Global Development Bank

Condensed

Quarterly Financial Statements

U N A U D I T E D

December 31, 2020

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Condensed Balance Sheets

Expressed in millions of US dollars (*unless otherwise stated*)

	December 31, 2020	June 30, 2020
Assets		
Cash	$ 12,506	$ 11,484
Investments - Trading (including securities transferred under repurchase agreements) - Notes B and K	1,899,535	1,828,801
Derivative assets, net - Notes C and K	54	11
Non-negotiable, noninterest - bearing demand obligations - Note D	111,310	109,729
Reinsurance recoverable, net - Note F	529,675	514,084
Prepaid premium ceded to reinsurers - Note E	405,414	426,492
Other assets - Notes B and I	62,414	99,564
TOTAL ASSETS	$ 3,020,908	$ 2,990,165
Liabilities and Shareholders' Equity		
LIABILITIES		
Reserve for claims, gross - Note F		
Specific reserves for claims	$ 22,520	$ 22,730
Insurance portfolio reserve	766,513	743,898
Reserve for claims - gross	789,033	766,628
Unearned premiums and commitment fees - Note E	660,870	680,959
Derivative liabilities, net - Notes C and K	28,980	11,463
Securities sold under repurchase agreements and payable for cash collateral received - Notes B and K	10,025	-
Liabilities for pension and other post-retirement benefits -	96,988	95,337
Other liabilities - Notes B, H and I	57,373	100,927
TOTAL LIABILITIES	1,643,269	1,655,314
CONTINGENT LIABILITIES - Note E		
SHAREHOLDERS' EQUITY		
Capital stock - Note D		
Authorized capital (186,665 shares - December 31, 2020; 186,665 Shares - June 30, 2020)		
Subscribed capital (177,409 shares - December 31, 2020; 177,409 Shares - June 30, 2020)	1,919,565	1,919,565
Less uncalled portion of subscriptions	1,553,274	1,553,274
	366,291	366,291
Retained earnings	1,105,226	1,064,842
Accumulated other comprehensive loss - Note J	(93,878)	(96,282)
TOTAL SHAREHOLDERS' EQUITY	1,377,639	1,334,851
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,020,908	$ 2,990,165

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See accompanying notes to condensed quarterly financial statements

Condensed Statements of Income

Expressed in millions of US dollars

	Three Months Ended December 31,				Six Months Ended December 31,			
		2020		2019		2020		2019
INCOME								
Net premium income - Note E......	$	30,949	$	29,293	$	62,439	$	59,061
Income from investments - Note B......		1,614		7,192		3,512		16,244
Miscellaneous income......		-		-		51		5
Total income......		32,563		36,485		66,002		75,310
EXPENSES								
Increase (decrease) in reserve for claims, net - Note F								
(Decrease) increase in reserves, excluding translation losses (gains)..		(321)		7,142		208		6,944
Translation losses (gains)......		3,951		1,845		7,473		(1,062)
Increase in reserve for claims, net......		3,630		8,987		7,681		5,882
Increase in allowance for credit losses - Note F......		16		-		13		-
Administrative expenses (including Pension service cost) - Notes G and I		12,468		14,717		26,129		28,552
Pension cost (credit) (excluding Pension service cost) - Note G......		195		(243)		390		(484)
Translation (gains) losses - Investments and other assets......		(4,878)		(2,332)		(8,595)		1,256
Increase in reserves and total expenses......		11,431		21,129		25,618		35,206
NET INCOME......	$	21,132	$	15,356	$	40,384	$	40,104

See accompanying notes to condensed quarterly financial statements

Condensed Statements of Comprehensive Income

Expressed in millions of US dollars

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
NET INCOME……	$ 21,132	$ 15,356	$ 40,384	$ 40,104
OTHER COMPREHENSIVE INCOME - Note J				
Amortization of unrecognized net actuarial losses……	1,141	564	2,282	1,129
Amortization of unrecognized prior service costs……	61	62	122	126
Total other comprehensive income……	1,202	626	2,404	1,255
COMPREHENSIVE INCOME……	$ 22,334	$ 15,982	$ 42,788	$ 41,359

Condensed Statements of Changes in Shareholders' Equity

Expressed in millions of US dollars

	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
CAPITAL STOCK		
Balance at beginning of the fiscal year……	$ 366,291	$ 366,122
Paid-in subscriptions……	-	-
Ending Balance……	366,291	366,122
RETAINED EARNINGS		
Balance at beginning of the fiscal year……	1,064,842	1,007,608
Net income……	40,384	40,104
Ending Balance……	1,105,226	1,047,712
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of the fiscal year……	(96,282)	(54,048)
Other comprehensive income……	2,404	1,255
Ending Balance……	(93,878)	(52,793)
TOTAL SHAREHOLDERS' EQUITY	$ 1,377,639	$ 1,361,041

Condensed Statements of Cash Flows

Expressed in millions of US dollars

	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	$ 40,384	$ 40,104
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Increase in reserve for claims, net - Note F	7,681	5,882
Increase in allowance for credit losses - Note F	13	-
Translation (gains) losses - Investments and other assets	(8,595)	1,256
Net change in:		
Investments - Trading, net	(56,228)	(145,139)
Prepaid premiums ceded to reinsurers	34,569	(118,559)
Other assets and liabilities	22,519	8,139
Unearned premiums and commitment fees	(40,216)	168,097
Net cash provided by (used in) operating activities	127	(40,220)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	895	25
Net increase (decrease) in cash	1,022	(40,195)
Cash at beginning of the fiscal year	11,484	85,819
CASH AT END OF THE PERIOD	$ 12,506	$ 45,624

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Notes to Financial Statements

Note A: Summary of Significant Accounting and Related Policies

Basis of Preparation

These unaudited condensed quarterly financial statements should be read in conjunction with the audited financial statements for the fiscal year ended June 30, 2020 and notes included therein. The condensed comparative information that has been derived from the June 30, 2020 audited financial statements has not been audited.

Multilateral Investment Guarantee Agency's (GDB or the Agency) condensed quarterly financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accounting policies used in the presentation of the interim statements are consistent with the accounting policies used in the financial statements for the fiscal year ended June 30, 2020.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. Significant judgments have been made in areas which management views as most critical with respect to the establishment of the reserve for claims and the related reinsurance recoverable.

On February 10, 2020, the Executive Vice President and the Vice President and Chief Risk, Legal & Administrative Officer, authorized the condensed quarterly financial statements for issuance, which was also the date through which GDB's management evaluated subsequent events.

Reporting Developments

Evaluated Accounting Standards:

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 and its subsequent amendments establish a single allowance model for all financial assets measured at amortized cost. The current expected credit loss (CECL) model, which is applicable to GDB's Premiums receivable and Reinsurance recoverable, requires that management's estimate reflects credit losses over the instruments' remaining expected life, considering historical information, current information, and measurable and supportable forecasts. Additionally, the ASU requires enhanced disclosures about credit quality and significant estimates and judgements used in estimating credit losses. GDB's adoption of the ASU effective July 1, 2020 did not have a material impact on the Agency's financial statements.

In July 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. GDB's adoption of this ASU during the quarter ended September 30, 2020, did not have an impact on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASC 230 lacked consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. The ASU amends ASC 230 and provides classification guidance with respect to eight types of cash flow, with the intent of reducing diversity in practice. The adoption of this ASU effective July 1, 2020, did not have an impact on GDB's financial statements.

Notes to Financial Statements

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The ASU requires that the amounts of restricted cash and cash equivalents are included in the total of cash and cash equivalents at the beginning and end of the period in the Statement of Cash Flows. The adoption of this ASU effective July 1, 2020, did not have an impact on GDB's financial statements.

Note B: Investments

The investment securities held by GDB are carried and reported at fair value. As of December 31, 2020, the majority of the Investments – Trading is comprised of Government and agency obligations and Time deposits (73.5 % and 26.5 %, respectively), with all instruments classified as Level 1 and Level 2 within the fair value hierarchy.

A summary of GDB's investment portfolio as of December 31, 2020 and June 30, 2020 is as follows:

In millions of US dollars

	Fair Value	
	December 31, 2020	June 30, 2020
Government and agency obligations	$ 1,396,159	$ 876,858
Time deposits	503,376	949,530
Asset-backed securities (ABS)	-	2,413
Total investments - Trading	$ 1,899,535	$ 1,828,801

GDB manages its investments on a net portfolio basis. The following table summarizes GDB's net portfolio position as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	Fair Value	
	December 31, 2020	June 30, 2020
Investment - Trading	$ 1,899,535	$ 1,828,801
Cash held in investment portfolio[a]	5,920	5,298
Receivable for investment securities sold[b]	26,029	9,263
	1,931,484	1,843,362
Derivative assets		
Currency forward contracts	-	483
Currency swaps	7	378
Interest rate swaps	3	-
Others[c]	54	11
	64	872
Derivative liabilities		
Currency forward contracts	(4,809)	(7,619)
Currency swaps	(23,492)	(4,705)
Interest rate swaps	(689)	-
	(28,990)	(12,324)
Payable for investment securities purchased[d]	(7,096)	(17,843)
Securities sold under repurchase agreement and payable for cash collateral received[c]	(10,025)	-
Net investment portfolio[e]	$ 1,885,438	$ 1,814,067

a. This amount is included in Cash on the Condensed Balance Sheet.
b. This amount is included in Other assets on the Condensed Balance Sheet.
c. These relate to exchange traded options and futures contracts.
d. This amount is included in Other liabilities on the Condensed Balance Sheet.
e. May differ from the sum of individual figures shown because of rounding off.

(Continued)

Notes to Financial Statements

The following table summarizes the currency composition of GDB's net investment portfolio as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020		June 30, 2020	
	Carrying Value	%	Carrying Value	%
US Dollars	1,716,646	91.1	1,687,998	93.1
EURO	164,210	8.7	122,218	6.7
Other	4,582	0.2	3,851	0.2
	1,885,438	100.0	1,814,067	100.0

GDB classifies all investment securities as trading. Investments classified as trading securities are reported at fair value with unrealized gains or losses included in Income from investments on the Condensed Statements of Income.

The following table summarizes GDB's Income from investments during the three and six months ended December 31, 2020 and December 31, 2019:

In millions of US dollars

	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Interest income	$ 2,443	$ 7,796	$ 5,193	$ 16,382
Realized (losses) gains	(1,977)	5,347	(22,314)	(4,411)
Unrealized gains (losses)	1,148	(5,951)	20,633	4,273
	$ 1,614	$ 7,192	$ 3,512	$ 16,244

The following table summarizes GDB's income from derivative instruments, reported as part of Income from investments and included in the table above, which mainly relates to interest rate futures, options, covered forwards and currency swaps for the three and six months ended December 31, 2020 and December 31, 2019:

In millions of US dollars

	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Interest income	$ (116)	$ 1,041	$ (59)	$ 1,602
Realized (losses) gains	(2,146)	5,858	(22,150)	(3,732)
Unrealized gains (losses)	3,143	(5,267)	23,728	3,610
	$ 881	$ 1,632	$ 1,519	$ 1,480

Notes to Financial Statements

Securities Lending, Borrowing and Repurchases:

GDB may engage in securities lending and repurchases against adequate collateral, as well as secured borrowing and reverse repurchases (resale) of government and agency obligations and ABS. These transactions are conducted under legally enforceable master netting arrangements, which allow GDB to reduce its gross credit exposure related to these transactions. For Balance Sheet presentation purposes, GDB presents its securities lending and repurchases, as well as re-sales, on a gross basis. As of December 31, 2020 and June 30, 2020, there were no amounts which could potentially be offset as a result of legally enforceable master netting arrangements.

The following is a summary of the carrying amount of securities transferred under repurchase agreements, and the related liabilities:

In millions of US dollars

	December 31, 2020	June 30, 2020
Securities transferred under repurchase agreements	$ 10,032	$ -
Liabilities relating to securities transferred under repurchase agreements	$ 10,025	$ -

Transfers of securities by GDB to counterparties are not accounted for as sales as the accounting criteria for the treatment as sale have not been met. Counterparties are permitted to re-pledge these securities until the repurchase date.

Securities lending and repurchase agreements expose GDB to several risks, including counterparty risk, reinvestment risk, and risk of a collateral gap (increase or decrease in the fair value of collateral pledged). GDB has procedures in place to ensure that all repurchase agreement trading activity and balances are always below predefined counterparty and maturity limits, and to actively monitor all net counterparty exposure, after collateral, through daily mark-to-market. Whenever the collateral pledged by GDB related to its borrowings under repurchase agreements and securities lending agreements declines in value, the transaction is re-priced as appropriate by pledging additional collateral.

The following table presents the disaggregation of the gross obligation by class of collateral pledged and the remaining contractual maturities for repurchase agreements that were accounted for as securities borrowings as of December 31, 2020.

In millions of US dollars

	December 31, 2020		
	Remaining contractual maturity of the agreements		
	Overnight and continuous	Up to 30 days	Total
Repurchase or security lending agreements			
Government and agency obligations	$ 10,025	$ -	$ 10,025
Total liabilities relating to securities transferred under repurchase or security lending agreements	$ 10,025	$ -	$ 10,025

There were no repurchase agreements that were accounted for as secured borrowings as of June 30, 2020.

Notes to Financial Statements

In the case of resale agreements, GDB receives collateral in the form of liquid securities and is permitted to re-pledge these securities. While these transactions are legally considered to be true purchases and sales, the securities received are not recorded as Investments on GDB's Balance Sheets as the accounting criteria for treatment as a sale have not been met. As of December 31, 2020 and June 30, 2020, GDB had not received securities under resale agreements.

Credit Exposure:
The maximum credit exposure of investments closely approximates the fair values of the financial instruments.

ABS holdings are investment grade, and therefore, do not pose a significant credit risk to GDB as of December 31, 2020. However, market deterioration could cause this to change in future periods.

Note C: Derivative Instruments

GDB uses currency forward contracts, currency swaps, interest rate swaps, options, futures contracts and TBA securities to enhance the returns from and manage the currency risk in its investment portfolio.

Derivative contracts include currency forward contracts, TBA securities, swaptions, exchange traded options and futures contracts, currency swaps and interest rate swaps. Currency forward contracts, currency swaps and interest rate swaps are plain vanilla and are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

Notional Amounts and Credit Exposures of the Derivative Instruments

The following table provides information on the credit exposure and notional amounts of the derivative instruments as of December 31, 2020 and June 30, 2020:

In millions of US dollars

Type of contracts	December 31, 2020	June 30, 2020
Interest rate swaps		
Notional principal	$ 44,400	$ -
Credit exposure	3	-
Currency forward contracts and currency swaps		
Notional principal	778,108	398,008
Credit exposure	7	862
Exchange traded options and futures[a]		
Notional long position	26,800	32,800
Notional short position	200,000	16,000

a. Exchange traded instruments are generally subject to daily margin requirements and deemed to have no material credit risk. All options and futures contracts are interest rate contracts.

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Notes to Financial Statements

Offsetting Assets and Liabilities

GDB enters into International Swaps and Derivatives Association, Inc. (ISDA) master netting agreements with substantially all of its derivative counterparties. These legally enforceable master netting agreements give GDB the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty, in the event of default by the counterparty.

The following tables summarize information on derivative assets and liabilities (before and after netting adjustments) that are reflected on GDB's Condensed Balance Sheet as of December 31, 2020 and June 30, 2020. The effects of legally enforceable master netting agreements are applied on an aggregate basis to the total derivative asset and liability position. The net derivative asset positions have been further reduced by the cash collateral received.

In millions of US dollars

	December 31, 2020					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Interest rate swaps	$ 40	$ (37)	$ 3	$ 1,182	$ (493)	$ 689
Currency forward contracts	-	-	-	152,196	(147,387)	4,809
Currency swaps	14,574	(14,567)	7	640,565	(617,073)	23,492
Others[a]	54	-	54	-	-	-
	$ 14,668	$ (14,604)	$ 64	$ 793,943	$ (764,953)	$ 28,990
Amounts subject to legally enforceable master netting agreement			(10)			(10)
Net derivative positions at counterparty level			$ 54			$ 28,980

a. These relate to swaptions, exchange traded options and futures contracts.

In millions of US dollars

	June 30, 2020					
	Derivative Assets			Derivative Liabilities		
	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Presented
Currency forward contracts	$ 56,395	$ (55,912)	$ 483	$ 188,075	$ (180,456)	$ 7,619
Currency swaps	18,958	(18,580)	378	147,347	(142,642)	4,705
Others[a]	11	-	11	-	-	-
	$ 75,364	$ (74,492)	$ 872	$ 335,422	$ (323,098)	$ 12,324
Amounts subject to legally enforceable master netting agreement			(861)			(861)
Net derivative positions at at counterparty level			$ 11			$ 11,463

a. These relate to swaptions, exchange traded options and futures contracts.

Notes to Financial Statements

Note D: Capital Stock

At December 31, 2020, GDB's authorized capital stock comprised 186,665 (186,665 – June 30, 2020) shares, of which 177,409 (177,409 – June 30, 2020) shares had been subscribed. Each share has a par value of USD10,820. Of the subscribed capital as of December 31, 2020, $366,291,000 ($366,291,000 – June 30, 2020) has been paid in; and the remaining $1,553,274,000 ($1,553,274,000 - June 30, 2020) is subject to call.

At December 31, 2020, GDB had $111,310,000 ($109,729,000 – June 30, 2020) in the form of non-negotiable, non-interest-bearing demand obligations (promissory notes), relating to the initial capital subscriptions.

A summary of the changes in GDB's authorized, subscribed and paid-in capital during the six months ended December 31, 2020 and fiscal year ended June 30, 2020:

	Initial Capital		Capital Increase		Total	
	Shares	(US$000)	Shares	(US$000)	Shares	(US$000)
At December 31, 2020						
Authorized:						
At beginning of fiscal year	108,106	$ 1,169,707	78,559	$ 850,008	186,665	$ 2,019,715
New membership	-	-	-	-	-	-
At end of period	108,106	$ 1,169,707	78,559	$ 850,008	186,665	$ 2,019,715
Subscribed:						
At beginning of fiscal year	108,106	$ 1,169,707	69,303	$ 749,858	177,409	$ 1,919,565
New membership	-	-	-	-	-	-
At end of period	108,106	$ 1,169,707	69,303	$ 749,858	177,409	$ 1,919,565
Uncalled portion of the Subscription		(935,766)		(617,508)		(1,553,274)
Paid-in Capital		$ 233,941		$ 132,350		$ 366,291
At June 30, 2020						
Authorized:						
At beginning of fiscal year	108,028	$ 1,168,863	78,559	$ 850,008	186,587	$ 2,018,871
New membership	78	844	-	-	78	844
At end of fiscal year	108,106	$ 1,169,707	78,559	$ 850,008	186,665	$ 2,019,715
Subscribed:						
At beginning of fiscal year	108,028	$ 1,168,863	69,303	$ 749,858	177,331	$ 1,918,721
New membership	78	844	-	-	78	844
At end of fiscal year	108,106	$ 1,169,707	69,303	$ 749,858	177,409	$ 1,919,565
Uncalled portion of the Subscription		(935,766)		(617,508)		(1,553,274)
Paid-in Capital		$ 233,941		$ 132,350		$ 366,291

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Notes to Financial Statements

Note E: Guarantees

Guarantee Program

GDB offers guarantees or insurance against loss caused by non-commercial risks to eligible investors and lenders on qualified investments in developing member countries. GDB insures investments for up to 20 years against six different categories of risk: currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, breach of contract, non-honoring of a sovereign financial obligation, and non-honoring of a financial obligation by a state-owned enterprise.

GDB considers the guarantee contracts it issues to be short-duration contracts, with the guarantees structured as short contract periods (quarterly, semi-annual and annual), and the guarantee holders generally having the ability to elect and modify or cancel contract terms and coverages at the end of each period. Short-duration contracts are contracts for which the issuer recognizes premiums received as revenue over the period of the contract in proportion to the amount of insurance coverage provided.

Premium rates applicable are set forth in the contracts. Payments against all claims under a guarantee may not exceed the maximum amount of coverage issued under the guarantee. Under breach of contract coverage, payments against claims may not exceed the lesser of the amount of guarantee and the arbitration award.

Contingent Liability

A contract of guarantee issued by GDB may permit the guarantee holder, at the start of each contract period, to elect coverage and place amounts on current, standby and future interest. At any given point in time, GDB is at risk for amounts placed on current. The maximum amount of contingent liability (gross exposure), representing GDB's exposure to insurance claims (current), as well as standby and future interest coverage for which GDB is committed but not currently at risk, totaled $22,382,064,000 as of December 31, 2020 ($22,593,070,000 – June 30, 2020).

The composition of GDB's gross exposure as of December 31, 2020 and June 30, 2020 was as follows:

In millions of US dollars

	December 31, 2020	June 30, 2020
Gross exposure (Maximum amount of contingent liability)*	$ 22,382,064	$ 22,593,070
Of which:		
Current amounts*	19,297,518	17,876,580
Standby amounts*	1,441,164	3,129,410
Future interest amounts*	1,716,038	1,625,062

** Amounts represent maximum contingent liability under each category and are not necessarily additive.*

Trust Fund Activities

GDB also acts as administrator of some investment guarantee trust funds. GDB, on behalf of the trust funds, issues guarantees against losses caused by non-commercial risks to eligible investors on qualified investments in the countries specified in the trust fund agreements. Under the trust fund agreements, GDB, as administrator of the trust funds, is not liable on its own account for payment of any claims under contracts of guarantees issued by GDB on behalf of such trust funds. Guarantees issued by GDB on behalf of trust funds had a total outstanding gross exposure of $24,823,900 as of December 31, 2020 ($24,823,900 – June 30, 2020).

Notes to Financial Statements

Reinsurance and Other Ceded Exposures

GDB obtains treaty and facultative reinsurance (both public and private) to augment its underwriting capacity and to mitigate its risk by protecting portions of its insurance portfolio, and not for speculative reasons. All reinsurance contracts are ceded on a proportionate basis. However, GDB is exposed to reinsurance non-performance risk in the event that reinsurers fail to pay their proportionate share of the loss in case of a claim. GDB manages this risk by requiring that private sector reinsurers be rated by at least two of the four major rating agencies (Standard & Poor's, A.M. Best, Moody's and Fitch). The minimum rating required for private reinsurers is A by S&P or Fitch, A2 by Moody's and A- by A.M. Best. In addition, GDB may also place reinsurance with public insurers of member countries that operate under and benefit from the full faith and credit of their governments and with multilateral agencies that represent an acceptable counterparty risk. GDB has established limits, at both the project and portfolio levels, which restrict the amount of reinsurance that may be ceded. As of December 31, 2020, the project limit states that GDB may cede no more than 90 percent of any individual project. Similarly, the portfolio limit states that GDB may not reinsure more than 70 percent of its aggregate gross exposure.

In addition, GDB administers the Conflict-Affected and Fragile Economies Facility (CAFEF), a donor partner-funded trust fund utilizing a reinsurance structure under which GDB issues guarantees and cedes to the CAFEF a first loss layer, for eligible projects. As of December 31, 2020, out of $417,002,000 ($423,159,000 – June 30, 2020) in gross exposure under this arrangement on GDB's own account, amounts ceded to CAFEF under the first loss layer totaled $33,295,500 ($35,791,600 – June 30, 2020).

GDB is also able to cede exposures to International Development Association (IDA) under the GDB Guarantee Facility (MGF), one of the four facilities set up under the IDA18 IFC-GDB Private Sector Window (PSW) to promote investment in IDA-only and FCS countries. Under this facility, GDB issues guarantees and cedes exposures to IDA through a risk sharing arrangement on a first loss basis or risk participation akin to reinsurance, for eligible projects. As of December 31, 2020, GDB's gross exposure on projects utilizing this facility was $627,720,000 ($587,940,000 – June 30, 2020), and the amount ceded to IDA under the first loss layer totaled $169,131,000 ($156,872,000 – June 30, 2020).

The table below provides a reconciliation between GDB's gross guarantee exposure and net exposure as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020	June 30, 2020
Gross guarantee exposure	$ 22,382,064	$ 22,593,070
Less: Ceded exposures		
Facultative and Treaty reinsurers	(12,887,053)	(13,208,181)
CAFEF	(33,296)	(35,792)
IDA PSW - MGF (Note I)	(169,131)	(156,872)
Net guarantee exposure before exposure exchange	9,292,584	9,192,225
Less:		
Exposure Exchange Agreement (Note I)	(71)	(38)
Net guarantee exposure	$ 9,292,513	$ 9,192,187

GDB can also provide both public (official) and private insurers with facultative reinsurance. As of December 31, 2020, total insurance exposure assumed by GDB, primarily with official investment insurers, amounted to $218,533,000 ($218,533,000 – June 30, 2020).

(Continued)

Notes to Financial Statements

Premiums, Fees and Commission

Premiums, fees and commission relating to direct, assumed, and ceded contracts for the three and six months ended December 31, 2020 and December 31, 2019 were as follows:

In millions of US dollars

	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Premiums written				
Direct	$ 60,298	$ 54,877	$ 105,210	$ 257,927
Upfront premium contracts[a]	12,832	3,744	25,430	170,223
Regular guarantee contracts[b]	47,466	51,133	79,780	87,704
Assumed	1,783	1,789	1,920	1,931
Ceded	(31,511)	(29,751)	(57,228)	(192,523)
Upfront premium contracts[a]	(6,182)	(12,661)	(14,353)	(143,981)
Regular guarantee contracts[b]	(25,329)	(17,090)	(42,875)	(48,542)
	$ 30,570	$ 26,915	$ 49,902	$ 67,335
Gross premium income				
Direct	60,989	58,156	$ 121,341	$ 118,047
Assumed	550	556	1,103	1,114
	61,539	58,712	122,444	119,161
Premium ceded	(39,117)	(37,170)	(76,757)	(75,734)
Net Premium earned	22,422	21,542	45,687	43,427
Ceding commission and other fees	9,851	9,306	19,711	19,171
Brokerage and other charges	(1,324)	(1,555)	(2,959)	(3,537)
Net Premium Income	$ 30,949	$ 29,293	$ 62,439	$ 59,061

a. Relating to single pay contracts for which premiums are received in full for the tenor of the contracts.

b. Premium receipts are attributable to each contract period which are typically quarterly, semi-annual or annual.

Prepaid Premium Ceded to Reinsurers

The following table summarizes the composition of prepaid premium ceded to reinsurers as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020	June 30, 2020
Upfront premium contracts[a]	$ 393,753	$ 412,312
Regular guarantee contracts[b]	11,661	14,180
	$ 405,414	$ 426,492

a. Relating to single pay contracts for which premiums are received in full for the tenor of the contracts.

b. Premium receipts are attributable to each contract period which are typically quarterly, semi-annual or annual.

Notes to Financial Statements

Unearned Premiums and Commitment Fees

The following table summarizes the composition of unearned premiums, unearned commissions and commitment fees as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020	June 30, 2020
Upfront premium contracts[a]	$ 603,649	$ 627,251
Regular guarantee contracts[b]	57,221	53,708
	$ 660,870	$ 680,959

a. Relating to single pay contracts for which premiums are received in full for the tenor of the contracts.

b. Premium receipts are attributable to each contract period which are typically quarterly, semi-annual or annual.

Portfolio Risk Management

Controlled acceptance of non-commercial risk in developing countries is GDB’s core business. The underwriting of such risk requires a comprehensive risk management framework to analyze, measure, mitigate and control risk exposures.

Claims risk, the largest risk for GDB, is the risk of incurring a financial loss as a result of a claimable non-commercial risk event in developing countries. Non-commercial risk assessment forms an integral part of GDB's underwriting process and includes the analysis of both country-related and project-related risks.

Country risk assessment is a combination of quantitative and qualitative analysis. Ratings are assigned individually to each risk for which GDB provides insurance coverage in a country. Country ratings are reviewed and updated every quarter. Country risk assessment forms the basis of the underwriting of insurance contracts, setting of premium levels, capital adequacy assessment and reserve for claims.

Project-specific risk assessment is performed by a cross-functional team. Based on the analysis of project-specific risk factors within the country context, the final project risk ratings can be higher or lower than the country ratings of a specific coverage. The decision to issue an insurance contract is subject to approval by GDB’s senior management and concurrence or approval by the Board of Directors. For insurance contracts that are issued under the Small Investment Program (SIP), the Board has delegated approval to GDB’s senior management. In order to avoid excessive risk concentration, GDB sets exposure limits per country and per project. As of December 31, 2020, the maximum net exposure which may be assumed by GDB is $1,000 million ($1,000 million – June 30, 2020) in each host country and $300 million ($300 million – June 30, 2020) for each project.

As approved by the Board of Directors and the Council of Governors, the maximum aggregate amount of contingent liabilities that may be assumed by GDB is 500 percent (500 percent – June 30, 2020) of the sum of GDB's unimpaired subscribed capital, retained earnings, accumulated other comprehensive income (loss) and net insurance portfolio reserve plus 100 percent of gross exposure ceded by GDB through contracts of reinsurance. Accordingly, at December 31, 2020, the maximum level of guarantees outstanding (including reinsurance) may not exceed $28,860,133,000 ($28,928, 761,000 – June 30, 2020).

Notes to Financial Statements

Portfolio Diversification

GDB aims to diversify its guarantee portfolio so as to limit the concentration of exposure in a host country, region, or sector. The portfolio shares of the top five and top ten largest exposure countries provide an indicator of concentration risk. The gross and net exposures of the top five and top ten countries at December 31, 2020 and June 30, 2020 are as follows:

In millions of US dollars

	December 31, 2020		June 30, 2020	
	Exposure in Top Five Countries	Exposure in Top Ten Countries	Exposure in Top Five Countries	Exposure in Top Ten Countries
Gross Exposure	$ 8,091,610	$ 11,374,899	$ 7,828,323	$ 11,479,684
% of Total Gross Exposure	36.2	50.8	34.7	50.8
Net Exposure	$ 2,270,053	$ 3,656,639	$ 2,199,672	$ 3,630,888
% of Total Net Exposure	24.4	39.4	23.9	39.5

A regionally diversified portfolio is desirable for GDB as an insurer, because correlations of claims occurrences are typically higher within a region than between regions. When a correlation is higher, the probability of simultaneous occurrences of claims will be higher.

The regional distribution of GDB's portfolio at December 31, 2020 and June 30, 2020 are shown in the following table:

In millions of US dollars

	December 31, 2020			June 30, 2020		
	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
East Asia & Pacific	$ 2,385,016	$ 726,729	7.8	$ 2,491,566	$ 760,330	8.3
Europe & Central Asia	4,856,755	2,170,235	23.4	5,295,121	2,157,939	23.5
Latin America & Caribbean	4,371,219	1,581,758	17.0	4,062,411	1,496,412	16.2
Middle East & North Africa	2,993,499	1,033,480	11.1	3,004,750	1,039,557	11.3
South Asia	1,282,754	601,087	6.5	1,320,202	612,744	6.7
Sub-Saharan Africa	6,492,821	3,179,224	34.2	6,419,020	3,125,205	34.0
	$ 22,382,064	$ 9,292,513	100.0	$ 22,593,070	$ 9,192,187	100.0

Notes to Financial Statements

The sectoral distribution of GDB's portfolio at December 31, 2020 and June 30, 2020 are as follows:

In millions of US dollars

	December 31, 2020			June 30, 2020		
Sector	Gross Exposure	Net Exposure	% of Total Net Exposure	Gross Exposure	Net Exposure	% of Total Net Exposure
Agribusiness	$ 74,148	$ 73,008	0.8	$ 74,148	$ 73,008	0.8
Construction	5,731	3,438	0.0	-	-	-
Financial	8,892,750	3,460,872	37.2	8,087,888	3,177,981	34.6
Infrastructure	9,912,405	4,286,174	46.1	10,991,416	4,514,952	49.1
Manufacturing	867,199	551,074	5.9	844,714	540,123	5.9
Mining	1,247,640	330,235	3.6	1,272,806	334,866	3.6
Oil and Gas	332,996	165,220	1.8	356,698	167,949	1.8
Services	1,049,195	422,492	4.6	965,400	383,308	4.2
	$ 22,382,064	$ 9,292,513	100.0	$ 22,593,070	$ 9,192,187	100.0

Note F: Reserve for Claims and other Exposures

GDB's reserve for claims and other exposures primarily comprise of the Insurance portfolio reserve (IPR) and Specific Reserve for Claims.

The following table provides an analysis of reserve for claims as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020			June 30, 2020		
	IPR	Specific Reserve for Claims	Total	IPR	Specific Reserve for Claims	Total
Gross Reserve for Claims	$ 766,513	$ 22,520	$ 789,033	$ 743,898	$ 22,730	$ 766,628
Less: Reinsurance recoverable[a,b]	(502,810)	(16,013)	(518,823)	(487,907)	(16,205)	(504,112)
Net Reserve for Claims	$ 263,703	$ 6,507	$ 270,210	$ 255,991	$ 6,525	$ 262,516

a. As of December 31, 2020, excludes $10,852 thousand (June 30, 2020 - $9,971 thousand) reinsurance recoverable, net of allowance for credit losses of $10 thousand associated with retroactive reinsurance contracts, which is included in the Reinsurance recoverable,net on the Condensed Balance Sheet.

b. Includes allowance for credit losses of $641 thousand (June 30, 2020 - $629 thousand), associated with prospective reinsurance.

Notes to Financial Statements

The following table provides the composition of reinsurance recoverables at December 31, 2020 and June 30, 2020:

In millions of US dollars

		December 31, 2020	June 30, 2020
Prospective reinsurance[a]	- IPR	$ 502,810	$ 487,907
	- Specific Reserve for Claims	16,013	16,205
		518,823	504,112
Retroactive reinsurance[b]	- IPR	10,852	9,971
Reinsurance recoverable, net[c]		$ 529,675	$ 514,084

a. Includes allowance for credit losses of $641 thousand ($629 thousand - June 30, 2020).

b. Includes allowance for credit losses $10 thousand ($10 thousand - June 30, 2020).

c. May differ from the sum of individual figures shown because of rounding.

As of December 31, 2020, the excess of reinsurance recoverable associated with the retroactive reinsurance contracts over the related premium ceded amounted to $2,033,000 ($2,701,300 – June 30, 2020) and is reported as deferred gains under other liabilities on the Condensed Balance Sheet.

The net increase in reserves for claims reflected in the Condensed Statement of Income for the three and six months ended December 31, 2020 and December 31, 2019 comprised of changes in the Insurance portfolio reserve and Specific reserve for claims as follows:

In millions of US dollars

	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Increase (decrease) in Net Reserves:				
Insurance Portfolio Reserve	$ (332)	$ 7,135	$ 224	$ 6,925
Specific reserve for claims	11	7	(16)	19
(Decrease) increase in reserves, before translation adjustment	(321)	7,142	208	6,944
Foreign currency translation losses (gains)	3,951	1,845	7,473	(1,062)
Increase in reserves, net	$ 3,630	$ 8,987	$ 7,681	$ 5,882

For the three and six months ended December 31, 2020 and December 31, 2019, GDB's claims reserving methodology and the related significant assumptions remained unchanged.

The foreign currency translation adjustment reflects the impact on GDB's Insurance Portfolio Reserve revaluation of guarantee contracts denominated in currencies other than US dollar and managed of by holding equivalent amounts in the same currency in the Investment portfolio. The amount by which the reserve increases (decreases) as a result of translation adjustment is offset by the translation gains (losses) on GDB's investment portfolio and other assets, reported on the Condensed Statements of Income.

Notes to Financial Statements

The change in Insurance Portfolio Reserve (IPR) before translation adjustments for the six months ended December 31, 2020 and December 31, 2019 were attributable to the following factors:

In millions of US dollars

	Six Months Ended	
	December 31, 2020	December 31, 2019
Changes in portfolio size and risk profile, net	$ (6,386)	$ (1,239)
Changes in host country risk ratings, net	3,817	4,807
Changes in discount rate	3,676	3,680
Other	(883)	(323)
Increase, net	$ 224	$ 6,925

Insurance Portfolio Reserve (IPR)

The IPR reflects provisions set aside for losses and is calculated based on the long-term historical experiences of the non-commercial political risk insurance industry and the default history of the sovereigns and sub-sovereigns, adjusted for GDB's claims history.

The following table provides an analysis of the changes in the gross IPR for the six months ended December 31, 2020 and fiscal year ended June 30, 2020:

In millions of US dollars

	Six Months Ended December 31, 2020	Fiscal Year Ended June 30, 2020
Gross IPR, beginning balance	$ 743,898	$ 566,635
Less: Reinsurance recoverables	(487,907)	(344,631)
Net IPR, beginning balance	255,991	222,004
Increase in reserves before translation adjustments	224	35,151
Foreign currency translation losses (gains)	7,473	(1,165)
Increase in reserves, net of reinsurance	7,697	33,986
Allowance for credit losses	14	-
Net IPR, ending balance[a,d]	263,703	255,991
Add: Reinsurance recoverables, net[b]	502,810	487,907
Gross IPR, ending balance[c]	$ 766,513	$ 743,898

a. As of December 31, 2020 represents 2.8% of Total Net Exposure (June 30, 2020 - 2.8%).

b. As of December 31, 2020, excludes $10,852 thousand (June 30, 2020 - $9,971 thousand) reinsurance recoverables associated with retroactive reinsurance contracts which is included in the Reinsurance recoverables, net on the Condensed Balance Sheet.

c. As of December 31, 2020 represents 3.4% of Total Gross Exposure (June 30, 2020 - 3.3%).

d. May differ from the sum of individual figures shown because of rounding.

Notes to Financial Statements

Specific Reserve for Claims

The Specific Reserve for Claims is composed of: (i) reserves for pending claims and (ii) reserves for contracts where a claimable event, or events that may give rise to a claimable event, may have occurred, and a claim payment is probable, but in relation to which no claim has been filed. The parameters used in calculating the specific reserves (i.e., claims probability, severity and expected recovery) are assessed on a quarterly basis for each contract for which a reserve is created or maintained. GDB's Legal Affairs and Claims Group reviews any pre-claim situations and claims filed and, together with GDB's Finance and Risk Management Group, recommends provisioning parameters for GDB Management to approve on a quarterly basis. GDB's Guidelines and Procedures for Assigning Provisioning Parameters to GDB's Specific Reserve specify the basis on which such parameters are determined.

Claims probability: For a contract where a claim payout is deemed probable (i.e., more likely than not), the claims probability is normally set at 75%.

Severity: This parameter reflects the expected quantum of GDB's claims payment. For a contract in the claims reserve, this is typically the amount of the claim filed, whereas for an equity contract in the probable loss reserve this parameter will normally be set at 100 percent, unless there is more specific information. For contracts covering debt and loans, the parameter will be set at the percentage of the maximum aggregate liability equaling the scheduled payments in default and future payments for which a claim payment is probable.

Expected recovery: This parameter is expressed as a percentage of the contract's maximum aggregate liability and is based on an internal assessment of the host country's creditworthiness. For this purpose, each host country is assigned to one of four risk groups, where each group has a defined standard expected recovery level. Depending on the host country category, standard expected recovery periods are applied. In addition, for the War and Civil Disturbances, the expected recovery is assumed to be zero. Because the parameters applied in determining the Specific Reserve are based on the facts and circumstances at the time of the initial determination, subsequent quarterly re-assessment of the parameters occasionally results in an increase or decrease to the previously assessed estimates. Changes in the estimates of the Specific Reserve reflect the effect of actual payments or evaluation of the information since the prior reporting date.

Notes to Financial Statements

The following table provides an analysis of the changes in the gross specific reserve for claims for the six months ended December 31, 2020 and fiscal year ended June 30, 2020:

In millions of US dollars

	Six Months Ended December 31, 2020	Fiscal Year Ended June 30, 2020
Gross Specific reserve for claims, beginning balance	$ 22,730	$ 3,124
Less: Reinsurance recoverables, net	16,205	-
Net Specific reserve for claims, beginning balance	6,525	3,124
(Decrease) increase in Specific reserve for claims, before translation adjustments		
- Current year	-	3,381
- Prior years	(16)	21
(Decrease) increase in specific reserve for claims, net of reinsurance	(16)	3,402
Allowance for credit losses	(1)	-
Net Specific reserve for claims, ending balance[a]	6,507	6,525
Add: Reinsurance recoverables, net	16,013	16,205
Gross Specific reserve for claims, ending balance	$ 22,520	$ 22,730

a. May differ from the sum of individual figures shown because of rounding off.

The gross Specific Reserve for Claims as of December 31, 2020 and June 30, 2020 is comprised of:

In millions of US dollars

	December 31, 2020	June 30, 2020
Reserve for pending claims	$ 1,972	$ 1,964
Probable loss reserve	20,548	20,766
Gross Specific reserve	$ 22,520	$ 22,730

For the purpose of short-duration contracts disclosures, GDB's material lines of business are: Political Risk Insurance (currency inconvertibility and transfer restriction, expropriation, war and civil disturbance, and breach of contract) and Non-honoring of financial obligations.

GDB generally creates a claim file for a policy at the contract level by type of risk coverage and recognizes one count for each claim filed by the guarantee holder and for which a claim reserve has been created. For the purposes of the claims development tables presented below, the Agency counts claims for policies issued even if the claims are eventually closed without a payment being made.

Notes to Financial Statements

For the purpose of short-duration contracts disclosures, incurred and paid claims information include both the probable loss reserve and reported claims for each accident year.

The following tables present information about incurred and paid claims development as of December 31, 2020, net of reinsurance, and cumulative claim frequency. The tables include unaudited information about incurred and paid claims development for the years ended June 30, 2012 through 2020, which is presented as supplementary information:

Political Risk Insurance and Non-Honoring: Incurred Claims (Specific and Probable Loss Reserves), Net of Reinsurance

In millions of US dollars

	Reported Claims											
	For the Fiscal Years Ended June 30, (Unaudited)									Period Ended		
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 Q2	Probable Loss Reserve	Cumulative number of Reported Claims
2012	3,833	8,232	5,350	4,303	4,303	4,303	4,303	4,303	4,303	4,303	5,593	1
2013		5,166	299	273	273	273	273	273	273	273	6,905	-
2014			-	-	-	-	-	-	-	-	1,752	1
2015				363	363	363	363	363	363	363	-	2
2016					4,458	4,458	4,458	4,458	4,458	4,458	-	-
2017						1,215	2,268	2,270	2,270	2,294	595	3
2018							-	-	-	-	1,175	2
2019								-	-	-	1,176	-
2020									-	-	4,561	-
2021 Q2												
PRI										-	1,786	-
NH										-	2,749	-
Total										11,691		

Political Risk Insurance: Cumulative Claim Payments, Net of Reinsurance

In millions of US dollars

	For the Fiscal Years Ended June 30, (Unaudited)									Period Ended
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 Q2
2012	-	-	-	4,303	4,303	4,303	4,303	4,303	4,303	4,303
2013		-	-	273	273	273	273	273	273	273
2014			-	-	-	-	-	-	-	-
2015				363	363	363	363	363	363	363
2016					-	4,458	4,458	4,458	4,458	4,458
2017						322	322	322	322	322
2018							-	-	-	-
2019								-	-	-
2020									-	-
2021 Q2										-
Total										9,719
Liabilities for claims, net of reinsurance										1,972

(Continued)

Notes to Financial Statements

The following table presents a reconciliation of the net incurred and paid claims development tables to the liability for claims on the Condensed Balance Sheet as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020	June 30, 2020
Specific Reserve for claims, Net of Reinsurance	$ 6,507	$ 6,525
Reinsurance recoverable, net of CECL allowance	16,013	16,205
Gross Specific Reserve for Claims	$ 22,520	$ 22,730

The following table presents supplementary information about average historical claims duration as of December 31, 2020:

Average Annual Percentage payment of Incurred Claims by Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9	10
Political Risk Insurance	11%	11%	13%	14%	0%	0%	0%	0%	0%	0%

Current Expected Credit Loss (CECL)

Effective July 1, 2020, the Agency adopted the CECL accounting guidance which established a single allowance model for all financial assets measured at amortized cost. The income statement effect of all changes in the allowance for credit losses is recognized in a new financial statement line item titled ‘Allowance for credit losses’.

Determining Allowance for Credit Losses

Determining the appropriateness of the allowance for credit losses requires management’s judgement about the effect of matters that are inherently uncertain. Subsequent credit exposure evaluations consider macroeconomic conditions, forecasts and other factors.

GDB computes a CECL allowance on the reinsurance recoverable assets in respect of the (i) IPR, (ii) retroactive reinsurance contracts and (iii) assets that relate to contracts under the Specific Reserve.

Reinsurance recoverable relating to IPR, Retroactive Reinsurance contracts and Specific Reserve

CECL allowance computation is based on the modeled net expected loss on GDB's guarantee portfolio and contracts in specific reserve, which is the Agency's expected loss on the net exposure retained after ceding to reinsurance counterparties. The estimated credit losses for reinsurance recoverable are computed at the individual reinsurer counterparty level, with the related credit ratings reviewed quarterly.

Notes to Financial Statements

Presentation of Allowance for Credit Losses

The table below summarizes the line-item presentation on both the Condensed Balance Sheet as well as the Condensed Statement of Income in relation to the presentation requirement under CECL.

	Condensed Balance Sheet		
Asset Type	**Asset Balance**	**Allowance for Credit Losses**	**Condensed Income Statement**
Reinsurance Recoverable	At cost	Embedded in Reinsurance recoverable, net	Presented as a credit loss allowance

Credit Quality of Reinsurance recoverable

Management monitors the credit quality of reinsurer counterparties through the review of external credit ratings on a quarterly basis as an input in the credit loss assessment. The following table presents the Agency's credit loss allowance on the reinsurance recoverables according to the S&P credit ratings as of December 31, 2020:

In millions of US dollars

Reinsurer Risk Rating	Credit Loss Allowance
A-	41
A	47
A+	314
AA-	156
AA	92
AAA	1
Total	**651**

Accumulated Allowance for Credit Losses

The following table provides the changes in the allowance for credit losses during the period:

In millions of US dollars

	December 31, 2020
Accumulated allowance, beginning of the fiscal year[a]	$ 639
Current period increase	13
Accumulated allowance, end of the period[ab]	$ 651
Attributable to:	
Prospective Reinsurance	$ 641
Retroactive Reinsurance	10

a. These amounts are embedded in the Reinsurance recoveable, net.

b. May differ from the sum of individual figures shown because of rounding.

Global Development Bank

Notes to Financial Statements

Note G: Pension and Other Post Retirement Benefits

International Bank for Reconstruction and Development (IBRD) is the plan sponsor and GDB, IBRD and International Finance Corporation (IFC) participate in a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan and Trust (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members, retirees and beneficiaries.

The SRP provides pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides certain pension benefits administered outside the SRP.

GDB uses a June 30 measurement date for its pension and other postretirement benefit plans.

All costs, assets and liabilities associated with these pension plans are allocated between GDB, IBRD, and IFC based upon their employees' respective participation in the plans. GDB and IFC reimburse IBRD for their proportionate share of any contributions made to these plans by IBRD. Contributions to these plans are calculated as a percentage of salary.

The following table summarizes GDB's respective share of the costs associated with the SRP, RSBP, and PEBP for the three and six months ended December 31, 2020 and December 31, 2019:

In millions of US dollars

	Three Months Ended December 31, 2020				Six Months Ended December 31, 2020			
Benefit Cost	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Interest cost	$ 1,721	$ 286	$ 203	$ 2,210	$ 3,441	$ 572	$ 406	$ 4,419
Expected return on plan assets	(2,800)	(417)	-	(3,217)	(5,599)	(834)	-	(6,433)
Amortization of unrecognized prior service cost[a]	12	43	6	61	24	87	11	122
Amortization of unrecognized net actuarial losses[a]	904	31	206	1,141	1,808	62	412	2,282
Net periodic pension (credit) cost, excluding service cost	$ (163)	$ (57)	$ 415	$ 195	$ (326)	$ (113)	$ 829	$ 390
Service cost[b]	2,333	547	435	3,315	4,666	1,094	870	6,630
Net periodic pension cost	$ 2,170	$ 490	$ 850	$ 3,510	$ 4,340	$ 981	$ 1,699	$ 7,020

a. Amounts reclassified into net income (See Note J - Accumulated Other Comprehensive Loss).

b. Included in Adminstrative Expenses on the Condensed Statement of Income.

In millions of US dollars

	Three Months Ended December 31, 2019				Six Months Ended December 31, 2019			
Benefit Cost	SRP	RSBP	PEBP	Total	SRP	RSBP	PEBP	Total
Interest cost	$ 1,930	$ 302	$ 258	$ 2,490	$ 3,859	$ 604	$ 516	$ 4,979
Expected return on plan assets	(2,932)	(427)	-	(3,359)	(5,864)	(854)	-	(6,718)
Amortization of unrecognized prior service cost[a]	14	43	5	62	28	87	11	126
Amortization of unrecognized net actuarial losses[a]	250	-	314	564	500	-	629	1,129
Net periodic pension (credit) cost, excluding service cost	$ (738)	$ (82)	$ 577	$ (243)	$ (1,477)	$ (163)	$ 1,156	$ (484)
Service cost[b]	1,879	436	364	2,679	3,758	873	727	5,358
Net periodic pension cost	$ 1,141	$ 354	$ 941	$ 2,436	$ 2,281	$ 710	$ 1,883	$ 4,874

a. Amounts reclassified into net income (See Note J - Accumulated Other Comprehensive Loss).

b. Included in Adminstrative Expenses on the Condensed Statement of Income.

Notes to Financial Statements

Note H: Other liabilities

The following table provides the composition of Other liabilities as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	December 31, 2020	June 30, 2020
Payable to affiliated organizations - administrative and other services (Note I)	14,102	16,227
Payable to reinsurers and brokers	16,825	46,334
Payable for investment securities purchased	7,096	17,843
Deferred gains	2,033	2,701
Miscellaneous	17,317	17,822
Other liabilities	$ 57,373	$ 100,927

Note I: Transactions with Affiliated Organizations

Shared Services and Joint Business Development Agreement

GDB contributes its share of the corporate costs. Payments for these services are made by GDB to IBRD, International Development Association (IDA) and IFC based on negotiated fees, charge backs and allocated charges where charge back is not feasible.

GDB transacts with affiliated organizations by entering into shared service agreements relating to administrative and shared services such as, office occupancy costs, computing services, and communication charges, among others. Transactions with IBRD and IFC also include brokerage fees paid for referral and due diligence services on jointly-developed guarantee projects.

Total fees paid by GDB reflected in the Condensed Statements of Income for the three and six months ended December 31, 2020 and December 31, 2019 are as follows:

In millions of US dollars

	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Fees charged by IBRD/IDA	$ 2,885	$ 2,188	$ 5,548	$ 4,490
Fees charged by IFC	1,386	1,910	2,359	2,723

Notes to Financial Statements

At December 31, 2020 and June 30, 2020, GDB had the following (payables to) receivables from its affiliated organizations with regard to administrative and other services and pension and other postretirement benefits:

In millions of US dollars

	December 31, 2020			June 30, 2020		
	Administrative & Other Services[a]	Pension and Other Postretirement Benefits[b]	Total	Administrative & Other Services[a]	Pension and Other Postretirement Benefits[b]	Total
IBRD/IDA	$ (10,545)	$ 20,954	$ 10,409	$ (13,072)	$ 17,729	$ 4,657
IFC	(3,557)	-	(3,557)	(3,155)	-	(3,155)
	$ (14,102)	$ 20,954	$ 6,852	$ (16,227)	$ 17,729	$ 1,502

a. This amount is included in Other liabilities on the Condensed Balance Sheet.

b. This amount is included in Other assets on the Condensed Balance Sheet.

Exposure Exchange with IBRD

During the fiscal year ended June 30, 2014, GDB entered into an exposure exchange agreement with IBRD under which GDB and IBRD agreed to exchange $120 million each of notional amount of exposures on their respective balance sheets with one another. Under the agreement, IBRD provided a guarantee on principal and interest pertaining to GDB’s guarantee exposure under its Non-Honoring of Sovereign’s Financial Obligation in exchange for GDB’s guarantee on IBRD's loan principal and interest exposure. As of December 31, 2020 and June 30, 2020, the outstanding off-balance sheet amounts relating to this exposure exchange agreementwere as follows:

In millions of US dollars

	December 31, 2020	June 30, 2020
IBRD's exposure in Brazil assumed by GDB	$ 39,858	$ 46,121
GDB's exposure in Panama assumed by IBRD	39,929	46,159
Net amount	$ (71)	$ (38)

As of December 31, 2020, the recorded liabilities related to GDB’s obligation under the existing exposure exchange agreement with IBRD amounted to $0.2 million ($0.2 million – June 30, 2020) and is included in the Insurance portfolio reserve on the Condensed Balance Sheet.

Notes to Financial Statements

IDA18 IFC-GDB Private Sector Window (PSW)

As of December 31, 2020, the amounts ceded to IDA under the first loss layer totaled $169,131,000 ($156,872,000 – June 30, 2020).

Total premium ceded to IDA and the related ceding commission reflected in the Condensed Statements of Income for the three and six months ended December 31, 2020 and December 31, 2019 are as follows:

In millions of US dollars

	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Premium ceded	$ 328	$ 223	$ 596	$ 439
Ceding commission	49	34	89	66

Note J: Accumulated Other Comprehensive Loss

The following tables present the changes in Accumulated Other Comprehensive Loss (AOCL) for the three and six months ended December 31, 2020 and December 31, 2019:

In millions of US dollars

	Six Months Ended December 31, 2020			
	Cumulative Translation Adjustment[a]	Unrecognized Net Actuarial Losses on Benefit Plans	Unrecognized Prior Service Costs on Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance, beginning of fiscal year	$ 3,435	$ (98,736)	$ (981)	$ (96,282)
Changes during the period:				
Amounts reclassified into net income[b]	-	2,282	122	2,404
Net change during the year	-	2,282	122	2,404
Balance, end of period	$ 3,435	$ (96,454)	$ (859)	$ (93,878)

a. Until June 30, 2006, all the currencies of transactions were deemed functional and the related currency transaction adjustments were reflected in Equity through Other Comprehensive Income.

b. See Note G, Pension and Other Post Retirement Benefits.

Notes to Financial Statements

In millions of US dollars

	Six Months Ended December 31, 2019			
	Cumulative Translation Adjustment	Unrecognized Net Actuarial Losses on Benefit Plans	Unrecognized Prior Service Costs on Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance, beginning of fiscal year	$ 3,435	$ (56,250)	$ (1,233)	$ (54,048)
Changes during the period:				
Amounts reclassified into net income[b]	-	1,129	126	1,255
Net change during the year	-	1,129	126	1,255
Balance, end of period	$ 3,435	$ (55,121)	$ (1,107)	$ (52,793)

a. Until June 30, 2006, all the currencies of transactions were deemed functional and the related currency transaction adjustments were reflected in Equity through Other Comprehensive Income.

b. See Note G, Pension and Other Post Retirement Benefits.

Note K: Fair Value Disclosures

Valuation Methods and Assumptions

As of December 31, 2020 and June 30, 2020, GDB had no assets or liabilities measured at fair value on a non-recurring basis.

Due from Banks

The carrying amount of unrestricted currencies is considered a reasonable estimate of the fair value of these positions.

Summarized below are the techniques applied in determining the fair value of GDB's financial instruments.

Investment securities

Investment securities are classified based on management's intention on the date of purchase, their nature, and GDB's policies governing the level and use of such investments. As of December 31, 2020, all of the financial instruments in GDB's investment portfolio were classified as trading. These securities are carried and reportedat fair value or at face value, which approximates fair value.

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include most government and agency securities, futures contracts, exchange-traded equity securities, ABS and TBA securities. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the discounted cash flow method using market observable inputs such as yield curves, credit spreads, and constant prepayment rates. Unless quoted prices are available, time deposits are reported at face value, which approximates fair value, as they are short term in nature.

Securities purchased under resale agreements, Securities sold under repurchase agreements, and Securities lent under securities lending agreements

These securities are of a short-term nature and reported at face value, which approximates fair value.

Notes to Financial Statements

Derivative instruments

Derivative contracts include currency forward contracts, currency swaps, TBAs, swaptions, and exchange-rated options and futures contracts. Currency forward contracts and currency swaps are valued using the discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads.

The following tables present GDB'S fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and June 30, 2020:

In millions of US dollars

	Fair Value Measurements on a Recurring Basis As of December 31, 2020			
	Level 1	*Level 2*	*Level 3*	*Total*
ASSETS				
Government and agency obligations	$ 602,998	$ 793,161	$ -	$ 1,396,159
Time deposits	29,300	474,076	-	503,376
Total investments - Trading	$ 632,298	$ 1,267,237	$ -	$ 1,899,535
Derivative Assets				
Currency forward contracts	$ -	$ -	$ -	$ -
Currency swaps	-	7	-	7
Interest rate swaps	-	3		3
Others[a]	54	-	-	54
	$ 54	$ 10	$ -	$ 64
Less:				
Amounts subject to legally enforceable master netting agreements				10
Derivative Assets, net				$ 54
LIABILITIES				
Securities sold under repurchase agreements and securities lent under securities lending agreements	-	10,025	-	10,025
Derivative Liabilities:				
Currency forward contracts	$ -	$ 4,809	$ -	$ 4,809
Currency swaps	-	23,492	-	23,492
Interest rate swaps	-	689	-	689
	$ -	$ 28,990	$ -	$ 28,990
Less:				
Amounts subject to legally enforceable master netting agreements				10
Derivative Liabilities, net				$ 28,980

a. These relate to swaptions, exchange traded options, and future contracts.

Notes to Financial Statements

In millions of US dollars

	Fair Value Measurements on a Recurring Basis As of June 30, 2020			
	Level 1	*Level 2*	*Level 3*	*Total*
ASSETS				
Time deposits	$ -	$ 949,530	$ -	$ 949,530
Government and agency obligations	255,757	621,101	-	876,858
Asset-backed securities	-	2,413	-	2,413
Total investments - Trading	$ 255,757	$ 1,573,044	$ -	$ 1,828,801
Derivative Assets				
Currency forward contracts	$ -	$ 483	$ -	$ 483
Currency swaps	-	378	-	378
Others[a]	11	-	-	11
	$ 11	$ 861	$ -	$ 872
Less:				
Amounts subject to legally enforceable master netting agreements				861
Cash collateral received				-
Derivative Assets, net				$ 11
LIABILITIES				
Derivative Liabilities:				
Currency forward contracts	$ -	$ 7,619	$ -	$ 7,619
Currency swaps	-	4,705	-	4,705
	$ -	$ 12,324	$ -	$ 12,324
Less:				
Amounts subject to legally enforceable master netting agreements				861
Derivative Liabilities, net				$ 11,463

a. These relate to swaptions, exchange traded options, and futures contracts.

During the six months ended December 31, 2020 and fiscal year ended June 30, 2020, there were no transfers within the levels of fair value hierarchy.

(Continued)

Notes to Financial Statements

Note L: Coronavirus Outbreak (COVID-19) Impact Assessment

The outbreak of the novel strain of Coronavirus (COVID-19) resulted in governments worldwide enacting measures to combat the spread of the virus, which include the implementation of travel restrictions, quarantine periods and social distancing. These measures have caused material disruption to businesses globally, resulting in an economic slowdown, with the governments and central banks reacting with significant monetary and fiscal interventions to stabilize economic conditions.

As of the reporting date, GDB has sufficient resources to meet its liquidity requirements. While GDB's credit exposures remain within established limits and in compliance with the Agency's existing governance framework.

GDB continues to operate under home-based work arrangements in line with the Agency's Business Continuity Procedure. Other prudent measures remain in place to ensure the health and safety of its employees, including travel restrictions, and holding of public events in virtual format, among others.

The duration of the COVID-19 pandemic is difficult to predict at this time, as is the ultimate efficacy of government and central bank interventions. The length and severity of these developments as well as the impact on the future operating performance and financial condition of GDB cannot be reasonably estimated at this point in time.

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INDEPENDENT AUDITORS' REVIEW REPORT

President and Board of Directors

Global Development Bank:

We have reviewed the accompanying condensed balance sheet of the Global Development Bank (GDB) as of December 31, 2020, and the related condensed statements of income and comprehensive income for the three-month and six-month periods ended December 31, 2020 and 2019, and the related changes in shareholders' equity, and cash flows for the six-month periods ended December 31, 2020 and 2019 (the "interim financial information").

Management's Responsibility for the Interim Financial Information

GDB's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

Report on Condensed Balance Sheet as of June 30, 2020

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of GDB as of June 30, 2020, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 7, 2020. In our opinion, the accompanying condensed balance sheet of GDB as of June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Deloitte & Touche LLP

February 10, 2021