

(Free translation from the original issued in Spanish)

FONPLATA - BANCO MULTILATERAL DE DESARROLLO

Interim financial statements

June 30, 2023
with the independent auditor's report

(Free translation from the original issued in Spanish)

FONPLATA - BANCO MULTILATERAL DE DESARROLLO

Interim financial statements

June 30, 2023

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Assembly of Governors
FONPLATA - Banco Multilateral de Desarrollo

Introduction

We have reviewed the accompanying interim financial statement of FONPLATA - Banco Multilateral de Desarrollo (the "Bank") as of June 30, 2023, and the related interim statements of income, changes in cash flows and equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

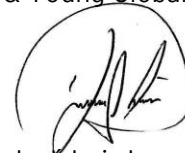
Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of FONPLATA - Banco Multilateral de Desarrollo as of June 30, 2023, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard No. 34 "Interim Financial Reporting".

Mancera, S.C.
Member of
Ernst & Young Global Limited



C.P.C. José Luis Loaeza Leyva

México City,
August 25, 2023

(Free translation from the original issued Spanish)
FONPLATA – Multilateral Development Bank
INTERIM STATEMENT OF FINANCIAL POSITION ¹
 (All amounts expressed in thousands of U.S. dollars)

	As of June 30, 2023		As of December 31, 2022	
ASSETS				
Cash and cash equivalents – Note 8.1 and 8.3		305,585		217,589
Investments				
At fair value with changes in other comprehensive income – Note 8.2	387,246		338,850	
At amortized cost	<u>-.-</u>	387,246	<u>-.-</u>	338,850
Loan portfolio – Note 8.4		1,722,581		1,744,396
Accrued interest				
On investments– Note 8.2 and 8.3	2,168		1,374	
On loans – Note 8.4	<u>35,872</u>	38,040	<u>28,182</u>	29,556
Other assets				
Fair value hedge derivatives - Note 8.5 (ii)	-.-		5	
Property and equipment, net - Note 9.1	5,397		5,679	
Miscellaneous – Note 9.2	<u>1,316</u>	6,713	<u>1,088</u>	6,772
Total assets		<u><u>2,460,165</u></u>		<u><u>2,337,163</u></u>
LIABILITIES AND EQUITY				
Liabilities				
Fair value hedge derivatives– Note 8.5	412		-.-	
Borrowings – Note 8.5	966,738		975,343	
Other liabilities – Note 9.3	14,266		10,294	
Special funds – Note 8.6	<u>21,587</u>		<u>22,635</u>	
Total liabilities		<u><u>1,003,003</u></u>		<u><u>1,008,272</u></u>
Equity				
Capital – Note 10.1				
Authorized	3,014,200		3,014,200	
Less callable portion	<u>(1,665,000)</u>		<u>(1,665,000)</u>	
Paid-in capital	1,349,200		1,349,200	
Paid-in capital pending integration	<u>(170,000)</u>	1,179,200	<u>(267,540)</u>	1,081,660
General reserve – Note 10.3		203,595		203,595
Other reserves – Note 10.2		(4,083)		(3,979)
Retained earnings – Note 10.3		<u>78,450</u>		<u>47,615</u>
Total equity		<u><u>1,457,162</u></u>		<u><u>1,328,891</u></u>
Total liabilities and equity		<u><u>2,460,165</u></u>		<u><u>2,337,163</u></u>

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

¹ All financial information as of June 30, 2023, and 2022, has been the subject of a limited review by the independent auditors and accordingly it implies a scope less than an audit of financial statements.

Luciana Botafogo Brito
 EXECUTIVE PRESIDENT

Leandro A. Gorgal
 CHAIRPERSON BOARD OF EXECUTIVE DIRECTORS

Fernando A. Fernandez Mantovani
 CHIEF ACCOUNTING AND BUDGET

Rafael Robles
 VICEPRESIDENT OF FINANCE

(Free translation from the original issued in Spanish)

**FONPLATA – Multilateral Development Bank
INTERIM STATEMENT OF INCOME ¹**

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

	January 1 through June 30,	
	2023	2022
INCOME – Note 11		
Loan portfolio		
Interest	66,079	24,031
Other loan income	2,825	2,742
	<u>68,904</u>	<u>26,773</u>
Investments		
Interest	12,396	1,383
Other	832	106
	<u>13,228</u>	<u>1,489</u>
Income from financial assets	<u>82,132</u>	<u>28,262</u>
EXPENSES		
Interest expense	(30,378)	(7,936)
Income from financial assets, net	<u>51,754</u>	<u>20,326</u>
Other income/expenses	(10,188)	(817)
Income before provision and administrative expenses	41,566	19,509
Provision for loan impairment	(4,373)	601
Income after provision for loan impairment	<u>37,193</u>	<u>20,110</u>
Administrative expenses – Note 12	(6,358)	(5,582)
Net income	<u>30,835</u>	<u>14,528</u>
INTERIM STATEMENT OF COMPREHENSIVE INCOME		
Net income	30,835	14,528
Items that may be reclassified to profit or loss:		
Changes in fair value of investments	(92)	(3,469)
Losses/Gains on cash flow hedges net	-	(28,271)
Items that will be not reclassified to profit or loss:		
Technical appraisal of property	(12)	(80)
Comprehensive income	<u>30,731</u>	<u>(17,293)</u>

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**FONPLATA – Multilateral Development Bank
INTERIM STATEMENT OF CASH FLOWS ¹**

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

	January 1 through June 30,	
	2023	2022
Cash Flows from Operating Activities		
Lending		
Cash received from loan principal amortizations	83,791	50,429
Cash received from interest and other loan charges	61,964	22,162
Loan disbursements	(67,101)	(108,432)
Net flows in lending activities	78,654	(35,841)
Other operating flows:		
Payment of salaries, benefits, and other personnel expenses	(3,818)	(3,913)
Payment of administrative expenses	(1,645)	(1,462)
(Decrease)/Increase in trade accounts payable and with special funds	(1,338)	(1,814)
Net flows used in other operating activities	(6,801)	(7,189)
Net flows from operating activities	71,853	(43,030)
Cash Flows from Financing Activities		
Proceeds from borrowings	54,022	16,700
Derivatives – Collateral deposited at counterparts	11,490	(52,240)
Repayment of borrowings and debt service	(111,098)	(70,563)
Net flows from financing from third parties	(45,586)	(106,103)
Collection of paid-in capital subscriptions	97,540	44,027
Net flows from financing activities	51,954	(62,076)
Cash flows from investing activities		
Collection of investment income	12,731	2,190
Net sales/(purchase) of investments	(48,487)	103,067
Income from office sale	-	225
Capital expenditures	(55)	(52)
Net flows from investment activities	(35,811)	105,430
Increase in cash and equivalents during the year	87,996	324
Cash and equivalents at the beginning of the year	217,589	128,261
Cash and equivalents at the end of the year	305,585	128,585

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**FONPLATA – Multilateral Development Bank
INTERIM STATEMENT OF CHANGES IN EQUITY ¹**

(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, 2022	1,006,467	183,165	(5,806)	(3,578)	729	24,030	1,205,007
Capital increase – Paid-in portion	44,027	-	-	-	-	-	44,027
Allocated by the Assembly of Governors to:							
General Reserve	-	-	-	-	-	-	-
Fund for the Compensation of Interest Rate (FOCOM)	-	-	-	-	-	-	-
Technical Cooperation Program (PCT)	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	14,528	14,528
Other comprehensive income for the year	-	-	(3,469)	(28,271)	(80)	-	(31,820)
Balance as of June 30, 2022	<u>1,050,494</u>	<u>183,165</u>	<u>(9,275)</u>	<u>(31,850)</u>	<u>649</u>	<u>38,558</u>	<u>1,231,741</u>
Balance as of January 1, 2023	1,081,660	203,595	(4,615)	-	636	47,615	1,328,891
Capital increase – Paid-in portion	97,540	-	-	-	-	-	97,540
Allocated by the Assembly of Governors to:							
General Reserve	-	-	-	-	-	-	-
Fund for the Compensation of Interest Rate (FOCOM)	-	-	-	-	-	-	-
Technical Cooperation Program (PCT)	-	-	-	-	-	30,835	30,835
Net income for the year	-	-	-	-	-	-	-
Other comprehensive income for the year	-	-	(92)	-	(12)	-	(104)
Balance as of June 30, 2023	<u>1,179,200</u>	<u>203,595</u>	<u>(4,707)</u>	<u>-</u>	<u>624</u>	<u>78,450</u>	<u>1,457,162</u>

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**FONPLATA – Multilateral Development Bank
NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE INTERIM PERIOD ENDED JUNE 30, 2023, AND FOR THE YEAR ENDED DECEMBER 31, 2022

(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 offices in Asuncion, Republic of Paraguay, since 1989, in Buenos Aires, Republic of Argentina since June 2018, in Montevideo, Uruguay, since December 2019, and on March 15, 2021, opened an office in Brasilia, Brazil, consolidating its presence in all five member countries. 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 and Uruguay, hereinafter “founding members”, based on the River Plate Basin Treaty, subscribed on April 23, 1969, which gave rise to its consolidation and recognition as a legal entity on October 14, 1976, when its Charter was approved and put into force.

The Bank was established by its founding members, within a spirit of cooperation 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 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 guarantee of the Bank’s net assets; the financing of pre-investment studies with the purpose of identifying investment opportunities or projects of interest to enhance the development and integration of its member countries at regional and global levels; 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 Board of Governors approved modifications to the Charter pursuing 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, to one encompassing the region of its member countries and their integration in the global market; (iv) the expansion of its membership beyond its founding members, recognizing the possibility of incorporating non-founding members that could consist of either countries or institutions, to its capital base; (v) the

redemption of capital as “authorized capital” for an initial amount of \$3,014,200, consisting of 301,420 class “A” shares, to be allocated to founding members only, with a par value of \$10 each, and with a voting right of one vote per share. Furthermore, the modifications approved stipulate that the authorized capital shall also include shares class - 6 - “B”, to be allocated to non-founding 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 founding member countries, which is deemed to materialize thirty days after receiving communication from the founding member countries’ confirming their formal ratification.

As of the date of issuance of these financial statements the above-mentioned modifications to the Bank’s Charter are yet pending ratification by the parliamentary of one of the five-member countries.

On June 27, 2023, through Legislative Decree No. 74/23, the Brazilian Parliament ratified the revisions to the Charter that had been approved by the Assembly of Governors and already ratified by the other four member countries of the Bank. The new Charter shall become in effect within 30 days from the date in which the Bank receives official notification from the Brazilian authorities.

The Bank Administration is characterized by a keen focus on strategic planning and results-based management. The Strategic Institutional Plan 2013 – 2022 (a.k.a. PEI for its Spanish acronym), constitutes the main instrument designed to manage, supervise, and ensure accountability for the attainment of expected results. The PEI and its updates of 2017, covering the period 2018 – 2022, and its most recent update covering the period 2022 – 2026, were approved by the Board of Governors in September 2021. Complementing the PEI, the Bank prepares the Programs and Budget Document (a.k.a. DPP for its Spanish acronym). The DPP integrates the business plan with the expected results to be attained for the next three years, as well as the activities required and their related costs, which make the basis for the administrative and capital budgets. The DPP for period 2023-2025, was approved by the Board of Governors on December 16, 2022.

On April 10, 2023, the Assembly of Governors appointed Luciana Botafogo Brito as the Executive President of FONPLATA, Development Bank for the period 2023 – 2028, and on April 11, 2023, the Assembly of Governors approved the financial statements for the year ended December 31, 2022.

NOTE 2 – SIGNIFICANT CHANGES IN THE CURRENT YEAR

A –STRATEGY ADOPTED TO ENSURE BUSINESS CONTINUITY DURING AND AFTER COVID - 19

The following paragraphs depict the strategy and actions undertaken by the Bank since the beginning of the COVID-19 pandemic, as well as the status after its five member countries have overcome the health crisis that forced them to close their borders towards the middle of March 2020, following the advice of the World Health Organization (WHO).

Since the beginning of the pandemic the Bank swiftly and successfully implemented its strategy designed to ensure the continuity of its operations both in its hybrid and telecommuting working modalities, in response to the cease of on-site activities.

During the approximately 18 months that the cease of on-site activities lasted, the Bank implemented several actions allowing it to ensure its business continuity while preserving the health of its staff. Among the most relevant measures are the following:

- Adoption of a hybrid working modality. Under this modality, staff are allowed to telecommute one day a week and to work four days on-site.
- Assignment of approximately 25% of the staff positions to the Liaison Offices in Asunción, Paraguay; Buenos Aires, Argentina; Brasilia, Brazil; and Montevideo, Uruguay, prioritizing a fluid dialogue with the member countries increasing the potential for adding value through more timely and focused interventions.
- Migration of all information systems to the cloud improving access security and reducing the possibility of unauthorized access, ensuring business continuity throughout the pandemic and other events that preclude on-site work.
- The Bank continues working in a close dialogue with its government counterparts to adapt its focus on their respective fiscal, health, and social prevailing environment, optimizing its ability to offer financial and technical cooperation assistance in the best possible terms.

B – SPECIFIC ACTIONS

The following paragraphs provide a more specific analysis on the operational and financial activities of the Bank that have directly contributed to the growth of its net earning assets and to the generation of net income during the interim period ended as of June 30, 2023:

- During the interim period ended June 30, 2023, income from loans was entirely determined by the increase in interest rates, due to an excess of principal amortizations with respect to disbursements during the same period for \$16,690, as shown in the statement of cash flows. The increase in interest rates is the result of the effort of the most developed economies to counter inflationary pressures as a result of the disruption in global production and supply chains during the COVID-19 pandemic, followed by the disruption to international trade caused by the Russian invasion of Ukraine. Indicatively, the SOFR rate (“Secured Overnight Financing Rate”), which replaced the 6-month Libor rate in all financing contracts signed as of January 1, 2022, as well as in legacy loans where member countries have agreed to adopt this new reference rate, which in December 2021 was 5 base points, during 2022 it registered an increase of 425 base points, and during the semester ended June 30, 2023 it increased another 75 base points. Although the cycle of monetary contraction started by the United States Federal Reserve in 2022 is expected to come to an end, the interest rate will remain high as long as there is no conclusive evidence of a slowdown in the general inflation rate, and particularly in the core inflation rate driving it towards the target level around 2%. As of June 30, 2023, approximately 59% of loan contracts have the SOFR as the reference rate. The average SOFR and LIBOR rate accrued during the interim six-month period ended June 30, 2023 was 807 and 758 basis points, respectively, significantly higher than that registered as of June 30, 2022 (2022-403 and 383, respectively). This is explained in the process of gradual adoption of the SOFR rate and in the fact that the 6-month Libor rate is applied in arrears. The process of adopting the SOFR rate for all financing granted by the Bank was completed for 70% of the portfolio as of June 30, 2023, and the remaining 30% will be converted by the middle of the third quarter of the current year.

- In compliance with its financial and risk management policies, the Bank manages its risk from exposure to changes in exchange and interest rates by denominating all its loan contracts in United States dollars and through December 31, 2021, by adopting the 6-month Libor rate as its reference rate component of its lending rate. Effective January 1, 2022, all loan contracts signed incorporate the compounded SOFR in arrears as its reference rate. Furthermore, on all legacy loan contracts signed prior to December 31, 2021, due to the replacement of the 6-month Libor rate by the SOFR rate, the Bank agreed with its member countries to a voluntary conversion process by some countries adopted the compounded SOFR in arrears plus an adjusting margin¹ in replacement of the 6-month Libor rate. Effective June 30, 2023, date on which publication of the 6-month Libor rate would be discontinued, all legacy loan contracts would accrue interest based on the SOFR in arrears.

As of June 30, 2023 and in mutual agreement with its member countries, the Bank has replaced the 6-month Libor rate as its loan reference rate in all its loan contracts with Argentina, Paraguay and Uruguay (December 31, 2022 – 64 loan contracts had already been migrated to the SOFR rate in arrears for a total amount of \$1,040,568, while 52 loan contracts amounting to \$712,276, remained on the 6-month Libor rate). Loans with the Plurinational State of Bolivia shall be migrated to the SOFR rate in the next few months based on a law under consideration by the Bolivian Parliament which encompasses loans with all multilateral financial institutions. The loan portfolio outstanding with Bolivia consists of 16 operations amounting to \$371,853, which on average accrue interest at the 6-month Libor of 7.365% and one operation amounting to \$9,596 which accrues interest at the SOFR rate of 8.065%. The loan portfolio outstanding in Brazil consists of 15 operations amounting to \$161,688, accruing interest at the 6-month Libor average rate of 7.88%, corresponding to financings granted to municipalities and subnational governmental institutions and are expected to be migrated to the SOFR rate in arrears in the next few months, and 2 operations amounting to \$23,446 accruing interest at an average SOFR rate of 8.77%. During the six-month interim period ended as of June 30, 2023, the Bank approved one non-sovereign guaranteed operation in the amount of \$40,000 (December 31, 2022 - \$48,000); disbursed \$67,101, including \$19,500 without sovereign guarantee (31 de diciembre 2022 - \$354,629, of which \$10,000 correspond to loans without sovereign guarantee); and received \$83,791 in principal amortizations, of which \$15,333 correspond to loans without sovereign guarantee (December 31, 2022 - \$113,387 of which \$6,000 correspond to loans without sovereign guarantee).

- As stated in greater detail in the following subsection and in Note 3 – How Income is Generated, during the interim period ended as of June 30, 2023, the loan reference rate has experienced constant increases. This in turn has driven a recovery in nominal terms of loan revenues though still lower than before the pandemic when measured in terms of actual return. This has contributed to the Bank's reaching a level of income from net financial assets that is 125% higher than the one attained in 2022, strengthening its already robust financial profile.
- Financial costs increased on average by 417 basis points because of the sudden increase in interest rates experienced throughout 2022. The increase in average financial costs is 17 basis points lower than the Bank's return on loans. In December 2022, and in agreement with its counterparts, the Bank migrated its swaps design to protect the debt contracted through the issuance of Swiss bonds, namely FONPLATA 24 and FONPLATA 28, from the 6-month Libor to the SOFR. This migration materialized in March and June 2023, respectively. The FONPLATA 26 bond will be migrated to the SOFR by the end of the third quarter of 2023 according to the fallback covenants. The swaps contracted to protect the sustainable bonds issued in Japan in March 2023 were contracted at the

¹ The SOFR adjusting margin of 42,826 basis points, was set by the Alternative Reference Rate Committee ("ARRC") in March 2021.

SOFR rate. Finally, the cross-currency swap contracted in December 2022 in connection with the debt contracted with the AFD was converted into the SOFR rate.

- In compliance with its policies and procedures for the maintenance of liquid assets and borrowings, during the interim period ended as of June 30, 2023, on March 23, 2023, the Bank made its entrance for the first time in the Japanese capital markets and launched its first sustainable bond through a private issuance raising JPY 7,200,000 equivalent to \$54,022. Furthermore, during the interim period ended as of June 30, 2023, the Bank amortized principal on outstanding borrowings and lines of credit for \$83,963 (December 31, 2022 - \$66,016).

The following chart depicts outstanding borrowing amounts as of June 30, 2023, and December 31, 2022 respectively, under the various lines of credit, loans and the amount owed to the Bank's bondholders for the fourth bond issuances:

<u>Creditor</u>	<u>Outstanding</u>	<u>Principal</u>	<u>Funds</u>	<u>Outstanding</u>
	<u>as of</u>	<u>repaid/exchange</u>	<u>received in</u>	<u>debt as of</u>
	<u>December</u>	<u>adjustments</u>	<u>2023</u>	<u>June 30, 2023</u>
	<u>31,2022</u>			
	\$	\$	\$	\$
Banco de Desarrollo de América Latina (CAF)	100,000	--	--	100,000
Inter-American Development Bank (IDB)	118,396	(2,500)	--	115,896
French Development Agency (AFD) ²	28,322	(666)	--	27,656
European Investment Bank (BEI)	42,000	--	--	42,000
Official Credit Institute E.P.E. (ICO)	16,629	(554)	--	16,075
Banco Bilbao Vizcaya Argentaria (BBVA)	100,000	--	--	100,000
Banco Central del Uruguay (BCU) – Fixed rate	80,000	(80,000)	--	--
KfW – Euros at Euribor rate ¹	--	--	--	--
Subtotal before deferred charges	485,347	(83,720)	--	401,627
Deferred loan charges	(496)	61	(230)	(665)
Subtotal multilaterals and other	484,851	(83,659)	(230)	400,962
Bond issuance of CHF FONPLATA 24 ³	148,809	--	--	148,809
Bond issuance of CHF FONPLATA 26 ³	221,828	--	--	221,828
Bond issuance of CHF FONPLATA 28 ³	163,898	--	--	163,898
Bond issuance of JPY Serie 1 ³	--	--	22,509	22,509
Bond issuance of JPY Serie 2 ³	--	--	31,513	31,513
Exchange differences ³	7,001	9,017	--	16,018
Fair value adjustments ³	(49,519)	12,554	--	(36,965)
Subtotal before deferred charges	492,017	21,571	54,022	567,610
Deferred loan charges	(1,525)	247	(556)	(1,834)
Subtotal bonds	490,492	21,818	53,466	565,776
Total borrowings	975,343	(61,841)	53,236	966,738

¹Loan signed on December 16, 2022, with KfW for EUR 37,000 and not disbursed as of June 30, 2023 (see Note 8.5 (i) (8) for more details).

²The total shown as principal amortization and fair value adjustments of \$666, consists of \$909 of principal amortization made against the balance of \$20,000 denominated in US dollars, and \$243 of fair value adjustments on the Euros 8,000 disbursed, which has a fair value of \$9,474 as of June 30, 2023 (December 2022 - \$9,231) (see Note 8.5 (4)).

³ The amount shown in dollar equivalents for the bond issuances corresponds to the amount originally raised and exchanged through cross-currency swaps converting the debt into a dollar denominated debt and represents the nominal amount to be paid by the Bank to its swap counterparts upon the expiration of the bonds which coincides with the maturity of the swaps. The

cumulative currency translation differences to express the bonds in U.S. dollars and the cumulative unrealized (losses)/gains resulting from valuing the debt at its reasonable value as of June 30, 2023, are included under “Exchange differences” and “Fair value adjustments”, respectively.

- Derivatives related to FONPLATA’s bond issuances were designated as of January 1, 2022, as fair value hedges used to finance disbursements on loans to member countries, in accordance with the framework provided by IFRS 9 (see Notes 4.10; 6; and 8(ii)). These derivative contracts are based on ISDA contracts signed with the Bank counterparts, namely Credit Suisse (CS); JPM; Deutsche Bank (DB) and HSBC.
- In compliance with its financial and risk management policies, the Bank use of derivatives for the sole purpose of reducing its risk exposure to changes in exchange rates of currencies different than the United States dollar, and in interest rates different from its lending reference interest rate and not for speculative purposes.
- On January 3, 2023, the Bank received from Brazil the sum of \$69,842, corresponding to its paid-in capital contributions for the period 2020 to 2022, and thereafter, on April 14, 2023, it received the sum of \$98. On April 27, 2023, Brazil paid its 2023 paid-in capital subscription in the amount of \$27,600.
- Administrative expenditures during interim period ended as of June 30, 2023, on average represented 90 basis points of the actual return on net financial assets. When compared to the same period in 2022, this relationship between administrative expenses and net financial assets shows a marginal increase of 5 basis points. Such increase is considered reasonable taking into account that during the interim period ended as of June 30, 2023, the Bank went back to the on-site working modality, returning to normal operations, and begun to recruit for staff positions needed to ensure the operational effectiveness and agility that characterizes its operations while consolidating its growth.
- The Bank is the fiduciary agent for the management of the investment portfolio of the Structural Convergence Fund (“Fondo de Convergencia Estructural de MERCOSUR - FOCEM”).

C – GOING CONCERN

On April 21, 2023, the Governor for the Argentine Republic, in a letter addressed to FONPLATA’s Executive Board, informed the will of his country to "*initiate the process conducive to terminating its membership*" in FONPLATA.

The Board of Governors requested that Argentina articulates the procedure that it shall follow in accordance with the country's legal system to implement the denunciation of the international treaty signed with FONPLATA, within the framework of the Vienna Convention. As of the date of issuance of these financial statements, FONPLATA’s Secretariat has not received the denunciation of the Charter by the Argentine Republic.

The Argentine Republic continues to be a full member of FONPLATA and is complying with the service of its loans outstanding with the Bank, and it has expressed its interest in continuing with the planned execution of existing projects, therefore, in the opinion of FONPLATA’s Governance and of its Senior Management, the Bank is a going concern operation.

Notwithstanding the foregoing, in accordance with the transparency and prudence that characterize the Bank's management, after receiving the communication from the Governor for the Republic of Argentina, the Bank's Senior Management has shared its terms with its bondholders, creditors, as well as with its credit risk rating agencies. The rating agencies have not modified their note, but by virtue of the letter in which the Governor for the Argentine Republic states the "intention" of his country to initiate the process leading to the termination of its membership in the Bank, Standard & Poor's has placed the Bank's risk rating under negative outlook.

The Bank's Senior Management has conducted an analysis of the Bank's equity and financial situation, assuming that the Argentine Republic were to implement the deposit of the Denunciation of the Charter. Although the impact derived from this event could lead to a downgrade in the Bank's credit risk rating, the main equity and financial indicators confirm that the Bank would continue to be a going concern.

This analysis is reinforced by what was stated by the Governors of Bolivia, Brazil, Paraguay and Uruguay who, in a public statement on May 3, 2023, stated that "*...FONPLATA is a financially solvent development institution that is relevant to our development agendas, which is why we are committed to ensuring that the decision of the Argentine Republic to terminate its membership does not affect the soundness of our Bank.*"

NOTE 3 – HOW INCOME IS GENERATED

The Bank derives most of its income from sovereign-guaranteed loans to its member countries, and starting in 2020, approximately 5% comes from non -sovereign guaranteed loans extended to estate-owned banks at national and subnational level at its member countries'. 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 for legacy loans migrated to the SOFR rate during the first half of 2023, and the SOFR rate for loans approved starting on or after January 1, 2022, and for Legacy loans where the borrowers opted to convert into the SOFR rate prior to January 1, 2022.

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:

	June 30, 2022			June 30, 2023			December 31, 2022		
	Average balance	Income	Return ² %	Average balance	Income	Return ² %	Average balance	Income	Return ² %
Loans outstanding	1,548,603	26,773	3.46	1,752,499	68,904	7.86	1,640,222	75,513	4.60
Investments ¹	451,370	1,319	0.58	363,048	12,887	7.10	421,744	2,275	0.54
Cash at banks ¹	128,423	-	-	261,587	-	-	172,925	-	-
Financial assets	2,128,396	28,092	2.64	2,377,134	81,791	6.88	2,234,891	77,788	3.48
Borrowings	(877,663)	(7,936)	1.81	(1,015,824)	(30,378)	5.98	(977,766)	(25,176)	2.57
Net financial assets	1,250,733	20,157	3.22	1,361,310	51,413	7.55	1,257,125	52,612	4.19
Provisions and other charges ¹		(311)	(0.05)		(14,434)	(2.12)		5,619	0.45
Administrative expenses		(5,318)	(0.85)		(6,144)	(0.9)		(10,616)	(0.84)
Net assets	1,250,733	14,528	2.32	1,361,310	30,835	2.27	1,257,125	47,615	3.71
Equity	1,234,298	14,528	2.35	1,393,027	30,835	2.21	1,266,949	47,615	3.76

¹The average balance of investments as of June 30, 2023, includes \$224,821 reclassified as cash and equivalents for presentation purposes in the Financial Statements, as they correspond to investments where the time spanned between the day of purchase and of their contractual maturity is of 90 days or less and \$6,100 of investments in sweep account (2022- \$ 124,482).

<u>¹Provisions and other charges</u>	January 1, through June 30,		As of
	2022	2023	December 31, 2022
	\$	\$	\$
Provision for loan impairments – Note 8.4	601	(4,372)	(1,170)
Depreciation	(174)	(293)	(365)
Exchange differences - Gain/(loss)	(91)	82	(69)
Interest received on investment lending operations and interest received/(paid) on the amount of collateral received/(placed) with counterparts in connection with cross-currency and interest rate swaps	106	728	14
Special funds participation in investment income	64	(391)	(180)
Unrealized (losses)/gains on borrowings and on their related cross-currency and interest rate swaps classified as fair-value hedges and valued at their fair value with changes in the income statement – Nota 8.5	(955)	(10,740)	6,369
Other income	138	552	1,020
Total provisions and other charges	(311)	(14,434)	5,619

²Returns are calculated based on actual income/expense line items at year-end divided by the average balance for each category of financial assets and liabilities. These averages are calculated by adding up the prior year-end balance plus the current year-end balance, divided by 2, for which they may differ from the actual average.

NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

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 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 (IFRIC), 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 a 12-month period, following the date of the financial statements (current), and those for which their expected recovery or repayment is expected to take more than a 12-month period following the date of the financial statements (non-current), as per Note 13.

(ii) Historical cost

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

- Investments available for sale valued at fair value with changes in other comprehensive income (OCI).
- Investments held-to-maturity and valued at amortized cost, which are adjusted through a provision to their fair value in those cases where there has been an impairment.
- Debt contracted in currencies other than the U.S. dollar or at interest rates other than the interest reference rate adopted by the Bank for its loans to member countries and the related swaps contracted by the Bank with its counterparts, which are valued initially at fair value with changes in income.
- Property valued at fair value.

(iii) New standards and modifications adopted by the Bank

During the interim period ended as of June 30, 2023, the Bank did implement any new standards, interpretations or modifications issued by the International Financial Accounting Board which effective implementation date was after December 31, 2022.

The International Financial Accounting Board issued in 2022 some modifications and specific standards. Among the modifications it issued IAS 8 “Accounting Estimates”, which clarifies the distinction between changes in accounting estimates, changes in accounting policies and correction of an error; and modifications to IAS 1, and practice guidance No. 2, “Accounting Policy Disclosures”, which guides application of materiality in the determination of accounting policy disclosures. These modifications are applicable for financial statements beginning January 1, 2023, for which management is evaluating the potential impacts.

4.2 Segment disclosures

Based on an analysis of its operations, the Bank has determined that it only has a single operating segment, which consists of 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 effected in currencies other than the United States dollar, related to administrative expenses incurred either at the Bank’s headquarters or at its liaison offices in Asuncion, Paraguay, Buenos Aires Argentina, Montevideo, Uruguay, and Brasilia, Brazil. Exchange gains and losses associated with administrative expenses are presented on a net basis as part of administrative expenses, in the income statement.

Financial assets and liabilities, such as investments and loans are denominated in U.S. dollars, and except for the Swiss Francs denominated bonds and the disbursement denominated in Euros under the line of credit obtained in December 2022 with AFD, which were swapped to U.S. dollars, the Bank does not have other financial liabilities in other currency. Consequently, there is no exchange rate risk exposure related to the Bank’s financial assets and liabilities.

4.4 Revenue recognition

Interest on loans and investments at amortized cost is recognized using the effective interest rate method. Other loan income consists of the administrative commission and the commitment fee. These commissions relate to the Bank’s service provided to its borrowers for inspection and supervision of loans and to ensure the availability of funds for borrowers to disbursed at any time during the contractually agreed upon disbursement period, and as such are recognized ratably in income 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 will 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 month or less and that do not include a purchase option are recognized as an expense on a straight-line basis throughout the contract.

Lease contracts for terms greater than 12 months 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, the Bank measures 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

A 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 how the Bank accounts for its loan portfolio, refer to 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 driven by its business model. The Bank's business model architecture is designed with the purpose of helping its member countries in their 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), finances 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 either 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 capacity to remain relevant. The Bank's relevance is measured through its ability to mobilize a sizable volume 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 are required to continuously grow their capital base, to increase their lending capacity over time. For this purpose, every 5 to 7 years, MDBs may go through a capital replenishment that consists of an increase of both paid-in and callable capital or in some cases may also 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 mature 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 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 equity plus liquid assets.

The main financial earning asset of the Bank is its loans to member countries. All financial assets and liabilities are contracted and denominated in U.S. dollars and bear interest based on reference interest 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. dollars or that bear interest at a rate different than the loan reference rate. Derivatives are not used for speculative purposes. These derivatives are designated as fair value hedges. By way of these derivatives, the Bank changes the currency in which the original debt is denominated and its reference interest rate to the currency and reference interest rate in which all Bank loans are denominated. This way, the Bank mitigates the economic and financial exposure to changes in currency and interest rates.

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 during the next 12 month following the end of the Bank's fiscal year. Liquidity is invested with the sole purpose of reducing the cost of carrying the required level of liquidity in compliance 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 fair value. Investments available for sale are valued at their fair value with changes in value recognized in other comprehensive income (OCI). Note 8, provides further details on the recognition, measurement, and disclosure of investments.

The bank classifies its financial assets in the following categories:

- **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 designated as

“financial assets at fair value with changes in the Income Statement,” 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. The reference interest rate for loans approved through December 31, 2021, and that have not been converted to the compounded SOFR in arrears is the 6-month Libor rate. For all loans that have been converted under the voluntary conversion program and for all loans approved on or after January 1, 2022, the reference interest rate is the compounded SOFR in arrears. Changes in fair value of these derivatives, given the Bank’s right to offset and be compensated in the event of counterparty’s default, are shown forming part of Other Assets, as derivatives, together with the resulting collateral in the statement of financial position. Bonds are valued at their amortized cost and shown under borrowings in the statement of financial position. Changes in the fair value of the cross-currency swaps are accounted for in other 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.

The Bank reclassifies financial assets only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

(iii) Recognition and disposal

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

Financial assets and liabilities are valued according to their classification at amortized cost or at their fair value with changes in income or changes in other comprehensive income, as the case may be.

(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 reasonable value. Gains and losses resulting from changes in fair value are recognized in other comprehensive income. Interest resulting from financial assets carried either at reasonable 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 to 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 by applying a standard methodology also adopted by the leading MDBs, considered as a best practice. The methodology used assesses the expected loss based on the following factors: (i) the maximum exposure to risk at default; (ii) the probability of default; and (iii) the loss given default. 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.

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 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 will 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 already embedded in the market value.

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.

For investments held-to-maturity and valued at amortized cost, 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 loan impairment.

Except for determining the adequacy of the amount of provision for expected losses on loans with sovereign guarantee and non-sovereign guarantee, and for purposes of estimating the expected credit loss (ECL) on other - 18 - financial assets, 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 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, close to overdue, which are credit impaired. Likewise, loan commitments or financial guarantees whose payment is probable and their recovery doubtful.

Classification into stages: Following immediate recognition of the financial 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 nonaccrual status, they are considered impaired loans. A loan is impaired when the analysis of available information and current events are indicative of probability, that the Bank could not recover the full amount of principal and interest accrued, based on the agreed upon loan agreements. 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 fair 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 is carried at their historical cost less depreciation. The historical cost includes all 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. Repair 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 the case of the 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.

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 fair value of the hedging instruments are expected to offset changes in the fair value 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: Borrowings contracted in currencies other than the US dollar, which is the Bank's functional currency, and at interest rates different from the loan reference interest rate are initially recognized at their cost, net of transaction expenses and subsequently valued at their fair value. The difference between the fair value and the amortized cost basis is included in the Income Statement together with the net

difference between the receivable and payable swaps which are also at fair value. These net differences correspond to changes in exchange and interest rates which are not expected to affect future cashflows nor to result in realized gains and losses, since they will converge to zero at the maturity of the original debt. Upon maturity, the Bank will exchange the contracted amounts with its counterparts, thereby cancelling the original debt and the related receivable and payable swaps.

Borrowings contracted in US dollars and at the loans interest reference rate, 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 over the contractual term of the loan.

Derivative financial instruments and hedging activities: Derivatives are solely used for hedging interest and exchange rate risk associated with its three bond issuances in the Swiss capital market, namely FONPLATA24; FONPLATA26; FONPLAT28, and the bonds issued in the Japanese market in March 2023 namely Japón I and Japón II, as well as other liabilities originally contracted in currencies other than the dollar or in dollars at a fixed rate (see 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 investment grade credit rating, and by signing an ISDA master netting agreement coupled with a credit support annex (CSA), with its derivatives counterparties.

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 the fair value of a derivative financial instrument together with the changes in the fair value of the original debt that is the subject of the hedges are included in other income, as gains or losses in the determination of net income for the year.

The master ISDA agreements signed with its counterparts confer the Bank the possibility to exchange the contracted flows upon maturity of the original debt, and the Bank is fully intent in doing so. Furthermore, the Bank expects its counterparts to fully comply with their obligations under the swaps and it does not anticipate noncompliance on their part.

The ineffective portion of the change in the fair value of a derivative instrument that qualifies as a 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 fair value 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 balances represent liabilities equaling the investment amount 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. Note 8.6), contains a detailed explanation of the special funds and their purpose, and the balance owed to each one as of June 30, 2023, and December 31, 2022, respectively.

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 June 30, 2023, and December 31, 2022, 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 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 to 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:

- Degree of uncertainty pertaining the estimate of the probability of borrowers disbursing the amount approved for financing during the contractually agreed upon disbursement period which determines recognition of the commitment fee on a straight-line basis – Note 4.4,
- 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 they could potentially affect its future financial performance.

Risk	Source of Exposure	Measurement	Risk Management
Market risk – foreign exchange	Apart from the Swiss Franc issuances and a loan denominated in Euros contracted with the French Development Agency (AFD), which were effectively hedged through cross-currency swaps as discussed in Notes 2; 4.10; and 8.5 – (ii), 99,9% of financial assets are denominated in U.S. dollars (functional currency). 59% of the bank’s debt has been contracted in currencies other than the Bank’s functional currency and are hedged through cross-currency swaps.	Cash flow budget.	All loan and investment transactions, as well as the most relevant liabilities shown in the financial statements have been transacted in U.S. dollars. The Bank signed enforceable ISDA master netting agreements with the right to offset with JPM, CS, DB and HSBC. Based on these agreements, the Bank contracted cross-currency swaps to offset both the interest rate and foreign currency exchange risks associated to its bond issuances in the Swiss market, and a debt denominated in Euros , contracted with the AFD and

Risk	Source of Exposure	Measurement	Risk Management
			<p>a Euro 8,000 received in December 2022 under a Euro denominated line of credit in the amount of Euro 30,000 contacted with the AFD</p> <p>These derivatives are an integral part of the Bank's risk management process designed to minimize exposure to financial risks in the financing of loan disbursements and as such were designated as a fair value hedge.</p>
<p>Market risk – Interest rate risk</p>	<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, on March 3, 2021, and on November 1, 2021, the Bank issued a 5-year, a 5 ½ - year and a 7-year Swiss Franc denominated bonds at fixed rate. To hedge both the interest and exchange risk, the Bank contracted a cross-currency swap with JPM, and with Credit Suisse (CS).</p> <p>The Bank has signed ISDA Master Settlement Agreements and Credit Support Agreements (ARCs) that provide for the right of setoff. In addition, the Bank contracted with DB, an interest rate swap to change from the SOFR Term rate applicable to the two disbursements received in December 2022 in the line of credit maintained with CAF, for the SOFR in arrears, which</p>	<p>Sensitivity analysis.</p>	<p>The Bank has established policies for the determination of interest rates, allowing it to mitigate the potential effects of interest rate fluctuations. The Bank seeks to minimize the negative impact associated with potential mismatches in the duration of the loan portfolio and the debt incurred to finance such loans.</p> <p>Potential exposures from the issuance of the bonds denominated in currencies other than the US dollar and at interest rates other than the reference rate, are effectively managed through the cross-currency swaps, and the potential exposure related to two disbursements received from CAF which are based on the Term SOFR interest rate, and of a Euro denominated disbursement received from the AFD. These currency and interest rate hedges were designed to replace the currency and interest rate in which the original debt was contracted, by a debt denominated in US dollar that bears interest on the compounded SOFR in arrears, which is the Bank</p>

Risk	Source of Exposure	Measurement	Risk Management
	is the reference rate of the Bank's loan operations. In March 2023, the Bank issued two series in the Japanese market with a 5 and a 6 ½ years maturity, respectively, and contracted a cross-currency swaps with HSBC.		loan interest reference rate, effectively eliminating currency and interest rate risks.
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 fair 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 fair value.	The Bank does not have investment in equity instruments that might be exposed to price risk. Bonds classified in the available for sale portfolio are monitored on a regular basis. The Bank does not engage in trading book and trading activities.
Credit risk	Cash and cash equivalents, investments valued at fair value with changes in OCI, investments valued at amortized cost, and derivative financial instruments designated as fair value hedges of specific borrowings.	<ul style="list-style-type: none"> - Arrears analysis based on aging of loans, derivatives, bonds, and other instruments. - Credit ratings - Loan loss provision 	<p>Diversification of bank deposits and applicable loan limits.</p> <p>Investment policies and guidelines and credit rating of counterparts.</p> <p>Limits for concentration of credit risk applied to member countries and non-sovereign loans.</p> <p>No private sector loans.</p>
Liquidity risk	Borrowings, other liabilities, and obligations with special funds.	Rolling cash flow forecasts.	Availability of funds required to meet obligations and commitments, at least for a 12-month period following the date of the financial statements.

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 Bank'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 risks that may exceed its tolerable risk level, and to mitigate all financial, operational, and strategic risks in accordance with 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 model 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 after considering existing cross-currency swap agreements, 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

Bank loans contracts signed through December 31, 2021, and that have yet to adopt the SOFR in arrears, bear interest based on a lending rate consisting of the 6-month Libor rate plus a fix margin. Legacy loans contracts that have already been converted at the option of the member country, bear interest based on the SOFR in arrears plus a correcting SOFR margin, and the Bank's fixed margin. Loans approved on or after January 1, 2022, bear interest based on the SOFR in arrears plus a fixed margin.

The Bank's fixed margin is reviewed annually for new loans based on the Bank's policy guidelines for income management and financial charges. The objective of this policy is to achieve a balance between the accumulation of a level of capital in the long-term to ensure its self-sustainability and to ensure obtaining the best financial terms for the benefit of its member countries. The Bank applies a financial income model as a tool to achieve results over a planning horizon covering the medium and long-term. The Bank's income model allows through the management of various parameters and assumptions to ensure the relative stability and sufficiency of loan charges to cover the Bank's financial costs and operating expenses as stated in its financial policies, and to make timely adjustments that might be required from time to time to its fix lending margin in response to sudden and significant changes in relevant assumptions used. The Bank regularly reassess the reasonableness of its underlying assumptions and the model to ensure the proper management of exposure to 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"). For loans approved after March 3, 2023, the Board of Executive Directors approved a reduction

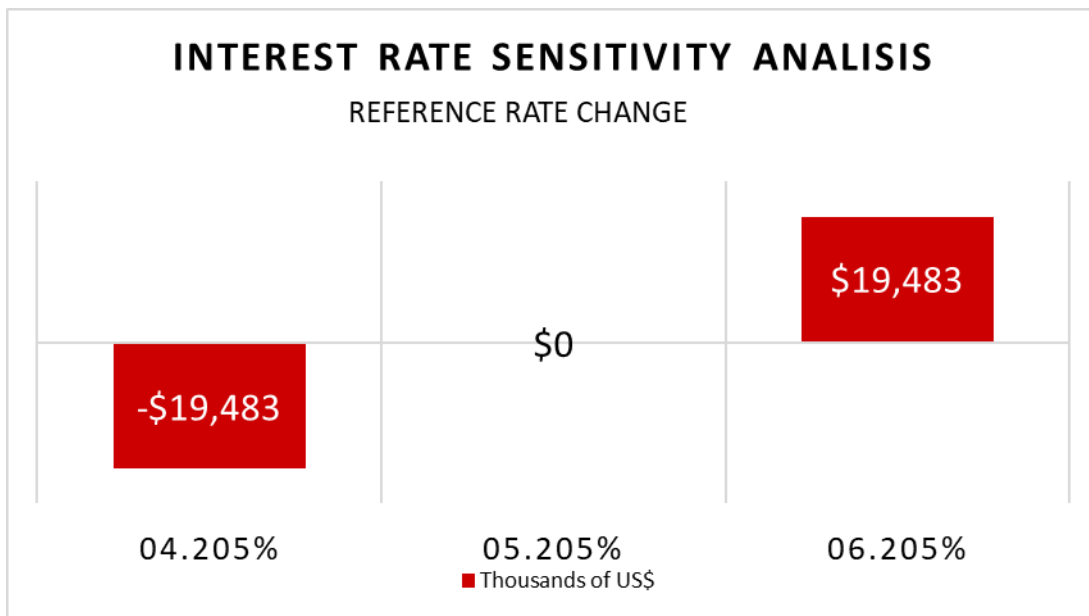
of 25 basis points in its fixed-margin or TOR (RES/DEJ-1508/23), maintaining unchanged all financial conditions approved for sovereign guaranteed loans on March 15, 2022 (RES/DEJ1490/22).

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. The Bank performs sensitivity analysis to determine the variance in income or in net equity associated to changes in interest rates.

The sensitivity analysis was performed using the weighted average of the two reference interest rates currently applicable to all loan contracts in the Bank’s portfolio, which equals 520.5 basis points.

Accordingly, the analysis yields a maximum and a minimum for the weighted average reference rate of 620.5 – 420.5 basis points, respectively. Should the positive or negative variation of the weighted average reference rate of 100 basis points were to materialize, future net income could be increased or decreased by \$19,483, respectively.



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 its investment and loan portfolios through various measures to ensure risk exposures would remain within established policy limits (see Notes 4.8, 8.2; and 8.3, for further details).

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 its investment and loan portfolios through various measures to ensure risk exposures would remain within established policy limits (see Notes 4.8, 8.2; and 8.3, for further details).

- **Investments available for sale:** valued at their fair value with changes in other comprehensive income (FVOCI).
- **Investments held to maturity:** consisting of time-deposits and valued at the lower of their amortized cost or fair value (FVAC).

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 because 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 or lowered to their fair value through a provision, when applicable.

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 June 30, 2023 and as of December 31, 2022, respectively:

	Sensitivity analysis of investments					
	January 1, through June 30, 2023			Year ended as of December 31, 2022		
Portfolio	Book value ¹ \$	Maximum loss exposure \$	Variation %	Book value ¹ \$	Maximum loss exposure \$	Variation %
Available for sale investments up to 12-months – FVTOCI ²	283,786	1,067	0.38%	293,759	1,136	0.39%
Available for sale investments greater than 12-months – FVTOCI	103,460	1,838	1.78%	45,091	947	2.10%
Total	387,246	2,905	0.75%	338,850	2,083	0.61%

¹ Book value amounts for investments are based on the fair 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 their fair 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 fair 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 for which their fair value could not be established and hence requires use of a valuation model (Level 3).

²As of June 30, 2023, available for sale investments portfolio includes fixed –term certificates of deposits originally classified in held to maturity investment portfolio, for an amount of \$224,164 (2022-\$169,836) and investment in sweep accounts of \$6,099. These investments are included in cash and equivalent balance, since the time spanned from their date of purchase to their contractual maturity is up to 90 days or less. The Bank periodically assesses its portfolio of held-to-maturity investments valued at their amortized cost for potential impairment due to changes in the credit rating of issuers that might be indicative of a permanent impairment in their value (see Note 4.8).

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 complying with an equitable distribution of the lending capacity. The capital adequacy coefficient which relates the risk-weighted financial assets with the amount of equity ensures a reasonable coverage against potential exposure to credit risk, both for the lending portfolio and at the level of each borrowing member country.

As of June 30, 2023, 95% of the balance of loans outstanding correspond to loan contracts with the sovereign guarantee of the member government (December 2022- 96%). The Bank started lending without the sovereign guarantee of the member country in 2020, with the approval of its Board of Executive Directors. This new line targets development banks and enterprises where the central or local government is the majority owner. Since the creation of this line and through June 30, 2023, the Bank has approved \$120,000 in four operations. From this total, as of June 30, 2023, \$19,500 have been disbursed, \$15,333 have been received in principal amortizations, and \$80,167 remain outstanding (2022- \$76,000). See Notes 2, and 8.4 (i), for more detail.

The Bank's financial policies and lending guidelines provide for the actions to be taken in connection with overdue loan balances and non-compliance. These policies and regulations form an integral part of loan agreements 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 June 30, 2023, and as of December 31, 2022, respectively, the average credit risk rating of the investment portfolio was AA and AA+, above the AA- required limit by the investment policy.

6.5 Liquidity risk

Liquidity risk is the risk related to the inability of the institution to meet its obligations without incurring 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 its commitments, including liabilities with special funds (see Note 8.6), loan disbursements, debt service, and the payment of obligations stemming from its administrative and capital expenditure requirements for a 12-month period. For the interim period January 1, through June 30, 2023, and for the year ended December 31, 2022, respectively, the Bank did not acquire commitments and obligations that would carry liquidity risk either in the short or medium term.

The following table shows financial assets as well as liabilities, as June 30, 2023, and as December 31, 2022, respectively,

	<u>As of June 30,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
	\$	\$
Financial Assets		
Cash and cash equivalents – Note 8.1	305,585	217,589
Investments – Notes 8.2 and 8.3	387,246	338,850
Gross liquidity	<u>692,831</u>	<u>556,439</u>

	<u>As of June 30,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Financial Liabilities		
Borrowings – Note 8.5	966,738	975,343
Other liabilities – Note 9.3	14,266	10,294
Special funds – Note 8.6	21,587	22,635
Cash flow hedge derivatives – Note 8.5 (ii)	412	-.-
Total Liabilities	<u>1,003,003</u>	<u>1,008,272</u>

Liquid assets coverage of the amount of net estimated disbursements was equivalent to 1.21 and 1.65 years, as of June 30, 2023, and as of December 31, 2022, 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, omission, or adverse external events. 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 USD LIBOR interest rate to the SOFR interest rate

As explained in 6.2, the Bank’s loan interest rate until December 31, 2021, 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, 2022, 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 1, 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 derivatives designated as fair value hedges.

The 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 daily, including averages for various maturities and the SOFR index. The ARRC has issued recommendations on fallback language, the use of a USD LIBOR/SOFR margin and other topics.

In accordance with the foregoing and as adopted by other multilateral development institutions considered leaders, as of the second half of 2020, the Bank adopted retroactive exchange language in all its loan contracts, opting to use the SOFR rate under the “compound expired modality”, as of January 1, 2022.

Accordingly, on December 1, 2022, the Bank successfully implemented a new loan administration platform provided by SOPRA Financial Services (SFP). This platform has been used by other leading BDMs for more than two years. This implementation has been conducted without the need for customization or custom development regarding the functionality offered by SFP to other BDMs, which not only reduces operational risk but also future maintenance cost. This platform is operated under the modality of an annual payment for its use by the Bank.

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. The Bank has a Strategic Institutional Plan (“ISP”) 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 approves 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 ISP 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 the 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, all of whom 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 FONPLATA’s financial instruments, including:

- A general overview of all financial instruments held by the Bank.
- 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 and liabilities:

		<u>Financial assets carried at fair value</u>	<u>Financial assets carried at amortized cost</u>	<u>Total</u>
	<u>Note</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
June 30, 2023				
Financial assets:				
Cash and cash equivalents	8.1	74,665	--	74,665
Cash equivalents (investments at amortized cost)	8.1 y 8.3	--	230,920	230,920
Investments at fair value with changes in OCI ¹	8.2	389,414	--	389,414
Investments at amortized cost ²	8.3	--	--	--
Loan portfolio ³	8.4	--	1,758,453	1,758,453
Total financial assets		<u>464,079</u>	<u>1,989,373</u>	<u>2,453,452</u>
Financial liabilities:				
Borrowings	8.5	(575,249)	(391,489)	(966,738)
Other liabilities	9.3	--	(14,266)	(14,266)
Special funds	8.6	--	(21,587)	(21,587)
Subtotal		<u>(575,249)</u>	<u>(427,342)</u>	<u>(1,002,591)</u>
Cash flow hedge derivatives		(412)	--	(412)
Total financial liabilities		<u>(575,661)</u>	<u>(427,342)</u>	<u>(1,003,003)</u>
Net financial assets		<u>(111,582)</u>	<u>1,562,031</u>	<u>1,450,449</u>
December 31, 2022				
Financial assets:				
Cash and cash equivalents	8.1	33,295	--	33,295
Cash equivalents (investments at amortized cost)	8.1 y 8.3	13,894	170,400	184,294
Investments at fair value with changes in OCI	8.2	340,224	--	340,224
Investments at amortized cost ¹	8.3	--	--	--
Loan portfolio ²	8.4	--	1,772,578	1,772,578
Subtotal		<u>387,413</u>	<u>1,942,978</u>	<u>2,330,391</u>
Cash flow hedge derivatives	8.5	5	--	5
Total financial assets		<u>387,418</u>	<u>1,942,978</u>	<u>2,330,396</u>
Financial liabilities:				
Borrowings	8.5	(501,248)	(474,095)	(975,343)
Other liabilities	9.3	--	(10,294)	(10,294)
Special funds	8.6	--	(22,635)	(22,635)
Total financial liabilities		<u>(501,248)</u>	<u>(507,024)</u>	<u>(1,008,272)</u>
Net financial assets		<u>(113,830)</u>	<u>1,435,954</u>	<u>1,322,124</u>

¹ Changes in fair value of investments are shown in OCI and changes in fair value of borrowings related to fair value hedges are shown in other income in the Income Statement.

² Includes interest and other investment income.

³ Includes interest and other loan income.

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 June 30, 2023, and as of December 31, 2022, 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 contractual maturities of up to three months from their date of purchase, consist of:

	<u>As of June 30,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
	\$	\$
Cash at banks	74,665	33,295
Time deposits and short-term bonds and sweep accounts ¹	230,920	184,294
Total	<u>305,585</u>	<u>217,589</u>

¹The total shown under this line item as of June 30, 2023, consists of investments with an original maturity of up to 90 days from the date of their purchase and includes investments held in an interest-bearing sweep account opened with the Bank for International Settlements (BIS), that accrues interest daily based on the interest rate set by the Federal Reserve of the United States. As of December 31, 2022, the amount of investments included as cash and cash equivalents includes investments held-to-maturity and valued at amortized cost-plus accrued interest in the amount of \$170.400, and investments available for sale and valued at market value in the amount of \$13,894 (see Note 8.3).

(i) Classification of cash equivalents

Time deposits and short-term bonds are considered as cash equivalents provided their contractual maturity is up to three months from their date of purchase. 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 bonds issued by high-quality issuers, and consist of:

	<u>As of June 30,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
	\$	\$
Sovereign bonds	250,765	245,920
Multilateral development institutions – Bonds	134,980	89,455
Other financial institutions	-	1,948
Argentine treasury bonds	1,501	1,527
Subtotal	<u>387,246</u>	<u>338,850</u>
Accrued interest receivable	2,168	1,374
Total	<u>389,414</u>	<u>340,224</u>

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

(i) Investments with related parties

As of June 30, 2023, and December 31, 2022, 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 interim period ended June 30, 2023, and for the year ended as of December 31, 2022, the Bank has accumulated unrealized losses in the amount of \$104 and \$4,676 respectively, in its statement of comprehensive income. These unrealized losses consist of a gain in market value adjustments of investments for \$92 (December- 2022- \$1,191 gain) and \$ 12 for depreciation of the property technical revaluation reserve (December 31, 2022 - \$93 as a reduction of the technical revaluation reserve resulting from the sale of the offices located on the 3rd floor of the Bank's headquarters in January 2022). Likewise, and in accordance with the Bank's decision to classify its hedging operations and the original debt as operations at fair value in 2022, and as a result on January 1, 2022, reclassified to the statement of income, \$5,744 in losses due to adjustments in the value of currency exchange operations and interest rates that had been shown as other comprehensive income as of December 31, 2021 (see Notes 4.10 and 8.5).

(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 certificates of deposits and investments in bonds and titles held to their contractual maturity. As of June 30, 2023, all investments correspond to securities whose original maturity was up to 90 days, accordingly they have been reclassified as cash and cash equivalents (December 31, 2022 - \$169,836). The following table shows the composition of the investments before their reclassification:

	<u>As of June 30,</u> <u>2023</u> \$	<u>As of December 31,</u> <u>2022</u> \$
<u>Time and certificates of deposit</u>		
Sovereign	52,574	35,656
Multilateral development institutions	59,099	54,880
Financial entities	118,590	79,300

	Subtotal	<u>230,263</u>	<u>169,836</u>
Principal invested		230,263	169,836
Accrued interest receivable		<u>657</u>	<u>564</u>
	Total	<u>230,920</u>	<u>170,400</u>

(i) Investments carried at amortized cost

The Bank measures its hold-to-maturity investments 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, since the carrying amount of investments was lower than the respective fair values based on bid market prices as of June 30, 2023, and December 31, 2022).

8.4 Loan portfolio

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

<u>Country</u>	<u>As of June 30,</u> <u>2023</u> <u>\$</u>	<u>As of December 31,</u> <u>2022</u> <u>\$</u>
Argentina	478,748	490,462
Bolivia	381,449	395,009
Brazil	185,133	178,992
Paraguay	347,847	342,042
Uruguay	<u>270,810</u>	<u>278,339</u>
Gross loan portfolio with sovereign guarantee (SG)	1,663,987	1,684,844
Gross loan portfolio with non-sovereign guarantee (NSG)	<u>80,167</u>	<u>76,000</u>
Total gross loan portfolio	1,744,154	1,760,844
Less: Unaccrued administrative fee	<u>(3,690)</u>	<u>(2,938)</u>
Subtotal loan portfolio	1,740,464	1,757,906
Less: Provision for potential impairment on SG loans	(16,856)	(12,416)
Less: Provision for potential impairment on NSG loans	<u>(1,027)</u>	<u>(1,094)</u>
Net loan portfolio	<u>1,722,581</u>	<u>1,744,396</u>

Accrued loan interest and commissions receivable amounts to \$35,872 as of June 30, 2023 (December 2022- \$28,182)

During the interim period ended as of June 30, 2023, and for the year ended as of December 31, 2022, respectively, all loans were classified in stage 1. The amount of provision for potential impairment of loans as of June 30, 2023, and as of December 31, 2022:

	<u>As of June 30,</u> <u>2023</u> \$	<u>As of December 31,</u> <u>2022</u> \$
Provision as of the beginning of the period or year SG ¹	12,416	11,123
Increase/(decrease) on provision of SG loans	4,440	1,293
Subtotal Provision SG	16,856	12,416
Opening NSG provision	1,094	1,217
Increase/(decrease) on NSG provision	(67)	(123)
Subtotal NSG provision	1,027	1,094
Total provision for potential impairment on loans	17,883	13,510

¹The beginning balance has been adjusted by rounding to thousands.

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

<u>Maturity</u>	<u>As of June 30,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Up to one year	203,710	171,608
Greater than one and up to two years	219,436	206,417
Greater than two and up to three years	184,935	199,611
Greater than three and up to four years	177,104	176,313
Greater than four and up to five years	178,360	172,591
Greater than five years	780,609	834,304
Total gross loan portfolio	1,744,154	1,760,844

(i) Loan portfolio classification

95.4% of the loan portfolio consists of loans granted with the sovereign guarantee of the member country. Starting in 2020, the Bank has begun extending non-sovereign guaranteed financing to government majority owned banks and enterprises at the central and local levels. The outstanding balance from those loans represents approximately 4.6% of gross loans outstanding as of June 30, 2023 (December 2022 – 4.3%).

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 balance 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 2022 – 2026 ISP, approved by the Board of Governors on September 17, 2021, provides for extending financing for activities such as pre-investment, investment, technical cooperation, and knowledge generation. To this end, the 2022 – 2026 ISP builds upon the approval by the Board of Governors in 2019, of an amendment to the "Policy for the Appropriation of Lending Resources," to allow the financing of majority-owned government enterprises of member countries, at the national and subnational levels, with non-sovereign guarantee (NSG). This amendment was preceded by the approval by the Board of Executive Directors of a new line for the financing of NSG operations, in November 2019.

Under the 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 indicated in Note 6.4, as of June 30, 2023, the balance of non-sovereign guaranteed loans pending collection amounts to \$80,167, which represents an increase of approximately 5% compared to the balance as of December 31, 2022, of \$76,000.

These financings consist of revolving credit lines with up to 8-year validity and a maximum 2-year grace period and up to 8-year amortization period.

As well as sovereign loans, these loans accrue interest based on 6-month Libor reference rate plus a margin established based on the credit risk rating at the time the financing is approved.

As explained in greater detail in Note 6.4, the 6-month Libor rate is being replaced by the SOFR rate, and this change is expected to take place in the coming months. Like the sovereign guaranteed loans, these financings accrue a commitment commission on the undisbursed balance of each approved stage within the credit line, plus an administration commission based on the validity of each stage.

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 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.

Provision for loan losses is based on the loan receivable balance from each member country. The outstanding balance is then multiplied by the probability of default for each member country and by the probability of maximum expected loss. Determination of the probability of default for each member country is based on the credit rating assigned by three internationally recognized credit rating agencies. This probability is then adjusted to consider the Bank's preferred creditor status.

For non-sovereign guaranteed loans, the probability of default is based on the Bank's own credit rating process of the prospective borrower. The initial following approval of the loan, credit rating is periodically reassessed. The maximum loss probability for non-sovereign guaranteed loans is based on the risk guidance issued by the Basle Committee.

Moreover, the Bank maintains policies on risk exposure 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: equity and total assets. 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 include outstanding loans with multilateral development banks and other bilateral organizations; financial institutions; bonds and certificates of deposit from Central Banks of the member countries that were repaid on May 5, 2023. As stated in (ii) below, the Bank contracts cross-currency swaps to reduce its exposure to exchange and interest rate risk in those instances where it contracts debt in currencies other than the U.S. dollar or with a reference rate different from that of its loan portfolio. The net balance of the swaps' receivable and payable together with the amount of collateral received from JP Morgan (JPM), Credit-Suisse (CS) and HSBC, consists of a net payable of \$412, as of June 30, 2023 (December 31, 2022, net receivable of \$5), and is shown under "Cash flow hedged derivatives", in the statement of financial position.

Total borrowings as of June 30, 2023, and as of December 31, 2022, are as follows:

	<u>As of June</u> <u>2023</u> \$	<u>As of December</u> <u>2022</u> \$
Borrowings		
Loans and time deposits at amortized cost ¹	401,628	485,347
Bonds at fair value ²	567,609	492,017
Gross portfolio	969,237	977,364
Less: unamortized borrowing costs	(2,499)	(2,021)
Total	966,738	975,343

¹ Includes borrowings denominated in Euros at the Euribor rate contracted with the AFD, which has been swapped into US Dollar at the compounded SOFR in arrears rate. (see note 8.5 (i)).

² Effective January 1, 2022, the Bank classified its hedging transactions designed to protect debt flows contracted in currencies other than the US dollars and at interest rates other than Bank's interest reference rate for its loan portfolio, as fair value hedges in accordance with IFRS 9. This change was made prospectively within the framework of IAS 8, in recognition that the net effect from this change in prior years is not material.

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>As of June 30,</u> <u>2023</u> \$	<u>As of December</u> <u>2022</u> \$
Banco de Desarrollo de América Latina – (CAF) – See (1), below	100,000	100,000
Time deposits with Central Banks – See (2) below	-	80,000
Inter-American Development Bank (IDB) – See (3) below	115,896	118,396
French Development Agency (AFD) – See (4) below	27,656	28,322
European Investment Bank (EIB) – See (5) below	42,000	42,000
Oficial Credit Institute E.P.E. (ICO) – See (6) below	16,076	16,629
Banco Bilbao Vizcaya Argentaria (BBVA) – See (7) below	100,000	100,000
Total	<u>401,628</u>	<u>485,347</u>

Outstanding borrowings contracted with MDBs and other institutions include \$9,474 corresponding to a loan contracted with the AFD, which is valued at its fair value as of June 30, 2023 (December 31, 2022 - \$9,231).

In March 2018, the Board of Executive Directors updated its financial policies through RDE 1409. Among the changes introduced, the Bank revised its methodology to determine its lending capacity basing it on a multiple of three times the value of the Bank's equity; and also updated the methodology to determine its borrowing capacity, basing it on a multiplier of two times the value of the Bank's equity, plus the sum of liquid assets.

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

- (1) On June 9, 2022, the Bank canceled the amount pending payment under the line of credit maintained with the "Banco de Desarrollo de América Latina" (CAF), since November 2016. On December 1 and December 6, 2022, respectively, the Bank disbursed \$50,000, under the line of credit agreed with CAF on September 17, 2021. The first disbursement will be amortized in two equal payments of \$25,000, with maturing on June 1 and December 2, 2024, respectively, and the second disbursement will also be repaid in two equal payments, maturing on June 6 and December 6, 2024, respectively. Both loans accrue interest at SOFR term plus a fixed margin. On January 27, 2023, the Bank contracted with DB two interest rate swaps to hedge the two disbursements received from CAF, which bear interest at the Term SOFR interest rate, into the compounded SOFR in arrears interest rate which is the Bank's loan interest reference rate. These swaps are retroactive to December 1 and 6, 2022, which are the original dates of each disbursement (see Note 8.5 (ii)).
- (2) The Bank maintains agreements with the Central Banks of its member countries that allow it to accept medium-term funds denominated in US dollars, instrumented under the modality of promissory notes. As of December 31, 2022, the Bank borrowed \$80,000 on a fixed rate certificate of deposit maturing on May 5, 2023, with the Central Bank of Uruguay.
- (3) On March 7, 2022, the Bank subscribed a second financing agreement in the amount of \$100,000 with the Inter-American Development Bank (IADB). This borrowing is based on SOFR in arrears and provides for a 4-year disbursement period, and of a 25-year amortization period, with an average duration of 14.95 years. The first amortization of principal is scheduled to take place on May 15, 2027, with the last amortization of principal occurring on November 15, 2046. The terms of financing agreement, which entered into force upon signature of the loan contract, provide for recognition of

prior eligible project expenditures incurred on and after December 8, 2021, and through the effective date for the last disbursement under this line of credit. 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 IADB would reimburse the Bank those amounts under the modality of reimbursement of expenditures. Hence, monies drawn down from the IADB under this line of credit can be used by the Bank as it sees fit. During the interim period January 1 – June 30, 2023, the Bank has not withdrawn disbursements against this new line of credit (December 31, 2022 - \$18,397 disbursed). With this new line of credit, the total amount to be financed with the IDB amounts to \$200,000, of which \$100,000 was approved in December 2017, and were fully disbursed as of December 31, 2022. During the interim period ended as of June 30, 2023, the Bank amortized \$2,500 against this first tranche of \$100,000.

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

<u>Loans</u>	As of June 30, 2023			<u>To be financed by FONPLATA</u>
	<u>BID</u>			
	<u>Eligible</u>	<u>Disbursed</u>	<u>To be disbursed</u>	
Active line of credit 2022 \$200,000:				
ARG-28/2016 Compl. Fronterizos	16,690	8,300	8,390	3,310
BRA-21/2018 Itajaí 2040	6,205	6,205	-.-	56,295
BRA-23/2019 Ponta Pora	22,130	3,891	18,239	2,870
Subtotal	45,025	18,396	26,629	62,475
Projects to be identified	54,975	-.-	54,975	-.-
Total credit line	100,000	18,396	81,604	62,475

- (4) As of June 29, 2022, the Bank signed a new line of credit with the French Development Agency (AFD) to borrow up to EUR 30,000 with a 15-year maturity at the 6-month Euribor rate plus a margin. This credit line is added to the credit line denominated in U.S. dollars that was approved in October 2018, for \$20,000, and that was fully executed in 2021, therefore it is in repayment process. As of December 31, 2022, eligible loans were financed under this new line of credit for a total of EUR 8,000, equivalent to \$8,519. No disbursements were drawn down under this line of credit as of June 30, 2023.

The total amount owed to AFD under these two lines amounts to \$27,610 (\$20,000 and EUR 8,000) as of December 31, 2022 (2021- \$20,000). To hedge the currency and interest rate potential exposures related to the Euro denominated disbursement and to the Euribor, the Bank contracted a cross-currency swap with JPM (see Note 8.5 (ii)).

Loans	AFD Funding in Euros and USD as of June 30, 2023, and December 31, 2022				
	Eligible	Disbursed	Available	FONPLATA	To pay
ARG-51/2021-PROSAF	3,780	3,780	--	9,520	--
BRA-33/2022-DOURADOS	11,380	4,220	7,160	28,620	--
Projects to be identified	14,840	--	14,840	--	--
Total Euros	30,000	8,000	22,000	38,140	8,000
USD equivalent	31,947	8,519	23,428	40,615	8,519
Line denominated in USD 2018	20,000	20,000	--	--	19,091
Total	51,947	28,519	23,428	40,615	27,610

- (5) On April 29 and December 6, 2022, the Bank received from the European Investment Bank (EIB), an amount of \$10,000 and \$20,000, respectively, within the framework of the financing line that was signed in August 2020, for \$60,000. This disbursement is added to the one that was executed in December 2021, for \$12,000. No disbursements were drawn down under this line of credit as of June 30, 2023.
- (6) During the year ended as of December 31, 2022, the Bank received \$12,200 under the new line of credit subscribed on June 9, 2022, with the “Instituto de Crédito Oficial E.P.E. – (ICO),” in the amount of \$15,000. This line was added to the one signed in 2018, for \$15,000, of which the undisbursed balance of \$9,464 was cancelled on December 17, 2020. The outstanding balance on this first line of credit as of June 30, 2023, amounted to \$3,875, and \$4,429 as of December 31, 2022, after amortization of principal for \$554 in 2023, and \$1,107 in 2022, respectively. No disbursements were drawn down under this line of credit as of June 30, 2023.

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

Loans	ICO			Available
	Eligible	Disbursed 2022	Disbursed 2023	
December 31, 2022				
ARG 23/2015 Ferrocarril Belgrano SUR	12,645	12,200	--	445
Subtotal	12,645	12,200	--	445

- (7) In June 2021, the Bank signed and drew-down in full a 5-year term credit facility in the amount of \$100,000 with Banco Bilbao Vizcaya Argentaria S.A. (BBVA).
- (8) On December 16, 2022, the Bank signed a loan contract with the KfW intended to finance green line projects that contribute to mitigate negative impacts to the environment and climate change. This line of credit is denominated in Euros at the Euribor interest rate plus a fixed margin. This line of credit amounts to EUR 37,000. This line of credit should be disbursed by December 31, 2024, which is the date for the last disbursement. Amortization of this loan will commence on May 15, 2027, and end on May 15, 2030, based on 7 semi-annual equal installments. No disbursements were drawn down under this line of credit as of June 30, 2023.

ii. Bonds and derivative financial instruments designated as fair value hedges

As stated in Notes 2 and 4.10, between 2019 and 2021, the Bank launched three bond issuances, a.k.a., FONPLATA 24, FONPLATA26, and FONPLATA28, according to their respective year of maturity. These bond issuances are denominated in Swiss Francs with an annual fixed rate coupon and principal payment at maturity. FONPLATA 24, consisted of CHF 150,000 with a maturity on March 11, 2024; FONPLATA26, consisted of CHF 200,000 with a 5 ½ - years of maturity on September 3, 2026; and FONPLATA28, CHF 150,000, with a 7-year maturity on December 1, 2028, and a fixed rate coupon.

As of the end of March 2023, the Bank entered for the first time the Japanese capital markets and launched the issuance of its first sustainable bonds. This issuance consisted of two series, the first one with maturity in March 2028 in the amount of ¥3,000,000, equivalent to \$22,509 at fix rate with a semiannual coupon, and the second one maturing in October 2029 in the amount of ¥4,200,000, equivalent to \$31,513, also at fix rate with a semiannual coupon. Furthermore, as stated in Note 8.5 (i) (1) and (4), the Bank contracted a new line of credit with CAF. This line of credit is denominated in US dollars and bears interest based on the Term SOFR, and contracted a new line of credit with the AFD denominated in Euros that bears interest based on the Euribor rate. As of December 31, 2022, the Bank had drawn down \$100,000 from CAF and \$8,519 with the AFD.

In compliance with its financial and risk management policies, the Bank contracts derivatives to exchange obligations denominated in currencies other than the U.S. dollar, and at interest rates other than the 6-month Libor, into U.S. dollars denominated obligations bearing interest based on the 6-month Libor rate. 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 fair value hedge in accordance with IFRS 9.

The following are the cross-currency swaps outstanding as of June 30, 2023, and December 31, 2022, respectively:

June 30, 2023,

1. HSBC – Cross-currency swap to exchange the proceeds from the issuance of sustainable bonds issued in the Japanese capital market series 1 ¥3,000,000, with a 5-year maturity at a fix annual rate of 1.21% with semiannual coupons, for a U.S. dollar denominated debt of \$22,509, with a 5-year maturity at the SOFR in arrears plus a margin; and sustainable bonds series 2 ¥4,200,000, maturing in 6 ½ years at a fix annual rate of 1.30% with semiannual coupon for a U.S. dollar denominated debt of \$31,513, with a 6 ½ year maturity at the SOFR in arrears plus a margin.

December 31, 2022,

1. JPM – Cross-currency swapping CHF 150,000, maturing in 5-years at fix rate with 0.578% annual coupon, plus 1 bps paying agent’s commission, exchanged for USD 148,809, maturing in 5-years with semiannual interest payments based on the 6-month Libor rate.
2. CS – Cross-currency swap to exchange CHF 200,000, 5 ½ year maturity at fix rate, with 0.556% annual coupon for USD 222,668, plus 1 bps paying agent fee, maturing in 5 ½ years, with semiannual payments based on the 6-month Libor rate.

3. JPM – Cross currency swap to exchange CHF 150,000, 7-year maturity at fix rate, with 0.7950% annual coupon for USD 164,474, plus 1 bps paying agent fee, maturing in 7 years, with semiannual payments based on the 6-month Libor rate.
4. JPM – Cross-currency rate to exchange EUR 8.000, corresponding to the first draw-down on the loan contracted with the AFD, which accrues interest based on the Euribor rate plus a fixed margin (see Note 8.5 (i) (4)). The terms of this cross-currency swap cover the period and service of the loan contracted, starting on December 23, 2022, and through its maturity on January 31, 2034. The Bank and JPM agreed to exchange EUR 8,000 for \$8,516, which accrues interest on the SOFR in arrears, which is the Bank’s reference rate on all loans starting January 1, 2022 (see Note 6.2).
5. DB- Interest rate swaps to hedge the two disbursements contracted with CAF (see Note 8.5 (i) (1), replacing the Term SOFR interest rate by the compounded SOFR in arrears interest rate which is the Bank’s loan interest reference rate. These two interest rate swaps became effective on January 27, 2023, and retroactively cover the disbursements drawn-down on December 1 and 6, 2023, respectively, taken together, amount to \$100,000. The fair value of this debt and that of the interest rate swaps is the same as the value of the debt at amortized cost as of December 31, 2022. These interest rate hedges resulted in a reduction of interest rate expense in the amount of \$81, as of December 31, 2022.

The Bank has signed ISDA master netting agreements with its counterparts. Under these agreements, each party must compensate the other with collateral for any differences in credit risk resulting from 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 a given threshold. Collateral is determined based on a proprietary valuation model. The Bank closely monitors the fairness and reasonableness of those valuation models used by its counterparts 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 or paid by the Bank on the amount of collateral held by the counterparts is recognized as part of other incomes.

As of June 30, 2023, the Bank has a collateral receivable position with its derivative counterparts, in the amount of \$25,368 (December 31, 2022 - \$36,858 collateral receivable).

Interest paid/received in collateral deposits with derivative counterparts is based on the interest rate published by the Federal Reserve Bank of the United States of America for overnight deposits. The total amount of interest received and paid on collateral sent and received from counterparts, amounted to \$696 and \$5, as of June 30, 2023 (December 2022- \$847 and \$2).

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 as if all set-off rights were exercised (i.e., cross-currency and interest rate swaps and collateral), based on the set-off and netting right arising from the contract. As of June 30, 2023, neither of the parties exercised its rights to set-off and netting.

The column “net amount” shows the impact on the Bank’s statement of financial position if all set-off rights were exercised.

	Gross amounts \$	Gross amounts offset in the Statement of Financial Position \$	Net amounts presented in the Statement of Financial Position \$
As of June, 2023			
Credit Suisse (CS):			
Financial assets:			
Cross-currency and interest rate swaps receivable ¹	217,247	(238,028)	(20,781)
Collateral receivable	20,790	-	20,790
Subtotal Derivatives Receivable	238,037	(238,028)	9
Financial liabilities:			
Cross-currency and interest rate swaps payable ¹	(238,028)	238,028	-
Subtotal Derivatives Payable	(238,028)	238,028	-
Derivatives net receivable CS	9	-	9
J.P. Morgan (JPM):			
Financial assets:			
Cross-currency and interest rate swaps receivable ¹	338,718	(338,718)	-
Subtotal Derivatives Receivable	338,718	(338,718)	-
Financial liabilities²:			
Cross-currency and interest rate swaps payable ¹	(338,210)	338,718	508
Collateral payable	(512)	-	(512)
Subtotal Derivatives Payable	(338,722)	338,718	(4)
Derivatives net payable JPM	(4)	-	(4)
Deutsche Bank (DB):			
Financial assets:			
Interest rate swaps receivable	101,262	(101,202)	60
Subtotal Derivatives Receivable	101,262	(101,202)	60
Financial liabilities:			
Interest rate swaps payable	(101,202)	101,202	-
Subtotal Derivatives Payable	101,262	101,202	-
Derivatives net receivable DB	60	-	60
HSBC:			
Financial assets:			
Cross-currency and interest rate swaps receivable ¹	54,993	(54,993)	-
Collateral receivable	5,090	(5,090)	-
Subtotal Derivatives Receivable	60,083	(60,083)	-
Financial liabilities:			
Cross-currency and interest rate swaps payable ¹	(60,560)	60,083	(477)
Subtotal Derivatives Payable	(60,560)	60,083	(477)
Derivatives net payable HSBC	(477)	-	(477)
Net payable as of June 30, 2023	(412)	-	(412)

	<u>Gross amounts</u>	<u>Gross amounts offset in the Statement of Financial Position</u>	<u>Net amounts presented in the Statement of Financial Position</u>
As of December 2022			
Credit Suisse (CS):			
Financial assets:			
Cross-currency and interest rate swaps receivable ¹	210,781	(238,047)	(27,266)
Collateral receivable	27,270	-	27,270
Subtotal Derivatives Receivable	<u>238,051</u>	<u>(238,047)</u>	<u>4</u>
Financial liabilities:			
Cross-currency and interest rate swaps payable ¹	(238,047)	238,047	-
Subtotal Derivatives Payable	<u>(238,047)</u>	<u>238,047</u>	<u>-</u>
<i>Derivatives net receivable CS</i>	<u>4</u>	<u>-</u>	<u>4</u>
J.P. Morgan (JPM):			
Financial assets:			
Cross-currency and interest rate swaps receivable ¹	329,137	(338,718)	(9,587)
Collateral receivable	9,588	-	9,588
Subtotal Derivatives Receivable	<u>338,725</u>	<u>(338,724)</u>	<u>1</u>
Financial liabilities²:			
Cross-currency and interest rate swaps payable ¹	(338,724)	338,724	-
Subtotal Derivatives Payable	<u>(338,724)</u>	<u>338,724</u>	<u>-</u>
<i>Derivatives net receivable JPM</i>	<u>1</u>	<u>-</u>	<u>1</u>
Deutsche Bank (DB):			
Financial assets:			
Interest rate swaps receivable	100,000	100,000	-

¹As of June 30, 2023, and as of December 31, 2022, the reference interest rate of the cross-currency swap contracted with Credit Suisse is the 6-month Libor rate. This is consistent with the reference interest rate applicable to loans outstanding as of June 30, 2023, and as of December 31, 2022, that have yet to be converted to the 6-month Libor rate. The replacement of the interest reference rate in the cross-currency swaps with Credit Suisse (CS) would take place in March, 2023.

²As stated in Note 2-B, in December 2022, the Bank replaced the 6-month Libor for the SOFR compounded in arrears in the cross-currency swaps with JPM, which is the interest reference rate for 60% of the loan portfolio as of December 31, 2022. This replacement is for maturities as of January 1, 2023.

Derivatives are valued at their fair value using valuation techniques using reliable and observable market information whenever possible, and as such, are classified as Level 2 (see Note 8.7)

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

Maturities

	<u>As of June 30, 2023</u>	<u>As of December 31, 2022</u>
Up to one year	255,746	104,592
More than one and up to two years	91,473	298,900
More than two and up to three years	43,275	41,992
More than three and up to four years	218,210	224,346
More than four and up to five years	33,608	12,928
More than five years	326,924	294,606
Total	<u>969,236</u>	<u>977,364</u>

(i) 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 like the recorded amount for the borrowing.

Bonds outstanding and cross-currency and interest rate swaps designated as a fair value 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.

(ii) Risk exposure

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

8.6 Special funds

The balance maintained with special funds by the Bank as of June 30, 2023, and as of December 31, 2022, respectively, includes the following:

	<u>As of June 30,</u> <u>2023</u>	<u>As of December,</u> <u>2022</u>
	\$	\$
FOCOM	12,977	14,230
PAC	4,583	4,184
PCT	4,027	4,221
Total	<u>21,587</u>	<u>22,635</u>

The Board of Governors can create special funds for specific purposes. Special funds have their own specific rules and administrative procedures and are considered as separate and independent entities from the Bank. Special funds are directly controlled by the member countries through the Board of Governors, and their balances do not require to be consolidated by the Bank.

Special funds are funded through distribution of retained earnings maintained in the general reserve. As of June 30, 2023, the Assembly of Governors has not yet approved the recommendation issued by the Board of Executive Directors regarding the allocation of retained earnings for the year ended December 31, 2022 (Resolution DEJ/RES – 1511/2023). In 2014, the Board of Governors created and funded the following special funds:

- a. **“Fund for the Compensation of the Operational Rate (referred as FOCOM)”**: The scope of this fund, was expanded in 2020, from helping to reduce the financial cost incurred by Bolivia, Paraguay and Uruguay on their loans with the Bank, to also encompass projects under the “Green Financing Line” and projects financed under the “Economic Recovery Line”, through the payment of a portion of the interest to be paid semiannually for all five member countries. The payment of the part of the interest accrued on loans by FOCOM on behalf of the borrowers is contingent and determined annually. On December 16, 2022, (RAG – 192), the Board of Governors approved a contribution of \$3,100 from retained earnings as of December 31, 2021. Since the inception of this fund, in May 2014, and until June 30, 2023, it has received \$21,610 in

contributions approved by the Board of Governors from retained earnings (December 31, 2022 - \$21,610).

- 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. On December 16, 2022, the Board of Governors approved a contribution of \$500 from retained earnings as of December 31, 2021. Since its inception and until June 30, 2023, the PCT has received \$5,000 in contributions approved by the Board of Governors from retained earnings (December 31, 2022 - \$5,000).
- 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 exit 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 month 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 a vesting period of four years. Upon termination of employment, participants are entitled to withdraw from the PAC the totality of their exit 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 participants with 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 for the interim period ended as of June 30, 2023, and for the year ended as of December 31, 2022, respectively:

	Severance payment contributions \$	Participants' voluntary savings contributions \$	Bank's matching contributions on voluntary savings \$	Accumulated total \$	Total amount available for termination \$	Deferred amount \$
June 30, 2023						
Balance as of December 31, 2022 ¹ :	1,775	1,379	1,031	4,184	4,130	54
Changes in vesting					32	(32)
Severance payment contributions	289	--	--	289	289	--
Participants' voluntary savings contribution	--	178	178	356	331	25
Additional participants' savings contributions	--	40	--	40	40	--
Investment income accrued	--	27	21	48	48	--
Withdrawals	(109)	(142)	(83)	(334)	(336)	--
Balance due to the PAC June 30, 2023	1,955	1,482	1,147	4,583	4,536	47
December 31, 2022						
Balance as of December 31, 2021:	1,889	1,260	906	4,056	3,976	80
Changes in vesting					64	(64)
Severance payment contributions	471	--	--	471	471	--
Participants' voluntary savings contribution	--	358	358	716	673	43
Additional participants' savings contributions	--	65	--	65	65	--
Investment income accrued	--	13	10	24	24	--
Withdrawals	(585)	(318)	(243)	(1,148)	(1,144)	(4)
Balance due to the PAC December 31, 2022	1,775	1,379	1,031	4,184	4,130	54

¹The initial balance available for the payment of benefits has been adjusted to the nearest thousand.

Special funds' assets and liabilities are managed by the Bank independently of 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 period or year. Investments managed by the Bank on behalf of special funds, as well as the related returns, are 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 is made by obtaining values in accordance with the three levels of the fair value hierarchy. An explanation for each of these three levels follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	\$	\$	\$
<u>June 30, 2023</u>			
Investments at fair value with changes in OCI – Note 8.2	387,246	-	-
Borrowings at fair value with changes in income – Note 8.5 (i)	527,303	49,457	-
Receivable swaps at fair value with changes in income – Note 8.5 (ii)	712,220	-	-
Payable swaps at fair value with changes in income – Note 8.5 (ii)	738,000	-	-
<u>December 31, 2022</u>			
Investments at fair value with changes in OCI – Note 8.2	338,850	-	-
Receivable swaps at fair value with changes in OCI – Note 8.5 (i)	501,248	-	-
Payable swaps at fair value with changes in OCI – Note 8.5 (ii)	539,918	-	-

The two series of sustainable bonds issued in Japan were issued through a private placement transaction. The fair value assigned to these bonds has been derived from the Bloomberg financial information platform based on the market value of similar bonds quoted in the Japanese stock exchange. Except for the valuation of these sustainable bonds, during the interim period ended as of June 30, 2023, and the year ended as of December 31, 2022, respectively, the Bank did not have other holdings of financial instruments that requires valuation at fair value in accordance with the fair value measurement methodologies prescribed under either level 2 or 3. 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 on 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>Total¹</u> ₪
<u>Book value</u>					
Balance as of December 31, 2021	4,857	2,641	87	49	7,634
Additions	--	694	--	--	694
Fixed Assets in transit	--	32	--	--	32
Write-offs	(392)	(86)	--	--	(478)
Balance as of December 31, 2022	4,465	3,282	87	49	7,883
Additions	--	55	--	--	55
Fixed Assets in transit	--	--	--	--	--
Write-offs	--	(32)	--	--	(32)
<u>Balance as of June 30, 2023</u>	4,465	3,305	87	49	7,906
<u>Cumulative depreciation</u>					
Balance as of December 31, 2021	679	1,165	--	49	1,893
Write-offs	(22)	(33)	--	--	(55)
Depreciation	102	263	--	--	365
Balance as of December 31, 2022	759	1,395	--	49	2,204
Write-offs	--	--	--	--	--
Depreciation	74	231	--	--	305
<u>Balance as of June 30, 2023</u>	833	1,627	--	49	2,509
<u>Net book value as of June 30, 2023</u>	3,632	1,678	87	--	5,397
<u>Net book value as of December 31, 2022</u>	3,706	1,887	87	--	5,679

¹ Opening balances and partial sums include differences due to rounding.

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 in the recognition of a revaluation reserve in other comprehensive income. As of June 30, 2023, and as of December 31, 2022, the amount of the revaluation reserve was reduced by \$12 and \$93, respectively, because of the depreciation of the period, and in 2022, for the sale of the office space occupied by the Bank on the 3rd floor of its headquarters as explained below. The amount of the revaluation reserve is reduced by the depreciation and might be adjusted based on subsequent technical revaluations.

In January 2022, the Bank completed the opening of liaison offices in all its member countries, and reallocated part of its operational staff to those new offices. This, coupled with the adoption of a hybrid work model, allowed the Bank to optimize its physical space at its headquarters. As a result, the Bank considered it appropriate to sell the two offices occupied on the 3rd floor. The sale price amounted to \$450, based on the prevailing market value, and left a net profit of \$116, after deducting the net book value of \$320, and \$14 of transfer tax.

(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, the least
Buildings	least
Furniture and equipment:	
Improvements on leased property	Over lease contract
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>As of June 30,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
	\$	\$
Cost	4,044	4,044
Cumulative depreciation	<u>(643)</u>	<u>(583)</u>
Total	<u><u>3,401</u></u>	<u><u>3,461</u></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.

The Bank has entered medium-term leases to secure space for its liaison offices in Montevideo, Uruguay, Brasilia, Brazil and Buenos Aires, Argentina. Leases for periods longer than one year are recognized and accounted for in compliance with IFRS 16. Leasing and interest charges paid for the interim period ended as of June 30, 2023, amounted to \$114 (December 2022- \$165). The following table shows the relevant information on those leases as of June 30, 2023, and as of December 31,2022, respectively:

	Lease Obligation	
	As of June 30, 2023 \$	As of December 31, 2022 \$
Asuncion – Paraguay, a 3-year lease contract signed don January 1, 2023, and expiring on December 31, 2026. The contract provides for minimum lease payments of \$2,5 and includes two parking spaces plus a third parking space at an additional monthly cost of \$0.075, and annual escalation of 4% starting on January 1, 2024.	84	--
Montevideo – Uruguay, 3-year lease contract signed on November 20, 2020, including extension for the lease of an additional 75 m2 in June 2022. Minimum monthly payments in U.S. dollars of \$2.5, starting on February 1, 2021, and ending on January 1, 2024. Minimum rental payments are subject to a 4% annual escalation adjustment. As of the June 2022 extension, the minimum payment is \$3.9 per month. Minimum rental payments are subject to a 4% annual increase%.	45	83
Brazil – Brasilia, 3-year lease contract signed on March 15, 2021, with minimum lease payments denominated in Brazilian Reais, \$9.5, and subject to annual escalation adjustments based on the local inflation price index. Lease expires on March 14, 2024	20	31
Buenos Aires – Argentina, 3-year lease signed for 36 months, from February 1, 2022, to January 31, 2025, with a minimum monthly payment of \$5.4, including value added tax and amortization of improvements.	77	152
Total	226	266

As of June 30, 2023, and December 31, 2022, the total amount of miscellaneous receivables amounts to \$1,316, and to \$1,088, respectively.

9.3 Other Liabilities

This caption includes interest and commissions payable accrued on borrowings, as well as small balances owed to suppliers and staff reimbursements. In addition, and as indicated in Note 9.2, it includes the recognition of the unamortized portion of the liability contracted by the lease contract in relation to the liaison offices in Montevideo, Uruguay. The composition of other liabilities as of June 30, 2023, and as of December 31, 2022, is as follows:

	<u>As of June,</u> <u>2023</u> \$	<u>As of December,</u> <u>2022</u> \$
Interest and commissions accrued on borrowings	13,356	9,638
Trade payables and accruals	684	390
Unamortized financial lease obligations	226	266
Total	<u>14,266</u>	<u>10,294</u>

NOTE 10 – EQUITY

10.1 Capital

On January 28, 2016, the 14th Extraordinary Board of Governors approved a capital increase in the amount of \$1,375,000, raising the authorized from \$1,639,200 to \$3,014,200. The 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 for Argentina, Bolivia, Paraguay, and Uruguay are based in eight annual equal installments commencing in 2018 and ending in 2024, and from 2018 – 2026, for Brazil. At the end of the integration process, the total capital payable in cash will 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, 2018. 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 June 30, 2023, and as of December 31, 2022, is as follows:

Member country ⁱ	Subscribed capital		Authorized capital		Total	%
	Paid-in	Callable	Paid-in	Callable		
	\$	\$	\$	\$	\$	
• 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 interim period ended as of June 30, 2023, and for the year ended as of December 31, 2022, the Bank received paid-in contributions in the amount of \$97,540 and \$75,194, respectively. The amount of paid-in capital subscribed and pending integration, as well as the amount of callable capital and committed as of June 30, 2023, and as of December 31, 2022, respectively, is as follows:

Member country	June 30, 2023			December 31, 2022		
	Paid-in Capital Subscribed			Paid-in Capital Subscribed		
	Paid-in ⁱ	Receivable ⁱ	Total	Paid-in ⁱ	Receivable ⁱ	Total
	\$	\$	\$	\$	\$	\$
• Argentina	387,410	62,334	449,744	387,410	62,334	449,744
• Bolivia	129,126	20,778	149,904	129,126	20,778	149,904
• Brazil	404,411	45,333	449,744	306,871	142,873	449,744
• Paraguay	129,126	20,778	149,904	129,126	20,778	149,904
• Uruguay	129,126	20,778	149,904	129,126	20,778	149,904
Total	<u>1,179,199</u>	<u>170,001</u>	<u>1,349,200</u>	<u>1,081,660</u>	<u>267,540</u>	<u>1,349,200</u>

As indicated in Note 2-B, on January 3, 2023, and April 27, 2023, the Bank received from Brazil the amount of \$69,842 and \$27,698, corresponding to paid-in capital installments agreed for the period 2020 to 2022,

and paid-in contributions subscribed for 2023. These contributions will increase the Bank's equity and its cash flows in 2023.

As of June 30, 2023, and as of December 31, 2022:

	<u>Subscribed Callable Capital</u> ⁱ	<u>Committed</u> ⁱⁱ
Member country		\$
• 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 June 30, 2023, and as of December 31, 2022, includes the following:

- i. Reserve for changes in the fair value of investments – FVOCI: During the interim period ended June 30, 2023, this reserve was decreased by a loss of \$92, for a cumulative unrealized loss of \$4,707 (December 31, 2022 –\$1,191 of unrealized loss for a cumulative total of unrealized losses of \$4,615).
- ii. Reserve for revaluation of property: During the interim period ended as of June 30, 2023, this reserve was reduced by \$12 for depreciation of the period, for a balance of \$624 (December 2022- \$93 for a balance of \$636, as a result of the sale of the offices occupied on the third floor of the Bank's headquarters and \$66 for depreciation of the period).

10.3 Retained earnings and reserves.

Retained earnings as of June 30, 2023, amount to \$78,450, and correspond \$30,835 to the net income earned from operations from January 1 through June 30, 2023, and \$47,615 that correspond to the net income earned from operations from the year ended as of December 31, 2022. The recognition of the fair value adjustment of the debt contracted in currencies other than the U.S. dollar and at reference interest rates other than the Bank's loans reference interest rate together with the fair value adjustment of the receivable payable swaps contracted to mitigate the risk of exposure to exchange rate and interest rate changes amounted to \$ 15,953 of net unrealized gains, which are included in "Other income" as of June 30, 2023 (December 2022- \$6,370). These net unrealized gains resulting from the net fair value adjustment of the debt and swaps will gradually converge to zero as the original debt and the swaps mature. At that time, the Bank will Exchange the contracted flows with its swap's counterparts.

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 (FOCOM), and the Technical Cooperation Program (PCT).

The amount of the General Reserve as of June 30, 2023, and as of December 31, 2022, respectively is as follows:

	<u>General Reserve</u>
	\$
Balance as of December 31, 2021	183,165
Allocated by the Board of Governors in 2022	<u>20,430</u>
Balance as of December 31, 2022	203,595
Allocated by the Board of Governors in 2023	<u>-</u>
Balance as of June 30, 2023	<u><u>203,595</u></u>

NOTE 11 – REVENUES

The composition of net income is as follows:

	January 1 through June 30,	
	<u>2023</u>	<u>2022</u>
	\$	\$
Loan income:		
Interest	66,079	24,031
Commitment fee and commissions	1,824	1,551
Administrative fee	<u>1,001</u>	<u>1,191</u>
Subtotal	<u>68,904</u>	<u>26,773</u>
Investment income:		
Interest	12,887	1,319
Other	<u>732</u>	<u>106</u>
Gross investment income	<u>13,619</u>	<u>1,425</u>
Special Fund's share of investment income – Note 8.6	<u>(391)</u>	<u>64</u>
Investment income – Net	<u>13,228</u>	<u>1,489</u>
Income for financial assets	<u>82,132</u>	<u>28,262</u>
Other income		
Unrealized gains due to the fair value adjustment of debt flows hedged with cross-currency and interest rate swaps – Note 4.10	18,280	43,669
Unrealized losses resulting from receivable and payable swaps – Note 4.10	<u>(29,021)</u>	<u>(44,624)</u>
Net unrealized gains	<u>(10,741)</u>	<u>(955)</u>
Other income	<u>1</u>	<u>138</u>
Total Other Income	<u><u>(10,740)</u></u>	<u><u>817</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 interim period ended as of June 30, 2023 and 2022, the Bank reached a percentage of execution of its

administrative budget equivalent to 43.5% and 40.5%, respectively. The break-down of administrative expenditures by functional activity is as follows:

<u>Classification of expenses</u>	January 1, through June 30,	
	<u>2023</u>	<u>2022</u>
	₪	₪
Personnel expenses	4,290	3,913
Business travel expenses	410	304
Professional services	412	384
Credit risk rating	24	25
External auditors	49	43
Administrative expenses	865	567
Financial services	98	82
<i>Total administrative budget</i>	<u>6,148</u>	<u>5,318</u>
<u>Classification of other expenses</u>		
Depreciation	293	174
Loss/Gain on foreign exchange	(83)	90
<i>Total administrative expenses</i>	<u>6,358</u>	<u>5,582</u>

NOTE 13 –MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following tables provide an analysis of the expected time elapsed to maturity of assets and liabilities for the interim period ended as of June 30, 2023, and 2022, respectively, based on their respective recovery or settlement date:

	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
	<u>(Up to 1 year)</u>	<u>(More than 1 year)</u>	
	<u>₪</u>	<u>₪</u>	<u>₪</u>
<u>June 30, 2023</u>			
<u>ASSETS</u>			
Cash and cash equivalents	305,586	-.-	305,586
Investments			
At fair value ¹	387,246	-.-	387,246
At amortized cost	-.-	-.-	-.-
Loan portfolio			
Outstanding loans	202,338	1,520,243	1,722,581
Interest and other accrued charges			
On investments	2,168	-.-	2,168
Interest and commissions on loans	35,873	-.-	35,873
Other assets			
Cash flow hedge derivatives	-.-	-.-	-.-
Property and equipment, net	-.-	5,397	5,397
Miscellaneous	1,214	102	1,316
Total assets	<u>934,425</u>	<u>1,525,742</u>	<u>2,460,167</u>

	<u>Current</u> <u>(Up to 1 year)</u> \$	<u>Non-Current</u> <u>(More than 1 year)</u> \$	<u>Total</u> \$
<u>LIABILITIES</u>			
Cash flow hedge derivatives	412	--	412
Borrowings	255,201	711,537	966,738
Other liabilities	14,266	--	14,266
Special funds	6,453	15,134	21,587
Total liabilities²	276,332	726,671	1,003,003
<u>December 31, 2022</u>			
<u>ASSETS</u>			
Cash and cash equivalents	217.589	--	217.589
At fair value ¹	338.850	--	338.850
At amortized cost	--	--	--
Loan portfolio			
Outstanding loans	169.976	1.574.420	1.744.396
Interest and other accrued charges			
On investments	1.374	--	1.374
Interest and commissions on loans	28.182	--	28.182
Other assets			
Cash flow hedge derivatives	5	--	5
Property and equipment, net	--	5.679	5.679
Miscellaneous	510	578	1.088
Total assets	756.486	1.580.677	2.337.163
<u>LIABILITIES</u>			
Borrowings	104.601	870.742	975.343
Other liabilities	10.028	266	10.294
Special funds	4.520	18.115	22.635
Total liabilities	119.149	889.123	1.008.272

¹As of December 31, 2022, all investments classified as available for sale and valued at FVCOI, are held for the purpose of financing expected loan disbursements within the next 12 months.

² Totals may differ due to rounding into thousands.

NOTE 14 – IMMUNITIES, EXEMPTIONS AND PRIVILEGES

As stated in the Bank'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 Bank 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 Bank with Argentina, Bolivia, Paraguay, and Uruguay, 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 Bank'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 with the support of its liaison offices. 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</u>	<u>Impairment</u>	<u>Loan portfolio</u>	<u>Interest and</u>	<u>Total</u>
	<u>\$</u>	<u>commissions</u>	<u>\$</u>	<u>\$</u>	<u>commissions</u>	<u>\$</u>
		<u>\$</u>			<u>receivable</u>	
					<u>\$</u>	
June 30, 2023:						
Argentina	478,748	(727)	(10,413)	467,608	9,814	477,422
Bolivia	381,449	(740)	(4,456)	376,253	9,159	385,412
Brazil ¹	209,133	(1,050)	(1,351)	206,732	3,594	210,326
Paraguay	377,847	(1,143)	(812)	375,892	7,580	383,472
Uruguay	296,977	(30)	(851)	296,096	5,725	301,821
Total	1,744,154	3,690	(17,883)	1,722,581	35,872	1,758,453
December 31, 2022:						
Argentina	490,462	(1,237)	(8,571)	480,654	8,394	489,049
Bolivia	395,009	(916)	(2,192)	391,901	6,280	398,181
Brazil ¹	208,992	(404)	(1,159)	207,429	2,682	210,111
Paraguay ¹	378,042	(314)	(705)	377,024	6,262	383,286
Uruguay	288,339	(67)	(882)	287,390	4,564	291,953
Total ²	1,760,844	(2,938)	(13,509)	1,744,398	28,182	1,772,580

¹ Includes \$80,167 of three NSG loans (December 31, 2022- \$76,000). As of June 30, 2023, unaccrued commissions on NSG loans amount to \$13, (December 31, 2022 - \$44); and interest and commissions receivable amount to \$812 (December 31, 2022, \$443). The amount of provision for potential NSG loan losses amounts to -\$1,027 (December 31, 2022 – \$1,094). See Note 8.4, for more details.

²Totals may differ due to rounding into thousands.

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> ₺
June 30, 2023:					
Argentina	242,805	65,236	170,707	--	478,748
Bolivia	358,210	9,596	13,643	--	381,449
Brazil ¹	176,037	--	9,096	24,000	209,133
Paraguay ¹	338,222	9,626	--	30,000	377,848
Uruguay	218,261	28,848	23,700	26,167	296,976
Total	1,333,535	113,306	217,146	80,167	1,744,154
December 31, 2022:					
Argentina	244,789	72,112	173,560	--	490,462
Bolivia	370,725	9,596	14,688	--	395,009
Brazil	170,387	--	8,605	30,000	208,992
Paraguay	331,542	10,501	--	36,000	378,042
Uruguay	227,133	28,848	22,358	10,000	288,339
Total²	1,344,576	121,057	219,210	76,000	1,760,844

¹The amount under "Total", includes \$80,167 of NSG loans outstanding with government owned banks, 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).

² Totals may differ due to rounding into thousands.

Undisbursed loan balances on loans under execution and its break-down by country correspond mostly to sovereign guaranteed loans, and are as follows:

	<u>As of June 2023</u> ₺	<u>As of December 2022</u> ₺
Argentina	374,682	341,506
Bolivia	140,029	140,389
Brazil ¹	308,633	285,740
Paraguay	178,800	193,947
Uruguay	3,333	22,422
Total	1,005,477	984,004

As June 30, 2023, and as of December 31, 2022, 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 Branch, corresponds solely to sovereign guaranteed loans, and is as follows:

	<u>As of June 30,</u> <u>2023</u> \$	<u>As of December</u> <u>2022</u> \$
Argentina	43,400	87,000
Bolivia	--	--
Brazil	175,130	165,130
Paraguay	175,000	175,000
Uruguay	--	--
Total	393,530	427,130

The average return on loans is as follows:

	January 1, through June 30,			
	<u>2023</u>		<u>2022</u>	
	<u>Average</u> <u>balance</u> \$	<u>Average return</u> %	<u>Average</u> <u>balance</u> \$	<u>Average return</u> %
Loan portfolio	1,752,499	7.86%	1,548,603	3.46%

(c) Segment revenues

Interest and other loan revenues by segment are as follows:

	<u>Loan interest</u> \$	<u>Other loan</u> <u>operating</u> <u>revenues</u> \$	<u>Total</u> \$
<u>January 1 through June 30, 2023:</u>			
Argentina	18,516	1,131	19,647
Bolivia	13,982	453	14,435
Brazil ¹	7,979	677	8,656
Paraguay ¹	14,559	508	15,067
Uruguay	11,043	56	11,099
Total	66,079	2,825	68,904
<u>January 1 through June 30, 2022:</u>			
Argentina	6,481	1,056	7,537
Bolivia	5,441	302	5,743
Brazil	3,025	509	3,534
Paraguay	4,920	703	5,623
Uruguay	4,164	172	4,336
Total	24,031	2,742	26,773

¹ Includes accrued interest in the amount of \$3,358, and other loan charges in the amount of \$40, corresponding to NSG loans granted to state-owned development banks in Brazil, Paraguay, and Uruguay (December 31, 2022 - \$3,254 in interest, and \$79, in other loan charges related to NSG loans)

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 Bank, 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 on other terms than those established in its policies and guidelines.

The balances and transactions maintained with related entities as of June 30, 2023, and as of December 31, 2022, respectively, correspond to the balances maintained with the FOCOM; 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 for the interim period as of June 30, 2023, and the year ended as of December 31, 2022, respectively.

NOTE 18 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events as of the date of these financial statements up to August 25, 2023, date on which the financial statements were ready for their issuance. No matters were identified that might have a material impact on the financial statements for the interim period ended as of June 30, 2023, and for the year ended as of December 31, 2022.

Luciana Botafogo Brito
EXECUTIVE PRESIDENT

Leandro A. Gorgal
CHAIRPERSON BOARD OF EXECUTIVE DIRECTORS

Fernando A. Fernandez Mantovani
CHIEF BUDGET AND ACCOUNTING

Rafael Robles
VICEPRESIDENT OF FINANCE