

**INTER-AMERICAN INVESTMENT CORPORATION**

Financial Statements

as of December 31, 2015 and 2014



KPMG LLP  
Suite 12000  
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Washington, DC 20006

## Independent Auditors' Report

The Board of Governors  
Inter-American Investment Corporation:

We have audited the accompanying financial statements of Inter-American Investment Corporation (the Corporation), which comprise the balance sheets as of December 31, 2015 and 2014, 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, 2015 and 2014, 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**

March 8, 2016

INTER-AMERICAN INVESTMENT CORPORATION  
**BALANCE SHEET**

USD Thousands	December 31	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,946	\$ 7,571
Investment securities		
Available-for-sale	478,918	584,429
Trading	34,743	331,583
Held-to-maturity	-	39,902
Investments		
Loan investments	961,272	1,027,154
Less allowance for losses	(36,746)	(47,895)
	<u>924,526</u>	<u>979,259</u>
Equity investments (\$9,047 and \$13,027 carried at fair value, respectively)	29,476	25,178
Total investments	<u>954,002</u>	<u>1,004,437</u>
Receivables and other assets	22,687	20,924
<b>Total assets</b>	<b><u>\$ 1,505,296</u></b>	<b><u>\$ 1,988,846</u></b>
<b>LIABILITIES AND CAPITAL</b>		
Accounts payable and other liabilities	\$ 47,869	\$ 43,357
Interest and commitment fees payable	1,647	1,751
Borrowings, short-term	57,761	533,957
Borrowings, long-term	540,695	564,644
<b>Total liabilities</b>	<b><u>647,972</u></b>	<b><u>1,143,709</u></b>
Capital		
Subscribed capital	1,253,520	705,900
Additional paid-in capital	338,352	-
Less members subscriptions receivable	(888,709)	(7,547)
	<u>703,163</u>	<u>698,353</u>
Retained earnings	173,146	170,144
Accumulated other comprehensive income/(loss)	(18,985)	(23,360)
<b>Total capital</b>	<b><u>857,324</u></b>	<b><u>845,137</u></b>
<b>Total liabilities and capital</b>	<b><u>\$ 1,505,296</u></b>	<b><u>\$ 1,988,846</u></b>

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

INTER-AMERICAN INVESTMENT CORPORATION  
**STATEMENT OF INCOME**

USD Thousands	Year ended December 31	
	2015	2014
<b>INCOME</b>		
Loan investments		
Interest and fees	\$ 44,215	\$ 44,468
Other income	2,389	1,137
	<u>46,604</u>	<u>45,605</u>
Equity investments		
Dividends	644	677
Gain on sale	12	67
Changes in fair value	(4,742)	(1,692)
Other income	40	33
	<u>(4,046)</u>	<u>(915)</u>
Investment securities	7,778	9,267
Advisory service, cofinancing, and other income	6,561	7,383
<b>Total income</b>	<u><b>56,897</b></u>	<u><b>61,340</b></u>
Borrowings-related expense	9,443	12,480
<b>Total income, net of Borrowings-related expense</b>	<u><b>47,454</b></u>	<u><b>48,860</b></u>
<b>PROVISION FOR LOAN INVESTMENT LOSSES</b>	<b>(6,271)</b>	<b>92</b>
<b>OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES ON EQUITY INVESTMENTS (ALL CREDIT RELATED)</b>	<b>717</b>	<b>289</b>
<b>OPERATING EXPENSES</b>		
Administrative	35,428	30,344
Pension Plan and Postretirement Benefit Plan expense	8,248	3,951
(Gain)/Loss on foreign exchange transactions, net	512	391
Other expenses	5,073	113
<b>Total operating expenses</b>	<u><b>49,261</b></u>	<u><b>34,799</b></u>
<b>Income before technical assistance activities</b>	<b>3,747</b>	<b>13,680</b>
Technical assistance activities	745	346
<b>NET INCOME</b>	<u><b>\$ 3,002</b></u>	<u><b>\$ 13,334</b></u>

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

INTER-AMERICAN INVESTMENT CORPORATION  
**STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)  
AND CHANGES IN CAPITAL**

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**STATEMENT OF COMPREHENSIVE INCOME/(LOSS)**

USD Thousands	Year ended December 31	
	2015	2014
<b>NET INCOME</b>	\$ 3,002	\$ 13,334
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Recognition of changes in assets/liabilities under the Pension Plan and Postretirement Benefit Plan - Note 14	6,053	(24,926)
Unrealized gain/(loss) on investment securities available-for-sale - Note 3	(1,678)	250
<b>Total other comprehensive income/(loss)</b>	4,375	(24,676)
<b>COMPREHENSIVE INCOME/(LOSS)</b>	<b>\$ 7,377</b>	<b>\$ (11,342)</b>

**STATEMENT OF CHANGES IN CAPITAL**

USD Thousands	Subscribed shares	Capital stock*	Retained earnings	Accumulated other comprehensive income/(loss)	Total capital
<b>As of December 31, 2013</b>	70,440	\$ 693,700	\$ 156,810	\$ 1,316	\$ 851,826
Year ended December 31, 2014					
Net income			13,334	-	13,334
Other comprehensive income/(loss)			-	(24,676)	(24,676)
Change in subscribed shares	150				
Payments received for capital stock subscribed		4,653	-	-	4,653
<b>As of December 31, 2014</b>	70,590	\$ 698,353	\$ 170,144	\$ (23,360)	\$ 845,137
Year ended December 31, 2015					
Net income			3,002	-	3,002
Other comprehensive income/(loss)			-	4,375	4,375
Change in subscribed shares	54,762				
Payments received for capital stock subscribed		4,810	-	-	4,810
<b>As of December 31, 2015</b>	125,352	\$ 703,163	\$ 173,146	\$ (18,985)	\$ 857,324

\* Net of members subscriptions receivable.

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

INTER-AMERICAN INVESTMENT CORPORATION  
**STATEMENT OF CASH FLOWS**

USD Thousands	Year ended December 31	
	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan disbursements	\$ (306,946)	\$ (379,782)
Equity disbursements	(11,047)	(5,021)
Loan repayments	356,799	371,384
Returns of equity investments	590	3,209
Maturities of held-to-maturity securities	39,850	-
Available-for-sale securities		
Purchases	(85,026)	(293,764)
Sales and maturities	186,650	87,000
Capital expenditures	(2,386)	(1,199)
Proceeds from sales of recovered assets	441	1,098
<b>Net cash provided by/(used in) investing activities</b>	<b>\$ 178,925</b>	<b>\$ (217,075)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of borrowings	(539,022)	(203,648)
Proceeds from issuance of borrowings	50,795	400,000
Capital subscriptions	4,810	4,653
<b>Net cash provided by/(used in) financing activities</b>	<b>\$ (483,417)</b>	<b>\$ 201,005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	3,002	13,334
Adjustments to reconcile net income to		
net cash provided by/(used in) operating activities:		
Change in fair value of equity investments	4,742	1,692
Provision for loan investment losses	(6,271)	92
Change in fair value of investment securities	(692)	783
Realized (gain)/loss on sales of equity investments	-	(67)
Change in receivables and other assets	918	(2,922)
Change in accounts payable and other liabilities	5,513	(2,589)
Change in Pension Plan and Postretirement Benefit Plan, net	3,313	667
Trading investment securities		
Purchases	(1,148,449)	(1,222,954)
Sales and maturities	1,443,830	1,204,236
Other, net	5,775	12,786
<b>Net cash provided by/(used in) operating activities</b>	<b>\$ 311,681</b>	<b>\$ 5,058</b>
<b>Net effect of exchange rate changes on cash and cash equivalents</b>	<b>186</b>	<b>310</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>7,375</b>	<b>(10,702)</b>
<b>Cash and cash equivalents as of January 1</b>	<b>7,571</b>	<b>18,273</b>
<b>Cash and cash equivalents as of December 31</b>	<b>\$ 14,946</b>	<b>\$ 7,571</b>
<b>Supplemental disclosure:</b>		
Interest paid during the period	\$ 8,579	\$ 11,751

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

## Notes to the Financial Statements

(dollars in 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 encouraging the establishment, expansion, and modernization of private enterprises in such a way as to supplement the activities of the Inter-American Development Bank (IDB). The Corporation 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 IDB and the Multilateral Investment Fund (MIF).

On March 30, 2015, the Boards of Governors of the Corporation and the IDB approved the reorganization of the IDB Group private sector activities (or non-sovereign guaranteed (NSG) portfolio) into the Corporation and authorized the Corporation's second general capital increase (GCI-II). Effective January 1, 2016, the operational and administrative functions, including personnel, associated with the IDB private sector activities have been transferred to the IIC (the Reorganization) in order to maximize development impact and to offer more comprehensive services to clients. The IDB continues to hold the economic interests in its NSG portfolio. Beginning January 1, 2016, the Corporation will provide loan servicing for the IDB's NSG portfolio and receive a servicing fee. The initial servicing agreement is for a period of seven years. The Corporation's staff increased from 108 as of December 31, 2015 to 174 on January 1, 2016 as a result of the Reorganization. Beginning in 2016, the employment related costs for these employees and the pension and post-employment benefits obligations associated with these new employees will be reflected in the financial statements of the Corporation.

### 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 and reporting currency.

### 2. Summary of Significant Accounting Policies

**Use of estimates** – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant degree of judgment has been used in the determination of the adequacy of the

## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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allowance for losses on loan investments, the evaluation for other-than-temporary impairment on available-for-sale and held-to-maturity investment securities and equity investments, the fair value of 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 impact the Corporation's clients and the global investment markets and have an adverse effect on the financial position of the Corporation.

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

**Investment securities** – As part of its overall portfolio management strategy, the Corporation invests in corporate securities, government and agency securities, and supranational 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. Purchases and sales of investment securities are recorded on a trade date basis. 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 in the balance sheet. The Corporation held no held-to-maturity investments as of December 31, 2015.

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. 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 non-credit 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



## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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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 primarily in small and medium-sized enterprises and financial institutions. Direct equity investments for which the Corporation maintains specific ownership accounts—and on which the Corporation does not have a controlling financial interest or significant influence—are carried at cost less impairment, if any. For LPs, the Corporation has elected fair value accounting under ASC Topic 825 and, as a practical expedient, relies on the reported net asset value (NAV) as the estimate of fair value. The NAVs provided by the LPs are derived from the fair value of the underlying investments held by the LP.

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

Equity investments that are not accounted for at fair value are assessed for impairment no less than annually on the basis of the latest financial information, operating performance and other relevant information including, but not limited to, macroeconomic conditions, specific industry trends, the historical performance of the company, and the Corporation's intent to hold the investment for an extended period. When impairment is identified and is deemed to be other than temporary, the 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 fair 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 and/or holds a majority voting interest in an entity. The Corporation evaluated its investees and other entities with which the Corporation has contractual and other arrangements, and concluded that the Corporation is not the primary beneficiary for any VIEs, nor does the Corporation have a significant variable interest in any VIE, which would require disclosure.

Additionally, the Corporation does not hold a controlling financial interest nor holds a majority voting 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 are accounted for at cost. The Corporation's interests in LPs are accounted for at fair value in accordance with ASC Topic 820, *Fair Value Measurements*.

**Allowance for losses on loan investments** – The allowance for losses represents management's estimate of incurred losses in the loan investment portfolio as of the balance sheet date and is recorded as a reduction to loan investments. The allowance for losses is increased by charges to expense, through the provision for loan investment losses, and decreased by net charge-offs, or release of provision for improvement in the number and/or severity of previously estimated losses.

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(dollars in thousands, unless otherwise indicated)

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Considerable judgment is required to estimate the allowance for losses including determination of appropriate risk ratings, potential severity of losses, expected performance of individual loan investments, economic conditions in Latin American and the Caribbean and various other factors. The Corporation believes that the allowance for losses is adequate as of the balance sheet date; however, future changes to the allowance for losses may be necessary based on changes in any of the factors discussed herein.

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

For the specific provision and for loans evaluated for impairment, 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 general provision, the allowance for losses is established via an internal credit risk classification system that estimates the probable loss inherent in the portfolio based on various analyses. The internal credit risk classification system takes into consideration the risk of the borrower, the associated security or features of the transaction and the country related risk, which combined produce a final rating that reflects the expected losses associated with the transaction.

The Corporation segments its loan portfolio as either financial institutions or corporate loans. Corporate loans are extended to small and medium-sized enterprises operating in a variety of sectors with the three largest including energy and power, agricultural products and transportation and logistics that are further detailed in Note 4. For certain loans, the Corporation has obtained collateral security in the form of mortgages, third-party guarantees and other forms of collateral.

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

Each loan is individually monitored and rated to assign an applicable probability of default rate and a loss given default ratio (LGD) on an at least annual basis.

- **Probability of Default** — A scorecard is completed which contemplates a variety of borrower-specific considerations including, but not limited to: past experience and available market information, country risk, historical loss experience for similar credits, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, as well as an analysis of the financial statements and other information provided by the borrower. The scorecard result produces an internal risk rating which is comparable to a long-term issuer credit rating published by Standard & Poor's (S&P) (in 2015 and 2014) and is mapped to historical probability of default rates published by S&P (in 2015) and Moody's (in 2014) for those same rating categories. During 2015, the Corporation refined its loan risk rating process to include a more granular and larger number

## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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of risk rating categories (ten rating categories published by S&P as described in Note 4 versus five categories from Moody's used 2014).

- **Loss Given Default** — In 2014, a single LGD ratio was applied to each of the subordinated and secured segments of the portfolio based on average historical loss rate data from Moody's. In 2015, the Corporation introduced a refined model to separately calculate the LGD ratio for each individual loan or guarantee. A scorecard is completed which contemplates a variety of transaction-specific considerations for each loan or guarantee, including, but not limited to: the seniority of the instrument, the collateral type, third party guarantees and jurisdiction risk or creditor rights under the law of the respective country. The scorecard produces a LGD ratio which is calibrated using empirical evidence of over 20 years of historical loss data collected by S&P.

The Corporation utilizes externally provided industry data for probability of default rates and LGD ratios to calculate the allowance for losses because of our limited historical loss experience, relatively small volume of business (less than 250 loans), and variation in loan size, sector and geographic dispersion of the portfolio.

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

**Revenue recognition on loan investments** – Interest and fees are recognized as income in the periods in which they are earned. A loan is generally placed in nonaccrual status where collectability is in doubt or when payments of interest or principal are past due more than 90 days. The Corporation does not recognize income on loans in nonaccrual status and any uncollected interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the payment is received and is returned to accrual status once management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income, included in Accounts payable and other liabilities<sup>1</sup> in the balance sheet, and credited to income only when the related principal is received. Such capitalization is considered in the computation of the Allowance for losses on loan investments in the balance sheet.

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

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

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

## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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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 statement of income.

**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 the Corporation’s member countries to enhance the entity’s credit standing and enable it 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 Accounts payable and other liabilities in the balance sheet. The offsetting entry is consideration received or receivable with the latter included in Receivables and other assets in the balance sheet. In the event the guarantees are called, the amount disbursed is recorded as a loan investment and specific reserves are established consistent with the Corporation’s internal credit risk classification system. Income is earned as the Corporation is released from risk.

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

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

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

**Risk management activities: derivatives used for non-trading purposes** – The Corporation may execute 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 rate, 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

## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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borrowings-related derivatives are recorded in Borrowings-related expense in the statement of income. The Corporation held no derivatives as of December 31, 2015 and 2014.

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

**Fixed assets** – The Corporation presents 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 the transaction date. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates. Resulting gains and losses are included in (Gain)/Loss on foreign exchange transactions, net, in the statement of income.

**Fair value of financial instruments** – The Codification requires entities to disclose information about recurring and non-recurring fair value measurements.

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

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

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

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

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

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

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

Assets utilizing Level 3 inputs include certain loans.

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 Topic 820, the impact of the Corporation's own credit spreads would be 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

## Notes to the Financial Statements

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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 (small and medium-sized enterprises) and geographic location of the borrower. The Corporation's loan agreements are tailored to the unique risk characteristics and needs of the borrower. Also, the Corporation has 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 Topic 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 primarily of small and medium-sized private sector enterprises in Latin America and the Caribbean and also invests in LPs. In most cases, market prices are not available, and alternate valuation techniques require a significant degree of judgment. Additional information about LPs carried at fair value is included in Note 9.

The Corporation's direct equity investments are assessed for impairment. However, it is not practicable to precisely determine a fair value in excess of cost as these are custom-tailored private placement transactions operating in the Corporation's regional member countries. Furthermore, contractual clauses generally 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.

**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 August 2015, the FASB issued Accounting Standards Update (ASU or Update) No. 2015-14 that defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, originally issued in May 2014, for all entities for one year. This revenue guidance does not apply to financial instruments and guarantees. This ASU deferred the effective date for the Corporation to the annual reporting period beginning after December 15, 2018. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820)*, which eliminates the requirement to categorize in the fair value hierarchy investments for which fair values are measured using the net asset value practical expedient. The disclosure requirements for investments whose fair value is measured at net asset value (or its equivalent) as a practical

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expedient are not affected by the amendments in this ASU. The ASU is currently effective for the Corporation for the annual reporting period beginning after December 15, 2016, and requires retrospective application to all prior periods presented in the financial statements. Early application is permitted. The Corporation early adopted these disclosure requirements in the notes to the financial statements.

In March 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Topic 835)*, which simplifies the presentation of debt issuance costs in an entity’s balance sheet. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this ASU. The ASU is currently effective for the Corporation for the annual reporting period beginning after December 15, 2015, and requires retrospective application to all prior periods presented in the financial statements. Early adoption of the amendments in this Update is permitted. The Corporation early adopted this presentation in the financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810) – Amendments to the Consolidation Analysis*, which eliminates the deferral of FAS 167 for enterprises that hold investments in entities that are investment companies. This new guidance applies to limited partnerships and similar legal entities and amends the considerations to determine if certain entities are variable interest entities or voting interest entities. This new guidance also requires an entity to evaluate whether fee arrangements to a decision maker or service provider represent a variable interest in the legal entity and how interests of related parties affect the primary beneficiary determination. The ASU is currently effective for the Corporation for the annual reporting period beginning after December 15, 2016. Early adoption of the amendments in this Update is permitted. The Corporation early adopted this Update, which did not have a material impact on the Corporation’s financial position, results of operations, or cash flows.

**3. Investment Securities**

Trading securities consist of the following:

USD Thousands	December 31	
	2015	2014
Corporate securities	\$ 15,957	\$ 250,264
Government securities	8,790	8,383
Agency securities	-	39,968
Supranational securities	9,996	32,968
	<b>\$ 34,743</b>	<b>\$ 331,583</b>

Net unrealized gains on trading securities were \$4 for the year ended December 31, 2015 (\$197 net unrealized gains for the year ended December 31, 2014).



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

USD Thousands	December 31	
	2015	2014
Corporate securities	\$ 356,906	\$ 459,318
Agency securities	112,163	113,029
Supranational securities	9,849	12,082
	<b>\$ 478,918</b>	<b>\$ 584,429</b>

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

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

  

USD Thousands	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate securities	\$ 458,217	\$ 1,513	\$ (412)	\$ 459,318
Agency securities	112,482	615	(68)	113,029
Supranational securities	12,086	13	(17)	12,082
	<b>\$ 582,785</b>	<b>\$ 2,141</b>	<b>\$ (497)</b>	<b>\$ 584,429</b>

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

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

  

USD Thousands	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	\$ 96,114	\$ (412)	\$ -	\$ -	\$ 96,114	\$ (412)
Agency securities	27,111	(68)	-	-	27,111	(68)
Supranational securities	6,979	(17)	-	-	6,979	(17)
	<b>\$ 130,204</b>	<b>\$ (497)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 130,204</b>	<b>\$ (497)</b>

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**Notes to the Financial Statements**

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

USD Thousands	December 31	
	2015	2014
Unrealized gains/(losses) during the period	\$ (1,628)	\$ 250
Reclassification of (gains)/losses to net income	(50)	-
Changes due to impaired securities	-	-
<b>Total recognized in Other comprehensive income/(loss) related to available-for-sale securities</b>	<b>\$ (1,678)</b>	<b>\$ 250</b>

Proceeds from the sale of seven available-for-sale securities were \$71,109 during the year ended December 31, 2015 (none sold during the year ended December 31, 2014). Gross realized gains were \$50 and there were no gross realized losses from the sale of available-for-sale securities during the year ended December 31, 2015 (none for the year ended December 31, 2014).

Investment securities with unrealized losses are the result of pricing changes in the current market environment and not as a result of other-than-temporary credit impairment. As of December 31, 2015, no other-than-temporary impairment has been recognized in the Corporation's available-for-sale investment securities portfolio (none as of December 31, 2014). Further, for securities in an unrealized loss position, the Corporation does not have the intent to sell securities within the available-for-sale portfolio and it is more likely than not that the Corporation will not be required to sell prior to recovery of the non-credit portion recognized in accumulated other comprehensive income/(loss).

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

USD Thousands	December 31	
	2015	2014
Within one year	\$ 153,157	\$ 126,544
After one year through five years	325,761	457,885
	<b>\$ 478,918</b>	<b>\$ 584,429</b>

The Corporation's one corporate security corresponding to a development-related asset with characteristics similar to other held-to-maturity securities matured on March 29, 2015. The amortized cost and fair value of this corporate security amounted to \$39,902 and \$40,423, respectively, as of December 31, 2014. There were \$521 gross unrealized gains and no gross unrealized losses for the year ended December 31, 2014.

For the year ended December 31, 2015, interest income, net of amortization of premiums and accretion of discounts, was \$6,998 (\$7,506 for the year ended December 31, 2014).

## **Notes to the Financial Statements**

(dollars in thousands, unless otherwise indicated)

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### **4. Loan and Equity Investments**

The Corporation has specific metrics for concentrations and monitors its investments in loans for credit risk and investments in equity and LPs for market risk and any potential related effects of geographic concentrations. As of December 31, 2015, the Corporation's largest aggregate credit exposures were Brazil, Peru, and Panama (Brazil, Peru and Chile as of December 31, 2014). As of December 31, 2015, outstanding investments in loans and investments in equity and LPs denominated in foreign currency amounted to \$49,678 (\$62,072 as of December 31, 2014). The Corporation's multi-country loan and equity investment exposures are designated as Regional in the following table.

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

USD Thousands	December 31					
	2015			2014		
	Loan	Equity	Total	Loan	Equity	Total
Brazil	\$ 110,345	\$ 933	\$ 111,278	\$ 129,905	\$ 1,882	\$ 131,787
Peru	103,688	1,750	105,438	112,506	-	112,506
Panama	97,864	4,000	101,864	95,333	4,000	99,333
Costa Rica	99,979	-	99,979	103,719	-	103,719
Mexico	82,380	9,051	91,431	81,533	11,196	92,729
Chile	88,515	1,600	90,115	109,453	1,600	111,053
Colombia	83,608	463	84,071	90,130	1,099	91,229
Ecuador	81,631	-	81,631	59,680	-	59,680
El Salvador	34,127	-	34,127	19,767	-	19,767
Nicaragua	32,332	-	32,332	41,169	-	41,169
Uruguay	31,795	-	31,795	34,242	-	34,242
Argentina	29,595	151	29,746	41,899	114	42,013
Paraguay	24,517	-	24,517	34,946	-	34,946
Regional	14,264	8,323	22,587	20,677	4,373	25,050
Dominican Republic	13,706	205	13,911	18,235	914	19,149
Honduras	10,117	-	10,117	13,632	-	13,632
Guatemala	9,039	-	9,039	8,618	-	8,618
Jamaica	6,621	-	6,621	8,283	-	8,283
Haiti	5,453	-	5,453	1,565	-	1,565
Plurinational State of Bolivia	1,134	3,000	4,134	1,737	-	1,737
Bahamas	562	-	562	125	-	125
	<b>\$ 961,272</b>	<b>\$ 29,476</b>	<b>\$ 990,748</b>	<b>\$ 1,027,154</b>	<b>\$ 25,178</b>	<b>\$ 1,052,332</b>
Financial Services	\$ 680,576	\$ 7,586	\$ 688,162	\$ 711,237	\$ 5,051	\$ 716,288
Energy and Power	56,957	1,750	58,707	84,230	-	84,230
Agricultural Products	33,392	-	33,392	35,947	-	35,947
Transportation and Logistics	31,583	-	31,583	26,231	-	26,231
Construction, Materials and Fixtures	23,678	3,086	26,764	10,019	3,611	13,630
Fertilizers and Agricultural Serv.	22,719	-	22,719	26,251	-	26,251
Hotels and Tourism	15,073	-	15,073	12,890	-	12,890
Distribution and Retail	10,737	3,802	14,539	18,353	2,575	20,928
Food and Beverages	12,954	-	12,954	13,636	-	13,636
Wood, Pulp, and Paper	12,138	-	12,138	7,442	-	7,442
Livestock and Poultry	11,514	-	11,514	9,562	-	9,562
Information, Comm. and Tech.	6,094	4,205	10,299	2,680	914	3,594
Investment Funds	1,158	9,047	10,205	1,158	13,027	14,185
Utilities	9,541	-	9,541	9,986	-	9,986
General Manufacturing	8,014	-	8,014	12,141	-	12,141
Textiles, Apparel, and Leather	7,832	-	7,832	8,997	-	8,997
Health Services and Supplies	5,998	-	5,998	6,592	-	6,592
Oil, Gas and Mining	4,302	-	4,302	8,651	-	8,651
Education	2,616	-	2,616	5,145	-	5,145
Aquaculture and Fisheries	2,596	-	2,596	13,310	-	13,310
Services	1,382	-	1,382	1,000	-	1,000
Containers and Packaging	418	-	418	1,696	-	1,696
	<b>\$ 961,272</b>	<b>\$ 29,476</b>	<b>\$ 990,748</b>	<b>\$ 1,027,154</b>	<b>\$ 25,178</b>	<b>\$ 1,052,332</b>

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**Loan and equity 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 market risk.

The distribution of the outstanding portfolio by investment type as of December 31, 2015:

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

The distribution of the outstanding portfolio by investment type as of December 31, 2014:

	<b>December 31</b>		
	<b>2014</b>		
USD Thousands	<b>Financial institutions</b>	<b>Corporates</b>	<b>Total</b>
Loan	\$ 712,395	\$ 314,759	\$ 1,027,154
Equity	18,078	7,100	25,178
Investment security *	39,902	-	39,902
	<b>\$ 770,375</b>	<b>\$ 321,859</b>	<b>\$ 1,092,234</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.

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

USD Thousands	<b>December 31, 2015</b>
Loan	\$ 191,022
Equity	22,498
	<b>\$ 213,520</b>

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**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 \$189,098 as of December 31, 2015 (\$237,139 as of December 31, 2014). The Corporation's variable rate loans generally reprice within one year.

An age analysis, based on contractual terms, of the Corporation's loans at amortized cost by investment type as of December 31, 2015:

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

An age analysis, based on contractual terms, of the Corporation's loans at amortized cost by investment type as of December 31, 2014:

USD Thousands	December 31, 2014					
	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	\$ -	\$ -	\$ 3,180	\$ 3,180	\$ 709,215	\$ 712,395
Corporate	3,104	-	17,014	20,118	294,641	314,759
<b>Total past-due loans</b>	<b>\$ 3,104</b>	<b>\$ -</b>	<b>\$ 20,194</b>	<b>\$ 23,298</b>	<b>\$ 1,003,856</b>	<b>\$ 1,027,154</b>
As % of loan portfolio	0.30%	0.00%	1.97%	2.27%	97.73%	100.00%
Allowance for loan losses	\$ 47,895					
Coverage				205.58%		4.66%

The Corporation's nonaccrual loans on which the accrual of interest has been discontinued totaled \$11,685 as of December 31, 2015 (\$31,137 as of December 31, 2014). Nonaccrual loans that are current totaled \$1,726 as of December 31, 2015 (\$10,928 as of December 31, 2014). Interest collected on loans in nonaccrual status for the year ended December 31, 2015, was \$1,524 (\$669 for the year ended December 31, 2014).

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

USD Thousands	December 31	
	2015	2014
Corporate	\$ 8,443	\$ 26,392
Financial institutions	3,242	4,745
<b>Total nonaccrual loans</b>	<b>\$ 11,685</b>	<b>\$ 31,137</b>
Loan portfolio	\$ 961,272	\$ 1,027,154
Nonaccrual/loan portfolio	1.22%	3.03%
Allowance for loan losses	\$ 36,746	\$ 47,895
Coverage of nonaccrual	314.47%	153.82%

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

USD Thousands	December 31			
	2015		2014	
	Principal outstanding	Weighted average yield	Principal outstanding	Weighted average yield
Due in one year or less	\$ 250,056	4.52%	\$ 335,004	3.91%
Due after one year through five years	626,861	3.96%	591,532	4.31%
Due after five years and thereafter	84,355	5.77%	100,618	5.74%
	<b>\$ 961,272</b>		<b>\$ 1,027,154</b>	

The Corporation's investment in impaired loans as of December 31, 2015, was \$10,039 (\$16,969 as of December 31, 2014). The average investment in impaired loans for the period ended December 31, 2015, was \$12,249 (\$16,006 as of December 31, 2014). The total amount of the allowance related to impaired loans as of December 31, 2015 and 2014, was \$5,588 and \$ 10,566, respectively. As of December 31, 2015, there were no troubled debt restructurings within the loan portfolio (none as of December 31, 2014).

The Corporation received partial recoveries on corporate and financial institution loans for the years ended December 31, 2015 and 2014.

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

USD Thousands	2015			2014		
	Financial institutions	Corporates	Total	Financial institutions	Corporates	Total
Balance as of January 1	\$ 19,794	\$ 28,101	\$ 47,895	\$ 22,189	\$ 24,867	\$ 47,056
Loan investments charged off, net	-	(5,319)	(5,319)	-	(351)	(351)
Recoveries	-	441	441	413	685	1,098
Provision for loan investment losses	(1,763)	(4,508)	(6,271)	(2,808)	2,900	92
Balance as of December 31	<b>\$ 18,031</b>	<b>\$ 18,715</b>	<b>\$ 36,746</b>	<b>\$ 19,794</b>	<b>\$ 28,101</b>	<b>\$ 47,895</b>

A summary of the Corporation's loans at amortized cost by credit quality indicator and investment type as of December 31, 2015:

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

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

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

A summary of the Corporation’s loans at amortized cost by credit quality indicator and investment type using the former credit indicators as of December 31, 2014:

Category	December 31		
	2014		
	Financial institutions	Corporate	Total
A	\$ 668,404	\$ 248,521	\$ 916,925
B	40,811	38,446	79,257
Substandard	-	14,004	14,004
Doubtful	3,180	13,418	16,598
Loss	-	370	370
<b>Total</b>	<b>\$ 712,395</b>	<b>\$ 314,759</b>	<b>\$ 1,027,154</b>



# INTER-AMERICAN INVESTMENT CORPORATION

## Notes to the Financial Statements

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The following is a general description of the former credit quality indicators as of December 31, 2014 as follows:

<b>Credit quality indicator</b>	<b>Description</b>
<b>A</b>	The company has the capacity to meet its obligations and its 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 6.15% for senior debt, and 0.55% to 8.45% for subordinated debt depending upon the results of a specific analysis of their risk variables.
<b>B</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 8.70% and subordinated debt of 12.00%.
<b>Substandard</b>	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 21.65% and subordinated debt of 29.85%.
<b>Doubtful</b>	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.
<b>Loss</b>	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.

### Equity investments

As of December 31, 2015, the Corporation had ten direct equity investments (eight as of December 31, 2014) with a carrying value of \$20,429 (\$12,151 as of December 31, 2014). The direct equity investments are reported at cost less impairment. Other-than-temporary impairment losses for the year ended December 31, 2015 were \$717 (\$289 for the year ended December 31, 2014).

The Corporation had twelve investments in LPs at fair value of \$9,047 as of December 31, 2015 (ten at fair value of \$13,027 as of December 31, 2014). The Corporation's investments in LPs may generally be liquidated over a period of 10 years with up to two one-year extensions.

**Notes to the Financial Statements**

(dollars in thousands, unless otherwise indicated)

**5. Receivables and Other Assets**

Receivables and other assets are summarized below:

USD Thousands	December 31	
	2015	2014
Other current assets		
Interest receivable on loan investments	\$ 7,092	\$ 8,000
Interest receivable on investment securities	1,459	3,299
Other current assets	9,325	8,560
	17,876	19,859
Other noncurrent assets		
Postretirement Benefit Plan, net asset	1,946	-
Other noncurrent assets	2,865	1,065
	4,811	1,065
<b>Total receivables and other assets</b>	<b>\$ 22,687</b>	<b>\$ 20,924</b>

As of December 31, 2015, the Postretirement Benefit Plan net asset reflects the funded status of the Plan. Refer to Note 14.

**6. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities are summarized below:

USD Thousands	December 31	
	2015	2014
Pension Plan, net liability	\$ 24,106	\$ 22,221
Accounts payable and other liabilities	9,193	3,887
Deferred revenue	6,414	7,010
Employment benefits payable	5,940	5,052
Due to other IDB Group entities	2,216	2,507
Postretirement Benefit Plan, net liability	-	2,680
<b>Total accounts payables and other liabilities</b>	<b>\$ 47,869</b>	<b>\$ 43,357</b>

As of December 31, 2015 and 2014, the Pension Plan net liability reflects the underfunded status of the Plan. As of December 31, 2014, the Postretirement Benefit Plan net liability reflects the underfunded status of the Plan. Refer to Note 14.

INTER-AMERICAN INVESTMENT CORPORATION

**Notes to the Financial Statements**

(dollars in thousands, unless otherwise indicated)

**7. Borrowings**

Borrowings outstanding by currency are as follows:

USD Thousands	December 31			
	2015		2014	
	Amount outstanding	Weighted average cost	Amount outstanding	Weighted average cost
U.S. dollar	\$ 539,693	0.66%	\$ 1,026,057	0.78%
Mexican peso	46,380	3.49%	54,261	3.82%
Brazilian real	11,526	10.20%	16,945	10.20%
Euro	857	0.87%	1,338	1.07%
	<b>\$ 598,456</b>		<b>\$ 1,098,601</b>	
Borrowings, short-term	(57,761)		(533,957)	
Borrowings, long-term	<b>\$ 540,695</b>		<b>\$ 564,644</b>	

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

The Corporation has available a renewable borrowing facility with the IDB amounting to \$300,000, in place since 1997. In August 2008, the Corporation borrowed \$100,000 under this facility and \$200,000 remain available for disbursement. Borrowings under the IDB facility are due fifteen years after the respective disbursement. This facility has been renewed four times and expires in November 2020. As of December 31, 2015, the Corporation borrowed \$46,380 (800 million Mexican pesos) from its foreign-currency line of credit. This facility is renewable and expires in June 2016. Other credit facilities available amount to \$320,000 as of December 31, 2015.

On November 16, 2012, the Corporation issued U.S.-dollar denominated, 3-month LIBOR plus 0.35% notes as part of its Euro Medium-Term Note (EMTN) 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. These notes matured on November 16, 2015.

On October 2, 2014, the Corporation issued an additional \$400,000 U.S.-dollar denominated, 3-month LIBOR plus 0.14% notes under its EMTN Program, maturing in 2017. Interest on the notes is payable quarterly.

On April 27, 2012, the Corporation issued interbank reference rate (TIIE) plus 0.22% foreign-currency bonds in the amount of \$61,472 (800 million Mexican pesos) before underwriting and other issuance costs. These bonds matured on April 24, 2015.

INTER-AMERICAN INVESTMENT CORPORATION

**Notes to the Financial Statements**

(dollars in thousands, unless otherwise indicated)

The maturity structure of borrowings outstanding, excluding the amortization of debt issuance costs, is as follows:

USD Thousands	2016	2017	2018	2019	2020	Through 2023
Borrowings	\$ 57,906	\$ 400,000	\$ 857	\$ -	\$ -	\$ 140,000
	<u>\$ 57,906</u>	<u>\$ 400,000</u>	<u>\$ 857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,000</u>

For the year ended December 31, 2015, Borrowings-related expense includes interest expense of \$9,008 that includes the amortization of debt issuance costs of \$331 (\$12,014 for the year ended December 31, 2014 that includes debt issuance costs of \$557). The unamortized balance of the Corporation's debt issuance cost asset amounts to \$307 as of December 31, 2015 (\$640 as of December 31, 2014).

**8. Capital**

The Corporation's original authorized share capital was increased from \$200 million to \$705.9 million, equivalent to 70,590 shares, through a \$500 million general capital increase approved in 1999 (GCI-I), and several special increases. 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 issued full shares, with a par value and issuance price of ten thousand dollars each, corresponding to these authorized share capital increases.

On March 30, 2015, the Boards of Governors (Board) of the Corporation and the IDB approved the Reorganization of the IDB Group private sector activities into the Corporation and authorized the Corporation's GCI-II. The GCI-II increases the Corporation's authorized capital stock by \$2.03 billion, equivalent to 125,474 shares – 80,662 shares corresponding to new capital contributions payable by the countries (Annex A to the Board resolution) and 44,812 shares corresponding to transfers from the IDB on behalf of its member countries (Annex B to the Board resolution) – with an issuance price of \$16,178.60 per share. The initial subscription period for Annex A shares concluded on October 27, 2015, and 54,762 shares were subscribed. On December 1, 2015, the Board of Executive Directors approved a reallocation proposal whereby the 25,900 remaining Annex A shares were assigned for subscription. Subscribed shares are recorded at the date of the subscription instrument at the stock issuance price and are expected to be paid in over time. Annex B shares will be issued upon annual approval of transfers by the Board of Governors of the IDB beginning in 2018 and extending through 2025. With this capital increase, the Corporation's total authorized shares amounts to 196,064.

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 the 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

INTER-AMERICAN INVESTMENT CORPORATION

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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 in such installments and at such times, and in such available currencies as the Corporation shall determine, taking into account its financial position.

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

	December 31			
	Shares	Amount	Additional paid-in capital *	Receivable from members **
	USD Thousands			
Argentina	17,281	\$ 172,810	\$ 56,794	\$ 148,714
Austria	737	7,370	2,422	6,342
Bahamas	308	3,080	1,013	2,653
Barbados	216	2,160	710	1,860
Belgium	169	1,690	-	-
Belize	101	1,010	-	-
Bolivarian Republic of Venezuela	9,210	92,100	30,269	79,259
Brazil	17,281	172,810	56,794	149,171
Canada	320	3,200	1,050	2,750
Chile	4,279	42,790	14,062	36,822
Colombia	4,456	44,560	14,643	38,343
Costa Rica	671	6,710	2,206	5,776
Denmark	1,071	10,710	-	-
Dominican Republic	933	9,330	3,065	8,195
Ecuador	933	9,330	3,064	8,024
El Salvador	671	6,710	2,206	5,776
Finland	839	8,390	2,756	7,216
France	2,868	28,680	4,362	11,422
Germany	1,334	13,340	-	-
Guatemala	897	8,970	2,947	7,717
Guyana	256	2,560	840	2,200
Haiti	671	6,710	2,206	5,776
Honduras	671	6,710	2,206	5,776
Israel	370	3,700	1,217	3,187
Italy	4,619	46,190	15,181	39,751
Jamaica	420	4,200	-	-
Japan	4,680	46,800	13,519	35,399
Mexico	11,124	111,240	36,559	97,799
Netherlands	1,071	10,710	-	-
Nicaragua	671	6,710	2,206	5,776
Norway	839	8,390	2,756	7,215
Panama	699	6,990	2,298	6,018
Paraguay	699	6,990	2,298	6,018
People's Republic of China	333	3,330	1,093	2,864
Peru	4,456	44,560	14,643	38,343
Plurinational State of Bolivia	1,389	13,890	4,566	11,956
Portugal	389	3,890	1,279	3,349
Republic of Korea	333	3,330	1,094	2,864
Spain	5,324	53,240	17,498	45,818
Suriname	105	1,050	-	40
Sweden	839	8,390	2,756	7,216
Switzerland	2,288	22,880	7,519	19,689
Trinidad and Tobago	671	6,710	2,206	5,776
United States	16,019	160,190	-	-
Uruguay	1,841	18,410	6,049	15,839
<b>Total 2015</b>	<b>125,352</b>	<b>\$ 1,253,520</b>	<b>\$ 338,352</b>	<b>\$ 888,709</b>
<b>Total 2014</b>	<b>70,590</b>	<b>\$ 705,900</b>	<b>\$ -</b>	<b>\$ 7,547</b>

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

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

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**Notes to the Financial Statements**

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**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 ASC Topic 820.

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, 2015:

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

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, 2014:

USD Thousands	Balance as of December 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<b>ASSETS</b>			
Corporate securities	\$ 709,582	\$ -	\$ 709,582
Agency securities	152,997	-	152,997
Supranational securities	45,050	-	45,050
Government securities	8,383	-	8,383
	<b>\$ 916,012</b>	<b>\$ -</b>	<b>\$ 916,012</b>

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**Notes to the Financial Statements**

(dollars in thousands, unless otherwise indicated)

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

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

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the year ended December 31, 2014:

USD Thousands	<b>Changes in fair value included in earnings for the year</b>	
Government securities	\$	927
Corporate securities		758
Agency securities		28
Supranational securities		6
Limited partnerships		(1,876)
	<b>\$</b>	<b>(157)</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.

At December 31, 2015, substantially all investment securities are valued based on quoted prices for identical assets or liabilities that are not active, or prices derived from alternative pricing models as these prices are not available from market vendors. These methodologies apply to certain investments in non-U.S. government obligations, agencies, and corporate bonds. Also included are commercial paper (CP) and certificates of deposit (CD) issued on a tailor-made basis under large U.S.-based CP or CD programs. These securities are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches. There were no transfers during the year ended December 31, 2015 (none during the year ended December 31, 2014).

The Corporation's loans are generally carried at the principal amount outstanding. As of December 31, 2015, and for those loans for which it is practicable to estimate fair value, the carrying amount

## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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of loan investments, plus accrued interest, was \$420,506 (\$418,161 as of December 31, 2014), and their estimated fair value amounted to \$416,982 (\$422,044 as of December 31, 2014). 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-sized enterprises operating in the Corporation's regional member countries. As of December 31, 2015, the carrying value of this remainder portfolio, without including accrued interest, was \$542,683 (\$636,559 as of December 31, 2014), with interest rates that range from 1.25% to 13.00% (1.18% to 13.25% as of December 31, 2014) and maturities that range from less than 1 year to 18 years (less than 1 year to 15 years as of December 31, 2014). Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value disclosed does not necessarily reflect the realizable values (since the Corporation generally holds investments with contractual maturities with the aim of realizing their recorded values and, therefore, maximizing the developmental aspects of the investment).

The Corporation's borrowings are recorded at historical amounts unless elected for fair value accounting under ASC Topic 825, *Fair Value Option*. The fair value of the Corporation's borrowings is estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowing arrangements. As of December 31, 2015, the fair value of the Corporation's borrowings was \$486,913 (\$952,001 as of December 31, 2014). The Corporation held no borrowings at fair value as of December 31, 2015 and 2014.

As a practical expedient, fair value for investments in LPs was determined using the estimated 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. 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.

The carrying value of equity investments reported at cost amounted to \$20,429 as of December 31, 2015 (\$12,151 as of December 31, 2014). For the Corporation's direct equity investments, the investments are evaluated for impairment, however it is not practicable to accurately determine a fair value in excess of cost as these are custom-tailored private placement transactions primarily for small and medium-sized and financial institutions enterprises operating in the Corporation's regional member countries.

The carrying value of equity investments reported at fair value amounted to \$9,047 as of December 31, 2015 (\$13,027 as of December 31, 2014). The amount of total net gains and losses for the year ended December 31, 2015, included in Changes in fair value of equity investments attributable to the change in unrealized net loss relating to assets still held at that date, was \$4,743 (\$1,692 unrealized net losses as of December 31, 2014). There were no investments in LPs reported at cost as of December 31, 2015 and 2014.



## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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### 10. Guarantees

From time to time, the Corporation may provide financial guarantees for various purposes in return for a guarantee fee. Guarantees entered into by the Corporation generally have maturities consistent with those of the loan portfolio. As of December 31, 2015, the Corporation had no guarantee contracts outstanding (none as of December 31, 2014). Additionally, no notices of default have been received since inception of the Corporation's guarantee program.

The maximum potential exposure, which represents the amounts that could be lost under the guarantees 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 zero as of December 31, 2015 and 2014. There was no provision for losses on guarantees in the statement of income as of December 31, 2015 (none as of December 31, 2014). The estimated fair value of the guarantee liability is zero as of December 31, 2015 and 2014. One guarantee product matured on October 17, 2014.

### 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. 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.

Effective January 1, 2016 for a period of seven years, the Corporation will manage lending operations that may include financing from the IDB or funds administered by the IDB.

### 13. 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.

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**Notes to the Financial Statements**

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

USD Thousands	Year ended December 31	
	2015	2014
Office space (headquarters and other)	\$ 2,288	\$ 2,210
Support services	793	773
Other IDB services	413	318
	<b>\$ 3,494</b>	<b>\$ 3,301</b>

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

USD Thousands	2016	2017	2018	2019	2020
Office space (headquarters)	\$ 2,189	\$ 2,254	\$ 2,322	\$ 2,392	\$ 2,463
	<b>\$ 2,189</b>	<b>\$ 2,254</b>	<b>\$ 2,322</b>	<b>\$ 2,392</b>	<b>\$ 2,463</b>

Payables due to the IDB were \$2,216 as of December 31, 2015 (\$2,507 as of December 31, 2014). Refer to Note 6.

As of December 31, 2015 and 2014, the Corporation had borrowed \$100,000 from the IDB credit facility. Refer to Note 7.

The Corporation provides advisory services to IDB Group entities. The Corporation has received full payment for fees earned as of December 31, 2015, under these arrangements, for a total amount of \$100 (\$100 for the year ended December 31, 2014). Following the Reorganization of the IDB Group private sector activities, in addition to the NSG loan servicing agreement that commenced on January 1, 2016 and described in Note 1, the IDB and the Corporation are in the process of negotiating updated service level agreements for the provisions of certain additional services that include human resources and information technology support that are expected to significantly increase the Corporation's operating expenses for services received from the IDB as well as significantly increase the Corporation's advisory services income for services provided to the IDB that will be established in 2016 and renewable forward.

## Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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### 14. Pension and Postretirement Benefit Plans

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

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

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

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**Obligations and funded status**

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

USD Thousands	Pension Plan		PRBP	
	2015	2014	2015	2014
<b>Reconciliation of benefit obligation</b>				
Obligation as of January 1	\$ (106,553)	\$ (85,689)	\$ (66,007)	\$ (49,150)
Service cost	(4,587)	(3,256)	(2,512)	(1,900)
Interest cost	(4,233)	(3,973)	(2,645)	(2,439)
Participants' contributions	(1,051)	(999)	-	-
Plan amendments	-	(7)	2,537	1,071
Net transfers between IDB and IIC	(34)	(383)	-	-
Actuarial gains/(losses)	5,486	(13,527)	5,356	(14,051)
Benefits paid	1,913	1,281	534	464
Retiree Part D subsidy	-	-	(16)	(2)
Obligation as of December 31	<u>(109,059)</u>	<u>(106,553)</u>	<u>(62,753)</u>	<u>(66,007)</u>
<b>Reconciliation of fair value of plan assets</b>				
Fair value of plan assets as of January 1	84,332	77,008	63,327	58,523
Net transfers between IDB and IIC	34	383	-	-
Actual return on plan assets	(727)	5,145	(870)	4,059
Benefits paid	(1,913)	(1,281)	(534)	(464)
Participants' contributions	1,051	999	-	-
Employer contributions	2,176	2,078	2,776	1,209
Fair value of plan assets as of December 31	<u>84,953</u>	<u>84,332</u>	<u>64,699</u>	<u>63,327</u>
<b>Funded status</b>				
Funded/(Underfunded) status as of December 31	(24,106)	(22,221)	1,946	(2,680)
Net amount recognized as of December 31	<u>\$ (24,106)</u>	<u>\$ (22,221)</u>	<u>\$ 1,946</u>	<u>\$ (2,680)</u>
<b>Amounts recognized as (liabilities)/assets consist of:</b>				
Plan benefits assets/(liabilities)	(24,106)	(22,221)	1,946	(2,680)
Net amount recognized as of December 31	<u>\$ (24,106)</u>	<u>\$ (22,221)</u>	<u>\$ 1,946</u>	<u>\$ (2,680)</u>
<b>Amounts recognized in accumulated other comprehensive income consist of:</b>				
Net actuarial gains/(losses)	12,163	13,567	10,291	12,522
Prior service costs	-	7	(3,473)	(1,062)
Net initial asset	-	-	-	-
Net amount recognized as of December 31	<u>\$ 12,163</u>	<u>\$ 13,574</u>	<u>\$ 6,818</u>	<u>\$ 11,460</u>

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was \$92,617 and \$90,244 as of December 31, 2015 and 2014, respectively.

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(dollars in 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		Year ended December 31	
	2015	2014	2015	2014
Service cost	\$ 4,587	\$ 3,256	\$ 2,512	\$ 1,900
Interest cost	4,233	3,973	2,645	2,439
Expected return on plan assets	(4,685)	(4,524)	(3,512)	(3,501)
Amortization of:				
Transition obligation	-	-	-	174
Unrecognized net actuarial loss	1,330	30	1,257	197
Prior service (credit)/cost	7	7	(126)	-
<b>Net periodic benefit cost</b>	<b>\$ 5,472</b>	<b>\$ 2,742</b>	<b>\$ 2,776</b>	<b>\$ 1,209</b>

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

USD Thousands	Pension Plan		PRBP	
	Year ended December 31		Year ended December 31	
	2015	2014	2015	2014
Net actuarial (gain)/loss	\$ (74)	\$ 12,905	\$ (974)	\$ 13,493
Current year prior service cost	-	7	-	-
Prior service credit	-	-	(2,537)	(1,062)
Amortization of:				
Transition obligation	-	-	-	(183)
Unrecognized net actuarial loss	(1,330)	(30)	(1,257)	(197)
Prior service (credit)/cost	(7)	(7)	126	-
<b>Total recognized in Other comprehensive (income)/loss</b>	<b>\$ (1,411)</b>	<b>\$ 12,875</b>	<b>\$ (4,642)</b>	<b>\$ 12,051</b>
<b>Total recognized in Net periodic benefit cost and Other comprehensive (income)/loss</b>	<b>\$ 4,061</b>	<b>\$ 15,617</b>	<b>\$ (1,866)</b>	<b>\$ 13,260</b>

The estimated net actuarial gain or loss, prior service cost, and net initial obligation for the Pension Plan and the PRBP that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2016 is \$533 for the Pension Plan and \$286 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 2015 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 11.8 years, respectively.

Unrecognized prior service credit is amortized over 8.4 years for the PRBP.

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

	Pension Plan		PRBP	
	2015	2014	2015	2014
<i>Weighted average assumptions used to determine benefit obligation as of December 31</i>				
Discount rate	4.24%	3.88%	4.35%	3.97%
Rate of compensation increase	4.11%	4.16%		
Inflation rate	2.15%	2.20%	2.15%	2.20%

	Pension Plan		PRBP	
	2015	2014	2015	2014
<i>Weighted average assumptions used to determine net periodic benefit cost for years ended December 31</i>				
Discount rate	3.88%	4.85%	3.97%	4.99%
Expected long-term return on plan assets	6.25%	6.75%	6.25%	6.75%
Rate of compensation increase	4.16%	4.30%		

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 rate used in determining the benefit obligation is selected by reference to the year-end yield of AA corporate bonds with maturities that correspond to the estimated duration of the payment of benefits. For the assumed rate of inflation, the Corporation has established a process by which a range of inputs is reviewed, including 10-year forward looking expert opinion forecasts, the average of the 10 year and 30 year U.S. Treasury Inflation Protected Securities (U.S. TIPS) breakeven inflation rate and historical averages.

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

	PRBP	
	2015	2014
Rate to which the cost trend rate is expected to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2023	2019
<i>Health care cost trend rate assumed for next year</i>		
Medical, Non-Medicare	6.50%	7.00%
Medical, Medicare	3.75%	6.00%
Prescription drugs	10.00%	6.00%
Dental	5.00%	5.00%
Retirement cost outside U.S. *	9.00%	6.50%

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

For those participants assumed to retire outside of the United States, a 9.00% and 6.50% health care cost trend rate was used for 2015 and 2014, respectively with an ultimate trend rate of 4.50% in 2023.

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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			
	2015	2014	2015	2014
Effect on total of service and interest cost components	\$ 1,153	\$ 1,359	\$ (817)	\$ (951)
Effect on postretirement benefit obligation	13,985	15,917	(10,211)	(11,515)

**Plan assets**

The assets of the Pension Plan and the PRBP are managed primarily by investment managers employed by the IDB who are provided with investment guidelines that take into account the Pension Plan and PRBP investment policies. Investment policies with long-term strategic asset allocations have been developed so that there is an expectation of sufficient returns to meet long-term funding needs, with 65% of assets invested in return strategies. Such policies also allocate 35% of assets 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, 2015, 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%

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Risk management is achieved by the regular 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 for the Pension Plan and PRBP is specifically approved by the Pension Plan and PRBP's Managing Committees.

The following tables set forth the categories of investments of the Pension Plan and the PRBP as of December 31, 2015 and 2014, 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.

USD Thousands	Pension Plan			Weighted average allocations
	Level 1	Level 2	December 31, 2015	
Equity and equity funds:				
U.S. equities	\$ 4,460	\$ 16,541	\$ 21,001	25%
Non-U.S. equities	3,161	16,740	19,901	23%
Emerging markets equities	-	3,187	3,187	4%
Public real estate	1,747	-	1,747	2%
Government bonds and diversified bond funds:				
Long-duration fixed income funds	4,385	8,206	12,591	15%
Core fixed-income bonds	-	4,473	4,473	5%
High-yield fixed income bonds	-	1,582	1,582	2%
U.S. inflation-indexed bonds	12,599	-	12,599	15%
Emerging markets debt	-	2,511	2,511	3%
Commodity index futures	-	22	22	0%
Short-term investment funds	1,680	1,237	2,917	3%
Real estate investment funds:				
Private real estate	-	-	2,478	3%
Other assets / (liabilities), net *				
	\$ 28,032	\$ 54,499	\$ 84,953	100%

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

USD Thousands	Pension Plan			Weighted average allocations
	Level 1	Level 2	December 31, 2014	
Equity and equity funds:				
U.S. equities	\$ 4,346	\$ 16,606	\$ 20,952	25%
Non-U.S. equities	3,336	16,370	19,706	23%
Emerging markets equities	-	3,278	3,278	4%
Public real estate	1,854	-	1,854	2%
Government bonds and diversified bond funds:				
Long-duration fixed income funds	4,872	8,593	13,465	16%
Core fixed-income bonds	-	3,836	3,836	5%
High-yield fixed income bonds	-	1,601	1,601	2%
U.S. inflation-indexed bonds	12,628	-	12,628	15%
Emerging markets debt	-	2,586	2,586	3%
Short-term investment funds	1,678	641	2,319	3%
Real estate investment funds:				
Private real estate	-	-	2,107	2%
	\$ 28,714	\$ 53,511	\$ 84,332	100%



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USD Thousands	PRBP			Weighted average allocations
	Level 1	Level 2	December 31, 2015	
Equity and equity funds:				
U.S. equities	\$ -	\$ 16,660	\$ 16,660	26%
Non-U.S. equities	-	15,106	15,106	23%
Emerging markets equities	-	2,354	2,354	4%
Public real estate investment funds	2,013	-	2,013	3%
Government bonds and diversified bond funds:				
Long-duration fixed income bonds	3,179	6,114	9,293	14%
High-yield debt	-	1,193	1,193	2%
Emerging markets debt	-	2,024	2,024	3%
Core fixed-income bonds	-	3,256	3,256	5%
U.S. inflation-indexed bonds	9,592	-	9,592	15%
Short-term investment funds	2,567	(42)	2,525	4%
Other assets / (liabilities), net *	-	-	683	1%
	<b>\$ 17,351</b>	<b>\$ 46,665</b>	<b>\$ 64,699</b>	<b>100%</b>

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

USD Thousands	PRBP			Weighted average allocations
	Level 1	Level 2	December 31, 2014	
Equity and equity funds:				
U.S. equities	\$ -	\$ 16,943	\$ 16,943	27%
Non-U.S. equities	-	15,148	15,148	24%
Emerging markets equities	-	2,340	2,340	4%
Public real estate investment funds	2,129	-	2,129	3%
Government bonds and diversified bond funds:				
Long-duration fixed income bonds	3,559	6,364	9,923	16%
High-yield debt	-	1,218	1,218	2%
Emerging markets debt	-	1,925	1,925	3%
Core fixed-income bonds	-	3,162	3,162	5%
U.S. inflation-indexed bonds	9,002	-	9,002	14%
Short-term investment funds	1,537	-	1,537	2%
	<b>\$ 16,227</b>	<b>\$ 47,100</b>	<b>\$ 63,327</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.

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

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### Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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

#### Cash flows

Contributions from the Corporation to the Pension Plan and the PRBP during 2016 are expected to be approximately \$7,740 and \$4,485, 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, 2015.

USD Thousands	Pension Plan	PRBP
<i>Estimated future benefit payments</i>		
January 1, 2016 - December 31, 2016	\$ 2,471	\$ 854
January 1, 2017 - December 31, 2017	2,700	964
January 1, 2018 - December 31, 2018	2,848	1,068
January 1, 2019 - December 31, 2019	3,149	1,193
January 1, 2020 - December 31, 2020	3,356	1,297
January 1, 2021 - December 31, 2025	21,965	8,931

#### 15. Management of External Funds

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

#### 16. Subsequent Events

Management has evaluated subsequent events through March 8, 2016, which is the date the financial statements were issued. There are no subsequent events that require disclosure under ASC Topic 855, *Subsequent Events*.