INTER-AMERICAN INVESTMENT CORPORATION

Financial Statements
as of June 30, 2017 and 2016

INTER-AMERICAN INVESTMENT CORPORATION

BALANCE SHEET (Unaudited)

USD Thousands	June 30 2017	June 30 2016
ASSETS		
Cash and cash equivalents	$ 25,219	$ 16,889
Investment securities		
Available-for-sale	875,989	632,237
Trading	474,831	440,288
Investments		
Loan investments	839,283	898,636
Less Allowance for losses	(39,010)	(37,908)
	800,273	860,728
Equity investments ($23,506 and $11,695 carried at fair value, respectively)	39,563	32,901
Total investments	839,836	893,629
Receivables and other assets	20,708	30,276
Total assets	**$ 2,236,583**	**$ 2,013,319**
LIABILITIES AND CAPITAL		
Accounts payable and other liabilities	$ 58,525	$ 41,726
Interest and commitment fees payable	3,445	3,709
Borrowings, short-term	433,366	57,036
Borrowings, long-term	629,820	1,036,976
Total liabilities	**1,125,156**	**1,139,447**
Capital		
Subscribed capital	1,512,480	1,500,000
Additional paid-in capital	498,378	490,642
Less Members' subscriptions receivable	(1,082,746)	(1,286,052)
	928,112	704,590
Retained earnings	207,196	186,278
Accumulated other comprehensive income/(loss)	(23,881)	(16,996)
Total capital	**1,111,427**	**873,872**
Total liabilities and capital	**$ 2,236,583**	**$ 2,013,319**

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

INTER-AMERICAN INVESTMENT CORPORATION

STATEMENT OF INCOME (Unaudited)

USD Thousands	Six months ended June 30 2017		Six months ended June 30 2016	
INCOME				
Loan investments				
Interest and fees	$	21,577	$	21,395
Other income		2,287		923
		23,864		22,318
Equity investments				
Changes in fair value		1,176		942
Gain/(Loss) on sale, net		630		-
Dividends		(83)		382
		1,723		1,324
Investment securities		9,811		4,467
Other income				
Service fees		32,235		25,790
Other income		4,232		510
		36,467		26,300
Total income		**71,865**		**54,409**
Borrowings-related expense		8,694		5,403
Total income, net of Borrowings-related expense		**63,171**		**49,006**
PROVISION FOR LOAN INVESTMENT LOSSES		**3,177**		**1,002**
OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES ON EQUITY INVESTMENTS (ALL CREDIT RELATED)		**-**		**281**
OPERATING EXPENSES				
Administrative		37,678		29,975
Pension Plan and Postretirement Benefit Plan expense		5,567		4,124
(Gain)/Loss on foreign exchange transactions, net		(681)		106
Other expenses		1,151		386
Total operating expenses		**43,715**		**34,591**
NET INCOME	**$**	**16,279**	**$**	**13,132**

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

INTER-AMERICAN INVESTMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME/(LOSS) AND CHANGES IN CAPITAL (Unaudited)

STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

USD Thousands	Six months ended June 30 2017	2016
NET INCOME	$ 16,279	$ 13,132
OTHER COMPREHENSIVE INCOME/(LOSS)		
Unrealized gain/(loss) on investment securities available-for-sale	2,856	1,989
Total other comprehensive income/(loss)	2,856	1,989
COMPREHENSIVE INCOME/(LOSS)	**$ 19,135**	**$ 15,121**

STATEMENT OF CHANGES IN CAPITAL

USD Thousands	Subscribed shares	Capital stock*	Retained earnings	Accumulated other comprehensive income/(loss)	Total capital
As of December 31, 2015	**125,352**	**$ 703,163**	**$ 173,146**	**$ (18,985)**	**$ 857,324**
Six months ended June 30, 2016					
Net income		-	13,132	-	13,132
Other comprehensive income/(loss)		-	-	1,989	1,989
Change in subscribed shares	24,648				
Payments received for capital stock subscribed		1,427	-	-	1,427
As of June 30, 2016	**150,000**	**$ 704,590**	**$ 186,278**	**$ (16,996)**	**$ 873,872**
As of December 31, 2016	**151,248**	**$ 857,802**	**$ 190,917**	**$ (26,737)**	**$ 1,021,982**
Six months ended June 30, 2017					
Net income		-	16,279	-	16,279
Other comprehensive income/(loss)		-	-	2,856	2,856
Change in subscribed shares	-				
Payments received for capital stock subscribed		70,310	-	-	70,310
As of June 30, 2017	**151,248**	**$ 928,112**	**$ 207,196**	**$ (23,881)**	**$ 1,111,427**

* Net of members subscriptions receivable.

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

INTER-AMERICAN INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS (Unaudited)

USD Thousands	Six months ended June 30 2017		Six months ended June 30 2016	
CASH FLOWS FROM INVESTING ACTIVITIES				
Loan disbursements	$	(103,681)	$	(70,994)
Equity disbursements		(7,771)		(2,982)
Loan repayments		122,034		133,995
Returns of equity investments		2,192		44
Available-for-sale securities				
Purchases		(235,878)		(221,887)
Sales and maturities		167,769		69,881
Capital expenditures		(1,254)		(1,542)
Proceeds from sales of recovered assets		1,376		227
Net cash provided by/(used in) investing activities	**$**	**(55,213)**	**$**	**(93,258)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of borrowings		(14,225)		-
Proceeds from issuance of borrowings		10,044		496,489
Capital subscriptions		70,310		1,427
Net cash provided by/(used in) financing activities	**$**	**66,129**	**$**	**497,916**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		16,279		13,132
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:				
Change in fair value of equity investments		(1,176)		(942)
Provision for loan investment losses		3,177		1,002
Change in fair value of investment securities		(1,903)		(835)
Realized (gain)/loss on sales of equity investments		(630)		-
Change in receivables and other assets		(505)		(7,130)
Change in accounts payable and other liabilities		(284)		(4,478)
Trading investment securities				
Purchases		(578,989)		(874,052)
Sales and maturities		553,244		468,383
Other, net		1,584		2,183
Net cash provided by/(used in) operating activities	**$**	**(9,203)**	**$**	**(402,737)**
Net effect of exchange rate changes on cash and cash equivalents		47		22
Net increase/(decrease) in cash and cash equivalents		1,760		1,943
Cash and cash equivalents as of January 1		23,459		14,946
Cash and cash equivalents as of June 30	**$**	**25,219**	**$**	**16,889**
Supplemental disclosure:				
Interest paid during the period	$	8,037	$	3,281

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

Purpose

The Inter-American Investment Corporation (the IIC or Corporation), an international organization, was established in 1986 and began operations in 1989 with the mission of promoting the economic development of its regional developing member countries, which are located in Latin America and the Caribbean, by encouraging the establishment, expansion, and modernization of private enterprises in such a way as to supplement the activities of the Inter-American Development Bank (IDB). The IIC makes loans, guarantees and equity investments where sufficient private capital is not otherwise available on adequate terms in the market. The IIC also arranges additional project funding from other investors and lenders, either through joint financing or through loan syndications, loan participations, underwritings and guarantees. In addition, the IIC provides financial and technical advisory services to clients with its own resources and those specifically provided for this purpose by its member countries. As of the date hereof, 45 member countries have subscribed to share capital in the IIC. The IIC conducts its operations principally in United States dollars, and operates within 26 of its member countries, all of which are located in Latin America and the Caribbean (the Regional Developing Member Countries). The IIC is an autonomous international organization and a member of the Inter-American Development Bank Group (the IDB Group), which also includes the IDB and the Multilateral Investment Fund (MIF).

On March 30, 2015, the Boards of Governors of the Corporation and the IDB approved the transfer to the Corporation of all operational and administrative functions associated with the IDB private sector and non-sovereign guaranteed (NSG) activities (the IDBG NSG Reform) to better serve the Region, clients and partners, and to maximize developmental impact. The IDBG NSG Reform was effective on January 1, 2016. Since the effective date, the Corporation and the IDB entered into service level agreements (SLAs) whereby the Corporation provides certain services to the IDB and the IDB provides certain services to the IIC. The Corporation provides loan origination, credit risk evaluation and monitoring and other loan administration services for the IDB NSG operations, as well as for the IDB's legacy portfolio operations pursuant to an SLA. In addition, the IDB will continue to provide the Corporation with services as described in Note 12.

During a seven year period after the effective date of the IDBG NSG Reform, NSG activities will be originated by the IIC and largely co-financed by the IIC and the IDB. Following the closing of a co-financed loan, the Corporation and the IDB maintain separate legal and economic interests in their respective share of the loan principal balance. The Corporation's portion is defined as a percentage of the overall transaction subject to certain minimum amounts as agreed between the Corporation and the IDB.

1. Basis of Presentation

Certain financial information that is normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP), but is not required for interim reporting purposes, has been condensed or omitted. References to US GAAP issued by the Financial Accounting Standards Board (FASB) in these notes are to the FASB Accounting Standards Codification, sometimes referred to as Codification or ASC.

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

2. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for losses on loan investments, the evaluation for other-than-temporary impairment on available-for-sale and equity investments, the fair value of investment securities, loan and equity investments, borrowings, and the determination of the net periodic benefit cost from pension and postretirement benefit plans and the present value of benefit obligations. There are inherent risks and uncertainties related to the Corporation's operations including the potential impacts of changing economic conditions on the Corporation's clients and the global investment markets that could have an adverse effect on the financial position of the Corporation.

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

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

Investment securities are classified based on management's intention on the date of purchase. Purchases and sales of investment securities are recorded on a trade date basis. The investment portfolio classified as trading is recorded at fair value with unrealized gains and losses reported in income from investment securities. 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/(loss)[1]. Interest and dividends on securities, amortization of premiums, accretion of discounts, and realized gains and losses on trading and available-for-sale securities are reported in income from investment securities.

Available-for-sale securities are evaluated for other than temporary impairment. The Corporation considers various factors in determining whether a decline in fair value is other than temporary including the issuer's financial condition, the effects of changes in interest rates or credit spreads, the expected recovery period, and other quantitative and qualitative information. The evaluation of securities for impairment is a process subject to estimation, judgment and uncertainty and is intended to determine whether declines in fair value of investment securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions and future changes in assessments of the aforementioned factors. It is expected that such factors will change in the future. For impairments that are deemed to be other than temporary, the credit portion of the loss is recognized in earnings and the non-credit portion is recognized in Accumulated other comprehensive income/(loss).

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

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 may obtain collateral security or third-party guarantees.

Equity investments include ownership interests in limited partnerships and similar fund structures (LPs) and direct equity investments primarily in small and medium-sized enterprises and financial institutions. Direct equity investments for which the Corporation maintains specific ownership accounts—and for which the Corporation does not have a controlling financial interest or significant influence—are carried at cost less impairment, if any.

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

The Corporation considers a loan impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan's contractual terms. Information and events considered in determining that a loan is impaired include the borrower's financial difficulties, the borrower's competitive position in the marketplace, the risk associated with the underlying collateral, the willingness and capacity of the sponsor who organized the project to support the investment, the borrower's management team, as well as geopolitical conflict and macroeconomic crises.

Direct equity investments that are not accounted for at fair value are assessed for impairment no less than annually on the basis of the latest financial information, operating performance and other relevant information including, but not limited to, macroeconomic conditions, specific industry trends, the historical performance of the company, and the Corporation's intent to hold the investment for an extended period. When impairment is identified and is deemed to be other than temporary, the investment is written down to the fair value, which becomes the new carrying value for the investment. Impairment losses are not reversed for subsequent recoveries in fair value of the investment unless sold at a gain.

Variable interest entities – ASC Topic 810, *Consolidation*, provides for consolidation when a reporting entity is the primary beneficiary for a variable interest entity (VIE), or if an entity does not meet the definitional elements of a VIE, consolidation is required if a reporting entity has a controlling financial interest and/or holds a majority voting interest in an entity. The Corporation has concluded that it is not the primary beneficiary for any VIEs. Additionally, the Corporation does not have a significant variable interest in any VIE, which would require disclosure.

Similarly, the Corporation does not hold a controlling financial interest or majority voting interest in any other entity, and it does not have significant influence over any entities.

Allowance for losses on loan investments – The allowance for losses represents management's estimate of incurred losses in the loan investment portfolio as of the balance sheet date and is recorded as a reduction to loan investments. The allowance for losses is increased by charges to expense, through the Provision for loan investment losses, and decreased by net charge-offs, or release of provision. Considerable judgment is required to estimate the allowance for losses including determination of appropriate risk ratings, potential severity of losses, expected performance of individual loan investments, economic conditions in Latin America and the Caribbean and various other factors. The Corporation believes that the allowance for losses is adequate as of the balance sheet date; however, future changes to the allowance for losses may be necessary based on changes in any of the factors discussed herein.

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

For the general provision, the allowance for losses is established via an internal credit risk classification system that estimates the probable loss inherent in the portfolio based on various analyses.

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

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

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

The Corporation's loan risk rating process includes ten rating categories published by Standard & Poor's (S&P). Each loan is individually monitored and rated by assigning an applicable probability of default rate and an LGD ratio on at least an annual basis.

- Probability of Default — A scorecard is completed that contemplates a variety of borrower-specific considerations including, but not limited to: past experience and available market information, country risk, historical loss experience for similar credits, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, as well as an analysis of the financial statements and other information provided by the borrower. The scorecard result produces an internal risk rating that is comparable to a long-term issuer credit rating published by S&P.

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

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

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

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

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

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

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

Revenue recognition for service fees – A series of service level agreements define the nature of the services and corresponding fees for services provided to the IDB. Revenue is recognized as services are rendered, as the corresponding fees are determinable and collection is reasonably assured. Similarly, the Corporation receives project administration and general administrative fees for services provided to several special purpose trust funds affiliated with the Corporation or the IDB. Additional information about related-party transactions is included in Note 12 and management of external funds in Note 14.

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

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

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

Fixed assets – Fixed assets are presented at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

Foreign currency transactions – Assets and liabilities denominated in currencies other than the United States dollar are translated into U.S. dollars at market exchange rates in effect on the balance sheet dates. Revenues and expenses are translated at rates that approximate monthly weighted average exchange rates. Resulting gains and losses are included in (Gain)/Loss on foreign exchange transactions, net, in the statement of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments in this Update affect entities with transactions included within the scope of Topic 606. The scope of that Topic includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principles of the guidance. Rather, the amendments in this Update affect only narrow aspects of Topic 606 including clarifying collectability criterion and implementation considerations. For the Corporation, this Update is effective in 2019 and for interim periods in 2020. The Corporation is currently assessing the impact that this Update will have on its financial statements.

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

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost. For the Corporation, this Update is effective in 2019 and for interim periods in 2020. The Corporation is currently assessing the impact that this Update will have on its financial statements.

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

(dollars in thousands, unless otherwise indicated)

3. Investment Securities

Trading securities consist of the following:

	June 30	
USD Thousands	2017	2016
Corporate securities	$ 357,106	$ 359,261
Government securities	74,838	63,033
Supranational securities	29,902	-
Agency securities	12,985	17,994
	$ 474,831	**$ 440,288**

Net unrealized gains on trading securities were $794 for the six months ended June 30, 2017 ($586 net unrealized gains for the six months ended June 30, 2016).

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

	June 30	
USD Thousands	2017	2016
Corporate securities	$ 748,005	$ 514,363
Agency securities	98,252	97,734
Government securities	29,732	-
Supranational securities	-	20,140
	$ 875,989	**$ 632,237**

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

	June 30, 2017			
USD Thousands	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Corporate securities	$ 746,877	$ 2,381	$ (1,253)	$ 748,005
Agency securities	98,182	160	(90)	98,252
Government securities	29,858	-	(126)	29,732
	$ 874,917	**$ 2,541**	**$ (1,469)**	**$ 875,989**

	June 30, 2016			
USD Thousands	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Corporate securities	$ 513,535	$ 1,367	$ (539)	$ 514,363
Agency securities	96,752	982	-	97,734
Supranational securities	19,998	142	-	20,140
	$ 630,285	**$ 2,491**	**$ (539)**	**$ 632,237**

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

(dollars in thousands, unless otherwise indicated)

	June 30, 2017					
	Less than 12 months		12 months or more		Total	
USD Thousands	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	$ 216,406	$ (1,217)	$ 28,577	$ (36)	$ 244,983	$ (1,253)
Agency securities	66,129	(90)	-	-	66,129	(90)
Government securities	29,732	(126)	-	-	29,732	(126)
	$ 312,267	**$ (1,433)**	**$ 28,577**	**$ (36)**	**$ 340,844**	**$ (1,469)**

	June 30, 2016					
	Less than 12 months		12 months or more		Total	
USD Thousands	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Corporate securities	$ 166,411	$ (367)	$ 39,827	$ (172)	$ 206,238	$ (539)
	$ 166,411	**$ (367)**	**$ 39,827**	**$ (172)**	**$ 206,238**	**$ (539)**

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

	June 30	
USD Thousands	2017	2016
Unrealized gains/(losses) during the period	$ 2,853	$ 1,994
Reclassification of (gains)/losses to net income	3	(5)
Changes due to impaired securities	-	-
Total recognized in Other comprehensive income/(loss) related to available-for-sale securities	**$ 2,856**	**$ 1,989**

Proceeds from the sale of available-for-sale securities were $113,769 during the six months ended June 30, 2017 ($2,005 during the six months ended June 30, 2016). Gross realized gains were $242 and gross realized losses were $245 from the sale of available-for-sale securities during the six months ended June 30, 2017 (gross realized gains were $5 and no gross realized losses from the sale of available-for-sale securities during the six months ended June 30, 2016). The first-in, first-out identification method was used to determine the cost basis of the securities sold.

Investment securities with unrealized losses are the result of pricing changes in the current market environment and not as a result of other-than-temporary credit impairment. As of June 30, 2017, no other-than-temporary impairment has been recognized in the Corporation's available-for-sale investment securities portfolio (none as of June 30, 2016). Further, for securities in an unrealized loss position, the Corporation does not have the intent to sell securities within the available-for-sale portfolio and it is more likely than not that the Corporation will not be required to sell prior to recovery of the non-credit portion recognized in Accumulated other comprehensive income/(loss).

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

	June 30	
USD Thousands	2017	2016
Within one year	$ 225,845	$ 183,826
After one year through five years	650,144	448,411
	$ 875,989	**$ 632,237**

For the six months ended June 30, 2017, interest income, net of amortization of premiums and accretion of discounts, was $7,708 ($3,526 for the six months ended June 30, 2016).

4. Loan and Equity Investments

The Corporation has specific metrics for concentrations and monitors its investments in loans for credit risk and investments in equity and LPs for market risk and any potential related effects of geographic concentrations. As of June 30, 2017, the Corporation's largest aggregate investment exposures were in Brazil, Chile and Panama (Brazil, Chile and Panama as of June 30, 2016). As of June 30, 2017, outstanding investments in loans and investments in equity and LPs denominated in foreign currency amounted to $30,997 ($45,097 as of June 30, 2016). The Corporation's multi-country loan and equity investment exposures are designated as Regional in the following table.

(dollars in thousands, unless otherwise indicated)

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

	June 30					
USD Thousands	2017			2016		
	Loan	Equity	Total	Loan	Equity	Total
Brazil	$ 125,167	$ 2,613	$ 127,780	$ 112,771	$ 1,259	$ 114,030
Chile	92,519	1,220	93,739	99,407	1,600	101,007
Panama	91,914	-	91,914	95,664	4,000	99,664
Peru	89,990	-	89,990	97,789	1,750	99,539
Ecuador	80,883	-	80,883	78,044	-	78,044
Mexico	60,147	10,487	70,634	71,500	10,024	81,524
Costa Rica	60,209	-	60,209	89,935	-	89,935
Uruguay	49,549	-	49,549	37,690	-	37,690
Regional	11,154	21,809	32,963	12,483	10,598	23,081
Argentina	29,090	-	29,090	19,336	166	19,502
El Salvador	24,813	-	24,813	26,615	-	26,615
Colombia	23,387	434	23,821	64,043	504	64,547
Nicaragua	21,450	-	21,450	26,616	-	26,616
Honduras	17,087	-	17,087	8,219	-	8,219
Guatemala	13,318	-	13,318	8,325	-	8,325
Paraguay	12,867	-	12,867	25,735	-	25,735
Dominican Republic	10,784	-	10,784	11,213	-	11,213
Suriname	10,000	-	10,000	-	-	-
Jamaica	7,007	-	7,007	5,452	-	5,452
Haiti	5,639	-	5,639	6,185	-	6,185
Plurinational State of Bolivia	937	3,000	3,937	1,119	3,000	4,119
Bahamas	1,372	-	1,372	495	-	495
	$ 839,283	**$ 39,563**	**$ 878,846**	**$ 898,636**	**$ 32,901**	**$ 931,537**
Financial Institutions	$ 542,385	$ 26,921	$ 569,306	$ 640,299	$ 19,268	$ 659,567
Energy	108,295	-	108,295	75,520	1,750	77,270
Industry	57,839	-	57,839	58,282	-	58,282
Agriculture and Rural Development	52,543	-	52,543	63,935	-	63,935
Transport	32,725	-	32,725	29,207	-	29,207
Urban Development and Housing	14,692	2,947	17,639	3,969	2,883	6,852
Sustainable Tourism	12,696	-	12,696	12,017	-	12,017
Science and Technology	4,700	4,695	9,395	5,711	4,000	9,711
Other	6,737	-	6,737	2,703	-	2,703
Health	6,671	-	6,671	5,199	-	5,199
Private Firms and SME Development	-	5,000	5,000	-	5,000	5,000
Water and Sanitation	-	-	-	248	-	248
Education	-	-	-	1,546	-	1,546
	$ 839,283	**$ 39,563**	**$ 878,846**	**$ 898,636**	**$ 32,901**	**$ 931,537**

(dollars in thousands, unless otherwise indicated)

Loan and equity investment portfolio

The Corporation's development-related assets are the result of lending and investing activities that include loans, equity and LP investments, investment securities and guarantees that promote the economic development of the Corporation's Regional Developing Member Countries through the establishment, expansion and modernization of private enterprises. The Corporation's portfolio is disclosed as financial institutions and corporates. All development-related assets are individually evaluated for purposes of monitoring and evaluating credit performance and market risk.

The distribution of the outstanding portfolio by investment type is as follows:

	June 30, 2017		
USD Thousands	Financial institutions	Corporates	Total
Loan	$ 542,385	$ 296,898	$ 839,283
Equity	26,921	12,642	39,563
	$ 569,306	**$ 309,540**	**$ 878,846**

	June 30, 2016		
USD Thousands	Financial institutions	Corporates	Total
Loan	$ 640,299	$ 258,337	$ 898,636
Equity	19,268	13,633	32,901
	$ 659,567	**$ 271,970**	**$ 931,537**

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

USD Thousands	June 30, 2017
Loan	$ 118,484
Equity	24,163
	$ 142,647

Loan investments

Loans accrue interest at fixed and variable rates. The unpaid principal balance of the fixed rate loan portfolio amounted to $170,124 as of June 30, 2017 ($175,855 as of June 30, 2016). Variable rate loans generally reprice within one year.

Nonaccrual loans on which the accrual of interest has been discontinued totaled $8,370 as of June 30, 2017 ($10,779 as of June 30, 2016). Nonaccrual loans that are current totaled $28 as of June 30, 2017 ($1,751 as of June 30, 2016). A current nonaccrual loan is a loan that was placed in nonaccrual status where the borrower is now current on payments but for which ongoing monitoring is necessary to determine whether the borrower has sufficiently demonstrated performance before returning the loan to accrual status. Interest income collected and interest income recognized on loans in nonaccrual status for the six months ended June 30, 2017, was $30 ($54 for the six months ended June 30, 2016).

(dollars in thousands, unless otherwise indicated)

The investment in impaired loans as of June 30, 2017, was $14,012 ($9,090 as of June 30, 2016). The average investment in impaired loans for the six months ended June 30, 2017, was $8,407 ($9,609 for the six months ended June 30, 2016). The total amount of the allowance related to impaired loans as of June 30, 2017 and 2016, was $8,163 and $5,698, respectively. During 2016, there was one troubled debt restructuring for a loan classified as impaired with an outstanding balance of $2,272 and a specific allowance for loan losses of $2,051, and is considered within the impaired loans as of June 30, 2017.

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

USD Thousands	June 30, 2017			June 30, 2016		
	Financial institutions	**Corporates**	**Total**	**Financial institutions**	**Corporates**	**Total**
Balance as of January 1	$ (17,601)	$ (17,337)	$ (34,938)	$ (18,031)	$ (18,715)	$ (36,746)
Loan investments charged off, net	-	481	481	-	67	67
Recoveries	(73)	(1,303)	(1,376)	-	(227)	(227)
Provision for loan investment losses	(650)	(2,527)	(3,177)	(1,598)	596	(1,002)
Balance as of June 30	**$ (18,324)**	**$ (20,686)**	**$ (39,010)**	**$ (19,629)**	**$ (18,279)**	**$ (37,908)**

Equity investments

As of June 30, 2017, there were five direct equity investments (nine as of June 30, 2016) with a carrying value of $16,057 ($21,206 as of June 30, 2016). There were no other-than-temporary impairment losses for the six months ended June 30, 2017 ($281 for the six months ended June 30, 2016).

As of June 30, 2017, there were ten investments in LPs recorded at fair value based on NAV of $23,506 (twelve at fair value of $11,695 as of June 30, 2016). Investments in LPs may generally be liquidated over a period of 10 years with up to two one-year extensions.

(dollars in thousands, unless otherwise indicated)

5. Receivables and Other Assets

Receivables and other assets are summarized below:

USD Thousands	June 30 2017	June 30 2016
Other current assets		
Interest receivable on loan investments	$ 7,286	$ 8,015
Interest receivable on investment securities	3,172	2,130
Other current assets	8,306	15,548
	18,764	25,693
Other noncurrent assets		
Postretirement Benefit Plan, net asset	-	1,946
Other noncurrent assets	1,944	2,637
	1,944	4,583
Total receivables and other assets	**$ 20,708**	**$ 30,276**

As of June 30, 2016, Other current assets include a receivable due from IDB of $9,465. Refer to Note 12. As of June 30, 2016, the Postretirement Benefit Plan net asset reflects the funded status of the Plan. Refer to Note 13.

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

USD Thousands	June 30 2017	June 30 2016
Pension Plan, net liability	$ 27,181	$ 24,107
Deferred revenue	15,614	5,621
Employment benefits payable	7,548	7,979
Due to IDB, net	3,893	-
Accounts payable and other liabilities	2,191	4,019
Postretirement Benefit Plan, net liability	2,098	-
Total accounts payables and other liabilities	**$ 58,525**	**$ 41,726**

As of June 30, 2017, Accounts payable and other liabilities include a payable due to IDB of $3,893. As of June 30, 2017 and 2016, the Pension Plan net liability reflects the underfunded status of the Plan. As of June 30, 2017, the Postretirement Benefit Plan net liability reflects the underfunded status of the Plan. Refer to Note 13.

(dollars in thousands, unless otherwise indicated)

7. Borrowings

Borrowings outstanding by currency are as follows:

USD Thousands	June 30			
	2017		2016	
	Amount outstanding	Weighted average cost	Amount outstanding	Weighted average cost
U.S. dollar	$ 1,029,607	1.42%	$1,035,962	0.99%
Mexican peso	33,218	7.15%	43,326	4.41%
Brazilian real	-	-	14,022	10.20%
Euro	361	0.53%	702	0.78%
	$ 1,063,186		**$1,094,012**	
Borrowings, short-term	(433,366)		(57,036)	
Borrowings, long-term	**$ 629,820**		**$1,036,976**	

The Corporation's overall funding plan considers its liquidity forecast and strategy. The current liquidity risk strategy requires the Corporation to maintain sufficient liquidity available to cover projected operational liquidity needs for at least 18 months. Operational liquidity needs include projected loan and equity investment disbursements, administrative and other expenses, and maturing borrowings.

Since 1997, the Corporation has maintained a renewable credit facility with the IDB amounting to $300,000 that has been renewed four times and expires in November 2020. In August 2008, the Corporation borrowed $100,000 under this facility and $200,000 remain available for disbursement. The outstanding borrowing under this facility is due in 2023.

As of June 30, 2017, the Corporation has one foreign-currency credit facility amounting to $55,363 (1 billion Mexican pesos). As of June 30, 2017, the Corporation had borrowed $33,218 (600 million Mexican pesos) and $22,145 remain available (400 million Mexican pesos). This borrowing is due to be repaid in August 2017. This renewable facility expires in April 2018.

The Corporation has an $80,000 U.S. dollar credit facility. No amounts were drawn on this facility as of June 30, 2017 or 2016. The credit facility expires in January 2018.

On October 2, 2014, the Corporation issued $400,000 U.S. dollar denominated, 3-month LIBOR plus 0.14% notes under its European Medium Term Note (EMTN) Program, maturing in 2017. Interest on the notes is payable quarterly. As of June 30, 2017, this borrowing is presented in Borrowings, short-term in the balance sheet.

On April 27, 2016, the Corporation issued $500,000 U.S. dollar denominated, 3-month LIBOR plus 0.30% notes under its EMTN Program, maturing in 2019. Interest on the notes is payable quarterly.

(dollars in thousands, unless otherwise indicated)

The maturity structure of gross borrowings outstanding is as follows:

USD Thousands	2017	2018	2019	2020	2021	Through 2023
Borrowings	$ 433,218	$ 361	$ 500,000	$ -	$ 30,000	$ 100,000
	$ 433,218	**$ 361**	**$ 500,000**	**$ -**	**$ 30,000**	**$ 100,000**

For the six months ended June 30, 2017, Borrowings-related expense includes interest expense of $8,625 that includes the amortization of debt issuance costs of $155 ($5,217 for the six months ended June 30, 2016 that includes debt issuance costs of $102). The unamortized balance of the Corporation's debt issuance cost amounts to $393 as of June 30, 2017 ($705 as of June 30, 2016) and is presented as a reduction to Borrowings.

8. Capital

The Corporation's original authorized share capital was increased to $705.9 million, equivalent to 70,590 shares, through a $500 million general capital increase approved in 1999 (GCI-I), and several special increases. These increases allocated a total of $505.9 million for subscriptions by new and existing member countries, with a par value and issuance price of $10,000 actual dollars per share.

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

As of December 31, 2016, all Annex A shares had been subscribed. Subscribed shares are recorded on the date of the subscription instrument at the share issuance price and are expected to be paid in over time. The first annual installment for Annex A Shares under GCI-II was scheduled for October 31, 2016 and was extended through December 30, 2016. Capital contributions of approximately $152 million were received under GCI-II during the year ended December 31, 2016. Additional capital contributions of $70 million were received during the six months ended June 30, 2017 for a total of $222 million in contributions corresponding to Annex A Shares of GCI-II.

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

(dollars in thousands, unless otherwise indicated)

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

	June 30				
	Shares***	Amount	Additional paid-in capital *	Receivable from members **	Paid in Capital
			USD Thousands		
Argentina	17,376	$ 173,760	$ 57,381	$ 116,874	$ 114,267
Austria	887	8,870	3,349	6,827	5,392
Bahamas	308	3,080	1,013	2,071	2,022
Barbados	220	2,200	735	1,440	1,495
Belgium	169	1,690	-	-	1,690
Belize	101	1,010	-	-	1,010
Bolivarian Republic of Venezuela	10,448	104,480	37,918	99,288	43,110
Brazil	17,376	173,760	57,381	146,888	84,253
Canada	4,088	40,880	24,331	63,711	1,500
Chile	4,456	44,560	15,156	30,869	28,847
Colombia	4,456	44,560	14,643	21,323	37,880
Costa Rica	671	6,710	2,206	4,498	4,418
Denmark	1,071	10,710	-	-	10,710
Dominican Republic	933	9,330	3,065	6,245	6,150
Ecuador	942	9,420	3,120	6,358	6,182
El Salvador	671	6,710	2,206	5,776	3,140
Finland	1,021	10,210	3,880	-	14,090
France	2,868	28,680	4,362	11,422	21,620
Germany	1,334	13,340	-	-	13,340
Guatemala	897	8,970	2,947	6,018	5,899
Guyana	256	2,560	840	1,230	2,170
Haiti	671	6,710	2,206	5,776	3,140
Honduras	671	6,710	2,206	5,776	3,140
Israel	391	3,910	1,347	2,766	2,491
Italy	4,619	46,190	15,181	22,116	39,255
Jamaica	420	4,200	-	-	4,200
Japan	4,950	49,500	15,187	31,904	32,783
Mexico	11,124	111,240	36,559	95,729	52,070
Netherlands	1,071	10,710	-	-	10,710
Nicaragua	671	6,710	2,206	4,498	4,418
Norway	1,016	10,160	3,849	7,847	6,162
Panama	972	9,720	3,985	8,122	5,583
Paraguay	705	7,050	2,336	6,115	3,271
People’s Republic of China	9,330	93,300	56,682	115,450	34,532
Peru	5,172	51,720	19,067	38,845	31,942
Plurinational State of Bolivia	1,398	13,980	4,622	9,416	9,186
Portugal	389	3,890	1,279	2,621	2,548
Republic of Korea	8,293	82,930	50,275	104,028	29,177
Spain	6,962	69,620	27,618	50,404	46,834
Suriname	101	1,010	-	-	1,010
Sweden	946	9,460	3,417	6,973	5,904
Switzerland	2,288	22,880	7,519	15,321	15,078
Trinidad and Tobago	671	6,710	2,206	5,776	3,140
United States	16,019	160,190	-	-	160,190
Uruguay	1,849	18,490	6,098	12,425	12,163
Total 2017	**151,248**	**$ 1,512,480**	**$ 498,378**	**$ 1,082,746**	**$ 928,112**
Total 2016	**150,000**	**$ 1,500,000**	**$ 490,642**	**$ 1,286,052**	**$ 704,590**

* Represents the amount in addition to par value subscribed by member countries under GCI-II.
** Represents receivable from members under GCI-II.
*** The table does not reflect Annex B Shares, which are conditional upon approval of transfers by the IDB Board of Governors.

9. Fair Value Measurements

The Corporation's assets recorded at fair value have been categorized based on a fair value hierarchy in accordance with ASC Topic 820.

Fair value of Financial Instruments

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

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

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

Loan investments: The Corporation's methodology to measure the fair value of those loans provided to certain financial institutions, 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.

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

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

The carrying value of equity investments reported at cost amounted to $16,057 as of June 30, 2017 ($21,206 as of June 30, 2016). For the Corporation's direct equity investments it is not practicable to accurately measure the fair value for disclosure purposes as these are custom-tailored private placement transactions primarily for enterprises including corporates and financial institutions operating in, or ultimately benefiting the Corporation's Regional

(dollars in thousands, unless otherwise indicated)

Developing Member Countries. Furthermore, contractual clauses generally limit the Corporation's ability to sell or transfer its participation in the Corporation's equity investments given their size and scale. However, in the event that impairment is indicated, the Corporation performs a detailed assessment of the investee's financial condition to estimate fair value for purposes of recognizing impairment. For disclosure purposes, the Corporation uses a December 31 measurement date to estimate the nonrecurring fair value of its direct equity portfolio.

Borrowings: The Corporation's borrowings are recorded at historical amounts unless elected for fair value accounting under ASC Topic 825, *Fair Value Option*. The fair value of the Corporation's borrowings is estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowing arrangements. For disclosure purposes, the Corporation uses a December 31 measurement date to estimate the fair value of its borrowings portfolio. The Corporation held no borrowings at fair value as of June 30, 2017 and 2016.

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

The following fair value hierarchy tables present information about the Corporation's assets measured at fair value on a recurring basis:

USD Thousands	Balance as of June 30, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
ASSETS			
Corporate securities	1,105,111	$ -	$ 1,105,111
Agency securities	111,237	-	111,237
Government securities	104,570	-	104,570
Supranational securities	29,902	-	29,902
	$ 1,350,820	**$ -**	**$ 1,350,820**

USD Thousands	Balance as of June 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
ASSETS			
Corporate securities	$ 873,624	$ -	$ 873,624
Agency securities	115,728	-	115,728
Government securities	63,033	-	63,033
Supranational securities	20,140	-	20,140
	$ 1,072,525	**$ -**	**$ 1,072,525**

In accordance with ASU 2015-07, investments in certain funds for which fair value is measured using NAV as a practical expedient are not classified within the fair value hierarchy.

(dollars in thousands, unless otherwise indicated)

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the six months ended June 30, 2017:

USD Thousands	Changes in fair value included in earnings	
Corporate securities	$	1,098
Government securities		436
Supranational securities		285
Agency securities		82
Limited partnerships		1,170
	$	**3,071**

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the six months ended June 30, 2016:

USD Thousands	Changes in fair value included in earnings	
Corporate securities	$	574
Government securities		240
Agency securities		17
Supranational securities		9
Limited partnerships		983
	$	**1,823**

There were no transfers between levels during the six months ended June 30, 2017 (none during the six months ended June 30, 2016).

Investment securities: As of June 30, 2017, substantially all investment securities are valued based on quoted prices for identical assets or liabilities or prices derived from alternative pricing models as these prices are not available from market vendors. These methodologies apply to certain investments in non-U.S. government obligations, agencies, supranationals and corporate bonds. Also included are commercial paper (CP) and certificates of deposit (CD) issued under large U.S.-based CP or CD programs. For investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been employed, using yield curves, bond or credit default swap spreads, and recovery rates based on collateral values as key inputs. These securities are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches.

Equity investments - Investments in LPs: As a practical expedient, the Corporation relies on the NAV as reported by the fund manager for the fair value measurement. The NAVs that have been reported by the fund manager are derived from the fair values of the underlying investments as of the reporting date. All investments for which NAV is used as a fair value: (a) do not have a readily determinable fair value and; (b) either prepare financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. Generally, LPs have finite lives and the Corporation does not sell or redeem its investments in LPs. Proceeds are distributed to the Corporation as the LPs sell the underlying investee company. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value. Aggregate fair value of the investment in LPs was $23,506 as of June 30, 2017 ($11,695 as of June 30, 2016). The changes in fair value of equity investments for the six months ended June 30, 2017, was an unrealized net gain of $1,176 ($942 unrealized net gain for the six months ended June 30, 2016).

(dollars in thousands, unless otherwise indicated)

10. Contingencies

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

11. Lending Arrangements

The Corporation mobilizes funds from commercial banks and other financial institutions in connection with certain of its lending arrangements, and administers and services such arrangements on behalf of participants in exchange for a fee. The arrangements are structured such that the participating lenders must fund their pro rata payment. The participating lenders have no legal recourse against the Corporation in the event that the borrower does not perform under the loan agreement.

12. Related-party Transactions

Service Level Agreements with the IDB

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

The Corporation has a single one-year, renewable SLA to provide certain services related to the IDB's private sector operations. The Corporation recognized revenue of $31,206 for providing these services for the six months ended June 30, 2017 ($25,050 for the six months ended June 30, 2016). These amounts are included in Other income-service fees in the statement of income.

The Corporation receives certain general and administrative services from the IDB under a series of one-year renewable SLAs. Expenses for services provided by the IDB for the six months ended June 30, 2017 under the SLAs are presented as Administrative expenses in the statement of income and include:

USD Thousands	**Six months ended June 30**
Corporate SLAs	$ 3,405
Master SLA	1,116
Oversight SLAs	1,101
	$ 5,622

(dollars in thousands, unless otherwise indicated)

The Corporation incurred expenses relating to IDB services of $5,622 for the six months ended June 30, 2017 ($3,225 for the six months ended June 30, 2016). Payables due to the IDB were $3,893 as of June 30, 2017 ($9,465 receivable from the IDB as of June 30, 2016). Refer to Notes 5 and 6.

General Access and Administration Agreement with the IDB (Access Agreement)

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

The Trust Fund organizational documents provide for either the payment of a lump sum or scheduled payments. The timing of the payments may not correspond to the incurrence of the related costs. During 2016, the IDB remitted a payment of $10,480 for project administration and general services. For the year ended December 31, 2016, the Corporation recognized revenue of $1,258 related to providing services and deferred $9,222, which will be recognized as revenue as services are provided over a 15 to 20 year period. Deferred revenue is presented as a component of Accounts payable and other liabilities in the balance sheet.

Office Space

The Corporation has entered into office space leases with the IDB. Expenses incurred for those leases amounted to $2,048 during the six months ended June 30, 2017 ($2,125 for the six months ended June 30, 2016). The current lease agreements with the IDB will expire in 2020.

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

USD Thousands	2017	2018	2019	2020
Office space	$ 2,127	$ 5,524	$ 5,690	$ 5,861
	$ 2,127	**$ 5,524**	**$ 5,690**	**$ 5,861**

Other Transactions with the IDB Group Entities

The Corporation also earned $438 to provide advisory services to the MIF for the six months ended June 30, 2017 ($50 for the six months ended June 30, 2016).

As of June 30, 2017 and 2016, the Corporation had borrowed $100,000 from the IDB credit facility. Refer to Note 7.

13. Pension and Postretirement Benefit Plans

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

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

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

All contributions are made in cash during the fourth quarter of the year. As of June 30, 2017, the estimate of contributions expected to be paid for the year 2017 are $7,209 to the SRP and CSRP combined, and $4,177 to the PRBP, the same amount disclosed in the December 31, 2016 financial statements. Contributions for 2016 were $4,321 to the SRP and CSRP combined, and $2,650 to the PRBP.

Net periodic benefit costs are included under Pension Plan and Postretirement Benefit expense in the statement of income. The following table summarizes the net periodic benefit costs associated with the SRP, CSRP and the PRPB for the six months ended June 30, 2017 and 2016.

(dollars in thousands, unless otherwise indicated)

	SRP and CSRP	
	Six months ended June 30	
USD Thousands	2017	2016
Service cost	$ 4,834	$ 2,294
Interest cost	3,646	2,117
Expected return on plan assets (*)	(4,604)	(2,343)
Amortization of:		
Unrecognized net actuarial loss	191	665
Prior service (credit)/cost	-	3
Net periodic benefit cost	**$ 4,067**	**$ 2,736**

(*) The expected return of plan assets is 6.25% in 2017 and 2016

	PRBP	
	Six months ended June 30	
USD Thousands	2017	2016
Service cost	$ 2,200	$ 1,256
Interest cost	2,400	1,322
Expected return on plan assets (*)	(3,350)	(1,756)
Amortization of:		
Unrecognized net actuarial loss	450	629
Prior service (credit)/cost	(200)	(63)
Net periodic benefit cost	**$ 1,500**	**$ 1,388**

(*) The expected return of plan assets is 6.25% in 2017 and 2016

14. Management of External Funds

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

Effective January 1, 2016, the Corporation began administering certain IDB funds and funds administered by the IDB. These funds are used mainly to co-finance projects between the Corporation and the IDB and to fund technical assistance activities.