INTER-AMERICAN INVESTMENT CORPORATION

Condensed Financial Statements (Unaudited)
June 30, 2018

Inter-American Investment Corporation

Balance Sheet (Unaudited)

Expressed in thousands of United States dollars	Notes	June 30, 2018	December 31, 2017
Assets			
Cash and cash equivalents ($161 and $90 in restricted cash, respectively)		$ 19,779	$ 20,755
Investment securities	3 & 9	1,286,857	1,171,565
Development related investments			
Loans outstanding		1,087,672	958,177
Allowance for loan losses		(51,362)	(49,685)
		1,036,310	908,492
Equity investments ($40,345 and $35,674 carried at fair value, respectively)		53,272	48,723
Debt securities		15,233	6,723
Total development related investments	4 & 9	1,104,815	963,938
Receivables and other assets	5	29,839	29,137
Total assets		**2,441,290**	**2,185,395**
Liabilities and capital			
Accounts payable and other liabilities	6	100,254	91,628
Interest and commitment fees payable		3,791	2,446
Borrowings	7	699,263	646,741
Total liabilities		**803,308**	**740,815**
Capital			
Capital, par value		1,542,860	1,512,480
Additional paid-in-capital		522,309	501,531
Receivable from members		(593,331)	(730,597)
Total paid-in-capital	8	1,471,838	1,283,414
Retained earnings		217,017	208,471
Accumulated other comprehensive income/(loss)		(50,873)	(47,305)
Total capital		**1,637,982**	**1,444,580**
Total liabilities and capital		**$ 2,441,290**	**$ 2,185,395**

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

Inter-American Investment Corporation

Statement of Income (Unaudited)

Expressed in thousands of United States dollars	Notes	Six months ended June 30 2018	2017
Income			
Investment securities	3 & 9	$ 14,364	$ 9,811
Development related investments			
Loans and debt securities	4 & 9		
Interest and fees		29,291	21,577
Other income		2,443	2,287
(Provision)/release of provision for loan and guarantee losses		(3,621)	(3,177)
		28,113	20,687
Equity investments	4 & 9		
Changes in fair value		680	1,176
Gain/(loss) on sale, net		1	630
Dividends		614	(83)
		1,295	1,723
Income from development related investments		29,408	22,410
Other income			
Service fees from related parties	11	32,055	32,235
Mobilization fees and other income		5,495	4,232
		37,550	36,467
Total income		**81,322**	**68,688**
Borrowings expense	7	9,776	8,694
Total income/(loss), net of borrowings expense		**71,546**	**59,994**
Operating expenses			
Administrative expenses		52,392	37,678
Pension plans and postretirement benefit plan expense	12	8,881	5,567
(Gain)/loss on foreign exchange transactions, net		56	(681)
Other expenses		1,671	1,151
Total operating expenses		**63,000**	**43,715**
Net income		**$ 8,546**	**$ 16,279**

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

Inter-American Investment Corporation
Statement of Comprehensive Income/(Loss) (Unaudited)
Statement of Changes in Capital (Unaudited)

Statement of Comprehensive Income/(Loss)

Expressed in thousands of United States dollars	Notes	Six months ended June 30 2018	2017
Net income		**$ 8,546**	**$ 16,279**
Other comprehensive income/(loss)			
Unrealized gain/(loss) on available-for-sale investment securities	3	(3,604)	2,856
Unrealized gain/(loss) on available-for-sale equity investments	4	36	-
Total other comprehensive income/(loss)		**(3,568)**	**2,856**
Comprehensive income/(loss)		**$ 4,978**	**$ 19,135**

Statement of Changes in Capital

Expressed in thousands of United States dollars, except for share information	Shares	Total paid-in capital	Retained earnings	Accumulated other comprehensive income/(loss)	Total capital
As of December 31, 2016	**151,248**	**$ 857,802**	**$ 190,917**	**$ (26,737)**	**$ 1,021,982**
Six months ended June 30, 2017					
Net income		-	16,279	-	16,279
Other comprehensive income/(loss)		-	-	2,856	2,856
Change in shares	-				
Payments received for capital		70,310	-	-	70,310
As of June 30, 2017	**151,248**	**928,112**	**207,196**	**(23,881)**	**1,111,427**
As of December 31, 2017	**151,248**	**1,283,414**	**208,471**	**(47,305)**	**1,444,580**
Six months ended June 30, 2018					
Net income		-	8,546	-	8,546
Other comprehensive income/(loss)		-	-	(3,568)	(3,568)
Change in shares	3,038				
Payments received for capital		188,424	-	-	188,424
As of June 30, 2018	**154,286**	**$ 1,471,838**	**$ 217,017**	**$ (50,873)**	**$ 1,637,982**

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

Inter-American Investment Corporation

Statement of Cash Flows (Unaudited)

Expressed in thousands of United States dollars	Six months ended June 30 2018		Six months ended June 30 2017	
Cash flows from investing activities				
Loan disbursements	$	(235,701)	$	(103,681)
Equity disbursements		(3,889)		(7,771)
Loan repayments		99,991		122,034
Returns of equity investments		58		2,192
Debt securities purchases		(8,656)		-
Debt securities repayments		146		-
Proceeds from sales of loans		4,000		-
Available-for-sale securities				
Purchases		(224,417)		(235,878)
Sales and maturities		119,680		167,769
Capital expenditures		(1,755)		(1,254)
Proceeds from sales of recovered assets		-		1,376
Net cash provided by/(used in) investing activities	**$**	**(250,543)**	**$**	**(55,213)**
Cash flows from financing activities				
Proceeds from issuance of borrowings		80,388		10,044
Borrowing repayments		(24,773)		(14,225)
Payments received for capital		188,424		70,310
Net cash provided by/(used in) financing activities	**$**	**244,039**	**$**	**66,129**
Cash flows from operating activities				
Net income		8,546		16,279
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:				
Change in fair value of equity fund investments		(680)		(1,176)
Provision for loan and guarantee losses		3,621		3,177
Change in fair value of investment securities included in earnings		(2,150)		(1,903)
Realized (gain)/loss on sales of equity investments		-		(630)
Change in receivables and other assets		(805)		(505)
Change in accounts payable and other liabilities		9,568		(284)
Change in trading investment securities		(16,294)		(25,745)
Other, net		3,724		1,584
Net cash provided by/(used in) operating activities	**$**	**5,530**	**$**	**(9,203)**
Net effect of exchange rate changes on cash and cash equivalents		(2)		47
Net increase/(decrease) in cash and cash equivalents		(976)		1,760
Cash and cash equivalents as of January 1		20,755		23,459
Cash and cash equivalents as of June 30	**$**	**19,779**	**$**	**25,219**
Supplemental disclosure:				
Interest paid during the period	$	8,266	$	8,037

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

Entity and Operations

The Inter-American Investment Corporation (the IIC or Corporation), an international organization, was established in 1986 and began operations in 1989, and is owned by its member countries. These members include 26 regional developing member countries, all of which are located in Latin America and the Caribbean (the Regional Developing Member Countries), and 19 members from other countries. The purpose of the Corporation is to promote the economic development of its Regional Developing 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 provides financing through loans, investments in debt securities, guarantees and equity investments where sufficient capital is not otherwise available on adequate terms in the market. The Corporation also arranges additional project funding from other investors and lenders, either through joint financing or through loan syndications, loan participations and guarantees. In addition, the Corporation provides financial and technical advisory services to clients. In November 2017, the Corporation adopted a new brand and now refers to itself as IDB Invest. This rebranding did not entail a change in the legal name of the Corporation. The Corporation is an autonomous international organization and a member of the Inter-American Development Bank Group (the IDB Group), which also includes the IDB and the Multilateral Investment Fund (MIF).

1. Basis of Presentation

Certain financial information that is normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), but is not required for interim reporting purposes, has been condensed or omitted. References to US 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 the United States dollars (US$ 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 allowance for loan losses, provision for guarantee losses, the evaluation for other-than-temporary impairment on available-for-sale and held-to-maturity debt securities and direct equity securities, the fair value of investment securities, loan and equity investments, debt securities, borrowings, and the determination of the net periodic benefit cost from pension and postretirement benefit plans and the present value of benefit obligations. There are inherent risks and uncertainties related to the Corporation's operations including the potential impacts of changing economic conditions on the Corporation's clients and the global investment markets that could have an adverse effect on the financial position of the Corporation.

Cash and cash equivalents – Highly liquid investment instruments purchased with original maturities of three months or less, other than those held as trading securities, are considered cash equivalents. The Corporation may hold cash deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. In addition, cash and cash equivalents includes restricted cash related to third party project origination costs.

Investment securities – As part of its overall portfolio management strategy and to provide liquidity and resources to finance development related investments, the Corporation invests in debt securities issued by corporations, governments, supranationals and agencies. These investments may include fixed and floating rate bonds, notes, bills, certificates of deposit, commercial paper, and mutual funds.

Investment securities are classified based on management's intention on the date of purchase. Purchases and sales of investment securities are recorded on a trade date basis. The first-in, first-out method is used to determine the cost basis of securities sold. The investment portfolio classified as trading is recorded at fair value

with unrealized gains and losses reported in income from Investment securities[1]. The investment securities classified as available-for-sale are carried at fair value with net unrealized gains or losses included in Other comprehensive income/(loss). Interest and dividends on securities, amortization of premiums, accretion of discounts, and realized gains and losses from both trading and available-for-sale securities are reported in income from Investment securities.

Available-for-sale securities are evaluated for other-than-temporary impairment. The Corporation considers various factors in determining whether a decline in fair value is other-than-temporary including the issuer's financial condition, the effects of changes in interest rates or credit spreads, the expected recovery period, and other quantitative and qualitative information. The evaluation 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 that are deemed to be other-than-temporary, the credit portion of the loss is recognized in earnings and the non-credit portion is recognized in Other comprehensive income/(loss).

Loans – Loans are recorded as assets when disbursed and are carried at the principal amount outstanding adjusted for allowance for loan losses. The Corporation may obtain collateral security or third-party guarantees.

The Corporation classifies its loan portfolio as either financial institution loans or corporate loans. Corporate loans are extended to enterprises operating in a variety of sectors further detailed in Note 4. The Corporation's loans may be secured or unsecured. Secured loans may be guaranteed by mortgages and other forms of collateral security, as well as third-party guarantees.

Allowance for loan losses – The allowance for loan losses represents management's estimate of incurred losses in the loan portfolio as of the balance sheet date and is recorded as a reduction of loans. Changes in the allowance for loan losses are recorded through the (Provision)/release of provision for loan and guarantee losses in the statement of income. Considerable judgment is required to estimate the allowance for loan losses including determination of appropriate risk ratings, potential severity of losses, expected performance of individual loans, economic conditions in Latin America and the Caribbean and various other factors. The Corporation believes that the allowance for loan losses is adequate as of the balance sheet date; however, future changes to the allowance for loan losses may be necessary based on changes in any of the factors discussed herein.

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

For the collective provision, the allowance for loan losses is established via an internal credit risk classification system that estimates the probable loss inherent in the portfolio based on various analyses. The collective provision for each loan exposure considers: (i) the probability of default rate for each risk category and the applicable loss emergence period; (ii) the amount of credit exposure in each of these categories; and (iii) the loss given default (LGD) ratio.

Each loan is individually monitored and rated by assigning an applicable probability of default rate and an LGD ratio on at least an annual basis.

- Probability of Default — A scorecard is completed that contemplates a variety of borrower-specific considerations including, but not limited to: past experience and available market information, country risk, historical loss experience for similar credits, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, as well as an analysis of the financial statements and other information provided by the borrower. The scorecard result produces an internal risk rating that is comparable to a long-term issuer credit rating published by Standard & Poor's (S&P). The credit rating is mapped to a probability of default (PD) according to the latest S&P Annual Global Corporate Default Study and Rating Transitions publication, as approved by management.

[1] 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.

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

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

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

The Corporation 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 considered in determining that a loan is impaired include 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.

Further, a loan modification is considered a troubled debt restructuring when the borrower is experiencing financial difficulty and the Corporation has granted a concession to the borrower that it otherwise would not grant in order to maximize recoveries on the existing loan. A loan restructured under a troubled debt restructuring is considered impaired, until its extinguishment, but it does not need to be disclosed as such after the year it was restructured, if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Corporation was willing to accept at the time of the restructuring for a new loan with comparable risk, and the loan is not impaired based on the terms specified in the restructuring agreement. Additional information is included in Note 4.

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

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

Equity investments – Equity investments include ownership interests in limited partnerships and similar fund structures (LPs) and direct equity investments primarily in small and medium-sized enterprises and financial institutions.

Direct equity investments for which the Corporation maintains specific ownership accounts—and for which the Corporation does not have a controlling financial interest or significant influence—are carried at cost less impairment, if any, or if these investments are listed in markets that provide readily determinable fair values, these investments are accounted for as available-for-sale securities at fair value with unrealized gains and losses reported in Other comprehensive income/(loss) in accordance with ASC 320, *Investments*. Direct equity investments are assessed for impairment at least annually on the basis of the latest financial information, operating performance and other relevant information including macroeconomic conditions, specific industry trends, the historical performance of the company, and the Corporation's intent to hold the investment for an extended period. When impairment is identified and is deemed to be other-than-temporary, the investment is written down to the fair value, which becomes the new carrying value for the investment. Impairment losses are not reversed for subsequent recoveries in fair value of the investment unless sold at a gain.

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

Revenue recognition on equity investments – Dividends and profit participations received from equity investments that are accounted for under the cost less impairment method are recorded as income and reported as Dividends in the statement of income when such distributions are declared and paid. Gains or losses on the sale or redemption of equity investments accounted for under the cost less impairment method are recorded as income and reported in Gain/(loss) on sale, net in the statement of income at disposition.

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

Development related investments in debt securities - Debt securities in the development related investment portfolio are classified as held-to-maturity and carried at amortized cost in the balance sheet. These debt securities are assessed for other-than-temporary impairment at least annually. Interest on debt securities is included in Income from development related investments in the statement of income.

Variable interest entities – ASC 810, *Consolidation*, provides for consolidation when a reporting entity is the primary beneficiary of 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 has concluded that it is not the primary beneficiary for any VIEs. Additionally, the Corporation does not have a significant variable interest in any VIE, which would require disclosure. Similarly, the Corporation does not hold a controlling financial interest or majority voting interest in any other entity, and it does not have significant influence over any entities.

Revenue recognition for service fees – A series of service level agreements (SLAs) define the nature of the services and corresponding fees for services provided to the IDB. The most significant of these services relates to loan origination and servicing performed on the IDB's behalf. Revenue is recognized when services are rendered, as the corresponding fees are determinable, and collection is reasonably assured. Similarly, the Corporation receives project administration and general administrative fees for services provided to several special purpose trust funds affiliated with the Corporation or the IDB. Additional information about related-party transactions is included in Note 11.

Guarantees – The Corporation offers credit guarantees covering, on a risk-sharing basis, third party obligations on loans undertaken for or securities issued in support of projects located within a member country to enhance their credit standing and enable them to complete a wide variety of business transactions. These financial guarantees are commitments issued by the Corporation to guarantee payment performance by a borrower to a third party. The Corporation's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. Guarantees are regarded as issued when the Corporation executes the guarantee agreement, outstanding when the underlying financial obligation of the

third party is incurred and called when the Corporation's obligation under the guarantee has been invoked. There are two obligations associated with the guarantees: (1) the stand-ready obligation to perform; and (2) the contingent obligation to make future payments. The stand-ready obligation to perform is recognized at the issuance date at fair value. The contingent liability associated with the financial guarantee is recognized when it is probable that the guarantee will be called and when the amount of the guarantee can be reasonably estimated. Any stand-ready and contingent liabilities associated with the guarantees are included in Accounts payable and other liabilities in the balance sheet. The expense related to the contingent liability is recorded in (Provision)/release of provision for loan and guarantee losses in the statement of income. Guarantee fee income is recognized as the Corporation is released from risk and its stand-ready obligation to perform. In the event the guarantees are called, the amount disbursed is recorded as a loan investment and specific reserves are established based on the estimated probable loss.

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

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

Fixed and intangible assets – Fixed and intangible assets (software costs) are presented at cost less accumulated depreciation and amortization and are included in Receivables and other assets in the balance sheet. 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. Additional information about fixed and intangible assets is included in Note 5.

Remeasurement of foreign currency transactions – Monetary assets and liabilities denominated in currencies other than the United States dollar are recognized at the market exchange rate in effect at the transaction date or at monthly average rates. Resulting gains and losses from remeasurement are included in (Gain)/loss on foreign exchange transactions, net, in the statement of income.

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

Fair value is defined 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 assume a liability takes place either in the principal market or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

  Assets and liabilities utilizing Level 2 inputs include investment securities that are not actively traded, and primarily include investments in obligations of banks, governments and agencies or instrumentalities other than the United States, sovereigns, local and regional governments, corporate bonds, 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 loans, direct equity investments and development related debt securities that are also measured for impairment or disclosed at fair value.

The availability of observable inputs is affected by a wide variety of factors, including, for example, the type of product, and other characteristics particular to the transaction. To the extent fair value is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

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

Loan participations – The Corporation mobilizes funds from commercial banks and other financial institutions (Participants) by facilitating loan participations, without recourse. These loan participations are administered and serviced by the Corporation on behalf of the Participants in exchange for a fee. Such fees are reported as Mobilization fees and other income in the statement of income. The disbursed and outstanding balances of loan participations that meet the applicable accounting criteria are accounted for as sales and are not included in the Corporation's balance sheet.

Pension and postretirement benefits – The IDB Group has three defined benefit pension plans: the Staff Retirement Plan (SRP), the Complementary Staff Retirement Plan (CSRP), and the Local Retirement Plan (LRP) (the Pension Plans and LRP), covering staff of the IDB Group entities. Under the Pension Plans and LRP, benefits are based on years of service and level of compensation, and are funded by contributions from employees, the Corporation and the IDB, in accordance with the provisions of the Pension Plans and LRP. Any and all contributions to the Pension Plans and LRP are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Pension Plans and LRP.

The IDB Group also provides certain health care, tax reimbursement and other benefits to retirees. Staff who retire, receive a monthly pension from the IDB or the Corporation, 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 and the IDB contribute the remainder of the actuarially determined cost of future health care and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the Corporation and the IDB, they are held and administered separately and apart from the other property and assets of each employer solely for the purpose of payment of benefits under the PRBP.

Since both the IDB and the Corporation are sponsors of the Pension Plans 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 these Pension Plans and PRBP in accordance with ASC 715, *Compensation – Retirement Benefits*.

The net periodic benefit costs allocated to the Corporation are included in Pension Plans and Postretirement Benefit Plan expense in the statement of income. The funded status of the Pension Plans and the PRBP is included in Receivables and other assets when the respective plan is in a funded status and included in Accounts payable and other liabilities when the respective plan is in an unfunded status in the balance sheet. Additional information about the Pension Plans and PRBP is included in Note 12.

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

Accounting and financial reporting developments – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the previous revenue recognition requirements and guidance. This new guidance does not apply to financial instruments nor guarantees. Supplemental guidance has been issued in the form of additional ASUs related to the revenue recognition topic. For the Corporation, this Update is effective in 2019 and for interim periods in 2020. The Corporation is currently assessing the impact that this Update will have on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* and in February 2018 the FASB issued *ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10)* related to ASU 2016-01. The changes to the current GAAP model primarily affect accounting for equity investments and presentation and disclosure requirements for financial instruments. Accounting for other financial instruments, such as loans, investments in debt securities, and other financial liabilities is largely unchanged. For the Corporation, this Update is effective in 2019 and for interim periods in 2020. The Corporation is currently assessing the impact that this Update will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet this objective, the FASB has amended the Codification and created Topic 842 that supersedes *Topic 840, Leases*. The key change from previous US GAAP and Topic 840 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous US GAAP. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases in the balance sheet. For the Corporation, this Update is effective in 2020 and for interim periods in 2021. The Corporation is currently assessing the impact that this Update will have on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this Update affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The use of forecasted information incorporates more timely information in the estimate of expected credit loss that will be more useful to users of the financial statements. For the Corporation, this Update is effective in 2021 and for interim periods in 2022. Early adoption is permitted and is under consideration for 2020. The amendments in this Update are applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation is currently assessing the impact that this Update will have on its financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this

Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of income separately from the service cost. For the Corporation, this Update is effective in 2019 and for interim periods in 2020.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization of Purchased Callable Debt Securities.* The amendment in this Update shortens the amortization period to the earliest call date for certain purchased callable debt securities held at a premium. For the Corporation, this Update is effective in 2020 and for interim periods in 2021. The Corporation is currently assessing the impact that this Update will have on its financial statements.

3. Investment Securities

Trading securities consist of the following (US$ thousands):

	June 30, 2018	December 31, 2017
Corporate securities	$ 99,188	$ 98,679
Government securities	56,831	41,835
Total	**$ 156,019**	**$ 140,514**

Net unrealized gains on trading securities still held were $74 thousand for the six months ended June 30, 2018 ($794 thousand net unrealized gains for the six months ended June 30, 2017) and are presented in income from Investment securities in the statement of income.

The fair value of available-for-sale securities is as follows (US$ thousands):

	June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate securities	$ 853,003	$ 1,837	$ (4,904)	$ 849,936
Agency securities	207,471	7	(1,902)	205,576
Government securities	48,039	-	(324)	47,715
Supranational securities	28,079	-	(468)	27,611
Total	**$ 1,136,592**	**$ 1,844**	**$ (7,598)**	**$ 1,130,838**

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate securities	$ 787,223	$ 2,165	$ (2,679)	$ 786,709
Agency securities	197,986	7	(1,147)	196,846
Government securities	29,894	-	(271)	29,623
Supranational securities	18,096	-	(223)	17,873
Total	**$ 1,033,199**	**$ 2,172**	**$ (4,320)**	**$ 1,031,051**

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

	June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	$ 330,261	$ (3,234)	$ 102,019	$ (1,670)	$ 432,280	$ (4,904)
Agency securities	148,925	(1,846)	41,146	(56)	190,071	(1,902)
Government securities	18,101	(7)	29,614	(317)	47,715	(324)
Supranational securities	27,611	(468)	-	-	27,611	(468)
Total	**$ 524,898**	**$ (5,555)**	**$ 172,779**	**$ (2,043)**	**$ 697,677**	**$ (7,598)**

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	$ 288,923	$ (1,582)	$ 110,395	$ (1,097)	$ 399,318	$ (2,679)
Agency securities	131,957	(1,034)	54,889	(113)	186,846	(1,147)
Government securities	-	-	29,623	(271)	29,623	(271)
Supranational securities	17,873	(223)	-	-	17,873	(223)
Total	**$ 438,753**	**$ (2,839)**	**$ 194,907**	**$ (1,481)**	**$ 633,660**	**$ (4,320)**

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

	Six months ended June 30	
	2018	2017
Unrealized gains/(losses) during the period	$ (3,548)	$ 2,853
Reclassification of gains/(losses) to net income	(56)	3
Total recognized in other comprehensive income/(loss) related to available-for-sale investment securities	**$ (3,604)**	**$ 2,856**

Sales of available-for-sale securities amounted to $10,060 thousand during the six months ended June 30, 2018 ($113,769 thousand during the six months ended June 30, 2017). Gross realized gains were $56 thousand and there were no gross realized losses from the sale of available-for-sale securities during the six months ended June 30, 2018 ($242 thousand gross realized gains and $245 thousand gross realized losses during the six months ended June 30, 2017).

The Corporation maintains a strict credit policy that all investment securities must be high quality credit rated investment grade. As of June 30, 2018, all unrealized losses in the investment securities are the result of temporary pricing movements in the current market environment and no other-than-temporary credit impairment was recognized for the three and six months ended June 30, 2018. 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 (US$ thousands):

	June 30, 2018		December 31, 2017	
Less than one year	$	270,742	$	207,904
Between one and five years		860,096		823,147
Total	**$**	**1,130,838**	**$**	**1,031,051**

For the six months ended June 30, 2018, interest income, net of amortization of premiums and accretion of discounts, was $11,836 thousand ($7,708 thousand for the six months ended June 30, 2017).

4. Development Related Investments

The Corporation has specific metrics for concentrations and monitors its development related investments for credit performance, market risk and any potential related effects of geographic or sectorial concentrations. The Corporation's development related investments are the result of lending and investing activities that include loans, direct equity investments and LP investments, debt securities and guarantees that promote the economic development of the Corporation's Regional Developing Member Countries through the establishment, expansion and modernization of private enterprises. The Corporation's portfolio is classified as financial institutions and corporates. All development related investments are individually evaluated for purposes of monitoring and evaluating credit performance and market risk.

The distribution of the outstanding portfolio by country and by sector is as follows (US$ thousands):

	June 30, 2018				December 31, 2017			
	Loan	Equity	Debt securities	Total	Loan	Equity	Debt securities	Total
Brazil	$ 163,601	$ 4,783	$ -	$ 168,384	$ 128,500	$ 3,714	$ -	$ 132,214
Chile	151,584	203	-	151,787	136,208	632	-	136,840
Argentina	117,290	-	-	117,290	93,213	-	-	93,213
Mexico	89,097	12,931	-	102,028	60,183	12,854	-	73,037
Costa Rica	79,658	-	-	79,658	88,227	-	-	88,227
Uruguay	62,589	-	15,233	77,822	54,930	-	6,723	61,653
Ecuador	64,061	-	-	64,061	74,168	-	-	74,168
Guatemala	58,500	-	-	58,500	65,732	-	-	65,732
Regional [1]	24,392	29,848	-	54,240	24,923	25,776	-	50,699
Colombia	51,114	2,507	-	53,621	13,862	2,625	-	16,487
Panama	52,743	-	-	52,743	56,343	-	-	56,343
Honduras	42,427	-	-	42,427	23,983	-	-	23,983
Peru	40,189	-	-	40,189	43,714	-	-	43,714
El Salvador	23,496	-	-	23,496	20,369	-	-	20,369
Nicaragua	23,484	-	-	23,484	29,192	-	-	29,192
Paraguay	12,950	-	-	12,950	10,542	-	-	10,542
Suriname	8,584	-	-	8,584	9,286	-	-	9,286
Dominican Republic	7,083	-	-	7,083	9,019	-	-	9,019
Jamaica	6,520	-	-	6,520	6,820	-	-	6,820
Haiti	4,952	-	-	4,952	5,287	-	-	5,287
Bolivia	741	3,000	-	3,741	831	3,122	-	3,953
Bahamas	2,617	-	-	2,617	2,845	-	-	2,845
Total	**$ 1,087,672**	**$ 53,272**	**$ 15,233**	**$ 1,156,177**	**$ 958,177**	**$ 48,723**	**$ 6,723**	**$ 1,013,623**
Financial institutions	$ 565,519	$ 38,008	$ -	$ 603,527	$ 536,765	$ 33,618	$ -	$ 570,383
Corporates								
Energy	225,892	-	15,233	241,125	178,549	-	6,723	185,272
Agriculture and rural development	111,141	-	-	111,141	82,207	-	-	82,207
Industry	78,304	-	-	78,304	55,474	-	-	55,474
Transport	43,973	-	-	43,973	47,806	-	-	47,806
Science and technology	23,392	4,695	-	28,087	20,415	4,695	-	25,110
Urban development and housing	12,524	5,569	-	18,093	8,595	5,410	-	14,005
Sustainable tourism	11,672	-	-	11,672	12,375	-	-	12,375
Other	10,081	-	-	10,081	11,193	-	-	11,193
Private firms and SME development	-	5,000	-	5,000	-	5,000	-	5,000
Health	5,174	-	-	5,174	4,798	-	-	4,798
Total	**$ 1,087,672**	**$ 53,272**	**$ 15,233**	**$ 1,156,177**	**$ 958,177**	**$ 48,723**	**$ 6,723**	**$ 1,013,623**

[1] Represents investments with operations in multiple countries.

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

	June 30, 2018
Loan	$ 242,281
Equity	56,912
Total	**$ 299,193**

Loans

Loans accrue interest at fixed and variable rates. The unpaid principal balance of the fixed rate loan portfolio amounted to $188,131 thousand as of June 30, 2018 ($184,678 thousand as of December 31, 2017). Variable rate loans generally reprice within one year. Base rates of variable rate loans reset at each repayment date at least annually or more frequently, but loan margins generally remain constant.

An age analysis, based on contractual terms, of loans at amortized cost by type is as follows (US$ thousands):

	June 30, 2018						
	1-90 days past due &		>90 days past due &		Total past due	Current loans	Loan portfolio
	accruing	nonaccruing	accruing	nonaccruing			
Financial institutions	$ -	$ -	$ -	$ -	$ -	$ 565,519	$ 565,519
Corporate	773	3,935	733	14,909	20,350	501,803	522,153
Total	**$ 773**	**$ 3,935**	**$ 733**	**$ 14,909**	**$ 20,350**	**$ 1,067,322**	**$ 1,087,672**
As % of loan portfolio	0.07%	0.36%	0.07%	1.37%	1.87%	98.13%	100.00%
Allowance for loan losses	$ (51,362)						
Coverage					252.39%		4.72%

	December 31, 2017						
	1-90 days past due &		>90 days past due &		Total past due	Current loans	Loan portfolio
	accruing	nonaccruing	accruing	nonaccruing			
Financial institutions	$ -	$ -	$ -	$ -	$ -	$ 536,765	$ 536,765
Corporate	4,444	7,351	474	8,278	20,547	400,865	421,412
Total	**$ 4,444**	**$ 7,351**	**$ 474**	**$ 8,278**	**$ 20,547**	**$ 937,630**	**$ 958,177**
As % of loan portfolio	0.46%	0.77%	0.05%	0.86%	2.14%	97.86%	100.00%
Allowance for loan losses	$ (49,685)						
Coverage					241.81%		5.19%

Nonaccrual loans on which the accrual of interest has been discontinued totaled $34,308 thousand as of June 30, 2018 ($20,943 thousand as of December 31, 2017). Nonaccrual loans that are current totaled $15,464 thousand as of June 30, 2018 ($5,314 thousand as of December 31, 2017). A current nonaccrual loan is a loan that was placed in nonaccrual status where the borrower is now current on payments but for which ongoing monitoring is necessary to determine whether the borrower has sufficiently demonstrated performance before returning the loan to accrual status. Interest income collected, and interest income recognized on loans in nonaccrual status for the six months ended June 30, 2018, was $387 thousand ($30 thousand for the six months ended June 30, 2017).

The investment in impaired loans as of June 30, 2018 was $34,303 thousand ($26,575 thousand as of December 31, 2017). The average investment in impaired loans for the six months ended June 30, 2018 was $30,898 thousand ($8,407 thousand for the six months ended June 30, 2017). The total amount of the allowance related to impaired loans as of June 30, 2018 was $14,392 thousand and as of December 31, 2017 was $13,104 thousand.

During the first six months of 2018, there was one troubled debt restructuring for a loan classified as impaired, with an outstanding balance of $1,552 thousand and specific allowance of $1,552 thousand. Such loan agreement was modified to partially recover the Corporation's outstanding exposure on the original loan and included a write-off of $1,948 thousand. During 2016, there was one troubled debt restructuring for a loan classified as impaired with an outstanding balance of $2,272 thousand and a specific allowance for loan losses of $2,051 thousand as of June 30, 2018. There have been no payment defaults after the restructuring was made and this loan is considered within the impaired loans as of June 30, 2018.

Changes in the allowance for loan losses by investment type are summarized below (US$ thousands):

	Six months ended June 30, 2018		
	Financial institutions	**Corporates**	**Total**
Beginning balance	$ (21,028)	$ (28,657)	$ (49,685)
Loans written off, net	-	1,948	1,948
Recoveries	-	-	-
(Provision)/release of provision for loan losses [1]	850	(4,475)	(3,625)
Ending balance	**$ (20,178)**	**$ (31,184)**	**$ (51,362)**

[1] Does not include changes in provision for guarantee losses that are recorded in the same line item in the statement of income.

	Six months ended June 30, 2017		
	Financial institutions	**Corporates**	**Total**
Beginning balance	$ (17,601)	$ (17,337)	$ (34,938)
Loans written off, net	-	481	481
Recoveries	(73)	(1,303)	(1,376)
(Provision)/release of provision for loan losses [1]	(650)	(2,527)	(3,177)
Ending balance	**$ (18,324)**	**$ (20,686)**	**$ (39,010)**

[1] Does not include changes in provision for guarantee losses that are recorded in the same line item in the statement of income.

	Year ended December 31, 2017		
	Financial institutions	**Corporates**	**Total**
Beginning balance	$ (17,601)	$ (17,337)	$ (34,938)
Loans written off, net	-	481	481
Recoveries	(73)	(1,303)	(1,376)
(Provision)/release of provision for loan losses [1]	(3,354)	(10,498)	(13,852)
Ending balance	**$ (21,028)**	**$ (28,657)**	**$ (49,685)**

[1] Does not include changes in provision for guarantee losses that are recorded in the same line item in the statement of income.

A summary of loans at amortized cost by credit quality indicator and investment type is as follows as of June 30, 2018 and December 31, 2017 (US$ thousands):

Rating categories	Credit quality indicator	Internal credit risk classification range	Description
aa- and better	Very strong	aa- or higher	An obligor in these categories has a very strong capacity to meet its financial commitment.
a+ to a–	Strong	a+, a, a-	An obligor in these categories has a strong capacity to meet its financial commitment.
bbb+ to bbb-	Adequate	bbb+, bbb, bbb-	An obligor in these categories exhibits an adequate financial profile. However, adverse economic conditions or changing circumstances are more likely to lead to a weakening of the obligor's capacity to meet its financial obligations.
bb+ to bb-	Moderate	bb+, bb, bb-	An obligor in these categories can face major uncertainties or exposures to adverse business, financial, or economic conditions that could lead to its inadequate capacity to meet its financial obligations.
b+ to b-	Weak	b+, b, b-	An obligor in these categories is more vulnerable to nonpayment than obligations rated bb-, but the obligor currently has the capacity to meet its financial obligations. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial obligations.
ccc+ and lower	Very weak	ccc+ or lower	An obligor in these categories faces significant challenges, and default may also already be a virtual certainty. The obligor is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial obligations. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial obligations.

	June 30, 2018		
Internal credit quality indicator	**Financial institutions**	**Corporates**	**Total**
Adequate	$ 160,000	$ 2,283	$ 162,283
Moderate	281,907	172,328	454,235
Weak	111,465	308,712	420,177
Very weak	12,147	38,830	50,977
Total loans at amortized cost	**$ 565,519**	**$ 522,153**	**$ 1,087,672**

	December 31, 2017		
Internal credit quality indicator	**Financial institutions**	**Corporates**	**Total**
Adequate	$ 122,443	$ 10,112	$ 132,555
Moderate	293,497	110,500	403,997
Weak	104,453	260,413	364,866
Very weak	16,372	40,387	56,759
Total loans at amortized cost	**$ 536,765**	**$ 421,412**	**$ 958,177**

Equity investments

As of June 30, 2018, the Corporation's direct equity investments carried at cost less impairment had a carrying value of $12,927 thousand ($13,049 thousand as of December 31, 2017). As of June 30, 2018, the Corporation's direct equity investments classified as available-for-sale were recorded at fair value of $5,569 thousand with unrealized gains of $36 thousand recognized in Other comprehensive income/(loss) (recorded at fair value of $5,410 thousand with unrealized gains of $2,951 thousand as of December 31, 2017). There were no other-than-temporary impairment losses on the Corporation's direct equity investments for the six months ended June 30, 2018 (none for the six months ended June 30, 2017).

As of June 30, 2018, the Corporation's investments in LPs recorded at fair value based on NAV were $34,776 thousand ($30,264 thousand as of December 31, 2017). These investments cannot be redeemed. Instead distributions are received through the liquidation of the underlying assets of the LPs. The Corporation estimates that the underlying assets of the LPs generally may be liquidated over a period of 10 years.

Debt securities

As of June 30, 2018, the Corporation held development related investments in debt securities with a carrying value of $15,233 thousand ($6,723 thousand as of December 31, 2017) that are classified as held-to-maturity. There was no indication of other-than-temporary impairment losses for the six months ended June 30, 2018. For the six months ended June 30, 2018, related interest income was $257 thousand. The contractual maturities for these debt securities are in 2033, 2036 and in 2042.

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. 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 $4,629 thousand as of June 30, 2018 ($4,706 thousand as of December 31, 2017). The provision for losses on guarantees is $286 thousand as of June 30, 2018 and is recorded in Accounts payable and other liabilities in the balance sheet.

Loan participations

As of June 30, 2018, the Corporation serviced $2.545 billion ($1.839 billion as of December 31, 2017) loan participations outstanding and recognized servicing fees of $237 thousand for the six months ended June 30, 2018.

5. Receivables and Other Assets

Receivables and other assets are summarized below (US$ thousands):

	June 30, 2018		December 31, 2017	
Fixed and intangible assets	$	9,582	$	9,510
Interest receivable on development related investments		9,263		7,213
Receivables and other assets		5,848		8,058
Interest receivable on investment securities		5,146		4,356
Total receivables and other assets	**$**	**29,839**	**$**	**29,137**

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below (US$ thousands):

	June 30, 2018	December 31, 2017
Pension Plans, net liability	$ 38,693	$ 38,693
Deferred revenue	22,269	18,097
Postretirement Benefit Plan, net liability	15,854	15,854
Employment benefits payable	11,337	7,808
Due to IDB, net	10,332	7,236
Accounts payable and other liabilities	1,769	3,940
Total accounts payables and other liabilities	**$ 100,254**	**$ 91,628**

As of June 30, 2018, and December 31, 2017, the Pension Plans net liability and PRBP net liability reflect the underfunded status of the Pension Plans and PRBP. Refer to Note 12. Deferred revenue includes service fees collected from related parties. Additional information about the Corporation's related party transactions is included in Note 11.

7. Borrowings

Borrowings outstanding by currency are as follows (US$ thousands):

	June 30, 2018		December 31, 2017	
	Amount outstanding	Weighted average cost	Amount outstanding	Weighted average cost
U.S. dollar	$ 623,154	2.70%	$ 626,398	1.64%
Mexican peso	76,109	7.99%	20,343	7.49%
Total borrowings outstanding	**$ 699,263**		**$ 646,741**	

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

On April 27, 2016, the Corporation issued $500 million United States dollar denominated, 3-month LIBOR plus 0.30% notes under its Euro Medium Term Note Program, maturing in 2019. Interest on the notes is payable quarterly.

On February 20, 2018, the Corporation issued a three-year bond in the amount of $80,308 thousand (1.5 billion Mexican pesos) at a floating interest rate of interbank reference rate (TIIE) plus 0.09%.

As of June 30, 2018, the Corporation has external credit facilities available amounting to $112,200 thousand.

The maturity structure of borrowings outstanding, gross of debt issuance costs, as of June 30, 2018 is as follows (US$ thousands):

	2018	2019	2020	2021	2022	2023
Borrowings	$ -	$ 500,000	$ -	$ 99,509	$ -	$ 100,000
Total	**$ -**	**$ 500,000**	**$ -**	**$ 99,509**	**$ -**	**$ 100,000**

For the six months ended June 30, 2018, Borrowings expense includes interest expense of $9,759 thousand that includes the amortization of debt issuance costs of $98 thousand ($8,625 thousand for the six months ended June 30, 2017 that includes debt issuance costs of $155 thousand). The unamortized balance of the Corporation's

debt issuance cost amounts to $247 thousand as of June 30, 2018 ($269 thousand as of December 31, 2017) and is presented as a reduction to Borrowings in the balance sheet.

8. Capital

The Corporation's original authorized share capital was increased 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. These increases allocated a total of $505.9 million for subscriptions by new and existing member countries, with a par value and issuance price of $10 thousand actual dollars per share.

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

All Annex A Shares have been subscribed. In the balance sheet, subscribed shares are recorded as Capital, par value, Additional paid-in capital and Receivable from members on the date of the subscription instrument at the share issuance price and are expected to be paid in over time. Payments are due on October 31 of each year from 2016 to 2022, per a payment plan determined and communicated by management to each subscribing country. The Board of Executive Directors is authorized to extend payment deadlines. The price for Annex A Shares not paid within their corresponding annual installment is adjusted to reflect a 5% increase for each year of arrears; except that, shares corresponding to the first installment which are fully paid in by the end of the second installment shall not be subject to a price adjustment. This price adjustment is recorded to Additional paid-in capital and to Receivable from members in the balance sheet.

Capital contributions of approximately $578 million have been received under GCI-II through December 31, 2017. Additional capital contributions of $138.9 million were received during the six months ended June 30, 2018 for a total of $716.9 million in contributions corresponding to Annex A Shares under GCI-II. On March 29, 2018, the Corporation received $49.5 million in income distributions (transfers) corresponding to Annex B Shares from the IDB on behalf of its shareholders that are also member countries of the Corporation.

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

The following table lists the capital and receivable from members (US$ thousands, except for share and number of votes information):

	June 30							
	Capital						Voting power	
	Shares[1]	Capital, par value	Additional paid-in capital[2]	Receivable from members[3]	Total paid in capital	Percent of total paid in capital	Number of votes	Percent of total votes[4]
Argentina	17,727	$ 177,270	$ 59,782	$ 233	$ 236,819	16.09	10,503	10.53
Austria	891	8,910	3,389	4,886	7,413	0.50	589	0.59
Bahamas	314	3,140	1,060	1,492	2,708	0.18	186	0.19
Barbados	224	2,240	766	1,087	1,919	0.13	135	0.14
Belgium	179	1,790	64	-	1,854	0.13	179	0.18
Belize	104	1,040	28	-	1,068	0.07	104	0.10
Bolivia	1,426	14,260	4,798	6,730	12,328	0.84	1,010	1.01
Brazil	17,727	177,270	61,309	83,869	154,710	10.51	9,033	9.06
Canada	4,211	42,110	25,102	35,399	31,813	2.16	2,023	2.03
Chile	4,552	45,520	15,755	22,052	39,223	2.66	2,644	2.65
China	9,330	93,300	56,684	82,478	67,506	4.59	4,232	4.24
Colombia	4,552	45,520	15,242	-	60,762	4.13	3,234	3.24
Costa Rica	685	6,850	2,298	2,168	6,980	0.47	477	0.48
Denmark	1,076	10,760	35	-	10,795	0.73	1,076	1.08
Dominican Republic	951	9,510	3,194	4,465	8,239	0.56	565	0.57
Ecuador	960	9,600	3,244	4,546	8,298	0.56	679	0.68
El Salvador	685	6,850	2,393	3,220	6,023	0.41	328	0.33
Finland	1,025	10,250	3,920	-	14,170	0.96	675	0.68
France	2,926	29,260	4,730	6,374	27,616	1.88	2,532	2.54
Germany	1,392	13,920	368	-	14,288	0.97	1,392	1.40
Guatemala	914	9,140	3,065	4,319	7,886	0.54	647	0.65
Guyana	260	2,600	881	1,230	2,251	0.15	184	0.18
Haiti	685	6,850	2,433	5,915	3,368	0.23	328	0.33
Honduras	685	6,850	2,361	3,286	5,925	0.40	328	0.33
Israel	395	3,950	1,386	2,006	3,330	0.23	271	0.27
Italy	4,679	46,790	15,564	22,116	40,238	2.73	3,312	3.32
Jamaica	437	4,370	118	-	4,488	0.30	437	0.44
Japan	5,104	51,040	16,148	22,132	45,056	3.06	3,736	3.75
Korea	8,293	82,930	50,276	73,175	60,031	4.08	3,770	3.78
Mexico	11,349	113,490	37,959	-	151,449	10.29	8,060	8.08
Netherlands	1,077	10,770	39	-	10,809	0.73	1,077	1.08
Nicaragua	685	6,850	2,294	3,220	5,924	0.40	486	0.49
Norway	1,021	10,210	3,884	5,614	8,480	0.58	674	0.68
Panama	986	9,860	4,073	3,899	10,034	0.68	627	0.63
Paraguay	719	7,190	2,424	3,430	6,184	0.42	507	0.51
Peru	5,218	52,180	19,367	27,763	43,784	2.97	3,502	3.51
Portugal	390	3,900	1,296	1,893	3,303	0.22	273	0.27
Spain	7,022	70,220	28,001	21,914	76,307	5.18	4,538	4.55
Suriname	103	1,030	24	-	1,054	0.07	103	0.10
Sweden	956	9,560	3,480	4,999	8,041	0.55	647	0.65
Switzerland	2,302	23,020	7,614	10,953	19,681	1.34	1,625	1.63
Trinidad and Tobago	684	6,840	2,430	5,914	3,356	0.23	327	0.33
United States	16,946	169,460	5,739	-	175,199	11.90	16,946	16.99
Uruguay	1,886	18,860	6,338	8,882	16,316	1.11	1,337	1.34
Venezuela	10,553	105,530	40,954	101,672	44,812	3.04	4,416	4.43
Total as of June 30, 2018	**154,286**	**$ 1,542,860**	**$ 522,309**	**$ 593,331**	**$ 1,471,838**	**100**	**$ 99,754**	**100**
Total as of December 31, 2017	**151,248**	**$ 1,512,480**	**$ 501,531**	**$ 730,597**	**$ 1,283,414**		**96,716**	

[1] Includes Annex B shares for which income distributions (transfers) were made by IDB on behalf of its shareholders.

[2] Includes the amount in addition to par value for shares under GCI-II and partial payments in excess of full shares.

[3] Represents receivable from members under GCI-II.

[4] Data are rounded; detail may not add to total because of rounding.

9. Fair Value Measurements

Many of the Corporation's financial instruments are not actively traded in any market. Determining future cash flows for fair value estimation is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. Therefore, while disclosure of estimated fair values of certain financial instruments is required, readers are cautioned about using these data for purposes of evaluating the financial condition of the Corporation.

The methodologies and key assumptions used to estimate the fair values of the Corporation's financial instruments are summarized below:

Cash and cash equivalents

The carrying amount reported in the balance sheet approximates fair value.

Investment securities

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

Loans

The Corporation's methodology to measure the fair value of those loans 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 loans is estimated using recently executed transactions, market price quotations (where observable), and market observable credit default swap levels along with proprietary valuation models where such transactions and quotations are unobservable. Determining future cash flows for fair value estimation purposes is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The lack of objective pricing standards adds a greater degree of subjectivity and volatility to these derived or estimated fair values.

The Corporation's loans are generally carried at the principal amount outstanding. For disclosure purposes, the Corporation uses a December 31 measurement date to estimate the fair value of its loan portfolio including certain impaired assets. Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value disclosed does not necessarily reflect the realizable values since the Corporation generally holds investments to maturity.

Equity investments

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

> **Direct equity investments carried at cost** – The Corporation's methodology to measure the fair value of impaired direct equities at cost requires the use of estimates and present value calculations of future cash flows. The Corporation relies on third-party valuation specialists when available, internal estimates, or a combination of both.
>
> **Available-for-sale direct equity investments** – Available-for-sale equity investments are valued using quoted prices.

Equity investments in LPs – As a practical expedient, the Corporation relies on the NAV as reported by the fund manager for the fair value measurement. The NAVs that have been reported by the fund manager are derived from the fair values of the underlying investments as of the reporting date. Generally, LPs have finite lives and the Corporation does not sell or redeem its investments in LPs. Proceeds are distributed to the Corporation as the LPs sell the underlying investee company. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value.

Borrowings

The Corporation's borrowings are recorded at amortized cost. 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 and includes all of the Corporation's borrowings except for the IDB borrowing.

Other assets and liabilities

The carrying value of financial instruments included in Receivables and other assets, and Accounts payable and other liabilities approximates fair value due to their liquid or short-term nature.

Fair value of Financial Instruments

The Corporation's financial instruments recorded or disclosed at fair value have been categorized based on a fair value hierarchy in accordance with ASC 820 and are as follows (US$ thousands):

	Balance as of June 30, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Recurring (R) Nonrecurring (N) Disclosure only (D)[2]
Investment securities					
Corporate securities	$ 949,124	$ -	$ 949,124	$ -	R
Agency securities	205,576	-	205,576	-	R
Government securities	104,546	-	104,546	-	R
Supranational securities	27,611	-	27,611	-	R
Loans					
Impaired	34,303	-	-	34,303	N
Equity investments					
Available-for-sale	5,569	5,569	-	-	R
Equities at NAV[1]	34,776	-	-	-	R

[1] Equities at NAV as practical expedient are not classified within the fair value hierarchy.

[2] For disclosure purposes, the Corporation uses a December 31 measurement date to estimate the fair value of its financial instruments recorded at amortized cost.

	Balance as of December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Recurring (R) Nonrecurring (N) Disclosure only (D)[2]
Investment securities					
Corporate securities	$ 885,388	$ -	$ 885,388	$ -	R
Agency securities	196,846	-	196,846	-	R
Government securities	71,458	-	71,458	-	R
Supranational securities	17,873	-	17,873	-	R
Loans					
Amortized cost	632,205	-	-	632,205	D
Impaired	26,575	-	-	26,575	N
Equity investments					
Available-for-sale	5,410	5,410	-	-	R
Equities at NAV[1]	30,264	-	-	-	R
Debt securities	6,723	-	-	6,723	D
Guarantees	469	-	-	469	N
Borrowings	548,496	-	548,496	-	D

[1] Equities at NAV as practical expedient are not classified within the fair value hierarchy.

[2] For disclosure purposes, the Corporation uses a December 31 measurement date to estimate the fair value of its financial instruments recorded at amortized cost.

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for financial instruments measured at fair value on a recurring basis for the six months ended June 30, 2018 and 2017 (US$ thousands):

	Changes in fair value included in earnings	
	Six months ended June 30	
	2018	2017
Corporate securities	$ 1,080	$ 1,098
Supranational securities	-	285
Government securities	1,070	436
Agency securities	-	82
Equity fund investments (LPs)	680	1,170
Total gains and losses	**$ 2,830**	**$ 3,071**

There were no transfers between levels during the six months ended June 30, 2018 (none during the six months ended June 30, 2017).

10. Contingencies

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

11. Related Party Transactions

On March 30, 2015, the Boards of Governors of the Corporation and the IDB approved the transfer to the Corporation of all operational and administrative functions associated with the IDB private sector and non-sovereign guaranteed (NSG) activities (the IDBG NSG Reform) to better serve the region, clients and partners, and to maximize developmental impact. The IDBG NSG Reform was effective on January 1, 2016. Since the effective date, the Corporation and the IDB entered into service level agreements (SLAs) whereby the Corporation provides certain services to the IDB and the IDB provides certain services to the Corporation. These services are further described in Note 11.

Co-financing Arrangements

Following the IDBG NSG Reform, all new NSG activities are originated by the Corporation and largely co-financed by the Corporation and the IDB. The Corporation and the IDB maintain separate legal and economic interests in their respective share of the loan principal balance for a co-financed loan. The Corporation's portion is defined as a percentage of the overall transaction subject to certain minimum amounts as agreed between the Corporation and the IDB.

Service Level Agreements with the IDB

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

The Corporation earns revenue from an annual renewable SLA under which the Corporation provides loan origination, credit risk evaluation and monitoring, and other loan administration services for the IDB related to its private sector operations. The Corporation recognized revenue of $30,025 thousand for providing these services for the six months ended June 30, 2018 ($31,206 thousand for the six months ended June 30, 2017). These amounts are included in Service fees from related parties in the statement of income.

The Corporation purchases various general and administrative services from the IDB under a series of annual renewable SLAs. The Corporation incurred expenses of $6,476 thousand for receiving these SLA services from the IDB for the six months ended June 30, 2018 ($5,622 thousand for the six months ended June 30, 2017) that are included in Administrative expenses in the statement of income. Payables due to the IDB were $10,332 thousand as of June 30, 2018 ($7,236 thousand as of December 31, 2017). Refer to Note 6.

Office Space

The Corporation has entered into office space leases with the IDB. Expenses incurred for those leases amounted to $2,181 thousand for the six months ended June 30, 2018 ($2,048 thousand for the six months ended June 30, 2017). The current lease agreements with the IDB will expire between 2020 and 2022.

Expected payments under the current lease agreements with the IDB are as follows (US$ thousands):

	2018	2019	2020	2021	2022
Office space	$ 2,181	$ 4,211	$ 4,127	$ 4,046	$ 3,921
Total	**$ 2,181**	**$ 4,211**	**$ 4,127**	**$ 4,046**	**$ 3,921**

Other Transactions with the IDB Group Entities

The Corporation also earned $828 thousand for providing advisory services to IDB Group entities for the six months ended June 30, 2018 ($438 thousand for the six months ended June 30, 2017).

As of June 30, 2018, the Corporation holds one $10,000 thousand face value floating rate note from the IDB included in the available-for-sale investment securities portfolio. Refer to Note 3.

As of June 30, 2018, and December 31, 2017, the Corporation had borrowed $100,000 thousand from the IDB credit facility. Refer to Note 7.

Management of External Funds

The Corporation administers on behalf of other entities, which include donors and member countries, funds restricted for specific uses that include the co-financing of certain projects, technical studies for borrowers, project-related studies, and research and training programs. These funds are held in trust by the Corporation and are not commingled with the Corporation's funds, nor are they included in the assets of the Corporation. The Corporation receives a management fee that is generally a percentage of the funds received. This fee is included in Service fees from related parties in the statement of income.

In addition to the aforementioned administration of IIC donor and member countries' funds, effective January 1, 2016, the Corporation has access to certain IDB funds and funds administered by the IDB used mainly to co-finance projects between the Corporation and the IDB and to fund technical assistance activities, as described below.

General Access and Administration Agreement with the IDB related to IDB Trust Funds (Access Agreement)

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

The Trust Fund organizational documents provide for either the payment of a lump sum or scheduled payments. The timing of the payments may not correspond to the incurrence of the related costs. For the six months ended June 30, 2018, the IDB remitted payments of $2,855 thousand for project administration and general administrative services (none for the six months ended June 30, 2017).

For the six months ended June 30, 2018, the Corporation recognized revenue related to providing services of $886 thousand. As of June 30, 2018, the Corporation has deferred revenue of $11,276 thousand related to these services ($9,307 thousand as of December 31, 2017), which will be recognized as revenue as services are provided over a 15 to 20 year period. Deferred revenue is presented as a component of Accounts payable and other liabilities in the balance sheet.

12. Pension and Postretirement Benefit Plans

Both the IDB and the Corporation are sponsors of the Pension Plans and PRBP and each employer presents its respective share of these plans using a December 31 measurement date. The Corporation recognizes actuarial gains and losses on the Pension Plans and the PRBP through Other comprehensive income/(loss) at the end of each calendar year, when the pension liabilities are remeasured.

All contributions are made in cash during the fourth quarter of the year. As of June 30, 2018, the estimate of contributions expected to be paid for the year 2018 are $6,618 thousand to the Pension Plans, and $3,834

thousand to the PRBP, the same amounts disclosed in the December 31, 2017 financial statements. Contributions for 2017 were $5,528 thousand to the Pension Plans and $3,578 thousand to the PRBP.

Net periodic benefit costs are included under Pension Plans and Postretirement Benefit expense in the statement of income. The following table summarizes the net periodic benefit costs associated with the Pension Plans and the PRPB for the six months ended June 30, 2018 and 2017 (US$ thousands).

	Six months ended June 30			
	Pension Plans		PRBP	
	2018	2017	2018	2017
Service cost	$ 6,776	$ 4,834	$ 2,600	$ 2,200
Interest cost	3,950	3,646	2,750	2,400
Expected return on plan assets [(1)]	(5,089)	(4,604)	(3,700)	(3,350)
Amortization of:				
Unrecognized net actuarial loss	694	191	1,100	450
Prior service (credit)/cost	-	-	(200)	(200)
Net periodic benefit cost	**$ 6,331**	**$ 4,067**	**$ 2,550**	**$ 1,500**

[(1)] The expected return on plan assets is 6.00% in 2018 and 2017.

13. Subsequent Events

Management has evaluated subsequent events through September 4, 2018, which is the date the financial statements were issued. Management determined that except as set forth below, there are no subsequent events that require disclosure under ASC Topic 855, *Subsequent Events*.

On July 24, 2018, the Corporation issued a seven-year senior note under the Euro Medium Term Note Program in the amount of US$50 million (144 billion Colombian pesos) at a fixed rate of 6.60%.