

## 2013 AUDITED FINANCIAL STATEMENTS





# INDEPENDENT AUDITORS' REPORT

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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, 2013 and 2012, and the related income statements and the statements of 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 audit. We conducted our audit 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, 2013 and 2012, 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**

McLean, Virginia  
March 30, 2014

# BALANCE SHEET

USD THOUSANDS (EXCEPT SHARE DATA)	DECEMBER 31	
	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 18,273	\$ 28,438
Investment securities		
Available-for-sale	381,634	149,571
Trading	312,589	535,439
Held-to-maturity	40,119	40,335
Investments		
Loan investments	1,026,659	1,061,679
Less allowance for losses	(47,056)	(47,414)
	979,603	1,014,265
Equity investments (\$12,457 and \$14,673 at fair value, respectively)	26,052	26,637
Total investments	1,005,655	1,040,902
Receivables and other assets	28,535	19,828
<b>Total assets</b>	<b>\$1,786,805</b>	<b>\$1,814,513</b>
<b>LIABILITIES AND CAPITAL</b>		
Accounts payable and other liabilities	\$29,441	\$63,969
Interest and commitment fees payable	2,036	2,606
Borrowings, short-term	121,167	21,498
Borrowings and debt, long-term	782,335	947,860
<b>Total liabilities</b>	<b>934,979</b>	<b>1,035,933</b>
Capital		
Authorized:		
70,590 and 70,590 shares, respectively (par \$10,000)		
Subscribed shares:		
70,440 and 68,979 shares, respectively (par \$10,000)	704,400	689,790
Less subscriptions receivable	(10,700)	(400)
	693,700	689,390
Retained earnings	156,810	137,604
Accumulated other comprehensive income/(loss)	1,316	(48,414)
<b>Total capital</b>	<b>851,826</b>	<b>778,580</b>
<b>Total liabilities and capital</b>	<b>\$1,786,805</b>	<b>\$1,814,513</b>

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

# STATEMENT OF INCOME

USD THOUSANDS	YEAR ENDED DECEMBER 31	
	2013	2012
<b>INCOME</b>		
Loan investments		
Interest and fees	\$ 47,161	\$ 48,537
Other income	801	1,357
	47,962	49,894
Equity investments		
Gain on sale	3,269	248
Changes in fair value	735	(48)
Dividends	401	527
Other income	30	67
	4,435	794
Investment securities	9,944	9,109
Advisory service, cofinancing, and other income	6,001	3,562
<b>Total income</b>	<b>68,342</b>	<b>63,359</b>
Borrowings and long-term debt-related expense	16,363	17,173
<b>Total income, net of interest expense</b>	<b>51,979</b>	<b>46,186</b>
<b>(RELEASE OF)/PROVISION FOR LOAN INVESTMENT LOSSES</b>	<b>(10,104)</b>	<b>188</b>
<b>OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES ON EQUITY INVESTMENTS (ALL CREDIT-RELATED)</b>	<b>49</b>	<b>—</b>
<b>OPERATING EXPENSES</b>		
Administrative	42,210	39,952
Loss/(gain) on foreign exchange transactions, net	165	(63)
Other expenses	6	311
<b>Total operating expenses</b>	<b>42,381</b>	<b>40,200</b>
<b>Income before technical assistance activities</b>	<b>19,653</b>	<b>5,798</b>
Technical assistance activities	447	238
<b>NET INCOME</b>	<b>\$ 19,206</b>	<b>\$ 5,560</b>

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

# STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

USD THOUSANDS	YEAR ENDED DECEMBER 31	
	2013	2012
<b>NET INCOME</b>	\$ 19,206	\$ 5,560
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Recognition of changes in assets/liabilities under pension and postretirement benefit plans—Note 15	49,221	(10,260)
Unrealized gain on investment securities available-for-sale—Note 3	509	473
<b>Total other comprehensive income/(loss)</b>	49,730	(9,787)
<b>COMPREHENSIVE INCOME/(LOSS)</b>	<b>\$ 68,936</b>	<b>\$ (4,227)</b>

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

# STATEMENT OF CHANGES IN CAPITAL

USD THOUSANDS	<b>SUBSCRIBED SHARES</b>	<b>RETAINED EARNINGS</b>	<b>ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)</b>	<b>CAPITAL STOCK*</b>	<b>TOTAL CAPITAL</b>
<b>As of December 31, 2011</b>	<b>70,480</b>	<b>\$132,044</b>	<b>\$(38,627)</b>	<b>\$684,329</b>	<b>\$777,746</b>
Year ended December 31, 2012					
Net income	—	5,560	—	—	5,560
Other comprehensive loss	—	—	(9,787)	—	(9,787)
Change in subscribed shares	(1,501)	—	—	—	—
Payments received for capital stock subscribed	—	—	—	5,061	5,061
<b>As of December 31, 2012</b>	<b>68,979</b>	<b>\$137,604</b>	<b>\$(48,414)</b>	<b>\$689,390</b>	<b>\$778,580</b>
Year ended December 31, 2013					
Net income	—	19,206	—	—	19,206
Other comprehensive income	—	—	49,730	—	49,730
Change in subscribed shares	1,461	—	—	—	—
Payments received for capital stock subscribed	—	—	—	4,310	4,310
<b>As of December 31, 2013</b>	<b>70,440</b>	<b>\$156,810</b>	<b>\$ 1,316</b>	<b>\$693,700</b>	<b>\$851,826</b>

\*Net of subscriptions receivable.

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

# STATEMENT OF CASH FLOWS

USD THOUSANDS	YEAR ENDED DECEMBER 31	
	2013	2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan disbursements	\$ (306,702)	\$ (352,732)
Equity disbursements	(7,130)	(2,628)
Loan repayments	338,198	283,544
Sales of equity investments	8,273	3,510
Maturities of held-to-maturity securities	—	6,000
Available-for-sale securities		
Purchases	(251,920)	(133,596)
Sales and maturities	20,217	15,000
Capital expenditures	(1,274)	(1,170)
Proceeds from sales of recovered assets	9,746	2,334
<b>Net cash used in investing activities</b>	<b>\$ (190,592)</b>	<b>\$ (179,738)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of borrowings, net	(111,662)	(101,979)
Proceeds from issuance of borrowings	50,000	411,472
Capital subscriptions	4,310	5,061
<b>Net cash (used in)/provided by financing activities</b>	<b>\$ (57,352)</b>	<b>\$ 314,554</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	19,206	5,560
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Realized gains on equity sales	(3,269)	(248)
Change in fair value of equity investments	(735)	48
Change in receivables and other assets	5,266	2,810
(Release of)/provision for loan investment losses	(10,104)	188
Unrealized gain on investment securities	(8,525)	(6,886)
Change in accounts payable and other liabilities	749	5,459
Change in Pension Plan and Postretirement Benefit Plan net assets	4,003	3,811
Realized loss on nontrading derivative instruments, net	—	(23)
Realized gain on borrowings at fair value, net	—	307
Other, net	6,839	2,477
	(5,776)	7,943
Trading securities		
Purchases	(831,488)	(1,756,884)
Sales, maturities, and repayments	1,055,669	1,577,747
	224,181	(179,137)
<b>Net cash provided by/(used in) operating activities</b>	<b>\$ 237,611</b>	<b>\$ (165,634)</b>
<b>Net effect of exchange rate changes on cash and cash equivalents</b>	168	2
<b>Net decrease in cash and cash equivalents</b>	(10,165)	(30,816)
<b>Cash and cash equivalents as of January 1</b>	28,438	59,254
<b>Cash and cash equivalents as of December 31</b>	<b>\$ 18,273</b>	<b>\$ 28,438</b>
<b>Supplemental disclosure:</b>		
Interest paid during the period	\$ 15,129	\$ 15,503

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



# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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## PURPOSE

The Inter-American Investment Corporation (the Corporation), a multilateral organization, was established in 1986 and began operations in 1989 with the mission to promote the economic development of its Latin American and Caribbean member countries by financing small and medium-size enterprises. The Corporation, together with private investors, accomplishes this mission by making loan and equity investments where sufficient private capital is not otherwise available on reasonable terms. The Corporation also plays a catalytic role in mobilizing additional project funding from other investors and lenders, either through cofinancing or through loan syndications, loan participations, underwritings, and guarantees. In addition to project finance and resource mobilization, the Corporation provides financial and technical advisory services to clients. The Corporation receives its share capital from its member countries, conducts its operations principally in United States dollars, and limits operational activity to its twenty-six regional member countries. The Corporation is a member of the Inter-American Development Bank Group (IDB Group), which also includes the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF).

## 1. BASIS OF PRESENTATION

The accounting and reporting policies of the Corporation conform to U.S. 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 Corporation's functional 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 and guarantees, the evaluation for other-than-temporary impairment on investment securities and equity investments, the fair value of certain investment securities, loan and equity investments, borrowings, and derivative instruments, 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. The possibility exists that changing economic conditions 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 and government and agency securities according to the Corporation's investment guidelines. These investments include fixed and floating rate bonds, notes, bills, certificates of deposit, commercial paper, and mutual funds.

Investment securities held by the Corporation are classified based on management's intention on the date of purchase and recorded as of the trade date. The Corporation's portfolio classified as trading is stated at fair value with unrealized gains and losses reported in income from investment securities. Fixed-term securities classified as held-to-maturity represent securities that the Corporation has both the ability and the intent to hold until maturity and are carried at amortized cost. 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. 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. The Corporation's investments in debt securities in Latin American and Caribbean markets resulting from development activities are classified as held-to-maturity and carried at amortized cost on the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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The Corporation evaluates its available-for-sale and held-to-maturity securities whose values have declined below their amortized cost to assess whether the decline in fair value is other-than-temporary at year-end. 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 and held-to-maturity 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 noncredit portion is recognized in accumulated other comprehensive income.

**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, in certain instances, obtains collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments include ownership interests in limited partnerships and similar fund structures (LPs) and direct equity investments. Direct equity investments and certain LPs for which the Corporation maintains specific ownership accounts—and on which the Corporation does not have significant influence—are carried at cost less impairment, if any. For all other equity investments in LPs, the Corporation has elected fair value accounting for equity investments in LPs under ASC 825.

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 sponsor's willingness and capacity to support the investment, and the management team risk, as well as geopolitical conflict and macroeconomic crises.

Equity investments, which are not accounted for at fair value, are assessed for impairment on the basis of the latest financial information and any supporting research documents available. Also considered are the issuer's 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 equity investment is written down to the fair value, which becomes the new carrying value for the equity investment. Impairment losses are not reversed for subsequent recoveries in value of the equity investment unless sold at a gain.

**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 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 in any other entity, nor does the Corporation hold significant influence over any entities. The Corporation holds investment interests in certain investment funds which are structured as LPs. The Corporation's direct equity investments and certain interests in LPs are accounted for at cost. The Corporation's interests in all other LPs are accounted for at fair value in accordance with ASC Topic 820.

**Allowance for losses on loan investments**—The Corporation recognizes loan portfolio impairment or performance improvement in the balance sheet through the allowance for losses on loan investments, recording a provision or release of provision for losses on loan investments in net income, which increases or decreases the allowance for losses on loan investments. Loan investments charged off, as well as any subsequent recoveries, are recorded through the allowance account. The allowance for losses is maintained at a level that, in management's judgment, is adequate to absorb estimated probable losses in the loan portfolio. Management's judgment is based on the risk ratings and performance of individual loan investments, economic conditions, and other factors considered significant by management.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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

The determination of the allowance for identified probable losses represents 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.

For the remaining loan portfolio, the allowance for losses is established via a process that estimates the probable loss inherent in the portfolio based on various analyses. Each loan is rated as a function of its risk, and loss estimates are derived for each rating classification. These ratings are based on past experience and available market information and include country risk, the risk of correlation or contagion of losses between markets, and nonperformance under sponsor guarantees and support agreements, as well as on financial statements prepared in accordance with accounting principles other than those generally accepted in the United States of America. The loss estimates are derived from industry data and the Corporation's historical data. There were no changes, during the periods presented herein, to the Corporation's accounting policies and methodologies used to estimate its allowance for losses on loan investments.

Loans are charged off when the Corporation has exhausted all possible means of recovery, by reducing the allowance for losses on loan investments. Such reductions in the allowance are partially offset by recoveries 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. The Corporation does not recognize income on loans where collectability is in doubt or, generally, when payments of interest or principal are past due more than 90 days. Any uncollected interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when 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.

Net loan origination fees and costs are deferred and amortized over the life of the loan.

**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 net asset value and recorded as changes in fair value of equity investments in the income statement.

**Guarantees**—The Corporation offers credit guarantees covering, on a risk-sharing basis, third-party obligations on loans undertaken for or securities issued in support of projects located within a member country to enhance their credit standing and enable them to complete a wide variety of business transactions. These financial guarantees are commitments issued by the Corporation to guarantee payment performance by a borrower to a third party. The Corporation's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. Guarantees are regarded as issued when the Corporation executes the guarantee agreement, outstanding when the underlying financial obligation of the third party is incurred, and called when the Corporation's obligation under the guarantee has been invoked. There are two obligations associated with the guarantees: (1) the stand-ready obligation to perform; and (2) the contingent obligation to make future payments. The stand-ready obligation to perform is recognized at the issuance date at fair value. The contingent liability associated with the financial guarantee is recognized when it is probable that the guarantee will be called and when the amount of the guarantee can be reasonably estimated. Any stand-ready and contingent liabilities associated with guarantees are included in other liabilities. The offsetting entry is consideration received or receivable, with the latter included in other assets on the balance sheet. In the event the guarantees are called, the amount disbursed is recorded as a loan investment and specific reserves are established based on the estimated probable loss. Income is earned as the Corporation is released from risk upon the expiration or settlement of the guarantee.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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**Risk management activities: derivatives used for nontrading purposes**—The Corporation enters into transactions in certain derivative instruments for financial risk management purposes. The Corporation manages its exposure to interest rate movements through the use of derivative financial products, which may include interest rate swaps and purchased options positions (i.e., interest rate caps). The derivatives modify the interest rate characteristics of the respective financial instrument to produce the desired interest, and none are designated in hedge accounting relationships. The Corporation does not use derivatives for speculative purposes.

Derivatives are recognized in the balance sheet at their fair value and classified as either assets or liabilities, depending on their nature and their net fair value amount. Changes in fair value of borrowings-related derivatives are recorded in Borrowings and long-term debt related expense.

The Corporation's derivative instrument was repaid in June 2012. This derivative was not designated as a cash flow or fair value hedge. The Corporation held no derivative instruments during 2013.

**Deferred advisory service revenues**—Certain revenues related to advisory services for external funds are deferred and amortized over the related service period. These fees are included in the Advisory service, cofinancing and other income on the income statement.

**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.

**Fixed assets**—The Corporation records fixed assets 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 that date. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates. Resulting gains and losses are included in Loss/(Gain) on foreign exchange transactions, net.

**Fair value of financial instruments**—The Codification requires entities to disclose information about the estimated fair value of their financial instruments and their fair value measurement, whether or not those values are recognized on the balance sheet.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) 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—Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail judgment.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

Assets and liabilities utilizing Level 1 inputs include investment securities that are actively traded and certain other sovereign government obligations.

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Assets and liabilities utilizing Level 2 inputs include investment securities that are not actively traded, derivative contracts, and structured borrowings.

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

Assets and liabilities utilizing Level 3 inputs include certain loans and equity investments in LPs.

The availability of observable inputs can vary from product to product and 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 that valuation 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 by the Corporation 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 820-10, the impact of the Corporation's own credit spreads is also considered when measuring the fair value of liabilities, including derivative contracts. 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.

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 through agreements that foster economic development, 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.

For certain of the Corporation's corporate and financial institution loan investments, it is not practicable to estimate the fair value given the nature and geographic location of the borrower. The Corporation's loan agreements are

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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tailored to the unique risk characteristics and needs of the borrower. Contractual clauses limit the Corporation's ability to sell assets or transfer liabilities to market participants. Also, the Corporation has historically been granted preferred creditor status. This status is not transferable, thus limiting the Corporation's ability to transfer assets and liabilities. Furthermore, there are few—if any—transactions with similar credit ratings, interest rates, and maturity dates. Based on management's experience, it is deemed that there are some countries with no participants interested in the Corporation's principal or most advantageous market given the unique country risk, size, and term of many of the Corporation's assets and liabilities. Therefore, in accordance with ASC 820, additional disclosures pertinent to estimating fair value, such as the carrying amount, interest rate, and maturity are provided. Additional information about loan investments is included in Note 9.

**Equity investments:** The Corporation purchases the share capital of small and medium-size private sector enterprises in Latin America and the Caribbean and also invests as an investor in LPs. In most cases, market prices are not available and alternate valuation techniques require a significant degree of judgment. LPs are categorized within Level 3 of the fair value hierarchy. Additional information about LPs carried at fair value is included in Note 9.

For the Corporation's direct equity investments, it is not practicable to determine the fair value, as these are custom-tailored private placement transactions operating in the Corporation's regional member countries. Furthermore, contractual clauses limit the Corporation's ability to sell or transfer its participation in the Corporation's principal or most advantageous markets given the size and scale of the Corporation's direct equity investments.

**Derivative contracts:** These include swap and option contracts related to interest rates. Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates. The pricing models used do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swap and option contracts. All the derivative products valued by the Corporation using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy.

**Borrowings and long-term debt:** Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates. The estimated fair value of borrowings and long-term debt is disclosed in Note 9.

**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, as amended, are immune from taxation and from custom duties in its member countries.

**Accounting and financial reporting developments—**In February 2013, the FASB issued Accounting Standards Update (ASU or Update) 2013-03, *Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*. The amendments to this Update clarify that the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3) does not apply to nonpublic entities for instruments that are not measured at fair value in the statement of financial position but for which fair value is disclosed. This Update affects nonpublic entities that have total assets of \$100 million or more or that have one or more derivative instruments. This Update was effective immediately upon issuance. This Update did not have a material impact on the Corporation's financial position, results of operations, or cash flows.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The objective of this Update is to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For amounts not required to be reclassified in their entirety to net income in the same reporting period under GAAP, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The Corporation adopted this Update for 2013.

In February 2010, the FASB issued ASU 2010-10, *Consolidation (Topic 810) Amendments for Certain Investment Funds*, which primarily deferred the effective date of FAS 167 for enterprises that hold investments in entities that are investment



# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

companies (as that term is defined in ASC Topic 946, *Financial Services—Investment Companies*). Therefore, the Corporation has deferred the adoption of FAS 167 with respect to its evaluation of investments in its LPs. This Update is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

### 3. INVESTMENT SECURITIES

The following reflects net income from investment securities by source:

USD THOUSANDS	YEAR ENDED DECEMBER 31	
	2013	2012
Net realized gain	\$5,697	\$3,192
Net change in unrealized gain	3,399	3,693
Interest income	848	2,224
	<b>\$9,944</b>	<b>\$9,109</b>

Trading securities consist of the following:

USD THOUSANDS	DECEMBER 31	
	2013	2012
Corporate securities	\$249,840	\$403,974
Government securities	47,754	64,968
Agency securities	14,995	66,497
	<b>\$312,589</b>	<b>\$535,439</b>

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

USD THOUSANDS	DECEMBER 31	
	2013	2012
Corporate securities	\$317,808	\$149,571
Agency securities	63,826	—
	<b>\$381,634</b>	<b>\$149,571</b>

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

USD THOUSANDS	DECEMBER 31, 2013			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Corporate securities	\$314,783	\$3,025	\$ —	\$317,808
Agency securities	63,739	441	(354)	63,826
	<b>\$378,522</b>	<b>\$3,466</b>	<b>\$(354)</b>	<b>\$381,634</b>

USD THOUSANDS	DECEMBER 31, 2012			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Corporate securities	\$148,436	\$1,303	\$(168)	\$149,571
	<b>\$148,436</b>	<b>\$1,303</b>	<b>\$(168)</b>	<b>\$149,571</b>

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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, 2013					
	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS
Corporate securities	\$24,761	\$(354)	\$—	\$—	\$24,761	\$(354)
	<b>\$24,761</b>	<b>\$(354)</b>	<b>\$—</b>	<b>\$—</b>	<b>\$24,761</b>	<b>\$(354)</b>

USD THOUSANDS	DECEMBER 31, 2012					
	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS
Corporate securities	\$14,832	\$(168)	\$—	\$—	\$14,832	\$(168)
	<b>\$14,832</b>	<b>\$(168)</b>	<b>\$—</b>	<b>\$—</b>	<b>\$14,832</b>	<b>\$(168)</b>

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

USD THOUSANDS	DECEMBER 31	
	2013	2012
Unrealized gains during the period	\$535	\$473
Reclassification of gains to net income	(26)	—
Changes due to impaired securities	—	—
<b>Total recognized in Other comprehensive income/(loss) related to available-for-sale securities</b>	<b>\$509</b>	<b>\$473</b>

The Corporation sold one security classified in its available-for-sale securities portfolio with a realized gain of \$26 during the year ended December 31, 2013 (one sold at par as of December 31, 2012).

Investment securities with unrealized losses are the result of pricing changes and the current market environment and not as a result of other-than-temporary credit impairment. As of December 31, 2013, no other-than-temporary impairment has been recognized in the Corporation's investments within the available-for-sale portfolio (none as of December 31, 2012). Further, 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 noncredit portion recognized in accumulated other comprehensive income.

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

USD THOUSANDS	DECEMBER 31	
	2013	2012
Within one year	\$ 87,647	\$ 15,126
After one year through five years	293,987	134,445
	<b>\$381,634</b>	<b>\$149,571</b>



# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The amortized cost of the held-to-maturity investment is as follows:

USD THOUSANDS	DECEMBER 31	
	2013	2012
Corporate security	\$40,119	\$40,335
	<b>\$40,119</b>	<b>\$40,335</b>

As of December 31, 2013 and 2012, the corporate security amounts to \$40,119 and \$40,335, respectively, corresponding to a development-related asset with characteristics similar to other held-to-maturity investment securities.

The fair value of the held-to-maturity investment is as follows:

USD THOUSANDS	DECEMBER 31, 2013	
	AMORTIZED COST	FAIR VALUE
Corporate security	\$40,119	\$42,668
	<b>\$40,119</b>	<b>\$42,668</b>

USD THOUSANDS	DECEMBER 31, 2012	
	AMORTIZED COST	FAIR VALUE
Corporate security	\$40,335	\$42,750
	<b>\$40,335</b>	<b>\$42,750</b>

Gross unrealized gains in 2013 and 2012, amounted to \$2,550 and \$2,415, respectively.

The maturity structure of the held-to-maturity investment is as follows:

USD THOUSANDS	DECEMBER 31	
	2013	2012
Less than twelve months	\$ —	\$ —
After one year through five years	40,119	40,335
	<b>\$40,119</b>	<b>\$40,335</b>

## 4. LOAN AND EQUITY INVESTMENTS

The Corporation monitors its outstanding investments in loans and investments in equity and LPs for geographic concentration of credit risk. As of December 31, 2013, individual countries with the largest aggregate credit exposure to the Corporation included Peru, Brazil, and Chile (Brazil, Peru, and Chile as of December 31, 2012). As of December 31, 2013, outstanding investments in loans and investments in equity and LPs denominated in foreign currency amounted to \$86,698 (\$85,509 as of December 31, 2012). One of the Corporation's exposures is designated as Regional, which consists primarily of multi-country loan investments.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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

USD THOUSANDS	DECEMBER 31					
	2013			2012		
	LOAN	EQUITY	TOTAL	LOAN	EQUITY	TOTAL
Peru	\$ 140,276	\$ —	\$ 140,276	\$ 134,764	\$ —	\$ 134,764
Brazil	133,587	—	133,587	154,499	—	154,499
Chile	124,776	1,600	126,376	103,794	2,815	106,609
Costa Rica	94,748	—	94,748	95,711	—	95,711
Mexico	74,751	10,297	85,048	81,509	3,077	84,586
Panama	76,848	4,000	80,848	99,552	4,000	103,552
Colombia	78,705	1,344	80,049	84,626	1,277	85,903
Ecuador	70,025	—	70,025	41,763	—	41,763
Argentina	62,151	355	62,506	74,222	365	74,587
Nicaragua	46,131	—	46,131	48,641	—	48,641
Regional	21,839	7,320	29,159	29,352	13,967	43,319
Paraguay	27,495	—	27,495	31,489	—	31,489
Dominican Republic	17,500	1,136	18,636	4,100	1,136	5,236
Jamaica	13,048	—	13,048	17,382	—	17,382
Uruguay	12,128	—	12,128	11,802	—	11,802
Plurinational State of Bolivia	11,340	—	11,340	11,947	—	11,947
El Salvador	9,356	—	9,356	18,833	—	18,833
Guatemala	6,002	—	6,002	11,014	—	11,014
Honduras	4,429	—	4,429	—	—	—
Haiti	1,524	—	1,524	5,194	—	5,194
Suriname	—	—	—	885	—	885
Guyana	—	—	—	600	—	600
	<b>\$1,026,659</b>	<b>\$26,052</b>	<b>\$1,052,711</b>	<b>\$1,061,679</b>	<b>\$26,637</b>	<b>\$1,088,316</b>
Financial Services	\$ 679,525	\$ 6,946	\$ 686,471	\$ 709,159	\$ 9,187	\$ 718,346
Energy and Power	75,676	—	75,676	66,432	—	66,432
Agricultural Products	47,419	—	47,419	42,578	—	42,578
Transportation and Logistics	39,155	—	39,155	40,433	—	40,433
Distribution and Retail	30,157	—	30,157	34,158	—	34,158
Fertilizers and Agricultural Serv.	28,079	—	28,079	34,368	—	34,368
Food and Beverages	20,539	—	20,539	23,934	—	23,934
General Manufacturing	16,097	—	16,097	22,167	—	22,167
Investment Funds	1,158	13,902	15,060	1,158	16,314	17,472
Aquaculture and Fisheries	14,797	—	14,797	16,008	—	16,008
Livestock and Poultry	13,272	—	13,272	15,967	—	15,967
Hotels and Tourism	12,371	—	12,371	9,616	—	9,616
Construction, Materials, and Fixtures	6,988	4,068	11,056	3,570	—	3,570
Utilities	10,406	—	10,406	5,652	—	5,652
Oil, Gas, and Mining	6,442	—	6,442	9,268	—	9,268
Containers and Packaging	6,223	—	6,223	5,040	—	5,040
Education	5,005	—	5,005	4,694	—	4,694
Textiles, Apparel, and Leather	4,136	—	4,136	4,009	—	4,009
Wood, Pulp, and Paper	3,821	—	3,821	4,019	—	4,019
Information, Comm., and Tech.	2,500	1,136	3,636	6,000	1,136	7,136
Health Services and Supplies	1,968	—	1,968	364	—	364
Services	925	—	925	3,085	—	3,085
	<b>\$1,026,659</b>	<b>\$26,052</b>	<b>\$1,052,711</b>	<b>\$1,061,679</b>	<b>\$26,637</b>	<b>\$1,088,316</b>

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## Investment Portfolio

The Corporation's development-related assets are the result of lending and investing activities that include loans, equity investments and certain LPs, 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, preferably those that are small and medium in size. 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 risk.

The distribution of the outstanding portfolio by investment type as of December 31, 2013:

USD THOUSANDS	DECEMBER 31, 2013		
	FINANCIAL INSTITUTIONS	CORPORATE	TOTAL
Loan	\$680,682	\$345,977	\$1,026,659
Equity	20,848	5,204	26,052
Investment security*	40,119	—	40,119
Guarantees**	—	5,663	5,663
<b>Total</b>	<b>\$741,649</b>	<b>\$356,844</b>	<b>\$1,098,493</b>

\* Represents an investment in a security that is issued in or by entities domiciled in regional developing member countries the proceeds of which are used for development-related activities.

\*\*Represents maximum potential amount of future payments—Note 10.

The distribution of the outstanding portfolio by investment type as of December 31, 2012:

USD THOUSANDS	DECEMBER 31, 2012		
	FINANCIAL INSTITUTIONS	CORPORATE	TOTAL
Loan	\$709,159	\$352,520	\$1,061,679
Equity	26,637	—	26,637
Investment security*	40,335	—	40,335
Guarantees**	—	6,171	6,171
<b>Total</b>	<b>\$776,131</b>	<b>\$358,691</b>	<b>\$1,134,822</b>

\* Represents an investment in a security that is issued in or by entities domiciled in regional developing member countries the proceeds of which are used for development-related activities.

\*\*Represents maximum potential amount of future payments—Note 10.

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

USD THOUSANDS	DECEMBER 31	
	2013	2012
Loan	\$136,789	\$112,808
Equity—LPs	12,193	10,393
	<b>\$148,982</b>	<b>\$123,201</b>

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## Loan Investments

The Corporation's loans accrue interest at fixed and variable rates. The unpaid principal balance of the fixed rate loan portfolio amounted to \$266,131 as of December 31, 2013 (\$287,936 as of December 31, 2012).

An age analysis, based on contractual terms, of the Corporation's loans at amortized cost by investment type as of December 31, 2013:

DECEMBER 31, 2013						
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	\$ —	\$ —	\$ 4,847	\$ 4,847	\$ 675,835	\$ 680,682
Corporate	18,024	—	—	18,024	327,953	345,977
<b>Total Past-Due Loans</b>	<b>\$18,024</b>	<b>\$ —</b>	<b>\$ 4,847</b>	<b>\$22,871</b>	<b>\$1,003,788</b>	<b>\$1,026,659</b>
As % of Loan Portfolio	1.76%	0.00%	0.47%	2.23%	97.77%	100.00%
Allowance for Loan Losses Coverage	47,056			205.75%		4.58%

An age analysis, based on contractual terms, of the Corporation's loans at amortized cost by investment type as of December 31, 2012:

DECEMBER 31, 2012						
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	\$ —	\$ —	\$ 7,091	\$7,091	\$ 702,068	\$ 709,159
Corporate	151	—	—	151	352,369	352,520
<b>Total Past-Due Loans</b>	<b>\$ 151</b>	<b>\$ —</b>	<b>\$ 7,091</b>	<b>\$7,242</b>	<b>\$1,054,437</b>	<b>\$1,061,679</b>
As % of Loan Portfolio	0.01%	0.00%	0.67%	0.68%	99.32%	100.00%
Allowance for Loan Losses Coverage	47,414			654.71%		4.47%

Loans on which the accrual of interest has been discontinued totaled \$19,757 as of December 31, 2013 (\$22,268 as of December 31, 2012). Interest collected on loans in nonaccrual status for the year ended December 31, 2013, was \$552 (\$447 for the year ended December 31, 2012).

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

USD THOUSANDS	DECEMBER 31	
	2013	2012
Corporate	\$ 12,441	\$ 12,830
Financial Institutions	7,316	9,438
<b>Total Nonaccrual Loans</b>	<b>\$ 19,757</b>	<b>\$ 22,268</b>
Loan Portfolio	\$1,026,659	\$1,061,679
Nonaccrual/Loan Portfolio	1.92%	2.10%
Allowance for Loan Losses	\$ 47,056	\$ 47,414
Coverage of Nonaccrual	238.17%	212.92%

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The maturity structure of the Corporation's loan investments is summarized below:

USD THOUSANDS	DECEMBER 31			
	2013		2012	
	PRINCIPAL OUTSTANDING	AVERAGE YIELD	PRINCIPAL OUTSTANDING	AVERAGE YIELD
Due in one year or less	\$ 302,378	4.10%	\$ 317,022	3.63%
Due after one year through five years	586,479	4.41%	647,739	4.62%
Due after five years through eleven years	137,802	5.29%	96,918	5.71%
	<b>\$1,026,659</b>		<b>\$1,061,679</b>	

The Corporation's investment in impaired loans as of December 31, 2013, was \$17,452 (\$10,557 as of December 31, 2012). The average investment in impaired loans for the period ended December 31, 2013, was \$15,479 (\$10,741 as of December 31, 2012). The total amount of the allowance related to impaired loans as of December 31, 2013 and 2012, was \$7,006 and \$5,308, respectively. The Corporation's loan investment portfolio includes one loan that was considered a troubled debt restructuring as of December 31, 2009, and is considered within the impaired loans as of December 31, 2013. As of December 31, 2013, there were no troubled debt restructurings within the loan portfolio (none as of December 31, 2012).

The Corporation received partial recoveries on corporate and financial institution loans during 2013 and 2012. During 2013, the Corporation's loan investment portfolio includes one corporate loan recovery for \$7,396.

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

USD THOUSANDS	2013			2012		
	FINANCIAL INSTITUTIONS	CORPORATE	TOTAL	FINANCIAL INSTITUTIONS	CORPORATE	TOTAL
Balance as of January 1	\$22,266	\$25,148	\$47,414	\$22,302	\$22,664	\$44,966
Investments charged off, net	—	—	—	—	(74)	(74)
Recoveries	332	9,414	9,746	244	2,090	2,334
(Release of)/provision for losses	(409)	(9,695)	(10,104)	(280)	468	188
<b>Balance as of December 31</b>	<b>\$22,189</b>	<b>\$24,867</b>	<b>\$47,056</b>	<b>\$22,266</b>	<b>\$25,148</b>	<b>\$47,414</b>

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The Corporation utilizes a rating system to classify loans according to creditworthiness and risk. Each loan is categorized as A, B, substandard, doubtful, or loss. A description of each category (credit quality indicator) follows:

<b>CREDIT QUALITY INDICATOR</b>	<b>DESCRIPTION</b>
A	This category considers companies with capacity to meet their obligations and whose financial condition is not being affected by internal and/or external variables that could hinder this capacity. Projects classified as A are assigned a general allowance between 0.40% to 6.35% for senior, and 0.55% to 8.75% for subordinated debt depending upon the results of a specific analysis of their risk variables.
B	The company is able to meet its obligations but is facing adverse internal and/or external conditions that could hinder its financial capacity if these conditions continue. Projects classified as B are assigned a general allowance for senior debt of 9.35% and subordinated debt of 12.85%.
Substandard	The current financial condition and payment capacity of the company may adversely impact collection, but no loss of principal is expected. The company's cash flow generation continues to show signs of deterioration. The company demonstrates persistent and well-defined deficiencies which, if allowed to continue, would result in an inability to repay the obligation to the Corporation in full. The company is in payment default or exhibits an increased risk of default if the weaknesses are not corrected. Significant operating or financial structure changes are required in order to restore the company's creditworthiness. Projects classified as Substandard are assigned a general allowance for senior debt of 21.90% and subordinated debt of 30.00%.
Doubtful	This category considers when the company is unable to service its debts and collection is unlikely, either by means of payments based on the company's financial performance, payments made by sponsors, or the liquidation of collateral. The creditworthiness of the company is impaired, with an increased likelihood of loss. Major restructuring of the investment and/or operation is required, and a number of specific actions (liquidation, recapitalization, etc.) may be taken. For projects classified as Doubtful, an independent cash flow analysis is performed in accordance with ASC 310-10-35 to determine the necessary allowance.
Loss	All or part of the Corporation's loan is considered uncollectible. The project is likely to be in bankruptcy and may have ceased operations. The liquidation value of collateral or recourse against guarantors is insufficient for full recovery of the Corporation's investment. For projects classified as Loss, an independent cash flow analysis is performed in accordance with ASC 310-10-35, to determine the necessary allowance.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

A summary of the Corporation's loans at amortized cost by credit quality indicator and investment type as of December 31, 2013:

CATEGORY	DECEMBER 31, 2013		
	FINANCIAL INSTITUTIONS	CORPORATE	TOTAL
A	\$627,206	\$274,162	\$ 901,368
B	48,630	54,584	103,214
Substandard	—	4,625	4,625
Doubtful	4,847	12,605	17,452
Loss	—	—	—
<b>Total</b>	<b>\$680,683</b>	<b>\$345,976</b>	<b>\$1,026,659</b>

A summary of the Corporation's loans at amortized cost by credit quality indicator and investment type as of December 31, 2012:

CATEGORY	DECEMBER 31, 2012		
	FINANCIAL INSTITUTIONS	CORPORATE	TOTAL
A	\$673,146	\$298,213	\$ 971,359
B	28,922	38,822	67,744
Substandard	—	12,019	12,019
Doubtful	7,091	3,466	10,557
Loss	—	—	—
<b>Total</b>	<b>\$709,159</b>	<b>\$352,520</b>	<b>\$1,061,679</b>

## Equity Investments

As of December 31, 2013, the Corporation has seven direct equity investments (six as of December 31, 2012) with a carrying value of \$10,562 (\$8,930 as of December 31, 2012). The direct equity investments are reported at cost, and the Corporation's other-than-temporary impairment losses on these investments as of December 31, 2013, were \$49 (\$0 as of December 31, 2012).

The Corporation has eleven investments in LPs as of December 31, 2013 (twelve as of December 31, 2012), with one carried at cost of \$3,033 (one at \$3,033 as of December 31, 2012) and ten carried at fair value of \$12,457 (eleven at fair value of \$14,673 as of December 31, 2012). The Corporation's investments in LPs may be generally liquidated over a period of ten years with up to two one-year extensions.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## 5. RECEIVABLES AND OTHER ASSETS

Receivables and other assets are summarized below:

USD THOUSANDS	DECEMBER 31	
	2013	2012
Other current assets		
Interest receivable on loan investments	\$ 8,680	\$ 8,033
Interest receivable on investment securities	672	672
Other current assets	7,911	6,321
	17,263	15,026
Other noncurrent assets		
Postretirement Benefit Plan, net asset	9,373	—
Other noncurrent assets	1,899	4,802
	11,272	4,802
<b>Total receivables and other assets</b>	<b>\$28,535</b>	<b>\$19,828</b>

As of December 31, 2013, the Postretirement Benefit Plan net asset reflects the overfunded status of the Plan. Refer to Note 15.

## 6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities are summarized below:

USD THOUSANDS	DECEMBER 31	
	2013	2012
Pension Plan, net liability	\$ 8,681	\$33,629
Deferred revenue	7,389	5,478
Employment benefits payable	5,258	5,195
Due to other IDB Group entities	4,132	3,019
Postretirement Benefit Plan, net liability	—	10,896
Accounts payable and other liabilities	3,981	5,752
<b>Total accounts payable and other liabilities</b>	<b>\$29,441</b>	<b>\$63,969</b>

As of December 31, 2013 and 2012, the Pension Plan net liability reflects the underfunded status of the Plan. As of December 31, 2012, the Postretirement Benefit Plan net liability reflects the underfunded status of the Plan. Refer to Note 15.



# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## 7. BORROWINGS AND LONG-TERM DEBT

Borrowings and long-term debt outstanding, by currency, are as follows:

USD THOUSANDS	DECEMBER 31			
	2013		2012	
	AMOUNT OUTSTANDING	WEIGHTED AVG. COST	AMOUNT OUTSTANDING	WEIGHTED AVG. COST
Borrowings and debt (by currency)				
U.S. dollar	\$760,048	0.89%	\$820,000	1.22%
Mexican peso	122,284	4.48%	123,402	4.93%
Brazilian real	19,214	10.20%	22,027	10.56%
Euro	1,956	1.07%	2,296	2.10%
Peruvian nuevo sol	—	—	1,308	7.11%
Argentinean peso	—	—	325	9.15%
	<b>\$903,502</b>		<b>\$969,358</b>	
Short-term borrowings	(121,167)		(21,498)	
Long-term borrowings and debt	<b>\$782,335</b>		<b>\$947,860</b>	

The Corporation has available a renewable borrowing facility with the IDB amounting to \$300,000. In August 2008, the Corporation borrowed \$100,000 under this facility. Borrowings under the IDB facility are due fifteen years after the respective disbursement. The Corporation has the right to use this facility until November 2015. In addition, as of December 31, 2013, the Corporation has available a stand-by credit facility with a AA- institution amounting to \$100,000. The Corporation has the right to use this stand-by credit facility until June 2014. Other credit facilities available amount to \$283,443 as of December 31, 2013.

The Corporation's outstanding borrowings as of December 31, 2013, consist of bilateral loans amounting to \$381,170, term notes amounting to \$400,048, and bond issuances amounting to \$122,284.

On November 16, 2012, the Corporation issued U.S.-dollar denominated, three-month LIBOR plus 0.35% notes as part of its Euro Medium-Term Note program in the capital markets in the amount of \$350,000, maturing in 2015, followed by an additional \$50,000 issue on February 19, 2013, which was issued at a premium, maturing in 2015. Interest on the notes is payable quarterly and at maturity. The term Note program offering was the Corporation's first on the international financial market, aimed at diversifying its sources of funding.

On May 13, 2011, the Corporation issued interbank reference rate (TIIE) plus 0.05% foreign-currency bonds in the amount of 800 million Mexican pesos (equivalent to \$61,142) before underwriting and other issuance costs, maturing in 2014. On April 27, 2012, the Corporation also issued TIIE plus 0.22% foreign-currency bonds in the amount of 800 million Mexican pesos (equivalent to \$61,142) before underwriting and other issuance costs, maturing in 2015. The proceeds were used to provide financing for reinvestment in local markets. Interest on the bonds is payable monthly and at maturity. The bonds are negotiable on the Mexican Stock Exchange. The bonds represent unsecured obligations of the Corporation ranking equal in right of payment to all existing and future debt, including claims of other general creditors. The bonds may not be redeemed prior to their maturity.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The maturity structure of borrowings, term notes, and bonds outstanding is as follows:

USD THOUSANDS	2014	2015	2016	2017	2018	THROUGH 2025
Borrowings	\$ 60,000	\$ 80,000	\$ 89,214	\$—	\$1,956	\$150,000
Term notes	—	400,048	—	—	—	—
Bonds	61,142	61,142	—	—	—	—
	<b>\$121,142</b>	<b>\$541,190</b>	<b>\$ 89,214</b>	<b>\$—</b>	<b>\$1,956</b>	<b>\$150,000</b>

As of December 31, 2013, borrowings and long-term debt-related expense includes interest expense of \$14,895 (\$15,900 as of December 31, 2012).

## 8. CAPITAL

The Corporation's original authorized share capital was increased from \$200 million to \$705.9 million, through a general \$500 million capital increase approved in 1999, and several special increases to allow for admission of new members. The increases allocated a total of \$505.9 million for subscriptions by new and existing member countries, during the subscription periods, as set forth in the corresponding resolutions. The Corporation issues only full shares, with a par value of ten thousand dollars.

In May 2012, 1,581 shares issued in the context of the 1999 capital increase reverted back to the Corporation as unsubscribed shares. Of these, 230 shares were allocated by the Corporation's Governors for purchase by China, Korea, and Canada; China and Korea each subscribed and paid for 40 of these shares, and 150 remain allocated for Canada's admission. The remaining 1,351 capital increase shares were designated for reallocation among the Corporation's shareholders pursuant to a mechanism adopted by the Board of Executive Directors in 2008. The first round of reallocation subscriptions concluded in May 2013, and all 1,351 available shares were subscribed.

Under the Agreement Establishing the Inter-American Investment Corporation, any member may withdraw from the Corporation by notifying the Corporation's principal office in writing of its intention to do so. Such withdrawal shall become effective on the date specified in the notice but in no event prior to six months from the date on which such notice was delivered to the Corporation. 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 from the Corporation, the Corporation and the member may agree on the withdrawal from membership and the repurchase of shares of said member on terms appropriate under the circumstances. If such agreement is not reached within three months of the date on which such member expresses its desire to withdraw from membership, or within a term agreed upon between both parties, the repurchase price of the member's shares shall be equal to the book value thereof on the date when the member ceases to belong to the Corporation, such book value to be determined by the Corporation's audited financial statements. Payment for shares shall be made, upon surrender of the corresponding share certificates, in such installments, at such times, and in such available currencies as the Corporation shall determine, taking into account its financial position.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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

	<b>DECEMBER 31</b>		
	<b>TOTAL CAPITAL STOCK SUBSCRIBED</b>		<b>SUBSCRIPTIONS RECEIVABLE FROM MEMBERS</b>
	<b>SHARES</b>	<b>AMOUNT</b>	
USD THOUSANDS			
Argentina	8,089	\$ 80,890	\$ 3,220
Austria	345	3,450	—
Bahamas	144	1,440	—
Barbados	101	1,010	—
Belgium	169	1,690	—
Belize	101	1,010	—
Bolivarian Republic of Venezuela	4,311	43,110	—
Brazil	8,089	80,890	3,220
Chile	2,003	20,030	—
Colombia	2,086	20,860	—
Costa Rica	314	3,140	—
Denmark	1,071	10,710	—
Dominican Republic	437	4,370	170
Ecuador	437	4,370	170
El Salvador	314	3,140	—
Finland	393	3,930	—
France	2,162	21,620	—
Germany	1,334	13,340	—
Guatemala	420	4,200	—
Guyana	120	1,200	—
Haiti	314	3,140	—
Honduras	314	3,140	—
Israel	173	1,730	—
Italy	2,162	21,620	—
Jamaica	420	4,200	—
Japan	2,492	24,920	—
Mexico	5,207	52,070	2,070
Netherlands	1,071	10,710	—
Nicaragua	314	3,140	—
Norway	393	3,930	—
Panama	327	3,270	130
Paraguay	327	3,270	130
People's Republic of China	156	1,560	60
Peru	2,086	20,860	830
Plurinational State of Bolivia	650	6,500	260
Portugal	182	1,820	—
Republic of Korea	156	1,560	60
Spain	2,492	24,920	—
Suriname	105	1,050	40
Sweden	393	3,930	—
Switzerland	1,071	10,710	—
Trinidad and Tobago	314	3,140	—
United States	16,019	160,190	—
Uruguay	862	8,620	340
<b>Total 2013</b>	<b>70,440</b>	<b>\$704,400</b>	<b>\$10,700</b>
<b>Total 2012</b>	<b>68,979</b>	<b>\$689,790</b>	<b>\$ 400</b>

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## 9. MEASUREMENTS AND CHANGES IN FAIR VALUE

The Corporation's assets and liabilities recorded at fair value have been categorized based on a fair value hierarchy in accordance with FASB ASC 820-10-50-2.

The following fair value hierarchy table presents information about the Corporation's assets measured at fair value on a recurring basis as of December 31, 2013:

USD THOUSANDS	BALANCE AS OF DECEMBER 31, 2013	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
<b>ASSETS</b>				
Corporate securities	\$567,650	\$21,032	\$546,618	\$ —
Agency securities	78,820	63,826	14,994	—
Government securities	47,753	37,754	9,999	—
Limited partnerships*	12,457	—	—	12,457

\*Represents investments in which fair value accounting has been elected that would otherwise be accounted for under the equity method of accounting.

The following fair value hierarchy table presents information about the Corporation's assets measured at fair value on a recurring basis as of December 31, 2012:

USD THOUSANDS	BALANCE AS OF DECEMBER 31, 2012	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
<b>ASSETS</b>				
Corporate securities	\$553,545	\$22,594	\$530,951	\$ —
Government securities	66,498	—	66,498	—
Agency securities	64,967	64,967	—	—
Limited partnerships*	14,673	—	—	14,673

\*Represents investments in which fair value accounting has been elected that would otherwise be accounted for under the equity method of accounting.

The following table presents gains and losses due to changes in fair value for items measured at fair value for the year ended December 31, 2013:

USD THOUSANDS	CHANGES IN FAIR VALUE INCLUDED IN EARNINGS FOR THE YEAR
<b>ASSETS</b>	
Corporate securities	\$7,481
Government securities	1,585
Limited partnerships*	620
Agency securities	30
	<b>\$9,716</b>

\*Represents investments that would otherwise be accounted for under the equity method of accounting.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The following table presents gains and losses due to changes in fair value for items measured at fair value for the year ended December 31, 2012:

USD THOUSANDS	<b>CHANGES IN FAIR VALUE INCLUDED IN EARNINGS FOR THE YEAR</b>
<b>ASSETS</b>	
Corporate securities	\$4,482
Government securities	2,687
Agency securities	193
Limited partnerships*	34
	<b>\$7,396</b>

\*Represents investments that would otherwise be accounted for under the equity method of accounting.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012, are as follows:

USD THOUSANDS	<b>FAIR VALUE MEASUREMENTS FOR LPs USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)</b>
As of January 1, 2012	\$16,583
Net asset change due to net gains	34
Distributions received	(3,528)
Additional investments	1,584
<b>As of December 31, 2012</b>	<b>\$14,673</b>
As of January 1, 2013	\$14,673
Net asset change due to net gains	620
Distributions received	(5,273)
Additional investments	2,437
<b>As of December 31, 2013</b>	<b>\$12,457</b>

Certain of the Corporation's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: Cash and cash equivalents, Receivables and other assets, and Accounts payable and other liabilities.

Certain corporate securities, agency securities, and mutual funds that include non-U.S. government bonds are measured at fair value based on quoted market prices in active markets, a valuation technique consistent with the market approach. Such securities are classified within Level 1 of the fair value hierarchy.

Commercial papers (CP) and certificates of deposit (CD), which are not actively traded, are issued on a tailor-made basis under large U.S.-based CP or CD programs. These securities are valued through pricing models, as their prices are not available from market vendors and as a result are classified as Level 2.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The Corporation's loans are generally carried at the principal amount outstanding. For disclosure purposes, the Corporation uses a December 31 measurement date to determine the fair value of its loan portfolio. As of December 31, 2013, and for those loans for which it is practicable to determine fair value, the carrying amount of loan investments, plus accrued interest, was \$400,753 (\$446,984 as of December 31, 2012), and their estimated fair value amounted to \$410,492 (\$444,972 as of December 31, 2012). Management concluded that it is not practicable to determine the fair value of the remainder of the loan portfolio, which included custom-tailored financing to small and medium-size enterprises operating in the Corporation's regional member countries. As of December 31, 2013, the carrying value of this remainder portfolio, without including accrued interest, was \$627,721 (\$618,945 as of December 31, 2012), with interest rates that range from 0.78% to 13.81% (1.09% to 12.30% as of December 31, 2012) and maturities that range from less than one year to 15 years (less than one year to 13 years as of December 31, 2012). Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value presented does not necessarily reflect the realizable values (since the Corporation generally holds investments with contractual maturities with the aim of realizing their recorded values and, therefore, maximizing the developmental aspects of the investment).

The Corporation's borrowings and long-term debt are recorded at historical amounts unless elected for fair value accounting under the Fair Value Option Subsection of Subtopic 825-10. The fair value of the Corporation's borrowings and long-term debt was estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowings and long-term debt arrangements. As of December 31, 2013, the carrying value of the Corporation's borrowings and long-term debt, plus accrued interest, was approximately \$2,418 lower than fair value (\$1,980 lower than fair value as of December 31, 2012).

The carrying value of equity investments reported at cost amounted to \$13,595 as of December 31, 2013 (\$11,963 as of December 31, 2012). For the Corporation's direct equity investments, it is not practicable to determine the fair value, as these are custom-tailored private placement transactions for small and medium-size enterprises operating in the Corporation's regional member countries.

The carrying value of equity investments reported at fair value amounted to \$12,457 as of December 31, 2013 (\$14,673 as of December 31, 2012). The amount of total net gains and losses for the year ended December 31, 2013, included in changes in carrying value of equity investments attributable to the change in unrealized net gain relating to assets still held at that date was \$1,694 (\$13 unrealized net loss as of December 31, 2012). For certain of the investments in LPs reported at cost, the total carrying value was \$3,033 as of December 31, 2013 (\$3,033 as of December 31, 2012), and the estimated fair value was \$3,707 as of December 31, 2013 (\$3,482 as of December 31, 2012).

As a practical expedient, fair value for investments in LPs was determined using the estimated net asset value (NAV) provided by the LPs. The NAVs that have been provided by the LPs are derived from the fair values of the underlying investments as of the reporting date. All investments for which NAV is used as 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 the attributes of an investment company. Generally, LPs have finite lives and the Corporation does not sell or redeem its investments in LPs. Investments in LPs that the Corporation cannot redeem on the measurement date or in the near term are classified as Level 3. Proceeds are distributed to the Corporation as the LPs sell the underlying investment. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value.

## 10. GUARANTEES

As of December 31, 2013, no notices of default have been received since inception of the outstanding guarantee product (no notices as of December 31, 2012). Guarantees entered into by the Corporation generally have maturities consistent with those of the loan portfolio. The maximum potential amount of future payments, which represents the notional amounts that could be lost under the guarantee in the event there were a total default by the guaranteed party without taking into consideration possible recoveries under recourse provisions or from collateral held or pledged, amounted to \$5,663 as of December 31, 2013 (\$6,171 as of December 31, 2012). As of December 31, 2013, the outstanding guarantee was provided in a currency other than the United States dollar. There was no provision for losses on the guarantee in the statement of income as of December 31, 2013 (none as of December 31, 2012). The estimated fair value of the guarantee liability is \$1,223 as of December 31, 2013 (\$1,228 as of December 31, 2012).

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## 11. 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 of the Corporation.

## 12. SUBSEQUENT EVENTS

The Corporation monitors significant events occurring after the balance sheet date and prior to the issuance of the financial statements to determine the impact, if any, of events on the financial statements to be issued. All subsequent events of which the Corporation is aware were evaluated through the approval date by the Board of Governors on March 30, 2014. Management determined that there are no subsequent events that require disclosure under FASB ASC Topic 855, *Subsequent Events*.

## 13. LENDING ARRANGEMENTS

The Corporation mobilizes funds from commercial banks and other financial institutions in connection with certain of its lending arrangements. These arrangements are administered and serviced by the Corporation on behalf of participants. The arrangements are structured such that the participating lenders must fund their respective share of each loan, and there is no recourse to the Corporation.

During the year ended December 31, 2013, the Corporation called and disbursed \$93,516 in funds from participating lenders (\$324,208 as of December 31, 2012). Undisbursed funds commitments from participating lenders totaled \$15,345 as of December 31, 2013 (\$2,519 as of December 31, 2012).

## 14. RELATED-PARTY TRANSACTIONS

The Corporation obtains certain administrative and overhead services from the IDB in areas where common services can be efficiently provided by the IDB. The Corporation has a lease agreement with the IDB for its headquarters office space that will expire in 2020.

The Corporation paid the following amounts to the IDB for office space and certain administrative support services:

USD THOUSANDS	YEAR ENDED DECEMBER 31	
	2013	2012
Office space (headquarters and other)	\$2,529	\$2,456
Support services	815	930
Other IDB services	288	138
	<b>\$3,632</b>	<b>\$3,524</b>

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

USD THOUSANDS	2014	2015	2016	2017	2018	2019-2020
Office space (headquarters)	\$2,063	\$2,125	\$2,189	\$2,254	\$2,322	\$4,855
	<b>\$2,063</b>	<b>\$2,125</b>	<b>\$2,189</b>	<b>\$2,254</b>	<b>\$2,322</b>	<b>\$4,855</b>

Payables due to the IDB were \$4,132 as of December 31, 2013 (\$3,019 as of December 31, 2012).

As of December 31, 2013 and 2012, the Corporation had borrowed \$100,000 from the IDB credit facility. Refer to Note 7.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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The Corporation provides advisory services to IDB Group entities. The Corporation has received full payment for fees payable as of December 31, 2013, under these arrangements, for a total amount of \$100 (\$100 for the year ended December 31, 2012).

## **15. 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 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 them. 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*.



# NOTES TO THE FINANCIAL STATEMENTS

(USD 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, and funded status of the Pension Plan and the PRBP, and the amount recognized on the balance sheet:

USD THOUSANDS	PENSION PLAN		PRBP	
	2013	2012	2013	2012
<b>Reconciliation of benefit obligation</b>				
Obligation as of January 1	\$(100,798)	\$ (80,809)	\$(60,427)	\$(47,894)
Service cost	(4,720)	(3,643)	(2,508)	(2,045)
Interest cost	(4,035)	(3,822)	(2,343)	(2,300)
Participants' contributions	(957)	(1,033)	—	—
Actuarial gain/(loss)	23,714	(12,888)	15,714	(8,585)
Benefits paid	1,107	1,397	420	426
Retiree Part D subsidy	—	—	(6)	(29)
Obligation as of December 31	(85,689)	(100,798)	(49,150)	(60,427)
<b>Reconciliation of fair value of plan assets</b>				
Fair value of plan assets as of January 1	67,169	57,196	49,531	41,053
Net transfers between IDB and IIC	(234)	194	—	—
Actual return on assets	7,256	7,959	5,501	6,126
Benefits paid	(1,107)	(1,397)	(420)	(426)
Participants' contributions	957	1,033	—	—
Employer contributions	2,967	2,184	3,911	2,778
Fair value of plan assets as of December 31	77,008	67,169	58,523	49,531
<b>Funded status</b>				
(Underfunded)/Funded status as of December 31	(8,681)	(33,629)	9,373	(10,896)
<b>Net amount recognized as of December 31</b>	<b>\$ (8,681)</b>	<b>\$ (33,629)</b>	<b>\$ 9,373</b>	<b>\$(10,896)</b>
<b>Amounts recognized as (liabilities)/assets consist of:</b>				
Plan benefits (liabilities)/assets	(8,681)	(33,629)	9,373	(10,896)
<b>Net amount recognized as of December 31</b>	<b>\$ (8,681)</b>	<b>\$ (33,629)</b>	<b>\$ 9,373</b>	<b>\$(10,896)</b>
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>				
Net actuarial gain/(loss)	692	30,240	(774)	18,711
Prior service costs	7	21	—	—
Net initial asset	—	—	183	357
<b>Net amount recognized as of December 31</b>	<b>\$ 699</b>	<b>\$ 30,261</b>	<b>\$ (591)</b>	<b>\$ 19,068</b>

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was \$73,165 and \$78,667 as of December 31, 2013 and 2012, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

## Components of Net Periodic Benefit Cost

Net periodic benefit cost consists of the following components:

USD THOUSANDS	PENSION PLAN		PRBP	
	YEAR ENDED DECEMBER 31			
	2013	2012	2013	2012
Service cost	\$ 4,720	\$ 3,643	\$ 2,508	\$ 2,045
Interest cost	4,035	3,822	2,343	2,300
Expected return on plan assets	(4,007)	(3,733)	(2,973)	(2,762)
Amortization of:				
Transition obligation	—	—	174	174
Unrecognized net actuarial loss	2,585	1,593	1,243	728
Prior service cost	14	14	—	920
<b>Net periodic benefit cost</b>	<b>\$ 7,347</b>	<b>\$ 5,339</b>	<b>\$ 3,295</b>	<b>\$ 3,405</b>

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

USD THOUSANDS	PENSION PLAN		PRBP	
	YEAR ENDED DECEMBER 31			
	2013	2012	2013	2012
Net actuarial (gain)/loss	\$(26,963)	\$ 8,468	\$(18,242)	\$5,221
Amortization of:				
Transition obligation	—	—	(174)	(174)
Unrecognized net actuarial loss	(2,585)	(1,593)	(1,243)	(728)
Prior service cost	(14)	(14)	—	(920)
<b>Total recognized in other comprehensive (income)/loss</b>	<b>(29,562)</b>	<b>6,861</b>	<b>(19,659)</b>	<b>3,399</b>
<b>Total recognized in net periodic benefit cost and other comprehensive (income)/loss</b>	<b>\$(22,215)</b>	<b>\$12,200</b>	<b>\$(16,364)</b>	<b>\$6,804</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 2014 amount to a net of \$7 for the Pension Plan and \$174 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 2013 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 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the Pension Plan and 2.2 years for the PRBP. As of December 31, 2009, there was a plan amendment to the PRBP of \$4,600. The unrecognized prior service cost for this amendment is fully amortized as of December 31, 2013.

# NOTES TO THE FINANCIAL STATEMENTS

(USD 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	
	2013	2012	2013	2012
<i>Weighted average assumptions used to determine benefit obligation as of December 31</i>				
Discount rate	4.85%	4.00%	4.99%	4.25%
Rate of compensation increase	4.30%	5.50%		

USD THOUSANDS	PENSION PLAN		PRBP	
	2013	2012	2013	2012
<i>Weighted average assumptions used to determine net periodic benefit cost for years ended December 31</i>				
Discount rate	4.00%	4.75%	4.25%	5.00%
Expected long-term return on plan assets	6.75%	6.75%	6.75%	6.75%
Rate of compensation increase	5.50%	5.50%		

The expected yearly rate of return on plan assets reflects the historical rate of return of asset categories employed by the plans and conservatively applying those returns in formulating the investment policy asset allocations. The discount rates used in determining the benefit obligation are selected by reference to the year-end AAA and AA corporate bond rates. The inflation rate used is the 30-year breakeven inflation rate, derived from nominal and real U.S. Treasury bonds, with 20-year duration.

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	
	2013	2012
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	2018	2018
<i>Health care cost trend rate assumed for next year</i>		
Medical—Non-Medicare	7.00%	7.50%
Medical—Medicare	6.00%	6.50%
Prescription drugs	6.50%	7.00%
Dental	4.50%	5.00%
Retirement cost outside U.S.*	6.00%	6.50%

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

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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			
	2013	2012	2013	2012
Effect on total of service and interest cost components	\$ 1,154	\$ 1,139	\$ (818)	\$ (804)
Effect on postretirement benefit obligation	10,965	12,669	(8,027)	(11,532)

## 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 the Pension Plan and PRBP investment policies into account. 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 include investments in fixed income and U.S. inflation-indexed bonds 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 assets are invested with a target allocation of between 45% and 61% to a well-diversified pool of developed and emerging markets equities, and exposures of 3% to emerging markets debt, 3% to commodity index futures, 0% to 2% to public real estate, 2% to 3% to private real estate, and 0% to 2% to high-yield fixed income. The Pension Plan's assets are also invested with exposures of 5% to core fixed-income, 15% to long-duration fixed income, and 15% to U.S. inflation-indexed securities.

The PRBP's assets are invested with a target allocation of between 46% to 62% exposure to a well-diversified pool of developed and emerging markets equities, and exposures of 3% to emerging markets debt, 3% to commodity index futures, 3% to public real estate, and 2% to high-yield fixed income. PRBP assets are also invested with exposures of 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, 2013, 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%

Risk management is achieved by the continuous monitoring of each asset category Level and investment manager. The investments are rebalanced toward the policy target allocations using cash flows and through monthly rebalancing exercises. 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 must be specifically approved for each instrument by the IDB's Investment Committee.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

The following tables set forth the categories of investments of the Pension Plan and the PRBP as of December 31, 2013 and 2012, which are measured at fair value and presented together with their weighted average allocation, by level within the fair value hierarchy. These investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, except for 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.

<b>PENSION PLAN</b>					
USD THOUSANDS	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>DECEMBER 31, 2013</b>	<b>WEIGHTED AVERAGE ALLOCATIONS</b>
Equity and equity funds:					
U.S. equities	\$ 4,026	\$16,139	\$ —	\$20,165	26%
Non-U.S. equities	5,921	12,349	—	18,270	24%
Emerging markets equities	4	3,104	—	3,108	4%
Public real estate	1,365	—	—	1,365	2%
Government bonds and diversified bond funds:					
Long-duration fixed-income bonds	3,689	7,592	—	11,281	15%
Core fixed-income bonds	3,601	—	—	3,601	5%
High-yield fixed-income bonds	—	1,506	—	1,506	2%
U.S. inflation-indexed bonds	10,960	—	—	10,960	14%
Emerging markets debt	—	2,297	—	2,297	3%
Real estate investment funds:					
Private real estate	—	—	1,811	1,811	2%
Short-term investment funds	2,051	593	—	2,644	3%
	<b>\$31,617</b>	<b>\$43,580</b>	<b>\$1,811</b>	<b>\$77,008</b>	<b>100%</b>

<b>PENSION PLAN</b>					
USD THOUSANDS	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>DECEMBER 31, 2012</b>	<b>WEIGHTED AVERAGE ALLOCATIONS</b>
Equity and equity funds:					
U.S. equities	\$ 3,530	\$13,101	\$ —	\$16,631	25%
Non-U.S. equities	5,184	11,207	—	16,391	24%
Emerging markets equities	—	2,796	—	2,796	4%
Public real estate	1,271	—	—	1,271	2%
Government bonds and diversified bond funds:					
Long-duration fixed-income bonds	4,924	4,969	—	9,893	15%
Core fixed-income bonds	3,115	—	—	3,115	5%
High-yield fixed-income bonds	—	1,345	—	1,345	2%
U.S. inflation-indexed bonds	—	2,076	—	2,076	3%
Emerging markets debt	9,891	—	—	9,891	15%
Real estate investment funds:					
Private real estate	—	—	1,498	1,498	2%
Short-term investment funds	1,375	887	—	2,262	3%
	<b>\$29,290</b>	<b>\$36,381</b>	<b>\$1,498</b>	<b>\$67,169</b>	<b>100%</b>

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

USD THOUSANDS	PRBP			WEIGHTED AVERAGE ALLOCATIONS
	LEVEL 1	LEVEL 2	DECEMBER 31, 2013	
Equity and equity funds:				
U.S. equities	\$ —	\$16,006	\$16,006	27%
Non-U.S. equities	—	14,072	14,072	24%
Emerging markets equities	—	2,310	2,310	4%
Public real estate investment funds	1,626	—	1,626	3%
Government bonds and diversified bond funds:				
Long-duration fixed-income bonds	3,166	5,421	8,587	15%
High-yield debt	—	1,148	1,148	2%
Emerging markets debt	—	1,633	1,633	3%
Core fixed-income bonds	2,850	—	2,850	5%
U.S. inflation-indexed bonds	8,314	—	8,314	14%
Short-term investment funds	1,977	—	1,977	3%
	<b>\$17,933</b>	<b>\$40,590</b>	<b>\$58,523</b>	<b>100%</b>

USD THOUSANDS	PRBP			WEIGHTED AVERAGE ALLOCATIONS
	LEVEL 1	LEVEL 2	DECEMBER 31, 2012	
Equity and equity funds:				
U.S. equities	\$ —	\$14,305	\$14,305	29%
Non-U.S. equities	—	12,044	12,044	24%
Emerging markets equities	—	2,030	2,030	4%
Public real estate investment funds	1,484	—	1,484	3%
Government bonds and diversified bond funds:				
Long-duration fixed-income bonds	4,078	3,278	7,356	15%
High-yield debt	—	998	998	2%
Emerging markets debt	—	1,499	1,499	3%
Core fixed-income bonds	2,219	—	2,219	4%
U.S. inflation-indexed bonds	7,233	—	7,233	15%
Short-term investment funds	174	189	363	1%
	<b>\$15,188</b>	<b>\$34,343</b>	<b>\$49,531</b>	<b>100%</b>

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, fixed-income mutual funds, and U.S. treasury inflation-indexed bonds. Such securities are classified within Level 1 of the fair value hierarchy. As required by the fair value measurement framework, no adjustments are made to the quoted price for such securities.

Commingled emerging markets equity and debt funds and short-term investment funds, 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.

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

Private real estate investment funds are measured at fair value based on the net asset value of these investment funds and are classified as Level 3, as the length of the time required to redeem these investments is uncertain. The valuation assumptions used by these investment funds include market value of similar properties, discounted cash flows, replacement cost, and debt on property (direct capitalization). These methodologies are valuation techniques consistent with the market and cost approaches.

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2013, are as follows:

USD THOUSANDS	<b>FAIR VALUE MEASUREMENTS FOR THE PENSION PLAN INVESTMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)</b>
As of January 1, 2012	\$1,284
Total net gains	214
Sales and income distributions	—
<b>As of December 31, 2012</b>	<b>\$1,498</b>
As of January 1, 2013	1,498
Total net gains	313
Sales and income distributions	—
<b>As of December 31, 2013</b>	<b>\$1,811</b>

The amount of total net gains and losses for the year ended December 31, 2013, included in changes in carrying value of the Pension Plan investments attributable to the change in unrealized net gain relating to assets held was \$313 (net gain of \$214 as of December 31, 2012).

## Cash Flows

Contributions from the Corporation to the Pension Plan and the PRBP during 2014 are expected to be approximately \$2,200 and \$3,509, 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, 2013.

USD THOUSANDS	<b>PENSION PLAN</b>	<b>PRBP</b>
<i>Estimated future benefit payments</i>		
January 1, 2014–December 31, 2014	\$ 2,006	\$ 662
January 1, 2015–December 31, 2015	2,191	726
January 1, 2016–December 31, 2016	2,491	833
January 1, 2017–December 31, 2017	2,634	930
January 1, 2018–December 31, 2018	2,790	1,024
January 1, 2019–December 31, 2023	18,762	7,242

# NOTES TO THE FINANCIAL STATEMENTS

(USD THOUSANDS, UNLESS OTHERWISE INDICATED)

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## **16. MANAGEMENT OF EXTERNAL FUNDS**

The Corporation administers on behalf of donors, which include member countries and other entities, funds restricted for specific uses that include the cofinancing 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 shown as an advisory service fee in the statement of income.



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