

(Free translation from the original issued in Spanish)

FONPLATA – MULTILATERAL DEVELOPMENT BANK

Financial statements as of December 31, 2020 and 2019

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\$ = U.S. thousand dollars

The original version of the accompanying financial statements is duly signed and kept in the Bank's archives. The original version can be obtained in electronic format upon request.



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INDEPENDENT AUDITOR'S REPORT

February 25, 2021

To the Assembly of Governors
FONPLATA – Multilateral Development Bank
Santa Cruz de la Sierra

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of FONPLATA – Multilateral Development Bank (FONPLATA) as of December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

What we have audited

FONPLATA's financial statements comprise:

- the statement of financial position as of December 31, 2020;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of FONPLATA in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



Our audit approach

Overview

Materiality	Overall materiality: US\$'000 12,500; based on the 0.75% of FONPLATA's total assets.
Key audit matters	<ul style="list-style-type: none">- Hedging instruments.- Valuation of the loan portfolio.- Revolving Credit Line without sovereign guarantee.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of FONPLATA, the accounting processes and controls, and the industry in which FONPLATA operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	US\$'000 12,500.
How we determined it	Based on the 0.75% of FONPLATA's total assets.
Rationale for the materiality benchmark applied	Considering that FONPLATA is a Multilateral Development Bank with the purpose of identifying investment opportunities or projects of interest for the development of the region, materiality has been based on total assets given our assessment of this being the most stable metric and the most applicable to FONPLATA's operations.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p>Hedging instruments</p> <p>During 2019, FONPLATA issued through Credit Swiss & UBS, a five-year, fixed interest rate bond with an annual coupon of 0.578%, denominated in Swiss Francs, in the amount of CHF 150 million (ISIN CH0463112042). This bond issuance marks FONPLATA's formal entrance into the capital markets. Net proceeds from the bond will be solely used to finance disbursements on loans approved. As part of its risk management strategy pertaining this bond issuance, on March 11, 2019, FONPLATA signed a Master Agreement and entered into cross-currency swap with J.P. Morgan Chase, NA. (JPM), under the framework of the International Swaps and Derivatives Agreement Association, Inc. (ISDA). The cross-currency swap became effective on March 13, 2019. The terms for the master agreement entered into with JPM, provide for a net settlement and compensation in the event of default.</p> <p>During the 2020, FONPLATA received deposits from the Central Bank of Uruguay (CBU), for a total of US\$'000 130,000, which accrue interest at a fixed rate. On May 5, 2020, FONPLATA entered into interest rate swap agreements to exchange the fixed – rate for the 6-month Libor rate.</p>	<p>We assessed this transaction throughout the following audit procedures:</p> <ul style="list-style-type: none"> - We assessed the financial contract and its related cash flows. - We verified the differences in exchange rates and rates originated in the transaction and in the hedging with information from the Bank, JP Morgan and market prices. - We assessed the risk of material misstatements in the accounting of the underlying financial instruments. - We requested and obtained confirmation of all relevant balances from third parties. - We assessed, when it is applicable, the impairment indicators of the financial instruments and its adequately accounting and disclosure in the financial statements.
<p>Valuation of the loan portfolio</p> <p>As described in notes to the financial statements, FONPLATA calculates the impairment losses on its loan portfolio in accordance with the provisions of IFRS 9 – Financial Instruments. As of December 31, 2020, the total balance of the provision for potential impairment on loan portfolio amounts to US\$'000 9,741.</p> <p>Such balance includes all loans within stage 3 in accordance with the applicable standards and accounting policies. Key areas of judgements in the calculation of this provision includes:</p>	<p>We assessed the provision for expected credit losses through the following audit procedures:</p> <ul style="list-style-type: none"> - We assessed that the expected credit losses model used is in accordance with the FONPLATA's accounting policies and IFRS 9. - We verified that the outstanding balance of all loans used in the calculation of the expected credit losses agreed with the individual balance account of each borrower.

Key Audit Matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> - The interpretation of the requirements of IFRS 9 to determine the impairment, which are included in the expected credit losses model. - The identification of loans with a material impairment by their credit quality. - Estimates used in the expected credit losses model as the financial status of the borrower, the future cash flows and the lowest credit risk rating determined by three credit rating agencies relied upon by FONPLATA (Moody's, Fitch and S&P). 	<ul style="list-style-type: none"> - We verified the year-end balance confirmation for all FONPLATA's borrowers and the individual accounts were verified with the supporting documentation (loan collections and disbursements). - We verified that the risk rate included in the calculation of the expected credit losses agreed with the risk assessment report issued by Moody's, Fitch and S&P for each country for the year ended December 31, 2020. - We recalculated the expected credit losses provision in accordance with FONPLATA's accounting policies and the applicable accounting standard. Additionally, we verified the expected credit losses model, including the calculation, approval of the model, monitoring procedures, validation, governance and mathematical accuracy. - We assessed and tested estimates used by FONPLATA's management with specific approach on: i) key estimates used in the model, ii) source of data and other information used in the determination of the estimates, iii) test of sensibility on the estimates, and iv) disclosure included in the financial statements.
<p>Revolving Credit Line without sovereign guarantee:</p> <p>On May 12, 2020, the Bank's Board of Executive Directors approved the first operation under this new financing line, initially aimed at financing development banks. This operation consisted of a revolving credit line, without sovereign guarantee, granted to the "Banco de Desenvolvimento de Minas Gerais (BMDG)" for an amount of US\$ '000 36,000, with an 8 year duration. Likewise, on September 15, 2020, the Board of Executive Directors approved a revolving credit line without sovereign guarantee for the "Banco Nacional de Fomento - BNF" of Paraguay, for an amount of US\$'000 36,000, with a duration of 8 years and with a 2-year grace period.</p>	<p>We evaluated these loans through the following audit procedures:</p> <ul style="list-style-type: none"> - We requested confirmation on all borrowers' outstanding balances. Although we have not received responses to all of our confirmation requests, we applied the alternative procedures listed below. - We verified the contracts of the transactions. - We verified loans disbursements. - We reperformed the calculation of accrued interest.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the FONPLATA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate FONPLATA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FONPLATA's financial reporting process.

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 from 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 a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FONPLATA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FONPLATA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause FONPLATA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

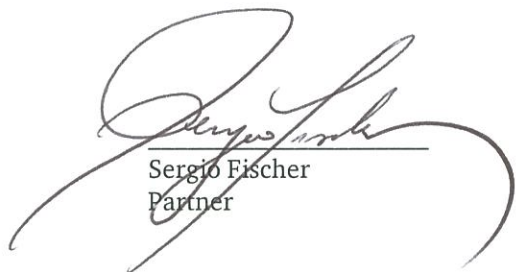


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers S.R.L.

A large, stylized handwritten signature in black ink, which appears to read "Sergio Fischer".

Sergio Fischer
Partner

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FONPLATA – Multilateral Development Bank

STATEMENT OF FINANCIAL POSITION

(All amounts expressed in thousands of U.S. dollars)

	As of December 31,			
	2020		2019	
ASSETS				
Cash and cash equivalents – Note 8.1		32,037		37,413
Investments				
At fair value with changes in other comprehensive income – Note 8.2	321,061		142,860	
At amortized cost – Note 8.3	85,722	406,783	188,647	331,507
Loan portfolio – Note 8.4		1,237,031		920,387
Accrued interest				
On investments – Note 8.3	1,821		658	
On loans – Note 8.4	10,600	12,421	11,088	11,746
Other assets				
Property and equipment, net – Note 9.1	5,934		5,721	
Miscellaneous – Note 9.2	762	6,696	893	6,614
Total assets		<u>1,694,968</u>		<u>1,307,667</u>
LIABILITIES AND EQUITY				
Liabilities				
Cash flow hedge derivatives – Note 8.5 (ii)	5		1	
Borrowings – Note 8.5	568,324		264,708	
Other liabilities – Note 9.3	1,982		2,590	
Special funds – Note 8.6	15,066	585,377	12,230	279,529
Total liabilities		<u>585,377</u>		<u>279,529</u>
Capital – Note 10.1				
Authorized	3,014,200		3,014,200	
Less callable portion	(1,665,000)		(1,665,000)	
Paid-in capital	1,349,200		1,349,200	
Paid-in capital pending integration	(432,318)	916,882	(483,651)	865,549
General reserve – Note 10.3		155,751		132,443
Other reserves – Note 10.2		1,044		1,838
Retained earnings – Note 10.3		35,914		28,308
Total equity		<u>1,109,591</u>		<u>1,028,138</u>
Total liabilities and equity		<u>1,694,968</u>		<u>1,307,667</u>

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

Juan E. Notaro Fraga
EXECUTIVE PRESIDENT

Oscar A. Perez Lopez
CHAIRMAN BOARD OF EXECUTIVE DIRECTORS

Fernando A. Fernandez Mantovani
CHIEF ACCOUNTING AND BUDGET

Rafael Robles
MANAGER FINANCE AND ADMINISTRATION

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FONPLATA – Multilateral Development Bank

INCOME STATEMENT

(All amounts expressed in thousands of U.S. dollars)

	Years ended as of December 31,	
	2020	2019
INCOME – Note 11		
Loan portfolio		
Interest	36,438	41,841
Other loan income	6,670	4,836
	<u>43,108</u>	<u>46,677</u>
Investments		
Interest and return	7,876	7,564
Other	19	16
	<u>7,895</u>	<u>7,580</u>
Other income	100	162
Income from financial assets	<u>51,103</u>	<u>54,419</u>
EXPENSES		
Interest expense	(8,627)	(8,442)
Income from financial assets, net	<u>42,476</u>	<u>45,977</u>
Provision for impairment of investments – Notes 8.3 (ii), 8.7	-.-	(52)
Provision for loan impairment	2,498	(8,136)
Income after provision for loan impairment	<u>44,974</u>	<u>37,789</u>
Administrative expenses – Note 12	(9,060)	(9,481)
Net income	<u>35,914</u>	<u>28,308</u>
STATEMENT OF COMPREHENSIVE INCOME		
Net income	35,914	28,308
Items that may be reclassified to profit or loss:		
Changes in fair value of investments	(2,417)	412
Gains on cash flow hedges	1,651	515
Items that will be not reclassified to profit or loss:		
Technical appraisal of property	(28)	(27)
Comprehensive income	<u>35,120</u>	<u>29,208</u>

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FONPLATA – Multilateral Development Bank

STATEMENT OF CASH FLOWS

(All amounts expressed in thousands of U.S. dollars)

	As of December 31,	
	2020	2019
Cash Flows from Operating Activities		
Lending		
Cash received from loan principal amortizations	77,057	77,211
Cash received from interest and other loan charges	44,488	45,676
Loan disbursements	(392,094)	(214,298)
Net flows from lending activities	(270,549)	(91,411)
Other operating flows:		
Payment of salaries, benefits, and other personnel expenses	(6,817)	(6,606)
Payment of administrative expenses	(2,060)	(413)
Increase in trade accounts payable and with special funds	1,099	(1,821)
Net flows from other operating activities	(7,778)	(8,840)
Net cash flows used in operating activities	(278,327)	(100,251)
Cash Flows from Financing Activities		
Proceeds from borrowings	292,884	186,046
Derivatives- Collateral	17,644	5,900
Repayment of borrowings and debt service	(14,631)	(12,716)
Net flows from funding of on-lent activities	295,897	179,230
Collection of paid-in capital subscriptions	51,333	48,015
Net flows from financing activities	347,230	227,245
Cash flows from investing activities		
Collection of investment income	6,732	7,119
Purchase of investments	(80,449)	(151,848)
Capital expenditures	(562)	(273)
Net flows used in investment activities	(74,279)	(145,002)
Decrease in cash and equivalents during the year	(5,376)	(18,008)
Cash and equivalents as of December 31, 2019	37,413	55,421
Cash and equivalents as of December 31, 2020	32,037	37,413

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

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FONPLATA – Multilateral Development Bank

STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in thousands of U.S. dollars)

	<u>Paid-in Capital</u>	<u>General Reserve</u>	<u>Reserve for changes in the value of investments at fair value</u>	<u>Reserve for changes in value of cash flow hedges</u>	<u>Reserve for revaluation of property</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance as of January 1, 2019	817,534	107,871	126	-.-	812	26,572	952,915
Capital increase – Paid-in portion	48,015	-.-	-.-	-.-	-.-	-.-	48,015
Allocated by the Assembly of Governors to:							
General reserve	-.-	24,572	-.-	-.-	-.-	(24,572)	-.-
Special Fund for the Compensation of the Operational Rate (FECTO)	-.-	-.-	-.-	-.-	-.-	(1,500)	(1,500)
Technical Cooperation Fund (PCT)	-.-	-.-	-.-	-.-	-.-	(500)	(500)
Net income for the year	-.-	-.-	-.-	-.-	-.-	28,308	28,308
Comprehensive income for the year	-.-	-.-	412	515	(27)	-.-	900
Balance as of December 31, 2019	<u>865,549</u>	<u>132,443</u>	<u>538</u>	<u>515</u>	<u>785</u>	<u>28,308</u>	<u>1,028,138</u>
Capital increase – Paid-in portion	51,333	-.-	-.-	-.-	-.-	-.-	51,333
Allocated by the Assembly of Governors to:							
General reserve	-.-	23,308	-.-	-.-	-.-	(23,308)	-.-
Special Fund for the Compensation of the Operational Rate (FETCO)	-.-	-.-	-.-	-.-	-.-	(3,500)	(3,500)
Technical Cooperation Fund (PCT)	-.-	-.-	-.-	-.-	-.-	(1,500)	(1,500)
Net income for the year	-.-	-.-	-.-	-.-	-.-	35,914	35,914
Comprehensive income for the period	-.-	-.-	(2,417)	1,651	(28)	-.-	(794)
Balance as of December 31, 2020	<u>916,882</u>	<u>155,751</u>	<u>(1,879)</u>	<u>2,166</u>	<u>757</u>	<u>35,914</u>	<u>1,109,591</u>

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

Juan E. Notaro Fraga
EXECUTIVE PRESIDENT

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FONPLATA – Multilateral Development Bank

NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in thousands of U.S. dollars)

NOTE 1 – BACKGROUND

The “Fondo Financiero para el Desarrollo de la Cuenca del Plata”, hereinafter and for all intent and purposes denominated as “FONPLATA”, or “the Bank”, is an international legal entity of indefinite life, which is governed by the covenants contained in its Charter and on its Regulations as a multilateral development bank. The Bank is headquartered in the city of Santa Cruz de la Sierra, Estado Plurinacional de Bolivia and has liaison and project monitoring offices in Asuncion, Republic of Paraguay, since 1989, in Buenos Aires, Republic of Argentina since June 2018, in Montevideo, Uruguay, since December 2019, and it is in the process of opening an office in Brasilia, Brazil by the end of February 2021. Liaison offices are an integral part of the Bank’s strategy to strengthen the working relationship with its member countries.

The Bank is formed by the governments of Argentina, Bolivia, Brazil, Paraguay y Uruguay, hereinafter “funding members”, based on the River Plate Basin Treaty, subscribed on April 23, 1969, which gave rise to its consolidation and recognition a legal entity on October 14, 1976, when its Charter was approved and put into force.

The Bank was created by its founding members, within a cooperation spirit and solidarity, persuaded that only cooperation and joint action could lead to harmonized, inclusive, and sustainable development to foster a better insertion of its member countries within the regional and global economy.

The Bank’s founding members maintain a very close relationship among themselves sharing the same ecosystems, such as the hydrographic and energy systems, air, river and road transportation networks and other communication systems.

Among the main functions of the Bank, are the granting of loans and guarantees, obtaining external financing with the sovereign guarantee of its Member Countries; the financing of pre-investment studies with the purpose of identifying investment opportunities or projects of interest for the region; the financing and contracting of technical assistance; and to undertake any other functions that are considered conducive to the attainment of its objectives.

On November 9, 2018, reaffirming its support to management and the continuous growth of its portfolio of operations, the Assembly of Governors approved modifications to the Charter. These modifications pursue the purpose of modernizing and enhancing the institution’s overall capacity and relevance to perform as an effective partner in the development of its member countries and their integration at a regional and global level. The modifications approved encompass: (i) FONPLATA’s transformation from a “fund” into a “development bank”; (ii) a change in its name to be formally recognized as “FONPLATA”, or “The Bank”; (iii) expansion of its scope of work from an strictly geographic focus based on the countries located in the “La Plata” river basin, to one encompassing the region of its member countries and their integration in the global market; (iv) the expansion of its membership beyond its funding members, recognizing the possibility of incorporating non-funding members that could consist of either countries or institutions, to its capital base; (v) the redenomination of capital as “authorized capital” for an initial amount of \$3,014,200, consisting of 301,420 class “A” shares, to be allocated to funding members only, with a par value of \$10 each, and with a voting right of one (1) vote per share. Furthermore, the modifications approved stipulate that the authorized capital shall also include shares

class “B”, to be allocated to non-funding members. The initial authorized capital consists in its entirety of class “A” shares, consisting of 134,920 shares of paid-in capital for a total amount of \$1,349,200, and 166,500 shares of callable capital for an amount of \$1,665,000.

Class “B” shares would be issued after the authorized capital has been increased and in the number of shares corresponding to the percentage of participation at the time new members are admitted.

Both series shall be issued when the Charter’s modifications are formally ratified by the funding member countries, which is deemed to materialize thirty days after receiving communication from the funding member countries’ confirming their formal ratification.

As of December 31, 2020, and as the date of issuance of these financial statements, the modifications to the Charter approved by the Board of Governors are still pending ratification by the corresponding authorities of one of the five member countries.

With regards to its operations, the Bank is characterized by a keen focus on strategic planning and management by results. The Strategic Institutional Plan 2013 – 2022 (a.k.a. PEI for its Spanish acronym), which was updated for the period 2018 – 2022, and approved by the Assembly of Governors in August 2017, constitutes the main instrument designed to manage, supervise and ensure accountability for the attainment of expected results. Complementing the PEI, the Bank prepares the Programs and Budget Document (a.k.a. DPP for its Spanish acronym). The DPP contains the expected results to be attained for the next three-years, as well as the activities required and their related costs, that make the basis for the administrative and capital budgets. Following the recommendation of the Board of Executive Directors, the DPP for the periods 2019 – 2021 and 2020 – 2022, were approved by the Assembly of Governors on November 30, 2018, and on November 29, 2019, respectively. On November 20, 2020, the Assembly of Governors, acting upon a recommendation from the Board of Executive Directors, approved the Bank’s DPP for the period 2021 – 2023.

On March 14, and on December 2, 2019, the Bank signed administration agreements with Uruguay and Argentina, respectively. These agreements confer the Bank’s immunities as well as define its rights and obligations for the conduct of its operations in the corresponding member country (“Convenio Sede”).

The Bank’s 2020 financial statements were reviewed by the Audit Committee of the Board of Executive Directors and based on it, the Board of Executive Directors as a whole, issued its recommendation to the Board of Governors for approval approving them on March 2, 2021.

NOTE 2 – SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

The Bank’s financial position and performance was particularly affected by the following transactions during the year ended as of December 31, 2020:

- As anticipated in the Letter from the President to the Bank’s 2019 Annual Report, the novel coronavirus (COVID-19) has had and will continue to have wide-ranging and profound effects in the global and regional economies, with a high cost in human life and seriously impacting the way we live, interact and work.
- In mid-March, as all countries proceeded to close their borders and to issue stay-at-home orders in an effort to contain the virus from spreading further, the Bank also closed its headquarters and regional offices. However, and thanks to its investments in technology, was able to switch its workforce to a

teleworking modality so staff could work from their respective homes. This way, the Bank safeguarded the health of its' employees and continued serving the needs of its member countries through directly supporting them in their efforts to counteract the immediate effects of the pandemic.

- The immediate effect of the COVID-19 pandemic is a reduction of interest rates. In the case of the Bank, a reduction on the 6-month Libor rate directly results into a reduction of the amount of interest accrued on loans to member countries. The effect of this reduction in loan income was partially offset through the increase in the gross amount of loans receivable by 33.6%, compared to 2019 (\$1,251,495 as of December 31, 2020, when compared to \$936,458, as of December 31, 2019), due to an 83% increase in the amount of loan disbursements, which reached \$392,094 in 2020 (2019 - \$214,298). Additionally, the reduction experienced in loan revenues was partially offset through a reduction in borrowing costs, which for the most part have been contracted based on the 6-month Libor rate. In those instances in which the borrowing contracts call for a fixed rate, and in accordance to its risk management policy that calls for minimizing the exposure to interest rate and currency risk, the Bank have swapped the fixed rate obligation into a variable rate based on the 6-month Libor rate, effectively matching its reference lending rate. Hence, eliminating the exposure to interest rate risk. For further details refer to Notes 4.10; 6; and 8.5-(ii).
- The impact on loan income resulting from changes in accounting estimates related to: (i) the improvement of the credit risk rating of one-member country, which had the effect of lowering the provision for potential loan impairment by \$6,878, in September 2020; and, (ii) the reversal of the provision for impairment of Argentine bonds, which had been classified as held-to-maturity, hence valued at their amortized cost and adjusted to their lower market value through a provision. Following the debt exchange program agreed between Argentina and its bondholders in the courts of New York, U.S. on August 15, 2020, at the beginning of September 2020, the Bank exchanged those bonds by new series of bonds. The exchange was effected at the nominal value of the carried bonds. The new bonds received, were classified as available for sale, and valued at reasonable value with subsequent changes in value recognized in other comprehensive income (OCI). Consequently, the amount of provision for the impairment of bonds of \$3,852, was reclassified to OCI, resulting in an increase of net income for the year. See Notes 8.3-(ii) and 8.7 for further information.
- With regards to the Bank's actions on the operational front to assist its member countries to address immediate needs associated to the pandemic, the Bank mobilized additional \$120,800 in fresh resources through the following actions:
 - Approval of \$1,500 of non-reimbursable technical cooperation from the PCT, to be allocated among the 5 member countries to pay for protective gear, medical supplies, and equipment to combat COVID-19. Total disbursements under the non-reimbursable technical cooperation during 2020, amounted to \$1,370.
 - Disbursement of \$72,000 in various COVID-19 financings benefiting all member countries following the approval of an emergency line by the Board of Executive Directors (RDE No 1454/20),
 - \$2,600 disbursed on various loans in accordance with loan contracts, which provide for the ability to reassign up to 5% of the approved loan resources to help countries to respond to emergencies. These monies were used by the corresponding member countries for the purchase of medical equipment and supplies as well as for other COVID-19 related activities.
 - Redirecting funds in existing loan contracts with undisbursed funds to free-up to \$44,800 for the fight against COVID-19.

- The increased demand for fresh resources to fund COVID-19 activities resulted in an increase in the amount of loan disbursements, which as of December 31, 2020, amounts to \$392,094, exceeding in \$122,000 the goal set in the DPP 2020 – 2022, for loans disbursements, which ranged from \$250,000 to \$270,000.
- In 2019, the Board of Governors approved the policy for the appropriation of lending resources to enable the financing of operations without sovereign guarantee for the financing of government owned enterprises at the national and subnational levels. Following this approval and also in 2019, the Board of Executive Directors approved a new financial product for the financing of operations without sovereign guarantee (NSG). On May 12, 2020, the Board of Executive Directors approved the first operation under this new line of financing, consisting of a revolving line of credit without sovereign guarantee for the “Banco Desenvolvimento de Minas Gerais (BMDG)”, in the amount of \$36,000, with an 8-years duration. On May 21, 2020, the Bank disbursed the totality of the amount approved. This first tranche has a maturity of 5 years including 2 years of grace period, and calls for semiannual amortization of principal, interest, commitment, and financing commissions. Interest payments are based on the 6-month Libor rate, plus a fix margin determined at the time of each disbursement based on the risk-rating assigned at that time. Additionally, on September 15, 2020, the Board of Executive Directors approved a line of credit without sovereign guarantee for the “Banco Nacional de Fomento – BNF”, of Paraguay, in the amount of \$36,000, with 8-year duration and a 2-year of grace period. The loan was disbursed in its entirety on December 15, 2020.
- To comply with its liquidity policy and to respond to the increased demand for loan disbursements, the Bank decided to tap on the unused portion of existing lines of credit approved with other multilateral and bilateral organizations, as well as to borrow funds through medium-term promissory notes with member countries’ central banks. During the period year ended as of December 31, 2020, the Bank borrowed \$292,883, distributed as follows:

<u>Entity</u>	<u>Outstanding 31 December 2019</u> \$	<u>Principal repaid/Fair value adjustments</u> \$	<u>Borrowed from January 1 through December 31, 2020</u> \$	<u>Outstanding as of December 31, 2020</u> \$
Corporación Andina de Fomento (CAF)	10,667	(5,333)	64,000	69,334
Inter-American Development Bank (IDB)	60,215	-.-	27,883	88,098
French Development Agency (AFD)	5,000	-.-	15,000	20,000
European Investment Bank (BEI)	-.-	-.-	6,000	6,000
Official Credit Institute E.P.E. (ICO)	5,536	-.-	-.-	5,536
Deferred loan charges	(194)	(88)	-.-	(282)
Subtotal multilaterals and other	81,224	(5,421)	112,883	188,686
Issuance of CHF bond	148,809	-.-	-.-	148,809
Deferred loan charges	(693)	113	-.-	(580)
Market value adjustments	5,385	16,028	-.-	21,413
Subtotal bonds	153,501	16,141	-.-	169,642
Central Bank of Bolivia (BCB) – 6-month Libor	30,000	-.-	50,000	80,000
Central Bank of Uruguay (BCU) – Fixed rate	-.-	-.-	130,000	130,000
Deferred loan charges	(17)	13	-.-	(4)
Subtotal borrowed from Central Banks	29,983	13	180,000	209,996
Total borrowings	264,708	10,733	292,883	568,324

- As of December 31, 2020, the Bank is engaged in negotiations with the New Development Bank (NDB), for a line of credit of up to \$300,000, which would be used for the funding of disbursements on loans approved to member countries. Additionally, the Bank is in negotiations with the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, to obtain a guarantee on a loan from J.P. Morgan Chase, NA (JPM), in the amount of \$120,000. Furthermore, the Bank is also considering the issuance of a new bond in the Swiss capital market. These financings are expected to be formalized during the first half of 2021.
- As part of its strategy for the management exposure risks to changes in both, interest and exchange rates, the Bank has the policy of granting and denominating all of its loans in United States dollars, and used the 6-month Libor as its reference rate. Furthermore, the majority of its borrowings are also contracted and denominated in United States dollars, and bear interest based on the 6-month Libor rate. This way, the Bank minimizes its exposure risk. However, in those cases where it contracts debt denominated in currencies other than the United States dollar, or where the debt accrues interest in a rate other than the 6-month Libor rate, the Bank resorts to the contracting of derivatives to effectively mitigate the exposure. To this end, on May 5, 2020, the Bank entered into an interest rate swap with JPM, to offset the interest rate risk related to the contracting of time deposits at fixed rate with the BCU.
- The Bank designated the derivatives as a cash flow hedge, within the scope of IFRS 9. Accordingly, the derivatives are valued at reasonable value using a discounted cash flow model provided by Bloomberg and shown in the financial statements under other assets together with the amount of cash collateral received from JPM. This accounting is supported by the ISDA master netting agreement which establishes the right to offset the positions in the balance sheet (see also Notes 4.10; 6; and 8.5-(ii).
- The Bank's use of derivatives is for the sole purpose of reducing the risk exposure to changes in interest rates and foreign exchange rates and not for speculative purposes.
- Following the signing of the agreement for the trusteeship of the Fund for the Structural Convergence of MERCOSUR (FOCEM), in December 2019, the Bank assumed the role of fiduciary agent for the investment of the financial resources to be transferred by FOCEM. The first transfer of funds from FOCEM, was received by the Bank on July 24, 2020, and transferred into the custodial bank account opened under FOCEM as administered by the Bank as its fiduciary agent. These accounts and financial accounting records are kept separately from the Bank's own accounts. The signing of this fiduciary agreement with FOCEM is the result of the credibility and prestige that the Bank enjoys within the region and opens the door for further leveraging the complementarity and synergies between the projects financed by FOCEM and the Bank's development and integration agenda.

NOTE 3 – HOW INCOME IS CALCULATED

The Bank derives most of its income from sovereign-guaranteed loans to its member countries, and starting in 2020, a small part from non-sovereign guarantee loans extended to member countries' estate-owned banks. The Bank's ability to generate loan income relates to various relevant factors directly affecting the growth of its main earning asset, its loan portfolio. The following factors directly affect loan portfolio growth and its profitability:

- The lending capacity, which is based on three-times the amount of equity.
- The amount of loan disbursements.
- The amount of principal collections received during the year; and,
- The 6-month Libor rate and the rate of operational return or margin.

Investment income relates directly to the investment of the Bank's portfolio of liquid assets (i.e. cash and cash equivalents), for the purpose of reducing the cost of carry. The Bank holds liquidity for the purpose of meeting expected loan disbursements; meeting its financial obligations, and to defray its operational expenses for a period of 12 months (see Note 6.5).

The following table, which is based on average financial assets and liabilities and annual administrative expenses illustrates how the Bank derives its revenues, expenses, and net income:

	December 31,					
	2020			2019		
	Average balance \$	Income \$	Return %	Average balance \$	Income \$	Return %
Loans receivable	1,093,976	43,108	3.94	867,915	46,677	5.38
Investments	403,870	8,057	1.99	302,024	7,828	2.59
Financial assets	1,497,846	51,165	3.42	1,169,939	54,505	4.66
Borrowings	(416,516)	(8,626)	(2.07)	(172,201)	(8,442)	(4.90)
Financial assets, net	1,081,330	42,538	3.93	997,738	46,063	4.62
Accounting charges ¹	-.-	2,244	0.20	-.-	(8,424)	(0.84)
Administrative expenses	-.-	(8,868)	(0.82)	-.-	(9,331)	(0.94)
Net assets	1,081,330	35,914	3.32	997,738	28,308	2.84
Equity	1,068,865	-.-	3.36	990,526	-.-	2.86

¹Includes Special Funds' participation on investment income \$162, loss (2019 - \$152, loss); other income \$104, net gain (2019 - \$162, net gain); depreciation \$321, loss (2019 - \$314, loss); provision for potential loan losses \$2,498, net recovery for the year (2019 - \$8,136, net charge); and exchange differences in the amount of \$129, net gain (2019 - \$164, net gain). Amount stated for 2019, also includes provision for expected impairment on investments in Argentine bonds for \$52, net charge for the year.

NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Below is a summary of the main accounting policies used in the preparation of these financial statements. Except when expressly noted, these accounting policies have been consistently applied during the interim periods and year presented.

4.1 Basis for presentation

(i) Compliance with International Financial Reporting Standards

The financial statements are presented in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretation Committee (IC), applicable to entities that report under IFRS and comply with the standards issued by the International Accounting Standards Board (IASB).

The Bank presents a statement of financial position classifying assets and liabilities in accordance with their expected liquidity. Assets and liabilities are shown based on their expected recovery or repayment within the period of 12 months following the date of the financial statements (current), and more than 12 months following the date of the financial statements (non-current), as per Note 13.

(ii) Historical cost

The financial statements have been prepared based on historical cost, except for the following components:

- Financial assets at fair value with changes in other comprehensive income.
- Investments classified at amortized cost and adjusted to their reasonable value through a provision for potential impairments in those instances where the latter is lower than the amortized cost.
- Property valued at fair value.

(iii) New standards and modifications adopted by the Bank

The following chart summarizes new international financial reporting standards (IFRS), as well as certain applicable modifications of existing ones that were applied by the Bank starting January 1, 2020. The standards listed below exclude the following new standards or modifications that are not applicable to the activities performed by the Bank: IFRS 11 Joint Arrangements; IAS 12 Income Taxes; and, Plan Amendment, Curtailment or Settlement – Amendments to IAS 19.

The following standards and modifications started to be applied by the Bank on January 1, 2020:

Standard	Key Requirements	Effective Date
IAS 1 and IAS 8, definition of materiality	These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs", include: i) the use of a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform	These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.	1 January 2020
Amendments to IAS 1, Presentation of financial statements on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	1 January 2021

The majority of the amendments listed above did not have a significant impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

4.2 Segments' disclosure

Based on an analysis of its operations, the Bank has determined that it only has a single operating segment, consisting on the financing of the development needs of its member countries.

The Bank continuously evaluates its performance and financial position as the basis for making decisions it considers appropriate for the attainment of its strategic objectives.

4.3 Foreign currency translation

(i) Functional and reporting currency

Account balances presented in the financial statements, as well as the underlying transactions that conform them, are measured using the United States dollar, which is the primary currency of the economic environment in which operates ("functional currency").

(ii) Account balances and transactions

Foreign currency transactions are converted to the functional currency using the exchange rate prevailing at the date of each transaction. Exchange gains or losses on foreign currency transactions result from payments realized in currencies other than the United States dollar, related to administrative expenses incurred either at the Bank's headquarters or at its office in Asuncion, Paraguay, in Buenos Aires Argentina, and in Montevideo, Uruguay. Exchange gains and losses associated to administrative expenses are presented on a net basis as part of administrative expenses, in the income statement.

Financial assets, such as investments and loans are denominated in United States dollars, and with the exception of the Swiss Francs denominated bond, which was swapped in U.S. dollars, the Bank does not have other financial liabilities in other currency. Consequently, there are no exchange differences related to financial assets and liabilities.

The majority of the Bank's operational expenditures are incurred in the functional currency, with the exception for a small amount involved in goods and services related to administrative expenses, that are denominated in currencies other than the functional currency carried at their fair value. The amounts involved, are translated into the functional currency at the rates of exchange prevailing on the date on which their fair value is determined. Exchange differences on assets and liabilities measured at fair value are reported together with gains and losses on fair value.

4.4 Revenue recognition

Interest revenues on loans and interest income on investments valued at their amortized cost are calculated based on the effective interest rate method. Other loan revenues consisting of administrative commissions and commitment fees, are calculated in accordance with IFRS 15.

The Bank recognizes revenues when their amount can be reliably measured and when it is likely that the resulting economic benefits would be received. The Bank based its estimates on historical results, considering both, the type of transaction or borrower and the relevant terms of the corresponding signed contracts.

4.5 Leases

Lease contracts for terms of up to 12 months or less and that do not include a purchase option are recognized as an expense on a straight-line basis throughout the contract.

All other leasing arrangements are initially recognized based on the right of use of the asset and as a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred. After lease commencement, a lessee shall measure the right-of-use asset using a cost model.

4.6 Cash and cash equivalents

For presentation purposes in the statement of cash flows, cash and its equivalents include both cash at hand and highly liquid bank deposits and investments, with an original maturity of three months or less, that can be converted into determinable amounts, and which are not subject to significant risks affecting their value.

4.7 Loan portfolio

Loan portfolio is initially recorded at its fair value and subsequently measured at its amortized cost using the effective interest rate method, net of the provision for loan impairment. For additional information on the loan portfolio accounting see Note 8.4.

4.8 The Bank's business model and its effect on financial assets and liabilities

Classification, measurement, recognition and disclosure of the Bank's financial assets and liabilities in the financial statements is determined by its business model. The Bank's business model architecture is designed with the purpose of helping its member countries efforts to improve their people's quality of life by financing projects designed to improve regional integration and socioeconomic development. The Bank, like any other multilateral development bank (MDB), finance its lending program through a combination of paid-in capital subscriptions; its retained earnings; and, by borrowing from capital markets; MDBs; cooperation agencies and international financial institutions. The Bank's capital consists of paid-in and callable capital. Callable capital is subscribed and committed by member countries and can be called upon in case of a financial emergency such as a catastrophic event that would preclude the Bank from accessing capital markets or borrowing directly from other institutions to comply with its financial obligations.

One of the key elements of the Bank's business model is its ability to remain relevant. The Bank's relevance is measured through its ability to mobilize a level of fresh financial resources, through both on-lent and technical cooperation activities, sufficient to assist its member countries in their development needs.

To achieve its mission, MDBs require to continuously grow their capital base, as a means to increasing their lending capacity over time. To this end, approximately every 5 – 7 years, MDBs may go through a capital replenishment that consisting of an increase of both paid-in and callable capital or in some cases involve the addition of new members.

Lending capacity is determined through either the callable capital of investment grade members, like it is the case in the oldest and most matured MDBs that have a global membership, or based on a multiplier of their equity, as it is the case with younger and regional institutions, such as the Bank.

In the case of the Bank, lending capacity is measured based on a multiplier of 3-times the size of its equity.

Based on its capital structure, which by the end of the current replenishment should consist of approximately 45% paid-in capital and 55% callable capital, the Bank needs to borrow funds to finance disbursements for a portion of its lending portfolio. Borrowing capacity is also determined based on 2-times the size of equity plus liquid assets.

The main financial earning assets of the Bank are its loans to member countries. All financial assets and liabilities are contracted and denominated in U.S. dollars and bear interest based on the 6-month Libor rate plus a margin. As part of its prudential risk-management philosophy and policies, the Bank uses derivatives for the sole purpose of hedging the underlying cash-flows associated to borrowings contracted in currencies different than the U.S. dollar or that bear interest at a rate different than the 6-month Libor rate.

Liquidity is maintained for the purpose of ensuring the ability to meet all planned loan disbursements, debt-service requirements, and to pay for all planned and approved operating expenditures and capital investments expected to occur in for the next 12-months following the end of the Bank's fiscal year. Liquidity is invested with the sole purpose of reducing the cost of carry the required level of liquidity in compliancy with the Bank's policies.

The main disclosures that follow form an integral part of these financial statements, and provide specific information on each of the Bank's relevant financial assets and liabilities, as well as additional information on the Bank's business model, and how it determines manner and opportunity in which they are classified, measured, recognized and disclosed.

(i) Classification

Classification of financial assets depends on the Bank's business model that contemplates the nature and purpose at the time of their acquisition and recognition. The Bank has two distinct investment portfolios, one where investments can be sold at any time prior to their contracted maturity, and the other one where investments are purchased with the intent to be held through their contractual maturity. Classification of investments on either portfolio, is determined based on planned liquidity requirements and other factors.

Investments held to their contractual maturity are accounted for at the lower of their amortized cost or reasonable value. Investments available for sale are valued at their reasonable value with changes in value recognized in other comprehensive income (OCI). Note 8, provides further details on the recognition, measurement and disclosure of investments.

- **Financial assets at amortized cost - Loan and investment portfolios (FAVAC)**: are assets generated or purchased with the objective of collecting contractual cash flows resulting from principal amortization and accrued interest. These financial assets are not designated as "financial assets at fair value with changes in income," and are measured at their amortized cost. The value of these financial assets is adjusted by the provision for estimated losses, which is calculated and recognized as stated in this note.
- **Financial assets at fair value with changes in other comprehensive income (FVOCI)**: are assets purchased with the purpose of collecting contractual cash flows resulting from principal amortization and accrued interest, as well as from the sale of the underlying assets. These assets are not designated as "financial assets at fair value with changes in income," and are measured at their fair value with changes recognized in other comprehensive income.
- The Bank does not have financial assets at fair value with changes in income.
- Derivatives resulting from the cross-currency and interest rate swaps entered into as an integral part of the Bank's risk management strategy designed to hedge the interest rate and foreign exchange risk associated to

borrowings contracted in currencies other than the U.S. dollar or at interest rates other than the 6-month Libor, which is the Bank's reference rate for its loans, have been designated as a cash flow hedge, and are considered completely effective. Changes in fair value of these derivatives, given the Bank's right to offset and be compensated in the event of counterpart default, are shown forming part of Other Assets, as derivatives, together with the resulting collateral in the statement of financial position. The bond is shown under Borrowings in the statement of financial position. Changes in fair value of the cross-currency swap are accounted for in other comprehensive income (see Notes 2; 4.10 and 8.5-(ii)).

(ii) Reclassification

Financial assets other than loans could be reclassified under a different category of "investments at fair value with changes in other comprehensive income," based on the business model in use to manage them or according to the characteristics of their contractual cash flows.

Reclassifications are made at the fair value at the time of reclassification. The fair value is converted into cost or amortized cost, when applicable. Subsequent reversal of gains and losses on fair value changes accounted for prior to the time of reclassification are not permitted. The effective interest rates of financial assets carried at amortized cost, are determined on the date of reclassification. Adjustments to the effective interest rate because of additional increases to cash flows are made prospectively.

(iii) Recognition and disposal

Normal generation, purchases and sales of financial assets are recognized on the date in which they are transacted, which is the date in which the Bank generates them or commits to their purchase or sale. Financial assets are disposed-off upon expiration of the rights to receive a flow of funds or upon transferring their risk of ownership.

When investments carried at fair value with changes in other comprehensive income are sold, the cumulative fair value adjustments accounted for under "other comprehensive income" is reclassified in the income statement as part of gains or losses on investments.

(iv) Measurement

Initially, the Bank measures financial assets at their fair value plus those transaction costs directly attributable to their acquisition.

Loans and investments held to maturity are subsequently valued at their amortized cost using the effective interest rate method.

Investments which will be maintained at fair value with changes in other comprehensive income, are subsequently valued at their corresponding market value. Gains and losses resulting from changes in fair value are recognized in other comprehensive income. Interest resulting from financial assets carried either at market value through other comprehensive income or at amortized cost and loans, calculated based on the effective interest rate method, is recognized in the income statement as part of operating income.

Note 8.7 includes details pertaining the determination of fair values of financial instruments.

(v) Impairment

The Bank assesses the likelihood of potential impairment affecting either a financial asset or a group of financial assets. The Bank determines the adequacy of the provision for potential impairment on its loans using a methodology that has been modelled after the best practices developed the leading MDBs, which had crafted it working in close consultation with the main credit risk rating agencies. The methodology used assesses the expected loss based on the following factors: (i) the maximum exposure to risk of default; (ii) the probability of default; and, (iii) the maximum expected loss. Although the Bank uses the same formulae, the values used in connection with each factor are different for sovereign guaranteed loans, than those used for non-sovereign guaranteed loans.

For sovereign loans, the Bank assesses the probability of default by its member countries using the most recent sovereign credit risk rating assigned to each country, by three of the internationally recognized credit rating agencies, adjusted by the Bank's preferred creditor status, and multiplied by the expected amount of loss, measured as a percentage. The Bank uses the same percentage for all countries' sovereign loans outstanding.

For non-sovereign guaranteed loans, the Bank assesses the probability of default, using the most recent credit risk rating issued by one of the internationally recognized credit risk-rating agencies, adjusted by its internally developed own credit risk rating. The expected impact or maximum expected loss is calculated applying a single percentage which is based on the Basle Committee's recommendations for internally developed credit risk rating systems.

The provision for potential loan losses is shown as a deduction of the amount of the loan portfolio.

Should there be a reduction in the amount of potential loan losses in a subsequent period, and such reduction is objectively related to an event occurring after recognition of the impairment (such as an improvement in the credit risk rating of the borrower), the reversal of the impairment losses previously recognized could be included in the income statement.

The accrual of interest on loans is discontinued for loans balances that have been in arrears for more than 180 days. The amount of loan interest accrued receivable on loans declared on non-accrual status is recognized at the time of collection until such date when those loans are in accrual status. Accrual status requires the borrower to pay in-full, the amount of principal and interest or commissions in arrears, as well as the assurance that the borrowing member country has resolved the financial difficulties that caused it to fall behind on meeting its obligations on a timely basis.

Note 8.4-(iii), has a detailed explanation of this methodology as well as the determination of the provision for loan impairment.

Expected impairment of the value of investments carried at fair value with changes in other comprehensive income (FVOCI), is for the most part already embedded in the market value.

However, the Bank assesses any potential impairments by reviewing any downgrades in the credit risk rating of issuers and using valuation models to assess if the potential impairment is other than temporary. Should a potential impairment be deemed to be permanent then the Bank proceeds to value it at its impaired value through a provision.

For investments carried at amortized cost, the Bank assesses expected impairment by comparing the dirty price and the bid market price of each investment held in the portfolio to their respective carrying amount and recognizing a potential impairment based on the difference between the carrying amount and the bid market price, whenever the latter is lower than the carrying amount at amortized cost.

Except for determining the adequacy of the amount of provision for expected losses on loans with sovereign guarantee and without sovereign guarantee, for which the Bank uses a specific methodology modelled after the one adopted by the leading MDBs, as stated above, and for purposes of estimating the ECL on other financial assets, and in accordance with its internal policies, the Bank classifies its financial instruments measured at amortized cost or fair value through OCI, in one of the following categories:

Stage 1: includes all instruments that have not experienced a significant increase in credit risk since their initial purchase and recognition, where the expected credit loss (ECL) equals the impairment expected in the next 12 months.

Stage 2: includes all instruments that, have experienced significant increases in credit risk since initial recognition but are not yet deemed credit impaired.

Stage 3: includes financial instruments, overdue or not, which are considered to be credit impaired. Likewise, loan commitments or financial guarantees whose payment is probable and their recovery doubtful are considered to be in Stage 3.

Classification into stages: Following immediate recognition of the asset, determination of whether an asset credit quality is impaired and of the degree to which it is impaired is based on the following relevant criteria:

- Contractual payments of either principal or interest are past due for more than 180 days;
- Significant decrease of the credit rating of the assets; and
- Whether the financial asset is credit impaired.

(vi) Revenue recognition

Interest revenues are recognized based on the effective interest rate method. Should there be loans in non-accrual status, they are considered impaired loans. A loan is impaired when the analysis of available information and current events are indicative, to a certain degree of probability, that the Bank could not recover the full amount of principal and interest accrued, based on the agreed upon loan covenants. When a loan is impaired, the Bank reduces the carrying amount of such loan to its net realizable value, based on the discounted cash flows using the loan's original effective interest rate, and reverts the discounted amount against loan revenues. Interest revenues on impaired loans are recognized using the original effective interest rate.

4.9 Property and equipment

Property is carried at book value, which includes revaluations. Increases to the carrying amount of property resulting from revaluations are included in other comprehensive income and shown as part of the accumulated balance of revaluation reserves within equity. Subsequent increases to the carrying amount due to revaluations should be recognized affecting income to the extent that revaluation increases had been previously reverted affecting the income statement. Any decreases reverting revaluation increases of the same assets are initially recognized in other comprehensive income to the extent there are revaluation surpluses attributable to those assets. All other decreases are reflected in the income statement.

Equipment are carried at their historical cost less depreciation. The historical cost includes all directly related acquisition expenses.

Subsequent costs are either included as part of the carrying amount of property and equipment or recognized as a separate asset, only when it is probable that there are future economic benefits to be derived from that asset and its cost can be reliably determined. The carrying amount of each component recognized as a separate asset is written-off at the time of its disposal or replacement. Repairs and maintenance expenses are included in the income statement during the period in which they are incurred.

Note 9.1 shows the depreciation methods and useful lives used by the Bank. Assets' residual values and useful lives are reassessed and adjusted as appropriate at year end. In those instances, where the carrying amount of assets exceeds their recoverable value, carrying amounts are adjusted to their recoverable value.

Gains and losses on the sale of fixed assets are determined by comparing the carrying amount with the sale price and accounted for in the income statement. In case of sale of revalued assets, it is the Bank's policy to transfer the amounts carried in revaluation reserves into retained earnings.

4.10 Financial liabilities

Financial liabilities consist of borrowings and derivative financial instruments that are an integral part of the Bank's hedging activities designed to effectively manage interest rate and exchange rate risks in connection with bond issuances. The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 8.5, and the changes in the hedging reserve are explained in the Statement of Changes in Equity are shown in note 10.2 – (ii).

At inception of the hedge relationship, the Bank documents its risk management objective and strategy and the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The following is an explanation of borrowing and derivative financial instruments, hedging activities and accounting policies used in connection with these instruments.

Borrowings: are initially recognized at their fair value, net of related transaction costs. Subsequently, borrowings are valued at their amortized cost. Any difference between the value initially recognized for the liability and the amount effectively paid, is reflected in the statement of income based on the effective interest rate method.

Derivative financial instruments and hedging activities: Derivatives are solely used for hedging interest and exchange rate risk associated to the 5-year maturity, fixed interest rate CHF 150 million bond issued by the Bank on March 11, 2019 (see also Notes 2; and, 8.5-(ii)). Derivatives carry inherent market and credit risks. The inherent market risk on a financial instrument is the potential fluctuation in the interest rate, currency exchange rate or other factors, and it is a function of the type of product, the volume of the transactions, the tenor and other terms of each contract and the underlying volatility.

The inherent credit risk is the counterparty's possible non-compliance in the delivery of collateral to recover the balance due.

The Bank mitigates the credit risk in derivative financial instruments through transactions with highly qualified counterparties with a credit rating of "A" (or equivalent) or better, and by signing an ISDA master netting agreement with its derivatives counterparties.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 8.5, and the changes in the hedging reserve are explained in the Statement of Changes in Equity are shown in note 10.2 – (ii).

The Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness.

This process includes linking all derivatives that are designated as fair-value, cash flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

The Bank also monitors, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items, or to specific firm commitments or forecasted transactions, as applicable.

Changes in fair value of a derivative instrument that is highly effective, and which has been designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

The ineffective portion of the change in the fair value of a derivative instrument that qualifies as a cash flow hedge is reported in the income statement.

The Bank discontinues hedge accounting when it is determined that the derivative instrument is no longer effective in offsetting changes in cash flows of the hedged item; the derivative expires, is sold, terminated, or exercised; the hedge asset or liability expires, is sold, terminated, or exercised; the derivative is not designated as a hedging instrument because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

4.11 Other liabilities and commitments

These amounts represent outstanding liabilities for goods and services received by the Bank prior to the date of the financial statements. Other liabilities do not include guarantees and are usually paid within 30 days of their initial recognition. These liabilities are initially recognized at their fair value and subsequently measured at amortized cost.

4.12 Special funds

These amounts represent liabilities equaling to the amount of investments administered on behalf of special funds. These liabilities do not represent guarantees and are usually paid based upon fund requests to settle the liabilities of special Funds. These liabilities are initially recognized at their fair value and subsequently measured at amortized cost using the effective interest rate method.

4.13 Other benefits to employees

The amount included under "Other benefits to employees," represent accrued liabilities associated to benefits granted to the Bank's staff under a joint savings program "Programa de Ahorro Compartido" or PAC, by its name in Spanish. PAC liabilities are paid to the staff upon termination of their employment. The Bank's matching contribution on the amount of an employee's voluntary saving is subject to a withholding percentage based on the years of service required for full vesting under the program. Withheld amounts are deferred and subsequently expensed as employees accumulate the required years of service for full vesting under the PAC. Note 8.6 – c), provides a detailed explanation and breakdown of the PAC liability as of December 31, 2020 and 2019, respectively.

4.14 Capital

The authorized capital consists of paid-in shares and callable shares. Paid-in capital consists of the amount of capital subscriptions paid-in to the Bank by its member countries.

NOTE 5 – SIGNIFICANT ESTIMATES AND JUDGEMENTS

The financial statements are prepared in accordance with International Financial Reporting Standards, which require the Bank's Executive President to make assumptions and estimates affecting the amounts shown for assets and liabilities, as well as revenues and expenses during the fiscal year. The estimates and judgements are continuously assessed and are based on legal requirements and other prevailing factors, including the expectation of future events considered reasonable within the current circumstances.

This note provides a general overview of the areas that entail more management judgment or inherent complexity to each estimate, and the items that are more likely to be materially adjusted because actual results could differ from those estimates. Detailed information pertaining each estimate and judgement made are included in Notes 6 and 7, respectively, together with the information regarding the basis used for computing each item affecting the financial statements.

The most relevant estimates affecting the preparation of the Bank's financial statements relate to:

- Potential impairment of investments carried at amortized cost – Note 8.3 – (ii).
- Potential impairment of the loan portfolio – Note 8.4 – (iii).
- Overall effectiveness of derivatives to ensure adequate hedging of expected cash flows – Note 8.5 – (ii).

NOTE 6 – FINANCIAL RISK MANAGEMENT

This note explains the Bank's financial risk exposures and how could they potentially affect its future financial performance.

Risk	Source of Exposure	Measurement	Risk Management
Market risk – foreign exchange	Except for the Swiss Franc denominated bond, issued on March 13, 2019, which was effectively hedged through a cross-currency swap as discussed in Notes 2; 4.10; and, 8.5 – (ii), 99.95% of financial assets and liabilities are denominated in U.S. dollar (functional currency).	Cash flow budget.	<p>All loan and investment transactions, as well as the most relevant liabilities shown in the financial statements have been transacted in U.S. dollars.</p> <p>The Bank entered into a cross-currency swap to offset the both the interest rate and foreign currency exchange risks and signed an enforceable ISDA master netting agreement with the right to offset. Additionally, the Bank entered into an interest rate swap to offset the interest rate risk of a certificate</p>

Risk	Source of Exposure	Measurement	Risk Management
			of deposit received from the CBU on May 5, 2020. These derivatives are an integral part of the Bank's risk-management process designed to minimize exposure to financial risks and as such were designated as a cash flow hedge.
Market risk – Interest rate risk	<p>Risk of experiencing fluctuations in lending and borrowing rates applicable to the Bank's loans, and debt.</p> <p>As explained in Notes 2; 4.10; and 8.5 – (ii), on March 13, 2019, and in connection with the issuance of a 5-year Swiss Franc denominated bond at fixed rate (0.578% coupon), the Bank entered into a cross-currency swap with JPM. On May 5, 2020, the Bank also entered into two interest rate swaps with JPM, to exchange the fix-interest rate to be paid to CBU on the \$50,000 and \$80,000 certificates of deposits received into the 6-month Libor rate. The ISDA master netting agreement signed provides for the right of offsetting.</p>	Sensitivity analysis.	<p>The Bank has established policies for the determination of interest rates, allowing it to mitigate the potential effects of interest rate fluctuations. Furthermore, the Bank has a relatively low degree of financial leverage, which further reduces its exposure to interest rate risk.</p> <p>Potential exposure from the issuance of the Swiss Franc denominated bond at fixed-rate is effectively managed through the cross-currency swap that effectively replaces both, the debt in Swiss Francs by a debt denominated in U.S. dollars and the fixed rate by a variable rate based on the 6-month Libor rate plus a fixed margin hence matching the rate structure applicable to all loans to member countries. Hence, eliminating interest rate exposure.</p>
Market risk – Security prices	The Bank does not have investments in equity instruments that might be exposed to price risk. All investments consist of bonds that according to the Bank's business model can either be classified as available for sale or held-to-maturity.	Sensitivity analysis based on changes in interest rate for bonds classified as available for sale, valued at reasonable value with changes in OCI. The analysis also focuses on changes in the credit risk rating of issuers of bonds classified as held-to-maturity, which are valued at the lower of amortized cost or	The Bank does not have investment in equity instruments that might be exposed to price risk.

Risk	Source of Exposure	Measurement	Risk Management
		reasonable value.	
Credit risk	Cash and cash equivalents, investments valued at fair value with changes in OCI, investments valued at amortized cost, and derivative financial instruments used for cash flow hedging of borrowings.	- Aging analysis - Credit ratings	Diversification of bank deposits and applicable loan limits. Investment policies and guidelines and credit rating of counterparts.
Liquidity risk	Borrowings and other liabilities and obligations with special funds.	Rolling cash flow forecasts.	Availability of funds required to meet obligations and commitments.

The Bank manages its risks exposures in accordance with its enterprise-wide risk management policy. This policy encompasses the management of market and interest rate risks, operational and strategic risks. The focus of the Bank's enterprise-wide risk management is to ensure risks will remain within established limits. Those limits are formally established in the institution's financial policies and reflect its capacity to assume risks as defined by its governance bodies. Within the scope of its enterprise-wide risk management policy, risk management is oriented to avoid those risks that may exceed its tolerable risk level, and to mitigate all financial, operational and strategic risks in accordance to the limits established for each risk related to its operations.

In line with international best practices for risk management, the Bank adopted the risk classification and definitions issued by the Office of the Comptroller of the Currency of the United States ("OCC") and Basle II.

The Bank's integrated risk management rests upon a cash flow forecast covering the short, medium and long-term and a set of projected statements of financial position and income, which is constantly adjusted to actuals and closely monitored to forecast loan approvals; loan disbursements; borrowings; commitments and obligations as well as administrative expenditures, in order to meet expected income and to maintain liquidity requirements.

6.1 Currency risk

All financial assets and approximately 99.9% of liabilities are denominated in U.S. dollars, which constitutes the Bank's functional currency. Consequently, the Bank's financial statements are not exposed to significant levels of risk resulting from potential changes in exchange rates.

6.2 Interest rate risk

The Banks's lending interest rate consists of a fixed and a variable margin (6-month Libor). In accordance with its income management and financial charges policy, the Bank's fixed margin is reassessed annually for all new loans with the objective of reaching a balance between the accumulation of long-term capital to guarantee the Fund's sustainability as well as to provide favorable financial conditions to its member countries. The Bank applies a net income management model as a tool to manage income in accordance to its medium and long-term planning objectives. The model allows, through managing various parameters and variables, to ensure that financial charges applied would be stable and enough to satisfy all expected goals established in the Bank's financial policies, making in a timely basis all required adjustments to the fixed margin to respond to significant

changes in the assumptions and estimates used. This exposure is periodically measured and evaluated, to ensure the management of the interest rate risk.

In compliance with its income management and financial charges policy, the Bank annually establishes a fixed margin applicable to new loans to be granted in the upcoming year (Operating Lending Rate or “TOR”). During the years ended December 31, 2020, and 2019, respectively, the Board of Executive Directors approved an interest rate structure by which interest rates are set according to the duration of loans (Resolution 1431/2019 of February 29, 2019).

In March 2017, through RDE 1390, the Board of Executive Directors approved a new line of loans based on the 6-month Libor plus a variable margin. In March 2018, through RDE 1411, the Board of Executive Directors approved a reduction of the variable lending rate. No loan has been approved under the variable margin modality as of December 31, 2020.

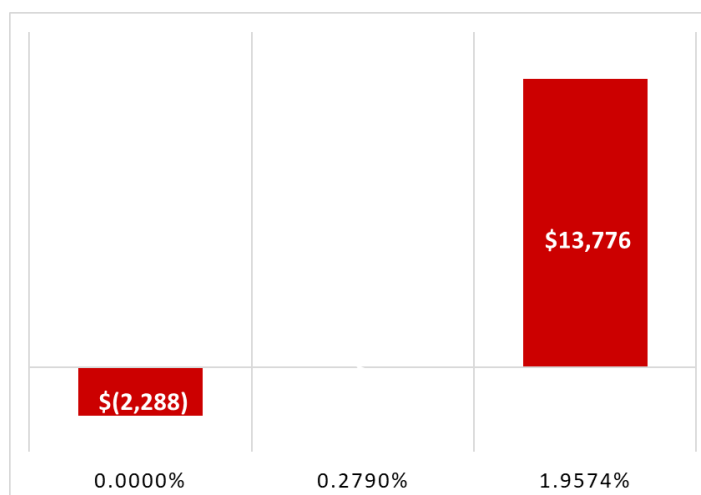
The Executive President was authorized to set lending rates applicable to loan maturities for periods shorter than 15 years, approving operating lending rates as an incentive for member countries to borrow at shorter terms.

The Bank’s interest rate risk is limited to the risk associated to the variable component of its lending rate, which is based on the 6-month Libor. The Bank performs sensitivity analysis to determine the variance in income or in net equity associated to changes in the 6-month Libor rate.

Based on its 2020 Administrative and Capital Investment Budget approved by the Assembly of Governors, calculation of the sensitivity analysis was performed using a 6-month Libor rate of 28 bps with a positive variation of 168 bps and negative variation of 28 bps.

Accordingly, the analysis yields a maximum and a minimum 6-month Libor rate of 196 bps and of 0 bps, respectively. Should the estimated increase of 168 bps or decrease of 28 bps variations materialize, future net income could be increased by \$13,776, or reduced by \$2,288, respectively.

INTEREST RATE SENSITIVITY ANALYSIS VARIATION OF THE 6-MONTH LIBOR RATE



6.3 Market risk

Market risk is the risk of losses in the value of financial assets and liabilities because of changes in market conditions. The Bank manages market risks affecting mainly its investment and loan portfolios through various measures to ensure risk exposures would remain within established policy limits.

As stated in Notes 4.8, 8.2; and 8.3, the Bank invests its liquid assets according to its investment policy which limits eligible investment instruments to a credit risk such as to maintain a minimum average credit risk qualification in the investments portfolio of “AA.”

The Bank’s investments pursue the objective of ensuring an adequate level of liquidity to finance loan disbursements, service its debt obligations and the payment of administrative expenditures. Accordingly, the Bank classifies its investments within in two distinct portfolios:

- Investments structured to match expected loan disbursements, scheduled debt service and debt amortizations, and the payment of administrative expenditures that are included in the three-year rolling budget. These investments are designated as investments to be held to maturity and are valued at their amortized cost and adjusted through a valuation allowance to the lower of their amortized cost or reasonable value in the event of their potential impairment.
- Investments held to maintain additional liquidity with the purpose of quickly and proactively respond to unexpected loan disbursements and to sudden market and interest rate changes. Consistent with the Bank’s prudential management principles and style, these investment assets are classified as investments available for sale and valued at FVOCI.

As stated in Note 8.7, the Bank adopts a methodology for the determination of fair value based on three distinct levels, associated with the availability of objective market value information for each type of investment. Based on this methodology, the Bank performs a sensitivity analysis of its investment portfolios to gauge the maximum loss in the event of price changes as a result of changes in interest rate for investments classified as available for sale and valued at FVOCI, and for changes in credit rating of investments classified as held-to-maturity and valued at amortized cost.

The following chart shows the maximum exposure to losses related to price changes for investments classified as available for sale valued at fair value with changes in other comprehensive income assuming a 100 basis points change in interest rates, and the maximum exposure to losses associated to one notch downgrade in the credit risk rating of investments classified as held-to-maturity and valued at amortized cost as of December 31, 2020, and 2019, respectively:

Portfolio	Sensitivity analysis of investments as of December 31,					
	2020			2019		
	Maximum			Maximum		
	<u>Book valueⁱ</u>	<u>loss exposure</u>	<u>Variation</u>	<u>Book valueⁱ</u>	<u>loss exposure</u>	<u>Variation</u>
	\$	\$	%	\$	\$	%
Available for sale investments up to 12 months – FVOCI	89,839	375	0.42	75,484	282	0.37
Held-to-maturity investments up to 12 months – At amortized cost	33,108	8	0.02	66,750	6	0.01
Certificates of deposit fixed-term deposits	51,316	-.-	-.-	40,220	-.-	-.-

Portfolio	Sensitivity analysis of investments as of December 31,					
	2020			2019		
	Maximum			Maximum		
	Book value ⁱ	loss exposure	Variation	Book value ⁱ	loss exposure	Variation
	\$	\$	%	\$	\$	%
Total short-term investments	174,263	383	0.22	182,454	288	0.16
Available for sale investments greater than 12 months – FVOCI	231,222	3,336	1.44	67,376	751	1.11
Held-to-maturity investments greater than 12 months – At amortized cost	1,298	-.-	-.-	81,677	181	0.22
Total long-term investments	232,520	3,336	1.43	149,053	932	0.63
Total	406,783	3,719	0.91	331,507	1,220	0.37

i Book value amounts for investments are based on the reasonable value for investments classified as available for sale and valued at their fair value with changes in other comprehensive income, and on the amortized cost for investments classified as held-to-maturity. All investment instruments valued at their fair value with changes in other comprehensive income, and the majority of those included in the held-to-maturity investment portfolio quote on the market, for which there their reasonable value can be established objectively as of the date of the financial statements (Level 1). For those investment instruments classified at amortized cost that do not register at least one market transaction a month, there are recent market transactions that provide reasonable basis for estimating their reasonable value as of the date of the financial statements for purposes of comparing it to their amortized cost (Level 2). The Bank does not hold any investment instruments for which their fair value could not be reasonably established and hence requiring use of a valuation model (Level 3).

As of December 31, 2020, and 2019, respectively, the amortized cost of each investment instrument classified in the at amortized cost investment portfolio was lower than the corresponding market value.

6.4 Credit risk

Credit risk is the risk resulting from non-compliance with contract terms by the borrower. Financial policies establish individual limits of credit by member country, with the objective of reducing excessive risk exposures and to comply with an equitable distribution of the lending capacity. The capital adequacy coefficient relating the amount of loans with the amount of net equity ensures a reasonable coverage against exposure to credit risk, both for the lending portfolio and at the level of each borrowing member country.

Almost all Bank loans granted have the sovereign guarantee of the member country. Beginning in 2020, following the creation of a new line of financing targeting state owned development banks, either at the national or subnational level, the Bank started lending without the sovereign guarantee of the member country. Only two such financings were approved and fully disbursed in 2020, as explained in Notes 2 and 8.4 - (i), respectively.

The Bank has lending guidelines establishing the actions to be taken in connection with overdue loan balances and non-compliance, which form an integral part of loan covenants included in all loan contracts, and uses a methodology for determining the adequacy of the provision for potential impairment in loans that provide for different factors for its sovereign guaranteed and non-sovereign guaranteed loan portfolios, as explained in Note 4.8.

The credit risk associated to the investment of liquid assets is based on internal guidelines governing the investment of liquid assets, which establish the prudential investment limits by each asset class, sector and issuers, to guarantee an adequate diversification and mix of investment sources and maturities. As of December 31, 2020, and 2019, respectively, the average credit risk rating of the investment portfolio was AA, as required by

the investment policy. Compliance with current policy limits is validated by having attained an average return on investments that exceeds the original assumptions that served the basis of the determination of the expected level of net income for the years ended December 31, 2020, and 2019, respectively, as part of the annual financial programming and budgeting required by the policy on net income management and financial charges.

6.5 Liquidity risk

Liquidity risk is the risk originated in the inability of the institution to meet its obligations without incurring in unacceptable losses. The Bank has a minimum required level of liquidity which is defined by its liquidity policy as the level required to meet all of its commitments, loan disbursements, debt service, and the payment of obligations stemming from its administrative and capital expenditure requirements for a 12-months period. For the years ended December 31, 2020, and 2019, respectively the Bank did not have commitments and obligations that would carry liquidity risk either in the short or medium term. The following table shows liquid assets as well as liabilities, as of December 31, 2020, and 2019, respectively.

	December 31,	
	2020	2019
	\$	\$
Cash and cash equivalents – Note 8.1	32,037	37,413
Investments – Notes 8.2 and 8.3	406,783	331,507
Gross liquidity	438,820	368,920
Cash flow hedge derivatives payable – Note 8.5 - (ii)	5	1
Borrowings – Note 8.5	568,324	264,708
Other liabilities – Note 9.3	1,982	2,590
Special Funds – Note 8.6	15,066	12,230
Total Liabilities	585,377	279,529

Liquid assets coverage of the amount of net estimated disbursements was equivalent to 0.98 and 1.8 years, as of December 31, 2020, and 2019, respectively.

NOTE 7 – MANAGEMENT OF OTHER NON-FINANCIAL RISKS

7.1 Operational risk

Operational risk is defined as the risk of an economic or financial loss resulting from a failure in internal processes or systems, due to either commission or omission. The Bank has in place, an organized and updated set of policies, procedures and practices for the administration of its operations that prevent and prepare it for inherent risks associated to its day-to-day operations. The Bank has an effective governance and system of internal controls, as well as ethical and reputational standards, with clear norms to ensure compliance with applicable fiduciary, environmental, and legal matters required by both of its policies and those of its member countries.

7.1.1 Expected change from the 6-month LIBOR interest rate to the SOFR interest rate

As explained in 6.2, the Bank's loan interest rate is based on the 6-month USD LIBOR plus a fixed margin. The 6-month LIBOR is calculated and published daily by ICE Benchmark Administration (IBA), an organization regulated by the United Kingdom's Financial Conduct Authority (FCA). IBA has announced that following consultation to and authorization from FCA, starting on January 1st, 2021, it will discontinue the publication of 7-days and 60-days LIBOR. Additionally, IBA announced that the rest of the term-LIBORs, which includes the 6-month USD LIBOR in use by the Bank, will be discontinued on July 1st, 2023, also following consultation to and authorization from

FCA. Such change has implications for all transactions that have a 6-month USD LIBOR variable component; namely, the totality of the Bank's loan portfolio, borrowings from other multilaterals and agencies, and the variable leg of existing interest rate swaps.

The Alternative Reference Rates Committee (ARRC) is the organization in charge of the alternative rate to replace the USD LIBOR. In 2017 the ARRC identified the Secured Overnight Financing Rate (SOFR) as the replacement rate for the USD LIBOR. The New York Federal Reserve Bank is the administrator of SOFR and produces and publishes the rate on a daily basis. The ARRC has issued recommendations on fallback language, the use of a USD LIBOR/SOFR margin and several other areas.

The Bank has adopted fallback language on new loans' contracts signed over the second half of 2020. A review of the Bank's information systems and procedures in 2020 showed that changes to allow the administration of loans in SOFR are minimal. Over 2021 the focus will be the introduction of fallback language to legacy loans (75), and the adherence to ISDA protocols regarding LIBOR transition. Other considerations, such as whether the fallback will be overnight or term-SOFR, will be addressed over the last quarter of 2021, as per ARRC's timeline.

The Bank will continue to closely follow the guidance issued regarding the replacement of the LIBOR by the SOFR to ensure proper mitigation of the underlying operational risk associated to this change.

7.2 Management of strategic risks

Strategic risk – Is the risk derived from the adverse or incorrect application of decisions or the absence of responses to changes affecting development financial institutions' sector. The Bank has a Strategic Institutional Plan ("PEI") approved by its Board of Governors, which establishes the strategic objectives to be attained, as well as the indicators required to measure progress over time. Annually, the Board of Governors approve the Budget for the upcoming year, which contains a summary of all achievements attained in the previous fiscal year, as well as the objectives and results to be attained in the next fiscal year. The Bank's budget summarizes the medium-term work plan and contains results-based indicators and their related costs, which are all based on the PEI's results matrix. This ensures an adequate alignment between the long-term strategic objectives and results to be attained in the short run to move towards the attainment of those strategic objectives.

The financial statements show the compatibility and consistency between results and the strategic objectives established in institutional mission and vision in terms of the attainment of annual goals for the approval of operations and their related costs.

Non-compliance risk – Is the risk derived from violations of laws, norms, regulations, prescribed practices, and ethics policies or norms. Non-compliance risk could negatively affect the institution's reputation. The Bank is a self-regulated supra-national international institution that is governed by its Charter, policies and regulations. The Bank has an Administrative Tribunal, an Audit Committee of the Board of Executive Directors, a Legal Counsel, a Compliance Officer, and an Internal Auditor, who oversee compliance with those matters that could otherwise trigger non-compliance risks.

Reputational risk – Is the risk derived from a negative public opinion. This risk affects the capacity of an organization to establish new relationships or to maintain existing ones, directly affecting current and future revenues. This risk could expose the entity to litigation or to a financial loss or jeopardize its competitiveness. The Bank periodically monitors this risk through its Office of Communications. Additionally, the Operations Department specifically follows-up on each financed project under implementation. As of the date of these financial statements there is no evidence that this risk has materialized and affected the Bank.

NOTE 8 – FINANCIAL ASSETS AND LIABILITIES

This note provides information about the Bank's financial instruments, including:

- A general overview of all financial instruments held by the institution.
- Specific information about each type of financial instrument.
- Accounting policies.
- Information on the determination of fair values of financial instruments, including the professional judgment used, and the uncertainties affecting those estimates.

The Bank maintains the following financial assets:

	Note	Financial assets carried at fair value w/changes in OCI \$	Financial assets carried at amortized cost \$	Total \$
December 31, 2020				
Cash and cash equivalents	8.1	-.-	32,037	32,037
Investments at fair value with changes in OCI	8.2	321,061	-.-	321,061
Investments at amortized cost ¹	8.3	-.-	87,543	87,543
Loan portfolio ²	8.4	-.-	1,247,631	1,247,631
Total		<u>321,061</u>	<u>1,367,211</u>	<u>1,688,272</u>
December 31, 2019				
Cash and cash equivalents	8.1	-.-	37,413	37,413
Investments at fair value with changes in OCI	8.2	142,860	-.-	142,860
Investments at amortized cost ¹	8.3	-.-	189,305	189,305
Loan portfolio ²	8.4	-.-	931,475	931,475
Total		<u>142,860</u>	<u>1,158,193</u>	<u>1,301,053</u>

¹Includes interest and other investment income.

²Includes interest and other loan income.

The Bank maintains the following financial liabilities:

	Note	Financial liabilities carried at amortized cost \$
December 31, 2020		
Cash flow hedge derivatives	8.5	5
Borrowings	8.5	568,324
Other liabilities	9.3	1,982
Special funds	8.6	15,066
Total		<u>585,377</u>
December 31, 2019		
Cash flow hedge derivatives	8.5	1
Borrowings	8.5	264,708
Other liabilities	9.3	2,590
Special funds	8.6	12,230
Total		<u>279,529</u>

The exposure of the institution to the various risks related to financial instruments is disclosed in Note 8.5 -(ii).

The maximum exposure to credit risk as of December 31, 2020, and 2019, respectively, corresponds to the balances shown for each of the above-mentioned financial assets.

8.1 Cash and cash equivalents

Cash at banks and deposits with original maturities of up to three months, consist of:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Cash at Banks	32,037	19,424
Time deposits	-.-	17,989
Total	<u>32,037</u>	<u>37,413</u>

(i) Classification of cash equivalents

Time deposits are considered as cash equivalents provided their original maturity is of up to three months from the time of their acquisition. Note 4.6 includes a disclosure of the cash and cash equivalents policy.

8.2. Investments carried at fair value through other comprehensive income (OCI).

Investments classified under this category, correspond to holdings of bonds issued by multilateral development institutions, consist of:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Sovereign bonds	173,514	90,842
Multilateral development institutions – Bonds	132,482	46,978
Other financial institutions	12,969	5,040
Argentine treasury bonds	2,096	-.-
Total	<u>321,061</u>	<u>142,860</u>

The amount recognized in “reserve for changes in the value of investments at fair value” forms part of the determination of the operating income upon disposition of the underlying investment.

(i) Investments with related parties

As of December 31, 2020, and 2019, respectively, the Bank did not maintain investments with related parties.

(ii) Classification of investments carried at fair value with changes in other comprehensive income

Investments are designated as financial assets and carried at their respective fair value with changes in other comprehensive income when contractual cash flows are solely from principal and interest and the objective of the Bank’s business model for these assets is achieved both by collecting contractual cash flows and selling the underlying asset.

(iii) Impairment

See Note 4.8, for further detail regarding applicable policies for the measurement and presentation of impairment of financial assets.

(iv) Amounts recognized in the statement of Other Comprehensive Income

For the year ended on December 31, 2020, the Bank has recognized a net loss of \$794, in its statement of comprehensive income (2019 - \$900 net gain), comprised of an unrealized losses in market value adjustments of investments \$2,417 (2019 - \$412 gain); and gain of \$1,651, in valuation of cross-currency and interest rate swaps (2019 - \$515 gain); and, \$28, corresponding to the depreciation of the amount of technical appraisal of property recognized in 2018, \$812 (2019 - \$27).

(v) Fair value, impairment, and exposure to risk

Information regarding the methods and assumptions used in the determination of fair value is disclosed in Note 8.7.

All investments carried at fair value have been and are denominated in U.S. dollars, which is the functional currency in which the financial statements are expressed.

8.3 Investments carried at amortized cost

Investments classified under this category correspond to certificate of deposits and investments in bonds and commercial paper, as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
<u>Investments in time deposits ⁽¹⁾</u>		
Sovereign	28,853	15,420
Multilateral development institutions	22,463	24,800
Other financial institutions	-.-	-.-
Subtotal	<u>51,316</u>	<u>40,220</u>
<u>Investments in other values ⁽²⁾</u>		
Sovereign bonds	28,544	97,080
Bonds issued by Multilateral development institutions	1,298	18,831
Financial sector bonds	4,564	29,726
Argentine treasury bonds ⁽³⁾	-.-	2,790
Subtotal	<u>34,406</u>	<u>148,427</u>
Principal invested	85,722	188,647
Accrued interest and commissions receivable	<u>1,821</u>	<u>658</u>
Total	<u>87,543</u>	<u>189,305</u>

(1) Investments correspond to time deposits with original maturities greater than three months.

(2) Investments include sovereign bonds issued by multilateral development institutions and commercial paper issued by other financial institutions with a risk profile falling within the Bank's investment risk guidelines.

(3) Corresponds to investment in Argentinian Treasury Bonds, received in exchange for the Bank's holdings of bonds "PAR" and "DISCOUNT" received in exchange for the "BONTE-04" in 2005. These bonds were exchanged in September 2020, for new series bearing different interest rates and maturities, and were classified as available for sale. See Note 8.2- (ii).

(i) Investments carried at amortized cost

The Bank classifies its investments as carried at amortized cost when financial assets are held as part of a business model whose objective can be achieved by collecting contractual cash flows, and the applicable contractual covenants of those financial assets give rise, at the specified maturities, to cash flows corresponding to repayments of principal and interest.

Based on the results of the Bank's assessment of ECL on investments carried at amortized cost, no allowance was deemed necessary, as of the carrying amounts for investments was lower than their respective fair values based on bid market prices as of December 31, 2020 (December 31, 2019 – Nil).

(ii) Impairment and exposure to risk

Following the official announcement of August 4, 2020, by decree 676/2020, Argentina approved the terms applicable to the exchange of its various outstanding bonds. As an original bondholder that had received series "PAR" and "DISCOUNT" as part of the exchange conducted in 2005, the Bank participated in the new proposed bond-restructuring program and as a result exchanged its holdings of "PAR" bonds, which as of the date of the settlement had a face and capitalized value of \$2,279, for \$2,279 of USD 2041 L.A. bonds, and its holdings of "DISCOUNT" bonds, which as of the date of the settlement had a face and a capitalized value of \$2,308, and of \$3,236, respectively, for \$3,236 of USD 2038 L.A. bonds. As part of the exchange, and as an incentive for early acceptance of the proposed terms, the Bank also received bond USD 2029 L.A., in the amount of \$218, in recognition of the previous unpaid coupon plus accrued interest through the original settlement date of September 4, 2020, (\$37 related to accrued interest on "PAR" coupon and \$181 related to "DISCOUNT" coupon).

The Bank accounted for the exchange by replacing its holdings of "PAR" and "DISCOUNT" for the new holdings of USD 2038 L.A. and USD 2041 L.A., which had the same value as the bond previously held. Hence, no gain or loss was recognized at settlement other than the gain resulting from the reclassification to OCI of the amount of the provision for impairment of the holdings in "PAR" and "DISCOUNT" bonds, which as of the settlement date of September 8, 2020, amounted to \$3,852, consisting of \$2,960 that had been recognized through December 31, 2019, and \$892, recognized from January 1 and through August 31, 2020.

The new bonds were classified as available for sale following the Bank's decision to sell them at the appropriate time and valued at FVOCI.

8.4 Loan portfolio

Composition of the balance of loan portfolio outstanding, by member country, is as follows:

<u>Country</u>	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Argentina	322,860	236,828
Bolivia	331,636	285,885
Brazil	106,045	74,583
Paraguay	179,773	146,028
Uruguay	239,181	193,134
<i>Gross loan portfolio with sovereign guarantee (SG)</i>	<u>1,179,495</u>	<u>936,458</u>
<i>Gross loan portfolio without sovereign guarantee (NSG)</i>	<u>72,000</u>	<u>-.-</u>

<u>Country</u>	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
	1,251,495	936,458
Less: Unaccrued administrative fee	(4,723)	(3,832)
<i>Subtotal loan portfolio</i>	1,246,772	932,626
Less: Provision for potential impairment on SG loans	(8,491)	(12,239)
Less: Provision for potential impairment on NSG loans	(1,250)	-.-
<i>Net loan portfolio</i>	<u>1,237,031</u>	<u>920,387</u>

Accrued loan interest receivable amounts to \$10,600 as of December 31, 2020, and to \$11,088, as of December 31, 2019, respectively.

During the year ended December 31, 2020, as well as in 2019, all loans were classified in Stage 1. The amount of provision for potential impairment of loans as of December 31, 2020, and 2019, is as follows:

	\$
Provision as of the beginning of year	4,103
Increase on provision of SG loans	8,136
Provision as of December 31, 2019	12,239
Recovery of provision on SG loans	(3,748)
Provision on NSG loans	1,250
Total provision for potential impairment on loans	<u>9,741</u>

Based on their scheduled maturities, the gross loan portfolio is classified as follows:

<u>Maturity</u>	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Up to one year	75,667	74,780
Greater than one and up to two years	98,918	70,961
Greater than two and up to three years	127,677	85,498
Greater than three and up to four years	147,428	90,864
Greater than four and up to five years	136,154	92,959
Greater than five years	665,651	521,396
Total gross loan portfolio	<u>1,251,495</u>	<u>936,458</u>

(i) Loan portfolio classification

The majority of the loan portfolio consists of loans granted with the sovereign guarantee of the member country with a minor portion corresponding to loans granted without the sovereign guarantee of the member country.

Sovereign guaranteed loans are loans for which the member countries recognize the Bank's preferred creditor status.

The financings conforming the loan portfolio, based on their nature and relevant terms, do not constitute derivative instruments. Collections or principal repayments are based on fixed or determinable amounts, and they do not quote on an active market. As explained in Note 13, the amount of principal repayments to be

received within 12 months following year end, is classified as current, with the remaining balance classified as non-current. Notes 4.7 and 4.8 (v), describe accounting policies used in connection with the accounting of the loan portfolio and the recognition of its impairment, respectively.

The Bank's 2018 – 2022 ISP, provides for extending financing for activities such as pre-investment, investment, technical cooperation and knowledge generation with both, the public and private sectors. Based on this premise, in the second half of 2019, the Board of Governors, approved an amendment to the "Policy for the Appropriation of Lending Resources," with the aim of enabling the financing of majority-owned government enterprises of member countries, at the national and subnational levels, with no-sovereign guarantee (NSG). Based on this amendment, in November 2019, the Board of Executive Directors approved the creation of a new line for the financing of NSG operations.

Under this new line of NSG financing, the Bank is authorized to grant loans and guarantees to government majority-owned institutions and public enterprises at either the national or subnational levels. To be eligible for financing, those institutions must have a minimum credit risk rating and comply with the Bank's financial capacity and solvency requirements.

As of December 31, 2020, the Bank had granted and fully disbursed two loans approved under this new line of NSG financing. Both loans were approved for an amount of \$36,000, each and disbursed upon signing the corresponding loan agreement. These financings consist of revolving credit lines with 8-year validity and feature a 2-year grace period and 5-year amortization period. As it is the case in SG financings, SGS financings accrue interest based on the 6-month Libor rate, plus a margin based on the credit risk rating of the borrower at the time of approval. Furthermore, these financings accrue a commitment fee on the undisbursed balance of each tranche approved, and administrative commission based on the term of the line of credit.

Furthermore, NSG operations require the borrower to pay an initial non-refundable fee intended to cover legal and credit risk costs inherent to the loan origination process.

(ii) Fair value of the loan portfolio

The book value of the loan portfolio is believed to approximate its fair value. This assessment considers that future cash flows from loans approximate their stated book value.

(iii) Impairment and exposure to risk

The provisions for potential impairment on sovereign guaranteed and non-sovereign guaranteed loans are maintained at a level considered adequate by the Bank to absorb potential losses related to the loan portfolio as of the date of the financial statements.

As stated in Note 4.7, "Loan Portfolio," the accrual of interest on loans is discontinued for loans balances that have been overdue for more than 180 days. Accrued interest receivable on loans placed in non-accrual status is recognized in income upon collection until the loans are reclassified to full accrual status. Reclassification to full accrual status requires the borrower to repay in full all principal, interest and commissions in arrears, as well as providing assurance that it has overcome its financial difficulties that had prevented it to repay its obligations when they became due.

The Bank did not have, nor it currently has loans balances in non-accrual status. Nonetheless, and consistent with its enterprise-wide risk management policy, the Bank accounts for a provision to reflect the potential impairment on its loan portfolio.

Moreover, the Bank maintains policies on risk exposures to avoid concentrating its lending on one country only, which could be affected by market conditions or other circumstances. In this regard, the Bank uses certain measurements or indicators, such as: net equity and total loan portfolio. The Bank reviews the status of its loan portfolio, on a quarterly basis, to identify potential impairments affecting its collectability, in full or in part. Information about the overall credit quality of the loan portfolio, its exposure to credit risk, currency exchange and interest risk is disclosed Notes 4.7 and 6.

8.5 Borrowings

Borrowings includes outstanding loans with other multilateral development institutions (MDBs); time deposits with central banks of the Bank's member countries; bonds and derivatives used as a hedge of the interest rate exposure on time deposits with central banks contacted at fixed-rate and swapped into variable rate, and a cross-currency swap related to the CHF denominated bond issuance; and, collateral received or paid as per the ISDA master netting agreement, to compensate for credit risk in the event of non-performance of the counterpart of the cross-currency and interest rate swaps. The net balance of the swaps' receivable and payable together with the amount of collateral received from JPM, consist of a payable of \$5, and is shown under "Cash flow hedged derivatives", in the statement of financial position as of December 31, 2020 (2019 - \$1 net liability).

Total borrowings as of December 31, 2020, and 2019, are as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
<u>Borrowings</u>		
Loans and time deposits at amortized cost	398,968	111,418
Bonds	170,222	154,194
Less: unamortized borrowing costs	(866)	(904)
Total	<u>568,324</u>	<u>264,708</u>

(i) Loans from MDBs and other institutions and time deposits from central banks

The outstanding balance of loans contracted by the Bank to finance disbursements on its approved loans to its member countries is as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Corporación Andina de Fomento (CAF) -See (1), below	69,333	10,667
Time deposits with Central Banks – See (2) below	210,000	30,000
Inter-American Development Bank – See (3) below	88,098	60,215
French Development Agency – See (4) below	20,000	5,000
Oficial Credit Institute E.P.E. (ICO) – See (6) below	5,536	5,536
European Investment Bank (EIB) (5)	6,000	-.-
Total	<u>398,967</u>	<u>111,418</u>

In March 2018, the Board of Executive Directors updated its financial policies through RDE 1409. Among the changes introduced, the methodology to compute the available lending capacity using a multiple of three times the value of Net Equity and the methodology to compute the level of indebtedness based on the sum of liquid assets plus two times the value of Net Equity.

The Bank has designed its borrowing and financial programming strategies with the objective of diversifying its funding sources and obtaining the best average cost possible based on its credit risk rating and its preferred creditor status.

- (1) As part of the framework contract signed with “Corporación Andina de Fomento – CAF” on November 14, 2016, the Bank has at its disposal an uncommitted line of credit for up to \$75,000. On December 19, 2016, the Bank drew-down \$16,000 and allocated them to the financing loan disbursements, of which as of December 31, 2020, it has repaid \$10,666 (2019 - \$5,333). The applicable terms for this financing are based on the 6-month Libor rate plus a margin. This loan calls for a 5-year maturity, with a 2-year grace period. Loan principal is repayable in 6 semiannual equal and consecutive installments including interest, beginning June 19, 2019, and ending December 16, 2021. During 2020, the Bank amortized \$5,333, of loan principal under the first tranche. On June 12, 2020, the Bank drew down \$64,000 from the line of credit. The applicable terms for this new borrowing provide for a bullet payment after 2 years and semiannual interest payments based on the 6-month Libor rate plus a margin.
- (2) The Bank entered into an agreement with the Central Banks of its member countries to accept deposits in the form of medium-term certificates denominated in United States dollars. The following table shows the value date for each time deposit accepted, its maturity and applicable type of interest rate.

<u>Central Bank</u>	<u>Amount</u>	<u>Date of Acceptance</u>	<u>Maturity</u>	<u>Type of Interest Rate</u>
Bolivia	30,000	05/15/2018	05/14/2021	6-month Libor plus margin
Bolivia	50,000	05/06/2020	11/08/2021	6-month Libor plus margin
Uruguay	50,000	05/05/2020	11/05/2021	Fix ¹
Uruguay	80,000	05/05/2020	05/05/2023	Fix ¹
Total	<u>210,000</u>			

¹In compliance with its prudential risk-management policies, the Bank swapped the fix-rate interest payments for the 6 – months Libor rate, within the framework of the ISDA agreement signed with JPM in March 2018 (see Notes 2 and 8.5 - (ii), for further details).

- (3) On December 1, 2017, the Bank subscribed a financing agreement in the amount of \$100,000 with the Inter-American Development Bank (IDB). This borrowing is based on the 3-months Libor rate and provides for a 5-year disbursement period, a 5 ½ grace period and a 25-year repayment period. The terms of this borrowing agreement, which entered into force upon its signature, provides for the recognition of eligible project expenditures for an amount of up to \$20,000, covering project expenditures incurred from June 15 and November 15, 2017. Furthermore, with the purpose of optimizing cash flows under this line of credit, both parties agreed that the Bank could make disbursements on eligible loans and that the IDB would reimburse the Bank those amounts under the modality of reimbursement of expenditures. Hence, monies drawn down from the IDB under this line of credit can be used by the Bank as it sees fit. On November 2, 2020, the Bank received \$27,883, (2019 - \$32,305, consisting of two reimbursements in the amount of \$25,648, and \$6,567, respectively) to cover monies already disbursed by the Bank on eligible expenditures, increasing the total amount payable to the IDB to \$88,098 (2019 - \$60,215).

The following chart provides a detail account of the eligible loans under the line of credit agreed with the IDB, the total amount to be financed for each eligible loan, the amount disbursed to date and their respective undisbursed balance:

Loan	As of December 31, 2020			To be financed by FONPLATA
	IDB			
	Eligible			
	amount	Disbursed	Undisbursed	
	\$	\$	\$	\$
ARG-26/2016 Modernizacion	750	750	.-	6,750
ARG-28/2016 Compl. Fronterizos	10,000	2,000	8,000	10,000
ARG-31/2016 BICE 1ª Etapa	14,328	14,328	.-	5,672
ARG-31/2016 BICE 2ª Etapa	13,881	13,881	.-	6,119
ARG-35/2017 Infraestr. p/la integración	11,500	496	11,004	10,700
ARG – 32/2016 Aristóbulo del Valle	20,000	20,000	.-	45,000
ARG – 39/2018 Ruta 13 Chaco	20,000	3,721	16,279	17,214
BRA-16/2014 Corumba	10,000	10,000	.-	30,000
PAR-20/2015 Integracion	23,250	22,922	328	46,750
PAR-20/2015 Integracion 2a etapa	.-	.-	.-	70,000
PAR-25/2018 Rutas Jesuiticas	12,000	.-	12,000	.-
Projects pending identification	(35,709)	.-	(35,709)	35,709
Total	100,000	88,098	11,902	283,914

Additionally, and as part of the financing agreement No. 4377/OC - RG, the Bank, and the IDB signed ATN/OC – 16469 – RG, Regional Integration of the Plate Basin: Border Integration Corridors, which provides for the granting of up to \$500 in technical cooperation. Further, and within the framework of ATN/OC – 16469 – RG, the IDB approved ATN/OC – 1728 – RG, decentralizing resources earmarked for subcomponent 1.2, in an amount up to \$100, from which the Bank requested disbursement of \$70. Of this amount, as of December 31, 2020, the Bank has made seven disbursements totaling \$64.05, to pay for consulting services and software for strengthening its capacity to administer operations by setting the basis for a centralized document management system. The remaining \$5.94 were refunded to the IDB, on January 28, 2021.

- (4) On December 13, 2017, the Bank entered into a contract with the French Development Agency to borrow up to \$20,000 with a 15-year maturity at the 6-month Libor rate plus a margin. On October 20, 2018, the Bank drew-down \$5,000 against this line of credit and used them to finance disbursements on its loan BOL – 28/2016 “Cosechando”, with an approved amount of \$10,000. The Bank received the remaining amount under this line of credit of \$15,000, on September 11, 2020.
- (5) On July 6, 2018, the Bank signed a credit line with the European Investment Bank (EIB), in the amount of \$60,000. The first draw-down under this line of credit in the amount of \$6,000, was received on August 17, 2020 (no amounts were draw-down in 2019).
- (6) On December 17, 2018, the Bank signed a credit line with the “Instituto de Credito Oficial E.P.E. – (ICO),” in the amount of \$15,000, which expires on December 17, 2020. There were no drawdowns under this line of credit during year ended on December 31, 2020 (December 31, 2019 - \$5,536).

The following chart provides a detail account of the eligible loans under the line of credit agreed with the ICO, the total amount to be financed for each eligible loan, the amount disbursed to date and their respective undisbursed balance:

Loan	December 31, 2020		
	ICO		
	Eligible amount	Disbursed	Undisbursed
	\$	\$	\$
BOL – 25 Alcantarí	1,674	1,674	-.-
URU – 14 Líquidos residuales	3,629	2,129	1,500
ARG – 38/2018 Ferroviario	1,733	1,733	-.-
Projects to be identified	7,964	-.-	7,964
Total	15,000	5,536	9,464

(ii) Bonds and derivative financial instruments designated as cash flow hedges

As stated in Notes 2 and 4.10, on March 11, 2019, the Bank launched its first bond issuance, consisting of a fixed rate, 5-year, Swiss Francs denominated bond maturing on March 11, 2024, in the amount of CHF 150,000, with a 0.578% annual coupon.

On March 11, 2019, the Bank signed an ISDA master netting agreement with JPM with an enforceable right of set-off by which on March 13, 2019, entered a cross-currency swap.

By virtue of this transaction, JPM committed to pay the Bank CHF 150,000, 5-year maturity with a fixed rate annual coupon of 0.578%, plus the 1 bps to cover the paying agent's commission. In exchange, the Bank is committed to pay JPM \$148,809, 5-year maturity variable interest based on the 6-month Libor rate plus a fixed margin. Both legs of the cross-currency swap bear the same maturity as of the Swiss Franc denominated bond.

Additionally, on May 5, 2020, the Bank entered into two interest rate swap agreements with JPM to exchange the fixed-rate interest payments to be made semiannually to the Central Bank of Uruguay in connection with the two-time deposits accepted on that date in the aggregate amount of \$130,000, for variable interest rate payments, based on the 6-month Libor rate (see Notes 2, and 8.5 - (i)(2)).

The ISDA master netting agreement also calls for collateral to compensate for credit risk due to daily changes in valuation of the swaps due to changes in interest and foreign exchange rates. Collateral is to be made effective, either in cash or U.S. Treasury bills by the party that is deficient when the net daily difference in valuation exceeds \$500. Collateral is determined by JPM based on a proprietary valuation model. The Bank closely monitors the fairness and reasonableness of JPM's valuation model through its own valuation model based on market information provided by Bloomberg financial services regarding interest and exchange rates.

In the event the collateral is satisfied in cash, the party receiving collateral from the counterpart is obliged to pay interest based on the U.S. Federal Reserve interest rate.

Interest received by the Bank on the amount of collateral held by JPM is recognized as part of investment income. Interest paid to JPM on the amount of collateral held by the Bank, is part of borrowing costs.

As of December 31, 2020, the Bank holds collateral in the form of cash received from JPM, in the amount of \$23,584, to compensate for credit risk in the event JPM were to default on its commitment (December 31, 2019 - \$5,900).

During the year ended December 31, 2020, the Bank did not have to send collateral in connection with various derivatives contracted with JPM. The total amount of interest paid on collateral received from JPM, based on the Federal Reserve overnight funds rate amounted to \$30 (2019 - \$2 of interest received from JPM and \$49 of interest paid to JPM).

Based on the nature of these transactions, the Bank considered the cross-currency and interest rate swaps effective to offset both the interest rate and currency exchange risks. Accordingly, the Bank designated the derivatives assumed as a cash flow hedge in accordance to IFRS 9.

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet where the Bank currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The following table presents the recognized financial instruments (i.e. cross-currency and interest rate swaps and collateral) that are offset, or subject to enforceable master netting arrangements and other similar arrangements but not offset, as of December 31, 2020, and 2019. The column "net amount" shows the impact on the Bank's statement of financial position if all set-off rights were exercised.

		<u>Gross amounts set-off in the Statement of Financial Position</u>	<u>Net amounts presented in the Statement of Financial Position</u>
<u>As of December 31, 2020</u>	<u>Gross amounts</u>	<u>\$</u>	<u>\$</u>
Financial assets:			
Cross-currency swap receivable at FVOCI	179,475	(179,475)	-.-
Interest rate swaps receivable at FVOCI	132,360	(132,360)	-.-
Derivatives receivable	<u>311,835</u>	<u>(311,835)</u>	<u>-.-</u>
Financial liabilities:			
Cross-currency and interest rate swaps payable at FVOCI	(156,261)	179,475	23,214
Interest rate swaps payable at FVOCI	(131,995)	132,360	365
Collateral	(23,584)	-.-	(23,584)
Derivatives payable	<u>(311,840)</u>	<u>311,835</u>	<u>(5)</u>
Net receivable exposure	<u>(5)</u>	<u>-.-</u>	<u>(5)</u>
<u>As of December 31, 2019</u>			
Financial assets:			
Cross-currency swap receivable at FVOCI	165,312	(165,312)	-.-
Derivatives receivable	<u>165,312</u>	<u>(165,312)</u>	<u>-.-</u>
Financial liabilities:			
Cross-currency swap payable at FVOCI	(159,413)	165,312	5,899
Collateral	(5,900)	-.-	(5,900)
Derivatives payable	<u>(165,313)</u>	<u>165,312</u>	<u>(1)</u>
Net payable exposure	<u>(1)</u>	<u>-.-</u>	<u>(1)</u>

All derivatives are stated at their reasonable value using, as much as possible, valuation techniques based on reliable and observable market information, and are classified as Level 2 (see Note 8.7).

Borrowings outstanding classified based on their scheduled maturities are as follows:

<u>Maturities</u>	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Up to one year	135,333	5,333
More than one and up to two years	66,016	35,333
More than two and up to three years	87,330	1,335
More than three and up to four years	177,553	4,573
More than four and up to five years	7,760	158,787
More than five years	95,198	60,272
Total	<u>569,190</u>	<u>265,633</u>

(iii) Fair value of borrowings

Time deposits from central banks and loans contracted with MDBs and other institutions are held at amortized costs. It is estimated that their book value approximates their fair value since future cash flows to be paid are very similar to the recorded amount for the borrowing.

Bonds outstanding and cross-currency swaps designated as a cash flow hedge are valued at fair value with the effective portion of the hedge recognized in a hedge reserve in other comprehensive income, and the ineffective portion of the hedge in the Income Statement as part of borrowing costs.

(iv) Risk exposure

Notes 6 and 7, respectively, provide information regarding the risk exposure associated to borrowings.

8.6 Special funds

The balance maintained with special funds as of December 31, 2020, and 2019, respectively, includes the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
FETCO	8,838	6,616
PCT	3,242	3,513
PAC	2,986	2,101
Total	<u>15,066</u>	<u>12,230</u>

The Board of Governors can create special funds for specific purposes. Special funds are considered as separate and independent legal entities from the Bank. Special funds are directly controlled by the member countries through the Board of Governors. hence, the balances held under those funds do not need to be consolidated by the Bank.

Special funds are funded through distribution of retained earnings maintained in the general reserve. In 2014, the Board of Governors created and funded the following special funds:

- a. *"Fund for the Compensation of the Operational Rate (FETCO, previously referred as FOCOM)"*: This fund pursues the objective of helping to reduce the financial cost incurred by Bolivia, Paraguay y Uruguay on their loans with the Bank, as well as operations qualifying as green projects as part of the financings to be approved under the Economic Recovery Line, through the payment of a portion of the interest to be paid semiannually by these borrowing member countries. The payment of the part of the interest accrued on loans by FETCO on behalf of the borrowers is contingent and determined annually. Since the inception of this fund, in May 2014, and through December 31, 2018, the Board of Governors has approved \$6,510 in contributions from the retained earnings for the years ended December 31, 2013, and 2017. On August 9, 2019, and then on August 3, 2020, the Board of Governors approved contributions to this fund from the retained earnings for the years ended on December 31, 2018, and 2019, in the amount of \$1,500, and \$3,500, respectively.
- b. *"Technical Cooperation Program (PCT)"*: This fund was created through the restructuring and transfer of resources from the "Fondo para Desarrollo de Proyecto de Integración Regional" (FONDEPRO), to the PCT. The PCT pursues the purpose of fostering regional development and integration, through financing studies, technical knowledge exchange programs, and other initiatives that form an integral part of the Bank's strategic focus. As of December 31, 2018, the Board of Governors had approved a total contribution to the PCT from retained earnings in the amount of \$1,000. On August 9, 2019, and August 3, 2020, the Board of Governors approved the allocation of retained earnings for the years ended as of December 31, 2019, and 2020, in the amount of \$500, and \$1,500, respectively, as contributions to this fund.
- c. *"Joint Savings Program (PAC)"*: As stated in Note 4.13, "Other benefits to employees" on August 14, 2018, the Board of Executive Directors approved the PAC, which became effective, on November 1, 2018, and has a validity of eight years counted from the first day of employment of a participant. The PAC preserves the severance payment Benefit, upon termination of employment, and improves it by adding a supplemental contribution based on one-to-one matching of the voluntary amount of savings to be contributed by participating employees.

Participant's contributions are optional and those employees who opt-out would only receive the severance payment benefit, upon termination of employment. Participant's voluntary savings contributions are limited to either a maximum of one months of salary for year of service (8.33%) or to a minimum of one-half months of salary for year of service (4.17%).

Participant's election of the percentage of voluntary savings contributions is performed annually prior to the beginning of each fiscal year. The PAC has a validity of eight years, counted since the date of employment of each participant. Furthermore, and as an incentive to foster personnel retention, the PAC provides for a vesting period of four years. Upon termination of employment, participants are entitled to withdraw from the PAC the totality of their severance payment benefit; their voluntary savings contributions plus accumulated investment earnings, and the accumulated matching contributions made by the Bank on participant's voluntary savings contributions plus accumulated investment earnings.

During the vesting period, the Bank applies a withholding percentage reducing the amount available for withdrawal upon termination, for those participants who have less than four years of service. The withholding only applies to the amount of matching contributions to be made by the Bank and to the investment income accrued on them. Applicable withholding percentages are: 75% during the first year;

50% during the second year; 25% during the third year; and 0% at the end of the fourth year, when the participant employee reaches full eligibility to withdraw the totality of funds accumulated in his/her PAC account upon termination of employment.

The following table provides a break-down of funds accumulated and total available PAC funds as of December 31, 2020, and 2019, respectively:

	<u>Severance payment contributions</u>	<u>Participants' voluntary savings contributions</u>	<u>Bank's matching contributions on voluntary savings</u>	<u>Accumulated total</u>	<u>Total amount available for termination</u>	<u>Deferred amount</u>
	\$	\$	\$	\$	\$	\$
December 31, 2020						
Balance as of December 31, 2019:	1,393	404	304	2,101	2,035	66
Severance payment contributions	423	-.-	-.-	423	423	-.-
Participants' voluntary savings contribution	-.-	322	322	644	620	24
Additional participants' savings contributions	-.-	161	-.-	161	161	-.-
Investment income accrued	-.-	8	6	14	14	-.-
Withdrawals	(218)	(92)	(47)	(357)	(357)	-.-
Balance due to the PAC	1,598	803	585	2,986	2,896	90
December 31, 2019						
Balance as of December 31, 2018	1,066	51	36	1,153	1,143	10
Severance payment contributions	413	-.-	-.-	413	413	-.-
Participants' voluntary savings contributions	-.-	283	283	566	511	55
Additional participant's saving contributions	-.-	101	-.-	101	101	-.-
Matching contribution on voluntary savings	-.-	6	4	10	9	1
Withdrawals	(86)	(37)	(19)	(142)	(142)	-.-
Balance due to the PAC	1,393	404	304	2,101	2,035	66

Special funds' assets and liabilities are managed by the Bank independently from the management of its own affairs and their liquid funds are invested in accordance with the Bank's investment policies and all applicable guidelines. Accrued investment income attributable to each fund is calculated pro-rata based on the proportion that the amount of liquid assets of each fund bears relative to the total portfolio of liquid assets invested by the Bank, multiplied by the aggregate investment return accrued during the interim period or year. Investments managed by the Bank on behalf of special funds, as well as the related returns, is accounted for through accounts maintained with each special fund.

8.7 Recognition and measurement of fair value

This note includes information about judgments and estimates used in the determination of fair values of financial instruments in the financial statements.

Determination of fair values attributable to investment assets is made by obtaining values in accordance with the three levels described in the accounting standards. An explanation for each of these three levels follows:

	<u>Note</u>	<u>Level 1</u> \$	<u>Level 2</u> \$	<u>Level 3</u> \$
<u>December 31, 2020</u>				
Investments carried at fair value with effect in OCI	8.2	<u>321,061</u>	<u>-.-</u>	<u>-.-</u>
<u>December 31, 2019</u>				
Investments carried at fair value with effect in OCI	8.2	<u>142,86</u>	<u>-.-</u>	<u>-.-</u>

During the year ended as of December 31, 2020, the Bank did not have holdings of financial instruments requiring valuation at fair value in accordance with the fair value measurement methodologies prescribed under either level 2 or 3 (2019 – Nil). Should changes in the methodology of obtaining applicable fair values for financial investment instruments exist, it is the Bank's policy to recognize the effect from such changes.

- Level 1: Fair value of financial instruments transacted in an active market (such as investments carried at fair value), are based on prevailing quoted market prices at year end. The market price used for financial assets held by the institution is the quoted market price. These instruments are included under level 1.
- Level 2: Fair value of financial instruments not quoting in an active market is determined through valuation techniques, using as much as possible reliable and observable market information. If all information required to determine the applicable fair value for a financial instrument is observable information, then such instrument is classified under level 2. The institution does not have financial instruments classified under this category.
- Level 3: If the information considered either significant or relevant for the determination of fair values cannot be obtained by reference to market sources, then the financial instrument is classified under level 3. The institution does not have financial instruments classified under this category.

NOTE 9 – NON-FINANCIAL ASSETS AND LIABILITIES

This note provides information about non-financial assets and liabilities of the institution, including:

- Specific information of each type of non-financial asset and liability.
- Accounting policies used.
- Information about the determination of fair values attributable to those assets and liabilities, including professional judgments used and the uncertainties of the estimates applied.

9.1 Property and equipment, net

The composition of property and equipment includes the following:

	<u>Property</u> \$	<u>Equipment and Furniture</u> \$	<u>Art</u> \$	<u>Vehicles</u> \$	<u>Total</u> \$
<u>Book value</u>					
Balance as of December 31, 2018	4,827	1,661	50	48	6,586
Additions	-.-	235	37	-.-	272
Asset in transit retirement	-.-	(36)	-.-	-.-	(36)
Balance as of December 31, 2019	4,827	1,860	87	48	6,822
Additions	29	569	-.-	-.-	598
Balance as of December 31, 2020	4,856	2,429	87	49	7,420
<u>Cumulative depreciation</u>					
Balance as of December 31, 2018	181	579	-.-	35	795
Depreciation	166	171	-.-	5	342
Balance as of December 31, 2019	347	750	-.-	40	1,137
Depreciation	166	178	-.-	5	349
Balance as of December 31, 2020	513	928	-.-	45	1,486
<u>Net book value as of December 31, 2020</u>	<u>4,343</u>	<u>1,501</u>	<u>87</u>	<u>3</u>	<u>5,934</u>
<u>Net book value as of December 31, 2019</u>	<u>4,480</u>	<u>1,146</u>	<u>87</u>	<u>8</u>	<u>5,721</u>

The net book value of offices, parking, and storage spaces conforming the Bank's headquarters includes a technical revaluation in the amount of \$812, recognized on December 31, 2018, based on the estimated fair value resulting from an independent appraisal as of that date. This revaluation resulted into the recognition of a revaluation reserve in other comprehensive income. The amount of the revaluation reserve is reduced through depreciation and might be adjusted based on subsequent technical revaluations.

(ii) Depreciation methods, revaluation, and useful lives

Property is recognized at its fair value based on periodic independent appraisals net of depreciation. Other assets included under this caption are carried at their historical cost net of cumulative depreciation.

Depreciation is calculated using the straight-line method either on the historical cost or on the revalued amount and based on the estimated useful live the asset. Applicable useful lives for the assets, are as follows:

Asset	Useful Live
Property:	Not amortized
Land	The lesser of 40 years or the value of the assessment
Buildings	
Furniture and equipment:	Over lease contract
Improvements on leased property	
Furniture and equipment	8 to 10 years
Computer equipment and software	4 to 7 years
Vehicles	5 years
Art	Not amortized

Note 4.9 contains additional information on accounting policies applicable to property and equipment.

(iii) Net book value that would have been recognized had property been valued at cost

Had the value of property been determined at historical cost, the carrying amount of property would have been as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Cost	4,043	4,014
Cumulative depreciation	(457)	(319)
Total	<u>3,586</u>	<u>3,695</u>

9.2 Miscellaneous

This caption includes small balances owed to the Bank, resulting from loans to staff members, advances to suppliers, expenses paid in advance; deferred expenses; and guarantee deposit for the liaisons offices located in Asunción, Paraguay.

On November 20, 2020, the Bank signed a 3-year lease securing the required space for the Montevideo, Uruguay, liaison office. The lease calls for minimum monthly rental payments of \$2.5, starting on February 1, 2021 and ending on January 1, 2024, expiration of the lease. The Bank does not have the right to purchase the leased space at the end of the lease. The minimum rental payments are subject to a 4% annual escalation adjustment. In addition, the Bank agreed to pay the lessor the sum of \$26, for retrofitting the premises to its needs. Based on the provisions of IFRS 16, this lease was recognized as a financial lease, which resulted into the recognition of other assets and other liabilities, in the amount \$114, respectively, consisting of \$88 corresponding to the present value of the minimum lease payments discounted at the lessor's escalation rate, which is representative of the lessor's borrowing cost, and \$26 for the lessor to retrofit the space to suit the Bank's needs.

As of December 31, 2020, and, 2019, the total amount of miscellaneous receivables amounts to \$762, and to \$893, respectively.

9.3 Other Liabilities

This caption includes interest and commissions payable accrued on borrowings, as well as small balances owed to suppliers, and the financial lease liability in connection with the financial lease signed to secure office space for the liaison office in Montevideo, República Oriental del Uruguay. The composition of other liabilities as of December 31, 2020, and 2019, is as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Interest and commissions accrued on borrowings	1,633	2,342
Trade payables and accruals	235	248
Unamortized financial lease obligations	114	-.-
Total	<u>1,982</u>	<u>2,590</u>

NOTE 10 – EQUITY

10.1 Capital

On January 28, 2016, the 14th Extraordinary Assembly of Governors approved a new capital increase in the amount of \$1,375,000, raising the authorized from \$1,639,200 to \$3,014,200. As of December 31, 2018, all member countries had fully subscribed their callable capital commitments.

The new capital increase became effective in 2017 with the subscription by all member countries of their respective installments of paid-in capital in the amount of \$550,000 and their commitment of the totality of their respective portion of callable capital in the amount of \$825,000. Paid-in capital subscriptions would be made effective in eight annual installments commencing in 2018 and through 2024. Upon completion of the integration process paid-in capital would amount to \$1,349,200. Callable capital in the amount of \$1,665,000, was subscribed and committed in its totality as of December 31, 2017. Payment of subscribed and committed callable capital will proceed when required and based on the Governors' approval should the Bank be unable to comply with its financial obligations and commitments using its own resources.

Composition of the Bank's capital by member country as of December 31, 2020, and 2019, is as follows:

December 31, 2020 and 2019:

<u>Member countryⁱ</u>	<u>Subscribed capital</u>		<u>Authorized capital</u>		<u>Total</u>	<u>%</u>
	<u>Paid-in</u>	<u>Callable</u>	<u>Paid-in</u>	<u>Callable</u>		
	\$	\$	\$	\$	\$	
• Argentina	449,744	555,014	449,744	555,014	1,004,758	33.3%
• Bolivia	149,904	184,991	149,904	184,991	334,895	11.1%
• Brazil	449,744	555,014	449,744	555,014	1,004,758	33.3%
• Paraguay	149,904	184,991	149,904	184,991	334,895	11.1%
• Uruguay	149,904	184,990	149,904	184,990	334,894	11.1%
	<u>1,349,200</u>	<u>1,665,000</u>	<u>1,349,200</u>	<u>1,665,000</u>	<u>3,014,200</u>	<u>100.0%</u>

During the year ended December 31, 2020, the Bank received paid-in capital contributions in the amount of \$51,333, from member countries (2019 - \$48,016). The amount of paid-in capital subscribed and pending subscription, including the new capital increase, as well as the amount of callable capital subscribed, committed and pending commitment as of December 31, 2020, and 2019, respectively, is as follows:

<u>December 31, 2020:</u> <u>Member country</u>	<u>Paid-in Capital Subscribed</u>		<u>Totalⁱ</u>
	<u>Paid-inⁱ</u>	<u>Receivableⁱ</u>	
	\$	\$	\$
• Argentina	325,076	124,668	449,744
• Bolivia	108,349	41,555	149,904
• Brazil	266,759	182,985	449,744
• Paraguay	108,349	41,555	149,904
• Uruguay	108,349	41,555	149,904
Total	<u>916,882</u>	<u>432,318</u>	<u>1,349,200</u>

<u>December 31, 2019:</u> <u>Member country</u>	<u>Paid-in Capital Subscribed</u>		<u>Total</u> ⁱ \$
	<u>Paid-in</u> ⁱ \$	<u>Receivable</u> ⁱ \$	
• Argentina	299,411	150,333	449,744
• Bolivia	99,793	50,111	149,904
• Brazil	266,759	182,985	449,744
• Paraguay	99,793	50,111	149,904
• Uruguay	99,793	50,111	149,904
Total	<u>865,549</u>	<u>483,651</u>	<u>1,349,200</u>

December 31, 2020 and 2019:

<u>Member Country</u>	<u>Subscribed Callable Capital</u> ⁱ <u>Committed</u> ⁱⁱ \$
• Argentina	555,014
• Bolivia	184,991
• Brazil	555,014
• Paraguay	184,991
• Uruguay	184,990
Total	<u>1,665,000</u>

ⁱ As of December 31, 2018, all member countries had subscribed and committed their share of callable capital.

ⁱⁱ Subtotals may differ from totals due to rounding into thousands.

10.2 Other reserves

As explained in Note 8.2 (iv), other comprehensive income as of December 31, 2020, and 2019, includes the following:

- (i) Reserve for changes in the fair value of investments – FVOCI: During the years ended as of December 31, 2020, and 2019, this reserve was decreased by \$2,417, due to unrealized losses, and by \$412, due to unrealized gains, respectively, for a balance of \$1,879, net unrealized loss, and of \$538, net unrealized gain, respectively.
- (ii) Reserve for changes in fair value of derivatives held for hedging: During the years ended as of December 31, 2020, and 2019, this reserve was increased by \$1,651, and by \$515, resulting from the fair value of derivatives contracted for the protection of cashflows, for a balance of \$2,166, and \$515, respectively.
- (iii) Reserve for revaluation of property: During the years ended as of December 31, 2020, and 2019, this reserve was reduced by \$28, and by \$27, due to depreciation, for a balance of \$757, and of \$785, respectively.

10.3 Retained earnings and reserves

Retained earnings as of December 31, 2020, amount to \$35,914, and correspond solely to net income for the year (December 31, 2019 - \$28,308).

The Bank policies provide that Unappropriated Retained Earnings are to be used to finance the preservation of the value of its equity over time and to also finance the Special Fund for the Compensation of the operational Rate (FETCO), and the Technical Cooperation Program (PCT). Note 8.6, provides additional information on the allocation approved from retained earnings as of December 31, 2019, to these two funds, by the Board of Governors.

The amount of the General Reserve on December 31, 2020, and 2019, respectively is as follows:

	<u>General Reserve</u> \$
Balance as of December 31, 2018	107,871
Allocated by the Assembly of Governors in 2019:	
From retained earnings	24,572
Balance as of December 31, 2019	<u>132,443</u>
Allocated by the Assembly of Governors in 2020	23,308
Balance as of December 31, 2020	<u><u>155,751</u></u>

NOTE 11 – REVENUES

The composition of net income is as follows:

	<u>January 1 through December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Loan income:		
Interest	36,438	41,841
Commitment fee and commissions	4,563	3,052
Administrative fee	2,107	1,784
Subtotal	<u>43,108</u>	<u>46,677</u>
Investment income:		
Interest	8,038	7,812
Other	19	16
Gross investment income	<u>8,057</u>	<u>7,828</u>
Special Fund's share of investment income – Note 8.6	<u>(162)</u>	<u>(248)</u>
Investment income – Net	<u>7,895</u>	<u>7,580</u>
Other income	<u>100</u>	<u>162</u>
Total Income	<u><u>51,103</u></u>	<u><u>54,419</u></u>

NOTE 12 – ADMINISTRATIVE EXPENSES

Since 2013, the Bank has adopted a result-based budgeting system, including performance indicators allowing the measurement of results attained and their related cost. The system matches governance, operating and financial goals with the activities required to reach them and the resources required. During the years ended as of December 31, 2020, and 2019, the Bank reached a percentage of execution of its administrative budget equivalent to 76% and 81%, respectively. The break-down of administrative expenditures by functional activity is as follows:

<u>Classification of expenses</u>	<u>December 31,</u>	
	<u>2020</u> \$	<u>2019</u> \$
Personnel expenses	6,917	6,701
Business travel expenses	185	682
Professional services	459	554
Credit risk rating	152	112
External auditors	68	60
Administrative expenses	961	1,094
Financial services	126	128
<i>Total administrative budget</i>	<u>8,868</u>	<u>9,331</u>
Depreciation	321	314
Gain on foreign exchange	(129)	(164)
<i>Total administrative expenses</i>	<u>9,060</u>	<u>9,481</u>

NOTE 13 – SCHEDULED MATURITY OF ASSETS AND LIABILITIES

The following tables provide an analysis of the expected time elapsed to maturity of assets and liabilities as of December 31, 2020 and 2019, respectively, based on their respective recovery or settlement date:

	<u>Current</u> <u>(Up to 1 year)</u> \$	<u>Non-Current</u> <u>(More than 1</u> <u>year)</u> \$	<u>Total</u> \$
<u>December 31, 2020</u>			
<u>ASSETS</u>			
Cash and cash equivalents	32,037	-.-	32,037
Investments			
At fair value	152,856	168,205	321,061
At amortized cost	85,722	-.-	85,722
Loan portfolio			
Outstanding loans	72,829	1,164,202	1,237,031
Interest and other accrued charges			
On investments	1,821	-.-	1,821
Interest and commissions on loans	10,600	-.-	10,600
Other assets			
Property and equipment, net	-.-	5,934	5,934
Miscellaneous	643	119	762
Total assets	<u>356,508</u>	<u>1,338,460</u>	<u>1,694,968</u>

	<u>Current</u> <u>(Up to 1 year)</u> \$	<u>Non-Current</u> <u>(More than 1</u> <u>year)</u> \$	<u>Total</u> \$
<u>LIABILITIES</u>			
Cash-flow hedge derivatives	5	-.-	5
Borrowings	135,333	432,991	568,324
Other liabilities	1,895	87	1,982
Special funds	3,066	12,000	15,066
Total liabilities	140,299	445,078	585,377

December 31, 2019

ASSETS

Cash and cash equivalents	37,413	-.-	37,413
Investments			
At fair value	142,860	-.-	142,860
At amortized cost	185,857	2,790	188,647
Loan portfolio			
Outstanding loans	73,148	847,239	920,387
Interest and other accrued charges			
On investments	658	-.-	658
Interest and commissions on loans	11,088	-.-	11,088
Other assets			
Property and equipment, net	-.-	5,721	5,721
Miscellaneous	819	74	893
Total assets	451,843	855,824	1,307,667

LIABILITIES

Cash-flow hedge derivatives	1	-.-	1
Borrowings	5,333	259,375	264,708
Other liabilities	2,590	-.-	2,590
Special funds	1,830	10,400	12,230
Total liabilities	9,754	269,775	279,529

NOTE 14 – IMMUNITIES, EXEMPTIONS AND PRIVILEGES

As stated in the Fund's "Agreement of Immunities, Exemptions and Privileges of the Fund for the development of the River Plate Basin Territory," an international legal instrument duly ratified by its five Member Countries, the Bank can hold resources on any currency, paper, shares, equities and bonds, and can freely transfer them from one country to the other and from one place to the other within the territory of any country and convert them into other currencies

Furthermore, the Agreement establishes that the Bank and its assets are exempt, within the territory of its Member Countries, of any direct taxes and custom duties with respect either imported or exported goods for official use. The Agreement also indicates that in principle, the Fund would not claim the exemption of consumption, sales taxes, and other indirect taxes. However, Member Countries commit, to the extent possible, to apply all administrative provisions that might be available to exempt or reimburse the Bank for such taxes, in connection with official purchases involving large amounts when such taxes are included in the price paid.

Complementary, both the Agreement on Immunities, Exemptions and Privileges as well as the Treaties signed by the Fund with the Bolivian State and with the Republic of Paraguay, establish that the Bank's properties, goods and assets are exempt from all taxes, contributions and charges, at the national, departmental, municipal or of any other type.

NOTE 15 – SEGMENT INFORMATION

(a) Segment description

Based on an analysis of its operations, the Bank determined that it only has an operational segment. This determination recognizes that the Bank does not manage its operations allocating resources among operations measuring the contribution of those individual operations to the Fund's net income. The Bank does not distinguish between the nature of loans or the services rendered, their preparation process or the method followed in the preparation of loans and services rendered to its member countries. All operations are performed at the Bank's headquarters and the Fund does undertake operational activities at other geographical locations. The Bank's operations consist of granting financing to its five member countries, which are considered as segments for purposes of this disclosure: Argentina, Bolivia, Brazil, Paraguay, and Uruguay.

(b) Assets by segment

Composition of the loan portfolio by country is as follows:

	<u>Gross portfolio</u> \$	<u>Unaccrued commissions</u> \$	<u>Impairment</u> \$	<u>Loan portfolio</u> \$	<u>Interest and commissions receivable</u> \$	<u>Total</u> \$
December 31, 2020:						
Argentina	322,860	(1,470)	(4,922)	316,468	3,152	319,650
Bolivia	331,636	(672)	(2,068)	328,896	2,948	331,844
Brazil ¹	142,045	(1,275)	(1,135)	139,635	1,119	140,754
Paraguay ¹	215,773	(833)	(670)	214,270	1,428	215,698
Uruguay	239,181	(473)	(946)	237,762	1,953	239,715
Total	1,251,495	(4,723)	(9,741)	1,237,031	10,600	1,247,631
December 31, 2019:						
Argentina	236,828	(1,103)	(9,356)	226,369	2,866	229,235
Bolivia	285,885	(974)	(1,914)	282,997	4,066	287,063
Brazil	74,583	(433)	(317)	73,833	794	74,627
Paraguay	146,028	(967)	(379)	144,682	1,438	146,120
Uruguay	193,134	(355)	(273)	192,506	1,924	194,430
Total	936,458	(3,832)	(12,239)	920,387	11,088	931,475

¹Includes \$72,000 of NSG loans approved and fully disbursed in 2020 (2019 - \$Nil). Unaccrued commissions on NSG loans amount to \$173, and \$197, for Brazil and Paraguay, respectively (2019 - \$Nil); and interest and commissions receivable amount to \$145, and \$41, for Brazil and Paraguay, respectively (2019 - \$Nil). The amount of provision for potential NSG loan losses amounts to \$1,250 (2019 - Nil) (see Note 8.4, for more details).

Composition of the gross loan portfolio by country and its distribution by industry segment is as follows:

	<u>Communication, transportation, energy, and logistics infrastructure</u>	<u>Infrastructure for productive development</u>	<u>Infrastructure for socio- economic development</u>	<u>NSG Loans</u>	<u>Total</u>
	\$	\$	\$	\$	\$
<u>December 31, 2020:</u>					
Argentina	135,379	65,511	121,970	-.-	322,860
Bolivia	314,653	-.-	16,983	-.-	331,636
Brazil ¹	88,172	-.-	17,873	36,000	142,045
Paraguay ¹	165,772	14,001	-.-	36,000	215,773
Uruguay	210,754	15,000	13,427	-.-	239,181
Total	914,730	94,512	170,253	72,000	1,251,495
<u>December 31, 2019:</u>					
Argentina	91,679	69,794	75,355	-.-	236,828
Bolivia	267,644	-.-	18,240	-.-	285,884
Brazil	53,198	-.-	21,385	-.-	74,583
Paraguay	131,028	15,000	-.-	-.-	146,028
Uruguay	178,365	-.-	14,770	-.-	193,135
Total	721,914	84,794	129,750	-.-	936,458

¹The amount under "Total", includes \$72,000 of NSG loans outstanding, which does not follow into any of the three industry segments used for loans extended to member countries with sovereign guarantee (see Note 8.4, for more details).

Undisbursed loan balances on loans under execution consists exclusively of sovereign guaranteed loans, and its break-down by country are as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Argentina	287,539	350,657
Bolivia	116,716	143,567
Brazil	180,737	142,925
Paraguay	250,413	221,911
Uruguay	57,067	115,684
Total	892,472	974,744

As of December 31, 2020, and 2019, respectively, the balance of loans approved by the Bank but not yet disbursing due to either their respective contracts no having been signed or ratified by the member country's Legislative Power, corresponds solely to sovereign guaranteed loans, and is as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Argentina	85,000	20,000
Brazil	94,877	58,247
Paraguay	276,246	212,000
Uruguay	21,000	-.-
Total	477,123	290,247

The average return on loans is as follows:

	<u>December 31,</u>		
	<u>2020</u>	<u>2019</u>	
	<u>Average balance</u>	<u>Average</u>	<u>Average balance</u>
	<u>\$</u>	<u>return</u>	<u>\$</u>
		<u>%</u>	
			<u>%</u>
Loan portfolio	1,093,977	3.94%	867,915
			5.38%

(c) Segment revenues

Interest and other revenues by segment are as follows:

	<u>Loan revenues</u>	<u>Other</u>	<u>Total</u>
	<u>\$</u>	<u>operating</u>	<u>\$</u>
		<u>revenues</u>	
		<u>\$</u>	
<u>Year ended December 31, 2020:</u>			
Argentina	9,940	1,934	11,874
Bolivia	10,584	1,070	11,654
Brazil ¹	4,065	1,286	5,351
Paraguay ¹	5,061	1,678	6,739
Uruguay	6,788	702	7,490
Total	36,438	6,670	43,108
<u>Year ended December 31, 2019:</u>			
Argentina	10,517	1,847	12,364
Bolivia	11,982	1,037	13,019
Brazil	3,538	631	4,169
Paraguay	6,586	1,027	7,613
Uruguay	9,218	294	9,511
Total	41,841	4,836	46,677

¹Includes accrued interest in the amount of \$785, and, \$41, and other loan charges in the amount of \$334, and \$84, corresponding to NSG loans granted to state-owned development banks in Brazil, and Paraguay, respectively.

NOTE 16 – RELATED PARTIES

As indicated in Notes 1 and 6.4, the Bank only grants financings to its five borrowing member countries with sovereign guarantee, who are also the owners and shareholders of the Fund, and to government owned development financial institutions and government owned enterprises, both at the national and subnational level, without sovereign guarantee. All lending operations are entered in full compliance with the policies and guidelines approved by the Board of Governors, the Board of Executive Directors, or the Executive President, as required. Consequently, the Bank does not have transactions with its member countries in other terms than those established in its policies and guidelines.

The balances and transactions maintained with related entities as of December 31, 2020, and 2019, respectively, correspond to the balances maintained with the FETCO; PCT; and the PAC, as explained in further detail in Notes 4.12, 4.13 and 8.6, respectively.

NOTE 17 – CONTINGENCIES

No contingencies have been identified, that could materially affect the Bank's financial statements as of December 31, 2020, and 2019, respectively.

NOTE 18 – SUBSEQUENT EVENTS

On february 3, 2021, the Bank agreed on the terms and conditions with Credit Suisse, leading to the issuance of a bond in the Swiss capital market. This issuance with consist of CHF 200,000 in Swiss Francs denominated bonds with a 5 ½ year maturity, and annual interest payments based on an annual fix rate of 0.556%. In compliance of its risk management policies, concurrently with the bond issuance, the Bank contracted a derivative with Credit Suisse, entity with which signed an ISDA agreement, consisting of a cross-currency swap, effectively transforming the CHF denominated liability and the fix interest rate into a U.S. dollars obligation in the amount of \$222,668, with semiannual interest payments based on the 6-month Libor rate plus a fix margin. This transaction has been designated as a cash-flow hedge derivative within the framework of IFRS 9.

The Bank has evaluated subsequent events as of the date of the financial statements up to February 25, 2021, date on which the financial statements were ready for their issuance. No matters other than the bond issuance stated above were identified that might have a material impact in the financial statements, as of December 31, 2020.

Juan E. Notaro Fraga
EXECUTIVE PRESIDENT

Oscar A. Perez Lopez
PRESIDENT OF THE BOARD OF EXECUTIVE DIRECTORS

Fernando A. Fernandez Mantovani
CHIEF ACCOUNTING AND BUDGET

Rafael Robles
MANAGER FINANCE AND ADMINISTRATION