Embracing Change *always*

2012 ANNUAL REPORT INTER-AMERICAN INVESTMENT CORPORATION

IIC

Financial Highlights

$ in thousands	Year ended December 31 2012	2011	2010	2009	2008
Statement of Income					
Total income	63,359	55,527	60,290	63,313	83,423
Total income, net of interest expense	46,186	41,545	41,326	41,790	52,824
Total operating expenses	40,200	33,090	28,686	25,876	24,732
Net income	5,560	10,305	12,447	5,211	13,913
Balance Sheet					
Net loan and equity investments	1,040,902	975,383	817,402	823,317	878,726
Total assets	1,814,513	1,482,864	1,426,588	1,423,983	1,507,044
Borrowings and long-term debt	969,358	658,504	634,118	645,556	733,817
Equity	778,580	777,746	773,051	758,879	744,249
Ratios					
Return on average assets	0.3%	0.7%	0.9%	0.4%	1.0%
Return on average equity	0.7%	1.3%	1.6%	0.7%	1.9%
Debt to equity	125%	85%	82%	85%	99%
Equity to assets	43%	52%	54%	53%	49%
Liquidity to total assets	42%	33%	42%	41%	40%
Administrative expense to average development-related assets	3.8%	3.5%	3.2%	2.8%	2.8%

Operational Highlights

$ in thousands	Year ended December 31 2012	2011	2010	2009	2008
Approvals					
Number of projects	73	71	49	40	64
Number of countries	16	18	15	17	18
Approval volume	378,930	464,681	374,775	300,810	300,548
Resource mobilization	384,400	471,637	536,000	283,000	300,600
Disbursements					
Disbursement volume	371,599	442,703	349,970	141,800	263,200
Mobilization volume	324,191	547,814	287,606	63,000	187,718
Investment Portfolio					
Number of projects	222	209	210	203	201
Outstanding development-related assets portfolio	1,088,316	1,020,349	873,938	889,794	933,850
Allowance for losses	47,414	44,966	56,536	66,477	55,124
Impaired assets	10,557	9,892	35,097	31,160	1,092
Impaired asset coverage	437.12%	454.54%	161.09%	213.34%	5,046.47%
Past-due loan percentage	0.7%	1.6%	3.0%	0.65%	0.56%
Technical Assistance					
Donor approvals	9,335,269	4,417,100	5,201,131	3,288,405	2,348,020
Number of technical assistance activities completed	236	204	351	150	96
Beneficiaries	1,511	1,725	986	770	349

44

member countries

The IIC, a member of the Inter-American Development Bank (IDB) Group, promotes private-sector development in Latin America and the Caribbean with a focus on small and medium-sized enterprises (SMEs). We help companies streamline management processes and provide them with financing in the form of equity investments, loans, and guarantees. Throughout our history, we have directly or indirectly funded more than 1.6 million loans and subloans to SMEs in Latin America and the Caribbean. For additional information on the IIC's activities, visit www.iic.org.

1.6 million

loans and subloans to SMEs

ARGENTINA
AUSTRIA
BAHAMAS
BARBADOS
BELGIUM
BELIZE
BOLIVIA
BRAZIL
CHILE
COLOMBIA
COSTA RICA
DENMARK
DOMINICAN REPUBLIC
ECUADOR
EL SALVADOR
FINLAND
FRANCE
GERMANY
GUATEMALA
GUYANA
HAITI
HONDURAS
ISRAEL
ITALY
JAMAICA
JAPAN
MEXICO
NETHERLANDS
NICARAGUA
NORWAY
PANAMA
PARAGUAY
PEOPLE'S REPUBLIC OF CHINA
PERU
PORTUGAL
REPUBLIC OF KOREA
SPAIN
SURINAME
SWEDEN
SWITZERLAND
TRINIDAD AND TOBAGO
UNITED STATES OF AMERICA
URUGUAY
VENEZUELA

CONTENTS

Embracing Change *always*

Our main source of strength is our capacity to deal with change, which is key to the relevance of our mission. The SME sector is challenging, as these companies are ordinarily highly vulnerable, and even more so when operating with the world economy in turmoil. We need to be flexible and adaptive if we are to support them.

Luis Alberto Moreno
Chairman of the Board
of Executive Directors

Letter of Transmittal

March 17, 2013

Chairman of the Board of Governors
Inter-American Investment Corporation
Washington, D.C.

Mr. Chairman:

Pursuant to the provisions of Article IV, Section 9(a), of the Agreement Establishing the Inter-American Investment Corporation, I am pleased to transmit the Annual Report of the Corporation for 2012 and its audited financial statements, including its balance sheet as of December 31, 2012 and 2011, and related statements of income, comprehensive loss, changes in equity, and cash flow for the years then ended.

The report summarizes the Corporation's main achievements and key milestones over the course of the year.

Yours sincerely,

Luis Alberto Moreno
Chairman
Board of Executive Directors
Inter-American Investment Corporation

Letter from the General Manager

Embracing Change

History is a study in contrasts. On February 27, 2012, the same day the German parliament approved a second bailout package for Greece, Fitch Ratings announced to the world that, based on our inherent strengths, it had assigned the IIC a credit rating of "AAA."

In fact, the international risk rating agencies had been acknowledging the strengths of the IIC even before this latest announcement. Throughout 2012, the Corporation has maintained sound levels of capitalization and liquidity. We have continued to be profitable and taken steps to ensure that our funding mechanisms remain proactive and diversified.

We are on track to meet many of the growth and productivity targets set in the IIC's 2011–2013 business plan, even with one year remaining. Our projects are benefiting more and more small and medium-sized enterprises, without neglecting expansion to larger companies. This year, project approvals for the region's smallest economies account for 60% of all operations—11 full percentage points more than in 2010 (the end of our last business plan cycle). We have grown as an organization dedicated to financing high-impact sustainable development projects, as demonstrated by the mounting number of clean energy and infrastructure projects backed by the IIC.

Strength cannot be built overnight: if 2012 has cemented the foundations for a new stage in the

Jacques Rogozinski
General Manager

For more than 10 years now, we have been crafting cohesive strategies attuned to the needs of SMEs as well as changes in the market.

Corporation's growth, it is because we have continued to build on our efforts during 2011 and previous years. For the first time in 2011, disbursements reached the symbolic one-billion-dollar mark. We have, directly or indirectly, funded more than 1.6 million loans and subloans and used our resources to help hundreds of thousands of businesses. Over 5,000 companies have received training through the FINPYME program, our value added initiative.

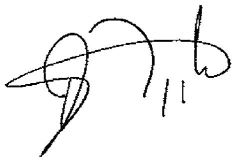
Even as the world continues to grapple with the effects of the current economic crisis, the demonstrated strength and prosperity of the IIC stand as testament to our prudent resolve to move forward toward our goals without jeopardizing sustainability. This strategy grew out of a conclusion reached long ago—that change is the only constant. For more than ten years now, we have been crafting cohesive strategies attuned to the needs of SMEs as well as changes in the market. Development is neither pipe dream nor rhetoric, but a dynamic effort to overcome existing problems and anticipate future scenarios. As such, it requires a consistent course of action aligned with the needs and capabilities of each country's private sector. The best approach for Latin American and Caribbean economies—and for the IIC—is therefore to continue addressing the challenges of today while adhering to a long-term vision.

The IIC has systematically strived to build a horizontal, innovative, and transparent culture—one that promotes the sharing of information. Our business model fosters the roll-out of innovative products and services for creative, responsible businesses and includes our resumption of equity investments. The Corporation is constantly forging new alliances aimed at boosting private-sector competitiveness throughout Latin America and the Caribbean.

While all these strategies may spark varying levels of healthy disagreement, one thing is certain: what the IIC has built over the years would never have been possible without the resolve and brain capital of each and every member of its professional staff and the unwavering support of its Board of Executive Directors.

As this is my final letter as the IIC's general manager, I wish to express my heartfelt gratitude to all our current and former staff for their contributions during my tenure. Promoting the sustainable development of private enterprise across the region—and thereby giving people the keys to a better life—can only be accomplished by great men and women. I wish to thank you all for that commitment.

In closing, this is not good-bye so much as "so long for now" and "until we meet again."



Jacques Rogozinski
General Manager
December 2012

The IIC Strategy Growth and Productivity

The IIC's mandate is to promote economic development in Latin America and the Caribbean by supporting small and medium-sized enterprises. For nearly 25 years, the IIC has provided the private sector with loans, equity financing, guarantees, local currency loans, and other financial instruments, with a view to maximizing its development impact, the cornerstone of its mandate. In the process, the IIC's strategy has consistently been to ensure the financial viability and long-term sustainability of its operations.

In 2011, the IIC rolled out its 2011–2013 business plan—symbolized by the formula 1 + 1 = 3—, designed to maintain high rates of growth and productivity while reaching more SMEs across the region.

The IIC's efforts toward meeting its strategic goals in 2012 have yielded extremely positive results. The Corporation's contribution to development, as measured by the Development Impact and Additionality Scoring (DIAS) system, has been more than satisfactory (see the Development Outcomes section). The average return on capital—a measure of financial sustainability—was 0.71%. SME clients accounted for 78% of the IIC's gross loan and equity outstanding (GLEO) portfolio, well on the way to meeting the target of 85% established for year-end 2013. SMEs represent 82% of the Corporation's outstanding portfolio, compared with the business plan target of approximately 75% by year-end 2013.

These results are encouraging. Portfolio growth—one of the pillars of the 1 + 1 = 3 formula—is at 23.3%, just below the 25% growth objective established for the entire three-year period covered in the business plan. The IIC remains a highly liquid organization, with up to 26 months of operations coverage, which is above the target 18-to-24-month range. The average life of its portfolio is 2.7 years, up from 2.5 years in 2010.

The sustainability of these results hinges on continued implementation of the IIC's 1 + 1 = 3 strategy. The Corporation has been expanding its FINPYME additionality and technical assistance programs and will continue these efforts, reaching out to more SMEs in need of funding and broadening its local currency operations model. A new model for reaching larger clients will also help the IIC sustain its planned growth rate, allowing it to meet the established 25% target by next year.

The IIC's productivity has been well established in recent years. Its goal remains the same, namely to approve a total of 80 projects per year by 2013, while scaling back its operating expenses. Meeting this target—increasing productivity by 12.5%—will require the Corporation to fine-tune its new human resources model, make significant improvements to its current systems and procedures, and negotiate service agreements with other members of the IDB Group in an effort to scale up its competitiveness.

By promoting sustainable development, the IIC is better poised to transfer know-how to its clients, allies, partners, and the private sector in general throughout Latin America and the Caribbean. Such an outcome would be the ultimate proof of its capability, flexibility, and productivity. The strength amassed by the IIC in recent years is both the starting point and the goal of this process.

a strategy that's working

In 2011, the IIC rolled out its 2011–2013 business plan—symbolized by the formula 1 + 1 = 3—designed to maintain high rates of growth and productivity while reaching more SMEs across the region.

1+1=3

Financial Products

Corporate Projects

The IIC has a clear objective: to devote 85% of its outstanding portfolio to helping small and medium-sized enterprises. This objective is attained by lending directly to individual businesses, providing funding to credit institutions that supply financing at the local level, and supporting large corporate value chains with small and medium-sized suppliers, distributors, and contractors.

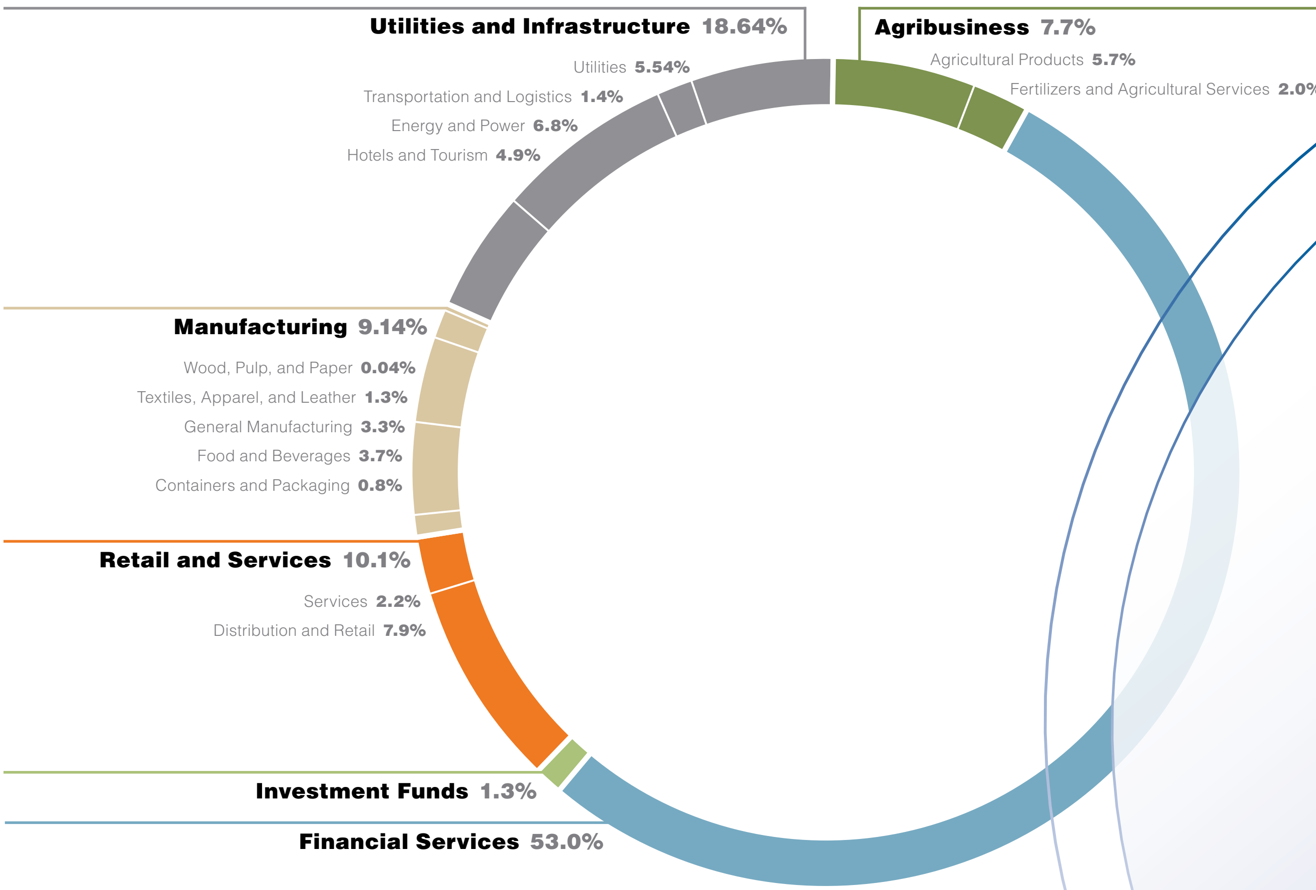
The IIC's operations are geared to supporting private enterprise in two main areas: direct and indirect financing for SMEs and advisory services in conjunction with long-term financing, particularly in areas such as energy and infrastructure. In 2012, the Corporation redoubled its efforts to identify and ensure an adequate supply of financial products for new value chains.

In all, the IIC approved $88.2 million in operations for large companies. It also stepped up lending under the FINPYME *Credit* program, granting 15 loans totaling $4 million with an average term of five years.

With respect to infrastructure projects, the IIC approved 13 direct financing operations totaling $70.6 million. Latin America and the Caribbean still need significant infrastructure investments to be competitive and to grow. The IIC believes the private sector can play an important role in financing and managing these investments. In 2012, the Corporation advised a number of private local operators on how to structure their investments and attracted private investors to these operations.

The Development Mix

Uses of IIC Private Sector Loan and Investment Approvals in 2012



COMOHOGAR

A Store and a Chain

Comohogar, Ecuador's leading chain of household goods and appliance stores, offers a good example of the IIC's strategy at work. Comohogar sources over 30% of the products it sells from 46 local SMEs. Back in 2008, the IIC made a $10 million loan to the company, which helped finance its expansion and boost its sales by 46% over a 4-year period. Comohogar's supplier network was reinforced as a result of the company's expansion and may be strengthened further over the next few years thanks to a new $10 million loan to Comohogar from the IIC in 2012, which will be used to finance a new phase of expansion.

FINPYME *Credit*

More Financing in Small Markets

In 2012, FINPYME *Credit* approved 15 loans totaling $4 million in five countries of the region. This tool provides competitive financing for SMEs with growth potential in specific countries in the form of small loans ranging from $100,000 to $600,000. FINPYME *Credit* currently provides working capital loans and financing to purchase goods in small countries like The Bahamas, Bolivia, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Trinidad and Tobago, and Uruguay.

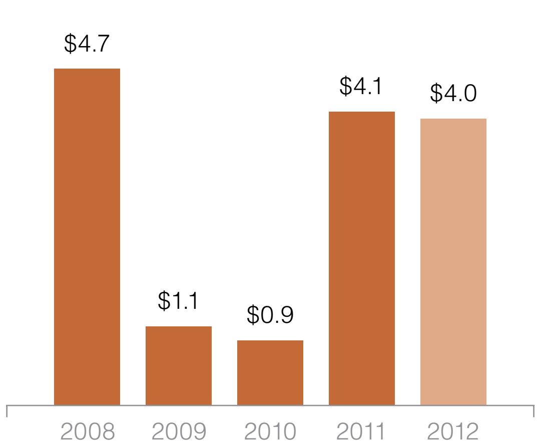
The IIC established the FINPYME *Credit* program to supplement its FINPYME initiative, which provides assistance to small and medium-sized enterprises beyond financing. By 2013, the program is expected to offer new products such as subordinated loans.

FINPYME *Credit* provides U.S. dollar-denominated loans at competitive fixed interest rates with terms of three to seven years. The program also offers technical assistance to improve financial, environmental, and business management practices.

Building on Past Successes

Loan Approvals by the SBRL and FINPYME *Credit,* 2008–2012

Figures in millions of dollars



SERVICIOS AGRÍCOLAS JOMA

Fields of Green

The cropping cycle waits for no one. Failure to plant, harvest, and warehouse crops at precisely the right time places the entire operation at risk. JOMA, a Bolivian agricultural services company, is well aware of this fact. In 2012, the IIC provided the company with a loan of $200,000 to help identify new markets for its planting and harvesting equipment and agricultural services during the growing season. JOMA offers its customers a variety of services, including soil preparation, planting, harvesting, and field and equipment maintenance. Founded in Santa Cruz de la Sierra in 1999, the company is looking to expand its service area to other parts of the country.


beyond financing
SME
tools
FINPYME Credit
2012
15 loans
5 countries

Projects with Financial Institutions

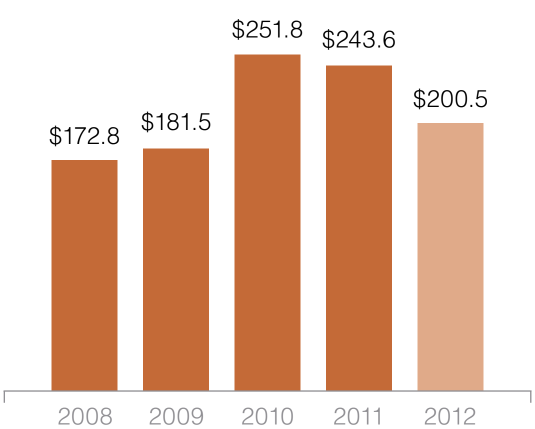
To ensure that its funding reaches small and medium-sized enterprises, the IIC invests in and conducts joint operations with a number of financial institutions in Latin America and the Caribbean. It also enters into agreements with local banks to channel its funding to small businesses through long-term loans. In 2012, IIC loans to financial institutions totaled $200.5 million.

The IIC also mobilizes additional resources by securing the participation of other banks and structuring A/B loans to ensure that greater levels of funding reach small businesses. Through partial credit guarantees, the IIC also helps medium-sized enterprises gain access to the capital markets and facilitate borrowing from institutional lenders.

The Multiplier Effect of IIC Loans

Loan Approvals to Financial Institutions, 2008–2012

Figures in millions of dollars



CAFSA

Deals on Wheels

Corporación CAFSA provides financing to purchase and lease automobiles for personal use, trucks for light or heavy cargo, and passenger transport vehicles. The variety of services the company offers through its subsidiaries enables it to support very dynamic stakeholders of the Costa Rican economy.

CAFSA's subsidiaries have grown their portfolio by nearly 80% since the IIC's first loan to the company back in 2006. The IIC made a third medium-term loan of $3 million to Corporación CAFSA in 2012, which includes a "B" loan from other lenders. This loan structure will enable the company to expand its funding base and grow in a sustainable manner.

Corporación CAFSA has a customer base of nearly 4,000 in rural Costa Rica as well as the country's greater metropolitan area. It makes loans of approximately $20,000 to microentrepreneurs and small and medium-sized businesses involved in services and the distribution of mass consumer products, as well as independent contractors.

Local Currency Investments

SMEs in the market for foreign currency loans often suffer the consequences of volatile exchange rates.

In May 2011, the IIC placed a bond issue on the Mexican capital market to establish its own local currency treasury. In April 2012, it issued another bond for 800 million Mexican pesos (equivalent to $61.5 million at the time) to enhance this treasury and address the needs of Mexican SMEs.

This year's bond issue is the IIC's third since establishing treasury in Mexican pesos and marks the first step in the Corporation's plan to scale up and expand its local currency operations to other Latin American countries. This latest operation reaffirmed the IIC's commitment to the development of local capital markets.

ARENDAL

More Support for Value Chains

In September 2012, the IIC approved a credit line of 100 million Mexican pesos (approximately $7.7 million based on the exchange rate as of year-end 2012) for Arendal, a Mexican construction firm. The proceeds were used to finance the company's working capital needs and implement public works and services contracts with large Mexican corporations, such as Petróleos Mexicanos (PEMEX).

With more than 15 years operating in the market, Arendal specializes in the construction of pipelines, electromechanical and heavy civil engineering works, and the installation of fiber optic networks. The company's activities have a high impact on value chains in Mexico given its extensive network of SME subcontractors. On average, for each bid the company wins, it subcontracts work to some 50 SMEs. Arendal currently employs more than 1,200 persons directly and may well add another 200 jobs over the next five years.

local needs met

real impact for SMEs

Equity Investments and Subordinated Debt

From Clients to Partners

In 2012, the IIC approved $5.5 million in equity investments for a financial institution and a multisector investment fund. In addition, the IIC approved a total of $39.5 million in subordinated debt in the distribution and retail and financial services sectors. Of this amount, $27.25 million was funded by the IIC directly, and the remaining $12.25 million, by the China-IIC SME Equity Investment Trust Fund—or the China-IIC Fund.

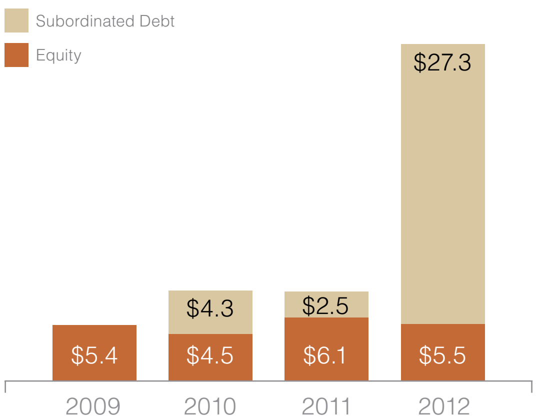
Equity and quasi-equity investments are a catalyst for obtaining funding to create jobs and boost the productivity and competitiveness of the region's businesses, while allowing the IIC to share in their risks and profits. In many cases, these investments are supplemented with technical assistance services to help SMEs achieve integral growth.

The IIC has led the way in making equity investments in the region, promoting many of the first regional investment funds dating as far back as 1991. The China-IIC Fund was established in 2009 with the admission of the People's Republic of China as an IIC member country. For its part, China has contributed $75 million to supplement IIC funding. The China-IIC Fund has a stake in all equity and quasi-equity investments approved by the IIC in 2012.

Investing in Growth

Equity Investments and Subordinated Debt, 2009–2012

Figures in millions of dollars



CORPORACIÓN FINANCIERA DE OCCIDENTE S.A. DE C.V. (FINOX)

From SOFOL to Niche Bank

Thanks to the IIC, Corporación Financiera de Occidente S.A. de C.V. is now in a position to take a qualitative leap forward. As a limited-scope financial institution or “SOFOL,” this Mexican financial entity was limited to making specialized loans to specific industries or activities and had limited access to financing. Now, however, an investment by the IIC and the China-IIC Fund to purchase 10% of Finox’s share capital will help it become one of Mexico’s first nonbank financial institutions to convert to a niche bank. This will enable Finox to serve the general public, grow its loan portfolio, seek out new clients, and, naturally, access fresh sources of funding. This is an innovative investment in the sense that it involves a transfer of specialized know-how to Finox on best corporate governance practices. The operation was denominated in Mexican pesos, thereby enabling Finox to take advantage of the IIC’s local currency treasury.

Spain-IIC Haiti SME Development Fund

The Spain-IIC Haiti SME Development Fund was established in 2011 by the IIC and the Government of Spain. Less than a year later, in February 2012, Sèvis Finansye Fonkoze, Haiti's leading microfinance institution, received its first cofinancing line for up to $2 million.

The Fund has an innovative structure. Its objective is to cofinance loans ranging from $10,000 up to $100,000 with local financial institutions. This first transaction enabled Fonkoze to provide financing for 59 businesses—57 of which are headed by women entrepreneurs—that import and distribute footwear, kitchen items, building materials, and other essential goods in Haiti, a country still recovering from the effects of the 2010 earthquake. These businesses are creating jobs for over 100 workers.

The Spain-IIC Fund also approved operations with Capital Bank and Banque Nationale de Crédit designed to expand its cofinancing program, improve access to credit, and promote private-sector development in Haiti.

"Partnering with the Spain-IIC Haiti SME Development Fund has allowed Sèvis Finansye Fonkoze to improve its skills and expand its SME portfolio by offering credit under better conditions to its clients. Thanks to the Fund, business and employment opportunities in Haiti should increase."

ANNE HASTINGS
CEO, SÈVIS FINANSYE FONKOZE

MARIE SHARP'S FINE FOODS LTD.

Exporting is never easy, but how much effort would it take for a tiny Belizean manufacturer of preserves and condiments to sell its hot sauces in, say, Korea? Less than one might think, provided that support is available, as suggested by the story of Marie Sharp's Fine Foods Ltd., which developed an effective internationalization strategy with help from FINPYME *Diagnostics.*

In May 2012, two executives from the firm—which also manufactures fruit squashes—attended the Seoul Food Expo, Asia's largest food trade show, as guests of the IIC. One of Shanghai's largest marketing firms bought $50,000 worth of the small Central American company's products. The company also closed a deal with Korea's leading poultry farming operation, to which it has already dispatched two shipments of its processed fruits. The company's owner, Marie Sharp, is now looking to make additional inroads into the Asian market. As she explained, "this was a first crucial step in breaking into new markets and expanding our family business."

Technical Assistance Programs

The Long Reach of FINPYME

In 2012, IIC donors approved $9.3 million in funding under the IIC's six technical assistance programs. Contributions from Austria, France, Italy, Norway, the Republic of Korea, Spain, Switzerland, and the United States, as well as Belgium's Walloon Region, the Clean Technology Fund, and the Nordic Development Fund, helped ensure the continued delivery of training and technical assistance services to thousands of Latin American and Caribbean SMEs looking to enhance their management and planning capabilities to meet the strategic challenges of the global marketplace.

FINPYME Diagnostics

One hundred sixty-nine companies from six countries—The Bahamas, Barbados, Belize, Colombia, Jamaica, and Trinidad and Tobago—benefited from the 10 workshops offered by FINPYME *Diagnostics*, which also conducted 22 individual technical assistance sessions over the course of the year. FINPYME *Diagnostics* is a two-phase program. The first phase focuses on pinpointing management areas in need of improvement, while the second provides the requisite individual or group technical assistance services to address problem areas. One of the many benefits of the FINPYME *Diagnostics* program is better access to long-term financing, as the diagnostic review process helps companies compile the types of information banks require to make lending decisions.

FINPYME ExportPlus

This program, in line with the World Trade Organization's Aid-for-Trade initiative and geared to building the capacity of SMEs to access export markets, conducted 43 workshops and 26 individual technical assistance sessions for 1,146 businesses in 2012. FINPYME *ExportPlus,* the most active of the FINPYME brand programs, reached 12 markets in 2012: The Bahamas, Barbados, Bolivia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Jamaica, Nicaragua, and Suriname. As part of the program, the IIC conducts market research, selects companies in strategic sectors that could benefit from its assistance, and provides them with the direct technical assistance necessary to break into the global marketplace. Specifically, FINPYME *ExportPlus* helps SMEs obtain export certificates for their products, streamline their operating and management procedures, and boost their competitiveness.

FINPYME Family Business

The FINPYME *Family Business* program, designed to promote the use of good governance practices and tools among family-owned businesses, conducted three workshops and provided direct technical assistance to five family businesses in 2012. Seventy-six family businesses benefited from the program's workshops and training sessions led by specialized consultants. The customized technical assistance services furnished as part of this year's program were geared to helping businesses in Colombia, Costa Rica, Mexico, and Paraguay. The IIC is spearheading the efforts in Latin America and the Caribbean aimed at supporting family businesses, going beyond financing to include transferring know-how.

CAFÉ BRITT

The Art of Costa Rica

Masks, coffee plantations, traditional Costa Rican folklore, bird life in the Guanacaste region, and the palms of Limón—all these emblematic images of Costa Rica are brought to life in the handicrafts of 30 local artists who received training from the FINPYME *Technical Assistance* program. For a period of six months ending in early 2012, these Costa Rican artisans were instructed in the use of new design techniques to improve and innovate their crafts. Café Britt, Costa Rica's leading exporter of gourmet coffees and owner of shops by the same name that sell handicrafts in ten airports across Latin America, worked with the IIC, the Costa Rican Government, and the Costa Rica Institute of Technology to arrange for the artisans to showcase their new designs at the San José International Arts Festival in the spring of 2012.

FINPYME *Integrity*

This past year, Barbados, Jamaica, and Trinidad and Tobago once again welcomed FINPYME *Integrity* instructors and consultants, who furnished technical assistance to 26 businesses. Since the beginning of the program, 212 SMEs in the three countries have received training to help them adopt and implement practices to promote integrity, transparency, and good business ethics. FINPYME *Integrity* also helps businesses comply with standards, ensure transparent reporting to their shareholders, and prevent fraud, thereby increasing the chances for being included in the value chains of large companies with high corporate integrity standards. In 2012, FINPYME *Integrity* organized a meeting of its consultants, instructors, and donors in the Caribbean to discuss the lessons learned from its pilot program. The meeting also helped strengthen the capacity of several local organizations. Through FINPYME *Integrity,* the IIC has developed a knowledge toolkit to train instructors in business ethics. It has also designed tools to help companies develop and disseminate a code of ethics tailored to their specific circumstances.

FINPYME *Technical Assistance*

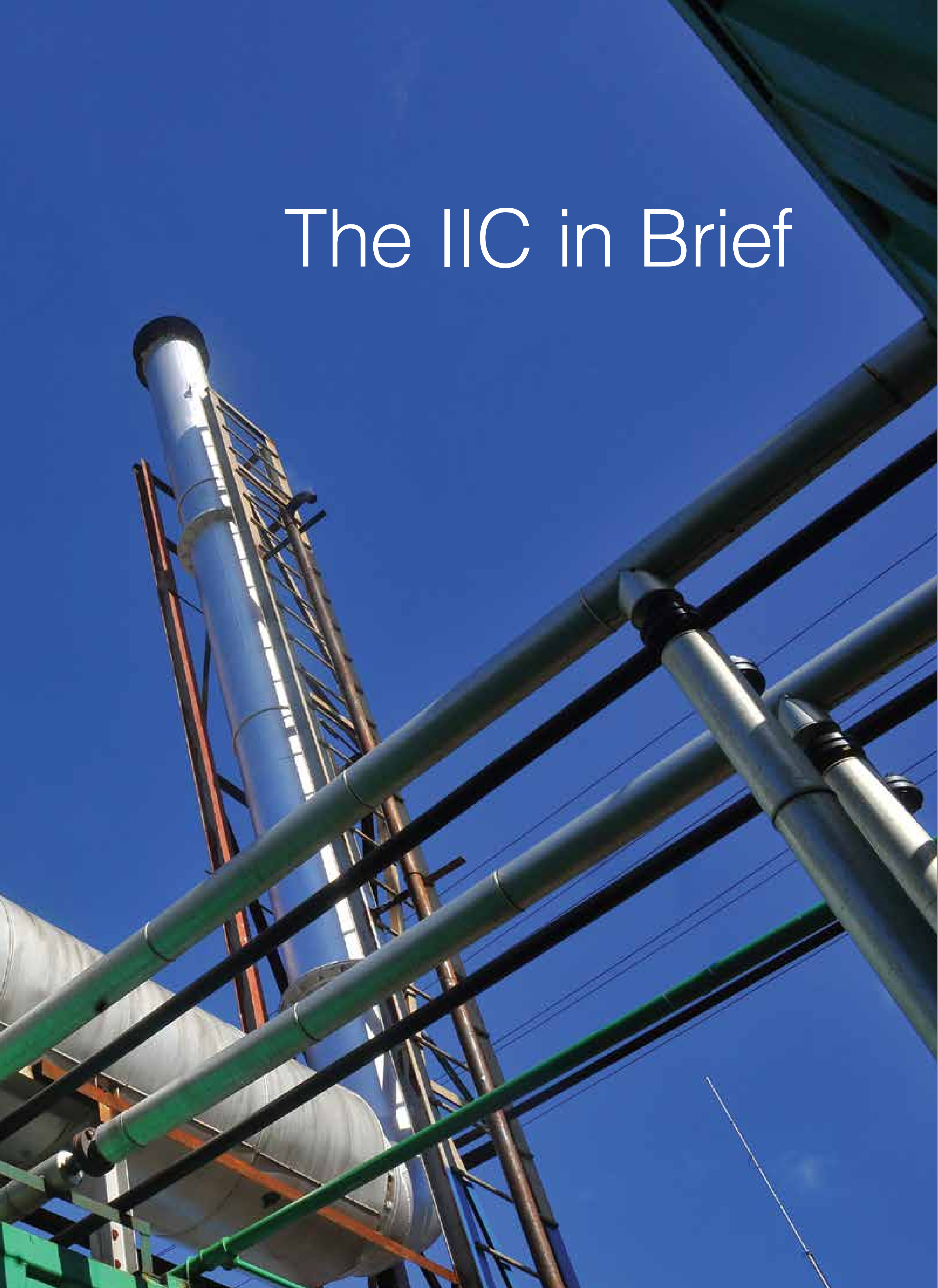
In 2012, FINPYME *Technical Assistance* continued to expand its advisory services. During the past year, a total of 11 specialized technical assistance activities were conducted in Chile, Colombia, Costa Rica, Ecuador, Jamaica, Nicaragua, and Peru. FINPYME *Technical Assistance* is an advisory services program that provides current and potential IIC clients with advice on everything from environmental compliance and financial analysis to technical and market evaluations.

GREENPYME

The problem of climate change requires more than just lip service: it calls for action. Accordingly, the 110 energy audits conducted by GREENPYME consultants attest to the IIC's commitment to promoting more rational energy use. In 2012, energy audits were conducted in Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua to encourage local SMEs to adopt good energy practices, a decision requiring investment in more efficient and environmentally friendly technologies and equipment. GREENPYME conducted six energy efficiency workshops attended by 57 engineers from Central America. One of these workshops was conducted in Korea by KEMCO (Korea Energy Management Corporation). The participants received information on incentives for diversifying their sources of energy, since most rely heavily on fossil fuels that pollute the environment and expose them to sharp price fluctuations. GREENPYME was also launched in Bolivia, where the program will be mounting a number of activities over the next two years.

PUERTO CABEZAS POWER S.A.

The IIC in Brief



Operational Highlights: A Strong Year

Summary of IIC Operations

The IIC's operational and financial performance in 2012 was very strong, despite continued economic uncertainty in the United States and the eurozone—both key export markets for many Latin American and Caribbean countries. In 2012, growth in the region was 3.4%—down from the 6.2% and 4.5% recorded in 2010 and 2011, respectively. Despite this weak backdrop, the IIC was able to exceed its business plan targets and approve 73 operations during the year, investing a total of $378.9 million in the region to further support SME growth and development.

This year, the IIC also kept its focus on the strategic initiatives outlined in its business plan for 2011–2013, such as concentrating its activities in less developed markets, bolstering its capacity to offer local-currency funding, and granting more small loans through its FINPYME *Credit* program.

Of the 73 operations approved in 2012, a full 60% were in the region's smallest economies, compared to only 49% at the end of the last planning cycle (2008–2010). Of note were significant investments in Jamaica's tourism industry, a second loan to an existing client in Haiti, and a number of infrastructure projects in Ecuador. The Corporation also approved substantial funding for hydropower projects during the year.

The IIC continues to view the region as an important source of fresh business opportunities and fertile ground for piloting new initiatives and financial products.

Early in 2012, the IIC launched its fourth local-currency bond issue—its third thus far in the Mexican securities market. The IIC bond issue totaled 800 million Mexican pesos, or approximately $60 million, the proceeds of which have been used to benefit Mexican SMEs in 2012 and to create a solid pipeline of potential investment opportunities for 2013.

The FINPYME *Credit* program was revamped in 2012 to make it more efficient and responsive to the needs of the region's smallest SMEs. Strategic alliances with both the Inter-American Development Bank and the Multilateral Investment Fund—the other members of the IDB Group—also helped create new business opportunities in The Bahamas, Haiti, and Trinidad and Tobago. In 2012, the IIC approved 15 FINPYME *Credit* projects averaging $265,333.

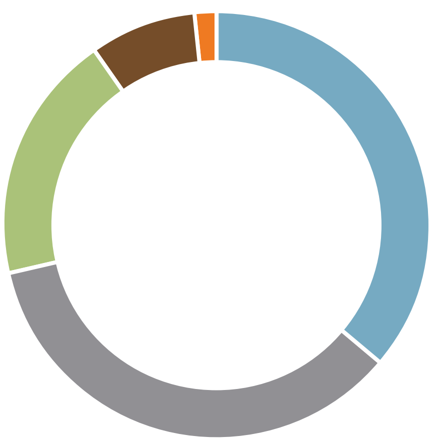
All these activities helped grow the IIC's outstanding portfolio by 7%, from $1.02 billion at the close of 2011 to $1.09 billion by year-end 2012. Most—approximately 67.6%—of the portfolio remained concentrated in the financial sector. Energy and power projects and investments in agricultural products made up most of its corporate operations portfolio (32.4%).

2012 Investment Activity / Breakdown of Approvals

Investment Activity by Sector

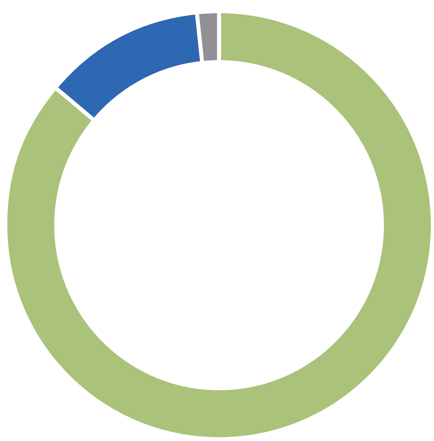
- **Financial Services** 53.0%
- **Distribution and Retail** 7.9%
- **Energy and Power** 6.8%
- **Agricultural Products** 5.7%
- **Utilities** 5.5%
- **Hotels and Tourism** 4.9%
- **Others** 4.8%
- **Food and Beverages** 3.7%
- **General Manufacturing** 3.3%
- **Services** 2.2%
- **Fertilizers and Agricultural Services** 2.0%

Investment Activity by Region



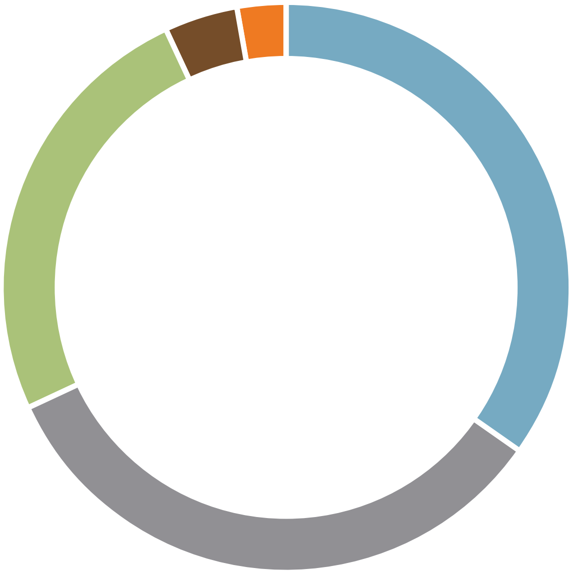
- **Mexico and Central America** 36.2%
- **Andean Countries** 35.2%
- **Southern Cone** 18.9%
- **Caribbean** 8.1%
- **Regional** 1.6%

Investment Activity by Type



- **Loans** 86.3%
- **Subordinated Debt** 12.2%
- **Equity and Quasi-equity** 1.5%

Outstanding Portfolio by Region



Southern Cone 34.8%

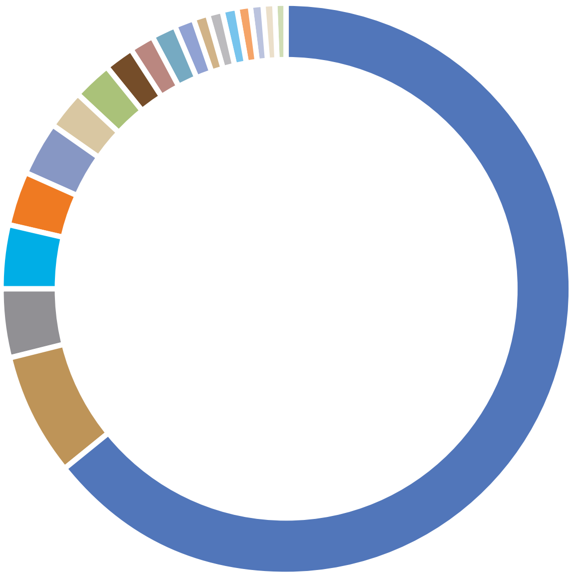
Mexico and Central America 33.3%

Andean Countries 25.2%

Regional 4.0%

Caribbean 2.7%

Outstanding Portfolio by Sector



Financial Services 66.1%

Energy and Power 6.1%

Agricultural Products 3.9%

Transportation and Logistics 3.7%

Fertilizers and Agricultural Services 3.2%

Distribution and Retail 3.1%

General Manufacturing 2.3%

Food and Beverages 2.2%

Investment Funds 1.5%

Aquaculture and Fisheries 1.5%

Livestock and Poultry 1.5%

Hotels and Tourism 0.9%

Oil, Gas, and Mining 0.9%

Others 0.8%

Information, Communications, and Technology 0.7%

Utilities 0.5%

Containers and Packaging 0.5%

Wood, Pulp, and Paper 0.4%

Textiles, Apparel, and Leather 0.4%

SME Initiatives and Programs

Program	Measure	Value
FINPYME *Credit*	Cumulative number of projects approved	67
FINPYME *Diagnostics*	Cumulative number of diagnostics completed	365
	Cumulative number of companies that received individual or group technical assistance	1,122
FINPYME *ExportPlus*	Cumulative number of SMEs that received individual or group technical assistance	1,978
	Cumulative number of technical assistance activities	124
FINPYME *Family Business*	Cumulative number of SME participants in workshops	397
	Cumulative number of technical assistance activities	199
FINPYME *Integrity*	Cumulative number of SME participants in workshops	212
	Cumulative number of technical assistance activities	32
FINPYME *Technical Assistance*	Cumulative number of projects with a technical assistance component	91
GREENPYME	Cumulative number of SME participants in workshops	946
	Cumulative number of technical assistance activities	219
IFEM	Cumulative number of projects approved	17
IMIF	Cumulative number of projects approved	3
Loans made through financial intermediaries	Cumulative number of subloans	1,687,267
Sustainability Week	Cumulative number of participants in workshops	652
	FINPYME *Credit* average financing	$ 265,627
	IFEM average financing	$ 2,097,059
	IMIF average financing	$ 3,533,333
	Cumulative value of technical assistance for IIC direct clients	$ 4,583,649

Aggregate Procurement

($ in thousands)

Country	Amount
Argentina	$479,258
Austria	$ 358
Bahamas	$ 10,112
Barbados	$ 11,250
Belgium	$ 6,853
Belize	$ 8,227
Bolivia	$ 13,231
Brazil	$283,615
Chile	$175,296
Colombia	$ 32,790
Costa Rica	$ 72,902
Denmark	$ 8,102
Dominican Republic	$ 54,243
Ecuador	$ 40,433
El Salvador	$ 15,921
Finland	$ 2,331
France	$ 34,161
Germany	$ 84,176
Guatemala	$ 51,423
Guyana	$ 600
Honduras	$ 59,214
Israel	$ 13,530
Italy	$ 49,873
Jamaica	$ 48,083
Japan	$ 22,170
Mexico	$100,637
Netherlands	$ 70,593
Nicaragua	$ 42,600
Norway	$ 7,551
Panama	$ 43,530
Paraguay	$ 79,365
People's Republic of China	$ 16,790
Peru	$ 79,919
Portugal	$ —
Regional	$ 18,530
Republic of Korea	$ 9,513
Spain	$ 34,976
Suriname	$ —
Sweden	$ 6,488
Switzerland	$ 27,972
Trinidad and Tobago	$ 1,000
United States	$875,238
Uruguay	$ 87,248
Venezuela	$ 42,531

Development Outcomes

The IIC's monitoring and evaluation framework is guided by the good practice standards set by the Evaluation Cooperation Group of the multilateral development banks. The framework is closely aligned with these standards, meeting 98% of them. IIC officials establish clear, standardized, verifiable indicators and respective baselines and targets at the start of each project through the Development Impact and Additionality Scoring (DIAS) system. They then proceed to monitor the progress of each operation through all phases of the project cycle and evaluate it using Expanded Annual Supervision Reports (XASR), which are in turn validated by the IDB's Office of Evaluation and Oversight (OVE).

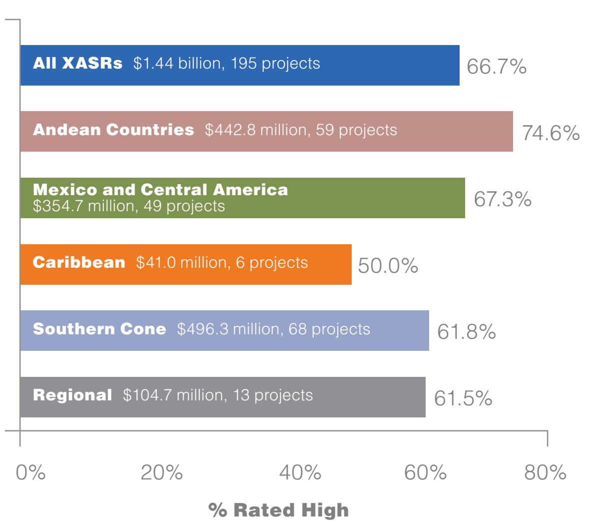
In 2012, the IIC evaluated 18 projects, including 15 corporate projects and 3 projects with financial intermediaries, and submitted the respective reports to OVE for validation in 2013. OVE, in turn, will present its findings to the Board of Executive Directors. Also in 2012, OVE validated 24 IIC project evaluation reports—11 corporate projects and 13 operations with financial intermediaries—88% of which achieved high development outcomes, compared with 81% in 2011.

The IIC uses its DIAS system to track the development impact of its operations. The 65 projects approved by its Board of Executive Directors in 2012 had an average DIAS score of 7.74, thus exceeding the 7.0 target score in its business plan for 2011–2013.

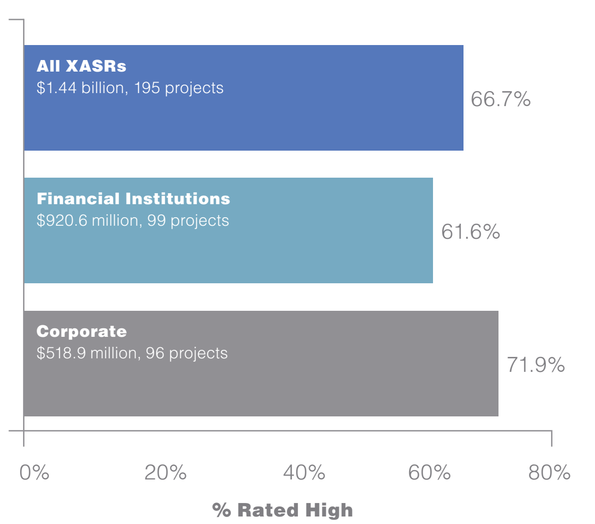
Development outcomes weighted by size proved to be stronger than unweighted development outcomes, with 91% rated high (see Development Outcomes from 2012 Evaluations). When looking at 2012 cumulative development outcomes evaluated by XASRs (195 total), 67% achieved high results compared with 64% in 2011 (see Cumulative Development Outcomes for Investments). With regard to region, the Andean region had the strongest development outcome—75% with high results (see Development Outcomes by Region). In terms of type of investment, corporate projects outperformed financial institutions by 10% (see Development Outcomes by Type of Investment). When comparing expected development outcomes (DIAS) with actual results (XASRs), the latter proved to be higher (see Predicting Development Outcomes: A Comparison of DIAS and XASR Data).

First introduced in 2008, the DIAS system is continually upgraded with state-of-the-art techniques for measuring development effectiveness. The IIC is in the process of developing its new and more sophisticated DIAS Plus system, which includes detailed indicators for measuring development results and the impact of its projects based on data collected before, during, and after project implementation. These new indicators will not only measure specific variables, but also evaluate the quality of the results achieved based on the practices of peer institutions. The new system will be rolled out in early 2013, following an internal review.

Development Outcomes by Region*

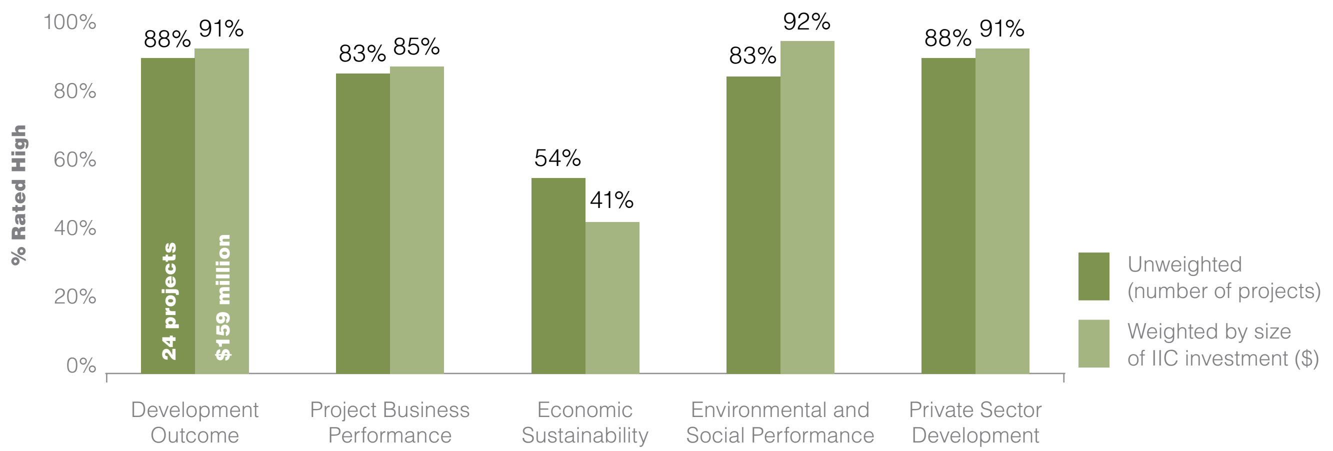


Development Outcomes by Type of Investment*

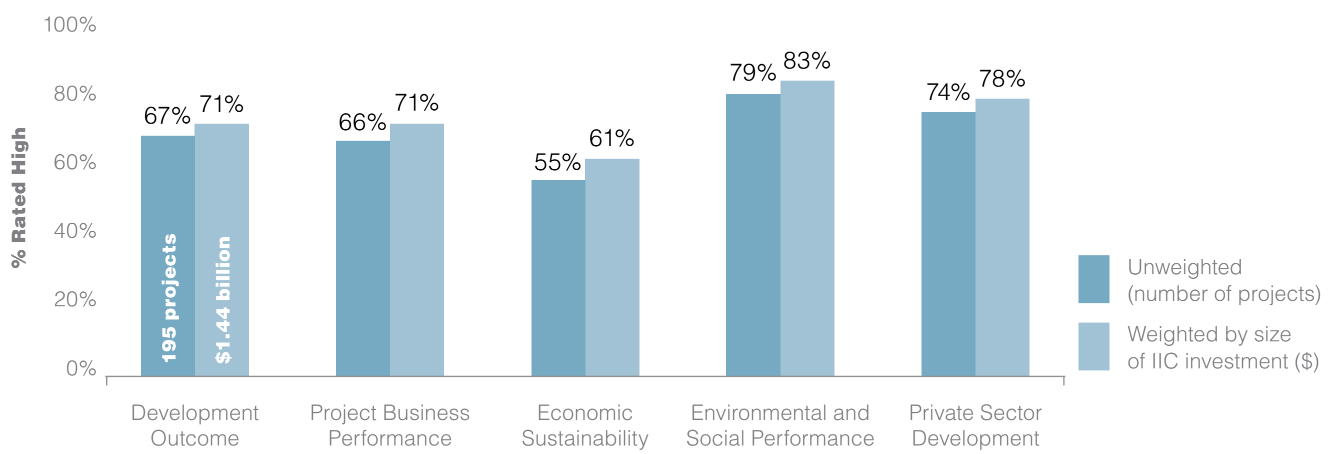


*All XASRs (as of December 31, 2012) prepared by the IIC and validated by OVE that achieved high development outcomes, by region and type of investment.

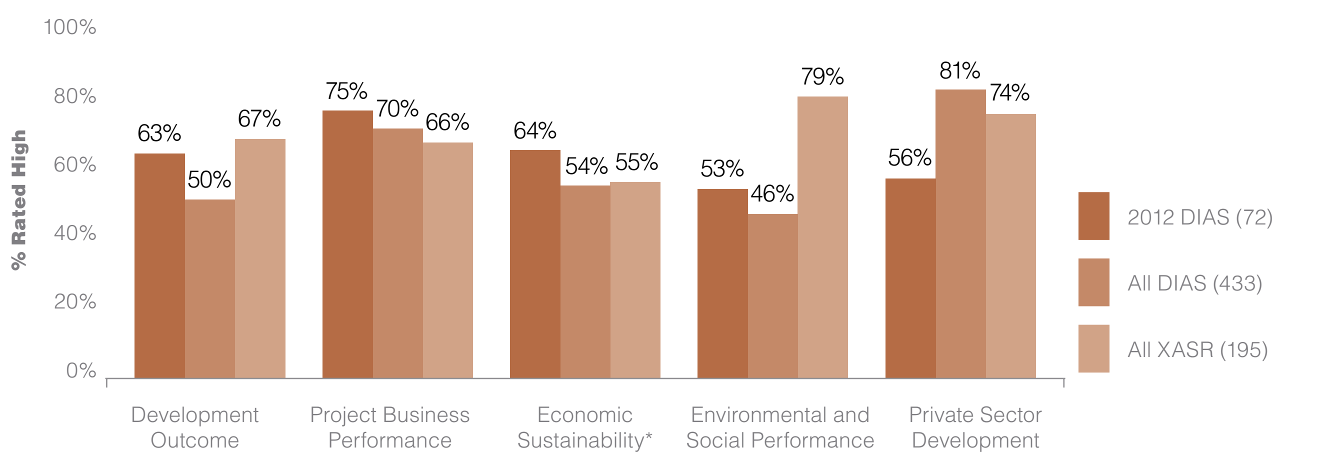
Development Outcomes from 2012 Evaluations



Cumulative Development Outcomes for Investments



Predicting Development Outcomes: A Comparison of DIAS and XASR Data



*DIAS data include only corporate projects; financial intermediary projects are not included.

CARNES ZAMORA

In 2012, the IIC evaluated a $1.1 million loan granted in 2008 to Carnes Zamora, a Costa Rican processor and distributor of value-added pork products. Back in 2007, the company signed up to participate in the IIC's FINPYME *Diagnostics* program and received a score of 76%. At that point, the IIC began the internal review process to grant Carnes Zamora a loan. Based on the diagnostic review, Carnes Zamora qualified for technical assistance to improve its competitive position. Because the company was highly leveraged, it needed to restructure and convert a portion of its short- and medium-term debt into long-term debt if it was to finance an increase in permanent working capital. With the IIC loan, Carnes Zamora successfully restructured its debt, made improvements to its plant, and purchased new equipment, which in turn improved the company's financial profile and growth prospects.

Carnes Zamora increased its sales revenues more than projected. In fact, its average annual sales growth rate was 27%, well above the projected growth of 15%. The company also made investments to shore up its distribution system and storage capacity. As a result, Carnes Zamora increased its market share through its network of higher-margin butcher shops. Carnes Zamora contributed a total of $8 million to the Costa Rican economy and added 37 employees. The additionality generated by the IIC's long-term financing is attributable to the impact of investments in permanent working capital—as well as other fresh investments—on the company's cash flow, thanks to its recent strong growth. The IIC was able to offer Carnes Zamora long-term financing (nine years) not available from local financial institutions, which only offer short- or medium-term loans. In addition, the company scaled up efficiency while reducing its consumption of energy, water, and other inputs. The IIC continues to work with Carnes Zamora and is preparing a technical assistance project to improve corporate governance at the company.

Financial Results

The IIC reported net income of $5.5 million in 2012, closing out a decade of sustained profits and accumulating $137 million in retained earnings, equivalent to 20% of paid-in capital.

Compared to the previous year, revenues were 14% higher and operating income grew by 11%. Borrowing expenses were also up to reflect the IIC's higher leverage—supporting growth of 22% in total assets. Nevertheless, the Corporation's funding costs have declined for a fifth consecutive year, measured in terms of borrowing expenses as a percentage of average gross debt. The $350 million global bond issued in November 2012 will significantly contribute to this downward trend in average funding costs in 2013.

The IIC's development-related assets, measured as gross loan and equity outstanding (GLEO), grew 7% in 2012, continuing a trend that yielded a 6% compound annual growth rate (CAGR) over the last five years (2007–2012). This clearly demonstrates the IIC's commitment to fulfilling its mandate despite the challenges of the recent global financial crisis.

The IIC's paid-in capital rose by $5 million due to payments made by the United States ($4.7 million) and the People's Republic of China ($400,000). It is also encouraging that 16 member countries have expressed their desire to participate in the process of reallocating 1,351 shares ($13.5 million) released by the United States in 2012.

Asset Quality

The IIC's total assets reached $1.8 billion. The GLEO portfolio increased for a second year in a row to $1.09 billion, with a CAGR of 5.3% over the last 5 years. The portfolio past due by one day or more continues to decrease, from $15.9 million in 2011 down to $7.2 million in 2012, equivalent to 0.7% of the loan portfolio. The impaired loan portfolio—comprising only three non-performing loans—remains at 1%. All transactions have adequate collateral coverage and are closely monitored by the IIC. Moreover, loan loss provisions coverage of past due loans is six-fold, and four-fold for impaired loans.

Capital Adequacy

The IIC's solvency ratios continue to be robust. Its equity-to-total-assets ratio decreased as of December 2012 due to an increase in GLEO but remains strong—above 40%. Considering its equity and provisioning level as of December 2012, the IIC has maintained coverage of more than three quarters of its total development-related asset exposure.

Leverage and Liquidity

The IIC placed a 3-year, $350 million bond on November 8 to diversify its sources of funding. This successful offering, the IIC's first on the global financial markets, was quickly oversubscribed in just a few hours. The initial target of $300 million was increased based on the unusually high number and quality of participants for a medium-term inaugural placement.

As a consequence, the liabilities-to-equity ratio increased to 1.3 times, still below the 1.5 target established for the current planning cycle and well below the maximum level of 3.0 established by the IIC's Charter. The IIC's liquidity ratios were positively impacted as well, reaching 40% of total assets and 80% of its financial debt. This level of liquidity was accumulated to pre-fund the 2013 lending program and should decrease to the prudential range of 18–24 months of operational liquidity coverage, as defined in the 2011–2013 Business Plan.

Pension and Postretirement Benefit Plans

The IIC's pension and postretirement benefit plans ended 2012 in underfunded status of $33.6 million and $10.9 million, respectively. The underfunded status of the pension and postretirement benefit plans increased approximately $10 million and $4 million, respectively from 2011. This resulted in an underfunded status of the pension and postretirement benefit plans of 67% and 82%, respectively. This was largely driven by current economic and financial conditions, resulting in a decrease in the discount rate of said plans by 75 basis points in 2012. A decrease in the discount rate increases the liabilities of the pension and postretirement plans, given the inverse relationship between the discount rate and pension plan obligations. This decrease in the discount rate is also driven by a decision, made by IDB management in coordination with the IIC, to discontinue use of the historical actuary's discount curve in favor of the Citigroup Pension Liability discount curve, which is considered to be a more appropriate industry benchmark. This change accounts for approximately 25 basis points of the 75 basis-point decrease in the discount rate.

Net income was impacted in 2012 by $3.1 million in higher net periodic benefit costs associated with the pension and postretirement benefit plans.

IIC's Debut Global Bond Offering Oversubscribed

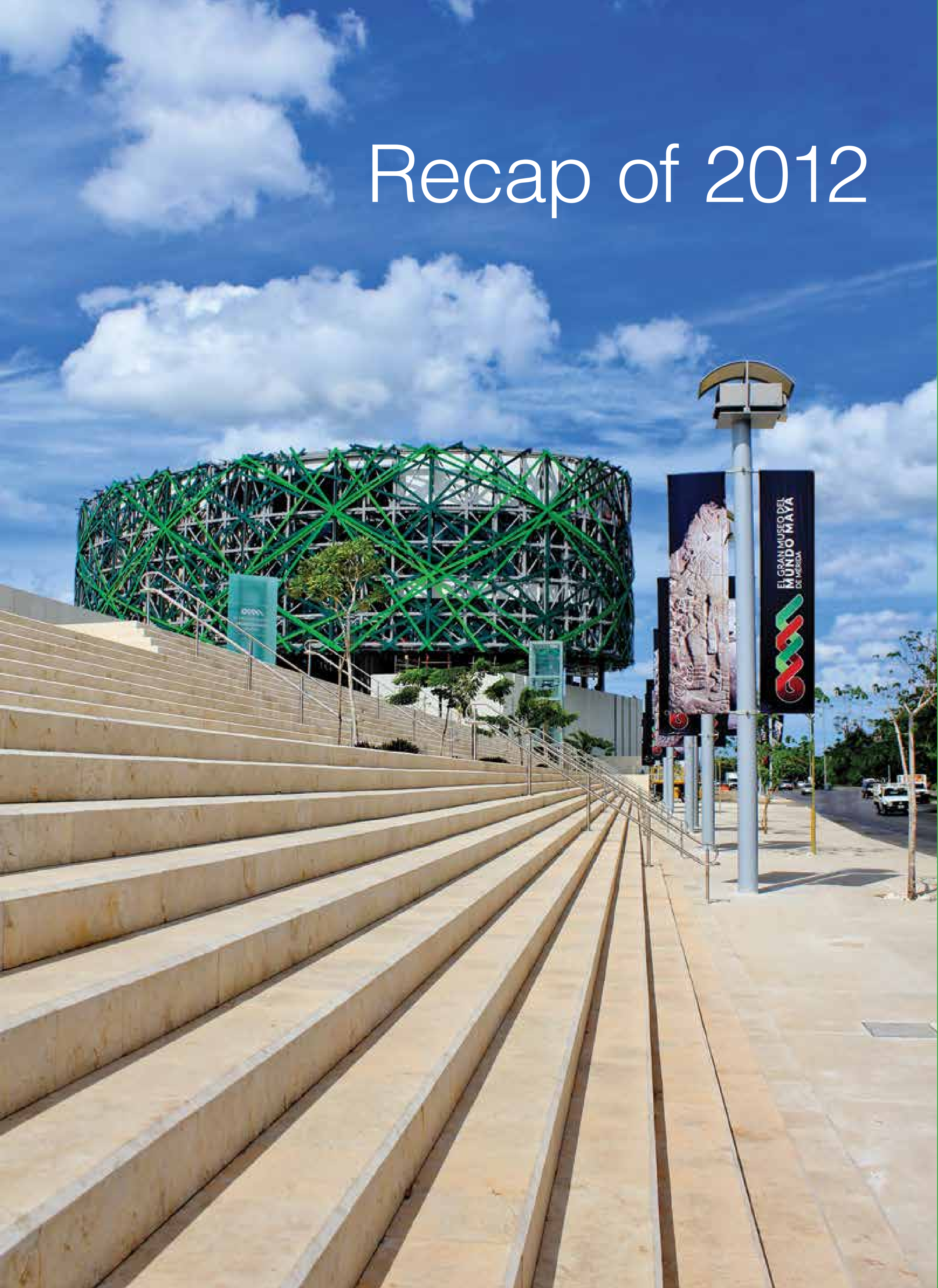
Thirty-four Investors Subscribe $350 Million

In the last quarter of 2012, the IIC placed its first international offering in the global financial markets—a 3-year, $350-million bond. The bond caught the attention of 34 top-tier global investors who scaled up demand far beyond the IIC's initial offering goal of $300 million. This offering is a pivotal event in the institutional life of the IIC.

Just a few hours after the bond was placed, purchase orders totaling nearly $450 million had been received, which necessitated closing the bond offering early. The bond, negotiated by a consortium of banks—Daiwa, Deutsche Bank, J.P. Morgan, and Mizuho—will pay quarterly interest at a floating rate of 35 basis points over LIBOR.

The bond issue was covered widely in the international financial press. *Euroweek,* a publication focusing on the global capital markets, referred to it as a "flying start." The bond is part of a medium-term note program for up to $1 billion that the IIC launched in May 2012, aimed at diversifying its sources of funding. Participating in the bond purchase were a significant number of central banks, investment funds, and private banks in Europe, the Middle East, Africa, the Americas, and Asia.

Recap of 2012



Approved Projects 2012

The IIC approved $378.9 million in investments and direct loans in 2012, plus another $384.4 million for cofinancing operations to extensively leverage direct IIC funding. The following is a summary of IIC projects approved during the year.

Sectors (Grouped by Industry)

- Agricultural Products
- Aquaculture and Fisheries
- Livestock and Poultry
- Fertilizers and Agricultural Services
- Financial Services
- Education
- Health Services and Supplies
- Information, Communications, and Technology
- Investment Funds
- Construction, Materials, and Fixtures
- Containers and Packaging
- Food and Beverages
- General Manufacturing
- Textiles, Apparel, and Leather
- Wood, Pulp, and Paper
- Oil, Gas, and Mining
- Distribution and Retail Services
- Hotels and Tourism
- Energy and Power
- Transportation and Logistics
- Utilities

Country	Project	Sector	Approved Amount	Description
BOLIVIA	ADM-SAO S.A.	Agricultural Products	$10,000,000	Working capital financing and revolving line to provide financing to farmers
	Agroindustria Vargas Gómez García S.R.L.	Agricultural Products	200,000	Purchase of machinery to expand milling capacity
	Bolibanana S.R.L.	Agricultural Products	200,000	Purchase of banana plantation irrigation system
	Samensa Inc. S.A.	Wood, Pulp, and Paper	160,000	Expansion of plywood exports
	Servicios Agrícolas JOMA	Fertilizers and Agricultural Services	200,000	Purchase of agricultural machinery and debt refinancing
BRAZIL	Arvedi Metalfer do Brasil S.A.	General Manufacturing	5,000,000	Financing for the construction of a new plant to produce steel tubing and for working capital
	Rabobank International Brasil S.A.	Financial Services	15,000,000	SME financing
	Stratus Capital Partners LP	Investment Funds	5,000,000	Investment in a multisector SME-oriented private equity fund
	Wind Power Energia S.A.	General Manufacturing	7,000,000	Working capital financing
CHILE	Eurocapital S.A.	Financial Services	5,000,000	Renewal of existing loan
	Tanner Servicios Financieros S.A.	Financial Services	15,000,000	Expansion of SME portfolio
	Transmisora Mejillones S.A.	Utilities	10,000,000	Construction, operation, and maintenance of the Sierra Gorda substation and transmission line
COLOMBIA	Grupo Portuario S.A.	Utilities	3,000,000	Expansion of port terminal
COSTA RICA	Banco BAC San José S.A.	Financial Services	20,000,000	SME financing

Country	Project	Sector	Approved Amount	Description
COSTA RICA (cont.)	Banco de Costa Rica	Financial Services	22,500,000	SME financing
	Café Britt Costa Rica S.A.	Food and Beverages	4,000,000	Expansion of airport Britt shops
	Financiera CAFSA S.A.	Financial Services	3,000,000	Medium-term SME financing
	Scotia Leasing Costa Rica S.A.	Financial Services	20,000,000	Credit line for SME financing
DOMINICAN REPUBLIC	Banco Popular Dominicano S.A.	Financial Services	15,000,000	SME financing
	Gulfstream Petroleum Dominicana S. de R.L.	Distribution and Retail	3,500,000	Financing to acquire and expand fuel distribution operations in Dominican Republic
ECUADOR	Agripac S.A.	Fertilizers and Agricultural Services	4,000,000	Expansion of agricultural and crop dusting operations
	Banco Pichincha C.A.	Financial Services	5,000,000	SME financing
	Comohogar S.A.	Distribution and Retail	10,000,000	Expansion of retail network and value chain
	FERTISA, Fertilizantes, Terminales i Servicios S.A.	Agricultural Products	5,000,000	Financing for the renewal of banana plantations, and modernization and expansion of a port terminal
	Hidrosanbartolo S.A.	Energy and Power	10,000,000	Design, construction, and operation of a run-of-the-river hydroelectric plant
	Procesadora Nacional de Alimentos C.A.	Food and Beverages	10,000,000	Investment in fixed assets to increase food product production capacity
	Proyectos Energéticos Ecuagesa S.A.	Energy and Power	7,000,000	Construction of a 22.7 MW hydroelectric plant
EL SALVADOR	Compañía Azucarera Salvadoreña S.A. de C.V.	Agricultural Products	6,000,000	Renewal of operation to meet working capital needs
	FINCA S.A. de C.V.	Financial Services	1,000,000	Working capital financing for low-income entrepreneurs
HAITI	Carifresh S.A.	Agricultural Products	160,000	Expansion of agricultural operations
	La Réserve	Hotels and Tourism	365,000	Financing for hotel expansion project
HONDURAS	Comercial Nasareth S. de R.L.	Distribution and Retail	155,000	Working capital financing
	Financiera FINCA Honduras S.A.	Financial Services	1,000,000	Working capital financing for low-income entrepreneurs
JAMAICA	Gulfstream Petroleum Jamaica S. de R.L.	Distribution and Retail	3,500,000	Financing to acquire and expand fuel distribution operations in Jamaica

Approved Projects 2012 (cont.)

Country	Project	Sector	Approved Amount	Description
JAMAICA (cont.)	Seawind Key Investment Limited	Hotels and Tourism	8,000,000	Financing for the construction of two hotel complexes
MEXICO	Agrofinanzas S.A. de C.V.	Financial Services	3,800,000	Financing for agricultural SMEs
	American Textil S.A.	Textiles, Apparel, and Leather	3,800,000	Diversification of product lines and purchase of machinery
	Arendal S. de R.L. de C.V.	Services	8,500,000	Financing for public works or service delivery projects with PEMEX
	CNH Servicios Comerciales S.A. de C.V. SOFOM	Financial Services	2,200,000	Financing for subloans
	Corporación Financiera de Occidente S.A. de C.V. SOFOL	Financial Services	500,000	Capital strengthening
	Docuformas S.A.P.I. de C.V.	Financial Services	2,300,000	Diversification of funding sources
	Financiera Educativa de México S.A. de C.V.	Financial Services	1,900,000	Expansion of operations in southern Mexico
	Operadora de Servicios MEGA S.A. de C.V.	Financial Services	2,300,000	SME financing
	Promotora de Cultura Yaxché S.A. de C.V.	Hotels and Tourism	7,300,000	Construction and startup of operations of the Gran Museo del Mundo Maya de Mérida
	Servicios y Financiamiento Agrícola S.A. de C.V. SOFOM ENR	Financial Services	1,800,000	Loan portfolio financing
	Vinte Viviendas Integrales S.A.P.I. de C.V.	Distribution and Retail	4,000,000	Working capital financing for housing developments in Mexico
NICARAGUA	Banco de Finanzas S.A.	Financial Services	5,000,000	Medium- and long-term SME financing
	Casa Pellas S.A.	Distribution and Retail	3,500,000	Working capital financing
	Credi-Factor S.A.	Financial Services	750,000	SME financing
	Distribuidora del Socorro S.A.	Distribution and Retail	200,000	Working capital financing
	Financiera FINCA Nicaragua S.A.	Financial Services	1,000,000	Working capital financing for low-income entrepreneurs
	Inversiones Hidroeléctricas S.A.	Utilities	8,000,000	Hydroelectric plant construction
	Irene S.A.	Textiles, Apparel, and Leather	600,000	Warehousing improvements and overall modernization of equipment

Country	Project	Sector	Approved Amount	Description
NICARAGUA (cont.)	Puerto Cabezas Power S.A.	Energy and Power	1,500,000	Procurement of electric generators
	Repuestos Almir S.A.	Distribution and Retail	300,000	Construction of a warehouse and expansion of existing warehouses
	Solórzano Industrial & Cía. Ltda.	Distribution and Retail	100,000	Working capital financing
	ZAPSA Comercial S.A.	Distribution and Retail	250,000	Working capital financing and repayment of financial debt
PARAGUAY	Comercial e Industrial Amambay S.A.—Ciabay S.A.	Fertilizers and Agricultural Services	3,500,000	Accounts receivable refinancing
PERU	Banco Santander Perú S.A.	Financial Services	5,000,000	Consolidation of SME financing program
	Caja Municipal de Ahorro y Crédito de Arequipa	Financial Services	4,000,000	Expansion of financing operations
	Empresa de Generación Eléctrica Canchayllo S.A.C.	Energy and Power	7,200,000	Financing for the construction and operation of a hydroelectric plant
	Envases Los Pinos S.A.C.	Containers and Packaging	3,000,000	Medium-term working capital financing
	Financiera Créditos Arequipa S.A.	Financial Services	2,000,000	Financing for entrepreneurs and microenterprises
	Mountain Lodges of Peru S.A.C.	Hotels and Tourism	3,000,000	Expansion of mountain lodge network
	Scotiabank Perú S.A.A.	Financial Services	40,000,000	Supply of financing and financial leasing products
	Total Artefactos S.A.	Distribution and Retail	4,500,000	Expansion of store network
URUGUAY	Calzá Hnos. S.A.	General Manufacturing	140,000	Working capital financing
	Fama S.A.	Textiles, Apparel, and Leather	600,000	Working capital financing
	Irisur S.A.	General Manufacturing	350,000	Financing for working capital and machinery
	Ledincor S.A.	Transportation and Logistics	2,100,000	Improvements in stockpiling raw materials
	Lidelir S.A.	Transportation and Logistics	3,100,000	Expansion of storage yards
REGIONAL	Corporación Interamericana para el Financiamiento de Infraestructura S.A.	Financial Services	5,000,000	Credit line renewal
	FINCA Microfinance Holding LLC	Financial Services	900,000	Working capital financing for low-income entrepreneurs
TOTAL			**$378,930,000**	

Corporate Governance Initiatives

Corporate Governance Development Framework

In September 2011, the IIC joined 29 development finance institutions in signing the Corporate Governance Development Framework, a set of guidelines for promoting good corporate governance in lending and investment activities. The signatories of the Framework established a standard methodology for evaluating the quality of their clients' corporate governance as part of the due diligence process. They also agreed to provide corporate governance training for their own staff and client businesses.

The Framework's evaluation methodology is designed for large businesses and, consequently, must be adapted considerably for use with small and medium-sized enterprises and, in particular, family-owned businesses, the IIC's target market. In 2012, the IIC conducted a pilot program to test the methodology and is currently adapting the Framework's toolkit to the specific characteristics of its clientele. Family businesses face unique governance challenges related to the need to define and distinguish the different roles of family members as shareholders, relatives, and company executives. The IIC's focus on the family business sector of Latin America and the Caribbean is unique among the development finance institutions participating in the Framework.

IIC Corporate Governance Workshop for Family Business Clients

The IIC held its second workshop to promote good corporate governance practices by family businesses in Cancún in November 2012. Attending the workshop were 43 representatives of 17 SMEs. The participants received training in areas such as the role of women in family businesses, the role and duties of the board of directors, succession planning, and the intergenerational transfer of ownership. The event is part of a larger IIC initiative to raise good governance standards and instill best practices in this business sector.

Direct Technical Assistance in Corporate Governance for IIC Clients

Over the course of 2012, five client companies received direct technical assistance from the IIC to improve their corporate governance practices under a program funded by the Korean Government through the Korea-IIC SME Development Fund. The cost of this type of assistance is rather high and the content covered can take as much as a year to put into practice. Nevertheless, this assistance is also very effective and provides businesses with customized support and solutions designed to meet the specific challenges they face. The companies work with experts to establish governance structures such as executive boards and operating committees. The IIC helps these companies draft family protocols and succession plans, as well as other types of agreements, and also works with them to improve transparency and efficiency.

Environmental and Social Sustainability

Sustainability Week

Training and technical assistance are essential to ensuring that projects offer more than just financial and economic benefits. A large part of the IIC's additionality efforts in 2012 focused on promoting environmental sustainability.

In October, the IIC launched its third annual Sustainability Week with two training workshops in Panama City. The workshops were designed to raise awareness among SMEs about the importance of energy efficiency and provide financial institutions with useful tools for making sustainability a crosscutting focus of their practices.

The first workshop provided information to over 25 financial institutions in 13 countries of the region on how to reduce environmental and social risks. The participants also learned how to utilize environmental and risk management strategies to boost their competitiveness. The workshop was organized in conjunction with the IDB Environmental Safeguards Unit.

The second workshop provided more than 60 small and medium-sized enterprises, NGOs, and other regional organizations with the necessary tools for cutting their energy costs and reducing their environmental footprint. It was conducted in conjunction with Banco General, a private Panamanian bank.

For a number of years now, the IIC has been working with other financial institutions in Latin America and the Caribbean to raise awareness about climate change and energy efficiency and promote the use of renewable energy sources. The IIC has provided training to approximately 600 participants from some 220 financial institutions since launching its first environmental risk management workshop back in 1999.

Institutional Governance

Board of Governors

All the powers of the IIC are vested in its Board of Governors, consisting of one governor and one alternate governor appointed by each member country. Among the powers vested in the Board of Governors that cannot be delegated to the Board of Executive Directors are the admission of new member countries, the engagement of external auditors, the approval of the IIC's audited financial statements, and the amendment of the Agreement Establishing the IIC.

Board of Executive Directors

The Board of Executive Directors is in charge of conducting IIC operations. To this end, it exercises all the powers granted to it under the Agreement Establishing the IIC or delegated to it by the Board of Governors. The Board of Executive Directors establishes the basic organizational structure of the IIC, including the number and general responsibilities of its main administrative and professional positions. It also approves the IIC's budget. The 13 executive directors and 13 alternates serve three-year terms and represent one or more IIC member countries.

The four-member Executive Committee of the Board of Executive Directors consists of the director or alternate appointed by the member country holding the largest number of shares in the IIC, two directors representing regional developing member countries of the IIC, and one director representing the other member countries. All IIC loans and investments in companies in its member countries are considered by this committee.

Executive Directors and Alternate Executive Directors

(as of December 2012)	**Executive Director**	**Alternate Executive Director**
Argentina and Haiti	Gabriela Costa	Federico Chinchilla
Austria, Belgium, Germany, Italy, the Netherlands, and People's Republic of China	Mattia Adani	Johannes Smeets
Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago	Kurt Kisto	Sulfikar Ally
Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua	Carmen María Madríz	Carla Anai Herrera Ramos
Bolivarian Republic of Venezuela and Panama	Adina Bastidas	Antonio De Roux
Brazil and Suriname	Ricardo Carneiro	Sérgio Portugal
Chile and Colombia	Alejandro Foxley Tapia	Roberto Prieto Uribe
Denmark, Finland, France, Norway, Sweden, and Switzerland	Per Oyvind Bastoe	Christian Pages
Dominican Republic and Mexico	Cecilia Ramos Ávila	Muriel Alfonseca
Ecuador and Peru	Kurt Burneo Farfán	Xavier Eduardo Santillán
Israel, Japan, Portugal, Republic of Korea, and Spain	Yasuhiro Atsumi	María Pérez Ribes
Paraguay, Plurinational State of Bolivia, and Uruguay	Hugo Rafael Cáceres	Marcelo Bisogno
United States of America	Gustavo Arnavat	

Management

The president of the IDB is the ex-officio chairman of the Board of Executive Directors of the IIC. He presides over meetings of the Board of Executive Directors but does not have the right to vote except in the case of a tie. He may participate in, but not vote at, meetings of the IIC Board of Governors.

The Board of Executive Directors appoints the general manager of the IIC by a four-fifths majority of the total voting power, on the recommendation of the chairman of the Board of Executive Directors.

The general manager oversees the officers and staff of the IIC. He handles the day-to-day business of the IIC under the direction of the Board of Executive Directors and the general supervision of the chairman of the Board of Executive Directors and is responsible for the organization, appointment, and dismissal of its officers and staff in consultation with the Board of Executive Directors and the chairman of the Board of Executive Directors. The general manager may participate in meetings of the Board of Executive Directors but does not have the right to vote at these meetings.

The general manager also establishes the IIC's operating structure and may modify it to keep pace with the organization's changing needs.

Staff

As of December 31, 2012, the IIC has 110 staff positions dedicated to fulfilling its development mission. It has 25 staff members in 12 countries in the region: Argentina, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Haiti, Nicaragua, Panama, Paraguay, Peru, and Uruguay. The remaining staff members are based at IIC headquarters in Washington, D.C. Staff members in the region include eight investment officers, who work directly on originating and developing new projects, and ten others assigned full-time to the direct supervision of a portfolio of 222 projects with businesses and financial institutions, which includes annual field visits.

Its other staff members, divided among nine divisions—Corporate Affairs, Development Effectiveness, Equity and Investment Funds, Finance and Strategic Planning, Legal, Operations, Portfolio Management, Risk Management, and Technical Assistance and Strategic Partnerships—and the Special Operations Unit, provide support for project and program activities.

Compensation Structure for IIC Headquarters Staff*

Grade	Job Title	Minimum	Maximum	Staff at Grade Level	Average Salary/Grade	Average Benefits†
E2	Executive	$279,022	$334,826	1.22%	$334,826	$130,582
E5	Executive	203,577	254,472	1.22	254,472	99,244
1	Managerial	164,862	239,050	10.98	199,804	77,924
2	Managerial	144,287	216,430	1.22	169,587	66,139
3	Technical	120,416	192,667	18.29	133,549	52,084
4	Technical	105,949	169,518	14.63	118,255	46,119
5	Technical	96,528	144,791	14.63	100,344	39,134
6	Technical	86,196	129,293	4.88	86,366	33,683
7	Technical	76,581	114,871	10.98	84,503	32,956
8	Technical	67,177	100,765	6.10	72,340	28,213
9	Support	59,517	89,275	9.76	60,027	23,410
10	Support	47,990	76,785	3.66	54,129	21,110
11	Support	41,808	66,893	2.44	49,511	19,309
				100.0%		

* Staff in the region are compensated locally at rate bands determined by the IDB.

† Includes staff leave, end of service payment, medical and life insurance and other nonsalary benefits: home leave, tax reimbursement, appointment travel, relocation and repatriation expenses, dependency allowance, education allowance, mission travel benefits.

Members of the IIC Board of Executive Directors, including executive directors, alternate executive directors, senior counselors, and counselors, as well as the chairman of the Board of Executive Directors are compensated by the IDB.

Tools for Fighting Corruption and Fraud

The IIC participates in a broad-based international initiative to promote integrity and transparency in transactions with the private sector. It signed the Uniform Framework for Preventing and Combating Fraud and Corruption in 2011. It also continues to adhere to the best practices developed in conjunction with peer institutions over the past decade, including a zero tolerance policy for certain prohibited practices. Furthermore, the IIC recognizes and has agreed to enforce the debarment decisions of other signatories of the Agreement for Mutual Enforcement of Debarment Decisions.

In conducting its operations, the IIC takes appropriate steps to identify and mitigate any risk to its integrity and reputation and to prevent, investigate, and sanction any prohibited practices. Such measures include integrity due diligence reviews of its clients and partners, studies of the regulatory framework for the financial and banking systems of countries in which it works with financial intermediaries, and the monitoring of counterparty compliance with regulations for the prevention of money laundering.

Mission

The IIC promotes the economic development of member Latin American and Caribbean countries by financing private enterprises. It began operations in 1989 and focuses on supporting small and medium-sized companies that have difficulty accessing medium- and long-term financing.

IIC-financed enterprises and projects must be economically viable and operate efficiently. They must also spur economic growth and promote environmental stewardship. The IIC supports enterprises that create jobs, help broaden capital ownership, and facilitate resource and technology transfers. Projects generating foreign exchange or fostering economic integration in Latin America and the Caribbean are also eligible for IIC support.

As a multilateral finance organization, the IIC provides a range of financing alternatives, including direct loans, guarantees, equity investments, and credit lines to financial intermediaries. IIC operations also serve as a catalyst for attracting technology, know-how, and additional project financing from other sources. Resources are mobilized through cofinancing and syndication agreements; support for underwriting stocks, bonds, and other securities; and joint venture partners.

A member of the IDB Group, the IIC is legally autonomous, and its resources and management are separate from those of the IDB. The IIC is headquartered in Washington, D.C. and has staff in 12 Latin American and Caribbean countries.

Audited Financial Statements

Independent Auditors' Report

The Board of Governors
Inter-American Investment Corporation:

We have audited the accompanying financial statements of Inter-American Investment Corporation (the Corporation) which comprise the balance sheet as of December 31, 2012, and the related income statement and the statements of comprehensive loss, changes in equity, and cash flows for the year then ended and the related notes to the financial statements. The accompanying financial statements of the Corporation as of December 31, 2011, were audited by other auditors whose report thereon dated March 19, 2012, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Inter-American Investment Corporation as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

McLean, Virginia
March 17, 2013

Balance Sheet

USD thousands (except share data)	December 31 2012	2011
ASSETS		
Cash and cash equivalents	$ 28,438	$ 59,254
Investment securities		
Trading	535,439	352,663
Available-for-sale	149,571	30,442
Held-to-maturity	40,335	46,551
Investments		
Loan investments	1,061,679	992,900
Less allowance for losses	(47,414)	(44,966)
	1,014,265	947,934
Equity investments ($14,673 and $16,583 at fair value, respectively)	26,637	27,449
Total investments	1,040,902	975,383
Receivables and other assets	19,828	18,571
Total assets	**$1,814,513**	**$1,482,864**
LIABILITIES AND EQUITY		
Accounts payable and other liabilities	$ 63,969	$ 43,966
Interest and commitment fees payable	2,606	2,648
Borrowings, short-term	21,498	140,823
Borrowings and long-term debt ($0 and $50,114 at fair value, respectively)	947,860	517,681
Total liabilities	**1,035,933**	**705,118**
Capital		
Authorized:		
70,590 and 70,590 shares, respectively (par $10,000)		
Subscribed shares:		
68,979 and 70,480 shares, respectively (par $10,000)	689,790	704,800
Less subscriptions receivable	(400)	(20,471)
	689,390	684,329
Retained earnings	137,604	132,044
Accumulated other comprehensive loss	(48,414)	(38,627)
Total equity	**778,580**	**777,746**
Total liabilities and equity	**$1,814,513**	**$1,482,864**

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

Income Statement

USD thousands	Year ended December 31 2012	2011
INCOME		
Loan investments		
Interest and fees	$48,537	$43,935
Other income	1,357	545
	49,894	44,480
Equity investments		
Dividends and distributions	527	633
Gain on sale	248	1,435
Changes in carrying value	(48)	(2,703)
Other income	67	1,252
	794	617
Investment securities	9,109	6,080
Advisory service, cofinancing, and other income	3,562	4,350
Total income	**63,359**	**55,527**
Borrowings and long-term debt-related expense (net of changes in fair value of related financial instruments)	17,173	13,982
Total income, net of interest expense	**46,186**	**41,545**
PROVISION FOR /(RELEASE OF) LOAN INVESTMENT LOSSES	**188**	**(4,643)**
OTHER THAN TEMPORARY IMPAIRMENT LOSSES ON EQUITY INVESTMENTS (CREDIT RELATED)	**—**	**2,363**
OPERATING EXPENSES		
Administrative	39,952	32,909
(Gain)/Loss on foreign exchange transactions, net	(63)	161
Other expenses	311	20
Total operating expenses	**40,200**	**33,090**
Income before technical assistance activities	**5,798**	**10,735**
Technical assistance activities	238	430
NET INCOME	**$ 5,560**	**$10,305**

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

Statement of Comprehensive Loss

USD thousands	Year ended December 31 2012	2011
NET INCOME	$ 5,560	$ 10,305
OTHER COMPREHENSIVE LOSS		
Net actuarial loss	(11,368)	(28,873)
Amortization of:		
Transition obligation	174	174
Prior service cost	934	1,878
	(10,260)	(26,821)
Unrealized gain on investment securities available-for-sale	473	253
	(9,787)	(26,568)
COMPREHENSIVE LOSS	**$ (4,227)**	**$(16,263)**

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

Statement of Changes in Equity

USD thousands	Retained earnings	Accumulated other comprehensive loss	Capital*	Total equity
As of December 31, 2010	**$121,739**	**$(12,059)**	**$663,371**	**$773,051**
Year ended December 31, 2011				
Net income	10,305	—	—	10,305
Other comprehensive loss	—	(26,568)	—	(26,568)
Payments received for capital stock subscribed	—	—	20,958	20,958
As of December 31, 2011	**$132,044**	**$(38,627)**	**$684,329**	**$777,746**
Year ended December 31, 2012				
Net income	5,560	—	—	5,560
Other comprehensive loss	—	(9,787)	—	(9,787)
Payments received for capital stock subscribed	—	—	5,061	5,061
As of December 31, 2012	**$137,604**	**$(48,414)**	**$689,390**	**$778,580**

*Net of subscriptions receivable.

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

Statement of Cash Flows

USD thousands	Year ended December 31 2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan disbursements	$ (352,732)	$ (411,674)
Equity disbursements	(2,628)	(445)
Loan repayments	283,544	239,347
Sales of equity investments	3,510	2,769
Maturities of held-to-maturity securities	6,000	47,000
Available-for-sale securities		
Purchases	(133,596)	(30,000)
Sales and maturities	15,000	20,000
Capital expenditures	(1,170)	(1,949)
Proceeds from sales of recovered assets	2,334	2,861
Net cash used in investing activities	**$ (179,738)**	**$ (132,091)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Paydowns of borrowings, net	(101,979)	(28,936)
Proceeds from issuance of bonds	411,472	68,248
Capital subscriptions	5,061	20,958
Net cash provided by financing activities	**$ 314,554**	**$ 60,270**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	5,560	10,305
Adjustments to reconcile net income to net cash used in operating activities:		
Realized gains on equity sales	(248)	(1,435)
Change in carrying value of equity investments	48	2,703
Equity recoveries	—	(58)
Change in receivables and other assets	2,810	(1,041)
Provision for/(release of) loan losses	188	(4,643)
Unrealized gain on investment securities	(6,886)	(2,623)
Change in accounts payable and other liabilities	5,459	2,782
Change in Pension Plan and Postretirement Plan net liabilities	3,811	(2,405)
Realized loss on non-trading derivative instruments, net	(23)	—
Unrealized gain on non-trading derivative instruments	—	(339)
Realized gain on borrowings at fair value, net	307	—
Change in value of borrowings at fair value	—	710
Other, net	2,477	(1,893)
	7,943	(8,242)
Trading securities		
Purchases	(1,756,884)	(1,355,282)
Sales, maturities, and repayments	1,577,747	1,403,480
	(179,137)	48,198
Net cash (used in)/provided by operating activities	**$ (165,634)**	**$ 50,261**
Net effect of exchange rate changes on cash and cash equivalents	2	6
Net decrease in cash and cash equivalents	(30,816)	(21,554)
Cash and cash equivalents as of January 1	59,254	80,808
Cash and cash equivalents as of December 31	**$ 28,438**	**$ 59,254**
Supplemental disclosure:		
Interest paid during the period	$ 15,503	$ 13,208

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

Notes to the Financial Statements

(USD thousands, unless otherwise indicated)

Purpose

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

1. Basis of Presentation

The accounting and reporting policies of the Corporation conform to U.S. generally accepted accounting principles (GAAP). References to GAAP issued by the Financial Accounting Standards Board (FASB) in these notes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

All amounts presented in the accompanying financial statements and notes are expressed, unless otherwise indicated, in thousands of dollars of the United States of America (U.S. dollars, USD, or $), which is the Corporation's functional currency.

2. Summary of Significant Accounting Policies

Use of estimates—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for losses on loan investments and guarantees, the fair value of loan and equity investments, borrowings, and derivative instruments, and the determination of the net periodic benefit cost from pension and postretirement benefit plans and the present value of benefit obligations. There are inherent risks and uncertainties related to the Corporation's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of the Corporation.

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

Investment securities—As part of its overall portfolio management strategy, the Corporation invests in corporate securities, government and agency securities according to the Corporation's investment guidelines. These investments include fixed and floating rate bonds, notes, bills, certificates of deposit, commercial paper, and mutual funds.

Investment securities held by the Corporation are classified based on management's intention on the date of purchase and recorded as of the trade date. The Corporation's portfolio classified as trading is stated at fair value with unrealized gains and losses reported in income from investment securities. Fixed-term securities classified as held-to-maturity represent securities that the Corporation has both the ability and the intent to hold until maturity and are carried at amortized cost. All other securities are classified as available-for-sale and carried at fair value with net unrealized gains or losses included in accumulated other comprehensive income. Interest and dividends on securities, amortization of premiums, and accretion of discounts are reported in income from investment securities. The Corporation's investments in debt securities in Latin

American and Caribbean markets resulting from development activities are classified as held-to-maturity and carried at amortized cost on the balance sheet.

The Corporation evaluates its available-for-sale and held-to-maturity securities whose values have declined below their amortized cost to assess whether the decline in fair value is other-than-temporary at year-end. The Corporation considers various factors in determining whether a decline in fair value is other-than-temporary including the issuer's financial condition, the effects of changes in interest rates or credit spreads, the expected recovery period and other quantitative and qualitative information. The valuation of securities for impairment is a process subject to estimation, judgment and uncertainty and is intended to determine whether declines in fair value of investment securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions and future changes in assessments of the aforementioned factors.

Loan and equity investments—Loan and equity investment commitments are legal obligations when the loan or equity agreement is signed and are recorded as assets when disbursed. Loans are carried at the principal amount outstanding adjusted for allowance for losses. The Corporation, in certain instances, obtains collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments, which include direct equity investments and investments in Limited Partnerships (LPs), are initially recorded at cost, which generally is the fair value of the consideration given. Direct equity investments and certain LPs for which the Corporation maintains specific ownership accounts and for which the Corporation does not have significant influence are carried at cost. Fair value accounting is applied to equity investments in LPs where the Corporation's interest is considered more than minor.

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

Equity investments, which are not accounted for at fair value, are assessed for impairment on the basis of the latest financial information and any supporting research documents available. Also considered are the issuer's industry trends, the historical performance of the company, and the Corporation's intent to hold the investment for an extended period. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to the impaired value, which becomes the new cost basis for the equity investment. Impairment losses are not reversed for subsequent recoveries in value of the equity investment unless sold at a gain.

Variable interest entities—An entity is subject to the ASC 810 VIE Subsections and is called a variable interest entity (VIE) if it lacks: (1) equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (2) equity investors who have decision-making rights about the entity's operations or if it has equity investors who do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

In determining whether to consolidate its variable interests in VIEs the Corporation considers if it has the power to direct the VIE's activities that most significantly impact its economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Corporation has not identified a VIE which should be consolidated into the Corporation's financial statements.

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

The allowance for losses on loan investments reflects estimates of both probable losses already identified (impaired loans with a specific provision) and probable losses inherent in the portfolio but not specifically identifiable (general provision). The determination of the allowance for identified probable losses represents management's best judgment of the creditworthiness of the borrower and is established based upon the periodic review of individual loan investments. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan's contractual effective rate, the fair value of collateral less disposal costs, and other observable market data. Because of the purpose of the Corporation and the nature of the loans, secondary market values are usually not available. For the remaining loan portfolio, the allowance for losses is established via a process that estimates the probable loss inherent in the portfolio based on various analyses. Each loan is rated as a function of its risk and loss estimates are derived for each rating classification. These ratings are based on past experience and available market information and include country risk, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, as well as on financial statements prepared in accordance with accounting principles other than those generally accepted in the United States of America. The loss estimates are derived from industry data and IIC historical data. There were no changes, during the periods presented herein, to the Corporation's accounting policies and methodologies used to estimate its allowance for losses on loan investments.

For purposes of providing certain disclosures about the Corporation's entire allowance for loan investments, the Corporation considers its entire loan portfolio to estimate the reserve against losses on loans.

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

Revenue recognition on loan investments—Interest and fees, except front-end-fees, are recognized as income in the periods in which they are earned. The Corporation does not recognize income on loans where collectability is in doubt or, generally, when payments of interest or principal are past due more than 90 days. Any uncollected interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when received and is returned to accrual status once management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income and credited to income only when the related principal is received.

Front-end fees and incremental direct costs associated with the origination of loan investments are not deferred and amortized over the life of the loan because front-end fees serve only to reimburse the Corporation for the cost of originating a loan. Any nonrefundable loan origination fees under/over loan origination costs are considered immaterial for the financial statements.

Revenue recognition on equity investments—Dividend and profit participations received from equity investments that are accounted for under the cost method are recorded as income when such distributions are declared. Gains on the sale or redemption of equity investments accounted for under the cost less impairment method are recorded as income when received. For LPs carried at fair value, distributions are considered on the assessment of each underlying investment net asset value and recorded as changes in carrying value of equity investments.

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

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

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

The Corporation's derivative instrument was repaid in June 2012. This derivative was not designated as a cash flow or fair value hedge.

Deferred expenses—Costs related to the issuance of debt and other financial arrangements are deferred and amortized over the life of the related debt on a straight-line basis, which approximates how the costs would be reflected under the effective interest method.

Fixed assets—The Corporation records fixed assets at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful life of the assets, which range from three to seven years.

Foreign currency transactions—Assets and liabilities not denominated in United States dollars are translated into U.S. dollar equivalents using those foreign exchange rates at which the related asset or liability could be reasonably settled at that date. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates. Resulting gains and losses are included in Loss/(Gain) on foreign exchange transactions, net.

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

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

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

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail judgment.

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

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

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

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

  Assets and liabilities utilizing Level 3 inputs include certain corporate loans and direct equity investments.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value for the majority of the Corporation's financial instruments is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rate yield curves, credit spreads, creditworthiness of the counterparty, option volatility, and currency rates. In accordance with FASB ASC 820-10, the impact of the Corporation's own credit spreads is also considered when measuring the fair value of liabilities, including derivative contracts. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality, and market liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs where available.

The following methods and assumptions were used by management in estimating the fair value of the Corporation's financial instruments:

Cash and Cash Equivalents: The carrying amount reported in the balance sheet approximates fair value.

Investment Securities: Fair values for investment securities are based on quoted prices in active markets for identical assets as of the balance sheet date, when observable. For those investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been used, using yield curves, bond or credit default swap spreads and recovery rates based on collateral values as key inputs. Investment securities are generally categorized in Level 1 and Level 2 of the fair value hierarchy.

Loan Investments: The Corporation's methodology to measure the fair value of those loans provided to certain financial institutions through agreements that foster economic development, and for which a combination of observable and unobservable inputs is generally available, requires the use of estimates and present value calculations of future cash flows. The fair value of loan investments is estimated using recently executed transactions, market price quotations (where observable), and market observable credit default swap levels along with proprietary valuation models where such transactions and quotations are unobservable. Determining future cash flows for fair value estimation purposes is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The lack of objective pricing standards adds a greater degree of subjectivity and volatility to these derived or estimated fair values.

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

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

Derivative Contracts: These include swap and option contracts related to interest rates. Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates. The pricing models used do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swap and option contracts. All the derivative products valued by the Corporation using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy. The estimated fair value of derivatives is disclosed in Note 9.

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

Taxes—The Corporation, its property, other assets, income, and the operations and transactions it carries out pursuant to the Agreement Establishing the Inter-American Investment Corporation, as amended, are immune from all taxation and from all custom duties.

Accounting and financial reporting developments—In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, *Balance Sheet: Disclosures about Offsetting Assets and Liabilities.* This Update requires entities to disclose both gross information and net information for instruments and transactions eligible for offset in the balance sheet and subject to an agreement similar to a master netting arrangement. This scope includes derivative instruments, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing and securities lending arrangements. This Update is effective for annual periods beginning on or after January 1, 2013 (December 31, 2013 for the Corporation). This Update is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurements,* related to Topic 820. The objective of the amendments to this Update is to develop common fair value measurement and disclosure requirements in GAAP and IFRS. The primary amendments to this Update are (1) to clarify the application of existing fair value measurement and disclosure requirements and (2) to change a particular principle or requirement for measuring fair value or disclosure information about fair value measurements to improve their understandability. The Corporation adopted this Update effective December 31, 2012. This Update did not have a material impact on the Corporation's financial position, results of operations, or cash flows.

In February 2010, the FASB issued ASU 2010-10, *Consolidation (Topic 810) Amendments for Certain Investment Funds*, which primarily deferred the effective date of FAS 167 for enterprises that hold investments in entities that are investment companies (as that term is defined in ASC Topic 946-Financial Services—Investment Companies). Therefore, the Corporation has deferred the adoption of FAS 167 with respect to its evaluation of investments in its limited partnership equity fund investments. This Topic is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In addition, during the year ended December 31, 2012, FASB issued and/or approved Accounting Standards Updates. The Corporation analyzed and incorporated the new guidance, as appropriate, with no material impact on the Corporation's financial position, results of operations, or cash flows.

3. Investment Securities

The following reflects net income from investment securities by source:

	Year ended December 31	
USD thousands	**2012**	**2011**
Net change in unrealized gain/(loss)	$3,693	$ (268)
Net realized gain	3,192	2,891
Interest income	2,224	3,457
	$9,109	**$6,080**

Trading securities consist of the following:

	December 31	
USD thousands	**2012**	**2011**
Corporate securities	$403,974	$293,365
Government securities	66,497	24,319
Agency securities	64,968	34,979
	$535,439	**$352,663**

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

	December 31	
USD thousands	**2012**	**2011**
Corporate securities	$149,571	$30,442
	$149,571	**$30,442**

As of December 31, 2012 and 2011, the amortized cost of available-for-sale securities amounted to $148,436 and $30,000, respectively.

As of December 31, 2012, the Corporation sold one available-for-sale security at par (none sold as of December 31, 2011). The Corporation had no unrealized losses in the available-for-sale securities portfolio as of December 31, 2012 and 2011.

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

	December 31	
USD thousands	**2012**	**2011**
Within one year	$ 15,126	$ —
After one year through five years	134,445	30,442
	$149,571	**$30,442**

The amortized cost of investments held to maturity is as follows:

	December 31	
USD thousands	**2012**	**2011**
Corporate securities	$40,335	$46,551
	$40,335	**$46,551**

As of December 31, 2012 and 2011, Corporate securities include one held-to-maturity security amounting to $40,335 and $40,551, respectively, corresponding to a development-related asset with similar characteristics to other investment securities held to maturity.

The fair value of investments held to maturity is as follows:

	December 31, 2012		
USD thousands	**Amortized cost**	**Unrealized gain**	**Fair value**
Corporate securities	$40,335	$2,415	$42,750
	$40,335	**$2,415**	**$42,750**

The maturity structure of investments held to maturity is as follows:

	December 31	
USD thousands	**2012**	**2011**
Within one year	$ —	$ 6,000
After one year through five years	40,335	40,551
	$40,335	**$46,551**

As of December 31, 2012, there were no investments within the held-to-maturity portfolio with unrealized losses (no unrealized losses as of December 31, 2011).

4. Loan and Equity Investments

The Corporation monitors its outstanding loan and equity portfolios for geographic concentration of credit risk. As of December 31, 2012, individual countries with the largest aggregate credit exposure to the Corporation included Brazil, Peru, and Chile (Brazil, Peru, and Chile as of December 31, 2011). As of December 31, 2012, outstanding foreign currency equity and loans amounted to $85,509 (foreign currency equity and loans amounted to $84,943 as of December 31, 2011). One of the Corporation's largest exposures is designated as Regional, which consists primarily of multi-country loan investments.

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

	December 31					
	2012			2011		
USD thousands	Loan	Equity	Total	Loan	Equity	Total
Brazil	$ 154,499	$ —	$ 154,499	$168,776	$ —	$ 168,776
Peru	134,764	—	134,764	123,568	—	123,568
Chile	103,794	2,815	106,609	115,002	2,581	117,583
Panama	99,552	4,000	103,552	58,759	4,000	62,759
Costa Rica	95,711	—	95,711	52,479	—	52,479
Colombia	84,626	1,277	85,903	109,144	767	109,911
Mexico	81,509	3,077	84,586	65,324	4,116	69,440
Argentina	74,222	365	74,587	73,254	404	73,658
Nicaragua	48,641	—	48,641	22,627	—	22,627
Regional	29,352	13,967	43,319	34,960	15,581	50,541
Ecuador	41,763	—	41,763	43,562	—	43,562
Paraguay	31,489	—	31,489	29,333	—	29,333
El Salvador	18,833	—	18,833	27,689	—	27,689
Jamaica	17,382	—	17,382	12,084	—	12,084
Plurinational State of Bolivia	11,947	—	11,947	12,553	—	12,553
Uruguay	11,802	—	11,802	5,104	—	5,104
Guatemala	11,014	—	11,014	16,025	—	16,025
Dominican Republic	4,100	1,136	5,236	4,500	—	4,500
Haiti	5,194	—	5,194	9,510	—	9,510
Suriname	885	—	885	1,647	—	1,647
Guyana	600	—	600	1,000	—	1,000
Belize	—	—	—	6,000	—	6,000
	$1,061,679	**$26,637**	**$1,088,316**	**$992,900**	**$27,449**	**$1,020,349**
Financial services	$ 709,159	$ 9,187	$ 718,346	$698,018	$ 8,850	$ 706,868
Energy and power	66,432	—	66,432	—	—	—
Agricultural products	42,578	—	42,578	66,629	—	66,629
Transportation and logistics	40,433	—	40,433	8,435	—	8,435
Fertilizers and agricultural serv.	34,368	—	34,368	—	—	—
Distribution and retail	34,158	—	34,158	—	—	—
Food and beverages	23,934	—	23,934	18,753	—	18,753
General manufacturing	22,167	—	22,167	38,850	—	38,850
Investment funds	1,158	16,314	17,472	1,158	18,599	19,757
Aquaculture and fisheries	16,008	—	16,008	14,229	—	14,229
Livestock and poultry	15,967	—	15,967	15,940	—	15,940
Hotels and tourism	9,616	—	9,616	2,081	—	2,081
Oil, gas, and mining	9,268	—	9,268	12,397	—	12,397
Information, comm., and tech.	6,000	1,136	7,136	6,000	—	6,000
Utilities	5,652	—	5,652	73,413	—	73,413
Containers and packaging	5,040	—	5,040	—	—	—
Education	4,694	—	4,694	6,880	—	6,880
Wood, pulp, and paper	4,019	—	4,019	11,614	—	11,614
Textiles, apparel, and leather	4,009	—	4,009	315	—	315
Construction, materials, and fixtures	3,570	—	3,570	—	—	—
Services	3,085	—	3,085	59	—	59
Health services and supplies	364	—	364	4	—	4
Other	—	—	—	18,125	—	18,125
	$1,061,679	**$26,637**	**$1,088,316**	**$992,900**	**$27,449**	**$1,020,349**

The Corporation's portfolio is segmented between financial institutions and corporates. All investments are individually evaluated for purposes of monitoring and evaluating credit performance and risk.

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

	December 31, 2012		
USD thousands	Financial institutions	Corporate	Total
Loan	$709,159	$352,520	$1,061,679
Equity	26,637	—	26,637
Securities issued by residents within regional developing member countries	40,335	—	40,335
Guarantees	—	6,171	6,171
Development-related assets exposure (DRE)	**$776,131**	**$358,691**	**$1,134,822**

The distribution of the outstanding portfolio by investment type as of December 31, 2011:

	December 31, 2011		
USD thousands	Financial institutions	Corporate	Total
Loan	$698,019	$294,881	$ 992,900
Equity	27,449	—	27,449
Securities issued by residents within regional developing member countries	40,551	—	40,551
Guarantees	—	5,617	5,617
Development-related assets exposure (DRE)	**$766,019**	**$300,498**	**$1,066,517**

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

	December 31	
USD thousands	2012	2011
Loan	$112,808	$83,701
Equity	10,393	11,663
	$123,201	**$95,364**

The Corporation's loans accrue interest at fixed and variable rates. The unpaid principal balance of the fixed rate loan portfolio amounted to $287,936 as of December 31, 2012 ($317,817 as of December 31, 2011).

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

	December 31, 2012					
USD thousands	1–90 days past due	> 90 days past due & accruing	> 90 days past due & nonaccruing	Total past due	Current loans	Loan portfolio
Financial institutions	$ —	$ —	$7,091	$ 7,091	$ 702,068	$ 709,159
Corporate	151	—	—	151	352,369	352,520
Total past due loans	**$ 151**	**$ —**	**$7,091**	**$ 7,242**	**$1,054,437**	**$1,061,679**
As % of loan portfolio	0.01%	0.00%	0.67%	0.68%	99.32%	100.00%
Allowance for loan losses	47,414					
Coverage				654.68%		4.47%

An age analysis, based on contractual terms, of the Corporation's loans at amortized cost by investment type as of December 31, 2011:

	December 31, 2011					
USD thousands	1–90 days past due	> 90 days past due & accruing	> 90 days past due & nonaccruing	Total past due	Current loans	Loan portfolio
Financial institutions	$ —	$ —	$9,057	$ 9,057	$688,962	$698,019
Corporate	—	6,000	836	6,836	288,045	294,881
Total past due loans	**$ —**	**$6,000**	**$9,893**	**$15,893**	**$977,007**	**$992,900**
As % of loan portfolio	0.00%	0.60%	1.00%	1.60%	98.40%	100.00%
Allowance for loan losses	44,966					
Coverage				282.93%		4.53%

Loans on which the accrual of interest has been discontinued totaled $22,268 as of December 31, 2012 ($22,155 as of December 31, 2011). Interest collected on loans in nonaccrual status for the year ended December 31, 2012, was $447 ($611 for the year ended December 31, 2011). Interest income on nonaccruing loans during the year ended December 31, 2012, totaled $650 ($242 for the year ended December 31, 2011).

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

	December 31	
USD thousands	2012	2011
Corporate	$ 12,830	$ 10,867
Financial institutions	9,438	11,288
Total nonaccrual loans	**$ 22,268**	**$ 22,155**
Loan portfolio	$1,061,679	$992,900
Nonaccrual/loan portfolio	2.10%	2.23%
Allowance for loan losses	$ 47,414	$ 44,966
Coverage of nonaccrual	212.92%	202.96%

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

	December 31			
	2012		2011	
USD thousands	Principal outstanding	Average yield	Principal outstanding	Average yield
Due in one year or less	$ 317,022	3.63%	$282,152	4.73%
Due after one year through five years	647,739	4.62%	666,222	4.25%
Due after five years through eleven years	96,918	5.71%	44,526	5.73%
	$1,061,679		**$992,900**	

The Corporation's investment in impaired loans as of December 31, 2012, was $10,557 ($9,893 as of December 31, 2011). The average amount in impaired loans for the year ended December 31, 2012, was $10,741 ($17,933 as of December 31, 2011). The total amount of the allowance related to impaired loans as of December 31, 2012 and 2011, was $5,308 and $5,550, respectively. As of December 31, 2012, management determined that there was no evidence of a troubled debt restructuring within the loan portfolio (none as of December 31, 2011).

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

	2012			2011		
USD thousands	Financial institutions	Corporate	Total	Financial institutions	Corporate	Total
Balance as of January 1	$22,302	$22,664	$44,966	$26,595	$29,941	$56,536
Investments charged off, net	—	(74)	(74)	(2,309)	(7,421)	(9,730)
Recoveries	244	2,090	2,334	768	2,035	2,803
Provision/(credit) for losses	(280)	468	188	(2,752)	(1,891)	(4,643)
Balance as of December 31	**$22,266**	**$25,148**	**$47,414**	**$22,302**	**$22,664**	**$44,966**

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

Credit quality indicator	**Description**
A	This category considers companies with capacity to meet their obligations and whose financial condition is not being affected by internal and/or external variables that could hinder this capacity. Projects classified as A are assigned a general allowance between 0.40% and 6.55% depending upon the results of a specific analysis of their risk variables.
B	The company is able to meet its obligations but is facing adverse internal and/or external conditions that could hinder its financial capacity if these conditions continue. Projects classified as B are assigned a general allowance of 9.90%.
Substandard	The current financial condition and payment capacity of the company are insufficient to fully meet its obligations. The company's cash flow generation continues to show signs of deterioration. The company demonstrates persistent and well-defined deficiencies which, if allowed to continue, would result in an inability to repay the obligation to the IIC in full. The company is in payment default or exhibits an increased risk of default if the weaknesses are not corrected. Significant operating or financial structure changes are required in order to restore the company's creditworthiness. Projects classified as Substandard are assigned a general allowance of 22.00%.
Doubtful	This category considers when the company is unable to service its debts and collection is unlikely, either by means of payments based on the company's financial performance, payments made by sponsors, or the liquidation of collateral. The creditworthiness of the company is impaired, with an increased likelihood of loss. Major restructuring of the investment and/or operation is required, and a number of specific actions (liquidation, recapitalization, etc.) may be taken. For projects classified as Doubtful, an independent cash flow analysis is performed in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of Loan" to determine the necessary allowance.
Loss	All or part of the IIC loan is considered uncollectible. The project is likely to be in bankruptcy and may have ceased operations. The liquidation value of collateral or recourse against guarantors is insufficient for full recovery of the IIC's investment. For projects classified as Loss, an independent cash flow analysis is performed in accordance with SFAS No. 114, to determine the necessary allowance.

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

	December 31, 2012		
Category	**Financial institutions**	**Corporate**	**Total**
A	$673,146	$298,213	$ 971,359
B	28,922	38,822	67,744
Substandard	—	12,019	12,019
Doubtful	7,091	3,466	10,557
Loss	—	—	—
Total	**$709,159**	**$352,520**	**$1,061,679**

A summary of the Corporation's loans at amortized cost by credit quality indicator and investment type as of December 31, 2011:

	December 31, 2011		
Category	**Financial institutions**	**Corporate**	**Total**
A	$657,972	$234,023	$891,995
B	28,871	38,531	67,402
Substandard	2,118	21,492	23,610
Doubtful	9,058	3	9,061
Loss	—	832	832
Total	**$698,019**	**$294,881**	**$992,900**

As of December 31, 2012, the Corporation has six direct equity investments (five as of December 31, 2011) with a carrying value of $8,930 ($7,832 as of December 31, 2011). The Corporation has twelve total investments in LPs as of December 31, 2012 (fourteen as of December 31, 2011) with one with a cost basis of $3,033 (one at $3,033 as of December 31, 2011) and eleven at fair value of $14,673 (thirteen at fair value of $16,583 as of December 31, 2011). The direct equity investments are reported at cost and the Corporation's other than temporary impairment losses on equity investments as of December 31, 2012 was $0 ($2,363 as of December 31, 2011). The impairment charge in 2011 was entirely credit related and reflected in earnings.

5. Receivables and Other Assets

Receivables and other assets are summarized below:

	December 31	
USD thousands	**2012**	**2011**
Other current assets:		
Interest receivable on loan investments	$ 8,033	$ 8,792
Interest receivable on investment securities	672	827
Other current receivables	6,321	5,319
	15,026	14,938
Other noncurrent assets	4,802	3,633
Total receivables and other assets	**$19,828**	**$18,571**

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

	December 31	
USD thousands	**2012**	**2011**
Pension Plan, net liability	$33,629	$23,613
PRBP, net liability	10,896	6,841
Deferred revenue	5,478	3,647
Employment benefits payable	5,195	4,308
Due to other IDB Group entities	3,019	2,407
Accounts payable and other liabilities	5,752	3,150
Total accounts payable and other liabilities	**$63,969**	**$43,966**

As of December 31, 2012 and 2011, the Pension Plan and PRBP net liabilities reflect the underfunded status of the Plans. Refer to Note 16.

7. Borrowings and Long-term Debt

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

	December 31			
USD thousands	**2012**		**2011**	
Borrowings and debt (by currency)	**Amount outstanding**	**Weighted avg. cost**	**Amount outstanding**	**Weighted avg. cost**
U.S. dollar	$820,000	1.22%	$ 550,000	0.99%
Mexican peso	123,402	4.93%	57,358	4.87%
Brazilian real	22,027	10.56%	39,998	10.64%
Euro	2,296	2.10%	2,660	2.28%
Peruvian nuevo sol	1,308	7.11%	7,297	6.35%
Argentinean peso	325	9.15%	1,077	9.15%
	$969,358		**$ 658,390**	
Fair value adjustments*	—		114	
Short-term borrowings	(21,498)		(140,823)	
Long-term borrowings	**$947,860**		**$ 517,681**	

*The Corporation's derivative instrument contract due to mature on March 22, 2015, was repaid on June 28, 2012.

The Corporation has available a renewable borrowing facility with the IDB amounting to $300,000. In August 2008, the Corporation borrowed $100,000 under this facility. Borrowings under the IDB facility are due fifteen years after the respective disbursement. The Corporation has the right to use this facility until November 2015. In addition, as of December 31, 2012, the Corporation has available a stand-by credit facility with an AA- institution amounting to $100,000. The Corporation has the right to use this stand-by credit facility until July 2013. Other credit facilities available amount to $264,751 as of December 31, 2012.

The Corporation's outstanding borrowings as of December 31, 2012, consist of bond issuances and term notes.

On November 16, 2012, the Corporation issued US-dollar denominated, 3-month LIBOR plus 0.35% notes, as part of an international medium-term note program (Euro Medium-Term Note Program) in the capital markets in the amount of $350,000, maturing in 2015. Interest on the notes is payable quarterly and at maturity. The bond offering is the Corporation's first on the global financial market, aimed at diversifying its sources of funding.

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

The maturity structure of borrowings outstanding is as follows:

USD thousands	**2013**	**2014**	**2015**	**2016**	**Through 2025**
Borrowings	$21,498	$ 60,134	$170,000	$92,028	$152,296
Bonds	—	61,701	411,701	—	—
	$21,498	**$121,835**	**$581,701**	**$92,028**	**$152,296**

As of December 31, 2012, borrowings and long-term debt-related expense includes interest expense of $15,900 ($12,781 as of December 31, 2011).

8. Capital

The Corporation's authorized share capital was increased to $705.9 million through $500 million and $2.2 million capital increase resolutions approved in 1999 and 2008, respectively. The resolutions together allocated a total of $502.2 million for subscriptions by member countries during the subscription periods. The Corporation issues only full shares, with a par value of ten thousand dollars.

In May 2012, 1,581 shares issued in the context of the 1999 capital increase reverted back to the Corporation's treasury as unsubscribed shares. Of these, 230 shares have already been allocated for purchase by China, Korea and Canada, and the remaining 1,351 will be reallocated among IIC shareholders pursuant to a mechanism adopted by the Board of Executive Directors in 2008. It is expected that all shares authorized under the capital increases will be subscribed and paid in. On August 27, 2012, and October 9, 2012, respectively, China and Korea each subscribed 40 shares of IIC capital that were assigned to them, for which the deadlines for payment are November 25, 2012 and January 7, 2013.

Under the Agreement Establishing the Inter-American Investment Corporation, any member may withdraw from the Corporation by notifying the Corporation's principal office in writing of its intention to do so. Such withdrawal shall become effective on the date specified in the notice but in no event prior to six months from the date on which such notice was delivered to the Corporation. Even after withdrawing, a member shall remain liable for all obligations to the Corporation to which it was subject at the date of delivery of the withdrawal notice.

In the event a member withdraws from the Corporation, the Corporation and the member may agree on the withdrawal from membership and the repurchase of shares of said member on terms appropriate under the circumstances. If such agreement is not reached within three months after the date on which such member expresses its desire to withdraw from membership, or within a term agreed upon between both parties, the repurchase price of the member's shares shall be equal to the book value thereof on the date when the member ceases to belong to the Corporation, such book value to be determined by the Corporation's audited financial statements. Payment for shares shall be made, upon surrender of the corresponding share certificates, in such installments and at such times, and in such available currencies as the Corporation shall determine, taking into account its financial position.

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

	December 31		
	Total capital stock subscribed		Subscriptions receivable from members
	Shares	Amount	
		USD thousands	
Argentina	7,767	$ 77,670	$ —
Austria	345	3,450	—
Bahamas	144	1,440	—
Barbados	101	1,010	—
Belgium	169	1,690	—
Belize	101	1,010	—
Bolivarian Republic of Venezuela	4,311	43,110	—
Brazil	7,767	77,670	—
Chile	2,003	20,030	—
Colombia	2,003	20,030	—
Costa Rica	204	2,040	—
Denmark	1,071	10,710	—
Dominican Republic	420	4,200	—
Ecuador	420	4,200	—
El Salvador	314	3,140	—
Finland	393	3,930	—
France	2,162	21,620	—
Germany	1,334	13,340	—
Guatemala	420	4,200	—
Guyana	120	1,200	—
Haiti	314	3,140	—
Honduras	314	3,140	—
Israel	173	1,730	—
Italy	2,162	21,620	—
Jamaica	420	4,200	—
Japan	2,393	23,930	—
Mexico	5,000	50,000	—
Netherlands	1,071	10,710	—
Nicaragua	314	3,140	—
Norway	393	3,930	—
Panama	314	3,140	—
Paraguay	314	3,140	—
People’s Republic of China	150	1,500	—
Peru	2,003	20,030	—
Plurinational State of Bolivia	624	6,240	—
Portugal	182	1,820	—
Republic of Korea	150	1,500	400
Spain	2,393	23,930	—
Suriname	101	1,010	—
Sweden	393	3,930	—
Switzerland	1,071	10,710	—
Trinidad and Tobago	314	3,140	—
United States	16,019	160,190	—
Uruguay	828	8,280	—
Total 2012	**68,979**	**$689,790**	**$ 400**
Total 2011	**70,480**	**$704,800**	**$20,471**

9. Measurements and Changes in Fair Value

The Corporation's assets and liabilities recorded at fair value have been categorized based on a fair value hierarchy in accordance with FASB ASC 820-10-50-2. See Note 2 for a discussion of the Corporation's policies regarding this hierarchy.

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

USD thousands	Balance as of December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
ASSETS				
Corporate securities	$553,545	$22,594	$530,951	$ —
Government securities	66,498	—	66,498	—
Agency securities	64,967	64,967	—	—
Limited partnerships*	14,673	—	—	14,673

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

The following fair value hierarchy table presents information about the Corporation's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

USD thousands	Balance as of December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
ASSETS				
Corporate securities	$323,807	$323,807	$ —	$ —
Agency securities	34,979	34,979	—	—
Government securities	24,319	—	24,319	—
Limited partnerships*	16,583	—	—	16,583
Derivative contracts	616	—	616	—
LIABILITIES				
Borrowings	(50,114)	—	(50,114)	—

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

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

USD thousands	Other gains/ (losses)	Interest expense on borrowings	Total changes in fair values included in earnings for the year
ASSETS			
Corporate securities	$4,482	$ —	$4,482
Government securities	2,687	—	2,687
Agency securities	193	—	193
Limited partnerships*	34	—	34

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

The following table presents gains and losses due to changes in fair value for items measured at fair value pursuant to the fair value option election for the year ended December 31, 2011:

USD thousands	Other gains/ (losses)	Interest expense on borrowings	Total changes in fair values included in earnings for the year
ASSETS			
Corporate securities	$ 1,761	$ —	$ 1,761
Government securities	909	—	909
Agency securities	206	—	206
Derivative contracts	423	—	423
Limited partnerships*	(2,783)	—	(2,783)
LIABILITIES			
Borrowings	(213)	(497)	(710)

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

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2012 and 2011, are as follows:

USD thousands	Fair value measurements for LPs using significant unobservable inputs (Level 3)
As of January 1, 2011	$19,865
Net asset change due to net losses	(2,783)
Distributions received	(944)
Additional investments	445
As of December 31, 2011	**$16,583**
As of January 1, 2012	$16,583
Net asset change due to net gains	34
Distributions received	(3,528)
Additional investments	1,584
As of December 31, 2012	**$14,673**

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

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 non-U.S. government bonds. Such securities are classified within Level 1 of the fair value hierarchy.

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

The Corporation's loans are generally carried at the principal amount outstanding. For disclosure purposes, the Corporation uses a December 31 measurement date to determine the fair value of its loan portfolio. As of December 31, 2012, the carrying amount of loan investments, plus accrued interest, was $446,984 ($470,273 as of December 31, 2011), and their estimated fair value amounted to $444,972 ($468,579 as of December 31, 2011) for those loans for which it is practicable to determine fair value. Management believed that it was not practicable to determine the fair value of the remainder of the loan portfolio, which included custom-tailored financing to small and medium-size enterprises operating in the Corporation's regional member countries. As of December 31, 2012, the carrying value of this remainder portfolio, without including accrued interest, was $618,945 ($526,020 as of December 31, 2011), with interest rates that range from 1.09% to 12.30% (0.96% to 12.30% as of December 31, 2011) and maturities that range from less than 1 year to 13 years (less than 1 year to 13 years as of December 31, 2011). Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value presented does not necessarily reflect the realizable values (since the Corporation generally holds investments with contractual maturities with the aim of realizing their recorded values and, therefore, maximizing the developmental aspects of the investment).

The Corporation's borrowings and long-term debt are recorded at historical amounts unless elected for fair value accounting under the Fair Value Option Subsection of Subtopic 825-10. The fair value of the Corporation's borrowings and long-term debt was estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowings and long-term debt arrangements. As of December 31, 2012, the carrying value of the Corporation's borrowings and long-term debt, plus accrued interest, was approximately $1,980 lower than fair value ($5,292 higher than fair value as of December 31, 2011).

The carrying value of equity investments reported at cost amounted to $11,963 as of December 31, 2012 ($10,866 as of December 31, 2011). For some of these investments, LPs with a total carrying value of $3,033 as of December 31, 2012 ($3,033 as of December 31, 2011), the estimated fair value was $3,482 as of December 31, 2012 ($2,649 as of December 31, 2011).

The carrying value of equity investments reported at fair value amounted to $14,673 as of December 31, 2012 ($16,583 as of December 31, 2011). The amount of total net gains and losses for the year ended December 31, 2012, included in changes in carrying value of equity investments attributable to the change in unrealized net loss relating to assets still held at that date was $13 ($2,777 unrealized net loss as of December 31, 2011).

Fair value for investments in LPs was determined using the partnership's estimated net asset value. For this type of investment, net asset value is considered to be the best estimate of fair value. Generally, the LPs have finite lives and the Corporation does not intend to sell or redeem its investments in LPs. Proceeds are distributed to the Corporation as the LPs sell the underlying investment. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value.

10. Derivative Instruments

The location on the balance sheet and the fair value of derivative instruments not designated as hedging instruments under the Codification are as follows:

	December 31			
	2012		2011	
USD thousands	Balance sheet location	Fair value	Balance sheet location	Fair value
Interest rate contracts	Other assets	$ —	Other assets	$616

The effect of derivative instruments on the income statement is as follows:

	December 31			
	2012		2011	
USD thousands	Location of gain or loss recognized in income statement	Amount of loss recognized in income statement	Location of gain or loss recognized in income statement	Amount of loss recognized in income statement
Interest rate contracts	Borrowings and long-term debt-related expense	$ —	Borrowings and long-term debt-related expense	$(81)

See Note 2 for additional information on the Corporation's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

11. Guarantees

As of December 31, 2012, no notices of default have been received since inception of the guarantees program and no losses on the program have been recognized. Guarantees entered into by the Corporation generally have maturities consistent with those of the loan portfolio. The maximum potential amount of future payments, which represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties without taking into consideration possible recoveries under recourse provisions or from collateral held or pledged, amounted to $6,171 as of December 31, 2012 ($5,617 as of December 31, 2011). As of December 31, 2012, all outstanding guarantees were provided in currencies other than the United States dollar. There was no provision for losses on guarantees in the statement of income as of December 31, 2012 (none as of December 31, 2011). The estimated fair value of the guarantee liability is de minimis.

12. Contingencies

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

13. Subsequent Events

The Corporation monitors significant events occurring after the balance sheet date and prior to the issuance of the financial statements to determine the impacts, if any, of events on the financial statements to be issued. All subsequent events of which the Corporation is aware were evaluated through the approval date by the Board of Governors on March 17, 2013. Management determined there are no subsequent events that require disclosure under FASB ASC Topic 855, *Subsequent Events*.

14. Lending Arrangements

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

During the year ended December 31, 2012, the Corporation called and disbursed $324,208 in funds from participating lenders ($547,813 as of December 31, 2011). Undisbursed funds commitments from participating lenders totaled $2,519 as of December 31, 2012 ($544,000 as of December 31, 2011).

15. Related-party Transactions

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

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

	Year ended December 31	
USD thousands	**2012**	**2011**
Office space (headquarters and other)	$2,456	$2,395
Support services	930	735
Other IDB services	138	150
	$3,524	**$3,280**

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

USD thousands	2013	2014	2015–2020
Office space (headquarters)	$2,387	$2,063	$13,745
	$2,387	**$2,063**	**$13,745**

Accounts payable to the IDB were $3,019 as of December 31, 2012 ($2,407 as of December 31, 2011).

As of December 31, 2012 and 2011, the Corporation had borrowed $100,000 from the IDB credit facility. Refer to Note 7.

The Corporation provides advisory services to IDB Group entities. The Corporation has received full payment for fees payable as of December 31, 2012, under these agreements, for a total amount of $100 ($100 for the year ended December 31, 2011).

16. Pension and Postretirement Benefit Plans

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

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

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

Obligations and Funded Status

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

	Pension Plan		PRBP	
USD thousands	**2012**	**2011**	**2012**	**2011**
Reconciliation of benefit obligation				
Obligation as of January 1	$ 80,809	$ 61,243	$ 47,894	$ 35,740
Service cost	3,643	2,691	2,045	1,557
Interest cost	3,822	3,412	2,300	2,105
Participants' contributions	1,033	875	—	—
Actuarial loss	12,888	14,423	8,585	9,138
Benefits paid	(1,397)	(1,835)	(426)	(671)
Retiree Part D subsidy	—	—	29	25
Obligation as of December 31	100,798	80,809	60,427	47,894
Reconciliation of fair value of plan assets				
Fair value of plan assets as of January 1	57,196	54,714	41,053	36,230
Net transfers between IDB and IIC	194	—	—	—
Actual return on assets	7,959	1,168	6,126	(293)
Benefits paid	(1,397)	(1,835)	(426)	(671)
Participants' contributions	1,033	875	—	—
Employer contributions	2,184	2,274	2,778	5,787
Fair value of plan assets as of December 31	67,169	57,196	49,531	41,053
Funded status				
Underfunded status as of December 31	(33,629)	(23,613)	(10,896)	(6,841)
Net amount recognized as of December 31	$(33,629)	$(23,613)	$(10,896)	$ (6,841)
Amounts recognized as liabilities consist of:				
Plan benefits liabilities	(33,629)	(23,613)	(10,896)	(6,841)
Net amount recognized as of December 31	**$(33,629)**	**$(23,613)**	**$(10,896)**	**$ (6,841)**
Amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss	30,240	23,365	18,711	14,218
Prior service costs	21	35	—	920
Net initial asset	—	—	357	531
Net amount recognized as of December 31	**$ 30,261**	**$ 23,400**	**$ 19,068**	**$ 15,669**

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was $78,667 and $61,902 as of December 31, 2012 and 2011, respectively.

Components of Net Periodic Benefit Cost

Net periodic benefit cost consists of the following components:

	Pension Plan		PRBP	
	Year ended December 31			
USD thousands	2012	2011	2012	2011
Service cost	$ 3,643	$ 2,691	$ 2,045	$ 1,557
Interest cost	3,822	3,412	2,300	2,105
Expected return on plan assets	(3,733)	(3,788)	(2,762)	(2,418)
Amortization of:				
Transition obligation	—	—	174	174
Unrecognized net actuarial loss	1,593	—	728	19
Prior service cost	14	14	920	1,864
Net periodic benefit cost	**$ 5,339**	**$ 2,329**	**$ 3,405**	**$ 3,301**

The estimated net actuarial gain or loss, prior service cost, and net initial obligation for the Pension Plan and the PRBP that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2013 amount to a net of $2,563 for the Pension Plan and $1,736 for the PRBP.

Actuarial Assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses that exceed 10% of the greater of the benefit obligation or market-related value of the plan assets at the beginning of the year are amortized over the average remaining service period of active participants expected to receive benefits under the Pension Plan and PRBP, which approximates 11.4 and 12 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the Pension Plan and 2.2 years for the PRBP. As of December 31, 2009, there was a plan amendment to the PRBP of $4,600. The unrecognized prior service cost for this amendment is fully amortized as of December 31, 2012.

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

	Pension Plan		PRBP	
	2012	2011	2012	2011
Weighted average assumptions used to determine benefit obligation as of December 31				
Discount rate	4.00%	4.75%	4.25%	5.00%
Rate of compensation increase	5.50%	5.50%		

Notes to the Financial Statements

(USD thousands, unless otherwise indicated)

	Pension Plan		PRBP	
	2012	2011	2012	2011
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31				
Discount rate	4.75%	5.75%	5.00%	6.00%
Expected long-term return on plan assets	6.75%	7.00%	6.75%	6.75%
Rate of compensation increase	5.50%	5.50%		

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

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

	PRBP	
	2012	2011
Rate to which the cost trend rate is expected to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2018	2018
Health care cost trend rate assumed for next year		
Medical—Non-Medicare	7.50%	8.00%
Medical—Medicare	6.50%	7.00%
Prescription drugs	7.00%	7.50%
Dental	5.00%	5.50%
Retirement cost outside U.S.*	6.50%	7.00%

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

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:

	One-percentage-point increase		One-percentage-point decrease	
	Year ended December 31			
USD thousands	2012	2011	2012	2011
Effect on total of service and interest cost components	$ 1,139	$ 821	$ (804)	$ (586)
Effect on postretirement benefit obligation	12,669	10,114	(11,532)	(7,497)

Plan Assets

The assets of the Pension Plan and the PRBP are managed primarily by investment managers employed by the IDB who are provided with investment guidelines that take into account the Pension Plan and PRBP investment policies. Investment policies with long-term strategic asset allocations have been developed so that there is an expectation of sufficient returns to meet long-term funding needs. The policies include investments in fixed income and U.S. inflation-indexed bonds to partially hedge the interest rate and inflation exposure in the Pension Plan and PRBP's liabilities and to protect against disinflation.

(USD thousands, unless otherwise indicated)

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

The PRBP's assets are invested with a target allocation between 46% and 62% exposure to a well-diversified pool of developed and emerging markets equities, and exposures of 3% to commodity index futures, 3% to public real estate, and 2% to high yield fixed income. The PRBP's assets are also invested with exposures of 15% to long duration fixed income, 5% to core fixed income, and 15% to U.S. inflation-indexed securities.

The investment policy target allocations as of December 31, 2012, are as follows:

	Pension Plan	**PRBP**
U.S. equities	25%	26%
Non-U.S. equities	24%	24%
U.S. inflation-indexed bonds	15%	15%
Long duration fixed income bonds	15%	15%
Core fixed income	5%	5%
Emerging markets equities	4%	4%
Emerging markets debt	3%	3%
Commodity index futures	3%	3%
High yield fixed income	2%	2%
Public real estate	2%	3%
Private real estate	2%	0%

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

The following tables set forth the categories of investments of the Pension Plan and the PRBP as of December 31, 2012 and 2011, which are measured at fair value and presented together with their weighted average allocation, by level within the fair value hierarchy. These investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, except for investment funds whose classification within the fair value hierarchy depends on the ability to redeem their corresponding shares at their net asset value in the near term.

	Pension Plan				
USD thousands	**Level 1**	**Level 2**	**Level 3**	**December 31, 2012**	**Weighted average allocations**
Equity and equity funds:					
U.S. equities	$ 3,530	$13,101	$ —	$16,631	25%
Non-U.S. equities	5,184	11,207	—	16,391	24%
Emerging markets equities	—	2,796	—	2,796	4%
Public real estate	1,271	—	—	1,271	2%
Government bonds and diversified bond funds:					
Long duration fixed income funds	4,924	4,969	—	9,893	15%
Core fixed income bonds	3,115	—	—	3,115	5%
High yield debt	—	1,345	—	1,345	2%
Emerging markets debt	9,891	—	—	9,891	15%
U.S. inflation-indexed bonds	—	2,076	—	2,076	3%
Real estate investment funds:					
Private real estate	—	—	1,498	1,498	2%
Commodity index futures	—	—	—	—	0%
Short-term investment funds	1,375	887	—	2,262	3%
	$29,290	**$36,381**	**$1,498**	**$67,169**	**100%**

	Pension Plan				
USD thousands	**Level 1**	**Level 2**	**Level 3**	**December 31, 2011**	**Weighted average allocations**
Equity and equity funds:					
U.S. equities	$ 2,729	$11,679	$ —	$14,408	25%
Non-U.S. equities	5,918	7,682	—	13,600	24%
Emerging markets equities	—	2,207	—	2,207	4%
Public real estate	1,123	—	—	1,123	2%
Government bonds and diversified bond funds:					
Long duration fixed income funds	7,543	1,083	—	8,626	15%
Core fixed income funds	2,708	—	—	2,708	5%
High yield fixed income bonds	—	1,083	—	1,083	2%
U.S. inflation-indexed bonds	8,486	—	—	8,486	15%
Emerging markets debt	—	1,665	—	1,665	3%
Real estate investment funds:					
Private real estate	—	—	1,284	1,284	2%
Commodity index futures	—	60	—	60	0%
Short-term investment funds	1,224	722	—	1,946	3%
	$29,731	**$26,181**	**$1,284**	**$57,196**	**100%**

	PRBP			
USD thousands	Level 1	Level 2	December 31, 2012	Weighted average allocations
Equity and equity funds:				
U.S. equities	$ —	$14,305	$14,305	29%
Non-U.S. equities	—	12,044	12,044	24%
Emerging markets equities	—	2,030	2,030	4%
Public real estate investment funds	1,484	—	1,484	3%
Government bonds and diversified bond funds:				
Long duration fixed income bonds	4,078	3,278	7,356	15%
High yield debt	—	998	998	2%
Emerging markets debt	—	1,499	1,499	3%
Core fixed income bonds	2,219	—	2,219	4%
U.S. inflation-indexed bonds	7,233	—	7,233	15%
Short-term investment funds	174	189	363	1%
	$15,188	**$34,343**	**$49,531**	**100%**

	PRBP			
USD thousands	Level 1	Level 2	December 31, 2011	Weighted average allocations
Equity and equity funds:				
U.S. equities	$ —	$16,565	$16,565	40%
Non-U.S. equities	—	9,831	9,831	24%
Public real estate investment funds	396	—	396	1%
Government bonds and diversified bond funds:				
Long duration fixed income bonds	6,158	—	6,158	15%
Core fixed income bonds	2,017	—	2,017	5%
U.S. inflation-indexed bonds	6,086	—	6,086	15%
	$14,657	**$26,396**	**$41,053**	**100%**

Investment securities that are measured at fair value based on quoted market prices in active markets, a valuation technique consistent with the market approach, include U.S. equities, non-U.S. equities, fixed income mutual funds, and U.S. treasury inflation-indexed bonds. Such securities are classified within Level 1 of the fair value hierarchy. As required by the fair value measurement framework, no adjustments are made to the quoted price for such securities.

Commingled emerging markets equity and debt funds and short-term investment funds, which are not publicly-traded, are measured at fair value based on the net asset value of the investment funds and are classified as Level 2, as they are redeemable with the investee in the near term at their net asset value per share at the measurement date. This valuation technique is consistent with the market approach.

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

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

USD thousands	Fair value measurements for the Pension Plan investments using significant unobservable inputs (Level 3)
As of January 1, 2011	$1,147
Total net gains	137
Purchases	583
Sales and income distributions	(583)
As of December 31, 2011	**$1,284**
As of January 1, 2012	$1,284
Total net gains	214
Purchases	—
Sales and income distributions	—
As of December 31, 2012	**$1,498**

The amount of total net gains and losses for the year ended December 31, 2012, included in changes in carrying value of the Pension Plan investments attributable to the change in unrealized net gain relating to assets held was $214 (net gain of $137 as of December 31, 2011).

Cash Flows

Contributions from the Corporation to the Pension Plan and the PRBP during 2013 are expected to be approximately $3,000 and $4,000, respectively. All contributions are made in cash.

Estimated Future Benefit Payments

The following table summarizes the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years. These amounts are based on the same assumptions used to measure the benefit obligation as of December 31, 2012.

USD thousands	Pension Plan	PRBP*
Estimated future benefit payments		
January 1, 2013–December 31, 2013	$ 1,773	$ 573
January 1, 2014–December 31, 2014	2,070	648
January 1, 2015–December 31, 2015	2,073	692
January 1, 2016–December 31, 2016	2,370	783
January 1, 2017–December 31, 2017	2,667	924
January 1, 2018–December 31, 2022	17,220	6,572

*After Part D Subsidy

17. Management of External Funds

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