



Annual Report 2022  
Financial Statements

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## LETTER OF TRANSMITTAL

As required by the By-Laws of the Inter-American Development Bank, the Board of Executive Directors hereby submits to the Board of Governors the Annual Report of the Bank for 2022. The Annual Report consists of a printed volume entitled “The Year in Review,” containing a review of the Bank’s operations in 2022 (loans, guarantees, and grants). The electronic version of the Annual Report at [www.iadb.org/en/idb-finance/financial-statements](http://www.iadb.org/en/idb-finance/financial-statements) contains in addition the full set of the financial statements of the Bank’s resources.

February 24, 2023

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## Management's Discussion and Analysis: Ordinary Capital

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## EXECUTIVE SUMMARY

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The mission of the Inter-American Development Bank (Bank or IDB or IADB) is to improve lives in Latin America and the Caribbean by contributing to the acceleration of the process of economic and social development of the regional member countries, individually and collectively. The Bank's objective is to achieve economic and social development in a sustainable, climate-friendly way. The IADB's current strategic priorities include three development challenges: social inclusion and inequality, productivity and innovation, and economic integration; and three cross-cutting issues: gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law. All seventeen United Nations Sustainable Development Goals (SDGs) are directly mapped into the Bank's strategic priorities. The IADB is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank (the Agreement) and is owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (11.4%), Brazil (11.4%), Mexico (7.3%) and Japan (5.0%).

The primary activities of the Bank are conducted through the Ordinary Capital and the IDB Grant Facility (GRF). Unless otherwise stated, all information provided in this Management's Discussion and Analysis (MD&A) refers to the IADB's Ordinary Capital.

### COVID-19 and the Russian war on Ukraine

The global outbreak of SARS-CoV-2 (also referred to as COVID-19) created a global health and humanitarian crisis, disrupted economic activity across the world and provoked significant volatility in financial markets. The Russian war on Ukraine is an additional source of concern both for its immediate social and humanitarian implications as well as for its downstream effects, in particular on energy and food prices and with implications for inflation and growth.

Continued economic recovery in Latin America and the Caribbean depends critically on the evolution of the pandemic, the effects of the ongoing global tightening of monetary policy, and the economic policies chosen by the countries in the region. After the initial steep fall in economic activity, mitigated by the fiscal and monetary reaction, the region bounced back more strongly than expected in 2021. Growth waned in 2022 and converged back to long run growth trends, while the Russian war on Ukraine increased commodity prices and decreased global growth prospects. Inflation has risen worldwide, and the region is no exception to that. Central banks have taken action to limit a de-anchoring of inflation expectations. Growth in the region is now expected to decrease below long run values in 2023, private sector forecasts as of January 2023 indicate moderate growth for 2023 and 2024 as global inflation subsides.

The Bank remains the main source of multilateral lending to countries in Latin America and the Caribbean and will continue to support its clients to help finance the response to COVID-19, mitigate the effects of the Russian war on Ukraine, inflation, and low growth.

### Replacement of LIBOR and other IBOR base rates

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

As part of this exercise, the Bank assessed sovereign-guaranteed and non-sovereign guaranteed lending operations, derivatives transactions, and funding operations, among others. In relation to derivatives, the Bank has adhered to the ISDA 2020 IBOR Fallbacks Protocol. In 2022, the Bank has started trading derivatives to manage the transition away from LIBOR and in particular basis exposure to the borrowers on sovereign-guaranteed loans. Out of the total derivatives portfolio notional value, the Bank has already converted to SOFR \$19 billion (or 21%) of LIBOR swaps exposure that are set to mature post-cessation

(after June 30, 2023) and must be converted from LIBOR into SOFR; and has also traded LIBOR/SOFR basis swaps totaling \$18 billion.

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 offers SOFR as the reference rate for new floating-rate sovereign-guaranteed loans (SG loans). As of December 31, 2022, a total of 1,010 SG loans with an outstanding balance of \$52 billion has been converted to SOFR, which is approximately 96% of the total SG loan portfolio originally indexed to LIBOR.

### Operating Income

Income before net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers, which is defined as "Operating Income" in this MD&A, totaled \$317 million in 2022. See the "Financial results" section on page 16 for further discussion.

### Equity and Borrowings

**Equity:** The equity of the IADB includes the subscribed capital stock and retained earnings. The subscribed capital stock is divided into: i) paid-in capital stock of \$6,039 million, ii) additional paid-in capital of \$5,815 million transferred from the Fund for Special Operations (FSO), and iii) callable capital stock of \$164,901 million. The callable capital stock is available as needed for debt service payments and thus provides the ultimate backing for borrowings and guarantees. It cannot be called to make loans. Retained earnings totaled \$25,470 million at the end of the year.

The IADB's Capital Adequacy Policy (CAP) includes a Capital Adequacy Policy Mandate (Mandate) and regulations. The Mandate, approved by the Board of Governors requires the IADB to maintain its Triple-A rating with all major credit rating agencies and establish capital buffers<sup>(1)</sup>, to permit assumption of financial risks in times of stress, while preserving the IADB's lending capacity. The CAP establishes capital requirements for credit and market risks related to lending and treasury operations as well as capital requirements for retirement and postretirement obligations and operational risks.

As of December 31, 2022, the IADB's capital adequacy ratio is within the parameters established by its CAP.

**Borrowings:** The IADB issues debt securities in various currencies, maturities, formats and structures to meet investor demand and achieve diversification of funding sources. Outstanding borrowings of \$103,693 million, before swaps, were denominated in 17 currencies and included \$1,021 million of short-term borrowings at December 31, 2022.

The Bank uses a non-risk based leverage limit based on the Debt-to-Equity ratio to complement the risk based capital constraint. As of December 31, 2022, the Debt-to-Equity ratio equaled 3.1 (See Table 17).

During 2022 and as of the date of this MD&A, the IADB continues to be rated Triple-A by the major credit rating agencies.

### Developmental Assets

Developmental assets include loans, guarantees and debt securities. At December 31, 2022 and 2021, approximately 95% of the outstanding developmental assets are sovereign-guaranteed (SG).

**Loans:** The IADB's principal earning asset is its loan portfolio which amounted to \$112,697 million as of December 31, 2022.

The IADB makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. In the case of SG loans to borrowers other than national governments or central banks, the IADB requires a joint and several guarantee engaging the full faith and credit of the national government. Non-sovereign-guaranteed (NSG) loans may finance projects in borrowing member countries in all sectors, subject to an exclusion list.

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(1) The capital buffer zone in the CAP equals the amount of capital required in excess of the minimum capital required to meet the Mandate.

As a matter of policy, the IADB does not renegotiate nor reschedule its SG loans. IADB suspends loan disbursements and does not approve new loans to borrowers in the same country once payment arrears exceed 30 days. The loan portfolio to such country is placed in nonaccrual status if the payment arrears exceed 180 days. Since its formation in 1959, the IADB has not written off, and has no expectation of writing off, any SG loans.

As of December 31, 2022, the total amount of Venezuela's SG operations in payment arrears amounted to \$1,323 million, including interest, of which \$1,198 million corresponds to arrearages of more than 180 days. Since 2018, all loans to Venezuela amounting to \$2,011 million have been placed in nonaccrual status. Interest and fee income not recognized amounted to \$78 million during 2022 (2021 - \$51 million), and the related individually assessed allowance for credit losses was \$396 million as of December 31, 2022 (2021 - \$77 million). There were no other SG loans over 180 days past due, or in nonaccrual status as of December 31, 2022.

**Guarantees:** The Bank may issue political risk and partial credit guarantees either with or without a sovereign counter-guarantee under the limit established for the NSG loan operations or with a member country sovereign-guarantee.

**Debt Securities:** The Bank may also invest in debt securities to further its developmental objectives, mainly co-financing with the Inter-American Investment Corporation (IDB Invest). 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. For debt securities where the Bank does not have the intent to hold the securities to maturity, the Bank elects the fair value option.

During 2022, the Bank purchased six developmental related debt securities for \$325 million (2021 - two for \$87 million). As of December 31, 2022 debt securities outstanding amounted \$703 million (2021 - \$435 million).

**Allowance for credit losses on developmental assets and guarantees outstanding:** The allowance for credit losses on developmental assets and guarantees outstanding totaled \$863 million as of December 31, 2022 (2021 - \$487 million), or approximately 0.8% of the total outstanding balance of such assets (2021 - 0.4%).

#### **Liquid assets portfolio**

The IADB policy mandates that liquidity floor covers, at a minimum, 12 months of projected net cash requirements, after accounting for liquidity haircuts, while the liquidity ceiling is set to allow the entire yearly borrowing program to be executed in the first quarter of the year. The Bank has remained compliant with the required liquidity levels.

Liquidity is defined in this MD&A as cash and investments in convertible currencies, less restricted investments. At December 31, 2022, liquidity, was \$32,545 million and within the policy limits. During the year, liquidity averaged \$35,941 million compared to \$40,359 million in 2021.

#### **Transfers to IDB Invest**

In 2016, the transfer of operational and administrative functions and non-financial resources associated with NSG activities from the Bank to IDB Invest became effective. NSG activities were originated by IDB Invest and co-financed by the Bank and IDB Invest until December 31, 2022. IDB will no longer approve NSG loans after December 31, 2022. After December 31, 2022, IDB Invest will continue to manage and monitor the Bank's legacy NSG portfolio. For co-financed NSG loans, the Bank and IDB Invest maintain separate legal and economic interests in their respective share of the loan principal balance, interest, and other elements of the lending arrangement.

IDB Invest's capitalization plan includes receiving additional capital from its shareholders through approved transfers of a portion of the Ordinary Capital's income in lieu of distributing this income to the shareholders of both the IADB and IDB Invest beginning in 2018. 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. In March 2022, the Board of Governors

approved a \$150 million distribution to the shareholders of the Bank for a concurrent capital contribution to IDB Invest on their behalf. Since 2018, IDB Invest has received dividends totaling \$510 million.

As part of the above mentioned capitalization plan, Management intends to send a proposal to the Board of Governors for a \$72 million distribution to the shareholders of the Bank for a concurrent contribution to IDB Invest on their behalf, for approval by the Governors in March 2023.

### Risk Management

The IADB conducts its operations within a framework of prudent financial and risk management policies and follows a well-defined risk management decision-making process, directed to limit its risk exposure. The IADB uses derivative instruments primarily as part of its asset and liability management policy (ALM), which manages exposure to interest rate and exchange rate risk. The IADB limits the interest rate risk in its debt funded loan and liquidity portfolios by economically hedging the interest rate exposure, primarily through use of interest rate swaps and by passing through the cost of borrowings that fund the loans. In addition, the Bank uses derivatives to manage the repricing and maturity profile of its equity-funded assets in accordance with the ALM policy. The ALM policy minimizes exchange rate risk for assets and liabilities denominated in a foreign currency by economically converting those foreign currency denominated assets and liabilities to USD, primarily through the use of foreign currency swaps.

Commercial credit risk in the liquid asset investment portfolio and derivatives portfolio is managed through conservative risk policies that require exposures to be limited to high quality issuers and counterparties. Credit exposures to swap counterparties are further mitigated through netting and collateralization arrangements.

### Outlook

Based on its current plans, the Bank expects to approve SG development-related financing for approximately \$14.4 billion in 2023. IDB will no longer approve NSG loans after December 31, 2022. In December 2022, the Bank approved a decrease in the lending spread on sovereign-guaranteed loans of 5bps from 90 bps to 85 bps and left the other loan charges unchanged. The Bank may consider a revision of its sovereign-guaranteed lending spread in the future in accordance with its financial policy framework.

The above information is qualified by the detailed information appearing elsewhere in this Management's Discussion and Analysis and the financial statements of the Ordinary Capital included in the Annual Reports. In addition, this Management's Discussion and Analysis contains forward-looking information, which may be identified by such terms as "believes", "expects", "intends" or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond the Bank's control. Consequently, actual future results could differ materially from those currently anticipated. The Bank undertakes no obligation to update any forward-looking statements.



## FINANCIAL OVERVIEW

*Unless otherwise indicated, all information provided in this Management's Discussion & Analysis refers to the Bank's Ordinary Capital.*

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As the world's oldest regional multilateral development bank (MDB), the IDB is the main source of multilateral financing for economic, social, and institutional development in Latin America and the Caribbean. The Bank provides loans, guarantees, and technical assistance; and conducts extensive research. The Bank maintains a strong commitment to achieving measurable results and the highest standards of integrity, transparency, and accountability.

The Bank's strong financial standing is based on its solid capital base, the support it receives from its members and on its financial policies and practices. Member support is reflected in the capital backing received and in the diligence with which borrowing members meet their debt-service obligations. Prudent financial policies and practices have led the Bank to build its retained earnings, diversify its funding sources, hold a large portfolio of high quality liquid investments and limit a variety of risks, including credit, market and liquidity risks. **Box 1** presents selected financial data for the last five years.

The Bank's principal assets are loans to its member countries. The Bank makes sovereign-guaranteed loans, including highly concessional loans to the least developed and more vulnerable borrowing members, their agencies or political sub-divisions. In addition, subject to certain limits, the Bank makes loans and guarantees without a sovereign guarantee on the basis of market-based pricing (i) in all economic sectors (subject to an exclusion list), and (ii) to any entity regardless of the degree of private or public sector ownership, as long as the entity does not benefit from a sovereign guarantee for repayments of its obligations and the ultimate beneficiary of the financing is a project in a borrowing member country (eligible entities). The Bank can also lend to other development institutions without sovereign guarantee. From January 1, 2016 until December 31, 2022, NSG loans activities were originated by IDB Invest and cofinanced by the Bank and IDB Invest. Refer to the Transfers to IDB Invest section for further information. As of December 31, 2022, the risk capital requirement for NSG operations was \$1,500 million, or 4%<sup>(2)</sup> of the Bank's Total Equity.

The Bank issues debt securities in a variety of currencies, formats, maturities and structures to investors worldwide. These borrowings, together with the Bank's equity, are used to fund lending and investment activities, as well as general operations.

### Financial Statement Presentation

The financial statements are prepared in accordance with generally accepted accounting principles of the U.S. (GAAP). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported results. Management believes that certain of the more significant estimates it uses to present the financial results in accordance with GAAP include: 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 interest rate and foreign currency swaps, are measured at fair value through income. The reported income volatility resulting from these non-trading financial instruments is not fully representative of the underlying economics of the transactions as the Bank intends to hold them to maturity. Accordingly, the Bank excludes the impact of the fair value adjustments associated with these financial instruments from Operating Income<sup>(3)</sup>. Therefore, Net fair

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(2) For purposes of calculating the limit for non-sovereign-guaranteed operations, loans to IDB Invest, a separate international organization within the IDB, in the amount of \$123 million are not included.

(3) Reference to captions in the financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in this MD&A.

value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers, if any, are reported separately in the Statement of Income and Retained Earnings.

#### **COVID-19 and the Russian war on Ukraine**

The global outbreak of SARS-CoV-2 (also referred to as COVID-19) created a global health and humanitarian crisis, disrupted economic activity across the world and provoked significant volatility in financial markets. The Russian war on Ukraine is an additional source of concern both for its immediate social and humanitarian implications as well as for its downstream effects, in particular on energy and food prices and with implications for inflation and growth.

Continued economic recovery in Latin America and the Caribbean depends critically on the evolution of the pandemic, the effects of the ongoing global tightening of monetary policy, and the economic policies chosen by the countries in the region. After the initial steep fall in economic activity, mitigated by the fiscal and monetary reaction, the region bounced back more strongly than expected in 2021. Growth waned in 2022 and converged back to long run growth trends, while the Russian war on Ukraine increased commodity prices and decreased global growth prospects. Inflation has risen worldwide, and the region is no exception to that. Central banks have taken action to limit a de-anchoring of inflation expectations. Growth in the region is now expected to decrease below long run values in 2023, private sector forecasts as of January 2023 indicate moderate growth for 2023 and 2024 as global inflation subsides.

The Bank remains the main source of multilateral lending to countries in Latin America and the Caribbean and will continue to support its borrowing member countries and private sector clients to help finance the response to COVID-19, mitigate the effects of the Russian war on Ukraine, inflation, and low growth.

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. During 2022 and as of the date of this MD&A, all internal and external capital and liquidity metrics remained within their respective financial and risk management policy thresholds.

The Bank's Return to the Office Framework (RTO) assists in managing the return of employees to the facilities and to respond to differing situations that may be encountered as a result of the pandemic crisis. The RTO employs a progressive, gradual reopening approach, via Modules, to support business continuity while minimizing risks for the Bank's employees and is driven on an office-by-office basis. There is "no one size fits all" solution and each of the Bank's country offices will operate in the Modules based on relevant inputs such as local health conditions. On July 1, 2021, the Bank started the return to office for its Headquarters in Washington, D.C. under Module 1 (up to 10% capacity), and reached Module 4 on September 12, 2022, with no occupancy limits of the physical facilities and starting its transition to a fully hybrid work model approach, combining in-person work and working from home. As of year-end 2022, 25 of the 28 Country Offices (over 89%) were authorized for Module 4.

#### **Accounting Developments**

For a description of new accounting developments, see the "Accounting Developments" section in Note B - "Summary of Significant Accounting Policies".

## SELECTED FINANCIAL DATA

**Box 1:** The following information is based upon, and should be read in conjunction with, the detailed information appearing in this Management's Discussion and Analysis.

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2022	2021	2020	2019	2018
<b>Operational Highlights</b>					
Approved developmental assets	\$ 14,650	\$ 14,535	\$ 14,268	\$ 13,094	\$ 14,298
Loans and guarantees <sup>(1)</sup>	14,471	14,186	13,948	12,961	14,250
Debt securities	179	349	320	133	48
Undisbursed portion of approved developmental assets <sup>(2)</sup>	31,296	30,018	30,592	32,222	32,109
Gross disbursements of developmental assets	11,978	12,512	14,846	10,707	11,322
Net disbursements of developmental assets <sup>(3)</sup>	5,005	5,162	7,931	3,521	4,494
<b>Balance Sheet Data</b>					
Investments, after swaps <sup>(4)</sup>	\$ 32,507	\$ 38,653	\$ 35,780	\$ 34,102	\$ 32,109
Developmental assets					
Loans outstanding <sup>(5)</sup>	112,761	108,943	104,761	96,723	93,377
Debt securities	703	435	410	148	18
Allowance for credit losses	801	449	504	339	426
Total assets <sup>(6)</sup>	148,026	151,752	147,533	136,358	129,459
Borrowings outstanding, after swaps	112,084	114,410	106,242	97,141	92,491
Equity	37,873	35,086	33,677	33,871	32,929
<b>Income Statement Data</b>					
Operating Income <sup>(7)</sup>	\$ 317	\$ 812	\$ 453	\$ 962	\$ 752
Net fair value adjustments on non-trading portfolio and foreign currency transactions <sup>(8)</sup>	1,279	402	220	402	15
Other components of net pension benefit costs	18	(37)	1	75	75
Board of Governors approved transfers	(172)	(92)	(64)	(54)	-
Net income	1,442	1,085	610	1,385	842
Comprehensive income (loss)	2,954	1,563	(66)	980	763
<b>Ratios</b>					
Total Debt <sup>(9)</sup> to equity <sup>(10)</sup> ratio	3.1	3.3	3.1	2.9	2.9
Total assets to equity <sup>(6)(10)</sup> ratio	4.1	4.3	4.3	3.9	4.0
Cash and investments as a percentage of borrowings outstanding, after swaps	29.6%	34.9%	34.8%	36.2%	35.4%
Cost to income ratio <sup>(11)</sup>	40.1%	40.7%	39.9%	37.0%	37.0%
Return on equity ratio <sup>(12)</sup>	0.9%	2.4%	1.3%	2.9%	2.3%
Return on assets ratio <sup>(13)</sup>	0.2%	0.5%	0.3%	0.7%	0.6%

(1) Excludes guarantees issued under the Trade Finance Facilitation Program, NSG 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) Includes undisbursed balance for loans and debt securities, see [Table 1](#).

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

(4) Includes accrued interest.

(5) Excludes interest rate and foreign currency swaps in a net asset position of \$3,321 million in 2022 (2021 - net assets of \$782 million; 2020 - net liability of \$561 million; 2019 - net asset of \$291 million; 2018 - net asset of \$455 million).

(6) Effective December 31, 2021, the presentation of derivative instruments on the Balance Sheet was changed to the standard market practice of netting derivative asset and liability positions, as well as the related cash collateral received by counterparty, including the related accrued interest. Total assets and Total assets to equity ratio for 2020 were adjusted to conform to the current presentation.

(7) See page 16 for a full discussion of Operating Income.

(8) Unrealized gains or losses in the net fair value adjustments on non-trading portfolios gradually tend to zero as the related financial instruments maturity approaches and their fair values converge with their costs. See page 19 for a full discussion.

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

(10) See page 35, sources of funds section, for a definition of "Total 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) Twelve months rolling operating income divided by average equity.

(13) Twelve months rolling operating income divided by average total assets.

## FINANCIAL HIGHLIGHTS

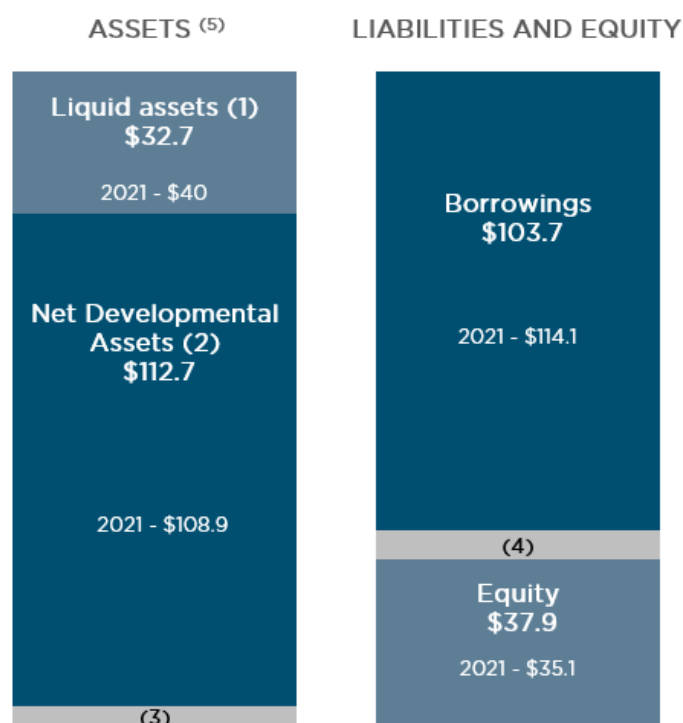
### Balance Sheet Structure

The Bank's main assets and liabilities as of December 31, 2022 are as follows:

#### FIGURE 1: BALANCE SHEET STRUCTURE

For the year ended December 31, 2022

(Expressed in billions of United States dollars)



(1) Before receivable for investments securities sold and payable for investments securities purchased.

(2) After allowance for developmental assets credit losses.

(3) Other assets totaled \$2.6 billion in 2022 (2021 - \$2.8 billion).

(4) Other liabilities totaled \$6.4 billion in 2022 (2021 - \$2.5 billion).

(5) Total assets were \$148.0 billion in 2022 (2021 - \$151.7 billion).

### Developmental Assets

Developmental assets include loans, guarantees and debt securities. As of December 31, 2022 and December 31, 2021, approximately 95% of the outstanding developmental assets are sovereign-guaranteed.

**Developmental assets operations:** A summary of the developmental assets approved, as well as the undisbursed portion of developmental assets approved, during 2022 and 2021 appears in [Table 1](#).

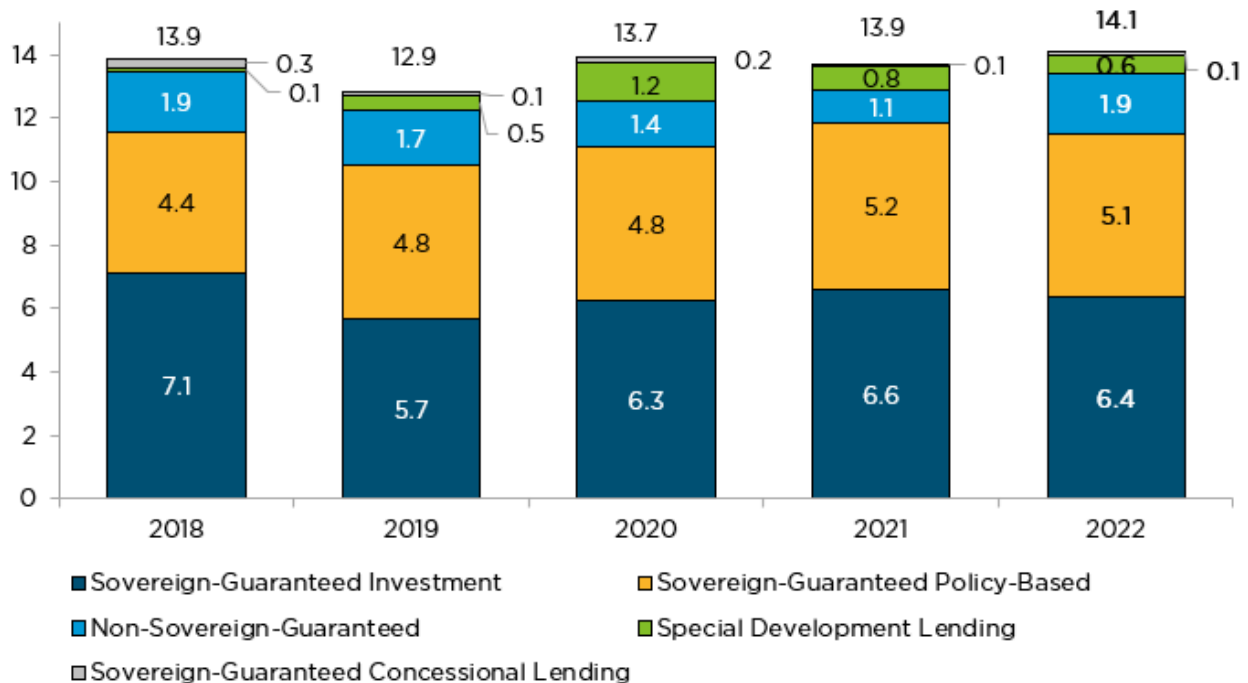
**TABLE 1: DEVELOPMENTAL ASSETS APPROVALS**  
(Amounts expressed in millions of United States dollars)

	2022				2021			
	SG	Concessional SG	NSG <sup>(1)</sup>	Total	SG	Concessional SG	NSG <sup>(1)</sup>	Total
Loans								
Number	91	3	126	220	85	4	72	161
Amount	\$ 12,099	\$ 112	\$ 1,871	\$ 14,082	\$ 12,580	\$ 78	\$ 1,063	\$ 13,721
Guarantees								
Number	3	-	1	4	3	-	-	3
Amount	\$ 385	\$ -	\$ 4	\$ 389	\$ 465	\$ -	\$ -	\$ 465
Debt securities								
Number	-	-	3	3	-	-	5	5
Amount	\$ -	\$ -	\$ 179	\$ 179	\$ -	\$ -	\$ 349	\$ 349
Total	\$ 12,484	\$ 112	\$ 2,054	\$ 14,650	\$ 13,045	\$ 78	\$ 1,412	\$ 14,535
Undisbursed balance	\$ 29,359	\$ 394	\$ 1,543	\$ 31,296	\$ 28,358	\$ 501	\$ 1,159	\$ 30,018
Related to								
Signed loans	\$ 18,772	\$ 334	\$ 746	\$ 19,852	\$ 20,113	\$ 446	\$ 479	\$ 21,038
Signed debt securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 248	\$ 248

(1) There were 23 loans for \$1,084 million originated by IDB Invest and co-financed by the Bank (2021 - 13 for \$455 million).

Figure 2 presents a breakdown of approvals by loan type during the last five years. Refer to the Development operations section for further information.

**FIGURE 2: LOAN APPROVALS BY TYPE**  
For the years ended December 31, 2022 through 2018  
(Expressed in billions of United States dollars)



A summary of loan approvals by country during 2022 and 2021 is included in [Table 2](#).

**TABLE 2: LOAN APPROVAL BY COUNTRY**  
For the years ended December 31, 2022 and 2021  
(Expressed in millions of United States dollars)

COUNTRY	2022				2021			
	SG	Concessional SG	NSG	Total	SG	Concessional SG	NSG	Total
Argentina	\$ 2,500	\$ -	\$ 11	\$ 2,511	\$ 1,568	\$ -	\$ -	\$ 1,568
Bahamas	-	-	-	-	180	-	-	180
Barbados	120	-	25	145	100	-	-	100
Belize	33	-	-	33	26	-	-	26
Bolivia	412	-	3	415	500	-	-	500
Brazil	1,106	-	751	1,857	1,111	-	429	1,540
Chile	700	-	-	700	1,100	-	30	1,130
Colombia	500	-	66	566	1,203	-	77	1,280
Costa Rica	250	-	15	265	500	-	-	500
Dominican Republic	622	-	147	769	575	-	-	575
Ecuador	599	-	40	639	1,045	-	73	1,118
El Salvador	333	-	89	422	144	-	23	167
Guatemala	375	-	70	445	45	-	72	117
Guyana	335	-	-	335	-	-	-	-
Honduras	208	112	52	372	146	78	25	249
Jamaica	100	-	-	100	75	-	45	120
Mexico	1,300	-	-	1,300	1,510	-	65	1,575
Nicaragua	10	-	-	10	-	-	-	-
Panama	390	-	64	454	521	-	26	547
Paraguay	710	-	219	929	293	-	-	293
Peru	774	-	249	1,023	1,419	-	110	1,529
Suriname	260	-	-	260	30	-	-	30
Trinidad and Tobago	80	-	-	80	-	-	-	-
Uruguay	367	-	-	367	339	-	-	339
Regional	15	-	70	85	150	-	88	238
<b>Total</b>	<b>\$ 12,099</b>	<b>\$ 112</b>	<b>\$ 1,871</b>	<b>\$ 14,082</b>	<b>\$ 12,580</b>	<b>\$ 78</b>	<b>\$ 1,063</b>	<b>\$ 13,721</b>

[Table 3](#) presents the SG and NSG loans and guarantees portfolios as of December 31, 2022 and 2021.

**TABLE 3: OUTSTANDING LOANS AND GUARANTEES**  
December 31, 2022 and 2021  
(Expressed in millions of United States dollars)

	2022	2021
Sovereign Loans	\$ 108,520	\$ 104,220
Sovereign Guarantees	679	352
Sovereign Portfolio	109,199	104,572
Non-Sovereign Loans	4,177	4,666
Non-Sovereign Guarantees	423	329
Non-Sovereign Portfolio	4,600	4,995
Total Loans & Guarantees Outstanding	\$ 113,799	\$ 109,567
NSG Portfolio as a percentage of total loans and guarantees	4.0%	4.6%

**Allowance for credit losses on developmental assets and guarantees outstanding:** The allowance for credit losses on developmental assets and guarantees outstanding amounted to \$863 million at December 31, 2022 compared to \$487 million in 2021. The increase of \$376 million is due to an increase in the allowance for credit losses on the SG portfolio of \$366 million mainly due to an increase in the individually

assessed allowance on loans to Venezuela as discussed below, and an increase in the collective allowance for credit losses on the NSG portfolio of \$10 million.

**Allowance for credit losses on individually assessed SG loans:** As of December 31, 2022, the total amount of Venezuela's sovereign-guaranteed operations in payment arrears amounted to \$1,323 million, including interest and fees, from which \$1,198 million corresponds to arrearages of more than 180 days. As of the date of this document, Venezuela's arrearages of more than 180 days increased to \$1,202 million. Since 2018, all loans to Venezuela amounting to \$2,011 million have been placed in nonaccrual status. Interest income and fees not recognized amounted to \$78 million during the year ended December 31, 2022 (2021 - \$51 million). The individually assessed allowance for credit losses on all loans to Venezuela was \$396 million at December 31, 2022 (2021 - \$77 million). The allowance increase was due to the revision of the nonaccrual length assumption to reflect Management's best estimate of the duration of Venezuela's non-accrual event, and an increase in interest rates. There were no other SG loans over 180 days past due or in nonaccrual status as of December 31, 2022 or December 31, 2021.

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 renegotiate nor reschedule its SG loans. Venezuela, a founding shareholder of the IDB, has reiterated its commitment to the Bank and its intention to undertake payments. The Bank 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. 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.

**Allowance for credit losses on individually assessed NSG loans:** The Bank had individually assessed NSG loans with outstanding balances of \$163 million at December 31, 2022, compared to \$339 million at December 31, 2021. As of December 2022, the allowances for credit losses on individually assessed NSG loans were \$109 million, compared to \$160 million in 2021. The percentage of the NSG allowance for credit losses on individually assessed loans was 67% as of December 31, 2022 and 47% as of December 31, 2021.

### Investments operations

Approximately 92.6% of the Bank's investments are held in high quality securities rated AA- or higher. As of December 31, 2022, the trading investment portfolio totaled \$32,507 million, a decrease of \$6,146 million compared to December 31, 2021. The decrease is consistent with the Bank's liquidity policy. Refer to the Liquidity Management section for further information.

In 2022, the trading investments portfolio experienced net mark-to-market losses of \$126 million, compared to \$13 million in 2021, mainly due to the mark-to-market impact of higher interest rates and wider credit spreads, partially offset by approximately \$47 million of market value gains on the related borrowing positions. Such market value changes are recorded as net fair value adjustments on non-trading portfolios, which are not included in Operating income.

### Capacity Building, Asset Management and Advisory (CAAs) pilot program

During 2022, the Bank started operations under its new CAAs services pilot program. CAAs aims to help build or strengthen the asset management institutional capacity of central banks and official institutions in the borrowing member countries. To this end, CAAs provides a range of services that includes managing a portion of the institution's assets along with technical missions, fellowships, and other training opportunities. The program follows the principle of cost recovery. Fees are based on the average value of the portfolio managed and are used to provide the entire range of services under the program. As of December 31, 2022 total assets managed under the CAAs program amounted to \$200 million.

### Borrowing Operations

In 2022, the Bank issued medium- and long- term debt securities for a total face amount of \$16,998 million equivalent (2021—\$24,293 million) that generated proceeds of \$16,989 million equivalent (2021—\$24,299 million) and had an average life of 5.2 years (2021—6.2 years). Such debt securities were issued through

a strategy of combining large global benchmark bonds with smaller transactions targeted to particular segments of demand. Refer to the Sources of funds section for further information.

The Bank expects that the borrowing program will be approximately \$17 billion in 2023, subject to changes in cash flows.

### Equity

Equity at December 31, 2022 was \$37,873 million compared with \$35,086 million at December 31, 2021. The increase of \$2,787 million is mainly due to Net income of \$1,442 million, a \$1,101 million gain related to the recognition of changes in assets/liabilities under pension benefit plans, a \$333 million gain related to the Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk, and a \$78 million amortization of net actuarial losses and prior service credit on pension plans; partially offset by a \$150 million distribution to the Bank's shareholders for concurrent contribution to the IDB Invest on behalf of the Bank's shareholders recorded as a dividend.

### Financial Results

#### Operating Income

Operating income includes the net interest income on earning assets, other loan income, net investment gains, the provision for developmental assets credit losses and net non-interest expense. **Box 2** displays the most significant elements of the Bank's Operating Income and the related influences on the results.

<b>BOX 2: OPERATING INCOME ELEMENTS AND SIGNIFICANT INFLUENCES</b>	
<b>Elements</b>	<b>Significant influences</b>
Loan interest income	Loan volumes, lending spreads, and interest rate environment.
Borrowing expenses	Interest rate environment, including changes in LIBOR/SOFR.
Net investment gains (losses)	Mark-to-market gains or losses on the Bank's trading investments portfolio which are driven by external factors such as: the interest rate environment, and credit spreads within the liquid asset portfolio.
Net non-interest expense	Increase or decrease in administrative expenses driven by staff costs, including higher or lower pension and postretirement benefit costs and special programs.
Provision (credit) for developmental assets credit losses	Credit risk assessment of the sovereign and non-sovereign borrowers, and the related probability of default and Loss given default.

Operating Income for 2022 was \$317 million, compared to \$812 million in 2021, a decrease of \$495 million. The decrease was mainly due to: (i) an increase in the provision for developmental assets credit losses; (ii) net investment losses, and (iii) an increase in net non-interest expense, which were partially offset by an increase in net interest income.



Table 4 shows the breakdown of Operating Income for 2022 and 2021.

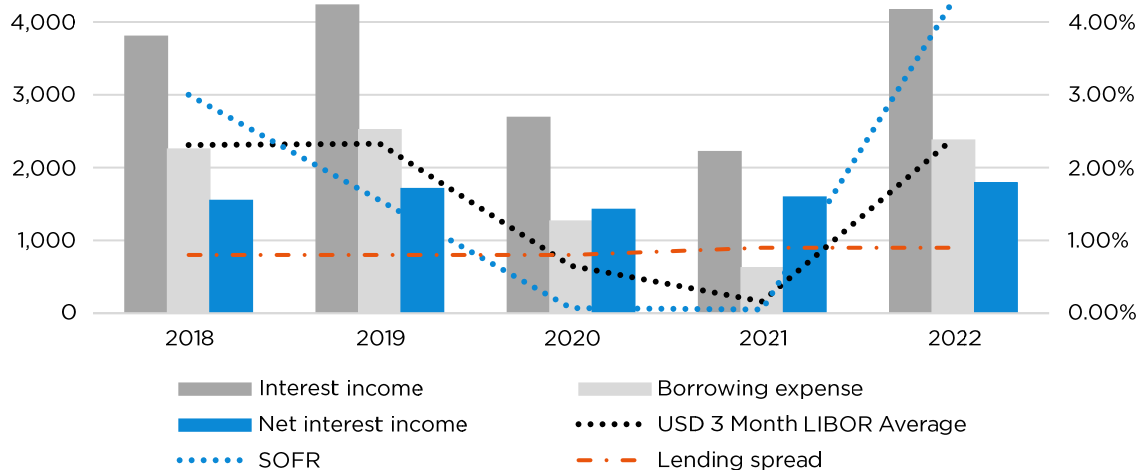
**TABLE 4: OPERATING INCOME**  
For the years ended December 31, 2022 and 2021  
(Expressed in millions of United States dollars)

	2022	2021	2022 vs. 2021
Loan interest income <sup>(1)</sup>	\$ 3,423	\$ 2,058	\$ 1,365
Investment interest income <sup>(1)</sup>	708	118	590
Other interest income	39	43	(4)
	<u>4,170</u>	<u>2,219</u>	<u>1,951</u>
Less:			
Borrowing expenses <sup>(1)</sup>	<u>2,379</u>	624	<u>1,755</u>
Net interest income	1,791	1,595	196
Other loan income	107	126	(19)
Net investment losses	(126)	(13)	(113)
Other expenses:			
Provision (credit) for developmental assets credit losses	426	(79)	505
Net non-interest expense	<u>1,029</u>	<u>975</u>	<u>54</u>
Operating Income	<u>\$ 317</u>	<u>\$ 812</u>	<u>\$ (495)</u>

(1) Amounts on an after swap basis.

**Net interest income:** The Bank's net interest income reached \$1,791 million during 2022 compared to \$1,595 million last year mainly due to an increase in interest rates and a larger loan portfolio.

**FIGURE 3: FINANCIAL RESULTS - NET INTEREST INCOME**  
For the years ended December 31, 2018 through 2022  
(Expressed in millions of United States dollars)



The Bank's net interest income is driven primarily by two sources: the lending spread the Bank charges on all its non-concessional SG loans and the income earned on its equity-funded assets. The SG lending spread is reviewed and determined annually by the Board of Directors as part of the Bank's long-term financial planning exercise. If a change is approved, the new SG lending spread applies to the entire outstanding balance of non-concessional SG loans. Net interest income earned from equity-funded assets is the result of an ALM strategy governed by policies approved by the Board.

Net interest income is primarily sensitive to changes in the USD interest rates. In 2022, this sensitivity to interest rates has been proactively mitigated through the Bank's ALM strategy. Sensitivity to foreign exchange rates is negligible as the Bank economically hedges substantially all exposures with foreign currency swaps.

The average interest earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2022 and 2021 are shown in [Table 5](#).

**TABLE 5: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS**  
For the years ended December 31, 2022 and 2021

(Amounts expressed in millions of United States dollars)

	2022		2021	
	Average	Return/Cost	Average	Return/Cost
	Balance	%	Balance	%
Loans <sup>(1)</sup>	\$ 110,717	3.09	\$ 105,695	1.95
Liquid investments <sup>(2)(3)</sup>	36,469	1.65	41,424	0.26
Total earning assets	\$ 147,186	2.73	\$ 147,119	1.47
Borrowings	\$ 112,006	2.12	\$ 112,238	0.56
Net interest margin <sup>(4)(5)</sup>		1.22		1.08

(1) Excludes loan fees.

(2) Geometrically-linked time-weighted returns.

(3) Includes realized / unrealized gains and losses.

(4) Represents net interest income as a percent of average earning assets, after swaps.

(5) In 2021, the Bank recognized a \$57 million cumulative effect adjustment to defer net origination fees and costs for SG loans, and \$30 million realized gains related to the unwinding of certain interest rate swaps used to hedge variable rate loans funded through fixed rate debt and/or equity; offset by a decrease in market interest rates. Excluding these gains, the net interest margin would have been 1.03%.

**Net investment losses:** The Bank had net investment losses of \$126 million as compared to \$13 million in 2021, mainly due to the mark-to-market impact of higher interest rates and wider credit spreads, partially offset by approximately \$47 million of market value gains on the related borrowing positions. Such market value changes are recorded as net fair value adjustments on non-trading portfolios, which are not included in Operating income.

**Provision for credit losses on developmental assets:** The provision for developmental assets credit losses was \$426 million in 2022 compared to a credit of \$79 million in 2021. The increase was mainly in the allowance for credit losses on the SG portfolio mainly due to an increase in the individually assessed allowance on loans to Venezuela due to the revision of the nonaccrual length assumption to reflect Management's best estimate of the duration of Venezuela's non-accrual event, and an increase in interest rates; as well as an increase in the collective allowance for credit losses of the NSG portfolio.

### Net Non-interest Expense

The main components of net non-interest expense are presented in [Table 6](#).

**TABLE 6: NET-NON-INTEREST EXPENSE**  
For the years ended December 31, 2022 and 2021

(Expressed in millions of United States dollars)

	2022 vs.		
	2022	2021	2021
<b>Administrative expenses</b>			
Staff costs	\$ 599	\$ 587	\$ 12
Consultant fees	143	146	(3)
Operational travel	11	1	10
Other expenses	210	190	20
<b>Total administrative expenses</b>	<b>963</b>	<b>924</b>	<b>39</b>
Service fee revenues	(15)	(16)	1
Special programs	109	94	15
Other income	(28)	(27)	(1)
Net non-interest expense	\$ 1,029	\$ 975	\$ 54

### Net Income

Net Income for 2022 was \$1,442 million, compared to \$1,085 million in 2021, an increase of \$357 million. The increase was mainly due to an increase in the Net fair value adjustments on non-trading portfolios and foreign currency transactions.

Table 7 shows the breakdown of Net Income for 2022 and 2021.

#### TABLE 7: NET INCOME

For the years ended December 31, 2022 and 2021

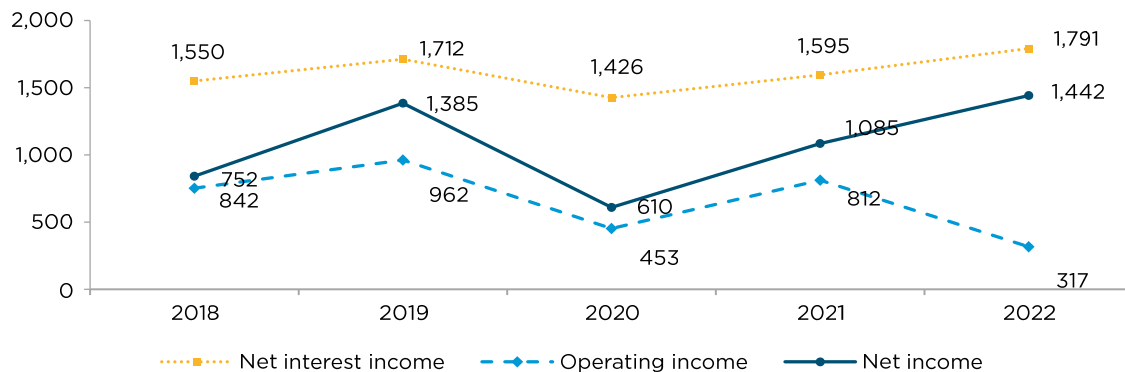
(Amounts expressed in millions of United States dollars)

	2022	2021	2022 vs. 2021
<b>Operating Income</b>	<b>\$ 317</b>	<b>\$ 812</b>	<b>\$ (495)</b>
Net fair value adjustments on non-trading portfolios and foreign currency transactions	1,279	402	877
Other components of net pension benefit costs (credit)	18	(37)	55
Board of Governors approved transfers	(172)	(92)	(80)
<b>Net income</b>	<b>\$ 1,442</b>	<b>\$ 1,085</b>	<b>\$ 357</b>

#### FIGURE 4: FINANCIAL RESULTS - INCOME METRICS

For the years ended December 31, 2022 through 2021

(Expressed in millions of United States dollars)



**Net fair value adjustments on non-trading portfolios and foreign currency transactions:** The Bank had net fair value gains on non-trading portfolios and foreign currency transactions of \$1,279 million, compared to \$402 million in 2021. As the change in value of borrowings and interest rate and foreign currency swaps on borrowings largely offset, the net fair value adjustments gains are largely driven by the changes in the fair value of interest rate and foreign currency swaps on loans due to an increase in USD interest rates. Swaps on loans are not offset in earnings by changes in fair value of the loans, which are carried at amortized cost. Unrealized gains or losses in the net fair value adjustments on non-trading portfolios gradually tend to zero as the related financial instruments maturity approaches and their fair values converge with their costs.

**Transfer to the IDB Grant Facility:** Income transfers from the Ordinary Capital 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 2022, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$172 million (2021 - \$92 million). Since 2011, the GRF has received income transfers totaling \$1,382 million.

Management intends to send a proposal to the Board of Governors for an additional \$140 million transfer to the GRF, for Governors' approval in March 2023.

### 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. The Bank excludes provision for developmental assets credit losses as the Bank expects such charges to be infrequent given the status of an MDB and social mandate to facilitate development in certain countries. [Table 8](#) displays reported Operating Income (GAAP) with the adjustments to arrive at core operating income (Non-GAAP).

**TABLE 8: CORE OPERATING INCOME**  
For the years ended December 31, 2022 and 2021  
(Expressed in millions of United States dollars)

Core Operating Income (Non-GAAP Measure)	2022	2021	2022 vs. 2021
Operating Income (Reported)	\$ 317	\$ 812	\$ (495)
Less:			
Net investment losses	(126)	(13)	(113)
Non-recurring gains to defer loan origination fees and costs <sup>(1)</sup>	-	57	(57)
Add:			
Provision (credit) for developmental assets credit losses	426	(79)	505
Core operating income	\$ 869	\$ 689	\$ 180

(1) One-time adjustment to recognize the cumulative effect to defer net origination fees and costs for SG loans in 2021.

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 lending spread and fees and the impact of changes in interest rates, as well as changes in net non-interest expense.

During 2022, core operating income changes were mostly due to an increase in interest rates and a larger loan portfolio.

### Exposure Exchange Agreement

The Bank synthetically reduced its loan portfolio concentration by entering into bilateral transactions under a Master Exposure Exchange Agreement (EEA) jointly signed with other MDBs. The EEA provides for the simultaneous exchange of credit risk coverage for potential nonaccrual events on exposures from borrowing countries in which the Bank is concentrated, to countries in which the Bank has no, or low, exposure. Each EEA transaction is accounted for as an exchange of two separate financial guarantees (given and received). For further information, refer to Financial Risk Management - Credit Risk - Exposure Exchange Agreement section.

### Pension and Postretirement Benefit Plans (Plans)

At December 31, 2022, the Balance Sheet presents net assets under retirement benefit plans of \$185 million, compared to net liabilities of \$888 million at December 31, 2021. The increase in the funded status of the Plans of \$1,073 million reflects a decrease in the Plans' assets of \$1,428 million to \$6,547 million, and a decrease in the benefit obligation of \$2,501 million to \$6,362 million. At the end of 2022, the Plans' assets represented 103% of the benefit obligations, compared to 90% at the end of 2021.

The volatility in the equity and credit markets, as well as changes in interest and inflation rates, affect the funded status of the Plans. As of December 31, 2022, the overall increase in the funded status of the Plans from 90% to 103%, is mainly due to decreases in the Plans' liabilities due to increases in discount rates when compared to 2021. This effect was partially offset by decreases in assets values due to current market conditions. For further information, refer to Note V - Pension and Postretirement Benefit Plans of the financial statements.

### IDB Activities with the Private Sector

From 2016 through December 31, 2022, NSG activities were originated by IDB Invest and largely co-financed by the Bank and IDB Invest. IDB will no longer approve NSG loans after December 31, 2022. IDB Invest continues to manage and monitor the Bank's legacy NSG loans portfolio after December 31, 2022. For co-financed NSG loans, the Bank and IDB Invest maintain separate legal and economic interests in their respective share of the loan principal balance, interest, and other elements of the lending arrangement.

The Bank and IDB Invest entered into 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 IDB Invest, and those provided by IDB Invest to the Bank are \$21 million and \$70 million, respectively, for the year ended December 31, 2022 (2021 - \$20 million and \$67 million).

IDB Invest capitalization plan includes capital to be contributed by IDB Invest shareholders as well as capital contributions to be funded through income distributions by IDB to its shareholders and immediate contribution to IDB Invest. 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 2022 and 2021, the Board of Governors approved \$150 million distributions to the shareholders of the Bank for concurrent contributions to IDB Invest on behalf of the Bank's shareholders, that have been recorded as Distributions on behalf of shareholders in the Statement of Income and Retained Earnings.

As part of the above mentioned capitalization plan, Management intends to send a proposal to the Board of Governors for an additional \$72 million distribution to the shareholders of the Bank for a concurrent contribution to IDB Invest on their behalf, for approval by the Governors in March 2023.

## DEVELOPMENT OPERATIONS

### General

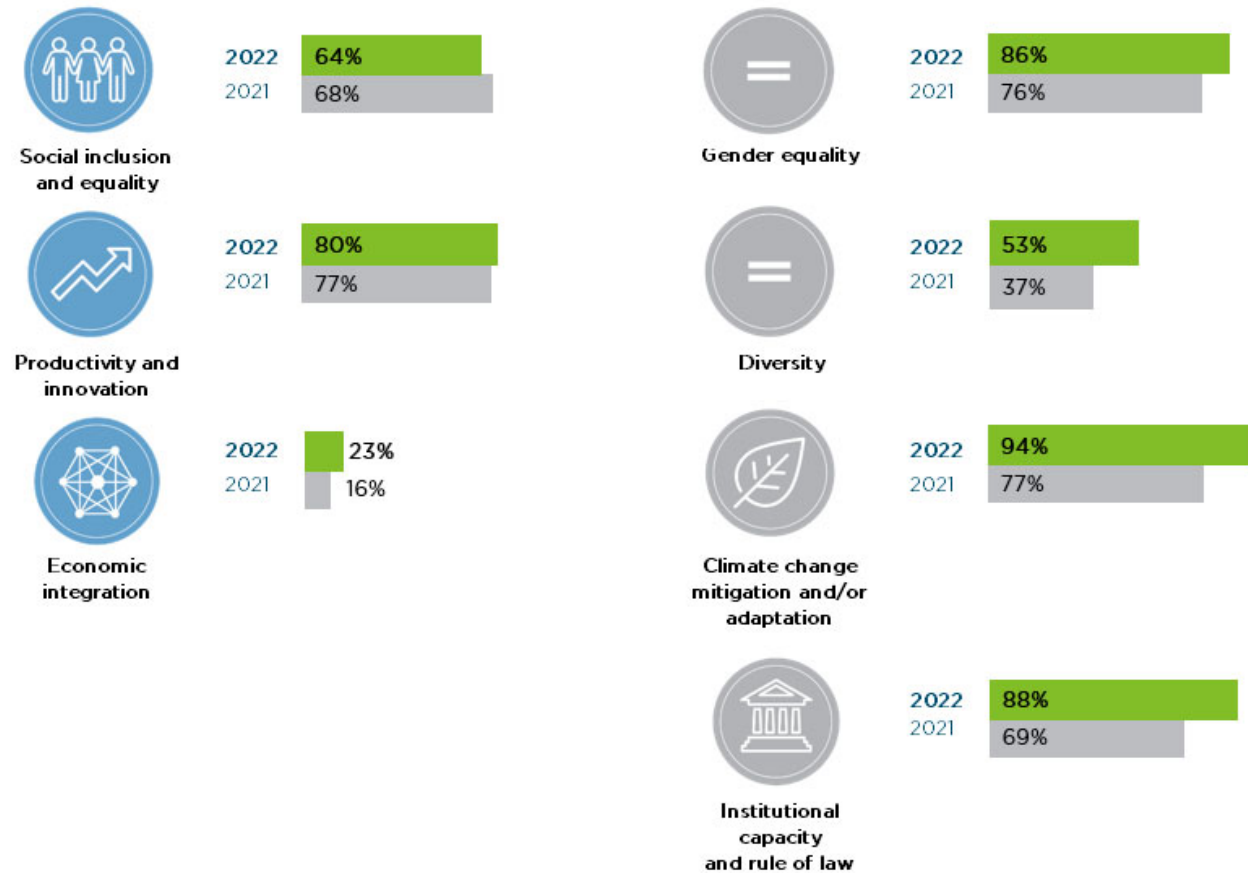
The Bank makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In the case of loans and guarantees to borrowers other than national governments or central banks, the Bank follows the policy of requiring a joint and several guarantees engaging the full faith and credit of the national government. Loans and guarantees may also be made 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 provides financing to borrowing member countries for non-reimbursable and contingent recovery assistance that is aligned with its overall strategy for the region.

### Development Objective

The IDB works to improve lives in Latin America and the Caribbean. Its mission is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively, with the overarching objectives of fostering sustainable growth and reducing poverty and inequality. To deliver on these objectives, the Bank's institutional strategy includes a set of strategic priorities which are fully aligned with the seventeen United Nations Sustainable Development Goals. The IDB Corporate Results Framework (CRF) measures progress in implementing the institutional strategy and establishes targets to drive performance in line with strategic priorities. The strategic priorities include the development challenges of social inclusion and equality, productivity and innovation, and economic integration; and cross-cutting issues of gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law.

Figure 5 presents the percentage of 2022 and 2021 approvals supporting each strategic priority.

**FIGURE 5: PROJECT APPROVALS BY STRATEGIC PRIORITY (% OF NEW APPROVALS) <sup>(1)(2)</sup>**  
For the years ended December 31, 2022 and 2021



(1) Data is based on the number of projects approved in the year using the definitions of the Corporate Results Framework (CRF) 2020-2023, which includes loans (excluding contingent loans for natural disasters), guarantees, projects financed through the IDB grant facility, and investment grants with an approved amount greater than \$3 million. Data for 2022 is as of the date of this MD&A. Final data will be reported on the CRF website ([www.iadb.org/crf](http://www.iadb.org/crf)).

(2) Each project may contribute to more than one strategic priority, so the percentages reported for each priority in a given year sum to greater than 100 percent.

For more information on the strategy and progress in its implementation, visit the [strategy page](#) of the IDB website or download the latest Development Effectiveness Overview

For more information, see the Update to the Institutional Strategy and the latest Development Effectiveness Overview on the Bank's website at <https://www.iadb.org/en/about-us/strategies>.

All IDB-financed investment loans, investment grants, investment guarantees, certain policy-based loans and technical cooperation initiatives must comply with the Bank's Environmental and Social Policy Framework (ESPF) starting October 2021. The ESPF sets ambitious standards in several areas and provides the Bank's clients with cutting-edge provisions to manage environmental and social issues. It places respect for human rights at the core of environmental and social risk management and includes a dedicated, stand-alone standard on gender equality. It also has a standard on labor and working conditions that is aligned with core international conventions. The ESPF also includes considerations of risks associated with pandemics and epidemics, and is aligned with international best practices on biodiversity protection and conservation, and includes an exclusion list of activities that the Bank is precluded to finance.

Additionally, the ESPF includes specific circumstances under which free, prior, and informed consent is required from indigenous peoples, and requires differentiated management measures for vulnerable subsections of the population, including African descendants, persons with disabilities, and people of different sexual orientations and gender identities, among others. To ensure an open, transparent, and inclusive engagement during project design and implementation, the ESPF also includes a stand-alone Standard on Stakeholder Engagement and Information Disclosure which, among other enhanced provisions, requires clients to implement project-level grievance mechanisms. For more information on the ESPF, see <https://www.iadb.org/en/mpas>.

### Lending Cycle

The process of identifying and assessing a project and approving and disbursing a loan often extends over several years, depending on the nature, objective and purpose of the individual project. However, on numerous occasions, the Bank has shortened the preparation and approval cycle in response to emergency situations such as natural disasters or economic crises. Generally, the Bank's operational staff, which includes economists, engineers, financial analysts and other sector and country specialists, assesses the projects. With certain exceptions, where this authority has been delegated to Management, the Bank's Board of Executive Directors approves each loan.

Loan disbursements are subject to the fulfillment of conditions set forth in the loan agreement. During implementation of the Bank-supported operations, experienced Bank staff review progress, monitor compliance with Bank policies and assist in resolving any problems that may arise. The Office of Evaluation and Oversight, an independent Bank unit, evaluates loan operations pursuant to an annual work plan approved by the Board of Executive Directors to determine the extent to which major objectives have been met. The results of these evaluations are reported directly to the Board of Executive Directors and are publicly available.

The Bank's lending operations conform to certain principles that, when combined, seek to ensure that loans made to member countries are for financially and economically sound purposes to which these

countries have assigned high priority, and that funds lent are utilized as intended. These principles are detailed in **Box 3**.

### **BOX 3: LENDING OPERATIONS PRINCIPLES**

- (i) The Bank makes sovereign-guaranteed loans and guarantees primarily to central governments, as well as subnational governments, governmental entities, public enterprises, and development institutions of its borrowing members. In addition, the Bank makes NSG loans and guarantees to eligible entities and other development institutions.
- (ii) Loan applicants must submit a detailed proposal to the Bank specifying the technical, economic and financial merits of the project. The proposal must include an evaluation of the project's expected environmental risks or impact and proposed mitigation measures as well as its impact on gender and indigenous groups, as applicable.
- (iii) The Bank neither renegotiates nor takes part in debt rescheduling agreements with respect to its sovereign-guaranteed loans.
- (iv) In making loans, the Bank evaluates the capacity of the borrower to carry out its financial obligations under the loan agreement, the prevailing macroeconomic climate and debt burden of the country, the ability of the executing agencies to execute Bank financed projects, and other policy and institutional issues relevant to the loan.
- (v) The Bank considers the ability of the borrower to obtain private financing under reasonable terms and conditions. The Bank serves as a catalyst to promote private investment, not to compete with it.
- (vi) The use of loan proceeds is supervised. Bank staff monitor and supervise the on-going progress with respect to the development objectives of each operation through the Bank's Country Offices in each of its 26 borrowing member countries, and fiduciary arrangements are in place to ensure proper use of Bank resources to achieve the operation's objectives.

The Bank's lending operations are classified in the following sectors. A brief description of each sector is provided:

**Agriculture and rural development:** Support sustainable agricultural development and agrobusiness to increase participation of smallholder farms into the supply chain; research and innovation; agricultural health and food safety; technology adoption to improve productivity and environmentally sustainable farming practices; modernization of land administration and management.

**Environment and natural disasters:** Support mitigation of climate change with policy development, institutional capacity strengthening, financial instruments and structures; biodiversity and protected areas conservation, including sustainable management of ecosystems and coastal zones; sustainable forestry; integrated disaster risk management to identify, assess, prevent, and mitigate risks.

**Education:** Support programs to reduce education inequalities and improve education access at every stage; e.g., preschool and early childhood, primary, secondary and higher education; school-to-work transition; vocational and technical education; teacher education and effectiveness; use of information and communications technologies (ICTs) for e-education; literacy and numeracy programs.

**Energy:** Focus on promotion, production and support of projects related to energy integration and investment on new technologies for energy production, including renewable energy, rural electrification, and low-carbon technologies.



**Financial markets:** Support banking, capital market, insurance, and mortgage market development; regulatory frameworks and supervisory functions; technologies and institutions to promote access to financial services for the underserved and poor (including microinsurance and microcredit).

**Health:** Support disease prevention and treatment of diseases and sickness as well as malnutrition; strengthening the health care systems; primary health care focused on mother and child; health information systems to incorporate technologies for e-Health (telemedicine).

**Industry:** Support basic industry companies to expand/improve production capacities, e.g., manufacturing.

**Private firms and small and medium enterprises (SME) development:** Support regulatory frameworks institutions and programs to foster productivity, innovation and growth of microenterprises and SMEs; corporate compliance with legal and ethical standards and international norms (corporate social responsibility).

**Reform and modernization of the state:** Support public sector institutions in all branches of government (e.g., judicial, revenue administration, subnational and local, public debt management) with the objective of achieving efficient, transparent, and effective provision of public services to society; application of information technology for more efficient delivery of services (e-Government); regulatory and legal frameworks to combat corruption.

**Regional integration:** Support sustainable integration for regional and cross-border cooperation, such as policy reforms, optimal provision of regional public goods.

**Social Investment:** Support public programs focused on diversity, people's rights (Afro-descendants, indigenous peoples), workforce rights, gender equality and women's empowerment, migration issues, poverty alleviation; labor policies and intermediation systems; human resource and workforce development, including training; citizen safety aimed at reducing levels of violence and insecurity; institutional design of pension/social security systems.

**Sustainable tourism:** Support the comprehensive planning and development of tourism, including the integration of communities to tourism activities, product management; environmental and social management of tourism destinations; construction and operation of tourism complex.

**Science and technology:** Support telecommunications infrastructure; information and communications technology; research and development and innovation in government and firms; capacity building, institutional strengthening and harmonization of regulatory frameworks; support upper education in Science, Technology, Engineering and Mathematics (STEM) fields.

**Transport:** Support air, ground and maritime transportation infrastructure, connectivity, logistics, equipment, maintenance, and new developments; public transport systems (bus/train/cable/rail); urban transport infrastructure including pedestrian and bicycle paths; highway development giving access to transportation hubs, road safety.

**Trade:** Support export and investment promotion; trade facilitation, logistics and customs administration; negotiation and implementation of trade and investment agreements and trade policy development.

**Urban development and housing:** Support environmental sustainability and quality of life in cities (sustainable cities); preservation of architectural heritage; neighborhood upgrading and development of underserved areas; support access to finance for underserved segments of the population.

**Water and sanitation:** Support construction, rehabilitation of water supply to provide clean drinking water, drainage, sanitation, solid waste recycling; integrated management of water resources such as watershed management and regulation of water rights and pre-investment studies.

Table 9 presents a summary of outstanding loans by sector allocation.

#### TABLE 9: LOANS OUTSTANDING BY SECTOR ALLOCATION

December 31, 2022 and 2021

(Expressed in millions of United States dollars)

	2022		2021	
	Amount	%	Amount	%
Agriculture and rural development	\$ 2,228	2.0	\$ 2,267	2.1
Education	4,037	3.6	4,191	3.8
Energy	10,023	8.9	10,504	9.6
Environment and natural disasters	3,584	3.2	3,505	3.2
Financial markets	11,720	10.4	10,939	10.0
Health	5,753	5.1	5,332	5.0
Industry	127	0.1	144	0.1
Private firms and SMEs development	4,217	3.7	4,169	3.8
Reform and modernization of the state	22,799	20.2	19,776	18.2
Regional integration	241	0.2	192	0.2
Science and technology	1,659	1.5	1,562	1.4
Social investment	16,579	14.7	17,175	15.8
Sustainable tourism	754	0.7	612	0.6
Trade	1,625	1.4	1,637	1.5
Transport	13,564	12.0	13,881	12.7
Urban development and housing	4,528	4.0	4,638	4.3
Water and sanitation	7,800	6.9	7,529	6.9
Other <sup>(1)</sup>	1,459	1.4	833	0.8
<b>Total</b>	<b>\$ 112,697</b>	<b>100.0</b>	<b>\$ 108,886</b>	<b>100.0</b>

(1) Mainly two SG projects that affect multiple sectors.

#### Loans

The Bank's sovereign-guaranteed lending falls into one of three categories, which can be made under concessional or non-concessional terms: investment loans (including loans to intermediaries for on-lending purposes), policy-based loans, and special development lending.

As part of its private sector operations, the Bank also lends directly to eligible entities without a sovereign guarantee generally for the financing of investments for transactions in all sectors, subject to an exclusion list.

**Sovereign-Guaranteed Investment Loans:** Investment lending is generally used to finance goods, works, and services in support of economic and social development projects.

**Sovereign-Guaranteed Policy-Based Loans:** Policy-based lending provides fungible resources to support an agreed program of policy reforms and/or institutional changes in a sector or sub-sector. It aims at assisting borrowing member countries to develop and implement their economic and sectorial policy reforms and institutional changes to contribute to the achievement of sustainable growth levels and poverty reduction.

**Sovereign-Guaranteed Concessional lending:** Concessional lending provides highly concessional terms to the less developed member countries of the Bank.

**Special Development Lending (SDL):** Approved in 2017, the SDL aims to help address the effects of a macroeconomic crisis on a country's economic and social progress and would primarily: (i) support efforts to maintain or strengthen the reform process in the social, institutional and economic areas and avoid reversals of policy reforms; (ii) protect funding for social programs that benefit the poor; (iii) support new efforts to mitigate the effects of the crisis on the poor and vulnerable; (iv) protect expenditures in infrastructure; and (v) facilitate access of small and medium enterprises to credit.

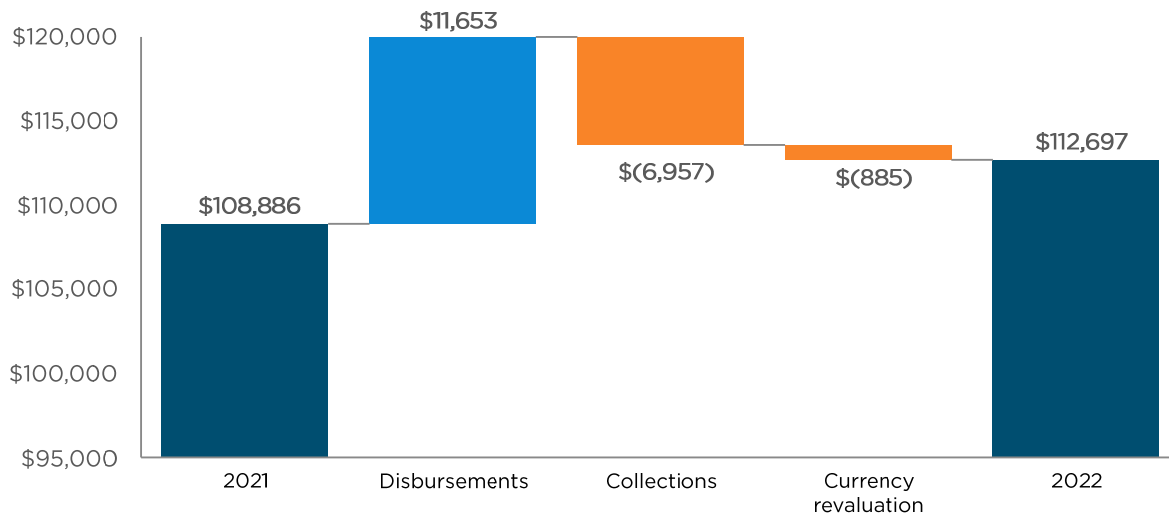
**Non-Sovereign-Guaranteed Loans:** NSG loans and guarantees generally finance investments for transactions in all sectors, subject to an exclusion list. The NSG loans are made on the basis of market-based pricing, and are subject to certain eligibility requirements and risk management limits. In addition, the Bank lends to other development institutions for on-lending purposes without a sovereign guarantee.

The Non-sovereign-guaranteed Risk Framework (Framework) limits NSG loans and guarantees to 20% of the Bank's Total Equity, and subjects the portfolio to exposure limits and supplemental guidelines, including limits by project, obligor, sector and country, and project origination considerations. With respect to the single obligor limits, the Framework establishes a limit equal to the lesser of 2.5% of the Bank's Total Equity and \$500 million at the time of approval.

As of December 31, 2022, the risk capital requirements of NSG operations were \$1,500 million, or 4% of Total Equity.

Figure 6 presents the movement in disbursed loans balances year-over-year.

**FIGURE 6: LOANS OUTSTANDING ACTIVITY**  
For the years ended December 31, 2021 through 2022  
(Expressed in millions of United States dollars)



The loan portfolio increase from last year continues to reflect the Bank's efforts to support its borrowing member countries to finance the response to COVID-19.

#### Financial Terms of Loans

**Currently Available Financial Terms:** The Flexible Financing Facility (FFF), effective January 1, 2012 is currently the only financial product platform for approval of all sovereign-guaranteed loans. With FFF loans, borrowers have the ability to 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 risk exposures;
- (ii) address project changing needs by customizing loan repayment terms to manage liquidity risks;
- (iii) manage loans under legacy financial products;
- (iv) execute hedges with the Bank at a loan portfolio level;
- (v) manage risk exposures to commodity price volatility;
- (vi) defer principal payments for 2 years following an eligible natural disaster through a one-time option, by modifying the loan's amortization schedule to provide financial relief;
- (vii) originate, price, and approve loans denominated in Local Currency terms through local treasuries, and;
- (viii) manage risk exposure to catastrophes.

The FFF loans have an interest rate primarily based on LIBOR plus a funding margin, as well as the Bank's lending spread. Starting in January 2022, all loans are primarily based on SOFR.

Table 10 presents the currently available terms for sovereign-guaranteed loans.

The Bank offers concessional lending from its Ordinary Capital through a blending of regular and concessional financing. The concessional portion of blended loans have a grace period and maximum maturity of 40 years, and a 0.25% fixed interest rate. The regular financing portion has a maximum maturity of 25 years and variable rates based on market pricing.

Non-sovereign-guaranteed loans can be denominated in United States dollars or local currency, and borrowers have the option of either fixed interest rate loans or floating rate loans. For floating rate loans, as of December 2022, the majority of the NSG loan balance is still LIBOR-based. Conversion to SOFR is expected to occur during 2023 with TERM SOFR and SOFR compounding being available to clients. Lending spreads and fees are set on a case-by-case basis.

**TABLE 10: CURRENTLY AVAILABLE FINANCIAL TERMS OF LOANS WITH SOVEREIGN GUARANTEE**

		Flexible Financing Facility
Interest rate option		SOFR-based loan <sup>(3)</sup> or Variable Rates in local currency
Currencies offered	Approval	USD or borrowing member local currency
	Disbursement	Currency of approval or converted currency
	Repayment	Currency disbursed/converted
Cost base		SOFR ± funding margin, or currency equivalent of SOFR ± estimated funding margin, or actual funding cost
Funding margin to SOFR		Actual funding cost or estimated funding margin at the time of disbursement/conversion
Lending spread <sup>(1)(2)</sup>		85 <sup>(5)</sup>
Credit commission <sup>(1)(2)</sup>		50 <sup>(5)</sup>
Supervision and inspection fee <sup>(1)(2)</sup>		0 <sup>(5)</sup>
Front-end/Standby fee <sup>(1)(7)</sup>		Not applicable/Not applicable <sup>(6)</sup>
Maturity <sup>(4)(7)</sup>		Up to 20 years for policy based loans and up to 25 years for investment loans
Grace Period <sup>(4)(7)</sup>		Minimum of 6 months after original disbursement period
Repayment Profile		Flexible repayment profile based on loan's contractual weighted average life

(1) Loan charges expressed in basis points (bps).

(2) Loan charges on sovereign-guaranteed loans are established annually by the Board of Executive Directors. In no case can the credit commission exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

(3) FFF SOFR-based loan balances or local currency balances can be converted to fixed-base cost rate and to any major or local currency, subject to market availability. A 0.25% fixed interest rate applies to the concessional portion of blended loans.

(4) For the concessional portion of blended loans, the maturity and grace period is 40 years.

(5) Loan charges effective January 1, 2023.

(6) Policy based loans with deferred drawing options have standby and front-end fees of 38 bps and 50 bps, respectively<sup>(5)</sup>

(7) The SDL has the following terms: i) maturity of 7 years, ii) 3 years of grace period, iii) lending rate of 3-month USD SOFR, plus/minus IDB funding margin, plus variable lending spread, plus fixed premium loan spread of 115 basis points, iv) Front end fee of 1% of the principal amount of the loan and v) Commitment fee of 0.75%.

**Loans Converted Under Local Currency Facility (LCF):** For loans converted under the LCF, borrowers have the option to receive local currency financing under three different modalities: i) direct local currency financing or conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency disbursement of called guarantees. Outstanding loan balances of converted amounts under the LCF carry a fixed-base cost, floating or inflation-linked interest rate. At December 31, 2022, the Bank had local currency loans outstanding of \$5,084 million (2021 – \$4,270 million), which have substantially been swapped back-to-back to United States dollars, or economically hedged with local currency debt.

**Table 11** presents a breakdown of the loan portfolio by main product. For more information, see Schedule I-2 to the financial statements.

**TABLE 11: LOANS OUTSTANDING BY LOAN PRODUCT<sup>(1)</sup>**  
**December 31, 2022 and 2021**

*(Amounts expressed in millions of United States dollars)*

	2022		2021	
	Amount	%	Amount	%
<b>Currently available:</b>				
Flexible Financing Facility-floating index rate <sup>(3)</sup>	\$ 42,388	37.6	\$ 36,787	33.8
Flexible Financing Facility-fixed-base cost	23,025	20.4	22,270	20.5
Flexible Financing Facility-fixed-base cost local currency	1,278	1.1	696	0.6
Flexible Financing Facility-variable local currency	831	0.7	820	0.8
Non-sovereign-guaranteed-fixed	954	0.8	1,103	1.0
Non-sovereign-guaranteed-floating	2,016	1.8	2,432	2.2
Non-sovereign-guaranteed-local currency	891	0.8	843	0.8
Sovereign-guaranteed-concessional lending	5,049	4.5	4,968	4.6
Others	3,279	2.9	2,656	2.4
<b>Discontinued:<sup>(2)</sup></b>				
SCF-floating index rate <sup>(3)</sup>	13,025	11.6	14,617	13.4
SCF-fixed-base cost	18,000	16.0	19,913	18.3
LCF-fixed-base cost	959	0.9	782	0.7
LCF-variable	1,002	0.9	999	0.9
<b>Total</b>	<b>\$ 112,697</b>	<b>100.0</b>	<b>\$ 108,886</b>	<b>100.0</b>

- (1) Non-sovereign-guaranteed loans to other development institutions in the amount of \$316 million (2021 - \$287 million) are included as follows: \$283 million in Flexible Financing Facility-floating index rate, SCF-floating index rate, SCF-fixed-base cost and Others; and \$33 million in Sovereign-guaranteed-concessional lending.
- (2) Up to December 31, 2011, the Bank offered sovereign-guaranteed loans documented under the Single Currency Facility (SCF) LIBOR, each denominated in the convertible currency chosen by the borrower. In addition, borrowers could convert to local currencies of the region under the Local Currency Facility (LCF). SCF-floating index rate loans have an interest rate that is adjusted quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's funding cost, as well as the Bank's spread. Borrowers have the option to convert their SCF SOFR loan balances to fixed-base cost rate.
- (3) Refers to LIBOR/SOFR index, as applicable.

The total undisbursed loan balance is summarized below.

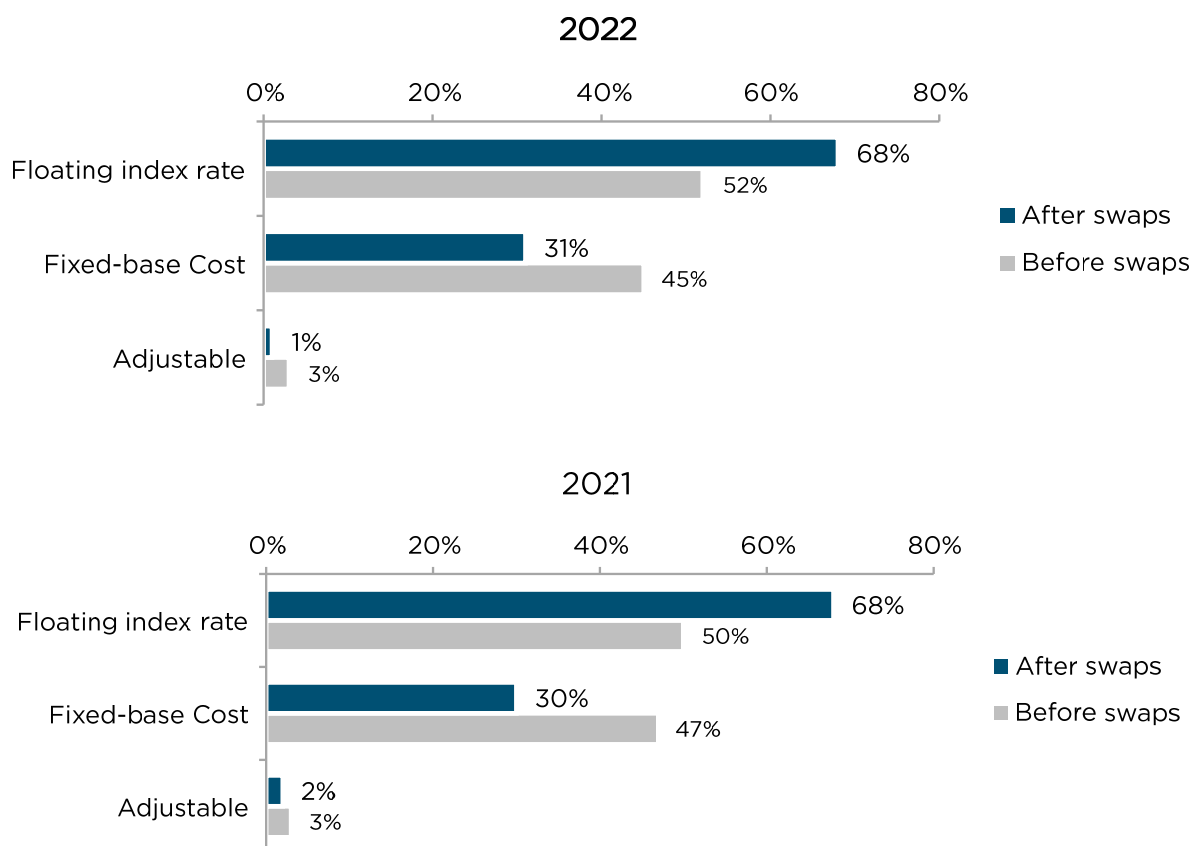
**TABLE 12: UNDISBURSED LOANS BALANCE BY LOAN PRODUCT**  
**December 31, 2022 and 2021**

*(Expressed in millions of United States dollars)*

	2022		2021	
	Amount	%	Amount	%
FFF-floating index rate	\$ 28,448	91.4	\$ 27,335	92.1
SCF-floating index rate	723	2.3	925	3.1
NSG-floating	1,375	4.4	822	2.8
Other	582	1.9	599	2.0
<b>Total</b>	<b>\$ 31,128</b>	<b>100.0</b>	<b>\$ 29,681</b>	<b>100.0</b>

The Bank uses currency and interest rate swaps in order to hedge exposures from loans where the currency or the interest rate type is not the same as that of the underlying funding. **Figure 7** displays a breakdown of loans outstanding, before swaps and after swaps, by interest rate type.

**FIGURE 7: LOANS OUTSTANDING BY INTEREST RATE TYPE BEFORE AND AFTER SWAPS<sup>(1)</sup>**  
December 31, 2022 and 2021



(1) Data is rounded; detail may not add up due to rounding.

### Charges on Loans with Sovereign Guarantee

Loan charges are established by the Board of Executive Directors annually, or more frequently if deemed necessary, taking into consideration the trade-offs presented in the Long-Term Financial Projections (see the "Financial Risk Management—Capital Adequacy Policy—Income Management Model" section). At a minimum, the level of loan charges for sovereign-guaranteed loans should be sufficient to generate enough income so as to cover 90% of the Ordinary Capital's administrative expenses on a three-year rolling basis, adjusted for 90% of the income from the Bank's NSG operations.

A unique feature of the Bank's loan charge structure on the sovereign-guaranteed portfolio is that changes apply to substantially all the portfolio, including loans already disbursed and outstanding. As a result, the Bank has the ability to raise revenue by these means, when needed. In addition, loan charges are also approved by the Bank's borrowing member countries who ultimately incur the higher costs.

For 2022 and 2021, the approved lending spread and credit commission for the Bank's non-concessional sovereign-guaranteed loans is 0.90% 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%.

### Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the limit established for NSG operations, or with a member country sovereign counter-guarantee. These guarantees are denominated in United States dollars or in local currencies.

As part of its NSG lending activities, the Bank has issued political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. Political risk guarantees cover specific risk events related to noncommercial factors (such as currency convertibility, transferability of currencies outside the host country, and government non-performance). Partial credit guarantees cover payment risks for debt obligations. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees. Guarantee exposure is measured as the callable amount.

The Bank's Trade Finance Facilitation Program (TFFP) provides full credit guarantees without sovereign counter-guarantees on trade-finance transactions. The TFFP authorizes lines of credit in support of approved issuing banks, with an aggregate program limit of up to \$1,000 million outstanding at any time.

The Flexible Guarantee Instrument (FGI) for sovereign-guaranteed operations allows for the structuring of sovereign counter-guaranteed partial credit and political risk guarantees, which can be used to support investment projects or policy-based interventions.

The guaranteed portfolio is summarized below.

**TABLE 13: GUARANTEE PORTFOLIO OUTSTANDING**  
**December 31, 2022 and 2021**

*(Expressed in millions of United States dollars)*

	2022	2021
Sovereign guarantees	\$ 679	\$ 352
Non-sovereign guarantees <sup>(1)</sup>	423	329
<b>Total guarantees outstanding and subject to call</b>	<b>\$ 1,102</b>	<b>\$ 681</b>

(1) Of which TFFP represented \$325 million (2021 - \$231 million).

### Debt Securities

As of December 31, 2022 debt securities outstanding and undisbursed balance amounted \$703 million (2021 - \$435 million) and \$168 million (2021 - \$337 million), respectively.

During 2022, the Bank purchased six developmental related debt securities for \$325 million (2021 - two for \$87 million).

### Technical Assistance

In addition to loans and guarantees, the Bank provides technical assistance to its member countries both in connection with, and independent of, its lending operations. Such assistance focuses on transferring knowledge, and supports project preparation, feasibility studies, regional programs, and training. Technical assistance activities are currently funded by resources from the Ordinary Capital's special programs and the funds under the Bank's administration. Special programs provide financing for reimbursable, non-reimbursable and contingent recovery assistance to borrowing member countries. In 2022, the Bank approved technical assistance for a total of \$262 million (2021 - \$227 million), including \$116 million (2021 - \$106 million) funded by the Ordinary Capital.

## LIQUIDITY MANAGEMENT

Unless otherwise stated, liquidity for the purpose of this document is defined as cash and investments in convertible currencies, less restricted investments. The primary objective of the Bank's liquidity management is to preserve capital and to ensure that adequate resources are available to meet anticipated contractual obligations and ensure uninterrupted financial operations in the event the Bank were to refrain from borrowing in response to unattractive market conditions or other constraints. The Bank's liquidity management principles are set forth in [Box 4](#).

### BOX 4: LIQUIDITY MANAGEMENT PRINCIPLES

The primary objective in the management of the Bank's liquid assets is preservation of capital, and maintaining a portfolio of adequate size invested in high quality liquid assets to enable the Bank to meet its financial obligations without the need to access the capital markets. The secondary investment objective is to efficiently manage risk/return trade-offs of all eligible asset classes within the defined risk tolerance of the Bank, in order to help minimize the cost of carrying liquidity.

The Bank manages its liquidity through financial policies, a Strategic Asset Allocation (SAA) Framework, and investment guidelines. The Investment Resolution approved by the Board of Executive Directors provides the basic authority within which liquidity is invested. The SAA and Investment Guidelines approved by Management, provide strategic guidance for investing the Bank's liquid assets and establish the detailed operating, compliance and monitoring conditions for the implementation of the liquidity management. All are designed to ensure that the Bank assesses market and credit risks, and establishes investment constraints consistent with the Bank's level of risk tolerance. For information concerning the management of risk exposures on liquidity see the "Financial Risk Management" section.

The Bank substantially invests its liquid assets in highly rated securities and bank deposits. These instruments include obligations of highly-rated sovereign and sub-sovereign governments' agencies, multilaterals, banks and corporate entities, including asset-backed and mortgage-backed securities. The Bank also uses derivatives, mostly currency and interest rate swaps, to manage its investment portfolios. In addition, the Bank carries local currency assets to support local currency operations.

Furthermore, the Bank has deployed a framework incorporating Environmental, Social, and Governance (ESG) criteria into its investment process for bank and corporate entities to complement its overall assessment of eligible issuers and counterparties.

As part of its regular review cycle, the SAA was updated in 2021 under the same overall objectives and risk appetite as the previous version, thus representing minor adjustments. The next review is scheduled for 2024.

Under the Bank's liquidity policy, the Bank's liquidity floor covers, at a minimum, 12 months of projected net cash requirements, after accounting for liquidity haircuts, while the liquidity ceiling is set to allow the entire yearly borrowing program to be executed in the first quarter of the year.

The policy allows Management to manage liquidity dynamically based on the Bank's expected future cash flow needs. It requires a liquidity level ranging within a band established early in the year. The Bank has remained compliant with the required liquidity levels through the date of this MD&A.



The liquid asset portfolio calculated in accordance with our liquidity policy, as compared to the required limits, is presented below.

**TABLE 14: LIQUID ASSETS PORTFOLIO**  
**December 31, 2022**

(Amounts expressed in millions of United States dollars)

	Amount	% of Maximum Allowable Liquidity Level
Maximum allowable liquidity level as per policy <sup>(1)</sup>	\$ 52,800	
Average during the period	35,941	68
As of December 31, 2022	32,545	62
Required minimum liquidity as per policy <sup>(1)</sup>	27,700	52

(1) Include haircuts in accordance with the Bank's liquidity policy.

Liquid investments (trading investments portfolio) are maintained in four distinct sub-portfolios: transactional, operational, the External Managers Program, and local currency, each with different risk profiles and performance benchmarks. The transactional portfolio is used to meet the day-to-day cash flow requirements. The operational portfolio holds the majority of the Bank's liquid holdings.

The External Managers Program, which represents less than 2% of our portfolio, focuses on the U.S. agency mortgage-backed security exposures in the trading investments portfolio. Separate investment guidelines that conform to the Bank's overall Investment Guidelines are provided to each external manager.

The local currency assets are available to support operations occurring in or related to expenditures in local currencies.

The return of the trading investments portfolio in 2022 and 2021 is shown in [Table 15](#). The increase in the return of the portfolio was mainly due to higher interest rates.

**TABLE 15: TRADING INVESTMENTS PORTFOLIO**  
**December 31, 2022 and 2021**

(Amounts expressed in millions of United States dollars)

Portfolio	2022		2021	
	Ending Balance <sup>(1)</sup>	Financial Return (%) <sup>(2)(3)(4)</sup>	Ending Balance <sup>(1)</sup>	Financial Return (%) <sup>(2)(3)(4)</sup>
Transactional	\$ -	1.80	\$ 5,637	0.12
Operational	31,390	1.58	32,078	0.28
External Managers Program (EMP)	546	0.42	459	0.14
Local currency	359	10.25	254	4.28
Others <sup>(5)</sup>	212	0.91	225	(0.12)
Overall Portfolio	\$ 32,507	1.65	\$ 38,653	0.26

(1) After swaps and includes accrued interest.

(2) Combined return for all currencies in each portfolio.

(3) Geometrically-linked time-weighted returns.

(4) Includes gains and losses.

(5) Investments transferred from FSO.

### Performance and Exposure of the Trading Investments Portfolio

The exposure for the entire investments portfolio, excluding swaps, amounted to \$31,507 million at December 31, 2022 compared to \$38,552 million at December 31, 2021. The quality of the overall portfolio

continues to be high, as 90.0% of the credit exposure is rated AAA<sup>(4)</sup> and AA (2021—80.1%), 2.6% carry the highest short-term ratings (A1 and A1+) (2021- 12.4%), 6.3% is rated A (2021—6.8%), and 1.1% is rated below A (2021—0.7%).

**Table 16** shows a breakdown of the trading investments portfolio at December 31, 2022 and 2021 by major security class and its contractual maturity, on securities held at the end of the respective year.

**TABLE 16: TRADING INVESTMENTS PORTFOLIO BY MAJOR SECURITY CLASS AND DUE DATES**  
December 31, 2022 and 2021  
(Expressed in millions of United States dollars)

Security Class	2022					Grand Total <sup>(1)</sup>
	Maturity in in one year or less	one year to five years	six years to ten years	after ten years		
Obligations of the United States Government	\$ 275	\$ 750	\$ -	\$ -	\$ -	1,025
U.S. Government-sponsored enterprises	43	183	149	137		512
Obligations of non-U.S. governments	5,134	182	-	-		5,316
Obligations of non-U.S. agencies	2,547	8,136	-	-		10,683
Obligations of non-U.S. sub-sovereigns	330	1,523	-	-		1,853
Obligations of supranationals	497	2,203	-	-		2,700
Bank obligations	6,060	2,381	-	-		8,441
Corporate securities	160	808	-	-		968
Mortgage-backed securities	-	-	-	2		2
Asset-backed securities	-	-	-	7		7
Currency and interest rate swaps - investments-trading	28	972	-	-		1,000
Total trading investments	\$ 15,074	\$ 17,138	\$ 149	\$ 146	\$ -	32,507

(1) Includes accrued interest of \$165 million for trading investments and \$133 million for currency and interest rate swaps.

Security Class	2021					Grand Total <sup>(1)</sup>
	Maturity in in one year or less	one year to five years	six years to ten years	after ten years		
Obligations of the United States Government	\$ 347	\$ 1,708	\$ -	\$ -	\$ -	2,055
U.S. Government-sponsored enterprises	48	123	48	21		240
Obligations of non-U.S. governments	8,147	336	-	-		8,483
Obligations of non-U.S. agencies	5,433	7,191	-	-		12,624
Obligations of non-U.S. sub-sovereigns	1,960	1,530	-	-		3,490
Obligations of supranationals	1,063	910	-	-		1,973
Bank obligations	7,056	1,919	-	-		8,975
Corporate securities	493	209	-	-		702
Mortgage-backed securities	-	-	-	2		2
Asset-backed securities	-	-	-	8		8
Currency and interest rate swaps - investments-trading	187	(86)	-	-		101
Total trading investments	\$ 24,734	\$ 13,840	\$ 48	\$ 31	\$ -	38,653

(1) Includes accrued interest of \$126 million for trading investments and \$(102) million for currency and interest rate swaps.

(4) 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.

## SOURCES OF FUNDS

### Equity

Equity at December 31, 2022 was \$37,873 million compared with \$35,086 million at December 31, 2021. The increase of \$2,787 million is mainly due to Net income of \$1,442 million, a \$1,101 million gain related to the recognition of changes in assets/liabilities under pension benefit plans, a \$333 million gain related to the Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk, and a \$78 million amortization of net actuarial losses and prior service credit on pension plans; partially offset by a \$150 million distribution to the Bank's shareholders for concurrent contribution to IDB Invest on behalf of the Bank's shareholders recorded as a dividend.

The Bank's equity base plays a critical role in securing its financial objectives. It enables the Bank to absorb risk out of its own resources without significantly affecting its lending capacity and avoiding the need of a possible call on callable capital stock.

The Bank uses a non-risk based leverage limit based on the Debt-to-Equity ratio to complement the risk-based capital constraint. The Debt-to-Equity ratio is transparent, easy to compute, credit rating supportive and aligned with evolving best practices in financial institutions. It is also cohesive with the Bank's financial and risk management frameworks boundaries of the Bank's Capital Adequacy Policy Mandate and the Bank's financial policy framework.

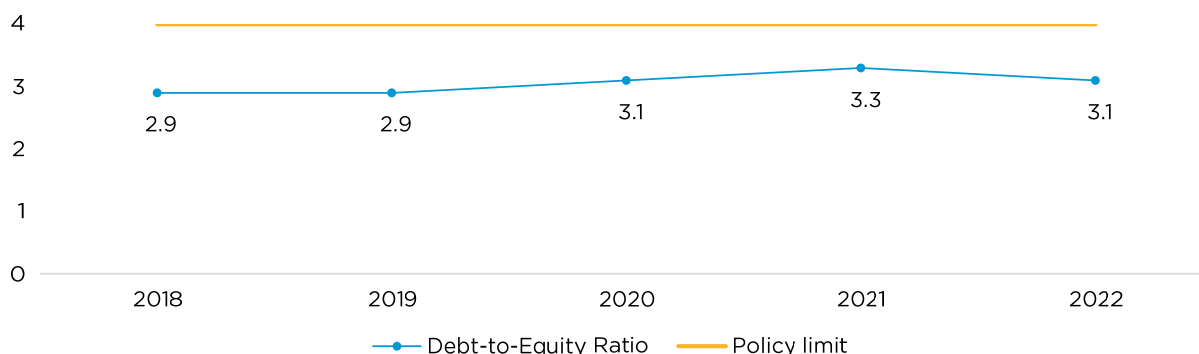
The Debt-to-Equity ratio uses gross debt, as opposed to net debt, to facilitate its comparability with other MDBs. "Total Equity" (utilized as the denominator within the Debt-to-Equity ratio) is defined as Paid-in capital stock and Additional paid-in capital, net of Capital subscriptions receivable, less Receivable from members, plus Retained earnings minus borrowing countries' local currency cash balances and accumulated other comprehensive income. The Debt-to-Equity ratio has a maximum limit, whereby the Bank cannot exceed 4.0x of equity. [Table 17](#) presents the composition of the Debt-to-Equity ratio at December 31, 2022 and 2021.

**TABLE 17: TOTAL DEBT-TO-EQUITY RATIO**  
**December 31, 2022 and 2021**  
*(Amounts expressed in millions of United States dollars)*

	2022	2021
<b>Borrowings outstanding after swaps and guarantee exposure</b>	<b>\$ 113,372</b>	<b>\$ 114,613</b>
<b>Equity</b>		
Paid-in capital stock	11,854	11,854
Less: Receivable from members	820	803
Retained earnings:		
General reserve	24,274	21,470
Special reserve	2,565	2,565
	<b>37,873</b>	<b>35,086</b>
<b>Minus:</b>		
Borrowing countries' local currency cash balances	107	179
Accumulated other comprehensive income (loss)	1,369	(143)
<b>Total Equity</b>	<b>\$ 36,397</b>	<b>\$ 35,050</b>
<b>Total Debt-to-Equity Ratio</b>	<b>3.1</b>	<b>3.3</b>

Figure 8 presents the changes in the Debt-to-Equity ratio during the last five years.

**FIGURE 8: TOTAL DEBT-TO-EQUITY RATIO**  
For the years ended December 31, 2018 through 2022



### Capitalization

Shareholders' support for the Bank is reflected in the capital backing it has received from its members. At December 31, 2022, subscribed capital stock consists of: 1) paid-in capital stock of \$6,039 million, ii) additional paid-in capital of \$5,815 million, and iii) callable capital stock of \$164,901 million.

**Paid-in Capital Stock:** Each subscription to paid-in capital stock has been paid, in whole or in part, in United States dollars or the currency of the respective member country. In the case of most payments made in the currency of the respective member country, the member country has made arrangements satisfactory to the Bank to assure that, subject to the provisions of the Agreement, its currency will be freely convertible (or the member country has agreed to convert its currency on behalf of the Bank) into the currencies of other countries for the purposes of the Bank's operations. The Bank has accepted non-negotiable, non-interest-bearing demand obligations in lieu of the immediate payment of all or a part of the member's subscription to the paid-in capital stock. Under the Agreement, such obligations are accepted where currencies are not required for the Bank's operations.

**Additional Paid-in Capital Stock (APIC):** APIC represents an increase to the value of the members' existing equity shares in the Bank. In the unlikely event of a member withdrawal or termination of the Bank's operations, APIC would be subordinate to the Bank's paid-in capital; it would not be subject to the Retained earnings allocation; and would be distributed to the Bank's shareholders based on their respective shares of the FSO net assets transferred.

**Callable Capital Stock:** The callable portion of the capital stock subscriptions is subject to call only when required and to the extent necessary to meet the obligations of the Bank on borrowings of funds or guarantees. In the event of a call, payment may be made at the option of the member in gold, United States dollars, fully convertible currency of the member country or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. Calls are required to be uniform, but obligations of the members of the Bank to make payment upon such calls are independent of each other. Failure of one or more members to make payments on any such call would not excuse any other member from its obligation to make payment, and successive calls could be made on non-defaulting members if necessary to meet the Bank's obligations. However, no member could be required on any such call to pay more than the unpaid balance of its capital stock subscription. No call has ever been made on the Bank's callable capital stock. Total callable capital by Standard & Poor's (S&P) country rating is shown on [Table 18](#).

**TABLE 18: CALLABLE CAPITAL BY S&P COUNTRY RATINGS<sup>(5)</sup>****December 31, 2022 and 2021***(Expressed in millions of United States dollars)*

Country Rating	2022	2021
AAA	\$ 11,925	\$ 11,925
AA+	50,027	50,027
AA	5,261	5,261
AA-	309	309
A+	8,254	8,254
A	8,390	8,390
BBB+	169	2,509
BBB	20,560	18,141
BBB-	713	793
BB+	5,147	5,147
BB	1,757	751
BB-	20,447	21,452
B+	1,293	2,798
B	3,010	753
B-	1,417	2,920
CCC+	19,494	18,743
D	5,569	5,569
SD	144	144
N.R <sup>(1)</sup>	1,015	1,015
Total	\$ 164,901	\$ 164,901

(1) Sovereigns not rated by S&amp;P.

At December 31, 2022, the total subscription of the United States, the Bank's largest shareholder, was \$54,237 million, of which \$1,813 million is paid-in capital stock, \$2,923 million is additional paid-in capital and the remainder constitutes callable capital stock. Of the United States' callable capital stock subscription of \$49,501 million, \$3,800 million had been fully authorized and appropriated, without fiscal year limitation, by United States legislation, and no further appropriation is necessary to enable the Secretary of the Treasury to pay this amount if any part were to be called to meet obligations of the Bank. The balance of the United States' callable capital stock subscription, \$45,701 million, has been authorized by the United States Congress but not yet appropriated. In 1979, in connection with the United States' largest subscription to an increase in the callable capital stock, the Bank obtained an opinion of the General Counsel of the Treasury stating that appropriations were not legally required to back subscriptions to such callable capital stock unless and until payment was required of the United States on a call made by the Bank. The opinion further states that an appropriation is not required to make United States callable capital stock subscriptions, authorized by United States legislation, binding obligations backed by the full faith and credit of the United States, and that an obligation contracted by the United States pursuant to a Congressional grant of authority for constitutional purposes is fully binding on the United States notwithstanding that a future appropriation might be necessary in order to fund that obligation.

### Borrowings

The Bank raises funds in the international capital markets primarily through the issuance of debt securities. To diversify its sources of funding, the Bank issues its debt securities in various currencies, maturities, formats, and structures to meet the needs of global institutional and retail investors. Under the Agreement, the Bank may borrow only with the approval of the member country in whose markets the debt securities are sold and the member country in whose currency the borrowings are denominated. In addition, the Bank is required to obtain the agreement of each such member country that the proceeds may be exchanged by the Bank for the currency of any other member country without restriction.

The Bank also has a short-term borrowing program (including the Discount Note Program, a Deposits Program for borrowing member central banks and official institutions, and repurchase/resale agreements), which is used to manage short-term cash flow needs. Discount notes are issued in amounts of not less than \$100,000 and maturities of no more than 360 days. Deposits are denominated only in

(5) Represents the countries' S&P long-term sovereign foreign currency credit ratings.

U.S. dollars with maturities up to 30 days, and are available only to borrowing member central banks and official institutions.

The Bank's borrowing policy is summarized in [Box 5](#).

#### BOX 5: BORROWING POLICY

The Bank uses a non-risk based leverage limit based on the Debt-to-Equity Ratio, which complements the current risk-based capital constraint (see the "Equity" section).

The Bank uses derivatives, mostly currency and interest rate swaps, for economic hedging purposes as part of its liability management to achieve the desired currency composition and interest rate structure as well as to lower its funding costs. The Bank closely monitors and regulates its activities with dealers and counterparties (see the "Financial Risk Management—Credit Risk—Commercial Credit Risk" section).

The amount and timing of the Bank's borrowings are determined in part by loan disbursements, maturing debt and liquidity levels (see the "Liquidity Management" section).

#### Repurchase and resale agreements

The Bank enters in repurchase and/or resale agreements as another way to manage the Bank's short-term cash needs. In a repurchase, or repo, agreement, the Bank transfers securities to a repo counterparty in exchange for cash and concurrently agrees to repurchase those securities at a future date for an amount equal to the cash exchanged plus a stipulated interest factor. In a resale or reverse repo agreement, the Bank buys securities with an agreement to resell them to the counterparty at a stated price plus interest at a specified date. The Bank enters into short-term repurchase and resale agreements as money market instruments for the Bank's liquid asset investment portfolio and for the management of liquidity in general. All contracts are subject to a maximum maturity of 3 months. There are no open positions as of December 31, 2022 and 2021.

[Table 19](#) presents information about the Bank's short-term borrowing operations.

#### TABLE 19: SHORT TERM BORROWINGS December 31, 2022 and 2021

(Amounts expressed in millions of United States dollars)

	2022		2021	
Balance at year-end	\$	1,021	\$	1,096
Average daily balance during the year		1,080		1,050
Maximum month-end-balance		1,352		1,201
Weighted average rate at the end of the year		4.14%		0.08%
Weighted average rate during the year		1.83%		0.07%

Medium- and long-term borrowing operations for 2022 and 2021 are summarized in [Table 20](#).

#### TABLE 20: SUMMARY OF MEDIUM AND LONG-TERM BORROWING OPERATIONS For the years ended December 31, 2022 and 2021

(Amounts expressed in millions of United States dollars)

	2022		2021	
Total medium- and long- term borrowings <sup>(1)</sup>	\$	16,989	\$	24,299
Average life (years) <sup>(2)</sup>		5.2		6.2
Number of transactions		63		84
Number of currencies		8		12

(1) Represents proceeds after swaps.

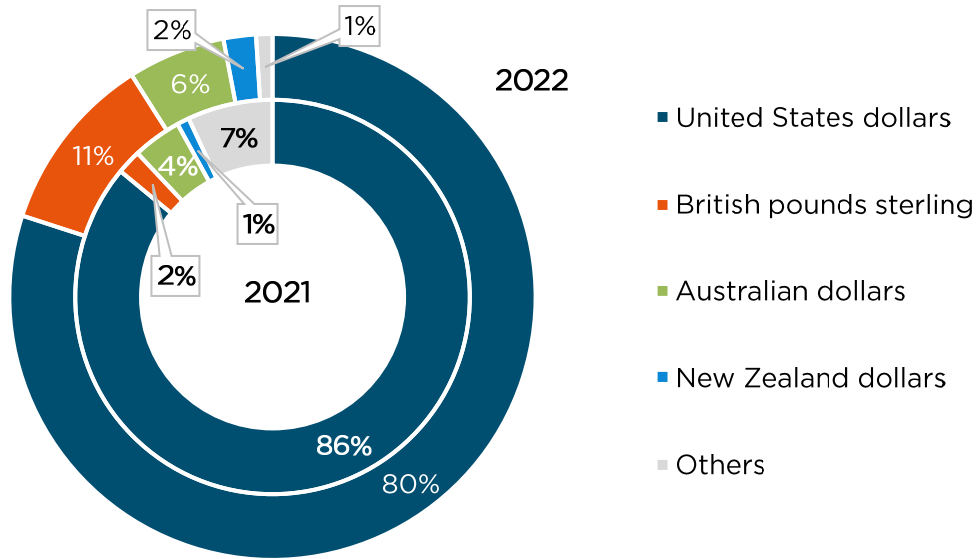
(2) Average life calculated considering the time to the next call date.

Unless otherwise specified, borrowings raised in any given year are used for general operations, including loan disbursements and liquidity management. In 2022, the Bank executed five strategic benchmark

global bond issues denominated in United States dollars with two, five and seven year maturities for a combined amount of \$10,497 million.

New medium- and long-term borrowings by currency for 2022, as compared to 2021, are shown in [Figure 9](#).

**FIGURE 9: NEW BORROWINGS BY CURRENCY<sup>(1)</sup>**  
For the years ended December 31, 2022 and 2021



(1) Includes medium- and long-term borrowings, excluding swaps, and represents proceeds on a trade date basis.

Medium- and long-term borrowings outstanding by currency as of December 31, 2022 and 2021 are shown in [Table 21](#).

**TABLE 21: OUTSTANDING BORROWINGS BY CURRENCY<sup>(1)</sup>**  
**December 31, 2022 and 2021**  
*(Expressed in millions of United States dollars)*

Currency	2022	2021
Australian dollars	\$ 6,210	\$ 7,085
Brazilian reais	96	140
British pounds	9,179	8,623
Canadian dollars	3,676	3,917
Colombian pesos	148	170
Costa Rican colones	2	2
Euros	127	133
Hong Kong dollars	-	51
Indian rupees	159	323
Indonesian rupiahs	928	1,019
Mexican pesos	703	662
New Turkish liras	34	130
New Zealand dollars	1,471	1,316
Norwegian krone	132	-
Peruvian soles	52	49
South African rands	13	13
Swedish krona	144	166
United States dollars	85,041	88,266
Total	\$ 108,115	\$ 112,065

(1) Medium- and long-term borrowings net of unamortized discounts and debt issuance costs (before swaps and fair value adjustments).

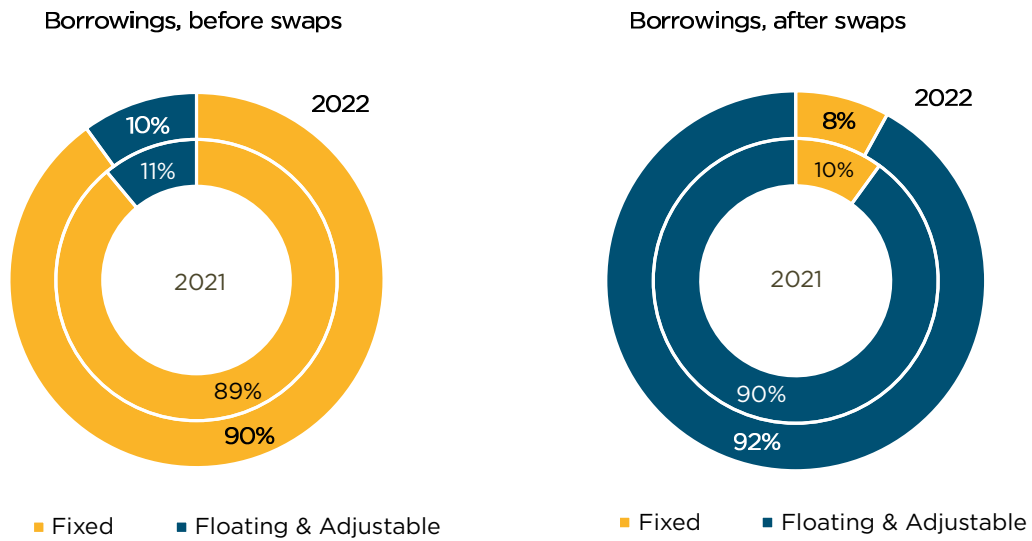
The Bank may retire its debt earlier than the maturity date. During 2022, the Bank early retired \$228 million of its borrowings (2021—\$77 million).

**Use of Derivatives:** The Bank may enter into currency and interest rate swaps contemporaneously with borrowing transactions in order to convert the proceeds mostly into United States dollars and floating rate funding to meet its loan disbursement obligations. In 2022, certain new borrowings were swapped into United States dollars at floating rates. [Figures 10 and 11](#) illustrate the effect of swaps on both the



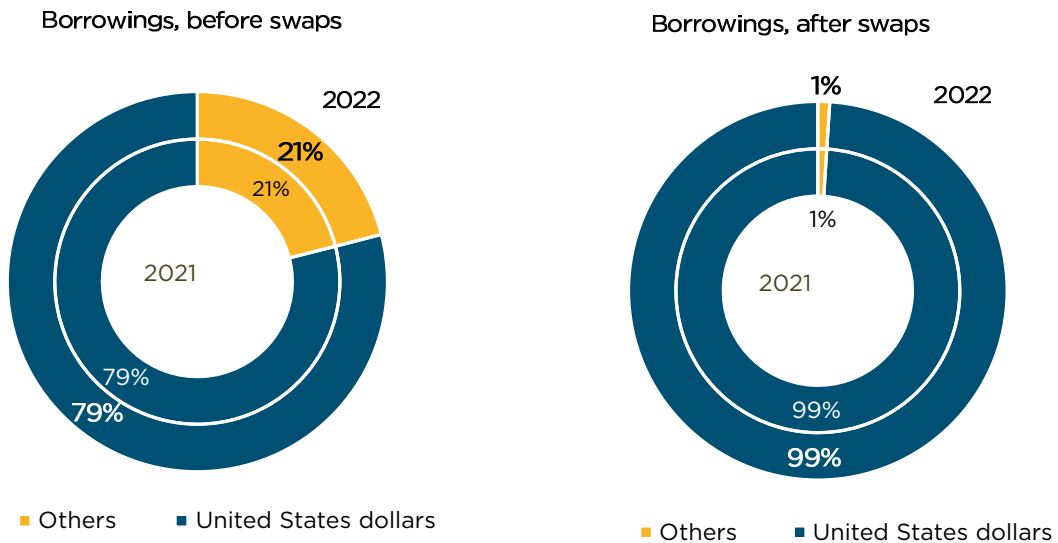
interest rate structure and currency composition of the medium- and long- term borrowing portfolio at December 31, 2022 and 2021.

**FIGURE 10: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS<sup>(1)</sup> December 31, 2022 and 2021**



(1) Medium- and long-term borrowings only.

**Figure 11: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS<sup>(1)</sup> December 31, 2022 and 2021**



(1) Medium- and long-term borrowings only.

## FINANCIAL RISK MANAGEMENT

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Through providing multilateral financing, the Bank is exposed to a variety of risks including credit risk (loan portfolio or country credit and commercial credit); market risks (interest rate, spread and exchange rate); liquidity risk (funding and liquidation); retirement plan risk; and operational risk.

### Governance

The Bank conducts its operations within a framework of financial and risk management policies, uses only specifically authorized financial instruments and follows a well-defined risk management decision-making process.

The Bank manages its risks in accordance with the Agreement and relevant policies approved by its Board of Governors, its Board of Executive Directors and the Finance Committee composed of members of Management. The Bank's Risk Management Office reports to the Executive Vice President, and consists of five risk management units, which are responsible for asset-liability management, treasury risk, capital adequacy/credit risk, financial controls/operational risk, and socioenvironmental risk respectively. The Asset and Liability Management Committee (ALCO), the Credit Committee (CRCO), and the Operational Risk Management Committee (ORMC), are the forums to consider risk and financial management issues. This includes asset and liability management, capital adequacy assessments, financial products (lending, investment, funding, etc.) review and planning, treasury risk management, credit risk management, capital markets (i.e., funding and investments) analysis, liquidity management, loan management, operational risk, and socioenvironmental risk topics.

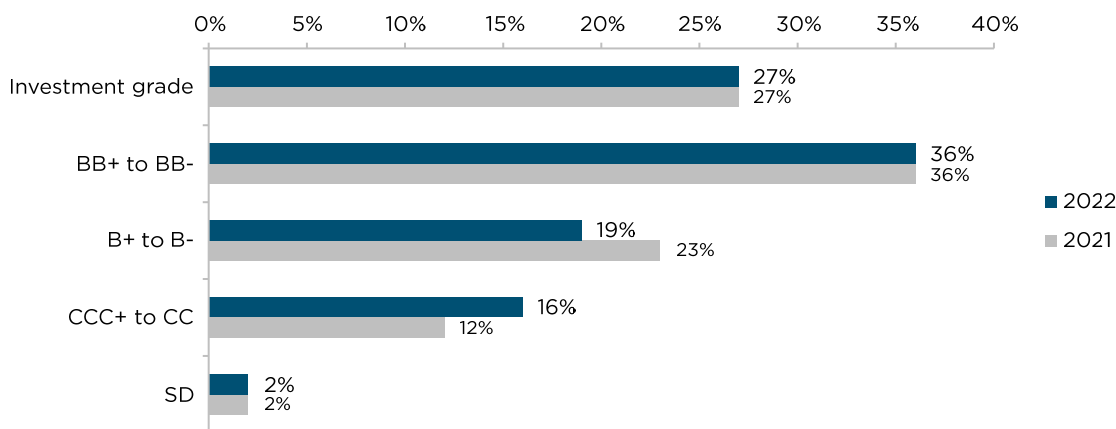
### Credit Risk

Credit risk is the potential loss that could result from the default of borrowers (loan portfolio credit risk or country credit risk) or from the default of investment, trading or swap counterparties (commercial credit risk).

**Loan Portfolio Credit Risk:** Loan portfolio credit risk is the risk that the Bank may not receive repayment of principal and/ or interest on one or more of its loans 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 manages credit risk in its loan portfolio through i) its overall lending and investing limitation, ii) a comprehensive CAP (designed to ensure that the Bank always holds sufficient equity given the quality and concentration of its portfolio), iii) a policy for the treatment of non-performing loans instruments, and iv) a policy for the maintenance of a credit loss allowance, among others.

The credit quality of the sovereign-guaranteed lending portfolio as of December 31, 2022 and 2021 as represented by the long-term foreign currency credit ratings assigned to each borrowing country by S&P, is depicted in [Figure 12](#).

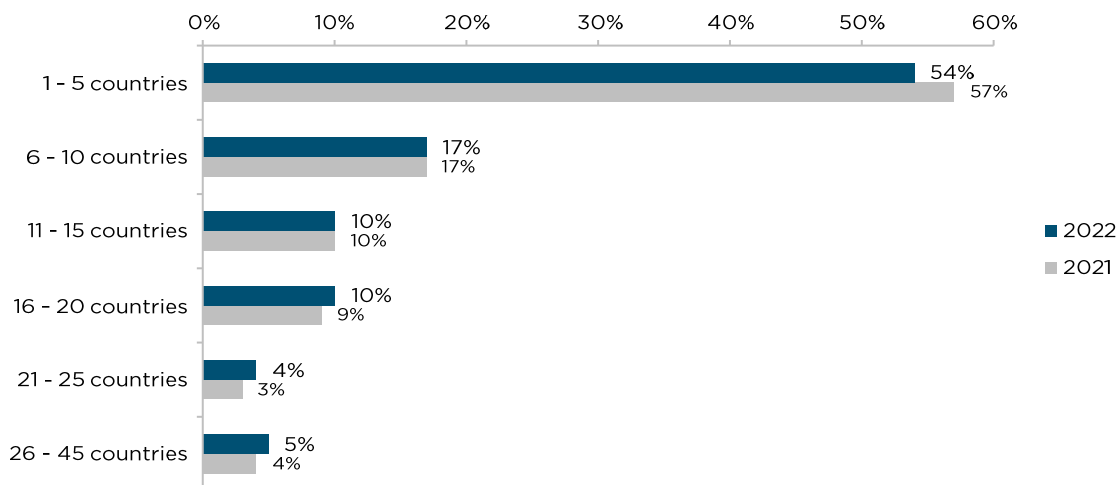
**FIGURE 12: CREDIT QUALITY OF SOVEREIGN-GUARANTEED LENDING EXPOSURE REFLECTED IN RATING OF BORROWING MEMBER COUNTRIES <sup>(1) (2)</sup>**  
December 31, 2022 and 2021



(1) Data is rounded; detail may not add up due to rounding.  
 (2) After consideration of EEA agreements.

Concentration risk is the risk resulting from having a large exposure to a single borrower, if the exposure fell into nonaccrual, would result in risk to the financial health of the Bank. Concentration risk needs to be evaluated both on an individual borrowing country basis and on a collective basis, taking into account correlation when more than one borrowing country is affected by a common event, such that when combined, the Bank’s exposure to a common risk is significant. Taking into consideration the regional nature of the Bank’s operations and the relative sizes of the economies of its borrowing members, the Bank expects to consistently have a concentrated portfolio (see [Figure 13](#)).

**FIGURE 13: CONCENTRATION OF SOVEREIGN-GUARANTEED LENDING EXPOSURE <sup>(1) (2) (3)</sup>**  
December 31, 2022 and 2021



(1) Data is rounded; detail may not add up due to rounding.  
 (2) After consideration of EEA agreements.  
 (3) Measured on a basis of disbursed outstanding balance per borrowing country, aggregated by concentration band.

The Bank has implemented the following measures to address its concentration of credit risk:

***Sovereign-Guaranteed Single Borrower Limits:*** The Bank follows a Board of Executive Directors approved two-tiered exposure-based single borrower limit policy (i.e., Country Limits) for its sovereign-guaranteed credit portfolio. This policy measures the Bank's credit concentration based on its exposure at default, and limits it through a mechanism with thresholds of different nature and level named "Hard Limit" and "Soft Limit". All Borrower Member Countries (BMCs) are conditioned by both limits. If during a particular year the "Hard Limit" is surpassed by a BMC, the amount of new loan approvals for the respective BMC for the year subsequent reduce to an amount no greater than the debt repayment scheduled for the subsequent year. If only the "Soft Limit" is exceeded, the BMC in breach could have access to additional lending subject to a premium determined to compensate the marginal cost of capital incurred by the Bank on this additional lending and based on country risk considerations. Such risk-based price differentiation mechanism enables the Bank to accumulate additional resources to offset the impact that exposure beyond the soft limit entails on the Bank's capital position.

***Exposure Exchange Agreement*** The Bank reduces its sovereign-guaranteed loan portfolio concentration by entering into Master Exposure Exchange Agreements (EEA) jointly with other MDBs, and executing bilateral transactions under such framework. The EEA reduces portfolio concentration by simultaneously exchanging coverage for potential nonaccrual events between MDBs for exposures from borrowing countries in which an MDB is concentrated, to countries in which the MDB has no, or low, exposure, though use of guarantees which offset in relative amount and credit risk at the outset of the guarantees.

The Bank executed bilateral EEA transactions (for \$4,901 million in 2015, \$1,000 million in 2020 and \$1,500 million in 2022) with certain other MDBs. 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 is accounted for as an exchange of two separate financial guarantees (given and received).

As of December 31, 2022, 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):

**TABLE 22: EXPOSURE EXCHANGE AGREEMENT TRANSACTIONS  
December 31, 2022 and 2021**

Country	EEA Seller			
	As of December 31, 2022		As of December 31, 2021	
	Amount	S&P Rating	Amount	S&P Rating
Angola	\$ 85	B-	\$ 85	CCC+
Armenia	118	B+	118	B+
Bangladesh	673	BB-	251	BB-
Bosnia & Herzegovina	99	B	99	B
Egypt	720	B	720	B
Georgia	97	BB	97	BB
India	525	BBB-	175	BBB-
Indonesia	885	BBB	535	BBB
Jordan	144	B+	144	B+
Macedonia	130	BB-	130	BB-
Montenegro	116	B	116	B
Morocco	990	BB+	990	BB+
Nigeria	95	B-	95	B-
Pakistan	977	CCC+	647	B-
Serbia	195	BB+	195	BB+
Sri Lanka	48	SD	-	CCC+
Tunisia	990	B-	990	B-
Turkey	311	B	311	B+
Vietnam	203	BB+	203	BB
Total	\$ 7,401		\$ 5,901	

Country	EEA Buyer			
	As of December 31, 2022		As of December 31, 2021	
	Amount	S&P Rating	Amount	S&P Rating
Argentina	\$ 903	CCC+	\$ 750	CCC+
Bolivia	92	B	92	B+
Brazil	1,795	BB-	1,395	BB-
Chile	66	A	66	A
Colombia	897	BB+	497	BB+
Costa Rica	43	B	43	B
Dominican Republic	460	BB	460	BB-
Ecuador	1,306	B-	1,066	B-
El Salvador	225	CCC+	225	B-
Mexico	1,207	BBB	900	BBB
Panama	207	BBB	207	BBB
Trinidad and Tobago	200	BBB-	200	BBB-
Total	\$ 7,401		\$ 5,901	

There were no nonaccrual events since the inception of the EEA portfolio on the countries covered by the EEA (as either EEA buyer or seller). The Bank continues to expect full recovery of all its sovereign-guaranteed exposures.

**Lending Limitation:** The Bank's Agreement limits the total amount of outstanding loans and guarantees to the subscribed capital (including callable capital), plus reserves and surplus, exclusive of income assigned to certain reserves. However, the Bank's lending capacity is also limited by its financial policies.

**Capital Adequacy Policy (CAP):** The Bank's CAP consists of a CAP mandate (Mandate) and regulations that determine capital requirements for credit and market risks 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.

**Box 6** includes the Bank's Mandate as approved by its Board of Governors in 2014.

#### **BOX 6: CAPITAL ADEQUACY POLICY MANDATE**

"The Bank provides funding at competitive pricing for projects in Latin American and Caribbean countries with and without a sovereign guarantee. Based on the limited number of borrowing member countries and the distribution of economic activity in the Region, the Bank operates with high single-borrower concentration. In addition, the Bank stands ready to support the Region during a downturn, i.e., continuing lending during a regional crisis.

Therefore, the Bank shall establish regulations, policies, guidelines, and related initiatives, including the definition of appropriate capital buffers, to maintain its firm financial footing and ensure a long-term foreign-currency credit rating of triple-A (or equivalent) level, with all major credit rating agencies. These regulations, policies, guidelines, and related initiatives shall adhere to international best practices for financial risk management, in particular those adopted by similarly rated regional and multilateral development financial institutions. The Bank shall maintain its commitment under the 9th General Capital Increase to provide preferential support to small and vulnerable countries in Latin America and the Caribbean."

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

**Income Management Model (IMM):** The Bank's IMM establishes the rules for: i) capital accumulation consistent with the Bank's CAP; and, ii) minimum level of loan charges on sovereign-guaranteed loans, which requires that, at a minimum, the income from loan charges for sovereign-guaranteed loans, plus 90% of the loan charge income from the Bank's NSG operations, be sufficient to cover 90% of the Ordinary Capital's administrative expenses on a three-year rolling basis. As such, it provides a framework for decisions related to the uses of Ordinary Capital income taking into account the trade-offs associated with various parameters, such as: the level of loan charges; the annual lending capacity and disbursement programs; the annual level of administrative expenses and administrative budget; and annual transfers of income. The IMM provides the Board of the Executive Directors and Management with a methodology to review these parameters in an integrated and simultaneous fashion, and provides for guiding principles and clear rules to direct equity accumulation to meet its CAP Mandate.

**Enhanced Lending Capacity:** Consistent with the rules of the IMM and the definition of the Sustainable Lending Level (SLL), in 2017 the Board of Directors approved a series of rules to allocate a portion of its capital reserve to allow the Bank to increase the SG lending envelope above the SLL in a given year, in order to meet the lending needs of its borrowing member countries in times of stress.

When the Bank intends to lend above its SLL, it will need to determine whether enough Enhanced Lending Capacity is available to accommodate increased lending volume. To deploy the resources available in the Enhanced Lending Capacity, the Board of Directors approved a new lending category called Special Development Lending as a permanent lending category of the Bank.

**Non-performing Loans:** Except for NSG loans, loan service delays by a borrower in a member country preclude new loan approvals to borrowers in the member country, may lead to the suspension of loan disbursements, may result in the loan being placed in nonaccrual status, and may cause the loan to be declared due and payable. The treatment of non-performing sovereign-guaranteed loans is summarized in [Table 23](#).

**TABLE 23: TREATMENT OF NON-PERFORMING SOVEREIGN-GUARANTEED LOANS**

30 days after loan due date	The Bank suspends disbursements on the loan in arrears and all other loans to the borrower. The Bank informs the guarantor of the arrears by the borrower and requests prompt payment of the amount in arrears. No loan contract with any borrower in the country in question is signed by the Bank and no loan proposal is approved.
120 days after loan due date	The Bank suspends disbursements on all loans to the guarantor and to other borrowers guaranteed by the same guarantor, if the guarantor fails to pay the amounts due.
180 days after loan due date	The Bank places in nonaccrual status all loans for the country in question of which the government, the central bank or any government entity is a borrower or guarantor, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. Placement in nonaccrual status implies a reversal of all accrued income to date and no further income accumulation until all pending amounts are received. All Bank missions to the country intended for programming, preparing or processing of loans are suspended.

The Bank maintains a continuous dialogue with its borrowers to ensure prompt payment on all of its loans.

In the case of NSG loans, the Credit Risk Committee, chaired by the Chief Risk Officer, determines when the loan is classified in nonaccrual status, which can happen anytime between 30 and 90 days of being overdue, or earlier when Management has doubts of its future collectability.

**Allowance for credit losses:** Since its incorporation, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio and has collected the full principal and interest due on all its sovereign-guaranteed loans, with only six borrowing countries having been placed in nonaccrual status for varying times. The maximum aggregate balance in nonaccrual has never exceeded 8% of total loans outstanding. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will be repaid. [Table 24](#) displays information related to the countries, the

periods of time, and the maximum amounts of sovereign-guaranteed loans that have been placed in nonaccrual status throughout the Bank's history.

**TABLE 24: HISTORICAL DATA OF COUNTRIES IN NONACCRUAL STATUS**  
As of December 31, 2022

(Amounts expressed in millions of United States dollars)

Country	In Non-Accrual	Out of Non-Accrual <sup>(1)</sup>	Days	Maximum Outstanding Loan Balances <sup>(2)</sup>
Panama	29-Mar-88	18-Mar-92	1,450	518
Nicaragua	11-May-88	17-Sep-91	1,224	331
Peru	01-Feb-89	17-Sep-91	958	941
Honduras	01-Nov-89	06-Jul-90	247	619
Suriname	10-Nov-92	23-Dec-92	43	12
Suriname	01-Oct-93	01-Feb-94	123	2
Suriname	09-Nov-93	14-Feb-94	97	13
Suriname	13-Dec-00	06-Jun-01	175	29
Venezuela	14-May-18	<sup>(3)</sup>	1,692	2,011

(1) Repayment dates.

(2) Maximum outstanding loan balance as of any given year-end during the period the country was in nonaccrual.

(3) Continues in nonaccrual as of the date of this MD&A.

The Bank maintains allowances for credit losses to recognize the expected credit losses over the lifetime of its loans. At December 31, 2022, the Bank has SG and NSG loans individually assessed for credit losses for \$2,011 million and \$163 million, respectively (2021 - \$2,011 million for SG loans and \$339 million for NSG loans). A provision for developmental assets credit losses of \$426 million was recorded during 2022 (2021 - \$79 million credit). Total allowances of \$863 million were maintained at December 31, 2022 (2021 - \$487 million). The NSG allowances for credit losses were 8.0% of the corresponding NSG outstanding portfolio at December 31, 2022 (2021 - 7.6%).

For its loans and guarantees, the Bank determines the nature and extent of its exposure to credit risk 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 for SG loans 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. SG 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.

For NSG loans and guarantees, the Bank manages and measures credit risk using a 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. It 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 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 probability of default (PD) and loss given default (LGD) for the remaining life of the instrument.

**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 main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. The primary objective in the management of 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. The Bank's process for controlling its commercial credit risk includes: a) specifying authorized investments; b) establishing approved lists of acceptable counterparties, issuers, and dealers; c) defining acceptable credit rating limits; and d) specifying exposure limits and term limits for acceptable counterparties, issuers, and dealers based on their size and creditworthiness.

As part of its regular investment, funding, and asset and liability management activities, the Bank uses derivative instruments, substantially swaps, primarily for economic hedging purposes. The use of derivatives is limited to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank has established exposure limits for each derivative counterparty and has entered into master netting agreements that contain enforceable closeout netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual thresholds. Counterparty exposure against established limits are calculated and monitored on the basis of potential credit exposures modeled through the life of each counterparty's portfolio. Simulation is used to model the complex interactions of market risk factors, the dynamics of the portfolio, and the impact of risk mitigation mechanisms such as collateral thresholds and termination triggers, to estimate the potential credit exposure. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its swap counterparties.

The Bank considers current credit exposure as the replacement cost of the relevant derivative instrument. This is also referred to as replacement risk or the mark-to-market exposure amount. Mark-to-market exposure is a measure, at a point in time, of the value of a derivative contract in the open market. When the mark-to-market is positive, it indicates that the counterparty owes the Bank and, therefore, creates a credit exposure for the Bank. When the mark-to-market is negative, the Bank owes the counterparty and does not have replacement risk. When the Bank has more than one derivative transaction outstanding with a derivative counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with the same counterparty. If this net mark-to-market is negative, the Bank's exposure to the counterparty is considered to be zero.

**Table 25** provides details of the estimated current credit exposure on the Bank's investment and swap portfolios, net of collateral, by counterparty rating category. As of December 31, 2022, the credit exposure amounted to \$31,525 million, compared to \$38,778 million as of December 31, 2021. Excluding collateral, the current credit exposure from swaps decreased from \$1,436 million at December 31, 2021 to \$335

million at December 31, 2022. This swap credit exposure is offset by collateral (U.S. Treasuries or cash) of \$341 million (2021—\$1,220 million).

**TABLE 25: CREDIT EXPOSURE, NET OF COLLATERAL HELD, BY COUNTERPARTY RATING CATEGORY<sup>(1)</sup>**  
(Amounts expressed in millions of United States dollars)

Counterparty rating	December 31, 2022					Net Derivative Exposure	Total Exposure on Investments and Swaps	% of Total
	Investments				ABS and MBS			
	Governments and Agencies	Banks	Corporates					
A1+	\$ 562	\$ 213	\$ -	\$ -	\$ -	\$ -	\$ 775	2.5
A1	-	30	-	-	-	-	30	0.1
AAA	10,588	1,126	-	2	-	-	11,716	37.2
AA	9,440	6,229	968	-	17	-	16,654	52.8
A	1,141	843	-	-	1	-	1,985	6.3
BBB	195	-	-	2	-	-	197	0.6
BB	163	-	-	-	-	-	163	0.5
B	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-
CC and below <sup>(2)</sup>	-	-	-	5	-	-	5	-
Total	\$ 22,089	\$ 8,441	\$ 968	\$ 9	\$ 18	\$ -	\$ 31,525	100.0

Counterparty rating	December 31, 2021					Net Derivative Exposure	Total Exposure on Investments and Swaps	% of Total
	Investments				ABS and MBS			
	Governments and Agencies	Banks	Corporates					
A1+	\$ 4,276	\$ 480	\$ -	\$ -	\$ -	\$ -	\$ 4,756	12.3
A1	-	43	-	-	-	-	43	0.1
AAA	11,599	1,130	20	-	-	-	12,749	32.9
AA	10,632	6,798	682	3	216	-	18,331	47.3
A	2,104	524	-	-	10	-	2,638	6.8
BBB	126	-	-	2	-	-	128	0.3
BB	128	-	-	-	-	-	128	0.3
B	-	-	-	-	-	-	-	-
CCC	-	-	-	-	-	-	-	-
CC and below <sup>(2)</sup>	-	-	-	5	-	-	5	-
Total	\$ 28,865	\$ 8,975	\$ 702	\$ 10	\$ 226	\$ -	\$ 38,778	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 ratings.

(2) Includes assets not currently rated.

### Market Risk

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.

**Asset and Liability Management (ALM):** The objective of the ALM is to manage the currency composition, maturity profile and interest rate sensitivity of the portfolio of assets and liabilities. The Bank uses derivatives, mostly interest rate and foreign currency swaps, to manage its exposure to interest rate and exchange rate risk by aligning the characteristics of its debt with the assets it is funding. In addition, in seeking to achieve stable net interest income and preserving the economic value of its equity, the Bank uses derivatives to manage the repricing and maturity profile of its equity-funded assets in accordance with the ALM policy. In 2021, a new model was implemented, by which interest rate swaps are used systematically to modify the characteristics of equity-funded assets to minimize volatility of net interest income.

As of December 31, 2022, interest rate swaps for asset and liability management purposes with a notional amount of \$26,416 million (2021—\$8,886 million) were outstanding.

**Interest Rate Risk:** The Bank is exposed to two potential sources of interest rate risk. The first is the exposure to changes in the net spread between the rate earned on assets and the cost of borrowings that fund those assets. The second is the exposure to changes in the income earned on the portion of the assets funded with equity.

The Bank mitigates its exposure to net spread changes through either a cost passthrough formulation, calculated on an actual or estimated basis, incorporated in the lending rates charged, or economic hedges of related interest rate exposures. The Bank's policy of setting its lending rate on its SG non-concessional 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 and SOFR.

Interest rate sensitivity of the income earned on equity-funded assets is managed through the ALM policy and guidelines, which seek to maintain stability of near-term income while limiting the volatility of the long-term economic value of equity within the Board approved risk appetite. This is achieved by managing the repricing and maturity profile of equity-funded assets through the use of interest rate swaps. In 2022, the bank has implemented a balance sheet hedge strategy which aims to mitigate volatility to Net interest income as a result of changes in USD interest rates. The continued maintenance of this strategy is expected to enhance the stability of the bank's Net interest income.

Limited and temporary basis exposure (different indices between assets and liabilities) has occurred during the LIBOR transition as conversion of instruments occur at different times. This exposure will dissipate with the market's transition to SOFR post June 30, 2023.

Additionally, the Bank funds and invests its liquidity portfolio at matching rate structures using specific duration gap constraints, thus avoiding any undue exposure to interest rate risk.

**Investment Market Risk:** Investment market risk is measured and monitored by applying quantitative techniques including Value at Risk (VaR), stress testing, scenario analysis and duration metrics. The Bank estimates VaR for a one-year time horizon using Monte Carlo simulation. The historical data inputs used to simulate relevant risk factors (such as interest rates, credit spreads, and others) include periods of significant financial stress. VaR measures are complemented by stress tests designed to quantify the impact of severe, unexpected market movements on the portfolio. The Bank conducts regular stress testing on its investment portfolio to ensure liquidity under a variety of adverse scenarios.

**Exchange Rate Risk:** In order to minimize exchange rate risk in a multicurrency environment, the Bank funds its assets in any one currency with, on an after-swap basis, borrowing obligations in the same currency, as prescribed by the Agreement. In addition, the Bank maintains virtually all of its equity and equity-funded assets in United States dollars.

The currency composition of the Bank's assets and liabilities (after swaps) at the end of 2022 and 2021 was substantially all in United States dollars.

#### **Liquidity Risk**

Liquidity risk arises from the general funding needs of the Bank's activities and in the management of its assets and liabilities. It includes the risk of being unable to fund the portfolio of assets at appropriate maturities and rates (funding risk) and the risk of being unable to liquidate a position in a timely manner at a reasonable price (liquidation risk). The Bank manages liquidity risk through its liquidity, investment and asset and liability management policies with its respective guidelines. The Bank's liquidity policy determines a minimum amount of liquidity to be held at all times and designed to allow the Bank to refrain from borrowing for a significant period, while continuing to meet its own obligations. This liquidity is invested in high quality liquid assets, as prescribed by the investment policy and related guidelines. Finally, the ALM policy limits the amount of debt refinancing within a given period.

#### **Retirement Plan Risk**

Retirement plan risk represents the exposure resulting from the Bank's obligation to fund any increases in the shortfall of its pension and postretirement benefits plan (Plans) obligations. Because the risk and return characteristics of pension assets do not match those of its liabilities, the Bank's equity is exposed to volatility in the Plans' funded status. The main risk measure by the Bank related to its Plans is their

active risk, which is a proxy for the volatility of the difference in performance of the Plans' assets and liabilities.

Changes in the value of the Plans' liabilities are driven by two factors, the first of which has a greater impact in terms of volatility and magnitude: (i) changes in the market interest rates of AA-rated high-grade, long-term U.S. corporate bonds, which are used to discount the stream of pension liabilities cash flows and (ii) changes in the Plans' demographics, experience, and management's best estimates of future benefit changes. Changes in the Plans' assets are also driven by: (i) fluctuations in the market value of the Plans' Return Strategy assets, which include developed and emerging markets equities, high yield and emerging markets bonds, real estate, infrastructure and commodities; and (ii) changes in interest rates, which impact the values of the Plans' Liability Driven Strategy assets, which are invested in core, long duration and inflation-indexed fixed income instruments.

Because the investments policy allocates 60% to 65% of the Plans' assets to Return Strategies, whose values are influenced by factors other than interest rates, the Plans' assets values are much less sensitive to changes in long-term interest rates than are the values of the Plans' liabilities, resulting in active risk. Under its CAP, the Bank determines specific capital requirements for the active risk in its Plans.

The Risk Appetite for the Retirement Plans Policy, as approved by the Board of Executive Directors, is comprised of two risk metrics. These metrics address the Plans' long-term financial sustainability, and the short-term volatility of the Plans in the Bank's financial statements. As of December 31, 2022, both metrics were within their respective policy limits.

#### **Environmental and Social Risk Management**

This framework provides oversight of the Bank's environmental and social risks, and it was strengthened in 2020 with the approval by the Board of Executive Directors of the Environmental and Social Policy Framework (ESPF), which became effective in October 2021, and by the establishment of an independent Environmental and Social Risk Management Unit within the Office of Risk Management. The environmental, social, and governance risk management function is performed by two teams: the Environmental and Social Solutions Unit (in the Vice-Presidency for Sectors) and the Environmental and Social Risk Management Unit (in the Office of Risk Management). The former performs a first line risk management mandate by working closely with borrowers, project teams, and key stakeholders to identify, assess, classify, mitigate, and manage environmental and social risks and by ensuring that each project complies with our policy requirements, international good practices, and with specific national laws. The latter unit performs a second line risk management mandate by providing oversight of climate change, environmental, social, and governance risks in the Bank's financed portfolio. It conducts independent quality assurance of impact and risk classifications, of the due diligence process, and of the quality of our environmental and social solutions throughout the project life cycle, with special attention to high- and substantial-risk projects. It also monitors and reports on the Bank's portfolio exposure to climate change, environmental, social, and governance risks focusing on key and emerging risks, risk trends and dynamics, and on lessons learned. Finally, it integrates socioenvironmental considerations into the Bank's operational risk management framework and taxonomy.

#### **Operational Risk**

Operational risk is the risk arising from inadequate or failed internal processes, people's actions, systems, or from external events, that can cause financial losses, financial reporting misstatements, and/or result in reputational damage. These failures may be incurred while executing processes to meet the Bank's objectives as operational risk is inherent in all operations and processes.

The Bank has policies and procedures in place to mitigate different aspects of operational risk, including the Bank's high standards of business ethics and its established system of internal controls. These are supplemented by the Bank's disaster recovery/contingency planning, the Information Disclosure Policy, client and project integrity due diligence procedures, the procedures for risk management and fiduciary arrangements in projects, and procurement and purchasing policies, among others.

The Bank's Operational Risk Management and the Internal Control over Financial Reporting (ICFR) functions report to the Chief Risk Officer. The Bank continues to implement its integrated Operational

Risk Management Framework (ORMF), which includes conducting the risk and control assessments, identifying key risk indicators, as well as providing training to the business units, in order to enhance its operational risks management.

**Internal Controls over Financial Reporting:** The Bank follows the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework (the COSO Framework) for its financial reporting controls. Management has established an annual process to report on the effectiveness of the ICFR, while the external auditors also perform an annual audit and issue an opinion as to the effectiveness of the ICFR.

Management's report and external auditors' report on internal control over financial reporting as of December 31, 2022 are included with the financial statements.

### Cybersecurity

The Bank's operations rely on the secure processing, storage and transmission of confidential and other information in computer systems and networks. As is the case for financial institutions generally, and given the current telework environment, the Bank's cybersecurity risk and phishing attacks have increased and have been effectively mitigated because of past investments in remote access, end-point protection, security and cloud technologies as well as strengthened operational risk management plans.

To protect the security of its computer systems, software, networks and other technology assets, the Bank through its Information Resources Security Policy and supporting standards program has adopted a multi-layered approach to cybersecurity risk management to help detect malicious activities within the organization and from external sources. In managing emerging cyber threats, the Bank regularly reviews and adapts its technical and process-level controls, and raises the level of user awareness to mitigate the risks. On a periodic basis, the Bank also assesses the maturity and effectiveness of its cybersecurity defenses and strives to incorporate industry standard risk mitigation techniques, including but not limited to, targeted testing, internal and external audits, incident response tabletop exercises, and mandatory training to staff.

### Data Privacy Risk

With the objective to uphold IDB's reputation as a trusted partner and meet expectations of its stakeholders, on February 24, 2021, the Board of Executive Directors approved the Personal Data Privacy Policy. This policy defines how IDB will operate the personal data collection process and is intended to develop consistent practices and procedures across the IDB. The policy provides the guiding principles for each IDB institution to establish their own privacy program, which shall provide for the implementation of administrative, technical, and physical safeguards for personal data processing tailored to their unique mandate and business needs. The policy will become effective for IDB upon the adoption of implementing guidelines, procedures, technology solutions, and other measures, in a period not to exceed 3 years after its approval. The achievement of this important milestone is aligned with the approach taken by other multilateral development banks.

## OTHER DEVELOPMENTS

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### Human capital

The IDB has more than 3,300 employees, including staff and consultants. Approximately one-third of our employees are posted in Latin America and the Caribbean to foster close cooperation with clients and partners. The IDB is committed to diversity, equity, and inclusion in our operations and in our internal talent management practices. A significant accomplishment in 2021 was securing the Economic Dividends for Gender Equality (EDGE) Move Certification. With this achievement, the institution became the first development bank in the Americas and second worldwide to earn this second level of the prestigious distinction, which recognizes our progress in fostering a gender-equitable workplace.

The IDB has seen much progress as a result of its policies and practices to promote diversity, equity, and inclusion. Among the highlights is our progress in having women fill mid- and senior-level roles. The IDB also tracks its actions to promote diversity and inclusion in its Corporate Results Framework to capture

its efforts to attract a diverse workforce and foster an inclusive work environment. For additional information on these topics, please refer to the IDB Sustainability Report (<http://dx.doi.org/10.18235/0003098>) and IDB Corporate Results Framework 2020-2023 (<https://crf.iadb.org/en>).

The Bank approved its Gender Action Plan, which includes actions for women's economic opportunities and productivity, women's human capital development, violence against women and girls, sexual and reproductive health, gendered adaptation of public services, institutional capacity to address gender equality, women's leadership and participation, gender-specific responses to the COVID-19 pandemic and economic recovery, and masculinities and the inclusion of boys and men.

## ADDITIONAL REPORTING AND DISCLOSURE

### Basis of Reporting

The financial statements are prepared in accordance with GAAP, which requires Management to make estimates and assumptions that affect the reported results (see Note B to the financial statements).

### Critical Accounting Policies and Estimates

The Bank believes that the relevant significant accounting policies discussed below, used to present its financial results in accordance with GAAP, may involve a high degree of judgment and complexity and relate to matters that are inherently uncertain.

Description	Judgement and Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Fair Value of Financial Instruments</b>		
The Bank uses fair value as the measurement basis for the trading investments portfolio, borrowings elected under the fair value option and all derivatives (mostly interest and currency swaps), and for certain disclosures of financial instruments. The trading investment portfolio, borrowings elected under the fair value option and all derivatives are measured at fair value on a recurring basis and changes in fair value of these financial instruments are included in the Statement of Income and Retained Earnings. Details of the Bank's processes for determining fair value are set out in Note M to the Financial Statements. Also refer to Note B and Note N to the Financial Statements, for additional information.	Estimating fair value requires judgment. The type and level of judgment required is largely dependent on the amount of observable market information available. In determining fair value, the Bank follows the GAAP fair value hierarchy that 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). Substantially all of the Bank's financial assets and financial liabilities carried at fair value are based on observable prices and inputs and are classified in levels 1 and 2 of the hierarchy. Level 3 investment, borrowing and swap instruments, if any, are valued using Management's best estimates utilizing available information including (i) external price providers, or broker/dealer prices, where available; when less liquidity exists, a quoted price is out of date or prices among brokers/dealers vary significantly, other valuation techniques may be used, and (ii) discounted cash flow models where market yield curves of other instruments are used as proxies for the instruments' yield curves, for borrowings and related swaps.	Fair value estimates of instruments using valuation models or other techniques are sensitive to assumptions used for the significant inputs. In periods of extreme market volatility, lessened liquidity or in illiquid markets, there may be more variability in market pricing or a lack of market data to use in the valuation process. Management believes its measurements of fair value are reasonable given its processes for obtaining and prioritizing observable inputs (i.e., external prices and parameters) and the consistent application of this approach from period to period.
<b>Allowance for developmental assets credit losses</b>		
The Bank maintains allowances for credit losses on its developmental assets, undisbursed loan commitments and financial guarantees. The allowance reflects Management's best estimate of	The Bank's allowance on the sovereign-guaranteed (SG) portfolio includes consideration of the probability of default of sovereign borrowers, which is primarily based on external credit ratings as of the balance sheet date. Adjustments are	The Bank has a history of fully collecting on contractually due payments from delinquent SG borrowers and expects that each of its SG loans will be repaid consistent with its historical

Description	Judgement and Uncertainties	Effect if Actual Results Differ from Assumptions
<p>expected credit losses in the total portfolio at the balance sheet date based on the current expected credit loss model. The model incorporates the impacts of past events, current conditions, and reasonable and supportable forecasts of future economic conditions. The process for determining the allowance for credit losses is discussed in Note B and Note G to the Financial Statements.</p>	<p>made based on past sovereign default events to the Bank, current conditions, and macroeconomic forecasts that may affect a country's ability to service its obligations to the Bank. For individually assessed loans, key judgements include the expected time a borrower will be in nonaccrual status before returning to performing status and repaying overdue obligations.</p> <p>Key judgments used in determining the non-sovereign guaranteed (NSG) allowance for credit losses for the collectively assessed loans include borrower risk ratings and transaction specific loss estimates. Borrower risk ratings are converted to point in time term structure probability of default based on various industries, countries, and the state of the credit cycle. Facility-level specific information such as seniority, collateral, industry, guarantees, and jurisdiction are aggregated to develop loss given default estimates. Macroeconomic forecasts are incorporated in the model and can include various scenarios in a reasonable and supportable period, where each scenario represents a different state of the economy. If multiple scenarios are considered, weights are assigned that reflect management's best estimates of future economic conditions.</p> <p>For NSG individually assessed loans, including loans in nonaccrual status, the market/collateral values and expected projected cash flows are significant inputs in determining the allowance for credit losses.</p> <p>Qualitative adjustments, if warranted, are incorporated to address known model or data limitations, significant changes in portfolio composition or lending operations, and uncertainty associated with economic and business conditions.</p>	<p>experience. Accordingly, the allowance for credit losses related to the sovereign-guaranteed portfolio is not expected to be material. The current balance outstanding from SG borrowers in nonaccrual status is the largest in the Bank's history. In the event that a sovereign borrower does not repay the Bank, or the actual nonaccrual period is significantly longer than expected, the resulting credit losses can be higher than estimated.</p> <p>The process of determining the level of the allowance for credit losses for the NSG portfolio requires a high degree of judgment. The use of different estimates or assumptions as well as changes in external factors could produce materially different provisions and allowance levels. Management believes the risk ratings and loss severities currently in use are appropriate based on information currently available.</p>

#### **Pension and Other Postretirement Benefits**

The funded status of the Bank's benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation at December 31, the measurement date, is recognized on the Balance Sheet. Net periodic benefit cost is recognized as part of Administrative expenses in the Statement of Income and Retained Earnings. Net actuarial gains and losses and prior service cost not recognized as a component of net periodic benefit cost as they arise are recognized in Other comprehensive income. For further

Benefit assumptions are significant inputs to the actuarial models that measure benefit obligations and related costs. The underlying actuarial assumptions are based on financial market interest rates, experience, and Management's best estimate of future benefit changes and economic conditions.

The expected long-term return on plan assets represents Management's best estimate of the expected long-term (10 years or more) forward-looking rates of return of the asset categories employed by the Bank's benefit

Changes in the actuarial assumptions will impact future benefit costs and obligations (for example, the discount rate has an inverse relationship with benefit costs and obligations). Actuarial gains and losses occur when actual results are different from expected results.



details, refer to Note B and Note V to the financial statements.

plans, weighted by the plans' investment policy asset allocations. Accumulated and projected benefit obligations are measured as the present value of expected benefit payments. The discount rate used is selected in reference to the year-end yield of AA corporate bonds within the approved Citigroup Pension Liability index, with maturities that correspond to the payment of benefits. For the assumed rate of inflation (inherently contained in the assumed discount rate to determine benefit obligation and net periodic benefit cost), the Bank has established a process by which a range of inputs is reviewed, including 10-year forward looking expert opinion forecasts, the average of the 10 year, 20-year and 30 year U.S. Treasury Inflation Protected Securities breakeven inflation rate, and historical averages.

### External Auditors

**General:** The external auditors are appointed by the Board of Governors. In December 2021, the Board of Governors appointed Ernst & Young, LLP (EY) as the External Auditors of the Bank for the five-year period 2022-2026, following a competitive bidding process.

Contracted fees for audit services provided to the Bank by EY in connection with the 2022 financial statement and internal control audits amount to \$1,250,000. EY also provides audit services to trust funds administered by the Bank and to the Bank's staff retirement benefit plans, for which estimated contract fees related to the 2022 audits are \$650,800.

The external auditor may provide certain non-audit related services subject to monetary limits. The total non-audit services fees over the five-year term of the relevant external audit contract shall not exceed 70% of the audit fees over the same period. The fees related to non-audit services provided by EY in 2022 totaled \$1,716,622. Management monitors this limit against an estimated total expected audit fee when approving non-audit services provided by EY.

**External Auditors' Independence:** The Audit Committee is responsible for, among other matters, assisting the Board of Executive Directors in overseeing the external audit function, including ensuring external auditors' independence.

### IDB GRANT FACILITY

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In 2007, the Board of Governors approved the creation of the GRF for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. The GRF is currently funded by income transfers from the Ordinary Capital. For further information, refer to Financial highlights section- Capitalization.

In March 2022, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$172 million (2021 - \$92 million).

In April 2020, the Board of Directors approved retroactively the transfer of all assets of the Intermediate Financing Facility Account (IFF) to the GRF, amounting to approximately \$51 million, and the termination of the IFF as of January 1, 2020. The GRF continues to provide the remaining interest subsidies until such loans are repaid, or the total assets transferred are depleted, by either continuing to make subsidy



payments in accordance with the terms and conditions set forth in the corresponding loan contracts; or through a one-time payment to settle all expected future subsidy payments. As of the date that a country opts to receive the one-time payment, the Bank will cease to make payments to defray part of the interest due to be paid by the country on the IFF eligible loans, and the country will remain responsible to make interest payments to the Bank in full. Countries that do not opt for the one-time payment will continue receiving the subsidy in accordance with the corresponding loan contracts.

Total grants from the GRF for which a disbursement request has been approved during 2022 amounted to \$137 million (2021 - \$169 million).

# Financial Statements

# ORDINARY CAPITAL

## MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

February 24, 2023

The Management of the Inter-American Development Bank (Bank) is responsible for establishing and maintaining effective internal control over financial reporting in the Bank. Management has assessed and evaluated the internal control over financial reporting of the Bank's Ordinary Capital in accordance with accounting principles generally accepted in the United States, using the criteria for effective internal control established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed and evaluated the effectiveness of the internal control over financial reporting of the Bank's Ordinary Capital as of December 31, 2022. Based on this assessment, Management believes that the Bank's Ordinary Capital's internal control over financial reporting is effective as of December 31, 2022.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The effectiveness of the Bank's Ordinary Capital's internal control over financial reporting as of December 31, 2022, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Bank's Ordinary Capital's internal control over financial reporting as of December 31, 2022.



**Ilan Goldfajn**  
President



**Gustavo De Rosa**  
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## **Report of Independent Auditors**

To the Board of Governors of the Inter-American Development Bank:

### **Opinion on Internal Control Over Financial Reporting**

We have audited the Inter-American Development Bank - Ordinary Capital's (the Bank) internal control over financial reporting as of December 31, 2022, based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting at December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the financial statements of the Inter-American Development Bank - Ordinary Capital, which comprise the balance sheet as of December 31, 2022, and the related statements of income and retained earnings, comprehensive income (loss), and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and our report dated February 24, 2023 expressed an unmodified opinion thereon.

### **Basis for Opinion**

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for Internal Control Over Financial Reporting**

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting.

### **Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.



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### **Definition and Inherent Limitations of Internal Control Over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Ernst & Young LLP*

February 24, 2023



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## **Report of Independent Auditors**

To the Board of Governors of the Inter-American Development Bank:

### **Opinion**

We have audited the financial statements of the Inter-American Development Bank - Ordinary Capital (the Bank), which comprise the balance sheet as of December 31, 2022, and the related statements of income and retained earnings, comprehensive income (loss), and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Inter-American Development Bank - Ordinary Capital's internal control over financial reporting as of December 31, 2022, based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2023 expressed an unmodified opinion thereon.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from



fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Information Statement of the Inter-American Development Bank at December 31, 2022 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### **Other matter**

The financial statements of the Inter-American Development Bank - Ordinary Capital for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 25, 2022.

#### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Financial statements for the year ended 2021 were audited by other auditors whose report dated February 25, 2022 expressed an unqualified opinion on such information. The Schedules I-1



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through I-4 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that pertaining to the year ended 2021 audited by predecessor auditors, has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

February 24, 2023



ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**BALANCE SHEETS**

(Expressed in millions of United States dollars)

	December 31,			
	2022		2021	
<b>ASSETS</b>				
<b>Cash and investments</b>				
Cash - Notes C and N	\$ 1,205		\$ 1,490	
Investments - Trading - Notes D, M and N	<u>31,507</u>	\$ 32,712	<u>38,552</u>	\$ 40,042
<b>Developmental Assets</b>				
Loans outstanding - Notes E, G and N	112,697		108,886	
Allowance for credit losses - Note G	(763)		(433)	
Deferred loan origination fees and costs, net	<u>64</u>	111,998	<u>57</u>	108,510
Debt securities - Notes F and N				
Measured at fair value - Note K	148		74	
Measured at amortized cost	555		361	
Allowance for credit losses - Note G	<u>(38)</u>	665	<u>(16)</u>	419
<b>Derivative assets, net - Notes L, M, N and U</b>				
		148		979
<b>Accrued interest and other charges</b>				
On loans	1,068		509	
On others	<u>9</u>	1,077	<u>3</u>	512
<b>Other assets</b>				
Receivable for investment securities sold	94		88	
Property, net - Note I	448		445	
Assets under retirement benefit plans - Note V	185		-	
Miscellaneous - Note E	<u>699</u>	1,426	<u>757</u>	1,290
<b>Total assets</b>		<b>\$ 148,026</b>		<b>\$ 151,752</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Borrowings - Notes J, K, L, M, N and U				
Short-term	\$ 1,021		\$ 1,096	
Medium- and long-term:				
Measured at fair value	78,870		84,034	
Measured at amortized cost	<u>23,802</u>	\$ 103,693	<u>28,961</u>	\$ 114,091
<b>Derivative liabilities, net - Notes L, M, N and U</b>				
		4,927		379
Payable for investment securities purchased				
		94		-
Liabilities under retirement benefit plans - Note V				
		-		888
Due to IDB Grant Facility - Note P				
		160		126
Accrued interest on borrowings at amortized cost				
		186		154
Undisbursed special programs - Note Q				
		226		225
Other liabilities - Notes E, L and M				
		<u>867</u>		<u>803</u>
<b>Total liabilities</b>		<b>110,153</b>		<b>116,666</b>
<b>Equity</b>				
Capital stock - Note R				
Subscribed (14,170,108 shares)	170,940		170,940	
Less callable portion	(164,901)		(164,901)	
Additional paid-in capital	<u>5,815</u>		<u>5,815</u>	
	11,854		11,854	
Receivable from members - Note H				
	(820)		(803)	
Retained earnings - Note S				
	25,470		24,178	
Accumulated other comprehensive income (loss) - Note T				
	<u>1,369</u>	37,873	<u>(143)</u>	35,086
<b>Total liabilities and equity</b>		<b>\$ 148,026</b>		<b>\$ 151,752</b>

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**STATEMENTS OF INCOME AND RETAINED EARNINGS**

(Expressed in millions of United States dollars)

	Years ended December 31,		
	2022	2021	2020
<b>Income</b>			
Loans			
Interest, after swaps - Notes E, L and U	\$ 3,423	\$ 2,058	\$ 2,314
Other loan income	107	126	126
	<u>3,530</u>	<u>2,184</u>	<u>2,440</u>
Investments - Notes D and L			
Interest	708	118	373
Net gains (losses)	(126)	(13)	23
Other interest income - Notes L and U	39	43	4
Other	43	43	53
Total income	<u>4,194</u>	<u>2,375</u>	<u>2,893</u>
<b>Expenses</b>			
Borrowing expenses			
Interest, after swaps - Notes J, K, L and M	2,362	595	1,238
Other borrowing costs	17	29	27
	<u>2,379</u>	<u>624</u>	<u>1,265</u>
Provision (credit) for developmental assets credit losses - Note G	426	(79)	182
Administrative expenses	963	924	890
Special programs - Note Q	109	94	103
Total expenses	<u>3,877</u>	<u>1,563</u>	<u>2,440</u>
<b>Operating income</b>	<b>317</b>	<b>812</b>	<b>453</b>
Net fair value adjustments on non-trading portfolios and foreign currency transactions - Notes K, L and U	1,279	402	220
Other components of net pension benefit costs (credit) - Note V	18	(37)	1
Board of Governors approved transfers - Note P	(172)	(92)	(64)
	<u>1,442</u>	<u>1,085</u>	<u>610</u>
<b>Net income</b>	<b>1,442</b>	<b>1,085</b>	<b>610</b>
<b>Retained earnings, beginning of year</b>	<b>24,178</b>	<b>23,243</b>	<b>22,781</b>
Distributions on behalf of shareholders - Note AA	(150)	(150)	(110)
Cumulative-effect adjustment for expected credit losses	-	-	(38)
	<u>25,470</u>	<u>24,178</u>	<u>23,243</u>
<b>Retained earnings, end of year</b>	<b>\$ 25,470</b>	<b>\$ 24,178</b>	<b>\$ 23,243</b>

**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Expressed in millions of United States dollars)

	Years ended December 31,		
	2022	2021	2020
<b>Net income</b>	\$ 1,442	\$ 1,085	\$ 610
<b>Other comprehensive income (loss) - Note T</b>			
Reclassification to income (loss)- amortization of net actuarial losses and prior service credit on retirement benefit plans - Note V	78	124	90
Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk - Note U	333	(160)	(269)
Recognition of changes in assets/liabilities under pension benefit plans - Note V	1,101	514	(497)
Total other comprehensive income (loss)	<u>1,512</u>	<u>478</u>	<u>(676)</u>
<b>Comprehensive income (loss)</b>	<b>\$ 2,954</b>	<b>\$ 1,563</b>	<b>\$ (66)</b>

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**STATEMENTS OF CASH FLOWS**

*(Expressed in millions of United States dollars)*

	Years ended December 31,		
	2022	2021	2020
<b>Cash flows from lending and investing activities</b>			
Developmental activities:			
Loan disbursements	\$ (11,653)	\$ (12,425)	\$ (14,592)
Loan collections	6,957	7,337	6,910
Purchases of debt securities	(325)	(87)	(254)
Collections of debt securities	16	13	5
Net cash used in developmental activities	(5,005)	(5,162)	(7,931)
Purchases of property	(55)	(45)	(26)
Miscellaneous assets and liabilities, net	119	89	150
Net cash used in lending and investing activities	(4,941)	(5,118)	(7,807)
<b>Cash flows from financing activities</b>			
Medium- and long-term borrowings:			
Proceeds from issuance	16,989	24,299	26,765
Repayments	(19,453)	(16,842)	(17,372)
Short-term borrowings:			
Proceeds from issuance	5,531	7,264	9,574
Repayments	(5,602)	(7,354)	(9,664)
Cash collateral received (returned)	(270)	(886)	1,292
Collections of capital subscriptions	-	-	6
Distributions paid on behalf of shareholders	(149)	(149)	(109)
Payments of maintenance of value to members	-	-	(154)
Net cash (used in) provided by financing activities	(2,954)	6,332	10,338
<b>Cash flows from operating activities</b>			
Gross purchases of trading investments	(51,359)	(72,108)	(70,167)
Gross proceeds from sale or maturity of trading investments	57,934	69,218	68,457
Loan income collections, after swaps	2,903	2,100	2,680
Interest and other costs of borrowings, after swaps	(1,178)	(608)	(1,660)
Income from investments	272	52	390
Other interest income	55	26	9
Other income	47	47	52
Administrative expenses	(788)	(750)	(752)
Transfers to the IDB Grant Facility	(138)	(173)	(92)
Special programs	(108)	(95)	(83)
Net cash provided by (used in) operating activities	7,640	(2,291)	(1,166)
<b>Effect of exchange rate fluctuations on Cash</b>	(30)	(29)	16
<b>Net (decrease) increase in Cash</b>	(285)	(1,106)	1,381
<b>Cash, beginning of year</b>	1,490	2,596	1,215
<b>Cash, end of year</b>	\$ 1,205	\$ 1,490	\$ 2,596

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

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## NOTES TO FINANCIAL STATEMENTS

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### NOTE A - ORIGIN

The Inter-American Development Bank (Bank or IDB) is an international organization which was established in December 1959, and is owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The Bank works to improve lives in Latin America and the Caribbean and its objective is to achieve economic and social development in a sustainable, climate friendly way, primarily by providing loans, concessional lending and related technical assistance for specific projects and for programs of economic reform. The primary activities of the Bank are conducted through the Ordinary Capital and the IDB Grant Facility (GRF). The GRF's purpose is to make grants to respond to special circumstances arising in specific countries or with respect to specific projects; as well as to subsidize part of the interest payments for which certain borrowers are liable on loans approved from the Ordinary Capital up to December 31, 2006.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with generally accepted accounting principles of the United States of America (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 the net periodic benefit cost associated with these plans.

Effective December 31, 2021, to better align with standard market practice, the presentation of derivative instruments on the Balance Sheet was changed to netting derivative asset and liability positions and the related cash collateral received by counterparty, including the related accrued interest. In the past, the derivative instruments were presented on a net basis by instrument. After this change, there was no impact to total equity, operating activities in the Statement of Cash Flows, or any line item within the Statement of Income and Retained Earnings. See Note L – Derivatives, for additional details on the accounting and disclosures related to derivative instruments. Certain reclassifications of the prior year's information have been made to conform with the current year's presentation.

#### Accounting Developments

On December 21, 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-06, which defers the sunset date of Accounting Standards Codification (ASC) 848, Reference Rate Reform, from December 31, 2022 to December 31, 2024. ASC 848 provides optional expedients and exceptions, for contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued as a result of the reference rate reform. As of December 31, 2022, the Bank adopted the expedients provided for its loans and derivative contracts that have been converted from LIBOR to SOFR on a prospective basis. The adoption did not have a material impact on the Bank's financial statements. The Bank plans to continue utilizing the available expedients and exceptions allowed through December 31, 2024.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. The ASU removes the separate accounting for troubled debt restructuring (TDRs) by creditors, updates the requirements related to accounting for credit losses under Topic 326, and adds enhanced disclosures for creditors with certain loan modifications. The ASU also requires additional disclosures to the vintage table to include current-period gross write-offs by year of origination. The ASU is effective for the Bank for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Bank is currently evaluating the new standard, and does not expect the ASU to have a material impact on its financial statements.

### Currency Accounting

The financial statements are expressed in United States dollars, which is also the functional currency of the Bank. Assets and liabilities denominated in currencies other than the U.S. dollar are translated into United States dollars at market exchange rates prevailing at the Balance Sheet dates. Income and expenses are translated at either market exchange rates in effect on the dates on which they are recognized or at an average of market exchange rates in effect during each month. Net adjustments resulting from the translation of all currencies are recorded in Net fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings except for currency holdings derived from paid-in capital stock that have maintenance of value, as described below.

### Valuation and Recognition of Capital Stock

The Agreement Establishing the Inter-American Development Bank (Agreement) provides that capital stock be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959, the par value of which was defined in terms of gold (the 1959 United States dollar). The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold, effective April 1, 1978. The General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR), introduced by the International Monetary Fund, became the successor to the 1959 United States dollar as the standard of value for the Bank's capital stock, and for maintaining the value of its currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies (the basket method), including the United States dollar. Absent a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974 (the 1974 United States dollar). The 1959 United States dollar value is equal to approximately 1.2063 of the 1974 United States dollars, or one SDR (1974 SDR).

Instruments of subscription are received from member countries committing to subscribe paid-in and callable capital stock according to the corresponding capital replenishment. Paid-in and callable capital subscriptions are recorded on the corresponding effective date of the individual installments, as provided for in the replenishments. Capital subscriptions receivable are deducted from capital stock on the Balance Sheet. Subscriptions paid in advance are recorded as a liability until the effective date of the corresponding installment.

Additional paid-in capital (APIC) of \$5,812 million was recognized when all assets and liabilities of the Fund for Special Operations (FSO), an entity established by the Agreement, were transferred to the Bank pursuant to the Board of Governors' approval in 2017. The transfer neither increased the Bank's capital stock shares or subscriptions by member countries, nor did it impact the nominal values of the Bank's existing capital stock or voting rights. APIC represents an increase to the value of the members' existing equity shares in the Bank. In the unlikely event of a member withdrawal or termination of the Bank's operations, APIC would be subordinate to the Bank's paid-in capital; it would not be subject to the Retained earnings allocation; and would be distributed to the Bank's shareholders based on their respective shares of the FSO net assets transferred.

### Maintenance of Value (MOV)

In accordance with the Agreement, each member is required to maintain the value of its currency held in the Ordinary Capital, except for currency derived from borrowings. Likewise, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency so held, except for currency derived from borrowings. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959.

The amount related to MOV receivables on member countries' currency holdings is presented on the Balance Sheet as a reduction of Equity.

### Board of Governors Approved Transfers

In accordance with the Agreement, the Board of Governors may exercise its authority to approve transfers of Ordinary Capital income to other accounts (currently only the GRF) administered by the Bank. These transfers, referred to as "Board of Governors approved transfers", are reported as expenses when

incurred, upon approval of disbursement, and are currently funded in accordance with the GRF funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Balance Sheet.

Distributions to the shareholders of the Bank for concurrent capital contributions to the Inter-American Investment Corporation (IDB Invest), a separate international organization whose 47 member countries are also members of the Bank, are recorded as deductions from Retained earnings in the Statement of Income and Retained Earnings.

### Retained Earnings

Retained earnings comprise the general reserve and the special reserve. The general reserve consists of income from prior years, which have been retained to provide for possible annual excess of expenses over income.

The special reserve consists of loan commissions set aside pursuant to the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities on borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed with resources of the Ordinary Capital. The allocation of such commissions to the special reserve was discontinued in 1998.

### Investments

All investment securities and related derivative instruments (mostly interest rate swaps and foreign currency swaps) are designated as a trading portfolio and recorded in accordance with trade-date accounting. The Bank also invests in other short-term investments, such as money market securities, and as a matter of policy, the Bank classifies these money market securities as part of its investment portfolio. All investment securities and derivative instruments are at fair value, with changes in fair value included in Income from Investments-Net gains (losses) in the Statement of Income and Retained Earnings.

### Repurchase and resale agreements

In a repurchase or repo agreement, the Bank transfers securities to a repo counterparty in exchange for cash, and concurrently agrees to repurchase those securities at a future date for an amount equal to the cash exchanged plus a stipulated interest factor. In a resale, or reverse repo agreement, the Bank buys securities with an agreement to resell them to the counterparty at a stated price plus interest at a specified date. The Bank enters into short-term repurchase and resale agreements as money market instruments for the Bank's liquid asset investment portfolio and for the management of liquidity in general.

All repurchase and resale transactions are executed with approved eligible counterparties under enforceable global master repurchase agreements and are subject to enforceable master netting agreements. All contracts have a maximum maturity of three months. The Bank receives financial instruments purchased under resale agreements and makes delivery of financial instruments sold under repurchase agreements to custody accounts at an approved third-party custodian. The securities purchased or sold in resale and repurchase agreements are limited to US Treasury securities with maturities of up to 5.5 years. In the case of resale agreements, the Bank receives collateral in the form of liquid securities. Securities received as collateral by the Bank from resale agreements are not further leveraged.

Repurchase and resale agreements expose the Bank primarily to credit risk that arises if a counterparty is unable to meet its obligations under the agreements. Other risks include refinancing, reinvestment, and operational risks. Such risks are managed through a comprehensive risk management framework to ensure global exposures are within acceptable parameters, including counterparty and maturity limits, and the appropriate size and type of acceptable collateral. Furthermore, the value of collateral pledged is monitored daily against acceptable thresholds and levels are adjusted when appropriate.

Repurchase and resale agreements are carried at face value, which approximate fair value due to their short-term nature and minimal credit risk. These agreements are presented on a gross basis on the Balance Sheet. The securities transferred under those agreements do not meet the accounting criteria for treatment as a sale, as they are subject to the commitment to be repurchased or resold on a future date. As a result, the Bank retains the securities transferred in repurchase agreements as assets in the Balance Sheet, and the securities received under resale agreements are not recorded on the Bank's Balance Sheet.

The interest income and expense under resale and repurchase agreements are included in Investments-Interest and Borrowing expenses - Interest, after swaps on the Statement of Income and Retained Earnings, respectively. There were no open positions as of December 31, 2022 or 2021.

#### Developmental assets - Loans

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. In the case of sovereign-guaranteed (SG) loans 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. Certain SG loans carry highly concessional terms and are only granted to the least developed borrowing members, their agencies or political sub-divisions.

The Bank also makes non-sovereign guaranteed (NSG) loans based on market pricing terms (i) in all economic sectors (subject to an exclusion list), and (ii) to any entity regardless of the degree of private or public sector ownership, as long as the entity does not benefit from a sovereign guarantee for repayments of its obligations and the ultimate beneficiary of the financing is a project in a borrowing member country (eligible entities). In addition, the Bank makes loans to other development institutions without sovereign guarantee.

Loans are carried at amortized cost on the Balance Sheet. Direct loan origination costs for sovereign-guaranteed loans are deferred and amortized using the interest method over the weighted average life of the applicable loan portfolio. Front-end and other fees on corresponding loans are deferred and amortized based on the contractual terms of the loans on a straight-line basis.

Interest on loans is recognized on 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 on nonaccrual status all 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 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. Any uncollected interest accrued on loan placed in nonaccrual status is reversed out of income. Interest 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 considered to be particularly high at the time of arrears clearance, the borrower's loans may not emerge from nonaccrual status.

Cash payments received on loans placed on nonaccrual status are generally recognized first as interest income before they are applied to loan principal in accordance with the requirements in the loan agreements.

#### Developmental assets - Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the limits established for NSG operations, or with a member country sovereign counter-guarantee. As part of its NSG lending activities, the Bank has issued political risk and partial credit guarantees designed to encourage infrastructure investments, local capital market development, and trade-finance. The political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. Political risk guarantees cover specific risk events related to non-commercial factors (such as currency convertibility, transferability of currencies outside the host country,

and government non-performance). Partial credit guarantees cover payment risks for debt obligations. Under the NSG Trade Finance Facilitation Program (TFFP), the Bank also provides full credit guarantees for trade-finance transactions. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee fees, net of reinsurance premiums, are charged and recognized as income over the term of the guarantee.

Guarantees are regarded as outstanding when the Bank issues the guarantee and the borrower incurs the underlying financial obligation. Guarantees are considered called when a guaranteed party demands payment under the guarantee. The outstanding amount represents the maximum potential risk if the payments guaranteed for these entities are not made. The contingent liability for expected credit losses related to guarantees outstanding is included in Other liabilities.

The Bank reduced its SG 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 non-payment) between MDBs for exposures from borrowing countries in which a MDB is concentrated, to countries in which a 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.

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.

The fair value of the guarantee given is recorded at inception as an asset (equivalent to the net present value of the hypothetical guarantee fees to be received) and a liability (the non-contingent portion of the guarantee to stand ready to perform), respectively, included in Other assets - Miscellaneous and Other liabilities, respectively, on the Balance Sheet. The above-mentioned asset and liability are amortized over the term of the guarantee, based on the originally negotiated exposure exchange expected to be outstanding every year. For the guarantees received, an asset, and a corresponding income, is recorded equivalent to the implicit reduction in the allowance for credit losses associated with the exposures transferred, which are included in Other assets - Miscellaneous and Other-income, respectively.



### Developmental assets - Debt securities

The Bank invests in debt securities to further its developmental objectives by providing financial assistance to the development communities, mainly co-financed with IDB Invest. In general, 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 classified as held to maturity are reported at amortized cost on the Balance Sheet. For debt securities where the Bank does not have the intent to hold the securities to maturity, the Bank elects the fair value option.

Interest income on debt securities is recognized on an accrual basis and is reported in Other interest income in the Statement of Income and Retained Earnings. The interest component of the changes in fair value of debt securities that are measured at fair value is recorded in Other interest income in the Statement of Income and Retained Earnings. The remaining changes in fair value of these debt securities are reported in Net Fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings.

The Bank considers a debt security investment to be past due when the scheduled principal or interest payments have not been received on the date they are contractually due, and follows the same nonaccrual policy as NSG loans. Income for nonaccrual debt securities 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.

### Credit Losses on Developmental Assets and Related Off-balance-sheet Exposures

Upon the initial recognition of each developmental asset, including loans and debt securities, the Bank records an allowance for expected credit losses in accordance with its current estimate of the collectability risk over the contractual life of such asset. The expected credit loss estimate incorporates the effects of past events, current conditions and reasonable and supportable (R&S) forecasts of future economic conditions. In addition, a liability is recorded for estimated expected credit losses for certain off-balance-sheet exposures, such as undisbursed loan commitments and financial guarantees, over the contractual period in which the Bank is exposed to credit risk via a present contractual obligation to extend credit.

For purposes of determining the allowance and liability for credit losses, developmental assets and credit exposures are divided into two main portfolios: SG and NSG. The amount necessary to adjust the allowance and liability for credit losses at each reporting date to reflect Management's best estimate is recorded in net income as a credit loss expense or a reversal of a credit loss expense. The Bank elects not to measure an allowance for credit losses for accrued interest receivables, except for SG loans in nonaccrual status (i.e., 180 days past due), as the Bank reverses uncollectible accrued interest in a timely manner following its existing nonaccrual policies.

For both the SG and NSG performing portfolio (i.e., developmental assets that are not in nonaccrual status), the allowance and liability for expected credit losses (for off-balance-sheet credit exposures) is mainly 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 model, 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.

The Bank does not expect recurring material prepayments in its SG portfolio, therefore, 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.

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.

#### *Sovereign-guaranteed portfolio*

The Bank expects that each of its sovereign-guaranteed loans will be repaid, consistent with its historical experience. As a policy, the Bank does not reschedule SG loans and has not written off any SG loans. The Bank monitors the credit quality, nature, and extent of its SG exposure to credit risk by country, and considers loans made to the same sovereign borrower share common risk characteristics.

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 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.

#### *Non-sovereign-guaranteed portfolio*

The NSG portfolio consists of loans and debt security investments, which are classified in three sectors – corporates, financial institutions, and project finance – for credit monitoring and portfolio management purposes. The Bank's internal NSG risk rating system that maps transactions on a one-to-one basis to the S&P foreign currency credit rating with a point in time term structure is developed using S&P models with

certain customizations to reflect the Bank's business. This system relies on a series of sector specific scorecards to determine borrower risk ratings.

For the NSG portfolio, the expected credit losses methodology 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. The macroeconomic variables considered in these scenarios depend on the country of the exposure and generally include the gross domestic product, equity indices, and oil prices. Management currently considers the R&S period to be 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 based on Management's judgment. 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.

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.

Partial or full write-offs of NSG developmental assets are recorded when a loss has been realized through either a legal agreement or final bankruptcy settlement, or when the Bank has determined with a reasonable degree of certainty that the relevant amount will not be collected by reducing the developmental asset balance and related allowance for credit losses. Such reductions in the allowance are partially offset by recoveries, if any, associated with previously written off developmental assets.

### Property

Property is recorded at cost. Major improvements are capitalized while routine replacements, maintenance and repairs are charged to expense. Depreciation is computed on the straight-line method over estimated useful lives (30 to 40 years for buildings, 10 years for building improvements and capitalized software, and 4 to 15 years for equipment).

### Borrowings

To ensure funds are available for its lending and liquidity operations, the Bank borrows in the international capital markets, offering its debt securities to private and public investors. The Bank issues debt securities denominated in various currencies and with various maturities, formats, and structures. The Bank also issues discount notes, accepts deposits for borrowing member central banks and official institutions, and enters into repurchase agreements to manage short-term cash flow needs.

A substantial amount of the Bank's borrowings are carried at fair value on the Balance Sheet. Individual borrowings are elected for fair value reporting on an instrument-by-instrument basis for asset and liability management purposes, and the election is made upon their initial recognition of a borrowing and cannot be revoked once an election is made. The interest component of the changes in fair value of these borrowings is recorded in Borrowing expenses-Interest, after swaps. Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk are reported in the Statement of Comprehensive Income (Loss). These adjustments are determined by comparing each borrowing's fair value adjustments with and without consideration to changes in the Bank's credit spread as of each reporting date. The remaining changes in fair value of these borrowing instruments are reported in Net Fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings.

Certain borrowings are carried at their par value (face value), adjusted for any premiums or discounts (amortized cost basis).

The amortization of premiums and discounts is calculated following the constant yield method, and is included in Interest, after swaps, under Borrowing - Interest expenses in the Statement of Income and Retained Earnings.

Issuance costs of borrowings carried at fair value are charged to expense upon issuance, whereas those of borrowings carried at amortized cost are deferred and amortized following the constant yield method over the life of the respective debt security. The unamortized balance of the borrowing issuance costs is included in Borrowings under Liabilities on the Balance Sheet, and the amounts charged to expense or amortized are included in Other borrowing costs under Borrowing expenses in the Statement of Income and Retained Earnings.

Interest expense on borrowings is recognized on an accrual basis and calculated in a manner that approximates the effective yield method upon issuance of those borrowings. It is reported net of the interest component of borrowing derivatives under Borrowing expenses in the Statement of Income and Retained Earnings.

### Derivatives

As part of its asset and liability management, the Bank uses derivatives, mostly interest rate swaps and foreign currency swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the instruments used in these operations to achieve the intended asset and liability management results.

All derivatives are recognized on the Balance Sheet at their fair value by netting derivative asset and liability positions and the related cash collateral received by counterparty, when a legally enforceable master netting agreement exists, including the related accrued interest. Depending on the nature (receivable or payable) of their net fair value, derivatives are classified as either assets or liabilities. No derivatives are designated as hedging instruments for accounting purposes.

The Bank occasionally issues borrowings that contain embedded derivatives. The hybrid borrowing instruments are carried at fair value under the elected fair value option.

Certain Flexible Financing Facility loans may also contain risk management options that are embedded in the loan contract. 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, and recorded at fair value as Derivative assets, net or Derivative liabilities, net in the 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 the Bank's 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 interest rate swaps on loans is included in Income from loans. The interest component for swaps related to the economic hedging of the Bank's borrowings and equity-funded assets are recorded in Borrowing expenses and Other interest income, respectively. Changes in the fair value of interest rate and foreign currency swaps, 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-Interest, after swaps, Borrowing expenses- Interest, after swaps, Other interest income, and Income from loans- Other loan income, respectively, upon termination of a swap or option.

### Special Programs

Special programs provide financing for reimbursable, non-reimbursable and contingent recovery assistance to borrowing member countries. Reimbursable operations are recorded as Other assets. Non-

reimbursable and contingent recovery operations are recorded as Special programs expense at the time of approval. Cancellations of undisbursed balances of non-reimbursable operations and recuperations of contingent recovery financings are recognized as an offset to Special programs expense in the period in which they occur.

### **Taxes**

The Bank, its property, other assets, income and the operations and transactions it carries out pursuant to the Agreement are immune from all taxation and from all custom duties in its member countries.

### **Pension and Postretirement Benefit Plans**

The funded status of the Bank's benefit plans is recognized on the Balance Sheet. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement date. Overfunded benefit plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as Assets under retirement benefit plans while underfunded benefit plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as Liabilities under retirement benefit plans.

Net actuarial gains and losses and prior service cost not recognized as a component of net periodic benefit cost as they arise, are recognized as a component of Other comprehensive income (loss) in the Statement of Comprehensive Income (Loss). These net actuarial gains and losses and prior service cost are subsequently recognized as a component of net periodic benefit cost pursuant to the recognition and amortization provisions of applicable accounting standards.

The service cost component of the net periodic benefit costs is recorded under Administrative expenses in the Statement of Income and Retained Earnings, whereas other components of the net benefit cost such as interest cost, expected return on plan assets, and amortization of prior service costs/credits are recorded under Other components of net pension benefit costs. Gains/losses previously recognized as a component of Other comprehensive income (loss) remain in Accumulated other comprehensive income (loss).

### **NOTE C - CURRENCIES OF REGIONAL BORROWING MEMBERS**

At December 31, 2022, Cash includes \$107 million (2021 - \$178 million) in currencies of regional borrowing members. These amounts may be used in Ordinary Capital lending operations and for administrative expenses.

### **NOTE D - INVESTMENTS**

As part of its overall portfolio management strategy, the Bank invests in sovereign and sub-sovereign governments, agencies, supranationals, 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 only the equivalent short-term credit ratings.

Net unrealized losses on trading portfolio instruments held at December 31, 2022 of \$73 million (2021 - \$2 million; 2020 - \$7 million) were included in Income from Investments-Net gains (losses).

## NOTE E - DEVELOPMENTAL ASSETS - LOANS AND GUARANTEES

### LOANS

The Bank's loan portfolio includes both SG and NSG loans. Loans outstanding as of December 31, 2022 and 2021 were as follows (in millions):

Developmental Assets	December 31, 2022		December 31, 2021	
Loans outstanding	\$	112,697	\$	108,886
Allowance for credit losses		(763)		(433)
Deferred loan origination fees and costs, net		64		57
Total	\$	111,998	\$	108,510

Income from loans-Interest, after swaps has been reduced by \$21 million (2021 - \$250 million; 2020 - \$128 million) of the net interest component of related interest rate swap transactions.

### Sovereign-guaranteed Loan Portfolio

**Currently available products:** The Flexible Financing Facility or FFF, effective January 1, 2012, is currently the only financial product platform for approval of all sovereign-guaranteed 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 better 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 in order 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 maturities of up to 40 years, and have an interest rate primarily based on SOFR plus a funding margin, as well as the Bank's lending spread. Borrowers also have an option to convert to fixed-base cost rate (plus funding margin), local currencies and other major currencies.

Effective January 1, 2017, the Bank offers concessional lending through a blending of regular and concessional financing. The concessional portion of blended loans have a grace period and maturity of 40 years, and a 0.25% fixed interest rate. The regular financing portion has a maximum 25 years maturity.

### NSG Loan Portfolio

NSG loans can be denominated in United States dollars, Japanese yen, euros, Swiss francs or local currencies, and borrowers have the option of either a fixed, floating or inflation-linked interest rate loan. For floating rate loans, the interest rate resets every one, three, six or twelve months based on a SOFR plus a credit spread. The credit spreads and fees on these loans are set on a case-by-case basis.

Beginning on January 1, 2016 and until December 31, 2022, NSG activities were originated by IDB Invest and largely co-financed by the Bank and IDB Invest. The Bank will no longer approve NSG loans after December 31, 2022. After December 31, 2022, IDB Invest continues to manage and monitor the Bank's legacy NSG portfolio. For co-financed NSG loans, the Bank and IDB Invest maintain separate legal and economic interests in their respective shares of the loan principal balance, interest, and other elements of the lending arrangement. As of December 31, 2022 and 2021, total NSG co-financed outstanding loans amounted to \$2,402 million and \$2,424 million, respectively.

Additionally, the Bank (prior to 2016) and IDB Invest mobilize funds from commercial banks and other financial institutions by entering into loan participation agreements without recourse, while retaining the administration of such loans. From time to time, the Bank may also sell outstanding loans or portions of outstanding loans to other institutions. The Bank's loan participations meet the applicable sale accounting criteria and are not included in the Bank's Balance Sheet. As of December 31, 2022, there were \$657 million (2021 - \$981 million) in outstanding participations in NSG loans.

### Loans to IDB Invest

In 1997, the Bank approved a loan to IDB Invest of \$300 million. Disbursements under this loan have been denominated in United States dollars and local currencies. As of December 31, 2022 and 2021, there was



no outstanding balance in United States dollars. As of December 31, 2022, \$123 million (2021 - \$131 million) was in a multicurrency facility.

### GUARANTEES

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee or with a member country sovereign counter-guarantee.

Until December 31, 2022, under the Bank's NSG Trade Finance Facilitation Program (TFFP), in addition to direct loans, the Bank provided full credit guarantees on short-term trade related transactions with an aggregate program limit of up to \$1,000 million outstanding at any time. After December 31, 2022, the Bank will no longer offer NSG guarantees.

Guarantees are regarded as outstanding when the Bank issues the guarantee, and the borrower incurs the underlying financial obligation. Guarantees are considered 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 1 to 15 years, except for trade related guarantees that have maximum maturities of up to one year. As of December 31, 2022, guarantees of \$1,102 million (2021 - \$681 million) were outstanding and subject to call, and were classified as follows (in millions):

	December 31, 2022				December 31, 2021			
	NSG <sup>(1)</sup>	NSG TFFP <sup>(1)</sup>	SG <sup>(2)</sup>	Total	NSG <sup>(1)</sup>	NSG TFFP <sup>(1)</sup>	SG <sup>(2)</sup>	Total
a+ to a-	\$ 21	\$ -	\$ -	\$ 21	\$ 25	\$ -	\$ -	\$ 25
bbb+ to bbb-	-	-	60	60	-	-	60	60
bb+ to bb-	31	171	-	202	30	104	-	134
b+ to b-	46	144	619	809	43	127	292	462
ccc+ to cc	-	10	-	10	-	-	-	-
Total	\$ 98	\$ 325	\$ 679	\$ 1,102	\$ 98	\$ 231	\$ 352	\$ 681

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

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

As of December 31, 2022, the current carrying amount of the liability for the guarantee obligations totaled \$63 million (2021 - \$31 million) and is reported under Other liabilities in the Balance Sheet.

### Multilateral Development Banks (MDBs) Exposure Exchange Agreement

The Bank has entered into an EEA and executed bilateral EEA transactions (\$4,901 million in 2015 that matures in December 2030; \$1,000 million in 2020 that matures in December 2035; and \$1,500 million in 2022 that matures in December 2037) with certain other MDBs. In accordance with EEA, these transactions remain within 10% of the Bank's SG outstanding loan balance, and the 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 December 31, 2022 and 2021, 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):

Country	EEA Seller			
	As of December 31, 2022		As of December 31, 2021	
	Amount	S&P Rating	Amount	S&P Rating
Angola	\$ 85	B-	\$ 85	CCC+
Armenia	118	B+	118	B+
Bangladesh	673	BB-	251	BB-
Bosnia & Herzegovina	99	B	99	B
Egypt	720	B	720	B
Georgia	97	BB	97	BB
India	525	BBB-	175	BBB-
Indonesia	885	BBB	535	BBB
Jordan	144	B+	144	B+
Macedonia	130	BB-	130	BB-
Montenegro	116	B	116	B
Morocco	990	BB+	990	BB+
Nigeria	95	B-	95	B-
Pakistan	977	CCC+	647	B-
Serbia	195	BB+	195	BB+
Sri Lanka	48	SD	-	CCC+
Tunisia	990	B-	990	B-
Turkey	311	B	311	B+
Vietnam	203	BB+	203	BB
<b>Total</b>	<b>\$ 7,401</b>		<b>\$ 5,901</b>	

Country	EEA Buyer			
	As of December 31, 2022		As of December 31, 2021	
	Amount	S&P Rating	Amount	S&P Rating
Argentina	\$ 903	CCC+	\$ 750	CCC+
Bolivia	92	B	92	B+
Brazil	1,795	BB-	1,395	BB-
Chile	66	A	66	A
Colombia	897	BB+	497	BB+
Costa Rica	43	B	43	B
Dominican Republic	460	BB	460	BB-
Ecuador	1,306	B-	1,066	B-
El Salvador	225	CCC+	225	B-
Mexico	1,207	BBB	900	BBB
Panama	207	BBB	207	BBB
Trinidad and Tobago	200	BBB-	200	BBB-
<b>Total</b>	<b>\$ 7,401</b>		<b>\$ 5,901</b>	

As of December 31, 2022 and 2021, there were no nonaccrual events under the guarantees given or received. The carrying amount under the guarantees given or received amounted to \$539 million as of December 31, 2022 (2021 - \$450 million), and are recorded in Other liabilities and Miscellaneous assets in the Balance Sheet, respectively.

#### NOTE F - DEVELOPMENTAL ASSETS - DEBT SECURITIES

The Bank invests in debt securities to further its developmental objectives, mainly co-financing with IDB Invest. In general, 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. For debt securities where the Bank does not have the intent to hold the securities to maturity, the Bank elects the fair value option.



Debt securities classified as held to maturity were \$517 million and \$345 million as of December 31, 2022 and 2021, respectively. The net carrying amount was summarized below (in millions):

	As of December 31, 2022		As of December 31, 2021	
Securities measured at amortized cost	\$	555	\$	361
Allowance for credit losses		(38)		(16)
Net carrying amount	\$	517	\$	345

The net carrying amount, fair value, and maturity for the debt securities classified as held to maturity were presented as follows (in millions):

Segments	December 31, 2022		
	Net carrying amount	Fair value <sup>(1)</sup>	Maturity (in years)
Corporates	\$ 10	\$ 10	1 year to 5 years
Financial Institutions	4	5	Within 1 year
	401	420	1 year to 5 years
	405	425	
Project Finance	102	102	Over 16 years
Total	\$ 517	\$ 537	

(1) Includes \$9 million of accrued interest and \$28 million of unrecognized holding losses.

Segments	December 31, 2021		
	Net carrying amount	Fair value <sup>(1)</sup>	Maturity (in years)
Corporates	\$ 12	\$ 13	1 year to 5 years
Financial Institutions	248	268	1 year to 5 years
	85	93	6 years to 10 years
	333	361	
Total	\$ 345	\$ 374	

(1) Includes \$3 million of accrued interest and \$10 million of unrecognized holding gains.

The fair value and net carrying amount of the debt securities in the Project Finance segment elected under the fair value option was \$148 million as of December 31, 2022 (2021 - \$74 million for fair value and net carrying amount), and matures after 11 years through 15 years (2021 - after 10 years through 15 years).

## NOTE G - 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 at all times 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 December 31, 2022,

approximately 95% of the outstanding developmental assets are sovereign-guaranteed (2021 - 95%). 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.

The global crisis triggered by the COVID-19 pandemic has directly affected economies related to the Bank's developmental assets. Moreover, the Russian war on Ukraine and inflation increases in the region are additional sources of concern on social and humanitarian implications and its downstream effects on the social and economic development of IDB's borrowing member countries. Accordingly, the Bank considers all available information when calculating the allowance for credit losses.

### *CREDIT QUALITY BY PORTFOLIO*

#### **SG Loans**

When the Bank lends to public sector borrowers, it 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.

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 December 31, 2022 was as follows (in millions):

Country	Credit Rating	Year of origination <sup>(1)</sup>						As of December 31,	
		2022	2021	2020	2019	2018	Prior	2022	2021
Argentina	CCC+	\$ 1,395	\$ 334	\$ 1,674	\$ 642	\$ 1,791	\$ 9,712	\$ 15,548	\$ 14,015
Bahamas	B+	-	165	241	87	29	203	725	707
Barbados	B-	-	119	217	-	67	226	629	639
Belize	B-	-	7	18	16	9	107	157	151
Bolivia	B	-	-	450	200	122	3,240	4,012	3,933
Brazil	BB-	7	231	2,001	404	340	12,202	15,185	15,535
Chile	A	294	614	355	100	22	905	2,290	1,957
Colombia	BB+	500	1,172	1,257	921	794	6,506	11,150	11,146
Costa Rica	B	-	500	256	415	82	1,201	2,454	2,112
Dominican Republic	BB	-	100	502	681	91	2,597	3,971	3,992
Ecuador	B-	650	1,000	717	976	576	3,622	7,541	7,036
El Salvador	CCC+	-	210	290	200	374	1,236	2,310	2,278
Guatemala	BB-	-	-	299	-	89	1,525	1,913	2,002
Guyana	B-	130	59	22	13	11	552	787	643
Haiti	B-	-	-	-	-	-	-	-	-
Honduras	BB-	195	149	249	153	365	1,957	3,068	2,740
Jamaica	B+	100	75	105	9	249	1,154	1,692	1,670
Mexico	BBB	190	700	698	1,274	1,214	11,341	15,417	15,792
Nicaragua	B	2	-	74	-	-	2,240	2,316	2,299
Panama	BBB	150	461	760	313	520	2,153	4,357	4,221
Paraguay	BB	495	29	310	316	392	1,529	3,071	2,436
Peru	BBB	-	1,503	68	165	261	1,161	3,158	2,663
Suriname	SD	206	-	6	2	7	435	656	468
Trinidad and Tobago	BBB-	-	19	111	-	-	602	732	751
Uruguay	BBB	1	484	342	180	263	2,100	3,370	3,023
Venezuela <sup>(2)</sup>	SD	-	-	-	-	-	2,011	2,011	2,011
<b>Total</b>		<b>\$ 4,315</b>	<b>\$ 7,931</b>	<b>\$ 11,022</b>	<b>\$ 7,067</b>	<b>\$ 7,668</b>	<b>\$ 70,517</b>	<b>\$ 108,520</b>	<b>\$ 104,220</b>

(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 December 31, 2022.

### NSG Loans

The Bank does not benefit from sovereign guarantees when lending to NSG borrowers. Risk and expected performance for these loans are evaluated by scoring the individual risk factors separately for the borrower and the transaction through credit risk scorecards developed based on S&P models.

The Bank's NSG portfolio is comprised of three main lending segments for the evaluation of credit risk: (i) corporate loans, (ii) loans to financial institutions, and (iii) project finance loans.

The major credit risk 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 a qualitative and quantitative assessment of financial risks. Extraordinary support from shareholders or from the government may be considered if applicable.

The major credit risk evaluation for loans to financial institutions considers country and industry risks, which act as an anchor for the risk assessment. These risks include regulatory, competition, government support and macro-economic factors. Additionally, the rating scorecard assesses institution-specific factors such as capital adequacy, funding and liquidity, earnings, business position, quality of management, and potential government or shareholder support. 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.

The major factors considered in the scorecards for a project finance loan are mainly grouped into the following categories: political risks, commercial or project risks, and financial risks. 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 the operational risks associated with construction or completion of a project and its economic or financial viability. Financial risks consider the project's exposures to cash flow generation, interest rate, foreign currency volatility and inflation.

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 December 31, 2022, was as follows (in millions):

Internal Credit Risk Classification <sup>(1)</sup>	Year of origination <sup>(2)</sup>							Revolving loans	Revolving loans converted to term loans	As of December 31,	
	2022	2021	2020	2019	2018	Prior	2022			2021	
<b>Corporates</b>											
aa+ to aa-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
a+ to a-	-	-	-	-	-	144	-	-	-	144	280
bbb+ to bbb-	44	-	-	-	-	21	-	-	-	65	42
bb+ to bb-	111	81	434	16	24	12	-	9	-	687	567
b+ to b-	-	-	54	92	44	38	-	-	-	228	259
ccc+ to d	-	-	-	-	18	164	-	-	-	182	215
Subtotal	155	81	488	108	86	379	-	9	-	1,306	1,363
<b>Financial Institutions</b>											
aa+ to aa-	-	-	22	-	-	176	-	-	-	198	187
a+ to a-	18	-	-	-	-	100	-	-	-	118	100
bbb+ to bbb-	10	-	-	2	-	-	-	-	-	12	40
bb+ to bb-	423	127	13	132	103	78	-	-	-	876	874
b+ to b-	163	-	20	22	13	27	-	-	-	245	362
ccc+ to d	25	-	22	10	9	1	-	50	-	117	86
Subtotal	639	127	77	166	125	382	-	50	-	1,566	1,649
<b>Project Finance</b>											
aa+ to aa-	-	-	-	-	-	-	-	-	-	-	-
a+ to a-	-	-	-	-	-	-	-	-	-	-	-
bbb+ to bbb-	-	-	-	-	-	77	-	-	-	77	21
bb+ to bb-	11	20	9	157	71	162	-	-	-	430	483
b+ to b-	-	28	149	7	212	85	-	-	-	481	750
ccc+ to d	-	27	-	20	81	189	-	-	-	317	400
Subtotal	11	75	158	184	364	513	-	-	-	1,305	1,654
<b>Total</b>	<b>\$ 805</b>	<b>\$ 283</b>	<b>\$ 723</b>	<b>\$ 458</b>	<b>\$ 575</b>	<b>\$ 1,274</b>	<b>\$ -</b>	<b>\$ 59</b>	<b>\$ -</b>	<b>\$ 4,177</b>	<b>\$ 4,666</b>

(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 corporates, financial institutions, and project finance, 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 December 31, 2022, and 2021 was as follows (in millions):

Internal Credit Risk Classification <sup>(1)</sup>	Year of origination <sup>(2)</sup>					As of December 31,	
	2022	2021	2020	2019	2018	2022	2021
<b>Corporates</b>							
aa+ to aa-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
a+ to a-	-	-	-	-	-	-	-
bbb+ to bbb-	-	-	-	-	-	-	-
bb+ to bb-	-	10	-	-	-	10	12
b+ to b-	-	-	-	-	-	-	-
ccc+ to d	-	-	-	-	-	-	-
Subtotal	-	10	-	-	-	10	12
<b>Financial Institutions</b>							
aa+ to aa-	-	-	-	-	-	-	-
a+ to a-	-	-	-	-	-	-	-
bbb+ to bbb-	-	-	-	-	-	-	-
bb+ to bb-	71	16	213	68	-	368	314
b+ to b-	-	33	3	15	-	51	26
ccc+ to d	-	-	-	-	4	4	9
Subtotal	71	49	216	83	4	423	349
<b>Project Finance</b>							
aa+ to aa-	-	-	-	-	-	-	-
a+ to a-	-	-	-	-	-	-	-
bbb+ to bbb-	-	-	-	-	-	-	-
bb+ to bb-	122	-	-	-	-	122	-
b+ to b-	-	-	-	-	-	-	-
ccc+ to d	-	-	-	-	-	-	-
Subtotal	122	-	-	-	-	122	-
<b>Total</b>	<b>\$ 193</b>	<b>\$ 59</b>	<b>\$ 216</b>	<b>\$ 83</b>	<b>\$ 4</b>	<b>\$ 555</b>	<b>\$ 361</b>

- (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 December 31, 2022.

### PAST DUE, NONACCRUAL AND INDIVIDUALLY ASSESSED LOANS

#### SG Loans

As of December 31, 2022, sovereign-guaranteed loans made to or guaranteed by Venezuela have been in arrears for over 180 days, for an aggregate principal amount of \$2,011 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.

As a result of the assessment, an allowance for individually assessed loans of \$396 million as of December 31, 2022 (2021 - \$77 million), is included in the allowance for credit losses. This represents the estimated

loss from the expected delay in debt service 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, such as the length of the arrears period, accordingly. A summary of financial information related to nonaccrual loans to Venezuela affecting the results of operations for the years ended December 31, 2022 and 2021 was as follows (in millions):

	2022	2021
Loans in nonaccrual status as of the beginning of the period	\$ 2,011	\$ 2,011
Loans in nonaccrual status as of the end of the period	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 <sup>(1)</sup>	-	-

- (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 over 180 days or more past due or in nonaccrual status as of December 31, 2022 and 2021.

The aging analysis of loans in the SG portfolio as of December 31, 2022 was as follows (in millions):

	Not greater than 90 days	91 - 180 days	Greater than 180 days	Total past due	Current	Total
Argentina	\$ -	\$ -	\$ -	\$ -	\$ 15,548	\$ 15,548
Bahamas	-	-	-	-	725	725
Barbados	-	-	-	-	629	629
Belize	-	-	-	-	157	157
Bolivia	-	-	-	-	4,012	4,012
Brazil	-	-	-	-	15,185	15,185
Chile	-	-	-	-	2,290	2,290
Colombia	-	-	-	-	11,150	11,150
Costa Rica	-	-	-	-	2,454	2,454
Dominican Republic	-	-	-	-	3,971	3,971
Ecuador	-	-	-	-	7,541	7,541
El Salvador	-	-	-	-	2,310	2,310
Guatemala	-	-	-	-	1,913	1,913
Guyana	-	-	-	-	787	787
Haiti	-	-	-	-	-	-
Honduras	-	-	-	-	3,068	3,068
Jamaica	-	-	-	-	1,692	1,692
Mexico	-	-	-	-	15,417	15,417
Nicaragua	-	-	-	-	2,316	2,316
Panama	-	-	-	-	4,357	4,357
Paraguay	-	-	-	-	3,071	3,071
Peru	-	-	-	-	3,158	3,158
Suriname	-	-	-	-	656	656
Trinidad and Tobago	-	-	-	-	732	732
Uruguay	-	-	-	-	3,370	3,370
Venezuela	79	4	878	961	1,050 <sup>(1)</sup>	2,011
<b>Total</b>	<b>\$ 79</b>	<b>\$ 4</b>	<b>\$ 878</b>	<b>\$ 961</b>	<b>\$ 107,559</b>	<b>\$ 108,520</b>

(1) Represents the principal amount not yet contractually due as of December 31, 2022. Contractual interest is greater than 180 days past due on all \$2,011 million of loans presented.

### NSG Loans

As of December 31, 2022, NSG loans 90 or more days past due amounted to \$90 million (\$84 million at December 31, 2021). NSG loans with outstanding balances of \$163 million as of December 31, 2022 were in nonaccrual status (\$339 million at December 31, 2021), including \$38 million whose maturity was accelerated (December 31, 2021 - \$32 million). These loans were individually assessed to estimate expected credit losses and have a total allowance for credit losses of \$109 million as of December 31, 2022 (2021 - \$160 million; 2020 - \$180 million).

During the year ended December 31, 2022, the Bank sold for \$104 million an individually assessed NSG loan amounting to \$90 million, net of reserves. The outstanding amount of the loan was \$149 million and the entire amount was derecognized from the NSG outstanding loan balance.

The aging analysis of loans in the NSG portfolio as of December 31, 2022 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
Corporates	\$ -	\$ -	\$ -	\$ 7	\$ 7	\$ 1,299	\$ 1,306
Financial Institutions	-	-	-	78	78	1,488	1,566
Project Finance	-	-	-	5	5	1,300	1,305
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 90</b>	<b>\$ 90</b>	<b>\$ 4,087</b>	<b>\$ 4,177</b>

A summary of financial information related to NSG loans in nonaccrual status affecting the results of operations for the years ended December 31, 2022 and 2021 was as follows (in millions):

	2022	2021
<b>Loans in nonaccrual status as of the beginning of the period</b>		
Corporates	\$ 7	\$ 25
Financial Institutions	69	51
Project Finance	263	452
<b>Total</b>	<b>339</b>	<b>528</b>
<b>Loans in nonaccrual status as of the end of the period</b>		
Corporates	7	7
Financial Institutions	78	69
Project Finance	78	263
<b>Total</b>	<b>163</b>	<b>339</b>
<b>Interest income recognized on cash basis for loans in nonaccrual status</b>		
Corporates	-	-
Financial Institutions	2	-
Project Finance	3	11
<b>Total</b>	<b>5</b>	<b>11</b>
<b>Loans past due for more than 90 days not in nonaccrual status</b>		
Corporates	-	-
Financial Institutions	-	-
Project Finance	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

### Debt securities

There were no debt securities past due or in nonaccrual status as of December 31, 2022 and 2021.



**ALLOWANCE FOR DEVELOPMENTAL ASSETS CREDIT LOSSES****SG Loans and Guarantees**

The changes in the allowance for expected credit losses related to the SG loan and guarantee portfolio for the years ended December 31, 2022 and 2021 were as follows (in millions):

<b>Collective allowance for loans outstanding</b>	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	10	\$	8
Provision for expected credit losses		39		2
Write-offs		-		-
Recoveries		-		-
Balance, end of year	\$	49	\$	10

<b>Collective allowance for loan commitments and guarantees</b>	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	3	\$	1
Provision for expected credit losses		8		2
Write-offs		-		-
Recoveries		-		-
Balance, end of year	\$	11	\$	3

<b>Individually assessed loans</b>	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	77	\$	53
Provision for expected credit losses		319		24
Write-offs		-		-
Recoveries		-		-
Balance, end of year	\$	396	\$	77

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

<b>SG loans</b>	<b>2022</b>		<b>2021</b>	
Accrued interest receivable on SG loans outstanding <sup>(1)</sup> as of	\$	1,004	\$	466
Accrued interest receivable reversed, for the periods ended		-		-

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

### NSG Loans and Guarantees

The changes in the allowance for expected credit losses related to NSG loan and guarantee portfolio for the years ended December 31, 2022 and 2021 were as follows (in millions):

<b>Collective allowance for loans outstanding</b>	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	186	\$	245
Provision (Credit) for expected credit losses		23		(59)
Write-offs		-		-
Recoveries		-		-
Balance, end of year	\$	209	\$	186

<b>Collective allowance for loan commitments and guarantees</b>	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	35	\$	62
Provision (Credit) for expected credit losses		16		(27)
Write-offs		-		-
Recoveries		-		-
Balance, end of year <sup>(1)</sup>	\$	51	\$	35

<b>Individually assessed loans</b>	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	160	\$	180
Credit for expected credit losses		(1)		(19)
Write-offs		(50)		(1)
Recoveries		-		-
Balance, end of year	\$	109	\$	160

(1) Includes the allowance for guarantees of \$8 million for the year ended December 31, 2022 (2021 - \$6 million).

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

<b>NSG loans</b>	<b>2022</b>		<b>2021</b>	
Accrued interest receivable on NSG loans outstanding <sup>(1)</sup> as of	\$	36	\$	16
Accrued interest receivable reversed <sup>(2)</sup> for the periods ended		-		-

(1) No allowance for expected credit losses was 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 year ended December 31, 2022, and 2021 was as follows (in millions):

	<b>2022</b>		<b>2021</b>	
Balance, beginning of year	\$	16	\$	18
Provision (Credit) for expected credit losses		22		(2)
Write-offs		-		-
Recoveries		-		-
Balance, end of year	\$	38	\$	16

Accrued interest receivable on debt securities outstanding amounted to \$9 million as of December 31, 2022 (2021 - \$3 million). No accrued interest receivable was reversed or written-off in any of the reporting periods.

### Troubled debt restructurings

The Bank does not renegotiate nor reschedule its sovereign-guaranteed loans. 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 whose terms have been modified in a troubled debt restructuring.

During 2022 and 2021, there were no troubled debt restructurings of NSG loans, and there were no significant payment defaults on loans previously modified in a troubled debt restructuring.

### NOTE H - 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 MOV obligations, and other MOV obligations.

The composition of the net receivable from members as of December 31, 2022 and 2021, is as follows (in millions):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Regional developing members	\$ 702	\$ 703
Canada	52	43
Non-regional members, net	66	57
Total receivable from members	\$ 820	\$ 803

In 2009, the Bank reached an agreement with one of its borrowing member countries regarding the member's MOV obligation outstanding with the Ordinary Capital in the amount of \$252 million. The Bank and the member country agreed on a payment schedule starting in 2010. As of December 31, 2022 and 2021 the amount outstanding was \$217 million.

### NOTE I - PROPERTY

At December 31, 2022 and 2021, Property, net consists of the following (in millions):

	<u>2022</u>	<u>2021</u>
Land, buildings, improvements, capitalized software and equipment at cost	\$ 1,070	\$ 1,016
Less: accumulated depreciation	(622)	(571)
Total	\$ 448	\$ 445

### NOTE J - BORROWINGS

Medium- and long-term borrowings at December 31, 2022 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0% to 16.69%, before swaps, and from 2.26% (equivalent to 1 day SOFR plus 40.8 basis points) to 12.79% (equivalent to the BRL CDI Spread minus 1 basis points), after swaps, with various maturity dates through 2061.

The Bank also has a short-term borrowing program including the Discount Note Program and the Deposits Program for borrowing member central banks and official institutions. Discount notes are issued in amounts of no less than \$100,000 and maturities of no more than 360 days. Deposits are denominated only in U.S. dollars with maturities up to 30 days, and are available only to borrowing member Central Banks and Official Institutions. At December 31, 2022, the weighted average rate of short-term borrowings was 4.14% (2021 - 0.08%).

Borrowing expenses have been reduced by the net interest component of related interest rate and foreign currency swap transactions amounting to \$339 million during 2022 (2021 - \$1,371 million; 2020 - \$943 million).

As of December 31, 2022 and 2021, the maturity structure of medium- and long-term borrowings outstanding by year of maturity is as follows (in millions):

2022		2021	
2023	\$ 18,199	2022	\$ 18,755
2024	17,950	2023	18,631
2025	18,477	2024	16,169
2026	15,429	2025	18,437
2027	13,013	2026	14,172
2028 to 2032	23,114	2027 to 2031	23,712
2033 to 2037	244	2032 to 2036	392
2038 to 2042	1,000	2037 to 2041	501
2043 to 2047	500	2042 to 2046	1,000
2048 to 2061	184	2047 to 2061	166
<b>Total</b>	<b>\$ 108,110</b>	<b>Total</b>	<b>\$ 111,935</b>

## NOTE K - FAIR VALUE OPTION

The Bank has elected the fair value option under GAAP for most of its medium- and long-term borrowings to mitigate the income volatility resulting from recording interest rate swaps used for economic hedging at fair value, while otherwise recognizing remaining borrowings at amortized cost. From time to time, the Bank may elect the fair value option for Developmental assets - debt securities, which the Bank does not intend to hold to maturity. Individual borrowings and debt securities are elected for fair value reporting on an instrument-by-instrument basis and the election is made upon their initial recognition and may not be revoked once an election is made. The Bank takes into consideration all its non-trading financial instruments (i.e., borrowings, developmental assets, and derivatives) in determining its fair value option elections to mitigate income volatility.

The changes in fair value for borrowings and developmental assets elected under the fair value option have been recorded in the Statement of Income and Retained Earnings for the years ended December 31, 2022, 2021, and 2020 as follows (in millions):

Statements of Income and Retained Earnings location:	2022	2021	2020
Borrowing expenses, after swaps	\$ (1,364)	\$ (1,473)	\$ (1,557)
Other interest income	5	-	-
Net fair value adjustments on non-trading portfolios and foreign currency transactions	8,055	3,771	(2,631)
<b>Total changes in fair value included in Net income</b>	<b>\$ 6,696</b>	<b>\$ 2,298</b>	<b>\$ (4,188)</b>

Net fair value adjustments on borrowings attributable to changes in instrument-specific credit risk are reported in the Statement of Comprehensive Income (Loss). These adjustments are determined by comparing each borrowing's fair value adjustments with and without consideration to changes in the Bank's credit spread as of each reporting date. The amount of the change of fair value that is attributable to changes in instrument-specific credit risk for the year ended December 31, 2022 and cumulatively, amounted to a gain of \$333 million and a loss of \$51 million, respectively (2021 - loss of \$160 million and \$384 million, respectively).

The changes in fair value of borrowings attributable to changes in instrument-specific credit risk reclassified from Other comprehensive income (loss) to Net fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings amounted to a loss of \$10 million for the year ended December 31, 2022 (2021 - loss of \$ 3 million; 2020 - gain of \$3 million).

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of December 31, 2022 and 2021, was as follows (in millions):

	2022		2021
Fair value	\$ 78,870	(1)	\$ 84,034
Unpaid principal outstanding	84,190		82,830
Fair value over unpaid principal outstanding	\$ (5,320)		\$ 1,204

(1) Includes accrued interest of \$511 million and \$478 million in 2022 and 2021, respectively.

For Developmental assets - debt securities elected under the fair value option, the difference between the fair value amount and the unpaid principal outstanding measured at fair value as of December 31, 2022 and 2021, was as follows (in millions):

	2022		2021
Fair value	\$ 148	(1)	\$ 74
Unpaid principal outstanding	142		74
Fair value over unpaid principal outstanding	\$ 6		\$ -

(1) Includes accrued interest of \$2 million at December 31, 2022 (2021- none).

## NOTE L - DERIVATIVES

### Risk Management Strategy and Use of Derivatives

The Bank's financial risk management strategy consists primarily of designing, implementing, and monitoring the Bank's interrelated set of financial policies and guidelines. To optimize its funding and lending activities, in fulfillment of its development mandate, the Bank utilizes financial instruments that are sensitive to market movements, primarily changes in interest and exchange rates. The Bank controls these risks through its integrated asset and liability management framework by which it defines the currency composition, maturity profile, and interest rate sensitivity of the portfolio of assets and liabilities.

The Bank uses derivatives for the following purposes: First, to economically hedge the interest rate and currency exposure in its investment and borrowings portfolio. Second, the Bank mitigates the interest rate risk in its fixed-rate, fixed-base cost rate and local currency loans by economically hedging the interest rate exposure, primarily through use of interest rate swaps. 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. Finally, the Bank

utilizes derivatives to manage the repricing and maturity profile of its equity-funded assets in accordance with the Board-approved Asset Liability Management Policy.

The derivative instruments are used primarily for economic hedging purposes and are not designated as hedging instruments for accounting purposes.

### Financial Statements Presentation

All derivative instruments are reported at fair value. 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 net basis. The gross and net information about the Bank's derivatives subject to the Agreements as of December 31, 2022 and 2021 are presented in the table below. The Bank's derivative instruments and their related gains and losses are presented in the Balance Sheet, the Statement of Income and Retained Earnings, the Statement of Comprehensive Income (Loss), and the Statement of Cash Flows, as follows (in millions):

### Balance Sheet

<b>Derivatives not Designated as Hedging Instruments</b>		<b>Balance Sheet Location</b>	<b>Assets</b>	
			<b>2022</b>	2021
Gross amount				
Currency swaps	Derivative assets, net	\$	3,010	\$ 2,232
Interest swaps	Derivative assets, net		3,308	1,754
Options	Derivative assets, net		49	89
Net Amounts Offset in the Balance Sheet				
Financial Instruments			(6,032)	(2,639)
Cash collateral received			(187)	(457)
Net derivatives amounts presented in the Balance Sheet			148	979
Securities collateral received			(154)	(763)
Net derivative exposure			\$ (6)	\$ 216
<hr/>				
<b>Derivatives not Designated as Hedging Instruments</b>		<b>Balance Sheet Location</b>	<b>Liabilities</b>	
			<b>2022</b>	2021
Gross amount				
Currency swaps	Derivative liabilities, net	\$	(4,567)	\$ (1,722)
Interest swaps	Derivative liabilities, net		(6,342)	(1,207)
Futures	Derivative liabilities, net		(1)	-
Options	Derivative liabilities, net		(49)	(89)
Net Amounts Offset in the Balance Sheet				
Financial Instruments			6,032	2,639
Cash collateral pledged			-	-
Net derivatives amounts presented in the Balance Sheet			(4,927)	(379)
Securities collateral pledged			-	-
Net derivative exposure <sup>(1)</sup>			\$ (4,927)	\$ (379)

(1) Represents the aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position.

### Statement of Income and Retained Earnings and Statement of Comprehensive Income (Loss)

Derivatives not Designated as Hedging Instruments	Location of Gain or (Loss) from Derivatives	Years ended December 31,		
		2022	2021	2020
<b>Currency swaps</b>				
	Income from Investments:			
	Interest	\$ 107	\$ (65)	\$ 12
	Net gains (losses)	164	137	32
	Income from Loans-Interest, after swaps	17	(82)	10
	Borrowing expenses-Interest, after swaps	(93)	495	364
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(1,289)	(260)	384
<b>Interest rate swaps</b>				
	Income from Investments:			
	Interest	31	(228)	(194)
	Net gains (losses)	794	333	(220)
	Income from Loans-Interest, after swaps	4	(168)	(138)
	Borrowing expenses-Interest, after swaps	(246)	876	579
	Other interest income	(13)	26	(5)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(3,786)	(1,524)	1,408
<b>Futures</b>	Income from Investments	10	1	(7)
		\$ (4,300)	\$ (459)	\$ 2,225

(1) During 2022, there were no realized gains (losses) related to the unwinding of certain interest rate swaps used to hedge variable rate loans funded through fixed rate debt and/or equity (2021- realized gains of \$30 million; 2020- none).

### Statement of Cash Flows

Location of inflows (outflows) from Derivatives	Years ended December 31,		
	2022	2021	2020
<b>Cash flows from lending and investing activities:</b>			
Miscellaneous assets and liabilities, net	\$ 49	\$ (104)	\$ 186
<b>Cash flows from operating activities:</b>			
Loan income collections, after swaps	(89)	(221)	88
<b>Cash flows from financing activities:</b>			
Medium-and-long term borrowings			
Proceeds from issuance	39	4	(31)
Repayments	(580)	(83)	(424)
<b>Cash flows from operating activities:</b>			
Interest and other cost of borrowings, after swaps	692	1,366	(112)
<b>Cash flows from operating activities:</b>			
Gross purchase of trading investments	(118)	178	(63)
Gross proceeds from sale or maturity of trading investments	1,221	(334)	154
Income from investments	(187)	718	69
<b>Cash flows from operating activities:</b>			
Other interest income	55	26	9
	\$ 1,082	\$ 1,552	\$ (124)

The following tables provide information on the contract value/notional amounts of derivative instruments as of December 31, 2022 and 2021 (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. Futures and options are shown at the notional amounts of the underlying contracts.

Derivative type/Rate type	December 31, 2022		
	Currency and interest rate swaps		Futures & Options
	Receivable	Payable	Underlying contract
Currency and interest rate swaps			
Fixed	\$ 112,312	\$ 52,040	\$ -
Floating index rate	70,760	131,828	-
Futures	-	-	78
Options <sup>(1)</sup>	-	-	141

(1) Represents 1,640,000 barrels of crude oil measured at spot price.

Derivative type/Rate type	December 31, 2021		
	Currency and interest rate swaps		Futures & Options
	Receivable	Payable	Underlying contract
Currency and interest rate swaps			
Fixed	\$ 95,674	\$ 50,560	\$ -
Floating index rate	72,268	117,170	-
Futures	-	-	(29)
Options <sup>(1)</sup>	-	-	293

(1) Represents 3,765,000 barrels of crude oil measured at spot price.

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. 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. If the Bank was downgraded one notch from the current AAA credit rating, it would be required to post collateral in the amount of \$4,063 million at December 31, 2022 (2021 - \$48 million).

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. In certain cases, the Bank may use, invest, commingle, or re-hypothecate as its own property such collateral subject to only 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 Statement of Cash Flows as this collateral primarily relates to interest rate and foreign currency swaps on borrowings.

#### NOTE M – 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, all currency and interest rate swaps and a debt security related to developmental investments under the fair value option 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 investments 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 December 31, 2022 and 2021 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. As of December 31, 2022, the investment portfolio includes \$5 million of securities classified as Level 3 (\$5 million as of December 31, 2021). Except for fair value adjustments, there was no other activity associated with Level 3 financial assets and financial liabilities for the period ended December 31, 2022 and 2021. Also, there were no transfers between levels during 2022 or 2021, for securities held at the end of those reporting periods.

#### Financial assets:

Assets	Fair Value Measurements			
	December 31, 2022 <sup>(1)</sup>	Level 1	Level 2	Level 3
Investments - Trading:				
Obligations of the U.S. Government	\$ 1,025	\$ 1,025	\$ -	\$ -
U.S. Government-sponsored enterprises	512	-	512	-
Obligations of non-U.S. governments	5,316	1,141	4,175	-
Obligations of non-U.S. agencies	10,683	-	10,683	-
Obligations of non-U.S. sub-sovereigns	1,853	-	1,853	-
Obligations of supranationals	2,700	-	2,700	-
Bank obligations <sup>(2)</sup>	8,441	-	8,441	-
Corporate securities	968	-	968	-
Mortgage-backed securities	2	-	2	-
Asset-backed securities	7	-	2	5
Total Investments - Trading	31,507	2,166	29,336	5
Currency and interest rate swaps <sup>(3)</sup>	286	-	286	-
Options	49	-	49	-
Developmental assets - debt securities	148	-	148	-
Total	\$ 31,990	\$ 2,166	\$ 29,819	\$ 5

(1) Represents the fair value of the referred assets, including their accrued interest.

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

(3) Excludes \$187 million of cash collateral received that was netted in Derivative assets, net in the Balance Sheet.

Assets	Fair Value Measurements			
	December 31, 2021 <sup>(1)</sup>	Level 1	Level 2	Level 3
Investments - Trading:				
Obligations of the U.S. Government	\$ 2,055	\$ 2,055	\$ -	\$ -
U.S. Government-sponsored enterprises	240	-	240	-
Obligations of non-U.S. governments	8,483	1,394	7,089	-
Obligations of non-U.S. agencies	12,624	-	12,624	-
Obligations of non-U.S. sub-sovereigns	3,490	-	3,490	-
Obligations of supranationals	1,973	-	1,973	-
Bank obligations <sup>(2)</sup>	8,975	-	8,975	-
Corporate securities	702	-	702	-
Mortgage-backed securities	2	-	2	-
Asset-backed securities	8	-	3	5
Total Investments - Trading	38,552	3,449	35,098	5
Currency and interest rate swaps <sup>(3)</sup>	1,347	-	1,347	-
Options	89	-	89	-
Developmental assets- debt securities	74	-	74	-
Total	\$ 40,062	\$ 3,449	\$ 36,608	\$ 5

(1) Represents the fair value of the referred assets, including their accrued interest.

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

(3) Excludes \$457 million of cash collateral received that was netted in Derivative assets, net in the Balance Sheet.

#### Financial liabilities:

Liabilities	Fair Value Measurements			
	December 31, 2022 <sup>(1)</sup>	Level 1	Level 2	Level 3
Borrowings measured at fair value	\$ 78,870	\$ -	\$ 78,870	\$ -
Currency and interest rate swaps	4,877	-	4,877	-
Futures	1	1	-	-
Options	49	-	49	-
Total	\$ 83,797	\$ 1	\$ 83,796	\$ -

(1) Represents the fair value of the referred liabilities, including their accrued interest.

Liabilities	Fair Value Measurements			
	December 31, 2021 <sup>(1)</sup>	Level 1	Level 2	Level 3
Borrowings measured at fair value	\$ 84,034	\$ -	\$ 84,034	\$ -
Currency and interest rate swaps	290	-	290	-
Options	89	-	89	-
Total	\$ 84,413	\$ -	\$ 84,413	\$ -

(1) Represents the fair value of the referred liabilities, including their accrued interest.

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

## NOTE N – 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 M – Fair Value Measurements:

### **Cash:**

The carrying amount reported in the 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 December 31, 2022 and 2021 (in millions):

	2022 <sup>(1)</sup>		2021 <sup>(1)</sup>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 1,205	\$ 1,205	\$ 1,490	\$ 1,490
Investments - Trading <sup>(2)</sup>	31,507	31,507	38,552	38,552
Developmental Assets				
Loans outstanding, net <sup>(3), (5)</sup>	113,066	108,456	109,019	111,363
Debt securities				
Measured at fair value	148	148	74	74
Measured at amortized cost, net <sup>(3), (5)</sup>	526	537	345	374
Derivative assets, net	148	148	979	979
Other assets				
Miscellaneous <sup>(4), (5)</sup>	602	487	481	398
Borrowings				
Short-term	1,021	1,021	1,096	1,096
Medium- and long-term:				
Measured at fair value	78,870	78,870	84,034	84,034
Measured at amortized cost <sup>(5)</sup>	23,988	23,267	29,115	30,212
Derivative liabilities, net	4,927	4,927	379	379
Liabilities				
Other liabilities <sup>(4), (5)</sup>	602	487	481	398

(1) Includes accrued interest.

(2) Includes money market securities that were valued based on the nominal value, which approximates fair value.

(3) Includes Accrued interest and other charges.

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

(5) Fair value of Loans, 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. Debt securities and fair value of Borrowings at amortized cost are classified within Level 2 of the fair value hierarchy.

## NOTE O - 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 derivative counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. 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, supnationals, banks and corporate entities, including asset-backed and mortgage-backed securities, as further discussed in Note D - Investments. In addition, the Bank limits its capital market activities to authorized counterparties, issuers and dealers selected on the basis of the Bank's risk management policies, and establishes exposure and term limits for those counterparties, issuers and dealers based on their size and creditworthiness.

As part of its regular investment, lending, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for economic hedging purposes. The Bank has established exposure limits for each derivative counterparty and has entered into master derivative agreements that contain enforceable close-out netting provisions. These master agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. The Bank does not expect nonperformance by any of its derivative

counterparties. As of December 31, 2022, the Bank had received eligible collateral (U.S. Treasuries and cash) of \$341 million (2021 - \$1,220 million), as required under its master derivative agreements.

The derivative current credit exposures represent the maximum potential loss, based on the gross fair value of the financial instruments, shown in Note L - Derivatives, without consideration of close-out netting provisions on master derivative agreements, the Bank would incur if the parties to the derivative financial instruments failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value. As of December 31, 2022, such credit exposures, prior to consideration of any master derivative agreements or posted collateral, were \$6,367 million (2021 - \$4,074 million).

#### NOTE P - BOARD OF GOVERNORS APPROVED TRANSFERS

The 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 are subject to the requirements of the Agreement and other applicable financial policies. Additionally, the transfers are only considered if necessary to maintain the GRF's fund balance at \$300 million as of January 1 of each year.

In March 2022, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$172 million (2021 - \$92 million).

#### NOTE Q - UNDISBURSED SPECIAL PROGRAMS

The following is a summary of changes in Undisbursed special programs for the years ended December 31, 2022 and 2021 (in millions):

	2022	2021
Undisbursed special programs as of January 1,	\$ 225	\$ 226
Special programs approved	116	106
Cancellations	(7)	(12)
Special programs, net	109	94
Disbursements	(108)	(95)
Undisbursed special programs as of December 31,	\$ 226	\$ 225

#### NOTE R - CAPITAL STOCK AND VOTING POWER

##### Capital stock

There were no changes in subscribed capital during the years ended December 31, 2022, 2021 and 2020.

##### Voting power

Under the Agreement, each member country shall have 135 votes plus one vote for each voting share of the Bank held by that country. The Agreement also provides that no increase in the capital stock subscription of any member shall have the effect of reducing the voting power of the regional developing members below 50.005%, of the United States below 30%, and of Canada below 4% of the total voting power, leaving the remaining voting power available for non-regional members at a maximum of 15.995%, including approximately 5% for Japan.

**NOTE S - RETAINED EARNINGS**

The composition of Retained earnings as of December 31, 2022 and 2021 is as follows (in millions):

	<b>2022</b>	2021
General reserve	<b>\$ 22,805</b>	\$ 21,513
Special reserve	<b>2,665</b>	2,665
Total	<b>\$ 25,470</b>	\$ 24,178

**NOTE T - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Currently, Other comprehensive income (loss) in the Statement of Comprehensive Income (Loss) is comprised of the effects of the pension and postretirement benefits accounting requirements and changes in instrument specific credit risk for financial liabilities measured under the fair value option. The

following is a summary of changes in Accumulated other comprehensive income (loss) (AOCI) for the years ended December 31, 2022, 2021 and 2020 (in millions):

	Translation Adjustments				Total
	Allocation		Pension Adjustments	Instrument Specific Credit Risk	
	General Reserve	Special Reserve			
Balance at January 1, 2020	\$ 1,011	\$ (100)	\$ (901)	\$ 45	\$ 55
Recognition of changes in assets/liabilities under retirement benefit plans:					
Prior service cost	-	-	-	-	-
Net actuarial losses	-	-	(497)	-	(497)
Reclassification to income-amortization of:					
Prior service cost	-	-	1	-	1
Prior service credit	-	-	(11)	-	(11)
Net actuarial losses	-	-	100	-	100
Cumulative catch-up reclassification to AOCI upon adoption	-	-	-	-	-
Changes in fair value of borrowings attributable to changes in instrument specific credit risk	-	-	-	(269)	(269)
Balance at December 31, 2020	1,011	(100)	(1,308)	(224)	(621)
Recognition of changes in assets/liabilities under retirement benefit plans:					
Prior service cost	-	-	-	-	-
Net actuarial gains	-	-	514	-	514
Reclassification to income-amortization of:					
Prior service cost	-	-	1	-	1
Prior service credit	-	-	(11)	-	(11)
Net actuarial losses	-	-	134	-	134
Changes in fair value of borrowings attributable to changes in instrument specific credit risk	-	-	-	(160)	(160)
Balance at December 31, 2021	1,011	(100)	(670)	(384)	(143)
Recognition of changes in assets/liabilities under retirement benefit plans:					
Prior service cost	-	-	-	-	-
Net actuarial gains	-	-	1,101	-	1,101
Reclassification to income <sup>(1)</sup> -amortization of:					
Prior service cost	-	-	1	-	1
Prior service credit	-	-	(11)	-	(11)
Net actuarial losses	-	-	88	-	88
Changes in fair value of borrowings attributable to changes in instrument specific credit risk	-	-	-	333	333
Balance at December 31, 2022	\$ 1,011	\$ (100)	\$ 509	\$ (51)	\$ 1,369

(1) Included in Other components of net pension benefit cost (credit).

The service cost component of the net periodic benefit costs is reported under Administrative expenses in the Statement of Income and Retained Earnings. Refer to Note V - Pension and Postretirement Benefit Plans for additional information.



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

Net fair value adjustments on non-trading portfolios and foreign currency transaction gains and losses for the years ended December 31, 2022, 2021 and 2020 comprise the following (in millions):

	Years ended December 31,		
	2022	2021	2020
Fair value adjustments gains (losses):			
Borrowings	\$ 6,137	\$ 3,045	\$ (1,618)
Derivatives:			
Interest rate and foreign currency swaps on borrowings	(6,569)	(3,297)	1,961
Interest rate and foreign currency swaps on loans funded through borrowings	1,781	585	(204)
Interest rate swaps on loans funded through equity	(52)	88	26
Fair value adjustments gains (losses)	\$ 1,297	\$ 421	\$ 165
Foreign currency transaction gains (losses):			
Borrowings	\$ 1,915	\$ 772	\$ (979)
Derivatives:			
Interest rate and foreign currency swaps on borrowings	(1,891)	(620)	1,146
Interest rate and foreign currency swaps on loans funded through borrowings	803	870	(456)
Loans	(813)	(973)	343
Other	(32)	(68)	1
Foreign currency transaction gains (losses)	(18)	(19)	55
Total	\$ 1,279	\$ 402	\$ 220

As the change in value of borrowings and interest rate and foreign currency swaps on borrowings largely offset, the net fair value adjustments gains (losses) of \$1,279 million (2021 - \$402 million; 2020 - \$220 million) are largely driven by the changes in the fair value of interest rate and foreign currency swaps on loans due to an increase in USD interest rates. Swaps on loans are not offset in earnings by changes in fair value of the loans, which are carried at amortized cost. Unrealized gains or losses in the net fair value adjustments on non-trading portfolios gradually tend to zero as the related financial instruments maturity approaches and their fair values converge with their costs.

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.

## NOTE V - PENSION AND POSTRETIREMENT BENEFIT PLANS

The Bank has three defined benefit retirement plans (Plans) for providing pension benefits to employees of the Bank and IDB Invest: the Staff Retirement Plan (SRP) and the Complementary Staff Retirement Plan (CSR) for international employees of the Bank and IDB Invest (the CSR is reported as part of the SRP), and the Local Retirement Plan (LRP) for national employees of the Bank in the country offices. The Plans are funded by employee, Bank (for SRP, LRP and CSR) and IDB Invest (for SRP and CSR) contributions in accordance with the provisions of the Plans' Documents. All Bank and IDB Invest contributions to the Plans are irrevocable and are held in custody and administered separately and apart from the Bank assets, in retirement funds solely for the payment of benefits under the Plans.

The Bank also provides health care, tax reimbursement, and certain other benefits to retired staff. Employees who retire, receive a monthly pension from the Bank or IDB Invest, and meet certain requirements, are eligible for postretirement benefits. Retirees contribute toward the Bank's health care

program based on an established premium schedule. The Bank and IDB Invest contribute the remainder of the actuarially determined cost of future postretirement benefits under the Postretirement Benefits Plan (PRBP). The Bank also provides retiree life insurance program (RLIP) benefits to retired staff and eligible staff-related beneficiaries. The RLIP is reported as part of the PRBP. While all contributions and other assets and income of the RLIP and the PRBP remain the property of the Bank, they are held in custody and administered separately and apart from the other property and assets of the Bank and IDB Invest solely for the purpose of payment of benefits under the RLIP and the PRBP (i.e., they may not be used for any other purposes).

Since both the Bank and IDB Invest participate in the SRP, CSRP and PRBP, each employer presents its respective share of these plans. The amounts presented below reflect the Bank's share of costs, assets, and obligations of the SRP, CSRP and PRBP; as the Bank is the sole sponsor in the LRP and RLIP, the amounts presented below reflect the full costs, assets, and obligations of the LRP and RLIP.

### Obligations and Funded Status

The Bank uses a December 31 measurement date for the Plans and the PRBP (including the RLIP). The following table summarizes the Bank's change in benefit obligation, change in plan assets, and funded status of the Plans, and the PRBP, as well as the amounts recognized on the Bank's Balance Sheet as of and for the years ended December 31, 2022, 2021 and 2020 (in millions):

	Pension Benefits			Postretirement Benefits		
	2022	2021	2020	2022	2021	2020
<b>Change in benefit obligation</b>						
Benefit obligation, beginning of year	\$ 6,229	\$ 5,992	\$ 5,223	\$ 2,634	\$ 2,756	\$ 2,418
Service cost	165	167	136	49	46	36
Interest cost	172	144	163	71	65	76
Net transfers (out of) into the plan	1	(6)	3	-	15	1
Employer contributions	-	-	-	-	-	-
Plan participants' contributions	27	27	26	-	-	-
Retiree drug subsidy received	-	-	-	1	1	1
Plan amendment	-	-	-	-	-	-
Benefits paid	(185)	(169)	(163)	(57)	(53)	(52)
Net actuarial (gains) losses	(1,802)	74	604	(943)	(196)	276
<b>Benefit obligation, end of year</b>	<b>4,607</b>	<b>6,229</b>	<b>5,992</b>	<b>1,755</b>	<b>2,634</b>	<b>2,756</b>
<b>Change in plan assets</b>						
Fair value of plan assets,						
beginning of year	5,577	5,177	4,743	2,398	2,208	2,021
Net transfers (out of) into the plan	1	(6)	3	-	15	1
Actual return on plan assets	(917)	492	512	(388)	196	208
Employer contribution	59	56	56	32	32	30
Plan participants' contributions	27	27	26	-	-	-
Benefits paid	(185)	(169)	(163)	(57)	(53)	(52)
<b>Fair value of plan assets, end of year</b>	<b>4,562</b>	<b>5,577</b>	<b>5,177</b>	<b>1,985</b>	<b>2,398</b>	<b>2,208</b>
<b>Funded status, end of year</b>	<b>\$ (45)</b>	<b>\$ (652)</b>	<b>\$ (815)</b>	<b>\$ 230</b>	<b>\$ (236)</b>	<b>\$ (548)</b>
Amounts recognized in						
Accumulated other comprehensive						
income consist of:						
Net actuarial (gains) losses	\$ (180)	\$ 547	\$ 856	\$ (330)	\$ 132	\$ 474
Prior service cost (credit)	8	9	8	(7)	(18)	(30)
<b>Net amount recognized</b>	<b>\$ (172)</b>	<b>\$ 556</b>	<b>\$ 864</b>	<b>\$ (337)</b>	<b>\$ 114</b>	<b>\$ 444</b>

The projected benefit obligation in excess of fair value of the plans' assets for underfunded pension plans was \$111 million as of December 31, 2022 (2021 - \$657 million underfunded).

There were no plans with accumulated benefit obligations or accumulated postretirement benefit obligations in excess of plan assets as of December 31, 2022.

The underfunded amount of accumulated benefit obligation and accumulated postretirement benefit obligation for the Plans and the PRBP were \$179 million and \$242 million, respectively as of December 31, 2021.

Details on plans with benefit obligations in excess of fair value of plan assets, as of December 31, 2022 and 2021 were as follows (in millions):

	Pension Benefits	
	2022	2021
Projected benefit obligation	\$ 4,344	\$ 6,191
Fair value of Plan assets	4,233	5,534
Funded status (Underfunded)	\$ (111)	\$ (657)

	December 31, 2021	
	Pension	Postretirement
	Benefits	Benefits
Accumulated benefit obligation	\$ 5,377	\$ 2,603
Fair value of plan assets	5,198	2,361
Funded status (Underfunded)	\$ (179)	\$ (242)

The accumulated benefit obligation for the pension Plans, which excludes the effect of future salary increases, was \$4,298 million and \$5,692 million at December 31, 2022 and 2021, respectively.

Net periodic benefit cost and other changes in Plan assets and benefit obligations for the years ended December 31, 2022, 2021 and 2020 consist of the following components (in millions):

#### Net Periodic Benefit Cost:

	Pension Benefits			Postretirement Benefits		
	2022	2021	2020	2022	2021	2020
Service cost <sup>(1)</sup>	\$ 165	\$ 167	\$ 136	\$ 49	\$ 46	\$ 36
Interest cost <sup>(2)</sup>	172	144	163	71	65	76
Expected return on Plan assets <sup>(2)</sup>	(236)	(208)	(234)	(103)	(89)	(95)
Amortization of: <sup>(2)</sup>						
Prior service cost (credit)	1	1	1	(11)	(11)	(11)
Net actuarial losses	78	97	68	10	37	32
Net periodic benefit cost	\$ 180	\$ 201	\$ 134	\$ 16	\$ 48	\$ 38

(1) Included in Administrative expenses.

(2) Included in Other components of net pension benefit cost.

### Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive (Income) Loss:

	Pension Benefits			Postretirement Benefits		
	2022	2021	2020	2022	2021	2020
Net actuarial losses (gains)	\$ (649)	\$ (211)	\$ 330	\$ (452)	\$ (303)	\$ 167
Amortization of:						
Prior service (cost) credit	(1)	(1)	(1)	11	11	11
Net actuarial losses	(78)	(97)	(68)	(10)	(37)	(32)
Total recognized in Other comprehensive (income) loss	\$ (728)	\$ (309)	\$ 261	\$ (451)	\$ (329)	\$ 146
Total recognized in net periodic benefit cost and Other comprehensive (income) loss	\$ (548)	\$ (108)	\$ 395	\$ (435)	\$ (281)	\$ 184

### Actuarial Assumptions

The actuarial assumptions used in the Plans' valuations are based on financial market interest rates, past experience, and Management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Actuarial gains and losses recognized in Accumulated other comprehensive income (loss), which exceed 10% of the greater of the benefit obligation or market-related value of Plan assets at the beginning of the period, are amortized to income over the average remaining service period of active employees expected to receive benefits under the SRP, LRP and PRBP, which approximates 10.6, 10.8 and 10.7 years, respectively. The remaining unrecognized prior service cost period is approximately 7 years and for the unrecognized prior service credit is approximately 8 years.

The weighted-average assumptions used to determine the benefit obligations and net periodic benefit cost were as follows:

Weighted-average assumptions used to determine benefit obligation at December 31,	Pension Benefits			Postretirement Benefits		
	2022	2021	2020	2022	2021	2020
Discount rate - SRP	5.00%	2.78%	2.44%			
Discount rate - LRP	5.01%	2.82%	2.51%			
Discount rate - PRBP				5.01%	2.83%	2.52%
Discount rate- RLIP				5.00%	2.83%	2.55%
Rate of salary increase SRP	4.26%	4.59%	4.26%			
Rate of salary increase LRP	5.41%	5.83%	5.43%			
Rate of inflation	2.47%	2.55%	2.12%	2.47%	2.55%	2.12%
Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31,						
	Pension Benefits			Postretirement Benefits		
	2022	2021	2020	2022	2021	2020
Discount rate - SRP	2.78%	2.44%	3.17%			
Discount rate - LRP	2.82%	2.51%	3.22%			
Discount rate - PRBP				2.83%	2.52%	3.23%
Discount rate- RLIP				2.83%	2.55%	3.24%
Expected long-term return on plan assets	5.00%	4.75%	5.75%	5.00%	4.75%	5.50%
Rate of salary increase SRP	4.59%	4.26%	4.34%			
Rate of salary increase LRP	5.83%	5.43%	5.52%			
Rate of inflation	2.55%	2.12%	2.20%	2.55%	2.12%	2.20%

Accumulated and projected benefit obligations are measured as the present value of expected payments. The discount rate used is selected in reference to the year-end yield of AA-rated U.S. corporate bonds within the approved Financial Times Stock Exchange Pension Liability Index, with maturities that correspond to the payment of benefits. For the assumed rate of U.S. inflation, the Bank and IDB Invest have established a process by which a range of inputs is reviewed, including 10-year, 20-year, 30-year forward looking expert opinion forecasts, the average of the 10-year, 20-year, and 30-year U.S. Treasury Inflation Protected Securities (TIPS) breakeven inflation rates, and historical averages for the U.S. Consumer Price Index (CPI).

The actuarial gains (losses) for the years ended December 31, 2022 and 2021 of \$2,745 million and \$122 million, respectively, were related to changes in the Plans and PRBP's benefit obligations that primarily resulted from changes in the discount and inflation rates.

The long-term expected rate of return on the Plans' investments was determined by surveying industry leading external providers' capital market assumptions (CMAs), mostly using a building-block method. Using CMAs as the base, best estimates of expected future nominal rates of return are assigned for each asset class, including expected excess returns over benchmark indices, and netting out investment expenses. The estimated future nominal returns of the asset classes are combined to produce the Plans' long-term expected rates of return. The Plans' strategic asset allocations (target weight to each asset class) are then multiplied by each asset class's expected future nominal rate of return. Respective volatilities and covariances across asset classes are also incorporated. Then, the Bank's approved long-term rate of inflation, that is consistent with the long-term horizon for computing expected returns, is deducted from the nominal expected rates of return.

For participants assumed to retire in the U.S., the accumulated postretirement benefit obligation was determined using the following health care cost trend rates at December 31:

	2022	2021	2020
Health care cost trend rates assumed for next year:			
Medical (non-Medicare)	<b>4.50%</b>	4.50%	4.50%
Medical (Medicare)	<b>4.50%</b>	3.00%	2.50%
Prescription drugs	<b>7.50%</b>	6.00%	6.00%
Dental	<b>4.50%</b>	4.50%	4.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate):			
Medical (non-Medicare)	<b>4.50%</b>	4.50%	4.50%
Medical (Medicare)	<b>3.00%</b>	3.00%	2.50%
Prescription drugs	<b>6.00%</b>	6.00%	6.00%
Dental	<b>4.50%</b>	4.50%	4.50%
Year that the rate reaches the ultimate trend rate:			
Medical (non-Medicare)	<b>2023</b>	2022	2021
Medical (Medicare)	<b>2027</b>	2022	2021
Prescription drugs	<b>2026</b>	2022	2021
Dental	<b>2023</b>	2022	2021

For those participants assumed to retire outside of the U.S., a 6.0% health care cost trend rate was used for 2022 (2021 and 2020 - 5.00%) with an ultimate trend rate of 4.50% reached in 2028.

### Plans' Assets

The assets of the Plans and PRBP are managed primarily by external investment managers employed by the Bank who are provided with governing Committee-approved investment guidelines that take into account the Plans' and PRBP's investment policies. Investment policies with long-term strategic asset allocations have been developed so that there is an expectation of sufficient returns to meet long-term funding needs. The Plans' assets include both fully-diversified main funds, and their low-risk Stabilization Reserve Funds. The main fund investment policies allocate 60% to 65% of the Plans' portfolios to growth-oriented, inflation-hedging assets (the Return Strategies), and 35% to 40% of assets to nominal and inflation-indexed US fixed income which partially-hedge the interest rate in the liabilities of the Plans and PRBP, and to protect against disinflation (the Liabilities Strategies). The Stabilization Reserve Funds invest in Liabilities Strategies only, specifically short/intermediate term U.S. fixed income.

The Pension and Managing Committees approve the Investment Policy Statements (IPS) and Strategic Asset Allocations (SAA) of the Plans and PRBP, consistent with the Bank's Risk Appetite and Long-term Funding (LTF) Policies. The IPS SAA target allocations as of December 31, 2022, are as follows:

	SRP	LRP	PRBP
U.S. equities	20%	28%	20%
Non - U.S. equities	18%	24%	18%
Emerging markets equities	4%	4%	4%
Public real estate	3%	0%	3%
Long duration diversified fixed income	27%	15%	27%
Core fixed income	4%	5%	4%
High yield fixed income	2%	0%	2%
U.S. inflation-indexed fixed income	4%	15%	4%
Emerging markets fixed income	3%	3%	3%
Private real estate	5%	3%	5%
Public Infrastructure	3%	0%	3%
Private Infrastructure	2%	0%	2%
Tactical Asset Allocation	5%	0%	5%
Commodity index futures	0%	3%	0%
Short-term fixed income funds	0%	0%	0%
Stabilization Reserve Fund:			
Core fixed income	50%	50%	50%
U.S. inflation-indexed fixed income	0%	0%	0%
Short-term fixed income funds	50%	50%	50%

Investment and asset class risk is monitored, managed and mitigated by continuous oversight of each asset class level and investment manager, regular rebalancing of assets among asset classes, and compliance with the Plans' investment policies and the Boards of Executive Directors' Plan-related Policies. Investment managers are generally not allowed to invest more than 5% of their respective portfolios in the securities of a single issuer other than the U.S. Government. The use of derivatives by an investment manager for the Plans and PRBP is limited, and subject to specific approval by the Managing Committees of the Plans and PRBP. Investments are generally rebalanced monthly within IPS target ranges using cash flows and other transactions.

The asset classes in which the Plans and PRBP invest are described below:

- U.S. equities: For the Plans and PRBP, commingled funds that invest, long-only, in U.S. publicly traded common stocks. Managers of the funds replicate or optimize the all-capitalization (cap) Russell 3000 Index. For the SRP and PRBP only, approximately 50% of U.S. equities assets are actively managed in separate accounts holding individual stocks;
- Non - U.S. equities: For the Plans and PRBP, commingled funds that invest, long-only, in non-U.S. developed market publicly traded common stocks. Managers of the funds replicate or optimize the large/mid-cap MSCI WORLD EX-USA Index and/or the large/mid-cap MSCI EAFE Index. For the SRP and PRBP only, approximately 60% of non-U.S. equities assets are actively managed in separate accounts holding individual stocks;
- Emerging markets equities: For the Plans and PRBP, actively managed commingled funds and/or mutual fund that invest, long-only, in emerging markets publicly traded common stocks. Managers of the funds select securities, based upon fundamental characteristics, which are generally comprised within the large/mid-cap MSCI Emerging Markets Free Index;
- Public real estate: For the SRP and PRBP only, separate accounts which hold, long-only, publicly traded real estate securities. The accounts are actively managed based upon fundamental characteristics, investing in securities generally comprised within the MSCI U.S. REIT Index;
- Long duration diversified fixed income: For the SRP and PRBP only, long duration fixed income assets are actively managed in separate accounts holding publicly traded individual bonds generally comprised within the Bloomberg Barclays U.S. Long Government/Credit Bond Index. For the LRP and CSRP only, actively managed commingled fund and/or mutual fund that invest, long-only, in publicly traded long duration government and credit securities. Managers of the funds select securities, based upon fundamental characteristics, which are generally comprised within the Bloomberg Barclays U.S. Long Government/Credit Bond Index, as well as opportunistic investments in non-index securities;

- Core fixed income: For the Plans and PRBP, actively managed commingled funds that invest, long-only, in publicly traded intermediate duration government and credit securities. Managers of the funds select securities, based upon fundamental characteristics, which are generally comprised within the Bloomberg Barclays U.S. Aggregate Bond Index, as well as opportunistic investments in non-index securities;
- High yield fixed income: For the SRP only, assets are actively managed in a separate account holding publicly traded individual securities, and for the PRBP only, in an actively managed commingled fund. For both Plans, the investible universe is generally comprised of the securities within the Bloomberg Barclays High Yield 2% Constrained Index, as well as opportunistic investments in publicly traded non-index securities. High yield securities are financial obligations of U.S. companies, rated below investment-grade by at least one of the nationally recognized statistical rating organizations;
- U.S. inflation-indexed fixed income: For the Plans and PRBP, investment in publicly traded individual U.S. Treasury Inflation Protected Securities in accounts managed internally. For the SRP, PRBP and CSR, replicate or optimize the Bloomberg Barclays U.S. Treasury Inflation Notes 10+ Years Index. For the SRP and PRBP Stabilization Reserve Funds, replicate or optimize the Bloomberg Barclays U.S. Treasury Inflation TIPS 0-5 Years Index. For the LRP and RLIP, replicates or optimizes the Bloomberg Barclays U.S. Inflation Linked Bonds Index;
- Emerging markets fixed income: For the Plans and PRBP, actively managed commingled funds that invest, long-only, in publicly traded emerging markets fixed income. The funds invest in sovereign and sub-sovereign U.S. dollar- and local-denominated debt. Managers of the funds invest in securities generally comprised within the J.P. Morgan EMBI Global Diversified Index, as well as opportunistic investments in non-index securities.
- Private real estate: For the Plans and PRBP, open-end commingled funds which invest, long-only, in U.S. real estate properties. The funds are actively managed based upon fundamental characteristics of the properties;
- Public Infrastructure: For the CSR, an enhanced index exchange-traded fund that invests, long-only, in U.S. and developed non-U.S. markets publicly traded common stocks within the infrastructure industries. Managers of the fund select securities, based upon fundamental characteristics, which are generally comprised within the MSCI World Infrastructure Index. For the SRP and PRBP only, assets are actively-managed in a separate account holding publicly traded individual stocks traded in the U.S. and developed non-U.S. markets;
- Private Infrastructure: For the SRP and PRBP only, an actively managed, open-end commingled fund which invests, long-only, in U.S. and developed non-U.S. markets private equity within the infrastructure sector.
- Tactical Asset Allocation: For the SRP and PRBP only, actively managed commingled funds and mutual fund that invest in U.S. and developed markets equities, fixed income, commodities and currencies, investments could shift due to opportunistic behavior within these markets;
- Commodity index futures: For the LRP only, investment in a commingled fund that invests, long-only in commodity index futures. Managers of the fund replicate or optimize the Bloomberg Commodity Index;
- Short-term fixed income funds: Commingled funds that invest, long-only, in publicly traded U.S. Government securities with maturities of less than 18 months. Managers of the funds invest in short-term government securities only, which are benchmarked against the Merrill Lynch 3-month Treasury Bill Index.

Effective December 2015, the Board of Executive Directors (Board) approved the Long-Term Funding (LTF) Policy for the Plans, PRBP and RLIP which establishes stable Bank contribution rates of 20% (SRP), 25% (LRP), 0.71% (CSR), 12% (PRBP) and 0.10% (RLIP) of applicable salaries, and Bank contribution rate to Stabilization Reserve Funds (SR Funds) for the SRP, LRP and PRBP. The LTF Policy had a five-year initial term. In July 2019, following a review of the LTF Policy components, the Board adopted an enhanced version of the LTF Policy as part of the ongoing financial policies of the Bank. The enhanced version of the LTF Policy removes its sunset period, continues to keep the Bank contribution rate at a stable level, and establishes a rules based mechanism to guide Management decision making to allocate Bank contributions when the SR Funds reaches its limits, as well as when the Plans reach their fully funded

status. Bank contributions made in excess (deficit) of the actuary's determined contribution rate is allocated (withdrawn) to (from) the SR Funds. The approved IPS SAA for the SR Funds is 50% Short-term fixed income funds and 50% Core Fixed Income and, for the SRP and PRBP only, a permitted 0% to 10% opportunistic investment in U.S. TIPS. The LTF also provides a rules-based mechanism to guide Management decision making to allocate Bank contributions when the SR Funds reaches its limits, as well as when the Plans reach their fully funded status.

The following tables set forth the investments of the Plans and PRBP as of December 31, 2022 and 2021, which are measured at fair value and presented together with their weighted average allocation, by level within the fair value hierarchy (in millions). As required by the fair value measurements accounting framework, these investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Investments in funds that do not have a readily determinable fair value are measured at net asset value as a practical expedient and are not classified within the fair value hierarchy.

#### Plans' Assets:

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2022	Weighted Average Allocations
Equity and equity funds					
U.S. equities	\$ 360	\$ 465	\$ -	\$ 825	18%
Non - U.S. equities	429	288	-	717	15%
Emerging markets equities	72	78	-	150	3%
Public real estate equities	120	-	-	120	3%
Public infrastructure equities	136	-	-	136	3%
Government and diversified fixed income and fixed income funds					
Long duration U.S. Government and Agencies fixed income	398	22	-	420	9%
Long duration diversified fixed income	39	543	-	582	13%
Core fixed income	-	337	-	337	7%
Emerging markets fixed income	-	125	-	125	3%
High yield fixed income	-	81	-	81	2%
U.S. inflation-indexed fixed income	177	-	-	177	4%
Commodity index futures funds	-	8	-	8	0%
Tactical asset allocation	107	130	-	237	5%
Short-term fixed income funds	4	254	-	258	6%
Total	\$ 1,842	\$ 2,331	\$ -	\$ 4,173	91%
Investments measured at net asset value					
Private real estate funds				341	7%
Private infrastructure funds				83	2%
Total investments				4,597	100%
Other liabilities <sup>(1)</sup>				(35)	
Total				\$ 4,562	

(1) Mainly payables for investments purchased.



Category of Investments	Level 1	Level 2	Level 3	Fair Value	Weighted
				Measurements December 31, 2021	
Equity and equity funds					
U.S. equities	\$ 471	\$ 570	\$ -	\$ 1,041	19%
Non - U.S. equities	534	367	-	901	16%
Emerging markets equities	94	98	-	192	3%
Public real estate equities	195	-	-	195	3%
Public infrastructure equities	151	-	-	151	3%
Government and diversified fixed income and fixed income funds					
Long duration U.S. Government and Agencies fixed income	508	17	-	525	9%
Long duration diversified fixed income	52	819	-	871	16%
Core fixed income	-	418	-	418	7%
Emerging markets fixed income	-	152	-	152	3%
High yield fixed income	-	75	-	75	1%
U.S. inflation-indexed fixed income	211	-	-	211	4%
Commodity index futures funds	-	9	-	9	0%
Tactical asset allocation	124	143	-	267	5%
Short-term fixed income funds	22	168	-	190	3%
<b>Total</b>	<b>\$ 2,362</b>	<b>\$ 2,836</b>	<b>\$ -</b>	<b>\$ 5,198</b>	<b>92%</b>
Investments measured at net asset value					
Private real estate funds				322	6%
Private infrastructure funds				85	2%
<b>Total investments</b>				<b>5,605</b>	<b>100%</b>
Other liabilities <sup>(1)</sup>				(28)	
<b>Total</b>				<b>\$ 5,577</b>	

(1) Mainly payables for investments purchased.

#### PRBP Assets:

Category of Investments	Level 1	Level 2	Level 3	Fair Value	Weighted
				Measurements December 31, 2022	
Equity and equity funds					
U.S. equities	\$ 164	\$ 187	\$ -	\$ 351	17%
Non - U.S. equities	198	118	-	316	16%
Emerging markets equities	29	30	-	59	3%
Public real estate equities	54	-	-	54	3%
Public infrastructure equities	61	-	-	61	3%
Government and diversified fixed income and fixed income funds					
Long duration U.S. Government and Agencies fixed income	186	10	-	196	10%
Long duration diversified fixed income	-	251	-	251	13%
Core fixed income	-	160	-	160	8%
Emerging markets fixed income	-	55	-	55	3%
High yield fixed income	-	38	-	38	2%
U.S. inflation-indexed fixed income	67	-	-	67	3%
Tactical asset allocation	45	64	-	109	5%
Short-term fixed income funds	103	1	-	104	5%
<b>Total</b>	<b>\$ 907</b>	<b>\$ 914</b>	<b>\$ -</b>	<b>\$ 1,821</b>	<b>91%</b>
Investments measured at net asset value					
Private real estate funds				140	7%
Private infrastructure funds				45	2%
<b>Total investments</b>				<b>2,006</b>	<b>100%</b>
Other liabilities <sup>(1)</sup>				(21)	
<b>Total</b>				<b>\$ 1,985</b>	

(1) Mainly payables for investments purchased.

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2021	Weighted Average Allocations
<b>Equity and equity funds</b>					
U.S. equities	\$ 213	\$ 230	\$ -	\$ 443	18%
Non - U.S. equities	234	143	-	377	16%
Emerging markets equities	38	37	-	75	3%
Public real estate equities	90	-	-	90	4%
Public infrastructure equities	66	-	-	66	3%
<b>Government and diversified fixed income and fixed income funds</b>					
Long duration U.S. Government and Agencies fixed income	238	7	-	245	10%
Long duration diversified fixed income	-	370	-	370	15%
Core fixed income	-	191	-	191	8%
Emerging markets fixed income	-	66	-	66	3%
High yield fixed income	-	32	-	32	1%
U.S. inflation-indexed fixed income	78	-	-	78	3%
Tactical asset allocation	52	70	-	122	5%
Short-term fixed income funds	85	1	-	86	4%
<b>Total</b>	<b>\$ 1,094</b>	<b>\$ 1,147</b>	<b>\$ -</b>	<b>\$ 2,241</b>	<b>93%</b>
<b>Investments measured at net asset value</b>					
Private real estate funds				131	5%
Private infrastructure funds				46	2%
<b>Total investments</b>				<b>2,418</b>	<b>100%</b>
Other liabilities <sup>(1)</sup>				(20)	
<b>Total</b>				<b>\$ 2,398</b>	

(1) Mainly payables for investments purchased.

Investment securities that are measured at fair value based on quoted market prices in active markets, a valuation technique consistent with the market approach, include U.S., non-U.S., real estate and infrastructure individual equity holdings, public infrastructure exchange-traded funds, fixed income, emerging markets equity and tactical asset allocation mutual funds, U.S. Treasury and U.S. Treasury inflation-indexed fixed income securities. Such securities are classified within Level 1 of the fair value hierarchy.

Investment securities that are measured at fair value based on quoted market prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active, a valuation technique consistent with the market approach, include corporate, non-U.S. government, high yield, municipal fixed income, and commercial mortgage-backed securities. Also included are proprietary investment managers' commingled funds investing in U.S., non-U.S. developed and emerging markets equities, emerging markets fixed income, core, and long-duration fixed income funds, and/or short-term fixed income investments. These commingled funds are not publicly traded and are measured at fair value based on the net asset value per share, which is determined and published and is the basis for current transactions. Such investments are classified within Level 2 of the fair value hierarchy.

Proprietary investment managers' funds investing in private real estate do not have readily determinable fair value and are measured at the net asset value as a practical expedient. Such investments are not classified within the fair value hierarchy.

### Contributions

Contributions from the Bank to the Plans and PRBP during 2023 are expected to be approximately \$62 million and \$33 million, respectively. All contributions are made in cash.

### Estimated Future Benefit Payments

The following table shows the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years (in

millions). These amounts are based on the same assumptions used to measure the benefit obligation at December 31, 2022.

Year	Plans	PRBP
2023	\$ 206	\$ 60
2024	215	64
2025	223	67
2026	232	71
2027	241	75
2028 - 2032	1,326	431

#### NOTE W - VARIABLE INTEREST ENTITIES

An entity is a variable interest entity (VIE) if: (i) it lacks equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) the equity investors lack certain characteristic of a controlling financial interest who have decision-making rights about the entity's operations; or (iii) it has equity investors who do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that has the power to direct the activities that most significantly impact the VIE's economic performance, and has the obligation to absorb a majority of the expected losses or the right to receive a majority of the expected residual returns, or both. An enterprise may hold a significant variable interest in a VIE, which is not consolidated because the enterprise is not the primary beneficiary, or the VIE is considered immaterial for the reporting entity's financial statements.

The Bank has identified loans and guarantees to VIEs in which it is not the primary beneficiary but in which it is deemed to hold significant variable interest on December 31, 2022. 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 \$145 million on December 31, 2022 (2021 - \$149 million). The Bank's total loans outstanding to these VIEs was \$12 million on December 31, 2022 (2021 - \$14 million). No guarantees were outstanding to these VIEs on December 31, 2022 or 2021. There were no undisbursed amounts related to such loans and guarantees (2021 - \$4 million), which combined with outstanding amounts results in a total maximum Bank exposure of \$12 million on December 31, 2022 (2021 - \$18 million).

The Bank is considered the primary beneficiary of certain entities and has made loans amounting to approximately \$51 million at December 31, 2022 and 2021. 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 \$51 million on December 31, 2022 and 2021, which is considered immaterial, thus not consolidated with the Bank's financial statements.

## NOTE X – RECONCILIATION OF NET INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES

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

	Years ended December 31,		
	2022	2021	2020
Net income	\$ 1,442	\$ 1,085	\$ 610
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(627)	(84)	240
Income from investments	(383)	(55)	(13)
Other interest income	16	(17)	5
Other income	4	4	(1)
Interest and other costs of borrowings, after swaps	1,201	16	(395)
Administrative expenses, including depreciation	175	174	138
Special programs	1	(1)	20
Transfers to the IDB Grant Facility	34	(81)	(28)
Net fair value adjustments on non-trading portfolios and foreign currency transactions	(1,279)	(402)	(220)
Net unrealized losses on trading investments	73	2	7
Other components of net pension benefit costs	(18)	37	(1)
Net increase in trading investments and securities purchased under resale agreements	6,575	(2,890)	(1,710)
Provision (credit) for developmental assets credit losses	426	(79)	182
Net cash provided by (used in) operating activities	\$ 7,640	\$ (2,291)	\$ (1,166)
<b>Supplemental disclosure of noncash activities</b>			
Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments	\$ (1)	\$ (4)	\$ (5)
Loans outstanding	(7)	(95)	(113)
Debt securities	(48)	(49)	13
Borrowings	(30)	(153)	(166)
Receivable from members, net	18	5	(16)

## NOTE Y – 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 years 2022, 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):

	Years ended December 31,		
	2022	2021	2020
Argentina	\$ 480	\$ 329	\$ 369
Brazil	544	254	304
Colombia	381	301	300
Mexico	370	320	359

## NOTE Z - 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 ongoing COVID-19 pandemic has disrupted economic markets and created significant volatility. The operational and financial performance of the companies in which the Bank finances depends on future developments, including the length and severity of the pandemic. Moreover, the Russian war on Ukraine and high and persistent inflation increases in the region are additional sources of concern on the social and economic development of IDB's borrowing member countries. Such uncertainties may impact the fair value of the Bank's investments and the credit worthiness of the Bank's borrowers. The Bank has capital buffers in place to absorb additional stress and credit rating downgrades.

## NOTE AA - RELATED PARTY TRANSACTIONS

In 2016, the transfer of operational and administrative functions and non-financial resources associated with NSG activities from the Bank to IDB Invest became effective. During the seven-year period ending on December 31, 2022, NSG activities were originated by IDB Invest and co-financed by the Bank and IDB Invest. The Bank will no longer approve NSG loans after December 31, 2022. After December 31, 2022, IDB Invest continues to manage and monitor the Bank's legacy NSG portfolio. For co-financed NSG loans, the Bank and IDB Invest maintain separate legal and economic interests in their respective shares of the loan principal balance, interest, and other elements of the lending arrangement. IDB Invest also executes, services, and monitors the Bank's NSG loans portfolio.

As part of such reorganization, IDB Invest's capitalization plan includes additional capital to be contributed by IDB Invest 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 2022 and 2021, the Board of Governors approved a \$150 million distribution each year, to the shareholders of the Bank for a concurrent capital contribution to IDB Invest 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 Statement of Income and Retained Earnings.

Also, pursuant to such reorganization, the Bank and IDB Invest 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 IDB Invest, and those provided by IDB Invest to the Bank are \$21 million and \$70 million, respectively, for the year ended December 31, 2022 (2021 - \$20 million and \$67 million, respectively; 2020 - \$24 million and \$75 million, respectively).

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 \$5 million and \$2 million, respectively, for the year ended December 31, 2022 (2021 and 2020 - \$8 million and \$2 million, respectively).

As of December 31, 2022, the Bank received deposits from central banks and official institutions in the Bank's member countries totaling \$25 million with maturities of up to 30 days (2021 - none).

During 2020, the Bank entered into a 10-year guarantee and cooperation agreement (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 Agreement 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 status. At the end of the nonaccrual event, the Bank will reimburse Sweden for any principal that is recovered with respect to the nonaccrual event. The eligible exposure under this guarantee was \$66 million as of December 31, 2022 and 2021, and there were no nonaccrual events associated with loans made to or guaranteed by Brazil.

Other significant transactions with IDB Invest, GRF and Pension Plans are disclosed in the Note to which they relate.

#### **NOTE AB - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 24, 2023, 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 financial statements as of and for the year ended December 31, 2022.

SCHEDULE I-1<sup>(1)</sup>

## SCHEDULE OF LOANS

December 31, 2022 and 2021

*(Expressed in millions of United States dollars)*

Member in whose territory loans have been made	Outstanding balance 2022					Undisbursed portion of approved loans		Outstanding balance 2021
	Sovereign-guaranteed	Concessional Sovereign-guaranteed	Total Sovereign-guaranteed	Non-Sovereign-guaranteed	Total	Total	Signed	
Argentina	\$ 15,512	\$ 1	\$ 15,513	\$ 305	\$ 15,818	\$ 5,202	\$ 4,180	\$ 14,338
Bahamas	725	-	725	-	725	213	213	707
Barbados	629	-	629	-	629	246	126	639
Belize	157	-	157	-	157	65	32	151
Bolivia	2,959	1,053	4,012	-	4,012	1,644	892	3,933
Brazil	15,185	-	15,185	1,060	16,245	6,179	3,332	16,616
Chile	2,290	-	2,290	114	2,404	962	262	2,350
Colombia	11,145	4	11,149	234	11,383	1,134	1,027	11,358
Costa Rica	2,454	-	2,454	55	2,509	801	786	2,237
Dominican Republic	3,910	61	3,971	73	4,044	1,601	1,416	3,992
Ecuador	7,433	108	7,541	343	7,884	931	520	7,512
El Salvador	2,201	108	2,309	164	2,473	764	714	2,425
Guatemala	1,726	187	1,913	232	2,145	801	321	2,195
Guyana	351	436	787	-	787	248	43	643
Honduras	1,575	1,493	3,068	46	3,114	492	317	2,767
Jamaica	1,692	-	1,692	18	1,710	134	134	1,734
Mexico	15,417	-	15,417	240	15,657	2,075	359	16,054
Nicaragua	926	1,391	2,317	8	2,325	97	97	2,327
Panama	4,357	-	4,357	201	4,558	1,113	953	4,517
Paraguay	2,906	166	3,072	107	3,179	1,922	1,282	2,459
Peru	3,155	3	3,158	135	3,293	1,890	1,190	2,783
Suriname	652	4	656	-	656	294	244	468
Trinidad and Tobago	731	1	732	38	770	132	52	788
Uruguay	3,348	-	3,348	323	3,671	904	322	3,403
Venezuela	2,011	-	2,011	-	2,011	433	433	2,011
Regional	57	-	57	481	538	851	605	479
<b>Total 2022</b>	<b>\$ 103,504</b>	<b>\$ 5,016</b>	<b>\$ 108,520</b>	<b>\$ 4,177</b>	<b>\$ 112,697</b>	<b>\$ 31,128</b>	<b>\$ 19,852</b>	
<b>Total 2021</b>	<b>\$ 99,286</b>	<b>\$ 4,934</b>	<b>\$ 104,220</b>	<b>\$ 4,666</b>	<b>\$ 108,886</b>	<b>\$ 29,681</b>	<b>\$ 21,038</b>	<b>\$ 108,886</b>

(1) This table excludes outstanding participated non-sovereign-guaranteed loans of \$657 million at December 31, 2022 (2021 - \$981 million). This table also excludes guarantees outstanding of \$1,102 million at December 31, 2022 (2021 - \$681 million).

## SCHEDULE OF LOANS OUTSTANDING BY CURRENCY AND INTEREST RATE TYPE AND MATURITY STRUCTURE

December 31, 2022

(Expressed in millions of United States dollars)

Currency/Rate type	Amount	Weighted <sup>(4)</sup> average rate (%)	Average maturity (years)
United States dollars			
Fixed-base cost	\$ 33,886	3.56	6.60
Adjustable	859	3.10	5.44
Floating index rate <sup>(1)</sup>	58,513	5.04	8.15
Fixed-rate Concessional	4,981	0.93	22.98
Total United States dollars	98,239	4.27	8.36
Others			
Fixed-base cost	11,722	1.95	5.56
Adjustable	2,668	13.21	5.71
Fixed-rate Concessional	68	2.00	2.57
Total Others	14,458	4.03	5.58
Loans outstanding			
Fixed-base cost	45,608	3.15	6.33
Adjustable	3,527	10.75	5.65
Floating index rate	58,513	5.04	8.15
Fixed-rate Concessional <sup>(5)</sup>	5,049	0.93	22.98
Total Loans Outstanding	\$ 112,697	4.27	8.00

(1) Refers to LIBOR/SOFR index, as applicable.

## MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2022

(Expressed in millions of United States dollars)

Year of maturity	Fixed-base cost <sup>(3)</sup>	Floating index rate <sup>(2)</sup>	Fixed-rate concessional <sup>(5)</sup>	Total
2023	\$ 3,665	\$ 4,508	\$ 133	\$ 8,306
2024	3,440	3,895	125	7,460
2025	5,654	4,254	121	10,029
2026	3,317	4,153	119	7,589
2027	4,004	4,427	115	8,546
2028 to 2032	16,520	20,060	507	37,087
2033 to 2037	6,731	13,660	387	20,778
2038 to 2042	1,953	6,024	319	8,296
2043 to 2047	324	1,057	154	1,535
2048 to 2052	-	2	1,114	1,116
2053 to 2057	-	-	1,355	1,355
2058 to 2062	-	-	600	600
Total	\$ 45,608	\$ 62,040	\$ 5,049	\$ 112,697
Average maturity (years)	6.33	8.15	22.98	8.00

(1) Information presented before currency and interest rate swaps.

(2) Includes adjustable loans.

(3) Includes a total of \$1,139 million in fixed rate loans.

(4) The weighted average rate of the total portfolio, after swaps, was 4.68%.

(5) Includes \$43 million of loans to other development institutions.



SCHEDULE I-2<sup>(1)</sup>**SCHEDULE OF LOANS OUTSTANDING BY CURRENCY AND INTEREST RATE TYPE, AND MATURITY STRUCTURE****December 31, 2021***(Expressed in millions of United States dollars)*

Currency/Rate type	Amount	Weighted <sup>(4)</sup> average rate (%)	Average maturity (years)
United States dollars			
Fixed-base cost	\$ 33,945	3.45	6.79
Adjustable	980	2.87	5.72
Floating index rate <sup>(1)</sup>	54,626	1.32	8.33
Fixed-rate Concessional	4,887	0.97	22.97
Total United States dollars	94,438	2.08	8.51
Others			
Fixed-base cost	11,756	1.50	6.37
Adjustable	2,599	7.88	6.07
Floating index rate	12	0.74	1.12
Fixed-rate Concessional	81	2.03	5.50
Total Others	14,448	2.65	6.31
Loans outstanding			
Fixed-base cost	45,701	2.95	6.69
Adjustable	3,579	6.51	5.97
Floating index rate	54,638	1.32	8.33
Fixed-rate Concessional <sup>(5)</sup>	4,968	0.99	22.69
Total Loans Outstanding	\$ 108,886	2.16	8.22

(1) Refers to LIBOR/SOFR index, as applicable.

**MATURITY STRUCTURE OF LOANS OUTSTANDING****December 31, 2021***(Expressed in millions of United States dollars)*

Year of maturity	Fixed-base cost <sup>(3)</sup>	Floating index rate <sup>(2)</sup>	Fixed-rate concessional <sup>(5)</sup>	Total
2022	\$ 2,954	\$ 4,094	\$ 142	\$ 7,190
2023	3,407	3,232	134	6,773
2024	3,433	3,856	125	7,414
2025	5,470	4,205	121	9,796
2026	2,952	4,118	119	7,189
2027 to 2031	18,098	18,834	532	37,464
2032 to 2036	7,083	12,710	404	20,197
2037 to 2041	1,963	5,828	340	8,131
2042 to 2046	340	1,338	174	1,852
2047 to 2051	1	2	926	929
2052 to 2056	-	-	1,339	1,339
2057 to 2061	-	-	612	612
Total	\$ 45,701	\$ 58,217	\$ 4,968	\$ 108,886
Average maturity (years)	6.69	8.19	22.69	8.22

(1) Information presented before currency and interest rate swaps.

(2) Includes adjustable loans.

(3) Includes a total of \$1,304 million in fixed rate loans.

(4) The weighted average rate of the total portfolio, after swaps, was 1.9%.

(5) Includes \$34 million of loans to other development institutions.

## SCHEDULE OF SUBSCRIPTIONS TO CAPITAL STOCK

December 31, 2022 and 2021

*(Expressed in millions of United States dollars)<sup>(1)</sup>*

Members	Subscribed voting shares	Paid-in portion of subscribed capital	Callable portion of subscribed capital	Additional paid-in capital <sup>(2)</sup>	Total 2022	Total 2021
Argentina	1,609,442	\$ 672.9	\$ 18,742.5	\$ 303.3	\$ 19,718.7	\$ 19,718.7
Austria	22,630	9.6	263.4	11.2	284.2	284.2
Bahamas	29,548	15.1	341.4	6.0	362.5	362.5
Barbados	19,306	8.1	224.8	1.1	234.0	234.0
Belgium	46,545	19.8	541.7	23.6	585.1	585.1
Belize	16,516	9.3	189.9	4.1	203.3	203.3
Bolivia	129,293	54.0	1,505.7	28.6	1,588.3	1,588.3
Brazil	1,609,442	672.9	18,742.5	325.5	19,740.9	19,740.9
Canada	567,039	241.7	6,598.8	185.8	7,026.3	7,026.1
Chile	441,995	184.8	5,147.2	94.0	5,425.9	5,425.9
China	424	0.2	5.0	123.9	129.1	129.1
Colombia	441,995	184.8	5,147.2	91.0	5,423.0	5,423.0
Costa Rica	64,684	27.0	753.3	13.8	794.1	794.1
Croatia	6,895	2.9	80.2	3.5	86.7	86.7
Denmark	24,061	10.3	280.0	11.1	301.4	301.4
Dominican Republic	86,317	36.1	1,005.2	20.0	1,061.3	1,061.3
Ecuador	86,090	36.0	1,002.5	18.0	1,056.6	1,056.6
El Salvador	64,514	27.0	751.3	12.8	791.0	791.0
Finland	22,630	9.6	263.4	10.6	283.6	283.6
France	268,659	114.5	3,126.4	123.3	3,364.2	3,364.2
Germany	268,659	114.5	3,126.4	127.8	3,368.7	3,368.7
Guatemala	81,728	34.7	951.2	19.3	1,005.2	1,005.2
Guyana	22,768	10.5	264.1	4.7	279.4	279.4
Haiti	64,514	27.0	751.3	12.9	791.2	791.2
Honduras	64,684	27.0	753.3	15.5	795.8	795.8
Israel	22,315	9.5	259.7	9.1	278.3	278.3
Italy	278,459	117.4	3,241.8	121.0	3,480.1	3,480.1
Jamaica	81,728	34.7	951.2	17.0	1,003.0	1,003.0
Japan	708,831	302.1	8,248.8	326.6	8,877.5	8,877.5
Korea, Republic of	424	0.2	5.0	1.0	6.1	6.1
Mexico	1,034,609	432.6	12,048.4	197.4	12,678.4	12,678.4
Netherlands	28,207	14.6	325.6	18.6	358.9	358.9
Nicaragua	64,514	27.0	751.3	14.2	792.4	792.4
Norway	24,061	10.3	280.0	10.9	301.1	301.1
Panama	64,514	27.0	751.3	14.9	793.1	793.1
Paraguay	64,514	27.0	751.3	16.6	794.9	794.9
Peru	215,445	90.1	2,508.9	47.3	2,646.3	2,646.3
Portugal	7,667	3.2	89.2	4.4	96.9	96.9
Slovenia	4,214	1.8	49.0	1.9	52.8	52.8
Spain	278,460	117.4	3,241.8	120.0	3,479.2	3,479.2
Suriname	12,524	7.2	143.8	3.4	154.5	154.5
Sweden	46,257	19.7	538.3	22.7	580.7	580.7
Switzerland	66,705	28.4	776.3	37.4	842.1	842.0
Trinidad and Tobago	61,244	26.0	712.8	12.5	751.4	751.4
United Kingdom	136,461	58.1	1,588.0	98.6	1,744.8	1,744.8
United States	4,253,664	1,813.1	49,500.7	2,923.3	54,237.1	54,237.1
Uruguay	172,646	72.2	2,010.5	33.2	2,115.9	2,115.9
Venezuela	482,267	249.3	5,568.5	171.0	5,988.8	5,988.8
<b>Total 2022</b>	<b>14,170,108</b>	<b>\$ 6,039</b>	<b>\$ 164,901</b>	<b>\$ 5,815</b>	<b>\$ 176,755</b>	
<b>Total 2021</b>	<b>14,170,108</b>	<b>\$ 6,039</b>	<b>\$ 164,901</b>	<b>\$ 5,815</b>		<b>\$ 176,755</b>

(1) Data are rounded, detail may not add up to total because of rounding.

(2) Does not affect voting power. Refer to Note R for additional information.

## SCHEDULE I-4

## SCHEDULE OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2022

Member countries	Subscribed voting shares	Number of votes	% of total number of votes <sup>(1)</sup>
<b>Regional developing members</b>			
Argentina	1,609,442	1,609,577	11.354
Bahamas	29,548	29,683	0.209
Barbados	19,306	19,441	0.137
Belize	16,516	16,651	0.117
Bolivia	129,293	129,428	0.913
Brazil	1,609,442	1,609,577	11.354
Chile	441,995	442,130	3.119
Colombia	441,995	442,130	3.119
Costa Rica	64,684	64,819	0.457
Dominican Republic	86,317	86,452	0.610
Ecuador	86,090	86,225	0.608
El Salvador	64,514	64,649	0.456
Guatemala	81,728	81,863	0.577
Guyana	22,768	22,903	0.162
Haiti	64,514	64,649	0.456
Honduras	64,684	64,819	0.457
Jamaica	81,728	81,863	0.577
Mexico	1,034,609	1,034,744	7.299
Nicaragua	64,514	64,649	0.456
Panama	64,514	64,649	0.456
Paraguay	64,514	64,649	0.456
Peru	215,445	215,580	1.521
Suriname	12,524	12,659	0.089
Trinidad and Tobago	61,244	61,379	0.433
Uruguay	172,646	172,781	1.219
Venezuela	482,267	482,402	3.403
Total regional developing members	7,086,841	7,090,351	50.015
<b>Canada</b>	567,039	567,174	4.001
<b>United States</b>	4,253,664	4,253,799	30.006
<b>Non-regional members</b>			
Austria	22,630	22,765	0.161
Belgium	46,545	46,680	0.329
China	424	559	0.004
Croatia	6,895	7,030	0.050
Denmark	24,061	24,196	0.171
Finland	22,630	22,765	0.161
France	268,659	268,794	1.896
Germany	268,659	268,794	1.896
Israel	22,315	22,450	0.158
Italy	278,459	278,594	1.965
Japan	708,831	708,966	5.001
Korea, Republic of	424	559	0.004
Netherlands	28,207	28,342	0.200
Norway	24,061	24,196	0.171
Portugal	7,667	7,802	0.055
Slovenia	4,214	4,349	0.031
Spain	278,460	278,595	1.965
Sweden	46,257	46,392	0.327
Switzerland	66,705	66,840	0.471
United Kingdom	136,461	136,596	0.964
Total non-regional members	2,262,564	2,265,264	15.979
Grand total	14,170,108	14,176,588	100.000

(1) Data are rounded; detail may not add to total because of rounding.

# IDB GRANT FACILITY

## MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

March 10, 2023

The Management of the Inter-American Development Bank (Bank) is responsible for establishing and maintaining effective internal control over financial reporting in the Bank. Management has assessed and evaluated the internal control over financial reporting of the Bank's IDB Grant Facility (GRF) in accordance with accounting principles generally accepted in the United States, using the criteria for effective internal control established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed and evaluated the effectiveness of the internal control over financial reporting of the GRF as of December 31, 2022. Based on this assessment, Management believes that the GRF's internal control over financial reporting is effective as of December 31, 2022.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The effectiveness of the GRF's internal control over financial reporting as of December 31, 2022, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the GRF's internal control over financial reporting as of December 31, 2022.



**Ilan Goldfajn**  
President



**Gustavo De Rosa**  
Vice President for Finance and Administration & Chief Financial Officer



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## **Report of Independent Auditors**

To the Board of Governors of the Inter-American Development Bank:

### **Opinion on Internal Control Over Financial Reporting**

We have audited the Inter-American Development Bank - IDB Grant Facility's (the GRF) internal control over financial reporting as of December 31, 2022, based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the GRF maintained, in all material respects, effective internal control over financial reporting at December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the financial statements of the Inter-American Development Bank - IDB Grant Facility, which comprise the balance sheet as of December 31, 2022, and the related statements of changes in fund balance and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and our report dated February 24, 2023 expressed an unmodified opinion thereon.

### **Basis for Opinion**

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of the GRF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for Internal Control Over Financial Reporting**

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting.

### **Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.



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### **Definition and Inherent Limitations of Internal Control Over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Ernst & Young LLP*

March 10, 2023



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## **Report of Independent Auditors**

To the Board of Governors of the Inter-American Development Bank:

### **Opinion**

We have audited the financial statements of the Inter-American Development Bank - IDB Grant Facility (the GRF), which comprise the balance sheet as of December 31, 2022, and the related statements of changes in fund balance and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the GRF at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Inter-American Development Bank - IDB Grant Facility's internal control over financial reporting as of December 31, 2022, based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2023 expressed an unmodified opinion thereon.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the GRF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the GRF's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from



fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the GRF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Information Statement of the Inter-American Development Bank at December 31, 2022 but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### **Other matter**

The financial statements of the Inter-American Development Bank - IDB Grant Facility for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 25, 2022.

March 10, 2023

*Ernst & Young LLP*



IDB GRANT FACILITY  
INTER-AMERICAN DEVELOPMENT BANK

### BALANCE SHEETS

(Expressed in millions of United States dollars)

	As of December 31,	
	2022	2021
<b>ASSETS</b>		
Cash	\$ -	\$ 2
Due from Ordinary Capital, net	160	126
<b>Total assets</b>	<b>\$ 160</b>	<b>\$ 128</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Undisbursed grants - Note E	\$ -	\$ -
<b>Fund balance</b>	<b>160</b>	<b>128</b>
<b>Total liabilities and fund balance</b>	<b>\$ 160</b>	<b>\$ 128</b>

### STATEMENTS OF CHANGES IN FUND BALANCE

(Expressed in millions of United States dollars)

	Years ended December 31,		
	2022	2021	2020
<b>Additions</b>			
Income transfers from Ordinary Capital - Note C	\$ 172	\$ 92	\$ 64
<b>Deductions</b>			
Grants disbursements	137	169	121
Interest on behalf of Ordinary Capital borrowers - Note D	3	3	21
<b>Change in fund balance</b>	<b>32</b>	<b>(80)</b>	<b>(78)</b>
<b>Fund balance, beginning of year</b>	<b>128</b>	<b>208</b>	<b>286</b>
<b>Fund balance, end of year</b>	<b>\$ 160</b>	<b>\$ 128</b>	<b>\$ 208</b>

### STATEMENTS OF CASH FLOWS

(Expressed in millions of United States dollars)

	Years ended December 31,		
	2022	2021	2020
<b>Cash flows from operating activities</b>			
Cash transfers from Ordinary Capital	\$ 136	\$ 174	\$ 92
Purchases of investments	-	-	(131)
Proceeds from sale or maturity of investments	-	-	182
Grant disbursements	(135)	(169)	(121)
Interest paid on behalf of Ordinary Capital borrowers	(3)	(3)	(23)
<b>Net (decrease) increase in cash flows from operating activities</b>	<b>(2)</b>	<b>2</b>	<b>(1)</b>
<b>Cash, beginning of year</b>	<b>2</b>	<b>-</b>	<b>1</b>
<b>Cash, end of year</b>	<b>\$ -</b>	<b>\$ 2</b>	<b>\$ -</b>

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

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## NOTES TO FINANCIAL STATEMENTS

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### NOTE A – ORIGIN

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. The Bank works to improve lives in Latin America and the Caribbean and its objective is to achieve economic and social development in a sustainable, climate friendly way, primarily by providing loans, concessional lending and related technical assistance for specific projects and for programs of economic reform. The Agreement Establishing the Inter-American Development Bank (Agreement) provides that its operations be conducted through the Ordinary Capital. In 1983, the Board of Governors of the Bank established the Intermediate Financing Facility Account (IFF, terminated effective January 1, 2020) to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. In June 2007, the Board of Governors approved the creation of the IDB Grant Facility (GRF) for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects. The GRF is currently funded by transfers from the Ordinary Capital.

In April 2019, the Board of Directors approved an amendment to the existing GRF regulations to expand the scope of the GRF to enable the financing of individual operations to support countries with communities receiving large and sudden intraregional migration flows in Latin America and the Caribbean. Subsequently, in May 2019 and Nov 2022, the Board of Governors expressed its support to such countries, which could include up to \$200 million of grants from the GRF.

In April 2020, the Board of Governors approved retroactively the termination of the IFF and the transfer of all assets (cash and investments amounting to \$1 million and \$50 million, respectively) of the IFF to the GRF, as of January 1, 2020. The Fund balance transferred from the IFF was recorded as an increase to the GRF Fund Balance as of the beginning of the year in the Statement of Changes in Fund Balance. All investments received from the IFF were sold during 2020.

### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with generally accepted accounting principles of the United States of America (GAAP), and are expressed in United States dollars. 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 additions and deductions from fund balance during the reporting period. Actual results could differ from these estimates.

#### Grants

Grants are recorded as a deduction of the fund balance when the disbursement request is approved.

#### Income Transfers from the Ordinary Capital

Income transfers from the Ordinary Capital are recognized when approved by the Board of Governors. However, these transfers are funded in accordance with the GRF funding requirements. The portion of approved transfers pending to be received by GRF is presented under Due from Ordinary Capital on the Balance Sheets.

#### Interest Subsidies

Interest subsidies are recorded when the borrower pays its portion of interest on the related Ordinary Capital loan. The one-time payment settlements are recorded when the borrower notifies in writing the acceptance of the settlement offer of the one-time payment.

#### Administrative expenses

Administrative expenses of the GRF are paid by the Bank. As such, no administrative expenses are recorded by the GRF.

#### Taxes

The GRF, its property, other assets, income, and the operations and transactions it carries out are immune from all taxation and from all custom duties in its member countries.

**NOTE C - INCOME TRANSFERS FROM THE ORDINARY CAPITAL**

As part of the ninth general increase in the Bank's resources (IDB-9), the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide \$200 million annually in transfers of Ordinary Capital income to the GRF, beginning in 2011 through 2020. During 2011 through 2015, the Bank approved income transfers from the Ordinary Capital in the amount of \$200 million each year for a total of \$1,000 million.

Consistent with G-20 recommendations to Multilateral Development Banks to seek further financial efficiencies, in April 2016 the Board of Governors amended the funding mechanism and agreed to consider further transfers of Ordinary Capital income (up to a total amount of \$1,000 million) if necessary to maintain the GRF's fund balance at no less than \$300 million as of January 1 of each year. As a result, income transfers from the Ordinary Capital are no longer bound to be completed by 2020 and income transfers are a function of the pace of execution of grants approved. Ordinary Capital income transfers remain subject to the requirements of the Agreement and other applicable financial policies. In March 2022, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$172 million (2021 - \$92 million).

**NOTE D - COMMITMENTS**

The GRF is providing the remaining interest subsidies, up to the \$51 million transferred, by either continuing to make subsidy payments in accordance with the terms and conditions set forth in the corresponding loan contracts; or through a one-time payment to settle all expected future subsidy payments to the borrowing entity. Any balance from the original IFF resources transferred to the GRF and not paid out to the eligible borrowing member countries will be kept in the GRF.

At December 31, 2022, the outstanding balance of Ordinary Capital loans, which are fully disbursed, on which the GRF would pay part of the interest are as follows (classified by country in millions):

Country	Outstanding
El Salvador	\$ 91
Guatemala	107
Jamaica	6
Paraguay	60
<b>Total</b>	<b>\$ 264</b>

The interest subsidy on certain Ordinary Capital loans is reset quarterly or semiannually. The subsidy can be no more than 3.62% per annum. Loans approved after December 31, 2006 are not eligible for subsidy. Interest paid on behalf of Ordinary Capital's borrowers amounted to \$3 million during 2022 (2021 - \$3 million; 2020 - \$7 million).

No interest subsidies were paid in lump sum during 2022 and 2021. During 2020, the GRF paid interest subsidies in lump sum to Ecuador, Jamaica, Dominican Republic, and Suriname, amounting to \$16 million.

As of December 31, 2022, \$29 million of interest subsidies were paid out of the original IFF resources transferred to the GRF.

## NOTE E - UNDISBURSED GRANTS

The following is a summary of changes in Undisbursed grants for the year ended December 31, 2022 and 2021 (in millions):

	Years ended December 31,	
	2022	2021
Balance at January 1,	\$ -	\$ -
Grants	137	169
Disbursements	(137)	(169)
Balance at December 31,	\$ -	\$ -

## NOTE F - RECONCILIATION OF CHANGE IN FUND BALANCE TO NET (DECREASE) INCREASE IN CASH FLOWS FROM OPERATING ACTIVITIES

A reconciliation of Change in fund balance to Net (decrease) increase in cash flows from operating activities, as shown on the Statements of Cash Flows is as follows (in millions):

	Years ended December 31,		
	2022	2021	2020
Change in fund balance	\$ 32	\$ (80)	\$ (78)
Difference between amounts accrued and amounts paid or collected for:			
Cash transfers from Ordinary Capital	136	174	92
Due to Ordinary Capital, net	2	-	-
Income transfers from Ordinary Capital	(172)	(92)	(64)
Net decrease in investments	-	-	51
Interest paid on behalf of Ordinary Capital borrowers	-	-	(2)
Net (decrease) increase in cash flows from operating activities	\$ (2)	\$ 2	\$ (1)

## NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 10, 2023, which is the date the financial statements were available to be issued. As a result of this evaluation, there are no subsequent events requiring recognition or disclosure in the GRF's financial statements as of and for the year ended December 31, 2022, except as disclosed below:

In March 2023, the Board of Governors approved income transfers from the Bank to the GRF amounting to \$140 million.