# Inter-American Development Bank

# Ordinary Capital

# Management's Discussion and Analysis
# and
# Condensed Quarterly Financial Statements
# March 31, 2013
# (Unaudited)

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2013

## INTRODUCTION

The Inter-American Development Bank (the Bank) is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank (the Agreement). The resources of the Bank consist of the Ordinary Capital, the Fund for Special Operations, the Intermediate Financing Facility Account, and the IDB Grant Facility. All financial information provided in this Management's Discussion and Analysis refers to the Bank's Ordinary Capital.

This document should be read in conjunction with the Bank's Information Statement dated March 8, 2013, which includes the Ordinary Capital financial statements for the year ended December 31, 2012. The Bank undertakes no obligation to update any forward-looking statements.

## FINANCIAL STATEMENT REPORTING

The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported results. Management believes that some of the more significant estimates it uses to present the financial results in accordance with GAAP, for valuation of certain financial instruments carried at fair value, the allowances for loan and guarantee losses, and the valuation of pension and postretirement benefit plan-related liabilities, involve a relatively high degree of judgment and complexity and relate to matters that are inherently uncertain.

Most of the Bank's borrowings and all swaps, including borrowing, lending, and equity duration[1] swaps are measured at fair value through income. The reported income volatility resulting from the non-trading financial instruments is not fully representative of the underlying economics of the transactions as the Bank generally holds these instruments to maturity. Accordingly, the Bank excludes the impact of the fair value adjustments associated with these financial instruments from "Operating Income", which is defined as Income before Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers[2]. Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers are reported separately in the Condensed Statement of Income and Retained Earnings.

**Accounting Developments:** As described in Note B to the financial statements, effective January 1, 2013, the Financial Accounting Standards Board requires disclosure of both gross information and net information about financial and derivative instruments eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The required disclosures are included in Note G – Derivatives, in the accompanying Condensed Quarterly Financial Statements.

## FINANCIAL HIGHLIGHTS

***Lending operations:*** During the first three months of 2013, the Bank approved 18 loans totaling $1,054 million compared to 24 loans that totaled $1,399 million during the same period in 2012. There were no non-trade-related guarantees approved (2012 – one non-sovereign-guaranteed operation for $5 million) and 62 trade-related guarantees without sovereign counter-guarantee were issued for a total of $109 million (2012 – 55 guarantees issued for a total of $149 million).

The portfolio of non-sovereign-guaranteed loans, including loans to other development institutions, increased to a level of $4,034 million compared to $3,884 million at December 31, 2012. The non-sovereign guarantees exposure decreased $95 million to $546 million compared to $641 million at the end of the previous year. As of March 31, 2013, 6.7% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 6.5% at December 31, 2012.

Total allowances for loan and guarantee losses amounted to $218 million at March 31, 2013 compared to $197 million at December 31, 2012. The Bank had non-sovereign-guaranteed loans with outstanding balances of $291 million classified as impaired at March 31, 2013 compared to $268 million at the end of the prior year. All impaired loans have specific allowances for loan losses amounting to $85 million at March 31, 2013, compared to $66 million at December 31, 2012.

Effective January 1, 2012, the FFF is the only financial product platform for approval of all regular Ordinary Capital sovereign guaranteed loans. With FFF loans, borrowers have the ability to tailor financial terms at approval or during the life of a loan, subject to market availability and operational considerations. During the first three months of 2013, loan approvals under the FFF totaled $832 million, compared to $0 million for the same period in 2012.

For 2013, the Board of Executive Directors approved a lending spread of 0.84%, a credit commission of 0.25% and no supervision and inspection fee, compared to a lending spread of 0.62%, a credit commission of 0.25% and no supervision and inspection fee in 2012.

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

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

During the first quarter of 2013, the Bank had interest rate fixings of $2,670 million on its sovereign guaranteed loan portfolio compared to $400 million for the same period in 2012. In addition, there were loan prepayments of $522 million (2012 - $0 million).

***Borrowing operations:*** During the first three months of the year, the Bank issued bonds for a total face amount of $3,599 million (2012 – $4,919 million) that generated proceeds of $3,353 million (2012 – $4,401 million), representing decreases of $1,320 million and $1,048 million, respectively, compared to the same period last year. The average life of new issues was 4.8 years (2012 – 4.4 years).

During 2013, the Bank continued to be rated Triple-A by the major credit rating agencies.

**Financial results:** Operating Income during the first three months of 2013 was $396 million, compared to $236 million for the same period last year, an increase of $160 million. This increase was mainly due to an increase in net interest income of $189 million and a decrease in the provision for loan and guarantee losses of $30 million, partially offset by a decrease in net investment gains of $27 million and an increase in net non-interest expense of $38 million.

During the three months ended March 31, 2013, the trading investments portfolio experienced net mark-to-market gains of $70 million, compared to $97 million during the three months ended March 31, 2012. The trading investments portfolio's net interest income, which excludes realized and unrealized investment gains and losses, added income of $9 million during the first three months of the year compared to $10 million during the same period in 2012.

The provision for loan and guarantee losses decreased by $30 million, from $51 million in the first three months of 2012 to $21 million in 2013, mainly as a result of a reduction in the number of new non-sovereign-guaranteed impaired loans (two new loans in 2012 compared to one loan in 2013 with outstanding loans balances of $85 million and $23 million, respectively).

The Bank had net fair value gains on non-trading portfolios for the three months ended March 31, 2013 of $50 million, compared to gains of $83 million for the same period last year. Net fair value losses on non-trading derivatives resulting from changes in interest rates were $277 million for the first three months of 2013. These losses were offset by fair value gains on borrowings of $397 million. The income volatility related to movements in interest rates, which amounted to a gain of $120 million for the three months period ended March 31, 2013, compared to a gain of $80 million for the same period last year, was primarily due to fair value gains on lending swaps ($189 million), partially offset by fair value losses on equity duration swaps ($36 million). In addition, Net fair value adjustments on non-trading portfolios was impacted by the reversal of net unrealized gains of $83 million due to the unwinding of equity duration and lending swaps, as a result of loan interest rate fixings and loan prepayments. (See Note I to the Condensed Quarterly Financial Statements for further discussion on changes in fair value on non-trading portfolios).

***Capitalization:*** On February 29, 2012, the ninth general increase in the resources of the Bank (IDB-9) entered into effect providing for an increase in the Bank's Ordinary Capital of $70,000 million to be subscribed to by Bank's members in five annual installments. Of this amount, $1,700 million is paid-in capital stock and the remainder constitutes callable capital stock. Two member countries, the Netherlands and Venezuela, did not subscribe to their shares. As a result and in order to comply with the associated minimum voting power requirements of the Agreement, of the total shares subscribed, 5,134,300 shares in the amount of $61,937 million, or 88% of the total increase, were made effective to member countries. The shares that had been reserved for the Netherlands and Venezuela (19,639 and 334,278 shares, respectively) were subsequently reallocated to other member countries on January 22, 2013 by the Bank's Board of Governors to become effective only if, on or before December 6, 2013, each member country has deposited with the Bank an Instrument of Subscription subscribing to the number of shares allocated to such member country. Upon the completion of this reallocation process, the replenishment will be fully subscribed. There will be no changes to the voting power of the borrowing member countries as a group and the United States, Canada, Japan and the group of other nonregional member countries after the reallocation becomes effective.

The effective dates of the first two installments of the Ordinary Capital increase were February 29, 2012 and February 28, 2013, and the remaining three installments are effective on the last day of February 2014, 2015 and 2016, respectively.

The Bank's equity base plays a critical role in securing its financial objectives. The Total Equity-to-Loans Ratio (TELR) at March 31, 2013 was 31.8% compared to 31.0% at the end of last year (See Table 1).

***Asset/Liability Management:*** As a result of interest rate fixings on the Bank's sovereign guaranteed loan portfolio, the Bank terminated certain swaps in order to maintain the modified duration of its equity within the defined policy band of 4 to 6 years realizing gains of $125 million. In addition, as a result of loan prepayments certain lending swaps were terminated realizing losses of $42 million, which were offset by compensation received from the borrower of $56 million.

**Box 1: Selected Financial Data**

(Amounts expressed in millions of United States dollars)

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 | Year ended December 31, 2012 |
|---|---|---|---|
| **Lending Summary** | | | |
| Loans and guarantees approved [(1)] | $ 1,054 | $ 1,404 | $ 10,799 |
| Undisbursed portion of approved loans | 27,228 | 24,598 | 26,987 |
| Gross loan disbursements | 762 | 730 | 6,883 |
| Net loan disbursements [(2)] | (742) | (267) | 2,312 |
| **Income Statement Data** | | | |
| **Operating Income [(3)]** | **$ 396** | **$ 236** | **$ 910** |
| Net fair value adjustments on non-trading portfolios | 50 | 83 | 194 |
| Board of Governors approved transfers | (200) | (200) | (200) |
| Net income | 246 | 119 | 904 |
| **Returns and Costs, after swaps** | | | |
| Return on average loans outstanding | 2.76% | 2.58% | 2.51% |
| Return on average liquid investments [(4)] | 2.27% | 3.10% | 2.22% |
| Average cost of borrowings outstanding during the period | 0.68% | 0.95% | 0.85% |

| | March 31, 2013 | March 31, 2012 | December 31, 2012 |
|---|---|---|---|
| **Balance Sheet Data** | | | |
| Cash and investments-net [(5)], after swaps | $ 15,590 | $ 16,903 | $ 14,592 |
| Loans outstanding [(6)] | 68,007 | 66,029 | 68,640 |
| Borrowings outstanding [(7)], after swaps | 59,704 | 60,505 | 59,754 |
| Equity [(8)] | 20,820 | 19,805 | 20,403 |
| **Total Equity[(9)]-to-Loans [(10)] Ratio** | 31.8% | 31.4% | 31.0% |

(1) Excludes guarantees issued under the Trade Finance Facilitation Program.
(2) Includes gross loan disbursements less principal repayments.
(3) See page 7 for a full discussion of Operating Income under Results of Operations.
(4) Geometrically-linked time-weighted returns.
(5) Net of Payable for investment securities purchased and cash collateral received and receivable for investment securities sold.
(6) Excludes lending swaps in a net liability position of $1,706 million as of March 31, 2013 (2012 - $1,536 million) and $1,831 million as of December 31, 2012.
(7) Net of premium/discount.
(8) Effective March 31, 2013, the Bank reclassified from assets to equity Receivable from members amounts relating to non-negotiable, non-interest-bearing demand and term obligations, mostly related to maintenance of value of currency holdings, totaling $278 million, $278 million and $294 million at March 31, 2013, December 31, 2012 and March 31, 2012, respectively.
(9) "Total Equity" is defined as Paid-in capital stock less Capital subscriptions receivable, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries' local currency cash balances, Receivable from members, and the cumulative effects of Net fair value adjustments on non-trading portfolios.
(10) Includes loans outstanding and net guarantee exposure.

## CAPITAL ADEQUACY

The Bank's capital adequacy framework consists of a policy on capital adequacy and systems that support the determination of capital requirements for credit and market risk in both its lending and treasury operations. In addition, the policy includes capital requirements for pension and operational risk.

The capital adequacy policy allows the Bank to measure the inherent risk in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, and to make flexible adjustments to changing market conditions. As such, specific risk limits in terms of capital requirements for investments and derivatives are included that enables Management to design more efficient funding and investment strategies following the risk tolerance established by the Board of Executive Directors. As determined under this framework, the Bank is operating within its policy limits.

## CONDENSED BALANCE SHEET

***LOAN PORTFOLIO:*** The Bank makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In addition, the Bank may make loans and guarantees directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee in all sectors (subject to an exclusion list), provided they meet the Bank's lending criteria.

The Bank also lends to other development institutions without a sovereign guarantee. Non-sovereign guaranteed operations are currently capped to an amount such that risk capital requirements for such operations do not exceed 20% of Total Equity[3].

The loan portfolio is the Bank's principal earning asset of which, at March 31, 2013, 94% was sovereign-guaranteed. At March 31, 2013, the total volume of outstanding loans was $68,007 million, compared with $68,640 million as of December 31, 2012. The decrease in the loan portfolio was mostly due to a lower level of disbursements ($762 million) than loan collections ($1,504 million, including prepayments of $522 million), and positive currency translation adjustments ($102 million).

As of March 31, 2013, 6.7% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed compared to 6.5% at December 31, 2012. The non-sovereign-guaranteed loan portfolio totaled $4,034 million, compared to $3,884 million at December 31, 2012.

***INVESTMENT PORTFOLIO:*** The Bank's investment portfolio is mostly comprised of highly-rated securities and bank deposits. Its volume is maintained at a level sufficient to ensure that adequate resources are available to meet future cash flow needs. Net investment levels, after swaps, increased $1,038 million during the first three months of 2013, mainly resulting from net cash inflows from borrowings ($260 million), net loan collections ($742 million), collection of capital subscriptions under the IDB-9 ($64 million), and mark-to-market gains ($70 million), partially offset by net cash outflows from operating activities ($64 million) and negative currency translation adjustments ($31 million).

***BORROWING PORTFOLIO:*** The portfolio of borrowings is mostly comprised of medium- and long-term debt raised directly in capital markets. Borrowings outstanding, after swaps, decreased $50 million compared with December 31, 2012, primarily due to a higher amount of new borrowings than maturities ($260 million) and the accretion of discount on borrowings ($83 million), which were offset by net payments of accretion of discount on borrowings and swaps ($341 million), a net decrease in the fair value of borrowings and related swaps ($17 million), and negative currency translation adjustments ($29 million).

***EQUITY:*** Equity at March 31, 2013 was $20,820 million, an increase of $417 million from December 31, 2012, reflecting additional paid-in capital received as part of the second installment under the IDB-9 of $153 million, net income of $246 million, and the reclassification of unrecognized pension actuarial losses to net income of $28 million, partially offset by currency translation adjustments of $11 million.

The Bank's equity base plays a critical role in securing its financial objectives. Table 1 presents the composition of the TELR as of March 31, 2013 and December 31, 2012. It shows that the TELR increased from 31.0% to 31.8% mainly due to an increase in Total Equity and a reduction of loans outstanding and net guarantee exposure.

[3] As of December 31, 2012, the date of the latest quarterly report to the Board of Executive Directors, the risk capital requirements of non-sovereign-guaranteed operations was $1,204 million, or 5.6% of Total Equity.

**Table 1: TOTAL EQUITY-TO-LOANS RATIO**
**(Amounts expressed in millions of United States dollars)**

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Equity** | | |
| Paid-in capital stock | $ 4,941 | $ 4,640 |
| Capital subscriptions receivable | (166) | (18) |
| | 4,775 | 4,622 |
| Less: Receivable from members | 278 | 278 |
| Retained earnings: | | |
| General reserve [1] | 13,758 | 13,494 |
| Special reserve [1] | 2,565 | 2,565 |
| | 20,820 | 20,403 |
| **Plus:** | | |
| Allowances for loan and guarantee losses | 218 | 197 |
| **Minus:** | | |
| Borrowing countries' local currency cash balances | 153 | 161 |
| Cumulative net fair value adjustments on non-trading portfolios | (997) | (1,047) |
| **Total Equity** | $ 21,882 | $ 21,486 |
| **Loans outstanding and net guarantee exposure** | $ 68,846 | $ 69,333 |
| **Total Equity-to-Loans Ratio** | **31.8%** | **31.0%** |

[1] Includes Accumulated other comprehensive income.

## RESULTS OF OPERATIONS

Table 2 shows a breakdown of Operating Income. For the three months ended March 31, 2013, Operating Income was $396 million compared to $236 million for the same period last year, an increase of $160 million. This increase was mainly due to an increase in net interest income of $189 million and a decrease in the provision for loan and guarantee losses of $30 million, partially offset by a decrease in net investment gains of $27 million and an increase in net non-interest expense of $38 million.

The Bank had net interest income of $503 million during the first three months of 2013, compared to $314 million for the same period last year. The increase was mainly due to higher other interest income due to realized gains of $125 million on equity duration swaps, and the increase of the lending spread on most of the Bank's loans from 0.62% to 0.84% in 2013. In addition, the Bank received loan prepayment compensation, net of swap costs, amounting to $14 million during 2013.

The Bank's trading investments portfolio contributed net mark-to-market gains of $70 million during the period, compared to $97 million for the same period in 2012, as the portfolio's performance continued to be in line with the mixed recovery in the world financial markets. Net losses of $1 million (relative to purchase price) were realized, compared to $41 million for the same period in 2012.

Net non-interest expense increased $38 million mainly due to higher net pension and postretirement benefit costs of $25 million as a result of a higher amortization of unrecognized net actuarial losses, and an increase in the service cost due to the decrease in the rate used to discount the pension liabilities at the end of 2012.

The provision for loan and guarantee losses decreased by $30 million, from $51 million during the first three months of 2012 to $21 million in the first three months of 2013, mainly as a result of a reduction in the number of new non-sovereign-guaranteed impaired loans (two new loans in 2012 compared to one loan in 2013 with outstanding loan balances of $85 million and $23 million, respectively).

**Table 2: OPERATING INCOME**
**(Amounts expressed in millions of United States dollars)**

| | Three months ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Loan interest income [1] | $ 440 | $ 406 |
| Investment interest income [1] | 15 | 25 |
| Other interest income | 150 | 25 |
| | 605 | 456 |
| Less: | | |
| Borrowing expenses [1] | 102 | 142 |
| Net interest income | 503 | 314 |
| Other loan income | 24 | 18 |
| Net investment gains | 70 | 97 |
| Other expenses: | | |
| Provision for loan and guarantee losses | 21 | 51 |
| Net non-interest expense | 180 | 142 |
| Total | 201 | 193 |
| Operating Income | $ 396 | $ 236 |

[1] Amounts on an after swap basis.

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective financial returns and costs for the three months ended March 31, 2013 and 2012 and the year ended December 31, 2012 are shown in Table 3.

**Table 3: ASSET/LIABILITY PORTFOLIOS AND FINANCIAL RETURNS/COSTS**
**(Amounts expressed in millions of United States dollars)**

| | Three months ended March 31, 2013 | | Three months ended March 31, 2012 | | Year ended December 31, 2012 | |
|---|---|---|---|---|---|---|
| | Average balance | Return/Cost % | Average balance | Return/Cost % | Average balance | Return/Cost % |
| Loans [1] | $ 68,069 | 2.62 [5] | $ 66,105 | 2.47 | $ 66,376 | 2.41 |
| Liquid investments [2][3] | 16,165 | 2.27 | 16,588 | 3.10 | 17,485 | 2.22 |
| Total earning assets | $ 84,234 | 2.55 | $ 82,693 | 2.60 | $ 83,861 | 2.37 |
| Borrowings | $ 60,878 | 0.68 | $ 59,716 | 0.95 | $ 61,082 | 0.85 |
| Net interest margin [4] | | 2.42 [6] | | 1.53 | | 1.53 |

[1] Excludes loan fees.

[2] Geometrically-linked time-weighted returns.

[3] Includes gains and losses.

[4] Represents annualized net interest income as a percent of average earning assets.

[5] Loan prepayment compensation, net of swap costs, of approximately $14 million was received by the Bank in 2013. Excluding this amount, the return on loans would have been 2.54%.

[6] In addition to the loan prepayment compensation mentioned above, gains of $125 million on equity duration swaps were realized from swap terminations resulting from interest rate fixings on loans. If such amounts were not considered, the net interest margin would have been 1.75% as of March 31, 2013.

## COMMITMENTS

***Guarantees:*** The Bank makes partial non-trade related guarantees with or without a sovereign counter-guarantee. In addition, the Bank provides credit guarantees without sovereign counter-guarantee for trade-finance transactions under its Trade Finance Facilitation Program. During the three months ended March 31, 2013, there were no non-trade-related guarantees approved (2012 – one non-sovereign-guaranteed operation for $5 million). The Bank issued 62 trade-related guarantees for a total of $109 million (2012 – 55 guarantees issued for a total of $149 million).

***Contractual Obligations:*** The Bank's most significant contractual obligations relate to the repayment of borrowings. As of March 31, 2013, the average maturity of the medium- and long-term borrowing portfolio, after swaps, was 4.8 years with contractual maturity dates through 2043[4]. In addition, the Bank has a number of other obligations to be settled in cash, which are reflected in its financial statements, including undisbursed loans ($27,228 million at March 31, 2013), Short-term borrowings, payable for currency and interest rate swaps, Payable for investment securities purchased and cash collateral received, Due to IDB Grant Facility, and Liabilities under retirement benefit plans.

## LIQUIDITY MANAGEMENT

Credit markets performed well in the first quarter of 2013, despite mixed economic figures, as optimistic sentiment prevailed in the markets thanks to further stimuli by major central banks, sound corporate earnings reports, and subdued concerns in Europe. In this environment, rates in various markets continued to trend lower or were mixed.

The Bank's exposure to structured assets continued to be reduced mainly through repayments at par of $123 million during the first three months of the year (2012—$119 million). Valuations continue to be impacted by market factors, such as uneven liquidity, rating agency actions, and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of the market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

The Bank continues to closely monitor the asset quality of its investments portfolio, analyzing and assessing the fundamental value of its securities, with a particular focus on its asset-backed and mortgage-backed securities.

During the three months ended March 31, 2013, the Bank recognized $70 million of mark-to-market gains in its trading investments portfolio (2012 – $97 million). These investment gains, to a major extent, relate to gains recognized in the $1,446 million asset-backed and mortgage-backed securities portion of the portfolio and, the general improvement in credit markets. As of March 31, 2013, 33.1% of this portfolio is still rated AAA and AA, and 66.3% is rated investment grade compared to 33.2% and 68.4%, respectively, at December 31, 2012.

Table 4 shows a breakdown of the trading investments portfolio and related swaps at March 31, 2013 and December 31, 2012, by major security class, together with unrealized gains and losses included in Income from Investments – Net gains (losses) on securities held at the end of the respective period.

[4] The maturity structure of medium- and long-term borrowings outstanding at the end of 2012 is presented in Schedule I-4 to the December 31, 2012 financial statements.

**Table 4: TRADING INVESTMENTS PORTFOLIO BY MAJOR SECURITY CLASS**
**(Amounts expressed in millions of United States dollars)**

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Fair Value [1] | Unrealized Gains (Losses) [2] | Fair Value [1] | Unrealized Gains (Losses) [2] |
| Obligations of the United States Government and its corporations and agencies | $ 3,946 | $ 2 | $ 4,571 | $ - |
| U.S. Government-sponsored enterprises | 6 | - | 31 | - |
| Obligations of non-U.S. governments and agencies | 6,818 | (1) | 5,263 | 63 |
| Bank obligations | 3,318 | - | 3,031 | 4 |
| Corporate securities | 134 | - | 11 | - |
| **Mortgage-backed securities** | **959** | **44** | **986** | **104** |
| U.S. residential | 376 | 25 | 365 | 64 |
| Non-U.S. residential | 348 | 14 | 357 | 31 |
| U.S. commercial | 64 | - | 66 | 1 |
| Non-U.S. commercial | 171 | 5 | 198 | 8 |
| **Asset-backed securities** | **487** | **7** | **541** | **38** |
| Collateralized loan obligations | 313 | 6 | 352 | 28 |
| Other collateralized debt obligations | 116 | 1 | 121 | 9 |
| Other asset-backed securities | 58 | - | 68 | 1 |
| Total investments-trading | 15,668 | 52 | 14,434 | 209 |
| Currency and interest rate swaps-investments-trading | 40 | 7 | (43) | (3) |
| Total | $ 15,708 | $ 59 | $ 14,391 | $ 206 |

[1] Includes accrued interest of $37 million (2012 - $35 million) for trading investments and $(22) million (2012 - $(20) million) for currency and interest rate swaps, presented in the Condensed Balance Sheet under Accrued interest and other charges.

[2] Represents unrealized gains and losses included in Income from Investments - Net gains for the corresponding period.

## COMMERCIAL CREDIT RISK

Commercial credit risk is the exposure to losses that could result from the default of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank will only invest in high quality debt instruments issued by sovereign and sub-sovereign governments, agencies, multilaterals, banks, and corporate entities, including asset-backed and mortgage-backed securities.

Table 5 provides details of the estimated current credit exposure on the Bank's investment and swap portfolios, net of collateral held, by counterparty rating category. As of March 31, 2013, the credit exposure amounted to $15,844 million, compared to $14,640 million as of December 31, 2012. The credit quality of the portfolios continues to be high, as 83.9% of the counterparties are rated AAA and AA, 0.4% carry the highest short-term ratings (A1+), 10.6% are rated A, 1.2% are rated BBB, and 3.9% are rated below BBB, compared to 84.7%, 3.0%, 7.1%, 1.3% and 3.9%, respectively, at December 31, 2012.

As of March 31, 2013, out of the Bank's total current credit exposure in Europe of $6,064 million ($5,634 million at December 31, 2012) the direct exposure to three Eurozone countries rated BBB+ or lower (Italy, Portugal, and Spain) was $0 million ($19 million at December 31, 2012). In addition, in the countries specified, the Bank had $305 million ($310 million at December 31, 2012) of exposure in asset-backed and mortgage-backed securities, generally rated higher than the sovereigns, and $1 million exposure on swaps at March 31, 2013 ($0 million at December 31, 2012). The remaining European current credit exposure of $5,758 million ($5,305 million at December 31, 2012), regardless of asset class, was in countries rated AA- or higher.

**Table 5: Current Credit Exposure, Net of Collateral Held, by Counterparty Rating Category**
**(Amounts expressed in millions of United States dollars)**

| | March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investments | | | | | | |
| Counterparty rating | Governments and Agencies | Banks | Corporates | ABS and MBS | Net Swap Exposure | Total Exposure on Investments and Swaps | % of Total |
| A1+ | $ 66 | $ - | $ - | $ - | $ - | $ 66 | 0.4 |
| AAA | 3,454 | 283 | - | 54 | - | 3,791 | 23.9 |
| AA | 6,391 | 2,389 | 134 | 424 | 171 | 9,509 | 60.0 |
| A | 743 | 646 | - | 285 | 5 | 1,679 | 10.6 |
| BBB | - | - | - | 196 | - | 196 | 1.2 |
| BB | 116 | - | - | 68 | - | 184 | 1.2 |
| B | - | - | - | 94 | - | 94 | 0.6 |
| CCC | - | - | - | 173 | - | 173 | 1.1 |
| CC and below | - | - | - | 152 | - | 152 | 1.0 |
| Total | $ 10,770 | $ 3,318 | $ 134 | $ 1,446 | $ 176 | $ 15,844 | 100.0 |

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investments | | | | | | |
| Counterparty rating | Governments and Agencies | Banks | Corporates | ABS and MBS | Net Swap Exposure | Total Exposure on Investments and Swaps | % of Total |
| A1+ | $ 445 | $ - | $ - | $ - | $ - | $ 445 | 3.0 |
| AAA | 3,281 | 297 | - | 43 | - | 3,621 | 24.8 |
| AA | 5,940 | 2,163 | 11 | 464 | 195 | 8,773 | 59.9 |
| A | 105 | 571 | - | 356 | 11 | 1,043 | 7.1 |
| BBB | 19 | - | - | 182 | - | 201 | 1.3 |
| BB | 75 | - | - | 56 | - | 131 | 0.9 |
| B | - | - | - | 130 | - | 130 | 0.9 |
| CCC | - | - | - | 156 | - | 156 | 1.1 |
| CC and below | - | - | - | 140 | - | 140 | 1.0 |
| Total | $ 9,865 | $ 3,031 | $ 11 | $ 1,527 | $ 206 | $ 14,640 | 100.0 |

## OTHER DEVELOPMENTS

***Financial Reform—The Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA):*** In July 2010, the President of the United States of America signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. The Bank continues to assess the potential impact of the implementation of this financial regulatory reform on its operations. Nevertheless, based on a preliminary review of the current regulations, the Bank is of the view that residual effects from the provisions of the DFA may apply to the Bank's counterparties and to the Bank's derivatives trading and associated activities. The Bank's borrowing cost could rise as a result of the implementation of the provisions of the DFA.

***Patient Protection and Affordable Care Act (PPACA) and Health Care and Education Reconciliation Act of 2010 (HCERA):*** In March 2010, the President of the United States signed into law the PPACA and the HCERA. The new legislation seeks to reform aspects of the U.S. health care system and its various provisions are being regulated and become effective over several years. The Bank continues to monitor the implementation of the legislation. Management believes that the impact of the legislation will not be material to the Bank's financial position and results of operations.

# Condensed Quarterly Financial Statements
# (Unaudited)

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

***CONDENSED BALANCE SHEET***
*(Expressed in millions of United States dollars)*

| | March 31, 2013 (Unaudited) | | December 31, 2012 (Unaudited) | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Cash and investments** | | | | |
| Cash- Note P | **$ 532** | | $ 1,021 | |
| Investments - Trading - Notes C, G, H and P | **15,631** | **$ 16,163** | 14,399 | $ 15,420 |
| **Loans outstanding - Notes D, E and P** | **68,007** | | 68,640 | |
| Allowance for loan losses | **(203)** | **67,804** | (180) | 68,460 |
| **Accrued interest and other charges** | | **878** | | 826 |
| **Currency and interest rate swaps - Notes G, H, I and P** | | | | |
| Investments - trading | **127** | | 50 | |
| Loans | **23** | | 24 | |
| Borrowings | **5,309** | | 6,450 | |
| Other | **118** | **5,577** | 279 | 6,803 |
| **Other assets** | | **637** | | 422 |
| **Total assets** | | **$ 91,059** | | $ 91,931 |
| **LIABILITIES AND EQUITY** | | | | |
| **Liabilities** | | | | |
| Borrowings - Notes F, G, H, I and P | | | | |
| Short-term | **$ 589** | | $ 840 | |
| Medium- and long-term: | | | | |
| Measured at fair value | **44,078** | | 45,458 | |
| Measured at amortized cost | **19,639** | **$ 64,306** | 19,267 | $ 65,565 |
| Currency and interest rate swaps - Notes G, H, I and P | | | | |
| Investments - trading | **65** | | 73 | |
| Loans | **1,729** | | 1,855 | |
| Borrowings | **707** | **2,501** | 639 | 2,567 |
| Payable for investment securities purchased and cash collateral received | | **819** | | 805 |
| Amounts payable to maintain value of currency holdings | | **59** | | 61 |
| Due to IDB Grant Facility - Note J | | **530** | | 351 |
| Accrued interest on borrowings | | **415** | | 532 |
| Liabilities under retirement benefit plans | | **1,189** | | 1,153 |
| Other liabilities | | **420** | | 494 |
| **Total liabilities** | | **70,239** | | 71,528 |
| **Equity** | | | | |
| Capital stock - Note K | | | | |
| Subscribed 10,675,321 shares (2012 - 9,688,828 shares) | **128,781** | | 116,880 | |
| Less callable portion | **(123,840)** | | (112,240) | |
| Paid-in capital stock | **4,941** | | 4,640 | |
| Capital subscriptions receivable | **(166)** | | (18) | |
| Receivable from members | **(278)** | | (278) | |
| Retained earnings | **16,638** | | 16,392 | |
| Accumulated other comprehensive income (loss) | **(315)** | **20,820** | (333) | 20,403 |
| **Total liabilities and equity** | | **$ 91,059** | | $ 91,931 |

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

***CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS***
*(Expressed in millions of United States dollars)*

| | Three months ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| | **(Unaudited)** | |
| **Income** | | |
| Loans, after swaps - Notes D and G | **$ 464** | $ 424 |
| Investments - Notes C and G: | | |
| Interest, after swaps | **15** | 25 |
| Net gains | **70** | 97 |
| Other interest income | **150** | 25 |
| Other | **8** | 15 |
| Total income | **707** | 586 |
| **Expenses** | | |
| Borrowing expenses, after swaps - Notes F and G | **102** | 142 |
| Provision for loan and guarantee losses - Note E | **21** | 51 |
| Administrative expenses | **176** | 149 |
| Special programs | **12** | 8 |
| Total expenses | **311** | 350 |
| **Income before Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers** | **396** | 236 |
| **Net fair value adjustments on non-trading portfolios - Notes F, G and I** | **50** | 83 |
| **Board of Governors approved transfers - Note J** | **(200)** | (200) |
| **Net income** | **246** | 119 |
| **Retained earnings, beginning of period** | **16,392** | 15,488 |
| **Retained earnings, end of period** | **$ 16,638** | $ 15,607 |

***CONDENSED STATEMENT OF COMPREHENSIVE INCOME***
*(Expressed in millions of United States dollars)*

| | Three months ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| | **(Unaudited)** | |
| **Net income** | **$ 246** | $ 119 |
| **Other comprehensive income (loss)** | | |
| Translation adjustments | **(11)** | (14) |
| Reclassification to income - amortization of net unrecognized actuarial losses and prior service cost on retirement benefits plans - Note L | **28** | 14 |
| Total other comprehensive income | **17** | - |
| **Comprehensive income** | **$ 263** | $ 119 |

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

***CONDENSED STATEMENT OF CASH FLOWS***
*(Expressed in millions of United States dollars)*

| | Three months ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| | **(Unaudited)** | |
| **Cash flows from lending and investing activities** | | |
| Lending: | | |
| Loan disbursements (net of participations) | **$ (762)** | $ (730) |
| Loan collections (net of participations) | **1,504** | 997 |
| Net cash provided by lending activities | **742** | 267 |
| Miscellaneous assets and liabilities | **(5)** | (34) |
| Net cash provided by lending and investing activities | **737** | 233 |
| **Cash flows from financing activities** | | |
| Medium- and long-term borrowings: | | |
| Proceeds from issuance | **3,309** | 4,244 |
| Repayments | **(2,797)** | (1,539) |
| Short-term borrowings, net | **(252)** | (389) |
| Cash collateral received | **(449)** | 391 |
| Collection of capital subscriptions | **64** | 185 |
| Payments of maintenance of value to members | **(2)** | (5) |
| Net cash (used in) provided by financing activities | **(127)** | 2,887 |
| **Cash flows from operating activities** | | |
| Gross purchases of trading investments | **(8,861)** | (6,149) |
| Gross proceeds from sale or maturity of trading investments | **7,832** | 3,268 |
| Loan income collections, after swaps | **303** | 331 |
| Interest and other costs of borrowings, after swaps | **(421)** | (88) |
| Income from investments | **44** | (23) |
| Other interest income | **154** | 25 |
| Other income | **8** | 15 |
| Administrative expenses | **(115)** | (138) |
| Special programs | **(16)** | (13) |
| Transfers to the IDB Grant Facility | **(21)** | - |
| Net cash used in operating activities | **(1,093)** | (2,772) |
| **Effect of exchange rate fluctuations on cash** | **(6)** | (3) |
| **Net (decrease) increase in cash** | **(489)** | 345 |
| **Cash, beginning of year** | **1,021** | 1,189 |
| **Cash, end of period** | **$ 532** | $ 1,534 |

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

## NOTES TO THE CONDENSED QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

### NOTE A – FINANCIAL INFORMATION

The primary activities of the Inter-American Development Bank (the Bank) are conducted through the Ordinary Capital, which is supplemented by the Fund for Special Operations (FSO), the Intermediate Financing Facility Account, and the IDB Grant Facility. Unless otherwise indicated, all financial information provided in these Condensed Quarterly Financial Statements refers to the Ordinary Capital. The Condensed Quarterly Financial Statements should be read in conjunction with the December 31, 2012 financial statements and notes therein included in the Bank's Information Statement dated March 8, 2013. Management believes that the Condensed Quarterly Financial Statements reflect all adjustments necessary for a fair presentation of the Ordinary Capital's financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). The results of operations for the first three months of the current year are not necessarily indicative of the results that may be expected for the full year.

Certain reclassifications of the prior year's information have been made to conform to the current year's presentation. In particular, the Bank reclassified from assets to equity Receivable from members amounts relating to non-negotiable, non-interest-bearing demand and term obligations, mostly related to maintenance of value of currency holdings, amounting to $278 million at March 31, 2013 and December 31, 2012.

### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with GAAP. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Areas in which significant estimates have been made include, but are not limited to, the valuation of certain financial instruments carried at fair value, the allowances for loan and guarantee losses, and the valuation of pension and postretirement benefit plan-related liabilities.

**Accounting pronouncements**
The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2011-11 "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities", requiring disclosure of both gross and net information of financial and derivative instruments eligible for offset in the Condensed Balance Sheet, as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The applicable new disclosures, which were effective on January 1, 2013, are included in Note G – Derivatives.

### NOTE C – INVESTMENTS

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

For sovereign and sub-sovereign governments and agency obligations, including asset-backed and mortgage-backed securities, issued by an instrumentality of a government or any other official entity, the Bank's policy is to invest in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA- rating. Obligations issued by multilateral organizations require a credit quality equivalent to a AAA rating. In addition, the Bank invests in bank obligations issued or guaranteed by an entity with a senior debt securities rating of at least A+, and in corporate entities with a minimum credit quality equivalent to a AA- rating (private asset-backed and mortgage-backed securities require a credit quality equivalent to a AAA rating). The Bank also invests in short-term securities of the eligible investment asset classes mentioned above, provided that they carry only the highest short-term credit ratings.

Net unrealized gains of $59 million on trading portfolio instruments held at March 31, 2013 compared to $81 million at March 31, 2012, were included in Income from Investments-Net gains. Unrealized gains recognized are to a large extent related to the asset-backed and mortgage-backed securities portion of the portfolio, which at March 31, 2013 amounted to $1,446 million ($1,944 million at March 31, 2012) and, the general recovery in credit assets.

Credit markets performed well in the first quarter of 2013, despite mixed to weak economic figures, as more optimistic sentiment prevailed in the markets thanks to further stimuli by major central banks, sound corporate earnings reports, and subdued concerns in Europe. In this environment, rates in various markets continued to trend lower or were mixed.

Valuations on the asset-backed and mortgage-backed portion of the portfolio continue to be impacted by market factors, such as uneven liquidity, rating agency actions, and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

A summary of the trading investments portfolio at March 31, 2013 and December 31, 2012 is shown in Note H – Fair Value Measurements.

## NOTE D – LOANS AND GUARANTEES

Effective January 1, 2012, the FFF is the only financial product platform for approval of all regular Ordinary Capital sovereign guaranteed loans. With FFF loans, borrowers have the ability to tailor financial terms at approval or during the life of a loan, subject to market availability and operational considerations. The FFF platform allows borrowers to: (i) manage currency, interest rate and other types of exposures; (ii) address project changing needs by customizing loan repayment terms to better manage liquidity risks; (iii) manage loans under legacy financial products; and, (iv) execute hedges with the Bank at a loan portfolio level. FFF loans have an interest rate based on LIBOR plus a funding margin, as well as the Bank's spread.

***LOAN CHARGES:*** For 2013, the Board of Executive Directors approved a lending spread of 0.84%, a credit commission of 0.25%, and no supervision and inspection fee. These charges apply to substantially all sovereign-guaranteed loans, comprising approximately 93% of the loan portfolio, and are subject to annual review and approval by the Board of Executive Directors.

***GUARANTEES:*** During the three months ended March 31, 2013, there were no non-trade-related guarantees approved (2012 – one non-sovereign-guaranteed operation for $5 million). As of March 31, 2013, the Bank had approved, net of cancellations and maturities, non-trade-related guarantees without sovereign counter-guarantees of $819 million ($819 million as of December 31, 2012). In addition, the Bank had approved, net of cancellations, guarantees with sovereign counter-guarantee for $325 million (2012 - $410 million).

Under its non-sovereign-guaranteed Trade Finance Facilitation Program (TFFP), in addition to direct loans, the Bank provides credit guarantees on short-term trade related transactions. The TFFP authorizes lines of credit in support of approved issuing banks and non-bank financial institutions, with an aggregate program limit of up to $1,000 million outstanding at any time. During the first three months of the year, the Bank issued 62 guarantees for a total of $109 million under this program (2012 – 55 guarantees for a total of $149 million).

Guarantees outstanding represent the maximum potential undiscounted future payments that the Bank could be required to make under its guarantees. At March 31, 2013, guarantees without sovereign counter-guarantee of $601 million ($701 million at December 31, 2012), including $346 million issued under the TFFP ($401 million at December 31, 2012), were outstanding and subject to call. In addition, the Bank had guarantees outstanding with sovereign counter-guarantee of $325 million ($60 million at December 31, 2012). An amount of $30 million ($32 million at December 31, 2012) of guarantees outstanding without sovereign counter-guarantee has been re-insured to reduce the Bank's exposure. Outstanding guarantees have remaining maturities ranging from 1 to 13 years, except for trade related guarantees that have maturities of up to three years. No guarantees provided by the Bank have ever been called.

At March 31, 2013 and December 31, 2012, the Bank's exposure on guarantees without sovereign counter-guarantee, net of reinsurance, amounted to $546 million and $641 million, respectively, and was classified as follows (in millions):

| Internal Credit Risk Classification | March 31, 2013 | December 31, 2012 | S&P/Moody's Rating Equivalent |
|---|---|---|---|
| RC1 | $ 112 | $ 108 | BBB/Baa3 or higher |
| RC2 | 110 | 168 | BB+/Ba1 |
| RC3 | 133 | 210 | BB/Ba2 |
| RC4 | 107 | 70 | BB-/Ba3 |
| RC5 | - | - | B+/B1 |
| RC6 | 40 | 44 | B/B2 |
| RC7 | 44 | 41 | B-/B3 |
| Total | $ 546 | $ 641 | |

At March 31, 2013 and December 31, 2012, the Bank's exposure on guarantees with sovereign counter-guarantee amounted to $293 million and $52 million, respectively, which are rated BBB.

## NOTE E – CREDIT RISK FROM LOAN PORTFOLIO

The loan portfolio credit risk is the risk that the Bank may not receive repayment of principal and/or interest on one or more of its loans according to the agreed-upon terms. The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower.

The Bank manages two principal sources of credit risk from its loan activities: sovereign-guaranteed loans and non-sovereign-guaranteed loans. Approximately 94 % of the loans are sovereign-guaranteed.

***SOVEREIGN-GUARANTEED LOANS:*** When the Bank lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. In extending credit to sovereign entities, the Bank is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank.

For the Bank, the likelihood of experiencing a credit event in its sovereign-guaranteed loan portfolio is different than commercial lenders. The Bank does not renegotiate or reschedule its sovereign-guaranteed loans and historically has always received full principal and interest due at the resolution of a sovereign credit event. Accordingly, the probabilities of default to the Bank assigned to each country are adjusted to reflect the Bank's expectation of full recovery of all its sovereign-guaranteed loans. However, even with full repayment of principal and interest at the end of a credit event, the Bank suffers an economic loss from not charging interest on overdue interest while the credit event lasts.

The credit quality of the sovereign-guaranteed loan portfolio as of March 31, 2013 and December 31, 2012, as represented by the long-term foreign credit rating assigned to each bor-

rower country by Standard & Poor's (S&P), is as follows (in millions):

| Country Ratings | March 31, 2013 | December 31, 2012 |
|---|---|---|
| AA+ to AA-............... | $ 544 | $ 563 |
| A+ to A-.................... | 628 | 646 |
| BBB+ to BBB-............ | 38,066 | 38,752 |
| BB+ to BB-................. | 5,835 | 5,912 |
| B+ to B-.................... | 17,358 | 18,473 |
| CCC+ to CCC-............ | 1,542 | 293 |
| SD............................ | - | 117 |
| Total | $ 63,973 | $ 64,756 |

The ratings presented above have been updated as of March 31, 2013 and December 31, 2012, respectively.

***NON-SOVEREIGN-GUARANTEED LOANS:*** The Bank does not benefit from full sovereign guarantees when lending to non-sovereign-guaranteed borrowers. Risk and performance for these loans are evaluated by scoring the individual risk factors under each of the borrower and transaction dimensions. The major risk factors evaluated at the transaction level consider the priority that the loans made by the Bank have in relation to other obligations of the borrower; the type of security collateralizing the agreement; and the nature and extent of the covenants that the borrower must comply. The major credit risk factors considered at the borrower level may be grouped into three major categories: political risk, commercial or project risk, and financial risk.

The country rating is considered a proxy of the impact of the macro-economic environment on the ability of the borrower to reimburse the Bank and as such, it is considered a ceiling for the transaction dimension risk rating. The credit quality of the non-sovereign-guaranteed loan portfolio as of March 31, 2013 and December 31, 2012, excluding loans to other development institutions, as represented by the Bank's internal credit risk classification system, is as follows (in millions):

| Risk Classification (RC) | March 31, 2013 | December 31, 2012 | S&P/Moody's Rating Equivalent |
|---|---|---|---|
| RC1.......................... | $ 288 | $ 238 | BBB / Baa3 or higher |
| RC2.......................... | 702 | 714 | BB+ / Ba1 |
| RC3.......................... | 1,168 | 1,173 | BB / Ba2 |
| RC4.......................... | 704 | 595 | BB- / Ba3 |
| RC5.......................... | 262 | 283 | B+ / B1 |
| RC6.......................... | 394 | 385 | B / B2 |
| RC7.......................... | 70 | 69 | B- / B3 |
| RC8.......................... | 291 | 268 | CCC-D / Caa-D |
| Total | $ 3,879 | $ 3,725 | |

In addition, as of March 31, 2013, the Bank has loans to other development institutions of $155 million ($159 million at December 31, 2012), with ratings ranging from AA to A.

**Past due and Non-accrual loans**

As of March 31, 2013, non-sovereign-guaranteed loans ninety or more days past due amounted to $87 million ($88 million at December 31, 2012). Non-sovereign guaranteed loans with outstanding balances of $291 million ($268 million at December 31, 2012) were on non-accrual status, including $87 million whose maturity has been accelerated ($88 million at December 31, 2012). There were no sovereign-guaranteed loans past due or in non-accrual status as of March 31, 2013 and December 31, 2012.

**Impaired loans**

The Bank's recorded investment in non-sovereign-guaranteed loans classified as impaired was $291 million at March 31, 2013 ($268 million at December 31, 2012). All impaired loans have specific allowances for loan losses of $85 million ($66 million at December 31, 2012).

The following table provides a summary of financial information related to impaired loans affecting the results of operations for the three months ended March 31, 2013 and 2012 (in millions):

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 |
|---|---|---|
| Average recorded investment during the period...................... | $ 275 | $ 159 |
| Loan income recognized................ | 4 | 1 |
| Loan income that would have been recognized on an accrual basis during the period..................... | 5 | 2 |

**Allowance for Loan and Guarantee Losses**

***SOVEREIGN-GUARANTEED PORTFOLIO:*** A collective evaluation of collectibility is performed for sovereign-guaranteed loans and guarantees. Historically, virtually all the sovereign-guaranteed loan portfolio has been fully performing The Bank does not reschedule sovereign guaranteed loans and has not written-off, and has no expectation of writing off, such loans. However, in the past the Bank has experienced delays in the receipt of debt service payments, sometimes for more than six months. Since the Bank does not charge interest on missed interest payments for these loans, such delay in debt service payments is viewed as a potential impairment as the timing of the cash flows are not met in accordance with the terms of the loan contract.

***NON-SOVEREIGN-GUARANTEED PORTFOLIO:*** For non-sovereign-guaranteed loans and guarantees, a collective loss allowance is determined based on the Bank's internal credit risk classification system and it is accomplished in two steps: (i) obtain the probabilities of default to be used for individual loans and guarantees. Since the Bank's internal credit ratings are mapped to the credit ratings used by external credit rating agencies, the probabilities of default are obtained from the probabilities of default associated by external credit agencies to each of the Bank's credit rating categories. Transitions of debt instruments from various risk categories to impairment/default status are modeled utilizing worldwide non-sovereign data gathered from the documented experience of rated non-sovereign-guaranteed debt issuances of similar risk level; (ii) an estimated loss (loss given default) rate is generally determined based upon the Bank's specific experience gained in the assessment of the losses stemming from impairments in the Bank's portfolio; or by the loss given default

ratios calculated by external credit agencies for similar type of exposures in areas where the Bank has limited specific experience, as it is the case for certain financing products such as subordinated exposures for which the Bank currently uses Moody's estimates. Based upon (i) the probability of default rate for each risk category, (ii) the amount of credit exposure in each of these categories and (iii) the loss given default ratio, the required level of the collective loss allowance is determined.

The changes in the allowance for loan and guarantee losses for the periods ended March 31, 2013 and December 31, 2012 were as follows (in millions):

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Balance, beginning of year | $ 197 | $ 175 |
| Provision for loan and guarantee losses | 21 | 22 |
| Balance, end of period | $ 218 | $ 197 |
| Composed of: | | |
| Allowance for loan losses | $ 203 | $ 180 |
| Allowance for guarantee losses [1] | 15 | 17 |
| Total | $ 218 | $ 197 |

[1] The allowance for guarantee losses is included in Other liabilities in the Condensed Balance Sheet.

As of March 31, 2013, the total allowance for loan and guarantee losses is composed of $3 million related to the sovereign-guaranteed portfolio and $215 million related to the non-sovereign-guaranteed portfolio (2012 - $4 million and $193 million, respectively). The provision for loan and guarantee losses include provisions (credits) of $(1) million and $2 million related to sovereign-guaranteed loans in 2013 and 2012, respectively.

During the first three months of 2013, there were no changes to the Bank's policy with respect to the allowance for loan and guarantee losses from the prior year. Except for the impaired loans on the non-sovereign-guaranteed portfolio, all loans and guarantees have been collectively evaluated for impairment. The collective allowance for loan and guarantee losses as of March 31, 2013 amounted to $133 million (2012 – $131 million), including $130 million (2012 – $127 million) related to the non-sovereign-guaranteed portfolio.

### Troubled debt restructurings

The Bank does not reschedule its sovereign-guaranteed loans. A modification of a loan is considered a troubled debt restructuring when the borrower is experiencing financial difficulty and the Bank has granted a concession to the borrower.

A restructured loan is considered impaired when it does not perform in accordance with the contractual terms of the restructuring agreement. A loan restructured under a troubled debt restructuring is considered impaired, until its extinguishment, but it is not disclosed as such after the year it was restructured, if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and the loan is not impaired based on the terms specified in the restructuring agreement.

During the first three months of 2013, there were no troubled debt restructurings or payment defaults associated with the loans modified as troubled debt restructurings.

## NOTE F – FAIR VALUE OPTION

In 2008, the Bank elected the fair value option under GAAP for most of its medium- and long-term debt to reduce the income volatility resulting from the previous accounting asymmetry of marking to market borrowing swaps through income while recognizing all borrowings at amortized cost. The changes in the fair value of elected borrowings are now also recorded in income.

In order to reduce the income volatility resulting from the changes in fair value of its lending swaps, which are not offset by corresponding changes in the fair value of loans, as all the Bank's loans are recorded at amortized cost, in 2011 the Bank modified its borrowing fair value option policy to address such income volatility on a financial instruments (i.e., borrowings and loans) portfolio basis.

The changes in fair value for borrowings elected under the fair value option have been recorded in the Condensed Statement of Income and Retained Earnings for the three months ended March 31, 2013 and 2012, as follows (in millions):

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 |
|---|---|---|
| Borrowing expenses, after swaps | $ (437) | $ (494) |
| Net fair value adjustments on non-trading portfolios | 603 | (137) |
| Total changes in fair value included in Net income | $ 166 | $ (631) |

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of March 31, 2013 and December 31, 2012, was as follows (in millions):

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Fair value | $ 44,416 [1] | $ 45,886 [1] |
| Unpaid principal outstanding | 41,302 | 42,259 |
| Fair value over unpaid principal outstanding | $ 3,114 | $ 3,627 |

[1] Includes accrued interest of $338 million at March 31, 2013 and $428 million at December 31, 2012.

## NOTE G – DERIVATIVES

***RISK MANAGEMENT STRATEGY AND USE OF DERIVATIVES:*** The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, that are mitigated through its integrated asset and liability management

framework. The objective of the asset and liability management framework is to align the currency composition, maturity profile and interest rate sensitivity characteristics of the assets and liabilities for each liquidity and lending product portfolio in accordance with the particular requirements for that product and within prescribed risk parameters. When necessary, the Bank employs derivatives to achieve this alignment. These instruments, mostly currency and interest rate swaps, are used primarily for economic hedging purposes, but are not designated as hedging instruments for accounting purposes.

A significant number of the current borrowing operations include swaps to economically hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and interest rate type). The Bank also uses lending swaps to economically hedge fixed-rate, fixed-base cost rate and local currency loans, and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash. In addition, the Bank utilizes interest rate swaps to maintain the duration of its equity within a prescribed policy band of 4 to 6 years.

***ACCOUNTING FOR DERIVATIVES:*** All derivatives are recognized in the Condensed Balance Sheet at their fair value and are classified as either assets or liabilities, depending on the nature (debit or credit) of their net fair value amount, and are not designated as hedging instruments.

The interest component of the changes in fair value of investment, lending, borrowing, and equity duration derivatives is recorded in Income from Investments - Interest, Income from Loans, after swaps, Borrowing expenses, after swaps, and Other interest income, respectively, over the life of the derivative contract, with the remaining changes in the fair value included in Income from Investments-Net gains for investment derivatives and in Net fair value adjustments on non-trading portfolios for lending, borrowing and equity duration derivative instruments.

Realized gains and losses on non-trading derivatives are reclassified from Net fair value adjustments on non-trading portfolios to Income from loans, after swaps, borrowing expenses, after swaps, and Other interest income, respectively, upon termination of a swap.

The Bank occasionally issues debt securities that contain embedded derivatives. These securities are carried at fair value.

***FINANCIAL STATEMENTS PRESENTATION:*** The Bank's derivative instruments as of March 31, 2013 and December 31, 2012, and their related gains and losses for the three months ended March 31, 2013 and 2012, are presented in the Condensed Balance Sheet, the Condensed Statement of Income and Retained Earnings and the Condensed Statement of Comprehensive Income as follows (in millions):

**Condensed Balance Sheet**

| Derivatives not Designated as Hedging Instruments | Balance Sheet Location | March 31, 2013 [1] | | December 31, 2012 [1] | |
|---|---|---|---|---|---|
| | | Assets | Liabilities | Assets | Liabilities |
| Currency Swaps | Currency and interest rate swaps | | | | |
| | Investments - Trading | $ 126 | $ 13 | $ 50 | $ 26 |
| | Loans | 21 | 407 | 21 | 334 |
| | Borrowings | 3,571 | 494 | 4,523 | 482 |
| | Accrued interest and other charges | 169 | (25) | 113 | (79) |
| Interest Rate Swaps | Currency and interest rate swaps | | | | |
| | Investments - Trading | 1 | 52 | - | 47 |
| | Loans | 2 | 1,322 | 3 | 1,521 |
| | Borrowings | 1,738 | 213 | 1,927 | 157 |
| | Other | 118 | - | 279 | - |
| | Accrued interest and other charges | 126 | 67 | 228 | 68 |
| | | $ 5,872 | $ 2,543 | $ 7,144 | $ 2,556 |

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

**Condensed Statement of Income and Retained Earnings and Condensed Statement of Comprehensive Income**

| Derivatives not Designated as Hedging Instruments | Location of Gain (Loss) from Derivatives | Three months ended March 31, 2013 | 2012 |
|---|---|---|---|
| **Currency Swaps** | | | |
| Investments - Trading | Income from investments: | | |
| | Interest | $ (4) | $ (4) |
| | Net gains | 6 | 10 |
| | Other comprehensive income (loss) -Translation adjustments | 106 | 17 |
| Loans | Income from loans, after swaps | (26) | (22) |
| | Net fair value adjustments on non-trading portfolios | (59) | (194) |
| Borrowings | Borrowing expenses, after swaps | 250 | 269 |
| | Net fair value adjustments on non-trading portfolios | (418) | 219 |
| | Other comprehensive income (loss) -Translation adjustments | (1) | 5 |
| **Interest Rate Swaps** | | | |
| Investments - Trading | Income from investments: | | |
| | Interest | (6) | (7) |
| | Net gains | 5 | 1 |
| Loans | Income from loans, after swaps | (81) | (97) |
| | Net fair value adjustments on non-trading portfolios | 199 | 213 |
| Borrowings | Borrowing expenses, after swaps | 187 | 194 |
| | Net fair value adjustments on non-trading portfolios | (245) | (174) |
| | Other comprehensive income (loss) -Translation adjustments | (2) | 3 |
| Other | Other interest income | 150 | 25 |
| | Net fair value adjustments on non-trading portfolios | (161) | (26) |
| | | $ (100) | $ 432 |

The Bank is not required to post collateral under its derivative agreements as long as it maintains a AAA credit rating. Should the Bank credit rating be downgraded from the current AAA, the standard swap agreements detail, by swap counterparty, the collateral requirements that the Bank would need to satisfy in this event. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position at March 31, 2013 is $678 million ($526 million at December 31, 2012) (after consideration of master netting derivative agreements). If the Bank was downgraded one notch from the current AAA credit rating, it would be required to post collateral in the amount of $319 million at March 31, 2013 ($231 million at December 31, 2012).

The following tables provide information on the contract value/notional amounts of derivative instruments as of March 31, 2013 and December 31, 2012 (in millions). Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or receivable leg. Included in the other category are interest rate swaps used to maintain the equity duration within policy limits.

| Derivative type/ Rate type | March 31, 2013 Currency swaps Receivable | Payable | Interest Rate swaps Receivable | Payable |
|---|---|---|---|---|
| Investments - trading | | | | |
| Fixed | $ - | $ 2,087 | $ - | $ 2,463 |
| Adjustable | 2,231 | - | 2,463 | - |
| Loans | | | | |
| Fixed | - | 1,369 | 100 | 11,777 |
| Adjustable | 2,568 | 1,350 | 11,777 | 100 |
| Borrowings | | | | |
| Fixed | 18,674 | 209 | 34,851 | 349 |
| Adjustable | 2,720 | 19,043 | 5,201 | 38,348 |
| Other | | | | |
| Fixed | - | - | 3,178 | 488 |
| Adjustable | - | - | 488 | 3,178 |

| Derivative type/ Rate type | December 31, 2012 Currency swaps Receivable | Payable | Interest Rate swaps Receivable | Payable |
|---|---|---|---|---|
| Investments - trading | | | | |
| Fixed | $ - | $ 1,435 | $ - | $ 1,957 |
| Adjustable | 1,488 | - | 1,957 | - |
| Loans | | | | |
| Fixed | - | 1,137 | 109 | 12,659 |
| Adjustable | 2,379 | 1,306 | 12,659 | 109 |
| Borrowings | | | | |
| Fixed | 20,156 | 209 | 34,333 | 348 |
| Adjustable | 2,942 | 19,929 | 5,204 | 37,824 |
| Other | | | | |
| Fixed | - | - | 6,389 | 500 |
| Adjustable | - | - | 500 | 6,389 |

The Bank's derivatives are subject to enforceable master netting agreements (the Agreements). The Bank has made the accounting policy election to present all derivative assets and liabilities on a gross basis. The gross and net information about the Bank's derivatives subject to the Agreements as of March 31, 2013 and December 31, 2012 are as follows (in millions):

**March 31,2013**

| Description | Gross Amounts of Assets Presented in the Balance Sheet [(1)] | Gross Amounts Not Offset in the Balance Sheet: Financial Instruments | Collateral Received [(3)] | Net Amount |
|---|---|---|---|---|
| Derivatives | $ 5,872 | $ (1,853) | $ (3,843) | $ 176 |

| Description | Gross Amounts of Liabilities Presented in the Balance Sheet [(2)] | Gross Amounts Not Offset in the Balance Sheet: Financial Instruments | Collateral Pledged | Net Amount |
|---|---|---|---|---|
| Derivatives | $ (2,543) | $ 1,853 | $ - | $ (690) |

**December 31, 2012**

| Description | Gross Amounts of Assets Presented in the Balance Sheet [(1)] | Gross Amounts Not Offset in the Balance Sheet: Financial Instruments | Collateral Received [(3)] | Net Amount |
|---|---|---|---|---|
| Derivatives | $ 7,144 | $ (2,024) | $ (4,903) | $ 217 |

| Description | Gross Amounts of Liabilities Presented in the Balance Sheet [(2)] | Gross Amounts Not Offset in the Balance Sheet: Financial Instruments | Collateral Pledged | Net Amount |
|---|---|---|---|---|
| Derivatives | $ (2,556) | $ 2,024 | $ - | $ (532) |

(1) Includes accrued interest of $295 million and $341 million, in 2013 and 2012, respectively, presented in the Condensed Balance Sheet under Accrued interest and other charges.

(2) Includes accrued interest of $42 million and $ (11) million, in 2013 and 2012, respectively, presented in the Condensed Balance Sheet under Accrued interest and other charges.

(3) Includes cash collateral amounting to $356 million (2012 - $805 million). The remaining amounts represent off-Balance Sheet U.S. Treasury securities received as collateral by the Bank.

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

### Close-out netting provisions

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

### Terms of collateral agreements

The Bank is not required to post collateral under its ISDA Agreements, as long as it maintains a AAA credit rating. The performance of the obligations of the Bank's counterparties may be supported by collateral provided under a credit support annex (CSA). The CSAs provide for credit support to collateralize the Bank's mark-to-market exposure to its counterparties in the form of U.S. Dollars and U.S. Treasury Obligations. The Bank may sell, pledge, rehypothecate or otherwise treat as its own property such collateral, where permissible, subject only to the obligation (i) to return such collateral and (ii) to pass on distributions with respect to any non-cash collateral.

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

## NOTE H – FAIR VALUE MEASUREMENTS

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

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

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

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

Substantially all other Bank investment instruments are valued based on quoted prices in markets that are not active, external pricing services, where available, solicited broker/dealer prices, or prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies apply to investments in obligations of governments and agencies, corporate bonds, asset-backed and mortgage-backed securities, bank obligations, and related financial derivative instruments (primarily currency and interest rate swaps). These instruments are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches.

The main methodology of external pricing service providers involves a "market approach" that requires a predetermined activity volume of market prices to develop a composite price. The market prices utilized are provided by orderly transactions being executed in the relevant market; transactions that are not orderly and outlying market prices are filtered out in the determination of the composite price. Other external price providers utilize evaluated pricing models that vary by asset class and incorporate available market information through benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare valuations.

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

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

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

The following tables set forth the Bank's financial assets and liabilities that were accounted for at fair value as of March 31, 2013 and December 31, 2012 by level within the fair value hierarchy (in millions):

**Financial assets**:

| Assets | Fair Value Measurements March 31, 2013[1] | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments - Trading: | | | | |
| Obligations of the United States Government and its corporations and agencies | $ 3,946 | $ 3,946 | $ - | $ - |
| U.S. Government-sponsored enterprises | 6 | - | 6 | - |
| Obligations of non-U.S. governments and agencies | 6,818 | 637 | 6,181 | - |
| Bank obligations | 3,318 | - | 3,318 | - |
| Corporate securities | 134 | - | 134 | - |
| Mortgage-backed securities | **959** | **-** | **953** | **6** |
| U.S. residential | 376 | - | 376 | - |
| Non-U.S. residential | 348 | - | 342 | 6 |
| U.S. commercial | 64 | - | 64 | - |
| Non-U.S. commercial | 171 | - | 171 | - |
| Asset-backed securities | **487** | **-** | **418** | **69** |
| Collateralized loan obligations | 313 | - | 313 | - |
| Other collateralized debt obligations | 116 | - | 47 | 69 |
| Other asset-backed securities | 58 | - | 58 | - |
| Total Investments - Trading | 15,668 | 4,583 | 11,010 | 75 |
| Currency and interest rate swaps | 5,872 | - | 5,872 | - |
| Total | $ 21,540 | $ 4,583 | $ 16,882 | $ 75 |

[1] Represents the fair value of the referred assets, including their accrued interest presented in the Condensed Balance Sheet under Accrued interest and other charges of $37 million for trading investments and $295 million for currency and interest rate swaps.

| Assets | Fair Value Measurements December 31, 2012[1] | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments - Trading: | | | | |
| Obligations of the United States Government and its corporations and agencies | $ 4,571 | $ 4,571 | $ - | $ - |
| U.S. Government-sponsored enterprises | 31 | - | 31 | - |
| Obligations of non-U.S. governments and agencies | 5,263 | - | 5,263 | - |
| Bank obligations | 3,031 | - | 3,031 | - |
| Corporate securities | 11 | - | 11 | - |
| Mortgage-backed securities | **986** | **-** | **980** | **6** |
| U.S. residential | 365 | - | 365 | - |
| Non-U.S. residential | 357 | - | 351 | 6 |
| U.S. commercial | 66 | - | 66 | - |
| Non-U.S. commercial | 198 | - | 198 | - |
| Asset-backed securities | **541** | **-** | **471** | **70** |
| Collateralized loan obligations | 352 | - | 352 | - |
| Other collateralized debt obligations | 121 | - | 51 | 70 |
| Other asset-backed securities | 68 | - | 68 | - |
| Total Investments - Trading | 14,434 | 4,571 | 9,787 | 76 |
| Currency and interest rate swaps | 7,144 | - | 7,144 | - |
| **Total** | $ 21,578 | $ 4,571 | $ 16,931 | $ 76 |

[1] Represents the fair value of the referred assets, including their accrued interest presented in the Condensed Balance Sheet under Accrued interest and other charges of $35 million for trading investments and $341 million for currency and interest rate swaps.

| Liabilities | Fair Value Measurements March 31, 2013[1] | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Borrowings measured at fair value | $ 44,416 | $ - | $ 44,416 | $ - |
| Currency and interest rate swaps | 2,543 | - | 2,543 | - |
| Total | $ 46,959 | $ - | $ 46,959 | $ - |

[1] Represents the fair value of the referred liabilities, including their accrued interest presented in the Condensed Balance Sheet under Accrued interest on borrowings of $338 million for borrowings and under Accrued interest and other charges of $42 million for currency and interest rate swaps.

| Liabilities | Fair Value Measurements December 31, 2012[1] | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Borrowings measured at fair value | $ 45,886 | $ - | $ 45,886 | $ - |
| Currency and interest rate swaps | 2,556 | - | 2,556 | - |
| Total | $ 48,442 | $ - | $ 48,442 | $ - |

[1] Represents the fair value of the referred liabilities, including their accrued interest presented in Condensed Balance Sheet under Accrued interest on borrowings of $428 million for borrowings and under Accrued interest and other charges of $(11) million for currency and interest rate swaps.

The tables below show a reconciliation of the beginning and ending balances of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013 and 2012 (in millions). There were no financial liabilities measured at fair value using significant unobservable inputs for the three months ended March 31, 2013 and 2012. In addition, the tables show the total gains and losses included in Net income as well as the amount of these gains and losses attributable to the change in unrealized gains and losses relating to assets still held as of March 31, 2013 and 2012 (in millions) and a description of where these gains or losses are reported in the Condensed Statement of Income and Retained Earnings.

**Financial assets:**

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
| | Investments - Trading | Currency and Interest Rate Swaps | Total | Investments - Trading | Currency and Interest Rate Swaps | Total |
| Balance, beginning of period | $ 76 | $ - | $ 76 | $ 75 | $ - | $ 75 |
| Total gains (losses) included in: | | | | | | |
| Net income | 5 | - | 5 | 12 | - | 12 |
| Other comprehensive income (loss) | (1) | - | (1) | 2 | - | 2 |
| Settlements | (5) | - | (5) | (8) | - | (8) |
| Balance, end of period | $ 75 | $ - | $ 75 | $ 81 | $ - | $ 81 |
| Total gains for the period included in Net income attributable to the change in unrealized gains or losses related to assets still held at the end of the period | $ 5 | $ - | $ 5 | $ 11 | $ - | $ 11 |

As of March 31, 2013, the investment portfolio includes $75 million ($76 million at December 31, 2012) of securities classified as Level 3. The pricing information for these securities is not developed or adjusted by the Bank, and is obtained through external pricing sources.

The significant unobservable inputs used in the fair value measurements of the Bank's investments in other collateralized debt obligations and non - U.S. residential mortgage-backed securities classified as Level 3 are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The Treasury Division is responsible for mark to market valuations for financial statement purposes of investments, borrowings, and derivatives, including those with significant unobservable inputs, and reports to the Treasurer of the Bank. The Accounting Division is responsible for monitoring, controlling, recording and reporting fair values related to investments, borrowings and all derivatives. The two groups work in close coordination to monitor the reasonableness of fair values. Such monitoring includes but is not limited to validation against counterparty values, internally developed models, and independent price quotes for similar instruments, when available.

Gains are included in the Condensed Statement of Income and Retained Earnings as follows (in millions):

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Total Gains included in Net Income for the Period | Change in Unrealized Gains (Losses) related to Assets Still Held at End of Period | Total Gains included in Net Income for the Period | Change in Unrealized Gains (Losses) related to Assets Still Held at End of Period |
| Income from investments | $ 5 | $ 5 | $ 12 | $ 11 |
| Total | $ 5 | $ 5 | $ 12 | $ 11 |

There were no transfers between levels during 2013 and 2012. The Bank's policy for transfers between levels is to reflect these transfers as of the beginning of the reporting period.

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

The fair value of the loan portfolio, which amounted to approximately $72,313 million as of March 31, 2013 ($73,454 million as of December 31, 2012) was determined using a discounted cash flow method (income approach) by which cash flows are discounted at (i) applicable market yield curves adjusted for the Bank's own funding cost plus its lending spread, for sovereign-guaranteed loans, and (ii) market yield curves consistent with the borrower's S&P credit rating equivalent, for non-sovereign-guaranteed loans. The Bank is one of the very few lenders of development loans to Latin American and Caribbean countries and, it does not sell its loans nor does it believe there is a comparable market for its loans. Therefore, this methodology has been developed based on valuation assumptions that management believes a hypothetical market participant in an assumed transaction would use in pricing the Bank's loans. The Bank considers that, for its sovereign guaranteed loans, multilateral lending institutions that share the Bank's development mission would constitute the most appropriate assumed market participant to which the Bank would sell its loans in an orderly transaction. The valuation assumptions used include observable inputs, such as the market yield curves mainly based on LIBOR, and unobservable inputs, such as internal credit risk assumptions. Due to the fact that the unobservable inputs are considered significant, the fair value disclosure of the Bank's loan portfolio has been classified as Level 3.

The fair value of borrowings recorded at amortized cost, which amounted to approximately $20,746 million as of March 31, 2013 ($20,515 million as of December 31, 2012) was determined using the same inputs and valuation techniques as disclosed above for the borrowings recorded at fair value. Such valuation techniques are based on discounted cash flows or pricing models (income approach) and utilize market observable inputs. Accordingly, the fair value disclosure for borrowings recorded at amortized cost is considered Level 2 under the fair value hierarchy.

## NOTE I – NET FAIR VALUE ADJUSTMENTS ON NON-TRADING PORTFOLIOS

In 2008, the Bank elected the fair value option for a substantial number of its borrowings so that the changes in fair value of the borrowing swaps would be significantly offset by the changes in fair value of the associated borrowings. In addition, in 2011 the Bank modified its borrowing fair value option policy to address income volatility on a financial instruments (i.e., borrowings and loans) portfolio basis in order to reduce the income volatility resulting from the changes in fair value of its lending swaps.

Net fair value adjustments on non-trading portfolios on the Condensed Statement of Income and Retained Earnings for the three months ended March 31, 2013 and 2012 comprise the following (in millions):

| | Three months ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| Change in fair value of derivative instruments due to movements in: | | |
| Exchange rates | $ (328) | $ 267 |
| Interest rates | (277) | (229) |
| Other | (79) | - |
| Total change in fair value of derivatives | (684) | 38 |
| Change in fair value of borrowings due to movements in: | | |
| Exchange rates | 206 | (446) |
| Interest rates | 397 | 309 |
| Total change in fair value of borrowings | 603 | (137) |
| Currency transaction gains on borrowings and loans at amortized cost | 131 | 182 |
| Total | $ 50 | $ 83 |

Net fair value losses on non-trading derivatives resulting from changes in interest rates were $277 million for the first three months of 2013. These losses were offset by fair value gains on borrowings of $397 million. The income volatility related to movements in interest rates amounted to a gain of $120 million for the three months period ended March 31, 2013, compared to a gain of $80 million for the same period last year. This volatility was primarily due to fair value gains on lending swaps ($189 million), which are not compensated by corresponding changes in the fair value of loans, as all the Bank's loans are recorded at amortized cost, partially offset by fair value losses on equity duration swaps ($36 million). In addition, the Bank realized gains of $125 million generated from the unwinding of equity duration swaps as a result of loan interest rate fixings and losses of $42 million resulting from the unwinding of lending swaps as a result of loan prepayments. These amounts, which are included in the "Other" category in the table above, were reclassified from Net fair value adjustments on non-trading portfolios to Other interest income and Loan income, respectively, in the Condensed Statement of Income and Retained Earnings.

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. During the first three months of 2013, exchange rate changes increased the value of borrowings and loans, resulting in a net loss of $337 million (2012 – net gain of $264 million), which was partially offset by a net gain from changes in the value of the borrowing and lending swaps of $328 million (2012 – net loss of $267 million).

## NOTE J – BOARD OF GOVERNORS APPROVED TRANSFERS

As part of the ninth general increase in the resources of the Bank (IDB-9), the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors and in accordance with the Agreement Establishing the Inter-American Development Bank (the Agreement), to provide $200 million annually in transfers of Ordinary Capital income to the IDB Grant Facility, beginning in 2011 and through 2020. At its annual meeting in Panama City, Panama, in March 2013, the Board of Governors approved the $200 million transfer corresponding to 2013. Such transfers are recognized as an expense when approved by the Board of Governors and funded in accordance with the IDB Grant Facility funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Condensed Balance Sheet.

## NOTE K – CAPITAL STOCK

On February 29, 2012, the IDB-9 entered into effect, providing for an increase in the Bank's Ordinary Capital of $70,000 million to be subscribed to by Bank members in five annual installments. Of this amount, $1,700 million is in the form of paid-in capital stock and the remainder constitutes callable capital stock. Subscriptions from 46 member countries amounting to $65,731 million were received by the Bank. Two member countries, the Netherlands and Venezuela, did not subscribe to their shares. As a result, of the total shares subscribed, 5,134,300 shares in the amount of $61,937 million, or 88% of the total increase, were made effective, representing the amount of shares subscribed, less shares that were not made effective in order to comply with the associated minimum voting power requirements of the Agreement. Of the total shares made effective, $1,504 million represents paid-in capital stock and $60,433 million represents callable capital stock.

The shares that had been reserved for the Netherlands and Venezuela (19,639 and 334,278 shares, and $237 million and $4,032 million, respectively) were subsequently reallocated to other member countries by the Bank's Board of Governors on January 22, 2013. The effective dates of the first two installments of the Ordinary Capital increase were February 29, 2012 and February 28, 2013, and the remaining three installments are effective on the last day of February 2014, 2015 and 2016, respectively.

On February 29, 2012, Canada notified the Bank that it was exercising its right to replace shares of non-voting callable capital stock with shares allocated under the IDB-9. Accordingly, effective on both March 30, 2013 and 2012, Canada replaced 40,358 non-voting callable shares in the amount of $487 million with an equal amount of voting callable shares under the IDB-9.

The changes in subscribed capital during the three months ended March 31, 2013 and the year ended December 31, 2012 were as follows (in millions, except for share information):

| | Subscribed capital | | | |
|---|---|---|---|---|
| | Shares | Paid-in | Callable | Total |
| Balance at January 1, 2012.... | 8,702,335 | $ 4,339 | $ 100,641 | $ 104,980 |
| Subscriptions during 2012......... | 1,026,851 | 301 | 12,086 | 12,387 |
| Canada's return of callable capital..... | (40,358) | - | (487) | (487) |
| Balance at December 31, 2012 | 9,688,828 | 4,640 | 112,240 | 116,880 |
| Subscriptions during 2013......... | 1,026,851 | 301 | 12,087 | 12,388 |
| Canada's return of callable capital..... | (40,358) | - | (487) | (487) |
| Balance at March 31, 2013..... | 10,675,321 | $ 4,941 | $ 123,840 | $ 128,781 |

The changes in Capital subscriptions receivable during the three months ended March 31, 2013 and the year ended December 31, 2012 were as follows (in millions):

| | Capital Subscriptions Receivable |
|---|---|
| Balance at January 1, 2012........... | $ - |
| Subscriptions during 2012................ | 301 |
| Collections................... | (283) |
| Balance at December 31, 2012....... | 18 |
| Subscriptions during 2013................ | 301 |
| Collections................... | (64) |
| Amounts paid in advance that became effective in 2013..................... | (89) |
| Balance at March 31, 2013........... | $ 166 |

Capital subscriptions receivable have been recorded as a reduction from equity in the Condensed Balance Sheet. Subscriptions paid in advance amounting to $12 million ($101 million at December 31, 2012) are included in Other liabilities.

## NOTE L – PENSION AND POSTRETIREMENT BENEFIT PLANS

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

***CONTRIBUTIONS:*** All contributions are made in cash. There were no contributions from the Bank to the Plans and the PRBP during the first three months of 2013 (2012 – $22 million). As of March 31, 2013, the estimate of contributions expected to be paid to the Plans and the PRBP during 2013 was $81 million and $34 million, respectively, the same amount disclosed in the December 31, 2012 financial statements. Contributions for 2012 were $50 million and $36 million, respectively.

***PERIODIC BENEFIT COST:*** Net periodic benefit costs are allocated between the Ordinary Capital and the FSO in accordance with an allocation formula approved by the Board of Governors for administrative expenses and are included under Administrative expenses in the Condensed Statement of Income and Retained Earnings.

The following table summarizes the benefit costs associated with the Plans and the PRBP for the three months ended March 31, 2013 and 2012 (in millions):

| | Pension Benefits | |
|---|---|---|
| | Three months ended March 31, | |
| | 2013 | 2012 |
| Service cost....................... | $ 29 | $ 22 |
| Interest cost....................... | 38 | 37 |
| Expected return on plan assets [1].................... | (46) | (46) |
| Amortization of unrecognized net actuarial losses............... | 19 | 8 |
| Net periodic benefit cost............ | $ 40 | $ 21 |
| Of which: | | |
| ORC's share.................... | $ 39 | $ 20 |
| FSO's share...................... | $ 1 | $ 1 |

[1] The expected rate of return of plan assets was 6.75% for 2013 and 2012.

| | Postretirement Benefits | |
|---|---|---|
| | Three months ended March 31, | |
| | 2013 | 2012 |
| Service cost....................... | $ 15 | $ 12 |
| Interest cost....................... | 19 | 19 |
| Expected return on plan assets [1].................... | (19) | (19) |
| Amortization of : | | |
| Prior service cost................. | - | 2 |
| Unrecognized net actuarial losses.. | 9 | 4 |
| Net periodic benefit cost............ | $ 24 | $ 18 |
| Of which: | | |
| ORC's share............................... | $ 23 | $ 17 |
| FSO's share............................... | $ 1 | $ 1 |

[1] The expected rate of return of plan assets was 6.75% for 2013 and 2012.

## NOTE M – VARIABLE INTEREST ENTITIES

The Bank has identified loans and guarantees in Variable Interest Entities (VIEs) in which it is not the primary beneficiary but in which it is deemed to hold significant variable interest at March 31, 2013. The majority of these VIEs do not involve securitizations or other types of structured financing. These VIEs are mainly: (i) investment funds, where the general partner or fund manager does not have substantive equity at risk; (ii) operating entities where the total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support; and (iii) entities where the operating activities are so narrowly defined by contracts (e.g. concession contracts) that equity investors are considered to lack decision making ability.

The Bank's involvement with these VIEs is limited to loans and guarantees, which are reflected as such in the Bank's financial statements. Based on the most recent available data, the size of the VIEs measured by total assets in which the Bank is deemed to hold significant variable interests totaled $8,452 million at March 31, 2013 and $7,927 million at December 31, 2012. The Bank's total loans and guarantees outstanding to these VIEs were $516 million and $83 million, respectively ($493 million and $84 million, respectively, at December 31, 2012). Amounts committed not yet disbursed related to such loans and guarantees amounted to $38 million ($0 million at December 31, 2012), which combined with outstanding amounts results in a total Bank exposure of $637 million at March 31, 2013 ($577 million at December 31, 2012).

The Bank has made a loan amounting to approximately $32 million to one VIE for which the Bank is deemed to be the primary beneficiary. The Bank's involvement with this VIE is limited to such loan, which is reflected as such in the Bank's financial statements. Based on the most recent available data, the size of this VIE measured by total assets amounted to approximately $32 million, which is considered immaterial and, thus, not consolidated with the Bank's financial statements.

## NOTE N – RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES

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

| | Three months ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Net income | $ 246 | $ 119 |
| Difference between amounts accrued and amounts paid or collected for: | | |
| Loan income | (161) | (93) |
| Investment income | 18 | (64) |
| Other interest income | 4 | - |
| Net unrealized gain on trading investments | (59) | (81) |
| Interest and other costs of borrowings, after swaps | (319) | 54 |
| Administrative expenses, including depreciation | 61 | 11 |
| Special programs | (4) | (5) |
| Net fair value adjustments on non-trading portfolios | (50) | (83) |
| Transfers to the IDB Grant Facility | 179 | 200 |
| Net increase in trading investments | (1,029) | (2,881) |
| Provision for loan and guarantee losses | 21 | 51 |
| Net cash used in operating activities | $ (1,093) | $ (2,772) |
| **Supplemental disclosure of noncash activities** | | |
| Increase (decrease) resulting from exchange rate fluctuations: | | |
| Trading investments | $ (31) | $ 45 |
| Loans outstanding | 11 | (24) |
| Borrowings | (29) | 34 |

## NOTE O – SEGMENT REPORTING

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

For the three months ended March 31, 2013 and 2012, loans made to or guaranteed by three countries individually generated in excess of 10% of loan income, before swaps, as follows (in millions):

| | Three months ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Argentina | $ 99 | $ 79 |
| Brazil | 93 | 95 |
| Mexico | 102 | 97 |

## NOTE P – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in measuring the fair value for its financial instruments:

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

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

**Loans:** The fair value of the Bank's loan portfolio is estimated using a discounted cash flow method as discussed in Note H – Fair Value Measurements.

**Swaps:** Fair values for interest rate and currency swaps are based on discounted cash flows or pricing models.

**Borrowings:** The fair values of borrowings are based on discounted cash flows or pricing models.

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of March 31, 2013 and December 31, 2012 (in millions):

| | March 31, 2013 [1] | | December 31, 2012 [1] | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cash | $ 532 | $ 532 | $ 1,021 | $ 1,021 |
| Investments - trading | 15,668 | 15,668 | 14,434 | 14,434 |
| Loans outstanding, net | 68,392 | 72,313 | 68,899 | 73,454 |
| Currency and interest rate swaps receivable | | | | |
| Investments - trading | 120 | 120 | 41 | 41 |
| Loans | 23 | 23 | 20 | 20 |
| Borrowings | 5,608 | 5,608 | 6,797 | 6,797 |
| Others | 121 | 121 | 286 | 286 |
| Borrowings | | | | |
| Short-term | 589 | 589 | 840 | 840 |
| Medium- and long-term: | | | | |
| Measured at fair value | 44,416 | 44,416 | 45,886 | 45,886 |
| Measured at amortized cost | 19,716 | 20,746 | 19,371 | 20,515 |
| Currency and interest rate swaps payable | | | | |
| Investments - trading | 80 | 80 | 84 | 84 |
| Loans | 1,813 | 1,813 | 1,945 | 1,945 |
| Borrowings | 650 | 650 | 527 | 527 |

[1] Includes accrued interest.

## NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 15, 2013, which is the date the financial statements were issued. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the Bank's Condensed Quarterly Financial Statements as of March 31, 2013.