



Annual Report **2013**  
**Financial Statements**

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## Letter of Transmittal

As required by 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 2013. The Annual Report consists of a printed volume entitled "The Year in Review," containing a review of the Bank's operations in 2013

(loans, guarantees, and grants). The electronic version of the Annual Report at [www.iadb.org/ar/2013](http://www.iadb.org/ar/2013) contains, in addition, the full set of the financial statements of the Bank's resources.

March 14, 2014

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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. Alongside these objectives are two strategic goals: addressing the special needs of the less developed and smaller countries and fostering development through the private sector. 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 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (11.0%), Brazil (11.0%), Mexico (7.1%) and Japan (5.0%).

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).

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, 2013, 92% of loans outstanding were sovereign-guaranteed. In addition, under certain conditions and subject to certain limits, the Bank makes loans and guarantees without a sovereign guarantee on the basis of market-based pricing (i) in all economic sectors (subject to an exclusion list), and (ii) to any entity regardless of the degree of private or public sector ownership, as long as the entity does not benefit from a sovereign guarantee for repayments of its obligations and the ultimate beneficiary of the financing is a project in a borrowing member country (eligible entities). The Bank can also lend to other development institutions without sovereign guarantee. Non-sovereign-guaranteed operations are currently capped to an amount such that risk capital requirements for such operations do not exceed 20 percent of the Bank's Total Equity.<sup>1</sup> As of December 31, 2013, the risk capital requirement for non-sovereign-

guaranteed operations was \$1,661 million, or 6.9%<sup>2</sup> of the Bank's Total Equity.

The Bank issues debt securities in a variety of currencies, formats, maturities and structures 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, after swaps, are held predominantly in United States dollars. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets and by maintaining virtually all equity in United States dollars.

### Financial Statement Reporting

The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported results. See the "Additional Reporting and Disclosure" section for relevant accounting policies used to present the financial results in accordance with GAAP, which may involve a high degree of judgment and complexity and relate to matters that are inherently uncertain.

Up to September 30, 2013, the Bank considered currencies of all of its member countries functional currencies, to the extent that the operations were conducted in those currencies. Until then, net adjustments resulting from the translation of other functional currencies into United States dollars, the reporting currency, were charged or credited to Translation adjustments<sup>3</sup>, a separate component of Other comprehensive income (loss) in the Statement of Comprehensive Income. In the recent past, the Bank's operations have changed so that the size of its operations in non-U.S. dollar currencies, on an after swap basis, has significantly been reduced in favor of the U.S. dollar. As a result, effective October 1, 2013, the Bank concluded that its operations are now substantially carried out in a single functional currency, the U.S. dollar, as this is the period during which significant changes in economic facts and circumstances indicate that the Bank's functional currency has now changed, mainly as a result of the substantial completion of a review of the Bank's currency operations and related plans. Accordingly, net gains and losses resulting from the translation of all non-U.S. dollar (i.e., foreign currencies) into United States dollars are now charged or credited to Net fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings.

Most of the Bank's borrowings and all swaps, including borrowing, lending, and equity duration<sup>4</sup> swaps, are measured

<sup>1</sup>"Total Equity" is defined as Paid-in capital stock less Capital subscriptions receivable, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries' local currency cash balances, Receivable from members, and the cumulative effects of Net fair value adjustments on non-trading portfolios and foreign currency transactions.

<sup>2</sup>For purposes of calculating the limit for non-sovereign-guaranteed operations, loans to the Inter-American Investment Corporation (IIC), a separate affiliated international organization part of the IDB Group, in the amount of \$100 million are not included.

<sup>3</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>4</sup>In order to manage the sensitivity to changes in interest rates (duration or modified duration) of its equity, the Bank utilizes equity duration swaps to maintain the modified duration of its equity within a defined policy band of four to six years.

### 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,				
	2013	2012	2011	2010	2009
<b>Operational Highlights</b>					
Loans and guarantees approved <sup>(1)</sup>	\$13,290	\$10,799	\$10,400	\$12,136	\$15,278
Gross loan disbursements	10,558	6,883	7,898	10,341	11,424
Net loan disbursements <sup>(2)</sup>	2,096	2,312	3,297	4,743	6,882
<b>Balance Sheet Data</b>					
Cash and investments-net <sup>(3)</sup> , after swaps	\$21,226	\$14,592	\$13,882	\$16,585	\$20,204
Loans outstanding <sup>(4)</sup>	70,679	68,640	66,130	63,007	58,049
Undisbursed portion of approved loans	29,207	26,987	23,994	22,357	21,555
Total assets <sup>(11)</sup>	97,007	92,209	89,432	87,217	84,006
Borrowings outstanding, after swaps	67,460	59,754	58,015	57,874	57,697
Callable capital stock <sup>(5)</sup>	123,840	112,240	100,641	100,641	100,641
(of which, subscribed by United States, Canada, Japan and the other non-regional members)	63,439	57,884	52,329	52,329	52,329
Equity <sup>(11)</sup>	23,550	20,681	19,794	20,960	20,674
<b>Income and Comprehensive Income Statements Data</b>					
<b>Operating Income<sup>(6)</sup></b>	<b>\$ 881</b>	<b>\$ 910</b>	<b>\$ 836</b>	<b>\$ 1,252</b>	<b>\$ 1,294</b>
Net fair value adjustments on non-trading portfolios and foreign currency transactions <sup>(7)</sup>	626	194	(919)	(850)	(500)
Board of Governors approved transfers	(200)	(200)	(200)	(72)	—
Net income (loss)	1,307	904	(283)	330	794
Other comprehensive income (loss)	1,506	(300)	(883)	(44)	436
Comprehensive income (loss)	2,813	604	(1,166)	286	1,230
<b>Ratios</b>					
Net borrowings <sup>(8)</sup> as a percentage of callable capital stock subscribed by United States, Canada, Japan and the other non-regional members	74.4%	80.0%	86.3%	80.6%	74.1%
Total Equity <sup>(9)</sup> to loans <sup>(10)</sup> ratio <sup>(11)</sup>	33.6%	31.1%	31.3%	33.4%	34.2%
Cash and investments as a percentage of borrowings outstanding, after swaps	31.5%	24.4%	23.9%	28.7%	35.0%

<sup>(1)</sup> Excludes guarantees issued under the Trade Finance Facilitation Program and non-sovereign-guaranteed loan participations.

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

<sup>(3)</sup> Net of Payable for investment securities purchased, Payable for cash collateral received, and Receivable for investment securities sold.

<sup>(4)</sup> Excludes lending swaps in a net liability position of \$650 million in 2013 (2012—net liability of \$1,831 million; 2011—net liability of \$1,546 million; 2010—net liability of \$655 million; 2009—net asset of \$77 million).

<sup>(5)</sup> Includes capital subscription received from Canada of non-voting callable capital stock as follows: 2009 to 2011—\$4,039.9 million; 2012—\$3,553.0 million; 2013—\$3,066 million. See "Sources of Funds—Equity" for further information.

<sup>(6)</sup> See page 20 for a full discussion of Operating Income.

<sup>(7)</sup> Net fair value adjustments on non-trading portfolios and foreign currency transactions mostly relate to changes in the fair value of (a) borrowings at fair value due to changes in the Bank's own credit spreads, (b) lending and certain borrowing swaps due to changes in USD interest rates, which are not offset with changes in the value of the related loans and borrowings since they are not recorded at fair value, as well as (c) equity duration swaps due to changes in USD interest rates.

<sup>(8)</sup> Borrowings (after swaps) and guarantee exposure, less qualified liquid assets (after swaps).

<sup>(9)</sup> "Total Equity" is defined as Paid-in capital stock less Capital subscriptions receivable, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries' local currency cash balances, Receivable from members, and the cumulative effects of Net fair value adjustments on non-trading portfolios and foreign currency transactions (non-GAAP measure).

<sup>(10)</sup> Includes loans outstanding and guarantee exposure.

<sup>(11)</sup> Effective March 31, 2013, the Bank reclassified Receivable from members from assets to equity amounting to \$262 million, at December 31, 2013.



at fair value through income. The reported income volatility resulting from the non-trading financial instruments is not fully representative of the underlying economics of the transactions as the Bank holds these instruments to maturity. Accordingly, the Bank excludes the impact of the fair value adjustments associated with these financial instruments from "Operating Income", which is defined as Income before Net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers. Net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers are reported separately in the Statement of Income and Retained Earnings.

**Accounting Developments:** As described in Note B to the financial statements, the Financial Accounting Standards Board requires disclosure of both gross information and net information about financial and derivative instruments eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting arrangement, for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The required disclosures are included in Note K—Derivatives of the Bank's financial statements.

### Financial Highlights

**Lending Operations:** During 2013, the Bank's loan and guarantee approvals increased by \$2,491 million as compared to 2012. Approved loans amounted to \$13,257 million (159 loans), compared to \$10,316 million (156 loans) in 2012. The undisbursed portion of approved loans increased to \$29,207 million at year-end 2013 from \$26,987 million at year-end 2012.

During the year, loan prepayments amounted to \$4,241 million (2012—\$153 million). Most of the prepayments received in 2013 were part of the Bank's new reallocation program on sovereign-guaranteed operations. During 2013, loans amounting to approximately \$1,500 million were reallocated under this program. Of these resources, a total of \$1,200 million was approved in new operations in 2013.

During 2013, four non-trade related guarantees without sovereign counter-guarantee were approved for \$33 million (2012—six for \$133 million). In addition, 210 trade finance guarantees in the aggregate amount of \$568 million were issued (2012—308 guarantees in the aggregate amount of \$755 million). No guarantee operations with a sovereign counter-guarantee were approved by the Bank in 2013 (2012—\$350 million).

The portfolio of non-sovereign-guaranteed loans, including loans to other development institutions, increased to a level of \$5,635 million compared to \$3,884 million at December 31, 2012. On the other hand, the non-sovereign guarantees exposure decreased \$95 million to \$546 million compared to \$641 million the previous year. As of December 31, 2013, 8.6% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 6.5% at December 31, 2012. This increase is mainly due to the increase in the non-sovereign-guaranteed portfolio.

Total allowances for loan and guarantee losses amounted to \$255 million at December 31, 2013 compared to \$197 million in 2012. The Bank had non-sovereign-guaranteed loans with outstanding balances of \$310 million classified as impaired at December 31, 2013 compared to \$268 million at December 31, 2012. All impaired loans have specific allowances for loan losses amounting to \$88 million at December 31, 2013, compared to \$66 million at December 31, 2012.

**Liquidity Operations:** Substantially all of the Bank's investments are held in high quality securities. As of December 31, 2013, the liquid asset portfolio totaled \$21,034 million, an increase of \$6,658 million compared to December 31, 2012, in large part due to the amended liquidity policy, as described under "Liquidity Management".

The Bank continued to reduce its exposure to structured assets through asset sales and repayments at par of \$705 million and \$443 million, respectively (2012—\$368 million and \$448 million, respectively). The increased level of sales reflected an accelerated risk-reduction strategy as prices of below-investment-grade structured assets improved. Overall, net losses of \$165 million (relative to purchase price) were realized, compared to \$94 million in 2012.

In 2013, the trading investments portfolio experienced net mark-to-market gains of \$153 million, compared to \$293 million in 2012 as the prices of financial assets in which the Bank invests continued to improve during the year, which helped to continue reversing previously reported valuation losses.

**Borrowing Operations:** The Bank issued medium-and long term debt securities for a total face amount of \$16,195 million equivalent (2012—\$12,888 million) that generated proceeds of \$15,763 million equivalent (2012—\$12,067 million) and had an average life of 4.9 years (2012—5.7 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 higher level of borrowing operations when compared to 2012 was mainly due to the increase of the Bank's liquid assets, as described under "Liquidity Management".

During 2013, the Bank continues to be rated Triple-A by the major credit rating agencies.

**Capitalization:** On February 29, 2012, the ninth general increase in the resources of the Bank (IDB-9) entered into effect providing for an increase in the Bank's Ordinary Capital of \$70,000 million to be subscribed to by Bank members in five annual installments. Of this amount, \$1,700 million is paid-in capital stock and the remainder constitutes callable capital stock. Subscriptions from 46 member countries amounting to \$65,731 million were received by the Bank. Two member countries, the Netherlands and Venezuela, did not subscribe to their shares. As a result, of the total shares subscribed, 5,134,300 shares in the amount of \$61,937 million, or 88% of the total increase, were made effective to member countries. The shares that had been reserved for the Netherlands and Venezuela

(19,639 and 334,278 shares, respectively) were subsequently re-allocated to other member countries on January 22, 2013 by the Bank's Board of Governors to become effective for each member country only if, on or before February 28, 2014, as amended, each member country has deposited with the Bank an Instrument of Subscription subscribing to the number of shares allocated to such member country. As of December 31, 2013, instruments of subscription for 336,523 of the total reallocated shares had been already received. Upon the completion of this reallocation process, if all reallocated shares are subscribed by members, the IDB-9 will be fully subscribed. There will be no changes to the voting power of the borrowing member countries as a group and the United States, Canada, Japan and the group of other non-regional member countries after the reallocation becomes effective. See the "Subsequent and Other Developments" section for additional information.

The effective dates of the first two installments of the Ordinary Capital increase were February 29, 2012 and February 28, 2013. These two installments, amounting to \$602 million, have been substantially collected. The remaining three installments are effective on the last day of February 2014, 2015 and 2016, respectively.

As part of the IDB-9, the Board of Governors agreed, in principle and subject to annual approvals and in accordance with the Agreement, to provide \$200 million annually in transfers of Ordinary Capital income to the GRF, beginning in 2011 and through 2020. In March 2013, the Board of Governors approved the \$200 million transfer corresponding to 2013.

The Total Equity-to-Loans Ratio (TELR) at December 31, 2013 was 33.6% compared to 31.1% at the end of last year (See **Table 8**).

**Financial Results:** Operating Income for 2013 was \$881 million, compared to \$910 million in 2012, a decrease of \$29 million. This decrease was mainly due to a decrease in net investment gains of \$140 million and an increase in net non-interest expense of \$208 million, which were partially offset by an increase in net interest income of \$332 million.

#### *Net interest income*

For 2013, the Board of Executive Directors approved a lending spread of 0.84%, a credit commission of 0.25% and no supervision and inspection fee, while for 2014 a lending spread of 0.85% was approved, maintaining the same credit commission and supervision and inspection fee. Although changes in interest rates will, over the long term, result in corresponding changes in Operating Income, the effect on a single year is relatively small due to the fact that equity is mostly funding fixed rate assets and that for debt-funded assets the interest rate exposure is mostly hedged through the use of derivative instruments or passed through to the borrowers.

The Bank had net interest income of \$1,616 million during 2013 compared to \$1,284 million last year. The increase was mainly due to the impact of the increase in the lending spread on most of the Bank's loans from 0.62% to 0.84% in 2013, amounting to approximately \$134 million, higher other interest income

mainly from realized gains of \$125 million on equity duration swaps, as well as loan prepayment compensation of \$101 million, net of swap unwinding costs, received during 2013.

#### *Net fair value adjustments on non-trading portfolios and foreign currency transactions*

The Bank has elected the fair value option under GAAP for most of its medium- and long-term debt to reduce the income volatility resulting from the previous accounting asymmetry of marking to market borrowing swaps through income while recognizing all borrowings at amortized cost. Individual borrowings are elected for fair value reporting on an instrument by instrument basis, and the election is made upon the initial recognition of a borrowing and may not be revoked once an election is made. However, income volatility still results from the changes in fair value of the Bank's lending swaps, which are not offset by corresponding changes in the fair value of loans, as all the Bank's loans are recorded at amortized cost. In order to address this income volatility, the Bank takes into consideration all of its non-trading financial instruments (i.e., borrowings, loans and derivatives) in determining its fair value option elections for borrowings.

The Bank had net fair value gains on non-trading portfolios and foreign currency transactions of \$626 million, compared to \$194 million in 2012. Net fair value adjustments on non-trading portfolios and foreign currency transactions mostly relate to changes in the fair value of (a) borrowings at fair value due to changes in the Bank's own credit spreads, (b) lending and certain borrowing swaps due to changes in USD interest rates, which are not offset with changes in the value of the related loans and borrowings since they are not recorded at fair value, as well as (c) equity duration swaps due to changes in USD interest rates. For further information, refer to Note R—Net Fair Value Adjustments on Non-trading Portfolios and Foreign Currency Transactions of the financial statements.

**Pension and Postretirement Benefit Plans (Plans):** During 2013, the fair value of the Plans' assets benefited from strong rallies in developed markets equities as well as positive performance from high yield fixed income and private real estate. The Plans' asset returns were higher than the 6.75% expected return on plan assets, which combined with the decrease in the liability, mostly resulting from the increase in the market interest rates used to discount the Plans' liabilities and a reduction in the inflation rate and salary growth assumptions, significantly improved the funded status of these Plans. At December 31, 2013, the Balance Sheet shows assets and liabilities under retirement benefit plans of \$292 million and \$73 million, respectively, compared with only liabilities of \$1,153 million at December 31, 2012. The higher funded status of the Plans of \$1,372 million reflects an increase in the Plans' assets of \$464 million to \$4,996 million and a decrease in the benefit obligation of \$908 million, to \$4,777 million. At the end of the year, the Plans' assets represented 105% of the benefit obligations compared with 80% at the end of the prior year. For further information, refer to Note S—Pension and Postretirement Benefit Plans of the financial statements.

**Equity:** Equity at December 31, 2013 was \$23,550 million compared with \$20,681 million at December 31, 2012. The increase of \$2,869 million reflects Net Income of \$1,307 million, paid-in capital received under the IDB-9 of \$318 million, and the recognition of the changes in assets/liabilities related to the Bank's pension and postretirement benefit plans of \$1,507 million, partially offset by the reclassification from assets to equity of Receivable from members of \$262 million in 2013.

**Asset and Liability Management:** During 2013, the Bank terminated certain swaps in order to maintain the modified duration of its equity within the defined policy band of 4 to 6 years realizing gains of \$125 million. In addition, as a result of loan prepayments of \$4,241 million, certain lending swaps were terminated resulting in realized losses of \$232 million, which were offset by compensation received from the borrowers of \$333 million.

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.

## DEVELOPMENT OPERATIONS

### General

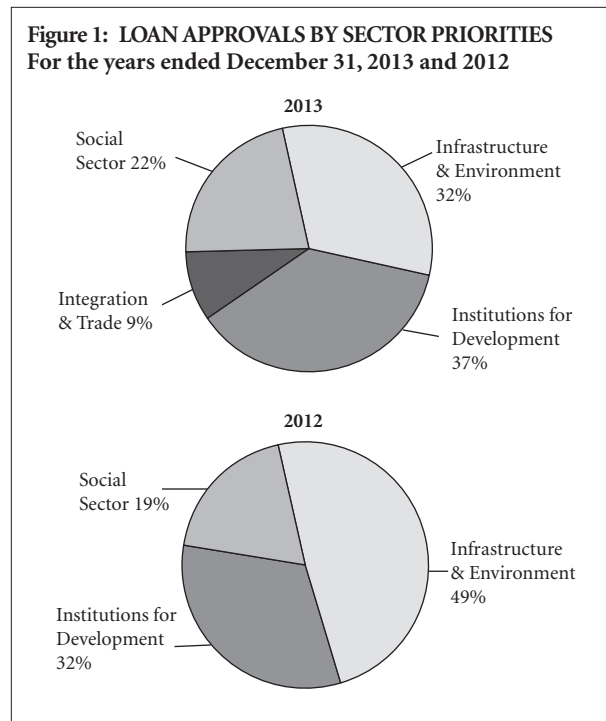
The Bank makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In the case of loans and guarantees to borrowers other than national governments or central banks, the Bank follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the national government. Loans and guarantees may also be made directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee and in all sectors (subject to an exclusion list), 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 Objective

The Report on the IDB-9 establishes that the Bank's objective is to promote sustainable growth, poverty reduction and social equity. It further identifies five sector priorities to work towards achieving this objective:

- Social policy for equity and productivity.
- Infrastructure for competitiveness and social welfare.
- Institutions for growth and social welfare.
- Competitive regional and global international integration.
- Protection of the environment, response to climate change, promotion of renewable energy and ensuring food security.

Figure 1 below presents the approvals for loans of the Ordinary Capital by sector priorities:



### 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, which includes economists, engineers, financial analysts and other sector and country specialists, assesses the projects. With certain exceptions, where this authority has been delegated to Management, 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 reviews progress, monitors compliance with Bank policies and assists in resolving any problems that may arise. The Office of Evaluation

and Oversight, an independent Bank unit, evaluates loan operations pursuant to an annual work plan approved by the Board of Executive Directors to determine the extent to which major objectives have been met. The results of 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, including loans to intermediaries for on-lending purposes, and policy-based loans. Under these lending categories the Bank provides support, among others, to 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. The Bank also lends directly to eligible entities without a sovereign guarantee generally for the financing of investments for transactions in all sectors, subject to an exclusion list.

### ***Sovereign-Guaranteed Investment Loans***

Investment lending is generally used to finance goods, works, and services in support of economic and social development projects.

### ***Sovereign-Guaranteed Policy-Based Loans***

Policy-based lending provides fungible resources to support an agreed program of policy reforms and/or institutional changes in a sector or sub-sector and it aims at assisting borrowing member countries to develop and implement their economic and sectorial policy reforms and institutional changes to contribute to the achievement of sustainable growth levels and poverty reduction.

### ***Development Sustainability Credit Line (DSL)***

In addition to the above mentioned lending categories, in 2012, the DSL was approved and replaced the emergency lending category. The DSL is structured as a contingent credit line and it has been designed to respond to exogenous economic crisis. Resources are available to the borrower in order to mitigate direct effects of exogenous economic shocks (systemic or country specific).

### ***Reallocation Program (RP)***

The Reallocation Program, established in 2012, offers borrowing member countries flexibility in allocating their exposure with the Bank by earmarking resources released as a result of a loan prepayment by a borrowing member country to finance new sovereign-guaranteed loan operations to that same country. The terms on the new loans under the RP are such that their weighted average life is not greater than the remaining weighted average life of the prepaid loans prior to the prepayment. Most of the prepayments received in 2013 were part of the RP.

### ***Non-Sovereign-Guaranteed Loans***

Non-sovereign-guaranteed loans and guarantees generally finance investments for transactions in all sectors, subject to an

## **Box 2: Lending Operations Principles**

- (i) The Bank makes sovereign-guaranteed loans and guarantees primarily to central governments, as well as sub-national governments, governmental entities, public enterprises, and development institutions of its borrowing members. In addition, the Bank makes non-sovereign-guaranteed loans and guarantees to eligible entities and other development institutions.
- (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 gender 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.



exclusion list, are made on the basis of market-based pricing, and are subject to certain eligibility requirements and risk management limits. In addition, the Bank lends to other development institutions for on-lending purposes without a sovereign guarantee. Consistent with one of the objectives of the Agenda for a Better Bank set forth in the IDB-9, which calls for strengthening the Bank's risk management practices, the Board of Executive Directors approved the Non-Sovereign-Guaranteed (NSG) Risk Framework (Framework), which became effective on November 1, 2013. The Framework is structured in three levels, namely (i) the NSG risk appetite, which limits the amount of economic capital allocated to non-sovereign-guaranteed loans and guarantees to 20% of the Bank's Total Equity, (ii) the portfolio exposure limits and supplemental guidelines, which seek to provide for portfolio diversification and establish limits per project, per obligor and group of obligors, per sector as well as per country and (iii) the NSG risk management best practices, which will be developed by Management over time to support project origination and portfolio management. With respect to the single obligor limits, the Framework establishes a limit equal to the lesser of 2.5% of the Bank's Total Equity and \$500 million at the time of approval.

As discussed above, non-sovereign-guaranteed operations are currently capped to an amount such that risk capital requirements for such operations do not exceed 20 percent of Total Equity. As of December 31, 2013, the risk capital requirements of non-sovereign-guaranteed operations were \$1,661 million, or 6.9% of Total Equity.

Figure 2 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 \$7.1 billion and \$10.1 billion, policy-based lending between \$1.6 billion and \$3.9 billion, and non-sovereign-guaranteed lending between \$0.8 billion and \$2.0 billion. There were no emergency and liquidity program loan approvals after 2009.

During 2013, loan approvals totaled \$13,257 million compared to \$10,316 million in 2012. A summary of loan approvals by country during 2013 and 2012 appears in Table 1. By loan

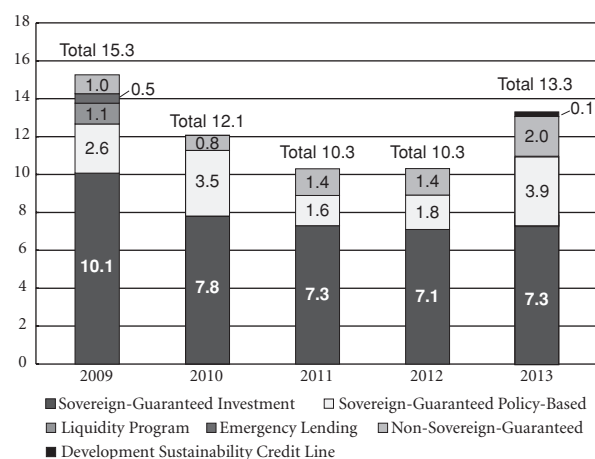
type, loan approvals increased in all categories. Sovereign-guaranteed investment and policy-based loan approvals increased \$169 million and \$2,076 million, respectively, and non-sovereign-guaranteed loan approvals increased \$596 million. In addition, there was a loan approval of \$100 million under the DSL.

**Table 1: LOAN APPROVALS BY COUNTRY<sup>(1)</sup>**  
**For the years ended December 31, 2013 and 2012**  
*(Expressed in millions of United States dollars)*

COUNTRY	2013	2012
Argentina.....	\$ 1,264	\$ 1,390
Bahamas .....	—	89
Barbados .....	—	92
Bolivia .....	315	252
Brazil .....	3,379	2,010
Chile .....	421	8
Colombia.....	1,004	510
Costa Rica .....	540	602
Dominican Republic .....	661	357
Ecuador.....	502	365
El Salvador .....	355	303
Guatemala.....	196	209
Guyana .....	8	33
Haiti.....	4	3
Honduras .....	218	127
Jamaica .....	14	37
Mexico.....	2,087	1,438
Nicaragua .....	136	132
Panama .....	281	178
Paraguay .....	256	173
Peru .....	194	245
Suriname.....	125	89
Trinidad and Tobago .....	159	247
Uruguay.....	738	627
Venezuela.....	—	400
Regional.....	400	400
Total.....	<u>\$13,257</u>	<u>\$10,316</u>

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

**Figure 2: LOAN APPROVALS BY TYPE**  
**For the years ended December 31, 2009 through 2013**  
*(Expressed in billions of United States dollars)*



Loans amounting to approximately \$1,500 million were reallocated under the RP. Of these resources, a total of \$1,200 million was approved in new operations in 2013.

At December 31, 2013, the total volume of outstanding loans was \$70,679 million, \$2,039 million higher than the \$68,640 million at December 31, 2012. This increase was mainly due to a higher level of loan disbursements (\$10,558 million) than collections (\$8,462 million, including prepayments of \$4,241 million), partially offset by negative currency translation adjustments (\$61 million). Undisbursed balances at December 31, 2013, totaled \$29,207 million, an increase of \$2,220 million from December 31, 2012. This change was mainly due to higher loan approvals than disbursements, partially offset by cancellations.

During 2013, the portfolio of non-sovereign-guaranteed loans increased to a level of \$5,635 million compared to \$3,884 million at December 31, 2012. On the other hand, the non-sovereign guarantee exposure decreased \$95 million to \$546 million compared to \$641 million the previous year. As of December 31, 2013, 8.6% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 6.5% at December 31, 2012. This increase is mainly due to an increase in the non-sovereign-guaranteed portfolio.

A statement of loans outstanding by country at December 31, 2013 and 2012 is set forth in Schedule I-2 to the financial statements.

### Financial Terms of Loans

**Currently Available Financial Terms:** Since January of 2012, the Flexible Financing Facility (FFF) is the only financial product platform for approval of all regular Ordinary Capital sovereign-guaranteed loans. With FFF loans, borrowers have the ability to tailor financial terms at approval or during the life of a loan, subject to market availability and operational considerations. The FFF platform allows borrowers to: (i) manage currency, interest rate and other types of exposures; (ii) address project changing needs by customizing loan repayment terms to better manage liquidity risks; (iii) manage loans under legacy financial products; and, (iv) execute hedges with the Bank at a loan portfolio level. FFF loans have an interest rate based on LIBOR plus a funding margin or actual funding cost, as well as the Bank's spread. The Bank also offers loans under its DSL with sovereign guarantee. **Table 2** presents the currently available terms for sovereign-guaranteed loans.

The Bank 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 fixed-base cost rate loans with 30 years maturity and 6 years grace period.

In addition, loans are made 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.

**Discontinued Financial Terms:** The most significant financial products discontinued in the recent past, for which outstanding loan balances remain, are described below.

Up to December 31, 2011, the Bank offered two basic types of sovereign-guaranteed loans, each denominated in the currency or currencies chosen by the borrower, as available under the programs: Single Currency Facility (SCF) LIBOR-based loans and Local Currency Facility (LCF) loans.

SCF LIBOR-based loans 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

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

		Flexible Financing Facility <sup>(6)</sup>	Development Sustainability Credit Line <sup>(7)</sup>
<b>Interest rate option</b>		Libor-based loans <sup>(3)</sup>	Libor-based loans
<b>Currencies offered</b>	<b>Approval</b>	USD or borrowing member local currency	USD
	<b>Disbursement</b>	Currency of approval or converted currency	
	<b>Repayment</b>	Currency disbursed/converted	
<b>Cost base</b>		LIBOR $\pm$ funding margin, currency equivalent of LIBOR $\pm$ funding margin, or actual funding cost	3-month LIBOR
<b>Funding margin to LIBOR</b>		Actual funding margin or estimated funding margin at the time of disbursement/conversion	Not applicable
<b>Lending spread<sup>(1)(2)</sup></b>		85 <sup>(5)</sup>	165+85 <sup>(5)</sup>
<b>Credit commission<sup>(1)(2)</sup></b>		25 <sup>(5)</sup>	Not applicable
<b>Supervision and inspection fee<sup>(1)(2)</sup></b>		0 <sup>(5)</sup>	Not applicable
<b>Front-end/Standby fee<sup>(1)</sup></b>		Not applicable/Not applicable	50/50
<b>Maturity<sup>(4)</sup></b>		Up to 20 years for policy based loans and up to 25 years for investment loans	6 years
<b>Grace Period</b>		For investment loans: 6 months after original disbursement period. For policy-based-loans: 5 years	3 years
<b>Repayment Profile</b>		Flexible repayment profile based on loan's contractual weighted average life	Semi-annual or yearly

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

<sup>(2)</sup> Loan charges on sovereign-guaranteed loans are established annually 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-month 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> FFF LIBOR-based loan balances can be converted to fixed-base cost rate and to any member currency, subject to market availability. For parallel loans, interest rates are subject to mandatory fixings.

<sup>(4)</sup> For parallel loans, maturity is 30 years and grace period is 6 years.

<sup>(5)</sup> Loan charges effective January 1, 2014.

<sup>(6)</sup> The Contingent Credit Line for Natural Disasters (CCL), approved in 2012, provides additional resources (\$2 billion until December 31, 2014) in the event of natural disasters. CCL loans have the same terms as FFF loans, except for a 14 year maturity, principal repayments beginning after three years, and a standby fee equal to the Bank's lending spread.

<sup>(7)</sup> The DSL is limited to a maximum of \$300 million per country, or two percent of a country's gross domestic product (GDP), whichever is less, and has available resources of \$2 billion each year from 2012 to 2014, cumulative during the following years, if not used. The DSL will expire at the end of 2015.

cost, as well as the Bank's spread. Borrowers have the option to convert their SCF LIBOR loan balances to fixed-base cost rate.

For loans approved under the LCF, 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 carry a fixed-base cost, floating or inflation-linked interest rate. The LCF was incorporated into the FFF product for sovereign-guaranteed loans effective January 1, 2012 and is still available for non-sovereign-guaranteed operations. At December 31, 2013, the Bank had local currency loans outstanding of \$2,472 million, which have substantially been swapped back-to-back to United States dollars.

**Conversion of Adjustable Rate Loans to LIBOR-Based Loans:** In 2009 and 2010, the Bank converted \$31,956 million of adjustable rate outstanding loans, and their corresponding undisbursed balances, as follows: \$4,965 million to SCF-LIBOR-based and \$26,991 million to SCF-fixed-base cost.

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

**Table 3: LOANS OUTSTANDING BY LOAN PRODUCT<sup>(1)</sup>**  
December 31, 2013 and 2012  
(Amounts expressed in millions of United States dollars)

	2013		2012	
	Amount	%	Amount	%
SCF-LIBOR-based .....	\$26,072	36.9	\$26,308	38.3
SCF-fixed-base cost .....	28,035	39.7	31,288	45.6
LCF-fixed-base cost .....	1,074	1.5	1,055	1.5
LCF-variable .....	1,201	1.7	1,228	1.8
Flexible Financing				
Facility-LIBOR-based ...	5,330	7.5	1,359	2.0
Flexible Financing				
Facility-fixed-base cost ..	245	0.3	—	0.0
Non-sovereign-guaranteed-fixed .....	992	1.4	910	1.3
Non-sovereign-guaranteed-floating .....	4,302	6.1	2,619	3.8
Non-sovereign-guaranteed-local currency .....	197	0.3	196	0.3
Others .....	3,231	4.6	3,677	5.4
Total .....	<u>\$70,679</u>	<u>100.0</u>	<u>\$68,640</u>	<u>100.0</u>

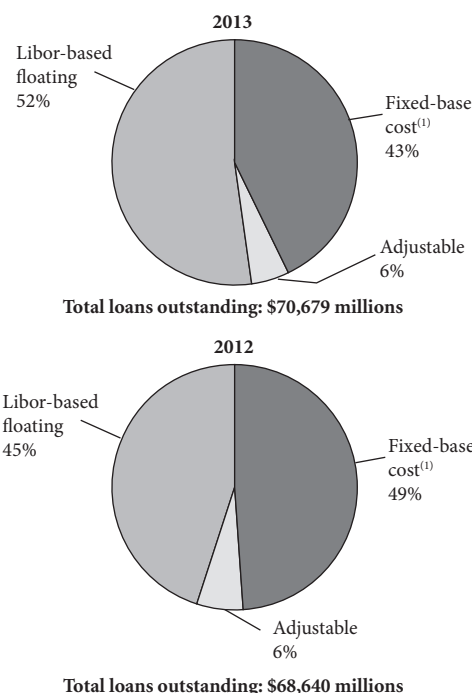
<sup>(1)</sup> Non-sovereign-guaranteed loans in the amount of \$144 million (2012—\$159 million) to other development institutions are included in SCF-LIBOR-based and Others, as applicable.

Of the \$29,207 million undisbursed loan balances at December 31, 2013, 49% pertains to the SCF-LIBOR-based, 41% to the FFF-LIBOR-based, and 8% to the non-sovereign-guaranteed-floating portfolios.

The Bank uses currency and interest rate swaps in order to hedge exposures from loans where the currency or the inter-

est rate type is not the same as that of the underlying funding. **Figure 3** displays a breakdown of loans outstanding, before swaps, by interest rate type.

**Figure 3: LOANS OUTSTANDING BY INTEREST RATE TYPE BEFORE SWAPS**  
December 31, 2013 and 2012



<sup>(1)</sup> Includes a total of \$1,503 million in fixed rate loans (2012—\$1,283 million).

#### Charges on Loans with Sovereign Guarantee (Excluding Emergency Lending)

Loan charges are established annually by the Board of Executive Directors taking into consideration the trade-offs presented in the Long-Term Financial Projections (see the “Financial Risk Management—Capital Adequacy Framework—Income Management Model” section). At a minimum, the level of loan charges for sovereign-guaranteed loans should be sufficient to generate enough income so as to cover 90% of the Ordinary Capital's administrative expenses on a three-year rolling basis, adjusted for 90% of the income from the Bank's non-sovereign-guaranteed operations.

During late 2013, the Board of Executive Directors approved a lending spread of 0.85%, a credit commission of 0.25% and no supervision and inspection fee for 2014. **Table 4** shows loan charges prevailing during the periods indicated.

**Table 4: LOAN CHARGES**

	Lending spread %	Credit commission %	Supervision and inspection fee %
2011 .....	0.80	0.25	—
2012 .....	0.62	0.25	—
2013 .....	0.84	0.25	—



A unique feature of the Bank's loan charge structure on the sovereign-guaranteed portfolio is that changes apply to substantially all the portfolio, including loans already disbursed and outstanding. As a result, the Bank has the ability to raise revenue by these means, when needed. In addition, loan charges are also approved by the Bank's borrowing member countries who ultimately incur the higher costs.

### Guarantees

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

In October of 2013, a new policy for a Flexible Guarantee Instrument (FGI) for sovereign-guaranteed operations was approved. The FGI allows for structuring of sovereign counter-guaranteed partial credit and political risk guarantees, which can be used to support investment projects or policy-based interventions.

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. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees. Guarantee exposure is measured as the callable amount.

During 2013, four non-trade-related guarantees without sovereign counter-guarantee were approved for \$33 million (2012—six for \$133 million). The Bank's Trade Finance Facilitation Program (TFFP) provides full 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 \$1,000 million outstanding at any time. During 2013, 210 trade-finance guarantees, in the aggregate amount of \$568 million were issued. This compares with 308 guarantees in the aggregate amount of \$755 million issued in 2012. No guarantee operations with a sovereign counter-guarantee were approved in 2013 (2012—\$350 million).

As of December 31, 2013, guarantees of \$871 million (2012—\$761 million), including \$329 million issued under the TFFP (2012—\$401 million), were outstanding and subject to call. Sovereign and non-sovereign guarantees exposure was \$325 million (2012—\$52 million) and \$546 million (2012—\$641 million), respectively. No guarantees have ever been called.

### Technical Assistance

In addition to loans and guarantees, the Bank provides technical assistance to its member countries both in connection with, and

independent of, its lending operations. Such assistance focuses on transferring knowledge, and supports project preparation, feasibility studies, regional programs, and training. Technical assistance activities are currently funded by resources from the Ordinary Capital's special programs and the funds under the Bank's administration. In 2013, the Bank approved technical assistance for a total of \$351 million (2012—\$284 million), including \$139 million (2012—\$87 million) funded by the Ordinary Capital.

As part of the effort to serve the clients' needs beyond financing, the Bank approved in 2013 the Policy for Fee-Based Advisory and Knowledge Services. This policy framework allows the Bank to provide fee-based advisory and knowledge services that are not linked to the design and execution of the Bank's lending operations. Management is currently preparing the guidelines for the adoption of this new policy.

## LIQUIDITY MANAGEMENT

The primary objective of the Bank's liquidity management is to preserve capital and to ensure that adequate resources are available to meet anticipated contractual obligations and 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 liquid assets is preservation of capital, and maintaining a portfolio of adequate size invested in high quality liquid assets to enable the Bank to meet its financial obligations without the need to access the capital markets. The secondary investment objective is to efficiently manage risk/return trade-offs of all eligible asset classes within the defined risk tolerance of the Bank, in order to help minimize the cost of carrying liquidity.

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 the "Financial Risk Management" section.

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

Under the Bank's liquidity policy, Management targets a liquidity portfolio sufficient to cover twelve months of financial obligations (e.g., contractual debt repayments and loan disbursements). The policy allows Management to manage liquidity dynamically based on the Bank's expected future cash flow needs. It requires a liquidity level ranging within a band established early in the year and sent to the Board of Executive Directors for their information. Liquidity for this purpose is essentially defined as non-borrowing countries convertible currency cash and investments, excluding the assets funded by the Bank's Discount Note Program and assets with limited or restricted availability. The policy band may be reviewed during the year depending on whether or not there are any changes in the components that generate the band (i.e., loan disbursements and debt redemptions, as well as guarantee exposure).

Towards the end of 2013, the Board of Executive Directors approved an amendment to the liquidity policy, which would increase the policy band ceiling, in order to provide additional funding flexibility to strengthen liquidity.

At December 31, 2013, the liquid asset portfolio totaled \$21,034 million, an increase of \$6,658 million compared to December 31, 2012, in large part due to the amended liquidity policy. Liquidity, as defined, was \$20,418 million, within policy limits. During the year, liquidity averaged \$18,579 million compared to \$16,528 million in 2012.

Liquid investments (trading investments portfolio) are maintained in two distinct sub-portfolios: transactional and operational, 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.

In October of 2013, the Bank reopened the External Managers Program whose purpose is to manage the U.S. agency mortgage-backed security risk of the trading investments portfolio. Separate investment guidelines that conform to the Bank's overall Investment Guidelines are provided to each external manager. At December 31, 2013, the size of the program was \$500 million or 2.4% of the portfolio.

The return of the trading investments portfolio in 2013 and 2012 is shown in **Table 5**. The decrease in the return of the portfolio mainly reflects a decelerating improvement in the prices of credit assets, the overall reduction of asset- and mortgage-backed securities held in the portfolio through both asset sales and repayments at par, and increased transactional balances kept in highly liquid short-term investments at lower yields.

**Table 5: TRADING INVESTMENTS PORTFOLIO<sup>(1)</sup>**  
**December 31, 2013 and 2012**

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

Portfolio	2013		2012	
	Ending Balance	Return (%) <sup>(2)(3)(4)</sup>	Ending Balance	Return (%) <sup>(2)(3)(4)</sup>
Transactional . . . . .	\$ 6,544	0.09	\$ 848	0.21
Operational . . . . .	14,490	1.50	13,528	2.88
Overall Portfolio . . . .	<u>\$21,034</u>	<u>1.27</u>	<u>\$14,376</u>	<u>2.22</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.

<sup>(4)</sup> Includes gains and losses.

### Performance and Exposure of the Trading Investments Portfolio

The year 2013 was marked by a significant rise in both interest rates and equities, while credit markets generally improved more modestly. This reaction came in response to improving growth in (i) the U.S., after an early slow down due to the impact of the Budget Control Act sequester, (ii) the Eurozone, which emerged from its recession and saw crisis risks recede, and (iii) Japan, which implemented more aggressive stimulative policies. Furthermore, tapering of quantitative easing by the U.S. Federal Reserve was highly anticipated and started in December, prompting a repricing of the markets expectations of future U.S. Federal Reserve actions.

The Bank's exposure to asset-backed and mortgage-backed securities continued to be reduced through asset sales and repayments at par of \$705 million and \$443 million, respectively (2012—\$368 million and \$448 million, respectively). The increased level of sales reflects an accelerated risk-reduction strategy as prices of below-investment-grade structured assets improved.

In 2013, the Bank recognized \$153 million of mark-to-market gains in its trading investments portfolio (2012—\$293 million). These investment gains, to a major extent, relate to gains recognized in the \$717 million (2012—\$1,527 million) asset-backed and mortgage-backed securities portion of the portfolio. As of December 31, 2013, 40.7% of the asset-backed and mortgage-backed securities portion of the portfolio was rated AAA and AA and 97.6% was rated investment grade, compared to 33.2% and 68.4%, respectively, at December 31, 2012. The improved ratings profile in this portion of the portfolio is mainly due to the sale of below-investment-grade assets.

The exposure for the entire investments portfolio, excluding swaps, amounted to \$21,053 million at December 31, 2013 compared to \$14,434 million at December 31, 2012. The quality of the overall portfolio continues to be high, as 86.7% of the credit exposure is rated AAA and AA (2012—84.5%), 6.6% carry the highest short-term ratings (A1+) (2012—3.1%), 5.6% is rated A (2012—7.1%), and 1.1% is rated below A/A1+ (2012—5.3%). The investment portfolio continued to perform except for \$1.5 million of principal losses (2012—\$0.8 million). Net losses of \$165 million (relative to purchase price) were realized, compared to \$94 million in 2012.

**Table 6** shows a breakdown of the trading investments portfolio at December 31, 2013 and 2012 by major security class together with unrealized gains and losses included in Income from Investments-Net gains, on securities held at the end of the respective year.

**Table 6: TRADING INVESTMENTS PORTFOLIO BY MAJOR SECURITY CLASS**  
December 31, 2013 and 2012

(Amounts expressed in millions of United States dollars)

Security Class	2013		2012	
	Fair Value <sup>(1)</sup>	Unrealized Gains (Losses)	Fair Value <sup>(1)</sup>	Unrealized Gains (Losses)
Obligations of the United States Government and its corporations and agencies . . . . .	\$ 6,073	\$ —	\$ 4,571	\$ —
U.S. Government-sponsored enterprises . . . . .	207	—	31	—
Obligations of non-U.S. governments and agencies . . . . .	10,382	(40)	5,263	63
Bank obligations . . . . .	3,527	(1)	3,031	4
Corporate securities . . . . .	147	—	11	—
Mortgage-backed securities . . . . .	489	31	986	104
U.S. residential . . . . .	46	2	365	64
Non-U.S. residential . . . . .	320	23	357	31
U.S. commercial . . . . .	28	1	66	1
Non-U.S. commercial . . . . .	95	5	198	8
Asset-backed securities . . . . .	228	9	541	38
Collateralized loan obligations . . . . .	152	5	352	28
Other collateralized debt obligations . . . . .	33	3	121	9
Other asset-backed securities . . . . .	43	1	68	1
Total trading investments . . . . .	21,053	(1)	14,434	209
Currency and interest rate swaps-investments-trading . . . . .	(1)	44	(43)	(3)
Total . . . . .	<u>\$21,052</u>	<u>\$ 43</u>	<u>\$14,391</u>	<u>\$206</u>

<sup>(1)</sup> Includes accrued interest of \$38 million (2012—\$35 million) and \$(28) million (2012—\$(20) million), presented in the Balance Sheet under Accrued interest and other charges-on investments and Accrued interest and other charges-on swaps-net, respectively.

## Contractual Obligations

In the normal course of business, the Bank enters into various contractual obligations that require future cash payments.

The Bank's most significant contractual obligations relate to the repayment of borrowings. **Table 7** presents borrowings by remaining maturity as of December 31, 2013 (in millions).

**Table 7: CONTRACTUAL OBLIGATIONS**  
December 31, 2013

	One year or less	2 to 3 years	4 to 5 years	More than 5 years	Total
Borrowings <sup>(1)</sup> . . . . .	<u>\$11,682</u>	<u>\$23,761</u>	<u>\$15,076</u>	<u>\$19,007</u>	<u>\$69,526</u>

<sup>(1)</sup> Amounts are before swaps.

In addition, the Bank has a number of other obligations to be settled in cash, including leases, undisbursed loans, payable for currency and interest rate swaps, Payable for investment securities purchased, Payable for cash collateral received, Due to IDB Grant Facility, and pension and postretirement benefit obligations.

## SOURCES OF FUNDS

### Equity

Equity at December 31, 2013 was \$23,550 million compared with \$20,681 million at December 31, 2012. The increase of \$2,869 million reflects Net Income of \$1,307 million, paid-in capital received under the IDB-9 of \$318 million, and the recognition of the changes in assets/liabilities related to the Bank's pension and postretirement benefit plans of \$1,507 million, partially offset by the reclassification from assets to equity of Receivable from members of \$262 million in 2013.

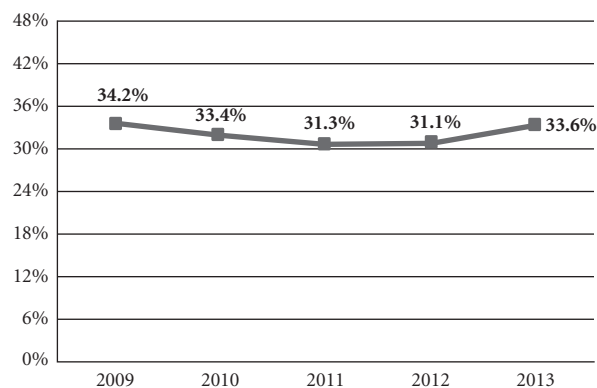
The Bank's equity base plays a critical role in securing its financial objectives, enabling the Bank to absorb risk out of its own resources and protecting member countries from a possible call on callable capital stock. **Table 8** presents the composition of the TELR at December 31, 2013 and 2012. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" for further information.

**Table 8: TOTAL EQUITY-TO-LOANS RATIO****December 31, 2013 and 2012***(Amounts expressed in millions of United States dollars)*

	2013	2012
<b>Equity</b>		
Paid-in capital stock . . . . .	\$ 4,941	\$ 4,640
Capital subscriptions receivable . . . . .	(1)	(18)
	4,940	4,622
Less: Receivable from members . . . . .	262	
Retained earnings:		
General reserve <sup>(1)</sup> . . . . .	16,307	13,494
Special reserve <sup>(1)</sup> . . . . .	2,565	2,565
	23,550	20,681
<b>Plus:</b>		
Allowances for loan and guarantee losses . . . . .	255	197
<b>Minus:</b>		
Borrowing countries' local currency cash balances . . . . .	152	161
Net receivable from members . . . . .		217
Cumulative net fair value adjustments on non-trading portfolios and foreign currency transactions . . . . .	(421)	(1,047)
<b>Total Equity</b> . . . . .	\$24,074	\$21,547
<b>Loans outstanding and guarantee exposure</b> . . . . .	\$71,550	\$69,333
<b>Total Equity-to-Loans Ratio</b> . . . . .	<b>33.6%</b>	<b>31.1%</b>

<sup>(1)</sup> Includes Accumulated other comprehensive income.

As presented in **Table 8**, the TELR increased from 31.1% at December 31, 2012, to 33.6% at December 31, 2013, mainly due to an increase of \$2,527 million in Total Equity, which more than compensated the increase in loans and guarantee exposure. Total Equity increased mostly as a result of Operating Income of \$881 million, paid-in capital received under the IDB-9 of \$318 million, and the recognition of the changes in assets/liabilities related to the Bank's pension and postretirement benefit plans of \$1,507 million, partially offset by Board of Governors approved transfers of \$200 million. **Figure 4** presents the changes in the TELR during the last five years. As can be seen, the TELR has remained relatively stable during this period.

**Figure 4: 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, 2013, subscribed capital stock, net of subscriptions receivable, was \$128,780 million, of which \$4,940 million is paid-in and \$123,840 million is 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 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. Total callable capital by Standard & Poor's (S&P) country rating is shown on **Table 9**.

**Table 9: CALLABLE CAPITAL BY S&P COUNTRY RATINGS<sup>5</sup>**  
**December 31, 2013**  
*(Expressed in millions of United States dollars)*

Country Rating	2013
AAA .....	\$ 12,930
AA+ .....	36,827
AA .....	2,690
AA- .....	9,714
A+ .....	193
A .....	535
A- .....	36
BBB+ .....	10,354
BBB .....	20,075
BBB- .....	3,723
BB+ .....	58
BB .....	1,315
BB- .....	2,408
B+ .....	715
B .....	1,250
B- .....	6,417
CCC+ .....	13,331
N.R. <sup>(1)</sup> .....	1,269
Total .....	<u>\$123,840</u>

<sup>(1)</sup> Sovereigns not rated by S&P.

At December 31, 2013, the total subscription of the United States, the Bank's largest shareholder, was \$37,794 million, of which \$1,485 million is paid-in capital stock, and the remainder constitutes callable capital stock. Of the United States' callable capital stock subscription of \$36,309 million, \$3,800 million 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, \$32,509 million, 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.

**Temporary Increase in Canada's Callable Capital:** In 2009, Canada subscribed to 334,887 shares of non-voting callable capital stock. The terms and conditions of Canada's subscription to non-voting callable capital stock stipulated that the subscription

was on a temporary basis, with Canada having the right to replace its temporary subscription with shares issued under a future capital increase, as and when effective. Accordingly, on February 29, 2012, Canada exercised its right and, effective on February 29, 2012 and February 28, 2013, replaced 40,358 non-voting callable shares, in the amount of \$487 million each year, with an equal amount of voting callable shares, representing the first and second installments, respectively, of shares allocated under the IDB-9. It is expected that the full amount of non-voting callable shares will be replaced or returned by the end of the IDB-9 installment schedule.

**Capital Increase:** On February 29, 2012, the IDB-9 entered into effect providing for an increase in the Bank's Ordinary Capital of \$70,000 million to be subscribed to by Bank members in five annual installments. Of this amount, \$1,700 million is paid-in capital stock and the remainder constitutes callable capital stock. Subscriptions from 46 member countries amounting to \$65,731 million were received by the Bank. Two member countries, the Netherlands and Venezuela, did not subscribe to their shares. As a result, of the total shares subscribed, 5,134,300 shares in the amount of \$61,937 million, or 88% of the total increase, were made effective, representing the amount of shares subscribed, less shares that were not made effective in order to comply with the associated minimum voting power requirements of the Agreement. Of the total shares made effective, \$1,504 million represents paid-in capital stock and \$60,433 million represents callable capital stock. The shares that had been reserved for the Netherlands and Venezuela (19,639 and 334,278 shares and \$237 million and \$4,032 million, respectively) were subsequently reallocated to other member countries on January 22, 2013 by the Bank's Board of Governors to become effective for each member country only if, on or before February 28, 2014, as amended, each member country has deposited with the Bank an Instrument of Subscription subscribing to the number of shares allocated to such member country. As of December 31, 2013, instruments of subscription for 336,523 of the total reallocated shares had been already received. Upon the completion of this reallocation process, if all reallocated shares are subscribed by members, the IDB-9 will be fully subscribed. There will be no changes to the voting power of the borrowing member countries as a group and the United States, Canada, Japan and the group of other non-regional member countries after the reallocation becomes effective. See the "Subsequent and Other Developments" section for additional information.

The effective dates of the first two installments of the Ordinary Capital increase were February 29, 2012 and February 28, 2013. These two installments, amounting to \$602 million, have been substantially collected. The remaining three installments are effective on the last day of February 2014, 2015, and 2016, respectively.

### 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

<sup>5</sup>Represents the countries' S&P long-term sovereign foreign currency ratings.



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 also 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.

The Bank's borrowing policy is summarized in **Box 4**.

#### Box 4: Borrowing Policy

The Bank's policy is to limit its Net Borrowings to the amount of the subscribed callable capital stock of its non-borrowing member countries (the United States, Canada, Japan and the other non-regional members). Net Borrowings is the amount of borrowings (after swaps), plus gross guarantee exposure, less qualified liquid assets (after swaps), which include 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, 2013, Net Borrowings represented 74.4% of the subscribed callable capital stock of the non-borrowing member countries compared to 80.0% in 2012. Accordingly, the unused borrowing capacity at the end of the year amounted to \$16,236 million, compared to \$11,582 million in 2012.

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 economic 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 the "Financial Risk Management—Credit Risk—Commercial Credit Risk" section). The amount and timing of the Bank's borrowings are determined in part by loan disbursements, maturing debt and liquidity levels (see the "Liquidity Management" section).

At December 31, 2013 and 2012, short-term borrowings consist of U.S. dollar denominated discount notes. **Table 10** presents information about the Bank's short-term borrowing operations.

**Table 10: SHORT-TERM BORROWINGS**  
**December 31, 2013 and 2012**

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

	2013	2012
Balance at year-end . . . . .	\$654	\$840
Average daily balance during the year . . . . .	597	656
Maximum month-end-balance. . . . .	654	900
Weighted average rate at the end of the year . . . . .	0.14%	0.16%
Weighted average rate during the year. . . . .	0.09%	0.10%

Medium-and long-term borrowing operations for 2013 and 2012 are summarized in **Table 11**. In 2013, the proceeds from medium- and long-term debt raised directly in financial markets amounted to \$15,763 million compared to \$12,067 million in 2012. The higher level of borrowing operations when compared to 2012 was mainly due to the increase of the Bank's liquid assets as described under "Liquidity Management".

**Table 11: SUMMARY OF ANNUAL BORROWING OPERATIONS**

**For the years ended December 31, 2013 and 2012**

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

	2013	2012
Total medium- and long- term borrowings <sup>(1)</sup> . . . . .	\$15,763	\$12,067
Average life (years) <sup>(2)</sup> . . . . .	4.9	5.7
Number of transactions. . . . .	64	54
Number of currencies . . . . .	10	9

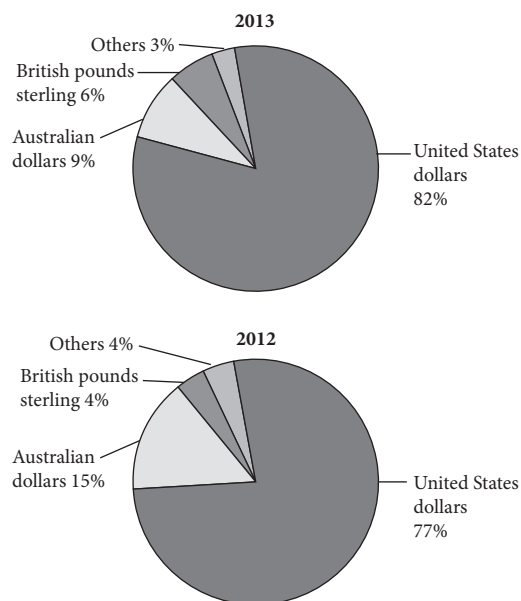
<sup>(1)</sup> Represents proceeds on a trade date basis.

<sup>(2)</sup> Average life calculated considering the time to the next call date.

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2013, the Bank executed five strategic benchmark global bond issues denominated in United States dollars with three, five, seven (two issues) and ten year maturities for a combined amount of \$8,000 million. Borrowings denominated in borrowing member country currencies in the aggregate amount of \$293 million were issued (2012—\$126 million), composed of: Brazilian reais—\$161 million, Mexican pesos—\$82 million, and Costa Rican colones—\$50 million (2012—Brazilian reais—\$104 million and Mexican pesos—\$22 million). In addition, the Bank transacted various bonds denominated in Australian dollars, British pounds sterling, Indian rupees, Indonesian rupiahs, South African rand, New Turkish liras, and United States dollars.

New medium- and long-term borrowings by currency for 2013, as compared to 2012, are shown in **Figure 5**.

**Figure 5: NEW BORROWINGS BY CURRENCY<sup>(1)</sup>**  
**For the years ended December 31, 2013 and 2012**



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

Medium- and long-term borrowings outstanding by currency as of December 31, 2013 and 2012, are shown in **Table 12**.

**Table 12: OUTSTANDING BORROWINGS<sup>(1)</sup>**  
**BY CURRENCY**  
**December 31, 2013 and 2012**  
*(Expressed in millions of United States dollars)*

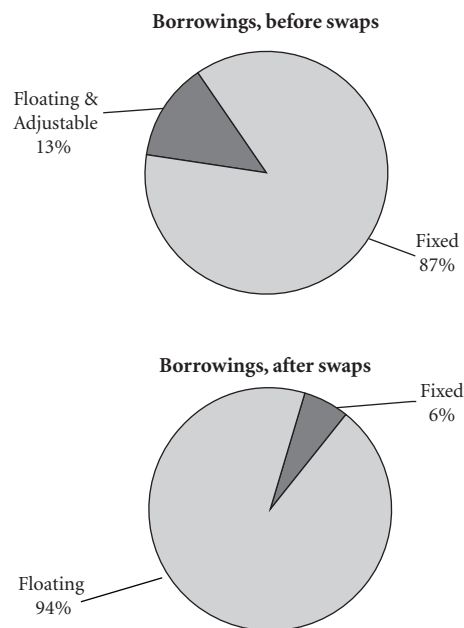
Currency	2013	2012
Australian dollars . . . . .	\$ 7,066	\$ 8,408
Brazilian reais . . . . .	850	992
British pounds sterling . . . . .	2,549	1,516
Canadian dollars . . . . .	2,974	3,113
Chilean pesos . . . . .	—	73
Colombian pesos . . . . .	44	48
Costa Rican colones . . . . .	50	—
Euro . . . . .	805	834
Hong Kong dollars . . . . .	64	65
Indian rupees . . . . .	363	446
Indonesian rupiahs . . . . .	374	640
Japanese yen . . . . .	558	837
Mexican pesos . . . . .	928	951
New Turkish liras . . . . .	278	353
New Zealand dollars . . . . .	1,108	1,506
Norwegian krone . . . . .	83	90
Peruvian new soles . . . . .	116	127
Russian rubles . . . . .	—	37
South African rand . . . . .	110	186
Swiss francs . . . . .	727	709
United States dollars . . . . .	47,682	40,582
Total . . . . .	<u>\$66,729</u>	<u>\$61,513</u>

<sup>(1)</sup> Medium- and long-term borrowings net of unamortized discounts (before swaps and mark-to-market adjustments).

The Bank may retire its debt earlier than the maturity date. For example, debt may be repurchased to facilitate secondary market liquidity and bonds may be called to reduce the cost of borrowing. During 2013, the Bank early retired \$733 million of its borrowings (2012—\$372 million).

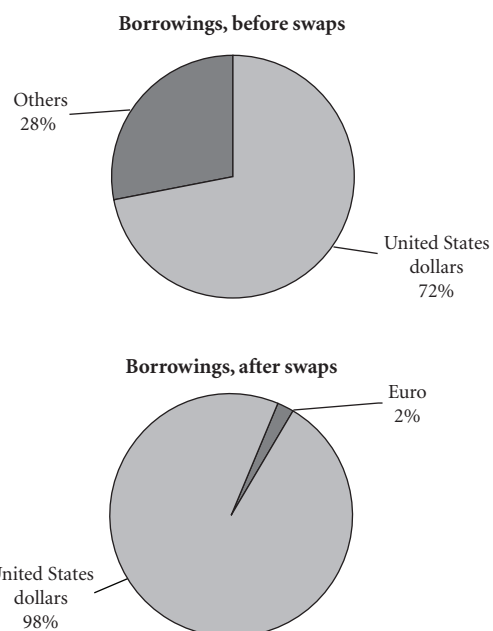
**Use of Derivatives:** The Bank may enter into currency and interest rate swaps contemporaneously with borrowing transactions in order to convert the proceeds mostly into United States dollars and floating rate funding to meet its loan disbursement obligations. In 2013, all the new borrowings, as applicable, were swapped into United States dollars at floating rates. **Figures 6 and 7** 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, 2013. More detailed information with respect to the Bank's borrowings and related derivatives is contained in Notes I, J, K, L, W and Schedule I-4 to the financial statements.

**Figure 6: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS<sup>(1)</sup>**  
**December 31, 2013**



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

**Figure 7: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS<sup>(1)</sup>**  
December 31, 2013



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

#### Box 5: Operating Income Elements and Significant Influences

Elements	Significant Influences
<i>Loan interest income</i>	Loan volumes, lending spreads, and interest rate environment.
<i>Borrowing expenses</i>	Interest rate environment, including changes in LIBOR.
<i>Net investment gains</i>	Mark-to-market gains or losses on the Bank's trading investments portfolio which are driven by external factors such as: the interest rate environment, and credit spreads within the liquid asset portfolio.
<i>Net non-interest expense</i>	Increase or decrease in administrative expenses driven by staff costs, special programs, as well as, higher or lower pension and postretirement benefit costs.
<i>Provision for losses on loans and guarantees</i>	Risk assessment of non-sovereign borrowers and probability of default and loss given default.

## RESULTS OF OPERATIONS

### Operating Income

Operating Income includes the net interest income on earning assets and the income contribution of the Bank's equity, net investment gains, the provision for loan and guarantee losses and net non-interest expense. **Box 5** displays the most significant

elements of the Bank's Operating Income and the related influences on the results.

**Table 13** shows the breakdown of Operating Income during the last three years.

**Table 13: OPERATING INCOME**  
**For the years ended December 31, 2013, 2012 and 2011**  
(Expressed in millions of United States dollars)

	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Loan interest income . . . . .	\$1,768	\$1,601	\$1,683	\$ 167	\$ (82)
Investment interest income . . . . .	62	89	99	(27)	(10)
Other interest income . . . . .	187	113	112	74	1
	2,017	1,803	1,894	214	(91)
Less:					
Borrowing expenses . . . . .	401	519	462	(118)	57
Net interest income . . . . .	1,616	1,284	1,432	332	(148)
Other loan income . . . . .	90	67	59	23	8
Net investment gains . . . . .	153	293	9	(140)	284
Other expenses:					
Provision for loan and guarantee losses . . . . .	58	22	3	36	19
Net non-interest expense . . . . .	920	712	661	208	51
<b>Operating Income . . . . .</b>	<b>\$ 881</b>	<b>\$ 910</b>	<b>\$ 836</b>	<b>\$ (29)</b>	<b>\$ 74</b>



**Operating Income**

**Year 2013 versus 2012:** The decrease in Operating Income was mainly due to a decrease in net investment gains, and an increase in net non-interest expense, partially offset by an increase in net interest income.

**Year 2012 versus 2011:** The increase in Operating Income for 2012 was mostly due to higher net investment gains, which were partially offset by lower net interest income, an increase in net non-interest expense, and the provision for loan and guarantee losses.

**Net Interest Income**

**Year 2013 versus 2012:** The increase in net interest income was mainly due to the impact of a higher lending spread on

most of the Bank's loans, which increased from 0.62% in 2012 to 0.84% in 2013, amounting to approximately \$134 million, higher other interest income mostly from realized gains of \$125 million on equity duration swaps, as well as loan prepayment compensation of \$101 million, net of swap unwinding costs, received during 2013.

**Year 2012 versus 2011:** The decrease was mainly due to a reduction of net interest income from loans. The lending spread on most of the Bank's loans decreased from 0.80% in 2011 to 0.62% in 2012.

The average interest earning asset and interest bearing liability portfolios, after swaps, and the respective returns and costs for 2013, 2012, and 2011 are shown in **Table 14**.

**Table 14: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS**  
**For the years ended December 31, 2013, 2012 and 2011**  
*(Amounts expressed in millions of United States dollars)*

	2013		2012		2011	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans <sup>(1)</sup> .....	\$66,780	2.65 <sup>(5)</sup>	\$66,376	2.41	\$63,420	2.65
Liquid investments <sup>(2)(3)</sup> .....	19,713	1.27	17,485	2.22	15,110	0.65
Total earning assets .....	<u>\$86,493</u>	<u>2.34</u>	<u>\$83,861</u>	<u>2.37</u>	<u>\$78,530</u>	<u>2.27</u>
Borrowings .....	<u>\$62,312</u>	<u>0.64</u>	<u>\$61,082</u>	<u>0.85</u>	<u>\$56,794</u>	<u>0.81</u>
Net interest margin <sup>(4)</sup> .....		<u>1.87<sup>(6)</sup></u>		<u>1.53</u>		<u>1.82</u>

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

<sup>(2)</sup> Geometrically-linked time-weighted returns.

<sup>(3)</sup> Includes gains and losses.

<sup>(4)</sup> Represents net interest income as a percent of average earning assets.

<sup>(5)</sup> Loan prepayment compensation, net of swap unwinding costs, of approximately \$101 million was received by the Bank in 2013. Excluding this amount, the return on loans would have been 2.50%.

<sup>(6)</sup> In addition to the loan prepayment compensation mentioned above, gains of \$125 million on equity duration swaps were realized from swap terminations resulting from equity duration management. If such amounts were not considered, the net interest margin would have been 1.61%.

### Net Investment Gains

**Year 2013 versus 2012:** Net mark-to-market investment gains decreased during the year due to a decelerating improvement in prices of credit assets, and the overall reduction of asset- and mortgage-backed securities held in the portfolio through both asset sales and repayments at par.

**Year 2012 versus 2011:** Net investment gains increased in 2012 due to the Bank's trading investments portfolio's continued recovery in line with the world financial markets.

### Provision for Loan and Guarantee Losses

**Year 2013 versus 2012:** The provision for loan and guarantee losses increased in 2013 mainly due to an increase in the loan portfolio collective allowance, resulting from a higher non-sovereign-guaranteed loan portfolio. Improvements in the credit quality of the impaired loans portfolio were offset by an increase in the number of loans in this category.

**Year 2012 versus 2011:** The provision for loan and guarantee losses increased in 2012 as a result of three additional non-sovereign-guaranteed impaired loans in 2012.

### Net Non-interest Expense

The main components of net non-interest expense are presented in **Table 15**.

**Year 2013 versus 2012:** Net non-interest expense mainly increased due to higher staff costs as a result of higher net pension and postretirement benefit costs of \$88 million. Pension and postretirement benefit costs continued to be impacted by higher amortizations of unrecognized net actuarial losses from prior

years, and an increase in the service cost mainly resulting from the decrease in the rate used to discount the pension liabilities at the end of 2012. In addition, there was an increase in non-reimbursable and contingent recovery operations approved under special programs.

**Year 2012 versus 2011:** Net non-interest expense increased in 2012 as a result of higher staff costs of \$43 million, of which \$54 million related to higher net pension and postretirement benefit costs resulting from the amortization of net actuarial losses and an increase in the service cost due to the decrease in the rate used to discount the pension liabilities at the end of 2011, partially reduced by a lower amortization of prior service cost.

### Core Operating Income (Non-GAAP Measure)

Although the Bank prepares its financial statements in accordance with U.S. GAAP, management reviews certain results, such as core operating income, on a non-GAAP basis. This measure provides information about the underlying operational performance and trends of the Bank while excluding volatile net investment mark-to-market gains and losses, non-recurring gains associated with equity duration management and loan prepayments, as well as, the provision for loan and guarantee losses. **Table 16** displays reported Operating Income (GAAP) with the adjustments to arrive at core operating income (Non-GAAP).

As can be seen, core operating income is a more representative measure of the Bank's operations. Changes in core operating income are driven mainly by changes in the Bank's approved sovereign lending charges and the impact of changes in interest rates on equity funded assets, as well as changes in net non-interest expense.

**Table 15: NET NON-INTEREST EXPENSE**  
For the years ended December 31, 2013, 2012 and 2011  
(Expressed in millions of United States dollars)

	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
<b>Administrative expenses</b>					
Staff costs .....	\$591	\$469	\$426	\$122	\$43
Consultant fees .....	123	94	81	29	13
Operational travel .....	32	31	28	1	3
Other expenses .....	91	89	83	2	6
<b>Total gross administrative expenses .....</b>	<b>837</b>	<b>683</b>	<b>618</b>	<b>154</b>	<b>65</b>
Less:					
Share of Fund for Special Operations .....	(24)	(20)	(18)	(4)	(2)
<b>Net administrative expenses .....</b>	<b>813</b>	<b>663</b>	<b>600</b>	<b>150</b>	<b>63</b>
Service fee revenues .....	(5)	(7)	(6)	2	(1)
Special programs .....	131	75	79	56	(4)
Other income .....	(19)	(19)	(12)	—	(7)
<b>Net non-interest expense .....</b>	<b>\$920</b>	<b>\$712</b>	<b>\$661</b>	<b>\$208</b>	<b>\$51</b>

**Table 16: CORE OPERATING INCOME**  
**For the years ended December 31, 2013, 2012 and 2011**  
*(Expressed in millions of United States dollars)*

<b>Core Operating Income (Non-GAAP Measure)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2013 vs. 2012</b>	<b>2012 vs. 2011</b>
<b>Operating Income (Reported)</b> .....	\$881	\$910	\$836	\$ (29)	\$ 74
Less:					
Net investment gains .....	153	293	9	(140)	284
Non-recurring gains associated with loan prepayments and equity duration management .....	226	—	—	226	—
Add:					
Provision for loan and guarantee losses .....	58	22	3	36	19
<b>Core operating income</b> .....	<u>\$560</u>	<u>\$639</u>	<u>\$830</u>	<u>\$ (79)</u>	<u>\$(191)</u>

## 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); pension risk; 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. Four risk management units of the Bank, which consider capital adequacy/asset-liability management, treasury risk, credit risk, and financial controls/operational 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, and loan management.

### Credit Risk

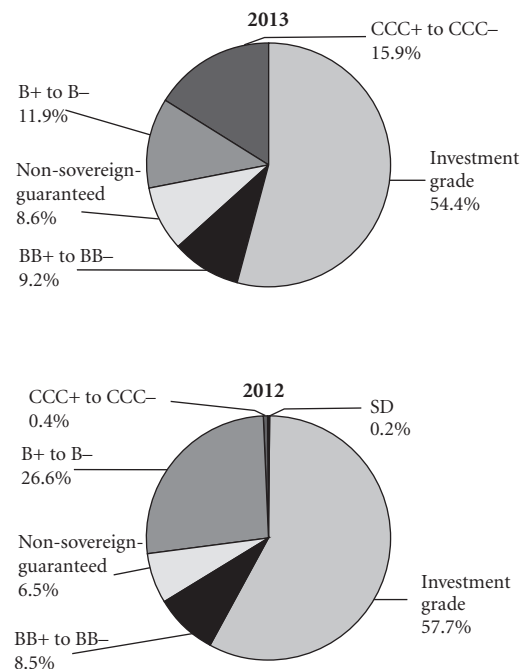
Credit risk is the potential loss that could result from the default of borrowers (loan portfolio credit risk or country credit risk) or from the default of investment, trading or swap counterparties (commercial credit risk).

**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.

The credit quality of the sovereign-guaranteed lending portfolio as of December 31, 2013 and 2012, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies (generally, S&P's), is depicted in **Figure 8**.

**Figure 8: CREDIT QUALITY OF SOVEREIGN-GUARANTEED LENDING EXPOSURE REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES<sup>(1)</sup>**  
**December 31, 2013 and 2012**

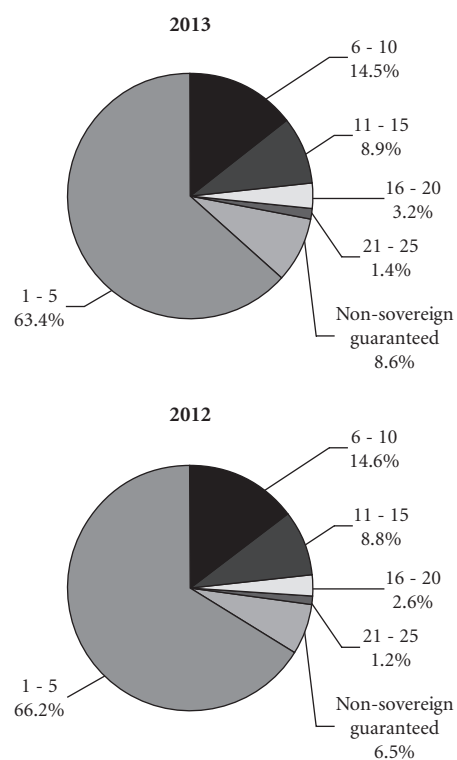


<sup>(1)</sup> Data is rounded; detail may not add up due to rounding.

Compared to December 31, 2012, **Figure 8** shows that the relative amount of lending exposure to sovereign borrowers rated at BB+ to BB– and CCC+ to CCC– increased 0.7% and 15.5%, respectively, while the lending exposure to sovereign borrowers rated at investment grade and B+ to B– categories decreased 3.3% and 14.7%, respectively. The relative lending exposure in the non-sovereign-guaranteed category increased 2.1%. The increase of lending exposure to sovereign borrowers rated at CCC+ to CCC– was mainly due to the downgrade experienced by Argentina in 2013. Note that the weighted average credit quality of the Bank's sovereign lending exposure remains at the BB+ level.

The Bank's exposure reflects the overall size and concentration of the portfolio. Exposure is limited by the Bank's lending authority; however, 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 9**, from 2012 to 2013, the lending exposure concentration remained stable during the year. About 63.4% of the total exposure still is held by the five largest borrowers.

**Figure 9: CONCENTRATION OF LENDING EXPOSURE<sup>(1)</sup>**  
**December 31, 2013 and 2012**



<sup>(1)</sup> Data is rounded; detail may not add up due to rounding.

**Lending Limitation:** The Bank's Agreement limits the total amount of outstanding loans and guarantees to the subscribed capital, plus reserves and surplus, exclusive of income assigned to certain reserves. However, the Bank's lending capacity is also limited by its borrowing and capital adequacy policies.

**Capital Adequacy Framework:** The Bank's capital adequacy framework consists of a policy on capital adequacy and systems that support the determination of capital requirements for credit and market risk in both its lending and treasury operations. In addition, the policy includes capital requirements for pension and operational risk. The capital adequacy policy allows the Bank to measure the inherent risk in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, and to make flexible adjustments to changing market conditions. As such, specific risk limits in terms of capital requirements for investments and derivatives are included that enables Management to design more efficient funding and investment strategies following the risk tolerance established by the Board of Executive Directors.

**Income Management Model:** The Bank's Income Management Model (IMM) relates annual decisions on the uses of Ordinary Capital income with the trade-offs associated with the inter-relations of various parameters, such as: the level of loan charges; the annual lending and disbursement programs; the annual administrative expense budget; and annual transfers of income. The IMM provides the Board of the Executive Directors and Management with a methodology to review these parameters in an integrated and simultaneous fashion. The implementation of the IMM is done through the Ordinary Capital's Long-Term Financial Projections (LTFP), which is utilized in making annual decisions regarding the budget of the Bank, level of loan charges, the availability of resources for the GRE, other allocations of income, and their impact on the Bank's long-term sustainable lending capacity.

The IMM requires a minimum level of loan charges for sovereign-guaranteed loans such that the income generated by these charges (adjusting for 90% of the income from the Bank's non-sovereign-guaranteed operations), cover 90% of the Ordinary Capital's administrative expenses on a three-year rolling basis.

**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 17**.

**Table 17: 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 non-accrual 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 non-accrual 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.

If loans made to a member country funded with resources of the FSO or certain other funds 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, the Non-Accrual Review and Impairment Risk Committee, chaired by the Chief Risk Officer, determines when the loan is classified in non-accrual 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:** In the Bank's 54 years of history, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio and has collected the full principal and interest due on all its loans, with only five borrowing countries having been placed in non-accrual status for varying times during 1988—2001. The maximum aggregate balance in non-accrual has never exceeded 8% of total loans outstanding. Because of the nature of its borrowers and guarantors, the Bank expects that each of its Ordinary Capital sovereign-guaranteed loans will be repaid. **Table 18** displays information related to the

countries, the periods of time, and the maximum amounts of Ordinary Capital sovereign-guaranteed loans that have been placed in non-accrual status throughout the Bank's history.

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, 2013, the Bank has non-sovereign-guaranteed loans classified as impaired for \$310 million (2012—\$268 million). Pursuant to Bank policy, a provision for loan and guarantee losses of \$58 million was recognized during 2013 (2012—\$22 million). Total allowances of \$255 million were maintained at December 31, 2013 (2012—\$197 million). The non-sovereign-guaranteed allowances for loan and guarantee losses were 4.0% of the corresponding combined outstanding portfolios (2012—4.3%).

**Commercial Credit Risk:** Commercial credit risk is the exposure to losses that could result from the default 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, agencies, multilaterals, banks, and corporate entities, including asset-backed and mortgage-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, substantially swaps, primarily for economic 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

**Table 18: HISTORICAL DATA OF COUNTRIES IN NON-ACCRUAL STATUS****As of December 31 2013***(Amounts expressed in millions of United States dollars)*

Country	In Non-Accrual	Out of Non-Accrual <sup>(1)</sup>	Days	Maximum Outstanding Loan Balances <sup>(2)</sup>
Panama . . .	29-Mar-88	18-Mar-92	1,450	\$320
Nicaragua .	11-May-88	17-Sep-91	1,224	78
Peru . . . . .	1-Mar-89	17-Sep-91	930	674
Honduras .	4-Dec-89	6-Jul-90	214	223
Suriname . .	10-Nov-92	23-Dec-92	43	12
Suriname . .	9-Nov-93	14-Feb-94	97	13
Suriname . .	13-Dec-00	6-Jun-01	175	27

<sup>(1)</sup> Repayment dates.<sup>(2)</sup> Maximum outstanding loan balance as of any given year-end during the period the country was in non-accrual.

in the event that the mark-to-market exposure exceeds certain contractual thresholds. Counterparty exposure against established 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 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 a credit 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, the Bank's exposure to the counterparty is considered to be zero.

Table 19 provides details of the estimated current credit exposure on the Bank's investment and swap portfolios, net of

collateral, by counterparty rating category. As of December 31, 2013, the credit exposure amounted to \$21,227 million, compared to \$14,640 million as of December 31, 2012. The credit quality of the portfolios continues to be high, as 86.8% of the counterparties are rated AAA and AA, 6.5% carry the highest short-term ratings (A1+), 5.6% are rated A, 0.8% are rated BBB, and 0.3% are rated below BBB, compared to 84.7%, 3.0%, 7.1%, 1.3% and 3.9%, respectively, in 2012. Excluding collateral, the current credit exposure from swaps decreased from \$5,140 million at December 31, 2012 to \$2,050 million at December 31, 2013. This swap credit exposure is offset by collateral (U.S. Treasuries or cash) of \$1,876 million (2012—\$4,934 million), resulting in an uncollateralized swap exposure of \$174 million at December 31, 2013, compared to \$206 million in 2012. The Bank also has excess collateral amounting to \$207 million (2012—\$641 million) from swap counterparties.

As of December 31, 2013, the Bank's total current credit exposure in Europe was \$8,908 million (2012—\$5,634 million). There was no direct exposure to the three Eurozone countries rated BBB+ or lower (Italy, Portugal, and Spain) (2012—\$19 million). In the countries specified, the Bank had \$293 million (2012—\$310 million) of exposure in asset-backed and mortgage-backed securities, which was generally rated higher than the sovereigns. The remaining European current credit exposure of \$8,615 million (2012—\$5,305 million), regardless of asset class, was in countries rated AA– or higher.

**Table 19: CURRENT CREDIT EXPOSURE, NET OF COLLATERAL HELD, BY COUNTERPARTY RATING CATEGORY**  
(Amounts expressed in millions of United States dollars)

December 31, 2013							
Counterparty rating	Investments				Net Swap Exposure	Total Exposure on Investments and Swaps	% of Total
	Governments and Agencies	Banks	Corporates	ABS and MBS			
A1+ .....	\$ 939	\$ 394	\$ 51	\$ —	\$ —	\$ 1,384	6.5
AAA .....	5,401	143	—	63	—	5,607	26.5
AA .....	9,946	2,374	96	229	156	12,801	60.3
A .....	333	616	—	235	18	1,202	5.6
BBB .....	—	—	—	173	—	173	0.8
BB .....	43	—	—	—	—	43	0.2
B .....	—	—	—	—	—	—	0.0
CCC .....	—	—	—	—	—	—	0.0
CC and below .....	—	—	—	17	—	17	0.1
Total .....	<u>\$16,662</u>	<u>\$3,527</u>	<u>\$147</u>	<u>\$717</u>	<u>\$174</u>	<u>\$21,227</u>	<u>100.0</u>
December 31, 2012							
Counterparty rating	Investments				Net Swap Exposure	Total Exposure on Investments and Swaps	% of Total
	Governments and Agencies	Banks	Corporates	ABS and MBS			
A1+ .....	\$ 445	\$ —	\$ —	\$ —	\$ —	\$ 445	3.0
AAA .....	3,281	297	—	43	—	3,621	24.8
AA .....	5,940	2,163	11	464	195	8,773	59.9
A .....	105	571	—	356	11	1,043	7.1
BBB .....	19	—	—	182	—	201	1.3
BB .....	75	—	—	56	—	131	0.9
B .....	—	—	—	130	—	130	0.9
CCC .....	—	—	—	156	—	156	1.1
CC and below .....	—	—	—	140	—	140	1.0
Total .....	<u>\$9,865</u>	<u>\$3,031</u>	<u>\$11</u>	<u>\$1,527</u>	<u>\$206</u>	<u>\$14,640</u>	<u>100.0</u>



### Market Risk

The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, which 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 exposures by aligning the characteristics of its debt with the assets it is funding. In addition, the Bank utilizes derivatives to manage the modified duration of its equity within a defined policy band.

The Bank's policy for asset/liability management, among others, provides rules for the active management of equity duration and for limiting the amounts of debt redemptions within any 12-month period. As of December 31, 2013, asset/liability management swaps with a notional amount of \$3,319 million (2012—\$6,889 million) were outstanding to maintain the equity duration within policy limits.

**Interest Rate Risk:** The Bank is exposed to two potential sources of interest rate risk. The first is the exposure to changes 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 either a cost pass-through formulation, calculated on an actual or estimated basis, incorporated in the lending rates charged, or hedges of related interest rate exposures. The cost pass-through loans account for 92% of the existing outstanding loan portfolio as of December 31, 2013; the remaining 8% are emergency loans, non-sovereign-guaranteed loans and fixed-rate loans. A small portion of the cost pass-through loans (i.e., the adjustable rate loans) pose some residual interest rate risk given the six-month lag inherent in the lending rate calculation. 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.

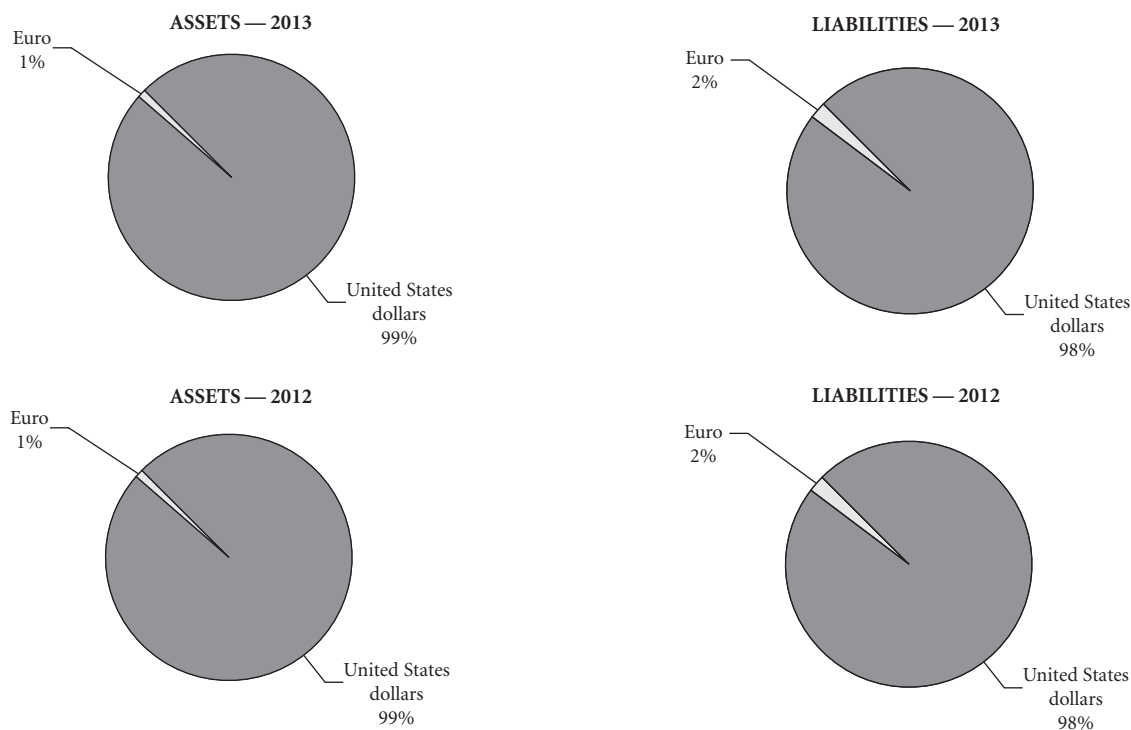
The Bank mitigates its exposure to equity-induced income changes by managing the duration of its equity within a band of four to six years through a combination of assigning equity to fund certain (mostly fixed rate) assets and interest rate swaps that are specifically issued for this purpose. While changes in interest rates will, over the long term, result in corresponding changes in the return on equity, the effect on a single year is relatively small due to the fact that equity is mostly funding fixed rate assets and that for debt-funded assets the interest rate exposure is mostly passed through to the borrowers or hedged through the use of derivative instruments.

**Investment Market Risk:** Investment market risk is measured and monitored by applying quantitative techniques including Value at Risk (VaR), stress testing, scenario analysis and duration metrics. The Bank estimates VaR for a 1 year time horizon using Monte Carlo simulation. The historical data inputs used to simulate relevant risk factors (such as interest rates, credit spreads, and others) include periods of significant financial stress. VaR measures are complemented by stress tests designed to quantify the impact of severe, unexpected market movements on the portfolio. The Bank conducts regular stress testing on its investment portfolio to ensure liquidity under a variety of adverse scenarios.

**Exchange Rate Risk:** In order to minimize exchange rate risk in a multicurrency environment, the Bank funds its assets in any one currency with, on an after-swap basis, borrowing obligations in the same currency, as prescribed by the Agreement. In addition, the Bank maintains virtually all of its equity and equity-funded assets in United States dollars.

**Figure 10** presents the currency composition of the Bank's assets and liabilities (after swaps) at the end of 2013 and 2012.

**Figure 10: CURRENCY COMPOSITION OF ASSETS & LIABILITIES**  
December 31, 2013 and 2012



### 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 policy of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, limits the amounts of debt refinancing within a given period. Finally, under the short-term borrowing program, discount notes with maturities of less than one year are issued to manage short-term cash flow needs.

### Pension Risk

Pension risk represents the exposure from the Bank's obligation to fund any changes in the shortfall/surplus of its pension and postretirement benefit plans. Because the risk and return char-

acteristics of pension assets and liabilities related to the Bank's Plans are not matched, the Bank's equity is exposed to volatility in the Plans' funded status. The main risk measure for the Bank's Plans is the active risk, or the volatility of the difference in performance of the Plans' assets and liabilities.

Changes in the Plans' liabilities are driven by two factors, with the first of greater impact in volatility and magnitude: (i) changes in interest rates of high-grade, long-term U.S. corporate bonds used to discount the stream of pension liabilities cash flows and (ii) changes in the Plans' demographics. Changes in the Plans' assets are also driven by two factors, one of which is similar to the key factor impacting the liabilities' values: (i) fluctuations in the market value of the Return Strategies assets in which the Plans have invested (developed and emerging markets equities, high yield and emerging markets bonds, real estate and commodities held by the Plans) and (ii) changes in interest rates, which impact the values of the Plans' Liabilities Strategies assets, which are invested in core, long duration and inflation-indexed fixed income instruments.

If the Plans' assets were invested to match the key-rate duration profile of the Plans' liabilities, active risk would be substantially reduced. However, because 65% of the Plans' assets are invested in Return Strategies, whose values are influenced by factors other than interest rates, the Plans' assets are much less sensitive to changes in long-term interest rates than are the Plans' liabilities, resulting in active risk.



Under its capital adequacy policy, the Bank determines specific capital requirements for the active risk in its Plans.

### **Operational Risk**

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events, that can cause financial losses or result in reputational damage. These failures may be incurred while executing processes to meet the Bank's objectives; operational risk is inherent in all operations and processes.

The Bank has policies and procedures in place covering different aspects of operational risk. These include 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, the procedures for risk management and fiduciary arrangements in projects, and procurement and purchasing policies, among others.

The Bank's Operational Risk Management and the Internal Control over Financial Reporting (ICFR) functions report to the Chief Risk Officer. During 2013, the Bank continued implementing its integrated Operational Risk Management Framework (ORMF), which includes the undertaking of the risk and control assessments, key risk indicators, as well as training to the business units, with a view of enhancing the management of the operational risks faced by the Bank.

**Internal Control Over Financial Reporting:** The Bank follows the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992 Internal Control-Integrated Framework (the COSO Framework) for its financial reporting controls, and has in place an annual process for Management to report on the effectiveness of the ICFR, and for the external auditors to audit and issue an opinion as to the effectiveness of the ICFR. The Management report and external auditors' report on internal control over financial reporting for 2013 are included in the financial statements. The Bank is in process of implementing the updated version of the COSO Framework released during 2013, and it does not expect a significant impact on its internal controls over financial reporting when it fully transitions to the new framework by December 2014.

## **SUBSEQUENT AND OTHER DEVELOPMENTS**

**Financial Reform—The Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA):** In July 2010, the President of the United States of America signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and inter-

pret its requirements. The Bank continues to assess the potential impact of the implementation of this financial regulatory reform on its operations. Nevertheless, based on a preliminary review of the current regulations, the Bank is of the view that residual effects from the provisions of the DFA may apply to the Bank's counterparties and to the Bank's derivatives trading and associated activities. The Bank's borrowing cost could rise as a result of the implementation of the provisions of the DFA.

**Patient Protection and Affordable Care Act (PPACA) and Health Care and Education Reconciliation Act of 2010 (HCERA):** In March 2010, the President of the United States signed into law the PPACA and the HCERA. This legislation seeks to reform aspects of the U.S. health care system and its various provisions are being regulated and become effective over several years. The Bank continues to monitor the implementation of the legislation. Management believes that the impact of the legislation will not be material to the Bank's financial position and results of operations.

**Renewed Vision of the IDB Group's Activities with the Private Sector:** As part of an initiative to maximize the efficient use of Bank resources and the development impact on the region through the activities of the IDB Group<sup>6</sup> with the private sector, the Committees of the Boards of Governors of the IDB and IIC have requested that Management present at the Annual Meeting of the Board of Governors scheduled for the end of March 2014, an analysis of the potential consolidation of all IDB Group non-sovereign-guaranteed activities into a separate entity.

**Update on IDB-9:** As of March 11, 2014, instruments of subscription for 344,117 or 97.2% of the total IDB-9 reallocated shares have been received, making the reallocation substantially subscribed as of February 28, 2014.

On February 28, 2014, 1,366,740 additional shares in the amount of \$16,487 million were made effective (\$416 million paid-in; \$16,071 million callable), after consideration of Canada's replacement of temporary callable shares. The total amount represented (i) 1,044,438 shares corresponding to the third installment of the IDB-9, (ii) 206,412 shares that had been reallocated from Venezuela and the Netherlands when they declined to participate in the IDB-9; and (iii) 115,890 shares that had been subscribed in the first and second installments but were not then effective in order to comply with the minimum voting power requirements of the Agreement.

<sup>6</sup>The IADB Group has three members that associate on activities concerning the development of the private sector: the IADB, the IIC and the Multilateral Investment Fund II (MIF). The IADB, the IIC and the MIF are distinct entities with separate ownership and financial resources. The IIC is a public international organization, and the MIF is a fund administered by the IADB. None of these entities is responsible for the obligations of the others.

## 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 the relevant significant accounting policies discussed below, used to present its financial results in accordance with GAAP, may involve a 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 from external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing discounted cash flows. Pricing models generally 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.

The interest component of trading securities and related derivatives is presented in Income from Investments-Interest in the Statement of Income and Retained Earnings. The remaining changes in fair value of those securities are presented in Income from Investments-Net gains. The interest component of borrowings and borrowing, lending, and equity duration derivatives is recorded in Borrowing expenses, Income from loans and Other interest income, respectively. The remaining changes in fair value of these instruments are reported in Net fair value adjustments on non-trading portfolios and foreign currency transactions. See Note R to the financial statements.

**Allowance for Loan and Guarantee Losses:** 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 allowance for loan and guarantee losses 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 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 an allocation percentage approved by the Board of Governors. The underlying actuarial assumptions used to determine the projected benefit obligations and the 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 S to the financial statements.

### External Auditors

**General:** The external auditors are appointed by the Board of Governors following a competitive bidding process. In March 2012, the Board of Governors appointed KPMG LLP (KPMG) as the External Auditors of the Bank for the five-year period 2012–2016.

Contracted fees for audit services provided to the Bank by KPMG in connection with the 2013 financial statement and internal control audits amount to \$1,185,000. In addition, KPMG was paid \$49,000 during 2013 for services related to bond issuance. KPMG 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 2013 audits are \$471,000.

**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 Audit 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.
- External auditors' participation in non-audit services is limited to exceptional audit related services and requires approval of the Board of Executive Directors acting on the recommendation of 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.

## FUND FOR SPECIAL OPERATIONS

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### General

The FSO was established under the Agreement for the purpose of making loans “on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects”. The amortization periods for loans from the FSO are longer and the interest rates lower than for loans from the Bank’s Ordinary Capital.

Under the Agreement, the Ordinary Capital is required at all times and in all respects to be held, used, obligated, invested and otherwise disposed of entirely separate from the FSO. Separate financial statements for the Ordinary Capital operations and the operations of the FSO are required. The Ordinary Capital resources are under no circumstances to be used to discharge losses or liabilities arising from the FSO’s operations. Administrative and other expenses pertaining to the operations of the FSO are charged to the FSO (see Note B to the financial statements).

In 2013, the Bank approved 16 parallel loans for a total of \$848 million, composed of \$251 million and \$597 million from the resources of the FSO and the Ordinary Capital, respectively (2012—21 loans totaling \$1,048 million composed of \$320 million and \$728 million from the resources of the FSO and Ordinary Capital, respectively). As of December 31, 2013, FSO outstanding loans amounted to \$4,364 million (2012—\$4,277 million).

At December 31, 2013, the FSO’s fund balance amounted to \$5,056 million (2012—\$4,958 million), mostly resulting from subscribed contribution quotas from member governments of the Bank less debt relief provided to the poorest borrowing member countries and Board of Governors approved transfers.

### Increase in the Resources of the FSO

As part of the IDB-9, on October 31, 2011, the Board of Governors authorized the increase in the resources of the FSO consisting of an additional \$479 million of new contribution quotas to be paid by the Bank members in United States dollars. Member countries have the option to make contributions either in one installment (i.e., their share of the \$479 million) or in five equal annual installments of their share of the undiscounted amount of the \$479 million, established at \$517.3 million, starting in 2011. As of December 31, 2013, instruments of contribution have been received amounting to \$473 million, of which \$412 million have been paid.

## INTERMEDIATE FINANCING FACILITY ACCOUNT

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The resources of the IFF are used to defray a portion of the interest due by borrowers on certain loans approved from the Ordinary Capital up to December 31, 2006: a maximum of up to 3.62% per annum of the interest rate due on such loans. The IFF is currently funded from income earned on its own investments.

## IDB GRANT FACILITY

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In 2007, the Board of Governors approved the creation of the 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 currently funded by income transfers from the Ordinary Capital.

As part of the IDB-9, the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide \$200 million annually in transfers of Ordinary Capital income to the GRF, beginning in 2011 through 2020. In March 2013, the Board of Governors approved the transfer of \$200 million (2012—\$200 million) of Ordinary Capital income to the GRF.

Total grants approved for Haiti from the GRF during 2013 amounted to \$188 million (2012—\$245 million).



## **FINANCIAL STATEMENTS**



# ORDINARY CAPITAL

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

March 11, 2014

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 internal control over financial reporting of the Bank's Ordinary Capital using the criteria for effective internal control established in the Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

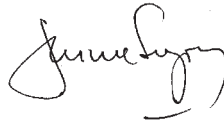
Management has assessed the effectiveness of the internal control over financial reporting of the Bank's Ordinary Capital as of December 31, 2013. Based on this assessment, Management believes that the Bank's Ordinary Capital's internal control over financial reporting is effective as of December 31, 2013.

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.

KPMG LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the effectiveness of the Bank's Ordinary Capital's internal control over financial reporting as of December 31, 2013. In addition, the Bank's Ordinary Capital's financial statements, as of and for the year ended December 31, 2013, have been audited by KPMG LLP.



Luis Alberto Moreno  
President



Jaime Alberto Sujoy  
Vice President for Finance and Administration



Edward Bartholomew  
Finance General Manager and CFO



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited Inter-American Development Bank (the Bank) – Ordinary Capital's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 internal control over financial reporting of the Bank's Ordinary Capital 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Bank's Ordinary Capital as of December 31, 2013 and 2012, and the related statements of income and retained earnings, comprehensive income and cash flows for the years then ended, and our report dated March 11, 2014 expressed an unqualified opinion on those financial statements.

KPMG LLP

March 11, 2014





KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheets of Inter-American Development Bank (the Bank) – Ordinary Capital as of December 31, 2013 and 2012, and the related statements of income and retained earnings, comprehensive income and cash flows for the years then ended (together referred to as the financial statements). 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. The financial statements of the Bank's Ordinary Capital for the year ended December 31, 2011, were audited by other auditors whose report dated March 9, 2012, expressed an unqualified opinion on those financial statements.

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 the 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 Bank's Ordinary Capital as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules I-1 to I-6 comprising the statements of trading investments and swaps, loans, loans outstanding by currency and interest rate type, and maturity structure, medium- and long-term borrowings and swaps, subscriptions to capital stock, and subscriptions to capital stock and voting power, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of the Bank's Ordinary Capital as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2014 expressed an unqualified opinion on the effectiveness of the Bank's Ordinary Capital's internal control over financial reporting.

**KPMG LLP**

March 11, 2014

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2013		2012	
<b>ASSETS</b>				
<b>Cash and investments</b>				
Cash—Notes C and W .....	\$ 421		\$ 1,021	
Investments—Trading—Notes D, L and W, Schedule I-1 .....	21,015	\$21,436	14,399	\$15,420
<b>Loans outstanding—Notes E, F and W, Schedules I-2 and I-3 . . .</b>	<b>70,679</b>		68,640	
Allowance for loan losses .....	(244)	70,435	(180)	68,460
<b>Accrued interest and other charges</b>				
On investments .....	38		35	
On loans .....	435		439	
On swaps, net .....	332	805	352	826
<b>Receivable from members—Note G .....</b>				278
<b>Currency and interest rate swaps—Notes K, L and W</b>				
Investments—trading—Schedule I-1 .....	110		50	
Loans .....	103		24	
Borrowings—Schedule I-4 .....	3,161		6,450	
Other .....	66	3,440	279	6,803
<b>Other assets</b>				
Assets under retirement benefit plans—Note S .....	292		—	
Receivable for investment securities sold .....	161		—	
Property, net—Note H .....	354		331	
Miscellaneous .....	84	891	91	422
<b>Total assets .....</b>		<b>\$97,007</b>		<b>\$92,209</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Borrowings—Notes I, J, K, L and W, Schedule I-4				
Short-term .....	\$ 654		\$ 840	
Medium- and long-term:				
Measured at fair value .....	43,704		45,458	
Measured at amortized cost .....	24,343	\$68,701	19,267	\$65,565
<b>Currency and interest rate swaps—Notes K, L and W</b>				
Investments—trading—Schedule I-1 .....	83		73	
Loans .....	753		1,855	
Borrowings—Schedule I-4 .....	1,920		639	
Other .....	18	2,774	—	2,567
Payable for investment securities purchased .....		169		—
Payable for cash collateral received .....		229		805
Liabilities under retirement benefit plans—Note S .....		73		1,153
Due to IDB Grant Facility—Note N .....		435		351
Accrued interest on borrowings .....		491		532
Other liabilities .....		585		555
<b>Total liabilities .....</b>		<b>73,457</b>		<b>71,528</b>
<b>Equity</b>				
Capital stock—Note O, Schedules I-5 and I-6				
Subscribed 10,675,321 shares (2012—9,688,828 shares) .....	128,781		116,880	
Less callable portion .....	(123,840)		(112,240)	
Paid-in capital stock .....	4,941		4,640	
Capital subscriptions receivable .....	(1)		(18)	
Receivable from members—Note G .....	(262)			
Retained earnings—Note P .....	17,699		16,392	
Accumulated other comprehensive income (loss)—Note Q ....	1,173	23,550	(333)	20,681
<b>Total liabilities and equity .....</b>		<b>\$97,007</b>		<b>\$92,209</b>

The accompanying notes and schedules 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,		
	2013	2012	2011
<b>Income</b>			
Loans			
Interest, after swaps—Notes E, K and R	\$ 1,768	\$ 1,601	\$ 1,683
Other loan income	90	67	59
	<u>1,858</u>	<u>1,668</u>	<u>1,742</u>
Investments—Note K			
Interest	62	89	99
Net gains	153	293	9
Other interest income—Notes K and R	187	113	112
Other	24	26	18
Total income	<u>2,284</u>	<u>2,189</u>	<u>1,980</u>
<b>Expenses</b>			
Borrowing expenses			
Interest, after swaps—Notes I, J, K and L	389	508	455
Other borrowing costs	12	11	7
	<u>401</u>	<u>519</u>	<u>462</u>
Provision for loan and guarantee losses—Note F	58	22	3
Administrative expenses—Note B	813	663	600
Special programs	131	75	79
Total expenses	<u>1,403</u>	<u>1,279</u>	<u>1,144</u>
<b>Income before Net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers</b>	<b>881</b>	<b>910</b>	<b>836</b>
<b>Net fair value adjustments on non-trading portfolios and foreign currency transactions—Notes I, J, K and R</b>	<b>626</b>	<b>194</b>	<b>(919)</b>
<b>Board of Governors approved transfers—Note N</b>	<b>(200)</b>	<b>(200)</b>	<b>(200)</b>
<b>Net income (loss)</b>	<b>1,307</b>	<b>904</b>	<b>(283)</b>
<b>Retained earnings, beginning of year</b>	<b>16,392</b>	<b>15,488</b>	<b>15,771</b>
<b>Retained earnings, end of year</b>	<b><u>\$17,699</u></b>	<b><u>\$16,392</u></b>	<b><u>\$15,488</u></b>

## STATEMENT OF COMPREHENSIVE INCOME

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2013	2012	2011
<b>Net income (loss)</b>	<b>\$1,307</b>	<b>\$ 904</b>	<b>\$ (283)</b>
<b>Other comprehensive income (loss)—Note Q</b>			
Translation adjustments	(1)	(8)	(3)
Recognition of changes in assets/liabilities under retirement benefit plans—Note S	1,507	(292)	(880)
Total other comprehensive income (loss)	<u>1,506</u>	<u>(300)</u>	<u>(883)</u>
<b>Comprehensive income (loss)</b>	<b><u>\$2,813</u></b>	<b><u>\$ 604</u></b>	<b><u>\$(1,166)</u></b>

*The accompanying notes and schedules 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,		
	2013	2012	2011
<b>Cash flows from lending and investing activities</b>			
Lending:			
Loan disbursements .....	<b>\$(10,558)</b>	\$ (6,883)	\$ (7,898)
Loan collections .....	<b>8,462</b>	4,571	4,601
Net cash used in lending activities .....	<b>(2,096)</b>	(2,312)	(3,297)
Purchase of property .....	<b>(38)</b>	(22)	(21)
Miscellaneous assets and liabilities .....	<b>17</b>	(32)	(9)
Net cash used in lending and investing activities .....	<b>(2,117)</b>	(2,366)	(3,327)
<b>Cash flows from financing activities</b>			
Medium- and long-term borrowings:			
Proceeds from issuance .....	<b>15,763</b>	12,067	6,808
Repayments .....	<b>(7,966)</b>	(9,613)	(7,919)
Short-term borrowings:			
Proceeds from issuance .....	<b>3,384</b>	4,445	6,121
Repayments .....	<b>(3,570)</b>	(4,503)	(5,253)
Cash collateral received .....	<b>(577)</b>	(105)	898
Collections of receivable from members .....	<b>16</b>	16	71
Collections of capital subscriptions .....	<b>306</b>	358	—
Payments of maintenance of value to members .....	<b>(7)</b>	(158)	(317)
Net cash provided by financing activities .....	<b>7,349</b>	2,507	409
<b>Cash flows from operating activities</b>			
Gross purchases of trading investments .....	<b>(48,846)</b>	(29,087)	(21,150)
Gross proceeds from sale or maturity of trading investments .....	<b>42,407</b>	28,723	23,977
Loan income collections, after swaps .....	<b>1,843</b>	1,695	1,748
Interest and other costs of borrowings, after swaps .....	<b>(636)</b>	(1,000)	(215)
Income from investments .....	<b>47</b>	(7)	18
Other interest income .....	<b>190</b>	113	114
Other income .....	<b>43</b>	38	18
Administrative expenses .....	<b>(671)</b>	(586)	(576)
Transfers to the IDB Grant Facility .....	<b>(116)</b>	(121)	—
Special programs .....	<b>(93)</b>	(78)	(69)
Net cash provided by (used in) operating activities .....	<b>(5,832)</b>	(310)	3,865
<b>Effect of exchange rate fluctuations on cash .....</b>	<b>—</b>	1	—
<b>Net increase (decrease) in Cash .....</b>	<b>(600)</b>	(168)	947
<b>Cash, beginning of year .....</b>	<b>1,021</b>	1,189	242
<b>Cash, end of year .....</b>	<b>\$ 421</b>	<b>\$ 1,021</b>	<b>\$ 1,189</b>

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

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

**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note A – Origin**

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959, and is owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (11.0%), Brazil (11.0%), Mexico (7.1%) and Japan (5.0%). The Bank's 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. 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 income 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. Certain reclassifications have been made to the 2012 balances to conform to the 2013 presentation.

**New Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11 "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities", requiring disclosure of both gross and net information of financial and derivative instruments eligible for offset in the Balance Sheet, as well as instruments and transactions subject to

an agreement similar to a master netting arrangement. The applicable new disclosures, which were effective for the Bank on January 1, 2013, are included in Note K—Derivatives.

**Currency Accounting**

The financial statements are expressed in United States dollars, which is also the functional currency of the Bank. Assets and liabilities denominated in currencies other than the U.S. dollar are translated into United States dollars at market exchange rates prevailing at the Balance Sheet dates. Income and expenses are translated at market exchange rates prevailing during each month. Except for currency holdings derived from paid-in capital stock that have maintenance of value, as described below, effective on October 1, 2013, net adjustments resulting from the translation of all currencies are recorded in Net fair value adjustments on non-trading portfolios and foreign currency transactions<sup>1</sup> in the Statement of Income and Retained Earnings.

Up to September 30, 2013, the Bank considered currencies of all of its member countries functional currencies, to the extent that the operations were conducted in those currencies. Until then, net adjustments resulting from the translation of other functional currencies into United States dollars were charged or credited to Translation adjustments, a separate component of Other comprehensive income (loss) in the Statement of Comprehensive Income. Borrowings and loans in non-functional currencies were translated with the gain or loss recorded in Net fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings. In the recent past, the Bank's operations have gradually been changing so that the size of its operations in non-U.S. dollar currencies, on an after swap basis, has significantly been reduced in favor of the U.S. dollar, prompting Management to reassess its long standing multi-functional currency determination. As a result, the Bank concluded that such changes in operations have resulted in the Bank having a single functional currency, the U.S. dollar, as its operations, on an after swap basis, are now substantially carried out in such currency. This change in functional currency designation has been accounted for prospectively, starting from October 1, 2013, as this is the period during which significant changes in economic facts and circumstances indicate that the Bank's functional currency has now changed, mainly as a result of the substantial completion of a review of the Bank's currency operations and related plans. Accordingly, the translation adjustments included in Accumulated other comprehensive income have been frozen and were not released through the Statement of Income and Retained Earnings.

<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)

**Valuation and Recognition 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 par value of which was defined in terms of gold (the 1959 United States dollar). 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. The General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR), introduced by the International Monetary Fund, 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 (the basket method), 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 immediately before the introduction of the basket method of valuing the SDR on July 1, 1974 (the 1974 United States dollar). The 1959 United States dollar value is equal to approximately 1.2063 of the 1974 United States dollars, or one SDR (1974 SDR).

Instruments of subscription are received from member countries committing to subscribe paid-in and callable capital stock according to the corresponding capital replenishment. Paid-in and callable capital subscriptions are recorded on the corresponding effective date of the individual installments, as provided for in the replenishments. Capital subscriptions receivable are deducted from Paid-in capital stock on the Balance Sheet. Subscriptions paid in advance are recorded as a liability until the effective date of the corresponding installment.

**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.

**Board of Governors approved transfers**

In accordance with the Agreement, the Board of Governors may exercise its authority to approve transfers of Ordinary Capital income to the FSO or other accounts (currently only the GRF) administered by the Bank. These transfers, referred to as "Board of Governors approved transfers", are reported as expenses

when incurred, upon approval, and are currently funded in accordance with the GRF funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Balance Sheet.

**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 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**

All investment securities and related derivative instruments (mostly currency and interest rate swaps) are designated as a trading portfolio, recorded using trade-date accounting, and are carried and reported at fair value, with changes in fair value included in Income from Investments-Net gains 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 sovereign-guaranteed loans to borrowers other than national governments or central banks, the Bank follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the government. Non-sovereign-guaranteed loans and guarantees are also made on the basis of market-based pricing (i) in all economic sectors (subject to an exclusion list), and (ii) to any entity regardless of the degree of private or public sector ownership, as long as the entity does not benefit from a sovereign guarantee for repayments of its obligations and the ultimate beneficiary of the financing is a project in a borrowing member country (eligible entities). In addition, the Bank makes loans to other development institutions without sovereign guarantee.

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 are deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.



ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

Income on loans is recognized following the accrual basis of accounting. The Bank considers a loan to be past due when the scheduled principal and/or interest payments have not been received on the date they are contractually due. It is the policy of the Bank to place on non-accrual 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, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. In addition, if loans made to a member country with resources of the FSO or certain other funds owned or administered by the Bank are placed on non-accrual status, all Ordinary Capital loans made to, or guaranteed by, that member government will also be placed on non-accrual status. On the date a member's loans are placed on non-accrual 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 non-accruing loans are included in income only to the extent and in the period 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 non-accrual 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 general policy of the Bank to place on non-accrual 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 their future collectibility. 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 non-accrual 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 less disposal costs.

Loans are divided in two main portfolios: sovereign-guaranteed and non-sovereign-guaranteed, which are used for purposes of determining the allowance for loan losses. For the sovereign-guaranteed loan portfolio, the Bank does not reschedule and has not written off any such Ordinary Capital loans. In addition, because of the nature of its borrowers, the Bank expects that each of its sovereign-guaranteed loans will be

repaid. Therefore, the Bank determines the nature and extent of its exposure to credit risk by considering the long-term foreign credit rating assigned to each borrower country by the rating agencies (generally Standard & Poor's – S&P), adjusted by the probabilities of default to the Bank. For the non-sovereign-guaranteed loan portfolio, the Bank manages and measures credit risk using an internal credit risk classification system that takes into consideration three dimensions to reflect the risk of the borrower, the associated security or features of the transaction and the country related risk, which all combined produces a final rating that reflects the expected losses associated with the transaction. The final rating is estimated to map to the corporate rating scale of S&P.

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 sovereign-guaranteed and non-sovereign-guaranteed loan portfolios. Such reviews consider the credit risk for each portfolio, as defined above, as well as the potential for loss arising from delay in the scheduled loan repayments.

Partial or full loan write-offs are recorded when a loss has been "realized" through either a legal agreement or final bankruptcy settlement, or when the Bank has determined with a reasonable degree of certainty that the relevant amount will not be collected.

#### **Guarantees**

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the limits 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 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. Under the non-sovereign-guaranteed Trade Finance Facilitation Program (TFFP), the Bank also provides full credit guarantees for 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.



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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 Other liabilities.

The Bank manages and measures credit risk on guarantees without sovereign counter-guarantee using the internal credit risk classification system used for non-sovereign-guaranteed operations as described under Loans above.

**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 4 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.

A substantial number of the borrowings are carried at fair value on the Balance Sheet. The interest component of these borrowings is recorded in Borrowing expenses-Interest, after swaps. The remaining changes in fair value of these instruments are recorded in Net fair value adjustments on non-trading portfolios and foreign currency transactions in the Statement of Income and Retained Earnings.

Certain borrowings are carried at their par value (face value), adjusted for any premiums or discounts (amortized cost basis). The amortization of premiums and discounts is calculated following a methodology that approximates the effective interest method, and is included in Interest, after swaps, under Borrowing expenses 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 included in Miscellaneous under Other assets on the Balance Sheet, and the amounts charged to expense or amortized are included in Other borrowing 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 operations to produce the desired interest and/or currency type. In addition, in order to manage the sensitivity to changes in interest rates (duration or modified duration) of its equity, the Bank utilizes equity duration swaps to maintain the modified duration of its equity within a defined policy band of four to six years.

All derivatives are recognized on the Balance Sheet at their fair value, are classified as either assets or liabilities, depending on the nature (receivable or payable) of their net fair value amount, and are not designated as hedging instruments.

The interest component of investment, lending, borrowing, and equity duration derivatives is recorded in Income from Investments-Interest, Income from loans-Interest, after swaps, Borrowing expenses-Interest, after swaps, and Other interest income, respectively, with the remaining changes in the fair value included in Income from Investments-Net gains for investment derivatives and in Net fair value adjustments on non-trading portfolios and foreign currency transactions for lending, borrowing and equity duration derivative instruments. Realized gains and losses on non-trading derivatives are reclassified from Net fair value adjustments on non-trading portfolios and foreign currency transactions to Income from loans-Interest, after swaps, Borrowing expenses-Interest, after swaps, and Other interest income, respectively, upon termination of a swap.

The Bank occasionally issues debt securities that contain embedded derivatives. These securities are carried at fair value.

**Administrative expenses**

The administrative expenses of the Bank are allocated between the Ordinary Capital and the FSO pursuant to the allocation percentage approved by the Board of Governors, which was 97% for the Ordinary Capital and 3% for the FSO in 2013, 2012 and 2011.

**Special programs**

Special programs provide financing for reimbursable, non-reimbursable and contingent recovery assistance to borrowing member countries. Reimbursable operations are recorded as

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Other assets. Non-reimbursable and contingent recovery operations are recorded as Special programs expense at the time of approval. Cancellations of undisbursed balances of non-reimbursable operations 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 custom 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 Assets under retirement benefit plans while under-funded benefit plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as Liabilities under retirement benefit plans.

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 (loss) 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, and amortization of prior service cost and gains/losses previously recognized as a component of Other comprehensive income (loss) remaining in Accumulated other comprehensive income (loss).

**Note C – Restricted Currencies**

At December 31, 2013, Cash includes \$152 million (2012—\$161 million) in currencies of regional borrowing members. These amounts may be used by the Bank in Ordinary Capital lending operations and for administrative expenses. Of this amount, one member country has restricted \$42 million (2012—\$48 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 sovereign and sub-sovereign governments, agency, multilateral, bank, and corporate obligations, including asset-backed and mortgage-backed securities, and related financial derivative instruments, primarily currency and interest rate swaps.

For obligations issued or unconditionally guaranteed by sovereign and sub-sovereign governments and agencies, including asset-backed and mortgage-backed securities, the Bank's policy is to invest in such obligations with a minimum credit quality equivalent to AA. 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 entities with a minimum credit quality equivalent to a AA- rating (private asset-backed and mortgage-backed securities require a 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.

Net unrealized gains (losses) on trading portfolio instruments held at December 31, 2013 of \$43 million (2012—\$206 million; 2011—\$(68) million) were included in Income from Investments-Net gains. Unrealized gains (losses) recognized are, to a large extent, related to the asset-backed and mortgage-backed securities portion of the portfolio, which at December 31, 2013 amounted to \$717 million (2012—\$1,527 million; 2011—\$2,019 million).

A summary of the trading portfolio instruments at December 31, 2013 and 2012 is shown in the Statement of Trading Investments and Swaps in Schedule I-1.

**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 substantially includes sovereign-guaranteed i) Flexible Financing Facility (FFF) LIBOR-based loans, ii) Single Currency Facility (SCF)-LIBOR-based loans, iii) Adjustable rate loans converted to USD LIBOR-based and fixed-base cost rate, iv) SCF-fixed-base cost rate loans, and v) Local Currency Facility (LCF) loans. In addition, the loan portfolio includes non-sovereign-guaranteed loans.

Effective January 1, 2012, the FFF became the only financial product platform for approval of all regular Ordinary Capital sovereign guaranteed loans. With FFF loans, borrowers have the ability to tailor financial terms at approval or during the life of a loan, subject to market availability and operational

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considerations. The FFF platform allows borrowers to: (i) manage currency, interest rate and other types of exposures; (ii) address project changing needs by customizing loan repayment terms to better manage liquidity risks; (iii) manage loans under legacy financial products; and (iv) execute hedges with the Bank at a loan portfolio level.

The FFF loans have an interest rate based on LIBOR plus a funding margin or actual funding cost, as well as the Bank's spread. Borrowers also have an option to convert to fixed-base cost rate, as well as, to currency conversions.

Up to December 31, 2011, the Bank offered two basic types of sovereign-guaranteed loans, each denominated in the currency or currencies chosen by the borrower, as available under the programs: SCF LIBOR-based loans and LCF loans.

SCF-LIBOR-based loans can be denominated in one of four currencies: United States dollars, euro, Japanese yen and Swiss francs, or in a combination of such currencies, and 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 and the Bank's lending spread. SCF-LIBOR-based loan balances can be converted to fixed-base cost rate subject to certain conditions.

Under the LCF, which was incorporated into the new FFF product and is still available for non-sovereign-guaranteed operations, 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-base cost, floating or inflation-linked interest rate. As of December 31, 2013, the Bank has carried out cumulative local currency conversions of loan disbursements and outstanding balances of \$2,663 million (2012—\$2,352 million).

As of December 31, 2013, there are still outstanding SCF-LIBOR-based loans of \$3,961 million (2012—\$4,459 million) and SCF-fixed-base cost rate loans of \$14,641 million (2012—\$20,240 million), which were converted from the previously adjustable rate loan products.

The Bank also 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-fixed-base cost rate loans with 30 years maturity and 6 years grace period.

The Development Sustainability Credit Line (DSL) product, approved in 2012, replaced the previous emergency lending

category. The DSL is structured as a contingent credit line and it has been designed to respond to exogenous economic crisis. Resources are available to the borrower in order to mitigate direct effects of exogenous economic shocks (systemic or country specific). The DSL is limited to a maximum of \$300 million per country, or two percent of a country's gross domestic product (GDP), whichever is less, and has available resources of \$2 billion each year from 2012 to 2014, cumulative during the following years, if not used. DSL loans are denominated in United States dollars, have a term not to exceed six years, and principal repayments begin after three years. These loans carry a three-month LIBOR interest rate plus a spread of 165 basis points over the Bank's lending spread. The DSL will expire at the end of 2015.

The Reallocation Program (RP), established in 2012, offers borrowing member countries flexibility in allocating their exposure with the Bank by earmarking resources released as a result of a loan prepayment by a borrowing member country to finance new sovereign-guaranteed loan operations to that same country. The terms on the new loans under the RP are such that their weighted average life is not greater than the remaining weighted average life of the prepaid loans prior to the prepayment. Most of the prepayments received in 2013 were part of the RP. During 2013, loans amounting to approximately \$1,500 million were reallocated under the RP. Of these resources, a total of \$1,200 million was approved in new operations in 2013.

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 francs or local currency, and borrowers have the option of either a fixed, floating or inflation-linked interest 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. Consistent with one of the objectives of the Agenda for a Better Bank set forth in the IDB-9, which calls for strengthening the Bank's risk management practices, the Board of Executive Directors approved the Non-Sovereign-Guaranteed (NSG) Risk Framework (Framework), which became effective on November 1, 2013. The Framework is structured in three levels, namely (i) the NSG risk appetite, which limits the amount of economic capital allocated to non-sovereign-guaranteed loans and guarantees to 20% of total equity, calculated in the context of the Bank's capital adequacy policy, (ii) the portfolio exposure limits and supplemental guidelines, which seek to provide for portfolio diversification and establish limits per project, per obligor and group of obligors, per sector as well as per country, and (iii) the NSG risk management best practices, which will be developed by Management over time to

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support project origination and portfolio management. With respect to simple obligor limit, the Framework establishes a limit equal to the lesser of 2.5% of the total equity, calculated in the context of the Bank's capital adequacy policy, and \$500 million at the time of approval.

The Bank's loan charges consisted of a lending spread of 0.84% and 0.62% in 2013 and 2012, respectively, per annum on the outstanding amount, as well as a credit commission of 0.25% per annum on the undisbursed balance of the loan, and no supervision and inspection fee in both years. These charges apply to sovereign-guaranteed loans, excluding emergency loans, comprising approximately 92% of the loan portfolio, and are subject to annual review and approval by the Board of Executive Directors.

Income from loans-Interest, after swaps has been reduced by \$669 million (2012—\$459 million; 2011—\$506 million) representing the net interest component of related lending swap transactions.

A statement of loans outstanding by country is presented in Schedule I-2 and a statement of outstanding loans by currency and interest rate type, and their maturity structure at December 31, 2013 and 2012 is shown in Schedule I-3.

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

The Bank has approved a loan to the IIC (a separate international organization whose 45 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, 2013 and 2012, there was \$100 million outstanding.

**Loan participations**

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, 2013, there were \$2,958 million (2012—\$2,653 million) in outstanding participations in non-sovereign-guaranteed loans not included on the Balance Sheet.

**Guarantees**

In October of 2013, the Board of Executive Directors approved the Flexible Guarantee Instrument (FGI) for sovereign-guaranteed operations. The FGI allows additional flexibilities for the structuring of sovereign counter-guaranteed partial credit and political risk guarantees, which can be used to support investment projects or policy-based interventions.

During 2013, there were four non-sovereign-guaranteed, non-trade-related guarantees approved for \$33 million (2012—six

for \$133 million). No guarantees with sovereign counter-guarantee were approved in 2013 (2012—one guarantee for \$350 million). As of December 31, 2013, the Bank had approved, net of cancellations and maturities, non-trade related guarantees without sovereign counter-guarantees of \$839 million (2012—\$819 million) and guarantees with sovereign counter-guarantee of \$325 million (2012—\$410 million).

Under its non-sovereign-guaranteed TFFP, in addition to direct loans, the Bank provides full credit guarantees on short-term trade related transactions. The TFFP authorizes lines of credit in support of approved issuing banks and non-bank financial institutions, with an aggregate program limit of up to \$1,000 million outstanding at any time. During 2013, the Bank issued 210 guarantees for a total of \$568 million under this program (2012—308 guarantees for a total of \$755 million).

At December 31, 2013, guarantees of \$871 million (2012—\$761 million), including \$329 million (2012—\$401 million) issued under the TFFP, were outstanding and subject to call. This amount represents the maximum potential undiscounted future payments that the Bank could be required to make under these guarantees. An amount of \$29 million (2012—\$32 million) of guarantees outstanding has been reinsured. Outstanding guarantees have remaining maturities ranging from 1 to 12 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, 2013 and 2012, the Bank's exposure on guarantees without sovereign counter-guarantee amounted to \$546 million and \$641 million, respectively, and was classified as follows (in millions):

<b>Internal Credit Risk Classification (RC)</b>	<b>2013</b>	<b>2012</b>	<b>S&amp;P/Moody's Rating Equivalent</b>
RC1 .....	\$154	\$108	BBB/Baa3 or higher
RC2 .....	123	168	BB+/Ba1
RC3 .....	103	210	BB/Ba2
RC4 .....	97	70	BB-/Ba3
RC5 .....	60	—	B+/B1
RC6 .....	—	44	B/B2
RC7 .....	7	41	B-/B3
RC8 .....	2	—	CCC—D/Caa—D
Total .....	<u>\$546</u>	<u>\$641</u>	

At December 31, 2013, the Bank's exposure on guarantees with sovereign counter-guarantee amounted to \$325 million (two guarantees of \$265 million and \$60 million rated BBB and BBB+, respectively) (2012—one guarantee of \$52 million rated BBB).

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**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. The IFF interest subsidy was discontinued for loans approved after 2006. During 2013, the IFF paid \$21 million (2012—\$21 million; 2011—\$27 million) of interest on behalf of the borrowers.

**Note F – Credit Risk from Loan Portfolio**

The 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 the 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.

The Bank manages two principal sources of credit risk from its loan activities: sovereign-guaranteed loans and non-sovereign-guaranteed loans. Approximately 92% of the loans are sovereign-guaranteed.

**Sovereign-guaranteed loans:** When the Bank lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. In extending credit to sovereign entities, the Bank is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank.

For the Bank, the likelihood of experiencing an event of default in its sovereign-guaranteed loan portfolio is different than commercial lenders. The Bank does not renegotiate or re-schedule its sovereign-guaranteed loans and historically has always received full principal and interest due at the resolution of a sovereign event of default. Accordingly, the probabilities of default to the Bank assigned to each country are adjusted to reflect the Bank's expectation of full recovery of all its sovereign-guaranteed loans. However, even with full repayment of principal and interest at the end of the event of default, the Bank suffers an economic loss from not charging interest on overdue interest while the event of default lasts.

The credit quality of the sovereign-guaranteed loan portfolio as of December 31, 2013 and 2012, as represented by the

long-term foreign credit rating assigned to each borrower country by S&P, is as follows (in millions):

<b>Country Ratings</b>	<b>2013</b>	<b>2012</b>
AA+ to AA-.....	\$ 524	\$ 563
A+ to A-.....	646	646
BBB+ to BBB-.....	37,452	38,752
BB+ to BB-.....	6,551	5,912
B+ to B-.....	8,515	18,473
CCC+ to CCC.....	11,356	293
SD.....	—	117
Total.....	<u>\$65,044</u>	<u>\$64,756</u>

The ratings presented above have been updated as of December 31, 2013 and 2012, respectively.

**Non-sovereign-guaranteed loans:** The Bank does not benefit from full sovereign guarantees when lending to non-sovereign-guaranteed borrowers. Risk and performance for these loans are evaluated by scoring the individual risk factors under each of the borrower and transaction dimensions. The major risk factors evaluated at the transaction level consider the priority that the loans made by the Bank have in relation to other obligations of the borrower; the type of security collateralizing the agreement; and the nature and extent of the covenants that the borrower must comply. The major credit risk factors considered at the borrower level may be grouped into three major categories: political risk, commercial or project risk, and financial risk. Political risks can be defined as the risks to a project financing emanating from governmental sources, either from a legal or regulatory perspective. Commercial or project risks concern the economic or financial viability of a project and operational risks. Financial risks consider the project's exposures to interest rate and foreign currency volatility, inflation risk, liquidity risk, and funding risk.

Credit risk evaluation related to transactions with financial institutions follows a uniform rating system which considers the following factors: capital adequacy, asset quality, operating policies and procedures and risk management framework; quality of management and decision making; earnings and market position, liquidity and sensitivity to market risk; quality of regulations and regulatory agencies; and potential government or shareholder support.

The country rating is considered a proxy of the impact of the macroeconomic environment to the ability of the borrower to reimburse the Bank and as such, it is considered a ceiling for the transaction dimension risk rating. The credit quality of the non-sovereign-guaranteed loan portfolio as of December 31, 2013 and 2012, excluding loans to other development institutions,



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as represented by the internal credit risk classification is as follows (in millions):

<b>Risk Classification (RC)</b>	<b>2013</b>	<b>2012</b>	<b>S&amp;P/ Moody's Rating Equivalent</b>
RC1 .....	\$ 887	\$ 238	BBB/Baa3 or higher
RC2 .....	898	714	BB+/Ba1
RC3 .....	1,400	1,173	BB/Ba2
RC4 .....	965	595	BB-/Ba3
RC5 .....	437	283	B+/B1
RC6 .....	464	385	B/B2
RC7 .....	43	69	B-/B3
RC8 .....	397	268	CCC—D/Caa—D
Total .....	<u>\$5,491</u>	<u>\$3,725</u>	

In addition, as of December 31, 2013, the Bank has loans to other development institutions of \$144 million (2012—\$159 million), with ratings ranging from AA to A.

**Past due and Non-accrual loans**

As of December 31, 2013, non-sovereign-guaranteed loans 90 or more days past due amounted to \$115 million (2012—\$88 million). Non-sovereign-guaranteed loans with outstanding balances of \$310 million were on non-accrual status (2012—\$268 million), including \$81 million whose maturity was accelerated (2012—\$88 million). There were no sovereign-guaranteed loans past due or in non-accrual status as of December 31, 2013 and 2012.

**Impaired loans**

The Bank's recorded investment in non-sovereign-guaranteed loans classified as impaired was \$310 million at December 31, 2013 (2012—\$268 million; 2011—\$129 million). All impaired loans have specific allowances for loan losses of \$88 million (2012—\$66 million; 2011—\$41 million).

A summary of financial information related to impaired loans affecting the results of operations for the years ended December 31, 2013, 2012, and 2011 is as follows (in millions):

	<b>Years ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Average recorded investment during the period .....	\$301	\$234	\$126
Loan income recognized .....	16	11	5
Loan income that would have been recognized on an accrual basis during the period .....	21	18	5

**Allowance for Loan and Guarantee Losses**

**Sovereign-guaranteed portfolio:** A collective evaluation of collectibility is performed for sovereign-guaranteed loans and guarantees. Historically, virtually all the sovereign-guaranteed loan portfolio has been fully performing. The Bank does not

reschedule sovereign-guaranteed loans and has not written off, and has no expectation of writing off, such loans. However, in the past the Bank has experienced delays in the receipt of debt service payments, sometimes for more than six months. Since the Bank does not charge interest on missed interest payments for these loans, such delay in debt service payments is viewed as a potential impairment as the timing of the cash flows are not met in accordance with the terms of the loan contract.

**Non-sovereign-guaranteed portfolio:** For non-sovereign-guaranteed loans and guarantees, a collective loss allowance is determined based on the Bank's internal credit risk classification system discussed above and it is accomplished in two steps: (i) obtain the probabilities of default to be used for individual loans and guarantees. Since the Bank's internal credit ratings are mapped to the credit ratings used by external credit rating agencies, the probabilities of default are obtained from the probabilities of default associated by the external credit agency to each of the Bank's credit rating categories. Transitions of debt instruments from various risk categories to impairment/default status are modeled utilizing worldwide non-sovereign data gathered from the documented experience of rated non-sovereign-guaranteed debt issuances of similar risk level; (ii) an estimated loss (loss given default) rate is generally determined based upon the Bank's specific experience gained in the assessment of the losses stemming from impairments in the Bank's portfolio; or by the loss given default ratios calculated by external credit agencies for similar type of exposures in areas where the Bank has limited specific experience, as it is the case for certain financing products such as subordinated exposures for which the Bank currently uses Moody's estimates. Based upon (i) the probability of default rate for each risk category, (ii) the amount of credit exposure in each of these categories and (iii) the loss given default ratio, the required level of the collective loss allowance is determined.

The Bank has specific loss allowances for impaired loans, which are individually evaluated, as described in Note B.

The changes in the allowance for loan and guarantee losses for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions):

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance, beginning of year .....	\$197	\$175	\$172
Provision for loan and guarantee losses .....	58	22	3
Balance, end of year .....	<u>\$255</u>	<u>\$197</u>	<u>\$175</u>
Composed of:			
Allowance for loan losses .....	\$244	\$180	\$150
Allowance for guarantee losses <sup>(1)</sup> ..	11	17	25
Total .....	<u>\$255</u>	<u>\$197</u>	<u>\$175</u>

<sup>(1)</sup> The allowance for guarantee losses is included in Other liabilities in the Balance Sheet.

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The changes in the allowance for loan and guarantee losses by portfolio for the years ended December 31, 2013, 2012 and 2011 were as follows (in millions):

**Sovereign-guaranteed portfolio:**

<b>Collective allowance</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance, beginning of year . . . . .	\$ 4	\$ 9	\$ 8
Provision (credit) for loan and guarantee losses . . . . .	1	(5)	1
Balance, end of year . . . . .	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 9</u>

**Non-sovereign-guaranteed portfolio:**

<b>Specific allowance</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance, beginning of year . . . . .	\$ 66	\$ 41	\$ 55
Provision (credit) for loan and guarantee losses . . . . .	22	25	(14)
Balance, end of year . . . . .	<u>\$ 88</u>	<u>\$ 66</u>	<u>\$ 41</u>

<b>Collective allowance</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance, beginning of year . . . . .	\$127	\$125	\$109
Provision for loan and guarantee losses . . . . .	35	2	16
Balance, end of year . . . . .	<u>\$162</u>	<u>\$127</u>	<u>\$125</u>

During 2013, 2012 and 2011, there were no significant changes to the Bank's policy with respect to the allowance for loan and guarantee losses. Except for the impaired loans on the non-sovereign-guaranteed portfolio, all loans and guarantees have been collectively evaluated for impairment.

**Troubled debt restructurings**

The Bank does not reschedule its sovereign-guaranteed loans. A modification of a non-sovereign-guaranteed loan is considered a troubled debt restructuring when the borrower is experiencing financial difficulty and the Bank has granted a concession to the borrower.

A restructured loan is considered impaired when it does not perform in accordance with the contractual terms of the restructuring agreement. A loan restructured under a troubled debt restructuring is considered impaired, until its extinguishment, but it is not disclosed as such after the year it was restructured, if the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and the loan is not impaired based on the terms specified in the restructuring agreement.

During 2013, there were no troubled debt restructurings or payment defaults associated with loans previously modified in troubled debt restructurings. In 2012, there was a troubled debt restructuring of a non-sovereign-guaranteed loan classified as impaired, with an outstanding balance of \$52 million.

The restructuring was implemented pursuant to a plan that was approved by a qualified majority of the borrower's creditors in the context of a court-supervised restructuring proceeding. As a result, the principal modifications to the Bank's loan agreement consisted of an additional grace period, an extension of the repayment date, and a reduction in the interest rate below market for a loan with a similar risk profile. The immediate effect of the restructuring was to reduce the specific loan loss allowance by approximately \$10 million.

**Note G – Receivable from Members**

Receivable from members, which amounted to \$262 million and \$278 million at December 31, 2013 and 2012, respectively, includes non-negotiable, non-interest-bearing demand notes 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 non-negotiable, non-interest-bearing term notes received in payment of MOV obligations. Effective in 2013, these obligations are shown as a reduction of Equity on the Balance Sheet.

In 2009, the Bank reached an agreement with one of its borrowing member countries to combine its outstanding MOV obligations with the Ordinary Capital in the amount of \$252 million and agreed on a payment schedule of 16 annual installments starting in 2010. As of December 31, 2013, the amount outstanding was \$189 million (2012—\$205 million).

**Note H – Property**

At December 31, 2013 and 2012, Property, net consists of the following (in millions):

	<b>2013</b>	<b>2012</b>
Land, buildings, improvements, capitalized software and equipment, at cost . . . . .	\$ 668	\$ 631
Less: accumulated depreciation . . . . .	(314)	(300)
Total . . . . .	<u>\$ 354</u>	<u>\$ 331</u>

**Note I – Borrowings**

Medium- and long-term borrowings at December 31, 2013 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.0% to 9.75%, before swaps, and from (0.43)% (equivalent to 3 month JPY-LIBOR less 58 basis points) to 7.08%, after swaps, with various maturity dates through 2043. A statement of the medium- and long-term borrowings and swaps at December 31, 2013 and 2012 is shown in Schedule I-4.

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



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360 days. At December 31, 2013, the weighted average interest rate of short-term borrowings was 0.14% (2012 – 0.16%).

Borrowing expenses have been reduced by the net interest component of related borrowing swap transactions amounting to \$1,672 million during 2013 (2012—\$1,864 million; 2011—\$1,987 million).

As of December 31, 2013 and 2012, the maturity structure of medium- and long-term borrowings outstanding by year of maturity is as follows (in millions):

2013		2012	
2014.....	\$11,028	2013.....	\$ 8,353
2015.....	14,178	2014.....	11,629
2016.....	9,583	2015.....	11,431
2017.....	7,038	2016.....	6,533
2018.....	8,038	2017.....	5,827
2019 to 2023.....	12,724	2018 to 2022.....	12,840
2024 to 2028.....	2,830	2023 to 2027.....	3,629
2029 to 2033.....	8	2028 to 2032.....	9
2034 to 2038.....	266	2038 to 2042.....	3,575
2039 to 2043.....	3,179	Total.....	\$63,826
Total.....	<u>\$68,872</u>		

**Note J – Fair Value Option**

The Bank has elected the fair value option under GAAP for most of its medium- and long-term debt, to reduce the income volatility resulting from the previous accounting asymmetry of marking to market borrowing swaps through income while recognizing all borrowings at amortized cost. Individual borrowings are elected for fair value reporting on an instrument by instrument basis, and the election is made upon the initial recognition of a borrowing and may not be revoked once an election is made. However, income volatility still results from the changes in fair value of the Bank's lending swaps, which are not offset by corresponding changes in the fair value of loans, as all the Bank's loans are recorded at amortized cost. In order to address this income volatility, the Bank takes into consideration all of its non-trading financial instruments (i.e., borrowings, loans and derivatives) in determining its fair value option elections for borrowings.

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 years ended December 31, 2013, 2012, and 2011 as follows (in millions):

	2013	2012	2011
Borrowing expenses—Interest, after swaps.....	\$(1,658)	\$(1,932)	\$(2,076)
Net fair value adjustments on non-trading portfolios and foreign currency transactions.....	3,623	(12)	(1,040)
Total changes in fair value included in Net income (loss).....	<u>\$ 1,965</u>	<u>\$(1,944)</u>	<u>\$(3,116)</u>

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of December 31, 2013 and 2012, was as follows (in millions):

	2013	2012
Fair value.....	\$44,087 <sup>(1)</sup>	\$45,886 <sup>(1)</sup>
Unpaid principal outstanding.....	42,419	42,259
Fair value over unpaid principal outstanding..	<u>\$ 1,668</u>	<u>\$ 3,627</u>

<sup>(1)</sup> Includes accrued interest of \$383 million and \$428 million in 2013 and 2012, respectively.

**Note K – Derivatives**

**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. The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, which are mitigated through its integrated asset and liability management framework. The objective of the asset and liability management framework is to align the currency composition, maturity profile and interest rate sensitivity characteristics of the assets and liabilities for each liquidity and lending product portfolio in accordance with the particular requirements for that product and within prescribed risk parameters. When necessary, the Bank employs derivatives to achieve this alignment. These instruments, mostly currency and interest rate swaps, are used primarily for economic hedging purposes, but are not designated as hedging instruments for accounting purposes.

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 fixed-rate, fixed-base cost rate and local currency loans, and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash. In addition, the Bank utilizes interest rate swaps to maintain the duration of its equity within a prescribed policy band of 4 to 6 years.

**Financial statements presentation:** All derivative instruments are reported at fair value. The Bank's derivative instruments and their related gains and losses are presented in the Balance Sheet, the Statement of Income and Retained

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**NOTES TO FINANCIAL STATEMENTS** (continued)

Earnings and the Statement of Comprehensive Income as follows (in millions):

**Balance Sheet**

Derivatives not Designated as Hedging Instruments	Balance Sheet Location	December 31, 2013 <sup>(1)</sup>		December 31, 2012 <sup>(1)</sup>	
		Assets	Liabilities	Assets	Liabilities
Currency swaps	Currency and interest rate swaps				
	Investments—Trading	\$ 84	\$ 32	\$ 50	\$ 26
	Loans	89	243	21	334
	Borrowings	2,119	1,354	4,523	482
	Accrued interest and other charges— On swaps, net	86	(88)	113	(79)
Interest rate swaps	Currency and interest rate swaps				
	Investments—Trading	26	51	—	47
	Loans	14	510	3	1,521
	Borrowings	1,042	566	1,927	157
	Other	66	18	279	—
	Accrued interest and other charges— On swaps, net	189	31	228	68
		<u>\$3,715</u>	<u>\$2,717</u>	<u>\$7,144</u>	<u>\$2,556</u>

<sup>(1)</sup> Balances are reported gross, prior to counterparty netting in accordance with existing master netting derivative agreements.

**Statement of Income and Retained Earnings and Statement  
of Comprehensive Income**

Derivatives not Designated as Hedging Instruments	Location of Gain or (Loss) from Derivatives	Years ended December 31,		
		2013	2012	2011
<b>Currency swaps</b>				
Investments—Trading	Income from Investments:			
	Interest	\$ (17)	\$ (19)	\$ (24)
	Net gains	22	22	(12)
	Other comprehensive income (loss)—Translation adjustments	115	36	(17)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	28	—	—
Loans	Income from Loans—Interest, after swaps	(106)	(87)	(94)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	192	(211)	188
Borrowings	Borrowing expenses—Interest, after swaps	941	1,068	1,153
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(2,708)	280	263
	Other comprehensive income (loss)—Translation adjustments	3	40	6
<b>Interest rate swaps</b>				
Investments—Trading	Income from Investments:			
	Interest	(34)	(22)	(28)
	Net gains	41	(5)	(22)
Loans	Income from Loans—Interest, after swaps	(563)	(372)	(412)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	1,023	(50)	(1,053)
Borrowings	Borrowing expenses—Interest, after swaps	731	796	834
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(1,281)	(89)	687
	Other comprehensive income (loss)—Translation adjustments	1	2	(3)
Other	Other interest income	187	113	112
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(231)	65	287
<b>Futures</b>	Income from Investments—			
	Net gains	—	—	(2)
		<u>\$ (1,656)</u>	<u>\$1,567</u>	<u>\$1,863</u>

Currently, the Bank is not required to post collateral under its derivative agreements. Should the Bank's credit rating be downgraded from the current AAA, the standard swap agreements detail, by swap counterparty, the collateral requirements the Bank would need to satisfy in this event. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on December 31, 2013 is \$1,053 million (2012—\$526 million) (after consideration of master netting derivative agreements). If the Bank was

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downgraded one notch from the current AAA credit rating, it would be required to post collateral in the amount of \$512 million at December 31, 2013 (2012—\$231 million).

The following table provides information on the contract value/notional amounts of derivative instruments as of December 31, 2013 and 2012 (in millions). Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or receivable leg. The Bank uses loan swaps to convert local currency loans to United States dollars, and fixed rate and fixed-base cost rate loans to floating rate. Included in the Other category are interest rate swaps used to maintain the equity duration within policy limits. See Schedules I-1 and I-4 for further details about investment and borrowing swaps.

Derivative type/ Rate type	December 31, 2013			
	Currency swaps		Interest Rate swaps	
	Receivable	Payable	Receivable	Payable
Investments				
Fixed .....	\$ —	\$ 1,309	\$ —	\$ 4,936
Adjustable .....	1,470	91	4,936	—
Loans				
Fixed .....	—	1,401	83	9,471
Adjustable .....	2,656	1,349	9,471	83
Borrowings				
Fixed .....	18,485	203	38,348	349
Adjustable .....	2,243	20,089	5,437	42,051
Other				
Fixed .....	—	—	2,869	450
Adjustable .....	—	—	450	2,869

Derivative type/ Rate type	December 31, 2012			
	Currency swaps		Interest Rate swaps	
	Receivable	Payable	Receivable	Payable
Investments				
Fixed .....	\$ —	\$ 1,435	\$ —	\$ 1,957
Adjustable .....	1,488	—	1,957	—
Loans				
Fixed .....	—	1,137	109	12,659
Adjustable .....	2,379	1,306	12,659	109
Borrowings				
Fixed .....	20,156	209	34,333	348
Adjustable .....	2,942	19,929	5,204	37,824
Other				
Fixed .....	—	—	6,389	500
Adjustable .....	—	—	500	6,389

The Bank's derivatives are subject to enforceable master netting agreements (the Agreements). The Bank has made the accounting policy election to present all derivative assets and liabilities on a gross basis. The gross and net information about the Bank's derivatives subject to the Agreements as of December 31, 2013 and 2012 are as follows (in millions):

Description	December 31, 2013			
	Gross Amounts of Assets Presented in the Balance Sheet <sup>(1)</sup>	Gross Amounts Not Offset in the Balance Sheet		Net Amount
		Financial Instruments	Collateral Received <sup>(3)</sup>	
Derivatives	\$ 3,715	\$(1,665)	\$(1,876)	\$ 174
Description	December 31, 2012			
	Gross Amounts of Liabilities Presented in the Balance Sheet <sup>(2)</sup>	Gross Amounts Not Offset in the Balance Sheet		Net Amount
		Financial Instruments	Collateral Pledged	
Derivatives	\$(2,717)	\$ 1,665	\$ —	\$(1,052)
Description	December 31, 2012			
	Gross Amounts of Assets Presented in the Balance Sheet <sup>(1)</sup>	Gross Amounts Not Offset in the Balance Sheet		Net Amount
		Financial Instruments	Collateral Received <sup>(3)</sup>	
Derivatives	\$ 7,144	\$(2,024)	\$(4,903)	\$ 217
Description	December 31, 2012			
	Gross Amounts of Liabilities Presented in the Balance Sheet <sup>(2)</sup>	Gross Amounts Not Offset in the Balance Sheet		Net Amount
		Financial Instruments	Collateral Pledged	
Derivatives	\$(2,556)	\$ 2,024	\$ —	\$( 532)

<sup>(1)</sup>Includes accrued interest of \$275 million and \$341 million, in 2013 and 2012, respectively, presented in the Balance Sheet under Accrued interest and other charges—On swaps, net.

<sup>(2)</sup>Includes accrued interest of \$(57) million and \$(11) million, in 2013 and 2012, respectively, presented in the Balance Sheet under Accrued interest and other charges—On swaps, net.

<sup>(3)</sup>Includes cash collateral amounting to \$229 million (2012—\$805 million). The remaining amounts represent off-Balance Sheet U.S. Treasury securities received as collateral by the Bank.

The Bank enters into swaps and other over-the-counter derivatives directly with trading counterparties. These derivatives are entered into under trade relationship documents based upon standard forms published by the International Swaps and Derivatives Association (ISDA), in particular an ISDA Master Agreement (ISDA Agreements).

**Close-out netting provisions**

The close-out netting provisions of the ISDA Agreements provide for the calculation of a single lump sum amount upon the early termination of transactions following the occurrence of an event of default or termination event. The setoff provisions of the ISDA Agreements allow the non-defaulting party to determine whether setoff applies and, if so, provide that any lump

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sum amount calculated following the early termination of transactions payable by the non-defaulting party to the other party may be applied to reduce any amounts that the other party owes the non-defaulting party under other agreements between them. This setoff, if enforceable in the circumstances of a given early termination, effectively reduces the amount payable by the non-defaulting party under the applicable ISDA Agreement.

**Terms of collateral agreements**

Currently, the Bank is not required to post collateral under its ISDA Agreements. The performance of the obligations of the Bank's counterparties may be supported by collateral provided under a credit support annex (CSA). The CSAs provide for credit support to collateralize the Bank's mark-to-market exposure to its counterparties in the form of U.S. Dollars and U.S. Treasury Obligations. The Bank may sell, pledge, re-hypothecate or otherwise treat as its own property such collateral, where permissible, subject only to the obligation (i) to return such collateral and (ii) to pass on distributions with respect to any non-cash collateral.

If an event of default has occurred, the Bank may exercise certain rights and remedies with respect to the collateral. These rights include (i) all rights and remedies available to a secured party; (ii) the right to setoff any amounts payable by the counterparty with respect to any obligations against any collateral held by the Bank; and (iii) the right to liquidate any collateral held by the Bank.

**Note L – Fair Value Measurements**

The framework for measuring fair value 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 for identical assets or liabilities in active markets;
- Level 2—Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs 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.

The Bank's investment instruments valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, may include obligations of the United States and Japanese governments. Such instruments are classified within Level 1 of the fair value hierarchy.

Substantially all other Bank investment instruments are valued based on quoted prices in markets that are not active, external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies apply to investments in obligations of governments and agencies, corporate bonds, asset-backed and mortgage-backed securities, bank obligations, and related financial derivative instruments (primarily currency and interest rate swaps). 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.

The main methodology of external pricing service providers involves a "market approach" that requires a predetermined activity volume of market prices to develop a composite price. The market prices utilized are provided by orderly transactions being executed in the relevant market; transactions that are not orderly and outlying market prices are filtered out in the determination of the composite price. Other external price providers utilize evaluated pricing models that vary by asset class and incorporate available market information through benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare valuations.

Investment securities are also valued with prices obtained from brokers/dealers. Brokers/dealers' prices may be based on a variety of inputs ranging from observed prices to proprietary valuation models. The Bank reviews the reasonability of brokers/dealers' prices via the determination of fair value estimates from internal valuation techniques that use available observable market inputs.

Medium- and long-term borrowings elected under the fair value option and all currency and interest rate swaps are valued using quantitative models, including discounted cash flow models as well as more advanced option modeling techniques, when necessary, depending on the specific structures of the instruments. These models and techniques require the use of multiple market inputs including market yield curves, and/or exchange rates, interest rates, spreads, volatilities and correlations. Significant market inputs are observable during the full term of these instruments. The Bank also considers, consistent with the requirements of the framework for measuring fair value, the impact of its own creditworthiness in the valuation of its liabilities. These instruments are classified within Level 2 of the fair value hierarchy in view of the observability of the significant inputs to the models and are measured at fair value

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using valuation techniques consistent with the market and income approaches.

Level 3 investment, borrowing and swap instruments, if any, are valued using Management's best estimates utilizing available information including (i) external price providers, where available, or broker/dealer prices; when less liquidity exists, a quoted price is out of date or prices among brokers/dealers vary significantly, other valuation techniques may be used (i.e., a combination of the market approach and the income approach) 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 market and income approaches.

The following tables set forth the Bank's financial assets and liabilities that were accounted for at fair value as of December 31, 2013 and 2012 by level within the fair value hierarchy (in millions). As required by the framework for measuring fair value, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Financial assets:**

Assets	Fair Value Measurements			
	December 31, 2013 <sup>(1)</sup>	Level 1	Level 2	Level 3
Investments—Trading:				
Obligations of the United States Government and its corporations and agencies . . . . .	\$ 6,073	\$6,073	\$ —	\$—
U.S. Government-sponsored enterprises . . . . .	207	—	207	—
Obligations of non-U.S. governments and agencies . . . . .	10,382	332	10,050	—
Bank obligations <sup>(2)</sup> . . . . .	3,527	—	3,527	—
Corporate securities . . . . .	147	—	147	—
Mortgage-backed securities . . . . .	489	—	489	—
U.S. residential . . . . .	46	—	46	—
Non-U.S. residential . . . . .	320	—	320	—
U.S. commercial . . . . .	28	—	28	—
Non-U.S. commercial . . . . .	95	—	95	—
Asset-backed securities . . . . .	228	—	208	20
Collateralized loan obligations . . . . .	152	—	152	—
Other collateralized debt obligations . . . . .	33	—	13	20
Other asset-backed securities . . . . .	43	—	43	—
Total Investments—				
Trading . . . . .	21,053	6,405	14,628	20
Currency and interest rate swaps . . . . .	3,715	—	3,715	—
Total . . . . .	<u>\$24,768</u>	<u>\$6,405</u>	<u>\$18,343</u>	<u>\$20</u>

<sup>(1)</sup>Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheet under Accrued interest and other charges—On investments of \$38 million for trading investments and under Accrued interest and other charges—On swaps, net of \$275 million for currency and interest rate swaps.

<sup>(2)</sup>May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

Assets	Fair Value Measurements			
	December 31, 2012 <sup>(1)</sup>	Level 1	Level 2	Level 3
Investments—Trading:				
Obligations of the United States Government and its corporations and agencies.....	\$ 4,571	\$4,571	\$ —	\$—
U.S. Government-sponsored enterprises...	31	—	31	—
Obligations of non-U.S. governments and agencies.....	5,263	—	5,263	—
Bank obligations <sup>(2)</sup> .....	3,031	—	3,031	—
Corporate securities.....	11	—	11	—
Mortgage-backed securities	<b>986</b>	—	<b>980</b>	<b>6</b>
U.S. residential.....	365	—	365	—
Non-U.S. residential...	357	—	351	6
U.S. commercial.....	66	—	66	—
Non-U.S. commercial..	198	—	198	—
Asset-backed securities...	<b>541</b>	—	<b>471</b>	<b>70</b>
Collateralized loan obligations.....	352	—	352	—
Other collateralized debt obligations.....	121	—	51	70
Other asset-backed securities.....	68	—	68	—
Total Investments—				
Trading.....	14,434	4,571	9,787	76
Currency and interest rate swaps.....	7,144	—	7,144	—
Total.....	<u>\$21,578</u>	<u>\$4,571</u>	<u>\$16,931</u>	<u>\$76</u>

<sup>(1)</sup>Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheet under Accrued interest and other charges—On investments of \$35 million for trading investments and under Accrued interest and other charges—On swaps, net of \$341 million for currency and interest rate swaps.

<sup>(2)</sup>May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

**Financial liabilities:**

Liabilities	Fair Value Measurements			
	December 31, 2013 <sup>(1)</sup>	Level 1	Level 2	Level 3
Borrowings measured at fair value.....	\$44,087	\$—	\$44,087	\$—
Currency and interest rate swaps.....	2,717	—	2,717	—
Total.....	<u>\$46,804</u>	<u>\$—</u>	<u>\$46,804</u>	<u>\$—</u>

<sup>(1)</sup>Represents the fair value of the referred liabilities, including their accrued interest presented on the Balance Sheet under Accrued interest on borrowings of \$383 million for borrowings and under Accrued interest and other charges—On swaps, net of \$(57) million for currency and interest rate swaps.

Liabilities	Fair Value Measurements			
	December 31, 2012 <sup>(1)</sup>	Level 1	Level 2	Level 3
Borrowings measured at fair value.....	\$45,886	\$—	\$45,886	\$—
Currency and interest rate swaps.....	2,556	—	2,556	—
Total.....	<u>\$48,442</u>	<u>\$—</u>	<u>\$48,442</u>	<u>\$—</u>

<sup>(1)</sup>Represents the fair value of the referred liabilities, including their accrued interest presented on the Balance Sheet under Accrued interest on borrowings of \$428 million for borrowings and under Accrued interest and other charges—On swaps, net of \$(11) million for currency and interest rate swaps.

As of December 31, 2013, the investment portfolio includes \$20 million (2012—\$76 million) of securities classified as Level 3. The pricing information for these securities is not developed or adjusted by the Bank, and is obtained through external pricing sources.

The significant unobservable inputs used in the fair value measurements of the Bank's investments in other collateralized debt obligations and non-U.S. residential mortgage-backed securities classified as Level 3 are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The Treasury Division is responsible for mark-to-market valuations for financial statement purposes of investments, borrowings, and derivatives, including those with significant unobservable inputs, and reports to the Treasurer of the Bank. The Accounting Division is responsible for monitoring, controlling, recording and reporting fair values related to investments, borrowings and all derivatives. The two groups work in close coordination to monitor the reasonableness of fair values. Such monitoring includes but is not limited to validation against counterparty values, internally developed models, and independent price quotes for similar instruments, when available.



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The tables below show a reconciliation of the beginning and ending balances of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013, 2012 and 2011 (in millions). There were no Level 3 financial liabilities at December 31, 2013, 2012 and 2011.

**Financial assets:**

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
Year Ended December 31, 2013			
	Investments— Trading	Currency and Interest Rate Swaps	Total
Balance, beginning of year . . . . .	\$76	\$—	\$76
Total gains (losses) included in:			
Net income (loss) . . . . .	18	—	18
Other comprehensive income (loss) . .	—	—	—
Settlements . . . . .	(74)	—	(74)
Balance, end of year . . . . .	<u>\$20</u>	<u>\$—</u>	<u>\$20</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 the end of the year . . . . .	<u>\$ 9</u>	<u>\$—</u>	<u>\$ 9</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
Year Ended December 31, 2012			
	Investments— Trading	Currency and Interest Rate Swaps	Total
Balance, beginning of year . . . . .	\$75	\$—	\$75
Total gains (losses) included in:			
Net income (loss) . . . . .	22	—	22
Other comprehensive income (loss) . .	1	—	1
Settlements . . . . .	(22)	—	(22)
Balance, end of year . . . . .	<u>\$76</u>	<u>\$—</u>	<u>\$76</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 the end of the year . . . . .	<u>\$22</u>	<u>\$—</u>	<u>\$22</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
Year Ended December 31, 2011			
	Investments— Trading	Currency and Interest Rate Swaps	Total
Balance, beginning of year . . . . .	\$100	\$—	\$100
Total gains (losses) included in:			
Net income (loss) . . . . .	4	—	4
Other comprehensive income (loss) . .	(2)	—	(2)
Settlements . . . . .	(27)	—	(27)
Balance, end of year . . . . .	<u>\$ 75</u>	<u>\$—</u>	<u>\$ 75</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 the end of the year . . . . .	<u>\$ 2</u>	<u>\$—</u>	<u>\$ 2</u>

Gains on Level 3 financial assets of \$18 million (2012—\$22 million; 2011—\$4 million) were included in Net income (loss). The amount of these gains attributable to the change in unrealized gains (losses) related to assets still held at December 31, 2013 was \$9 million (2012—\$22 million; 2011—\$2 million). These gains on Level 3 financial assets were reported in Income from Investments—Net gains in the Statement of Income and Retained Earnings.

There were no transfers between levels during 2013, 2012, and 2011. The Bank's policy for transfers between levels is to reflect these transfers as of the beginning of the reporting period.

The Bank accounts for its loans and certain borrowings at amortized cost with their corresponding fair value disclosures included in Note W – Fair Values of Financial Instruments.

The fair value of the loan portfolio, which amounted to approximately \$72,256 million as of December 31, 2013 (\$73,454 million as of December 31, 2012), was determined using a discounted cash flow method (income approach) by which cash flows are discounted at (i) applicable market yield curves adjusted for the Bank's own funding cost plus its lending spread, for sovereign-guaranteed loans, and (ii) market yield curves consistent with the borrower's S&P credit rating equivalent, for non-sovereign-guaranteed loans. The Bank is one of very few lenders of development loans to Latin American and Caribbean countries and, it does not sell its loans nor does it believe there is a comparable market for its loans. Therefore, this methodology has been developed based on valuation assumptions that management believes a market participant in an assumed transaction would use in pricing the Bank's loans. The Bank considers that, for its sovereign-guaranteed loans, multi-lateral lending institutions that share the Bank's developmental mission would constitute the most appropriate assumed market participants to which the Bank would sell its loans in an orderly transaction. The valuation assumptions used include observable inputs, such as the market yield curves mainly based on LIBOR, and unobservable inputs, such as internal credit risk assumptions. Due to the fact that the unobservable inputs are considered significant, the fair value disclosure of the Bank's loan portfolio has been classified as Level 3.

The fair value of borrowings recorded at amortized cost, which amounted to approximately \$24,869 million as of December 31, 2013 (\$20,515 million as of December 31, 2012), was determined using the same inputs and valuation techniques as disclosed above for the borrowings recorded at fair value. Such valuation techniques are based on discounted cash flows or pricing models (income approach) and utilize market observable inputs. Accordingly, the fair value disclosure for borrowings recorded at amortized cost is considered Level 2 under the fair value hierarchy.



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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note M – Commercial Credit Risk**

Commercial credit risk is the exposure to losses that could result from the default 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 sovereign and sub-sovereign governments, agencies, multilaterals, banks and corporate entities, including asset-backed and mortgage-backed securities, as further discussed in Note D - Investments. In addition, the Bank limits its capital market activities to authorized counterparties, issuers and dealers selected on the basis of the Bank's 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, lending, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for economic 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, 2013, the Bank had received eligible collateral (U.S. Treasuries and cash) of \$2,083 million (2012—\$5,575 million), as required under its master derivative agreements.

The derivative current 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, 2013 and 2012, such credit exposures, prior to consideration of any master derivative agreements or posted collateral, were as follows (in millions):

	<u>2013</u>	<u>2012</u>
Investments—Trading Portfolio		
Currency swaps .....	\$ 82	\$ 43
Interest rate swaps .....	23	—
Loan Portfolio		
Currency swaps .....	78	17
Interest rate swaps .....	14	3
Borrowing Portfolio		
Currency swaps .....	2,220	4,653
Interest rate swaps .....	1,234	2,153
Other		
Interest rate swaps .....	69	285

**Note N – Board of Governors approved transfers**

As part of the ninth general increase in the resources of the Bank (IDB-9), the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors and in accordance with the Agreement Establishing the Inter-American Development Bank (the Agreement), to provide \$200 million annually in transfers of Ordinary Capital income to the IDB Grant Facility, beginning in 2011 and through 2020. At its annual meeting in Panama City, Panama, in March 2013, the Board of Governors approved the \$200 million transfer corresponding to 2013.

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

**Capital stock**

On February 29, 2012, the IDB-9 entered into effect providing for an increase in the Bank's Ordinary Capital of \$70,000 million to be subscribed to by Bank members in five annual installments. Of this amount, \$1,700 million is paid-in capital stock and the remainder constitutes callable capital stock. Subscriptions from 46 member countries amounting to \$65,731 million were received by the Bank. Two member countries, the Netherlands and Venezuela, did not subscribe to their shares. As a result, of the total shares subscribed, 5,134,300 shares in the amount of \$61,937 million, or 88% of the total increase, were made effective, representing the amount of shares subscribed, less shares that were not made effective in order to comply with the associated minimum voting power requirements of the Agreement. Of the total shares made effective, \$1,504 million represents paid-in capital stock and \$60,433 million represents callable capital stock.

The shares that had been reserved for the Netherlands and Venezuela (19,639 and 334,278 shares and \$237 million and \$4,032 million, respectively) were subsequently reallocated to other member countries on January 22, 2013 by the Bank's Board of Governors to become effective for each member country only if, on or before February 28, 2014, as amended, each member country has deposited with the Bank an Instrument of Subscription subscribing to the number of shares allocated to such member country. As of December 31, 2013, instruments of subscription for 336,523 of the total reallocated shares had been already received. Upon the completion of this reallocation process, if all reallocated shares are subscribed by members, the IDB-9 will be fully subscribed. There will be no changes to the voting power of the borrowing member countries as a group and the United States, Canada, Japan and the group of other non-regional member countries after the reallocation becomes effective. See Note X – Subsequent Events for additional information.

The effective dates of the first two installments of the Ordinary Capital increase were February 29, 2012 and February 28, 2013. These two installments, amounting to \$602 million, have been substantially collected. In addition,

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subscriptions paid in advance amounting to \$92 million at December 31, 2013 (2012—\$101 million) have been included in Other liabilities. The remaining three installments are effective on the last day of February 2014, 2015 and 2016, respectively.

In 2009, Canada subscribed to 334,887 shares of non-voting callable capital stock. The terms and conditions of Canada's subscription stipulated that the subscription was on a temporary basis, with Canada having the right to replace its temporary subscription with shares issued under a future capital increase, as and when effective. Accordingly, on February 29, 2012, Canada exercised its right and, effective on February 29, 2012 and February 28, 2013, replaced 40,358 non-voting callable shares, in the amount of \$487 million each year, with an equal amount of voting callable shares, representing the first and second installments, respectively, of shares allocated under the IDB-9. It is expected that the full amount of non-voting callable shares will be replaced or returned by the end of the IDB-9 installment schedule.

A statement of subscriptions to capital stock is presented in Schedule I-5. The changes in subscribed capital during the years ended December 31, 2013 and 2012 were as follows (in millions, except for share information):

	Subscribed capital			
	Shares	Paid-in	Callable	Total
Balance at January 1, 2012 .....	8,702,335	\$4,339	\$100,641	\$104,980
Subscriptions during 2012 .....	1,026,851	301	12,086	12,387
Canada's return of callable capital .....	(40,358)	—	(487)	(487)
Balance at December 31, 2012 ....	9,688,828	4,640	112,240	116,880
Subscriptions during 2013 .....	1,026,851	301	12,087	12,388
Canada's return of callable capital .....	(40,358)	—	(487)	(487)
Balance at December 31, 2013 ....	<u>10,675,321</u>	<u>\$4,941</u>	<u>\$123,840</u>	<u>\$128,781</u>

**Voting power**

Under the Agreement, each member country shall have 135 votes plus one vote for each voting share of the Bank held by that country. The Agreement 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 non-regional 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, 2013 are shown in the statement of subscriptions to capital stock and voting power in Schedule I-6.

**Note P – Retained Earnings**

The composition of Retained earnings as of December 31, 2013 and 2012 is as follows (in millions):

	2013	2012
General reserve .....	\$15,034	\$13,727
Special reserve .....	<u>2,665</u>	<u>2,665</u>
Total .....	<u>\$17,699</u>	<u>\$16,392</u>

**Note Q – Accumulated Other Comprehensive Income (Loss)**

Currently, Other comprehensive income (loss) in the Statement of Comprehensive Income substantially comprises the effects of the postretirement benefits accounting requirements. The following is a summary of changes in Accumulated other comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011 (in millions):

	Translation Adjustments Allocation			Pension Adjustments	Total
	General Reserve	Special Reserve			
Balance at January 1, 2011 .....	\$1,023	\$(100)	\$ (73)		\$ 850
Translation adjustments .....	(3)	—	—		(3)
Recognition of changes in assets/liabilities under retirement benefit plans:					
Net actuarial losses .....	—	—	(919)		(919)
Reclassification to income—amortization of prior service cost .....	—	—	39		39
Balance at December 31, 2011 .....	1,020	(100)	(953)		(33)
Translation adjustments .....	(8)	—	—		(8)
Recognition of changes in assets/liabilities under retirement benefit plans:					
Net actuarial losses .....	—	—	(346)		(346)
Reclassification to income—amortization of:					
Prior service cost .....	—	—	8		8
Net actuarial losses .....	—	—	46		46
Balance at December 31, 2012 .....	1,012	(100)	(1,245)		(333)
Translation adjustments .....	(1)	—	—		(1)
Recognition of changes in assets/liabilities under retirement benefit plans:					
Net actuarial gains .....	—	—	1,401		1,401
Reclassification to income—amortization of:					
Prior service cost .....	—	—	1		1
Net actuarial losses .....	—	—	105		105
Balance at December 31, 2013 .....	<u>\$1,011</u>	<u>\$(100)</u>	<u>\$ 262</u>		<u>\$1,173</u>

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**NOTES TO FINANCIAL STATEMENTS** (continued)

The amortization of prior service cost and net actuarial gains and losses is a component of the net periodic benefit cost reported under Administrative expenses in the Statement of Income and Retained Earnings. Refer to Note S – Pension and Postretirement Benefit Plans, for additional information.

**Note R – Net Fair Value Adjustments on Non-trading Portfolios and Foreign Currency Transactions**

Net fair value adjustments on non-trading portfolios and foreign currency transaction gains and losses for the years ended December 31, 2013, 2012 and 2011 comprise the following (in millions):

	Years ended December 31,		
	2013	2012	2011
Fair value adjustments - gains (losses) <sup>(1)</sup>			
Borrowings.....	\$ 3,623	\$ (12)	\$(1,040)
Derivatives			
Borrowing swaps.....	(3,989)	191	950
Lending swaps.....	1,215	(261)	(865)
Equity duration swaps.....	(231)	65	287
Currency transaction gains (losses) on borrowings and loans at amortized cost, and other.....	8	211	(251)
	<u>\$ 626</u>	<u>\$ 194</u>	<u>\$ (919)</u>

<sup>(1)</sup>Amounts include foreign currency transaction gains and losses, as detailed below.

Net fair value adjustments of \$626 million (2012—\$194 million; 2011—\$(919) million) mostly relate to changes in the fair value of (a) borrowings at fair value due to changes in the Bank's own credit spreads, (b) lending and certain borrowing swaps due to changes in USD interest rates, which are not offset with changes in the value of the related loans and borrowings since they are not recorded at fair value, as well as (c) equity duration swaps due to changes in USD interest rates. In addition, during 2013, the Bank realized gains of \$125 million generated from the unwinding of equity duration swaps as a result of equity duration management, and losses of \$232 million resulting from the unwinding of lending swaps as a result of loan prepayments. These amounts were reclassified from Net fair value adjustments on non-trading portfolios and foreign currency transactions to Other interest income and Income from loans-Interest, after swaps, respectively, in the Statement of Income and Retained Earnings.

The Bank transacts in multiple currencies. However, assets and liabilities, after swaps, are substantially held in United States dollars. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets

and by maintaining basically all its equity in United States dollars. Accordingly, exchange rate fluctuations have a minimum impact on earnings. The impact of foreign exchange fluctuations, included in the table above, for the years ended December 31, 2013, 2012 and 2011, comprise the following (in millions):

	Years ended December 31,		
	2013	2012	2011
Currency transaction gains (losses):			
Borrowings, at fair value.....	\$ 1,803	\$(241)	\$ 606
Derivatives, at fair value			
Borrowing swaps.....	(1,916)	228	(592)
Lending swaps.....	94	(186)	241
	<u>(19)</u>	<u>(199)</u>	<u>255</u>
Currency transaction gains (losses) related to:			
Borrowings at amortized cost.....	85	30	(28)
Loans.....	(94)	181	(223)
Other.....	17	—	—
	<u>8</u>	<u>211</u>	<u>(251)</u>
Total.....	<u>\$ (11)</u>	<u>\$ 12</u>	<u>\$ 4</u>

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

The Bank has two defined benefit retirement plans (Plans) for providing pension benefits to employees of the Bank and the IIC: the Staff Retirement Plan (SRP) for international employees and the Local Retirement Plan (LRP) for national employees in the country offices. The Plans are funded by employee, Bank and IIC contributions in accordance with the provisions of the Plans. 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 health care and certain other benefits to retirees. All employees who retire and receive a monthly pension from the Bank or the IIC and who meet certain requirements are eligible for postretirement benefits. 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 postretirement benefits under the Postretirement Benefit Plan (PRBP). 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 share of costs, assets and obligations of the Plans and the PRBP.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**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, 2013, 2012 and 2011 (in millions):

	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
<b>Change in benefit obligation</b>						
Benefit obligation, beginning of year.....	\$3,868	\$3,277	\$2,658	\$1,817	\$1,524	\$1,226
Service cost.....	117	86	67	59	47	34
Interest cost.....	152	150	151	72	73	72
Net transfers into the plan.....	2	1	2	—	—	—
Plan participants' contributions....	25	23	23	—	—	—
Retiree drug subsidy received.....	—	—	—	—	1	1
Benefits paid.....	(119)	(115)	(107)	(34)	(32)	(30)
Net actuarial (gains) losses.....	(794)	446	483	(388)	204	221
Benefit obligation, end of year.....	<u>3,251</u>	<u>3,868</u>	<u>3,277</u>	<u>1,526</u>	<u>1,817</u>	<u>1,524</u>
<b>Change in plan assets</b>						
Fair value of plan assets, beginning of year.....	3,208	2,851	2,815	1,324	1,154	1,158
Net transfers into the plan.....	2	1	2	—	—	—
Actual return on plan assets.....	338	397	59	142	167	(8)
Employer contribution.....	75	51	59	35	35	34
Plan participants' contributions....	25	23	23	—	—	—
Benefits paid.....	(119)	(115)	(107)	(34)	(32)	(30)
Fair value of plan assets, end of year ..	<u>3,529</u>	<u>3,208</u>	<u>2,851</u>	<u>1,467</u>	<u>1,324</u>	<u>1,154</u>
Funded status, end of year.....	<u>\$ 278</u>	<u>\$ (660)</u>	<u>\$ (426)</u>	<u>\$ (59)</u>	<u>\$ (493)</u>	<u>\$ (370)</u>

Amounts recognized in

Accumulated other comprehensive income (loss) consist of:						
Net actuarial (gains) losses....	\$ (196)	\$ 826	\$ 624	\$ (66)	\$ 418	\$ 320
Prior service cost.....	—	1	1	—	—	8
Net amount recognized.....	<u>\$ (196)</u>	<u>\$ 827</u>	<u>\$ 625</u>	<u>\$ (66)</u>	<u>\$ 418</u>	<u>\$ 328</u>

Liabilities under retirement benefit plans presented on the Balance Sheet comprises the funded status of those benefit plans that are in an under-funded position. In 2013, the LRP and the PRBP were under-funded, with aggregate fair value of plan assets of \$1,623 million and aggregate benefit obligations of \$1,696 million, contributing to the total liability of \$73 million. In 2012, all benefit plans were under-funded with aggregate fair value of plan assets of \$4,532 million and aggregate benefit obligations of \$5,685 million, contributing to the total liability of \$1,153 million.

The accumulated benefit obligation for the Plans, which excludes the effect of future salary increases, was \$2,949 million, \$3,345 million, and \$2,821 million at December 31, 2013, 2012 and 2011, respectively.

During 2013, the fair value of the assets of the Plans and PRBP benefited from strong rallies in developed markets equities as well as positive performance from high yield fixed income and real estate. The asset returns were significantly higher

than the 6.75% expected return on the Plans' and PRBP's assets which, combined with the decrease in the net present value of liabilities, mostly due to the increase in market interest rates and a reduction in the inflation rate and salary growth assumptions, significantly improved the funded status of each plan.

Net periodic benefit cost, recognized in Administrative expenses, and other changes in plan assets and benefit obligations recognized in Other comprehensive income (loss) for the years ended December 31, 2013, 2012 and 2011 consist of the following components (in millions):

**Net periodic benefit cost:**

	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost.....	\$117	\$ 86	\$ 67	\$ 59	\$ 47	\$ 34
Interest cost.....	152	150	151	72	73	72
Expected return on plan assets.....	(186)	(183)	(191)	(77)	(75)	(74)
Amortization of:						
Prior service cost.....	1	1	2	—	7	37
Net actuarial losses.....	75	31	—	30	15	—
Net periodic benefit cost.....	<u>\$159</u>	<u>\$ 85</u>	<u>\$ 29</u>	<u>\$ 84</u>	<u>\$ 67</u>	<u>\$ 69</u>
Of which:						
Ordinary Capital's share.....	\$154	\$ 82	\$ 28	\$ 81	\$ 65	\$ 67
FSO's share.....	5	3	1	3	2	2

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

	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Net actuarial (gains) losses.....	\$ (947)	\$233	\$612	\$(454)	\$113	\$307
Amortization of:						
Prior service cost.....	(1)	(1)	(2)	—	(7)	(37)
Net actuarial losses.....	(75)	(31)	—	(30)	(15)	—
Total recognized in Other comprehensive income (loss).....	<u>\$(1,023)</u>	<u>\$201</u>	<u>\$610</u>	<u>\$(484)</u>	<u>\$91</u>	<u>\$270</u>
Total recognized in net periodic benefit cost and Other comprehensive income (loss)....	<u>\$ (864)</u>	<u>\$286</u>	<u>\$639</u>	<u>\$(400)</u>	<u>\$158</u>	<u>\$339</u>

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

The Bank estimates that net actuarial gains and losses remaining in Accumulated other comprehensive income (loss) are within the 10% corridor and, as such, no amortization into net periodic benefit cost will be required during 2014 for the Plans and the PRBP.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**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. Actuarial gains and losses recognized in Accumulated other comprehensive income, 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 to income over the average remaining service period of active employees expected to receive benefits under the SRP, LRP and PRBP, which approximates 11.7, 11.1 and 12.0 years, respectively.

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		
	2013	2012	2011	2013	2012	2011
Discount rate - SRP . . . .	4.85%	4.00%	4.75%			
Discount rate - LRP . . . .	4.94%	4.00%	4.75%			
Discount rate - PRBP . . .				4.99%	4.25%	5.00%
Rate of salary increase SRP . . . . .	4.30%	5.50%	5.50%			
Rate of salary increase LRP . . . . .	5.90%	7.30%	7.30%			
Rate of inflation . . . . .	2.29%	2.50%	2.50%	2.29%	2.50%	2.50%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits			Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Discount rate - SRP . . . .	4.00%	4.75%	5.75%			
Discount rate - LRP . . . .	4.00%	4.75%	5.75%			
Discount rate - PRBP . . .				4.25%	5.00%	6.00%
Expected long-term return on plan assets . . .	6.75%	6.75%	7.00%	6.75%	6.75%	6.75%
Rate of salary increase SRP . . . . .	5.50%	5.50%	5.50%			
Rate of salary increase LRP . . . . .	7.30%	7.30%	7.30%			
Rate of inflation . . . . .	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

The expected long-term return on plan assets represents Management's best estimate, after surveying external investment specialists, of the expected long-term (10 years or more) forward-looking rates of return of the asset categories employed by the plans, weighted by the plans' investment policy asset allocations. Accumulated and projected benefit obligations are measured as the present value of expected payments. The discount rate used is

selected by reference to the year-end yield of AA corporate bonds with maturities that correspond to the payment of benefits. For the assumed rate of inflation, the Bank selected the average of the 10 year and 30 year U.S. Treasury Inflation Protected Securities (U.S. TIPS) breakeven inflation rate (which compares the real U.S. TIPS yields to those of nominal U.S. Treasury 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:

	2013	2012	2011
Health care cost trend rates assumed for next year:			
Medical (non-Medicare) . . . . .	7.00%	7.50%	8.00%
Medical (Medicare) . . . . .	6.00%	6.50%	7.00%
Prescription drugs . . . . .	6.00%	7.00%	7.50%
Dental . . . . .	5.00%	5.00%	5.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) . . . . .	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate . . . . .	2018	2018	2018

For those participants assumed to retire outside of the United States, a 6.00% health care cost trend rate was used for 2013 (2012—6.50%; 2011—7.00%) with an ultimate trend rate of 4.50% in 2018.

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, 2013 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components . . . . .	\$ 26	\$ (19)
Effect on postretirement benefit obligation . . . . .	254	(192)

**Plan assets**

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 the PRBP's investment policies. Investment policies with long-term strategic asset allocations have been developed so that there is an expectation of sufficient returns to meet long-term funding needs, with 65% of assets invested in return strategies (the Return Strategies). Such policies also allocate 35% of assets to investments in fixed income and U.S. inflation-indexed



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**NOTES TO FINANCIAL STATEMENTS** (continued)

bonds (the Liabilities Strategies) to partially hedge the interest rate and inflation exposure in the Plans' and the PRBP's liabilities and to protect against disinflation.

The Plans' assets Return Strategies target includes allocations between 45% and 61% to a well-diversified pool of developed and emerging markets equities, and exposures of 3% to emerging markets debt, 3% to commodity index futures, 0% to 2% to public real estate, 2% to 3% to private real estate, and 0% to 2% to high yield fixed income. The Plans' Liabilities Strategies target includes exposures of 5% to core fixed-income, 15% to long duration fixed income and 15% to U.S. inflation-indexed securities.

The PRBP's assets Return Strategies target includes allocations between 46% and 62% to a well-diversified pool of developed and emerging markets equities, and exposures of 3% to emerging markets debt, 3% to commodity index futures, 3% to public real estate, and 2% to high yield fixed income. The PRBP's Liabilities Strategies target includes exposures of 15% to long duration fixed income, 5% to core fixed income and 15% to U.S. inflation-indexed securities.

The investment policy target allocation as of December 31, 2013 is as follows:

	SRP	LRP	PRBP
U.S. equities . . . . .	25%	28%	26%
Non - U.S. equities . . . . .	24%	24%	24%
Emerging markets equities . . . . .	4%	4%	4%
Public real estate . . . . .	2%	0%	3%
Long duration fixed income bonds . . . . .	15%	15%	15%
Core fixed income . . . . .	5%	5%	5%
High yield fixed income . . . . .	2%	0%	2%
U.S. inflation-indexed bonds . . . . .	15%	15%	15%
Emerging markets debt . . . . .	3%	3%	3%
Private real estate . . . . .	2%	3%	0%
Commodity index futures . . . . .	3%	3%	3%
Short-term investment funds . . . . .	0%	0%	0%

Risk is managed by the continuous monitoring of each asset class level and investment manager. The investments are rebalanced toward the policy target allocations using cash flows and through monthly rebalancing exercises. 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 for the Plans and PRBP is specifically approved by the Bank's Investment Committee, and the PRBP Plan Administrator, respectively.

For the Plans and PRBP, the asset classes include:

- U.S. equities: For the Plans and PRBP, commingled funds that invest, long-only, in U.S. common stocks. Management of the funds replicates or optimizes the large-capitalization (cap) S&P 500 Index, the all-cap Russell 3000 Index, the small-cap Russell 2000 Index and the small/mid-cap S&P 400 Index; for the SRP only, approximately 20% of U.S. equities assets are managed in separate accounts holding individual stocks;
- Non - U.S. equities: For the Plans and PRBP, commingled funds that invest, long-only, in non-U.S. common stocks. Management of the funds optimizes the large/mid-cap MSCI EAFE Index; for the SRP only, one-third of non-U.S. equities assets are managed in separate accounts holding individual stocks;
- Emerging markets equities: For the Plans, an actively-managed commingled fund that invests, long-only, in emerging markets common stocks. Management of the fund selects securities, based upon fundamental characteristics, which are generally comprised within the large/mid-cap MSCI Emerging Markets Free Index; for the PRBP, a commingled fund that invests, long-only, in emerging markets common stocks. Management of the fund optimizes the large/mid-cap MSCI Emerging Markets Free Index;
- Public real estate: For the SRP and PRBP, individual (separate) account which holds, long-only, real estate securities. The account is actively-managed based upon fundamental characteristics, investing in securities generally comprised within the MSCI U.S. REIT Index;
- Long duration fixed income bonds: For the LRP, a mutual fund that invests, long-only, in long duration government and credit securities. Management of the fund invests in securities generally comprised within the Barclays Capital U.S. Long Government/Credit Bond Index; for the SRP and PRBP, long duration fixed income assets are invested in separate accounts holding individual bonds generally comprised within the Barclays Capital U.S. Long Government/Credit Bond Index;
- Core fixed income: For the Plans and PRBP, a mutual fund that invests, long-only, in intermediate duration government and credit securities. Management of the

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**NOTES TO FINANCIAL STATEMENTS** (continued)

fund selects securities, based upon fundamental characteristics, generally comprised within the Barclays Capital U.S. Aggregate Bond Index;

- High yield fixed income: For the SRP, assets are invested in individual securities, and for the PRBP, in a commingled fund. For both plans, the investible universe is generally comprised of the securities within the Barclays Capital High Yield 2% Constrained Index, as well as opportunistic investments in non-index securities. High yield securities are financial obligations of U.S. companies, rated below investment-grade by at least one of the nationally recognized statistical rating organizations;
- U.S. inflation-indexed bonds: For the Plans and PRBP, individual U.S. Treasury Inflation Protected Securities in accounts managed internally;
- Emerging markets debt: For the Plans and PRBP, actively-managed commingled funds that invest, long-only, in emerging markets fixed income. The funds invest in sovereign and sub-sovereign United States dollar- and local-denominated debt. Management of the fund invests in securities generally comprised within the J.P. Morgan EMBI Global Diversified Index;
- Private real estate: For the Plans only, an open-end commingled fund which invests, long-only, in U.S. real estate properties. The fund is actively-managed based upon fundamental characteristics of the properties;
- Commodity index futures: For the LRP, commingled fund which invests in commodity futures contracts generally comprised within the S&P GSCI Index; for the SRP and PRBP, separate accounts which hold, long-only, commodity index futures generally comprised within the S&P GSCI Index.

The following tables set forth the investments of the Plans and PRBP as of December 31, 2013 and 2012, which are measured at fair value and presented together with their weighted average allocation, by level within the fair value hierarchy (in millions). As required by the fair value measurements accounting framework, these investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, except for certain investment funds which classification within the fair value hierarchy depends on

the ability to redeem their corresponding shares at their net asset value in the near term.

**Plan assets:**

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2013	Weighted Average Allocations
Equity and equity funds:					
U.S. equities . . . . .	\$ 176	\$ 738	\$—	\$ 914	26%
Non - U.S. equities . . . . .	259	584	—	843	24%
Emerging markets					
equities . . . . .	—	143	—	143	4%
Public real estate . . . . .	60	—	—	60	2%
Government bonds and diversified bond funds:					
Long duration fixed income bonds . . . . .					
Core fixed income . . . . .	187	333	—	520	15%
High yield fixed income . . . . .	166	—	—	166	5%
U.S. inflation-indexed bonds . . . . .	—	66	—	66	2%
Emerging markets debt . . . . .	505	—	—	505	14%
Real estate investments funds:	—	105	—	105	3%
Private real estate . . . . .	—	—	84	84	2%
Commodity index futures . . . . .	—	5	—	5	0%
Short-term investment funds	90	28	—	118	3%
Total . . . . .	<u>\$1,443</u>	<u>\$2,002</u>	<u>\$84</u>	<u>\$3,529</u>	<u>100%</u>

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2012	Weighted Average Allocations
Equity and equity funds:					
U.S. equities . . . . .	\$ 157	\$ 641	\$—	\$ 798	25%
Non - U.S. equities . . . . .	237	550	—	787	24%
Emerging markets					
equities . . . . .	—	134	—	134	4%
Public real estate . . . . .	58	—	—	58	2%
Government bonds and diversified bond funds:					
Long duration fixed income bonds . . . . .					
Core fixed income . . . . .	248	227	—	475	15%
High yield fixed income . . . . .	150	—	—	150	5%
U.S. inflation-indexed bonds . . . . .	—	61	—	61	2%
Emerging markets debt . . . . .	475	—	—	475	15%
Real estate investments funds:	—	99	—	99	3%
Private real estate . . . . .	—	—	73	73	2%
Commodity index futures . . . . .	—	4	—	4	0%
Short-term investment funds	53	41	—	94	3%
Total . . . . .	<u>\$1,378</u>	<u>\$1,757</u>	<u>\$73</u>	<u>\$3,208</u>	<u>100%</u>



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**NOTES TO FINANCIAL STATEMENTS** (continued)

**PRBP assets:**

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2013	Weighted Average Allocations
Equity and equity funds:					
U.S. equities .....	\$ —	\$ 387	\$—	\$ 387	27%
Non - U.S. equities .....	—	353	—	353	24%
Emerging markets equities .....	—	58	—	58	4%
Public real estate .....	40	—	—	40	3%
Government bonds and diversified bond funds:					
Long duration fixed income bonds .....	79	136	—	215	15%
Core fixed income bonds .....	71	—	—	71	5%
High yield fixed income ..	—	29	—	29	2%
U.S. inflation-indexed bonds .....	208	—	—	208	14%
Emerging markets debt...	—	41	—	41	3%
Short-term investment funds	49	—	—	49	3%
Total investments .....	<u>\$447</u>	<u>\$1,004</u>	<u>\$—</u>	<u>1,451</u>	<u>100%</u>
Other assets .....				16	
Total .....				<u>\$1,467</u>	

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2012	Weighted Average Allocations
Equity and equity funds:					
U.S. equities .....	\$ —	\$375	\$—	\$ 375	28%
Non - U.S. equities .....	—	316	—	316	24%
Emerging markets equities .....	—	54	—	54	4%
Public real estate .....	39	—	—	39	3%
Government bonds and diversified bond funds:					
Long duration fixed income bonds .....	109	88	—	197	15%
Core fixed income bonds...	59	—	—	59	5%
High yield fixed income ..	—	27	—	27	2%
U.S. inflation-indexed bonds .....	193	—	—	193	15%
Emerging markets debt...	—	40	—	40	3%
Short-term investment funds	5	5	—	10	1%
Total investments .....	<u>\$405</u>	<u>\$905</u>	<u>\$—</u>	<u>1,310</u>	<u>100%</u>
Other assets .....				14	
Total .....				<u>\$1,324</u>	

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

Proprietary investment managers' commingled funds investing in U.S. equities, global equities, emerging markets debt, commodity index futures and/or short-term debt investments, which are not publicly-traded, are measured at fair value based on

the net asset value of the investment funds and are classified as Level 2, as they are redeemable with the investee in the near term at their net asset value per share at the measurement date. This valuation technique is consistent with the market approach.

Proprietary investment managers' commingled private real estate investment funds are measured at fair value based on the net asset value of these investment funds and are classified as Level 3. The valuation assumptions used by these investment funds include i) market value of similar properties, ii) discounted cash flows, iii) replacement cost and iv) debt on property (direct capitalization). These methodologies are valuation techniques consistent with the market and cost approaches.

The table below shows a reconciliation of the beginning and ending balance of the Plans' investments measured at fair value on a recurring basis using their net asset value per share and which redemption terms are multi-day (45 day pre-notification, quarterly redemption dates), which are classified as Level 3 for the years ended December 31, 2013 and 2012 (in millions):

	2013	2012
Balance, beginning of year .....	\$73	\$64
Total net gains .....	<u>11</u>	<u>9</u>
Balance, end of year .....	<u>\$84</u>	<u>\$73</u>
Total gain for the year attributable to the change in unrealized gains related to investments still held at December 31 .....	<u>\$11</u>	<u>\$ 9</u>

**Cash flows**

**Contributions**

Contributions from the Bank to the Plans and the PRBP during 2014 are expected to be approximately \$60 million and \$31 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, 2013.

Year	Plans	PRBP
2014 .....	\$127	\$ 45
2015 .....	133	48
2016 .....	139	51
2017 .....	147	55
2018 .....	154	58
2019–2023 .....	882	338

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note T – Variable Interest Entities**

An entity is a variable interest entity (VIE) if it: (i) lacks equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) lacks equity investors who have decision-making rights about the entity's operations; or (iii) has equity investors who do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that has the power to direct the activities that most significantly impact the VIE's economic performance, and has the obligation to absorb a majority of the expected losses or the right to receive a majority of the expected residual returns, or both. An enterprise may hold a significant variable interest in a VIE, which is not consolidated because the enterprise is not the primary beneficiary, or the VIE is considered immaterial for the reporting entity's financial statements.

The Bank has identified loans and guarantees to VIEs in which it is not the primary beneficiary but in which it is deemed to hold significant variable interest at December 31, 2013 and 2012. The majority of these VIEs do not involve securitizations or other types of structured financing. These VIEs are mainly: (i) investment funds, where the general partner or fund manager does not have substantive equity at risk; (ii) operating entities where the total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support; and (iii) entities where the operating activities are so narrowly defined by contracts (e.g., concession contracts) that equity investors are considered to lack decision making ability.

The Bank's involvement with these VIEs is limited to loans and guarantees, which are reflected as such in the Bank's financial statements. Based on the most recent available data from these VIEs, the size of the VIEs measured by total assets in which the Bank is deemed to hold significant variable interests totaled \$8,280 million at December 31, 2013 (2012—\$7,927 million). The Bank's total loans and guarantees outstanding to these VIEs were \$519 million and \$108 million, respectively (2012—\$493 million and \$84 million, respectively). Amounts committed not yet disbursed related to such loans and guarantees amounted to \$38 million (2012—\$0 million), which combined with outstanding amounts results in a total maximum Bank exposure of \$665 million at December 31, 2013 (2012—\$577 million).

Of those loans and guarantees where the Bank is deemed to hold a significant variable interest, the Bank has made a \$32 million loan to one VIE for which the Bank is deemed to be the primary beneficiary. The Bank's involvement with this VIE is limited to such loan, which is reflected as such in the Bank's financial statements. Based on the most recent available data, the size of this VIE measured by total assets amounted to approximately

\$32 million (2012—\$32 million), which is considered immaterial and, thus, not consolidated with the Bank's financial statements.

**Note U – 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,		
	2013	2012	2011
Net income (loss) .....	\$ 1,307	\$ 904	\$ (283)
Difference between amounts accrued and amounts paid or collected for:			
Loan income .....	(15)	27	6
Income from investments .....	(125)	(183)	(158)
Other interest income .....	3	—	2
Other income .....	19	12	—
Net unrealized (gain) loss on trading investments .....	(43)	(206)	68
Interest and other costs of borrowings, after swaps .....	(235)	(481)	247
Administrative expenses, including depreciation .....	142	77	24
Special programs .....	38	(3)	10
Net fair value adjustments on non-trading portfolios and foreign currency transactions ..	(626)	(194)	919
Transfers to the IDB Grant Facility .....	84	79	200
Net (increase) decrease in trading investments ..	(6,439)	(364)	2,827
Provision for loan and guarantee losses .....	58	22	3
Net cash provided by (used in) operating activities .....	<u>\$(5,832)</u>	<u>\$(310)</u>	<u>\$3,865</u>
<b>Supplemental disclosure of noncash activities</b>			
Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments .....	\$ 42	\$ 20	\$ (17)
Loans outstanding .....	33	(17)	40
Borrowings .....	58	9	5
Receivable from members-net .....	—	—	(13)

**Note V – 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 2013, 2012 and 2011, loans made to or guaranteed by three countries individually generated in excess of 10 percent of loan income, before swaps, as follows (in millions):

	Years ended December 31,		
	2013	2012	2011
Argentina .....	\$391	\$310	\$335
Brazil .....	302	365	412
Mexico .....	436	381	388

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note W – 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 models.

**Loans:** The fair value of the Bank's loan portfolio is estimated using a discounted cash flow method as discussed in Note L – Fair Value Measurements.

**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, 2013 and 2012 (in millions):

	2013 <sup>(1)</sup>		2012 <sup>(1)</sup>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash.....	\$ 421	\$ 421	\$ 1,021	\$ 1,021
Investments				
Trading .....	21,053	21,053	14,434	14,434
Loans outstanding, net .....	70,870	72,256	68,899	73,454
Currency and interest rate swaps receivable				
Investments—trading .....	104	104	41	41
Loans .....	90	90	20	20
Borrowings .....	3,452	3,452	6,797	6,797
Others .....	69	69	286	286
Borrowings				
Short-term .....	654	654	840	840
Medium- and long-term:				
Measured at fair value ...	44,087	44,087	45,886	45,886
Measured at amortized cost .....	24,451	24,869	19,371	20,515
Currency and interest rate swaps payable				
Investments—trading .....	105	105	84	84
Loans .....	822	822	1,945	1,945
Borrowings .....	1,772	1,772	527	527
Others .....	18	18	—	—

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

**Note X – Subsequent Events**

Management has evaluated subsequent events through March 11, 2014, which is the date the financial statements were issued. As a result of this evaluation, except as disclosed below, there are no subsequent events that require recognition or disclosure in the Bank's financial statements as of and for the year ended December 31, 2013.

**Update on IDB-9:** As of March 11, 2014, instruments of subscription for 344,117 or 97.2% of the total IDB-9 reallocated shares have been received, making the reallocation substantially subscribed as of February 28, 2014.

On February 28, 2014, 1,366,740 additional shares in the amount of \$16,487 million were made effective (\$416 million paid-in; \$16,071 million callable), after consideration of Canada's replacement of temporary callable shares. The total amount represented (i) 1,044,438 shares corresponding to the third installment of the IDB-9, (ii) 206,412 shares that had been reallocated from Venezuela and the Netherlands when they declined to participate in the IDB-9; and (iii) 115,890 shares that had been subscribed in the first and second installments but were not then effective in order to comply with the minimum voting power requirements of the Agreement.

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INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE I-1

**STATEMENT OF TRADING INVESTMENTS AND SWAPS <sup>(1)</sup>**

December 31, 2013

Expressed in millions of United States dollars

	Euro	United States dollars	Others	All currencies
Obligations of the United States				
Government and its corporations				
and agencies:				
Carrying value . . . . .	—	6,277	—	6,277 <sup>(2)</sup>
Average balance during year . . . . .	—	5,954	—	5,954
Net losses for the year . . . . .	—	(4)	—	(4)
Obligations of non-U.S. governments				
and agencies:				
Carrying value . . . . .	737	8,750	864	10,351
Average balance during year . . . . .	787	7,065	1,218	9,070
Net losses for the year . . . . .	(13)	(28)	—	(41)
Bank obligations:				
Carrying value . . . . .	147	3,287	90	3,524
Average balance during year . . . . .	119	3,158	188	3,465
Net losses for the year . . . . .	(1)	(8)	(10)	(19)
Corporate securities:				
Carrying value . . . . .	—	116	30	146
Average balance during year . . . . .	—	136	23	159
Net gains (losses) for the year . . . . .	—	—	—	—
Asset-backed and mortgage-backed securities:				
Carrying value . . . . .	503	214	—	717
Average balance during year . . . . .	602	451	—	1,053
Net gains for the year . . . . .	61	92	—	153
Total trading investments:				
Carrying value . . . . .	1,387	18,644	984	21,015
Average balance during year . . . . .	1,508	16,764	1,429	19,701
Net gains (losses) for the year . . . . .	47	52	(10)	89
Net interest rate swaps:				
Carrying value <sup>(3)</sup> . . . . .	(1)	(25)	—	(26)
Average balance during year . . . . .	(1)	(33)	—	(34)
Net gains for the year . . . . .	2	39	—	41
Currency swaps receivable:				
Carrying value <sup>(3)</sup> . . . . .	—	1,476	—	1,476
Average balance during year . . . . .	—	1,932	—	1,932
Net losses for the year . . . . .	—	(4)	—	(4)
Currency swaps payable:				
Carrying value <sup>(3)</sup> . . . . .	(436)	—	(987)	(1,423)
Average balance during year . . . . .	(452)	—	(1,422)	(1,874)
Net gains for the year . . . . .	13	—	14	27
Total trading investments and swaps:				
Carrying value . . . . .	950	20,095	(3)	21,042
Average balance during year . . . . .	1,055	18,663	7	19,725
Net gains for the year . . . . .	62	87	4	153
Return for the year (%) . . . . .	6.00	0.87	N/A	1.27

<sup>(1)</sup> Excludes accrued interest.<sup>(2)</sup> Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities, of \$207 million. GSE obligations are not backed by the full faith and credit of the United States Government.<sup>(3)</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 (receivable or payable) of the net fair value amount of these agreements.

N/A - Not available

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## SCHEDULE I-1

**STATEMENT OF TRADING INVESTMENTS AND SWAPS <sup>(1)</sup>**

December 31, 2012

Expressed in millions of United States dollars

	Euro	United States dollars	Others	All currencies
Obligations of the United States				
Government and its corporations and agencies:				
Carrying value . . . . .	—	4,592	—	4,592 <sup>(2)</sup>
Average balance during year . . . . .	—	5,721	—	5,721
Net gains for the year . . . . .	—	1	—	1
Obligations of non-U.S. governments and agencies:				
Carrying value . . . . .	765	3,817	659	5,241
Average balance during year . . . . .	718	4,865	987	6,570
Net gains for the year . . . . .	8	53	6	67
Bank obligations:				
Carrying value . . . . .	48	2,646	334	3,028
Average balance during year . . . . .	412	2,959	288	3,659
Net gains (losses) for the year . . . . .	(3)	2	(11)	(12)
Corporate securities:				
Carrying value . . . . .	—	—	11	11
Average balance during year . . . . .	—	—	5	5
Net gains (losses) for the year . . . . .	—	—	—	—
Asset-backed and mortgage-backed securities:				
Carrying value . . . . .	757	770	—	1,527
Average balance during year . . . . .	821	922	—	1,743
Net gains for the year . . . . .	100	120	—	220
Total trading investments:				
Carrying value . . . . .	1,570	11,825	1,004	14,399
Average balance during year . . . . .	1,951	14,467	1,280	17,698
Net gains (losses) for the year . . . . .	105	176	(5)	276
Net interest rate swaps:				
Carrying value <sup>(3)</sup> . . . . .	(2)	(45)	—	(47)
Average balance during year . . . . .	(2)	(44)	—	(46)
Net losses for the year . . . . .	—	(5)	—	(5)
Currency swaps receivable:				
Carrying value <sup>(3)</sup> . . . . .	—	1,497	—	1,497
Average balance during year . . . . .	—	1,732	—	1,732
Net losses for the year . . . . .	—	(4)	—	(4)
Currency swaps payable:				
Carrying value <sup>(3)</sup> . . . . .	(465)	—	(1,008)	(1,473)
Average balance during year . . . . .	(513)	—	(1,236)	(1,749)
Net gains for the year . . . . .	9	—	17	26
Total trading investments and swaps:				
Carrying value . . . . .	1,103	13,277	(4)	14,376
Average balance during year . . . . .	1,436	16,155	44	17,635
Net gains for the year . . . . .	114	167	12	293
Return for the year (%) . . . . .	8.46	1.68	N/A	2.22

<sup>(1)</sup> Excludes accrued interest.<sup>(2)</sup> Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities, of \$31 million. GSE obligations are not backed by the full faith and credit of the United States Government.<sup>(3)</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 (receivable or payable) of the net fair value amount of these agreements.

N/A - Not available

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

SCHEDULE I-2

**STATEMENT OF LOANS<sup>(1)</sup>**

December 31, 2013 and 2012

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding balance - 2013			Currency in which outstanding balance is collectible		Undisbursed	Total outstanding balance 2012
	Sovereign- guaranteed	Non-sovereign- guaranteed	Total	Non-borrowing country currencies <sup>(2)</sup>	Borrowing country currencies		
Argentina .....	\$10,961	\$ 128	\$11,089	\$11,076	\$13	\$ 4,570	\$10,787
Bahamas .....	264	—	264	264	—	123	228
Barbados .....	240	—	240	240	—	218	234
Belize .....	120	—	120	120	—	20	117
Bolivia .....	484	21	505	505	—	659	330
Brazil .....	12,678	999	13,677	13,659	18	8,234	15,362
Chile .....	524	317	841	841	—	251	665
Colombia .....	7,167	159	7,326	7,314	12	1,380	6,849
Costa Rica .....	507	272	779	779	—	1,556	662
Dominican Republic .....	2,352	58	2,410	2,410	—	659	2,089
Ecuador .....	2,389	178	2,567	2,567	—	1,175	2,337
El Salvador .....	1,932	131	2,063	2,063	—	539	1,957
Guatemala .....	2,133	250	2,383	2,383	—	349	2,035
Guyana .....	70	—	70	70	—	49	47
Haiti .....	—	3	3	3	—	4	2
Honduras .....	445	93	538	538	—	369	342
Jamaica .....	1,273	53	1,326	1,326	—	257	1,322
Mexico .....	12,076	405	12,481	12,459	22	2,411	10,876
Nicaragua .....	316	43	359	359	—	267	280
Panama .....	1,606	480	2,086	2,086	—	453	1,599
Paraguay .....	919	88	1,007	1,007	—	628	896
Peru .....	1,998	625	2,623	2,623	—	499	3,843
Suriname .....	322	—	322	322	—	117	218
Trinidad and Tobago .....	646	—	646	646	—	517	646
Uruguay .....	1,593	299	1,892	1,892	—	1,407	2,185
Venezuela .....	1,934	—	1,934	1,925	9	1,647	2,006
Regional .....	95	1,033	1,128	1,128	—	849	726
Total 2013 .....	<u>\$65,044</u>	<u>\$5,635</u>	<u>\$70,679</u>	<u>\$70,605</u>	<u>\$74</u>	<u>\$29,207</u>	
Total 2012 .....	<u>\$64,756</u>	<u>\$3,884</u>	<u>\$68,640</u>	<u>\$68,545</u>	<u>\$95</u>	<u>\$26,987</u>	<u>\$68,640</u>

<sup>(1)</sup> This table excludes outstanding participated non-sovereign-guaranteed loans of \$2,958 million at December 31, 2013 (2012—\$2,653 million). This table also excludes guarantees outstanding of \$871 million at December 31, 2013 (2012—\$761 million).

<sup>(2)</sup> Includes \$2,695 million of loans in borrowing country currencies, which have been swapped to United States dollars.



ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE I-3

**STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND INTEREST RATE TYPE,  
AND MATURITY STRUCTURE<sup>(1)</sup>**

December 31, 2013

Expressed in millions of United States dollars

Currency/Rate type	Amount	Weighted <sup>(4)</sup> average rate (%)	Average maturity (years)
United States dollars			
Fixed-base cost .....	\$29,071	4.51	7.42
Adjustable .....	2,509	2.47	6.40
LIBOR-based floating .....	36,269	1.50	8.89
Others			
Fixed-base cost .....	1,541	5.82	3.47
Adjustable .....	1,203	4.14	3.65
LIBOR-based floating .....	86	2.28	5.94
Loans outstanding			
Fixed-base cost .....	30,612	4.57	7.22
Adjustable .....	3,712	3.01	5.51
LIBOR-based floating .....	36,355	1.50	8.89
Total .....	\$70,679	2.91	7.99

**MATURITY STRUCTURE OF LOANS OUTSTANDING**

December 31, 2013

Expressed in millions of United States dollars

Year of maturity	Fixed-base cost <sup>(3)</sup>	Adjustable <sup>(2)</sup>	Total
2014 .....	\$ 2,629	\$ 2,439	\$ 5,068
2015 .....	3,035	2,395	5,430
2016 .....	2,442	2,526	4,968
2017 .....	2,430	2,851	5,281
2018 .....	2,385	2,334	4,719
2019 to 2023 .....	9,059	11,482	20,541
2024 to 2028 .....	5,443	10,783	16,226
2029 to 2033 .....	2,622	4,255	6,877
2034 to 2038 .....	494	922	1,416
2039 to 2043 .....	73	80	153
Total .....	\$30,612	\$40,067	\$70,679
Average maturity (years) .....	7.22	8.57	7.99

<sup>(1)</sup>Information presented before currency and interest rate swaps.

<sup>(2)</sup>Includes LIBOR-based floating loans.

<sup>(3)</sup>Includes a total of \$1,503 million in fixed rate loans.

<sup>(4)</sup>The weighted average rate of the total portfolio, after swaps, was 2.34%.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

SCHEDULE I-3

**STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND INTEREST RATE TYPE,  
AND MATURITY STRUCTURE<sup>(1)</sup>**

December 31, 2012

Expressed in millions of United States dollars

Currency/Rate type	Amount	Weighted <sup>(4)</sup> average rate (%)	Average maturity (years)
United States dollars			
Fixed-base cost .....	\$32,324	4.51	7.04
Adjustable .....	2,598	2.48	6.35
LIBOR-based floating .....	31,084	1.41	9.07
Others			
Fixed-base cost .....	1,302	5.67	4.16
Adjustable .....	1,228	4.94	4.63
LIBOR-based floating .....	<u>104</u>	<u>2.06</u>	<u>6.33</u>
Loans outstanding			
Fixed-base cost .....	33,626	4.55	6.93
Adjustable .....	3,826	3.27	5.80
LIBOR-based floating .....	<u>31,188</u>	<u>1.41</u>	<u>9.06</u>
Total .....	<u>\$68,640</u>	<u>3.05</u>	<u>7.83</u>

**MATURITY STRUCTURE OF LOANS OUTSTANDING**

December 31, 2012

Expressed in millions of United States dollars

Year of maturity	Fixed-base cost <sup>(3)</sup>	Adjustable <sup>(2)</sup>	Total
2013 .....	\$ 3,184	\$ 1,570	\$ 4,754
2014 .....	3,009	2,122	5,131
2015 .....	3,422	2,415	5,837
2016 .....	2,694	2,093	4,787
2017 .....	2,567	2,765	5,332
2018 to 2022 .....	10,079	10,335	20,414
2023 to 2027 .....	5,484	8,440	13,924
2028 to 2032 .....	2,702	4,188	6,890
2033 to 2037 .....	427	1,036	1,463
2038 to 2042 .....	<u>58</u>	<u>50</u>	<u>108</u>
Total .....	<u>\$33,626</u>	<u>\$35,014</u>	<u>\$68,640</u>
Average maturity (years) .....	<u>6.93</u>	<u>8.70</u>	<u>7.83</u>

<sup>(1)</sup>Information presented before currency and interest rate swaps.

<sup>(2)</sup>Includes LIBOR-based floating loans.

<sup>(3)</sup>Includes a total of \$1,283 million in fixed rate loans.

<sup>(4)</sup>The weighted average rate of the total portfolio, after swaps, was 2.33%.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE I-4

**STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS**

December 31, 2013

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 .....	\$ 275	4.39	0.96	\$ —	—	—	\$ —	—	—	\$ 275	4.39	0.96
	—	—	—	—	—	—	(275)	4.39	0.96	(275)	4.39	0.96
Adjustable .....	538	4.98	3.66	1,144	0.05	2.09	275	(0.09)	0.96	1,957	1.38	2.37
	—	—	—	(915)	2.90	2.65	—	—	—	(915)	2.90	2.65
<b>Japanese yen</b>												
Fixed .....	380	5.87	2.07	—	—	—	—	—	—	380	5.87	2.07
	—	—	—	(380)	5.87	2.07	—	—	—	(380)	5.87	2.07
Adjustable .....	178	3.04	5.17	—	—	—	28	(0.43)	4.83	206	2.57	5.13
	—	—	—	(178)	2.77	5.17	(28)	1.23	4.83	(206)	2.56	5.13
<b>Swiss francs</b>												
Fixed .....	728	2.64	4.55	—	—	—	—	—	—	728	2.64	4.55
	—	—	—	(728)	2.64	4.55	—	—	—	(728)	2.64	4.55
Adjustable .....	—	—	—	—	—	—	—	—	—	—	—	—
<b>United States dollars</b>												
Fixed .....	41,503	2.75	5.83	181	5.87	2.08	349	5.25	3.96	42,033	2.78	5.80
	—	—	—	—	—	—	(38,073)	2.54	5.55	(38,073)	2.54	5.55
Adjustable .....	7,841	0.33	1.72	18,945	0.31	3.92	41,748	0.34	4.34	68,534	0.33	3.92
	—	—	—	(1,098)	0.03	2.10	(5,409)	0.50	1.84	(6,507)	0.42	1.88
<b>Others</b>												
Fixed .....	17,354	5.22	4.06	—	—	—	—	—	—	17,354	5.22	4.06
	—	—	—	(17,354)	5.22	4.06	—	—	—	(17,354)	5.22	4.06
Adjustable .....	75	1.53	6.86	—	—	—	—	—	—	75	1.53	6.86
	—	—	—	(52)	0.13	3.97	—	—	—	(52)	0.13	3.97
<b>Total</b>												
Fixed .....	60,240	3.49	5.26	181	—	—	349	—	—	60,770	3.50	5.24
	—	—	—	(18,462)	—	—	(38,348)	—	—	(56,810)	3.39	5.04
Adjustable .....	8,632	0.68	1.96	20,089	—	—	42,051	—	—	70,772	0.37	3.89
	—	—	—	(2,243)	—	—	(5,437)	—	—	(7,680)	0.77	2.07
Principal at face value ..	68,872	3.13	4.85	(435)	—	—	(1,385)	—	—	67,052	0.60	4.35
Fair value adjustments ..	1,318	—	—	(789)	—	—	(476)	—	—	53	—	—
Net unamortized discount .....	(2,143)	—	—	459	—	—	1,385 <sup>(3)</sup>	—	—	(299)	—	—
<b>Total</b> .....	<u>\$68,047</u>	<u>3.13</u>	<u>4.85</u>	<u>\$ (765)</u>	—	—	<u>\$ (476)</u>	—	—	<u>\$ 66,806</u>	<u>0.60</u>	<u>4.35</u>

<sup>(1)</sup>As of December 31, 2013, the average repricing period of the net currency obligations for adjustable rate borrowings was 3.2 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 \$765 million and \$476 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$3,161 million and currency and interest rate swap liabilities at fair value of \$1,920 million, included on the Balance Sheet.

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE I-4

**STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS**

December 31, 2012

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 .....	\$ 264	4.39	1.96	\$ —	—	—	\$ —	—	—	\$ 264	4.39	1.96
	—	—	—	—	—	—	(264)	4.39	1.96	(264)	4.39	1.96
Adjustable .....	584	5.01	4.22	1,247	0.01	2.93	264	(0.19)	1.96	2,095	1.38	3.17
	—	—	—	(939)	3.05	3.46	—	—	—	(939)	3.05	3.46
<b>Japanese yen</b>												
Fixed .....	519	5.81	3.22	—	—	—	—	—	—	519	5.81	3.22
	—	—	—	(519)	5.63	3.22	—	—	—	(519)	5.63	3.22
Adjustable .....	318	1.47	6.27	—	—	—	35	(0.40)	5.83	353	1.28	6.23
	—	—	—	(318)	1.19	6.27	(35)	1.23	5.83	(353)	1.19	6.23
<b>Swiss francs</b>												
Fixed .....	710	2.63	5.55	—	—	—	—	—	—	710	2.63	5.55
	—	—	—	(710)	2.63	5.55	—	—	—	(710)	2.63	5.55
Adjustable .....	—	—	—	133	(0.16)	0.52	—	—	—	133	(0.16)	0.52
	—	—	—	(133)	(0.16)	0.52	—	—	—	(133)	(0.16)	0.52
<b>United States dollars</b>												
Fixed .....	37,885	3.02	6.16	209	6.45	3.49	348	5.25	4.96	38,442	3.06	6.13
	—	—	—	—	—	—	(34,069)	2.80	5.65	(34,069)	2.80	5.65
Adjustable .....	4,392	0.54	1.89	18,549	0.37	4.20	37,525	0.40	4.44	60,466	0.40	4.18
	—	—	—	(1,347)	0.11	2.76	(5,169)	0.64	2.15	(6,516)	0.53	2.28
<b>Others</b>												
Fixed .....	18,927	5.69	4.22	—	—	—	—	—	—	18,927	5.69	4.22
	—	—	—	(18,927)	5.69	4.22	—	—	—	(18,927)	5.69	4.22
Adjustable .....	227	3.97	3.37	—	—	—	—	—	—	227	3.97	3.37
	—	—	—	(205)	3.95	2.12	—	—	—	(205)	3.95	2.12
<b>Total</b>												
Fixed .....	58,305	3.91	5.48	209	—	—	348	—	—	58,862	3.93	5.47
	—	—	—	(20,156)	—	—	(34,333)	—	—	(54,489)	3.84	5.11
Adjustable .....	5,521	1.21	2.45	19,929	—	—	37,824	—	—	63,274	0.45	4.15
	—	—	—	(2,942)	—	—	(5,204)	—	—	(8,146)	0.92	2.55
Principal at face value ..	63,826	3.68	5.22	(2,960)	—	—	(1,365)	—	—	59,501	0.73	4.79
Fair value adjustments ..	3,212	—	—	(1,695)	—	—	(1,771)	—	—	(254)	—	—
Net unamortized discount .....	(2,313)	—	—	615	—	—	1,365 <sup>(3)</sup>	—	—	(333)	—	—
<b>Total</b> .....	<u>\$64,725</u>	<u>3.68</u>	<u>5.22</u>	<u>\$ (4,040)</u>	—	—	<u>\$(1,771)</u>	—	—	<u>\$ 58,914</u>	<u>0.73</u>	<u>4.79</u>

<sup>(1)</sup> As of December 31, 2012, the average repricing period of the net currency obligations for adjustable rate borrowings was 3.8 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 \$4,040 million and \$1,771 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$6,450 million and currency and interest rate swap liabilities at fair value of \$639 million, included on the Balance Sheet.

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

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE I-5

**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK**

December 31, 2013 and 2012

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

Members	Shares	Paid-in portion of subscribed capital	Callable portion of subscribed capital	Total 2013	Total 2012
Argentina.....	1,149,694	\$ 538.2	\$13,331.1	\$13,869.3	\$12,364.1
Austria.....	16,632	7.9	192.7	200.6	180.6
Bahamas.....	22,258	13.0	255.5	268.5	239.1
Barbados.....	13,789	6.5	159.8	166.3	148.1
Belgium.....	34,246	16.2	396.9	413.1	372.0
Belize.....	11,758	7.9	133.9	141.8	126.3
Bolivia.....	92,324	43.2	1,070.5	1,113.7	992.7
Brazil.....	1,149,694	538.2	13,331.1	13,869.3	12,364.1
Canada <sup>(2)</sup> .....	671,782	197.9	7,906.1	8,104.0	8,091.9
Chile.....	315,707	147.8	3,660.7	3,808.5	3,395.1
China.....	262	0.1	3.1	3.2	2.7
Colombia.....	315,707	147.8	3,660.7	3,808.5	3,395.1
Costa Rica.....	46,169	21.6	535.4	557.0	496.3
Croatia.....	5,040	2.4	58.4	60.8	54.6
Denmark.....	17,685	8.4	205.0	213.4	192.1
Dominican Republic.....	61,624	28.8	714.6	743.4	662.6
Ecuador.....	61,624	28.8	714.6	743.4	662.6
El Salvador.....	46,169	21.6	535.4	557.0	496.3
Finland.....	16,632	7.9	192.7	200.6	180.6
France.....	197,842	93.7	2,292.9	2,386.6	2,150.2
Germany.....	197,842	93.7	2,292.9	2,386.6	2,150.2
Guatemala.....	61,624	28.8	714.6	743.4	662.6
Guyana.....	17,143	8.9	197.9	206.8	184.1
Haiti.....	46,169	21.6	535.4	557.0	496.3
Honduras.....	46,169	21.6	535.4	557.0	496.3
Israel.....	16,400	7.8	190.0	197.8	178.1
Italy.....	197,842	93.7	2,292.9	2,386.6	2,150.2
Jamaica.....	61,624	28.8	714.6	743.4	662.6
Japan.....	522,044	247.4	6,050.2	6,297.6	5,673.9
Korea, Republic of.....	262	0.1	3.1	3.2	2.7
Mexico.....	739,054	346.0	8,569.5	8,915.5	7,947.9
Netherlands.....	28,207	14.6	325.6	340.3	340.3
Nicaragua.....	46,169	21.6	535.4	557.0	496.3
Norway.....	17,685	8.4	205.0	213.4	192.1
Panama.....	46,169	21.6	535.4	557.0	496.3
Paraguay.....	46,169	21.6	535.4	557.0	496.3
Peru.....	153,867	72.0	1,784.2	1,856.2	1,654.5
Portugal.....	5,610	2.6	65.1	67.7	60.9
Slovenia.....	3,068	1.5	35.5	37.0	33.2
Spain.....	197,842	93.7	2,292.9	2,386.6	2,150.2
Suriname.....	9,414	6.3	107.2	113.5	101.0
Sweden.....	34,034	16.1	394.5	410.6	369.7
Switzerland.....	49,097	23.3	569.0	592.3	533.4
Trinidad and Tobago.....	46,169	21.6	535.4	557.0	496.3
United Kingdom.....	100,475	47.6	1,164.5	1,212.1	1,091.9
United States.....	3,132,975	1,484.9	36,309.5	37,794.4	34,052.0
Uruguay.....	123,293	57.7	1,429.6	1,487.3	1,325.8
Venezuela.....	482,267	249.3	5,568.5	5,817.8	5,817.8
Total 2013.....	<u>10,675,321</u>	<u>\$ 4,941</u>	<u>\$ 123,840</u>	<u>\$ 128,781</u>	
Total 2012.....	<u>9,688,828</u>	<u>\$ 4,640</u>	<u>\$ 112,240</u>		<u>\$ 116,880</u>

<sup>(1)</sup>Data are rounded; detail may not add up to total because of rounding.<sup>(2)</sup>Includes 254,171 (2012—294,529) non-voting temporary callable shares with a par value of \$3,066 million (2012—\$3,553 million).

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

SCHEDULE I-6

**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER**

December 31, 2013

Member countries	Subscribed voting shares	Number of votes	% of total number of votes <sup>(1)</sup>
<b>Regional developing members</b>			
Argentina .....	1,149,694	1,149,829	11.027
Bahamas .....	22,258	22,393	0.215
Barbados .....	13,789	13,924	0.134
Belize .....	11,758	11,893	0.114
Bolivia .....	92,324	92,459	0.887
Brazil .....	1,149,694	1,149,829	11.027
Chile .....	315,707	315,842	3.029
Colombia .....	315,707	315,842	3.029
Costa Rica .....	46,169	46,304	0.444
Dominican Republic .....	61,624	61,759	0.592
Ecuador .....	61,624	61,759	0.592
El Salvador .....	46,169	46,304	0.444
Guatemala .....	61,624	61,759	0.592
Guyana .....	17,143	17,278	0.166
Haiti .....	46,169	46,304	0.444
Honduras .....	46,169	46,304	0.444
Jamaica .....	61,624	61,759	0.592
Mexico .....	739,054	739,189	7.089
Nicaragua .....	46,169	46,304	0.444
Panama .....	46,169	46,304	0.444
Paraguay .....	46,169	46,304	0.444
Peru .....	153,867	154,002	1.477
Suriname .....	9,414	9,549	0.092
Trinidad and Tobago .....	46,169	46,304	0.444
Uruguay .....	123,293	123,428	1.184
Venezuela .....	482,267	482,402	4.626
Total regional developing members .....	<u>5,211,817</u>	<u>5,215,327</u>	<u>50.014</u>
<b>Canada<sup>(2)</sup> .....</b>	<b>417,611</b>	<b>417,746</b>	<b>4.006</b>
<b>United States .....</b>	<b>3,132,975</b>	<b>3,133,110</b>	<b>30.046</b>
<b>Non-regional members</b>			
Austria .....	16,632	16,767	0.161
Belgium .....	34,246	34,381	0.330
China .....	262	397	0.004
Croatia .....	5,040	5,175	0.050
Denmark .....	17,685	17,820	0.171
Finland .....	16,632	16,767	0.161
France .....	197,842	197,977	1.899
Germany .....	197,842	197,977	1.899
Israel .....	16,400	16,535	0.159
Italy .....	197,842	197,977	1.899
Japan .....	522,044	522,179	5.008
Korea, Republic of .....	262	397	0.004
Netherlands .....	28,207	28,342	0.272
Norway .....	17,685	17,820	0.171
Portugal .....	5,610	5,745	0.055
Slovenia .....	3,068	3,203	0.031
Spain .....	197,842	197,977	1.899
Sweden .....	34,034	34,169	0.328
Switzerland .....	49,097	49,232	0.472
United Kingdom .....	100,475	100,610	0.965
Total non-regional members .....	<u>1,658,747</u>	<u>1,661,447</u>	<u>15.933</u>
<b>Grand total .....</b>	<b><u>10,421,150</u></b>	<b><u>10,427,630</u></b>	<b><u>100.000</u></b>

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

<sup>(2)</sup>Excludes 254,171 non-voting temporary callable shares.



# FUND FOR SPECIAL OPERATIONS

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

March 30, 2014

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 internal control over financial reporting of the Bank's Fund for Special Operations (FSO) using the criteria for effective internal control established in the Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the internal control over financial reporting of the FSO as of December 31, 2013. Based on this assessment, Management believes that the FSO's internal control over financial reporting is effective as of December 31, 2013.

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.

KPMG LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the effectiveness of the FSO's internal control over financial reporting as of December 31, 2013. In addition, the FSO's financial statements, as of and for the year ended December 31, 2013, have been audited by KPMG LLP.



Luis Alberto Moreno  
President



Jaime Alberto Sujoy  
Vice President for Finance and Administration



Edward Bartholomew  
Finance General Manager and CFO



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited Inter-American Development Bank (the Bank) – Fund for Special Operations’ internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 internal control over financial reporting of the Bank’s Fund for Special Operations (FSO) 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 FSO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Bank’s FSO as of December 31, 2013 and 2012, and the related statements of income and general reserve (deficit), comprehensive income and cash flows for the years then ended, and our report dated March 30, 2014 expressed an unqualified opinion on those financial statements.

**KPMG LLP**

March 30, 2014



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheets of Inter-American Development Bank (the Bank) – Fund for Special Operations (FSO) as of December 31, 2013 and 2012, and the related statements of income and general reserve (deficit), comprehensive income and cash flows for the years then ended (together referred to as the financial statements). 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 the 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 Bank's FSO as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules II-1 to II-3 comprising the statements of trading investments, loans outstanding and maturity structure, and contribution quotas, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of the Bank's FSO as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 30, 2014 expressed an unqualified opinion on the effectiveness of the Bank's FSO's internal control over financial reporting.

KPMG LLP

March 30, 2014

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

**BALANCE SHEET**

*Expressed in millions of United States dollars*

	December 31,			
	2013		2012	
<b>ASSETS</b>				
<b>Cash and investments</b>				
Cash—Notes C and L .....	\$ 427		\$ 408	
Investments—Notes D, E, L and Schedule II-1 .....	<u>704</u>	<u>\$1,131</u>	<u>792</u>	\$1,200
<b>Loans outstanding, net—Notes E, F, L and Schedule II-2 .....</b>		<b>4,364</b>		4,277
<b>Accrued interest and other charges on loans .....</b>		<b>16</b>		16
<b>Other assets .....</b>		<u><b>1</b></u>		<u>1</u>
<b>Total assets .....</b>		<u><b>\$5,512</b></u>		<u><b>\$5,494</b></u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses .....	\$ 8		\$ 3	
Undisbursed technical cooperation projects and other financings—Note H .....	<b>11</b>		24	
Due to IDB Grant Facility—Note I .....	<b>157</b>		225	
Amounts payable to maintain value of currency holdings—Note G ..	<u><b>280</b></u>	<u><b>\$ 456</b></u>	<u>284</u>	\$ 536
<b>Fund balance</b>				
Contribution quotas authorized and subscribed—Note J and Schedule II-3 .....	<b>10,240</b>		10,238	
Less: Contribution quotas receivable .....	<u><b>(61)</b></u>		<u>(96)</u>	
	<b>10,179</b>		10,142	
Receivable from members—Note G				
Non-negotiable, non-interest-bearing obligations:				
Demand notes .....	<b>(444)</b>		(446)	
Term notes .....	<b>(101)</b>		(109)	
Amounts required to maintain value of currency holdings .....	<u><b>(59)</b></u>		<u>(56)</u>	
	<b>(604)</b>		(611)	
General reserve (deficit) .....	<b>(4,619)</b>		(4,672)	
Accumulated other comprehensive income—Note K .....	<u><b>100</b></u>	<u><b>5,056</b></u>	<u>99</u>	4,958
<b>Total liabilities and fund balance .....</b>		<u><b>\$5,512</b></u>		<u><b>\$5,494</b></u>

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

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## STATEMENT OF INCOME AND GENERAL RESERVE (DEFICIT)

*Expressed in millions of United States dollars*

	Years ended December 31,	
	2013	2012
<b>Income</b>		
Loans		
Interest .....	\$ 64	\$ 64
Other loan income .....	—	1
	<u>64</u>	<u>65</u>
Investments—Note D .....	5	13
Total income .....	<u>69</u>	<u>78</u>
<b>Expenses</b>		
Administrative expenses—Note B .....	24	20
Total expenses .....	<u>24</u>	<u>20</u>
Income before technical cooperation .....	45	58
Technical cooperation income .....	<u>8</u>	<u>8</u>
Net income .....	53	66
General reserve (deficit), beginning of year .....	(4,672)	(4,738)
General reserve (deficit), end of year .....	<u><u>\$(4,619)</u></u>	<u><u>\$(4,672)</u></u>

## STATEMENT OF COMPREHENSIVE INCOME

*Expressed in millions of United States dollars*

	Years ended December 31,	
	2013	2012
Net income .....	\$53	\$66
Translation adjustments, net—Note K .....	1	1
Comprehensive income .....	<u><u>\$54</u></u>	<u><u>\$67</u></u>

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

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## STATEMENT OF CASH FLOWS

*Expressed in millions of United States dollars*

	Years ended December 31,	
	2013	2012
<b>Cash flows from lending and investing activities</b>		
Loan disbursements . . . . .	\$ (322)	\$ (317)
Loan collections . . . . .	222	196
Loan participations, net . . . . .	(4)	(4)
Miscellaneous assets and liabilities . . . . .	7	(1)
Net cash used in lending and investing activities . . . . .	(97)	(126)
<b>Cash flows from financing activities</b>		
Collections of receivable from members . . . . .	12	15
Collections of contribution quotas from members . . . . .	37	73
Net cash provided by financing activities . . . . .	49	88
<b>Cash flows from operating activities</b>		
Gross purchases of investments . . . . .	(1,625)	(1,730)
Gross proceeds from sale or maturity of investments . . . . .	1,713	1,726
Income from loans . . . . .	66	64
Income from investments . . . . .	9	18
Administrative expenses . . . . .	(28)	(20)
Technical cooperation and other financings, net . . . . .	(5)	(17)
Cash transfers to the IDB Grant Facility . . . . .	(68)	(28)
Net cash provided by operating activities . . . . .	62	13
<b>Effect of exchange rate fluctuations on Cash . . . . .</b>	<b>5</b>	<b>7</b>
<b>Net increase (decrease) in Cash . . . . .</b>	<b>19</b>	<b>(18)</b>
<b>Cash, beginning of year . . . . .</b>	<b>408</b>	<b>426</b>
<b>Cash, end of year . . . . .</b>	<b>\$ 427</b>	<b>\$ 408</b>

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



FUND FOR SPECIAL OPERATIONS  
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 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 primary activities of the Bank are conducted through the Ordinary Capital. 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 to the less developed member countries of the Bank. It may also provide technical assistance both related to projects and not connected to specific loans. The FSO is owned by its member countries, which include 26 regional developing member countries, the United States, Canada and 20 non-regional countries, and 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. 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 and the determination of the adequacy of the allowance for loan losses.

#### Translation of currencies

The financial statements are expressed in United States dollars; however, the FSO conducts its operations in the currencies of substantially all its members, which are all considered 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 are translated at market exchange rates 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, 1995 and 2011 increases in contribution quotas, are presented as a component of Comprehensive income<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 government. Under 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. As of December 31, 2013, there were \$14 million (2012– \$18 million) in outstanding loan participations.

Income on loans is recognized following the accrual basis of accounting. The FSO considers a loan to be past due when the scheduled principal and/or interest payments have not been received on the date they are contractually due. 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 certain funds administered by the Bank, is overdue more than 180 days, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. 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

<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.

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

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 and in the period 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.

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

The FSO does not reschedule its loans. In addition, because of the nature of its borrowers, the FSO expects that each of its loans will be repaid. However, even with full repayment of principal and interest at the end of an event of default, the FSO suffers an economic loss from not charging interest on overdue interest while the event of default lasts. The nature and extent of the FSO exposure to credit risk is determined by considering the long-term foreign credit rating assigned to each borrower country by the rating agencies (generally, Standard & Poor's—S&P), adjusted by the probabilities of default to the Bank.

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 credit risk, as defined above, as well as the potential for loss arising from delay in the scheduled loan repayments.

**Recognition of debt relief:** The Bank has participated in debt relief initiatives concerted by international organizations to address the debt problems of member countries 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, in the period when the FSO's debt relief commitment is probable and the amount of debt relief is estimable. There was no debt relief provided in 2013 and 2012.

**Receivable from members**

Receivable from members includes non-negotiable, non-interest bearing demand notes that have been accepted in lieu of the immediate payment of all or any part of a member's contribution quotas, non-negotiable, non-interest-bearing term notes received in payment of MOV obligations, and other MOV obligations. These obligations are shown as a reduction of the Fund balance on the Balance Sheet.

**Contribution quotas**

**Recognition:** The Bank's ninth general increase in resources (IDB-9) provided for an increase in the resources of the FSO. Before the effective date of the IDB-9 in 2011, advance contributions were allowed of the entire increase in contributions of a member or the first installment of such increase. Additional contribution quotas are paid by member countries in one installment or in five equal annual installments.

The full amount of subscriptions to contribution quotas is recognized upon receipt of a member's instrument of contribution. Amounts subscribed and not paid are recorded as a reduction in the Contribution quotas authorized and subscribed on the Balance Sheet. Advance contributions received were effective and recorded upon receipt of the cash payment.

**Valuation:** The 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 par value of which was defined in terms of gold (the 1959 United States dollar). 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. The General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR), introduced by the International Monetary Fund, 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 (the basket method), 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 immediately before the introduction of the basket method of valuing the SDR on July 1, 1974 (the 1974 United States dollar). The 1959 United States dollar value is equal to approximately 1.2063 of the 1974 United States dollars, or one SDR (1974 SDR).

**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.

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

Currency holdings derived from the 1983, 1990, 1995 and 2011 increases in contribution quotas do not have MOV protection.

The amount related to MOV on member countries' currency holdings is presented on the Balance Sheet either as a liability, included in Amounts payable to maintain value of currency holdings, or as a reduction of the Fund balance, if the related MOV amount is a receivable.

**Administrative expenses**

The administrative expenses of the Bank are allocated between the Ordinary Capital and the FSO pursuant to the allocation percentage approved by the Board of Governors, which was 97% for the Ordinary Capital and 3% for the FSO in 2013 and 2012.

**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. Effective on December 31, 2010, technical cooperation projects are no longer funded from the resources of the FSO.

**Board of Governors approved transfers**

Prior to January 1, 2012, the Board of Governors approved general reserve transfers from the FSO to the GRF. Such transfers were recognized as an expense when approved by the Board of Governors and are being funded in accordance with the GRF funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Balance Sheet.

**Taxes**

The FSO, 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 custom duties in its member countries.

**Note C – Restricted Currencies**

As of December 31, 2013, Cash includes \$418 million (2012—\$364 million) in currencies of regional developing members. These amounts may be used for lending operations and for administrative expenses. Of this amount, one member country has restricted the amount of \$42 million (2012—\$40 million) to be used specifically 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, directly or through two investment pools managed by the Bank for the benefit of the FSO and the IFF. Investments may include sovereign and sub-sovereign government, agency, multilateral, bank, and corporate obligations, including asset-backed and mortgage-backed securities, with credit ratings ranging from AAA to A, as well as short-term securities of the same eligible investment asset classes, provided they carry the highest short-term credit rating. 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.

During 2013, the FSO's share of unrealized investment gains from the investment pools amounted to \$0 million (2012—\$8 million) and has been recorded in Investments income.

A summary of the trading portfolio securities at December 31, 2013 and 2012, including the FSO's proportionate share of the investment pools assets, is shown in the Statement of Investments in Schedule II-1.

**Note E – Fair Value Measurements**

The framework for measuring fair value 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 for identical assets or liabilities in active markets;
- Level 2—Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs 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.

Obligations of the United States government amounting to \$53 million and \$84 million at December 31, 2013 and 2012, respectively, are valued based on quoted market prices in active

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

markets, a valuation technique consistent with the market approach. Such instruments are classified within Level 1 of the fair value hierarchy.

All other FSO investment securities are measured at fair value based on quoted prices in markets that are not active, external pricing services, where available, or solicited broker/dealer prices. These methodologies represent valuation techniques consistent with the market approach. These investment securities are classified within Level 2 of the fair value hierarchy and amount to \$651 million and \$708 million at December 31, 2013 and 2012, respectively. See Schedule II-1 for a breakdown of the trading portfolio investment securities by class.

The FSO's policy for transfers between levels is to reflect these transfers effective as of the beginning of the reporting period. There were no transfers between levels during 2013 and 2012.

The fair value of the FSO's loan portfolio, which amounted to approximately \$3,064 million as of December 31, 2013 (\$3,595 million as of December 31, 2012), was determined using a discounted cash flow method (income approach) by which cash flows are discounted at applicable market yield curves, adjusted for the Bank's Ordinary Capital funding cost plus its lending spread, consistent with the rates at which loans would currently be made to similar borrowers in the Ordinary Capital. The Bank is one of very few lenders of development loans to Latin American and Caribbean countries and, it does not sell its loans nor does it believe there is a comparable market for its loans. Therefore, this methodology has been developed based on valuation assumptions that management believes a market participant in an assumed transaction would use in pricing the FSO's loans. The Bank considers that multilateral lending institutions that share the Bank's developmental mission would constitute the most appropriate assumed market participants to which the FSO would sell its loans in an orderly transaction.

**Note F – Loans Outstanding and Allowance for Loan Losses**

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 approved up to 2007 generally had final maturities of up to 40 years and grace periods up to 10 years for principal payments, and generally carried an interest rate of 1% during the grace period and 2% thereafter. Since 2007, the Bank only offers a blending of loans from the FSO and the Ordinary Capital ("parallel loans"). The FSO's portions of parallel loans are bullet loans with up to 40 years maturity and an interest rate of 0.25%. The principal amount of loans and accrued interest are repayable in the currencies lent.

Loans outstanding by country are shown in the Statement of Loans Outstanding and Maturity Structure in Schedule II-2. The average interest rate for loans outstanding at December 31, 2013 and 2012 was 1.44% and 1.53%, respectively. The average maturity was 16.2 years and 14.8 years in 2013 and 2012.

For the FSO, the likelihood of experiencing an event of default in its loan portfolio is different than commercial lenders. The FSO does not renegotiate or reschedule its loans and historically has always received full principal and interest due at the resolution of an event of default. Accordingly, the probabilities of default to the FSO assigned to each country are adjusted to reflect the FSO's expectation of full recovery of all its loans. However, since the FSO does not charge interest on missed interest payments for these loans, such delay in debt service payments is viewed as a potential impairment as the timing of the cash flows are not met in accordance with the terms of the loan contract.

The credit quality of the loan portfolio, as represented by the long-term foreign credit rating assigned to each borrower country by S&P, which has been updated as of December 31, 2013 and 2012, is as follows (in millions):

<b>Country Ratings</b>	<b>2013</b>	<b>2012</b>
A .....	\$ 5	\$ 5
BBB+ to BBB- .....	133	192
BB+ to BB- .....	1,539	1,494
B+ to B- .....	1,314	1,359
CCC+ to CCC- .....	1,373	1,227
Total .....	<u>\$4,364</u>	<u>\$4,277</u>

The Bank performs collective evaluations of the collectibility of the FSO loans portfolio. As of December 31, 2013 and 2012, the allowance for loan losses was *de minimis*. In addition, there were no changes to the FSO's policy with respect to the allowance for loan losses during 2013 and 2012.

**Past due and Non-accrual Loans**

As of December 31, 2013 and 2012, there were no loans past due or in non-accrual status.

**Note G – Receivable from Members**

The composition of the net receivable from members as of December 31, 2013 and 2012 is as follows (in millions):

	<b>2013</b>	<b>2012</b>
Regional developing members .....	\$ 545	\$557
Canada .....	20	10
Non-regional members, net .....	(241)	(240)
Total .....	<u>\$ 324</u>	<u>\$ 327</u>

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

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

	<u>2013</u>	<u>2012</u>
Receivable from members .....	\$ 604	\$611
Amounts payable to maintain value of currency holdings .....	(280)	(284)
Total .....	<u>\$ 324</u>	<u>\$327</u>

In 2009, the Bank reached an agreement with one of its borrowing member countries to combine its outstanding MOV obligations with the FSO in the amount of \$146 million and agreed on a payment schedule in 16 annual installments starting in 2010. As of December 31, 2013, the amount outstanding was \$101 million (2012 - \$109 million) and is presented as a reduction of the Fund balance in the Balance Sheet.

**Note H – 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, 2013 and 2012 (in millions):

	<u>2013</u>	<u>2012</u>
Balance at January 1, .....	\$ 24	\$ 49
Cancellations .....	(2)	(3)
Disbursements .....	(11)	(22)
Balance at December 31, .....	<u>\$ 11</u>	<u>\$ 24</u>

**Note I – Due to IDB Grant Facility**

The following is a summary of changes in Due to IDB Grant Facility for the year ended December 31, 2013 and 2012 (in millions):

	<u>2013</u>	<u>2012</u>
Balance at January 1, .....	\$225	\$253
Disbursements .....	(68)	(28)
Balance at December 31, .....	<u>\$157</u>	<u>\$225</u>

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

As part of the IDB-9, on October 31, 2011, the Board of Governors authorized an increase in the resources of the FSO consisting of an additional \$479 million of new contribution quotas to be paid by the FSO's members in U.S. dollars. Member countries have the option to make contributions either in one installment (i.e., their respective share of the \$479 million) or in five equal annual installments of their share of the undiscounted amount of the \$479 million (established at \$517.3 million),

starting in 2011. As of December 31, 2013 and 2012, instruments of contribution have been received amounting to \$473 million composed of the following (in millions):

	<u>December 31, 2013</u>		
	<u>Total</u>	<u>Paid</u>	<u>Receivable</u>
Advance contributions .....	\$281	\$281	\$—
One installment .....	42	42	—
Five installments .....	150	89	61
Balance at December 31, 2013 .....	<u>\$473</u>	<u>\$412</u>	<u>\$61</u>

	<u>December 31, 2012</u>		
	<u>Total</u>	<u>Paid</u>	<u>Receivable</u>
Advance contributions .....	\$281	\$281	\$—
One installment .....	42	42	—
Five installments .....	150	54	96
Balance at December 31, 2012 .....	<u>\$473</u>	<u>\$377</u>	<u>\$96</u>

The following table summarizes the changes in contribution quotas subscribed for the years ended December 31, 2013 and 2012 (in millions):

	<u>Contribution quotas subscribed</u>
Balance at January 1, 2012 .....	\$10,189
IDB-9 additional contributions subscribed. . .	48
Contributions by Canada—Trust Fund collections .....	1
Balance at December 31, 2012 .....	\$10,238
Contributions by Canada—Trust Fund collections .....	1
Other .....	1
Balance at December 31, 2013 .....	<u>\$10,240</u>

Non-negotiable, non-interest-bearing demand obligations have been accepted in lieu of the immediate payment of all or part of a member's contribution quotas on previous replenishments. The payment of contribution quotas is conditional on the members' budgetary and, in some cases, legislative processes.

For a Statement of Contribution Quotas at December 31, 2013 and 2012 see Schedule 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.

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note K – Accumulated Other Comprehensive Income**

The Accumulated other comprehensive income is comprised of accumulated translation adjustments. The following is a summary of changes in the accumulated translation adjustments for the years ended December 31, 2013 and 2012 (in millions):

	2013	2012
Balance at January 1, .....	\$ 99	\$98
Translation adjustments .....	1	1
Balance at December 31, .....	<u>\$100</u>	<u>\$99</u>

**Note L – Reconciliation of Net Income to Net Cash Provided by Operating Activities**

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

	Years ended December 31,	
	2013	2012
Net income .....	\$ 53	\$ 66
Difference between amounts accrued and amounts paid or collected for:		
Loan income .....	1	(1)
Investment loss .....	4	13
Net unrealized gain on investments .....	—	(8)
Administrative expenses .....	(3)	—
Technical cooperation and other financings ..	(13)	(25)
Transfers to the GRF .....	(68)	(28)
Net decrease (increase) in investments .....	88	(4)
Net cash provided by operating activities .....	<u>\$ 62</u>	<u>\$ 13</u>

**Supplemental disclosure of noncash activities**

Increase (decrease) resulting from exchange rate fluctuations:		
Investments .....	\$ 5	\$ 7
Loans outstanding .....	(16)	(11)
Receivable from members, net .....	9	(2)

**Note M – 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 or independent dealer prices.

**Loans:** The fair value of the FSO's loan portfolio is estimated using a discounted cash flow method as discussed in Note E – Fair Value Measurements.

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of December 31, 2013 and 2012 (in millions):

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash .....	\$ 427	\$ 427	\$ 408	\$ 408
Investments .....	704	704	792	792
Loans outstanding <sup>(1)</sup> .....	4,380	3,064	4,293	3,595

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

**Note N – Subsequent Events**

Management has evaluated subsequent events through March 30, 2014, which is the date the financial statements were available to be issued. As a result of this evaluation, there are no subsequent events requiring recognition or disclosure in the FSO's financial statements as of and for the year ended December 31, 2013.



FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE II-1

**STATEMENT OF INVESTMENTS***December 31, 2013 and 2012**Expressed in millions of United States dollars*

<b>Investments</b>	<b>2013</b>	<b>2012</b>
Investment pools <sup>(1)</sup> :		
Obligations of the United States		
Government and its corporations and agencies. ....	\$ 53	\$ 81
U.S. government-sponsored enterprises. ....	1	1
Obligations of non-U.S. governments		
and agencies. ....	164	197
Bank obligations <sup>(2)</sup> . ....	109	139
Mortgage-backed securities:		
U.S. residential. ....	1	9
Non-U.S. residential. ....	14	19
Asset-backed securities. ....	<u>16</u>	<u>26</u>
	358	472
Direct investments:		
Obligations of the United States Government		
and its corporations and agencies. ....	—	3
Obligations of non-U.S. governments		
and agencies. ....	336	305
Bank obligations <sup>(2)</sup> . ....	<u>10</u>	<u>12</u>
	<u>\$704</u>	<u>\$792</u>

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

<sup>(2)</sup>May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

The currencies of the above investments are as follows:

<b>Currencies</b>	<b>2013</b>	<b>2012</b>
British pounds sterling. ....	\$ 31	\$ 28
Canadian dollars. ....	83	77
Euro. ....	215	193
Swedish krono. ....	7	8
United States dollars. ....	<u>368</u>	<u>486</u>
	<u>\$704</u>	<u>\$792</u>

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE II-2

**STATEMENT OF LOANS OUTSTANDING AND MATURITY STRUCTURE**

December 31, 2013 and 2012

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding balance 2013 <sup>(1)</sup>	Currency in which outstanding balance is collectible		Undisbursed <sup>(2)</sup>	Outstanding balance 2012 <sup>(1)</sup>
		Non- borrowing country currencies	Borrowing country currencies		
Argentina .....	\$ 47	\$ —	\$ 47	\$ —	\$ 55
Barbados .....	3	3	—	—	4
Bolivia .....	693	673	20	244	623
Brazil .....	67	—	67	—	114
Colombia .....	48	—	48	—	54
Costa Rica .....	10	9	1	—	15
Dominican Republic .....	205	201	4	—	228
Ecuador .....	320	283	37	—	350
El Salvador .....	283	279	4	—	309
Guatemala .....	270	238	32	19	258
Guyana .....	399	399	—	59	368
Honduras .....	774	751	23	157	706
Jamaica .....	10	8	2	—	14
Mexico .....	—	—	—	—	1
Nicaragua .....	927	913	14	225	858
Panama .....	4	4	—	—	6
Paraguay .....	236	226	10	53	239
Peru .....	13	—	13	—	15
Suriname .....	5	4	1	—	5
Trinidad and Tobago .....	4	—	4	—	5
Uruguay .....	2	1	1	—	4
Regional .....	44	44	—	6	46
Total 2013 .....	<u>\$4,364</u>	<u>\$4,036</u>	<u>\$328</u>	<u>\$763</u>	
Total 2012 .....		<u>\$3,865</u>	<u>\$412</u>	<u>\$843</u>	<u>\$4,277</u>

<sup>(1)</sup>Excludes loan participations sold to the Social Progress Trust Fund for a total of \$14 million (2012—\$18 million), including \$1 million (2012—\$2 million) to Costa Rica, \$1 million (2012—\$2 million) to Dominican Republic, \$2 million (2012—\$4 million) to Ecuador, \$7 million (2012—\$7 million) to El Salvador, \$1 million (2012—\$1 million) to Guatemala, \$1 million (2012—\$1 million) to Panama and \$1 million (2012—\$1 million) to Paraguay.

<sup>(2)</sup>Loans approved and undisbursed.

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

Currencies	2013	2012	Currencies	2013	2012
British pounds sterling .....	\$ 20	\$ 22	Norwegian kroner .....	\$ 7	\$ 8
Canadian dollars .....	89	103	Swedish kronor .....	6	6
Danish kroner .....	17	17	Swiss francs .....	23	23
Euro .....	318	324	United States dollars .....	3,485	3,266
Japanese yen .....	71	96		<u>\$4,036</u>	<u>\$3,865</u>

**MATURITY STRUCTURE OF LOANS OUTSTANDING**

December 31, 2013 and 2012

Expressed in millions of United States dollars

Year of maturity	2013	Year of maturity	2012
2014 .....	\$ 190	2013 .....	\$ 202
2015 to 2018 .....	758	2014 to 2017 .....	786
2019 to 2023 .....	767	2018 to 2022 .....	816
Thereafter .....	2,649	Thereafter .....	2,473
Total .....	<u>\$4,364</u>	Total .....	<u>\$4,277</u>

FUND FOR SPECIAL OPERATIONS  
INTER-AMERICAN DEVELOPMENT BANK

## SCHEDULE II-3

**STATEMENT OF CONTRIBUTION QUOTAS***December 31, 2013 and 2012**Expressed in millions of United States dollars<sup>(1)</sup>*

Members	Contribution quotas authorized and subscribed		Contribution quotas receivable from members	
	2013	2012	2013	2012
Argentina . . . . .	\$ 532.2	\$ 532.2	\$10.7	\$16.1
Austria . . . . .	21.0	21.0	—	—
Bahamas . . . . .	11.2	11.2	0.3	0.3
Barbado . . . . .	1.9	1.9	0.1	0.1
Belgium . . . . .	44.6	44.6	—	—
Belize . . . . .	8.0	8.0	0.2	0.3
Bolivia . . . . .	51.1	51.1	—	—
Brazil . . . . .	573.2	573.2	11.5	23.1
Canada . . . . .	328.9	328.0	—	—
Chile . . . . .	166.1	166.1	3.3	5.0
China . . . . .	131.1	131.1	—	—
Colombia . . . . .	161.2	161.2	—	—
Costa Rica . . . . .	24.5	24.5	—	—
Croatia . . . . .	6.2	6.2	0.1	0.2
Denmark . . . . .	21.0	21.0	—	—
Dominican Republic . . . . .	35.7	35.7	0.7	1.1
Ecuador . . . . .	31.9	31.9	0.7	1.0
El Salvador . . . . .	22.5	22.5	0.7	0.9
Finland . . . . .	19.9	19.9	—	—
France . . . . .	232.8	232.8	4.7	7.0
Germany . . . . .	241.3	241.3	—	—
Guatemala . . . . .	34.4	34.4	—	—
Guyana . . . . .	8.7	8.7	—	—
Haiti . . . . .	22.9	22.9	—	—
Honduras . . . . .	27.8	27.8	—	—
Israel . . . . .	18.0	18.0	—	—
Italy . . . . .	227.2	227.2	4.6	6.8
Jamaica . . . . .	30.2	30.2	—	—
Japan . . . . .	623.3	623.3	13.1	18.8
Korea, Republic of . . . . .	1.0	1.0	—	—
Mexico . . . . .	346.4	346.4	7.0	10.5
Netherlands . . . . .	36.9	36.9	—	—
Nicaragua . . . . .	25.4	25.4	—	—
Norway . . . . .	21.0	21.0	—	—
Panama . . . . .	26.7	26.7	—	—
Paraguay . . . . .	29.3	29.3	—	—
Peru . . . . .	84.0	84.0	1.7	2.5
Portugal . . . . .	8.2	8.2	0.2	0.3
Slovenia . . . . .	3.6	3.6	0.1	0.1
Spain . . . . .	226.4	226.4	—	—
Suriname . . . . .	6.6	6.6	—	—
Sweden . . . . .	42.2	42.2	0.9	1.3
Switzerland . . . . .	67.1	66.9	—	—
Trinidad and Tobago . . . . .	22.0	22.0	0.4	1.1
United Kingdom . . . . .	183.9	183.9	—	—
United States . . . . .	5,076.4	5,076.4	—	—
Uruguay . . . . .	58.7	58.7	—	—
Venezuela . . . . .	315.3	315.3	—	—
Total . . . . .	<u>\$10,240</u>	<u>\$10,238</u>	<u>\$61</u>	<u>\$96</u>

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



# **INTERMEDIATE FINANCING FACILITY ACCOUNT**

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

March 30, 2014

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 internal control over financial reporting of the Bank's Intermediate Financing Facility Account (IFF) using the criteria for effective internal control established in the Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

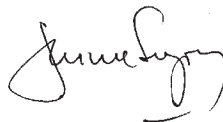
Management has assessed the effectiveness of the internal control over financial reporting of the IFF as of December 31, 2013. Based on this assessment, Management believes that the IFF's internal control over financial reporting is effective as of December 31, 2013.

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.

KPMG LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the effectiveness of the IFF's internal control over financial reporting as of December 31, 2013. In addition, the IFF's financial statements as of and for the year ended December 31, 2013, have been audited by KPMG LLP.



Luis Alberto Moreno  
President



Jaime Alberto Sujoy  
Vice President for Finance and Administration



Edward Bartholomew  
Finance General Manager and CFO



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited Inter-American Development Bank (the Bank) – Intermediate Finance Facility’s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 internal control over financial reporting of the Bank’s Intermediate Finance Facility (IFF) 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 IFF maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Bank’s IFF as of December 31, 2013 and 2012, and the related statements of changes in fund balance and cash flows for the years then ended, and our report dated March 30, 2014 expressed an unqualified opinion on those financial statements.

**KPMG LLP**

March 30, 2014



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheets of Inter-American Development Bank (the Bank) – Intermediate Finance Facility (IFF) as of December 31, 2013 and 2012, and the related statements of changes in fund balance and cash flows for the years then ended (together referred to as the financial statements). 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. The financial statements of the Bank's IFF for the year ended December 31, 2011, were audited by other auditors whose report dated March 9, 2012, expressed an unqualified opinion on those financial statements.

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 the 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 Bank's IFF as of December 31, 2013 and 2012, and the results of its changes in fund balance and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of the Bank's IFF as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 30, 2014 expressed an unqualified opinion on the effectiveness of the Bank's IFF's internal control over financial reporting.

KPMG LLP

March 30, 2014



INTERMEDIATE FINANCING FACILITY ACCOUNT  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

*Expressed in millions of United States dollars*

	December 31,	
	2013	2012
<b>ASSETS</b>		
Cash .....	\$ —	\$ —
Investments—Notes C and D .....	135	153
Total assets .....	<u>\$135</u>	<u>\$153</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Due to Ordinary Capital .....	\$ 4	\$ 3
Fund balance .....	131	150
Total liabilities and fund balance .....	<u>\$135</u>	<u>\$153</u>

## STATEMENT OF CHANGES IN FUND BALANCE

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2013	2012	2011
<b>Additions</b>			
Income from investments—Note C .....	\$ 2	\$ 4	\$ 1
Total additions .....	<u>2</u>	<u>4</u>	<u>1</u>
<b>Deductions</b>			
Interest paid on behalf of Ordinary Capital borrowers—Note E .....	21	21	27
Total deductions .....	<u>21</u>	<u>21</u>	<u>27</u>
Change in fund balance .....	(19)	(17)	(26)
Fund balance, beginning of year .....	150	167	193
Fund balance, end of year .....	<u>\$131</u>	<u>\$150</u>	<u>\$167</u>

## STATEMENT OF CASH FLOWS

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Income from investments .....	\$ 4	\$ 4	\$ 4
Interest paid on behalf of Ordinary Capital borrowers .....	(20)	(22)	(30)
Net decrease in investments .....	16	18	26
Net cash from operating activities .....	—	—	—
Cash, beginning of year .....	—	—	—
Cash, end of year .....	<u>\$ —</u>	<u>\$ —</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. In 2007, the Bank discontinued the transfers from the FSO to the IFF. It is expected that with the remaining resources, the IFF will be able to continue providing interest subsidies for the next several years.

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, and are expressed in United States dollars. 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 additions and deductions from fund balance during the reporting period. Actual results could differ from these estimates. Significant judgments have been made in the valuation of certain financial instruments.

### 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 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 or independent dealer prices.

### 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 percentage approved by the Board of Governors. As such, no administrative expenses are recorded by the IFF.

### Taxes

The IFF, its property, other assets, income, and the operations and transactions it carries out are immune from all taxation and from all custom duties in its member countries.

### Note C – Investments

As part of its overall portfolio management strategy, the Bank invests the IFF's 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 may include sovereign and sub-sovereign government, agency, multilateral, bank, and corporate obligations, including asset-backed and mortgage-backed securities, with credit ratings ranging from AAA to A, as well as short-term securities of the same eligible investment asset classes, provided they carry the highest short-term credit rating. 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 credit-worthiness.

The IFF's proportionate share of the investment pools assets by class at December 31, 2013 and 2012 is presented below (in millions). All investments are denominated in United States dollars. During 2013, the IFF's share of unrealized investment gains (losses) from these pools amounted to \$0 million (2012—\$2 million; 2011—\$(1) million).

<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)

	December 31,	
	2013	2012
Obligations of the United States		
Government and its corporations		
and agencies.....	\$ 21	\$ 26
U.S. government-sponsored enterprises .....	—	1
Obligations of non-U.S. governments		
and agencies .....	62	64
Bank obligations <sup>(1)</sup> .....	41	45
Mortgage-backed securities:		
U.S. residential .....	—	3
Non-U.S. residential .....	5	6
Asset-backed securities .....	6	8
	<u>\$135</u>	<u>\$153</u>

<sup>(1)</sup> May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

**Note D – Fair Value Measurements**

The framework for measuring fair value 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 for identical assets or liabilities in active markets;
- Level 2—Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs 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.

The IFF's investment instruments valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, consist of obligations of the United States government amounting to \$21 million and \$26 million in 2013 and 2012, respectively. Such instruments are classified within Level 1 of the fair value hierarchy.

All other IFF investment securities are measured at fair value based on quoted prices in markets that are not active, external pricing services, where available, or solicited broker/dealer prices. These methodologies represent valuation tech-

niques consistent with the market approach. These investment securities are classified within Level 2 of the fair value hierarchy and amount to \$114 million at December 31, 2013 (2012—\$127 million).

The IFF's policy for transfers between levels is to reflect these transfers effective as of the beginning of the reporting period. There were no transfers between levels during 2013, 2012 and 2011.

**Note E – Commitments**

The payment by the IFF of part of the interest due from borrowers to the Ordinary Capital is contingent on the availability of resources. At December 31, 2013, the amount of Ordinary Capital loans outstanding and undisbursed, classified by country, on which the IFF would pay part of the interest are as follows (in millions):

Country	Outstanding	Undisbursed
Barbados .....	\$ 12	\$—
Costa Rica .....	27	—
Dominican Republic .....	226	1
Ecuador .....	417	2
El Salvador .....	300	—
Guatemala .....	351	5
Jamaica .....	148	—
Nicaragua .....	28	—
Panama .....	23	—
Paraguay .....	205	19
Suriname .....	46	—
Trinidad and Tobago .....	9	—
Uruguay .....	4	—
Regional .....	14	—
	<u>\$1,810</u>	<u>\$27</u>

The interest rate subsidy is reset quarterly or semiannually and can be no more than 3.62% per annum. Interest on behalf of Ordinary Capital's borrowers amounted to \$21 million during 2013 (2012 - \$21 million; 2011 - \$27 million).

Loans approved after December 31, 2006 are not eligible for subsidy. 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.

INTERMEDIATE FINANCING FACILITY ACCOUNT  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note F – Reconciliation of Change in Fund Balance to Net Cash From Operating Activities**

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

	<u>Years ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Change in fund balance . . . . .	\$(19)	\$(17)	\$(26)
Difference between amounts accrued and amounts paid or collected for:			
Investments loss (income) . . . . .	2	2	(4)
Net unrealized (gain) loss on investments . . . . .	—	(2)	1
Interest on behalf of Ordinary Capital borrowers . . . . .	1	(1)	3
Net decrease in investments . . . . .	<u>16</u>	<u>18</u>	<u>26</u>
Net cash from operating activities . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**Note G – Subsequent Events**

Management has evaluated subsequent events through March 30, 2014, which is the date the financial statements were available to be issued. As a result of this evaluation, there are no subsequent events requiring recognition or disclosure in the IFF's financial statements as of and for the year ended December 31, 2013.



# **IDB GRANT FACILITY**

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

March 30, 2014

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 internal control over financial reporting of the Bank's IDB Grant Facility (GRF) using the criteria for effective internal control established in the Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the internal control over financial reporting of the GRF as of December 31, 2013. Based on this assessment, Management believes that the GRF's internal control over financial reporting is effective as of December 31, 2013.

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.

KPMG LLP, an independent registered public accounting firm, has expressed an unqualified opinion on the effectiveness of the GRF's internal control over financial reporting as of December 31, 2013. In addition, the GRF's financial statements as of and for the year ended December 31, 2013, have been audited by KPMG LLP.



Luis Alberto Moreno  
President



Jaime Alberto Sujoy  
Vice President for Finance and Administration



Edward Bartholomew  
Finance General Manager and CFO



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Report of Independent Registered Public Accounting Firm

The Board of Governors  
Inter-American Development Bank

We have audited Inter-American Development Bank (the Bank) – IDB Grant Facility's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 internal control over financial reporting of the Bank's IDB Grant Facility (GRF) 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 GRF maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Bank's GRF as of December 31, 2013 and 2012, and the related statements of changes in fund balance and cash flows for the years then ended, and our report dated March 30, 2014 expressed an unqualified opinion on those financial statements.

KPMG LLP

March 30, 2014





**KPMG LLP**  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## **Report of Independent Registered Public Accounting Firm**

The Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheets of Inter-American Development Bank (the Bank) – IDB Grant Facility (GRF) as of December 31, 2013 and 2012, and the related statements of changes in fund balance and cash flows for the years then ended (together referred to as the financial statements). 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. The financial statements of the Bank's GRF for the year ended December 31, 2011, were audited by other auditors whose report dated March 9, 2012, expressed an unqualified opinion on those financial statements.

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 the 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 Bank's GRF as of December 31, 2013 and 2012, and the results of its changes in fund balance and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of the Bank's GRF as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 30, 2014 expressed an unqualified opinion on the effectiveness of the Bank's GRF's internal control over financial reporting.

**KPMG LLP**

March 30, 2014

IDB GRANT FACILITY  
INTER-AMERICAN DEVELOPMENT BANK

## BALANCE SHEET

*Expressed in millions of United States dollars*

	December 31,	
	2013	2012
<b>ASSETS</b>		
Cash . . . . .	\$ —	\$ 2
Due from Fund for Special Operations . . . . .	157	225
Due from Ordinary Capital . . . . .	435	351
Total assets . . . . .	<u>\$592</u>	<u>\$578</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Undisbursed grants—Note D . . . . .	\$578	\$577
Fund balance . . . . .	14	1
Total liabilities and fund balance . . . . .	<u>\$592</u>	<u>\$578</u>

## STATEMENT OF CHANGES IN FUND BALANCE

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2013	2012	2011
<b>Additions</b>			
Transfers from Fund for Special Operations . . . . .	\$ —	\$ —	\$ 44
Transfers from Ordinary Capital—Note C . . . . .	200	200	200
Total additions . . . . .	200	200	244
<b>Deductions</b>			
Grants . . . . .	187	243	241
Change in fund balance . . . . .	13	(43)	3
Fund balance, beginning of year . . . . .	1	44	41
Fund balance, end of year . . . . .	<u>\$ 14</u>	<u>\$ 1</u>	<u>\$ 44</u>

## STATEMENT OF CASH FLOWS

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2013	2012	2011
<b>Cash flows from operating activities</b>			
Cash transfers from Fund for Special Operations . . . . .	\$ 68	\$ 28	\$ 175
Cash transfers from Ordinary Capital . . . . .	116	121	—
Grant disbursements . . . . .	(186)	(147)	(175)
Net cash (used in) provided by operating activities			
and net (decrease) increase in cash . . . . .	(2)	2	—
Cash, beginning of year . . . . .	2	—	—
Cash, end of year . . . . .	<u>\$ —</u>	<u>\$ 2</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 currently funded by transfers from the Ordinary Capital. Prior to January 1, 2012, transfers from the FSO were also approved.

### Note B – Summary of Significant Accounting Policies

The financial statements are prepared in conformity with United States generally accepted accounting principles and are expressed in United States dollars. 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 additions and deductions from fund balance 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 approved grants are recorded as an offset to Grants<sup>1</sup> in the period in which they occur.

### Transfers from the FSO and the Ordinary Capital

Transfers from the FSO and the Ordinary Capital are recognized when approved by the Board of Governors. However, these transfers are funded in accordance with the GRF funding requirements. The portion of approved transfers pending to be received is presented under Due from Fund for Special Operations and Due from Ordinary Capital 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 percentage approved by the Board of Governors. As such, no administrative expenses are recorded by the GRF.

### Taxes

The GRF, its property, other assets, income, and the operations and transactions it carries out are immune from all taxation and from all custom duties in its member countries.

### Note C – Transfers from the FSO and the Ordinary Capital

As part of the ninth general increase in the Bank's resources (IDB-9), the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide \$200 million annually in transfers of Ordinary Capital income to the GRF, beginning in 2011 through 2020. During 2013, the Bank approved income transfers from the Ordinary Capital in the amount of \$200 million (2012—\$200 million; 2011—\$200 million). In addition, general reserve transfers from the FSO of \$44 million were approved in 2011.

### Note D – Undisbursed Grants

Total grants approved for Haiti during 2013 amounted to \$188 million (2012—\$245 million). The following is a summary of changes in Undisbursed grants for the years ended December 31, 2013 and 2012 (in millions):

	Years ended December 31,	
	2013	2012
Balance at January 1, .....	\$ 577	\$ 481
Approvals.....	188	245
Cancellations.....	(1)	(2)
Disbursements.....	(186)	(147)
Balance at December 31, .....	<u>\$ 578</u>	<u>\$ 577</u>

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

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

	Years ended December 31,		
	2013	2012	2011
Change in fund balance.....	\$ 13	\$(43)	\$ 3
Difference between amounts accrued and amounts paid or collected for:			
Transfers from Fund for			
Special Operations .....	68	28	131
Transfers from Ordinary Capital .....	(84)	(79)	(200)
Grants.....	1	96	66
Net cash (used in) provided by operating activities.....	<u>\$ (2)</u>	<u>\$ 2</u>	<u>\$ —</u>

<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.

IDB GRANT FACILITY  
INTER-AMERICAN DEVELOPMENT BANK

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note F – Subsequent Events**

Management has evaluated subsequent events through March 30, 2014, which is the date the financial statements were available to be issued. As a result of this evaluation, there are no subsequent events requiring recognition or disclosure in the GRF's financial statements as of and for the year ended December 31, 2013.