains of \$84 million, which were offset by and an increase in net non-interest expense of \$23 million, an lower net interest income of \$12 million (See [Table 4](#)).

During the three months ended March 31, 2021, the trading investments portfolio experienced net mark-to-market gains of \$6 million, compared to \$78 million losses during the three months ended March 31, 2020. The trading investments portfolio's net interest income, which excludes realized and unrealized investment gains and losses, added income of \$4 million during the first three months of 2021, compared to \$11 million during the same period in 2020.

The provision for credit losses on developmental assets was a credit of \$68 million during the first three months of 2021, compared to a provision of \$60 million for the same period last year. The decrease was mainly in the non-sovereign-guaranteed portfolio due to better macroeconomic conditions observed in the first quarter of 2021 and improvement in the conditions of some individually assessed loans.

The Bank had net fair value gains on non-trading portfolios and foreign currency transactions of \$536 million for the three months ended March 31, 2021, compared to \$183 million losses for the same period in 2020. Net fair value adjustments mostly relate to changes in the fair value of lending and equity duration swaps due to the increase in USD interest rates. Unrealized gain or losses in the net fair value adjustments on non-trading portfolios and foreign currency transactions will tend to zero as the related financial instruments mature.

Transfers to the IDB Grant Facility

Income transfers to the GRF are subject to the requirements of the Agreement and other applicable financial policies, and they are considered based on actual disbursements and fund balance of the GRF. In March 2021, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$92 million (2020 - \$64 million).

CAPITAL ADEQUACY

The Bank's Capital Adequacy Policy (CAP) consists of a Capital Adequacy Policy mandate (Mandate) and regulations that determine capital requirements for credit and market risk in both its lending and treasury operations. The CAP also includes capital requirements for pension and operational risks. The Mandate, approved by the Board of Governors, requires the Bank to maintain its Triple-A foreign currency long-term issuer rating, and the establishment of capital buffers, specifically to assume financial risks in times of stress, while preserving the Bank's lending capacity.

The CAP allows the Bank to measure the inherent risk in its loan portfolio due to the credit quality and regional concentration of its borrowers. Specific risk limits in terms of capital requirements for investments and derivatives are also included that enables Management to design more efficient funding and investment strategies following the risk appetite established by the Board of Executive Directors. The Bank is operating within its policy limits.

CONDENSED BALANCE SHEET

Developmental assets

The Bank makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries, to help meet their development needs. In the case of loans and guarantees to borrowers other than national governments or central banks, the Bank follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the national government. The Bank also offers sovereign-guaranteed concessional lending through a blending of regular and concessional financing.

In addition, the Bank may make loans and guarantees directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee and in all sectors (subject to an exclusion list), provided they meet the Bank's lending criteria. The Bank also lends to other multilateral development institutions without sovereign guarantee. NSG loans operations are currently capped to an amount such that economic capital requirements for such operations do not exceed 20% of the Bank's Total Equity⁽³⁾. During the seven-year period that started on January 1, 2016, NSG loans activities are being originated by the IIC and cofinanced by the Bank and the IIC. Refer to the Transfers to the Inter-American Investment Corporation section for further information.

(3) As of March 31, 2021, the date of the latest quarterly report to the Board of Executive Directors, the economic capital requirements of non-sovereign-guaranteed operations was \$1,570 million, or 4.5% of the Bank's Total Equity.

The loan portfolio is the Bank's principal earning asset, of which 95% was sovereign-guaranteed at March 31, 2021 and 2020. At March 31, 2021, the total volume of outstanding loans was \$104,202 million, of which \$4,827 million was under concessional terms, compared with \$104,761 million and \$4,840 million, respectively, as of December 31, 2020.

As of March 31, 2021, 5% of the outstanding loans and guarantees exposure was for non-sovereign-guaranteed loans, compared to 5% at December 31, 2020. The non-sovereign-guaranteed loan portfolio, including loans to other multilateral development institutions, totaled \$4,940 million, compared to \$5,199 million at December 31, 2020.

During 2021 and 2020, there were no purchases of developmental related debt securities. As of March 31, 2021 debt securities outstanding amounted \$382 million (2020 - \$410 million).

Investment Portfolio

The Bank's investment portfolio is comprised of highly-rated securities and bank deposits. Its volume is maintained at a level sufficient to ensure that adequate resources are available to meet future cash flow needs as determined in the Bank's liquidity policy.

Borrowing Portfolio

The portfolio of borrowings is mostly comprised of medium- and long-term debt raised directly in capital markets. Borrowings outstanding, after swaps, increased \$3,706 million compared with December 31, 2020, primarily due to a higher amount of new borrowings (\$7,745 million) than maturities (\$4,121 million).

Equity

Equity at March 31, 2021, was \$34,209 million, an increase of \$532 million from December 31, 2020, mainly due to Net income of \$696 million for the first three months of the year, and \$34 million amortization of net actuarial losses and prior service credit on pension plans; offset by \$150 million distribution to the Bank's shareholders for concurrent contribution to the IIC on behalf of the Bank's shareholders recorded as a dividend, and \$47 million loss related to the Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk.

Table 3 presents the composition of the Debt-to-Equity ratio as of March 31, 2021 and December 31, 2020. The ratio increased from 3.1 to 3.2 mainly resulting from an increase in borrowings outstanding.

TABLE 3: TOTAL DEBT-TO-EQUITY RATIO

(Amounts expressed in millions of United States dollars)

	March 31, 2021	December 31, 2020
Borrowings outstanding after swaps and guarantee exposure	\$ 110,552	\$ 107,030
Equity		
Paid-in capital stock	11,853	11,853
Less: Receivable from members	799	798
Retained earnings:		
General reserve	20,590	20,057
Special reserve	2,565	2,565
	<u>34,209</u>	<u>33,677</u>
Minus:		
Borrowing countries' local currency cash balances	182	169
Accumulated other comprehensive income	(634)	(621)
Total Equity	\$ 34,661	\$ 34,129
Total Debt-to-Equity Ratio	3.2	3.1

Transfers to the Inter-American Investment Corporation

In 2016, the transfer of operational and administrative functions and non-financial resources associated with NSG loans activities from the Bank to the IIC became effective. NSG activities are and will continue to be originated by the IIC and co-financed by the Bank and the IIC. For co-financed NSG loans, the

Bank and the IIC maintain separate legal and economic interests in their respective share of the loan principal balance, interest, and other elements of the lending arrangement. The IIC also executes and monitors the Bank's NSG loans portfolio.

As part of such reorganization, the IIC's capitalization plan includes additional capital to be contributed by the IIC shareholders through approved transfers of a portion of Ordinary Capital's income in lieu of distributing this income to the shareholders of both the Bank and the IIC beginning in 2018. These transfers are accounted for as dividends to the Bank's shareholders. These income transfers are intended to be achieved during the period 2018-2025 and for an amount not exceeding \$725 million. These transfers are conditional upon annual Board of Governors' approval, which shall take into account the continued maintenance of the Bank's Triple-A long-term foreign currency credit rating, the CAP, the preservation of the sovereign-guaranteed lending envelope consistent with IDB-9, and the construction of the buffers in accordance with the CAP, as well as other applicable financial policies of the Bank. In March 2021, the Board of Governors approved a \$150 million (2020 - \$110 million) distribution to the Bank's shareholders for concurrent contribution to the IIC on behalf of the Bank's shareholders, that has been recorded as Distributions on behalf of shareholders in the Condensed Statement of Income and Retained Earnings. Since 2018, the IIC has received dividends totaling \$360 million.

RESULTS OF OPERATIONS

Table 4 shows a breakdown of Operating Income. For the three months ended March 31, 2021, Operating Income was \$265 million compared to \$86 million for the same period last year, an increase of \$179 million. The increase was mainly due to a decrease in the provision for developmental assets credit losses, and an increase in net investment gains, which were offset by an increase in net non-interest expense and lower net interest income.

TABLE 4: OPERATING INCOME

(Expressed in millions of United States dollars)

	Three months ended March 31,		
	2021	2020	2021 vs 2020
Loan interest income ⁽¹⁾	\$ 506	\$ 725	\$ (219)
Investment interest income ⁽¹⁾	32	176	(144)
Other interest income	-	2	(2)
	<u>538</u>	<u>903</u>	<u>(365)</u>
Less:			
Borrowing expenses ⁽¹⁾	164	517	(353)
Net interest income	<u>374</u>	<u>386</u>	<u>(12)</u>
Other loan income	31	29	2
Net investment gains (losses)	6	(78)	84
Other expenses:			
Provision (Credit) for developmental assets credit	(68)	60	(128)
Net non-interest expense	<u>214</u>	<u>191</u>	<u>23</u>
Total	<u>146</u>	<u>251</u>	<u>(105)</u>
Operating Income	\$ 265	\$ 86	\$ 179

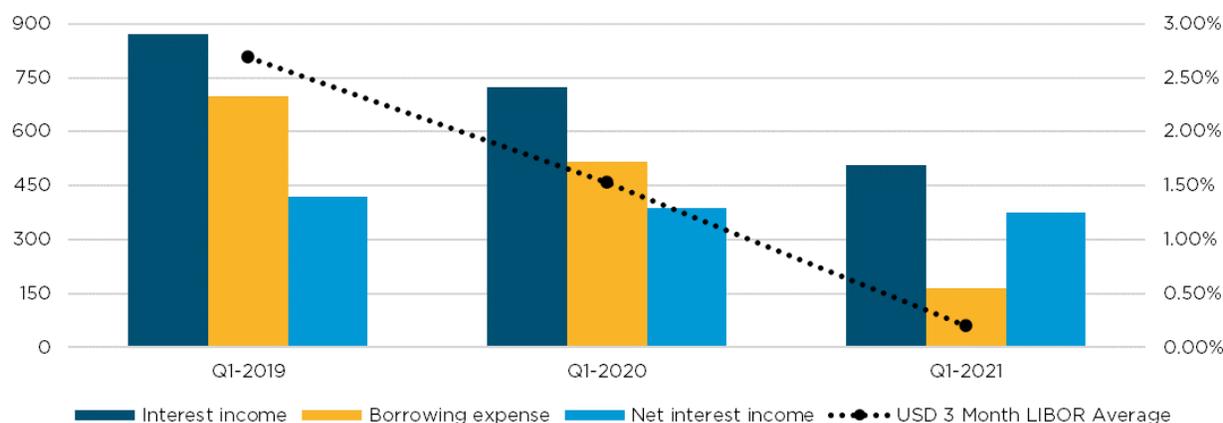
(1) Amounts represent an after swap basis.

The Bank had net interest income of \$374 million during the first three months of 2021, compared to \$386 million for the same period last year. This was mostly due to the decrease in market interest rates, partially offset by a 10 bps increase of the Bank's lending spread in 2021.

Figure below shows the Bank's net interest income during the first three months of the last three years.

FINANCIAL RESULTS - NET INTEREST INCOME For the quarters ended March 31, 2019 through 2021

(Expressed in millions of United States dollars)



The Bank's policy of setting its lending rate on its SG loans as a cost pass-through plus a variable lending spread, immunizes it from the volatility associated with the underlying cost of funding which is primarily based on 3-month USD LIBOR. As can be observed from the chart above, the decline in the average 3-month USD LIBOR has translated into decreases of both the Bank's interest income and borrowing expenses. The Bank's net interest income is driven primarily by the lending spread the Bank charges on all its SG loans and the income earned on equity funded assets. The lending spread is normally reviewed annually, and when this spread resets it applies to the entire SG lending portfolio, not just to the new loans approved in that year.

Changes in interest rates will result in changes in Net Interest Income as the balance sheet has some residual interest income sensitivity to USD LIBOR changes, since the Bank's equity is partially funding LIBOR-based SG Loans.

Net mark-to-market investment gains amounted to \$6 million, compared to \$78 million losses for the same period in 2020, mainly due to the mark-to-market impact of lower credit spreads.

The provision for credit losses on developmental assets was a credit of \$68 million during the first three months of 2021, compared to a provision of \$60 million for the same period last year. The decrease was mainly in the non-sovereign-guaranteed portfolio due to better macroeconomic conditions observed in the first quarter of 2021 and improvement in the conditions of some individually assessed loans.

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective financial returns and costs for the three months ended March 31, 2021 and 2020, and the year ended December 31, 2020 are shown in **Table 5**.

TABLE 5: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS
(Amounts expressed in millions of United States dollars)

	Three months ended March 31, 2021		Three months ended March 31, 2020		Year ended December 31, 2020	
	Average Balance	Return/ Cost %	Average Balance	Return/ Cost %	Average Balance	Return/ Cost %
Loans ⁽¹⁾	\$ 104,822	1.96	\$ 97,486	2.99	\$ 99,643	2.32
Liquid investments ⁽²⁾⁽³⁾	40,608	0.38	36,482	1.10	38,858	1.03
Total earning assets	\$ 145,430	1.52	\$ 133,968	2.48	\$ 138,501	1.96
Borrowings	\$ 110,308	0.60	\$ 99,486	2.09	\$ 103,812	1.22
Net interest margin ⁽⁴⁾		1.04		1.16		1.03

(1) Excludes loan fees.

(2) Geometrically-linked time-weighted returns.

(3) Includes gains and losses.

(4) Represents annualized net interest income as a percent of average earnings assets.

Core Operating Income (Non-GAAP Measure)

Although the Bank prepares its financial statements in accordance with U.S. GAAP, management reviews certain results, such as core operating income, on a non-GAAP basis. This measure provides information about the underlying operational performance and trends of the Bank while excluding volatile net investment mark-to-market gains and losses, as well as the provision for credit losses on developmental assets. **Table 6** displays reported Operating Income (GAAP) with the adjustments to arrive at core operating income (Non-GAAP).

Management considers core operating income as a useful measure of the Bank's operations. Changes in core operating income are driven mainly by changes in the Bank's approved sovereign-guaranteed fees and the impact of changes in interest rates, as well as changes in net non-interest expense.

During 2021, core operating income changes have been mostly related to a decrease in net interest income due to a decrease in market interest rates, partially offset by a 10 bps increase of the Bank's lending spread, and an increase in the service cost associated with the Bank's pension plans due to the decrease in discount rates experienced on December 31, 2020.

TABLE 6: CORE OPERATING INCOME
(Expressed in millions of United States dollars)

Core Operating Income (Non-GAAP Measure)	Three months ended March 31,		
	2021	2020	2021 vs 2020
Operating Income (Reported)	\$ 265	\$ 86	\$ 179
Less:			
Net investment gains (losses)	6	(78)	84
Add:			
Provision (Credit) for developmental assets credit	(68)	60	(128)
Core operating income	\$ 191	\$ 224	\$ (33)

COMMITMENTS

Guarantees

The Bank makes non-trade related guarantees with or without a sovereign counter-guarantee. In addition, the Bank provides credit guarantees without sovereign counter-guarantee for trade-finance transactions under its Trade Finance Facilitation Program.

Contractual Obligations

The Bank's most significant contractual obligations relate to the repayment of borrowings. As of March 31, 2021, the weighted average maturity of the medium- and long-term borrowing portfolio, after swaps, was 3.72 years with contractual maturity dates through 2058. In addition, the Bank has a number of other obligations to be settled in cash, including leases, undisbursed signed loans (\$22,691 million at March 31, 2021), Short-term borrowings, payable for currency and interest rate swaps, Payable for investment securities purchased, Payable for cash collateral received, Due to IDB Grant Facility, and pension and postretirement benefit obligations.

LIQUIDITY MANAGEMENT

Table 7 shows a breakdown of the trading investments portfolio at March 31, 2021 and December 31, 2020, by major security class and its contractual maturity, on securities held at the end of the period.

TABLE 7: TRADING INVESTMENTS PORTFOLIO BY MAJOR SECURITY CLASS AND MATURITY DATES
(Expressed in millions of United States dollars)

Security Class	March 31, 2021				
	Maturity in in one year or less	one year to five years	five years to ten years	after ten years	Grand Total ⁽¹⁾
Obligations of the United States Government and its corporations and agencies	\$ 859	\$ 1,595	\$ -	\$ -	\$ 2,454
U.S. Government-sponsored enterprises	62	198	88	43	391
Obligations of non-U.S. governments	9,455	1,123	-	-	10,578
Obligations of non-U.S. agencies	6,510	5,501	-	-	12,011
Obligations of non-U.S. sub-sovereigns	2,912	1,597	-	-	4,509
Obligations of supranationals	2,338	767	-	-	3,105
Bank obligations	4,915	1,625	-	-	6,540
Corporate securities	500	201	-	-	701
Mortgage-backed securities	-	-	-	6	6
Asset-backed securities	-	-	-	11	11
Total trading investments	27,551	12,607	88	60	40,306
Currency and interest rate swaps - investments-trading	(211)	(340)	-	-	(551)
Total trading investments	\$ 27,340	\$ 12,267	\$ 88	\$ 60	\$ 39,755

(1) Includes accrued interest of \$100 million for trading investments and \$(86) million for currency and interest rate swaps, presented in the Condensed Balance Sheet under Accrued interest and other charges.

Security Class	December 31, 2020				
	Maturity in in one year or less	one year to five years	five years to ten years	after ten years	Grand Total ⁽¹⁾
Obligations of the United States Government and its corporations and agencies	\$ 367	\$ 1,550	\$ -	\$ -	\$ 1,917
U.S. Government-sponsored enterprises	79	260	97	35	471
Obligations of non-U.S. governments	6,837	780	-	-	7,617
Obligations of non-U.S. agencies	6,636	5,848	-	-	12,484
Obligations of non-U.S. sub-sovereigns	2,245	1,913	-	-	4,158
Obligations of supranationals	2,085	297	-	-	2,382
Bank obligations	6,330	841	-	-	7,171
Corporate securities	451	228	-	-	679
Mortgage-backed securities	-	-	-	6	6
Asset-backed securities	-	-	-	11	11
Total trading investments	25,030	11,717	97	52	36,896
Currency and interest rate swaps - investments-trading	(657)	(459)	-	-	(1,116)
Total trading investments	\$ 24,373	\$ 11,258	\$ 97	\$ 52	\$ 35,780

(1) Includes accrued interest of \$119 million for trading investments and \$(100) million for currency and interest rate swaps, presented in the Condensed Balance Sheet under Accrued interest and other charges.

COMMERCIAL CREDIT RISK

Commercial credit risk is the exposure to losses that could result from the default of one of the Bank's investment, trading or derivatives counterparties. The primary objective in the management of the liquid assets is the maintenance of a conservative exposure to credit, market and liquidity risks. Consequently, the Bank invests only in high quality debt instruments issued by sovereign and sub-sovereign governments, agencies, supranationals, banks and corporate entities, including asset-backed and mortgage-backed securities.

Table 8 provides details of the estimated current credit exposure of the Bank's investment and swap portfolios, net of collateral held, by counterparty rating category. As of March 31, 2021, the credit exposure amounted to \$40,413 million, compared to \$37,208 million as of December 31, 2020. The credit quality of the portfolios continues to be high, as 76.5% of the counterparties are rated AAA and AA, 17.8% or equivalent short-term ratings (A1+), 4.6% are rated A, and 1.1% are rated BBB or below, compared to 70.7%, 23.0%, 5.7% and 0.6%, respectively, at December 31, 2020.

TABLE 8: CURRENT CREDIT EXPOSURE, NET OF COLLATERAL HELD, BY COUNTERPARTY RATING CATEGORY⁽¹⁾*(Amounts expressed in millions of United States dollars)*

March 31, 2021							
Counterparty rating	Investments					Total Exposure on Investments and Swaps	% of Total
	Governments and Agencies	Banks	Corporates	ABS and MBS	Net Derivatives Exposure ⁽³⁾		
A1+	\$ 7,042	\$ 159	\$ -	\$ -	\$ -	\$ 7,201	17.8
AAA	12,798	1,056	-	-	-	13,854	34.3
AA	11,435	4,833	701	7	100	17,076	42.2
A	1,446	412	-	-	7	1,865	4.6
BBB	60	-	-	3	-	63	0.2
BB	267	-	-	-	-	267	0.7
B	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-
CC and below ⁽²⁾	-	80	-	7	-	87	0.2
Total	\$ 33,048	\$ 6,540	\$ 701	\$ 17	\$ 107	\$ 40,413	100.0

December 31, 2020							
Counterparty rating	Investments					Total Exposure on Investments and Swaps	% of Total
	Governments and Agencies	Banks	Corporates	ABS and MBS	Net Derivatives Exposure ⁽³⁾		
A1+	\$ 8,345	\$ 195	\$ -	\$ -	\$ -	\$ 8,540	23.0
AAA	9,140	1,146	-	-	-	10,286	27.6
AA	9,929	5,135	679	6	290	16,039	43.1
A	1,411	695	-	-	22	2,128	5.7
BBB	53	-	-	3	-	56	0.2
BB	151	-	-	-	-	151	0.4
B	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-
CC and below ⁽²⁾	-	-	-	8	-	8	-
Total	\$ 29,029	\$ 7,171	\$ 679	\$ 17	\$ 312	\$ 37,208	100.0

(1) Letter ratings refer to the average ratings from major rating agencies and to the entire range in that rating category including numeric (i.e. 1-3), symbolic (i.e. +/-), or similar qualifications used by eligible rating agencies. The group A1+ refers to the highest short-term rating.

(2) Includes assets not currently rated.

(3) Includes swaps, futures, and options.

SUBSEQUENT AND OTHER DEVELOPMENTS

Funded Status of Pension and Postretirement Benefit Plans (Plans)

The volatility in the equity and credit markets affects the funded status of the Plans. As of March 31, 2021, asset values continued to recover from the economic impacts of COVID-19 on financial markets; as well as decreases in the Plans' liabilities due to increases in discount rates, have resulted in an increase the funded status of the Plans. Accordingly, as of March 31, 2021 and December 31, 2020, the Plans' assets represented approximately 94% and 84% of their benefit obligations, respectively. The Bank recognizes actuarial gains and losses on its Plans through comprehensive income at the end of each calendar year, when the Plans' liabilities are remeasured, as required by U.S. GAAP.

Replacement of LIBOR and other IBOR base rates

In a July 2017 announcement, the United Kingdom's Financial Conduct Authority (FCA) questioned the sustainability of LIBOR in its current form, advocating a transition away from reliance on LIBOR to alternative reference rates and stating it will no longer persuade or compel LIBOR panel banks to submit rate quotes after the year 2021, resulting in a need to implement alternative benchmarks globally. Focusing on U.S. Dollar LIBOR, within the United States, the Federal Reserve Board and the New York

Fed convened the Alternative Reference Rates Committee (ARRC) in 2014 to facilitate the transition from U.S. Dollar LIBOR to a more robust benchmark replacement rate. In April 2018, the Federal Reserve Bank of New York started publishing the ARRC's recommended alternative, the Secured Overnight Financing Rate (SOFR), which is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. This reference rate is expected to replace U.S. Dollar LIBOR. Since then, one-month and three-month SOFR future contracts have started trading, various Floating Rate Notes (FRN) linked to SOFR have been issued, various exchanges have adjusted to SOFR discounting for OTC collateral transactions and the International Swaps and Derivatives Association (ISDA) has launched its IBOR (interbank offered rates) Fallbacks Protocol and IBOR Fallbacks Supplement.

On November 30th, 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation in the US issued a statement on LIBOR transition to encourage Banks to stop entering into new contracts that use USD LIBOR as a reference rate by December 31, 2021, "in order to facilitate an orderly-and safe and sound-LIBOR transition".

On March 5th, 2021, the FCA announced that the publication of all euro LIBOR settings, all Swiss franc LIBOR settings, the Spot Next, 1-week, 2-month and 12-month Japanese yen LIBOR settings, the overnight, 1-week, 2-month and 12-month sterling LIBOR settings, and the 1-week and 2-month US dollar LIBOR settings will cease immediately after December 31, 2021. The publication of overnight and 12-month US dollar LIBOR settings will cease permanently after June 30, 2023. Moreover, the FCA will consider the case to use proposed powers to require continued publication on a synthetic basis of the 1-month, 3-month and 6-month US dollar LIBOR settings for a further period after the end of June 2023, but clarified that any LIBOR settings published on this synthetic basis will no longer be representative of the underlying market and economic reality the setting is intended to measure. On the same date the International Securities and Derivatives Association (ISDA) determined that the FCA announcement constitutes an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings. Therefore, March 5th, 2021 is the "Spread Adjustment Fixing Date" under the Bloomberg IBOR Fallback Rate Adjustments Rulebook and so the spread (which forms part of the new ISDA IBOR fallbacks) for all 35 LIBOR settings has been fixed.

If SOFR or another rate does not achieve wide acceptance as the alternative to LIBOR, there likely will be disruption to financial markets. In the event that SOFR or another reference rate is widely accepted, risks will remain related to outstanding loans, borrowings, derivatives and other instruments using LIBOR related to transitioning those instruments to a new reference rate and the corresponding value transfer that may occur in connection with that transition, as the new reference rate will not exactly mimic LIBOR. As a result, for example, over the life of a transaction that transitions from LIBOR to a new reference rate, the Bank's monetary obligations to its counterparties and the Bank's yield from transactions with clients may change, potentially adversely to the Bank. If a contract is not transitioned to a new reference rate and LIBOR ceases to exist, the impact on the Bank's obligations is likely to vary by asset class and contract. The value of investments, borrowings, or derivative instruments tied to LIBOR and the trading market for LIBOR-based securities could also be impacted upon its discontinuance or if it is limited.

In 2018, the Bank established a multi-disciplinary working group to manage the transition away from LIBOR and other IBOR base rates. In 2020, a Libor Transition Program was created to devise and implement an orderly shift from IBOR rates to the relevant new replacement rates, as well as the Libor Transition Senior Management Advisory Committee. The Bank has developed a multifaceted transition strategy that includes workstreams related to various components, including contractual, financial, Balance Sheet, communications, information technology and realignment of business processes and quality assurance.

As part of this exercise, the Bank is assessing sovereign-guaranteed and non-sovereign guaranteed lending operations, derivatives transactions, and funding operations, among others. In relation to the derivatives, the Bank has adhered to the ISDA 2020 IBOR Fallbacks Protocol.

On the operational side, the Bank prices its sovereign-guaranteed loans on a pass-through basis, where funding costs are passed through to its borrowers. Starting in January 2022, the Bank expects to offer SOFR as reference rate for sovereign-guaranteed loans.

On the funding side, the Bank has ceased issuance of its FRN linked to LIBOR. All but one of its outstanding LIBOR FRNs will reset before the date that LIBOR would cease to be published (such date currently scheduled for the end of 2021; but may be extended until June 30, 2023 for the most common USD LIBOR tenors subject to any Intercontinental Exchange (ICE) Benchmark Administration announcement). If the date for which LIBOR is published is extended, the remaining Bank issuance that matures on July 15, 2022 for \$1,500 million would likewise be expected to reset before the extended discontinuation date. As of March 31, 2021 and 2020, the outstanding balance of SOFR linked FRNs is \$1,500 million. The Bank also started to swap some primary fixed rate bond issuances into SOFR.

Management changes

On February 23, 2021, Mr. Fernando Quevedo was appointed General Manager, Country Department Central America, Haiti, Mexico, Panama and the Dominican Republic, effective April 16, 2021.

On March 5, 2021, Mr. Marlon Tábora Muñoz was appointed Secretary, a.i. of the Bank, effective April 1, 2021.

**Condensed Quarterly Financial Statements
(Unaudited)**

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

CONDENSED BALANCE SHEET

(Expressed in millions of United States dollars)

	March 31, 2021		December 31, 2020	
	(Unaudited)		(Unaudited)	
ASSETS				
Cash and investments				
Cash - Note J	\$ 2,078		\$ 2,596	
Investments - Trading - Notes C, I and J	40,206	\$ 42,284	36,776	\$ 39,372
Developmental assets				
Loans outstanding - Notes D, F and J	104,202		104,761	
Debt securities - Note E	382		410	
Allowance for credit losses	(447)	104,137	(504)	104,667
Accrued interest and other charges - Note F		838		857
Currency and interest rate swaps - Notes H, I, J and K				
Investments - Trading	142		-	
Loans	1,290		737	
Borrowings	3,503		4,760	
Other	222	5,157	27	5,524
Other assets - Note D		1,559		1,317
Total assets		\$ 153,975		\$ 151,737
LIABILITIES AND EQUITY				
Liabilities				
Borrowings - Notes G, H, I, J and K				
Short-term	\$ 1,206		\$ 1,186	
Medium- and long-term:				
Measured at fair value	81,779		82,114	
Measured at amortized cost	28,873	\$ 111,858	26,659	\$ 109,959
Currency and interest rate swaps - Notes H, I, J and K				
Investments - Trading	606		1,015	
Loans	688		1,298	
Borrowings	1,593		1,043	
Other	12	2,899	1	3,357
Payable for investment securities purchased		756		-
Payable for cash collateral received		991		1,344
Due to IDB Grant Facility - Note L		280		208
Accrued interest on borrowings		490		668
Liabilities under retirement benefit plans - Note O		1,374		1,363
Undisbursed special programs		220		226
Other liabilities - Note D		898		935
Total liabilities		119,766		118,060
Equity				
Capital stock - Note M				
Subscribed 14,170,108 shares	170,940		170,940	
Less callable portion	(164,901)		(164,901)	
Additional paid-in capital	5,814		5,814	
	11,853		11,853	
Receivable from members - Note N	(799)		(798)	
Retained earnings	23,789		23,243	
Accumulated other comprehensive loss	(634)	34,209	(621)	33,677
Total liabilities and equity		\$ 153,975		\$ 151,737

The accompanying notes are an integral part of these condensed quarterly financial statements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS

(Expressed in millions of United States dollars)

	Three months ended	
	March 31,	
	2021	2020
	(Unaudited)	
Income		
Loans, after swaps - Notes D and H	\$ 537	\$ 754
Investments - Notes C and H		
Interest	32	176
Net gains (losses)	6	(78)
Other interest income - Notes H and K	-	2
Other	13	27
Total income	<u>588</u>	<u>881</u>
Expenses		
Borrowing expenses, after swaps - Note G, H and I	164	517
Provision (Credit) for developmental assets credit losses - Note F	(68)	60
Administrative expenses	214	209
Special programs	13	9
Total expenses	<u>323</u>	<u>795</u>
Operating income	265	86
Net fair value adjustments on non-trading portfolios and foreign currency transactions - Notes G, H and K	536	(183)
Other components of net pension benefit costs - Note O	(13)	(3)
Board of Governors approved transfers - Note L	(92)	(64)
Net income (loss)	696	(164)
Retained earnings, beginning of period	23,243	22,781
Distributions on behalf of shareholders - Note T	(150)	(110)
Cumulative-effect adjustment for expected credit losses	-	(38)
Retained earnings, end of period	\$ 23,789	\$ 22,469

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in millions of United States dollars)

	Three months ended	
	March 31,	
	2021	2020
	(Unaudited)	
Net income (loss)	\$ 696	\$ (164)
Other comprehensive income (loss)		
Reclassification to income - amortization of net actuarial losses and prior service credit on retirement benefits plans - Note O	34	25
Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk	(47)	683
Total other comprehensive income (loss)	<u>(13)</u>	<u>708</u>
Comprehensive income	\$ 683	\$ 544

The accompanying notes are an integral part of these condensed quarterly financial statements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

CONDENSED STATEMENT OF CASH FLOWS

(Expressed in millions of United States dollars)

	Three months ended March 31,	
	2021 (Unaudited)	2020 (Unaudited)
Cash flows from developmental and investing activities		
Developmental activities:		
Loan disbursements	\$ (1,713)	\$ (2,060)
Loan collections	1,504	1,485
Net cash used in developmental activities	(209)	(575)
Purchase of property, net	(7)	(3)
Miscellaneous assets and liabilities, net	(41)	40
Net cash used in developmental and investing activities	(257)	(538)
Cash flows from financing activities		
Medium- and long-term borrowings:		
Proceeds from issuance	7,745	5,504
Repayments	(4,121)	(3,579)
Short-term borrowings, net	19	750
Cash collateral received (returned)	(353)	208
Distributions paid on behalf of shareholders	(149)	(109)
Net cash provided by financing activities	3,141	2,774
Cash flows from operating activities		
Gross purchases of trading investments	(23,431)	(17,060)
Gross proceeds from sale or maturity of trading investments	20,020	14,532
Loan income collections, after swaps	451	699
Interest and other costs of borrowings, after swaps	(228)	(655)
Income from investments	33	180
Other interest income	(5)	1
Other income	13	28
Administrative expenses	(196)	(199)
Transfers to the IDB Grant Facility	(20)	(6)
Special programs	(19)	(20)
Net cash used in operating activities	(3,382)	(2,500)
Effect of exchange rate fluctuations on Cash	(20)	(3)
Net decrease in Cash	(518)	(267)
Cash, beginning of period	2,596	1,215
Cash, end of period	\$ 2,078	\$ 948

The accompanying notes are an integral part of these condensed quarterly financial statements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO THE CONDENSED QUARTERLY FINANCIAL STATEMENTS

NOTE A – FINANCIAL INFORMATION

The primary activities of the Inter-American Development Bank (the Bank) are conducted through the Ordinary Capital, which is supplemented by the Fund for Special Operations (FSO, inactive), and the IDB Grant Facility (GRF). Unless otherwise indicated, all financial information provided in these Condensed Quarterly Financial Statements refers to the Ordinary Capital. The Condensed Quarterly Financial Statements should be read in conjunction with the December 31, 2020 financial statements and notes therein included in the Bank's Information Statement dated February 26, 2021. Management believes that the Condensed Quarterly Financial Statements reflect all adjustments necessary for a fair presentation of the Ordinary Capital's financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). The results of operations for the first three months of the current year are not necessarily indicative of the results that may be expected for the full year.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with GAAP. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have been made in the valuation of certain financial instruments carried at fair value, the determination of the adequacy of the allowances for credit losses on developmental assets, and the determination of the benefit obligations of the pension and postretirement benefit plans, the fair value of plan assets, and net periodic benefit cost associated with these plans.

Accounting pronouncements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848). The ASU provides optional expedients and exceptions, for contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU do not apply to contract modifications made or other transactions entered after December 31, 2022. In January 2021, the FASB issued amendments in ASU 2021-01 to the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The Bank is currently assessing the impact of both ASUs and plans to adopt the available expedients and exceptions allowed through December 31, 2022.

NOTE C – INVESTMENTS

As part of its overall portfolio management strategy, the Bank invests in sovereign and sub-sovereign governments, agency, supranational, bank and corporate entities, including asset-backed and mortgage-backed securities, and related financial derivative instruments, primarily currency and interest rate swaps.

The Bank invests in obligations: (i) issued or unconditionally guaranteed by sovereign governments of the member country whose currency is being invested, or other sovereign obligations with a minimum credit quality equivalent to AA-; (ii) issued or unconditionally guaranteed by sub-sovereign governments and agencies, including asset-backed and mortgage-backed securities, with a minimum credit quality equivalent to AA-; and (iii) issued by supranational organizations with a credit quality

equivalent to a AAA rating. In addition, the Bank invests in senior bank obligations with a minimum credit quality equivalent to A, and in corporate entities with a minimum credit quality equivalent to a AA- rating (private asset-backed and mortgage-backed securities require a credit quality equivalent to a AAA rating). The Bank also invests in short-term securities of the eligible investment asset classes mentioned above, if they carry equivalent short-term credit ratings.

A summary of the trading portfolio instruments at March 31, 2021 and December 31, 2020 is shown in Note I – Fair Value Measurements.

NOTE D – DEVELOPMENTAL ASSETS – LOANS AND GUARANTEES

Loans

The Flexible Financing Facility (FFF), effective January 1, 2012, is currently the only financial product platform for approval of all regular sovereign-guaranteed (SG) loans. With FFF loans, borrowers can tailor financial terms at approval or during the life of a loan, subject to market availability and operational considerations. The FFF platform allows borrowers to: (i) manage currency, interest rate and other types of exposures; (ii) address project changing needs by customizing loan repayment terms to manage liquidity risks; (iii) manage loans under legacy financial products; and (iv) execute hedges with the Bank at a loan portfolio level. In addition, the Bank offers FFF loans with embedded options to assist borrowers to manage their risk exposures to commodity price volatility; and manage loan cash flows in the event of certain types of natural disasters.

The FFF loans have an interest rate primarily based on LIBOR plus an actual funding margin, as well as the Bank's lending spread. Borrowers also have an option to convert to fixed-base cost rate, local currencies, and other major currencies.

The Bank also offers highly concessional loans to the least developed borrowing members, their agencies, or political sub-divisions. Concessional lending is provided by the blending of loans at regular sovereign guarantee spread and loans at concessional spreads, both funded from the Bank's resources.

Loans outstanding as of March 31, 2021 and December 31, 2020 were as follows (in millions):

Developmental Assets	March 31, 2021		December 31, 2020	
Loans outstanding	\$	104,202	\$	104,761
Allowance for credit losses		(431)		(486)
Total	\$	103,771	\$	104,275

Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the limit established for non- sovereign-guaranteed (NSG) loans operations, or with a member country sovereign counter-guarantee.

Under the NSG loans' Trade Finance Facilitation Program (TFFP), in addition to direct loans, the Bank provides full credit guarantees on short-term trade related transactions. The TFFP authorizes lines of credit in support of approved issuing banks and non-bank financial institutions, with an aggregate program limit of up to \$1,000 million outstanding at any time.

Guarantees are regarded as outstanding when the Bank issues the guarantee, the borrower incurs the underlying financial obligation, and are called when a guaranteed party demands payment under the guarantee. The outstanding amount represents the maximum potential undiscounted future payments that the Bank could be required to make under these guarantees.

Outstanding guarantees have remaining maturities ranging from 8 months to 13 years, except for trade related guarantees that have maturities of up to 1 year. As of March 31, 2021 and December 31, 2020, guarantees of \$604 million and \$788 million, respectively, were outstanding and subject to call, and were classified as follows (in millions):

	March 31, 2021				December 31, 2020			
	NSG ⁽¹⁾	NSG TFFP ⁽¹⁾	SG ⁽²⁾	Total	NSG ⁽¹⁾	NSG TFFP ⁽¹⁾	SG ⁽²⁾	Total
a+ to a-	\$ 32	\$ -	\$ -	\$ 32	\$ 35	\$ -	\$ -	\$ 35
bbb+ to bbb-	-	-	60	60	-	-	60	60
bb+ to bb-	29	44	-	73	36	146	-	182
b+ to b-	86	58	294	438	110	103	297	510
ccc+ to cc	-	1	-	1	-	1	-	1
Total	\$ 147	\$ 103	\$ 354	\$ 604	\$ 181	\$ 250	\$ 357	\$ 788

(1) NSG and NSG TFFP guarantees ratings are represented by the Bank's internal credit risk classification, which maps to Standard & Poor's (S&P)'s rating scale.

(2) SG guarantees rating is assigned to each borrower country by S&P.

As of March 31, 2021, the current carrying amount of the liability for the guarantee obligations amounted to \$32 million (December 31, 2020 - \$35 million) and is reported under Other liabilities in the Condensed Balance Sheet.

Multilateral Development Banks (MDBs) Exposure Exchange Agreement

The Bank reduced its sovereign-guaranteed loan portfolio concentration by entering into a Master Exposure Exchange Agreement (EEA) jointly with other MDBs and executing bilateral transactions under such framework. Conceptually, the EEA reduces portfolio concentration by simultaneously exchanging coverage for potential nonaccrual events (i.e., interest and principal nonpayment) between MDBs for exposures from borrowing countries in which an MDB is concentrated, to countries in which an MDB has no, or low, exposure.

Under an EEA, there is no direct exchange of loan assets and all aspects of the client relationship remain with the originating MDB. However, one MDB assumes the credit risk on a specified EEA amount for a set of borrowing countries (the EEA seller of protection, or EEA Seller) in exchange for passing on the credit risk in the same amount on a set of different borrowing countries to another MDB (the EEA buyer of protection, or EEA Buyer). If a nonaccrual event occurs for one of the countries that is part of the EEA transactions, the EEA Seller compensates the EEA Buyer at an agreed upon rate. The EEA allows for exchanges of a minimum of 10 years and a maximum of 30 years maturity, and each participating MDB is required to retain a minimum of 50% of the total exposure to each country that is part of the EEA. In the event of no nonaccrual events occurring during the life of the EEA, the EEA expires at the end of the agreed upon period in December 2030 or December 2035.

The Bank has entered into an EEA and executed bilateral EEA transactions (for \$4,901 million in 2015 and \$1,000 million in 2020) with certain other MDBs. In accordance with EEA, these transactions remain within 10% of the Bank's SG outstanding loan balance, and individual country exposures exchanged do not exceed the Bank's 10th largest SG exposure.

Each EEA transaction was accounted for as an exchange of two separate financial guarantees (given and received). As of March 31, 2021 and December 31, 2020, the Bank is the EEA Buyer (receives a financial guarantee from other MDBs) and the EEA Seller (provides a financial guarantee to other MDBs) for the following countries and exposure amounts (in millions):

EEA Seller			
Country	Amount	S&P Rating	
		As of March 31, 2021	As of December 31, 2020
Angola	\$ 85	CCC+	CCC+
Armenia	118	B-	B-
Bangladesh	251	BB-	BB-
Bosnia & Herzegovina	99	B	B
Egypt	720	B	B
Georgia	97	BB	BB
India	175	BBB-	BBB-
Indonesia	535	BBB	BBB
Jordan	144	B+	B+
Macedonia	130	BB-	BB-
Montenegro	116	B	B+
Morocco	990	BBB-	BBB-
Nigeria	95	B-	B-
Pakistan	647	B-	B-
Serbia	195	BB+	BB+
Tunisia	990	B-	B-
Turkey	311	B+	B+
Vietnam	203	BB	BB
Total	\$ 5,901		

EEA Buyer			
Country	Amount	S&P Rating	
		As of March 31, 2021	As of December 31, 2020
Argentina	\$ 750	CCC+	CCC+
Bolivia	92	B+	B+
Brazil	1,395	BB-	BB-
Chile	66	A	A+
Colombia	497	BBB-	BBB-
Costa Rica	43	B	B
Dominican Republic	460	BB-	BB-
Ecuador	1,066	B-	B-
El Salvador	225	B-	B-
Mexico	900	BBB	BBB
Panama	207	BBB	BBB
Trinidad & Tobago	200	BBB-	BBB-
Total	\$ 5,901		

The trigger event for requiring the EEA Seller to make interest payments to the EEA Buyer is defined as a payment delay of 180 days (i.e., a nonaccrual event) for one or more of the countries for which exposure is included in the EEA. The trigger event for requiring the EEA Seller to make principal payments to the EEA Buyer is defined as the time at which the EEA Buyer writes off part, or all, of the sovereign-guaranteed loans to a country covered under the EEA. Any principal payment made reduces the EEA amount and the coverage of the EEA for the country for which the write-off occurs.

Following the trigger event, the EEA Seller pays compensation to the EEA Buyer for part of the unpaid interest, based on the EEA amount for the country in nonaccrual at the interest rate set for the EEA transaction, currently set at USD six-month LIBOR plus 0.75%. Interest payments are to be made on a semi-annual basis and cannot exceed contractual payments related to the loans that are past due.

The EEA Seller relies on the EEA Buyer to recover outstanding amounts owed from the borrowing country in nonaccrual status. Recoveries of amounts received by the EEA Buyer are to be shared between Buyer and Seller on a pari-passu basis. By the end of the nonaccrual event, the EEA Seller receives back all amounts paid to the EEA Buyer if there have been no write-offs.

As of March 31, 2021 and December 31, 2020, there were no nonaccrual events under the guarantees given or received, and the current carrying amount under the guarantees given amounts to \$485 million and \$497 million, respectively.

NOTE E - DEVELOPMENTAL ASSETS - DEBT SECURITIES

The Bank also invests in debt securities to further its developmental objectives, mainly co-financing with the Inter-American Investment Corporation (IIC). Generally, debt securities related to development investments are classified as held-to-maturity given the Bank has the intent and ability to hold these securities to maturity. Debt securities are reported at amortized cost on the Condensed Balance Sheet.

The developmental assets in debt securities were \$366 million and \$392 million as of March 31, 2021 and December 31, 2020 respectively. The net carrying amount is summarized below (in millions):

	As of March 31, 2021		As of December 31, 2020	
Amortized cost basis	\$	382	\$	410
Allowance for credit losses		(16)		(18)
Net carrying amount	\$	366	\$	392

The fair value of debt securities was \$385 million and \$404 million as of March 31, 2021 and December 31, 2020 respectively. This value includes \$1 million of accrued interest as of March 31, 2021 (December 31, 2020 - \$1 million) and \$2 million of unrecognized holding gains as of March 31, 2021 (December 31, 2020 - \$7 million unrecognized losses).

Debt securities in the amount of \$271 million (fair value - \$282 million) mature after 1 year through 5 years. Debt securities in the amount of \$95 million (fair value - \$103 million) mature after 5 years through 10 years.

NOTE F - CREDIT RISK FROM DEVELOPMENTAL ASSETS AND RELATED OFF-BALANCE-SHEET EXPOSURES

The credit risk in the developmental assets portfolio is the risk that the Bank may not receive repayment of principal and/or interest on these assets according to the contractual terms. It is determined by the credit quality of, and exposure to, each borrower and directly related to the Bank's core business. The Bank has multiple measures in place to manage this credit risk, including an overall lending and investing limitation, a comprehensive capital adequacy framework (designed to ensure that the Bank always holds sufficient equity given the quality and concentration of its portfolio), a policy for the treatment of non-performing instruments, and a policy for the maintenance of a credit loss allowance.

The Bank manages two principal sources of credit risk from its development financing activities: SG (loans and guarantees) and NSG instruments (loans, guarantees and debt securities). As of March 31, 2021, approximately 95% of the outstanding developmental assets are sovereign-guaranteed (December 31, 2020 - 94%). The Bank develops and maintains separate methodologies for the allowance for credit losses on SG and NSG exposures due to the distinct sources of credit risk.

For the SG and NSG performing loans (i.e., loans that are not in nonaccrual status) and performing debt securities, the allowance and liability for expected credit losses (for off-balance-sheet credit exposures) is a function of the estimated exposure at default (EAD), probability of default (PD) and loss given default (LGD). To augment the quantitative process of estimating expected credit losses, qualitative adjustments are applied as necessary based on management judgment. These qualitative adjustments may arise from information lags implicit in the quantitative loss estimation model, known model or data limitations, significant changes in portfolio composition or lending operations, and uncertainties associated with economic and business conditions.

The EAD of the Bank's developmental assets represents the unpaid principal or outstanding balance, which approximates the amortized cost of these assets as: (i) the Bank originates all its loans and debt

securities at the face amount due at maturity without any premiums or discounts; (ii) the net loan origination fees and costs are not deemed material; and (iii) the foreign exchange adjustments on non-USD denominated assets are already reflected in the outstanding balance through the existing revaluation process at each reporting date.

For off-balance-sheet credit exposures, EAD is estimated based on projected disbursements for unfunded loan commitments considering historical experience and projected repayments in accordance with contractual amortization schedules. The Bank does not expect recurring material prepayments in its SG portfolio thus does not incorporate prepayment estimates in the EAD.

For the NSG portfolio, expected credit losses are estimated over the contractual term adjusted for expected prepayments based on historical data. 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 solely at the option of the borrower and outside the control of the Bank.

The global crises triggered by the COVID-19 pandemic has had a direct effect on economies related to the Bank's developmental assets and its impact is considered in the calculation of the allowance for credit losses.

CREDIT QUALITY BY PORTFOLIO

Sovereign-guaranteed Loans

When the Bank lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. In extending credit to sovereign entities, the Bank is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. Therefore, the Bank monitors and assesses its credit risk in the sovereign-guaranteed portfolio by sovereign borrower.

As a multilateral development financing institution, the Bank receives certain preferential treatments, including priority for repayment, as compared with commercial lenders in the event of a sovereign borrower experiencing financial stress. This preferred creditor status is reflected in the Bank's allowance for credit losses estimation through the PD and the LGD estimates.

PD represents the probability of default over the credit exposures' contractual period and is based on the long-term foreign currency credit rating assigned to each borrower country by Standard & Poor's (S&P), adjusted by the probabilities of default to the Bank. These adjustments are estimated considering past sovereign default events, current conditions and reasonable and supportable (R&S) forecasted economic data, which may affect a country's ability to service its obligations to the Bank. Macroeconomic factors considered in a three-year R&S forecast period of the estimate include the borrower's gross domestic product (GDP) growth, current account balance as a percentage of GDP, and changes in reserves. For periods beyond which the Bank can make R&S forecasts of expected credit losses, the Bank reverts to historical loss information on a straight-line basis over a two-year period.

In addition to the probability of default, the Bank also has a different loss experience compared with commercial lenders in a sovereign default event as evidenced in the level of loss from its historical nonaccrual events. All its past sovereign default events were resolved with the Bank receiving payments from the borrower covering the full amount of all contractual principal and interest. Therefore, any historical loss associated with these events is limited to interest on interest, as the Bank does not charge interest on overdue interest payments during the arrears period. The Bank maintains this expectation to collect in full all contractually due principal and interest amounts in any on-going and future potential sovereign defaults. As a result, LGD represents the estimated loss from the expected delay in debt service payments.

SG loans in nonaccrual status exhibit credit deterioration and do not share the risk characteristics with other performing loans in the portfolio. These loans are individually assessed at the borrower level. The

allowance for these loans is calculated based on a discounted cash flow method. This method estimates the allowance for credit loss as the difference between the amortized cost of the loan and the present value of the cash flows expected to be collected, discounted at the loan's contractual effective interest rate. Expected cash flows are developed with assumptions that reflect management's best estimates given the specific facts and circumstances of the individual nonaccrual event.

The credit quality of the SG loan portfolio for purposes of estimating the allowance for credit losses is based on the long-term foreign currency credit rating assigned to each borrower country by S&P. The credit quality of the SG loan portfolio by year of origination as of March 31, 2021 was as follows (in millions):

Country	Credit Rating	Year of origination ⁽¹⁾						March 31,	December 31,
		2021	2020	2019	2018	2017	Prior	2021	2020
Argentina	CCC+	\$ 7	\$ 891	\$ 555	\$ 1,589	\$ 912	\$ 9,232	\$ 13,186	\$ 13,357
Bahamas	BB-	-	218	82	22	-	235	557	539
Barbados	B-	-	202	-	100	13	229	544	546
Belize	CC	-	15	1	4	-	123	143	145
Bolivia	B+	-	433	200	118	357	2,702	3,810	3,803
Brazil	BB-	-	904	148	434	1,153	12,527	15,166	15,440
Chile	A	-	325	50	16	235	646	1,272	1,280
Colombia	BBB-	-	1,190	905	754	769	6,882	10,500	10,624
Costa Rica	B	-	230	399	64	-	1,187	1,880	1,876
Dominican Republic	BB-	28	500	651	41	330	2,541	4,091	4,106
Ecuador	B-	200	538	763	565	60	3,898	6,024	5,871
El Salvador	B-	-	250	200	358	-	1,478	2,286	2,314
Guatemala	BB-	-	263	-	53	-	1,796	2,112	2,168
Guyana	B-	34	8	2	12	13	520	589	552
Haiti	B-	-	-	-	-	-	-	-	-
Honduras	BB-	-	214	109	260	61	1,985	2,629	2,628
Jamaica	B+	75	101	2	196	12	1,338	1,724	1,675
Mexico	BBB	-	800	1,336	1,378	1,239	11,930	16,683	16,452
Nicaragua	B-	-	18	-	-	204	1,950	2,172	2,159
Panama	BBB	-	735	351	433	297	2,005	3,821	3,848
Paraguay	BB	-	250	300	291	55	1,402	2,298	2,308
Peru	BBB+	-	50	125	104	330	994	1,603	1,610
Suriname	SD	-	-	1	1	33	443	478	487
Trinidad and Tobago	BBB-	-	102	-	-	-	646	748	757
Uruguay	BBB	65	336	75	258	165	2,036	2,935	3,006
Venezuela ⁽²⁾	SD	-	-	-	-	-	2,011	2,011	2,011
Total		\$ 409	\$ 8,573	\$ 6,255	\$ 7,051	\$ 6,238	\$ 70,736	\$ 99,262	\$ 99,562

(1) Amounts exclude accrued interest.

(2) The loans to Venezuela have been placed in nonaccrual status since May 2018.

The country credit ratings presented above are as of March 31, 2021.

Non-sovereign-guaranteed Loans

The Bank does not benefit from sovereign guarantees when lending to non-sovereign-guaranteed borrowers. Risk and expected performance for these loans are evaluated by scoring the individual risk factors separately for the borrower and the transaction.

The Bank uses different credit risk scorecards developed based on S&P models to perform the borrower risk assessment for three main types of lending products in the NSG portfolio: project finance loans, loans to financial institutions, and corporate loans.

The major credit risk factors considered at the borrower level of a project finance loan may be grouped into the following categories: political risk, commercial or project risk, technical and construction risk, and financial risk. Political risks can be defined as the risks to a project's financing emanating from governmental sources, either from a legal or regulatory perspective. Commercial or project risks are

related to the construction or completion risks, economic or financial viability of a project and operational risks. Financial risks consider the project's exposures to cash flow generation, interest rate and foreign currency volatility, inflation risk, liquidity risk, and funding risk.

The major dimension of the credit risk evaluation related to financial institutions considers country-related risk including regulatory, competition, government support and macro-economic risks, which acts as an anchor for the risk assessment as a whole. Additionally, the rating scorecard assesses the following institution-specific factors: capital adequacy, asset quality, operating policies & procedures and risk management framework; quality of management and decision making; earnings and market position, liquidity and sensitivity to market risk; quality of regulations and regulatory agencies; and potential government or shareholder support. While the country risk is embedded in the assessment of the borrower, the sovereign rating may also act as a ceiling of the final borrower rating at certain rating levels, in view of the close link between the country's creditworthiness and that of the country's financial institutions.

Factors considered in the rating scorecards for corporate loans are country and industry risks, business and market risks, an assessment of the borrower's management, and financial risks, including a qualitative assessment of financial risks and a quantitative assessment of financial ratios. After consideration of these borrower specific characteristics, extraordinary support from shareholders or from the government may be considered if applicable.

The Bank assesses the transaction characteristics through a separate model to determine LGD which considers the collateral, industry, the seniority of the loan or guarantee, jurisdiction (in terms of bankruptcy and creditors' rights) and guarantees from third parties. The LGD model is calibrated following empirical evidence of historical loss data collected by S&P for similarly rated credits and calculates separately LGD for each individual loan or guarantee.

The assessment of these various risk factors incorporates forward looking information where appropriate, which takes into consideration current market conditions, macroeconomic forecasts, and their corresponding impact to the allowance on credit losses in the term structure PDs and LGDs. To determine the Point in Time (PIT) term structure of PDs, the Bank uses Moody's Impairment Studio models to convert borrower risk ratings to PIT PDs that vary by industry, country, and the state of the credit cycle. For LGD, the Bank employs a decision-tree scorecard model developed by S&P to capture exposure specific information such as seniority, collateral, industry, guarantees and jurisdiction at the facility-level that may not be shared across different exposures of the same borrower. The macroeconomic forecasts in the model include various scenarios, where each scenario represents a different state of the economy in the R&S period of three years. For each scenario, a lifetime loss rate for each loan is calculated by the appropriate PD and LGD for every quarter for the remaining life of the asset. The results are then multiplied against the EAD. If multiple scenarios are considered, then results are weighted. After the R&S period, the model reverts to historical PDs for similarly rated credits and long-term LGDs from S&P on a straight-line basis over a two-year period. In certain instances, management may consider the need for qualitative adjustments to the calculation.

For developmental assets that do not share common risk characteristics with the rest of the portfolio, including assets in nonaccrual status, the determination of the allowance for credit losses is individually assessed and reflects management's best judgment of the creditworthiness of the borrower and is established based upon the periodic review of the loans. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the asset's contractual effective rate, the fair value of collateral less disposal costs, and other market data.

The credit quality of the NSG loan portfolio by year of origination, including loans to other development institutions, as represented by the internal credit risk classification as of March 31, 2021, was as follows (in millions):

Internal Credit Risk Classification ⁽¹⁾	Year of origination ⁽²⁾						Revolving loans	Revolving loans converted to term loans	March 31,	December 31,
	2021	2020	2019	2018	2017	Prior			2021	2020
Corporates										
aa+ to aa-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -
a+ to a-	-	-	-	-	-	320	-	-	320	320
bbb+ to bbb-	-	-	-	-	-	61	-	-	61	74
bb+ to bb-	-	411	38	33	138	25	-	25	670	683
b+ to b-	-	30	117	52	42	50	-	-	291	344
ccc+ to d	-	-	3	23	67	149	-	-	242	252
Subtotal	-	441	158	108	247	605	-	25	1,584	1,673
Financial Institutions										
aa+ to aa-	-	-	-	-	-	176	-	-	176	183
a+ to a-	-	-	-	-	88	-	-	-	88	88
bbb+ to bbb-	-	-	19	-	-	32	-	-	51	116
bb+ to bb-	34	191	212	137	41	131	62	-	808	900
b+ to b-	10	114	63	35	36	109	-	-	367	399
ccc+ to d	-	-	-	13	-	8	-	48	69	74
Subtotal	44	305	294	185	165	456	62	48	1,559	1,760
Project Finance										
aa+ to aa-	-	-	-	-	-	-	-	-	-	-
a+ to a-	-	-	-	-	-	-	-	-	-	-
bbb+ to bbb-	-	-	-	-	22	-	-	-	22	22
bb+ to bb-	-	7	126	196	83	202	-	-	614	630
b+ to b-	24	100	30	145	77	228	-	-	604	549
ccc+ to d	-	-	-	44	23	490	-	-	557	565
Subtotal	24	107	156	385	205	920	-	-	1,797	1,766
Total	\$ 68	\$ 853	\$ 608	\$ 678	\$ 617	\$ 1,981	\$ 62	\$ 73	\$ 4,940	\$ 5,199

(1) NSG portfolio ratings are represented by the Bank's internal credit risk classification which maps to S&P's rating scale on a one to one basis, and is aligned with the likelihood of loss represented by the corresponding S&P ratings.

(2) Amounts exclude accrued interest.

Debt Securities

The Bank monitors the credit quality of its investment in debt securities from financial institutions, utilizing the same methodology as it does for its NSG loans. Expected credit losses for debt securities are also estimated as a function of the EAD, PD and LGD using the internal credit risk classification system.

The credit quality of the developmental held to maturity debt securities reported at amortized cost by year of origination, as represented by the internal credit risk classification as of March 31, 2021, was as follows (in millions):

Internal Credit Risk Classification ⁽¹⁾	Year of origination ⁽²⁾				March 31,	December 31,
	2021	2020	2019	2018	2021	2020
aa+ to aa-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
a+ to a-	-	-	-	-	-	-
bbb+ to bbb-	-	98	89	-	187	202
bb+ to bb-	-	147	-	-	147	160
b+ to b-	-	5	30	-	35	35
ccc+ to d	-	-	-	13	13	13
Total	\$ -	\$ 250	\$ 119	\$ 13	\$ 382	\$ 410

(1) The ratings are represented by the Bank's internal credit risk classification which maps to S&P's rating scale on a one to one basis, and is aligned with the likelihood of loss represented by the corresponding S&P ratings.

(2) Amounts exclude accrued interest.

The internal credit risk classifications for NSG loan portfolio and debt securities are as of March 31, 2021.

PAST DUE, NONACCRUAL AND INDIVIDUALLY ASSESSED LOANS

Income on loans is recognized following the accrual basis. The Bank considers a loan to be past due when the scheduled principal or interest payments have not been received on the date they are contractually due. It is the policy of the Bank to place in nonaccrual status all SG loans made to, or guaranteed by, a member of the Bank if principal, interest, or other charges with respect to any such loans are overdue by more than 180 days, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent and in the period that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For NSG loans, it is the general policy of the Bank to place on nonaccrual status loans made to a borrower when principal, interest or other charges are past due by more than 90 days, or earlier when management has doubts about their future collectability. Income is recorded thereafter on a cash basis until loan service is current and Management's doubts about future collectability cease to exist. If the collectability risk is particularly high at the time of arrears clearance, the borrower's loans may not emerge from nonaccrual status.

Sovereign-guaranteed Loans

As of March 31, 2021, sovereign-guaranteed loans made to or guaranteed by Venezuela have been in arrears for over 180 days, for an aggregate principal amount of \$537 million. The entire outstanding loan balance made to or guaranteed by Venezuela of \$2,011 million (unchanged since 2018) has been placed in nonaccrual status since May 2018. An individual assessment was performed to estimate expected credit losses for this exposure.

During 2020, the Bank revised the nonaccrual length assumption to reflect management's current best estimate of the delay in Venezuela's debt service. As a result, an allowance for individually assessed loans of \$54 million as of March 31, 2021 (\$53 million as of December 31, 2020), is included in the allowance for credit losses. This represents the estimated loss from the expected delay in debt service payments as the Bank does not charge interest on delayed interest payments. The Bank expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay, when the balances in arrears are restored to accrual basis.

The assessment and estimation of expected credit losses is inherently judgmental and reflects management's best estimate based upon the information currently available. Since the situation in Venezuela continues to evolve, management will monitor its credit exposure periodically and reassess significant assumptions accordingly. A summary of financial information related to nonaccrual loans to

Venezuela affecting the results of operations for the three months ended March 31, 2021, 2020 and 2019 was as follows (in millions):

	Three months ended March 31,		
	2021	2020	2019
Loans in nonaccrual status as of the beginning of the period	\$ 2,011	\$ 2,011	\$ 2,011
Loans in nonaccrual status as of the end of the period	2,011	2,011	2,011
Interest income recognized on cash basis for loans in nonaccrual status	-	-	-
Loans past due for more than 90 days not in nonaccrual status ⁽¹⁾	-	-	-

(1) The Bank's policy is to place sovereign-guaranteed loans in nonaccrual status if principal, interest or other charges with respect to any such loan are overdue by more than 180 days, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future.

There were no other sovereign-guaranteed loans 180 days or more past due or in nonaccrual status as of March 31, 2021, 2020 and 2019.

The aging analysis of loans in the SG portfolio as of March 31, 2021 was as follows (in millions):

	Not greater than 90 days	91 - 180 days	Greater than 180 days	Total past due	Current	Total
Argentina	\$ -	\$ -	\$ -	\$ -	\$ 13,186	\$ 13,186
Bahamas	-	-	-	-	557	557
Barbados	-	-	-	-	544	544
Belize	-	-	-	-	143	143
Bolivia	-	-	-	-	3,810	3,810
Brazil	-	-	-	-	15,166	15,166
Chile	-	-	-	-	1,272	1,272
Colombia	-	-	-	-	10,500	10,500
Costa Rica	-	-	-	-	1,880	1,880
Dominican Republic	-	-	-	-	4,091	4,091
Ecuador	-	-	-	-	6,024	6,024
El Salvador	-	-	-	-	2,286	2,286
Guatemala	-	-	-	-	2,112	2,112
Guyana	-	-	-	-	589	589
Haiti	-	-	-	-	-	-
Honduras	-	-	-	-	2,629	2,629
Jamaica	-	-	-	-	1,724	1,724
Mexico	-	-	-	-	16,683	16,683
Nicaragua	-	-	-	-	2,172	2,172
Panama	-	-	-	-	3,821	3,821
Paraguay	-	-	-	-	2,298	2,298
Peru	-	-	-	-	1,603	1,603
Suriname	-	-	-	-	478	478
Trinidad and Tobago	-	-	-	-	748	748
Uruguay	-	-	-	-	2,935	2,935
Venezuela	4	83	537	624	1,387	2,011
Total	\$ 4	\$ 83	\$ 537	\$ 624	\$ 98,638	\$ 99,262

Non-sovereign-guaranteed Loans

As of March 31, 2021, NSG loans 90 or more days past due amounted to \$59 million (\$59 million at December 31, 2020). NSG loans with outstanding balances of \$503 million as of March 31, 2021 were in nonaccrual status (\$528 million at December 31, 2020), including \$9 million whose maturity was accelerated (December 31, 2020 - \$9 million). These loans were individually assessed to estimate expected credit losses and have a total allowance for credit losses of \$159 million (2020 - \$180 million; 2019 - \$120 million).

A summary of financial information related to NSG loans in nonaccrual status affecting the results of operations for the three months ended March 31, 2021, 2020 and 2019 was as follows (in millions):

	Three months ended March 31,		
	2021	2020	2019
Loans in nonaccrual status as of the beginning of the period			
Corporate	\$ 25	\$ 27	\$ 36
Financial Institutions	51	54	2
Project Finance	452	234	341
Total	528	315	379
Loans in nonaccrual status as of the end of the period			
Corporate	7	23	25
Financial Institutions	50	46	6
Project Finance	446	240	348
Total	503	309	379
Interest income recognized on cash basis for loans in nonaccrual status			
Corporate	-	1	2
Financial Institutions	-	1	-
Project Finance	2	-	1
Total	2	2	3
Loans past due for more than 90 days not in nonaccrual status			
Corporate	-	-	-
Financial Institutions	-	-	-
Project Finance	-	-	-
Total	\$ -	\$ -	\$ -

The aging analysis of loans in the NSG portfolio as of March 31, 2021 was as follows (in millions):

	Not greater than 30 days	31 - 60 days	61 - 90 days	Greater than 90 days	Total past due	Current	Total
Corporate	\$ -	\$ -	\$ -	\$ 4	\$ 4	\$ 1,580	\$ 1,584
Financial Institutions	-	-	-	49	49	1,510	1,559
Project Finance	-	-	-	6	6	1,791	1,797
Total	\$ -	\$ -	\$ -	\$ 59	\$ 59	\$ 4,881	\$ 4,940

Debt securities

Consistent with its policy for NSG loans, it is the general policy of the Bank to place debt securities in nonaccrual status when interest or other charges are past due by more than 90 days, or earlier when management has doubts about their future collectability. Income is recorded thereafter on a cash basis until loan service or debt security is current and management's doubts about future collectability cease to exist.

There were no debt securities past due or in nonaccrual status as of March 31, 2021, 2020 and 2019.

ALLOWANCE FOR DEVELOPMENTAL ASSETS CREDIT LOSSES

Sovereign-guaranteed Loans and Guarantees

Expected credit losses are estimated for SG loans upon the initial recognition of such assets and over the assets' contractual life, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions. Expected credit losses are evaluated at the aggregated borrower level as the Bank considers loans to the same sovereign borrower share common risk characteristics. Historically, virtually all the sovereign-guaranteed loan portfolio has been fully performing. However, in the past the Bank has experienced delays in the receipt of debt service payments, sometimes for more than six months, upon which time all loans made to, or guaranteed by, the sovereign borrowers are placed in nonaccrual status. Since the Bank does not charge interest on missed interest payments for these loans, such delay in debt service payments is viewed as a potential credit loss as the timing of the cash flows may not be met in accordance with the terms of the loan contract. Loans in nonaccrual status are evaluated on an individual basis at the aggregated borrower level given these loans do not share the same risk characteristics as the Bank's performing SG loans.

The changes in the allowance for expected credit losses related to the SG loan and guarantee portfolio for the periods ended March 31, 2021, December 31, 2020 and 2019 were as follows (in millions):

Collective allowance for loans outstanding	2021	2020	2019
Balance, beginning of year	\$ 8	\$ 13	\$ 5
Cumulative-effect beginning adjustment ⁽¹⁾	-	(2)	-
Provision (credit) for expected credit losses	-	(3)	8
Write-offs	-	-	-
Recoveries	-	-	-
Balance, end of year	\$ 8	\$ 8	\$ 13

Collective allowance for loan commitments and guarantees ⁽²⁾	2021	2020	2019
Balance, beginning of year	\$ 1	\$ -	\$ -
Cumulative-effect beginning adjustment ⁽¹⁾	-	1	-
Provision for expected credit losses	-	-	-
Write-offs	-	-	-
Recoveries	-	-	-
Balance, end of year	\$ 1	\$ 1	\$ -

Individually assessed loans	2021	2020	2019
Balance, beginning of year	\$ 53	\$ 15	\$ 17
Cumulative-effect beginning adjustment ⁽¹⁾	-	-	-
Provision (credit) for expected credit losses	1	38	(2)
Write-offs	-	-	-
Recoveries	-	-	-
Balance, end of year	\$ 54	\$ 53	\$ 15

- (1) Effective January 1, 2020, the Bank adopted ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL). The beginning balance of 2020 includes a cumulative-effect adjustment which reflects the one-time cumulative impact of adopting the CECL methodology.
- (2) The allowance for loan commitment losses became a requirement upon the implementation of the expected credit loss model on January 1, 2020. The allowance for loan commitments and guarantee losses are included in Other liabilities in the Condensed Balance Sheet.

Summary of accrued interest receivable on SG loans outstanding and accrued interest receivables reversed in the SG portfolio was as follows (in millions):

SG loans	March 31, 2021	December 31, 2020
Accrued interest receivable on SG loans outstanding ⁽¹⁾ as of	\$ 490	\$ 422
Accrued interest receivable reversed, for the periods ended	-	-

- (1) There was no allowance for expected credit losses recognized on the accrued interest receivables for performing SG loans in any of the reporting periods.

Non-sovereign-guaranteed Loans and Guarantees

For NSG loans and guarantees, a collective loss allowance is determined based on the Bank's credit risk classification system that maps on a one to one basis to that of the S&P foreign currency credit rating with a point in time term structure. The expected credit loss calculation also incorporates forward looking conditioning, which takes into consideration current market conditions, macroeconomic forecasts, and their corresponding impact on the likelihood of default and the severity of loss given a default. The macroeconomic forecasts in the expected credit losses 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 the remaining life of the instrument every quarter. The Bank individually assesses allowance on NSG loans that do not share common risk characteristics with the rest of the portfolio, including loans in nonaccrual status.

The changes in the allowance for expected credit losses related to NSG loan and guarantee portfolio for the periods ended March 31, 2021, December 31, 2020 and 2019 were as follows (in millions):

Collective allowance for loans outstanding	2021	2020	2019
Balance, beginning of year	\$ 245	\$ 192	\$ 176
Cumulative-effect beginning adjustment ⁽¹⁾	-	2	-
Provision (credit) for expected credit losses	(35)	51	16
Write-offs	-	-	-
Recoveries	-	-	-
Balance, end of year	\$ 210	\$ 245	\$ 192

Collective allowance for loan commitments and guarantees ⁽²⁾	2021	2020	2019
Balance, beginning of year	\$ 62	\$ 9	\$ 8
Cumulative-effect beginning adjustment ⁽¹⁾	-	31	-
Provision (credit) for expected credit losses	(11)	22	1
Write-offs	-	-	-
Recoveries	-	-	-
Balance, end of year	\$ 51	\$ 62	\$ 9

Individually assessed loans	2021	2020	2019
Balance, beginning of year	\$ 180	\$ 120	\$ 228
Cumulative-effect beginning adjustment ⁽¹⁾	-	-	-
Provision (credit) for expected credit losses	(21)	62	20
Write-offs	-	(2)	(128)
Recoveries	-	-	-
Balance, end of year	\$ 159	\$ 180	\$ 120

- (1) Effective January 1, 2020, the Bank adopted ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL). The beginning balance of 2020 includes a cumulative-effect adjustment which reflects the one-time cumulative impact of adopting the CECL methodology.
- (2) The allowance for loan commitment losses became a requirement upon the implementation of the expected credit loss model on January 1, 2020. The allowance for loan commitments and guarantee losses are included in Other liabilities in the Condensed Balance Sheet.

Summary of accrued interest receivable on NSG loans outstanding and accrued interest receivables reversed in the NSG portfolio was as follows (in millions):

NSG loans	March 31, 2021	December 31, 2020
Accrued interest receivable on NSG loans outstanding ⁽¹⁾ as of	\$ 35	\$ 24
Accrued interest receivable reversed ⁽²⁾ for the periods ended	-	2

- (1) There was no allowance for expected credit losses recognized on the accrued interest receivables in any of the reporting periods.
- (2) Of the total interest income reversed, none was written-off as uncollectible in any of the reporting periods.

Debt securities

The changes in the total allowance for expected credit losses related to the debt security portfolio for the periods ended March 31, 2021, and December 31, 2020 was as follows (in millions):

	2021	2020
Balance, beginning of year	\$ 18	\$ -
Cumulative-effect beginning adjustment ⁽¹⁾	-	6
Provision (credit) for expected credit losses	(2)	12
Write-offs	-	-
Recoveries	-	-
Balance, end of year	\$ 16	\$ 18

- (1) Prior to the adoption of ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments in January 2020, held-to-maturity debt securities were evaluated for other-than-temporary impairment (OTTI). OTTI is recognized if the fair value of the assets is less than its amortized cost basis and if, based on certain criteria, the decline in fair value is considered other than temporary. As of December 31, 2019, there was no OTTI recognized for the outstanding held-to-maturity debt securities. The beginning balance of 2020 includes a cumulative-effect adjustment which reflects the one-time cumulative impact of adopting the CECL methodology.

Accrued interest receivable on debt securities outstanding amounted to \$1 million as of March 31, 2021 (2020 - \$1 million and 2019 - none). No accrued interest receivable was reversed or written-off in any of the reporting periods.

Troubled debt restructurings

The Bank does not renegotiate or reschedule its sovereign-guaranteed loans outside of the options allowed under the FFF. A modification of an NSG loan or debt security is considered a troubled debt restructuring when the borrower or issuer is experiencing financial difficulty and the Bank has granted a concession to the borrower or issuer. A loan or debt security restructured under a troubled debt restructuring is individually assessed to estimate the allowance for expected credit losses.

The Bank does not have any commitments to lend additional funds to debtors owing receivables whose terms have been modified in a troubled debt restructuring.

In April 2020, the U.S. federal banking regulators⁽⁴⁾ issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) (the Interagency Statement or the Guidance). The Interagency Statement offers practical expedients for evaluating whether loan modifications that occur in response to the COVID-19 pandemic are troubled debt restructurings (TDR). The Guidance clarifies that it is not necessary to consider the impact of the COVID-19 pandemic on the financial condition of a borrower in connection with a short-term (e.g., six months) COVID-19 related modification, provided the borrower is current at the date the modification program is implemented. Loans that do not have past due balances at the time of implementing the modification program are not designated as past due because of the reliefs granted under the program, and are generally not placed on nonaccrual status during the payment deferral period granted under the program. COVID-19 related modifications that do not meet the provisions of the Interagency Statement should be assessed for TDR classification. The Bank elected to apply the Guidance.

Since the beginning of the pandemic, the Bank has evaluated loans with outstanding balance of \$161 million under the Guidance and determined that the modifications are not considered troubled debt restructurings. These loans were fully performing at the time the program was implemented in April 2020. The reliefs provided are short-term arrangements of principal deferrals amounting to \$8 million as of March 31, 2021 and December 31, 2020. The loans continue to accrue interest during the deferral period and are not reported as past due or nonaccrual status, except for one loan in the amount of \$3 million that is in nonaccrual status as of March 31, 2021. The Bank continues to estimate the allowance for expected credit losses for the performing loans under the NSG collective loss allowance process.

During the first three months of 2021, there were no troubled debt restructurings of NSG loans, and there were no payment defaults on loans previously modified in a trouble debt restructuring.

During 2020, there was one troubled debt restructurings of financial institution NSG loans classified as impaired, with an outstanding balance of \$1 million, and a specific allowance for loan losses of \$1 million. Such agreement was modified to provide a new facility and to extend the repayment date. There were no significant payment defaults on loans previously modified in a trouble debt restructuring.

During 2019, there was one troubled debt restructuring of a project finance NSG loan, with an outstanding balance of \$11 million, no undisbursed balance, and a specific allowance for credit losses of \$7 million. Such loan agreements were mainly modified to provide a new facility and to extend the repayment date. There were no payment defaults on loans previously modified in a troubled debt restructuring.

⁽⁴⁾ The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau.

NOTE G – FAIR VALUE OPTION

The Bank has elected the fair value option under GAAP for most of its medium- and long-term debt, to reduce the income volatility resulting from the accounting asymmetry of marking to market borrowing swaps through income while recognizing remaining borrowings at amortized cost. Individual borrowings are elected for fair value reporting on an instrument by instrument basis, and the election is made upon the initial recognition of a borrowing and may not be revoked once an election is made. However, income volatility still results from the changes in fair value of the Bank's lending swaps, which are not offset by corresponding changes in the fair value of loans, as all the Bank's loans are recorded at amortized cost. In order to mitigate this income volatility, the Bank takes into consideration all of its non-trading financial instruments (i.e., borrowings, loans and derivatives) in determining its fair value option elections for borrowings.

The changes in fair value for borrowings elected under the fair value option have been recorded in the Condensed Statement of Income and Retained Earnings for the three months ended March 31, 2021 and 2020, as follows (in millions):

Condensed Statements of Income and Retained Earnings location:	Three months ended March 31,	
	2021	2020
Borrowing expenses, after swaps	\$ (395)	\$ (400)
Net fair value adjustments on non-trading portfolios and foreign currency transactions	1,868	101
Total changes in fair value included in Net income	\$ 1,473	\$ (299)

The changes in fair value of borrowings attributable to changes in instrument-specific credit risk reclassified from Other comprehensive income (loss) back to Net fair value adjustments on non-trading portfolios and foreign currency transactions in the Condensed Statement of Income and Retained Earnings amounted to \$(3) million for the period ended March 31, 2021 (2020 – \$1 million; 2019 – none).

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of March 31, 2021 and December 31, 2020, was as follows (in millions):

	March 31, 2021	December 31, 2020
Fair value	\$ 82,160 ⁽¹⁾	\$ 82,631 ⁽¹⁾
Unpaid principal outstanding	79,776	78,343
Fair value over unpaid principal outstanding	\$ 2,384	\$ 4,288

(1) Includes accrued interest of \$381 million at March 31, 2021 and \$517 million at December 31, 2020.

NOTE H – DERIVATIVES

Risk management strategy and use of derivatives

The Bank's financial risk management strategy consists primarily of designing, implementing, updating, and monitoring the Bank's interrelated set of financial policies and guidelines, and utilizing appropriate financial instruments and organizational structures to fulfill its development mandates. The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, which are mitigated through its integrated asset and liability management framework. The objective of the asset and liability management framework is to align the currency composition, maturity profile and interest rate sensitivity characteristics of the assets and liabilities for each liquidity and lending product portfolio in accordance with the particular requirements for that product and within prescribed risk parameters. When necessary, the Bank employs derivatives to achieve this alignment. These instruments, mostly currency and interest rate swaps, are used primarily for economic hedging purposes, but are not designated as hedging instruments for accounting purposes.

A significant number of the current borrowing operations include swaps to economically hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and interest

rate type). The Bank uses lending swaps to economically hedge fixed-rate, fixed-base cost rate and local currency loans. Investment swaps are executed to hedge specific underlying investment and produce the appropriate vehicles to invest existing cash. The Bank also utilizes interest rate swaps to maintain the duration of its equity within a prescribed policy band of 4 to 6 years.

In addition, the Bank supports its borrowers' ability to manage exposures to commodity price volatility by offering derivative instruments, such as commodity options embedded in FFF loan agreements. The Bank simultaneously purchases an option with the same terms from a market counterparty to offset the risk exposure.

Accounting for derivatives

All derivatives are recognized in the Condensed Balance Sheet at their fair value, are classified as either assets or liabilities, depending on the nature (receivable or payable) of their net fair value. No derivatives are designated as hedging instruments for accounting purposes.

The Bank occasionally issues debt securities that contain embedded derivatives. Certain Flexible Financing Facility loans may also contain risk management options that are embedded in the loan contract. The hybrid borrowing instruments are carried at fair value under the elected Fair Value Option. When certain derivative instruments are not deemed clearly and closely related to the host contract, such as the commodity options embedded in loans, they are bifurcated from the host contract, recorded at fair value as derivative assets or liabilities, and included in Other assets and Other liabilities in the Condensed Balance Sheet.

The Bank refers to the periodic cash payment or cash receipt to/from the counterparty pursuant to the provisions of the swap contract as the "interest component". The interest component for swaps related to the economic hedging of our investment securities is presented in Income from Investments-Interest in the Statement of Income and Retained Earnings. The change in fair value of the investment securities and related derivatives are presented in Income from Investments-Net gains (losses). The interest component for lending-related swaps is included in Income from loans. The interest component for borrowing and equity duration swaps are recorded in Borrowing expenses and Other interest income, respectively. Changes in the fair value of lending, borrowing and equity duration derivatives, as well as for the commodity options, are reported in Net fair value adjustments on non-trading portfolios and foreign currency transactions. Realized gains and losses on non-trading derivatives are reclassified from Net fair value adjustments on non-trading portfolios and foreign currency transactions to Income from loans, after swaps, Borrowing expenses, after swaps, Other interest income, respectively, upon termination of a swap or option.

Financial statements presentation

The Bank's derivative instruments as of March 31, 2021 and December 31, 2020, their related gains and losses and their impact on cash flows for the three months ended March 31, 2021 and 2020, are presented in the Condensed Balance Sheet, the Condensed Statement of Income and Retained Earnings and the Condensed Statement of Cash Flow as follows (in millions):

Condensed Balance Sheet

Derivatives not Designated as Hedging Instruments		Balance Sheet Location	March 31, 2021 ⁽¹⁾		December 31, 2020 ⁽¹⁾	
			Assets	Liabilities	Assets	Liabilities
Currency swaps	Currency and interest rate swaps					
		Investments - Trading	\$ 134	\$ 284	\$ -	\$ 604
		Loans	921	306	655	757
		Borrowings	1,803	1,098	2,247	1,018
		Accrued interest and other charges				
		-On swaps, net	63	(23)	42	(43)
Interest rate swaps	Currency and interest rate swaps					
		Investments - Trading	8	322	-	411
		Loans	369	382	82	541
		Borrowings	1,700	495	2,513	25
		Other	222	12	27	1
		Accrued interest and other charges				
	-On swaps, net	181	85	287	114	
Options	Other assets		58	-	16	-
	Other liabilities		-	58	-	16
			\$ 5,459	\$ 3,019	\$ 5,869	\$ 3,444

(1) Balances are reported gross, prior to counterparty netting in accordance with existing master netting derivative agreements.

Condensed Statement of Income and Retained Earnings

Derivatives not Designated as Hedging Instruments	Location of Gain or (Loss) from Derivatives	Three months ended	
		March 31,	
		2021	2020
Currency swaps			
Investments - Trading	Income from Investments:		
	Interest	\$ (11)	\$ 14
	Net gains (losses)	30	(5)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	346	128
Loans	Income from loans, after swaps	(12)	17
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	727	426
Borrowings	Borrowing expenses, after swaps	133	47
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(650)	(1,499)
Interest rate swaps			
Investments - Trading	Income from Investments:		
	Interest	(62)	(18)
	Net gains (losses)	98	(343)
Loans	Income from loans, after swaps	(47)	(21)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	446	(273)
Borrowings	Borrowing expenses, after swaps	230	37
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(1,243)	1,831
Other	Other interest income (loss)	(4)	1
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	183	(37)
Futures			
Investments - Trading	Income from Investments:		
	Net gains (losses)	2	(7)
		\$ 166	\$ 298

Condensed Statement of Cash Flows

Derivatives not Designated as Hedging Instruments	Location of inflows (outflows) from Derivatives	Three months ended	
		March 31,	
		2021	2020
Loans	Cash flows from lending and investing activities:		
	Miscellaneous assets and liabilities, net	\$ 9	\$ 89
	Cash flows from operating activities:		
	Loan income collections, after swaps	58	(4)
Borrowings	Cash flows from financing activities:		
	Medium- and long-term borrowings		
	Proceeds from issuance	17	(1)
	Repayments	(149)	382
	Cash flows from operating activities:		
	Interest and other cost of borrowings, after swaps	(509)	(139)
Investments - Trading	Cash flows from operating activities:		
	Gross purchase of trading investments	(101)	(3)
	Gross proceeds from sale or maturity of trading investments	180	30
	Income from investments	130	5
Other	Cash flows from operating activities:		
	Other interest income	(5)	-
		\$ (370)	\$ 359

The following tables provide information on the contract value/notional amounts of derivative instruments as of March 31, 2021 and December 31, 2020 (in millions). Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or receivable leg. The Other category includes interest rate swaps used to maintain the equity duration within policy limits. Futures and options are shown at the notional amounts of the underlying contracts.

Derivative type/Rate type	March 31, 2021					
	Currency swaps		Interest Rate swaps		Futures & Options	
	Receivable	Payable	Receivable	Payable	Underlying contract	
Investments						
Fixed	\$ -	\$ 11,271	\$ -	\$ 12,287	\$ -	-
Adjustable	11,385	150	12,287	-	-	-
Loans						
Fixed	-	11,155	118	9,050	-	-
Adjustable	12,938	1,265	8,921	1	-	-
Borrowings						
Fixed	23,871	749	62,619	-	-	-
Adjustable	1,603	24,720	800	63,419	-	-
Other						
Fixed	-	-	1,094	3,026	-	-
Adjustable	-	-	3,026	1,094	-	-
Futures	-	-	-	-	-	-
Options ⁽¹⁾	-	-	-	-	-	354

(1) Represents 5,565,000 barrels of crude oil measured at spot price.

Derivative type/Rate type	December 31, 2020				
	Currency swaps		Interest Rate swaps		Futures & Options
	Receivable	Payable	Receivable	Payable	Underlying contract
Investments					
Fixed	\$ -	\$ 9,267	\$ -	\$ 12,116	\$ -
Adjustable	8,727	26	12,216	100	-
Loans					
Fixed	-	11,834	128	9,208	-
Adjustable	12,981	1,320	9,071	1	-
Borrowings					
Fixed	23,292	812	61,714	-	-
Adjustable	1,589	24,168	800	62,514	-
Other					
Fixed	-	-	113	3,067	-
Adjustable	-	-	3,067	113	-
Futures	-	-	-	-	24
Options ⁽¹⁾	-	-	-	-	319

(1) Represents 6,165,000 barrels of crude oil measured at spot price.

The Bank's derivatives are subject to enforceable master netting agreements (the Agreements). The Bank has made the accounting policy election to present all derivative assets and liabilities on a gross basis. The gross and net information about the Bank's derivatives subject to the Agreements as of March 31, 2021 and December 31, 2020 are as follows (in millions):

Description	March 31, 2021	December 31, 2020
Derivatives		
Gross Amounts of Assets presented in the Balance Sheet ⁽¹⁾	\$ 5,459	\$ 5,869
Gross Amounts Not Offset in the Balance Sheet:		
Financial Instruments	(2,782)	(2,932)
Collateral Received ⁽³⁾	(2,570)	(2,625)
Net Amount	\$ 107	\$ 312
Derivatives		
Gross Amounts of Liabilities presented in the Balance Sheet ⁽²⁾	(3,019)	(3,444)
Gross Amounts Not Offset in the Balance Sheet:		
Financial Instruments	2,724	2,916
Net Amount	\$ (295)	\$ (528)

(1) Includes accrued interest of \$244 million and \$329 million in 2021 and 2020, respectively, presented in the Condensed Balance Sheet under Accrued interest and other charges.

(2) Includes accrued interest of \$62 million and \$71 million in 2021 and 2020, respectively, presented in the Condensed Balance Sheet under Accrued interest and other charges.

(3) Includes cash collateral amounting to \$991 million (2020 - \$1,344 million). The remaining amounts represent off-Balance-Sheet U.S. Treasury securities received as collateral by the Bank.

The Bank enters into swaps and other over-the-counter derivatives, as well as repos, directly with trading counterparties. These derivatives are entered into under trade relationship documents based upon standard forms published by the International Swaps and Derivatives Association (ISDA), in particular an ISDA Master Agreement (the ISDA Agreements).

Close-out netting provisions

The close-out netting provisions of the ISDA Agreements provide for the calculation of a single lump sum amount upon the early termination of transactions following the occurrence of an event of default or termination event. The setoff provisions of the ISDA Agreements allow the non-defaulting party to determine whether setoff applies. If so, any lump sum amount calculated following the early termination of transactions 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 under other agreements between them. This setoff, if enforceable in the circumstances of a given early termination, effectively reduces the amount payable by the non-defaulting party under the applicable ISDA Agreements.

Terms of collateral agreements

Currently, the Bank is not required to post collateral under its ISDA Agreements. Should the Bank's credit rating be downgraded from the current AAA, the standard swap agreements detail, by swap counterparty, the collateral requirements that the Bank would need to satisfy in this event. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position at March 31, 2021 is \$295 million (\$528 million at December 31, 2020) (after consideration of master netting derivative agreements). If the Bank was downgraded one notch from the current AAA credit rating, it would be required to post collateral in the amount of \$33 million at March 31, 2021 (\$229 million at December 31, 2020).

The performance of the obligations of the Bank's counterparties may be supported by collateral provided under a credit support annex (CSA). The CSA provides for credit support to collateralize the Bank's mark-to-market exposure to its counterparties in the form of U.S. Dollars and U.S. Treasury Obligations. The Bank may sell, pledge, re-hypothecate or otherwise treat as its own property such collateral, where permissible, subject only to the obligation (i) to return such collateral and (ii) to pass on distributions with respect to any non-cash collateral.

If an event of default has occurred, the Bank may exercise certain rights and remedies with respect to the collateral. These rights include (i) all rights and remedies available to a secured party, (ii) the right to set off any amounts payable by the counterparty with respect to any obligations against any collateral held by the Bank, and (iii) the right to liquidate any collateral held by the Bank.

The Bank classifies the cash collateral received under Cash flows from financing activities in the Condensed Statement of Cash Flows as this collateral primarily relates to borrowing swaps.

NOTE I - FAIR VALUE MEASUREMENTS

The GAAP framework for measuring fair value establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Bank's investment instruments valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, may include obligations of the United States and certain other sovereign governments. Such instruments are classified within Level 1 of the fair value hierarchy.

Substantially all other Bank investment instruments are valued based on quoted prices in markets that are not active, external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies apply to investments in obligations of governments and agencies, obligations of sub-sovereigns and supranationals, corporate bonds, asset-backed and mortgage-backed securities, bank obligations, related financial derivative instruments (primarily currency and interest rate swaps)

and options. These instruments are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches.

The main methodology of external pricing service providers involves a market approach that requires a predetermined activity volume of market prices to develop a composite price. The market prices utilized are provided by orderly transactions being executed in the relevant market; transactions that are not orderly and outlying market prices are filtered out in the determination of the composite price.

Other external price providers utilize evaluated pricing models that vary by asset class and incorporate available market information through benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare valuations.

A small number of investment securities are also valued with prices obtained from brokers/dealers. Brokers/dealers' prices may be based on a variety of inputs ranging from observed prices to proprietary valuation models. The Bank reviews the reasonability of brokers/dealers' prices via the determination of fair value estimates from internal valuation techniques that use available observable market inputs.

Medium- and long-term borrowings elected under the fair value option and all currency and interest rate swaps are valued using quantitative models, including discounted cash flow models as well as more advanced option modeling techniques, when necessary, depending on the specific structures of the instruments. These models and techniques require the use of multiple market inputs including market yield curves, and/or exchange rates, interest rates, spreads, volatilities and correlations. Significant market inputs are observable during the full term of these instruments. The Bank also considers, consistent with the requirements of the framework for measuring fair value, the impact of its own creditworthiness in the valuation of its liabilities. These instruments are classified within Level 2 of the fair value hierarchy in view of the observability of the significant inputs to the models and are measured at fair value using valuation techniques consistent with the market and income approaches.

Level 3 investment, borrowing and swap instruments, if any, are valued using management's best estimates utilizing available information including (i) external price providers, where available, or broker/dealer prices; when less liquidity exists, a quoted price is out of date or prices among brokers/dealers vary significantly, other valuation techniques may be used (i.e., a combination of the market approach and the income approach) and (ii) market yield curves of other instruments, used as a proxy for the instruments' yield curves, for borrowings and related swaps. These methodologies are valuation techniques consistent with the market and income approaches.

The following tables set forth the Bank's financial assets and liabilities that were accounted for at fair value as of March 31, 2021 and December 31, 2020, by level within the fair value hierarchy (in millions). As required by the framework for measuring fair value, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial assets:

Assets	Fair Value Measurements			
	March 31, 2021 ⁽¹⁾	Level 1	Level 2	Level 3
Investments - Trading:				
Obligations of the United States Government and its corporations and agencies	\$ 2,455	\$ 2,455	\$ -	\$ -
U.S. Government-sponsored enterprises	391	-	391	-
Obligations of non-U.S.governments	10,577	1,139	9,438	-
Obligations of non-U.S. agencies	12,011	-	12,011	-
Obligations of non-U.S. sub-sovereigns	4,509	-	4,509	-
Obligations of supranationals	3,105	-	3,105	-
Bank obligations ⁽²⁾	6,540	-	6,540	-
Corporate securities	701	-	701	-
Mortgage-backed securities	6	-	6	-
Asset-backed securities	11	-	4	7
Total Investments - Trading	40,306	3,594	36,705	7
Currency and interest rate swaps	5,401	-	5,401	-
Options ⁽³⁾	58	-	58	-
Total	\$ 45,765	\$ 3,594	\$ 42,164	\$ 7

(1) Represents the fair value of the referred assets, including their accrued interest presented on the Condensed Balance Sheet under Accrued interest and other charges of \$100 million for trading investments and \$244 million for currency and interest rate swaps.

(2) May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

(3) Included in Other assets.

Assets	Fair Value Measurements			
	December 31, 2020 ⁽¹⁾	Level 1	Level 2	Level 3
Investments - Trading:				
Obligations of the United States Government and its corporations and agencies	\$ 1,917	\$ 1,917	\$ -	\$ -
U.S. Government-sponsored enterprises	471	-	471	-
Obligations of non-U.S.governments	7,617	1,241	6,376	-
Obligations of non-U.S. agencies	12,484	-	12,484	-
Obligations of non-U.S. sub-sovereigns	4,158	-	4,158	-
Obligations of supranationals	2,382	-	2,382	-
Bank obligations ⁽²⁾	7,171	-	7,171	-
Corporate securities	679	-	679	-
Mortgage-backed securities	6	-	6	-
Asset-backed securities	11	-	3	8
Total Investments - Trading	36,896	3,158	33,730	8
Currency and interest rate swaps	5,853	-	5,853	-
Options ⁽³⁾	16	-	16	-
Total	\$ 42,765	\$ 3,158	\$ 39,599	\$ 8

(1) Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheet under Accrued interest and other charges of \$120 million for trading investments and \$329 million for currency and interest rate swaps.

(2) May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

(3) Included in Other assets.

Financial liabilities:

Liabilities	Fair Value Measurements			
	March 31, 2021 ⁽¹⁾	Level 1	Level 2	Level 3
Borrowings measured at fair value	\$ 82,160	\$ -	\$ 82,160	\$ -
Currency and interest rate swaps	2,961	-	2,961	-
Options ⁽²⁾	58	-	58	-
Total	\$ 85,179	\$ -	\$ 85,179	\$ -

(1) Represents the fair value of the referred liabilities, including their accrued interest presented on the Condensed Balance Sheet under Accrued interest on borrowings of \$381 million for borrowings and under Accrued interest and other charges of \$62 million for currency and interest rate swaps.

(2) Included in Other liabilities.

Liabilities	Fair Value Measurements			
	December 31, 2020 ⁽¹⁾	Level 1	Level 2	Level 3
Borrowings measured at fair value	\$ 82,631	\$ -	\$ 82,631	\$ -
Currency and interest rate swaps	3,428	-	3,428	-
Options ⁽²⁾	16	-	16	-
Total	\$ 86,075	\$ -	\$ 86,075	\$ -

(1) Represents the fair value of the referred liabilities, including their accrued interest presented on the Balance Sheet under Accrued interest on borrowings of \$517 million for borrowings and under Accrued interest and other charges of \$71 million for currency and interest rate swaps.

(2) Included in Other liabilities.

As of March 31, 2021, the investment portfolio includes \$7 million of securities classified as Level 3 (\$8 million as of December 31, 2020). There was no activity associated with Level 3 financial assets and financial liabilities for the three months ended March 31, 2021 or 2020. Also, there were no transfers between levels during the first three months of 2021 or 2020, for securities held at the end of those reporting periods.

The Bank accounts for its loans and certain borrowings at amortized cost with their corresponding fair value disclosures included in Note J - Fair Value of Financial Instruments.

NOTE J - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in measuring the fair value for its financial instruments, as also discussed in Note I - Fair Value Measurements:

Cash

The carrying amount reported in the Condensed Balance Sheet for cash approximates fair value.

Investments

Fair values for investment securities are based on quoted prices, where available; otherwise they are based on external pricing services, independent dealer prices, or discounted cash flow models.

Loans and guarantees

The fair value of the Bank's loan portfolio is estimated using a discounted cash flow method.

Debt securities

The fair values of debt securities are estimated using a discounted cash flow method.

Swaps

Fair values for interest rate and currency swaps are based on discounted cash flow or pricing models.

Borrowings

The fair values of borrowings are based on discounted cash flow or pricing models.

The following table presents the fair value of the financial instruments, along with the respective carrying amounts, as of March 31, 2021 and December 31, 2020 (in millions):

	March 31, 2021 ⁽¹⁾		December 31, 2020 ⁽¹⁾	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 2,078	\$ 2,078	\$ 2,596	\$ 2,596
Investments - Trading	40,306	40,306	36,896	36,896
Developmental Assets				
Loans outstanding, net ^{(2) (4)}	104,326	105,112	104,754	107,348
Debt securities, net ⁽⁴⁾	367	385	393	404
Currency and interest rate swaps receivable				
Investments - Trading	139	139	-	-
Loans	1,269	1,269	700	700
Borrowings	3,772	3,772	5,131	5,131
Others	221	221	22	22
Other assets ^{(3) (4)}	575	503	548	428
Borrowings				
Short-term	1,206	1,206	1,186	1,186
Medium- and long-term:				
Measured at fair value	82,160	82,160	82,631	82,631
Measured at amortized cost ⁽⁴⁾	28,982	30,255	26,810	28,709
Currency and interest rate swaps payable				
Investments - Trading	689	689	1,115	1,115
Loans	714	714	1,314	1,314
Borrowings	1,545	1,545	998	998
Others	13	13	1	1
Other liabilities ^{(3) (4)}	575	503	548	428

(1) Includes accrued interest.

(2) Includes Accrued interest and other charges.

(3) Amounts are related to EEA guarantees given, the non-contingent liability for the obligation under the SG and NSG guarantees and options.

(4) Fair value of loans, debt securities, EEA guarantees given, and the non-contingent liability for the obligation under the SG and NSG guarantees are classified within Level 3 of the fair value hierarchy. Fair value of Borrowings at amortized cost is classified within Level 2 of the fair value hierarchy.

NOTE K - NET FAIR VALUE ADJUSTMENTS ON NON-TRADING PORTFOLIOS AND FOREIGN CURRENCY TRANSACTIONS

Net fair value adjustments on non-trading portfolios and foreign currency transactions gains and losses for the three months ended on March 31, 2021 and 2020, comprise the following (in millions):

	Three months ended March 31,	
	2021	2020
Fair value adjustment - gains (losses) ⁽¹⁾		
Borrowings	\$ 1,868	\$ 101
Derivatives		
Borrowing swaps	(1,893)	332
Lending swaps	1,173	153
Equity duration swaps	183	(37)
Currency transaction gains (losses) on borrowings and loans at amortized cost, and other	(795)	(732)
Total	\$ 536	\$ (183)

(1) Amounts include foreign currency transaction gains and losses, as detailed below.

Net fair value adjustments of \$536 million (2020 - \$(183) million) mostly relate to changes in the fair value of lending and equity duration swaps due to the increase in USD interest rates. Unrealized gain or losses in the net fair value adjustments on non-trading portfolios and foreign currency transactions will tend to zero as the related financial instruments mature.

The Bank transacts in multiple currencies. However, assets and liabilities, after swaps, are substantially held in United States dollars. The Bank seeks to minimize exchange rate risk by matching the currencies of its liabilities with those of its assets and by maintaining substantially all its equity in United States dollars. Accordingly, exchange rate fluctuations have a minimum impact on earnings. The impact of foreign exchange fluctuations, included in the table above, for the three months ended on March 31, 2021 and 2020, comprise the following (in millions):

	Three months ended March 31,	
	2021	2020
Currency transaction gains (losses):		
Borrowings, at fair value	\$ 97	\$ 2,031
Derivatives, at fair value:		
Borrowing swaps	(13)	(1,946)
Lending swaps	710	633
	794	718
Currency transaction gains (losses) related to:		
Borrowings, at amortized cost	25	121
Loans	(773)	(797)
Other	(47)	(56)
	(795)	(732)
Total	\$ (1)	\$ (14)

NOTE L - BOARD OF GOVERNORS APPROVED INCOME TRANSFERS

The IDB Grant Facility (GRF) is currently funded by income transfers from the Bank's Ordinary Capital to make grants appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects.

Ordinary Capital income transfers to the GRF are subject to the requirements of the Agreement and other applicable financial policies, and they will be considered based on actual disbursements and fund balance of the GRF. In March 2021, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$92 million (2020 - \$64 million).

Income transfers are recognized as an expense when approved by the Board of Governors and will be funded in accordance with the GRF funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Condensed Balance Sheet.

NOTE M - CAPITAL STOCK

There were no changes in subscribed capital during the three months ended March 31, 2021 and the year ended December 31, 2020.

NOTE N - RECEIVABLE FROM MEMBERS

Receivable from members includes non-negotiable, non-interest-bearing demand notes that have been accepted in lieu of the immediate payment of all or any part of a member's contribution quotas, non-negotiable, non-interest-bearing term notes received in payment of Maintenance of Value (MOV) obligations, and other MOV obligations. The payment of contribution quotas is conditional on the member budgetary and, in some cases, legislative processes.

The composition of the net receivable from members as of March 31, 2021 and December 31, 2020, is as follows (in millions):

	March 31, 2021	December 31, 2020
Regional developing members	\$ 703	\$ 702
Canada	42	44
Non-regional members, net	54	50
Total	\$ 799	\$ 796

The amounts are represented in the Condensed Balance Sheet as follows (in millions):

	March 31, 2021	December 31, 2020
Receivable from members	\$ 799	\$ 798
Amounts payable to maintain value of currency holdings	-	(2)
Total	\$ 799	\$ 796

NOTE O - PENSION AND POSTRETIREMENT BENEFIT PLANS

The Bank has three defined benefit retirement plans (Plans) for providing pension benefits to employees of the Bank: the Staff Retirement Plan and the Complementary Staff Retirement Plan for international employees, and the Local Retirement Plan for national employees in the country offices. The Bank also provides health care and certain other benefits to retirees under the Postretirement Benefits Plan (PRBP).

Contributions

All contributions are made in cash during the fourth quarter of the year. As of March 31, 2021, the estimate of contributions expected to be paid to the Plans and the PRBP for the year 2021 is \$57 million and \$30 million, respectively, the same amounts disclosed in the December 31, 2020 financial statements. Contributions for 2020 were \$56 million and \$30 million, respectively.

Periodic benefit cost

The following tables summarize the benefit costs associated with the Plans and the PRBP for the three months ended March 31, 2021 and 2020 (in millions):

	Pension Benefits	
	Three months ended	
	March 31,	
	2021	2020
Service cost ⁽¹⁾	\$ 42	\$ 34
Interest cost	36	41
Expected return on plan assets ⁽²⁾	(52)	(59)
Amortization of:		
Net actuarial losses	24	18
Net periodic benefit cost	\$ 50	\$ 34

(1) Included in the Administrative expenses.

(2) The expected return of plan assets is 4.75% in 2021 and 5.75% in 2020.

	Postretirement Benefits	
	Three months ended	
	March 31,	
	2021	2020
Service cost ⁽¹⁾	\$ 12	\$ 9
Interest cost	17	20
Expected return on plan assets ⁽²⁾	(22)	(24)
Amortization of:		
Prior service cost (credit)	(3)	(3)
Net actuarial losses	13	10
Net periodic benefit cost	\$ 17	\$ 12

(1) Included in the Administrative expenses.

(2) The expected return of plan assets is 4.75% in 2021 and 5.50% in 2020.

NOTE P - VARIABLE INTEREST ENTITIES

The Bank has identified loans and guarantees to Variable Interest Entities (VIEs) in which it is not the primary beneficiary, but in which it is deemed to hold significant variable interest at March 31, 2021. The majority of these VIEs do not involve securitizations or other types of structured financing. These VIEs are mainly: (i) special purpose vehicles or investment funds, where the sponsor, the general partner or fund manager does not have substantive equity at risk; (ii) operating entities where the total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support; and (iii) entities where the operating activities are so narrowly defined by contracts (e.g. concession contracts) that equity investors are considered to lack decision making ability.

The Bank's involvement with these VIEs is limited to loans and guarantees, which are reflected as such in the Bank's financial statements. Based on the most recent available data from these VIEs, the size of the VIEs measured by total assets in which the Bank is deemed to hold significant variable interests totaled \$368 million at March 31, 2021 and \$353 million at December 31, 2020. The Bank's total loans outstanding to these VIEs was \$31 million (\$32 million at December 31, 2020). No guarantees were outstanding to these VIEs at March 31, 2021 and December 31, 2020. Amounts committed not yet disbursed related to such loans and guarantees amounted to \$4 million (\$4 million at December 31, 2020), which combined with outstanding amounts results in a total maximum Bank exposure of \$35 million at March 31, 2021 (\$36 million at December 31, 2020).

The Bank is considered the primary beneficiary of three entities and has made loans amounting to approximately \$152 million at March 31, 2021 (\$162 million December 31, 2020). The Bank's involvement with these VIEs is limited to such loans, which are reflected as such in the Bank's financial statements. Based on the most recent available data, the size of these VIEs measured by total assets amounted to approximately \$152 million at March 31, 2021 and \$162 million at December 31, 2020, which is considered immaterial, thus not consolidated with the Bank's financial statements.

NOTE Q - RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES

A reconciliation of Net income to Net cash used in operating activities, as shown on the Condensed Statement of Cash Flows, is as follows (in millions):

	Three months ended March 31,	
	2021	2020
Net income (loss)	\$ 696	\$ (164)
Difference between amounts accrued and amounts paid or collected for:		
Loan income	(86)	(55)
Income from investments	7	4
Other interest income	(5)	(1)
Other income	-	1
Interest and other costs of borrowings, after swaps	(64)	(138)
Administrative expenses, including depreciation	18	10
Special programs	(6)	(11)
Transfers to the IDB Grant Facility	72	58
Net fair value adjustments on non-trading portfolios and foreign currency transactions	(536)	183
Net increase in trading investments	(3,411)	(2,528)
Net unrealized (gains) losses on trading investments	(12)	78
Other components of net pension benefit costs	13	3
Provision (credit) for developmental assets credit losses	(68)	60
Net cash used in operating activities	\$ (3,382)	\$ (2,500)
Supplemental disclosure of noncash activities		
Increase (decrease) resulting from exchange rate fluctuations:		
Trading investments	\$ -	\$ (51)
Loans outstanding	(59)	(159)
Debt securities	(27)	(19)
Borrowings	(108)	(204)
Receivable from members, net	1	15

NOTE R - SEGMENT REPORTING AND CONCENTRATIONS

Management has determined that the Bank has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries.

For the three months ended March 31, 2021 and 2020, loans made to or guaranteed by four countries individually generated in excess of 10% of loan income, before swaps, as follows (in millions):

	Three months ended March 31,	
	2021	2020
Argentina	\$ 85	\$ 107
Brazil	60	110
Colombia	76	79
Mexico	82	105

NOTE S – CONTINGENCIES

In the normal course of its business, the Bank is from time to time named as a defendant or co-defendant in various legal actions on different grounds in various jurisdictions. Although there can be no assurances, based on the information currently available, management does not believe the outcome of any of the various existing legal actions will have a material adverse effect on its financial position, results of operations or cash flows.

The global outbreak of COVID-19 has disrupted economic markets and created significant volatility. The operational and financial performance of the companies in which the Bank invests depends on future developments, including the duration and spread of the outbreak. Such uncertainty may impact the fair value of the Bank's investments and the credit worthiness of the Bank's loan borrowers. The Bank has capital buffers in place to absorb additional stress and credit rating downgrades.

NOTE T – RELATED PARTY TRANSACTIONS

In 2016, the transfer of operational and administrative functions and non-financial resources associated with NSG activities from the Bank to the Inter-American Investment Corporation (IIC) became effective. During the seven-year period ending in 2022, NSG activities are and continue to be originated by the IIC and co-financed by the Bank and the IIC. For co-financed NSG loans, the Bank and the IIC maintain separate legal and economic interests in their respective shares of the loan principal balance, interest, and other elements of the lending arrangement. The IIC also executes, services, and monitors the Bank's NSG loans portfolio.

Pursuant to such reorganization, the Bank and the IIC entered into one-year, renewable service level agreements for certain administrative and overhead services that include human resources and information technology support provided by the Bank, as well as loan origination, execution and monitoring services provided to the Bank. The total fees for the services provided by the Bank to the IIC, and those provided by the IIC to the Bank are \$3 million and \$19 million, respectively, for the three month period ended March 31, 2021 (2020 - \$4 million and \$18 million, respectively).

Also, as part of such reorganization, the IIC's capitalization plan includes additional capital to be contributed by the IIC shareholders as well as capital contributions to be funded through income distributions by IDB on behalf of its shareholders. These income transfers are intended to be achieved during the period 2018-2025 and for an amount not exceeding \$725 million. These transfers are conditional upon annual Board of Governors' approval, which shall take into account the continued maintenance of the Bank's Triple-A long-term foreign currency credit rating, the Capital Adequacy Policy (CAP), the preservation of the sovereign-guaranteed lending envelope consistent with IDB-9, and the construction of the buffers in accordance with the CAP, as well as other applicable financial policies of the Bank. In March 2021, the Board of Governors approved a \$150 million distribution (2020 - \$110 million) to the shareholders of the Bank for a concurrent capital contribution to the IIC on their behalf. This transfer is in lieu of a distribution to the shareholders of both entities and therefore is recognized as a dividend in the Condensed Statement of Income and Retained Earnings.

The Bank also charges fees for the administration of the Multilateral Investment Fund III (MIF), funds held in trust and managed on behalf of donors, such as member countries, other international organizations, and other entities, for purposes consistent with the Bank's objectives of promoting economic and social development in its regional developing members. These funds are mainly used to co-finance the Bank's lending projects, to provide grants, and to fund technical assistance activities, including project preparation and training. These fees are reported as Other income and are recognized ratably over time as services are provided, or upfront when contributions from donors are received. The total fees for the services provided by the Bank for the funds held in trust and managed on behalf of donors and for the administration of the MIF are \$2 million and \$1 million, respectively, for the three month period ended March 31, 2021 (2020 - \$2 million and \$1 million, respectively).

The Bank received deposits from central banks and official institutions in the Bank's member countries totaling \$148 million as of March 31, 2021 (December 31, 2020 - \$186 million) with maturities of up to 30 days.

During 2020, the Bank entered into a 10-year guarantee and cooperation agreement with Sweden, a member country of the Bank, under which Sweden will guarantee up to \$100 million of lending exposure to the Federal Government of Brazil. This guarantee allows the Bank to increase lending support by up to \$300 million for new projects in Bolivia, Colombia, and Guatemala. During the term of the guarantee, if any sovereign-guaranteed loans by the Federal Government of Brazil were classified in nonaccrual status (i.e., payment arrears for more than 180 days), Sweden will compensate the Bank for up to \$100 million of the loan outstanding principal in nonaccrual. At the end of the nonaccrual event, the Bank will reimburse Sweden for any principal that is recovered with respect to the nonaccrual event. As of March 31, 2021, there were no nonaccrual events associated with loans made to or guaranteed by Brazil, or eligible exposures outstanding under this guarantee.

Other significant transactions with IIC, GRF and Pension Plans are disclosed in the note to which they relate.

NOTE U - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 11, 2021, which is the date the financial statements were issued. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the Bank's Condensed Quarterly Financial Statements as of March 31, 2021.