



**IIC**

Inter-American  
Investment Corporation  
A Member of the IDB Group

# 2016 ANNUAL REPORT

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## Financial Highlights

YEAR ENDED DECEMBER 31

\$ in thousands

	2016	2015	2014	2013	2012
<b>Statement of Income</b>					
Total income	<b>114,134</b>	56,897	61,340	68,342	63,359
Total income, net of interest expense	<b>101,579</b>	47,454	48,860	51,979	46,186
Total operating expenses	<b>81,249</b>	50,006	34,799	42,381	40,200
Net income	<b>17,771</b>	3,002	13,334	19,206	5,560
<b>Balance Sheet</b>					
Net loan and equity investments	<b>851,569</b>	954,002	1,004,437	1,005,655	1,040,902
Total assets	<b>2,146,724</b>	1,505,296	1,989,486	1,786,805	1,814,513
Borrowings and long-term debt	<b>1,062,383</b>	598,456	1,099,241	903,502	969,358
Equity	<b>1,021,982</b>	857,324	845,137	851,826	778,580
<b>Ratios</b>					
Return on average assets	<b>1.0%</b>	0.2%	0.7%	1.1%	0.3%
Return on average equity	<b>1.9%</b>	0.4%	1.6%	2.4%	0.7%
Debt to equity	<b>104%</b>	70%	130%	106%	125%
Equity to assets	<b>48%</b>	57%	43%	48%	43%
Liquidity to total assets	<b>59%</b>	35%	46%	40%	42%

\*Includes IDB cross-booked approved amounts and technical cooperation approvals; does not include B loans.

\*\*Projects that score a Yes or Exceptional on Development Outcome gender indicator in the DELTA. Excludes TFFP approvals and transactions approved without DELTA assessment.

## Operational Highlights

YEAR ENDED DECEMBER 31

\$ in millions

2016

### Approvals

<b>Number of projects</b>	162
Loans	101
Guarantees	59
Equity investments	2
<b>Amount</b>	2,237
Loans	2,028
Guarantees	183
Equity investments	27
<b>Group C&amp;D countries (based on amount)</b>	35.7%

### Disbursements

Disbursements	1,417
Transactions	184

### Development assets portfolio

Active portfolio	6,865.3
Active portfolio for Group C&D countries (based on amount)	47.4%

### Basic mobilization

Core mobilization	860.2
Committed amount	1,356.6
Core mobilization ratio (times)	0.6

### Advisory Services

Percentage of approvals for climate finance*	35.5%
Mobilization of donor resources for blended finance – climate	162.5
Percentage of projects with gender outcomes**	5%
Number of new client engagements for advisory services during 2016	30



**Luis Alberto Moreno**

*Chairman of the Board of Executive Directors*

## **LETTER OF TRANSMITTAL**

Chairman of the Board of Governors  
Inter-American Investment Corporation  
Washington, D.C.

Mr. Chairman:

Pursuant to the Agreement Establishing the Inter-American Investment Corporation (IIC), I am pleased to present the Annual Report of the IIC for 2016 and the audited financial statements, including the balance sheet as of December 31, 2016 and 2015, and the related statements for the years then ended.

The report summarizes the Corporation's main achievements and key milestones over the course of its first year under its expanded mandate.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'L' followed by a horizontal stroke that ends in a small hook.

Luis Alberto Moreno

*Chairman*

*Board of Executive Directors*

*Inter-American Investment Corporation*



**James P. Scriven**  
*General Manager*

## **LETTER FROM THE GENERAL MANAGER**

In 2015, the Governors of the Inter-American Investment Corporation (IIC) and the Inter-American Development Bank (IDB) set in motion a plan to better engage with public and private companies in Latin America and the Caribbean. Three of the four business areas working with the private sector across both institutions were consolidated into the IIC, underpinned by a \$2.03 billion capital increase to support the IIC's continued growth.

Today the Governors' vision for a new institution has become a reality, with the IIC completing its first year of business under its expanded mandate.

The year 2016 was one of transitions and new beginnings for the Corporation. Significant groundwork was laid to create an institution that puts the client experience at the center of its operations, while increasing strategic selectiveness and scaling up local presence across all regional member countries.

As part of these efforts, the IIC has sought to expand its product range from mainly dollar-denominated loans to an integrated offering of products and services, providing targeted support to clients while stimulating growth in the region.

One way the new IIC will serve its clients better is through a strategic shift towards more infrastructure and corporate projects. Of the \$2.2 billion in overall approvals in 2016, \$1.0 billion (or 45%) were approved in infrastructure. By comparison, projects in this segment made up an average of 29% of approvals over the previous three business cycles. Corporates, on the other hand, grew to \$372 million in 2016.

Honing in on its client focus, the IIC closed the year with \$1.4 billion in disbursements. The strategic decision to concentrate efforts on legacy closings and disbursements led to a portfolio of 413 operations for a total of \$6.9 billion as of year-end 2016, with 47.4% of projects in C&D countries.

The IIC started its new institutional chapter with a new management and administrative team and new talent brought in from the IDB and outside. Training and recruitment were central, as the IIC sought to refocus its institutional culture on clients, innovation, leveraging of partnerships, responsibility for results and technical excellence.

All the same, the private sector cannot solve the region's development challenges on its own. Recognizing this reality, the IIC has actively sought out ways to partner with the IDB on a more strategic level, leveraging expertise from across both institutions and creating synergies for its day-to-day business. Among other initiatives, the role of the IDB country representatives was extended to the IIC as of January 1, 2016.

For Latin America and the Caribbean, this past year was full of rapid changes and uncertainty. Looking back, I am confident that the IIC will continue to play a countercyclical role, leveraging its renewed foundations to help its clients navigate whatever challenges lie ahead.

A handwritten signature in black ink, appearing to read 'James P. Scriven', with a long, sweeping underline.

James P. Scriven  
*General Manager*  
*Inter-American Investment Corporation*



# **A NEW BEGINNING**

## **The year 2016 marked the beginning of a new era for the Inter-American Investment Corporation.**

Driven by the desire to better serve private enterprises across Latin America and the Caribbean, the IIC began the year as a unified private-sector entity with an expanded mandate, integrating all private sector-facing business areas of the Inter-American Development Bank Group under one roof.

Following this comprehensive restructuring effort, the IIC prioritizes client focus, strategic selectivity and local presence, tailoring financial products and services to local and regional market demand. Building its brand as the premier client-focused multilateral bank for Latin America and the Caribbean, in 2016, the IIC focused on increasing disbursements, developing a stronger pipeline in infrastructure and corporates and strengthening teams and processes.

As part of its client commitment, the IIC expended considerable effort on legacy closings, leading to \$1.4 billion in disbursements for the year. In a reflection of its strategic shift, the Corporation approved \$1.0 billion in infrastructure alone and closed the year with a record \$2.2 billion in overall approvals. A total of \$372 million were approved in the corporate segment, representing a 65% increase over the previous year.

Recognizing IIC's financial strength and enhanced shareholder support as part of its \$2.03 billion capital increase, Moody's upgraded the institution's credit rating from Aa2 to Aa1 in 2016. Fitch and S&P reaffirmed their AAA and AA ratings,

respectively. A \$500 million bond placement under the European Medium Term Note Program – IIC's third issue in global capital markets – further cemented the institution's solid financial standing.

Complementing its robust performance and new strategic focus, the IIC also developed a revised framework for advisory services, leveraging its expertise and additionality through targeted assistance and blended finance instruments. IIC's work in this space is now strategically focused on climate change, gender equality and corporate sustainability.

To ensure maximum impact across all projects, the IIC introduced a new Development Effectiveness, Learning, Tracking and Assessment tool. Dubbed DELTA, the new mechanism harmonizes and supersedes previous instruments in use before the restructuring effort, providing a sound methodology for ex ante evaluation and measurement.

In its first year of operations under an expanded mandate, the IIC invested significant effort to ensure a smooth transition and achieve maximum social, environmental and financial results. Guided by a desire to build stronger client relationships, the institution readied itself for a successful launch into a new era, leveraging a robust pipeline, innovative culture and clear vision of the future.

Moving forward, the IIC will continue pursuing ambitious goals, identifying new opportunities for catalytic development through strategic financing and advisory services and pushing boundaries as it seeks to improve lives through the private sector in Latin America and the Caribbean.

# RECAP OF 2016





# FINANCING

**The IIC's focus during the 2016 fiscal year was on customer care and on creating a new pipeline more heavily weighted in the infrastructure and corporate sectors, highlighting a strategic shift in its operations.**

In 2016, 162 operations were approved for a total of \$2.2 billion, of which 36% were in Group C and D countries, 45% in the infrastructure sector, 17% in the corporate sector, and 38% in the financial institutions sector. Of the total approvals, \$1.8 billion were recorded on the IDB's books and \$443 million on the IIC's books.

Management allocated significant resources to address the large volume of outstanding closings and disbursements. This effort bore fruit with the disbursement in 2016 of \$1.4 billion. As a result, the combined IDB and IIC portfolio consists of 413 operations for a total of \$6.9 billion, of which \$6 billion is recorded on the IDB's books and \$0.9 billion on the IIC's books.

Asset quality remains stable, with a good internal risk rating. In addition, as of month-end December 2016, the IIC is managing \$3.8 billion in B loans and \$449 million in third-party funds. When added to treasury assets, these resources total \$12.4 billion in assets under management. In the first year of operations, the core mobilization indicator reached a total of \$860 million, yielding a core mobilization ratio of 0.6 times. The catalytic mobilization indicator reached \$1.2 billion, equivalent to a catalytic mobilization ratio of 0.9 times.

## Trade Finance Facilitation Program (TFFP)

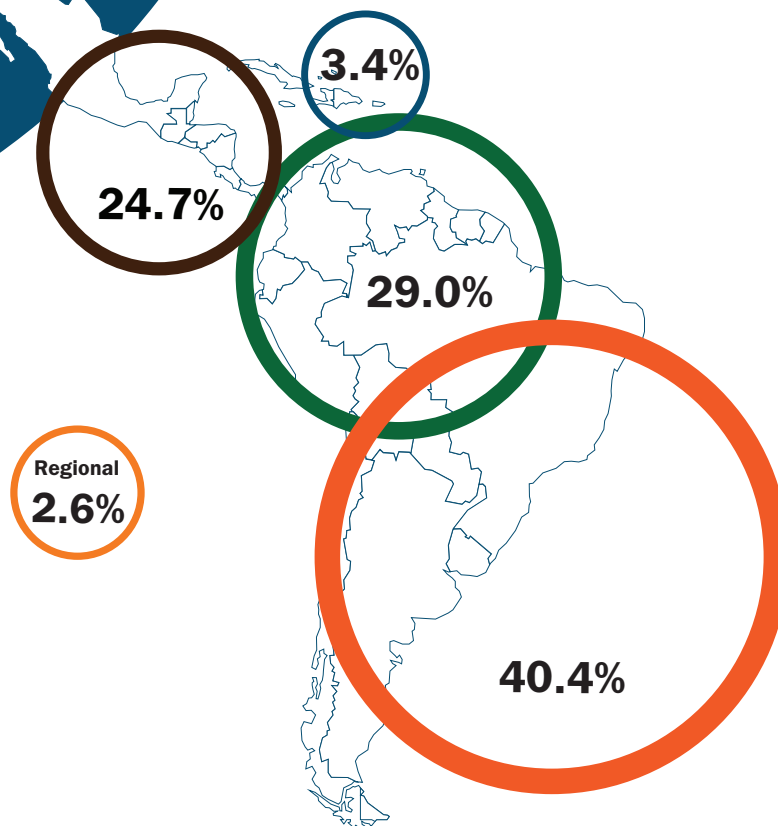
As part of its restructuring effort, the IIC absorbed the Trade Finance Facilitation Program (TFFP). Previously managed within the IDB, the program helps banks across the region access international trade finance markets through technical cooperation, knowledge creation and financial products.

In 2016, the TFFP approved and disbursed 118 operations for \$610 million in trade financing in Latin America and the Caribbean, including \$526 million in A loans and \$84 million in guarantees. Added to this is \$382 million in resource mobilization through B loans. The TFFP network currently includes 104 issuing banks in 21 countries in the region and more than 100 confirming banks around the world.

In 2016, the TFFP supported a total of 1,287 individual foreign trade transactions for a total of \$898 million. Financial institutions in Group C and D countries originated 72% of these transactions, accounting for 58% of the dollar volume supported during the year. In 2016, the IIC's Board of Executive Directors approved the increase of the program limit to \$1.5 billion.

2016  
 APPROVALS:  
 \$2.2  
 billion\*

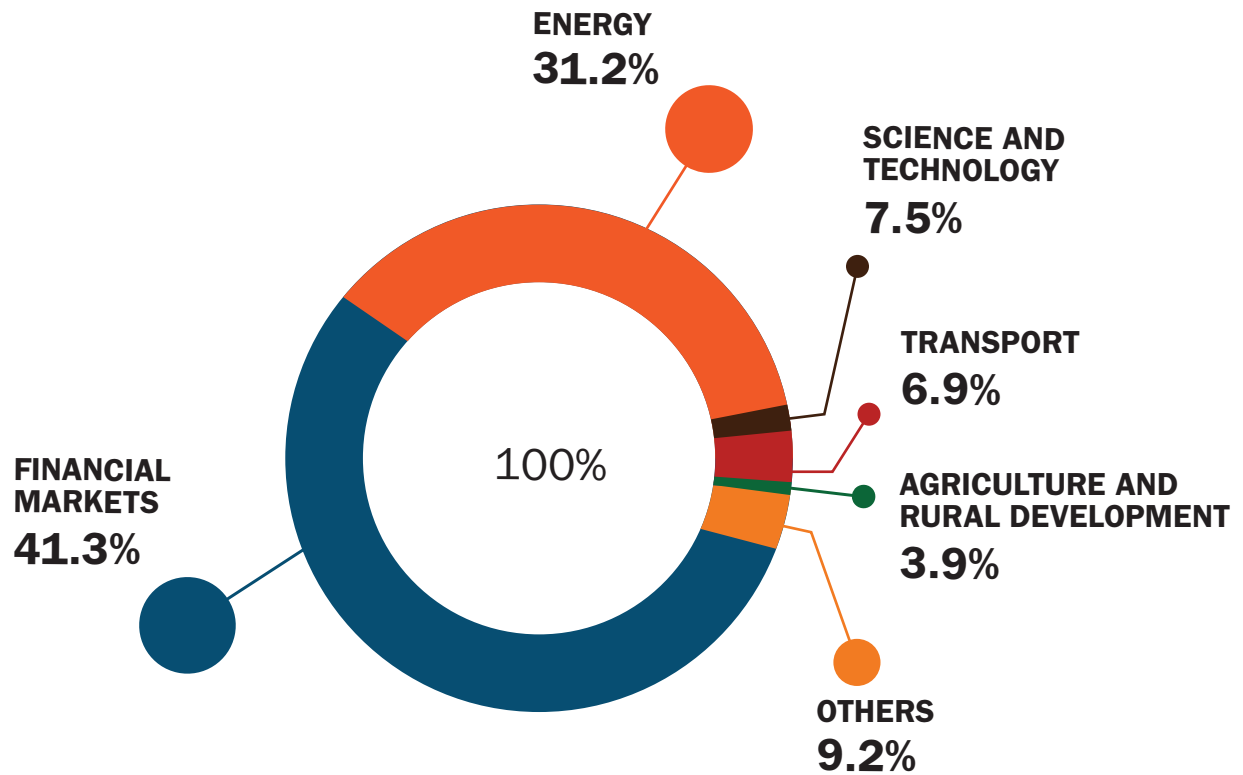
## APPROVALS BY REGION



Region	Approved Amount %
Southern Cone	40.4%
Andean Countries	29.0%
Mexico and Central America	24.7%
Caribbean	3.4%
Regional	2.6%
<b>Total</b>	<b>100%</b>

\* Of the total approvals, \$1.8 billion were recorded on the IDB's books and \$443 million on the IIC's books.

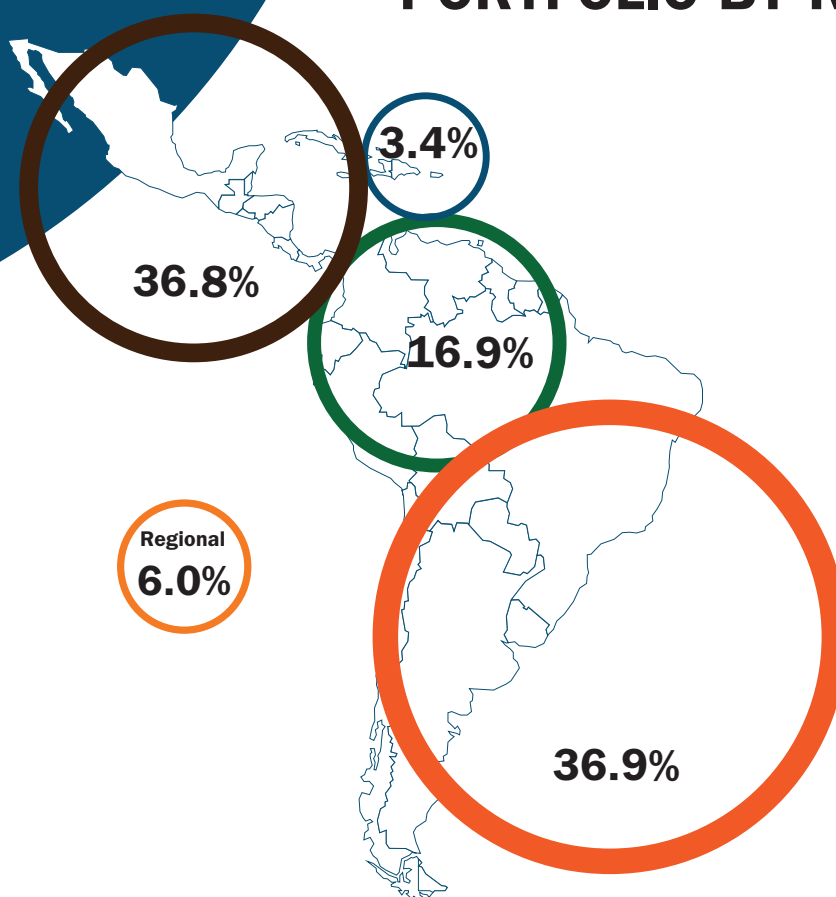
# APPROVALS BY SECTOR



<b>Sector</b>	<b>Approved Amount %</b>
Financial Markets	41.3%
Energy	31.2%
Science and Technology	7.5%
Transport	6.9%
Agriculture and Rural Development	3.9%
Others	9.2%
<b>Total</b>	<b>100%</b>

OUTSTANDING  
PORTFOLIO:  
**\$6.9**  
billion\*

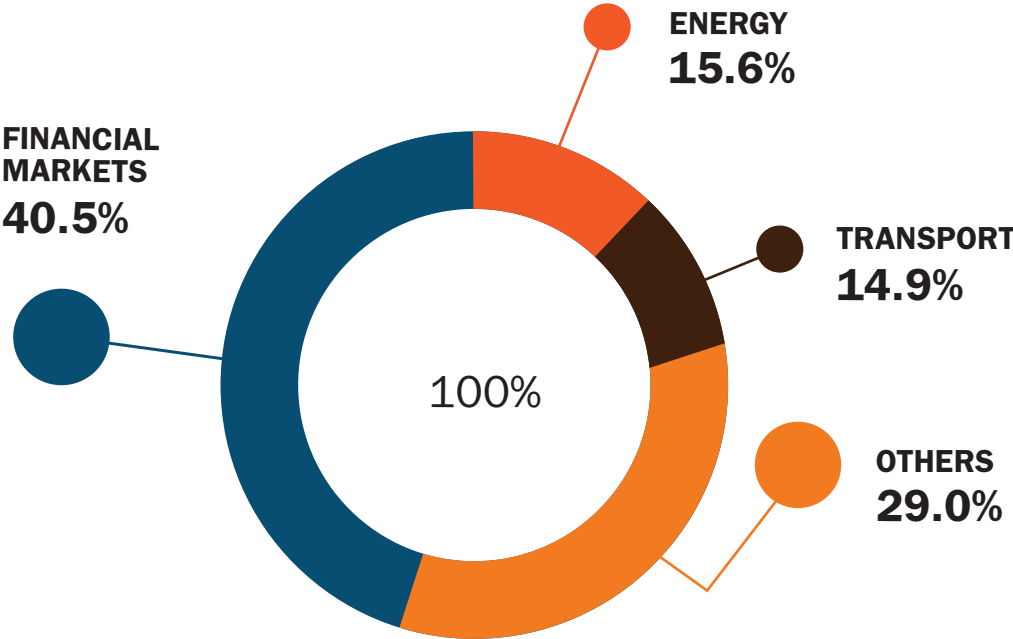
## OUTSTANDING PORTFOLIO BY REGION



Region	Outstanding Amount %
Southern Cone	36.9%
Mexico and Central America	36.8%
Andean Countries	16.9%
Regional	6%
Caribbean	3.4%
<b>Total</b>	<b>100%</b>

\*Of the total portfolio, \$6.0 billion were recorded on the IDB's books and \$0.9 billion on the IIC's books.

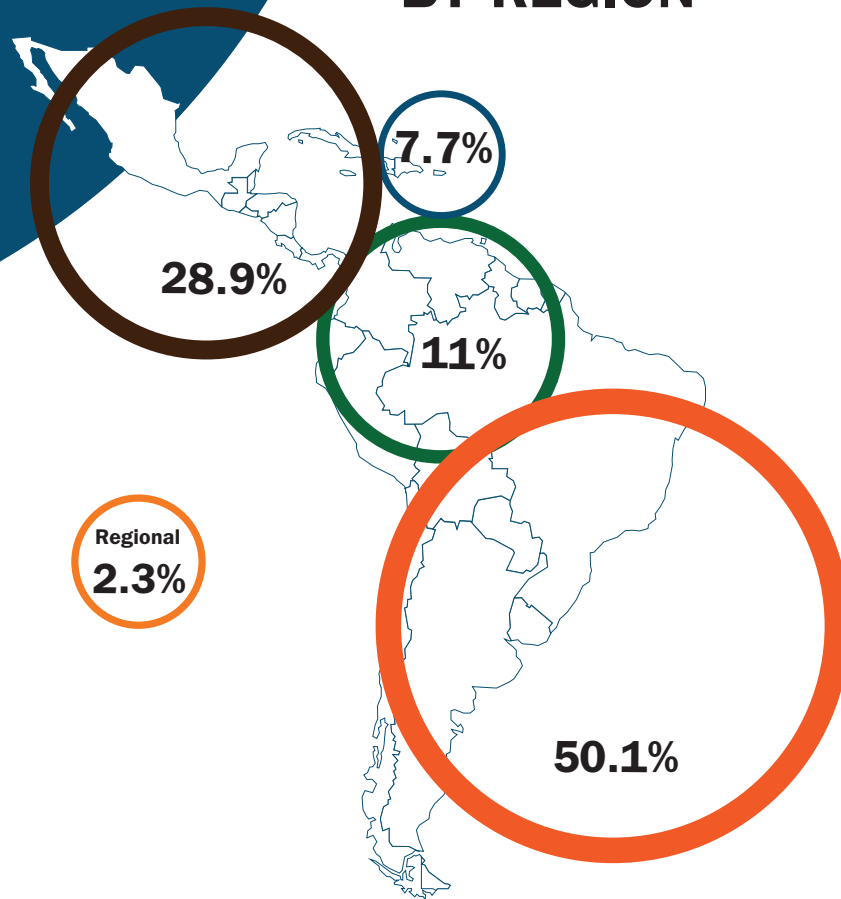
# OUTSTANDING PORTFOLIO BY SECTOR



<b>Sector</b>	<b>Outstanding Amount %</b>
Financial Markets	40.5%
Energy	15.6%
Transport	14.9%
Others	29.0%
<b>Total</b>	<b>100%</b>

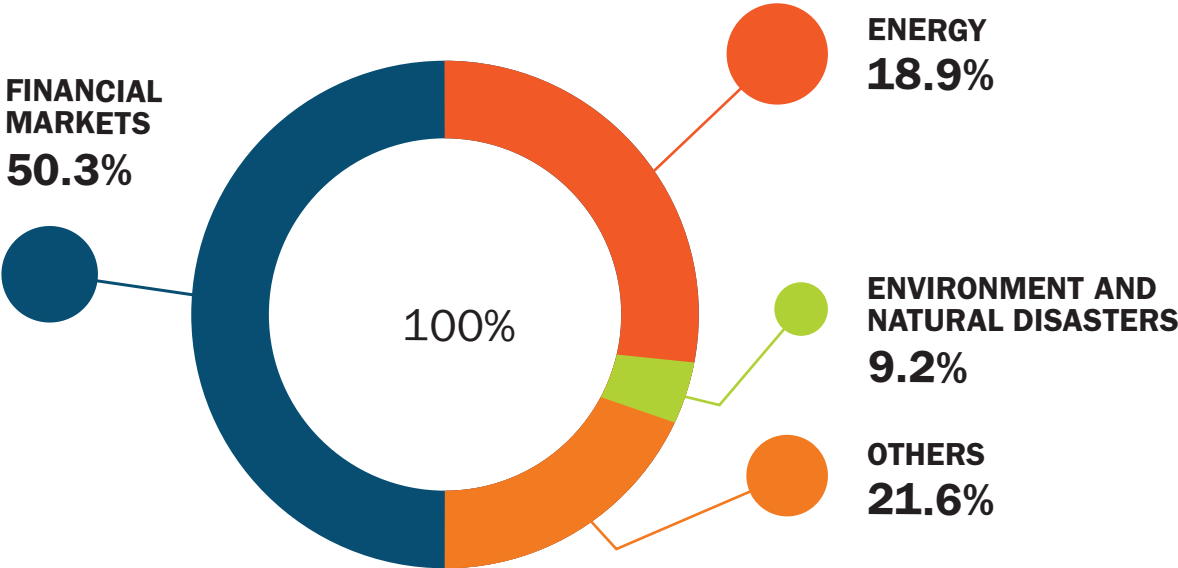
2016  
DISBURSEMENTS  
\$1.4  
billion

## DISBURSEMENTS BY REGION



Region	Disbursed Amount %
Southern Cone	50.1%
Mexico and Central America	28.9%
Andean Countries	11.0%
Caribbean	7.7%
Regional	2.3%
<b>Total</b>	100%

# DISBURSEMENTS BY SECTOR



<b>Sector</b>	<b>Disbursed Amount %</b>
Financial Markets	50.3%
Energy	18.9%
Environment and Natural Disasters	9.2%
Others	21.6%
<b>Total</b>	<b>100%</b>

# ADVISORY SERVICES AND BLENDED FINANCE

**In 2016, the IIC launched its redesigned Advisory Services and Blended Finance offering, helping better identify, design and execute sustainable projects.**

The IIC combines financial and non-financial solutions to mainstream international best practices in sustainability across all IIC projects and maximize development impact and value for its clients.

The IIC is now strategically focused on three priority themes - climate change, gender equality and corporate sustainability - and is using donor resources and fees from clients to finance its services in this space.

The IIC's climate advisory services range from climate-smart agriculture solutions to clean-energy feasibility studies and design of financial services for green technologies. To support gender equality in corporations and financial institutions, the IIC offers gender appraisals and designs financial services for women. It has also made strides promoting gender equality within client companies through the EDGE Certified Foundation and the United Nations' Women's Empowerment Principles, both of which offer diagnostic tools to gauge gender equality at the corporate level.

In corporate sustainability, the IIC continued its work with shared-value audits, corporate governance and sustainable value chains. In 2016, the IIC managed 81 projects as part of its advisory services.

The IIC's offering in blended finance ranges from technical assistance and project preparation grants for project bankability to investment grants and low-interest, long-maturity loans for project feasibility. It also includes guarantees, first-loss protection and subordinated loans and equity for project derisking in renewable energy, energy efficiency, climate-smart agriculture and climate change adaptation. In 2016, the Corporation mobilized \$162.5 million in donor climate resources and managed 30 blended finance operations representing a total project volume of over \$500 million.

The advisory and blended finance services of the Corporation are made possible by grants and lending contributions from the governments of Austria, China, Italy, Korea, the Netherlands, the United States, and Wallonia-Belgium, as well as the Canadian Climate Fund, the Climate Investment Funds, the Global Environment Facility, the Green Climate Fund and the Nordic Development Fund.

During 2016, the IIC approved more than \$840 million in climate finance, as part of a joint approach to climate finance adopted by a group of multilateral development banks. This includes approvals of loans, guarantees, investment grants, technical cooperation and equity operations as well as internal and external resources managed by IIC.



# DEVELOPMENT OUTCOME

As part of its mandate, the IIC develops, implements and monitors development impact across all its investments through a comprehensive Development Effectiveness Framework (DEF). This framework covers all stages of the project cycle from origination and eligibility to structuring and approval, supervision and evaluation. It also serves a dual purpose of selecting the right investments while ensuring they reach their development goals. The DEF ultimately allows the IIC to learn from its operations, sharing insights and maximizing impact beyond its direct financing.

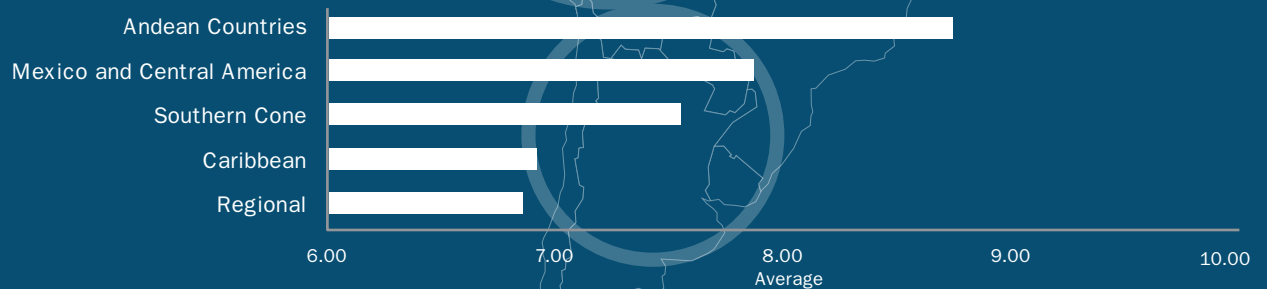
This past year the first version of a new Development Effectiveness Learning, Tracking, and Assessment tool (DELTA) was launched and integrated into IIC's new business processes and systems. The DELTA tool guides the selection and design of investments, providing an ex-ante assessment of their development impact and additionality and ensuring alignment with institutional and country priorities. The median score of approved projects in 2016 was 7.6. Infrastructure projects had a higher expected development impact at 8.3, followed by financial institutions and financial products at 7.6 and corporates at 7.1.

To better track the performance of investments, a new supervision system is currently under development and will be launched in 2017. Applying the DELTA methodology to the implementation stage, the new system will assess a project's development impact and progress towards specific targets. This represents a key asset for progress reporting at the project and portfolio level, as well as for business analytics and feedback generation for clients.

Finally, once projects reach maturity, they are evaluated through Expanded Supervision Reports (XSR). In 2016, 40 projects approved during, or shortly after, the financial crisis were evaluated with this tool. The reports show IIC played an important role improving access to financial markets and financing under favorable conditions at a time when access to financing was limited across the region.

In addition, select projects are evaluated through in-depth impact evaluations, which address attribution and identify concrete performance drivers to improve future project designs. In 2016, IIC developed an impact evaluation strategy that includes guidelines on which projects will be included in this type of analysis. Six impact evaluations were launched in the areas of transportation, financial services, education and health.

# AVERAGE DELTA OF 2016 APPROVALS\*



REGION	AVERAGE	MIN	MAX
Andean Countries	8.8	7.0	9.7
Mexico and Central America	7.8	6.0	10.0
Southern Cone	7.6	6.4	9.5
Caribbean	6.9	6.6	7.3
Regional	6.8	6.2	7.6

\*Does not include TFFP operations.

# AVERAGE DELTA OF 2016 APPROVALS BY SECTOR\*



SECTOR	AVERAGE	MIN	MAX
Overall	7.8	6.0	10.0
Corporates	7.4	6.4	10.0
Financial	7.6	6.0	9.7
Infrastructure and Energy	8.5	7.3	9.5

\*Does not include TFFP operations.

# APPROVALS IN 2016

*\$ in thousands*

## Loans

Country	Name	Sector	Amount
<b>Argentina</b>			
	Citrusvil	Agriculture and Rural Development	\$ 25,000
	Telecom Personal	Science and Technology	100,000
	Manantiales Wind Project	Energy	100,400
	AUSA Second Road Safety and Urban Mobility Program	Transport	154,040
	Banco Galicia Green Financing Partnership	Financial Markets	30,000
<b>Bahamas</b>			
	CBC Solar PV Project	Energy	1,000
<b>Chile</b>			
	Tanner Factorline IV	Financial Markets	20,000
	Avenatop	Agriculture and Rural Development	5,000
	Securitizadora Security	Financial Markets	50,000
	Itelecom Energy Efficient Street Lighting	Energy	7,000
<b>Colombia</b>			
	Bancamia	Financial Markets	20,000
	EPM - Ituango Hydropower Plant	Energy	400,000
	Colombian Energy Efficiency Trust	Financial Markets	20,000
<b>Costa Rica</b>			
	ATI-Orbe	Private Firms and SME Development	2,875
	CAFSA IV	Financial Markets	4,000
	Coopeservidores Housing Financing Partnership	Urban Development and Housing	30,000
<b>Dominican Republic</b>			
	Securepharma expansion	Private Firms and SME Development	4,100
<b>Ecuador</b>			
	Hidrowarm	Energy	10,000
	Universidad de las Americas Loan	Education	18,000
	Interagua Corporate Loan (Guayaquil)	Water and Sanitation	60,000

## Loans (continued)

Country	Name	Sector	Amount
<b>El Salvador</b>			
	Healthco	Health	118
	Cerámicas del Pacifico	Industry	394
<b>Guatemala</b>			
	El Siglo	Agriculture and Rural Development	5,000
<b>Haiti</b>			
	Carifresh	Agriculture and Rural Development	160
<b>Honduras</b>			
	Ficohsa Sub-Debt Partnership	Financial Markets	12,000
<b>Mexico</b>			
	Nixte	Agriculture and Rural Development	3,500
	Novelda	Industry	3,365
	VINTE III	Urban Development and Housing	16,162
	Supply Chain Financing E Factor Diez-Nemak	Industry	40,000
	SolarCity Green Securitization Facility	Financial Markets	74,219
	Mezzanine Mexico Uno	Financial Markets	20,781
	Equipa-T	Financial Markets	969
<b>Panama</b>			
	Banco Delta	Financial Markets	5,000
	Costa Norte Gas-fired Thermal Power Plant and LNG Terminal Project	Energy	\$100,000
<b>Paraguay</b>			
	Fibrac II	Industry	440
<b>Peru</b>			
	Sociedad Agricola Viru	Agriculture and Rural Development	48,500
<b>Uruguay</b>			
	Campo Palomas Wind Power Project	Energy	67,000
	Natelu	Energy	6,100
	Yarnel	Energy	6,400
<b>Regional</b>			
	Unicomer Limited/ El Gallo Mas Gallo De Alajuela / Wisdom Product	Other	30,000
			<b>\$1,501,525</b>

## Guarantees

Country	Name	Sector		Amount
<b>Paraguay</b>				
	TIGO	Science and Technology	\$	68,895
	BBVA Paraguay SME Partnership	Financial Markets		29,515
				<b>\$98,410</b>

## Equity

Country	Name	Sector		Amount
<b>Regional</b>				
	Portland Caribbean Fund II Commitment Increase	Financial Markets	\$	10,200
	ABRAAJ - ALAF II Commitment Increase	Financial Markets		17,000
				<b>\$27,200</b>

## TFFP Program – Loans

Country	Name		Amount
<b>Argentina</b>			
	Banco Industrial S.A.	\$	4,000
	Banco Supervielle S.A.		13,500
<b>Bolivia</b>			
	Banco Económico S.A.		7,000
	Banco Ganadero S.A.		5,000
	Banco Mercantil Santa Cruz S.A.		2,413
<b>Brazil</b>			
	Banco ABC Brasil S.A.		75,000
	Banco Industrial do Brasil S.A.		11,175
	Banco Santander S.A.		40,000
	Banco Sofisa S.A.		11,998

## TFFP Program – Loans *(continued)*

<b>Country</b>	<b>Name</b>	<b>Amount</b>
<b>Chile</b>		
	Banco Consorcio	17,000
	Banco Internacional	4,200
<b>Costa Rica</b>		
	Banco BAC San José, SA	10,000
	Banco Lafise, S.A.	5,000
<b>Dominican Republic</b>		
	Banco de Reservas de la República Dominicana	70,000
<b>Ecuador</b>		
	Banco de la Produccion S.A. (Produbanco)	25,000
	Banco del Pacífico S.A.	10,000
<b>El Salvador</b>		
	Banco Agrícola S.A	10,000
	Banco Promerica, SA	4,000
<b>Guatemala</b>		
	Banco Agromercantil de Guatemala, S.A.	9,987
	Banco Industrial, S.A.	100,000
	Banco Internacional, S.A.	10,000
<b>Honduras</b>		
	Banco Financiera Centroamericana, S.A. (FICENSA)	5,450
	Banco Financiera Comercial Hondureña S.A. (Ficohsa)	28,000
<b>Nicaragua</b>		
	Banco de Finanzas S.A.	2,701
	Banco de la Producción, S.A. (Banpro)	2,967
<b>Panama</b>		
	Banco Aliado, S.A.	2,471
	Towerbank International Inc.	9,000
<b>Paraguay</b>		
	Banco Continental S.A.E.C.A.	10,300
<b>Peru</b>		
	Banco Interamericano de Finanzas S.A.	20,000
		<b>\$526,163</b>

## TFFP Program – Guarantees

Country	Name	Amount
<b>Argentina</b>		
	Banco de Galicia y Buenos Aires S.A.	\$ 190
	Banco Industrial S.A.	8,931
	Banco Macro S.A.	2,000
	Banco Supervielle S.A.	1,439
<b>Bolivia</b>		
	Banco Bisa S.A.	471
	Banco De Crédito De Bolivia S.A.	550
	Banco Económico S.A.	600
	Banco Nacional de Bolivia S.A.	1,248
<b>Brazil</b>		
	Banco Daycoval S.A.	14,000
	Banco Industrial do Brasil S.A.	19,850
<b>Costa Rica</b>		
	Banco Promerica de Costa Rica, S.A.	2,985
<b>Ecuador</b>		
	Banco Bolivariano C.A.	58
<b>El Salvador</b>		
	Banco Agrícola S.A.	10,000
<b>Guatemala</b>		
	Banco Internacional, S.A.	5,000
<b>Honduras</b>		
	Banco Atlántida S.A.	3,306
	Banco Hondureño del Café, S.A.	530
	Banco Lafise Honduras S.A.	882
	Banco Promerica S.A.	600
<b>Nicaragua</b>		
	Banco de Finanzas S.A.	8,100
	Banco de la Producción, S.A. (Banpro)	833
<b>Panama</b>		
	Banco Aliado, S.A.	2,563
		<b>\$84,136</b>



# 45 MEMBER COUNTRIES

ARGENTINA

AUSTRIA

BAHAMAS

BARBADOS

BELGIUM

BELIZE

BOLIVIA

BRAZIL

CANADA

CHILE

COLOMBIA

COSTA RICA

DENMARK

DOMINICAN REPUBLIC

ECUADOR

EL SALVADOR

FINLAND

FRANCE

GERMANY

GUATEMALA

GUYANA

HAITI

HONDURAS

ISRAEL

ITALY

JAMAICA

JAPAN

MEXICO

NETHERLANDS

NICARAGUA

NORWAY

PANAMA

PARAGUAY

PEOPLE'S REPUBLIC OF CHINA

PERU

PORTUGAL

REPUBLIC OF KOREA

SPAIN

SURINAME

SWEDEN

SWITZERLAND

TRINIDAD AND TOBAGO

UNITED STATES OF AMERICA

URUGUAY

VENEZUELA

# Our Institutional Governance

## **Mandate**

The IIC's mandate is to maximize its development impact within a framework of long-term financial sustainability.

## **Mission**

The IIC promotes the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises.

## **Board of Governors**

All the powers of the IIC are vested in its Board of Governors, consisting of one governor and one alternate governor appointed by each member country. Among the powers vested in the Board of Governors that cannot be delegated to the Board of Executive Directors are the admission of new member countries, the engagement of external auditors, approval of the IIC's audited financial statements, and amendment of the Agreement Establishing the IIC.

## **Board of Executive Directors**

The Board of Executive Directors is responsible for the conduct of the operations of the IIC and exercises all the powers granted to it under the Agreement Establishing the IIC or delegated to it by the Board of Governors. The Board of Executive Directors establishes the basic organizational structure of the IIC, including the number and general responsibilities of its main administrative and professional positions. It also approves the IIC's budget. The 13 executive directors and their alternates serve three-year terms and represent one or more member countries of the IIC.

The four-member Executive Committee of the Board of Executive Directors consists of the director or alternate appointed by the member country holding the largest number of shares in the IIC, two directors representing regional developing member countries of the IIC, and one director representing other member countries. All loans and investments of the IIC in companies in its member countries are considered by this committee.

## **Management**

The President of the IDB is the ex-officio Chairman of the Board of Executive Directors of the IIC. He presides over meetings of the Board of Executive Directors but does not have the right to vote except in the case of a tie. He may participate in meetings of the IIC Board of Governors but does not have voting rights.

The Board of Executive Directors appoints the General Manager of the IIC by a four-fifths majority of the total voting power, on the recommendation of the Chairman of the Board of Executive Directors.

The General Manager handles the day-to-day business of the institution under the direction of the Board of Executive Directors and the general supervision of the Chairman of the Board of Executive Directors. The General Manager is also responsible for the organization, appointment, and dismissal of the IIC's officers and staff, in consultation with the Board of Executive Directors and the Chairman of the Board of Executive Directors. The General Manager may participate in meetings of the Board of Executive Directors but does not have the right to vote at these meetings.

The General Manager also establishes the IIC's operating structure and may modify it to keep pace with the organization's changing needs.

**Staff**

On January 1, 2016, the General Manager of the Corporation, its five Executives and six of its Division Chiefs had been appointed as a result of open, competitive processes. A general staffing recruitment process was designed and executed for the recruitment of all other international staff positions in the consolidated entity.

The IIC began the year with 183 (154 international and 29 national) staff on board, comprising staff from the former IIC, the former IDB private sector windows, and external hires from the competitive processes held as part of the restructuring effort.

Recruitment processes for the remaining vacant Division Chief positions, Critical Roles and International Staff positions were undertaken during 2016. A total of 42 staff (39 international and 3 national) were hired throughout the year, including five Division Chiefs.

As of December 31, 2016, there were 214 (184 international and 30 national) staff on board at the IIC. Of this total, 16% of staff are located at IIC offices across the region, including Argentina, Colombia, Costa Rica, Ecuador, El Salvador, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.

## Compensation Structure for IIC Headquarters Staff<sup>1</sup>, December 31, 2016<sup>2</sup>

Level	Position	Minimum	Maximum	Count of Staff	% of Staff	Average Salary	Average Benefits <sup>3</sup>
EXE	Executive	\$223,000	\$390,600	6	3.4%	\$291,437	\$122,404
A	Leadership	157,500	283,500	11	6.1%	201,183	84,497
B	Technical	136,800	246,200	19	10.6%	164,990	69,296
C	Technical	113,700	204,700	41	22.9%	140,485	59,003
D	Technical	84,800	169,200	69	38.5%	105,367	44,254
E	Technical	69,700	111,700	23	12.8%	81,117	34,069
F	Business Support	50,000	75,000	7	3.9%	61,058	25,644
G	Business Support	43,500	65,100	3	1.7%	72,303	30,367
				179	100%		

1 Members of the IIC Board of Executive Directors, including executive directors, alternate executive directors, senior counselors, and counselors, as well as the chairman of the Board of Executive Directors are compensated by the IDB.

2 Staff in the region are compensated locally at rate bands determined by the IDB.

3 Includes staff leave, end of service payment, medical and life insurance and other non-salary benefits, such as home leave, tax reimbursement, appointment travel, relocation and repatriation expenses, dependency allowance, and education allowance.

## Executive Directors and Alternate Executive Directors (as of December 2016)

	Executive Director	Alternate Executive Director
Argentina and Haiti	Raúl Novoa	
Austria, Belgium, Germany, Italy, the Netherlands, and People's Republic of China	Stefania Bazzoni	Ute Heinbuch
Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago	Jerry Butler	Cheryl Morris-Skeete
Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua	Marlon Tábora	José Mauricio Silva
Bolivarian Republic of Venezuela and Panama	Armando León	Fernando Ernesto de León de Alba
Bolivia, Paraguay and Uruguay	Hernando Larrazábal	Marcelo Bisogno
Brazil and Suriname	Antônio Silveira	Frederico Jayme Jr.
Canada, Denmark, Finland, France, Norway, Sweden, and Switzerland	Christian Hofer	Joffrey Célestin Urbain
Chile and Ecuador	Kevin Cowan	Xavier Santillán
Colombia and Peru	Sergio Diazgranados Guida	Patricia Miloslavich
Dominican Republic and Mexico	Bosco Martí	Carlos Pared
Israel, Japan, Portugal, Republic of Korea, and Spain	María Rodríguez de la Rúa	Ana Ferreira
United States of America	Mark Lopes	

# Management



LEFT TO RIGHT

**María del Rocío Palafox**

(Chief Finance and Administration Officer)

**James P. Scriven**

(General Manager)

**Christian Novak**

(Chief Risk Officer)

**Haydee Rosemary Jeronimides**

(General Counsel)

**Gema Sacristán**

(Chief Investment Officer)

**Orlando Ferreira**

(Chief Strategy Officer)

# Executive Directors and Alternate Executive Directors



FIRST ROW, LEFT TO RIGHT:

- Ute Heinbuch** (Germany)
- José Mauricio Silva** (El Salvador)
- Stefania Bazzoni** (Italy)
- Marcelo Bisogno** (Uruguay)
- Cheryl Morris-Skeete** (Barbados)
- Bosco Martí** (Mexico)
- Sergio Diazgranados Guida** (Colombia)

SECOND ROW, LEFT TO RIGHT

- Ana Ferreira** (Portugal)
- Xavier Santillán** (Ecuador)
- Christian Hofer** (Switzerland)
- Fernando de León de Alba** (Panama)
- Patricia Miloslavich** (Peru)
- María Rodríguez de la Rúa** (Spain),
- Frederico Jayme Jr.** (Brazil)
- Hernando Larrazábal** (Bolivia)

THIRD ROW, LEFT TO RIGHT

- Carlos Pared** (Dominican Republic)
- Joffrey Célestin Urbain** (France)
- Raúl Novoa** (Argentina)
- Armando León** (Venezuela)
- Antônio Silveira** (Brazil)

NOT PICTURED:

- Jerry Butler** (The Bahamas)
- Marlon Tábora** (Honduras)
- Kevin Cowan** (Chile)
- Mark Lopes** (USA)

# FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 AND 2015

# INDEPENDENT AUDITORS' REPORT

The Board of Governors  
Inter-American Investment Corporation:

We have audited the accompanying financial statements of Inter-American Investment Corporation (the Corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income/(loss), changes in capital and cash flows for the years then ended and the related notes to the financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Inter-American Investment Corporation as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

February 28, 2017



# FINANCIAL RESULTS

In 2016, the first year after the consolidation of the IDBG private sector operations into the IIC (IDBG NSG Reform), the IIC reported net income of \$17.7 million (compared to \$3.0 million for 2015). This marks fourteen consecutive years of profits. During 2016, the Corporation's total equity grew by 19%, from \$857 million in 2015 to \$1,022 million in 2016. This increase in IIC's equity base resulted from \$154.6 million in capital contributions and positive retained earnings from current year net income.

During 2016, development-related assets, measured as gross loans and equity outstanding (GLEO), decreased from \$1.0 billion in 2015 to \$0.9 billion in 2016, mainly due to the strategic reorientation of IIC operations to increase the focus in new priority sectors, specifically infrastructure, prudent business expansion in the wake of the IDBG NSG Reform, as well as repayments outpacing disbursements. During 2016, IIC successfully closed transactions, adding \$130 million of undisbursed commitments to GLEO by the end of the year.

Total income, net of borrowing-related expenses, amounted to \$101.6 million in 2016, \$54.1 million higher than in 2015. The increase in total income compared to the prior year is mainly related to administrative fees for managing the IDB's private sector portfolio of \$51.4 million, higher income from equity investments of \$5.1 million, and higher income from the investment securities portfolio of \$4.1 million, which were partially offset by credit related adjustments in loan loss provisions and impairments on equity investments of \$8.1 million. Conversely, operating expenses increased from \$50.0 million in 2015 to \$81.2 million in 2016, reflecting higher administrative expenses, which increased by \$34.9 million mainly due to the increase in workforce from the IDBG NSG Reform.

The IIC's paid-in capital rose by \$154.6 million driven by the first annual installment of the IIC's Second General Capital Increase. As of December 31, 2016, all 80,662 shares offered to member countries under Annex A of the Busan Resolution were subscribed.

## ASSET QUALITY

The IIC maintained a high-quality portfolio in 2016. The main indicators of asset quality remained remarkably stable despite the fall in the region's GDP for the second consecutive year and persistently low commodity prices. The portfolio past due by one day or more had an outstanding amount of \$15.2 million in 2016, equivalent to 1.8% of the loan portfolio, in line with the three-year average of 1.7%. The ratio of impaired loans to loan portfolio outstanding remained unchanged at 1.0% in 2016. All transactions have adequate collateral coverage and are closely monitored by the IIC. Moreover, loan loss provisions coverage is 230% for past due loans and 397% for impaired loans.

## **CAPITAL ADEQUACY**

The IIC's solvency ratios remained very strong in 2016. Its capital-to-total-assets ratio came back to previous years' level at 48% as of December 2016, decreasing from 57% in 2015. This decrease was mainly driven by the \$500 million European Medium Term Note (EMTN) issuance in April 2016 that was partially offset by the increase in the IIC's equity base. Considering its capital and loan loss provision levels as of December 2016, the IIC has a coverage of 119% of its total development-related asset exposure.

## **LEVERAGE AND LIQUIDITY**

In April 2016, the IIC launched its third and largest debt offering under its EMTN Program with a \$500 million 3-year Floating Rate Note, bringing the total borrowing outstanding to \$1.1 billion at the end of 2016.

The liabilities-to-capital ratio increased to 1.1 in comparison to 0.8 the year before, staying well below the maximum level of 3.0 established by the Agreement Establishing the IIC. The IIC's liquidity ratios remained strong with a liquidity to total assets ratio of 59% in 2016 and a liquidity to financial debt ratio of 120% in 2016.

## **PENSION AND POST RETIREMENT BENEFIT PLANS**

Consequent to the IDBG NSG Reform, 92 personnel transferred from the IDB's to the IIC's Pension Plan and Postretirement Benefit Plan (PRBP). The IIC's Pension Plan is 85% funded (\$27.1 million underfunded) and the PRBP is 98% funded (\$2.1 million underfunded) as of December 31, 2016. The funded status of the Pension Plan decreased \$3.1 million and the PRBP decreased \$4.0 million from 2015. The changes to the funded status of the Pension Plan and PRBP were driven by a decrease to the discount rates of 0.18% and 0.19%, respectively, as a result of current economic and financial conditions, resulting in a higher actuarial value of the Plans' projected liabilities. This decrease was partially offset by positive returns on plan assets of 8.04% for the Pension Plan and 7.78% for the PRBP driven by strong capital markets' performance in 2016.

# BALANCE SHEET

USD thousands

	December 31	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,459	\$ 14,946
Investment securities		
Available-for-sale	805,672	478,918
Trading	445,782	34,743
Investments		
Loan investments	854,436	961,272
Less allowance for losses	(34,938)	(36,746)
	819,498	924,526
Equity investments (\$16,688 and \$9,047 carried at fair value, respectively)	32,071	29,476
Total investments	851,569	954,002
Receivables and other assets	20,242	22,687
<b>Total assets</b>	<b>\$2,146,724</b>	<b>\$1,505,296</b>
<b>LIABILITIES AND CAPITAL</b>		
Accounts payable and other liabilities	\$ 59,363	\$ 47,869
Interest and commitment fees payable	2,996	1,647
Borrowings, short-term	428,820	57,761
Borrowings, long-term	633,563	540,695
<b>Total liabilities</b>	<b>1,124,742</b>	<b>647,972</b>
Capital		
Subscribed capital	1,512,480	1,253,520
Additional paid-in capital	498,378	338,352
Less members subscriptions receivable	(1,153,056)	(888,709)
	857,802	703,163
Retained earnings	190,917	173,146
Accumulated other comprehensive income/(loss)	(26,737)	(18,985)
<b>Total capital</b>	<b>1,021,982</b>	<b>857,324</b>
<b>Total liabilities and capital</b>	<b>\$2,146,724</b>	<b>\$1,505,296</b>

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

# STATEMENT OF INCOME

USD thousands

	Year ended December 31	
	2016	2015
<b>INCOME</b>		
Loan investments		
Interest and fees	\$41,715	\$44,215
Other income	2,696	2,389
	44,411	46,604
Equity investments		
Dividends	876	644
Gain on sale	179	12
Changes in fair value	46	(4,742)
Other income	-	40
	1,101	(4,046)
Investment securities	11,848	7,778
Other income		
Service fees	55,616	3,986
Other income	1,158	2,575
	56,774	6,561
<b>Total income</b>	<b>114,134</b>	<b>56,897</b>
Borrowings-related expense	12,555	9,443
<b>Total income, net of borrowings-related expense</b>	<b>101,579</b>	<b>47,454</b>
<b>PROVISION FOR LOAN INVESTMENT LOSSES</b>	<b>(3,472)</b>	<b>(6,271)</b>
<b>OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES ON EQUITY INVESTMENTS (ALL CREDIT RELATED)</b>	<b>6,031</b>	<b>717</b>
<b>OPERATING EXPENSES</b>		
Administrative	71,109	36,173
Pension Plan and Postretirement Benefit Plan expense	8,081	8,248
(Gain)/Loss on foreign exchange transactions, net	488	512
Other expenses	1,571	5,073
<b>Total operating expenses</b>	<b>81,249</b>	<b>50,006</b>
<b>NET INCOME</b>	<b>\$17,771</b>	<b>\$3,002</b>

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

# STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

USD thousands

	Year ended December 31	
	2016	2015
<b>NET INCOME</b>	<b>\$17,771</b>	<b>\$3,002</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Recognition of changes in assets/liabilities under the Pension Plan and Postretirement Benefit Plan	(5,999)	6,053
Unrealized gain/(loss) on investment securities available-for-sale	(1,753)	(1,678)
<b>Total other comprehensive income/(loss)</b>	<b>(7,752)</b>	<b>4,375</b>
<b>COMPREHENSIVE INCOME/(LOSS)</b>	<b>\$10,019</b>	<b>\$7,377</b>

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

# STATEMENT OF CHANGES IN CAPITAL

USD thousands

	Subscribed shares	Capital stock*	Retained earnings	Accumulated other comprehensive income/(loss)	Total capital
<b>As of December 31, 2014</b>	<b>70,590</b>	<b>\$698,353</b>	<b>\$170,144</b>	<b>\$(23,360)</b>	<b>\$845,137</b>
Year ended December 31, 2015					
Net income		—	3,002	—	3,002
Other comprehensive income/(loss)		—	—	4,375	4,375
Change in subscribed shares	54,762				
Payments received for capital stock subscribed		4,810	—	—	4,810
<b>As of December 31, 2015</b>	<b>125,352</b>	<b>\$703,163</b>	<b>\$173,146</b>	<b>\$(18,985)</b>	<b>\$857,324</b>
Year ended December 31, 2016					
Net income		—	17,771	—	17,771
Other comprehensive income/(loss)		—	—	(7,752)	(7,752)
Change in subscribed shares	25,896				
Payments received for capital stock subscribed		154,639	—	—	154,639
<b>As of December 31, 2016</b>	<b>151,248</b>	<b>\$857,802</b>	<b>\$190,917</b>	<b>\$(26,737)</b>	<b>\$1,021,982</b>

\*Net of members subscriptions receivable.

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

# STATEMENT OF CASH FLOWS

USD thousands

	Year ended December 31	
	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan disbursements	\$ (152,660)	\$ (306,946)
Equity disbursements	(9,181)	(11,047)
Loan repayments	256,817	356,799
Returns of equity investments	377	590
Maturities of held-to-maturity securities	-	39,850
Available-for-sale securities		
Purchases	(585,517)	(85,026)
Sales and maturities	255,638	186,650
Capital expenditures	(3,329)	(2,386)
Proceeds from sales of recovered assets	1,731	441
<b>Net cash provided by/(used in) investing activities</b>	<b>\$ (236,124)</b>	<b>\$ 178,925</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of borrowings	(30,895)	(539,022)
Proceeds from issuance of borrowings	500,000	50,795
Capital subscriptions	154,639	4,810
<b>Net cash provided by/(used in) financing activities</b>	<b>\$ 623,744</b>	<b>\$ (483,417)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	17,771	3,002
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Change in fair value of equity investments	(46)	4,742
Provision for loan investment losses	(3,472)	(6,271)
Change in fair value of investment securities	(2,188)	(692)
Change in receivables and other assets	1,496	918
Change in accounts payable and other liabilities	6,913	5,513
Change in Pension Plan and Postretirement Benefit Plan, net	1,119	3,313
Trading investment securities		
Purchases	(1,598,933)	(1,148,449)
Sales and maturities	1,187,545	1,443,830
Other, net	10,484	5,775
<b>Net cash provided by/(used in) operating activities</b>	<b>\$ (379,311)</b>	<b>311,681</b>
<b>Net effect of exchange rate changes on cash and cash equivalents</b>	<b>204</b>	<b>186</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>8,513</b>	<b>7,375</b>
<b>Cash and cash equivalents as of January 1</b>	<b>14,946</b>	<b>7,571</b>
<b>Cash and cash equivalents as of December 31</b>	<b>\$ 23,459</b>	<b>\$ 14,946</b>
<b>Supplemental disclosure:</b>		
Interest paid during the period	\$ 10,876	\$ 8,579

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

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## Purpose

The Inter-American Investment Corporation (the IIC or Corporation), an international organization, was established in 1986 and began operations in 1989 with the mission of promoting the economic development of its regional developing member countries, which are located in Latin America and the Caribbean (Regional), by encouraging the establishment, expansion, and modernization of private enterprises in such a way as to supplement the activities of the Inter-American Development Bank (IDB). The IIC makes loans, guarantees and equity investments where sufficient private capital is not otherwise available on adequate terms in the market. The IIC also arranges additional project funding from other investors and lenders, either through joint financing or through loan syndications, loan participations, underwritings and guarantees. In addition, the IIC provides financial and technical advisory services to clients with its own resources and those specifically provided for this purpose by its member countries. As of the date hereof, 45 member countries have subscribed to share capital in the IIC. The IIC conducts its operations principally in United States dollars, and operates within 26 of its member countries (all 26 being located in Latin America and the Caribbean) (the Regional Developing Member Countries). The IIC is an autonomous international organization and a member of the Inter-American Development Bank Group (the IDB Group), which also includes the IDB and the Multilateral Investment Fund (MIF).

On March 30, 2015, the Boards of Governors of the Corporation and the IDB approved the transfer to the Corporation of all operational and administrative functions associated with the IDB private sector and non-sovereign guaranteed (NSG) activities (the IDBG NSG Reform) to better serve the Region, clients and partners, and to maximize its development impact. The IDBG NSG Reform was effective on January 1, 2016. Since the effective date, the Corporation and the IDB entered into service level agreements (SLAs) whereby the Corporation provides certain services to the IDB and the IDB provides certain services to the IIC. The Corporation provides loan origination, credit risk evaluation and monitoring and other loan administration services for the IDB NSG operations, as well as for the IDB's legacy portfolio operations pursuant to a SLA. In addition, the IDB will continue to provide the Corporation with services as described in Note 12.

During a seven year period after the effective date, NSG activities will be originated by the IIC and largely co-financed by the IIC and the IDB. The IIC will also execute and monitor the IDB's NSG portfolio, including legacy operations. Following the closing of a co-financed loan, the Corporation and the IDB maintain separate legal and economic interests in their respective share of the loan principal balance. The Corporation's portion is defined as a percentage of the overall transaction subject to certain minimum amounts as agreed between the Corporation and the IDB.

During 2016, the IIC's headcount increased by approximately 110 to support the delivery of services to the IDB, and to support projected growth in lending and investing activities. The substantial majority of these individuals were formerly employed by the IDB in similar roles and functions.

## 1. Basis of Presentation

The accounting and reporting policies conform to United States generally accepted accounting principles (GAAP). References to GAAP issued by the Financial Accounting Standards Board (FASB) in these notes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

All amounts presented in the accompanying financial statements and notes are expressed, unless otherwise indicated, in thousands of dollars of the United States of America (U.S. dollars, USD, or \$), which is the functional and reporting currency.

## 2. Summary of Significant Accounting Policies

**Use of estimates**—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for losses on loan investments, the evaluation for other-than-temporary impairment on available-for-sale and equity investments, the fair value of investment securities, loan and equity investments, borrowings, and the determination of the net periodic benefit cost from pension and postretirement benefit plans and the present value of benefit obligations. There are inherent risks and uncertainties related to the Corporation's operations including the potential impacts of changing economic conditions on the Corporation's clients and the global investment markets and which could have an adverse effect on the financial position of the Corporation.



**Cash and cash equivalents**—Highly liquid investment instruments purchased with original maturities of three months or less, other than those held as trading securities, are considered cash equivalents. The Corporation may hold cash deposits in excess of FDIC insured limits.

**Investment securities**—As part of its overall portfolio management strategy, the Corporation invests in corporate securities, government, supranational and agency securities according to established investment guidelines. These investments include fixed and floating rate bonds, notes, bills, certificates of deposit, commercial paper, and mutual funds.

Investment securities are classified based on management's intention on the date of purchase. Purchases and sales of investment securities are recorded on a trade date basis. The investment portfolio classified as trading is recorded at fair value with unrealized gains and losses reported in income from investment securities. All other securities are classified as available-for-sale and carried at fair value with net unrealized gains or losses included in Accumulated other comprehensive income/(loss)<sup>1</sup>. Interest and dividends on securities, amortization of premiums, accretion of discounts, and realized gains and losses on trading and available-for-sale securities are reported in income from investment securities.

Available-for-sale securities are evaluated for other than temporary impairment. The Corporation considers various factors in determining whether a decline in fair value is other than temporary including the issuer's financial condition, the effects of changes in interest rates or credit spreads, the expected recovery period, and other quantitative and qualitative information. The valuation of securities for impairment is a process subject to estimation, judgment and uncertainty and is intended to determine whether declines in fair value of investment securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions and future changes in assessments of the aforementioned factors. It is expected that such factors will change in the future. For impairments of available-for-sale securities that are deemed to be other than temporary, the credit portion of an other-than-temporary impairment loss is recognized in earnings and the non-credit portion is recognized in Accumulated other comprehensive income/(loss).

**Loan and equity investments**—Loan and equity investment commitments are legal obligations when the loan or equity agreement is signed and are recorded as assets when disbursed. Loans are carried at the principal amount outstanding adjusted for allowance for losses. The Corporation may obtain collateral security or third-party guarantees.

Equity investments include ownership interests in limited partnerships and similar fund structures (LPs) and direct equity investments primarily in small and medium-sized enterprises and financial institutions. Direct equity investments for which the Corporation maintains specific ownership accounts—and for which the Corporation does not have a controlling financial interest or significant influence—are carried at cost less impairment, if any.

For LPs, the Corporation has elected fair value accounting under ASC Topic 825. As a practical expedient, the Corporation relies on the net asset value (NAV) as reported by the LP manager for the fair value measurement. The NAVs that have been provided by the LP manager are derived from the fair values of the underlying investments as of the reporting date. All investments for which NAV is used as a fair value (a) do not have a readily determinable fair value and (b) either prepare financial statements consistent with the measurement principles of an investment company or have attributes of an investment company.

The Corporation considers a loan impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan's contractual terms. Information and events, with respect to the borrower and/or the economic and political environment in which it operates, considered in determining that a loan is impaired include, but are not limited to, the borrower's financial difficulties, the borrower's competitive position in the marketplace, the risk associated with the underlying collateral, the willingness and capacity of the sponsor who organized the project to support the investment, the borrower's management team, as well as geopolitical conflict and macroeconomic crises.

Direct equity investments that are not accounted for at fair value are assessed for impairment no less than annually on the basis of the latest financial information, operating performance and other relevant information including, but not limited to, macroeconomic conditions, specific industry trends, the historical performance of the company, and the Corporation's intent to hold the investment for an extended period. When impairment is identified and is deemed to be other than temporary, the investment is written down to the fair value, which becomes the new carrying value for the investment. Impairment losses are not reversed for subsequent recoveries in fair value of the investment unless sold at a gain.

<sup>1</sup> References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

**Variable interest entities**—ASC Topic 810, Consolidation, provides for consolidation when a reporting entity is the primary beneficiary for a variable interest entity (VIE), or if an entity does not meet the definitional elements of a VIE, consolidation is required if a reporting entity has a controlling financial interest and/or holds a majority voting interest in an entity. The Corporation evaluated its investees and other entities with which the Corporation has contractual and other arrangements, and concluded that the Corporation is not the primary beneficiary for any VIEs, nor does the Corporation have a significant variable interest in any VIE, which would require disclosure.

Additionally, the Corporation does not hold a controlling financial interest nor does the Corporation hold a majority voting interest in any other entity, nor significant influence over any entities.

**Allowance for losses on loan investments**—The allowance for losses represents management's estimate of incurred losses in the loan investment portfolio as of the balance sheet date and is recorded as a reduction to loan investments. The allowance for losses is increased by charges to expense, through the provision for loan investment losses, and decreased by net charge-offs, or release of provision for improvement in the amount and/or severity of previously estimated losses. Considerable judgment is required to estimate the allowance for losses including determination of appropriate risk ratings, potential severity of losses, expected performance of individual loan investments, economic conditions in Latin America and the Caribbean and various other factors. The Corporation believes that the allowance for losses is adequate as of the balance sheet date; however, future changes to the allowance for losses may be necessary based on changes in any of the factors discussed herein.

The allowance for losses on loan investments reflects estimates of both probable losses inherent in the portfolio but not specifically identifiable (general provision) and identified probable losses (specific provision).

For the general provision, the allowance for losses is established via an internal credit risk classification system that estimates the probable loss inherent in the portfolio based on various analyses.

For the specific provision and for loans evaluated for impairment, the determination of the allowance for identified probable losses reflects management's best judgment of the creditworthiness of the borrower and is established based upon the periodic review of individual loan investments. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan's contractual effective rate, the fair value of collateral less disposal costs, and other market data. Because of the purpose of the Corporation and the nature of the loans, secondary market values are usually not available.

The Corporation segments its loan portfolio as either financial institutions or corporate loans. Corporate loans are extended to enterprises operating in a variety of sectors further detailed in Note 4. For certain loans, the Corporation has obtained mortgages and other forms of collateral security, as well as third-party guarantees.

The required allowance for each loan or guarantee exposure considers: (i) the probability of default rate for each risk category and applicable loss emergence period; (ii) the amount of credit exposure in each of these categories; and, (iii) the loss given default (LGD) ratio.

The Corporation refined its loan risk rating process to include ten rating categories published by Standard & Poor's (S&P) as described in Note 4. Each loan is individually monitored and rated to assign an applicable probability of default rate and an LGD ratio on at least an annual basis.

- **Probability of Default** — A scorecard is completed that contemplates a variety of borrower-specific considerations including, but not limited to: past experience and available market information, country risk, historical loss experience for similar credits, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, as well as an analysis of the financial statements and other information provided by the borrower. The scorecard result produces an internal risk rating that is comparable to a long-term issuer credit rating published by S&P.

- **Loss Given Default** — The Corporation calculates an LGD ratio for each individual loan or guarantee. A scorecard is completed that contemplates a variety of transaction-specific considerations for each loan or guarantee exposure, including, but not limited to: the seniority of the instrument, the collateral type, third party guarantees and jurisdiction risk or creditor rights under the law of the respective country. The scorecard produces an LGD ratio that is calibrated using empirical evidence of over 20 years of historical loss data collected by S&P.

The Corporation utilizes these external inputs to calculate the allowance for losses because of the Corporation's limited historical loss experience, relatively small volume of business (less than 250 loans), and variation in loan size, sector and geographic dispersion of the portfolio.

Loans are charged off when the Corporation has exhausted all possible means of recovery, by reducing the loan and related allowance for losses on loan investments. Such reductions in the allowance are partially offset by recoveries, if any, associated with previously charged off loans.

**Revenue recognition on loan investments**—Interest and fees are recognized as income in the periods in which they are earned. A loan is generally placed in nonaccrual status where collectability is in doubt or when payments of interest or principal are past due more than 90 days. The Corporation does not recognize income on loans in nonaccrual status and any uncollected interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the payment is received and is returned to accrual status once management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income, included in Accounts payable and other liabilities in the balance sheet, and credited to income only when the related principal is received. Such capitalization is considered in the computation of the Allowance for losses on loan investments in the balance sheet.

Net loan origination fees and costs, included in Receivables and other assets in the balance sheet, are deferred and amortized over the life of the loan on a straight-line basis, which approximates how costs would be reflected under the effective interest method.

**Revenue recognition on equity investments**—Dividend and profit participations received from equity investments that are accounted for under the cost method are recorded as income when such distributions are declared and paid. Gains on the sale or redemption of equity investments accounted for under the cost less impairment method are recorded as income at disposition.

For LPs carried at fair value under the fair value option, unrealized gains and losses are considered in the determination of NAV and recorded as Changes in fair value of equity investments in the statement of income. Disbursements and distributions are recorded as changes to the outstanding balance of LPs and reflected as such in Equity investments in the balance sheet.

**Revenue recognition for service fees**—A series of service level agreements define the nature of the services and corresponding fees for services provided to the IDB. Revenue is recognized as services are rendered, as the corresponding fees are determinable and collection is reasonably assured. Similarly, the Corporation receives project administration and general administrative fees for services provided to several special purpose trust funds affiliated with the Corporation or the IDB. Additional information about related-party transactions is included in Note 12 and management of external funds in Note 14.

**Borrowings**—To ensure funds are available for its operational liquidity needs, the Corporation accesses the international capital markets, offering its debt securities to investors. The Corporation's borrowings are carried at amortized cost. The amortization of premiums and accretion of discounts is calculated following a methodology that approximates the effective interest method, and is included in Borrowings-related expense in the statement of income.

The unamortized balance of the borrowing issuance costs related to a recognized debt liability is included as a direct deduction from the carrying amount of the debt liability in Borrowings, short-term and Borrowings, long-term in the balance sheet.

Interest expense on borrowings is recognized on an accrual basis and is included in Borrowings-related expense in the statement of income.

# NOTES TO THE FINANCIAL STATEMENTS

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**Deferred expenses**—Costs related to the issuance of debt and other financial arrangements are deferred and amortized over the life of the related debt on a straight-line basis, which approximates how the costs would be reflected under the effective interest method. The amounts are presented as a reduction to Borrowings and amortized to Borrowings-related expense in the statement of income.

**Fixed assets**—Fixed assets are presented at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

**Foreign currency transactions**—Assets and liabilities not denominated in United States dollars are translated into U.S. dollar equivalents using the foreign exchange rates at which the related asset or liability could be reasonably settled at the transaction date. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates. Resulting gains and losses are included in (Gain)/Loss on foreign exchange transactions, net, in the statement of income.

**Fair value measurements**—The Codification requires entities to disclose information about recurring and non-recurring fair value measurements, as well as the fair value of financial instruments.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transfer between market participants at the measurement date under current market conditions. Fair value measurement further assumes that a transaction to sell the asset or liability takes place either in the principal market or, in the absence of a principal market, in the most advantageous market for the asset or liability.

In determining fair value, the Corporation uses various valuation approaches, including market, income and/or cost approaches. The Codification establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

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

Assets and liabilities utilizing Level 1 inputs include investment securities that are actively traded and primarily include debt securities of the United States government and agencies.

- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not actively traded; or pricing models for which all significant inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Assets and liabilities utilizing Level 2 inputs include investment securities that are not actively traded, and primarily include investments in obligations of non-United States governments and agencies, corporate bonds, derivative contracts, and structured borrowings.

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Assets utilizing Level 3 inputs include certain loans and direct equity investments.

The availability of observable inputs is affected by a wide variety of factors, including, for example, the type of product, and other characteristics particular to the transaction. To the extent fair value is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value for the majority of the Corporation's financial instruments is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rate yield curves, credit spreads, creditworthiness of the counterparty, option volatility, and currency rates. In accordance with ASC Topic 820, Fair Value Measurements, the impact of the Corporation's own credit spreads would be also considered when measuring the fair value of liabilities. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality, and market liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs, where available.

**Taxes**—The Corporation, its property, other assets, income, and the operations and transactions it carries out pursuant to the Agreement Establishing the Inter-American Investment Corporation are immune from all taxation and from all custom duties in its member countries. The Corporation is also immune from any obligation relating to the payment, withholding or collection of any tax or duty in its member countries.

**Accounting and financial reporting developments**—In June 2016, the FASB issued Accounting Standards Update (Update or ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this Update affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more useful to users of the financial statements. The effective dates for this Update is annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). This ASU is expected to change the timing of credit losses recognized in the Corporation's financial position, results of operations, and cash flows. The Corporation continues to evaluate the potential effects of the adoption of this ASU.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in this Update affect entities with transactions included within the scope of Topic 606. The scope of that Topic includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principles of the guidance. Rather, the amendments in this Update affect only narrow aspects of Topic 606 including clarifying collectability criterion and implementation considerations. The effective dates for the amendment are the same as ASU 2015-14, that is, annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for any entity as of the annual reporting period beginning after December 15, 2016. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet this objective, the FASB has amended the Codification and created Topic 842 that supersedes Topic 840, Leases. The key change from previous GAAP and Topic 840 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases in the statement of financial position. The amendments in this Update are effective for the Corporation for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in the Update is permitted for all entities. This ASU is expected to increase the transparency of the Corporation's operating leases on the statement of financial position and cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## 3. Investment Securities

Trading securities consist of the following:

USD Thousands	December 31	
	2016	2015
Corporate securities	\$306,661	\$15,957
Government securities	36,651	8,790
Agency securities	32,853	—
Supranational securities	69,617	9,996
	<b>\$445,782</b>	<b>\$34,743</b>

Net unrealized gains on trading securities were \$755 for the year ended December 31, 2016 (\$4 net unrealized gains for the year ended December 31, 2015).

The composition of available-for-sale securities is as follows:

USD Thousands	December 31	
	2016	2015
Corporate securities	\$657,013	\$356,906
Agency securities	99,035	112,163
Government securities	49,624	—
Supranational securities	—	9,849
	<b>\$805,672</b>	<b>\$478,918</b>

The fair value of available-for-sale securities is as follows:

USD Thousands	December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate securities	\$658,661	\$578	\$(2,226)	\$657,013
Agency securities	98,982	157	(104)	99,035
Government securities	49,813	7	(196)	49,624
	<b>\$807,456</b>	<b>\$742</b>	<b>\$(2,526)</b>	<b>\$805,672</b>

USD Thousands	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate securities	\$357,120	\$521	\$(735)	\$356,906
Agency securities	111,951	313	(101)	112,163
Supranational securities	9,881	-	(32)	9,849
	<b>\$478,952</b>	<b>\$834</b>	<b>\$(868)</b>	<b>\$478,918</b>

The length of time that individual available-for-sale securities have been in a continuous unrealized loss position is as follows:

USD Thousands	December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	\$315,492	\$(2,079)	\$42,852	\$(147)	\$358,344	\$(2,226)
Agency securities	54,926	(104)	-	-	54,926	(104)
Government securities	29,626	(196)	-	-	29,626	(196)
	<b>\$400,044</b>	<b>\$(2,379)</b>	<b>\$42,852</b>	<b>\$(147)</b>	<b>\$442,896</b>	<b>\$(2,526)</b>

USD Thousands	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	\$120,574	\$(435)	\$49,813	\$(300)	\$170,387	\$(735)
Agency securities	39,838	(101)	-	-	39,838	(101)
Supranational securities	9,849	(32)	-	-	9,849	(32)
	<b>\$170,261</b>	<b>\$(568)</b>	<b>\$49,813</b>	<b>\$(300)</b>	<b>\$220,074</b>	<b>\$(868)</b>

Changes in available-for-sale securities recognized in Other comprehensive income/(loss) are as follows:

USD Thousands	December 31	
	2016	2015
Unrealized gains/(losses) during the period	\$(1,371)	\$(1,628)
Reclassification of (gains)/losses to net income	(382)	(50)
Changes due to impaired securities	—	—
<b>Total recognized in Other comprehensive income/(loss) related to available-for-sale securities</b>	<b>\$(1,753)</b>	<b>\$(1,678)</b>

Proceeds from the sale of available-for-sale securities were \$108,037 during the year ended December 31, 2016 (\$71,109 during the year ended December 31, 2015). Gross realized gains were \$394 and gross realized losses were \$12 from the sale of available-for-sale securities during the year ended December 31, 2016 (gross realized gains of \$50 and no gross realized losses from the sale of available-for-sale securities during the year ended December 31, 2015). The first-in, first-out identification method was used to determine the cost basis of the securities sold.

Investment securities with unrealized losses are the result of pricing changes in the current market environment and not as a result of other-than-temporary credit impairment. As of December 31, 2016, no other-than-temporary impairment has been recognized in the Corporation's available-for-sale investment securities portfolio (none as of December 31, 2015). Further, for securities in an unrealized loss position, the Corporation does not have the intent to sell securities within the available-for-sale portfolio and it is more likely than not that the Corporation will not be required to sell prior to recovery of the non-credit portion recognized in Accumulated other comprehensive income/(loss).

The maturity structure of available-for-sale securities is as follows:

USD Thousands	December 31	
	2016	2015
Within one year	\$218,998	\$153,157
After one year through five years	586,674	325,761
	<b>\$805,672</b>	<b>\$478,918</b>

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

For the year ended December 31, 2016, interest income, net of amortization of premiums and accretion of discounts, was \$8,978 (\$6,998 for the year ended December 31, 2015).

## 4. Loan and Equity Investments

The Corporation has specific metrics for concentrations and monitors its investments in loans for credit risk and investments in equity and LPs for market risk and any potential related effects of geographic concentrations. As of December 31, 2016, the Corporation's largest aggregate investment exposures were in Chile, Brazil and Panama (Brazil, Peru, and Panama as of December 31, 2015). As of December 31, 2016, outstanding investments in loans and investments in equity and LPs denominated in foreign currency amounted to \$26,275 (\$49,678 as of December 31, 2015). The Corporation's multi-country loan and equity investment exposures are designated as Regional in the following table.



The distribution of the outstanding portfolio by country and by sector is as follows:

USD Thousands	December 31					
	2016			2015		
	Loan	Equity	Total	Loan	Equity	Total
Chile	\$ 100,218	\$ 1,325	\$ 101,543	\$ 88,515	\$ 1,600	\$ 90,115
Brazil	96,987	1,739	98,726	110,345	933	111,278
Panama	96,325	-	96,325	97,864	4,000	101,864
Peru	93,902	-	93,902	103,688	1,750	105,438
Ecuador	80,276	-	80,276	81,631	-	81,631
Costa Rica	78,801	-	78,801	99,979	-	99,979
Mexico	66,520	9,801	76,321	82,380	9,051	91,431
Colombia	41,501	431	41,932	83,608	463	84,071
Uruguay	37,624	-	37,624	31,795	-	31,795
Regional	15,885	15,337	31,222	14,264	8,323	22,587
El Salvador	27,807	-	27,807	34,127	-	34,127
Nicaragua	25,016	-	25,016	32,332	-	32,332
Honduras	18,339	-	18,339	10,117	-	10,117
Paraguay	17,982	-	17,982	24,517	-	24,517
Guatemala	14,021	-	14,021	9,039	-	9,039
Argentina	10,476	138	10,614	29,595	151	29,746
Suriname	10,000	-	10,000	-	-	-
Dominican Republic	8,948	-	8,948	13,706	205	13,911
Jamaica	6,952	-	6,952	6,621	-	6,621
Haiti	5,869	-	5,869	5,453	-	5,453
Plurinational State of Bolivia	542	3,300	3,842	1,134	3,000	4,134
Bahamas	445	-	445	562	-	562
	<b>\$854,436</b>	<b>\$32,071</b>	<b>\$886,507</b>	<b>\$961,272</b>	<b>\$29,476</b>	<b>\$990,748</b>
Financial Institutions	\$589,284	\$20,490	\$609,774	\$681,734	\$16,633	\$698,367
Industry	76,936	5,000	81,936	70,150	3,802	73,952
Energy	78,532	-	78,532	61,258	1,750	63,008
Agriculture and Rural Development	46,900	-	46,900	70,220	-	70,220
Transport	25,662	-	25,662	31,583	-	31,583
Sustainable Tourism	13,252	-	13,252	15,073	-	15,073
Science and Technology	5,528	4,000	9,528	6,094	4,205	10,299
Water and Sanitation	9,033	-	9,033	9,541	-	9,541
Urban Development and Housing	2,033	2,581	4,614	7,004	3,086	10,090
Health	4,497	-	4,497	5,998	-	5,998
Private Firms and SME Development	2,227	-	2,227	-	-	-
Education	552	-	552	2,617	-	2,617
	<b>\$854,436</b>	<b>\$32,071</b>	<b>\$886,507</b>	<b>\$961,272</b>	<b>\$29,476</b>	<b>\$990,748</b>

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## Loan and equity investment portfolio

The Corporation's development-related assets are the result of lending and investing activities that include loans, equity and LP investments, investment securities and guarantees that promote the economic development of the Corporation's Regional Developing Member Countries through the establishment, expansion and modernization of private enterprises. The Corporation's portfolio is segmented between financial institutions and corporates. All development-related assets are individually evaluated for purposes of monitoring and evaluating credit performance and market risk.

The distribution of the outstanding portfolio by investment type is as follows:

USD Thousands	December 31, 2016		
	Financial Institutions	Corporates	Total
Loan	\$589,284	\$265,152	\$854,436
Equity	20,490	11,581	32,071
	<b>\$609,774</b>	<b>\$276,733</b>	<b>\$886,507</b>

USD Thousands	December 31, 2015		
	Financial institutions	Corporates	Total
Loan	\$681,734	\$279,538	\$961,272
Equity	16,633	12,843	29,476
	<b>\$698,367</b>	<b>\$292,381</b>	<b>\$990,748</b>

Loan and equity investments committed but not disbursed (net of cancellations) are summarized below:

USD Thousands	December 31, 2016
Loan	\$97,198
Equity	32,950
	<b>\$130,148</b>

## Loan investments

Loans accrue interest at fixed and variable rates. The unpaid principal balance of the fixed rate loan portfolio amounted to \$157,600 as of December 31, 2016 (\$189,098 as of December 31, 2015). Variable rate loans generally reprice within one year.

An age analysis, based on contractual terms, at amortized cost by type is as follows:

December 31, 2016						
USD Thousands	1-90 days past due	> 90 days past due and accruing	> 90 days past due and nonaccruing	Total past due	Current loans	Loan portfolio
Financial institutions	\$ -	\$-	\$-	\$-	\$589,284	\$589,284
Corporate	6,480	315	8,414	15,209	249,943	265,152
<b>Total</b>	<b>\$6,480</b>	<b>\$315</b>	<b>\$8,414</b>	<b>\$15,209</b>	<b>\$839,227</b>	<b>\$854,436</b>
As % of loan portfolio	0.76%	0.04%	0.98%	1.78%	98.22%	100.00%
Allowance for loan losses	\$ (34,938)					
Coverage				229.72%		4.09%

December 31, 2015						
USD Thousands	1-90 days past due	> 90 days past due and accruing	> 90 days past due and nonaccruing	Total past due	Current loans	Loan portfolio
Financial institutions	\$ 1,250	\$ —	\$1,596	\$2,846	\$678,888	\$681,734
Corporate	135	84	6,292	6,511	273,027	279,538
<b>Total</b>	<b>\$ 1,385</b>	<b>\$84</b>	<b>\$7,888</b>	<b>\$9,357</b>	<b>\$951,915</b>	<b>\$961,272</b>
As % of loan portfolio	0.14%	0.01%	0.82%	0.97%	99.03%	100.00%
Allowance for loan losses	\$ (36,746)					
Coverage				392.71%		3.82%

Nonaccrual loans on which the accrual of interest has been discontinued totaled \$8,640 as of December 31, 2016 (\$11,685 as of December 31, 2015). Nonaccrual loans that are current totaled \$172 as of December 31, 2016 (\$1,726 as of December 31, 2015). A current nonaccrual loan is a loan that was placed in nonaccrual status where the borrower is now current on payments but for which ongoing monitoring is necessary to determine whether the borrower has sufficiently demonstrated performance before returning the loan to accrual status. Interest income collected and interest income recognized on loans in nonaccrual status for the year ended December 31, 2016, was \$142 (\$1,524 for the year ended December 31, 2015).

# NOTES TO THE FINANCIAL STATEMENTS

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The recorded investment in nonaccruing loans at amortized cost is summarized by investment type as follows:

USD Thousands	December 31	
	2016	2015
Corporate	\$8,640	\$ 8,443
Financial institutions	-	3,242
<b>Total nonaccrual loans</b>	<b>\$8,640</b>	<b>\$ 11,685</b>
Loan portfolio	\$854,436	\$961,272
Nonaccrual/loan portfolio	1.01%	1.22%
Allowance for loan losses	\$(34,938)	\$ (36,746)
Coverage of nonaccrual	404.38%	314.47%

The maturity structure of disbursed principal loan investments outstanding is:

USD Thousands	December 31			
	2016		2015	
	Principal outstanding	Weighted average rate	Principal outstanding	Weighted average rate
Due in one year or less	\$263,139	4.44%	\$250,056	4.52%
Due after one year through five years	496,567	4.55%	626,861	3.96%
Due after five years and thereafter	94,730	6.08%	84,355	5.77%
	<b>\$854,436</b>		<b>\$961,272</b>	

The investment in impaired loans as of December 31, 2016, was \$8,811 (\$10,039 as of December 31, 2015). The average investment in impaired loans for the year ended December 31, 2016, was \$9,447 (\$12,249 for the year ended December 31, 2015). The total amount of the allowance related to impaired loans as of December 31, 2016 and 2015, was \$6,361 and \$5,588, respectively. During 2016, one impaired loan with an outstanding balance of \$2,272 was restructured in a troubled debt restructuring, and is considered within the impaired loans as of December 31, 2016. For the year ended December 31, 2015, there were no troubled debt restructurings.

Changes in the allowance for loan losses by investment type are summarized below:

USD Thousands	2016			2015		
	Financial institutions	Corporates	Total	Financial institutions	Corporates	Total
Balance as of January 1	\$(18,031)	\$(18,715)	\$(36,746)	\$(19,794)	\$(28,101)	\$47,895
Loan investments charged off, net	-	67	67	—	5,319	5,319
Recoveries	(1,504)	(227)	(1,731)	—	(441)	(441)
Provision for loan investment losses	1,934	1,538	3,472	1,763	4,508	6,271
<b>Balance as of December 31</b>	<b>\$(17,601)</b>	<b>\$(17,337)</b>	<b>\$(34,938)</b>	<b>\$(18,031)</b>	<b>\$(18,715)</b>	<b>\$(36,746)</b>

A summary of loan investments at amortized cost by credit quality indicator and investment type is as follows:

Internal Credit Risk Classification	December 31, 2016			S&P Rating Equivalent
	Financial institutions	Corporate	Total	
bbb+	\$25,000	\$-	\$25,000	BBB+
bbb	84,444	-	84,444	BBB
bbb-	118,575	-	118,575	BBB-
bb+	9,700	-	9,700	BB+
bb	129,164	938	130,102	BB
bb-	123,718	26,977	150,695	BB-
b+	38,200	64,362	102,562	B+
b	31,908	111,498	143,406	B
b-	28,575	41,596	70,171	B-
ccc-d	-	19,781	19,781	CCC-D
<b>Total</b>	<b>\$589,284</b>	<b>\$265,152</b>	<b>\$854,436</b>	

Internal Credit Risk Classification	December 31, 2015			S&P Rating Equivalent
	Financial institutions	Corporate	Total	
bbb+	\$25,000	\$—	\$25,000	BBB+
bbb	70,000	—	70,000	BBB
bbb-	145,327	—	145,327	BBB-
bb+	91,845	—	91,845	BB+
bb	166,952	4,063	171,015	BB
bb-	73,852	41,094	114,946	BB-
b+	46,511	76,586	123,097	B+
b	50,947	106,266	157,213	B
b-	9,704	31,961	41,665	B-
ccc-d	1,596	19,568	21,164	CCC-D
<b>Total</b>	<b>\$681,734</b>	<b>\$279,538</b>	<b>\$961,272</b>	

The following is a general description of the credit risk classifications. The addition of a plus (+) or minus (-) sign shows the relative standing of a specific borrower within the major rating categories:

- **bbb**—Borrower has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the borrower to meet its financial commitments.
- **bb**—Borrower has capacity to meet its financial commitments. However, the borrower faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to an inadequate capacity to meet its financial commitments.
- **b**—Borrower currently has capacity to meet its financial commitments. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments.
- **ccc through d**—Borrower is currently highly vulnerable and dependent upon favorable business, financial or economic conditions to meet its financial commitments or is in default (d).

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## Equity investments

As of December 31, 2016, there were six direct equity investments (ten as of December 31, 2015) with a carrying value of \$15,383 (\$20,429 as of December 31, 2015). Other-than-temporary impairment losses for the year ended December 31, 2016 were \$6,031 (other-than-temporary impairment losses for the year ended December 31, 2015 were \$717).

As of December 31, 2016, there were eleven investments in LPs recorded at fair value based on NAV of \$16,688 as of December 31, 2016 (twelve at fair value of \$9,047 as of December 31, 2015). Investments in LPs may generally be liquidated over a period of 10 years with up to two one-year extensions.

## 5. Receivables and Other Assets

Receivables and other assets are summarized below:

USD Thousands	December 31	
	2016	2015
Other current assets		
Interest receivable on loan investments	\$6,457	\$ 7,092
Interest receivable on investment securities	2,847	1,459
Other current assets	8,193	9,325
	<u>17,497</u>	<u>17,876</u>
Other noncurrent assets		
Postretirement Benefit Plan, net asset	-	1,946
Other noncurrent assets	2,745	2,865
	<u>2,745</u>	<u>4,811</u>
<b>Total receivables and other assets</b>	<b><u>\$20,242</u></b>	<b><u>\$22,687</u></b>

As of December 31, 2015, the Postretirement Benefit Plan net asset reflects the funded status of the Plan. Refer to Note 13.

## 6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

USD Thousands	December 31	
	2016	2015
Pension Plan, net liability	\$27,181	\$24,106
Deferred revenue	14,929	6,414
Employment benefits payable	9,031	5,940
Accounts payable and other liabilities	5,362	9,193
Postretirement Benefit Plan, net liability	2,098	—
Due to IDB, net	762	2,216
<b>Total accounts payables and other liabilities</b>	<b><u>\$59,363</u></b>	<b><u>\$47,869</u></b>

As of December 31, 2016 and 2015, the Pension Plan net liability reflects the underfunded status of the Plan. As of December 31, 2016, the Postretirement Benefit Plan net liability reflects the underfunded status of the Plan. Refer to Note 13.

## 7. Borrowings

Borrowings outstanding by currency are as follows:

USD Thousands	December 31			
	2016		2015	
	Amount outstanding	Weighted average cost	Amount outstanding	Weighted average cost
U.S. dollar	\$1,032,785	1.08%	\$539,693	0.66%
Mexican peso	29,099	4.86%	46,380	3.49%
Brazilian real	-	-	11,526	10.20%
Euro	499	0.71%	857	0.87%
	<b>\$1,062,383</b>		<b>\$598,456</b>	
Borrowings, short-term	(428,820)		(57,761)	
Borrowings, long-term	<b>\$633,563</b>		<b>\$540,695</b>	

The Corporation's overall funding plan considers its liquidity forecast and strategy. The current liquidity risk strategy requires the Corporation to maintain sufficient liquidity available to cover projected operational liquidity needs for at least 18 months. Operational liquidity needs include projected loan and equity investment disbursements, administrative and other expenses, and maturing borrowings, effectively requiring that upcoming maturities are generally funded at least 18 months in advance.

Since 1997, the Corporation has maintained a renewable credit facility with the IDB amounting to \$300,000 that has been renewed four times and expires in November 2020. In August 2008, the Corporation borrowed \$100,000 under this facility and \$200,000 remain available for disbursement. The outstanding borrowing under this facility is due in 2023, which is fifteen years after the respective disbursement.

As of December 31, 2016, the Corporation has one foreign-currency credit facility amounting to \$48,498 (1 billion Mexican pesos). During 2016, the Corporation borrowed \$29,099 (600 million Mexican pesos) and \$19,399 remain available for disbursement (400 million Mexican pesos). This borrowing is due to be repaid in February 2017 and the facility is renewable and expires in April 2018.

The Corporation has an \$80,000 USD credit facility. No amounts were drawn on this facility in 2016 or 2015. The credit facility matures in January 2018.

On October 2, 2014, the Corporation issued its second \$400,000 U.S.-dollar denominated, 3-month LIBOR plus 0.14% notes under its European Medium Term Note (EMTN) Program, maturing in 2017. Interest on the notes is payable quarterly. As of December 31, 2016, this borrowing was presented in Borrowings, short-term in the balance sheet.

On April 27, 2016, the Corporation issued its third \$500,000 U.S.-dollar denominated, 3-month LIBOR plus 0.30% notes under its EMTN Program, maturing in 2019. Interest on the notes is payable quarterly.

The maturity structure of gross borrowings outstanding is as follows:

USD Thousands	2017	2018	2019	2020	2021	Through 2023
Borrowings	\$429,099	\$499	\$500,000	\$—	\$33,333	\$100,000
	<b>\$429,099</b>	<b>\$499</b>	<b>\$500,000</b>	<b>\$—</b>	<b>\$33,333</b>	<b>\$100,000</b>

For the year ended December 31, 2016, Borrowings-related expense includes interest expense of \$12,266 that includes the amortization of debt issuance costs of \$260 (\$9,008 for the year ended December 31, 2015 that includes debt issuance costs of \$331). The unamortized balance of the Corporation's debt issuance cost asset amounts to \$548 as of December 31, 2016 (\$307 as of December 31, 2015) and is presented as a reduction to Borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## 8. Capital

The Corporation's original authorized share capital was increased from \$200 million to \$705.9 million, equivalent to 70,590 shares, through a \$500 million general capital increase approved in 1999 (GCI-I), and several subsequent special increases. These increases allocated a total of \$505.9 million for subscriptions by new and existing member countries, with a par value and issuance price of ten thousand dollars each.

On March 30, 2015, the IIC's Board of Governors authorized the Second General Capital Increase (GCI-II) for \$2.03 billion. The capital increase is comprised of (i) \$1.305 billion in capital to be paid by the IIC shareholders during the 2016-2022 period; and (ii) annual transfers from the IDB, on behalf of its shareholders, to be paid to the Corporation during the period 2018-2025, totaling \$725 million for the entire period, and conditional upon annual approval by the IDB Board of Governors. The GCI-II increases authorized capital stock by 125,474 shares – 80,662 shares corresponding to capital contributions payable by the countries (Annex A Shares) and 44,812 shares corresponding to transfers from the IDB on behalf of its member countries (Annex B Shares) – with an issuance price of \$16,178.60 actual dollars per share. With this capital increase, total authorized shares will amount to 196,064.

As of December 31, 2016, all Annex A shares were subscribed. Subscribed shares are recorded on the date of the subscription instrument at the stock issuance price and are expected to be paid in over time. The first annual installment under GCI-II was scheduled for October 31, 2016 and was extended through December 30, 2016. Capital contributions of \$151,942 were received under GCI-II during the year ended December 31, 2016. As of December 31, 2016, four shares of GCI-I were released and are expected to be reallocated per the terms and conditions agreed by the Board of Executive Directors to reallocate shares corresponding to GCI-II.

Under the Agreement Establishing the Inter-American Investment Corporation, any member may withdraw from the Corporation, which shall become effective on the date specified in the notice but in no event prior to six months from the delivery date of such notice. Even after withdrawing, a member shall remain liable for all obligations to the Corporation to which it was subject on the date of delivery of the withdrawal notice. In the event a member withdraws, the Corporation and the member may agree to the repurchase of the shares of said member on terms appropriate under the circumstances. If such agreement is not reached within three months of the withdrawal notice, or within a term agreed upon between both parties, the repurchase price of the member's shares shall be equal to the book value on the date when the member ceases to belong to the Corporation, such book value to be determined by the audited financial statements. Payment for shares shall be made in such installments, times, and currencies as the Corporation shall determine, taking into account its financial position.



The following table lists the capital stock subscribed and subscriptions receivable from members:

	<b>December 31</b>				
	<b>Shares***</b>	<b>Amount</b>	<b>Additional paid-in capital*</b>	<b>Receivable from members**</b>	<b>Paid in Capital</b>
	USD Thousands				
Argentina	17,376	\$173,760	\$57,381	\$150,251	\$80,890
Austria	887	8,870	3,349	6,827	5,392
Bahamas	308	3,080	1,013	2,071	2,022
Barbados	220	2,200	735	1,440	1,495
Belgium	169	1,690	-	-	1,690
Belize	101	1,010	-	-	1,010
Bolivarian Republic of Venezuela	10,448	104,480	37,918	99,288	43,110
Brazil	17,376	173,760	57,381	150,251	80,890
Canada	4,088	40,880	24,331	63,711	1,500
Chile	4,456	44,560	15,156	30,869	28,847
Colombia	4,456	44,560	14,643	29,833	29,370
Costa Rica	671	6,710	2,206	4,498	4,418
Denmark	1,071	10,710	-	-	10,710
Dominican Republic	933	9,330	3,065	6,245	6,150
Ecuador	942	9,420	3,120	6,358	6,182
El Salvador	671	6,710	2,206	5,776	3,140
Finland	1,021	10,210	3,880	-	14,090
France	2,868	28,680	4,362	11,422	21,620
Germany	1,334	13,340	-	-	13,340
Guatemala	897	8,970	2,947	6,018	5,899
Guyana	256	2,560	840	1,715	1,685
Haiti	671	6,710	2,206	5,776	3,140
Honduras	671	6,710	2,206	5,776	3,140
Israel	391	3,910	1,347	2,766	2,491
Italy	4,619	46,190	15,181	39,751	21,620
Jamaica	420	4,200	-	-	4,200
Japan	4,950	49,500	15,187	31,904	32,783
Mexico	11,124	111,240	36,559	95,729	52,070
Netherlands	1,071	10,710	-	-	10,710
Nicaragua	671	6,710	2,206	4,498	4,418
Norway	1,016	10,160	3,849	7,847	6,162
Panama	972	9,720	3,985	8,122	5,583
Paraguay	705	7,050	2,336	6,115	3,271
People's Republic of China	9,330	93,300	56,682	115,450	34,532
Peru	5,172	51,720	19,067	41,417	29,370
Plurinational State of Bolivia	1,398	13,980	4,622	9,416	9,186
Portugal	389	3,890	1,279	2,621	2,548
Republic of Korea	8,293	82,930	50,275	104,028	29,177
Spain	6,962	69,620	27,618	50,404	46,834
Suriname	101	1,010	-	-	1,010

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

	December 31				
	Shares***	Amount	Additional paid-in capital*	Receivable from members**	Paid in Capital
USD Thousands					
Sweden	946	9,460	3,417	6,973	5,904
Switzerland	2,288	22,880	7,519	19,689	10,710
Trinidad and Tobago	671	6,710	2,206	5,776	3,140
United States	16,019	160,190	-	-	160,190
Uruguay	1,849	18,490	6,098	12,425	12,163
<b>Total 2016</b>	<b>151,248</b>	<b>\$1,512,480</b>	<b>\$498,378</b>	<b>\$1,153,056</b>	<b>\$857,802</b>
<b>Total 2015</b>	<b>125,352</b>	<b>\$1,253,520</b>	<b>\$338,352</b>	<b>\$888,709</b>	<b>\$703,163</b>

\*Represents the amount in addition to par value subscribed by member countries under GCI-II.

\*\*Represents receivable from members under GCI-II.

\*\*\*The table does not reflect Annex B Shares, which are conditional upon approval of transfers by the IDB Board of Governors.

## 9. Fair Value Measurements

The Corporation's assets recorded at fair value have been categorized based on a fair value hierarchy in accordance with ASC Topic 820.

### *Fair value of Financial Instruments*

The following methods and assumptions were used by management in estimating the fair value of the Corporation's financial instruments:

**Cash and cash equivalents:** The carrying amount reported in the balance sheet approximates fair value.

**Investment securities:** Fair values for investment securities are based on quoted prices in active markets for identical assets as of the balance sheet date, when observable. For investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been employed, using yield curves, bond or credit default swap spreads, and recovery rates based on collateral values as key inputs. Investment securities are generally categorized in Level 1 and Level 2 of the fair value hierarchy.

**Loan investments:** The Corporation's methodology to measure the fair value of those loans provided to certain financial institutions, and for which a combination of observable and unobservable inputs is generally available, requires the use of estimates and present value calculations of future cash flows. The fair value of loan investments is estimated using recently executed transactions, market price quotations (where observable), and market observable credit default swap levels along with proprietary valuation models where such transactions and quotations are unobservable. Determining future cash flows for fair value estimation purposes is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The lack of objective pricing standards adds a greater degree of subjectivity and volatility to these derived or estimated fair values.

The Corporation's loans are generally carried at the principal amount outstanding. As of December 31, 2016, and for those loans for which it is practicable to estimate fair value using unobservable inputs, the carrying amount of loan investments, plus accrued interest, was \$363,848 (\$420,506 as of December 31, 2015), and their estimated fair value amounted to \$369,337 (\$416,982 as of December 31, 2015) classified as Level 3. Management considers that it is not practicable to determine the fair value of the remainder of the loan portfolio, except for those instances where loan impairment is indicated, as the loan portfolio includes custom-tailored financing to small and medium-sized enterprises operating in the Corporation's Regional Developing Member Countries. As of December 31, 2016, the carrying value of this remainder portfolio, without including accrued interest, was \$493,936 (\$542,683 as of December 31, 2015), with interest rates that range from 1.50% to 16.00% (1.25% to 13.00% as of December 31, 2015) and maturities that range from less than 1 year to 19 years (less than 1 year to 18 years as of December 31, 2015). Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value disclosed does not necessarily reflect the realizable values since the Corporation generally holds investments to maturity.

**Equity investments:** The Corporation purchases the share capital of private sector enterprises in Latin America and the Caribbean and also invests in LPs. In most cases, market prices are not available, and alternate valuation techniques require a significant degree of judgment.

The carrying value of equity investments reported at cost amounted to \$15,383 as of December 31, 2016 (\$20,429 as of December 31, 2015). For the Corporation's direct equity investments it is not practicable to accurately measure the fair value of the interest for disclosure purposes as these are custom-tailored private placement transactions primarily for enterprises including corporates and financial institutions operating in the Corporation's Regional Developing Member Countries. Furthermore, contractual clauses generally limit the Corporation's ability to sell or transfer its participation in the Corporation's equity investments given their size and scale. However, in the event that impairment is indicated, the Corporation performs a detailed assessment of the investee's financial condition to estimate fair value for purposes of recognizing impairment.

**Borrowings:** The Corporation's borrowings are recorded at historical amounts unless elected for fair value accounting under ASC Topic 825, Fair Value Option. The fair value of the Corporation's borrowings is estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowing arrangements. As of December 31, 2016, the fair value of the Corporation's borrowings was \$965,318 (\$486,913 as of December 31, 2015). The Corporation held no borrowings at fair value as of December 31, 2016 and 2015.

**Other assets and liabilities:** The carrying value of certain financial instruments including Receivables and other assets, and Accounts payable and other liabilities approximates fair value due to their liquid or short-term nature.

#### *Recurring Fair Value Measurements*

The following fair value hierarchy table presents information about the Corporation's assets measured at fair value on a recurring:

USD Thousands	Balance as of December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<b>ASSETS</b>			
Corporate securities	\$963,674	\$—	\$963,674
Agency securities	131,888	—	131,888
Government securities	86,275	—	86,275
Supranational securities	69,617	—	69,617
	<b>\$1,251,454</b>	<b>\$—</b>	<b>\$1,251,454</b>

USD Thousands	Balance as of December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<b>ASSETS</b>			
Corporate securities	\$372,863	\$—	\$372,863
Agency securities	112,163	—	112,163
Government securities	8,790	—	8,790
Supranational securities	19,845	—	19,845
	<b>\$513,661</b>	<b>\$—</b>	<b>\$513,661</b>

In accordance with ASU 2015-07, investments in certain funds for which fair value is measured using NAV as a practical expedient are not classified within the fair value hierarchy.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the year ended December 31, 2016:

USD Thousands	Changes in fair value included in earnings for the year
Corporate securities	\$1,642
Government securities	543
Supranational securities	178
Agency securities	207
Limited partnerships	74
	<b>\$2,644</b>

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the year ended December 31, 2015:

USD Thousands	Changes in fair value included in earnings for the year
Corporate securities	\$ 479
Government securities	186
Supranational securities	41
Agency securities	36
Limited partnerships	(4,910)
	<b>\$(4,168)</b>

There were no transfers in or out of Level 3 or other levels during the year ended December 31, 2016 (none during the year ended December 31, 2015).

**Investment securities:** At December 31, 2016, substantially all investment securities are valued based on quoted prices for identical assets or liabilities or prices derived from alternative pricing models as these prices are not available from market vendors. These methodologies apply to certain investments in non-U.S. government obligations, agencies, supranationals and corporate bonds. Also included are commercial paper (CP) and certificates of deposit (CD) issued under large U.S.-based CP or CD programs. For investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been employed, using yield curves, bond or credit default swap spreads, and recovery rates based on collateral values as key inputs. These securities 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.

**Equity investments - Investments in LPs:** As a practical expedient, the Corporation relies on the NAV as reported by the fund manager for the fair value measurement. The NAVs that have been reported by the fund manager are derived from the fair values of the underlying investments as of the reporting date. All investments for which NAV is used as a fair value (a) do not have a readily determinable fair value and (b) either prepare financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. Generally, LPs have finite lives and the Corporation does not sell or redeem its investments in LPs. Proceeds are distributed to the Corporation as the LPs sell the underlying investee company. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value. Aggregate fair value of the investment in LPs was \$16,688 as of December 31, 2016 (\$9,047 as of December 31, 2015). The amount of total net gains and losses for the year ended December 31, 2016, and included in Changes in fair value of equity investments attributable to the change in unrealized net gain relating to assets still held at that date, was \$46 (\$4,742 unrealized net losses for the year ended December 31, 2015).

## Nonrecurring Fair Value Measurements

The following fair value hierarchy tables present information about the Corporation's assets measured at fair value on a nonrecurring basis:

USD Thousands	Balance as of December 31, 2016	Significant Unobservable inputs (LEVEL 3)
<b>Assets</b>		
Impaired loans	\$8,811	\$8,811
Equity investments at cost less impairment	-	-
	<b>\$8,811</b>	<b>\$8,811</b>

USD Thousands	Balance as of December 31, 2015	Significant Unobservable inputs (LEVEL 3)
<b>Assets</b>		
Impaired loans	\$10,039	\$10,039
Equity investments at cost less impairment	322	322
	<b>\$10,361</b>	<b>\$10,361</b>

Assets measured at fair value on a nonrecurring basis as of December 31, 2016 and 2015 consisted of certain impaired loans and direct equity investments. The fair value of these assets is determined based on the use of significant unobservable inputs, which are considered Level 3 in the fair value hierarchy. The Corporation's methodology to measure the fair value of impaired loans and direct equities requires the use of estimates, present value calculations of future cash flows and consideration of the underlying collateral. When determining the underlying collateral amount, the Corporation relies on third-party valuation specialists when available, internal estimates, or a combination of both. The Corporation's credit specialists review the significant observable inputs that are used in the analysis that include discount rate, interest rates and foreign currency exchange rates. Refer to Note 4 for additional information on impaired loans and other-than-temporary impairment losses on direct equity investments.

## 10. Contingencies

In the ordinary course of business, the Corporation is defendant or codefendant or party in various litigation matters inherent to and typical of the operations in which it is engaged. In the opinion of the Corporation's management, the ultimate resolution of these legal proceedings would not have a material adverse effect on the financial position, results of operations, or cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## 11. Lending Arrangements

The Corporation mobilizes funds from commercial banks and other financial institutions in connection with certain of its lending arrangements, and administers and services such arrangements on behalf of participants in exchange for a fee. The arrangements are structured such that the participating lenders must fund their pro rata payment. The participating lenders have no legal recourse against the Corporation in the event that the borrower does not perform under the loan agreement.

## 12. Related-party Transactions

### *Service Level Agreements with the IDB*

The SLAs with the IDB outline the duration, scope of work, roles and responsibilities, remuneration, and performance metrics of each institution.

The Corporation has a single one-year, renewable SLA to provide certain services related to the IDB's private sector operations. The Corporation recognized revenue of \$51,368 for providing these services for the year ended December 31, 2016 (\$0 for the year ended December 31, 2015).

The Corporation receives certain general and administrative services from the IDB under a series of one-year renewable SLAs. Expenses for services provided by the IDB during 2016 under the SLAs include:

USD Thousands	2016
Corporate SLAs	\$5,792
Master SLA	1,128
Oversight SLAs	924
	<b>\$7,844</b>

The Corporation and the IDB expect to enter into SLAs with similar terms, scope and services in 2017.

The Corporation incurred expenses relating to IDB services of \$11,595 for the year ended December 31, 2016 (\$3,494 for the year ended December 31, 2015). Payables due to the IDB were \$762 as of December 31, 2016 (\$2,216 as of December 31, 2015). Refer to Note 6.

### *General Access and Administration Agreement with the IDB (Access Agreement)*

The IDB provides project administration and general administrative services for special purpose trust funds administered by the IDB and on behalf of the trust fund donors (the Trust Funds). Certain of the Trust Funds have private sector and NSG operations. Consequent to the IDBG NSG Reform, the Corporation entered into an Access Agreement that provides for an allocation of Trust Fund fees to the Corporation. Such fees are intended to cover internal and external costs associated with administering the NSG activities for the Trust Funds and related operations over the expected lives of the funds and the underlying operations that range from 15 to 20 years. Costs expected to be incurred approximate the allocable fee and no profit is recognized for the provision of these services.

The Trust Fund organizational documents provide for either the payment of a lump sum or scheduled payments. The timing of the payments may not correspond to the incurrence of the related costs. During 2016, the IDB remitted a payment of \$10,480 for project administration and general services. For the year ended December 31, 2016, the Corporation recognized revenue of \$1,258 related to providing services and deferred \$9,222, which will be recognized as revenue as services are provided over a 15 to 20 year period. Deferred revenue is presented as a component of Accounts payable and other liabilities.

### Office Space

The Corporation has a lease agreement with the IDB for its office space that will expire in 2020. The Corporation has incurred office space expenses of \$3,751 for the year ended December 31, 2016 (\$2,288 for the year ended December 31, 2015).

Expected payments under the current lease agreement with the IDB are as follows:

USD Thousands	2017	2018	2019	2020
Office space	\$3,821	\$3,894	\$3,969	\$4,046
	<b>\$3,821</b>	<b>\$3,894</b>	<b>\$3,969</b>	<b>\$4,046</b>

### Other Transactions with the IDB Group Entities

The Corporation also earned \$100 to provide limited advisory services to the MIF for the year ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the Corporation had borrowed \$100,000 from the IDB credit facility. Refer to Note 7.

## 13. Pension and Postretirement Benefit Plans

The IDB sponsors a defined benefit plan (the Pension Plan) covering substantially all staff of the Corporation and the IDB. The Pension Plan covers international and local employees. Under the Pension Plan, benefits are based on years of service and average compensation, with the staff contributing a fixed percentage of remuneration and the Corporation and the IDB contributing the remainder of the actuarially determined cost of future Pension Plan benefits. Any and all contributions to the Pension Plan are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Pension Plan.

The Corporation also provides certain health care and other benefits to retirees. All current staff who contribute to the Pension Plan while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefit Plan (PRBP). Retirees contribute toward the PRBP based on an established premium schedule. The Corporation contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the Corporation, they are held and administered separately and apart from the other property and assets of the Corporation solely for the purpose of payment of benefits under the PRBP.

Since both the IDB and the Corporation participate in the Pension Plan and the PRBP, each employer presents its respective share of these plans. The amounts presented reflect the Corporation's proportionate share of costs, assets, and obligations of the Pension Plan and the PRBP in accordance with ASC Topic 715, *Compensation—Retirement Benefits*.

Consequent to the IDBG NSG Reform, 92 staff were transferred from the IDB to the Corporation resulting in an increase to the Corporation's pension cost allocation and its corresponding share of the plan assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

## Obligations and funded status

The Corporation uses a December 31 measurement date for the Pension Plan and the PRBP. The following table summarizes the change in benefit obligation, change in plan assets, funded status of the Pension Plan and the PRBP, and the amount recognized on the balance sheet:

USD Thousands	Pension Plan		PRBP	
	2016	2015	2016	2015
<b>Reconciliation of benefit obligation</b>				
Obligation as of January 1	\$(109,059)	\$(106,553)	\$(62,753)	\$(66,007)
Service cost	(7,760)	(4,587)	(3,756)	(2,512)
Interest cost	(6,487)	(4,233)	(4,201)	(2,645)
Participants' contributions	(2,104)	(1,051)	-	—
Plan amendments	-	—	-	2,537
Net transfers between IDB and IIC	(54,593)	(34)	(39,666)	—
Actuarial gains/(losses)	(4,200)	5,486	(6,621)	5,356
Benefits paid	2,601	1,913	1,019	534
Retiree Part D subsidy	-	—	(10)	(16)
Obligation as of December 31	(181,602)	(109,059)	(115,988)	(62,753)
<b>Reconciliation of fair value of plan assets</b>				
Fair value of plan assets as of January 1	84,953	84,332	64,699	63,327
Net transfers between IDB and IIC	54,593	34	39,666	—
Actual return on plan assets	11,051	(727)	7,894	(870)
Benefits paid	(2,601)	(1,913)	(1,019)	(534)
Participants' contributions	2,104	1,051	-	—
Employer contributions	4,321	2,176	2,650	2,776
Fair value of plan assets as of December 31	154,421	84,953	113,890	64,699
<b>Funded status</b>				
Funded/(Underfunded) status as of December 31	(27,181)	(24,106)	(2,098)	1,946
<b>Net amount recognized as of December 31</b>	<b>\$(27,181)</b>	<b>\$ (24,106)</b>	<b>\$(2,098)</b>	<b>\$ 1,946</b>
<b>Amounts recognized as (liabilities)/assets consist of:</b>				
Plan benefits assets/(liabilities)	(27,181)	(24,106)	(2,098)	1,946
<b>Net amount recognized as of December 31</b>	<b>\$(27,181)</b>	<b>\$ (24,106)</b>	<b>\$(2,098)</b>	<b>\$ 1,946</b>
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>				
Net actuarial gains/(losses)	13,477	12,163	14,550	10,291
Prior service costs	—	—	(3,047)	(3,473)
Net initial asset	—	—	-	—
<b>Net amount recognized as of December 31</b>	<b>\$ 13,477</b>	<b>\$ 12,163</b>	<b>\$11,503</b>	<b>\$ 6,818</b>

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was \$144,737 and \$92,617 as of December 31, 2016 and 2015, respectively.



## Components of net periodic benefit cost

Net periodic benefit cost consists of the following components:

USD Thousands	Pension Plan		PRBP	
	Year ended December 31		Year ended December 31	
	2016	2015	2016	2015
Service cost	\$7,760	\$ 4,587	\$3,756	\$2,512
Interest cost	6,487	4,233	4,201	2,645
Expected return on plan assets	(8,189)	(4,685)	(5,943)	(3,512)
Amortization of:				
Transition obligation	-	—	-	-
Unrecognized net actuarial loss	24	1,330	411	1,257
Prior service (credit)/cost	-	7	(426)	(126)
<b>Net periodic benefit cost</b>	<b>\$6,082</b>	<b>\$ 5,472</b>	<b>\$1,999</b>	<b>\$2,776</b>

Other changes in plan assets and benefit obligations recognized in Other comprehensive income/(loss):

USD Thousands	Pension Plan		PRBP	
	Year ended December 31		Year ended December 31	
	2016	2015	2016	2015
Net actuarial (gain)/loss	\$1,338	\$(74)	\$4,670	\$ (974)
Current year prior service cost	-	-	-	—
Prior service credit	-	-	-	(2,537)
Amortization of:				
Transition obligation	-	-	-	—
Unrecognized net actuarial loss	(24)	(1,330)	(411)	(1,257)
Prior service (credit)/cost	-	(7)	426	126
<b>Total recognized in Other comprehensive (income)/loss</b>	<b>\$1,314</b>	<b>\$(1,411)</b>	<b>\$4,685</b>	<b>\$(4,642)</b>
<b>Total recognized in Net periodic benefit cost and Other comprehensive (income)/loss</b>	<b>\$7,396</b>	<b>\$4,061</b>	<b>\$6,684</b>	<b>\$(1,866)</b>

The estimated net actuarial gain or loss, prior service cost, and net initial obligation for the Pension Plan and the PRBP that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2016 is \$390 for the Pension Plan and \$446 for the PRBP.

## Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses that exceed 10% of the greater of the benefit obligation or market-related value of the plan assets at the beginning of 2016 are amortized over the average remaining service period of active participants expected to receive benefits under the Pension Plan and PRBP, which approximates 11.7 and 12.7 years, respectively.

Unrecognized prior service credit is amortized over 8.45 years for the PRBP.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

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

	Pension Plan		PRBP	
	2016	2015	2016	2015
<i>Weighted average assumptions used to determine benefit obligation as of December 31</i>				
Discount rate	4.06%	4.24%	4.16%	4.35%
Rate of compensation increase	4.15%	4.11%		
Inflation rate	2.22%	2.15%	2.22%	2.15%
	Pension Plan		PRBP	
	2016	2015	2016	2015
<i>Weighted average assumptions used to determine net periodic benefit cost for years ended December 31</i>				
Discount rate	4.24%	3.88%	4.35%	3.97%
Expected long-term return on plan assets	6.25%	6.25%	6.25%	6.25%
Rate of compensation increase	4.11%	4.16%		

The expected long-term return on the Plans' assets represents Management's best estimate, after surveying external investment specialists, of the expected long-term (10 years or more) forward-looking rates of return of the asset categories employed by the Plans, weighted by the Plans' investment policy asset allocations. Accumulated and projected benefit obligations are measured as the present value of expected payments. The discount rate used is selected in reference to the year-end yield of AA corporate bonds within the approved Citigroup Pension Liability index, with maturities that correspond to the payment of benefits. For the assumed rate of inflation, the Corporation has established a process by which a range of inputs is reviewed, including 10-year forward looking expert opinion forecasts, the average of the 10 year and 30 year U.S. Treasury Inflation Protected Securities (U.S. TIPS) breakeven inflation rate, and historical averages.

For participants assumed to retire in the United States, the accumulated postretirement benefit obligation was determined using the following health care cost trend rates:

	PRBP	
	2016	2015
Rate to which the cost trend rate is expected to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2023	2023
<i>Health care cost trend rate assumed for next year</i>		
Medical, Non-Medicare	6.00%	6.50%
Medical, Medicare	3.50%	3.75%
Prescription drugs	9.00%	10.00%
Dental	4.50%	5.00%
Retirement cost outside U.S.*	8.00%	9.00%

\*Refers to all services provided to participants assumed to retire outside the United States.

For those participants assumed to retire outside of the United States, an 8.00% and 9.00% health care cost trend rate was used for 2016 and 2015, respectively with an ultimate trend rate of 4.50% in 2023.

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRBP. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

USD Thousands	One-percentage-point increase		One-percentage-point decrease	
	Year ended December 31			
	2016	2015	2016	2015
Effect on total of service and interest cost components	\$2,446	\$ 1,153	\$(1,701)	\$(817)
Effect on postretirement benefit obligation	29,554	13,985	(21,137)	(10,211)

## Plan assets

The assets of the Pension Plan and the PRBP are managed primarily by investment managers employed by the IDB who are provided with investment guidelines that take into account the Pension Plan and PRBP investment policies. Investment policies with long-term strategic asset allocations have been developed so that there is an expectation of sufficient returns to meet long-term funding needs. The policies allocate 65% of the Pension Plan portfolio to growth-oriented assets (the Return Strategies), and 35% of assets to nominal and inflation-indexed U.S. fixed income (the Liabilities Hedging Strategies), to partially hedge the interest rate and inflation exposure in the Pension Plan and PRBP's liabilities, and to protect against disinflation.

The Pension Plan's Strategies allocate between 45% and 61% to a well-diversified pool of developed and emerging markets equities, approximately 3% to emerging markets debt, 3% to commodity index futures, between 0% and 2% to public real estate, between 2% and 3% to private real estate, and between 0% and 2% to high-yield fixed income. The Pension Plan's Liabilities Hedging Strategies allocates 5% to core fixed-income, 15% to long-duration fixed income, and 15% to U.S. inflation-indexed securities.

The PRBP's Return Strategies allocate 54% to a well-diversified pool of developed and emerging markets equities, 3% to emerging markets debt, 3% to commodity index futures, 3% to public real estate, and 2% to high-yield fixed income. The PRBP's Liabilities Hedging Strategies allocates 15% to long-duration fixed income, 5% to core fixed income and 15% to U.S. inflation-indexed securities.

The investment policy target allocations as of December 31, 2016, are as follows:

	Pension Plan	PRBP
U.S. equities	25%	26%
Non-U.S. equities	24%	24%
U.S. inflation-indexed bonds	15%	15%
Long-duration fixed income bonds	15%	15%
Core fixed income	5%	5%
Emerging markets equities	4%	4%
Emerging markets debt	3%	3%
Commodity index futures	3%	3%
High-yield fixed income	2%	2%
Public real estate	2%	3%
Private real estate	2%	0%

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

Investment and asset class risk is managed by the continuous monitoring of each asset category level and investment manager. The investment managers are generally not allowed to invest more than 5% of their respective portfolios in the securities of a single issuer other than the U.S. Government. The use of derivatives by an investment manager for the Pension Plan and PRBP is limited, and subject to specific approval by the Managing Committees of the Pension Plan and PRBP.

Effective January 1, 2015, the IDB Board of Executive Directors approved the Long-Term Funding Policy for the Pension Plan and the PRBP that established stable contribution rates of 20% and 12%, respectively, for a five-year initial term. The Corporation adopted the use of the stable contribution rates effective January 1, 2016. Corporation contributions made in excess (deficit) of the actuary's theoretical contribution rate are allocated (withdrawn) to (from) the Stabilization Reserve Funds (Reserve Fund). The Target Strategic Asset Allocation for the Reserve Funds is 50% cash and 50% Core Fixed Income.

The following tables set forth the categories of investments of the Pension Plan and the PRBP as of December 31, 2016 and 2015, which are measured at fair value and presented together with their weighted average allocation, by level within the fair value hierarchy. As required by the fair value measurements accounting framework, these investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, except for certain investment funds whose classification within the fair value hierarchy depends on the ability to redeem their corresponding shares at their net asset value in the near term.

USD Thousands	Pension Plan			Weighted average allocations
	Level 1	Level 2	December 31, 2016	
Equity securities				
U.S. equities	\$7,700	—	\$7,700	10%
Non-U.S. equities	17,416	—	17,416	23%
Emerging markets equities	—	—	-	0%
Public real estate	3,043	—	3,043	4%
Government and diversified bonds				
Long duration U.S. Government and Agency bonds	7,979	—	7,979	11%
Long duration diversified bonds	300	11,669	11,969	16%
Core fixed income funds	—	—	-	0%
High yield debt	—	2,904	2,904	4%
Emerging markets debt	—	—	-	0%
U.S. inflation-indexed bonds	22,180	—	22,180	29%
Commodity index futures	—	—	-	0%
Short-term investment securities	2,477	319	2,796	3%
Other assets/(liabilities), net *	—	—	(103)	0%
	<b>\$61,095</b>	<b>\$14,892</b>	<b>\$75,884</b>	<b>100%</b>

\*Includes receivables and payables carried at amounts that approximate fair value.

<b>Pension Plan</b>				
USD Thousands	<b>Level 1</b>	<b>Level 2</b>	<b>December 31, 2015</b>	<b>Weighted average allocations</b>
<b>Equity securities</b>				
U.S. equities	\$4,460	\$-	\$4,460	12%
Non - U.S. equities	3,161	-	3,161	9%
Emerging markets equities	-	-	-	0%
Public real state	1,747	-	1,747	5%
<b>Government and diversified bonds</b>				
Long duration U.S. Government and Agency bonds	4,251		4,251	12%
long duration diversified bonds	134	6,476	6,610	18%
Core fixed income funds	-	-	-	0%
High yield debt	-	1,582	1,582	4%
Emerging markets debt	-	-	-	0%
U.S. inflation-indexed bounds	12,599	-	12,599	35%
Commodity index futures	-	-	-	0%
Short-term investment securities	1,680	(59)	1,621	5%
Other assets (liabilities), net*	-	-	(56)	0%
	<b>28,032</b>	<b>7,999</b>	<b>35,975</b>	<b>100%</b>

<b>PRBP</b>				
USD Thousands	<b>Level 1</b>	<b>Level 2</b>	<b>December 31, 2016</b>	<b>Weighted average allocations</b>
<b>Equity securities</b>				
U.S. equities	—	—	—	0%
Non-U.S. equities	—	—	—	0%
Emerging markets equities	2,302	—	2,302	5%
Public real estate	3,478	—	3,478	8%
<b>Government and diversified bonds</b>				
Long duration U.S. Government and Agency bonds	5,626	—	5,626	13%
Long duration diversified bonds	—	9,405	9,405	22%
Core fixed income funds	—	—	—	0%
High yield debt	—	—	—	0%
Emerging markets debt	—	—	—	0%
U.S. inflation-indexed bonds	15,909	—	15,909	37%
Commodity index futures	—	—	—	0%
Short-term investment funds	4,886	232	5,118	12%
Other assets/(liabilities), net *	—	—	1,276	3%
	<b>\$32,201</b>	<b>\$9,637</b>	<b>\$43,114</b>	<b>100%</b>

\*Includes receivables and payables carried at amounts that approximate fair value.

# NOTES TO THE FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise indicated)

USD Thousands	PRBP			Weighted average allocations
	Level 1	Level 2	December 31, 2015	
Equity securities				
Equity securities	\$ —	—	—	0%
Non-U.S. equities	—	—	—	0%
Emerging markets equities	—	—	—	0%
Public real estate	2,013	—	2,013	8%
Government and diversified bonds				
Long duration U.S. Government and Agency bonds	3,179	—	3,179	14%
Long duration diversified bonds	—	5,483	5,483	23%
Core fixed income funds	—	—	—	0%
High yield debt	—	—	—	0%
Emerging markets debt	—	—	—	0%
U.S. inflation-indexed bonds	9,593	—	9,593	41%
Commodity index futures	—	—	—	0%
Short-term investment securities	2,567	(42)	2,525	11%
Other assets / (liabilities), net *	—	—	683	3%
	<b>\$17,352</b>	<b>\$5,441</b>	<b>\$23,476</b>	<b>100%</b>

\*Includes receivables and payables carried at amounts that approximate fair value.

For those certain investment funds whose classification within the fair value hierarchy depends on the ability to redeem their corresponding shares at their net asset value in the near term, the fair value of these investments in the Pension Plan and PRBP was \$78,537 and \$70,776 as of December 31, 2016 (\$49,978 and \$41,223 as of December 31, 2015).

Investment securities that are measured at fair value based on quoted market prices in active markets, a valuation technique consistent with the market approach, include U.S. equities, non-U.S. equities, individual holdings, emerging markets equities, long duration fixed income mutual funds, and U.S. treasury inflation-indexed bonds. Such securities are classified within Level 1 of the fair value hierarchy.

Proprietary investment managers' commingled funds investing in U.S. equities, global equities, emerging markets debt, fixed income commingled funds, commodity index futures and/or short-term debt investments, which are not publicly-traded, are measured at fair value based on the net asset value of the investment funds and are classified as Level 2, as they are redeemable with the investee in the near term at their net asset value per share at the measurement date. This valuation technique is consistent with the market approach.

Proprietary investment managers' commingled private real estate investment funds are measured at fair value based on the net asset value of these investment funds.

## Cash flows

Contributions from the Corporation to the Pension Plan and the PRBP during 2017 are expected to be approximately \$7,209 and \$4,177, respectively. All contributions are made in cash.

## Estimated future benefit payments

The following table summarizes the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years. These amounts are based on the same assumptions used to measure the benefit obligation as of December 31, 2016.

USD Thousands	Pension Plan	PRBP
<i>Estimated future benefit payments</i>		
January 1, 2017–December 31, 2017	\$3,216	\$989
January 1, 2018–December 31, 2018	3,383	1,111
January 1, 2019–December 31, 2019	3,745	1,275
January 1, 2020–December 31, 2020	3,984	1,408
January 1, 2021–December 31, 2021	4,470	1,640
January 1, 2022–December 31, 2026	28,424	11,344

## 14. Management of External Funds

The Corporation administers on behalf of other entities, which include donors and member countries, funds restricted for specific uses that include the co-financing of certain projects, technical studies for borrowers, project-related studies, and research and training programs. These funds are held in trust by the Corporation and are not commingled with the Corporation's funds, nor are they included in the assets of the Corporation. The Corporation receives a management fee that is generally a percentage of the funds received. This fee is included as Service fees income in the statement of income. Effective January 1, 2016, the Corporation began administering certain IDB funds and funds administered by the IDB. These funds are used mainly to co-finance projects between the Corporation and the IDB and to fund technical assistance activities.

## 15. Subsequent Events

Management has evaluated subsequent events through February 28, 2017, which is the date the financial statements were issued. There are no subsequent events that require disclosure under ASC Topic 855, Subsequent Events.





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