

# Annual Report **2008**

Inter-American Development Bank



Financial Statements and General Appendices







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## Letter of Transmittal

As required under the By-laws of the Inter-American Development Bank, the Board of Executive Directors hereby submits to the Board of Governors the Annual Report of the Bank for 2008. The two-volume report contains a review of the Bank's operations in 2008 (loans, guarantees and grants) and, in a

separate volume, Management's Discussion and Analysis: Ordinary Capital; the financial statements of the Bank; and general appendices.

February 25, 2009

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**COVER PHOTO: Young entrepreneurs harvest coffee cherries in Colombia. They are increasing their productivity and exports through innovation in marketing, production processes, and business models, in response to new trends in the international coffee market.**

*Photo by Patricia Rincon Mautner*

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**Management's Discussion and Analysis:**  
**Ordinary Capital**





## FINANCIAL OVERVIEW

*Unless otherwise indicated, all information provided in this Management's Discussion and Analysis refers to the Bank's Ordinary Capital.*

The purpose of the Bank is to further the economic and social development of Latin America and the Caribbean by promoting environmentally sustainable growth, as well as poverty reduction and social equity. The Bank is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank (the Agreement), and is owned by its member countries. These members include 26 borrowing member countries and 21 non-borrowing member countries<sup>1</sup>. The five largest members by shareholdings are the United States, Argentina, Brazil, Mexico and Venezuela.

The resources of the Bank consist of the Ordinary Capital, the Fund for Special Operations (FSO), the Intermediate Financing Facility Account (IFF) and the IDB Grant Facility (GRF). All information provided in this Management's Discussion and Analysis refers to the Bank's Ordinary Capital.

The financial strength of the Bank is based on the support it receives from its members and on its financial policies and practices. Member support is reflected in the capital backing received and in the diligence with which borrowing members meet their debt-service obligations. Prudent financial policies and practices have led the Bank to build its retained earnings, diversify its funding sources, hold a large portfolio of liquid investments and limit a variety of risks, including credit, market and liquidity risks. The objective of the Bank is to earn an adequate level of income to preserve its financial strength and sustain its development activities. **Box 1** presents selected financial data for the last five years.

The principal assets are loans to member countries. As of December 31, 2008, 95% of loans outstanding were sovereign-guaranteed. Up to 10% of outstanding loans and guarantees, not including emergency lending and loans under the Liquidity Program for Growth Sustainability (Liquidity Program), may be made directly to private sector and (as of August 2006) sub-sovereign entities ("eligible entities") without a sovereign guarantee ("non-sovereign-guaranteed operations"), subject to certain limits.

The Bank issues debt securities in a variety of currencies, maturities, structures, and formats to investors worldwide. These borrowings, together with the Bank's equity, are used to fund lending and investment activities, as well as general operations.

Assets and liabilities are held primarily in United States dollars, euro, Japanese yen and Swiss francs. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets. The reported levels of assets, liabilities, income and expense are affected by exchange rate movements between such major currencies and the reporting currency, the United States dollar. The Bank matches the currencies of its equity with those of its loans; thus fluctuations

in exchange rates do not significantly impact its risk-bearing capacity.

### Financial Highlights

During 2008, the Bank approved 131 loans amounting to \$11.1 billion, including two loans for \$900 million under the new Liquidity Program, compared to 89 loans that totaled \$7.7 billion in 2007. The increase in loan approvals was due to an increase in investment, policy-based and non-sovereign-guaranteed lending as well as approvals under the Liquidity Program. Also, disbursements in 2008 totaled the equivalent of \$7.1 billion, higher than the \$6.7 billion disbursed in 2007. The undisbursed portion of approved loans increased to \$19.8 billion at year-end 2008 from \$16.4 billion at year-end 2007.

During the year, one non-trade related guarantee without a sovereign counter-guarantee was approved for \$10 million compared to four guarantees for \$900 million in 2007. In addition, 136 trade finance guarantees in the aggregate amount of \$203 million were issued (2007—68 guarantees in the aggregate amount of \$135 million).

In November 2008, the Board of Governors approved the creation of the Liquidity Program, a program for loans approved by December 31, 2009 within the Bank's emergency lending category, of up to \$6 billion, designed to help borrowing member countries address the effects of the current international financial crisis on the region's economic and social progress by protecting the flow of credit to the economy through financial institutions. As of December 31, 2008, loans of \$900 million had been approved under this Program.

The portfolio of non-sovereign-guaranteed loans increased \$1.2 billion to a level of \$2.4 billion compared to \$1.2 billion at December 31, 2007. In addition, the non-sovereign guarantee exposure increased \$347 million to \$870 million compared to \$523 million the previous year. This reflects the Bank's increased emphasis in its non-sovereign-guaranteed operations. As of December 31, 2008, 6.3% of outstanding loans and guarantees, not including emergency lending and loans under the Liquidity Program, were non-sovereign-guaranteed, compared to 3.5% at December 31, 2007.

Earlier in 2008, the Bank approved a non-sovereign-guaranteed loan in a borrowing member country; a constitutional challenge against the internal governmental approval process for said loan was filed. In September 2008, the constitutional court of the member country where the project being financed by the loan is located declared that the governmental decrees approving the Bank financing were unconstitutional. All amounts due under the loan continue to be received pursuant to the terms of the loan agreement. Management is engaged in ongoing discussions with the relevant parties and authorities regarding the loan. As of December 31, 2008, the outstanding balance of this loan amounted to \$288 million. Management declared this loan as impaired and has established an allowance for loan losses of \$55 million.

Total allowances for loan and guarantee losses amounted to \$169 million at December 31, 2008 compared to \$70 million in 2007. The increase was substantially due to the growth in the

<sup>1</sup>On January 12, 2009, the People's Republic of China became the 22nd non-borrowing member country of the Bank.

non-sovereign-guaranteed operations and the loan declared as impaired at the end of the year.

In 2008, the Bank issued medium- and long-term debt securities for a total face amount of \$11.1 billion equivalent (2007—\$6.1 billion), that generated proceeds of \$10.7 billion equivalent (2007—\$5.5 billion) and had an average life of 4.8 years (2007—7.9 years). Such debt securities were issued through a strategy of combining large global benchmark bonds with smaller transactions targeted to particular segments of demand. The increase in borrowings was mostly due to increased debt repayments and a net increase in the outstanding loan balance (disbursements net of collections), as well as opportunities for pre-funding of expected disbursements in 2009, mostly related to the Liquidity Program.

The reported income volatility resulting from changes in fair value of non-trading derivatives and borrowings measured at fair value is not representative of the underlying economics of the borrowing transactions as the Bank generally holds its bonds and related swaps to maturity. Accordingly, the Bank defines Income (loss) before net unrealized gains and losses on non-trading derivatives and borrowings measured at fair value<sup>2</sup> (previously Effects of SFAS 133<sup>3</sup> and currency transaction adjustments) as “Operating Income (Loss)”, which is more representative of the results of the Bank’s operations. Net unrealized gains and losses on non-trading derivatives and borrowings measured at fair value are reported separately in the Statement of Income and Retained Earnings, and are excluded from the determination of ratios and other financial parameters.

Operating Loss for 2008 was \$972 million compared to Operating Income of \$283 million in 2007. This income reduction of \$1.3 billion was substantially due to unrealized losses of \$1.6 billion in the trading investments portfolio compared to \$280 million in 2007. Since the current credit crisis began in July 2007, the Bank has realized losses of \$79 million (relative to purchased price), related to a restructuring of \$66 million of asset-backed commercial paper and to selective asset sales at discounted prices. As of December 31, 2008, all trading investment portfolio assets are performing, except an asset-backed commercial paper with a fair value of \$13 million.

The financial markets crisis that began in July 2007 worsened in 2008. The effect of the crisis, characterized by lack of liquidity, higher volatility, and widening of credit spreads, has continued to affect the Bank’s ability to mitigate its credit risk by selling or hedging its exposures. Valuations continue to be impacted by market factors, such as rating agency actions and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

Substantially all investments are held in high-quality securities. Investment losses substantially relate to the \$4.2 billion asset-backed and mortgage-backed securities portion of the

trading investments portfolio, most of which remained AAA rated. During 2008, the Bank’s holdings of these securities were reduced by repayments at par of \$753 million. For further information, refer to the Liquidity Management section of this Management’s Discussion and Analysis.

Loan charges are established periodically by the Board of Executive Directors as part of its review of the Bank’s lending charges, in accordance with the applicable provisions of the Bank’s policy on lending rate methodology for Ordinary Capital loans. During the first semester of 2008, the Board of Executive Directors maintained the same level of loan charges as the second semester of 2007, at 0.15% lending spread, 0.10% credit commission and no supervision and inspection fee. For the second semester of 2008 and first semester of 2009, standard loan charges were approved, at 0.30% lending spread, 0.25% credit commission and no supervision and inspection fee.

Changes in market interest rates generally do not significantly affect Operating Income, as a substantial amount of the loans are cost pass-through loans, and the Bank matches the interest rate structures of its liquid assets and the liabilities funding them.

Effective January 1, 2008, Management approved the election of the fair value option provided by Statement of Financial Accounting Standards (SFAS) 159 “The Fair Value Option for Financial Assets and Financial Liabilities” for certain medium- and long-term debt (i.e., borrowings funding floating rate assets) with the primary purpose of reducing the income volatility resulting from previously accounting for its borrowings at amortized cost and, as required by SFAS 133, its borrowing swaps at fair value, with changes in fair value recognized in income. For further information, refer to Notes I and K to the financial statements.

Net unrealized gains on the Bank’s non-trading derivatives due to changes in interest rates were \$2.9 billion for the year mainly due to an overall decrease in swap interest rates in the global markets, compared to year-end 2007 levels. These gains were partially compensated by net unrealized losses of \$2 billion on borrowings elected under the fair value option resulting from changes in interest rates. Substantially all this income volatility, which amounted to a net gain of \$939 million for the year, resulted from an overall increase in the Bank’s credit spreads at the end of the year. The financial market turmoil has led to a crisis of confidence that has negatively affected all credit spread products. Consequently, the Bank’s credit spreads have widened compared to the end of 2007 levels due, in part, to competition from comparably rated government guaranteed financial institutions issuing at wider spread levels than those typically obtained by the Bank in the past.

The Bank manages its financial condition by monitoring certain financial ratios, in particular the Total Equity to Loans Ratio or TELR<sup>4</sup>. The TELR at December 31, 2008, was 35.3%

<sup>2</sup>References to captions in the financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in this Management’s Discussion and Analysis.

<sup>3</sup>Refers to SFAS 133 “Accounting for Derivative Instruments and Hedging Activities”, along with its related amendments.

<sup>4</sup>The TELR is the ratio of the sum of “equity” (defined as Paid-in capital stock, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries’ local currency cash balances, net receivable from members (but not net payable to members), Postretirement benefit assets (but not benefit liabilities) and the cumulative impact of Net unrealized gains (losses) on non-trading derivatives and borrowing measured at fair value) to outstanding loans and net guarantee exposure.

compared with 40.2% at December 31, 2007, with the decrease mainly due to an increase in loans outstanding and net guarantee exposure of \$3.6 billion, and a decrease in equity used in TELR of \$1.1 billion, reflecting mostly operating losses of \$972 million, the one-time write-off of previously deferred borrowing issue costs of \$163 million against beginning retained earnings, as part of the implementation of SFAS 159, and the exclusion from the calculation of Postretirement benefit liabilities of \$410 million in 2008, that were partially offset by positive translation adjustments of \$396 million.

United States generally accepted accounting principles (GAAP) require the Bank to fully recognize in the Balance Sheet an asset for its Pension and Postretirement Benefit Plans ("Plans")

overfunded status (or a liability if the Plans are underfunded) through comprehensive income. The funded status of the Bank's Plans is established annually by subtracting the Plans' benefit obligations from the fair value of the Plans' assets. At December 31, 2008, the Balance Sheet shows Postretirement benefit liabilities of \$410 million compared with Postretirement benefit assets of \$973 million at December 31, 2007. The reduction in the funded status of the Plans of \$1.4 billion reflects a decrease in the Plans' assets of \$1.2 billion, mostly resulting from investment losses, and the expected growth in benefit obligations. At December 31, 2008, the Plans' assets represented 88% of the benefit obligations compared with 130% at the end of the prior year. For further information, refer to Note P of the financial statements.

The above information is qualified by the detailed information appearing elsewhere in this Management's Discussion and Analysis and the financial statements of the Ordinary Capital included in the Annual Report. In addition, this Management's Discussion and Analysis contains forward-looking information, which may be identified by such terms as "believes", "expects", "intends" or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond the Bank's control. Consequently, actual future results could differ materially from those currently anticipated. The Bank undertakes no obligation to update any forward-looking statements.

### Box 1: Selected Financial Data

The following information is based upon, and should be read in conjunction with, the detailed information appearing in this Management's Discussion and Analysis and the financial statements of the Ordinary Capital included in this Annual Report.

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2008	2007	2006	2005	2004
<b>Operational Highlights</b>					
Loans and guarantees approved <sup>(1)</sup> . . . . .	\$11,085	\$ 8,577	\$ 5,632	\$ 6,448	\$ 5,468
Gross loan disbursements . . . . .	7,149	6,725	6,088	4,899	3,768
Net loan disbursements <sup>(2)</sup> . . . . .	2,409	1,460	(2,527)	(325)	(1,431)
<b>Balance Sheet Data</b>					
Cash and investments-net <sup>(3)</sup> , after swaps	\$16,371	\$16,301	\$16,051	\$13,717	\$13,046
Loans outstanding . . . . .	51,173	47,954	45,932	48,135	49,842
Undisbursed portion of approved loans . .	19,820	16,428	16,080	17,000	16,093
Total assets . . . . .	72,510	69,907	66,475	65,382	67,346
Borrowings outstanding, after swaps . . .	47,779	45,036	43,550	43,988	45,144
Equity					
Callable capital stock . . . . .	96,599	96,613	96,613	96,613	96,611
(of which, subscribed by United States, Japan, Canada and the other nonregional members) . . . . .	48,287	48,302	48,302	48,302	48,300
Paid-in capital stock . . . . .	4,339	4,340	4,340	4,340	4,340
Retained earnings <sup>(4)</sup> . . . . .	15,105	16,013	15,468	14,387	14,171
Total equity . . . . .	19,444	20,353	19,808	18,727	18,511
<b>Income Statement Data</b>					
Loan income . . . . .	\$ 2,355	\$ 2,436	\$ 2,466	\$ 2,413	\$ 2,498
Investment income (loss) . . . . .	(973)	487	619	403	288
Borrowing expenses, after swaps . . . . .	1,764	2,135	2,070	1,733	1,572
Loan and guarantee loss provision (credit) . . . . .	93	(13)	(48)	(14)	21
Net non-interest expense . . . . .	497	518	436	385	331
Operating Income (Loss) . . . . .	(972)	283	627	712	862
Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value <sup>(5)</sup> . . . . .	950	(149)	(384)	50	314
Net income (loss) . . . . .	(22)	134	243	762	1,176
<b>Ratios</b>					
Net borrowings <sup>(6)</sup> as a percentage of callable capital stock subscribed by United States, Japan, Canada and the other nonregional members . . . . .	67.4%	61.2%	57.9%	63.5%	67.3%
Interest coverage ratio <sup>(7)</sup> . . . . .	0.45	1.13	1.30	1.41	1.55
Total equity <sup>(8)</sup> to loans <sup>(9)</sup> ratio (TELR) . . . . .	35.3%	40.2%	40.8%	37.3%	36.1%
Cash and investments as a percentage of borrowings outstanding, after swaps . . . . .	34.3%	36.2%	36.9%	31.2%	28.9%
<b>Returns and Costs, after swaps</b>					
Return on:					
Average loans outstanding . . . . .	4.85%	5.35%	5.22%	5.04%	5.02%
Average liquid investments . . . . .	(5.27%)	2.93%	4.39%	3.29%	2.17%
Average earning assets . . . . .	2.14%	4.69%	5.02%	4.68%	4.42%
Average cost of:					
Borrowings outstanding during the year	3.84%	4.92%	4.78%	4.07%	3.40%
Total funds available . . . . .	2.66%	3.36%	3.40%	2.92%	2.53%
<b>Term Duration (in years)</b>					
Investments and loans . . . . .	5.26	4.65	4.49	4.41	4.36
Debt . . . . .	3.65	3.87	3.89	4.00	4.15

<sup>(1)</sup> Years 2005 to 2007 previously included lines of credit approved under the Trade Finance Facilitation Program.

<sup>(2)</sup> Includes gross loan disbursements less principal repayments.

<sup>(3)</sup> Net of payable and receivable for investment securities purchased or sold.

<sup>(4)</sup> Includes Accumulated other comprehensive income.

<sup>(5)</sup> Previously known as Effects of SFAS 133 and currency transaction adjustments. Effective January 1, 2008, the Bank elected to account at fair value a substantial amount of its borrowings, as allowed by SFAS 159, with changes in fair value recognized in income. Following the provisions of SFAS 159, previous periods have not been restated.

<sup>(6)</sup> Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps) and the special reserve assets.

<sup>(7)</sup> The interest coverage ratio is computed using Operating Income (Loss).

<sup>(8)</sup> Paid-in capital stock, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries' local currency cash balances, net receivable from members (but not net payable to members), Postretirement benefit assets (but not Postretirement benefit liabilities) and the cumulative effects of net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value (previously Effects of SFAS 133 and currency transaction adjustments).

<sup>(9)</sup> Includes loans outstanding and net guarantee exposure.

## DEVELOPMENT OPERATIONS

### General

The Bank offers loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. Loans and guarantees may also be made directly to private sector entities carrying out projects in the territories of borrowing member countries or sub-sovereign entities, without a sovereign guarantee and in all sectors, provided they meet the Bank's lending criteria. The Bank also provides financing to borrowing member countries for non-reimbursable and contingent recovery assistance that is aligned with its overall strategy for the region.

### Development Objectives

The Bank's two main goals are to promote sustainable growth, as well as poverty reduction and social equity. To attain these goals, the Bank focuses its work on four priority areas:

- Fostering competitiveness through support for policies and programs that increase a country's potential for development in an open global economy.
- Modernizing the state by strengthening the efficiency and transparency of public institutions.
- Investing in social programs that expand opportunities for the poor.
- Promoting regional economic integration by forging links among countries to develop larger markets for their goods and services.

### Lending Cycle

The process of identifying and assessing a project and approving and disbursing a loan often extends over several years, depending on the nature, objective and purpose of the individual project. However, on numerous occasions the Bank has shortened the preparation and approval cycle in response to emergency situations such as natural disasters or economic crises. Generally, the Bank's operational staff (economists, engineers, financial analysts and other sector and country specialists) assess the projects. With certain exceptions, the Bank's Board of Executive Directors must approve each loan.

Loan disbursements are subject to the fulfillment of conditions set forth in the loan agreement. During implementation of the Bank-supported operations, experienced Bank staff review progress, monitor compliance with Bank policies and assist in resolving any problems that may arise. An independent Bank unit, the Office of Evaluation and Oversight, pursuant to an annual work plan approved by the Board of Executive Directors, evaluates some operations to determine the extent to which they have met their major objectives, and these evaluations are reported directly to the Board of Executive Directors.

The Bank's lending operations conform to certain principles that, when combined, seek to ensure that loans made to member countries are for financially and economically sound purposes to which these countries have assigned high priority, and that funds lent are utilized as intended. These principles are detailed in **Box 2**.

### Loans

The Bank's sovereign-guaranteed lending generally falls into one of two categories: investment loans for specific projects,

### Box 2: Lending Operations Principles

- (i) The Bank makes sovereign-guaranteed loans and guarantees primarily to the public sector governments, as well as governmental entities, enterprises, and development institutions of its borrowing members. In addition, the Bank makes non-sovereign-guaranteed loans and guarantees to eligible entities.
- (ii) Loan applicants must submit a detailed proposal to the Bank specifying the technical, economic and financial merits of the project. The proposal must include an evaluation of the project's expected environmental risks or impact and proposed mitigation measures as well as its impact on women and indigenous groups, as applicable.
- (iii) The Bank neither renegotiates nor takes part in debt rescheduling agreements with respect to its sovereign-guaranteed loans.
- (iv) Loan agreements typically include a negative pledge clause that generally prohibits a borrower from creating any encumbrances on its assets or revenues with respect to its foreign currency debt, unless the Bank is equally and proportionally secured. The Board of Executive Directors has granted limited waivers in the past.
- (v) In making loans, the Bank evaluates the capacity of the borrower to carry out its financial obligations under the loan agreement, the prevailing macroeconomic climate and debt burden of the country, and policy and institutional issues relevant to the loan.
- (vi) The Bank considers the ability of the borrower to obtain private financing under reasonable terms and conditions. The Bank serves as a catalyst to promote private investment, not to compete with it.
- (vii) The use of loan proceeds is supervised. Bank staff monitor and supervise the on-going progress with respect to the development objectives of each operation through the Bank's Country Offices in each of its 26 borrowing member countries, and fiduciary arrangements are in place to ensure proper use of Bank resources to achieve the operation's objectives.



including loans to intermediaries for on-lending purposes, or policy-based loans. Investment lending is generally used to finance goods, works and services in support of economic and social development projects in a broad range of sectors. Policy-based lending generally supports social, structural and institutional reforms with the aim of improving specific sectors of the borrowers' economies and promoting sustainable growth. These loans support the following economic sectors: energy, industry and mining, agriculture and fisheries, transportation and communications, trade finance, education, science and technology, water, sanitation and health, tourism, urban development, planning and reform, modernization of the state and the environment, as well as project preparation. The Bank has also instituted emergency lending and liquidity programs to address financial or economic crises.

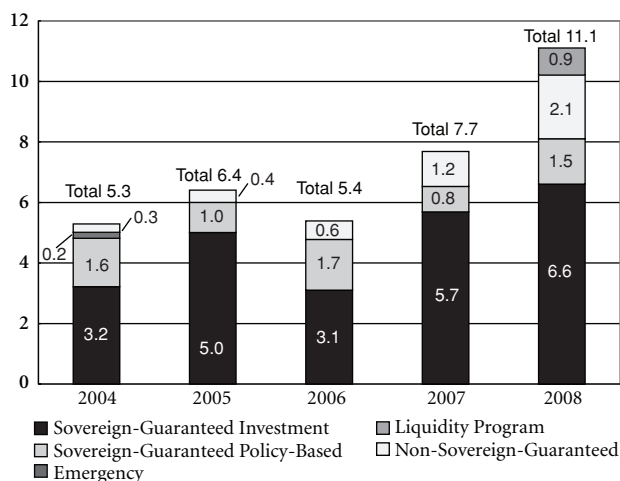
In November 2008, the Board of Governors approved the creation of the Liquidity Program, a program for loans approved by December 31, 2009 within the Bank's emergency lending category, of up to \$6 billion, designed to help borrowing member countries address the effects of the current international financial crisis on the region's economic and social progress by protecting the flow of credit to the economy through financial institutions.

In addition, the Bank lends directly to eligible entities without a sovereign guarantee for the financing of investments for transactions in all sectors, subject to an exclusion list. These loans and guarantees are made on the basis of market-based pricing, are subject to certain eligibility requirements and cannot exceed 10% of the Bank's outstanding loans and guarantees, excluding emergency lending and loans under the Liquidity Program. Such non-sovereign-guaranteed loans and guarantees are also subject to certain limits, including a ceiling on financing the lesser of \$200 million or 50% of the total project cost for expansion projects and credit guarantees, subject to such financing not exceeding 25% (certain countries 40%) of a company's total capitalization of debt and equity, and 25% of the total project cost (certain countries 40%) for new projects. The Bank can also provide political risk guarantees of up to the lesser of \$200 million or 50% of the total project cost. In exceptional circumstances, the Board of Executive Directors may approve loans and credit and political guarantees of up to \$400 million. In addition, the Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed 2.5% of the Bank's equity at the time of approval.

**Figure 1** presents a breakdown of approvals by loan type during the last five years. Over the past five years, sovereign-guaranteed investment lending per year has fluctuated between \$3.1 billion and \$6.6 billion, policy-based lending between \$0.8 billion and \$1.7 billion, and non-sovereign-guaranteed lending between \$0.3 billion and \$2.1 billion. Emergency loan approvals amounted to \$0.2 billion in 2004, with no approvals thereafter. Approvals under the new Liquidity Program amounted \$0.9 billion in 2008.

During 2008, loan approvals totaled \$11.1 billion (2007—\$7.7 billion). A summary of loan approvals by country during 2008 and 2007 appears in **Table 1**. Loan approvals increased during 2008 due to \$0.9 billion more investment loans, \$0.7

**Figure 1: LOAN APPROVALS BY TYPE**  
For the years ended December 31, 2004 through 2008  
(Expressed in billions of United States dollars)



billion more policy-based loans and \$0.9 billion more non-sovereign-guaranteed loans, than in 2007, as well as \$0.9 billion loans approved under the new Liquidity Program. The total amount of loans and guarantees approved in 2008, when combined with the approvals during 2005–2007, was in compliance with the lending limits set up under the new lending framework

**Table 1: LOAN APPROVALS BY COUNTRY<sup>(1)</sup>**  
For the years ended December 31, 2008 and 2007  
(Expressed in millions of United States dollars)

COUNTRY	2008	2007
Argentina.....	\$ 1,186	\$2,484
Bahamas.....	100	—
Barbados.....	41	5
Belize.....	24	—
Bolivia.....	56	52
Brazil.....	3,303	1,445
Chile.....	581	119
Colombia.....	1,074	731
Costa Rica.....	860	450
Dominican Republic.....	40	80
Ecuador.....	50	425
El Salvador.....	544	—
Guatemala.....	279	193
Guyana.....	16	17
Honduras.....	79	68
Jamaica.....	205	—
Mexico.....	1,095	250
Nicaragua.....	40	40
Panama.....	600	176
Paraguay.....	82	52
Peru.....	215	831
Suriname.....	72	7
Trinidad and Tobago.....	25	—
Uruguay.....	383	102
Venezuela.....	—	150
Regional.....	125	—
Total.....	\$11,075	\$7,677

<sup>(1)</sup> Includes non-sovereign-guaranteed loans.

for 2005–2008, after adjustment for the transfer of available resources from policy-based lending to investment lending approved by the Board of Governors in May 2008.

At December 31, 2008, the total volume of outstanding loans was \$51.2 billion, \$3.2 billion higher than the \$48.0 billion at December 31, 2007. This increase was mainly due to a higher level of loan disbursements (\$7.1 billion) than collections (\$4.7 billion, including prepayments of \$0.3 billion) and positive currency translation adjustments of \$0.8 billion. Undisbursed balances at December 31, 2008, totaled \$19.8 billion, an increase of \$3.4 billion from December 31, 2007. This change was mainly due to higher loan approvals than disbursements and cancellations.

During 2008, the portfolio of non-sovereign-guaranteed loans increased \$1.2 billion to a level of \$2.4 billion compared to \$1.2 billion at December 31, 2007. In addition, the non-sovereign guarantee exposure increased \$347 million to \$870 million compared to \$523 million the previous year. This increase reflects the Bank's increased emphasis in its non-sovereign-guaranteed operations. As of December 31, 2008, 6.3% of outstanding loans and guarantees, not including emergency lending and loans under the Liquidity Program, were non-sovereign-guaranteed, compared to 3.5% at December 31, 2007.

Under the Agreement, the total amount of outstanding loans and guarantees may not exceed, at any time, the total amount of subscribed capital, plus reserves and surplus, exclusive of income assigned to certain reserves, including a special reserve to meet borrowings and guarantee obligations. The Bank's policy, however, is more stringent and limits the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital stock of non-borrowing member countries. At December 31, 2008, the total amount of loans outstanding and gross guarantee exposure as a percentage of the policy limit of \$64.1 billion, after excluding the cumulative effects of Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value (previously, Effects of SFAS 133 and currency transaction adjustments), was 81.3% compared to 73.3% in 2007.

A summary statement of loans outstanding by country at December 31, 2008 and 2007 is set forth in Appendix I-3 to the financial statements.

## Financial Terms of Loans

### *Currently Available Financial Terms*

The Bank currently offers a product mix that provides borrowers with flexibility to select terms that are compatible with their debt management strategy. **Table 2** presents the currently available financial terms for sovereign-guaranteed loans. As of December 31, 2008, the Bank offers two basic types of loans, each denominated in the currency or currencies chosen by the borrower, as available under the programs: Single Currency Facility

(SCF) adjustable rate and SCF LIBOR-based loans. SCF adjustable rate loans, introduced in 1996, have an interest rate that is adjusted every six months to reflect the currency-specific effective cost of the pool of borrowings allocated to such loans, plus the Bank's spread. The SCF LIBOR-based loans, introduced in 2003, have an interest rate that is adjusted quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's funding cost, as well as the Bank's spread. Effective June 20, 2007, the Bank offers its borrowers an option to convert their SCF LIBOR loan balances to fixed rate. The Bank also offers emergency loans as well as loans under the Liquidity Program with sovereign guarantee.

The Bank offers loans to eligible entities without sovereign guarantees, under various terms. Non-sovereign-guaranteed loans can be denominated in United States dollars, Japanese yen, euro, Swiss franc or local currency, and borrowers have the option of either fixed interest rate loans or floating rate loans. For floating rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus the lending spread. Lending spreads and fees are set on a case-by-case basis.

Under the enhanced Local Currency Facility (LCF) approved in 2008, public and private sector borrowers have the option to receive local currency financing under three different modalities: i) direct local currency financing or conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency disbursement of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. Outstanding loan balances in the LCF can carry a fixed, floating or inflation-linked interest rate. At December 31, 2008, the Bank had local currency loans outstanding of \$245 million, which were swapped back-to-back to United States dollars.

### *Previously Available Financial Terms*

In previous years, the Bank offered loans under a Currency Pooling System (CPS) established in 1982 and discontinued in 2003. The Bank maintains a targeted currency composition in the CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. Loans approved prior to 1989 carry a fixed interest rate while loans approved from 1990 to 2003 carry an adjustable rate. The adjustable rate, which resets twice a year, represents the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's spread. At December 31, 2008, these loans represented 26% (2007—30%) of loans outstanding.

Up to June 2007, the Bank also offered fixed rate and LIBOR-based U.S. Dollar Window Program loans with sovereign guarantee, destined for on-lending to private sector borrowers.

**Table 2: CURRENTLY AVAILABLE FINANCIAL TERMS OF LOANS WITH SOVEREIGN GUARANTEE**

	Single Currency Facility		Local Currency Facility	Emergency Lending and Liquidity Program
<b>Interest rate option</b>	Adjustable rate loans	LIBOR-based loans <sup>(3)</sup>	Fixed, variable, inflation-linked, subject to market availability	LIBOR-based loans
<b>Currencies offered</b>	USD, EUR, JPY, CHF or a combination of these currencies		Any borrowing member currency, subject to market availability	USD
<b>Cost Base</b>	Weighted average cost of allocated debt	3-month LIBOR	Local currency equivalent of the USD projected funding cost or actual funding cost	6-month LIBOR
<b>Funding Cost Margin</b>		Weighted average cost margin of debt allocated to this product		
<b>Lending Spread<sup>(1)(2)</sup></b>	30	30	30	400
<b>Credit commission<sup>(1)(2)</sup></b>	25	25	25	75
<b>Supervision and inspection fee<sup>(1)(2)</sup></b>	0	0	0	Not applicable
<b>Front-end fee<sup>(1)</sup></b>	Not applicable	Not applicable	Not applicable	100
<b>Maturity<sup>(4)</sup></b>	15–25 years		15–25 years, subject to market availability <sup>(5)</sup>	5 years
<b>Grace Period<sup>(4)</sup></b>	For investment loans: 6 months after original disbursement period. For policy-based loans: 5 years.			3 years

<sup>(1)</sup> Loan charges expressed in basis points (bps).

<sup>(2)</sup> Loan charges on sovereign-guaranteed loans, excluding emergency lending and loans under the Liquidity Program, are established periodically by the Board of Executive Directors. In no case can the credit commission exceed 0.75% or the inspection and supervision fee exceed, in a given six-months period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

<sup>(3)</sup> SCF LIBOR-based loan balances can be converted to fixed rate (conversion fee of 0.05%) or the LCF, subject to certain conditions.

<sup>(4)</sup> For SCF “parallel loans” (a blending of loans from the Ordinary Capital and the FSO) maturity is 30 years and grace period 6 years.

<sup>(5)</sup> The maturity of disbursements/conversions is limited by the tenors available in the market. When the maturity of the Bank’s funding in local currency is shorter than the original maturity of the loan, partial maturity disbursements/conversions will be offered, such that borrowers have the option to roll over the balance at maturity of the original funding, subject to market availability and agreement on pricing. Alternatively, the Bank offers the ability to change the original amortization schedule at time of disbursement/conversion such that (i) the weighted average life (WAL) of the revised schedule does not exceed the original WAL of the loan and (ii) the final original maturity of disbursed/converted amounts does not exceed the final maturity of the loan.

**Table 3** presents a breakdown of the loan portfolio by loan product. For more information, see Appendix I-4 to the financial statements.

Of the \$19.8 billion undisbursed loan balances at December 31, 2008, 39% pertains to the SCF-adjustable and 40% to the SCF-LIBOR-based portfolios.

**Table 3: LOANS OUTSTANDING BY LOAN PRODUCT  
December 31, 2008 and 2007**

(Amounts expressed in millions of United States dollars)

	2008		2007	
	Amount	%	Amount	%
SCF-adjustable . . . . .	\$23,132	45.2	\$22,349	46.6
SCF-LIBOR-based . . . . .	11,069	21.6	8,290	17.3
SCF-fixed . . . . .	232	0.5	—	—
SCF-local currencies-fixed . . . . .	245	0.5	147	0.3
Emergency lending . . . . .	40	0.1	630	1.3
Liquidity Program . . . . .	37	0.1	—	—
Non-sovereign-guaranteed loans . . . . .	2,433	4.8	1,168	2.4
Currency Pooling System . . . . .	13,117	25.6	14,575	30.4
U.S. Dollar Window . . . . .	632	1.2	643	1.4
Others . . . . .	236	0.4	152	0.3
<b>Total . . . . .</b>	<b>\$51,173</b>	<b>100.0</b>	<b>\$47,954</b>	<b>100.0</b>

### **Charges on Loans with Sovereign Guarantee (Excluding Emergency Lending and Loans under the Liquidity Program)**

Loan charges are established periodically by the Board of Executive Directors as part of its review of the Bank’s lending charges, in accordance with the applicable provisions of the Bank’s policy on lending rate methodology for Ordinary Capital loans. The Bank’s standard loan charges for loans made under the SCF, the LCF, the U.S. Dollar Window Program and the CPS consist of a lending spread of 0.30% per annum on the outstanding amount, a credit commission of 0.25% per annum on the undisbursed amount of the loan, and no supervision and inspection fee. During the first semester of 2008, the Board of Executive Directors maintained the same level of loan charges as the second semester of 2007, at 0.15% lending spread, 0.10% credit commission and no supervision and inspection fee. Standard loan charges were approved for the second semester of 2008. **Table 4** shows loan charges prevailing during the periods indicated.

### **Guarantees**

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the 10%



**Table 4: LOAN CHARGES**

	<b>Lending spread %</b>	<b>Credit commission %</b>	<b>Supervision and inspection fee %</b>
<b>2006:</b>			
First semester . . . . .	0.10	0.10	—
Second semester . . . . .	0.15	0.10	—
<b>2007:</b>			
First semester . . . . .	0.15	0.10	—
Second semester . . . . .	0.15	0.10	—
<b>2008:</b>			
First semester . . . . .	0.15	0.10	—
Second semester . . . . .	0.30	0.25	—

limit established for non-sovereign-guaranteed operations, or with a member country sovereign counter-guarantee. These guarantees are denominated in United States dollars or in local currency. Regardless of the currency in which a guarantee is denominated, the Bank's exposure is, in all cases, capped at an amount in United States dollars determined at the time each guarantee is approved.

As part of its non-sovereign-guaranteed lending activities, the Bank has issued political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. Political risk guarantees cover specific risk events related to noncommercial factors (such as currency convertibility, transferability of currencies outside the host country, and government non-performance). Partial credit guarantees cover payment risks for debt obligations or trade-finance transactions. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project, the terms of debt issuances or trade-finance transactions. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee exposure is measured as the future guaranteed cash flows, net of reinsurance, when applicable, discounted to the current period.

During 2008, one non-trade-related guarantee without a sovereign counter-guarantee was approved for \$10 million compared to four guarantees for \$900 million in 2007. The Bank's Trade Finance Facilitation Program (TFFP) provides credit guarantees without sovereign counter-guarantees on trade-finance transactions. This Program, which began to operate in 2005, authorizes lines of credit in support of approved issuing banks, with an aggregate program limit of up to \$1 billion outstanding at any time. During 2008, 136 trade-finance guarantees in the aggregate amount of \$203 million were issued. This compares with 68 guarantees in the aggregate amount of \$135 million issued in 2007.

As of December 31, 2008, guarantees of \$1,035 million (2007—\$689 million), including \$141 million issued under the TFFP (2007—\$99 million), were outstanding and subject to

call. No guarantees have ever been called. The net present value of guarantee exposure on non-sovereign guarantees, net of reinsurance, which is the amount counted towards the non-sovereign-guaranteed operations 10% limit, was \$870 million at December 31, 2008 (2007—\$523 million).

## LIQUIDITY MANAGEMENT

The Bank invests its liquid assets in highly rated securities and bank deposits. These instruments include obligations of highly-rated governments, government agencies, multilateral organizations, financial institutions, and corporate entities, including asset-backed securities. In addition, the Bank uses derivatives, mostly currency and interest rate swaps, to manage its investment portfolios.

Liquidity plays a key role in the management of the Bank's funding risks by addressing the risk that the Bank may not have adequate funds to meet both future loan disbursement and debt service obligations. The objective of liquidity management is to ensure that adequate resources are available to meet anticipated contractual obligations and to ensure uninterrupted financial operations in the event the Bank were to refrain from borrowing in response to unattractive market conditions or other constraints. The Bank's liquidity management principles are set forth in **Box 3**.

### Box 3: Liquidity Management Principles

The primary objective in the management of the Bank's liquidity is to limit exposure to credit, market and liquidity risks. Within the constraints determined by this primary objective, the Bank strives to maximize returns on the invested asset portfolio while limiting the volatility of the Bank's net investment income, which is the spread between investment returns and funding costs.

The Bank manages its liquidity through financial policies, instruments and guidelines, which serve as the rules, procedures and tools that define the Bank's liquidity management. The Investment Resolution approved by the Board of Executive Directors provides the basic authority within which liquidity is invested. The Investment Guidelines approved by management establish the detailed operating, compliance and monitoring conditions for the implementation of the liquidity management. Both are designed to ensure that the Bank assesses market and credit risks, and establishes investment constraints consistent with the Bank's level of risk tolerance. For information concerning the management of risk exposures on liquidity see "Financial Risk Management" below.

Under its liquidity policy, the Bank establishes yearly minimum and maximum liquidity levels, computed at 20% and 40%, respectively, of the projected year-end outstanding loan balance, and a desired level of 30%. For 2008, the liquidity level was established to range between \$9.8 billion and \$19.8 billion, with the mid-point of \$14.8 billion being the desired level. At December 31, 2008, the Bank's liquidity (largely comprised of net cash and investments, after swaps, minus short-term borrowings and borrowing countries' local currency cash balances) was \$13.2 billion. During the year, liquidity averaged \$14.7 billion compared to \$16.3 billion in 2007.

The Bank has short-term borrowing facilities that consist of a discount note program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts of not less than \$100,000, with maturities of no more than 360 days. These funding facilities are used to manage short-term cash flow needs.

Liquid investments are maintained in three distinct sub-portfolios: transactional and operational (trading investments portfolio) and held-to-maturity (HTM), each with different risk profiles and performance benchmarks. The transactional portfolio is used to meet the day-to-day cash flow requirements. The operational portfolio holds the majority of the Bank's liquid holdings. The HTM portfolio consists primarily of the special reserve assets.

Investments of up to 10% of the portfolio may be contracted out to external managers. Separate investment guidelines that conform to the Bank's overall Investment Guidelines are provided to each external manager. At December 31, 2008, the Bank had investments of \$554 million (2007—\$431 million) managed by external firms.

The returns of the liquid investment portfolios in 2008 and 2007 are shown in **Table 5**. Negative yield levels in the trading investments portfolio in 2008, as compared to positive yields in 2007, are primarily due to a significant increase in unrealized investment losses resulting from the financial markets crisis that started in mid-2007, as described below. HTM yields increased slightly during the year.

**Table 5: LIQUID INVESTMENT PORTFOLIOS<sup>(1)</sup>**  
**December 31, 2008 and 2007**

*(Amounts expressed in millions of United States dollars)*

Portfolio	2008		2007	
	Ending Balance	Return (%) <sup>(2)(3)</sup>	Ending Balance	Return (%) <sup>(2)(3)</sup>
Transactional . . . . .	\$ 3,419	2.23	\$ 567	1.65
Operational . . . . .	9,083	(10.34)	11,720	2.86
Held-to-Maturity . . . .	3,568	3.47	3,814	3.45
Overall Portfolio . . . .	<u>\$16,070</u>	<u>(5.27)</u>	<u>\$16,101</u>	<u>2.93</u>

<sup>(1)</sup> After swaps and net of payable and receivable for investment securities purchased or sold.

<sup>(2)</sup> Combined return for all currencies in each portfolio.

<sup>(3)</sup> Geometrically-linked time-weighted returns.

## Financial Crisis and Performance and Exposure of Liquid Investments Portfolio

The financial crisis began in mid-2007 when falling US housing prices caused price declines for securities backed by subprime mortgages. In 2008, the credit crisis expanded worldwide bringing unprecedented market volatility and stress to credit markets. Following the bankruptcy of Lehman Brothers in mid-September, events accelerated as financial markets worldwide experienced severely contracted liquidity, prompting massive government intervention in the financial sector. In October, US Congress responded by passing the Emergency Economic Stabilization Act of 2008, allowing the US Treasury, along with other measures, to make capital injections into banks. Towards the end of 2008, several large economies were already in recession, with official key interest rates reaching historic lows.

Throughout 2008, and as a result of the still-ongoing deleveraging of financial institutions, market pricing for structured securities continued—and to a certain extent accelerated—the downward pressure. The effect of the crisis, characterized by lack of liquidity, higher volatility, and widening of credit spreads, has continued to affect the Bank's ability to mitigate its credit risk by selling or hedging its exposures. Valuations continue to be impacted by market factors such as rating agency actions and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

In response to the crisis and the contagion effect across market sectors, the Bank has continued to closely monitor the asset quality of its investments portfolio, analyzing and assessing the fundamental value of its securities, with a particular focus on its asset-backed and mortgage-backed securities.

During the year, the Bank recognized \$1,596 million of unrealized losses in its trading investments portfolio, substantially all of which are related to the \$4.2 billion asset-backed and mortgage-backed securities portion of the portfolio. During 2008, the Bank's holdings of these securities were reduced by repayments at par of \$753 million. Although liquidity for this portion of the portfolio remains poor and valuations highly discounted, as of December 31, 2008, 85.4% is still rated AAA, 97.5% is rated investment grade, and the entire portfolio is performing, except for an asset-backed commercial paper with a fair value of \$13 million. The credit exposure for the whole investment portfolio amounted to \$16.2 billion at year end, unchanged from December 31, 2007. The quality of the overall portfolio continues to be high, as 84.9% of the credit exposure is rated AAA and AA, 12% is rated A, 1.6% carries the highest short-term ratings (A1+), and 1.5% is rated below A/A1+. **Table 6** shows a breakdown of the trading investments portfolio at December 31, 2008 and December 31, 2007, by asset category.

**Table 6: TRADING INVESTMENTS PORTFOLIO BY ASSET CATEGORY****December 31, 2008 and 2007***(Amounts expressed in millions of United States dollars)*

Asset Category	2008		2007	
	Carrying Value	Unrealized Gains (Losses)	Carrying Value	Unrealized Gains (Losses)
Obligations of the United States Government and its corporations and agencies.....	\$ 2,678	\$ 9	\$ 454	\$ 3
Obligations of non-U.S. governments and agencies.....	771	2	127	(1)
Bank obligations.....	4,781	(99)	4,707	4
Corporate securities....	199	(2)	411	(5)
Asset-backed and mortgage-backed securities.....	4,184	(1,506)	6,608	(281)
Total trading investments.....	<u>\$12,613</u>	<u>\$(1,596)</u>	<u>\$12,307</u>	<u>\$(280)</u>

**Contractual Obligations**

In the normal course of business, the Bank enters into various contractual obligations that require future cash payments. The most significant contractual obligations relate to the repayment of borrowings. The maturity structure of medium- and long-term borrowings outstanding at December 31, 2008 is presented in Appendix I-5 to the financial statements. In addition, the Bank has a number of other obligations to be settled in cash, which are reflected in its financial statements, including undisbursed loans, short-term borrowings, payable for currency and interest rate swaps, and payable for investment securities purchased.

**SOURCES OF FUNDS****Equity**

Total equity at December 31, 2008, was \$19.4 billion compared with \$20.3 billion at December 31, 2007. The decrease of \$0.9 billion primarily reflects the operating losses for the year of \$972 million, which were partially offset by net unrealized gains on non-trading derivatives and borrowings measured at fair value of \$950 million, and other comprehensive losses of \$979 million (essentially comprised of the decrease in the funded status of the Bank's pension and postretirement benefit plans of \$1,371 million, less positive translation adjustments of \$396 million), partially compensated by the SFAS 159 transition adjustment of \$93 million (gain) against beginning retained earnings, as part of its implementation in 2008.

The Bank's equity base plays a critical role in securing its financial objectives, enabling the Bank to absorb risk out of its own resources and protecting member countries from a possi-

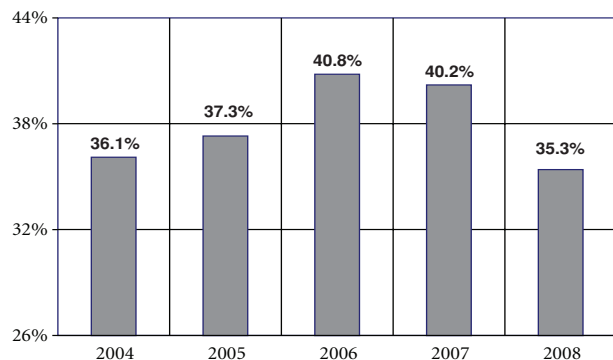
ble call on callable capital stock. For risk management purposes, the Bank monitors equity as defined and utilized in the TELR, which measures the adequacy of its risk-bearing capacity. **Table 7** presents the composition of this measure at December 31, 2008 and 2007. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" below, for more information on the TELR.

**Table 7: TOTAL EQUITY TO LOANS RATIO****December 31, 2008 and 2007***(Amounts expressed in millions of United States dollars)*

	2008	2007
<b>Equity</b>		
Paid-in capital stock.....	\$ 4,339	\$ 4,340
Retained earnings:		
General reserve <sup>(1)</sup> .....	12,542	13,470
Special reserve <sup>(1)</sup> .....	2,563	2,543
<b>Plus:</b>		
Allowances for loan and guarantee losses.....	169	70
<b>Minus:</b>		
Borrowing countries' local currency cash balances.....	131	135
Net receivable from members <sup>(2)</sup> .....	52	—
Postretirement benefit assets <sup>(3)</sup> .....	—	973
Cumulative net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value.....	1,026	(176)
<b>Equity used in Total Equity to Loans Ratio.....</b>	<b>\$18,404</b>	<b>\$19,491</b>
<b>Loans outstanding and net guarantee exposure.....</b>	<b>\$52,095</b>	<b>\$48,529</b>
<b>Total Equity to Loans Ratio.....</b>	<b><u>35.3%</u></b>	<b><u>40.2%</u></b>

<sup>(1)</sup> Includes Accumulated other comprehensive income.<sup>(2)</sup> Excludes Net payable to members, when applicable.<sup>(3)</sup> Excludes Postretirement benefit liabilities, when applicable.

As presented in **Table 7**, the TELR decreased from 40.2% at December 31, 2007, to 35.3% at December 31, 2008. The decrease was mainly due to an increase of \$3.6 billion in loans outstanding and net guarantee exposure, and a decrease in equity used in TELR of \$1.1 billion, mostly resulting from operating losses of \$972 million, the one time write-off of previously deferred borrowings issue costs of \$163 million against beginning retained earnings, as part of the implementation of SFAS 159, and the exclusion from the calculation of Postretirement benefit liabilities of \$410 million in 2008, partially compensated by positive translation adjustments of \$396 million. Despite the decrease, the TELR has held within the range of 32% to 38%. Prior to 2007, the TELR had increased steadily as a result of the growth in the equity base and lower loans outstanding (see **Figure 2**).

**Figure 2: TOTAL EQUITY TO LOANS RATIO**

### Capitalization

Shareholders' support for the Bank is reflected in the capital backing it has received from its members. At December 31, 2008, subscribed capital stock was \$100.9 billion, of which \$4.3 billion had been paid in and \$96.6 billion was callable.

Paid-in and callable capital stock subscriptions are payable as follows:

***Paid-in capital stock:*** Each subscription to paid-in capital stock has been paid, in whole or in part, in gold, United States dollars, or the currency of the respective member country. In the case of most payments made in the currency of the respective member country, the member country has made arrangements satisfactory to the Bank to assure that, subject to the provisions of the Agreement, its currency will be freely convertible (or the member country has agreed to convert its currency on behalf of the Bank) into the currencies of other countries for the purposes of the Bank's operations. The Bank has accepted non-negotiable, non-interest-bearing demand obligations in lieu of the immediate payment of all or a part of the member's subscription to the paid-in capital stock. Under the Agreement such obligations are accepted where currencies are not required for the Bank's operations.

***Callable capital stock:*** The callable portion of the capital stock subscriptions is subject to call only when required and to the extent necessary to meet the obligations of the Bank on borrowings of funds or guarantees. In the event of a call, payment may be made at the option of the member in gold, United States dollars, fully convertible currency of the member country or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. Calls are required to be uniform, but obligations of the members of the Bank to make payment upon such calls are independent of each other. Failure of one or more members to make payments on any such call would not excuse any other member from its obligation to make payment, and successive calls could be made on non-defaulting members if necessary to meet the Bank's obligations. However, no member could be required on any such call to pay more than

the unpaid balance of its capital stock subscription. No call has ever been made on the Bank's callable capital stock.

At December 31, 2008, the total subscription of the United States, the Bank's largest shareholder, was \$30.3 billion, of which the United States had paid \$1.3 billion as subscriptions to the Bank's paid-in capital stock. Of the United States' callable capital stock subscription of \$29.0 billion, \$3.8 billion had been fully authorized and appropriated, without fiscal year limitation, by United States legislation, and no further appropriation is necessary to enable the Secretary of the Treasury to pay this amount if any part were to be called to meet obligations of the Bank. The balance of the United States' callable capital stock subscription, \$25.2 billion, has been authorized by the United States Congress but not yet appropriated. In 1979, in connection with the United States' subscription to an increase in the callable capital stock, the Bank obtained an opinion of the General Counsel of the Treasury stating that appropriations were not legally required to back subscriptions to such callable capital stock unless and until payment was required of the United States on a call made by the Bank. The opinion further states that an appropriation is not required to make United States callable capital stock subscriptions, authorized by United States legislation, binding obligations backed by the full faith and credit of the United States, and that an obligation contracted by the United States pursuant to a Congressional grant of authority for constitutional purposes is fully binding on the United States notwithstanding that a future appropriation might be necessary in order to fund that obligation.

***Return of Capital to Serbia and Montenegro:*** In June 2008, the Bank returned funds to each of Serbia and Montenegro corresponding to shares of Paid-in capital as a result of the decision of those countries not to subscribe to such shares as successors of the former Socialist Federal Republic of Yugoslavia, a former non-borrowing Bank member. The associated adjustments resulted in a reduction of \$15 million of Subscribed capital comprised of \$14 million of Callable capital and \$1 million of Paid-in capital.

### Borrowings

The Bank raises funds in the international capital markets primarily through the issuance of debt securities. To diversify its sources of funding, the Bank issues its debt securities in various currencies, maturities, formats, and structures to meet the needs of global institutional and retail investors. Under the Agreement, the Bank may borrow only with the approval of the member country in whose markets the debt securities are sold and the member country in whose currency the borrowings are denominated. In addition, the Bank is required to obtain the agreement of each such member country that the proceeds may be exchanged by the Bank for the currency of any other member country without restriction. The Bank's borrowing policy is summarized in **Box 4**.

In 2008, the proceeds from medium- and long-term debt raised directly in financial markets amounted to \$10.7 billion compared to \$5.5 billion in 2007. The increase in borrowings

**Box 4: Borrowing Policy**

The Bank's policy is to limit the amount of its Net Borrowings to the subscribed callable capital stock of its non-borrowing member countries (the United States, Japan, Canada and the other nonregional members). Net Borrowings is the amount of borrowings plus gross guarantee exposure, less qualified liquid assets and the special reserve assets. Special reserve assets can only be used for meeting the Bank's obligations on borrowings and guarantees. As of December 31, 2008, Net Borrowings represented 67.4% of the subscribed callable capital stock of the non-borrowing member countries compared to 61.2% in 2007.

The objectives of the Bank's borrowing strategy are to secure long-term capital market access, volume and cost effectiveness. The Bank uses derivatives, mostly currency and interest rate swaps, for hedging purposes as part of its liability management to achieve the desired currency composition and interest rate structure as well as to lower its funding costs. The Bank closely monitors and regulates its activities with dealers and counterparties (see "Financial Risk Management—Credit Risk—Commercial Credit Risk" below). The amount and timing of the Bank's borrowings are determined in part by loan disbursements, maturing debt and liquidity levels (see "Liquidity Management" above).

was mostly due to increased debt repayments and net increases in the outstanding loan balance (disbursements net of collections), as well as opportunities for pre-funding of expected disbursements in 2009, mostly related to the Liquidity Program. Borrowing operations for 2008 and 2007 are summarized in **Table 8**.

**Table 8: SUMMARY OF ANNUAL BORROWING OPERATIONS**  
For the years ended December 31, 2008 and 2007  
(Amounts expressed in millions of United States dollars)

	2008	2007
Total medium- and long-term borrowings <sup>(1)</sup> .....	\$10,698	\$5,504
Average life (years) <sup>(2)</sup> .....	4.8	7.9
Number of transactions .....	76	45
Number of currencies .....	13	12

<sup>(1)</sup> Represents proceeds on a trade date basis.

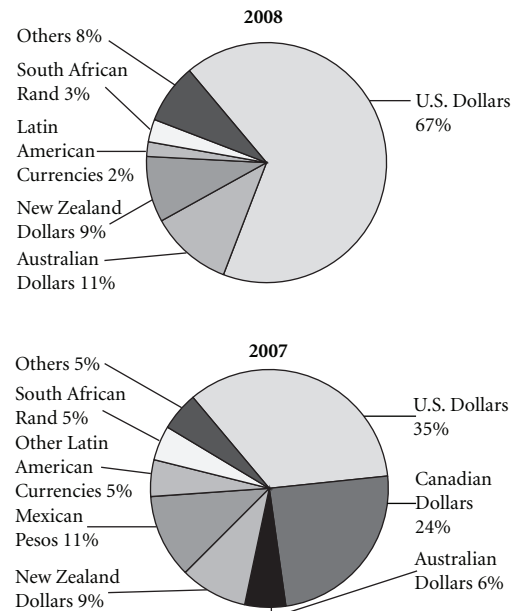
<sup>(2)</sup> Average life calculated considering the weighted average probability of exercising call options, as applicable.

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2008, the Bank executed three strategic benchmark global bond issues denominated in United States dollars with three-, five- and ten-years maturities for a combined amount of \$3.75 billion, and issued its first-ever bond

denominated in Indonesian rupiah. Bonds denominated in borrowing member country currencies in the aggregate amount of \$175 million were issued (2007—\$909 million), comprised of the following currencies: Brazilian reais—\$127 million and Chilean pesos—\$48 million (2007—Brazilian reais—\$197 million, Colombian pesos—\$30 million, Costa Rica colones—\$50 million and Mexican pesos—\$632 million). In addition, the Bank transacted various bonds denominated in Australian dollars, British pounds sterling, euro, Icelandic krónur, Japanese yen, New Zealand dollars, Russian rubles, South African rand, Turkish liras, and United States dollars.

New medium- and long-term borrowings by currency for 2008, as compared to 2007, are shown in **Figure 3**. In 2008 and 2007, all non-United States dollar borrowings were initially swapped into United States dollars.

**Figure 3: BORROWINGS BY CURRENCY<sup>(1)</sup>**  
For the years ended December 31, 2008 and 2007



<sup>(1)</sup> Includes medium- and long-term borrowings, excluding swaps, and represents proceeds on a trade date basis.

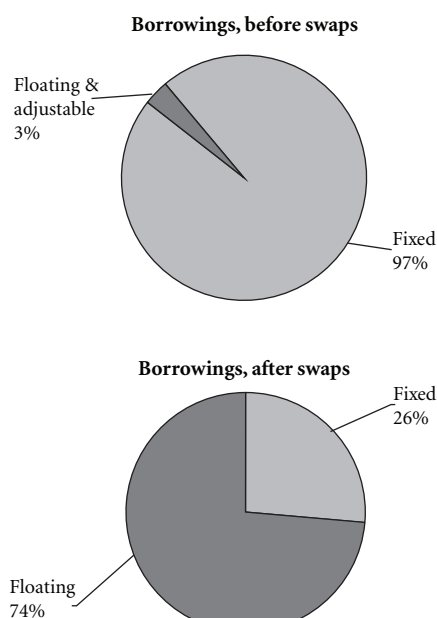
The Bank strategically repurchases, calls or prepays its debt to reduce the cost of borrowings and the exposure to re-funding requirements in a particular year, or to meet other operational needs. During 2008, the Bank called or repurchased \$358 million of its borrowings (2007—\$326 million).

**Use of Derivatives:** The Bank may enter into currency and interest rate swaps contemporaneously with borrowing transactions in order to convert the proceeds into euro, Japanese yen, Swiss francs or United States dollars and fixed or floating rate funding to meet its loan disbursement obligations. In 2008, all the new fixed rate borrowings were initially swapped into United States dollars at floating rates, with conversion to fixed rate as well as euro and Japanese yen funding being carried out



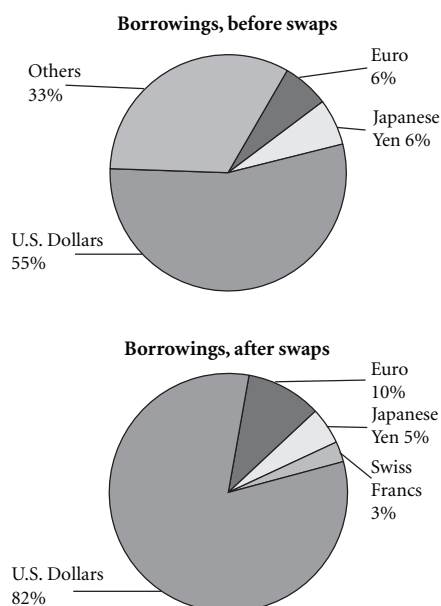
subsequently in accordance with funding requirements. **Figures 4 and 5** illustrate the effect of swaps on both the interest rate structure and currency composition of the medium- and long-term borrowing portfolio at December 31, 2008.

**Figure 4: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS<sup>(1)</sup>**  
December 31, 2008



<sup>(1)</sup> Medium- and long-term borrowings only.

**Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS<sup>(1)</sup>**  
December 31, 2008



<sup>(1)</sup> Medium- and long-term borrowings only.

More detailed information with respect to the Bank's borrowings and derivatives is contained in Notes I, J and K and Appendix I-5 to the financial statements.

## RESULTS OF OPERATIONS

### Operating Income (Loss)

Operating Income (Loss) includes the net interest income (loss) on earning assets and the income contribution of the Bank's equity, other loan income, the provision (credit) for loan and guarantee losses and net non-interest expense. **Table 9** shows the breakdown of Operating Income (Loss) during the last three years.

**Table 9: OPERATING INCOME (LOSS)**  
(Expressed in millions of United States dollars)

	2008	2007	2006
Loan interest income . . . . .	\$2,301	\$2,404	\$2,435
Investment income (loss) <sup>(1)</sup> . . . . .	(973)	487	619
	<u>1,328</u>	<u>2,891</u>	<u>3,054</u>
Less:			
Borrowing expenses . . . . .	1,764	2,135	2,070
Net interest income (loss) . . . . .	<u>(436)</u>	<u>756</u>	<u>984</u>
Other loan income . . . . .	54	32	31
Other expenses (credits):			
Provision (credit) for loan and guarantee losses . . . . .	93	(13)	(48)
Net non-interest expense . . . . .	497	518	436
Total . . . . .	<u>590</u>	<u>505</u>	<u>388</u>
Operating Income (Loss) . . . . .	<u>\$ (972)</u>	<u>\$ 283</u>	<u>\$ 627</u>

<sup>(1)</sup> Includes realized and unrealized gains and losses.

**Year 2008 versus 2007:** The Operating Loss for 2008 was \$972 million compared to Operating Income of \$283 million in 2007, an income reduction of \$1,255 million. This reduction was substantially due to a decrease in net interest income of \$1,192 million and a provision for loan and guarantee losses of \$93 million, compared to a credit of \$13 million in 2007.

**Year 2007 versus 2006:** In 2007, Operating Income was \$344 million lower than the previous year due to a decrease in net interest income, an increase in net non-interest expense, which is chiefly comprised of administrative expenses, and a lower credit for loan and guarantee losses.

### Net Interest Income (Loss)

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2008, 2007, and 2006 are shown in **Table 10**.

**Year 2008 versus 2007:** The Bank had a net interest loss of \$436 million in 2008 compared to net interest income of \$756 million in 2007, an income reduction of \$1,192 million. This reduction was mostly due to an increase of \$1,316 million (2008—\$1,596 million; 2007—\$280 million) in unrealized losses on the Bank's trading in-

**Table 10: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS**  
(Amounts expressed in millions of United States dollars)

	2008		2007		2006	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans <sup>(1)</sup> .....	\$48,589	4.74	\$45,569	5.28	\$47,207	5.16
Liquid investments .....	16,550	(5.27)	16,791	2.93	14,226	4.39
Total earning assets .....	65,139	2.20	62,360	4.65	61,433	4.98
Borrowings .....	46,007	3.84	43,349	4.92	43,314	4.78
Interest spread <sup>(2)</sup> .....		(1.64)		(0.27)		0.20
Net interest margin <sup>(3)</sup> .....		(0.67)		1.21		1.60

<sup>(1)</sup> Excludes loan fees.

<sup>(2)</sup> Negative interest spread and net interest margin substantially due to unrealized investment losses resulting from the current financial markets crisis.

<sup>(3)</sup> Represents net interest income (loss) as a percent of average earning assets.

vestments portfolio, that was partially compensated by higher lending spreads in the second semester on sovereign-guaranteed loans (excluding emergency loans and loans under the Liquidity Program) and an increase in the amount of, and the interest margin generated by, the Bank's regular loans.

**Year 2007 versus 2006:** Net interest income decreased \$228 million in 2007 with respect to 2006, primarily due to unrealized losses of \$280 million on the Bank's trading investments portfolio, that was partially offset by an increase in the income contribution of the Bank's cost free equity funds and slightly higher loan rates.

#### Net Non-interest Expense

The main components of net non-interest expense are presented in Table 11.

**Table 11: NET NON-INTEREST EXPENSE**  
(Expressed in millions of United States dollars)

	2008	2007	2006
<b>Administrative expenses</b>			
Staff costs .....	\$332	\$355	\$342
Consultant fees .....	60	58	50
Operational travel .....	16	20	20
Realignment expenses .....	5	55	—
Other expenses .....	88	76	95
<b>Total gross administrative expenses</b> .....	501	564	507
Less: Share of Fund for Special Operations .....	(62)	(64)	(93)
<b>Net administrative expenses</b> .....	439	500	414
Service fee revenues .....	(5)	(6)	(5)
Special programs .....	69	37	34
Other income .....	(6)	(13)	(7)
<b>Net non-interest expense</b> .....	<u>\$497</u>	<u>\$518</u>	<u>\$436</u>

**Year 2008 versus 2007:** Net non-interest expense decreased by \$21 million in 2008 mainly due to a reduction in realignment expenses (\$50 million), that was partially offset by an increase in special programs expenditures (\$32 million).

**Year 2007 versus 2006:** Net non-interest expense increased by \$82 million in 2007 mainly due to realignment expenses (\$55

million), an increase in the percentage of administrative expenses charged to the Ordinary Capital (\$29 million), and increases in salaries and related benefits (\$13 million), partially offset by a decrease in depreciation expense (\$19 million).

## FINANCIAL RISK MANAGEMENT

As part of its development banking services, the Bank is exposed to credit risk (loan portfolio or country credit and commercial credit); market risk (interest rate, spread and exchange rate); liquidity risk (funding and liquidation); and operational risk.

#### Governance

The Bank conducts its operations within a framework of financial and risk management policies; uses only specifically authorized financial instruments and follows a well-defined risk management decision-making process.

The Bank manages its risks in accordance with the Agreement, and such other policies as are approved by its Board of Governors, its Board of Executive Directors and the Finance Committee composed of members of management. Three risk management units of the Bank—capital adequacy/ALM, treasury risk and credit risk—are combined in the Risk Management Office, which reports directly to the Executive Vice President. The Asset Liability Management Committee (ALCO), is the forum to consider risk and financial management issues in line with best risk management practices. This includes asset/liability management, capital adequacy, financial products (lending, investment, funding, etc.) and planning, treasury risk management, credit risk management, capital markets (i.e., funding and investments), liquidity management, loan management and accounting.

#### Credit Risk

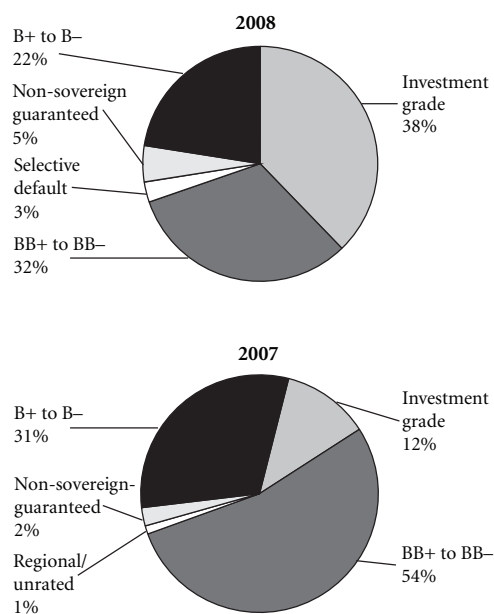
Credit risk is the potential loss that could result from the default of borrowers (loan portfolio credit risk or country credit risk) or from the default/downgrade of investment, trading or swap counterparties (commercial credit risk). Substantially all of the Bank's loans are sovereign-guaranteed.

**Loan Portfolio Credit Risk:** Loan portfolio credit risk is the risk that the Bank may not receive repayment of principal and/or interest on one or more of its loans according to the agreed-upon terms. It is directly related to the Bank's core business and is the largest financial risk faced by the Bank. The Bank has multiple sources of protection from loan portfolio credit risk, including an overall lending limitation, a comprehensive capital adequacy framework (designed to ensure that the Bank holds sufficient equity at all times given the quality and concentration of its portfolio), a policy for the treatment of non-performing loans and a policy for the maintenance of a loan loss allowance. The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower.

Figure 6 shows that, since December 31, 2007, a number of the Bank's borrowers saw an improvement in ratings, while others saw a deterioration. The improvements caused a substantial increase in the part of the Bank's portfolio in the investment grade category, which stood at 38% at year-end 2008 as compared to just 12% at year-end 2007. The deterioration in ratings caused 3% of the portfolio to enter the selective default category. The net effect of these changes was a reduction in the percentage of the Bank's portfolio that is in the BB+ to B- category from 85% to 54% over this period, which includes 32% in the BB+ to BB- category and 22% in the B+ to B- category. Note that the weighted averaged credit quality of the Bank's sovereign loan portfolio remains at the BB level.

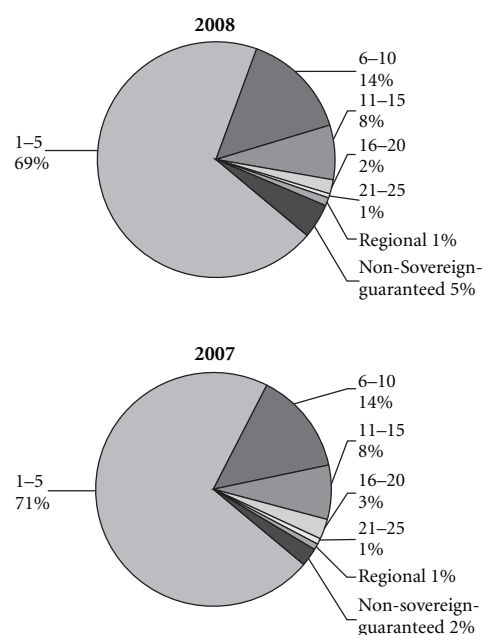
The credit quality of the sovereign-guaranteed loan portfolio as of December 31, 2008, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies (generally, Standard & Poor's), is depicted in **Figure 6**.

**Figure 6: CREDIT QUALITY OF SOVEREIGN-GUARANTEED LOAN PORTFOLIO REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES  
December 31, 2008 and 2007**



The Bank's exposure reflects the overall size and concentration of the portfolio. Exposure is limited by the Bank's lending authority; there are no per-country lending limits. Taking into consideration the regional nature of the Bank's operations and the relative sizes of the economies of its borrowing members, the Bank expects to consistently have a concentrated portfolio. As shown in **Figure 7**, as of December 31, 2008, 69% of the portfolio is held by the five largest borrowers compared to 71% in 2007. Refer to Appendix I-3 to the financial statements for more information.

**Figure 7: CONCENTRATION OF LOAN PORTFOLIO  
December 31, 2008 and 2007**



**Lending Limitation:** The Bank's policy is to limit the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital of the non-borrowing member countries. This lending limit is stricter than that prescribed by the Agreement, which includes the unimpaired callable capital of all members.

**Capital Adequacy Framework:** The capital adequacy framework of the Bank consists of a credit risk model, a policy on capital adequacy and an associated loan pricing methodology. The framework allows the Bank to manage the risk inherent in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, while also offering its borrowers low and stable loan charges.

The Bank's economic capital is measured by the TELR, whose desired level of 38% was determined based on an analysis of the Bank's economic capital needs under various hypothetical financial stress scenarios.



**Non-performing Loans:** Except for non-sovereign-guaranteed loans, loan service delays by a borrower in a member country preclude new loan approvals to borrowers in the member country, may lead to the suspension of loan disbursements, may result in the loan being placed in non-accrual status, and may cause the loan to be declared due and payable. The Bank exercises its policy under a graduated approach as summarized in **Table 12**.

If loans made to a member country funded with resources of the FSO or of any other fund owned or administered by the Bank are non-performing, all loans made to or guaranteed by that member government are also considered non-performing. The Bank maintains a continuous dialogue with its borrowers to ensure prompt payment on all of its loans.

In the case of non-sovereign-guaranteed loans, a sub-committee of the ALCO determines when the loan is classified in nonaccrual status, which can happen anytime between 30 and 90 days of being overdue or, if special circumstances warrant, at any time prior to the expiry of 30 days.

**Loan and Guarantee Loss Allowances:** Because of the nature of its borrowers and guarantors, the Bank expects that each of its Ordinary Capital sovereign-guaranteed loans will be repaid. In addition, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio since its establishment. During the Bank's 49 years of history, only five borrowing countries have been in nonaccrual, for varying times during 1988–1992. The maximum aggregate balance in nonaccrual never exceeded 8% of total loans outstanding, and the Bank received the full principal and interest due on these loans. The Bank maintains allowances for loan and guarantee losses to recognize the probable losses inherent in its loan and guarantee portfolios, primarily related to non-sovereign-guaranteed operations. At December 31, 2008, the Bank had one non-sovereign-guaranteed loan classified as impaired for \$288 million (2007—one loan for \$2 million). Pursuant to Bank policy, a provision for loan and guarantee losses of \$93 million was recognized during 2008 (2007—credit of \$13 million). Total allowances of \$169 million were maintained at

December 31, 2008 (2007—\$70 million). At December 31, 2008, the non-sovereign-guaranteed allowances for loan and guarantee losses were 4.7% of the corresponding combined outstanding portfolios (2007—3.3%).

**Commercial Credit Risk:** Commercial credit risk is the exposure to losses that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank will only invest in high quality debt instruments issued by governments, government agencies, multi-lateral organizations, financial institutions and corporate entities, including asset-backed securities. The Bank's process for controlling its commercial credit risk includes: a) specifying authorized investments; b) establishing approved lists of acceptable counterparties, issuers and dealers; c) defining acceptable credit rating limits; and d) specifying exposure limits and term limits for acceptable counterparties, issuers and dealers based on their size and creditworthiness.

As part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, for hedging purposes. The use of derivatives is limited to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank has established exposure limits for each derivative counterparty and has entered into master derivative agreements that contain enforceable closeout netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual thresholds. Master derivative agreements with derivative counterparties have been amended to make risk mitigation provisions consistent with more conservative levels required under the current derivatives credit risk management policy. Counterparty exposure limits are calculated and monitored on the basis of potential credit exposures modeled throughout the life of each counterparty's portfolio. Simulation is used to model the complex interactions of market risk factors, the dynamics of the portfolio, and the impact of risk mitigation mechanisms such

**Table 12: TREATMENT OF NON-PERFORMING SOVEREIGN-GUARANTEED LOANS**

30 days after loan due date	The Bank suspends disbursements on the loan in arrears and all other loans to the borrower. The Bank informs the guarantor of the arrears by the borrower and requests prompt payment of the amount in arrears. No loan contract with a borrower in the country in question is signed by the Bank and no loan proposal is approved.
120 days after loan due date	The Bank suspends disbursements on all loans to the guarantor and guaranteed by the guarantor if the guarantor fails to pay the amounts due.
180 days after loan due date	The Bank places in nonaccrual status all loans for the country in question of which the government, the central bank or any government entity is a borrower or guarantor, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. Placement in nonaccrual status implies a reversal of all accrued income to date and no further income accumulation until all pending amounts are received. All Bank missions to the country intended for programming, preparing or processing of loans are suspended.

as collateral thresholds and termination triggers, to estimate the potential credit exposure. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its swap counterparties.

The Bank treats current credit exposure as the replacement cost of the relevant derivative instrument. This is also referred to as replacement risk or the mark-to-market exposure amount. Mark-to-market exposure is a measure, at a point in time, of the value of a derivative contract in the open market. When the mark-to-market is positive, it indicates that the counterparty owes the Bank and, therefore, creates an exposure for the Bank. When the mark-to-market is negative, the Bank owes the counterparty and does not have replacement risk. When the Bank has more than one derivative transaction outstanding with a derivative counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with the same counterparty. If this net mark-to-market is negative, then the Bank's exposure to the counterparty is considered to be zero.

**Figure 8** provides details of the estimated credit exposure on investments by issuer rating category. As of December 31, 2008, the credit exposure for the whole investment portfolio amounted to \$16.2 billion, unchanged from December 31, 2007. The credit quality of the investment portfolio for 2008 continues to be high, as 84.9% of the issuers are rated AAA and AA, 12.0% are rated A, 1.6% carry the highest short-term ratings (A1+), and 1.5% are rated below A/A1+, compared to 91.0%, 7.9%, 0.7% and 0.4%, respectively, in 2007. **Figure 9** provides details of the estimated credit exposure (netted by counterparty) on the swap portfolio, by rating category. As of December 31, 2008, the swap credit exposure decreased to \$2 billion from \$2.5 billion a year earlier. While 64.5% of the counterparties were rated AA in 2008, compared to 86.6% in 2007, these swap credit exposures are collateralized. As of December 31, 2008, \$1.8 billion of eligible collateral (U.S. Treasuries or cash) had been posted with the Bank's custodian (compared to \$2.1 billion in 2007), which significantly reduced the credit exposure on swaps discussed above to only \$0.3 billion compared to \$0.4 billion in 2007.

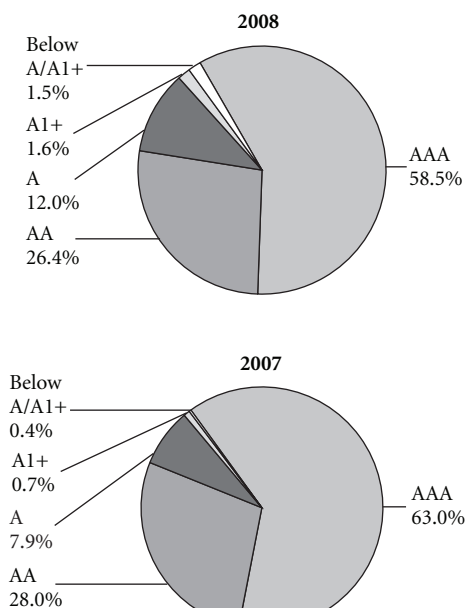
### Market Risk

The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, that are mitigated through its integrated asset and liability management framework.

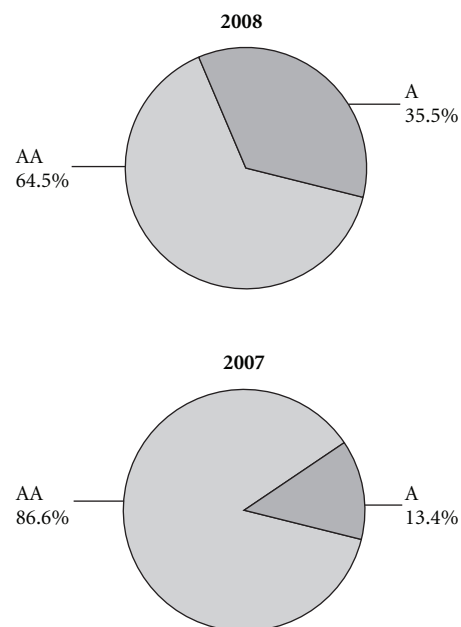
**Asset and Liability Management:** The objective of asset and liability management is to manage the currency composition, maturity profile and interest rate sensitivity characteristics of the portfolio of liabilities supporting liquidity and each lending product in accordance with the particular requirements for that product and within prescribed risk parameters. The Bank employs derivatives to manage its asset and liability management exposures by aligning the characteristics of its assets and liabilities.

**Interest Rate Risk:** The Bank is exposed to two potential sources of interest rate risk. The first is the exposure to changes

**Figure 8: INVESTMENT CREDIT EXPOSURE  
BY ISSUER RATING  
December 31, 2008 and 2007**



**Figure 9: SWAPS CREDIT EXPOSURE  
BY COUNTERPARTY RATING  
December 31, 2008 and 2007**



in the net spread between the rate earned on assets and the cost of borrowings that fund those assets. The second is the exposure to changes in the income earned on the portion of the assets funded with equity.

The Bank mitigates its exposure to net spread changes through a cost pass-through formulation incorporated in the lending rates charged on most of its existing loans, in addition to a carefully designed term structure management. These cost pass-through loans account for 93% of the existing outstanding loan portfolio as of December 31, 2008; the remaining 7% are emergency and Liquidity Program loans, non-sovereign-guaranteed loans and fixed-rate loans. Some of the cost pass-through loans, primarily the adjustable rate loans, pose some residual interest rate risk given the six-month lag inherent in the lending rate calculation (see "Development Operations—Financial Terms of Loans" above). The Bank funds and invests its liquidity at matching rate structures using specific duration gap constraints, thus avoiding any undue exposure to interest rate risk.

The Bank mitigates its exposure to equity-induced income changes by investing these funds in assets with stable returns.

**Exchange Rate Risk:** In order to minimize exchange rate risk in a multicurrency environment, the Bank matches the after-swap borrowing obligations in any one currency with assets in the same currency, as prescribed by the Agreement. In addition, the Bank's policy is to minimize the exchange rate sensitivity of its TELR by performing periodic currency conversions to main-

tain the currencies underlying its equity and allowances for loan and guarantee losses aligned with those of the outstanding loans and net guarantee exposure. In order to minimize currency misalignments, the Bank also aligns the currency composition of the special reserve assets with that of its outstanding borrowings.

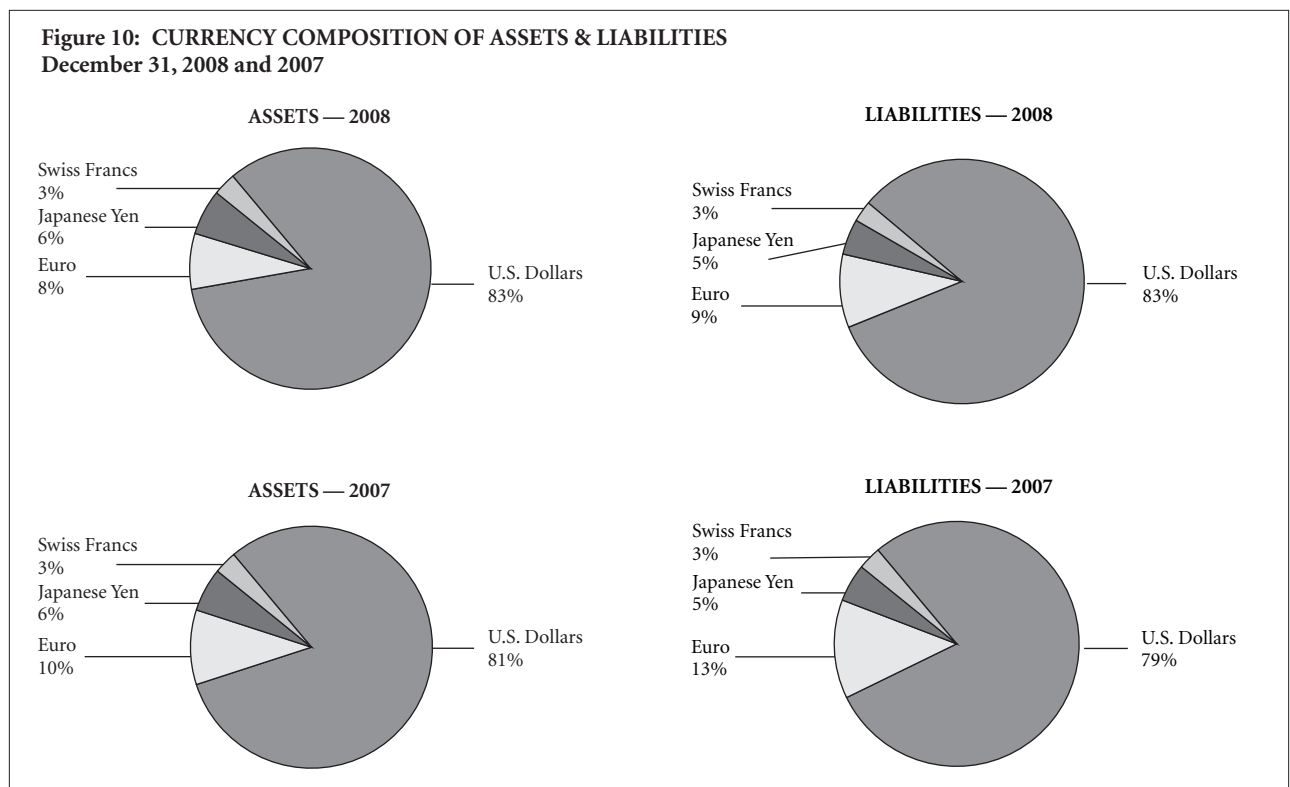
**Figure 10** presents the currency composition of the Bank's assets and liabilities (after swaps) at the end of 2008 and 2007.

### Liquidity Risk

Liquidity risk arises from the general funding needs of the Bank's activities and in the management of its assets and liabilities. It includes the risk of being unable to fund the portfolio of assets at appropriate maturities and rates (funding risk); the risk of being unable to liquidate a position in a timely manner at a reasonable price (liquidation risk); and the exacerbation of these two risks by having significant portions of a portfolio of assets or liabilities allocated to a specific type of instrument (concentration risk).

The Bank manages liquidity risk through its liquidity policy, asset-liability management policy and its short-term borrowing program. The Bank's liquidity policy determines a minimum amount of liquidity, which is designed to allow the Bank to refrain from borrowing for a period of time while continuing to meet its own obligations. The asset and liability management of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, determines the proper term-duration gap between loans and debt to both lower funding costs and reduce refunding risk. Finally,

**Figure 10: CURRENCY COMPOSITION OF ASSETS & LIABILITIES**  
December 31, 2008 and 2007



under the short-term borrowing program, discount notes with maturities of less than one year are issued to manage short-term cash flow needs.

### **Operational Risk**

Operational risk is the potential loss arising from internal activities or external events, caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transactions processing, pricing, cash and securities movements and settlement systems. In addition, operational risk includes fraud and failures in the execution of legal, fiduciary and agency responsibilities.

Within the Bank there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls. These are supplemented by the Bank's disaster recovery/contingency planning, the Information Disclosure Policy, client and project integrity due diligence procedures, and procurement and purchasing policies. Furthermore, the Bank takes an active role, through its newly created Risk Management Office, to effectively assess the operational risks aspects in a coordinated manner.

**Internal Control Over Financial Reporting:** The Bank follows the Committee of Sponsoring Organizations of the Treadway Commission Internal Control-Integrated Framework for its financial reporting, and has in place an annual process for management to report on the effectiveness of the internal control over financial reporting, and for the external auditors to audit and issue an opinion as to the effectiveness of the internal control over financial reporting. The management report and external auditors' opinion on internal control over financial reporting for 2008 are included in the financial statements.

## **ADDITIONAL REPORTING AND DISCLOSURE**

### **Basis of Reporting**

The financial statements are prepared in accordance with GAAP, which require management to make estimates and assumptions that affect the reported results (see Note B to the financial statements).

### **Critical Accounting Policies**

The Bank believes that some of the more significant accounting policies it uses to present its financial results in accordance with GAAP involve a relatively high degree of judgment and complexity and relate to matters that are inherently uncertain.

**Fair Value of Financial Instruments:** The Bank uses fair value measurements to account for the trading investments portfolio, borrowings elected under the fair value option and all derivatives (mostly interest and currency swaps), and for disclosures of financial instruments. Fair values are based on quoted market prices when they are available. Otherwise, fair values are based

on prices of comparable instruments, dealer prices or discounted cash flows using pricing models. Pricing models use inputs from market sources such as interest rate yield curves, currency exchange rates and option volatilities. These inputs have a significant effect on the reported fair values of assets and liabilities and related income and expenses. Management believes its measurements of fair value are reasonable given its processes for obtaining and prioritizing observable inputs (i.e. external prices and parameters) and the consistent application of this approach from period to period.

Changes in the fair value of trading securities and related derivatives are presented in Income from investments in the Statement of Income and Retained Earnings. Changes in the fair value of borrowings and all derivatives other than investment derivatives are reported in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value. See "Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value" under Note K to the financial statements.

**Loan and Guarantee Loss Allowances:** The Bank maintains allowances for losses on its loan and guarantee portfolios at levels management believes to be adequate to absorb estimated losses inherent in the total portfolio at the balance sheet date. Setting the level of the allowances requires significant judgment. The use of different estimates or assumptions as well as changes in external factors could produce materially different provisions and allowance levels. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will be repaid. Accordingly, the level of its loan and guarantee loss allowances is relatively small and mainly related to the non-sovereign-guaranteed loan and guarantee portfolios.

**Pension and Other Postretirement Benefits:** The Bank participates along with the Inter-American Investment Corporation (IIC) in pension and postretirement benefit plans that cover substantially all of their staff members. All costs, assets and liabilities associated with the plans are allocated between the Bank and the IIC based upon their employees' respective participation in the plans. Costs allocated to the Bank are subsequently shared between the Ordinary Capital and the FSO based on a cost allocation formula approved by the Board of Executive Directors. The underlying actuarial assumptions used to determine the projected benefit obligations, fair value of plan assets and funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. For further details, refer to Note P to the financial statements.

### **External Auditors**

**General:** The external auditors are appointed by the Board of Governors following a competitive bidding process. In 2002, Ernst & Young LLP (E&Y) was appointed as external auditors. Pursuant to an agreement between the Bank and E&Y, the parties extended, on a yearly basis through 2006, E&Y's appoint-

ment. In 2007, E&Y won a new competitive bidding and was appointed as the Bank's external auditors for a second five-year period ending in 2011.

Contracted fees for audit services provided to the Bank by E&Y in connection with the 2008 financial statement and internal control audits amount to \$1,122,000. In addition, E&Y was paid \$148,000 during 2008 for services related to bond issuance and advisory services related to the implementation of SFAS 157 and 159. E&Y also provides audit services to trust funds administered by the Bank and to the Bank's staff retirement plans, for which contracted fees related to the 2008 audits are \$472,000.

***External Auditors' Independence:*** The Audit Committee is responsible for, among other matters, assisting the Board of Executive Directors in overseeing the external audit function, including ensuring external auditors' independence. In this regard, the Committee is guided by the following key principles:

- The work plan of the external auditors, including audit and audit-related services, must be approved by the Board of Executive Directors, based on the recommendation of the Audit Committee.
- Any other services to be performed by the external auditors on an exceptional basis may be hired by management following criteria established by the Audit Committee.
- The external auditors' engagement and review partners must rotate at least every five years.
- The performance of the external auditors is evaluated annually.
- The external auditors' independence must be confirmed annually by the Audit Committee.
- The external auditors have full access to the Audit Committee and the Board of Executive Directors.



## **FINANCIAL STATEMENTS**





# ORDINARY CAPITAL

## MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

February 17, 2009

The Management of the Inter-American Development Bank (Bank) is responsible for establishing and maintaining effective internal control over financial reporting in the Bank. Management has evaluated the Bank's Ordinary Capital internal control over financial reporting using the criteria for effective internal control established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the Bank's Ordinary Capital internal control over financial reporting as of December 31, 2008. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2008.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Ordinary Capital internal control over financial reporting. In addition, the Bank's Ordinary Capital financial statements, as of December 31, 2008, have been audited by Ernst & Young LLP.



Luis Alberto Moreno  
President



Manuel Rapoport  
Vice President for Finance and Administration



Edward Bartholomew  
Finance General Manager and CFO

## REPORT OF INDEPENDENT AUDITORS

Board of Governors  
Inter-American Development Bank

We have audited Inter-American Development Bank (Bank)—Ordinary Capital's internal control over financial reporting, as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's Ordinary Capital internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank's Ordinary Capital maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of the Inter-American Development Bank – Ordinary Capital as of December 31, 2008 and 2007, and the related statements of income and retained earnings, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 17, 2009 expressed an unqualified opinion thereon.

Washington, D.C.  
February 17, 2009

*Ernst & Young LLP*

## REPORT OF INDEPENDENT AUDITORS

Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank) – Ordinary Capital as of December 31, 2008 and 2007, and the related statements of income and retained earnings, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank – Ordinary Capital as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with United States generally accepted accounting principles.

As discussed in Note B to the financial statements, in 2008 the Bank adopted Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities".

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Inter-American Development Bank's Ordinary Capital internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2009 expressed an unqualified opinion thereon.

Washington, D.C.  
February 17, 2009

*Ernst + Young LLP*

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2008		2007	
<b>ASSETS</b>				
<b>Cash and investments</b>				
Cash.....	\$	301	\$	200
Investments				
Trading.....		12,613		12,307
Held-to-maturity.....		3,621		3,858
		<u>\$16,535</u>		<u>\$16,365</u>
<b>Loans outstanding</b> .....		51,173		47,954
Allowance for loan losses.....		(136)		(51)
		<u>51,037</u>		<u>47,903</u>
<b>Accrued interest and other charges</b>				
On investments.....		92		103
On loans.....		564		600
On swaps, net.....		43		20
		<u>699</u>		<u>723</u>
<b>Receivable from members</b>				
Non-negotiable, non-interest-bearing demand obligations....		356		358
Amounts required to maintain value of currency holdings....		79		54
		<u>435</u>		<u>412</u>
<b>Currency and interest rate swaps</b>				
Investments—trading.....		2		3
Loans.....		43		4
Borrowings.....		3,415		3,019
		<u>3,460</u>		<u>3,026</u>
<b>Other assets</b>				
Postretirement benefit assets.....		—		973
Property, net.....		303		296
Unamortized borrowing issue costs.....		11		180
Miscellaneous.....		30		29
		<u>344</u>		<u>1,478</u>
<b>Total assets</b> .....		<u>\$72,510</u>		<u>\$69,907</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Borrowings				
Short-term.....	\$	3,067	\$	2,204
Medium- and long-term:				
Measured at fair value.....		34,350		—
Measured at amortized cost.....		11,977		44,845
		<u>\$49,394</u>		<u>\$47,049</u>
Currency and interest rate swaps				
Investments—trading.....		10		2
Loans.....		107		16
Borrowings.....		1,800		1,006
		<u>1,917</u>		<u>1,024</u>
Payable for investment securities purchased.....		156		67
Postretirement benefit liabilities.....		410		—
Amounts payable to maintain value of currency holdings....		383		616
Accrued interest on borrowings.....		559		596
Accounts payable and accrued expenses.....		247		202
		<u>53,066</u>		<u>49,554</u>
<b>Total liabilities</b> .....		<u>53,066</u>		<u>49,554</u>
<b>Equity</b>				
Capital stock				
Subscribed 8,367,264 shares (2007—8,368,563 shares).....		100,938		100,953
Less callable portion.....		(96,599)		(96,613)
		<u>4,339</u>		<u>4,340</u>
Paid-in capital stock.....		4,339		4,340
Retained earnings.....		14,647		14,576
Accumulated other comprehensive income.....		458		1,437
		<u>19,444</u>		<u>20,353</u>
<b>Total liabilities and equity</b> .....		<u>\$72,510</u>		<u>\$69,907</u>

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## STATEMENT OF INCOME AND RETAINED EARNINGS

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Income (loss)</b>			
Loans			
Interest . . . . .	\$ 2,301	\$ 2,404	\$ 2,435
Other loan income . . . . .	54	32	31
	<u>2,355</u>	<u>2,436</u>	<u>2,466</u>
Investments . . . . .	(973)	487	619
Other . . . . .	11	19	12
Total income . . . . .	<u>1,393</u>	<u>2,942</u>	<u>3,097</u>
<b>Expenses</b>			
Borrowing expenses			
Interest, after swaps . . . . .	1,740	2,074	2,015
Borrowing issue costs . . . . .	28	49	55
Debt repurchase (income) costs . . . . .	(4)	12	—
	<u>1,764</u>	<u>2,135</u>	<u>2,070</u>
Provision (credit) for loan and guarantee losses . . . . .	93	(13)	(48)
Administrative expenses . . . . .	439	500	414
Special programs . . . . .	69	37	34
Total expenses . . . . .	<u>2,365</u>	<u>2,659</u>	<u>2,470</u>
<b>Income (loss) before net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value . . . . .</b>	<b>(972)</b>	<b>283</b>	<b>627</b>
<b>Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value . . . . .</b>	<b>950</b>	<b>(149)</b>	<b>(384)</b>
<b>Net income (loss) . . . . .</b>	<b>(22)</b>	<b>134</b>	<b>243</b>
<b>Retained earnings, beginning of year . . . . .</b>	<b>14,576</b>	<b>14,442</b>	<b>14,199</b>
<b>SFAS 159 cumulative effect adjustment . . . . .</b>	<b>93</b>	<b>—</b>	<b>—</b>
<b>Retained earnings, end of year . . . . .</b>	<b><u>\$14,647</u></b>	<b><u>\$14,576</u></b>	<b><u>\$14,442</u></b>

## STATEMENT OF COMPREHENSIVE INCOME

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Net income (loss) . . . . .</b>	<b>\$ (22)</b>	<b>\$134</b>	<b>\$243</b>
<b>Other comprehensive income (loss)</b>			
Translation adjustments . . . . .	396	280	149
Recognition of changes in Postretirement benefit assets/liabilities . . . . .	(1,371)	130	—
Reclassification to income—cash flow hedges . . . . .	(4)	1	8
Total other comprehensive income (loss) . . . . .	<u>(979)</u>	<u>411</u>	<u>157</u>
<b>Comprehensive income (loss) . . . . .</b>	<b><u>\$(1,001)</u></b>	<b><u>\$545</u></b>	<b><u>\$400</u></b>

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## STATEMENT OF CASH FLOWS

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Cash flows from lending and investing activities</b>			
Lending:			
Loan disbursements (net of participations).....	\$ (7,149)	\$ (6,725)	\$ (6,088)
Loan collections (net of participations).....	4,740	5,265	8,615
Loan recoveries.....	—	—	3
Net cash provided by (used in) lending activities.....	(2,409)	(1,460)	2,530
Gross purchases of held-to-maturity investments.....	(3,287)	(2,378)	(2,049)
Gross proceeds from maturities of held-to-maturity investments.....	3,299	2,459	2,056
Purchase of property.....	(22)	(14)	(15)
Miscellaneous assets and liabilities.....	(4)	(7)	7
Net cash provided by (used in) lending and investing activities.....	(2,423)	(1,400)	2,529
<b>Cash flows from financing activities</b>			
Medium- and long-term borrowings:			
Proceeds from issuance.....	10,793	5,440	5,276
Repayments.....	(8,321)	(6,595)	(6,510)
Short-term borrowings:			
Proceeds from issuance.....	11,588	5,941	10,276
Repayments.....	(10,707)	(4,390)	(10,559)
Collections of receivable from members.....	5	5	12
Net cash provided by (used in) financing activities.....	3,358	401	(1,505)
<b>Cash flows from operating activities</b>			
Gross purchases of trading investments.....	(14,210)	(10,639)	(20,468)
Gross proceeds from sale or maturity of trading investments.....	12,259	10,761	18,672
Loan income collections.....	2,412	2,434	2,457
Interest and other costs of borrowings, after swaps.....	(1,415)	(1,953)	(1,857)
Income from investments.....	568	741	588
Other income.....	11	19	13
Administrative expenses.....	(431)	(433)	(367)
Special programs.....	(20)	(13)	(7)
Net cash provided by (used in) operating activities.....	(826)	917	(969)
<b>Effect of exchange rate fluctuations on cash.....</b>	<b>(8)</b>	<b>6</b>	<b>(2)</b>
<b>Net increase (decrease) in Cash.....</b>	<b>101</b>	<b>(76)</b>	<b>53</b>
<b>Cash, beginning of year.....</b>	<b>200</b>	<b>276</b>	<b>223</b>
<b>Cash, end of year.....</b>	<b>\$ 301</b>	<b>\$ 200</b>	<b>\$ 276</b>

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## NOTES TO FINANCIAL STATEMENTS

### Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its purpose is to promote the economic and social development of Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The primary activities of the Bank are conducted through the Ordinary Capital, which is supplemented by the Fund for Special Operations (FSO), the Intermediate Financing Facility Account (IFF), and the IDB Grant Facility (GRF). The FSO was established to make loans on highly concessional terms in the less developed member countries of the Bank. The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans approved from the Ordinary Capital up to December 31, 2006 (Note E). The GRF was established in 2007 for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects.

### Note B – Summary of Significant Accounting Policies

The financial statements are prepared in conformity with United States generally accepted accounting principles (GAAP). The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 these estimates. Significant judgments have been made in the valuation of certain financial instruments, the determination of the adequacy of the allowances for loan and guarantee losses, and the determination of the projected benefit obligations of the pension and postretirement benefit plans, the fair value of plan assets, and the funded status and net periodic benefit cost associated with these plans.

### New accounting pronouncements

On January 1, 2008, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The adoption of this standard did not have a material impact on the Bank's financial position and results of operations. Concurrently, on January 1, 2008, the Bank adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" and, in accordance with the transition provisions, recorded a cumulative effect adjustment of \$93 million (gain) to the opening balance of retained earnings, to reflect the difference between the carrying value of

\$27,538 million and the fair value amount of \$27,282 related to certain borrowings for which the fair value option was elected or \$256 million gain, and the write-off of related deferred borrowing issue costs of \$163 million. The objective of SFAS 159 is to mitigate volatility in reported income by measuring related assets and liabilities at fair value without having to apply complex hedge accounting provisions. For additional information on the fair value of certain Bank's financial assets and financial liabilities, see Note H – Fair Value Measurements and Note I – Fair Value Option to the financial statements.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133". The objective of SFAS 161 is to amend and expand the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of an entity's use of derivative instruments, the accounting of derivative instruments and related hedged items under SFAS 133, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Bank for annual and interim financial statements issued in 2009 and thereafter. In addition, in May 2008, the FASB issued SFAS No. 162 "The Hierarchy of Generally Accepted Accounting Principles", which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. The adoption of these standards does not have an impact on the Bank's financial position and results of operations.

### Currency Accounting

The financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members, which are functional currencies to the extent that the operations are conducted in those currencies. The Ordinary Capital resources are derived from capital stock, borrowings and accumulated earnings in those various currencies. Assets and liabilities in functional currencies are translated into United States dollars at market exchange rates prevailing at the Balance Sheet dates. Except for currency holdings derived from paid-in capital stock that have maintenance of value, as described below, net adjustments resulting from the translation of functional currencies are charged or credited to Translation adjustments<sup>1</sup> and are presented as a separate component of Other

<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.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

comprehensive income in the Statement of Comprehensive Income. Borrowings in non-functional currencies are translated with the gain or loss recorded in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value in the Statement of Income and Retained Earnings. Income and expenses are translated at market exchange rates prevailing during each month.

**Valuation of capital stock**

The Agreement Establishing the Inter-American Development Bank (Agreement) provides that capital stock be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978. Consequently, the General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR) became the successor to the 1959 United States dollar as the standard of value for the Bank's capital stock, and for maintaining the value of its currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

**Maintenance of value (MOV)**

In accordance with the Agreement, each member is required to maintain the value of its currency held in the Ordinary Capital, except for currency derived from borrowings. Likewise, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency so held, except for currency derived from borrowings. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959.

The amount related to MOV on non-borrowing member countries' currency holdings is presented as an asset or liability on the Balance Sheet, included in Amounts required/payable to maintain value of currency holdings.

**Retained earnings**

Retained earnings comprise the general reserve and the special reserve. The general reserve consists of income from prior years, which have been retained for the Bank's operations. In accordance with resolutions of the Board of Governors, net income is generally added to the general reserve to provide for possible annual excess of expenses over income.

The special reserve consists of loan commissions set aside pursuant to the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities on borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed with resources of the Ordinary Capital. The allocation of such commissions to the special reserve was discontinued in 1998 and no further additions are being made to it.

**Investments**

Investment securities are classified based on management's intention on the date of purchase, and are recorded using trade-date accounting. Securities which management has the intent and ability to hold until maturity are included in the held-to-maturity portfolio and reported at amortized cost. All other securities are held in a trading portfolio. Securities and related derivative instruments (mostly currency and interest rate swaps) held in the trading portfolio are carried and reported at fair value, with changes in fair value included in Income from investments in the Statement of Income and Retained Earnings.

**Loans**

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Up to 10% of the outstanding loans and guarantees, not including emergency lending and loans under the Liquidity Program for Growth Sustainability (Liquidity Program) may be made directly to private sector or (as of August 2006) sub-sovereign entities ("eligible entities") without a sovereign guarantee ("non-sovereign-guaranteed operations") on the basis of market based pricing. These financings are subject to certain limits, including a ceiling on financing the lesser of \$200 million or 50% of the total project cost for expansion projects and credit guarantees, subject to such financing not exceeding 25% (certain countries 40%) of an entity's total capitalization of debt and equity, and 25% of the total project cost (certain countries 40%) for new projects. The Bank can also provide political risk guarantees of up to the lesser of \$200 million or 50% of the total project cost. In exceptional circumstances, the Board of Executive Directors may approve financings of up to \$400 million. In addition, the Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed 2.5% of the Bank's equity at the time of approval.

Loans representing approximately 26% of the outstanding balances have repayment obligations in various currencies



**ORDINARY CAPITAL**  
**INTER-AMERICAN DEVELOPMENT BANK**

**NOTES TO FINANCIAL STATEMENTS** (continued)

determined on the basis of a currency pooling system (CPS). The principal amount of CPS loans is repayable, in aggregate, in the currencies lent. Single currency loans are repayable, on an after swap basis, in the specific currencies disbursed.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial to the financial results. Front-end fees on emergency loans and loans under the Liquidity Program are generally deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.

Income on loans is recognized following the accrual basis of accounting. It is the policy of the Bank to place on nonaccrual status all loans made to, or guaranteed by, a member of the Bank if principal, interest or other charges with respect to any such loan are overdue by more than 180 days. In addition, if loans made to a member country with resources of the FSO or of any other fund owned or administered by the Bank are placed on nonaccrual status, all Ordinary Capital loans made to, or guaranteed by, that member government will also be placed on nonaccrual status. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For non-sovereign-guaranteed loans, it is the policy of the Bank to place on nonaccrual status loans made to a borrower when interest or other charges are past due by more than 90 days, or earlier when management has doubts about the future collectibility of principal or interest. Income is recorded thereafter on a cash basis until loan service is current and management's doubts about future collectibility cease to exist. If the collectibility risk is considered to be particularly high at the time of arrears clearance, the borrower's loans may not emerge from nonaccrual status.

The Bank considers a non-sovereign-guaranteed loan as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the loan's original contractual terms. Specific allowances for losses on impaired loans are set aside based on management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral. Income on impaired loans is recognized on a cash basis.

The Bank does not reschedule sovereign-guaranteed loans and has not written off any such Ordinary Capital loans. The Bank periodically reviews the collectibility of loans and guarantees and, if applicable, records, as an expense, provisions for loan and guarantee losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio. Such reviews consider the probabilities of default associated with the external credit ratings of each individual borrower, adjusted to reflect the probability of default to the Bank, as well as the potential for loss arising from delay in the scheduled loan repayments. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will be repaid.

**Guarantees**

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the 10% limit established for non-sovereign-guaranteed operations, or with a member country sovereign counter-guarantee. As part of its non-sovereign-guaranteed lending activities, the Bank has issued political risk and partial credit guarantees designed to encourage private sector infrastructure investments, local capital market development, and trade finance. The political risk guarantees and partial credit guarantees may be offered on a stand-alone basis or in conjunction with a Bank loan. Political risk guarantees cover specific risk events related to non-commercial factors (such as currency convertibility, transferability of currencies outside the host country, and government non-performance). Partial credit guarantees cover payment risks for debt obligations or trade finance transactions. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project, the terms of debt issuances or trade finance transactions. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee fees, net of reinsurance premiums, are charged and recognized as income over the term of the guarantee.

Guarantees are regarded as outstanding when the borrower incurs the underlying financial obligation and are called when a guaranteed party demands payment under the guarantee. The outstanding amount represents the maximum potential risk if the payments guaranteed for these entities are not made. The contingent liability for probable losses related to guarantees outstanding is included in Accounts payable and accrued expenses.

The Bank manages credit risk on guarantees without sovereign counter-guarantee through an internal credit risk classification system which includes excellent, satisfactory, watch list and loss contingency risk categories. These categories reflect the

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

credit quality of the guaranteed party and the impact of available external security (such as sponsor guarantee) that mitigates the repayment risk to the Bank.

**Receivable from members**

Receivable from members includes non-negotiable, non-interest-bearing demand obligations that have been accepted in lieu of the immediate payment of all or any part of a member's subscribed paid-in capital stock and MOV obligations.

**Property**

Property is recorded at cost. Major improvements are capitalized while routine replacements, maintenance and repairs are charged to expense. Depreciation is computed on the straight-line method over estimated useful lives (30 to 40 years for buildings, 10 years for building improvements and capitalized software, and 5 to 15 years for equipment).

**Borrowings**

To ensure funds are available for its lending and liquidity operations, the Bank borrows in the international capital markets, offering its debt securities to private and public investors. The Bank issues debt securities denominated in various currencies and with various maturities, formats, and structures. The Bank also issues discount notes to manage short-term cash flow needs.

Borrowings funding floating rate assets are carried at fair value on the Balance Sheet. The interest component of the changes in fair value of these borrowings is recorded in Borrowing expenses, over the life of the borrowing contract. The remaining changes in fair value of these instruments are recorded in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value in the Statement of Income and Retained Earnings.

Certain borrowings are carried at their par value (face value), adjusted for any unamortized SFAS 133 fair value adjustments, premiums or discounts. The amortizations of these items are calculated following a methodology that approximates the effective interest method, and are included in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value and in Interest under Borrowing expenses, respectively, in the Statement of Income and Retained Earnings.

Issue costs of borrowings carried at fair value are charged to expense upon issuance, whereas those of borrowings carried at amortized cost are deferred and amortized on a straight-line basis (which approximates the effective interest method) over the life of the respective debt security. The unamortized balance of the borrowing issue costs is presented separately under Other assets on the Balance Sheet, and the amounts charged to expense or amortized are included in Borrowing issue costs under

Borrowing expenses in the Statement of Income and Retained Earnings.

Interest expense on borrowings is recognized on an accrual basis, net of the interest component of borrowing derivatives, is calculated in a manner that approximates the effective yield method upon issuance of those borrowings, and is included under Borrowing expenses in the Statement of Income and Retained Earnings.

**Derivatives**

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respective operation to produce the desired interest and/or currency type.

The Bank complies with the derivative accounting requirements of SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (hereinafter referred to as SFAS 133). Following SFAS 133, all derivatives are recognized on the Balance Sheet at their fair value and are classified as either assets or liabilities, depending on the nature (debit or credit) of their net fair value amount.

Changes in the fair value of investment derivatives and the related interest component are recorded in Income from investments. The interest component of the changes in fair value of lending and borrowing derivatives is recorded in Income from loans and Borrowing expenses, respectively, over the life of the derivative contract. The remaining changes in fair value of these instruments are recorded in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value in the Statement of Income and Retained Earnings.

The Bank occasionally issues debt securities that contain embedded derivatives. These securities are allocated to fund floating rate assets and are carried at fair value.

**Administrative expenses**

As part of the realignment of its operations, the Bank incurred expenses of \$5 million during 2008 (2007—\$55 million), which are included in Administrative expenses in the Statement of Income and Retained Earnings. It is expected that the realignment effort will last until 2009.

All administrative expenses of the Bank, excluding realignment expenses (which are fully absorbed by the Ordinary Capital), are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Executive Directors. As a result of the Multilateral Debt Relief and Concessional Finance Reform (a Bank initiative approved in 2007 providing for one hundred (100) percent debt relief on eligible FSO loans to heavily indebted poor countries and the

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restructuring of the FSO's operations), the Board of Executive Directors approved a new expense allocation formula, whereby the FSO bears a smaller percentage of the administrative expenses of the Bank. Following this new allocation formula, during 2008, the effective ratio of administrative expenses charged to the Ordinary Capital was 87.3% and 12.7% to the FSO (2007—88.5% and 11.5%; 2006—81.3% and 18.7%, under the previous allocation formula).

**Special programs**

Special programs provide financing for non-reimbursable and contingent recovery assistance to borrowing member countries. The individual projects under these programs are recorded as Special programs expense at the time of approval. Cancellations of undisbursed balances and recuperations of contingent recovery financings are recognized as an offset to Special programs expense in the period in which they occur.

**Taxes**

The Bank, its property, other assets, income and the operations and transactions it carries out pursuant to the Agreement are immune from all taxation and from all customs duties in its member countries.

**Pension and Postretirement Benefit Plans**

The funded status of the Bank's benefit plans is recognized on the Balance Sheet. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement date. Overfunded benefit plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as Postretirement benefit assets while under-funded benefit plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as Postretirement benefit liabilities.

Net actuarial gains and losses and prior service cost not recognized as a component of net periodic benefit cost as they arise, are recognized as a component of Other comprehensive income in the Statement of Comprehensive Income. These net actuarial gains and losses and prior service cost are subsequently recognized as a component of net periodic benefit cost pursuant to the recognition and amortization provisions of applicable accounting standards.

Net periodic benefit cost is recorded under Administrative expenses in the Statement of Income and Retained Earnings and includes service cost, interest cost, expected return on plan assets, amortization of prior service cost and gains/losses previously recognized as a component of Other comprehensive income remaining in Accumulated other comprehensive income.

**Note C – Restricted Currencies**

At December 31, 2008, Cash includes \$131 million (2007—\$135 million) in currencies of regional borrowing members. These amounts may be used by the Bank in Ordinary Capital lending operations and for administrative expenses. One member has restricted the amount of \$21 million (2007—\$25 million) to be used for making payments for goods and services in its territory, in accordance with the provisions of the Agreement.

**Note D – Investments**

As part of its overall portfolio management strategy, the Bank invests in government, agency, corporate, and bank obligations, asset-backed and mortgage-backed securities, and related financial derivative instruments, primarily currency and interest rate swaps.

For government and agency obligations, including securities issued by an instrumentality of a government or any other official entity, the Bank's policy is to invest in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA– rating (agency asset-backed and mortgage-backed securities require a credit quality equivalent to a AAA rating). Obligations issued by multilateral organizations require a credit quality equivalent to a AAA rating. In addition, the Bank invests in bank obligations issued or guaranteed by an entity with a senior debt securities rating of at least A+, and in corporate, asset-backed, and mortgage-backed securities with credit quality equivalent to a AAA rating. The Bank also invests in short-term securities of the eligible investment asset classes mentioned above, provided that they carry only the highest short-term credit ratings.

The financial markets crisis that began in July 2007 worsened in 2008. The effect of the crisis, characterized by lack of liquidity, higher volatility and widening of credit spreads, has continued to affect the Bank's ability to mitigate its credit risk by selling or hedging its exposures. Valuations continue to be impacted by market factors such as rating agency actions and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

Net unrealized gains (losses) on trading portfolio instruments held at December 31, 2008 of \$(1,596) million (2007—\$(280) million; 2006—\$3 million) were included in Income (loss) from investments. Unrealized losses recognized in 2008 are substantially related to the \$4,184 million asset-backed and mortgage-backed securities portion of the trading investments portfolio (2007—\$6,608 million).

A summary of the trading portfolio instruments at December 31, 2008 and 2007 is shown in the Summary Statement

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of Trading Investments and Swaps in Appendix I-1. In addition, a summary of the held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2008 and 2007 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2.

As of December 31, 2008 and 2007, the Bank does not have any investment that is other-than-temporarily impaired in its held-to-maturity investments portfolio. Held-to-maturity investments with continuous unrealized losses, that are not deemed to be other-than-temporarily impaired as of December 31, 2008 and 2007, are summarized below (in millions):

December 31, 2008						
Category of Investments	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of non-U.S. governments and agencies . . . . .	\$191	\$(1)	\$116	\$(17)	\$307	\$(18)
Asset-backed and mortgage-backed securities. . . . .	34	(1)	—	—	34	(1)
Total. . . . .	<u>\$225</u>	<u>\$(2)</u>	<u>\$116</u>	<u>\$(17)</u>	<u>\$341</u>	<u>\$(19)</u>
December 31, 2007						
Category of Investments	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of non-U.S. governments and agencies . . . . .	\$310	\$(2)	\$1,539	\$(20)	\$1,849	\$(22)
Asset-backed and mortgage-backed securities. . . . .	—	—	126	(2)	126	(2)
Total. . . . .	<u>\$310</u>	<u>\$(2)</u>	<u>\$1,665</u>	<u>\$(22)</u>	<u>\$1,975</u>	<u>\$(24)</u>

The Bank only invests in high credit quality instruments. At December 31, 2008, 74% of the Held-to-maturity investments are rated AAA, 23% are rated AA, 2% are rated A and 1% are rated BBB. The unrealized losses on the Held-to-maturity investments portfolio substantially relate to the credit downgrade of one sovereign issuer to BBB. The Bank expects to collect all amounts due according to the contractual terms prevailing on the acquisition date of these investments. Accordingly, and because the Bank has the ability and intent to hold these investments until maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

**Note E – Loans and Guarantees Outstanding**

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, fulfill certain conditions precedent as required by contract.

The loan portfolio includes sovereign-guaranteed i) single currency pool loans (Single Currency Facility (SCF) and U.S. Dollar Window Program) as well as multicurrency pool loans (CPS loans), and ii) single currency non-pool loans (emergency loans and loans under the Liquidity Program). In addition, the loan portfolio includes non-sovereign-guaranteed loans.

SCF loans are denominated in one of four currencies: United States dollars, euro, Japanese yen and Swiss francs, or in a combination of such currencies, with LIBOR-based or adjustable interest rates, both at the option of the borrower. The interest rate on SCF LIBOR-based loans resets quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's funding cost and the Bank's spread. SCF LIBOR-based loan balances can be converted to fixed rate subject to certain conditions. The interest rate on SCF Adjustable loans resets semi-annually, based on the effective cost during the previous six months of each of the single-currency pools of borrowings allocated to fund such loans, plus the Bank's spread.

As a result of the Multilateral Debt Relief and Concessional Finance Reform approved by the Board of Governors in 2007, the Bank now offers concessional lending through a blending of loans from the Ordinary Capital and the FSO ("parallel loans"). The Ordinary Capital's portion of parallel loans are SCF Adjustable loans with up to 30 years maturity and 6 years grace period.

The Bank maintains a targeted currency composition in its CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. The interest rate on CPS loans made from January 1, 1983 to December 31, 1989 is fixed. The interest rate on CPS loans made after that date is adjusted twice a year based on the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's spread. Since September 2003, CPS loans are no longer available to borrowers.

Under the emergency lending, funding is provided to address financial emergencies in the region for a revolving aggregate amount of up to \$6 billion. Loans are denominated in United States dollars, have a term not to exceed five years, and principal repayments begin after three years. These loans carry a six-month LIBOR interest rate plus a spread of 400 basis points. In late 2008, the Bank approved the creation of the Liquidity Program, a program for loans approved by December 31, 2009 within the emergency lending category, of up to \$6 billion, designed to help borrowing member countries address the effects of the current international financial crisis on the region's economic and social process by protecting the flow of credit to the economy through financial institutions. The loans under this Program have the same terms as emergency loans.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

Non-sovereign-guaranteed loans can be denominated in United States dollars, Japanese yen, euro, Swiss francs or local currency, and borrowers have the option of either a fixed or floating-rate loan. For floating-rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus a credit spread. The credit spreads and fees on these loans are set on a case-by-case basis.

Under the enhanced Local Currency Facility, approved in 2008, borrowers have the option to receive local currency financing under three different modalities: i) direct local currency financing or conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency disbursement of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. As of December 31, 2008, the Bank has carried out cumulative local currency conversions of loan disbursements and outstanding balances of \$288 million (2007—\$148 million).

A summary statement of loans outstanding by country is presented in Appendix I-3 and a summary of the outstanding loans by currency and product type and their maturity structure at December 31, 2008 and 2007 is shown in Appendix I-4.

**Inter-American Investment Corporation (IIC)**

The Bank has approved a loan to the IIC (a separate international organization whose 43 member countries are also members of the Bank) of \$300 million. Disbursements under this loan are in United States dollars and carry a LIBOR-based interest rate. As of December 31, 2008, there was \$100 million outstanding.

**Loan participations and guarantees**

Under the loan contracts with its borrowers, the Bank has the right to sell loan participations to commercial banks or other financial institutions, while reserving to itself the administration of the loans. As of December 31, 2008, there were \$2,437 million (2007—\$944 million) in outstanding participations in non-sovereign-guaranteed loans not included on the Balance Sheet.

As of December 31, 2008, the Bank had approved, net of cancellations and expirations, non-trade finance guarantees without sovereign counter-guarantees of \$1,399 million (2007—\$1,389 million). In addition, the Bank has approved a guarantee with sovereign counter-guarantee of \$60 million. The Bank also has a Trade Finance Facilitation Program (TFFP) to provide credit guarantees without sovereign counter-guarantees on trade finance transactions. This Program authorizes lines of credit in support of approved issuing banks, with an aggregate

program limit of up to \$1 billion outstanding at any time. As of December 31, 2008, trade-finance guarantees of \$425 million have been issued (2007—\$222 million) under this Program.

At December 31, 2008, guarantees of \$1,035 million (2007—\$689 million), including \$141 million (2007—\$99 million) issued under the TFFP, were outstanding and subject to call. An amount of \$54 million (2007—\$58 million) has been re-insured to reduce the Bank's exposure. Outstanding guarantees have remaining maturities ranging from 2 to 16 years, except for trade related guarantees that have maturities of up to three years. No guarantees provided by the Bank have ever been called. As of December 31, 2008, the Bank's exposure on guarantees without sovereign counter-guarantee, net of reinsurance, amounted to \$870 million and were classified as follows: Excellent \$89 million; Satisfactory \$662; Watch list \$119 million; and Loss contingency NIL.

**IFF subsidy**

The IFF was established in 1983 by the Board of Governors of the Bank to subsidize part of the interest payments for which certain borrowers are liable on loans from the resources of the Ordinary Capital. During 2008, the IFF paid \$50 million (2007—\$48 million; 2006—\$43 million) of interest on behalf of the borrowers. Up to December 31, 2006, the IFF was funded primarily from the general reserve of the FSO. As part of the Bank's Multilateral Debt Relief and Concessional Finance Reform, funding to the IFF was discontinued and the IFF interest subsidy is no longer available for loans approved after December 31, 2006.

**Nonaccrual and impaired loans and allowance for outstanding loan and guarantee losses**

The Bank declared a \$288 million non-sovereign-guaranteed loan outstanding impaired as of December 31, 2008, and established a specific allowance for loan losses of \$55 million; all amounts continue to be received on a monthly basis in accordance with the terms of the loan agreement. The recorded investment in impaired loans at December 31, 2007 was \$2 million and the average recorded investment during 2007 was \$24 million. During 2007 and 2006, respectively, income recognized on loans while impaired was \$4 million and \$13 million; if these loans had not been impaired, income recognized would have been \$3 million and \$11 million. There was no specific allowance for loan losses on impaired loans at December 31, 2007.

The changes in the allowance for loan and guarantee losses for the years ended December 31, 2008 and 2007 were as follows (in millions):



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	2008	2007
Balance, beginning of year . . . . .	\$ 70	\$104
Provision (credit) for loan and guarantee losses . . . . .	93	(13)
Non-sovereign-guaranteed loans:		
Write offs . . . . .	—	(21)
Recoveries . . . . .	6	—
Balance, end of year . . . . .	<u>\$169</u>	<u>\$ 70</u>
Composed of:		
Allowance for loan losses . . . . .	\$136	\$ 51
Allowance for guarantee losses <sup>(1)</sup> . . . . .	33	19
Total . . . . .	<u>\$169</u>	<u>\$ 70</u>

<sup>(1)</sup> Included in Accounts payable and accrued expenses.

**Note F – Receivable from (Payable to) Members**

The composition of the net receivable from (payable to) members as of December 31, 2008 and 2007 is as follows (in millions):

	2008	2007
Regional developing members . . . . .	\$ 397	\$ 401
Canada . . . . .	(48)	(250)
Non-regional members . . . . .	(297)	(355)
Total . . . . .	<u>\$ 52</u>	<u>\$(204)</u>

These amounts are represented on the Balance Sheet as follows (in millions):

	2008	2007
Receivable from members . . . . .	\$ 435	\$ 412
Amounts payable to maintain value of currency holdings . . . . .	(383)	(616)
Total . . . . .	<u>\$ 52</u>	<u>\$(204)</u>

**Note G – Property**

At December 31, 2008 and 2007, Property, net consists of the following (in millions):

	2008	2007
Land, buildings, improvements, capitalized software and equipment, at cost . . . . .	\$ 534	\$ 512
Less: accumulated depreciation . . . . .	(231)	(216)
	<u>\$ 303</u>	<u>\$ 296</u>

**Note H – Fair Value Measurements**

Effective January 1, 2008, the Bank adopted SFAS 157, which provides a new framework for measuring fair value under GAAP. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Bank's investment instruments valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, include obligations of the United States and Japanese governments. Such instruments are classified within Level 1 of the fair value hierarchy. As required by SFAS 157, the Bank does not adjust the quoted price for such instruments.

Substantially all other Bank investment instruments are valued based on quoted prices in markets that are not active, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing discounted cash flows. These methodologies apply to investments including government agencies, corporate bonds, asset-backed and mortgage-backed securities, bank obligations, and related financial derivative instruments (primarily currency and interest rate swaps). In addition, substantially all the Bank's medium and long-term borrowings elected under the fair value option allowed by SFAS 159 and lending and borrowing currency and interest rate swaps are valued based on discounted cash flows or pricing models employing valuation inputs such as market yield curves, exchange rates, and other inputs that are observable during the full term of these instruments. These instruments 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.

Level 3 investment, borrowing and related swap instruments are valued using Management's best estimates utilizing available information including (i) actual portfolio prices provided by investment broker/dealers (with little, if any, trading activity), for certain investment instruments and (ii) market yield curves of other instruments, used as a proxy for the instruments' yield curves, for borrowings and related swaps. These methodologies are valuation techniques consistent with the income approach.

The following tables set forth the Bank's financial assets and liabilities that were accounted for at fair value as of December 31, 2008 by level within the fair value hierarchy (in millions). As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Financial assets:**

Assets	Fair Value Measurements			
	December 31, 2008 <sup>(1)</sup>	Level 1	Level 2	Level 3
Investments—Trading . . . . .	\$12,669	\$1,262	\$11,297	\$110
Currency and interest rate swaps . . . . .	3,499	—	3,428	71
Total . . . . .	<u>\$16,168</u>	<u>\$1,262</u>	<u>\$14,725</u>	<u>\$181</u>

<sup>(1)</sup> Represents the fair value of the referred assets, including their accrued interest presented in the Balance Sheet under Accrued interest and other charges of \$56 million for trading investments and \$39 million for currency and interest rate swaps.

**Financial liabilities:**

Liabilities	Fair Value Measurements			
	December 31, 2008 <sup>(1)</sup>	Level 1	Level 2	Level 3
Borrowings measured at fair value . . . . .	\$34,675	\$ —	\$34,135	\$540
Currency and interest rate swaps . . . . .	1,913	—	1,871	42
Total . . . . .	<u>\$36,588</u>	<u>\$ —</u>	<u>\$36,006</u>	<u>\$582</u>

<sup>(1)</sup> Represents the fair value of the referred liabilities, including their accrued interest presented in the Balance Sheet under Accrued interest on borrowings of \$325 million for borrowings and under Accrued interest and other charges—On swaps, net of \$(4) million for currency and interest rate swaps.

The tables below show a reconciliation of the beginning and ending balances of all financial assets and financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008 (in millions). In addition, the tables show the total gains and losses included in Net income (loss) as well as the amount of these gains and losses attributable to the change in unrealized gains and losses relating to assets and liabilities still held as of December 31, 2008 and a description of where these gains or losses are reported in the Statement of Income and Retained Earnings.

**Financial assets**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 2008		
	Investments—Trading	Currency and Interest Rate Swaps	Total
Balance at January 1, 2008 . . . . .	\$ 68	\$ 89	\$157
Total gains (losses) included in:			
Net income (loss) . . . . .	(106)	32	(74)
Other comprehensive income (loss) . . . . .	(5)	(4)	(9)
Settlements . . . . .	(30)	(15)	(45)
Transfer to/from financial liabilities . . . . .	—	(31)	(31)
Transfer into level 3 . . . . .	183	—	183
Balance at December 31, 2008 . . . . .	<u>\$110</u>	<u>\$71</u>	<u>\$181</u>
Total gains (losses) for the year included in Net income (loss) attributable to the change in unrealized gains or losses related to assets still held at December 31, 2008 . . . . .	<u>\$ (84)</u>	<u>\$ 6</u>	<u>\$ (78)</u>

Gains (losses) are included in the Statement of Income and Retained Earnings as follows (in millions).

	Year Ended December 31, 2008			
	Income (loss) from Investments	Borrowing Expenses—Interest, after Swaps	Net Unrealized Gains (Losses) on Non-trading Derivatives and Borrowings Measured at Fair Value	Total
Total gains (losses) included in Net income (loss) for the year . . . . .	<u>\$ (106)</u>	<u>\$ 26</u>	<u>\$ 6</u>	<u>\$ (74)</u>
Change in unrealized gains (losses) related to assets still held at December 31, 2008 . . . . .	<u>\$ (84)</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ (78)</u>

**Financial liabilities**

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 2008		
	Borrowings Measured at Fair Value	Currency and Interest Rate Swaps	Total
Balance at January 1, 2008 . . . . .	\$533	\$ 39	\$572
Total (gains) losses included in:			
Net income (loss) . . . . .	(16)	44	28
Other comprehensive income (loss) . . . . .	(9)	—	(9)
Issuance and settlements, net . . . . .	32	(10)	22
Transfer from/to financial liabilities . . . . .	—	(31)	(31)
Balance at December 31, 2008 . . . . .	<u>\$540</u>	<u>\$ 42</u>	<u>\$582</u>
Total (gains) losses for the year included in Net income (loss) attributable to the change in unrealized gains or losses related to liabilities still held at December 31, 2008 . . . . .	<u>\$ (56)</u>	<u>\$ 39</u>	<u>\$ (17)</u>

(Gains) losses are included in the Statement of Income and Retained Earnings as follows (in millions):

	Year Ended December 31, 2008		
	Borrowing Expenses—Interest, after Swaps	Net Unrealized Gains (Losses) on Non-trading Derivatives and Borrowings Measured at Fair Value	Total
Total (gains) losses included in Net income (loss) for the year . . . . .	<u>\$45</u>	<u>\$ (17)</u>	<u>\$ 28</u>
Change in unrealized (gains) losses related to liabilities still held at December 31, 2008 . . . . .	<u>\$ —</u>	<u>\$ (17)</u>	<u>\$ (17)</u>



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**Note I – Fair Value Option**

Up to December 31, 2007, and since the discontinuation of hedge accounting on January 1, 2004, the Bank accounted for all its borrowings at amortized cost and, as required by SFAS 133, marked to market all derivative instruments, including borrowing swaps, with changes in fair value recognized in income. This accounting treatment resulted in income volatility being reported, which was not representative of the underlying economics of the transactions as the Bank generally holds its borrowings and swaps to maturity. Effective January 1, 2008, Management approved the election of the fair value option provided by SFAS 159 for certain medium- and long-term debt (i.e., borrowings funding floating rate assets) with the primary purpose of reducing the income volatility resulting from the previous accounting asymmetry, as SFAS 159 requires that changes in the fair value of elected borrowings also be recorded in income. The Bank did not elect the fair value option for other borrowings within the same balance sheet category because they do not contribute to a mitigation of, or do not produce, income volatility.

As described in Note H to the financial statements, substantially all the Bank's medium- and long-term borrowings elected under SFAS 159 and related borrowing currency and interest rate swaps are valued based on discounted cash flows or pricing models employing valuation inputs observable in the principal markets in which these instruments transact. When observable inputs are not available, these instruments are valued using management's best estimates, including market yield curves of other instruments used as a proxy for the instruments' yield curves.

The changes in fair value for borrowings elected under the fair value option have been recorded in the Statement of Income and Retained Earnings for the year ended December 31, 2008 as follows (in millions):

Year Ended December 31, 2008		
Borrowing Expenses—Interest, after Swaps	Net Unrealized Gains (losses) on Non-trading Derivatives and Borrowings Measured at Fair Value	Total Changes in Fair Value Included in Net Income (Loss)
<u>\$(1,644)</u>	<u>\$1,766</u>	<u>\$122</u>

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of December 31, 2008, was as follows (in millions):

Unpaid Principal Outstanding	Fair Value	Fair Value over Unpaid Principal Outstanding
<u>\$32,745</u>	<u>\$34,675</u>	<u>\$1,930</u>

**Note J – Borrowings**

Medium- and long-term borrowings at December 31, 2008 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.50% to 16.38%, before swaps, and from 0.12% (equivalent to 1-month USD-LIBOR less 35 basis points) to 9.08%, after swaps, with various maturity dates through 2038. A summary of the medium- and long-term borrowing portfolio and its maturity structure at December 31, 2008 and 2007 is shown in Appendix I-5.

The Bank has short-term borrowing facilities that consist of a discount notes program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts not less than \$100,000, with maturities of up to 360 days. At December 31, 2008, the weighted average rate of short-term borrowings was 1.88% (2007—4.37%).

Borrowing expenses have been reduced by the net interest component of related borrowing swap transactions amounting to \$750 million during 2008 (2007—\$340 million; 2006—\$307 million).

**Note K – Derivatives and Hedging Activities**

**Risk management strategy and use of derivatives**

The Bank's financial risk management strategy is designed to strengthen the Bank's ability to fulfill its purpose. This strategy consists primarily of designing, implementing, updating, and monitoring the Bank's interrelated set of financial policies and guidelines, and utilizing appropriate financial instruments and organizational structures. Financial derivative instruments are an important component of the set of financial instruments used by the Bank to enhance its financial efficiency while achieving its risk management objectives. These instruments, mostly currency and interest rate swaps, are used primarily for hedging purposes as part of the Bank's asset and liability management.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

A significant number of the current borrowing operations include swaps to economically hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and interest rate type). The Bank also uses lending swaps to economically hedge certain fixed-rate loans and loans in local currency, and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash.

**Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value**

Following the requirements of SFAS 133, the Bank records all derivatives at fair value on the Balance Sheet, with changes in fair value reported in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value (before 2008, Effects of SFAS 133 and currency transaction adjustments) in the Statement of Income and Retained Earnings. Beginning in 2008, certain borrowings elected under the fair value option provided by SFAS 159 are also carried at fair value on the Balance sheet, with changes in fair value reported in Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value.

Net unrealized gains (losses) on non-trading derivatives and borrowings measured at fair value for the years ended December 31, 2008, 2007 and 2006 comprise the following (in millions):

	2008	2007	2006
Change in fair value of derivative instruments due to movements in:			
Exchange rates .....	\$(3,980)	\$ 1,106	\$ 619
Interest rates .....	2,900	(170)	(469)
Total change in fair value of derivatives .....	(1,080)	936	150
Change in fair value of SFAS 159 elected borrowings due to movements in:			
Exchange rates .....	3,727	—	—
Interest rates .....	(1,961)	—	—
Total change in fair value of borrowings .....	1,766	—	—
Currency transaction gains (losses) on borrowings at amortized cost .....	241	(1,141)	(589)
Change in fair value of hybrid borrowings .....	—	—	1
Amortization of borrowing and loan basis adjustments .....	19	57	62
Reclassification to income—cash flow hedges .....	4	(1)	(8)
Total .....	\$ 950	\$ (149)	\$(384)

The fair value election for certain borrowings under SFAS 159 has helped reduce the income volatility previously generated by carrying at fair value only the derivatives, as required by SFAS 133. Net unrealized gains on the Bank's non-trading derivatives due to changes in interest rates were \$2,900 million for the year mainly due to an overall decrease in long-term swap interest rates in the global markets, compared to year-end 2007 levels. These gains were partially compensated by net unrealized losses of \$1,961 million on borrowings elected under the fair value option resulting from changes in interest rates. Substantially all this income volatility, which amounted to a gain of \$939 million for the year, resulted mainly from an overall increase in the Bank's credit spreads at the end of the year. The financial market turmoil has led to a crisis of confidence that has negatively affected all credit spread products. Consequently, the Bank's credit spreads have widened due, in part, to competition from comparably rated government guaranteed financial institutions at wider spread levels than those typically obtained by the Bank in the past.

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. During 2008, exchange rate changes affected negatively the value of the borrowing swaps by \$3,980 million (2007—positive changes of \$1,106 million; 2006—positive changes of \$619 million), offsetting the positive effect of the decrease in the value of borrowings of \$3,968 million (2007—negative changes of \$1,141 million; 2006—negative changes of \$589 million).

**Note L – Commercial Credit Risk**

Commercial credit risk is the exposure to losses that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or derivative counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. The primary objective in the management of the liquid assets is the maintenance of a conservative exposure to credit, market and liquidity risks. Consequently, the Bank invests only in high quality debt instruments issued by sovereigns, agencies, banks and corporate entities. In addition, the Bank limits its capital market activities to authorized counterparties, issuers and dealers selected on the basis of conservative risk management policies, and establishes exposure and term limits for those counterparties, issuers and dealers based on their size and creditworthiness.

As part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for

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**NOTES TO FINANCIAL STATEMENTS** (continued)

hedging purposes. The Bank has established exposure limits for each derivative counterparty and has entered into master derivative agreements that contain enforceable close-out netting provisions. These master agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. The Bank does not expect nonperformance by any of its derivative counterparties. As of December 31, 2008, the Bank had received eligible collateral (U.S. Treasuries and cash) of \$1,761 million (2007—\$2,131 million), as required under its master derivative agreements.

The derivative credit exposures shown below represent the maximum potential loss, based on the gross fair value of the financial instruments without consideration of close-out netting provisions on master derivative agreements, the Bank would incur if the parties to the derivative financial instruments failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value. As of December 31, 2008 and 2007, such credit exposures, prior to consideration of any master derivative agreements or posted collateral, were as follows (in millions):

	2008	2007
Investments—Trading Portfolio		
Interest rate swaps . . . . .	\$ 4	\$ 5
Borrowing Portfolio		
Currency swaps . . . . .	1,881	2,800
Interest rate swaps . . . . .	1,573	241
Loan Portfolio		
Currency and interest rate swaps . . .	41	4

**Note M – Capital Stock and Voting Power**

**Capital stock**

Capital stock consists of “paid-in” and “callable” shares. The subscribed “paid-in” capital stock has been paid in gold and/or United States dollars and in the currency of the respective member, which in some cases has been made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest-bearing demand obligations have been accepted in lieu of the immediate payment of all or any part of the member’s subscribed “paid-in” capital stock. The subscribed “callable” portion of capital may only be called when required to meet obligations of the Bank created by borrowings of funds for inclusion in the Ordinary Capital resources or guarantees chargeable to such resources and is payable at the option of the member either in gold, in United States dollars, in the currency of the member country, or in the currency required to discharge the obligations of the Bank for the purpose for which

the call is made. For a Statement of Subscriptions to Capital Stock at December 31, 2008 and 2007, see Appendix I-6.

**Voting power**

Under the Agreement, each member country shall have 135 votes plus one vote for each share of the Bank held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Inter-American Development Bank, also provides that no increase in the capital stock subscription of any member shall have the effect of reducing the voting power of the regional developing members below 50.005%, of the United States below 30%, and of Canada below 4% of the total voting power, leaving the remaining voting power available for nonregional members at a maximum of 15.995%, including approximately 5% for Japan.

Total capital stock subscriptions and the voting power of the member countries as of December 31, 2008 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

**Return of Capital to Serbia and Montenegro**

In June 2008, the Bank returned funds to each of Serbia and Montenegro corresponding to shares of Paid-in capital as a result of the decision of those countries not to subscribe to such shares as successors of the former Socialist Federal Republic of Yugoslavia, a former Bank member. The associated adjustments resulted in a reduction of \$15 million of Subscribed capital, \$14 million of Callable capital and \$1 million of Paid-in capital.

**Increase in Bank membership**

On January 12, 2009, the People’s Republic of China became the 48th member of the Bank and subscribed to eight shares of Paid-in capital and 176 shares of Callable capital.

**Note N – Retained Earnings**

The composition of Retained earnings as of December 31, 2008 and 2007 is as follows (in millions):

	2008	2007
General reserve . . . . .	\$11,982	\$11,911
Special reserve . . . . .	2,665	2,665
Total . . . . .	<u>\$14,647</u>	<u>\$14,576</u>

**Note O – Accumulated Other Comprehensive Income**

Other comprehensive income comprises the effects of SFAS 133 and SFAS 158 and currency translation adjustments. These items are presented in the Statement of Comprehensive Income.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

The following is a summary of changes in Accumulated other comprehensive income for the years ended December 31, 2008, 2007, and 2006 (in millions):

	Translation Adjustments Allocation		SFAS 133 Adjustments	SFAS 158 Adjustments	Total
	General Reserve	Special Reserve			
Balance at January 1, 2006 .....	\$ 395	\$(200)	\$(7)	\$ —	\$ 188
Translation adjustments .....	117	32	—	—	149
Reclassification to income— cash flow hedges .....	—	—	8	—	8
Initial recognition of deferred (cost) credit for postretirement benefits:					
Net actuarial gain .....	—	—	—	698	698
Prior service cost .....	—	—	—	(17)	(17)
Balance at December 31, 2006 .....	512	(168)	1	681	1,026
Translation adjustments .....	234	46	—	—	280
Reclassification to income— cash flow hedges .....	—	—	1	—	1
Recognition of changes in Postretirement benefit assets:					
Net actuarial gain .....	—	—	—	126	126
Reclassification to income— amortization of net prior service cost .....	—	—	—	4	4
Balance at December 31, 2007 .....	746	(122)	2	811	1,437
Translation adjustments .....	376	20	—	—	396
Reclassification to income— cash flow hedges .....	—	—	(4)	—	(4)
Recognition of changes in Postretirement benefit assets/liabilities:					
Net actuarial loss .....	—	—	—	(1,375)	(1,375)
Reclassification to income— amortization of net prior service cost .....	—	—	—	4	4
Balance at December 31, 2008 .....	<u>\$1,122</u>	<u>\$(102)</u>	<u>\$(2)</u>	<u>\$ (560)</u>	<u>\$ 458</u>

**Note P – Pension and Postretirement Benefit Plans**

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC, and the Local Retirement Plan (LRP) for the pension benefit of national employees in the country offices. The Plans are funded by employee, Bank and IIC contributions in accordance with the provisions of the Plans. Any and all Bank and IIC contributions to the Plans are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Plans.

The Bank also provides certain health care and other benefits to retirees. All current staff of the Bank and the IIC who contribute to the SRP and LRP while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefits Plan (PRBP). Retirees contribute toward the Bank's health care program based on an established premium schedule. The Bank and the IIC contribute 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 Bank, they are held and administered separately and apart from the other property and assets of the Bank solely for the purpose of payment of benefits under the PRBP.

Since both the Bank and the IIC participate in the SRP and the PRBP, each employer presents its respective share of these plans. The amounts presented below reflect the Bank's proportionate share of costs, assets and obligations of the Plans and the PRBP.

**Obligations and funded status**

The Bank uses a December 31 measurement date for the Plans and the PRBP. The following table summarizes the Bank's share of the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRBP, and the amounts recognized on the Balance Sheet for the years ended December 31, 2008, 2007 and 2006 (in millions):

	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
<b>Change in benefit obligation</b>						
Benefit obligation, beginning						
of year .....	\$2,264	\$2,207	\$2,046	\$ 996	\$ 886	\$ 810
Service cost .....	54	58	58	29	32	31
Interest cost .....	142	132	112	62	58	44
Plan participants' contributions .....	20	21	21	—	—	—
Retiree drug subsidy received .....	—	—	—	1	—	—
Benefits paid .....	(93)	(86)	(69)	(25)	(22)	(20)
Actuarial loss (gain) .....	32	(68)	39	5	42	21
Benefit obligation, end of year .....	<u>2,419</u>	<u>2,264</u>	<u>2,207</u>	<u>1,068</u>	<u>996</u>	<u>886</u>
<b>Change in plan assets</b>						
Fair value of plan assets,						
beginning of year .....	3,038	2,826	2,499	1,195	1,130	994
Actual return on plan assets .....	(785)	243	339	(314)	71	140
Employer contribution .....	24	34	35	17	16	16
Plan participants' contributions .....	20	21	21	—	—	—
Benefits paid .....	(93)	(86)	(69)	(25)	(22)	(20)
Net payments from other plans .....	—	—	1	—	—	—
Fair value of plan assets,						
end of year .....	<u>2,204</u>	<u>3,038</u>	<u>2,826</u>	<u>873</u>	<u>1,195</u>	<u>1,130</u>
Funded status, end of year .....	<u>\$ (215)</u>	<u>\$ 774</u>	<u>\$ 619</u>	<u>\$ (195)</u>	<u>\$ 199</u>	<u>\$ 244</u>
<b>Amounts recognized in</b>						
Accumulated other comprehensive						
income consist of:						
Net actuarial loss (gain) .....	\$ 339	\$ (648)	\$ (492)	\$ 212	\$ (176)	\$ (206)
Prior service cost .....	6	8	10	3	5	7
Net amount recognized .....	<u>\$ 345</u>	<u>\$ (640)</u>	<u>\$ (482)</u>	<u>\$ 215</u>	<u>\$ (171)</u>	<u>\$ (199)</u>

The accumulated benefit obligation for the Plans was \$2,150 million, \$1,943 million, and \$1,911 million at December 31, 2008, 2007 and 2006, respectively.

During 2008, the fair value of the Plans and the PRBP assets was adversely affected by the continuing instability in the financial markets, contributing significantly to the negative return in plan assets during the year.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in Other comprehensive income for the years ended December 31, 2008, 2007 and 2006, as applicable, consist of the following components (in millions):

**Components of net periodic benefit cost:**

	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Service Cost .....	\$ 54	\$ 58	\$ 58	\$ 29	\$ 32	\$ 31
Interest Cost .....	142	132	112	62	58	44
Expected return on plan assets .....	(171)	(154)	(139)	(68)	(61)	(55)
Amortization of prior service cost ..	2	2	2	2	2	2
Net periodic benefit cost .....	<u>\$ 27</u>	<u>\$ 38</u>	<u>\$ 33</u>	<u>\$ 25</u>	<u>\$ 31</u>	<u>\$ 22</u>
Of which:						
Ordinary Capital's share .....	\$ 23	\$ 32	\$ 26	\$ 21	\$ 26	\$ 17
FSO's share .....	4	6	7	4	5	5

**Other changes in plan assets and benefit obligation recognized in Other comprehensive income (loss):**

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Net actuarial loss (gain) .....	\$ 987	\$(156)	\$ 388	\$ 30
Amortization of prior service cost .....	(2)	(2)	(2)	(2)
Total recognized in Other comprehensive income (loss) .....	<u>\$ 985</u>	<u>\$(158)</u>	<u>\$ 386</u>	<u>\$ 28</u>
Total recognized in net periodic benefit cost and Other comprehensive income (loss) .....	<u>\$1,012</u>	<u>\$(120)</u>	<u>\$ 411</u>	<u>\$ 59</u>

The Bank allocates the net periodic benefit cost between the Ordinary Capital and the FSO in accordance with the allocation formula approved by the Board of Executive Directors for administrative expenses.

The estimated prior service cost that will be amortized from Accumulated other comprehensive income into net periodic benefit cost during 2009 is \$2 million for the Plans and \$2 million 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 which exceed 10% of the greater of the benefit obligation or market-related value of plan assets at the beginning of the period are amortized over the average remaining service period of active employees expected to receive benefits under

the SRP, LRP and PRBP, which approximates 11.4, 12.3 and 11.9 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the SRP, 13 years for the LRP, and 7.9 years for the PRBP.

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

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Discount rate .....	5.75%	6.25%	6.00%	5.75%	6.25%	6.00%
Rate of salary increase SRP .....	5.50%	6.00%	6.00%			
Rate of salary increase LRP .....	7.30%	7.80%	7.80%			

Weighted-average assumptions used to determine net periodic benefit cost for the years ended at December 31,	Pension Benefits			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Discount rate .....	6.25%	6.00%	5.50%	6.25%	6.00%	5.50%
Expected long-term return on plan assets ..	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Rate of salary increase SRP .....	6.00%	6.00%	5.10%			
Rate of salary increase LRP .....	7.80%	7.80%	7.30%			

The expected yearly rate of return on plan assets reflects management's best estimate of expected rate of returns of asset categories employed by the plans and conservatively applying those returns in formulating the investment policy asset allocations. The discount rates used in determining the benefit obligations are selected by reference to the year-end AAA and AA corporate bond rates.

For participants assumed to retire in the United States, the accumulated postretirement benefit obligation was determined using the following health care cost trend rates at December 31:

	2008	2007	2006
Health care cost trend rates assumed for next year:			
Medical .....	8.50%	9.50%	10.00%
Prescription drugs .....	8.50%	9.50%	10.00%
Dental .....	6.00%	6.50%	6.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) .....	4.50%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate .....	2017	2017	2013

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**NOTES TO FINANCIAL STATEMENTS** (continued)

For those participants assumed to retire outside of the United States, a 8.50% health care cost trend rate was used for 2008 (2007—9.50%; 2006—10.00%).

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 as of December 31, 2008 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components . . . . .	\$ 14	\$ (11)
Effect on postretirement benefit obligation . . . . .	143	(111)

**Plan assets**

The Plans and PRBP weighted-average asset allocations at December 31, 2008 and 2007, by asset category, are as follows:

Asset Category	Plans		PRBP	
	2008	2007	2008	2007
U.S. equities . . . . .	30%	34%	35%	39%
Non-U.S. equities . . . . .	20%	25%	23%	30%
Emerging market equities . . . . .	2%	3%	—	—
Emerging market debt . . . . .	3%	2%	—	—
Fixed income bonds and funds . . . . .	21%	20%	20%	20%
U.S. inflation-indexed bonds . . . . .	9%	7%	14%	10%
Real estate investment funds and equities . . . . .	5%	6%	—	—
Commodity index futures . . . . .	1%	3%	—	—
Short-term investment funds . . . . .	9%	—	8%	1%
Total . . . . .	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The assets of the Plans and the PRBP are managed primarily by investment managers employed by the Bank who are provided with investment guidelines that take into account the Plans and PRBP investment policies. Investment policies have been developed so that, consistent with expected returns, there is a high equity allocation with the expectation of sufficient returns to meet long-term funding needs.

Investments average 60% and 70% exposure to a well-diversified pool of equities. Assets are also invested in fixed-income securities (20%) to protect against disinflation, a mix of other types of investments (10% to 20%) that are expected to react positively to rising inflation to provide protection against loss of purchasing power, emerging market equities (0% to 5%), and emerging market debt (0% to 5%).

The investment policy target allocations as of December 31, 2008 are as follows:

	SRP	LRP	PRBP
U.S. equities . . . . .	35%	40%	40%
Non-U.S. equities . . . . .	25%	30%	30%
Emerging market securities <sup>(1)</sup> . . . . .	5%	—	—
Fixed income . . . . .	20%	20%	20%
Inflation-sensitive investments <sup>(2)</sup> . . . . .	15%	10%	10%

<sup>(1)</sup> Comprised of emerging market equities and debt.

<sup>(2)</sup> Comprised of inflation-indexed U.S. Government bonds (5% to 15%), real estate investment funds and equities (0% to 6%), and full-collateralized commodity index futures (0% to 4%) for the SRP; inflation-indexed U.S. Government bonds (5% to 10%) and real estate investment funds and equities (0% to 5%) for the LRP; and inflation-indexed U.S. Government bonds (10%) for the PRBP.

Risk management is achieved by the continuous monitoring of each asset category level and investment manager. The investments are rebalanced toward the policy target allocations to the extent possible from cash flows. If cash flows are insufficient to maintain target weights, transfers among the managers' accounts are made at least annually. Investment managers generally are not allowed to invest more than 5% of their respective portfolios in the securities of a single issuer other than the U.S. Government. The use of derivatives by an investment manager must be specifically approved for each instrument.

**Cash flows**

**Contributions**

Contributions from the Bank to the Plans and the PRBP during 2009 are expected to be approximately \$35 million and \$25 million, respectively. All contributions are made in cash.

**Estimated future benefit payments**

The following table shows 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 (in millions). These amounts are based on the same assumptions used to measure the benefit obligation at December 31, 2008.

Year	Plans	PRBP
2009 . . . . .	\$ 97	\$ 34
2010 . . . . .	101	36
2011 . . . . .	106	39
2012 . . . . .	110	41
2013 . . . . .	115	44
2014–2018 . . . . .	656	267



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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note Q – Reconciliation of Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities**

A reconciliation of Net income (loss) to Net cash provided by (used in) operating activities, as shown on the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2008	2007	2006
Net income (loss) .....	\$ (22)	\$ 134	\$ 243
Difference between amounts accrued and amounts paid or collected for:			
Loan income .....	57	(2)	(9)
Investment income .....	(54)	(26)	(19)
Net unrealized (gain) loss on trading investments .....	1,596	280	(12)
Interest and other costs of borrowings, after swaps .....	350	182	213
Administrative expenses, including depreciation .....	7	67	48
Special programs .....	48	24	27
Net unrealized (gains) losses on non-trading derivatives and borrowings measured at fair value .....	(950)	149	384
Net (increase) decrease in trading investments .....	(1,951)	122	(1,796)
Provision (credit) for loan and guarantee losses .....	93	(13)	(48)
Net cash provided by (used in) operating activities .....	\$ (826)	\$ 917	\$ (969)

**Supplemental disclosure of noncash activities**

Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments .....	\$ (199)	\$ 438	\$ 316
Held-to-maturity investments .....	(237)	347	167
Loans outstanding .....	806	583	366
Borrowings .....	272	840	536
Receivable from members-net .....	260	(302)	(139)

**Note R – Segment Reporting**

Management has determined that the Bank has only one reportable segment since it does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries. For the years 2008, 2007 and 2006, loans made to or guaranteed by three countries individually generated in excess of 10 percent of loan income, as follows (in millions):

	Years ended December 31,		
	2008	2007	2006
Argentina .....	\$411	\$463	\$476
Brazil .....	579	583	540
Colombia .....	253	230	189

**Note S – Fair Values of Financial Instruments**

The following methods and assumptions were used by the Bank in measuring the fair value for its financial instruments:

**Cash:** The carrying amount reported in the Balance Sheet for cash approximates fair value.

**Investments:** Fair values for investment securities are based on quoted prices, where available; otherwise they are based on external pricing services, independent dealer prices, or discounted cash flows.

**Loans:** The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. The absence of a secondary market for development loans makes it difficult to estimate the fair value of the Bank's lending portfolio despite the flexibility offered by the new fair value framework provided by SFAS 157. However, the Bank continues to explore possible available valuation tools to make the estimate of fair value of its lending portfolio without having to incur excessive costs.

**Swaps:** Fair values for interest rate and currency swaps are based on discounted cash flows or pricing models.

**Borrowings:** The fair values of borrowings are based on discounted cash flows or pricing models.

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of December 31, 2008 and 2007 (in millions):

	2008 <sup>(1)</sup>		2007 <sup>(1)</sup>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash .....	\$ 301	\$ 301	\$ 200	\$ 200
Investments				
Trading .....	12,669	12,669	12,367	12,367
Held-to-maturity .....	3,657	3,703	3,901	3,884
Loans outstanding, net .....	51,601	N/A	48,503	N/A
Currency and interest rate swaps receivable				
Investments—trading .....	4	4	5	5
Loans .....	41	41	4	4
Borrowings .....	3,454	3,454	3,041	3,041
Borrowings				
Short-term .....	3,067	3,067	2,204	2,204
Medium- and long-term:				
Measured at fair value .....	34,675	34,675	—	—
Measured at amortized cost .....	12,211	13,977	45,441	45,901
Currency and interest rate swaps payable				
Investments—trading .....	11	11	3	3
Loans .....	110	110	16	16
Borrowings .....	1,792	1,792	1,011	1,011

N/A = Not available

<sup>(1)</sup> Includes accrued interest.



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## APPENDIX I-1

**SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D**

December 31, 2008

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:					
Carrying value . . . . .	—	—	—	2,678	2,678 <sup>(1)</sup>
Average balance during year . . . . .	—	—	—	996	996
Net gains for the year . . . . .	—	—	—	10	10
Obligations of non-U.S. governments and agencies:					
Carrying value . . . . .	331	33	142	265	771
Average balance during year . . . . .	386	101	42	26	555
Net gains for the year . . . . .	7	1	1	—	9
Bank obligations:					
Carrying value . . . . .	1,361	—	120	3,300	4,781
Average balance during year . . . . .	1,714	231	239	3,493	5,677
Net losses for the year . . . . .	(31)	—	—	(69)	(100)
Corporate securities:					
Carrying value . . . . .	—	—	—	199	199
Average balance during year . . . . .	—	—	—	325	325
Net losses for the year . . . . .	—	—	—	(2)	(2)
Asset-backed and mortgage-backed securities:					
Carrying value . . . . .	1,838	—	—	2,346	4,184
Average balance during year . . . . .	2,273	—	—	3,237	5,510
Net losses for the year . . . . .	(313)	—	—	(1,201)	(1,514)
Total trading investments:					
Carrying value . . . . .	3,530	33	262	8,788	12,613
Average balance during year . . . . .	4,373	332	281	8,077	13,063
Net gains (losses) for the year . . . . .	(337)	1	1	(1,262)	(1,597)
Net interest rate swaps:					
Carrying value <sup>(2)</sup> . . . . .	—	—	—	(7)	(7)
Average balance during year . . . . .	—	—	—	(4)	(4)
Net losses for the year . . . . .	—	—	—	(1)	(1)
Currency swaps receivable:					
Carrying value <sup>(2)</sup> . . . . .	—	—	—	35	35
Average balance during year . . . . .	—	—	—	12	12
Net gains (losses) for the year . . . . .	—	—	—	—	—
Currency swaps payable:					
Carrying value <sup>(2)</sup> . . . . .	(36)	—	—	—	(36)
Average balance during year . . . . .	(11)	—	—	—	(11)
Net losses for the year . . . . .	(2)	—	—	—	(2)
Total trading investments and swaps:					
Carrying value . . . . .	3,494	33	262	8,816	12,605
Average balance during year . . . . .	4,362	332	281	8,085	13,060
Net gains (losses) for the year . . . . .	(339)	1	1	(1,263)	(1,600)
Return for the year (%) . . . . .	(3.26)	0.70	2.52	(12.57)	(7.84)

<sup>(1)</sup> Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities, of \$1,358 million. GSE obligations are not backed by the full faith and credit of the United States government.

<sup>(2)</sup> Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. Currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-1

**SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D**

December 31, 2007

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:					
Carrying value . . . . .	—	—	—	454	454 <sup>(1)</sup>
Average balance during year . . . . .	—	—	—	519	519
Net gains for the year . . . . .	—	—	—	3	3
Obligations of non-U.S. governments and agencies:					
Carrying value . . . . .	—	127	—	—	127
Average balance during year . . . . .	24	90	—	—	114
Net losses for the year . . . . .	(1)	—	—	—	(1)
Bank obligations:					
Carrying value . . . . .	1,701	43	151	2,812	4,707
Average balance during year . . . . .	1,736	93	265	3,034	5,128
Net gains (losses) for the year . . . . .	(10)	—	—	14	4
Corporate securities:					
Carrying value . . . . .	—	—	—	411	411
Average balance during year . . . . .	—	—	—	449	449
Net losses for the year . . . . .	—	—	—	(5)	(5)
Asset-backed and mortgage-backed securities:					
Carrying value . . . . .	2,498	—	—	4,110	6,608
Average balance during year . . . . .	2,416	—	—	4,834	7,250
Net losses for the year . . . . .	(52)	—	—	(239)	(291)
Total trading investments:					
Carrying value . . . . .	4,199	170	151	7,787	12,307
Average balance during year . . . . .	4,176	183	265	8,836	13,460
Net losses for the year . . . . .	(63)	—	—	(227)	(290)
Net interest rate swaps:					
Carrying value <sup>(2)</sup> . . . . .	1	—	—	—	1
Average balance during year . . . . .	1	—	—	—	1
Net losses for the year . . . . .	—	—	—	(1)	(1)
Total trading investments and swaps:					
Carrying value . . . . .	4,200	170	151	7,787	12,308
Average balance during year . . . . .	4,177	183	265	8,836	13,461
Net losses for the year . . . . .	(63)	—	—	(228)	(291)
Return for the year (%) . . . . .	2.78	0.59	2.37	2.84	2.79

<sup>(1)</sup> Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of \$226 million. GSE obligations are not backed by the full faith and credit of the United States government.

<sup>(2)</sup> Interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-2

**SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D**

December 31, 2008

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of non-U.S. governments and agencies:						
Net carrying amount.....	1,428	551	155	181	947	3,262
Gross unrealized gains.....	16	3	1	4	39	63
Gross unrealized losses.....	18	—	—	—	—	18
Fair value .....	1,426	554	156	185	986	3,307
Bank obligations:						
Net carrying amount.....	73	—	2	—	148	223
Gross unrealized gains.....	—	—	—	—	—	—
Gross unrealized losses.....	—	—	—	—	—	—
Fair value .....	73	—	2	—	148	223
Asset-backed and mortgage-backed securities:						
Net carrying amount.....	—	—	—	35	101	136
Gross unrealized gains.....	—	—	—	—	2	2
Gross unrealized losses.....	—	—	—	1	—	1
Fair value .....	—	—	—	34	103	137
Total held-to-maturity investments:						
Net carrying amount.....	1,501	551	157	216	1,196 <sup>(1)</sup>	3,621
Gross unrealized gains.....	16	3	1	4	41	65
Gross unrealized losses.....	18	—	—	1	—	19
Fair value .....	1,499	554	158	219	1,237	3,667
Return for the year (%).....	3.74	0.72	2.21	3.87	4.27	3.47

<sup>(1)</sup> The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars .....	\$ 927
British pounds sterling .....	178
Other.....	91
Total .....	<u>\$1,196</u>

**MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS**

December 31, 2008

Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2009 .....	\$1,535	\$1,539
2010 to 2013.....	2,086	2,128
Total .....	<u>\$3,621</u>	<u>\$3,667</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-2

**SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D**

December 31, 2007

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States						
Government and its corporations and agencies:						
Net carrying amount .....	48	—	—	5	—	53 <sup>(1)</sup>
Gross unrealized gains .....	—	—	—	—	—	—
Gross unrealized losses .....	—	—	—	—	—	—
Fair value .....	48	—	—	5	—	53
Obligations of non-U.S. governments and agencies:						
Net carrying amount .....	1,153	446	51	269	1,115	3,034
Gross unrealized gains .....	1	1	—	1	3	6
Gross unrealized losses .....	17	—	—	1	4	22
Fair value .....	1,137	447	51	269	1,114	3,018
Bank obligations:						
Net carrying amount .....	309	4	95	—	155	563
Gross unrealized gains .....	—	—	—	—	—	—
Gross unrealized losses .....	—	—	—	—	—	—
Fair value .....	309	4	95	—	155	563
Asset-backed and mortgage-backed securities:						
Net carrying amount .....	—	—	—	60	148	208
Gross unrealized gains .....	—	—	—	—	1	1
Gross unrealized losses .....	—	—	—	—	2	2
Fair value .....	—	—	—	60	147	207
Total held-to-maturity investments:						
Net carrying amount .....	1,510	450	146	334	1,418 <sup>(2)</sup>	3,858
Gross unrealized gains .....	1	1	—	1	4	7
Gross unrealized losses .....	17	—	—	1	6	24
Fair value .....	1,494	451	146	334	1,416	3,841
Return for the year (%) .....	3.64	0.56	2.29	3.92	4.38	3.45

<sup>(1)</sup> Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of \$53 million. GSE obligations are not backed by the full faith and credit of the United States government.

<sup>(2)</sup> The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars .....	\$1,085
British pounds sterling .....	230
Other .....	103
Total .....	<u>\$1,418</u>

**MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS**

December 31, 2007

Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2008 .....	\$1,545	\$1,543
2009 to 2012 .....	2,313	2,298
Total .....	<u>\$3,858</u>	<u>\$3,841</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-3

**SUMMARY STATEMENT OF LOANS – NOTE E**

December 31, 2008 and 2007

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2008 <sup>(1)</sup>	Currency in which outstanding balance is collectible		Undisbursed	Outstanding 2007 <sup>(1)</sup>
		Non-borrowing country currencies <sup>(2)</sup>	Borrowing country currencies		
Argentina . . . . .	\$ 8,668	\$ 8,616	\$ 52	\$ 4,504	\$ 8,567
Bahamas . . . . .	90	90	—	142	79
Barbados . . . . .	140	140	—	84	133
Belize . . . . .	94	94	—	26	96
Bolivia . . . . .	161	161	—	102	195
Brazil . . . . .	12,543	12,497	46	3,775	12,505
Chile . . . . .	591	591	—	393	551
Colombia . . . . .	5,620	5,600	20	693	4,813
Costa Rica . . . . .	251	251	—	1,344	495
Dominican Republic . . . . .	1,025	1,025	—	261	1,029
Ecuador . . . . .	1,487	1,487	—	392	1,465
El Salvador . . . . .	1,377	1,377	—	419	1,166
Guatemala . . . . .	1,197	1,197	—	584	1,135
Guyana . . . . .	3	3	—	29	3
Honduras . . . . .	75	75	—	137	89
Jamaica . . . . .	627	627	—	152	542
Mexico . . . . .	4,782	4,782	—	1,477	4,574
Nicaragua . . . . .	77	77	—	78	78
Panama . . . . .	911	911	—	553	853
Paraguay . . . . .	705	705	—	416	678
Peru . . . . .	3,957	3,957	—	447	3,823
Suriname . . . . .	59	59	—	89	55
Trinidad and Tobago . . . . .	396	396	—	124	390
Uruguay . . . . .	2,056	2,056	—	638	1,835
Venezuela . . . . .	1,329	1,315	14	607	1,153
Regional . . . . .	419	419	—	6	484
Non-sovereign-guaranteed loans . . . . .	2,433	2,433	—	2,148	1,168
Inter-American Investment Corporation . . . . .	100	100	—	200	—
Total 2008 . . . . .	<u>\$51,173</u>	<u>\$51,041</u>	<u>\$132</u>	<u>\$19,820</u>	
Total 2007 . . . . .		<u>\$47,807</u>	<u>\$147</u>	<u>\$16,428</u>	<u>\$47,954</u>

<sup>(1)</sup> This table excludes outstanding participated non-sovereign-guaranteed loans of \$2,437 million at December 31, 2008 (2007—\$944 million). This table also excludes guarantees outstanding of \$1,035 million at December 31, 2008 (2007—\$689 million).

<sup>(2)</sup> Includes \$245 million of loans in borrowing country currencies, which have been swapped to United States dollars.

Non-sovereign-guaranteed loans outstanding have been made in the following countries (in millions):

	December 31,			December 31,	
	2008	2007		2008	2007
Argentina . . . . .	\$ 1	\$ 2	Guatemala . . . . .	\$ 25	\$ 25
Bolivia . . . . .	73	81	Mexico . . . . .	87	105
Brazil . . . . .	925	558	Nicaragua . . . . .	—	7
Chile . . . . .	302	9	Panama . . . . .	50	—
Colombia . . . . .	125	—	Peru . . . . .	401	201
Costa Rica . . . . .	180	10	Suriname . . . . .	7	7
Ecuador . . . . .	79	25	Regional . . . . .	128	138
El Salvador . . . . .	50	—		<u>\$2,433</u>	<u>\$1,168</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-4

**SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E<sup>(1)</sup>**

December 31, 2008

Expressed in millions of United States dollars

Currency/Rate type	Multicurrency loans <sup>(2)</sup>		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
<b>Euro</b>							
Fixed .....	\$ 52	7.05	\$ —	—	—	\$ 52	7.05
Adjustable .....	1,288	4.21	10	4.84	4.74	1,298	4.21
<b>Japanese yen</b>							
Fixed .....	146	7.04	—	—	—	146	7.04
Adjustable .....	3,633	4.21	9	1.94	4.39	3,642	4.20
LIBOR-based floating .....	—	—	93	1.08	7.87	93	1.08
<b>Swiss francs</b>							
Fixed .....	68	7.12	—	—	—	68	7.12
Adjustable .....	1,613	4.21	—	—	—	1,613	4.21
<b>United States dollars</b>							
Fixed .....	246	7.05	—	—	—	246	7.05
Adjustable .....	6,075	4.21	23,113	5.15	7.59	29,188	4.95
LIBOR-based floating .....	—	—	14,695	4.69	9.33	14,695	4.69
<b>Others</b>							
Fixed .....	132	4.00	—	—	—	132	4.00
<b>Loans outstanding</b>							
Fixed .....	644	6.43	—	—	—	644	6.43
Adjustable .....	12,609	4.21	23,132	5.15	7.59	35,741	4.82
LIBOR-based floating .....	—	—	14,788	4.66	9.32	14,788	4.66
<b>Total .....</b>	<b>\$13,253</b>	<b>4.32</b>	<b>\$37,920</b>	<b>4.96</b>	<b>8.26</b>	<b>\$51,173</b>	<b>4.79</b>

**MATURITY STRUCTURE OF LOANS OUTSTANDING**

December 31, 2008

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans <sup>(2)</sup>		Single currency loans	All loans		
	Fixed	Adjustable	Adjustable <sup>(3)</sup>	Fixed	Adjustable <sup>(3)</sup>	Total
2009 .....	\$156	\$ 1,990	\$ 1,943	\$156	\$ 3,933	\$ 4,089
2010 .....	131	1,906	2,228	131	4,134	4,265
2011 .....	102	1,705	2,534	102	4,239	4,341
2012 .....	86	1,442	2,693	86	4,135	4,221
2013 .....	66	1,195	2,749	66	3,944	4,010
2014 to 2018 .....	84	3,317	12,569	84	15,886	15,970
2019 to 2023 .....	18	922	8,575	18	9,497	9,515
2024 to 2028 .....	1	132	3,872	1	4,004	4,005
2029 to 2033 .....	—	—	726	—	726	726
2034 to 2038 .....	—	—	31	—	31	31
<b>Total .....</b>	<b>\$644</b>	<b>\$12,609</b>	<b>\$37,920</b>	<b>\$644</b>	<b>\$50,529</b>	<b>\$51,173</b>
<b>Average maturity (years) .....</b>	<b>2.85</b>	<b>4.36</b>	<b>8.26</b>	<b>2.85</b>	<b>7.29</b>	<b>7.23</b>

<sup>(1)</sup> Information presented after currency and interest rate swaps.<sup>(2)</sup> Average maturity-Multicurrency loans: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.<sup>(3)</sup> Includes LIBOR-based floating loans.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-4

**SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E<sup>(1)</sup>**

December 31, 2007

Expressed in millions of United States dollars

Currency/Rate type	Multicurrency loans <sup>(2)</sup>		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
<b>Euro</b>							
Fixed .....	\$ 97	7.16	\$ —	—	—	\$ 97	7.16
Adjustable .....	1,959	4.25	12	4.53	5.24	1,971	4.25
<b>Japanese yen</b>							
Fixed .....	175	7.15	—	—	—	175	7.15
Adjustable .....	3,536	4.25	8	1.93	4.89	3,544	4.24
LIBOR-based floating .....	—	—	35	0.99	8.87	35	0.99
<b>Swiss francs</b>							
Fixed .....	94	7.22	—	—	—	94	7.22
Adjustable .....	1,839	4.25	—	—	—	1,839	4.25
<b>United States dollars</b>							
Fixed .....	327	7.16	—	—	—	327	7.16
Adjustable .....	6,553	4.25	22,329	5.61	7.72	28,882	5.30
LIBOR-based floating .....	—	—	10,843	5.65	9.20	10,843	5.65
<b>Others</b>							
Fixed .....	147	4.00	—	—	—	147	4.00
<b>Loans outstanding</b>							
Fixed .....	840	6.61	—	—	—	840	6.61
Adjustable .....	13,887	4.25	22,349	5.61	7.72	36,236	5.09
LIBOR-based floating .....	—	—	10,878	5.64	9.20	10,878	5.64
<b>Total .....</b>	<b>\$14,727</b>	<b>4.38</b>	<b>\$33,227</b>	<b>5.62</b>	<b>8.20</b>	<b>\$47,954</b>	<b>5.24</b>

**MATURITY STRUCTURE OF LOANS OUTSTANDING**

December 31, 2007

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans <sup>(2)</sup>		Single currency loans	All loans		
	Fixed	Adjustable	Adjustable <sup>(3)</sup>	Fixed	Adjustable <sup>(3)</sup>	Total
2008 .....	\$223	\$ 1,913	\$ 2,208	\$223	\$ 4,121	\$ 4,344
2009 .....	149	1,911	1,855	149	3,766	3,915
2010 .....	124	1,834	2,103	124	3,937	4,061
2011 .....	97	1,646	2,287	97	3,933	4,030
2012 .....	82	1,384	2,325	82	3,709	3,791
2013 to 2017 .....	140	3,863	10,971	140	14,834	14,974
2018 to 2022 .....	22	1,168	7,466	22	8,634	8,656
2023 to 2027 .....	3	168	3,376	3	3,544	3,547
2028 to 2032 .....	—	—	636	—	636	636
<b>Total .....</b>	<b>\$840</b>	<b>\$13,887</b>	<b>\$33,227</b>	<b>\$840</b>	<b>\$47,114</b>	<b>\$47,954</b>
<b>Average maturity (years) .....</b>	<b>2.97</b>	<b>4.64</b>	<b>8.20</b>	<b>2.97</b>	<b>7.15</b>	<b>7.07</b>

<sup>(1)</sup> Information presented after currency and interest rate swaps.<sup>(2)</sup> Average maturity-Multicurrency loans: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.<sup>(3)</sup> Includes LIBOR-based floating loans.



ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-5

# STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES I, J AND K

December 31, 2008

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years) <sup>(1)</sup>
<b>Euro</b>												
Fixed . . . . .	\$ 2,234	5.08	2.48	\$ 173	6.70	0.67	\$ —	—	—	\$ 2,407	5.20	2.35
	—	—	—	(630)	5.57	1.24	(838)	4.26	4.54	(1,468)	4.82	3.12
Adjustable . . . . .	799	5.23	7.39	2,961	4.10	3.81	838	3.99	4.54	4,598	4.28	4.57
	—	—	—	(799)	5.23	7.39	—	—	—	(799)	5.23	7.39
<b>Japanese yen</b>												
Fixed . . . . .	2,595	3.02	2.08	—	—	—	—	—	—	2,595	3.02	2.08
	—	—	—	(139)	5.73	4.58	(1,408)	1.94	0.63	(1,547)	2.28	0.98
Adjustable . . . . .	434	2.09	9.06	458	0.60	2.59	1,441	0.76	0.84	2,333	0.98	2.71
	—	—	—	(952)	1.29	4.09	(33)	1.23	9.83	(985)	1.29	4.28
<b>Swiss francs</b>												
Adjustable . . . . .	—	—	—	1,311	2.78	2.13	—	—	—	1,311	2.78	2.13
<b>United States dollars</b>												
Fixed . . . . .	25,689	4.81	5.74	620	5.62	1.33	580	5.25	5.77	26,889	4.84	5.64
	—	—	—	(150)	8.58	0.67	(16,517)	4.15	5.53	(16,667)	4.19	5.49
Adjustable . . . . .	212	2.08	6.31	16,392	2.81	5.55	17,739	3.25	4.49	34,343	3.03	5.01
	—	—	—	(3,997)	2.98	3.53	(2,531)	2.08	4.44	(6,528)	2.63	3.88
<b>Others</b>												
Fixed . . . . .	15,194	6.64	5.54	—	—	—	—	—	—	15,194	6.64	5.54
	—	—	—	(15,194)	6.64	5.54	—	—	—	(15,194)	6.64	5.54
Adjustable . . . . .	134	7.46	6.16	—	—	—	—	—	—	134	7.46	6.16
	—	—	—	(134)	7.46	6.16	—	—	—	(134)	7.46	6.16
<b>Total</b>												
Fixed . . . . .	45,712	5.33	5.31	793	—	—	580	—	—	47,085	5.34	5.24
	—	—	—	(16,113)	—	—	(18,763)	—	—	(34,876)	5.20	5.21
Adjustable . . . . .	1,579	4.13	7.60	21,122	—	—	20,018	—	—	42,719	3.06	4.75
	—	—	—	(5,882)	—	—	(2,564)	—	—	(8,446)	2.80	4.30
Principal at face value. . .	47,291	5.29	5.38	(80)	—	—	(729)	—	—	46,482	3.81	4.99
Fair value adjustments . .	1,703	—	—	(1,166)	—	—	(1,432)	—	—	(895)	—	—
Net unamortized discount . . . . .	(2,667)	—	—	1,063	—	—	729 <sup>(3)</sup>	—	—	(875)	—	—
Total . . . . .	<u>\$46,327</u>	<u>5.29</u>	<u>5.38</u>	<u>\$ (183)</u>	—	—	<u>\$ (1,432)</u>	—	—	<u>\$ 44,712</u>	<u>3.81</u>	<u>4.99</u>

<sup>(1)</sup> As of December 31, 2008, the average reprising period of the net currency obligations for adjustable rate borrowings was four months.

<sup>(2)</sup> Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency and interest rate swaps of \$183 million and \$1,432 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$3,415 million and currency and interest rate swap liabilities at fair value of \$1,800 million, included on the Balance Sheet.

<sup>(3)</sup> Represents the unamortized discount on zero coupon interest rate swaps.

## MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2008

Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2009 . . . . .	\$ 5,952	2014 through 2018 . . . . .	\$13,772
2010 . . . . .	7,583	2019 through 2023 . . . . .	1,193
2011 . . . . .	4,926	2024 through 2028 . . . . .	2,816
2012 . . . . .	5,951	2037 and 2038 . . . . .	747
2013 . . . . .	4,351	Total . . . . .	<u>\$47,291</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-5

**STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES I, J AND K**

December 31, 2007

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years) <sup>(1)</sup>
<b>Euro</b>												
Fixed .....	\$ 2,628	4.94	3.20	\$ 181	6.70	1.67	\$ —	—	—	\$ 2,809	5.05	3.10
	—	—	—	(659)	5.57	2.25	(1,168)	4.16	4.40	(1,827)	4.67	3.62
Adjustable .....	806	5.33	8.32	3,672	4.50	3.57	1,168	4.61	4.40	5,646	4.64	4.42
	—	—	—	(806)	5.33	8.32	—	—	—	(806)	5.33	8.32
<b>Japanese yen</b>												
Fixed .....	2,133	2.91	3.03	677	0.95	0.83	45	1.71	0.37	2,855	2.43	2.47
	—	—	—	(90)	5.03	6.36	(1,190)	1.89	1.58	(1,280)	2.11	1.92
Adjustable .....	242	2.35	11.41	154	0.59	0.86	1,172	0.67	1.84	1,568	0.92	3.22
	—	—	—	(663)	1.19	4.75	(27)	1.23	10.83	(690)	1.19	4.99
<b>Swiss francs</b>												
Adjustable .....	—	—	—	1,237	2.56	3.13	—	—	—	1,237	2.56	3.13
<b>United States dollars</b>												
Fixed .....	23,727	5.29	5.42	620	5.62	2.33	580	5.25	6.77	24,927	5.29	5.37
	—	—	—	(650)	6.69	0.50	(11,566)	4.89	6.82	(12,216)	4.98	6.48
Adjustable .....	150	2.46	6.73	14,739	4.92	6.28	12,939	4.87	5.71	27,828	4.88	6.01
	—	—	—	(4,167)	4.84	3.66	(2,531)	4.74	5.44	(6,698)	4.81	4.33
<b>Others</b>												
Fixed .....	17,967	6.37	6.21	—	—	—	—	—	—	17,967	6.37	6.21
	—	—	—	(17,967)	6.37	6.21	—	—	—	(17,967)	6.37	6.21
Adjustable .....	118	10.11	5.31	—	—	—	—	—	—	118	10.11	5.31
	—	—	—	(118)	10.11	5.31	—	—	—	(118)	10.11	5.31
<b>Total</b>												
Fixed .....	46,455	5.58	5.49	1,478	—	—	625	—	—	48,558	5.51	5.38
	—	—	—	(19,366)	—	—	(13,924)	—	—	(33,290)	5.60	6.00
Adjustable .....	1,316	4.89	8.44	19,802	—	—	15,279	—	—	36,397	4.61	5.55
	—	—	—	(5,754)	—	—	(2,558)	—	—	(8,312)	4.63	4.79
Principal at face value..	47,771	5.56	5.57	(3,840)	—	—	(578)	—	—	43,353	4.85	5.15
SFAS 133 —												
Fair value adjustments .....	(9)	—	—	599	—	—	(116)	—	—	474	—	—
Net unamortized discount .....	(2,917)	—	—	1,344	—	—	578 <sup>(3)</sup>	—	—	(995)	—	—
Total .....	<u>\$44,845</u>	<u>5.56</u>	<u>5.57</u>	<u>\$ (1,897)</u>	—	—	<u>\$ (116)</u>	—	—	<u>\$42,832</u>	<u>4.85</u>	<u>5.15</u>

<sup>(1)</sup> As of December 31, 2007, the average repricing period of the net currency obligations for adjustable rate borrowings was five months.

<sup>(2)</sup> Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency and interest rate swaps of \$1,897 million and \$116 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$3,019 million and currency and interest rate swap liabilities at fair value of \$1,006 million, included on the Balance Sheet.

<sup>(3)</sup> Represents the unamortized discount on zero coupon interest rate swaps.

**MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING**

December 31, 2007

Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2008 .....	\$ 7,460	2013 through 2017 .....	\$12,460
2009 .....	5,770	2018 through 2022 .....	2,266
2010 .....	6,014	2023 through 2027 .....	3,910
2011 .....	2,930	2037 .....	478
2012 .....	6,483	Total .....	<u>\$47,771</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-6

**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE M**

December 31, 2008 and 2007

Expressed in millions of United States dollars<sup>(1)</sup>

Members	Shares	Paid-in portion of subscribed capital		Callable portion of subscribed capital	Total 2008	Total 2007
		Freely convertible currencies	Other currencies			
Argentina . . . . .	900,154	\$ 361.1	\$104.1	\$10,393.8	\$ 10,858.9	\$ 10,858.9
Austria . . . . .	13,312	6.9	—	153.7	160.6	160.6
Bahamas . . . . .	17,398	7.5	4.1	198.3	209.9	209.9
Barbados . . . . .	10,767	3.9	1.8	124.3	129.9	129.9
Belgium . . . . .	27,438	14.2	—	316.8	331.0	331.0
Belize . . . . .	9,178	3.6	3.6	103.5	110.7	110.7
Bolivia . . . . .	72,258	29.0	8.4	834.4	871.7	871.7
Brazil . . . . .	900,154	361.1	104.1	10,393.8	10,858.9	10,858.9
Canada . . . . .	334,887	173.7	—	3,866.2	4,039.9	4,039.9
Chile . . . . .	247,163	99.1	28.6	2,853.9	2,981.6	2,981.6
Colombia . . . . .	247,163	99.2	28.6	2,853.9	2,981.6	2,981.6
Costa Rica . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Croatia . . . . .	4,018	2.1	—	46.4	48.5	48.5
Denmark . . . . .	14,157	7.3	—	163.4	170.8	170.8
Dominican Republic . . . . .	48,220	19.3	5.6	556.8	581.7	581.7
Ecuador . . . . .	48,220	19.3	5.6	556.8	581.7	581.7
El Salvador . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Finland . . . . .	13,312	6.9	—	153.7	160.6	160.6
France . . . . .	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Germany . . . . .	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Guatemala . . . . .	48,220	19.3	5.6	556.8	581.7	581.7
Guyana . . . . .	13,393	5.2	2.6	153.8	161.6	161.6
Haiti . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Honduras . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Israel . . . . .	13,126	6.8	—	151.5	158.3	158.3
Italy . . . . .	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Jamaica . . . . .	48,220	19.3	5.6	556.8	581.7	581.7
Japan . . . . .	418,642	217.1	—	4,833.2	5,050.3	5,050.3
Korea, Republic of . . . . .	184	0.1	—	2.1	2.2	2.2
Mexico . . . . .	578,632	232.1	66.9	6,681.3	6,980.3	6,980.3
Netherlands . . . . .	28,207	14.6	—	325.6	340.3	340.3
Nicaragua . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Norway . . . . .	14,157	7.3	—	163.4	170.8	170.8
Panama . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Paraguay . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
Peru . . . . .	120,445	48.3	14.0	1,390.7	1,453.0	1,453.0
Portugal . . . . .	4,474	2.3	—	51.7	54.0	54.0
Slovenia . . . . .	2,434	1.3	—	28.1	29.4	29.4
Spain . . . . .	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Suriname . . . . .	7,342	3.5	2.2	82.9	88.6	88.6
Sweden . . . . .	27,268	14.1	—	314.8	328.9	328.9
Switzerland . . . . .	39,347	20.4	—	454.2	474.7	474.7
Trinidad and Tobago . . . . .	36,121	14.5	4.2	417.1	435.7	435.7
United Kingdom . . . . .	80,551	41.8	—	929.9	971.7	971.7
United States . . . . .	2,512,529	1,303.0	—	29,006.7	30,309.7	30,309.7
Uruguay . . . . .	96,507	38.7	11.2	1,114.3	1,164.2	1,164.2
Venezuela . . . . .	482,267	216.0	33.3	5,568.5	5,817.8	5,817.8
Total before unallocated amount	8,367,264	3,870.6	468.8	96,598.5	100,937.9	100,937.9
Unallocated . . . . .	—	—	—	—	—	15.7 <sup>(2)</sup>
Total 2008 . . . . .	8,367,264	\$ 3,870	\$ 469	\$ 96,599	\$ 100,938	
Total 2007 . . . . .	8,368,563	\$ 3,871	\$ 469	\$ 96,613		\$ 100,953

<sup>(1)</sup> Data are rounded; detail may not add up to subtotals and totals because of rounding.<sup>(2)</sup> Represents the then remaining shares of the former Socialist Federal Republic of Yugoslavia.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-7

**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER***December 31, 2008*

Member countries	Subscribed shares	Number of votes	% of total number of votes <sup>(1)</sup>
<b>Regional developing members</b>			
Argentina .....	900,154	900,289	10.752
Bahamas .....	17,398	17,533	0.209
Barbados .....	10,767	10,902	0.130
Belize .....	9,178	9,313	0.111
Bolivia .....	72,258	72,393	0.865
Brazil .....	900,154	900,289	10.752
Chile .....	247,163	247,298	2.953
Colombia .....	247,163	247,298	2.953
Costa Rica .....	36,121	36,256	0.433
Dominican Republic .....	48,220	48,355	0.577
Ecuador .....	48,220	48,355	0.577
El Salvador .....	36,121	36,256	0.433
Guatemala .....	48,220	48,355	0.577
Guyana .....	13,393	13,528	0.162
Haiti .....	36,121	36,256	0.433
Honduras .....	36,121	36,256	0.433
Jamaica .....	48,220	48,355	0.577
Mexico .....	578,632	578,767	6.912
Nicaragua .....	36,121	36,256	0.433
Panama .....	36,121	36,256	0.433
Paraguay .....	36,121	36,256	0.433
Peru .....	120,445	120,580	1.440
Suriname .....	7,342	7,477	0.089
Trinidad and Tobago .....	36,121	36,256	0.433
Uruguay .....	96,507	96,642	1.154
Venezuela .....	482,267	482,402	5.761
Total regional developing members .....	<u>4,184,669</u>	<u>4,188,179</u>	<u>50.016</u>
<b>Canada</b> .....	334,887	335,022	4.001
<b>United States</b> .....	2,512,529	2,512,664	30.007
<b>Nonregional members</b>			
Austria .....	13,312	13,447	0.161
Belgium .....	27,438	27,573	0.329
Croatia .....	4,018	4,153	0.050
Denmark .....	14,157	14,292	0.171
Finland .....	13,312	13,447	0.161
France .....	158,638	158,773	1.896
Germany .....	158,638	158,773	1.896
Israel .....	13,126	13,261	0.158
Italy .....	158,638	158,773	1.896
Japan .....	418,642	418,777	5.001
Korea, Republic of .....	184	319	0.004
Netherlands .....	28,207	28,342	0.338
Norway .....	14,157	14,292	0.171
Portugal .....	4,474	4,609	0.055
Slovenia .....	2,434	2,569	0.031
Spain .....	158,638	158,773	1.896
Sweden .....	27,268	27,403	0.327
Switzerland .....	39,347	39,482	0.472
United Kingdom .....	80,551	80,686	0.964
Total nonregional members .....	<u>1,335,179</u>	<u>1,337,744</u>	<u>15.976</u>
<b>Grand total</b> .....	<u>8,367,264</u>	<u>8,373,609</u>	<u>100.000</u>

<sup>(1)</sup> Data are rounded; detail may not add to subtotals and grand total because of rounding.



# FUND FOR SPECIAL OPERATIONS

## MANAGEMENT'S REPORT REGARDING THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

February 17, 2009

The Management of the Inter-American Development Bank (Bank) is responsible for establishing and maintaining effective internal control over financial reporting in the Bank. Management has evaluated the Bank's Fund for Special Operations internal control over financial reporting using the criteria for effective internal control established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the Bank's Fund for Special Operations internal control over financial reporting as of December 31, 2008. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2008.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Fund for Special Operations internal control over financial reporting. In addition, the Bank's Fund for Special Operations financial statements, as of December 31, 2008, have been audited by Ernst & Young LLP.



Luis Alberto Moreno  
President



Manuel Rapoport  
Vice President for Finance and Administration



Edward Bartholomew  
Finance General Manager and CFO

## REPORT OF INDEPENDENT AUDITORS

Board of Governors  
Inter-American Development Bank

We have audited Inter-American Development Bank (Bank)—Fund for Special Operations' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's Fund for Special Operations internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank's Fund for Special Operations maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of the Inter-American Development Bank – Fund for Special Operations as of December 31, 2008 and 2007, and the related statements of income and general reserve (deficit), comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 17, 2009 expressed an unqualified opinion thereon.

Washington, D.C.  
February 17, 2009

*Ernst + Young LLP*



## REPORT OF INDEPENDENT AUDITORS

Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank) – Fund for Special Operations as of December 31, 2008 and 2007, and the related statements of income and general reserve (deficit), comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank – Fund for Special Operations as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with United States generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Inter-American Development Bank's Fund for Special Operations internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2009 expressed an unqualified opinion thereon.

Washington, D.C.  
February 17, 2009

*Ernst & Young LLP*

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

*Expressed in millions of United States dollars*

	December 31,			
	2008		2007	
<b>ASSETS</b>				
<b>Cash and investments</b>				
Cash.....	\$ 365		\$ 374	
Investments.....	<u>990</u>	<u>\$1,355</u>	<u>1,191</u>	<u>\$1,565</u>
<b>Loans outstanding.....</b>	<b>4,524</b>		4,399	
Allowance for debt relief.....	<u>(423)</u>	<u>4,101</u>	<u>(433)</u>	<u>3,966</u>
<b>Accrued interest and other charges on loans .....</b>		<b>23</b>		<b>25</b>
<b>Receivable from members</b>				
Non-negotiable, non-interest-bearing demand obligations .....	<b>527</b>		545	
Amounts required to maintain value of currency holdings .....	<u>283</u>	<u>810</u>	<u>200</u>	<u>745</u>
<b>Other assets.....</b>		<u>—</u>		<u>4</u>
<b>Total assets .....</b>		<u><b>\$6,289</b></u>		<u><b>\$6,305</b></u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses .....	\$ 5		\$ 6	
Undisbursed technical cooperation projects and other financings. .	<b>91</b>		85	
Due to IDB Grant Facility.....	<b>73</b>		38	
Amounts payable to maintain value of currency holdings .....	<u>334</u>	<u>\$ 503</u>	<u>298</u>	<u>\$ 427</u>
<b>Fund balance</b>				
Contribution quotas authorized and subscribed .....	<b>9,636</b>		9,640	
General reserve (deficit) .....	<b>(3,952)</b>		(3,880)	
Accumulated translation adjustments.....	<u>102</u>	<u>5,786</u>	<u>118</u>	<u>5,878</u>
<b>Total liabilities and fund balance.....</b>		<u><b>\$6,289</b></u>		<u><b>\$6,305</b></u>

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

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## STATEMENT OF INCOME AND GENERAL RESERVE (DEFICIT)

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Income (loss)</b>			
Loans			
Interest .....	\$ 80	\$ 79	\$ 139
Other loan income .....	11	11	13
	91	90	152
Investments .....	(18)	56	60
Total income .....	73	146	212
<b>Expenses</b>			
Administrative expenses .....	62	64	93
Total expenses .....	62	64	93
Income before technical cooperation, debt relief, and transfers .....	11	82	119
Technical cooperation expense .....	33	23	19
Debt relief expense .....	—	—	3,306
Transfers to Intermediate Financing Facility Account .....	—	—	61
Transfers to IDB Grant Facility .....	50	50	—
Net income (loss) .....	(72)	9	(3,267)
General reserve (deficit), beginning of year .....	(3,880)	(3,889)	(622)
General reserve (deficit), end of year .....	<u>\$(3,952)</u>	<u>\$(3,880)</u>	<u>\$(3,889)</u>

## STATEMENT OF COMPREHENSIVE INCOME

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
Net income (loss) .....	\$(72)	\$ 9	\$(3,267)
Translation adjustments .....	(16)	34	54
Comprehensive income (loss) .....	<u>\$(88)</u>	<u>\$43</u>	<u>\$(3,213)</u>

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

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**STATEMENT OF CASH FLOWS**

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Cash flows from lending activities</b>			
Loan disbursements.....	<b>\$(415)</b>	\$(393)	\$ (398)
Loan collections.....	<b>229</b>	275	290
Loan participations, net.....	<b>(5)</b>	(2)	(2)
Net cash used in lending activities.....	<b>(191)</b>	(120)	(110)
<b>Cash flows from financing activities</b>			
Collections of receivable from members.....	<b>22</b>	28	101
Return of contribution quotas to members.....	<b>(1)</b>	—	—
Net cash provided by financing activities.....	<b>21</b>	28	101
<b>Cash flows from operating activities</b>			
Gross purchases of investments.....	<b>(586)</b>	(572)	(1,208)
Gross proceeds from sale or maturity of investments.....	<b>730</b>	625	1,233
Loan income collections.....	<b>91</b>	93	152
Income from investments.....	<b>23</b>	23	26
Administrative expenses.....	<b>(63)</b>	(65)	(99)
Technical cooperation and other financings.....	<b>(27)</b>	(23)	(29)
Cash transfers to the Intermediate Financing Facility Account.....	<b>—</b>	—	(61)
Cash transfers to the IDB Grant Facility.....	<b>(15)</b>	(12)	—
Net cash provided by operating activities.....	<b>153</b>	69	14
<b>Effect of exchange rate fluctuations on cash.....</b>	<b>8</b>	8	6
<b>Net increase (decrease) in Cash.....</b>	<b>(9)</b>	(15)	11
<b>Cash, beginning of year.....</b>	<b>374</b>	389	378
<b>Cash, end of year.....</b>	<b>\$ 365</b>	<b>\$ 374</b>	<b>\$ 389</b>

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

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## NOTES TO FINANCIAL STATEMENTS

### Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its principal purpose is to promote the economic and social development of Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Fund for Special Operations (FSO) was established under the Agreement Establishing the Inter-American Development Bank (Agreement) to make loans on highly concessional terms in the less developed member countries of the Bank. The FSO also provides technical assistance both related to projects and not connected to specific loans. The FSO complements the activities of the Ordinary Capital, the Intermediate Financing Facility Account (IFF), and the IDB Grant Facility (GRF). The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. The GRF was established in 2007 for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects.

### Note B – Summary of Significant Accounting Policies

The financial statements of the FSO are prepared in conformity with United States generally accepted accounting principles (GAAP). Prior to 2007, the financial statements were prepared on a special accounting basis. The comparative financial information included in the accompanying financial statements has been adjusted to be in conformity with GAAP.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 these estimates. Significant judgments have been made in the valuation of certain financial instruments and the determination of the adequacy of the allowances for loan losses and debt relief.

### New accounting pronouncements

On January 1, 2008, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The adoption of this standard did not have a material impact on the FSO's financial position and results of operations.

On January 1, 2008, the Bank adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." The FSO did not elect any financial instrument to be measured

at fair value under SFAS 159. In May 2008, the Financial Accounting Standards Board issued SFAS No. 162 "The Hierarchy of Generally Accepted Accounting Principles," which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. The adoption of these standards did not have an impact on the financial statements of the FSO.

### Translation of currencies

The financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members, which are functional currencies. The FSO resources are derived from contribution quotas and accumulated earnings in those various currencies. Assets and liabilities denominated in currencies other than the United States dollar are translated at market exchange rates prevailing at the Balance Sheet dates. Income and expenses in such currencies are translated at market rates of exchange prevailing during each month. Exchange rate fluctuations do not have any effect on the United States dollar equivalents of currencies subject to the maintenance of value (MOV) provision described below. Net adjustments resulting from the translation into United States dollars of assets and liabilities in currencies that do not have MOV protection, which are derived from the 1983, 1990 and 1995 increases in contribution quotas, are presented as a component of Comprehensive income (loss)<sup>1</sup> in the Statement of Comprehensive Income.

### Investments

Investment securities transactions are recorded on the trade date. All investment securities are held in a trading portfolio carried at fair value, with changes in fair value included in Income from investments.

### Loans

The Bank utilizes FSO resources to make highly concessional loans, denominated in the currencies of non-borrowing member countries, to the least-developed borrowing members, their agencies or political subdivisions. In previous years, the Bank also made concessional loans in local currencies to borrowing members. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the

<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.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

government. Under the loan contracts with the borrowers, the Bank sells participations in certain loans to the Social Progress Trust Fund, reserving to itself the administration of those loans.

Loans generally have up to 40 years final maturity and up to a 10 year grace period for principal payments, and generally carry an interest rate of 1% during the grace period and 2% thereafter. The principal amount of loans and accrued interest are repayable in the currencies lent. As a result of the Multilateral Debt Relief and Concessional Finance Reform approved by the Board of Governors in 2007 (see Note O), the Bank now offers a blending of loans from the FSO and the Ordinary Capital ("parallel loans"). The FSO's portion of parallel loans are bullet loans with up to 40 years maturity and an interest rate of 0.25%.

Income on loans is recognized following the accrual basis of accounting. It is the policy of the Bank to place on nonaccrual status all loans to a member government if service under any loan to, or guaranteed by, the member government, made from any fund owned or administered by the Bank, is overdue more than 180 days. On the date that a member's loan is placed on nonaccrual status, all loans to that member country are also placed on nonaccrual status. When a loan is placed on nonaccrual status, charges that had been accrued and remain unpaid are deducted from the income of the current period. Charges on nonaccruing loans are included in income only to the extent that payments have actually been received. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored, and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

The Bank has never had a write-off on any of its FSO loans and has a policy of not rescheduling loan repayments. The Bank periodically reviews the collectibility of loans and, if applicable, records, as an expense, provisions for loan losses in accordance with its determination of the collectibility risk of the total loan portfolio. Such reviews consider the probabilities of default associated with the external credit ratings of each individual borrower, adjusted to reflect the probability of default to the Bank, as well as the potential for loss arising from delay in the scheduled loan repayments. Because of the nature of its borrowers, the Bank expects that each of its FSO loans will be repaid. As of December 31, 2008 and 2007, the allowance for loan losses was *de minimus*.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are immaterial to the financial results.

**Recognition of debt relief:** The Bank participates in debt relief initiatives concerted by international organizations to ad-

dress the debt problems of member countries identified as heavily indebted poor countries (HIPC) by partially or fully forgiving future debt service payments on outstanding FSO loans. The principal component of loans affected by the Bank's debt relief initiatives is recognized as Debt relief expense in the Statement of Income and General Reserve (Deficit), and as a reduction in Loans outstanding, through an Allowance for debt relief, when the FSO commitment is probable and the amount of debt relief is estimable. Following this policy, under the Enhanced HIPC Initiative, the FSO recognizes the principal component of debt relief in full when the country reaches Decision Point, as defined in Note N. Under the Multilateral Debt Relief and Concessional Finance Reform, the FSO recognized the debt relief in full when the Board of Governors approved the Bank's participation in this initiative in 2006. When the debt relief is delivered, individual loan balances are reduced against the Allowance for debt relief.

**Receivable from members**

Receivable from members includes non-negotiable, non-interest bearing demand obligations that have been accepted in lieu of the immediate payment of all or any part of a member's contribution quotas and MOV obligations.

**Contribution quotas**

**Recognition:** Contribution quotas are recorded in full on the effective date of the replenishment. Resulting contribution quotas receivable are presented as an offset to Contribution quotas authorized and subscribed until they are settled through the payment of cash or through delivery of non-negotiable, non-interest-bearing demand notes.

Contribution quotas come due as a receivable throughout the replenishment period in accordance with an agreed-upon subscription and encashment schedule. The actual subscription and payment of receivables when they become due from certain members is conditional upon the respective member's budgetary appropriation processes. Contribution quotas are settled through payment of cash or non-negotiable, non-interest-bearing demand notes. Notes received in settlement of contribution quotas are encashed as provided in the relevant replenishment resolution.

**Valuation:** The Agreement provides that contribution quotas be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978. Consequently the General Counsel of the Bank rendered an opinion that the Special Drawing Right

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**NOTES TO FINANCIAL STATEMENTS** (continued)

(SDR) became the successor to the 1959 United States dollar as the standard of value for member contributions, and for maintaining the value of the FSO's currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing board and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

**Maintenance of value**

In accordance with the Agreement, each member is required to maintain the value of its currency held in the FSO to the extent established by the terms for the respective increases in contribution quotas. Likewise, and subject to the same terms of the contribution quota increases, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency held in the FSO. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959. Currency holdings derived from the 1983, 1990 and 1995 increases in contribution quotas do not have MOV protection.

The amount related to MOV on non-borrowing member countries currency holdings is presented as an asset or liability on the Balance Sheet, included in Amounts required/payable to maintain value of currency holdings.

**Administrative expenses**

All administrative expenses of the Bank, excluding realignment expenses, are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Executive Directors. As a result of the Multilateral Debt Relief and Concessional Finance Reform, the Board of Executive Directors approved a new expense allocation formula, whereby, starting in 2007, the FSO bears a smaller percentage of the administrative expenses of the Bank. Following this allocation formula, the effective ratio of administrative expenses charged was 12.7% to the FSO and 87.3% to the Ordinary Capital during 2008 (2007—11.5% and 88.5%; 2006—18.7% and 81.3%, under the previous allocation formula).

**Technical cooperation**

Non-reimbursable technical cooperation projects, as well as certain financings whose recovery is explicitly contingent on events that may not occur, are recorded as Technical cooperation expense at the time of approval.

Cancellations of undisbursed balances and recuperations of contingently recoverable financings are recognized as an offset to Technical cooperation expense in the period in which they occur.

**General reserve transfers**

Up to December 31, 2006, the FSO made general reserve transfers to the IFF. Effective in 2007, transfers are made to the GRF. General reserve transfers are recognized as an expense when approved by the Board of Governors. However, funding of these transfers may be immediate (e.g., IFF) or in accordance with their funding requirements (e.g., GRF). The undisbursed portion of approved transfers to the GRF is presented under Due to IDB Grant Facility on the Balance Sheet.

**Fair values of financial instruments**

The following methods and assumptions were used by the Bank in measuring the fair value for its financial instruments:

**Cash:** The carrying amount reported on the Balance Sheet for cash approximates fair value.

**Investments:** Fair values for investment securities are based on quoted prices, where available; otherwise they are based on external pricing services, independent dealer prices, or discounted cash flows.

**Loans:** The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. The absence of a secondary market for development loans makes it difficult to estimate the fair value of the Bank's lending portfolio despite the flexibility offered by the new fair value framework provided by SFAS 157. However, the Bank continues to explore possible available valuation tools to make the estimate of fair value of its lending portfolio without having to incur excessive costs.

**Note C – Restricted Currencies**

As of December 31, 2008, Cash includes \$353 million (2007—\$369 million) in currencies of regional borrowing members. One member has restricted the amount of \$21 million (2007—\$34 million) to be used for making payments for goods and services in its territory, in accordance with the provisions of the Agreement.

**Note D – Investments**

As part of its overall portfolio management strategy, the Bank invests FSO resources in high quality securities in accordance with established investment guidelines. These investments include government, agency, corporate and bank obligations, and



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**NOTES TO FINANCIAL STATEMENTS** (continued)

asset-backed and mortgage-backed securities substantially all with credit ratings ranging from AAA to A+ (short-term securities carry the highest short-term credit ratings). The Bank limits its activities of investing in securities to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty.

The Bank manages two investment pools for the benefit of the FSO and the IFF. During 2008, the FSO's share of unrealized investment losses from these pools amounted to \$69 million (2007—\$12 million).

A summary of the trading portfolio securities at December 31, 2008 and 2007, including the FSO's proportionate share of the investment pools assets, is shown in the Summary Statement of Investments in Appendix II-1. The average return on investments, including realized and unrealized gains and losses, during 2008 was (1.68%) (2007—4.42%; 2006—5.04%).

**Note E – Loans Outstanding and Allowance for Debt Relief**

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, fulfill certain conditions precedent as required by contract. Loans outstanding by country are shown in the Summary Statement of Loans Outstanding in Appendix II-2. The average interest rate for loans outstanding at December 31, 2008 and 2007 was 1.76% and 1.81%, respectively, and the average maturity was 12 years in both years.

The changes in the Allowance for debt relief for the years ended December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Balance at January 1, .....	\$433	\$ 4,311
Debt relief delivered during the year:		
Enhanced HIPC Initiative.....	(10)	(893)
Multilateral Debt Relief Initiative .....	—	(2,985)
Balance at December 31, .....	<u>\$423</u>	<u>\$ 433</u>
Composed of:		
Allowance for Enhanced HIPC Initiative. . .	\$ 10	\$ 10
Allowance for Multilateral Debt Relief Initiative.....	413	423
Total. ....	<u>\$423</u>	<u>\$ 433</u>

**Note F – Receivable from Members**

The composition of the net receivable from members as of December 31, 2008 and 2007 is as follows (in millions):

	2008	2007
Regional developing members .....	\$ 699	\$ 720
Canada.....	35	—
Non-regional members .....	(258)	(273)
Total.....	<u>\$ 476</u>	<u>\$ 447</u>

These amounts are represented on the Balance Sheet as follows (in millions):

	2008	2007
Receivable from members.....	\$ 810	\$ 745
Amounts payable to maintain value of currency holdings .....	(334)	(298)
Total.....	<u>\$ 476</u>	<u>\$ 447</u>

**Note G – Fair Value Measurements**

Effective January 1, 2008, the Bank adopted SFAS 157, which provides a new framework for measuring fair value under GAAP. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2—Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Substantially all FSO investment securities are measured at fair value based on quoted prices in markets that are not active, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing discounted cash flows. These methodologies represent valuation techniques consistent with the market and income approaches, which have been applied without change throughout the year. These investment securities are classified within Level 2 of the fair value hierarchy.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note H – Contribution Quotas Authorized and Subscribed**

Non-negotiable, non-interest-bearing demand obligations have been accepted in lieu of the immediate payment of all or any part of a member's contribution quotas. The payment of contribution quotas is conditional on the members' budgetary and, in some cases, legislative processes. The Canadian contribution quota is being increased by collections of principal, interest and service charges on loans extended from the Canadian Trust Fund administered by the Bank (2008—\$1 million; 2007—\$1 million). For a Statement of Contribution Quotas at December 31, 2008 and 2007, see Appendix II-3.

**Voting power**

In making decisions concerning operations of the FSO, the number of votes and percent of voting power for each member country are the same as those applicable for decisions involving the Ordinary Capital.

**Return of Capital to Serbia and Montenegro**

In June 2008, the Bank returned funds to each of Serbia and Montenegro corresponding to contribution quotas as a result of the decision of those countries not to subscribe as successors of the former Socialist Federal Republic of Yugoslavia, a former Bank member. The associated adjustments resulted in a reduction of \$5.4 million of contribution quotas.

**Increase in Bank membership**

On January 12, 2009, the People's Republic of China became the 48th member of the Bank. Under the agreement, contribution quotas of \$125 million will be received within 90 days.

**Note I – General Reserve (Deficit)**

The General reserve (deficit) consists of income and losses from prior years.

As part of the Multilateral Debt Relief and Concessional Finance Reform, the Bank discontinued the transfer of FSO resources to the IFF effective January 1, 2007 (see Note O for further details). In addition, in 2007, the Board of Governors approved the creation of the GRF, which is funded by transfers from the FSO general reserve (calculated excluding the cumulative principal amount forgiven as part of the HIPC Initiatives and other debt relief), and possible direct contributions from donor countries.

In 2008, the Board of Governors approved the transfer of \$50 million (2007—\$50 million) from the FSO to the GRF to provide grants to Haiti. Estimated transfer from the FSO to the GRF is \$100 million for 2009. This transfer is subject to Board of Governors approval. Future transfers will be determined based on the future financial condition of the FSO.

The following is a summary of changes in the General reserve (deficit) for the years ended December 31, 2008, 2007, and 2006 (in millions):

	Debt relief	Income (loss), excluding debt relief	Total General reserve (deficit)
Balance at January 1, 2006 . . . . .	\$(1,392)	\$770	\$ (622)
Debt relief expense . . . . .	(3,306)	—	(3,306)
Net income, excluding debt relief . . . . .	—	39	39
Balance at December 31, 2006 . . . . .	(4,698)	809	(3,889)
Net income . . . . .	—	9	9
Balance at December 31, 2007 . . . . .	(4,698)	818	(3,880)
Net loss . . . . .	—	(72)	(72)
Balance at December 31, 2008 . . . . .	<u>\$(4,698)</u>	<u>\$746</u>	<u>\$(3,952)</u>

**Note J – Accumulated Translation Adjustments**

The following is a summary of changes in the Accumulated translation adjustments for the years ended December 31, 2008, 2007, and 2006 (in millions):

	2008	2007	2006
Balance at January 1, . . . . .	\$118	\$ 84	\$30
Translation adjustments . . . . .	(16)	34	54
Balance at December 31, . . . . .	<u>\$102</u>	<u>\$118</u>	<u>\$84</u>

**Note K – Administrative Expenses**

Pursuant to the policy described in Note B, the FSO shares in all of the expenses incurred by the Bank, except for realignment expenses, including those related to the pension and postretirement benefit plans.

**Note L – Undisbursed Technical Cooperation Projects and Other Financings**

The following is a summary of changes in Undisbursed technical cooperation projects and other financings for the years ended December 31, 2008 and 2007 (in millions):

	2008	2007
Balance at January 1, . . . . .	\$ 85	\$ 84
Approvals . . . . .	43	34
Cancellations . . . . .	(6)	(7)
Disbursements . . . . .	(31)	(26)
Balance at December 31, . . . . .	<u>\$ 91</u>	<u>\$ 85</u>

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note M – Reconciliation of Net Income (Loss) to Net Cash Provided by Operating Activities**

A reconciliation of Net income (loss) to Net cash provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2008	2007	2006
Net income (loss) . . . . .	\$(72)	\$ 9	\$(3,267)
Difference between amounts accrued and amounts paid or collected for:			
Loan income . . . . .	—	3	—
Income from investments . . . . .	—	—	4
Net unrealized loss (gain) on investments . . . . .	41	(32)	(39)
Administrative expenses . . . . .	(1)	(2)	(6)
Technical cooperation and other financings . . . . .	6	—	(9)
Transfers to the GRF . . . . .	35	38	—
Net decrease in investments . . . . .	144	53	25
Debt relief expense . . . . .	—	—	3,306
Net cash provided by operating activities . . . . .	<u>\$153</u>	<u>\$ 69</u>	<u>\$ 14</u>

**Supplemental disclosure of noncash activities**

Increase (decrease) resulting from exchange rate fluctuations:

Investments . . . . .	\$(16)	\$ 9	\$ 4
Loans outstanding . . . . .	(56)	95	128
Receivable from members-net . . . . .	49	(78)	(84)

**Note N – Heavily Indebted Poor Countries Initiative**

The Bank participates in the HIPC Initiative, a concerted international initiative endorsed by the Group of Seven Countries (G-7), the International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund, for addressing the debt problems of a group of countries identified as heavily indebted poor countries to ensure that reform efforts of these countries will not be put at risk by continued high external debt burdens. Under the HIPC Initiative, all bilateral and multilateral creditors are providing debt relief for countries that demonstrate good policy performance over an extended period in order to bring their debt service burdens to sustainable levels.

The Bank's participation in the HIPC comprises the HIPC I approved in 1998 and the Enhanced HIPC Initiative approved in 2001. At December 31, 2008, eligible member countries were Bolivia, Guyana, Haiti, Honduras and Nicaragua. This debt relief has been implemented through a combination of the forgiveness of principal and interest of FSO loans, transfers from the FSO general reserve to the IFF, conversion of a substantial amount of FSO local currency holdings to United States dollars,

and grants of member countries through the World Bank HIPC Trust Fund.

As part of HIPC I, in 1998 the Bank forgave FSO loans to Bolivia and Guyana in the amount of \$177.1 million.

**Enhanced HIPC Initiative**

As part of the Enhanced HIPC Initiative, the Bank delivers debt service relief by forgiving a portion of an eligible country's debt service obligations as they become due. Up to January 1, 2007, additional debt service relief was funded by amounts received from the World Bank HIPC Trust Fund. Such amounts, including any investment income thereon, were kept separately from the resources of the FSO in the HIPC Account, and were used solely for the specific purpose of meeting debt service obligations of eligible countries. These resources were not included in the financial statements and did not affect the operations of the FSO.

Under the Enhanced HIPC Initiative, Decision Point is reached once the country has established an adequate policy track record. The Completion Point is achieved once the country has demonstrated continued strong policy performance. During the period between Decision Point and Completion Point, referred to as the interim period, partial debt relief, not to exceed one-third of the total relief amount, may be granted to a country. Such interim debt relief is revocable and is contingent upon the country making satisfactory progress towards a strong policy performance. Once a country reaches Completion Point, the debt relief to the country becomes irrevocable.

During 2006, Haiti reached Decision Point and the FSO recognized Debt relief expense of \$20 million under the Enhanced HIPC. All the other four eligible countries reached Completion Point between 2001 and 2005. During 2008, the FSO delivered debt relief under the Enhanced HIPC Initiative for a total of \$10 million (2007—\$893 million).

In December 2008, the Board of Governors authorized further interim assistance in the form of debt service reduction for Haiti in 2009 until the Completion Point is reached, for an amount of \$14 million (\$10 million principal and \$4 million interest).

**Note O – Multilateral Debt Relief and Concessional Finance Reform**

In 2006, the World Bank's International Development Agency, the International Monetary Fund and the African Development Fund approved their participation in the Multilateral Debt Relief Initiative (MDRI) to provide additional debt relief to HIPC countries. Although the MDRI did not include the Bank, the Bank's Board of Governors supported the principle of furthering FSO debt relief for HIPC-eligible countries in Latin America and the Caribbean.

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INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS** (continued)

In December 2006, the Board of Governors approved a structure that included one hundred (100) percent relief of eligible FSO debt for Bolivia, Guyana, Haiti, Honduras and Nicaragua, effective January 1, 2007, as well as (i) the continuance of access to concessional resources for FSO countries (other than Haiti) via parallel loans, (ii) Haiti's access to an appropriate mix of loans and/or grants with adequate levels of concessionality, (iii) the IFF's extension to 2015 via a blending of FSO resources and Ordinary Capital loans, and (iv) annual non-reimbursable technical assistance of \$30 million. As a result of this approval, the FSO recognized Debt relief expense of \$3,286 million, increasing the Allowance for debt relief.

On March 15, 2007, the Board of Governors approved 100% debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua on FSO loan balances outstanding as of December 31, 2004. Under this agreement, the Bank forgave approximately \$3.4 billion in FSO loan principal payments, including approximately \$0.4 billion for Haiti to be effective once it reaches Completion Point under the Enhanced HIPC Initiative, and \$1.0 billion of future interest payments. FSO loan balances of \$3,868 million were eliminated from the books effective January 1, 2007, including \$883 million related to debt relief remaining to be delivered to HIPC-eligible countries, other than Haiti, under the Enhanced HIPC Initiative. In addition, the FSO now bears a smaller percentage of the administrative expenses of the Bank currently allocated between the Ordinary Capital and the FSO, and countries eligible for IFF subsidies continue to receive concessional resources for new loans through 2015, in the form of parallel loans rather than a reduction in the interest rate billed, and still receive the reduction in interest rate billed for loans approved up to December 31, 2006, subject to availability of IFF resources.

**Note P – Prior Year Financial Statement Misstatement**

In 2008, Management identified a misstatement of the Debt relief expense recognized in the FSO financial statements for

2006, resulting from not considering the elimination of the maintenance of value amount related to certain loans that were forgiven as part of the MDRI. The total Debt relief expense amount reflected in the financial statements for 2006 of \$3,382 million was overstated by \$76 million, while Amounts payable to maintain value of currency holdings in the 2006 and 2007 financial statements were also overstated by the same amount.

The misstatements of the FSO financial statements for 2006 and 2007 were not material. However, if the misstatement was corrected in the 2008 financial statements, its effect would materially misstate the 2008 results of operations. Therefore, Management decided to retroactively adjust the accompanying 2006 and 2007 financial statements. The effect of the adjustment on the individual line items in the Statement of Income and General Reserve (Deficit) for the year ended December 31, 2006 and the Balance Sheet as of December 31, 2007 was as follows (in millions):

	As Reported	Adjustment	As Adjusted
<b>2006:</b>			
Debt relief expense.....	\$(3,382)	\$ 76	\$(3,306)
Net income (loss).....	(3,343)	76	(3,267)
General reserve (deficit), end of year .....	(3,965)	76	(3,889)
<b>2007:</b>			
Amounts payable to maintain value of currency holdings ...	374	(76)	298
Fund balance.....	5,802	76	5,878
General reserve (deficit) end of year .....	(3,956)	76	(3,880)

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX II-1

**SUMMARY STATEMENT OF INVESTMENTS – NOTE D**

December 31, 2008 and 2007

Expressed in millions of United States dollars

Investments	2008	2007
Investment pools <sup>(1)</sup> :		
Obligations of the United States		
Government and its corporations and agencies . .	\$196	\$ 146
Obligations of non-U.S. governments		
and agencies . . . . .	48	71
Corporate securities . . . . .	30	26
Bank obligations . . . . .	305	362
Asset-backed and mortgage-backed securities . . . .	258	468
	837	1,073
Direct investments:		
Obligations of non-U.S. governments		
and agencies . . . . .	31	15
Bank obligations . . . . .	122	103
	<u>\$990</u>	<u>\$1,191</u>

<sup>(1)</sup> Detail of investments by categories represents the FSO's proportionate share of the investment pools assets. See Note D for more information.

The currencies of the above investments are as follows:

Currencies	2008	2007
British pounds sterling . . . . .	\$ 13	\$ 13
Canadian dollars . . . . .	31	26
Danish kroner . . . . .	4	3
Euro . . . . .	87	57
Swedish kronor . . . . .	3	3
United States dollars . . . . .	852	1,089
	<u>\$990</u>	<u>\$1,191</u>

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX II-2

**SUMMARY STATEMENT OF LOANS OUTSTANDING – NOTE E**

December 31, 2008 and 2007

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2008 <sup>(1)</sup>	Currency in which outstanding balance is collectible		Undisbursed	Outstanding 2007 <sup>(1)</sup>
		Non-borrowing country currencies	Borrowing country currencies		
Argentina .....	\$ 89	\$ —	\$ 89	\$ —	\$ 99
Barbados .....	9	9	—	—	11
Bolivia .....	295	262	33	398	259
Brazil .....	224	—	224	—	252
Colombia .....	94	10	84	—	107
Costa Rica .....	47	43	4	—	58
Dominican Republic .....	316	304	12	—	343
Ecuador .....	464	412	52	—	490
El Salvador .....	407	393	14	—	428
Guatemala .....	314	270	44	—	323
Guyana .....	188	187	1	197	150
Haiti .....	785	777	8	278	711
Honduras .....	363	329	34	320	264
Jamaica .....	32	27	5	—	39
Mexico .....	10	—	10	—	13
Nicaragua .....	463	440	23	286	395
Panama .....	26	22	4	—	34
Paraguay .....	283	264	19	18	296
Peru .....	38	13	25	—	48
Suriname .....	1	—	1	4	1
Trinidad and Tobago .....	7	—	7	—	7
Uruguay .....	13	6	7	—	16
Regional .....	56	55	1	1	55
Total 2008 .....	<u>\$4,524</u>	<u>\$3,823</u>	<u>\$701</u>	<u>\$1,502</u>	
Total 2007 .....		<u>\$3,624</u>	<u>\$775</u>	<u>\$1,783</u>	<u>\$4,399</u>

<sup>(1)</sup> Excludes loan participations sold to the Social Progress Trust Fund for a total of \$33 million (2007—\$38 million), including \$0 million (2007—\$1 million) to Bolivia, \$3 million (2007—\$3 million) to Costa Rica, \$6 million (2007—\$7 million) to Dominican Republic, \$6 million (2007—\$7 million) to Ecuador, \$10 million (2007—\$10 million) to El Salvador, \$5 million (2007—\$7 million) to Guatemala, \$2 million (2007—\$2 million) to Panama and \$1 million (2007—\$1 million) to Paraguay.

The non-borrowing country currencies in which the outstanding loans balance is collectible are as follows:

Currencies	2008	2007
British pounds sterling .....	\$ 36	\$ 53
Canadian dollars .....	157	201
Danish kroner .....	23	25
Euro .....	516	565
Japanese yen .....	160	140
Norwegian kroner .....	16	21
Swedish kronor .....	12	15
Swiss francs .....	30	31
United States dollars .....	2,873	2,573
	<u>\$3,823</u>	<u>\$3,624</u>

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX II-3

**STATEMENT OF CONTRIBUTION QUOTAS – NOTE H**

December 31, 2008 and 2007

Expressed in millions of United States dollars<sup>(1)</sup>

Members	Contribution quotas authorized and subscribed				
	Subject to maintenance of value		Not subject to maintenance of value	Total 2008	Total 2007
	Before adjustments	Adjustments <sup>(2)</sup>			
Argentina . . . . .	\$ 402.8	\$ 29.5	\$ 73.1	\$ 505.4	\$ 505.4
Austria . . . . .	11.0	—	9.0	20.0	20.0
Bahamas . . . . .	8.8	—	1.8	10.6	10.6
Barbados . . . . .	1.4	—	0.4	1.8	1.8
Belgium . . . . .	27.1	—	15.4	42.5	42.5
Belize . . . . .	—	—	7.6	7.6	7.6
Bolivia . . . . .	32.5	9.7	6.5	48.7	48.7
Brazil . . . . .	402.8	62.2	79.4	544.4	544.4
Canada . . . . .	225.5	12.6	71.3	309.4	308.6
Chile . . . . .	111.4	24.0	22.3	157.7	157.7
Colombia . . . . .	111.4	20.1	22.2	153.7	153.7
Costa Rica . . . . .	16.2	4.0	3.2	23.4	23.4
Croatia . . . . .	3.1	—	2.8	5.9	5.9
Denmark . . . . .	11.7	—	8.3	20.0	20.0
Dominican Republic . . . . .	21.7	7.9	4.3	33.9	33.9
Ecuador . . . . .	21.7	4.2	4.4	30.3	30.3
El Salvador . . . . .	16.2	2.0	3.2	21.4	21.4
Finland . . . . .	11.0	—	8.0	19.0	19.0
France . . . . .	133.4	—	87.7	221.1	221.1
Germany . . . . .	136.7	—	93.3	230.0	230.0
Guatemala . . . . .	21.7	6.8	4.3	32.8	32.8
Guyana . . . . .	7.0	—	1.3	8.3	8.3
Haiti . . . . .	16.2	2.4	3.2	21.8	21.8
Honduras . . . . .	16.2	7.1	3.2	26.5	26.5
Israel . . . . .	10.8	—	7.2	18.0	18.0
Italy . . . . .	133.4	—	82.3	215.7	215.7
Jamaica . . . . .	21.7	2.7	4.4	28.8	28.8
Japan . . . . .	148.8	—	443.1	591.9	591.9
Mexico . . . . .	259.2	15.0	54.8	329.0	329.0
Netherlands . . . . .	20.3	—	16.6	36.9	36.9
Nicaragua . . . . .	16.2	4.8	3.2	24.2	24.2
Norway . . . . .	11.7	—	8.3	20.0	20.0
Panama . . . . .	16.2	5.9	3.3	25.4	25.4
Paraguay . . . . .	16.2	8.5	3.2	27.9	27.9
Peru . . . . .	54.5	14.3	11.0	79.8	79.8
Portugal . . . . .	5.0	—	2.8	7.8	7.8
Slovenia . . . . .	1.8	—	1.6	3.4	3.4
Spain . . . . .	133.4	—	82.4	215.8	215.8
Suriname . . . . .	5.3	—	1.0	6.3	6.3
Sweden . . . . .	23.7	—	16.4	40.1	40.1
Switzerland . . . . .	38.5	—	24.4	62.9	62.7
Trinidad and Tobago . . . . .	16.2	1.5	3.2	20.9	20.9
United Kingdom . . . . .	133.4	—	41.9	175.3	175.3
United States . . . . .	4,100.0	243.7	495.3	4,839.0	4,839.0
Uruguay . . . . .	43.5	3.7	8.7	55.9	55.9
Venezuela . . . . .	250.1	12.1	53.1	315.3	315.3
Total before unallocated amount . . . . .	7,227.4	504.7	1,904.4	9,636.5	9,635.5
Unallocated . . . . .	—	—	—	—	5.4 <sup>(3)</sup>
Total 2008 . . . . .	<u>\$ 7,227</u>	<u>\$ 505</u>	<u>\$ 1,904</u>	<u>\$ 9,636</u>	
Total 2007 . . . . .	<u>\$ 7,230</u>	<u>\$ 505</u>	<u>\$ 1,905</u>		<u>\$ 9,640</u>

<sup>(1)</sup> Data rounded; detail may not add to subtotals and total because of rounding.

<sup>(2)</sup> Represent maintenance of value adjustments resulting from the changes in the values of currencies in 1972 and 1973 due to the devaluation of the United States dollar in those years.

<sup>(3)</sup> Represents the then remaining contribution quotas of the former Socialist Federal Republic of Yugoslavia.



# **INTERMEDIATE FINANCING FACILITY ACCOUNT**

## **REPORT OF INDEPENDENT AUDITORS**

Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)—Intermediate Financing Facility Account as of December 31, 2008 and 2007, and the related statements of changes in fund balance and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's Intermediate Financing Facility Account internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2008 and 2007, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2008, in conformity with United States generally accepted accounting principles.

Washington, D.C.  
February 17, 2009

*Ernst & Young LLP*

INTERMEDIATE FINANCING FACILITY ACCOUNT  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

*Expressed in millions of United States dollars*

	December 31,	
	2008	2007
<b>ASSETS</b>		
Cash .....	\$ 1	\$ 2
Investments .....	250	303
Total assets .....	<u>\$251</u>	<u>\$305</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses .....	\$ 3	\$ —
<b>FUND BALANCE</b>		
Fund balance .....	248	305
Total liabilities and fund balance .....	<u>\$251</u>	<u>\$305</u>

## STATEMENT OF CHANGES IN FUND BALANCE

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Additions</b>			
Transfers from Fund for Special Operations .....	\$ —	\$ —	\$ 61
Income from investments .....	—	14	17
Total additions .....	—	14	78
<b>Deductions</b>			
Loss from investments .....	7	—	—
Interest paid on behalf of Ordinary Capital borrowers .....	50	48	43
Total deductions .....	57	48	43
Change in fund balance .....	(57)	(34)	35
Fund balance, beginning of year .....	305	339	304
Fund balance, end of year .....	<u>\$248</u>	<u>\$305</u>	<u>\$339</u>

## STATEMENT OF CASH FLOWS

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2008	2007	2006
<b>Cash flows from operating activities</b>			
Transfers from Fund for Special Operations .....	\$ —	\$ —	\$ 61
Income from investments .....	3	3	5
Interest paid on behalf of Ordinary Capital borrowers .....	(47)	(48)	(43)
Net (increase) decrease in investments .....	43	47	(28)
Net cash provided by (used in) operating activities and net increase (decrease) in cash .....	(1)	2	(5)
Cash, beginning of year .....	2	—	5
Cash, end of year .....	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ —</u>

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

INTERMEDIATE FINANCING FACILITY ACCOUNT  
INTER-AMERICAN DEVELOPMENT BANK

## NOTES TO FINANCIAL STATEMENTS

### Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its purpose is to promote economic and social development in Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Agreement Establishing the Inter-American Development Bank (Agreement) provides that its operations be conducted through the Ordinary Capital and the Fund for Special Operations (FSO). In 1983, the Board of Governors of the Bank established the Intermediate Financing Facility Account (IFF) to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital. Up to December 31, 2006, the IFF was funded primarily through transfers from the FSO. As part of the Multilateral Debt Relief and Concessional Finance Reform approved in 2007 (see Note G), the Bank discontinued the transfers from FSO to the IFF.

In making decisions concerning operations of the IFF, the number of votes and percent of voting power for each member country are the same as those applicable for decisions involving the Ordinary Capital, except that the voting authority for decisions to award IFF loan subsidies is determined according to each member country's proportional contribution to the FSO.

### Note B – Summary of Significant Accounting Policies

The financial statements are prepared in conformity with United States generally accepted accounting principles (GAAP). The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 these estimates.

#### New accounting pronouncements

On January 1, 2008, the Bank adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The adoption of this standard did not have a material impact on the IFF's financial position and results of operations.

In May 2008, the Financial Accounting Standard Board issued SFAS No. 162 "The Hierarchy of Generally Accepted Accounting Principles", which identifies the sources of accounting principles and the framework for selecting the principles used

in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. The adoption of this standard did not have an impact on the financial statements of the IFF.

### Investments

Investment securities transactions are recorded on the trade date and are held in a trading portfolio carried at fair value, with changes in fair value included in Income (loss) from investments<sup>1</sup>. Fair values for investment securities are based on quoted prices, where available; otherwise, they are based on external pricing services, independent dealer prices, or discounted cash flows.

### Administrative expenses

Administrative expenses of the IFF are paid by the Bank and are allocated between the Ordinary Capital and the FSO, pursuant to an allocation formula approved by the Board of Executive Directors.

### Note C – Investments

As part of its overall portfolio management strategy, the Bank invests the IFF resources in high quality securities, in accordance with established investment guidelines, through two investment pools managed by the Bank for the benefit of the IFF and the FSO. Investments include government, agency, corporate and bank obligations, and asset-backed and mortgage-backed securities substantially all with credit ratings ranging from AAA to A+ (short-term securities carry the highest short-term credit ratings). The Bank limits its activities of investing in securities to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty.

The IFF's proportionate share of the investment pools assets at December 31, 2008 and 2007 is presented in the Summary Statement of Investments in Appendix III-1. During 2008, the IFF's share of unrealized investment losses from these pools amounted to \$17 million (2007—\$4 million). The average return on investments during 2008, including realized and unrealized gains and losses, was (2.30%) (2007—4.41%; 2006—4.99%).

### Note D – Fair Value Measurements

Effective January 1, 2008, the Bank adopted SFAS 157, which provides a new framework for measuring fair value under GAAP. SFAS 157 establishes a fair value hierarchy that priori-

<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.

INTERMEDIATE FINANCING FACILITY ACCOUNT  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

tizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2—Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Substantially all IFF investment securities are valued based on quoted prices in markets that are not active, solicited broker/dealer prices, or prices derived from alternative pricing models, utilizing discounted cash flows. These methodologies represent valuation techniques consistent with the market and income approaches. These instruments are classified within Level 2 of the fair value hierarchy.

**Note E – Commitments**

The payment by the IFF of part of the interest due from borrowers is contingent on the availability of resources. At December 31, 2008, the amounts disbursed and outstanding and undisbursed, classified by country, under loans on which the IFF would pay part of the interest are as follows (in millions):

Country	Disbursed and Outstanding	Undisbursed
Barbados .....	\$ 36	\$ —
Bolivia .....	83	—
Costa Rica .....	69	—
Dominican Republic .....	321	22
Ecuador .....	419	131
El Salvador .....	394	4
Guatemala .....	430	59
Jamaica .....	245	56
Nicaragua .....	74	—
Panama .....	68	—
Paraguay .....	207	119
Suriname .....	59	17
Trinidad and Tobago .....	66	—
Uruguay .....	62	—
Regional .....	33	—
	<u>\$2,566</u>	<u>\$408</u>

The interest rate subsidy on certain Ordinary Capital loans is set twice a year by the Board of Executive Directors. The subsidy can be no more than 3.62% per annum (5% per annum for selected loans with increased subsidy under the Heavily Indebted Poor Countries (HIPC) I Initiative).

As part of the Multilateral Debt Relief and Concessional Finance Reform, loans approved after December 31, 2006 are no longer eligible for subsidy (see Note G). It is expected that, over time, the Bank will distribute all of the IFF's resources to subsidize part of the interest payments for which certain Ordinary Capital borrowers are liable.

**Note F – Reconciliation of Change in Fund Balance to Net Cash Provided by (Used in) Operating Activities**

A reconciliation of Change in fund balance to Net cash provided by (used in) operating activities, as shown on the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2008	2007	2006
Change in fund balance .....	\$(57)	\$(34)	\$ 35
Difference between amounts accrued and amounts paid or collected for:			
Income from investments .....	—	—	1
Net unrealized (gain) loss on investments .....	10	(11)	(13)
Interest paid on behalf of Ordinary Capital borrowers .....	3	—	—
Net (increase) decrease in investments ..	43	47	(28)
Net cash provided by (used in) operating activities .....	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ (5)</u>

**Note G – Multilateral Debt Relief and Concessional Finance Reform**

In December 2006, the Board of Governors approved a structure that included one hundred (100) percent relief of eligible FSO debt for Bolivia, Guyana, Haiti, Honduras and Nicaragua, effective January 1, 2007 (Haiti will qualify once it reaches Completion Point for the Enhanced HIPC Initiative). As a result of this initiative, on March 15, 2007, the Board of Governors approved, inter alia, that countries eligible for IFF subsidies will continue to receive concessional resources for new loans through 2015, in the form of parallel loans (a blending of loans from the FSO and the Ordinary Capital) rather than a reduction in the interest rate billed, and will still receive the reduction in interest rate billed for loans approved up to December 31, 2006, subject to availability of IFF resources.

INTERMEDIATE FINANCING FACILITY ACCOUNT  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX III-1

**SUMMARY STATEMENT OF INVESTMENTS – NOTE C**

December 31, 2008 and 2007

Expressed in millions of United States dollars

Investments	2008	2007
Investment pools <sup>(1)</sup> :		
Obligations of the United States		
Government and its corporations and agencies. . . . .	\$ 69	\$ 38
Obligations of non-U.S. governments and agencies . . . . .	17	18
Corporate securities . . . . .	11	7
Bank obligations . . . . .	84	104
Asset-backed and mortgage-backed securities . . . . .	69	136
	<u>\$250</u>	<u>\$303</u>

<sup>(1)</sup> Detail of investments by categories represents the IFF's proportionate share of the investment pools assets. See Note C for more information.



# **IDB GRANT FACILITY**

## **REPORT OF INDEPENDENT AUDITORS**

Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)–IDB Grant Facility as of December 31, 2008 and 2007 and the related statements of changes in fund balance and cash flows for the year ended December 31, 2008 and the period from June 29, 2007 (inception) to December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's IDB Grant Facility internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IDB Grant Facility internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank–IDB Grant Facility as of December 31, 2008 and 2007, and the results of its operations and cash flows for the year ended December 31, 2008 and the period from June 29, 2007 (inception) to December 31, 2007, in conformity with United States generally accepted accounting principles.

Washington, D.C.  
February 17, 2009

*Ernst & Young LLP*



IDB GRANT FACILITY  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

*Expressed in millions of United States dollars*

	December 31,	
	2008	2007
<b>ASSETS</b>		
Due from Fund for Special Operations .....	\$73	\$38
Total assets .....	<u>\$73</u>	<u>\$38</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Undisbursed grants .....	\$73	\$38
Fund balance .....	—	—
Total liabilities and fund balance .....	<u>\$73</u>	<u>\$38</u>

## STATEMENT OF CHANGES IN FUND BALANCE

*Expressed in millions of United States dollars*

	Year ended December 31, 2008	From June 29, 2007 (inception) to December 31, 2007
<b>Additions</b>		
Transfers from Fund for Special Operations .....	\$50	\$50
Total additions .....	50	50
<b>Deductions</b>		
Grants .....	50	50
Change in fund balance .....	—	—
Fund balance, beginning of period .....	—	—
Fund balance, end of period .....	<u>\$—</u>	<u>\$—</u>

## STATEMENT OF CASH FLOWS

*Expressed in millions of United States dollars*

	Year ended December 31, 2008	From June 29, 2007 (inception) to December 31, 2007
<b>Cash flows from operating activities</b>		
Transfers from Fund for Special Operations .....	\$ 15	\$ 12
Grants disbursements .....	(15)	(12)
Net cash flows from operating activities .....	—	—
Cash, beginning of period .....	—	—
Cash, end of period .....	<u>\$ —</u>	<u>\$ —</u>

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

**IDB GRANT FACILITY**  
**INTER-AMERICAN DEVELOPMENT BANK**

**NOTES TO FINANCIAL STATEMENTS**

**Note A – Origin**

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its purpose is to promote economic and social development in Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The Agreement Establishing the Inter-American Development Bank (Agreement) provides that its operations be conducted through the Ordinary Capital and the Fund for Special Operations (FSO). In June 2007, the Board of Governors approved the creation of the IDB Grant Facility (GRF) for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects. The GRF is funded by general reserve transfers from the FSO and possible direct contributions from donor countries.

**Note B – Summary of Significant Accounting Policies**

The financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 these estimates.

**Grants**

Grants are recorded as a deduction from the fund balance when approved. Cancellations of the undisbursed portion of grants approved are recorded as an offset to Grants<sup>1</sup> in the period in which they occur.

<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

**Transfers from FSO**

Transfers from the FSO are recognized when approved by the Board of Governors. However, the FSO funds these transfers in accordance with the GRF funding requirements. The portion of approved transfers pending to be received from the FSO is presented under Due from Funds for Special Operations on the Balance Sheet.

**Administrative expenses**

Administrative expenses of the GRF are paid by the Bank and are allocated between the Ordinary Capital and the FSO, pursuant to an allocation formula approved by the Board of Executive Directors.

**Note C – Undisbursed Grants**

During 2008, the Bank approved grants to Haiti for \$50 million (2007—\$50 million). The following is a summary of changes in Undisbursed grants for the year ended December 31, 2008 and the period from June 29, 2007 (inception) to December 31, 2007 (in millions):

	<u>2008</u>	<u>2007</u>
Balance at the beginning of the period . . . . .	\$ 38	\$ —
Approvals . . . . .	50	50
Disbursements . . . . .	<u>(15)</u>	<u>(12)</u>
Balance at December 31, . . . . .	<u>\$ 73</u>	<u>\$ 38</u>



## **GENERAL APPENDICES**



**GOVERNORS AND ALTERNATE GOVERNORS**

<b>Country</b>	<b>Governor</b>	<b>Alternate Governor</b>
ARGENTINA	Carlos Fernández	Martín P. Redrado
AUSTRIA	Wilhelm Molterer	Edith Frauwallner
BAHAMAS	Zhivargo S. Laing	Collin Higgs
BARBADOS	David J. H. Thompson	Grantley W. Smith
BELGIUM	Didier Reynders	Franciscus Godts
BELIZE	Dean Barrow	Carla Barnett
BOLIVIA	Carlos Villegas Quiroga	Luis Alberto Arce Catacora
BRAZIL	Paulo Bernardo Silva	Alexandre Meira da Rosa
CANADA	Lawrence Cannon	James Haley
CHILE	Andrés Velasco Brañes	María Olivia Recart Herrera
COLOMBIA	Óscar Iván Zuluaga Escobar	Carolina Rentería Rodríguez
COSTA RICA	Guillermo Zúñiga Chaves	Francisco de Paula Gutiérrez
CROATIA	Ivan Suker	Zdravko Maric
DENMARK	Susan Ulbæk	Lars Bredal
DOMINICAN REPUBLIC	Vicente Bengoa	Juan Temístocles Montás
ECUADOR	María Elsa Viteri Acaiturri	Roberto Murillo Cavagnaro
EL SALVADOR	Eduardo Ayala Grimaldi	William J. Handal
FINLAND	Marjatta Rasi	Pekka Hukka
FRANCE	Christine Lagarde	Xavier Musca
GERMANY	Karin Kortmann	Rolf Wenzel
GUATEMALA	Juan Alberto Fuentes	María Antonieta de Bonilla
GUYANA	Bharrat Jagdeo	Ashni Singh
HAITI	Daniel Dorsainvil	Jean-Max Bellerive
HONDURAS	Rebeca Patricia Santos Rivera	Edwin Araque Bonilla
ISRAEL	Stanley Fischer	Oded Brook
ITALY	Giulio Tremonti	Mario Draghi
JAMAICA	Audley Shaw, MP	Wesley Hughes, CD
JAPAN	Shoichi Nakagawa	Masaaki Shirakawa
KOREA, REPUBLIC OF	Man-Soo Kang	Seongtae Lee
MEXICO	Agustín Carstens Carstens	Alejandro Werner Wainfeld
NETHERLANDS	Bert Koenders	Ruud Treffers
NICARAGUA	Alberto José Guevara Obregón	Antenor Rosales Bolaños
NORWAY	Hakon Arald Gulbrandsen	Henrik Harboe
PANAMA	Héctor Ernesto Alexander Hansell	
PARAGUAY	Dionisio Borda	Manuel Vidal Caballero Giménez
PERU	Luis Miguel Valdivieso Montano	José Berley Arista Arbildo
PORTUGAL	Fernando Teixeira dos Santos	Carlos Costa Pina
SLOVENIA		Andrej Kavcic
SPAIN	Pedro Solbes Mira	David Vegara Figueras
SURINAME	Humphrey S. Hildenberg	
SWEDEN	Jan Knutsson	Anders Bengtén
SWITZERLAND		Roger Denzer
TRINIDAD AND TOBAGO	Emily Gaynor Dick-Forde	Esme Rawlins-Charles
UNITED KINGDOM	Douglas Alexander, MP	Mike Foster, MP
UNITED STATES	Henry M. Paulson, Jr.	Reuben Jeffery III
URUGUAY	Álvaro García Rodríguez	Enrique Rubio
VENEZUELA	Alí Rodríguez Araque	Haiman El Troudi

## EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS

		Number of votes	Percentage of voting power
Adina Bastidas, <b>VENEZUELA</b> Fernando Eleta Casanovas (Alternate) <b>PANAMA</b>	<b>Elected by:</b> Panama Venezuela	518,658	6.194
Marcelo Bisogno, <b>URUGUAY</b> Hernando Larrazábal (Alternate), <b>BOLIVIA</b>	<b>Elected by:</b> Bolivia Paraguay Uruguay	205,291	2.452
Winston A. Cox, <b>BARBADOS</b> Richard Bernal (Alternate), <b>JAMAICA</b>	<b>Elected by:</b> Bahamas Barbados Guyana Jamaica Trinidad and Tobago	126,574	1.511
Eugenio Díaz-Bonilla, <b>ARGENTINA</b> Martín Bès (Alternate), <b>ARGENTINA</b>	<b>Elected by:</b> Argentina Haiti	936,545	11.185
Alejandro Foxley Tapia, <b>CHILE</b> Xavier Eduardo Santillán (Alternate) <b>ECUADOR</b>	<b>Elected by:</b> Chile Ecuador	295,653	3.531
Hans Hammann, <b>GERMANY</b> Francesca Manno (Alternate), <b>ITALY</b>	<b>Elected by:</b> Belgium Germany Israel Italy Netherlands Switzerland	426,204	5.089
Nelly Lacayo-Anderson, <b>EL SALVADOR</b> Raúl Barrios (Alternate), <b>NICARAGUA</b>	<b>Elected by:</b> Belize Costa Rica El Salvador Guatemala Honduras Nicaragua	202,692	2.420
José Carlos Miranda, <b>BRAZIL</b> Sérgio Portugal (Alternate), <b>BRAZIL</b>	<b>Elected by:</b> Brazil Suriname	907,766	10.841
Cecilia Ramos Ávila, <b>MEXICO</b> Roberto B. Saladín (Alternate) <b>DOMINICAN REPUBLIC</b>	<b>Elected by:</b> Dominican Republic Mexico	627,122	7.489
Miguel San Juan, <b>UNITED STATES</b> Vacant (Alternate), <b>UNITED STATES</b>	<b>Appointed by:</b> United States	2,512,664	30.008
Marc-Olivier Strauss-Kahn, <b>FRANCE</b> Elisabeth Gruber (Alternate), <b>AUSTRIA</b>	<b>Elected by:</b> Austria Denmark Finland France Norway Spain Sweden	400,427	4.783
Yasusuke Tsukagoshi, <b>JAPAN</b> Stewart Mills (Alternate) <b>UNITED KINGDOM</b>	<b>Elected by:</b> Croatia Japan Korea, Republic of Portugal Slovenia United Kingdom	511,113	6.105
Vinita Watson, <b>CANADA</b> Peter Cameron (Alternate), <b>CANADA</b>	<b>Elected by:</b> Canada	335,022	4.001
Verónica Zavala Lombardi, <b>PERU</b> Luis Guillermo Echeverri (Alternate) <b>COLOMBIA</b>	<b>Elected by:</b> Colombia Peru	367,878	4.393
<b>TOTAL</b>		<b>8,373,609</b>	<b>100.00*</b>

Office of Evaluation and Oversight  
Stephen A. Quick, Director  
Sixto Felipe Aquino, Deputy Director

As of December 31, 2008

\*The total may not add up due to rounding.



**CHANNELS OF COMMUNICATION AND DEPOSITORIES**

Member Country	Channel of Communication	Depository
ARGENTINA	Ministerio de Economía	Banco Central de la República Argentina
AUSTRIA	Federal Ministry of Finance	Österreichische Nationalbank
BAHAMAS	Ministry of Finance	Central Bank of The Bahamas
BARBADOS	Ministry of Economic Development	Central Bank of Barbados
BELGIUM	Ministère des Finances	Banque Nationale de Belgique
BELIZE	Financial Secretary, Ministry of Finance	Central Bank of Belize
BOLIVIA	Banco Central de Bolivia	Banco Central de Bolivia
BRAZIL	Ministério do Planejamento, Orçamento e Gestão, Secretaria de Assuntos Internacionais—SEAIN	Banco Central do Brasil
CANADA	International Financial Institutions, Multilateral Programs Branch, Canadian International Development Agency	Bank of Canada
CHILE	Ministerio de Hacienda	Banco Central de Chile
COLOMBIA	Ministerio de Hacienda y Crédito Público	Banco de la República
COSTA RICA	Ministerio de Relaciones Exteriores	Banco Central de Costa Rica
CROATIA	Ministry of Finance	National Bank of Croatia
DENMARK	Danish International Development Agency (DANIDA)	Danmarks Nationalbank
DOMINICAN REPUBLIC	Banco Central de la República Dominicana	Banco Central de la República Dominicana
ECUADOR	Ministerio de Economía y Finanzas	Banco Central del Ecuador
EL SALVADOR	Secretaría Técnica de la Presidencia	Banco Central de Reserva de El Salvador
FINLAND	Ministry for Foreign Affairs	Bank of Finland
FRANCE	Ministère de l'Économie, de l'industrie et de l'emploi	Banque de France
GERMANY	Federal Ministry for Economic Cooperation and Development	Deutsche Bundesbank
GUATEMALA	Banco de Guatemala	Banco de Guatemala
GUYANA	Ministry of Finance	Bank of Guyana
HAITI	Banque de la République d'Haïti	Banque de la République d'Haïti
HONDURAS	Banco Central de Honduras	Banco Central de Honduras
ISRAEL	Bank of Israel	Bank of Israel
ITALY	Ministry of the Economy and Finance	Banca d'Italia
JAMAICA	Ministry of Finance and Planning	Bank of Jamaica
JAPAN	Ministry of Finance	Bank of Japan
KOREA, REPUBLIC OF	Ministry of Finance and Economy	Bank of Korea
MEXICO	Secretaría de Hacienda y Crédito Público	Banco de México
NETHERLANDS	Ministry of Finance	De Nederlandsche Bank N.V.
NICARAGUA	Ministerio de Hacienda y Crédito Público	Banco Central de Nicaragua
NORWAY	Royal Norwegian Ministry of Foreign Affairs	Bank of Norway
PANAMA	Ministerio de Economía y Finanzas	Banco Nacional de Panamá
PARAGUAY	Banco Central del Paraguay	Banco Central del Paraguay
PERU	Banco Central de Reserva del Perú	Banco Central de Reserva del Perú
PORTUGAL	Ministério das Finanças e da Administração Pública	Banco de Portugal
SLOVENIA	Ministry of Finance	Bank of Slovenia
SPAIN	Subdirección General de Instituciones Financieras Multilaterales, Ministerio de Economía	Banco de España
SURINAME	Ministry of Finance	Central Bank van Suriname
SWEDEN	Ministry for Foreign Affairs, Department for International Development Co-operation	Sveriges Riksbank
SWITZERLAND	Office fédéral des affaires économiques extérieures	Banque Nationale Suisse
TRINIDAD AND TOBAGO	Central Bank of Trinidad and Tobago	Central Bank of Trinidad and Tobago
UNITED KINGDOM	Department for International Development	Bank of England
UNITED STATES	Treasury Department	Federal Reserve Bank of New York
URUGUAY	Ministerio de Economía y Finanzas	Banco Central del Uruguay
VENEZUELA	Ministerio de Planificación y Desarrollo	Banco Central de Venezuela

As of December 31, 2008

## PRINCIPAL OFFICERS

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**CONSOLIDATED ADMINISTRATIVE EXPENSES***(In thousands of U.S. dollars)*

<b>Category</b>	<b>2006 Actual</b>	<b>2007 Actual</b>	<b>2008 Actual</b>
Board of Governors	\$ 3,926.6	\$ 2,930.6	\$ 2,952.9
Board of Executive Directors	18,036.8	18,047.4	19,340.5
Office of Evaluation and Oversight	6,648.3	6,691.4	8,194.8
Headquarters and Country Offices	429,905.0	438,965.6	437,217.7
<b>Total Gross Administrative Expenses<sup>1,2,3,4,5,6</sup></b>	<b>458,516.6</b>	<b>466,635.0</b>	<b>467,705.9</b>
Reimbursement from Funds in Administration and IIC	(3,822.8)	(3,117.3)	(4,018.1)
MIF and INTAL Reimbursements, Administrative Income	(8,656.0)	(11,280.1)	(7,230.4)
<b>Total Net Administrative Expenses</b>	<b>446,037.8</b>	<b>452,237.5</b>	<b>456,457.4</b>
Capital Expenses	18,590.2	15,787.0	27,256.7
<b>Total Net Administrative and Capital Expenses</b>	<b>\$464,628.0</b>	<b>\$468,024.6</b>	<b>\$483,714.1</b>

<sup>1</sup> Excludes depreciation of \$43.1 million in 2006, \$20.6 million in 2007 and \$19.8 million in 2008.

<sup>2</sup> Excludes accrued pension benefit costs of \$4.0 million, \$20.0 million and \$12.2 million in 2006, 2007 and 2008, respectively.

<sup>3</sup> Excludes \$1.1 million of expenses in 2006 related to prior years.

<sup>4</sup> Excludes amounts of \$0.5 million for the Inter-American Culture and Development Foundation in 2006 and 2007.

<sup>5</sup> Excludes \$55 million and \$5 million of realignment expenses in 2007 and 2008, respectively.

<sup>6</sup> In 2008, includes prepaid expenses of \$3.7 million.





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