Inter-American Development Bank

Ordinary Capital

Management's Discussion and Analysis

and

Condensed Quarterly Financial Statements

September 30, 2016

(Unaudited)

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INTRODUCTION

The Inter-American Development Bank (the Bank) is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank (the Agreement). The resources of the Bank consist of the Ordinary Capital, the Fund for Special Operations, the Intermediate Financing Facility Account, and the IDB Grant Facility. All financial information provided in this Management's Discussion and Analysis refers to the Bank's Ordinary Capital.

This document should be read in conjunction with the Bank's Information Statement dated March 3, 2016, which includes the Ordinary Capital financial statements for the year ended December 31, 2015. The Bank undertakes no obligation to update any forward-looking statements.

FINANCIAL STATEMENT REPORTING

The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported results. Management believes that some of the more significant estimates it uses to present the financial results in accordance with GAAP are: the valuation of certain financial instruments carried at fair value, the allowances for loan and guarantee losses, and the valuation of pension and postretirement benefit plan-related liabilities; which involve a relatively high degree of judgment and complexity and relate to matters that are inherently uncertain.

Most of the Bank's borrowings and all swaps, including borrowing, lending, and equity duration[1] swaps, are measured at fair value through income. The reported income volatility resulting from the non-trading financial instruments is not fully representative of the underlying economics of the transactions as the Bank holds these instruments to maturity. Accordingly, the Bank excludes the impact of the fair value adjustments associated with these financial instruments from "Operating Income", which is defined as Income before Net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers[2]. Net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers are reported separately in the Statement of Income and Retained Earnings.

ACCOUNTING DEVELOPMENTS

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and other financial liabilities is largely unchanged. For the Bank, this ASU is effective in 2018, including interim periods within that fiscal year. The Bank is currently in the process of assessing the impact that this standard will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU removes the probable initial recognition threshold in the current "incurred loss" model and requires entities to reflect current estimate of all expected credit losses over the contractual term of the financial assets in the allowance for credit losses. In addition to past events and current conditions, entities are required to also incorporate reasonable and supportable forecasts in the measurement of expected credit losses. The allowance for credit losses is considered a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The ASU also expands the currently required credit quality indicator disclosures in relation to the amortized cost of financing receivables to be further disaggregated by year of origin or vintage for public business entities. For the Bank, this ASU is effective in 2020, including interim periods within that fiscal year. The Bank is currently in the process of assessing the impact that this standard will have on its financial statements.

[1] In order to manage the sensitivity to changes in interest rates (duration or modified duration) of its equity, the Bank utilizes equity duration swaps to maintain the modified duration of its equity within a defined policy band of four to six years.

[2] References to captions in the attached condensed quarterly financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in this Management's Discussion and Analysis.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows to reduce the current and potential future diversity in practice. For the Bank, this ASU is effective in 2018, including interim periods within that fiscal year. The Bank is currently evaluating the new standard, but does not expect the ASU to have a material impact on its financial statements.

FINANCIAL HIGHLIGHTS

Box 1 presents selected financial data for the nine months ended September 30, 2016 and 2015, as well for the year ended December 31, 2015.

Box 1: Selected Financial Data

(Amounts expressed in millions of United States dollars)

	Nine months ended September 30,		Year ended December 31,
	2016	**2015**	**2015**
Lending Summary			
Loans and guarantees approved[1]	$ 4,789	$ 4,780	$ 10,404
Undisbursed portion of approved loans [2]	29,784	29,796	30,711
Gross loan disbursements	4,762	5,931	9,719
Net loan disbursements[3]	573	2,359	4,587
Balance Sheet Data			
Cash and investments-net [4], after swaps	$ 36,468	$ 29,596	$ 27,969
Loans outstanding[5]	79,141	76,575	78,745
Total assets	121,398	111,035	111,116
Borrowings outstanding, after swaps	88,126	80,246	80,464
Callable capital stock	164,901	151,240	151,240
(of which, subscribed by United States, Canada, Japan and the other non-regional members)	82,429	75,601	75,601
Equity	26,455	24,694	25,253
Income Statement Data			
Operating Income[6]	**$ 814**	**$ 489**	**$ 717**
Net fair value adjustments on non-trading portfolios and foreign currency transactions	61	321	443
Board of Governors approved transfers	-	(200)	(200)
Net income	875	610	960
Ratios			
Net borrowings [7] as a percentage of callable capital stock subscribed by United States, Canada, Japan and the other non-regional members	64.2%	68.3%	70.7%
Total Equity[8] to loans[9] ratio[10]	33.1%	32.0%	31.8%
Cash and investments as a percentage of borrowings outstanding, after swaps	41.4%	36.9%	34.8%
Cost to income ratio[11]	30.7%	37.8%	37.3%

(1) Excludes guarantees issued under the Trade Finance Facilitation Program and non-sovereign-guaranteed loan participations.
(2) As of September 30, 2016, the undisbursed portion of approved loans includes $23,188 million (2015 - $24,192 million) and $22,625 million as of December 31, 2015, related to signed loans.
(3) Includes gross loan disbursements less principal repayments.
(4) Net of Payable for investment securities purchased, Payable for cash collateral received, and Receivable for investment securities sold.
(5) Excludes lending swaps in a net liability position of $177 million as of September 30, 2016 (2015 - $138 million) and $30 million as of December 31, 2015.
(6) See page 7 for a full discussion of Operating Income under Results of Operations.
(7) Borrowings (after swaps) and guarantee exposure, less qualified liquid assets (after swaps).
(8) "Total Equity" is defined as Paid-in capital stock, net of Capital subscriptions receivable, less Receivable from members, plus Retained earnings minus borrowing countries' local currency cash balances.
(9) Includes loans outstanding and guarantee exposure.
(10) Effective in 2015, the Total Equity used to compute the Total Equity-to-loans ratio no longer excludes the cumulative effects of Net fair value adjustments on non-trading portfolios and foreign currency transactions, and does not add back the Allowance for loan and guarantees losses. The ratio for the nine months ended September 30, 2015 was recalculated to conform with the new definition.
(11) Administrative expenses, excluding pension and postretirement benefit costs, divided by Total income, excluding Investment - net gains and net of Borrowing expenses.

LENDING OPERATIONS: During the first nine months of 2016, the Bank approved 74 loans totaling $4,789 million compared to 77 loans that totaled $4,771 million during the same period in 2015. During this period, there were no approvals of non-sovereign guaranteed (NSG) non-trade-related guarantees (2015 – one guarantee for $9 million). During 2016 and 2015 there were no approvals of guarantees with sovereign counter-guarantee. The Bank issued 32 trade-related guarantees for $48 million (2015 – eight guarantees for $8 million).

The portfolio of non-sovereign-guaranteed loans, including loans to other multilateral development institutions, increased slightly to $6,099 million compared to $5,980 million at December 31, 2015, of which $47 million have been originated by the Inter-American Investment Corporation (IIC) on behalf of the Bank as of September 30, 2016. The non-sovereign guarantees exposure increased $6 million to $153 million compared to $147 million at December 31, 2015. As of September 30, 2016, 7.9% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 7.8% at December 31, 2015.

Total allowances for loan and guarantee losses amounted to $599 million at September 30, 2016 compared to $446 million at December 31, 2015. The Bank had non-sovereign-guaranteed loans with outstanding balances of $542 million classified as impaired at September 30, 2016 compared to $466 million at December 31, 2015. Impaired loans have specific allowances for loan losses amounting to $380 million at September 30, 2016, compared to $235 million at December 31, 2015.

In late 2014, the Board of Executive Directors approved charges for sovereign-guaranteed financing for 2015 comprised of a lending spread of 0.85%, a credit commission of 0.25% and no supervision and inspection fee. In November 2015, the Board of Executive Directors retroactively increased the second semester lending charges previously approved for 2015 by 0.30% in lending spread and 0.25% in credit commission fee, to 1.15% and 0.50%, respectively. Lending charges approved for 2016 were kept at the same levels as the second semester of 2015.

BORROWING OPERATIONS: During the first nine months of the year, the Bank issued bonds for a total face amount of $14,945 million (2015 – $15,523 million) that generated proceeds of $14,931 million (2015 – $15,523 million), representing decreases of $578 million and $592 million, respectively, compared to the same period last year. The decrease was due to lower liquidity needs. The average life of new issues was 5.2 years (2015 – 5.6 years).

During 2016, the Bank continues to be rated Triple-A by the major credit rating agencies.

CAPITALIZATION: On February 29, 2012, the IDB-9 entered into effect providing for an increase in the Bank's Ordinary Capital of $70,000 million, subscribed to by Bank members in five annual installments beginning in 2012. Of this amount, $1,700 million was paid-in capital stock and the remainder constituted callable capital stock.

On February 29, 2016, the effective date of the fifth and last installment, 1,160,644 shares in the amount of $14,001 million were made effective ($340 million paid-in; $13,661 million callable).

The Total Equity-to-Loans Ratio (TELR) at September 30, 2016 was 33.1% compared to 31.8% at the end of last year (See **Table 1**).

FINANCIAL RESULTS: Operating income during the first nine months of 2016 was $814 million, compared to $489 million for the same period last year, an increase of $325 million. This increase was mainly due to higher net interest income of $214 million and higher net investment gains of $90 million, as well as a decrease in net non-interest expense of $87 million, which were partially offset by an increase in the provision for loan and guarantee losses of $104 million.

During the nine months ended September 30, 2016, the trading investments portfolio experienced net mark-to-market gains of $62 million, compared to losses of $28 million during the nine months ended September 30, 2015. The trading investments portfolio's net interest income, which excludes realized and unrealized investment gains and losses, added income of $36 million during the first nine months of 2016 compared to $29 million during the same period in 2015.

The provision for loan and guarantee losses was $153 million compared to $49 million in the first nine months of 2015. The increase was mainly the result of an increase in the specific loan loss allowance due to new impaired loans and worsening of the conditions of certain loans previously classified as impaired in the non-sovereign guaranteed portfolio.

The Bank had net fair value gains on non-trading portfolios and foreign currency transactions of $61 million for the nine months ended September 30, 2016, compared to $321 million for the same period in 2015. Net fair value adjustments mostly relate to changes in the fair value of (a) borrowings at fair value due to changes in the Bank's own credit spreads, (b) lending and certain borrowing swaps due to changes in USD interest rates, which are not offset with changes in the value of the related loans and

borrowings that are not recorded at fair value, as well as (c) equity duration swaps due to changes in USD interest rates. See Note I to the Condensed Quarterly Financial Statements for further discussion on changes in fair value on non-trading portfolios and foreign currency transactions.

CAPITAL ADEQUACY

The Bank's Capital Adequacy Policy (CAP) consists of a Capital Adequacy Policy mandate (Mandate) and regulations that determine capital requirements for credit and market risk in both its lending and treasury operations. The CAP also includes capital requirements for pension and operational risks. The Mandate, approved by the Board of Governors, requires the Bank to maintain its Triple-A foreign currency long-term issuer rating, and includes the establishment of capital buffers, specifically to assume financial risks in times of stress, while preserving the Bank's lending capacity.

The CAP allows the Bank to measure the inherent risk in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans. Specific risk limits in terms of capital requirements for investments and derivatives are also included that enables Management to design more efficient funding and investment strategies following the risk appetite established by the Board of Executive Directors. The Bank is operating within its policy limits.

CONDENSED BALANCE SHEET

LOAN PORTFOLIO: The Bank makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In addition, the Bank may make loans and guarantees directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee and in all sectors (subject to an exclusion list), provided they meet the Bank's lending criteria.

The Bank also lends to other multilateral development institutions without sovereign guarantee. NSG operations are currently capped to an amount such that economic capital requirements for such operations do not exceed 20% of the Bank's Total Equity[3]. During the seven-year period that started on January 1, 2016, NSG activities are being originated by the IIC and largely cofinanced by the Bank and the IIC.

3 As of June 30, 2016, the date of the latest quarterly report to the Board of Executive Directors, the economic capital requirements of non-sovereign-guaranteed operations was $1,875 million, or 7.3% of the Bank's Total Equity.

The loan portfolio is the Bank's principal earning asset of which, at September 30, 2016 and December 31, 2015, 92% was sovereign-guaranteed. At September 30, 2016, the total volume of outstanding loans was $79,141 million, compared with $78,745 million as of December 31, 2015. The increase in the loan portfolio was mostly due to a higher level of disbursements ($4,762 million) than loan collections ($4,189 million), offset by negative currency transaction adjustments ($179 million).

As of September 30, 2016 7.9% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 7.8% at December 31, 2015. The non-sovereign-guaranteed loan portfolio, including loans to other multilateral development institutions, totaled $6,099 million, compared to $5,980 million at December 31, 2015.

INVESTMENT PORTFOLIO: The Bank's investment portfolio is substantially comprised of highly-rated securities and bank deposits. Its volume is maintained at a level sufficient to ensure that adequate resources are available to meet future cash flow needs as determined in the Bank's liquidity policy. Net investment levels, after swaps, increased $8,501 million during the nine months of 2016, mainly resulting from net cash inflows from borrowings ($7,829 million), net cash inflows from operating activities ($896 million), and collections of capital subscriptions under the IDB-9 ($272 million), partially offset by net disbursements from loans ($573 million).

BORROWING PORTFOLIO: The portfolio of borrowings is mostly comprised of medium- and long-term debt raised directly in capital markets. Borrowings outstanding, after swaps, increased $7,662 million compared with December 31, 2015, primarily due to a higher amount of new borrowings than maturities ($7,829 million), partially offset by a net decrease in the fair value of borrowings and related swaps ($235 million).

EQUITY: Equity at September 30, 2016 was $26,455 million, an increase of $1,202 million from December 31, 2015, reflecting net income of $875 million, additional paid-in capital made effective and received under the IDB-9 of $318 million, the collection of receivable from members of $15 million, partially offset by the reclassification of prior service credit of $6 million from other comprehensive income to net income.

Table 1 presents the composition of the TELR as of September 30, 2016 and December 31, 2015. It shows that the TELR increased from 31.8% to 33.1% mainly due to an increase in Total Equity.

Table 1: TOTAL EQUITY-TO-LOANS RATIO
(Amounts expressed in millions of United States dollars)

	September 30, 2016	December 31, 2015
Equity		
Paid-in capital stock	$ 6,039	$ 5,699
Capital subscriptions receivable	(97)	(75)
	5,942	5,624
Less: Receivable from members	215	230
Retained earnings:		
General reserve [1]	18,163	17,294
Special reserve [1]	2,565	2,565
	26,455	25,253
Minus:		
Borrowing countries' local currency cash balances	180	148
Total Equity	$ 26,275	$ 25,105
Loans outstanding and guarantee exposure	$ 79,354	$ 78,952
Total Equity-to-Loans Ratio	**33.1%**	**31.8%**

[1] Includes Accumulated other comprehensive income.

TRANSFERS TO THE IDB GRANT FACILITY: As part of the IDB-9, the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide $200 million annually in transfers of Ordinary Capital income to the IDB Grant Facility, beginning in 2011 through 2020. During 2011 - 2015, the Bank approved income transfers from the Ordinary Capital in the amount of $200 million each year or a total of $1,000 million. On April 10, 2016, at its Annual Meeting in Nassau, Bahamas, the Board of Governors approved a Resolution requesting Management to present for the consideration of the Board of Governors an annual report reflecting the Fund balance of the IDB Grant Facility, the disbursement needs of the Bank's operations in Haiti and a Proposed Resolution confirming the Board of Governors' consideration of the report and continued support for Haiti's reconstruction and development consistent with the IDB-9. Where applicable, the report shall further include a proposal for additional transfers of Ordinary Capital income to the IDB Grant Facility up to a total amount of $1,000 million, over a time period and in amounts consistent with the disbursement needs of the Bank's operations in Haiti and subject to the requirements of the Agreement. No transfers will take place during 2016.

RESULTS OF OPERATIONS

Table 2 shows a breakdown of Operating Income. For the nine months ended September 30, 2016, Operating Income was $814 million compared to $489 million for the same period last year, an increase of $325 million. This increase was mainly due to higher net interest income and net investment gains, as well as a decrease in net non-interest expense, partially offset by an increase in the provision for loan and guarantee losses.

The Bank had net interest income of $1,294 million during the first nine months of 2016, compared to $1,080 million for the same period last year, mostly due to an increase in lending charges and a larger loan portfolio.

Net mark-to-market investment gains amounted to $62 million compared to losses of $28 million for the same period in 2015, mainly due to the decline in interest rates and the behavior of swaps and credit spreads.

Net non-interest expense decreased $87 million mainly due to a reduction in net pension and postretirement benefit costs of $66 million as a result of not having to amortize actuarial losses in 2016 and a decrease in the service cost due to the increase in the rate used to discount the pension liabilities at the end of 2015.

The provision for loans and guarantee losses was $153 million compared to $49 million in the first nine months of 2015. The increase was mainly the result of an increase in the specific loan loss allowance due to new impaired loans and worsening of the conditions of certain loans previously classified as impaired in the non-sovereign guaranteed portfolio.

Table 2: OPERATING INCOME
(Expressed in millions of United States dollars)

	Nine months ended September 30,		
	2016	**2015**	**2016 vs. 2015**
Loan interest income [1]	$ 1,634	$ 1,281	$ 353
Investment interest income [1]	204	76	128
Other interest income	18	28	(10)
	1,856	1,385	471
Less:			
Borrowing expenses [1]	562	305	257
Net interest income	1,294	1,080	214
Other loan income	98	60	38
Net investment gains (losses)	62	(28)	90
Other expenses:			
Provision for loan and guarantee losses	153	49	104
Net non-interest expense	487	574	(87)
Total	640	623	17
Operating Income	$ 814	$ 489	$ 325

[1] Amounts on an after swap basis.

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective financial returns and costs for the nine months ended September 30, 2016 and 2015 and the year ended December 31, 2015 are shown in **Table 3**.

Table 3: ASSET/LIABILITY PORTFOLIOS AND FINANCIAL RETURNS/COSTS
(Amounts expressed in millions of United States dollars)

	Nine months ended September 30, 2016		Nine months ended September 30, 2015		Year ended December 31, 2015	
	Average balance	**Return/Cost %**	**Average balance**	**Return/Cost %**	**Average balance**	**Return/Cost %**
Loans [1]	$ 79,416	2.75	$ 76,126	2.25	$ 76,674	2.40
Liquid investments [2] [3]	34,983	0.99	30,099	0.22	29,898	0.20
Total earnings assets	$ 114,399	2.21	$ 106,225	1.67	$ 106,572	1.78
Borrowings	$ 87,302	0.86	$ 80,518	0.51	$ 80,677	0.51
Net interest margin [4]		1.51		1.36		1.48

[1] Excludes loan fees.
[2] Geometrically-linked time-weighted returns.
[3] Includes gains and losses.
[4] Represents annualized net interest income as a percent of average earnings assets.

CORE OPERATING INCOME (NON-GAAP MEASURE): Although the Bank prepares its financial statements in accordance with U.S. GAAP, management reviews certain results, such as core operating income, on a non-GAAP basis. This measure provides information about the underlying operational performance and trends of the Bank while excluding volatile net investment mark-to-market gains and losses, non-recurring gains associated with equity duration management and loan prepayments, as well as, the provision for loan and guarantee losses. **Table 4** displays reported Operating Income (GAAP) with the adjustments to arrive at core operating income (Non-GAAP).

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

During 2016, core operating income changes have been mostly related to the increase in the lending charges and the decrease in net pension and postretirement benefit costs.

Table 4: OPERATING INCOME
(Expressed in millions of United States dollars)

	Nine months ended September 30,		
Core Operating Income (Non-GAAP Measure)	**2016**	**2015**	**2016 vs. 2015**
Operating Income (Reported)	$ 814	$ 489	$ 325
Less:			
Net investment gains (losses)	62	(28)	90
Add:			
Provision for loan and guarantee losses	153	49	104
Core operating income	$ 905	$ 566	$ 339

COMMITMENTS

GUARANTEES: The Bank makes non-trade related guarantees with or without a sovereign counter-guarantee. In addition, the Bank provides credit guarantees without sovereign counter-guarantee for trade-finance transactions under its Trade Finance Facilitation Program. During the nine months ended September 30, 2016 and 2015, there were no approvals of non-sovereign-guaranteed non-trade-related guarantees (2015 – one guarantee for $9 million). During 2016 and 2015 there were no approvals of guarantees with sovereign counter-guarantee. In addition, 32 trade-related guarantees were issued for an amount of $48 million (2015 – eight guarantees for $8 million).

CONTRACTUAL OBLIGATIONS: The Bank's most significant contractual obligations relate to the repayment of borrowings. As of September 30, 2016, the average maturity of the medium- and long-term borrowing portfolio, after swaps, was 3.78 years with contractual maturity dates through 2044[4]. In addition, the Bank has a number of other obligations to be settled in cash, including leases, undisbursed signed loans ($23,188 million at September 30, 2016), Short-term borrowings, payable for currency and interest rate swaps, Payable for investment securities purchased, Payable for cash collateral received, Due to IDB Grant Facility, and pension and postretirement benefit obligations.

4 The maturity structure of medium- and long-term borrowings outstanding at the end of 2015 is presented in Schedule I-4 to the December 31, 2015 financial statements.

LIQUIDITY MANAGEMENT

Table 5 shows a breakdown of the trading investments portfolio and related swaps at September 30, 2016 and December 31, 2015, by major security class, together with unrealized gains and losses included in Income from Investments – Net gains on securities held at the end of the respective period.

Table 5: TRADING INVESTMENTS PORTFOLIO BY MAJOR SECURITY CLASS
(Expressed in millions of United States dollars)

	September 30, 2016		December 31, 2015	
Security Class	Fair Value [1]	Unrealized Gains (Losses)	Fair Value [1]	Unrealized Gains (Losses)
Obligations of the United States Government and its corporations and agencies	$ 5,259	$ 3	$ 3,977	$ (9)
U.S. Government-sponsored enterprises	437	1	296	(2)
Obligations of non-U.S. governments	7,636	3	5,757	(4)
Obligations of non-U.S.agencies	10,453	35	8,633	(20)
Obligations of non-U.S. sub-sovereigns	1,848	10	1,496	(4)
Obligations of supranationals	2,782	3	2,501	(2)
Bank obligations	7,926	19	5,023	(9)
Corporate securities	404	-	55	-
Mortgage-backed securities	197	4	213	(3)
Asset-backed securities	35	(2)	48	(2)
Total trading investments	36,977	76	27,999	(55)
Currency and interest rate swaps-investments-trading	(432)	(35)	(137)	(7)
Total	$ 36,545	$ 41	$ 27,862	$ (62)

[1] Includes accrued interest of $148 million (2015 - $98 million) for trading investments and $(100) million (2015 - $(71) million) for currency and interest rate swaps, presented in the Condensed Balance Sheet under Accrued interest and other charges.

COMMERCIAL CREDIT RISK

Commercial credit risk is the exposure to losses that could result from the default of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank invests only in high quality debt instruments issued by governments, agencies, multilaterals, banks, and corporate entities, including asset-backed and mortgage-backed securities.

Table 6 provides details of the estimated current credit exposure on the Bank's investment and swap portfolios, net of collateral held, by counterparty rating category. As of September 30, 2016, the credit exposure amounted to $37,027 million, compared to $28,050 million as of December 31, 2015. The credit quality of the portfolios continues to be high, as 79.9% of the counterparties are rated AAA and AA, 11.7% carry the highest short-term ratings (A1+), 8.1% are rated A, and 0.3% are rated BBB or below, compared to 82.5%, 7.8%, 8.8%, and 0.9%, respectively, at December 31, 2015.

As of September 30, 2016, the Bank's total current credit exposure in Europe was $17,946 million ($13,385 million at December 31, 2015). There was no direct exposure to Eurozone countries rated BBB or lower as of September 30, 2016 and December 31, 2015. In these countries, the Bank had $162 million ($171 million at December 31, 2015) of exposure in asset-backed and mortgage-backed securities, which was generally rated higher than the sovereigns, and no net swap exposure in 2016 or 2015. The remaining European current credit exposure of $17,784 million ($13,214 million at December 31, 2015), regardless of asset class, was in countries rated AA- or higher.

Table 6: CURRENT CREDIT EXPOSURE, NET OF COLLATERAL HELD, BY COUNTERPARTY RATING CATEGORY[1]
(Amounts expressed in millions of United States dollars)

	September 30, 2016						
	Investments						
Counterparty rating	Governments and Agencies	Banks	Corporate	ABS and MBS	Net Swap Exposure	Total Exposure on Investments and Swaps	% of Total
A1+	$ 4,333	$ -	$ -	$ -	$ -	$ 4,333	11.7
AAA	11,928	788	135	12	-	12,863	34.7
AA	10,592	5,772	223	91	43	16,721	45.2
A	1,490	1,366	46	78	7	2,987	8.1
BBB	-	-	-	19	-	19	0.1
BB	72	-	-	18	-	90	0.2
B	-	-	-	-	-	-	0.0
CCC	-	-	-	-	-	-	0.0
CC and below[2]	-	-	-	14	-	14	0.0
Total	$ 28,415	$ 7,926	$ 404	$ 232	$ 50	$ 37,027	100.0

	December 31, 2015						
	Investments						
Counterparty rating	Governments and Agencies	Banks	Corporate	ABS and MBS	Net Swap Exposure	Total Exposure on Investments and Swaps	% of Total
A1+	$ 2,179	$ -	$ -	$ -	$ -	$ 2,179	7.8
AAA	10,537	598	-	17	-	11,152	39.7
AA	8,266	3,533	55	98	49	12,001	42.8
A	1,483	892	-	90	1	2,466	8.8
BBB	-	-	-	23	1	24	0.1
BB	195	-	-	17	-	212	0.7
B	-	-	-	-	-	-	0.0
CCC	-	-	-	-	-	-	0.0
CC and below[2]	-	-	-	16	-	16	0.1
Total	$ 22,660	$ 5,023	$ 55	$ 261	$ 51	$ 28,050	100.0

[1] Letter ratings refer to the average ratings from major rating agencies and to the entire range in that rating category including numeric (i.e. 1-3), symbolic (i.e. +/-), or similar qualifications used by eligible rating agencies. The group A1+ refers to the highest short-term rating.

[2] Includes assets not currently rated.

OTHER DEVELOPMENTS

FINANCIAL REFORM—THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (DFA): In July 2010, the President of the United States of America signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. The Bank continues to assess the potential impact of the implementation of this financial regulatory reform on its operations as rules continue to become effective and markets adjust. Based on a review of the current regulations and the rules that have become effective to date, the Bank is of the view that effects from the provisions of the DFA apply to the Bank's counterparties and to the Bank's derivatives trading and associated activities, and those effects may include an increase in the Bank's borrowing cost.

PROPOSAL FOR TRANSFER OF NET ASSETS FROM THE FUND FOR SPECIAL OPERATIONS (FSO) TO THE ORDINARY CAPITAL (OC): As part of the mandate from the G-20 proposing that MDBs optimize their respective balance sheets, on September 1, 2016 the Bank's Board of Governors unanimously approved a proposal to transfer all assets and liabilities of the FSO to the OC, effective January 1, 2017. Such transfer would ensure the Bank's ability to continue to provide resources to its least developed borrowing member countries at concessional terms, and would result in approximately $5 billion of additional equity for the OC, thus strengthening the Bank's financial position.

Funded Status of Pension and Postretirement Benefit Plans (Plans): The volatility in the equity and credit markets affects the funded status of the Plans. As of September 30, 2016, increases in pension liabilities due to decreases in U.S. interest rates, were partially offset by increases in the Plans' assets due to strong positive returns in both global equity markets and fixed income assets returns. Accordingly, as of September 30, 2016, the Plans' assets represent approximately 89% of the benefit obligations, compared to 94% as of December 31, 2015. The Bank recognizes actuarial gains and losses on its Pension and Postretirement Benefit Plans through comprehensive income at the end of each calendar year, when the pension liabilities are re-measured, as required by GAAP.

Condensed Quarterly Financial Statements
(Unaudited)

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

CONDENSED BALANCE SHEET
(Expressed in millions of United States dollars)

	September 30, 2016 (Unaudited)		December 31, 2015 (Unaudited)	
ASSETS				
Cash and investments				
Cash - Note P	**$ 810**		$ 641	
Investments - Trading - Notes C, H and P	**36,829**	**$ 37,639**	27,901	$ 28,542
Loans outstanding - Notes D, E and P	**79,141**		78,745	
Allowance for loan losses	**(597)**	**78,544**	(444)	78,301
Accrued interest and other charges		**864**		933
Currency and interest rate swaps - Notes G, H, I and P				
Investments - Trading	**35**		83	
Loans	**698**		645	
Borrowings	**2,209**		1,459	
Other	**35**	**2,977**	37	2,224
Receivable for investment securities sold		**247**		30
Other assets - Note D		**1,127**		1,086
Total assets		**$ 121,398**		$ 111,116
LIABILITIES AND EQUITY				
Liabilities				
Borrowings - Notes F, G, H, I and P				
Short-term	**$ 714**		$ 513	
Medium- and long-term:				
Measured at fair value	**55,446**		49,065	
Measured at amortized cost	**32,288**	**$ 88,448**	29,559	$ 79,137
Currency and interest rate swaps - Notes G, H, I and P				
Investments - Trading	**368**		149	
Loans	**875**		675	
Borrowings	**1,887**		2,786	
Others	**-**	**3,130**	5	3,615
Payable for investment securities purchased		**474**		97
Payable for cash collateral received		**611**		440
Due to IDB Grant Facility - Note J		**478**		539
Accrued interest on borrowings		**453**		483
Liabilities under retirement benefit plans - Note L		**327**		342
Undisbursed special programs		**204**		238
Other liabilities - Note D		**818**		972
Total liabilities		**94,943**		85,863
Equity				
Capital stock - Note K				
Subscribed 14,170,108 shares (2015 - 13,009,464 shares)	**170,940**		156,939	
Less callable portion	**(164,901)**		(151,240)	
Paid-in capital stock	**6,039**		5,699	
Capital subscriptions receivable	**(97)**		(75)	
Receivable from members	**(215)**		(230)	
Retained earnings	**20,082**		19,207	
Accumulated other comprehensive income	**646**	**26,455**	652	25,253
Total liabilities and equity		**$ 121,398**		$ 111,116

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

CONDENSED STATEMENT OF INCOME AND RETAINED EARNINGS
(Expressed in millions of United States dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	(Unaudited)		**(Unaudited)**	
Income				
Loans, after swaps - Notes D and G	**$ 594**	$ 462	**$ 1,732**	$ 1,341
Investments - Notes C and G				
Interest	**79**	28	**204**	76
Net gains (losses)	**23**	(31)	**62**	(28)
Other interest income - Notes G and I	**5**	9	**18**	28
Other	**5**	5	**20**	17
Total income	**706**	473	**2,036**	1,434
Expenses				
Borrowing expenses, after swaps - Notes F, G and H	**204**	103	**562**	305
Provision for loan and guarantee losses - Note E	**4**	19	**153**	49
Administrative expenses	**157**	202	**468**	540
Special programs	**21**	27	**39**	51
Total expenses	**386**	351	**1,222**	945
Income before Net fair value adjustments on non-trading portfolios and foreign currency transactions and Board of Governors approved transfers	**320**	122	**814**	489
Net fair value adjustments on non-trading portfolios and foreign currency transactions - Notes F, G and I	**(229)**	342	**61**	321
Board of Governors approved transfers - Note J	**-**	-	**-**	(200)
Net income	**91**	464	**875**	610
Retained earnings, beginning of period	**19,991**	18,393	**19,207**	18,247
Retained earnings, end of period	**$ 20,082**	$ 18,857	**$ 20,082**	$ 18,857

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(Expressed in millions of United States dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	(Unaudited)		**(Unaudited)**	
Net income	**$ 91**	$ 464	**$ 875**	$ 610
Other comprehensive income				
Reclassification to income - amortization of net actuarial losses and prior service credit on retirement benefits plans - Note L	**(2)**	10	**(6)**	32
Total other comprehensive income (loss)	**(2)**	10	**(6)**	32
Comprehensive income	**$ 89**	$ 474	**$ 869**	$ 642

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

CONDENSED STATEMENT OF CASH FLOWS
(Expressed in millions of United States dollars)

	Nine months ended September 30,	
	2016	**2015**
	(Unaudited)	
Cash flows from lending and investing activities		
Lending:		
Loan disbursements	**$ (4,762)**	$ (5,931)
Loan collections	**4,189**	3,572
Net cash used in lending activities	**(573)**	(2,359)
Miscellaneous assets and liabilities	**(74)**	(22)
Net cash used in lending and investing activities	**(647)**	(2,381)
Cash flows from financing activities		
Medium- and long-term borrowings:		
Proceeds from issuance	**14,931**	15,523
Repayments	**(7,304)**	(10,777)
Short-term borrowings, net	**202**	196
Cash collateral received	**171**	140
Collections of capital subscriptions	**272**	286
Collections of receivable from members	**15**	16
Payments of maintenance of value to members	**-**	(2)
Net cash provided by financing activities	**8,287**	5,382
Cash flows from operating activities		
Gross purchases of trading investments	**(41,869)**	(33,711)
Gross proceeds from sale or maturity of trading investments	**33,514**	31,553
Loan income collections, after swaps	**1,826**	1,128
Interest and other costs of borrowings, after swaps	**(418)**	(1,241)
Income from investments	**125**	65
Other interest income	**19**	28
Other income	**12**	18
Administrative expenses	**(532)**	(482)
Special programs	**(74)**	(68)
Transfers to the IDB Grant Facility	**(62)**	(114)
Net cash used in operating activities	**(7,459)**	(2,824)
Effect of exchange rate fluctuations on Cash	**(12)**	14
Net increase in Cash	**169**	191
Cash, beginning of period	**641**	535
Cash, end of period	**$ 810**	$ 726

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO THE CONDENSED QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – FINANCIAL INFORMATION

The primary activities of the Inter-American Development Bank (Bank) are conducted through the Ordinary Capital, which is supplemented by the Fund for Special Operations (FSO), the Intermediate Financing Facility Account, and the IDB Grant Facility. Unless otherwise indicated, all financial information provided in these Condensed Quarterly Financial Statements refers to the Ordinary Capital. The Condensed Quarterly Financial Statements should be read in conjunction with the December 31, 2015 financial statements and notes therein included in the Bank's Information Statement dated March 3, 2016. Management believes that the Condensed Quarterly Financial Statements reflect all adjustments necessary for a fair presentation of the Ordinary Capital's financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP). The results of operations for the first nine months of the current year are not necessarily indicative of the results that may be expected for the full year. Certain reclassifications have been made to 2015 balances to conform to the 2016 presentation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with GAAP. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates. Areas in which significant estimates have been made include, but are not limited to, the valuation of certain financial instruments carried at fair value, the allowance for loan and guarantee losses, and the valuation of the pension and postretirement benefit plan-related liabilities.

New accounting pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The changes to the current GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and other financial liabilities is largely unchanged. For the Bank, this ASU is effective in 2018, including interim periods within that fiscal year. The Bank is currently in the process of assessing the impact that this standard will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU removes the probable initial recognition threshold in the current "incurred loss" model and requires entities to reflect current estimate of all expected credit losses over the contractual term of the financial assets in the allowance for credit losses. In addition to past events and current conditions, entities are required to also incorporate reasonable and supportable forecasts in the measurement of expected credit losses. The allowance for credit losses is considered a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The ASU also expands the currently required credit quality indicator disclosures in relation to the amortized cost of financing receivables to be further disaggregated by year of origin or vintage for public business entities. For the Bank, this ASU is effective in 2020, including interim periods within that fiscal year. The Bank is currently in the process of assessing the impact that this standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows to reduce the current and potential future diversity in practice.. For the Bank, this ASU is effective in 2018, including interim periods within that fiscal year. The Bank is currently evaluating the new standard, but does not expect the ASU to have a material impact on its financial statements.

NOTE C – INVESTMENTS

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

The Bank invests in obligations: (i) issued or unconditionally guaranteed by sovereign governments of the member country whose currency is being invested, or other sovereign obligations with a minimum credit quality equivalent to AA- (ii) issued or unconditionally guaranteed by sub-sovereign governments and agencies, including

asset-backed and mortgage-backed securities, with a minimum credit quality equivalent to AA-; and (iii) issued by supranational organizations with a credit quality equivalent to a AAA rating. In addition, the Bank invests in senior bank obligations with a minimum credit quality equivalent to A+, and in corporate entities with a minimum credit quality equivalent to a AA- rating (private asset-backed and mortgage-backed securities require a credit quality equivalent to a AAA rating). The Bank also invests in short-term securities of the eligible investment asset classes mentioned above, provided that they carry only the highest short-term credit ratings.

Net unrealized gains of $41 million on trading portfolio instruments held at September 30, 2016, compared to $36 million of net unrealized losses at September 30, 2015, were included in Income from Investments - Net gains.

A summary of the trading portfolio instruments at September 30, 2016 and December 31, 2015 is shown in Note H – Fair Value Measurements.

NOTE D – LOANS AND GUARANTEES

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

LOAN CHARGES: In late 2014, the Board of Executive Directors approved charges for sovereign-guaranteed financing for 2015 comprised of a lending spread of 0.85%, a credit commission of 0.25% and no supervision and inspection fee. In November 2015, the Board of Executive Directors retroactively increased the second semester lending charges previously approved for 2015 by 0.30% in lending spread and 0.25% in credit commission fee, to 1.15% and 0.50%, respectively. Lending charges approved for 2016 were kept at the same levels as the second semester of 2015.

GUARANTEES: During the nine months ended September 30, 2016, there were no non-sovereign guaranteed, non-trade-related guarantees approved, (2015 – one for $9 million). No guarantees with sovereign counter-guarantee were approved during the first nine months of 2016 and 2015. As of September 30, 2016, the Bank had approved, net of cancellations and maturities, non-trade-related guarantees without sovereign counter-guarantee of $520 million ($757 million as of December 31, 2015), and guarantees with sovereign counter-guarantee of $60 million ($60 million as of December 31, 2015).

Under its non-sovereign-guaranteed Trade Finance Facilitation Program (TFFP), in addition to direct loans, the Bank provides credit guarantees on short-term trade related transactions. The TFFP authorizes lines of credit in support of approved issuing banks and non-bank financial institutions, with an aggregate program limit of up to $1,000 million outstanding at any time. During the first nine months of 2016, the Bank issued 32 guarantees for $48 million under this program (2015 – eight guarantees for $8 million).

Guarantees outstanding represent the maximum potential undiscounted future payments that the Bank could be required to make under its guarantees. At September 30, 2016, guarantees of $213 million ($207 million at December 31, 2015), including $36 million issued under the TFFP ($11 million at December 31, 2015), were outstanding and subject to call. Outstanding guarantees have remaining maturities ranging from 2 months to 10 years, except for trade related guarantees that have maturities of up to three years.

At September 30, 2016 and December 31, 2015, the Bank's exposure on guarantees without sovereign counter-guarantee amounted to $153 million and $147 million, respectively, and was classified as follows (in millions):

Internal Credit Risk Classification	September 30, 2016	December 31, 2015	S&P Rating
bbb or higher	$ 91	$ 88	BBB or higher
bb	6	7	BB
bb-	23	31	BB-
b+	25	15	B+
b	6	4	B
b-	2	-	B-
ccc - d	-	2	CCC-D
Total	$ 153	$ 147	

The Bank's exposure on guarantees with sovereign counter-guarantee amounted to $60 million at September 30, 2016 and December 31, 2015, and was rated BBB+.

MULTILATERAL DEVELOPMENT BANKS (MDBs) EXPOSURE EXCHANGE AGREEMENTS: The Bank reduced its sovereign guaranteed (SG) loan portfolio concentration by entering into Master Exposure Exchange Agreements (EEA) jointly with other MDBs, and executing bilateral transactions under such framework. Conceptually, the EEA reduces portfolio concentration by simultaneously exchanging coverage for potential non-accrual events (i.e., interest and principal nonpayment) between MDBs for

exposures from borrowing countries in which a MDB is concentrated, to countries in which a MDB has no, or low, exposure.

Under an EEA, there is no direct exchange of loan assets and all aspects of the client relationship remain with the originating MDB. However, one MDB assumes the credit risk on a specified EEA amount for a set of borrowing countries (the EEA seller of protection, or EEA Seller) in exchange for passing on the credit risk in the same amount on a set of different borrowing countries to another MDB (the EEA buyer of protection, or EEA Buyer). If a non-accrual event occurs for one of the countries that are part of the EEA transactions, the EEA Seller compensates the EEA Buyer at an agreed upon rate. The EEA allows for exchanges of a minimum of 10 years and a maximum of 30 years maturity, and each participating MDB is required to retain a minimum of 50% of the total exposure to each country that is part of the EEA. In the event of no nonaccruals events occurring during the life of the EEA, the EEA expires at the end of the agreed upon period.

In, 2015, the Bank entered into an EEA with certain other MDBs pursuant to which it also executed two bilateral EEA transactions within Bank limits, which require such transactions to remain within 10% of the outstanding loan balance of the SG portfolio, and individual country exposures not exceeding the Bank's 10th largest SG exposure.

Each EEA transaction was accounted for as an exchange of two separate financial guarantees (given and received). As of September 30, 2016 and December 31, 2015, the Bank is the EEA Buyer (receives a financial guarantee from other MDBs) and the EEA Seller (provides a financial guarantee to other MDBs) for the following countries and exposure amounts (in millions):

EEA Seller

		S&P Rating	
Country	**Amount**	**As of September 30, 2016**	**As of December 31, 2015**
Angola	$ 85	B	B+
Armenia	118	BB-	B+
Bosnia & Herzegovina	99	B	B
Egypt	720	B-	B-
Georgia	97	BB-	BB-
Indonesia	535	BB+	BB+
Jordan	144	BB-	BB-
Macedonia	130	BB-	BB-
Montenegro	116	B+	B+
Morocco	990	BBB-	BBB-
Nigeria	95	B	B+
Pakistan	276	B-	B-
Serbia	195	BB-	BB-
Tunisia	990	BB-	BB-
Turkey	311	BB	BB+
Total	$ 4,901		

EEA Buyer

		S&P Rating	
Country	**Amount**	**As of September 30, 2016**	**As of December 31, 2015**
Argentina	$ 750	B-	SD
Bolivia	92	BB	BB
Brazil	820	BB	BB+
Chile	66	AA-	AA-
Colombia	397	BBB	BBB
Costa Rica	43	BB-	BB
Dominican Republic	460	BB-	BB-
Ecuador	1,066	B	B
Mexico	800	BBB+	BBB+
Panama	207	BBB	BBB
Trinidad & Tobago	200	A-	A
Total	$ 4,901		

The trigger event for requiring the EEA Seller to make interest payments to the EEA Buyer is defined as a payment delay for one or more of the countries for which exposure is included in the EEA of 180 days (i.e., a non-accrual event). The trigger event for requiring the EEA Seller to make principal payments to the EEA Buyer is defined as the time at which the EEA Buyer writes off part, or all, of the SG loans to a country covered under the EEA. Any principal payment made reduces the EEA amount and the coverage of the EEA for the country for which the write-off occurs.

Following the trigger event, the EEA Seller pays compensation to the EEA Buyer for part of the unpaid interest, based on the EEA amount for the country in non-accrual at the interest rate set for the EEA transaction, currently set at USD nine-month LIBOR plus 0.75%. Interest payments are to be made on a semi-annual basis and cannot exceed contractual payments related to the loans that are past due.

The EEA Seller relies on the EEA Buyer to recover outstanding amounts owed from the borrowing country in nonaccrual status. Recoveries of amounts received by the EEA Buyer are to be shared between Buyer and Seller on a paripassu basis. By the end of the non-accrual event, the EEA Seller receives back all amounts paid to the EEA Buyer if there have been no write-offs.

The fair value of the guarantee given is recorded at inception as an asset (equivalent to the net present value of the hypothetical guarantee fees to be received) and a liability (the non-contingent portion of the guarantee to stand ready to perform), respectively, included in Other assets and Other liabilities, respectively, in the Condensed Balance Sheet. The above mentioned asset and liability are amortized over the term of the guarantee, based on the originally negotiated exposure exchange expected to be outstanding every year. For the guarantees received, an asset, and a corresponding income, is recorded equivalent to the implicit reduction in the Bank’s allowance for loan losses, which are included in Other assets and Other income, respectively.

As of September 30, 2016 and December 31, 2105 no non-accrual events have occurred, and the current carrying amount under the guarantees given amounts to $573 million and $605 million, respectively.

NOTE E – CREDIT RISK FROM LOAN PORTFOLIO

The loan portfolio credit risk is the risk that the Bank may not receive repayment of principal and/or interest on one or more of its loans according to the agreed-upon terms. The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower.

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

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

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

The credit quality of the sovereign-guaranteed loan portfolio as of September 30, 2016 and December 31, 2015, as represented by the long-term foreign credit rating assigned to each borrower country by Standard & Poor's (S&P), is as follows (in millions):

Country Ratings	September 30, 2016	December 31, 2015
AA+ to AA-	$ 540	$ 437
A+ to A-	629	640
BBB+ to BBB-	27,471	27,722
BB+ to BB-	21,318	22,150
B+ to B-	20,917	8,446
CCC+ to CCC	2,167	2,194
SD	-	11,176
Total	$ 73,042	$ 72,765

The ratings presented above have been updated as of September 30, 2016 and December 31, 2015, respectively.

NON-SOVEREIGN-GUARANTEED LOANS: The Bank does not benefit from sovereign guarantees when lending to non-sovereign-guaranteed borrowers. Risk and performance for these loans are evaluated by scoring the individual risk factors under each of the borrower and transaction dimensions.

In order to further enhance the Bank's management of credit risk, during the fourth quarter of 2015, the Bank implemented changes to its internal credit risk classification system to provide for a more granular rating scale that maps, on a one to one basis, to that of the foreign currency S&P credit rating. It also separated the borrower risk rating from the transaction risk rating to provide more transparency of the different risk factors that determine the final score of each one of those risks which all combined produces the incurred loss associated with the transaction. As a result, the borrower risk assessment continues to consider quantitative and qualitative risk factors.

The major credit risk factors considered at the borrower level of a project finance loan may be grouped into the following categories: political risk, commercial or project risk, technical and construction risk, and financial risk. With the newly refined internal credit risk classification system the country risk continues to be applied either embedded in the assessment of the borrower, or acting as a ceiling of the borrower rating. Separately, the Bank uses a transaction or facility risk model (the LGD model) which considers the type of collateral, the seniority of the loan or guarantee, jurisdiction (bankruptcy and creditors rights) and guarantees from third parties. The LGD model is calibrated following empirical evidence of historical loss data collected by S&P, and calculates separately the loss given default for each individual loan or guarantee.

The credit quality of the non-sovereign-guaranteed loan portfolio as of September 30, 2016 and December 31, 2015, excluding loans to other multilateral development institutions, as represented by the internal credit risk classification, is as follows (in millions):

Internal Credit Risk Classification	September 30, 2016	December 31, 2015	S&P Rating
bbb or higher	$ 899	$ 977	BBB or higher
bb+	370	739	BB+
bb	926	689	BB
bb-	949	1,000	BB-
b+	1,109	930	B+
b	811	746	B
b-	352	141	B-
ccc - d	562	630	CCC-D
Total	$ 5,978	$ 5,852	

In addition, as of September 30, 2016, the Bank has loans to other multilateral development institutions of $121 million ($128 million at December 31, 2015), with ratings ranging from AA to A.

Past due and Non-accrual loans

As of September 30, 2016, non-sovereign-guaranteed loans 90 or more days past due amounted to $281 million ($186 million at December 31, 2015). Non-sovereign-guaranteed loans with outstanding balances of $542 million ($466 million at December 31, 2015) were on non-accrual status. There were no sovereign-guaranteed loans past due, impaired or in non-accrual status as of September 30, 2016 and December 31, 2015.

Impaired loans

The Bank's recorded investment in non-sovereign-guaranteed loans classified as impaired was $542 million at September 30, 2016 ($466 million at December 31, 2015). All impaired loans have specific allowances for loan losses of $380 million ($235 million at December 31, 2015).

A summary of financial information related to impaired loans affecting the results of operations for the three and nine months ended September 30, 2016 and 2015 (in millions) is as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015
Average recorded investment during the period	$ 544	$ 413
Loan income recognized	2	3
Loan income that would have been recognized on an accrual basis during the period	7	8

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Average recorded investment during the period	$ 504	$ 398
Loan income recognized	9	6
Loan income that would have been recognized on an accrual basis during the period	21	18

Allowance for Loan and Guarantee Losses

SOVEREIGN-GUARANTEED PORTFOLIO: A collective evaluation of collectibility is performed for sovereign-guaranteed loans and guarantees. Historically, virtually all the sovereign-guaranteed loan portfolio has been fully performing. The Bank does not reschedule sovereign-guaranteed loans and has not written-off, and has no expectation of writing off, such loans. However, in the past the Bank has experienced delays in the receipt of debt service payments, sometimes for more than nine months. Since the Bank does not charge interest on missed interest payments for these loans, such delay in debt service payments is viewed as a potential impairment as the timing of the cash flows may not be met in accordance with the terms of the loan contract.

NON-SOVEREIGN-GUARANTEED PORTFOLIO: For non-sovereign guaranteed loans and guarantees, a collective loss allowance is determined based on the Bank's internal credit risk classification system that maps on a one to one basis to that of the S&P foreign currency credit rating, with an estimated probability of default time horizon of three years. Based upon (i) the probability of default rate for each transaction, (ii) the amount of credit exposure and (iii) the loss given default, the required level of the collective loss allowance is determined.

The changes in the allowance for loan and guarantee losses for the period ended September 30, 2016 and the year ended December 31, 2015, were as follows (in millions):

	September 30, 2016	December 31, 2015
Balance, beginning of year	$ 446	$ 373
Provision for loan and guarantee losses	153	73
Balance, end of period	$ 599	$ 446
Composed of:		
Allowance for loan losses	$ 597	$ 444
Allowance for guarantee losses [1]	2	2
Total	$ 599	$ 446

[1] The allowance for guarantee losses is included in Other liabilities in the Condensed Balance Sheet.

The changes in the allowance for loan and guarantee losses by portfolio for the period ended September 30, 2016 and the year ended December 31, 2015, were as follows (in millions):

Sovereign-guaranteed portfolio:

Collective allowance	September 30, 2016	December 31, 2015
Balance, beginning of year	$ 5	$ 14
Credit for loan and guarantee losses	(3)	(9)
Balance, end of period	$ 2	$ 5

Non-sovereign-guaranteed portfolio:

Specific allowance	September 30, 2016	December 31, 2015
Balance, beginning of year	$ 235	$ 183
Provision for loan and guarantee losses	145	52
Balance, end of period	$ 380	$ 235

Collective allowance	September 30, 2016	December 31, 2015
Balance, beginning of year	$ 206	$ 176
Provision for loan and guarantee losses	11	30
Balance, end of period	$ 217	$ 206

During the first nine months of 2016, there were no significant changes to the Bank's policy with respect to the allowance for loan and guarantee losses from the prior year. Except for the impaired loans on the non-sovereign-guaranteed portfolio, all loans and guarantees have been collectively evaluated for impairment.

Troubled debt restructurings

A modification of a non-sovereign-guaranteed loan is considered a troubled debt restructuring when the borrower is experiencing financial difficulty and the Bank has granted a concession to the borrower.

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

During the first nine months of 2016, there were no troubled debt restructurings or payment defaults associated with previous troubled debt restructurings.

NOTE F – FAIR VALUE OPTION

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

The changes in fair value for borrowings elected under the fair value option have been recorded in the Condensed Statement of Income and Retained Earnings for the three and nine months ended September 30, 2016 and 2015, as follows (in millions):

	Three months ended September 30,	
	2016	2015
Borrowing expenses, after swaps	$ (340)	$ (326)
Net fair value adjustments on non-trading portfolios and foreign currency transactions	(11)	968
Total changes in fair value included in Net income	$ (351)	$ 642

	Nine months ended September 30,	
	2016	2015
Borrowing expenses, after swaps	$ (1,022)	$ (1,030)
Net fair value adjustments on non-trading portfolios and foreign currency transactions	(1,127)	2,124
Total changes in fair value included in Net income	$ (2,149)	$ 1,094

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of September 30, 2016 and December 31, 2015, was as follows (in millions):

	September 30, 2016	December 31, 2015
Fair value	$ 55,765 [1]	$ 49,411 [1]
Unpaid principal outstanding	53,687	48,062
Fair value over unpaid principal outstanding	$ 2,078	$ 1,349

[1] Includes accrued interest of $319 million at September 30, 2016 and $346 million at December 31, 2015.

NOTE G – DERIVATIVES

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

A significant number of the current borrowing operations include swaps to economically hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and interest rate type). The Bank also uses lending swaps to economically hedge fixed-rate, fixed-base cost rate and local currency loans, and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash. In addition, the Bank utilizes interest rate swaps to maintain the duration of its equity within a prescribed policy band of 4 to 6 years.

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

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

Realized gains and losses on non-trading derivatives are reclassified from Net fair value adjustments on non-trading portfolios and foreign currency transactions to Income from loans, after swaps, Borrowing expenses, after swaps, and Other interest income, respectively, upon termination of a swap.

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

FINANCIAL STATEMENTS PRESENTATION: The Bank's derivative instruments as of September 30, 2016 and December 31, 2015, and their related gains and losses for the three and the nine months ended September 30, 2016 and 2015, are presented in the Condensed Balance Sheet and the Condensed Statement of Income and Retained Earnings as follows (in millions):

Condensed Balance Sheet

Derivatives not Designated as Hedging Instruments	Balance Sheet Location	September 30, 2016 [1] Assets	September 30, 2016 [1] Liabilities	December 31, 2015 [1] Assets	December 31, 2015 [1] Liabilities
Currency Swaps	Currency and interest rate swaps				
	Investments - Trading	$ 27	$ 319	$ 69	$ 108
	Loans	698	29	644	2
	Borrowings	702	1,818	551	2,578
	Accrued interest and other charges	34	(8)	-	(103)
Interest Rate Swaps	Currency and interest rate swaps				
	Investments - Trading	8	49	14	41
	Loans	-	846	1	673
	Borrowings	1,507	69	908	208
	Other	35	-	37	5
	Accrued interest and other charges	105	66	158	16
		$ 3,116	$ 3,188	$ 2,382	$ 3,528

[1] Balances are reported gross, prior to counterparty netting in accordance with existing master netting derivative agreements.

Condensed Statement of Income and Retained Earnings

Derivatives not Designated as Hedging Instruments	Location of Gain or (Loss) from Derivatives	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Currency Swaps					
Investments - Trading	Income from Investments:				
	Interest	$ (19)	$ (19)	$ (52)	$ (47)
	Net gains (losses)	65	30	116	71
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(58)	55	(388)	115
Loans	Income from loans, after swaps	(26)	(22)	(71)	(67)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	105	211	200	419
Borrowings	Borrowing expenses, after swaps	128	156	397	526
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	134	(1,159)	609	(2,259)
Interest Rate Swaps					
Investments - Trading	Income from Investments:				
	Interest	(17)	(21)	(62)	(63)
	Net gains (losses)	48	(44)	(5)	(59)
Loans	Income from loans, after swaps	(53)	(64)	(173)	(199)
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	97	(170)	(174)	(77)
Borrowings	Borrowing expenses, after swaps	178	201	519	613
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(445)	641	757	441
Other	Other interest income	6	9	18	28
	Net fair value adjustments on non-trading portfolios and foreign currency transactions	(13)	11	3	9
		$ 130	$ (185)	$ 1,694	$ (549)

Currently, the Bank is not required to post collateral under its derivative agreements. Should the Bank's credit rating be downgraded from the current AAA, the standard swap agreements detail, by swap counterparty, the collateral requirements that the Bank would need to satisfy in this event. The aggregate fair value of all derivative instruments

with credit-risk related contingent features that are in a liability position at September 30, 2016 is $856 million ($1,746 million at December 31, 2015) (after consideration of master netting derivative agreements). If the Bank was downgraded one notch from the current AAA credit rating, it would be required to post collateral in the amount of $317 million at September 30, 2016 ($641 million at December 31, 2015).

The following tables provide information on the contract value/notional amounts of derivative instruments as of September 30, 2016 and December 31, 2015 (in millions). Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or receivable leg. Included in the Other category are interest rate swaps used to maintain the equity duration within policy limits.

	September 30, 2016			
Derivative type/	Currency swaps		Interest Rate swaps	
Rate type	Receivable	Payable	Receivable	Payable
Investments				
Fixed	$ 964	$ 6,947	$ -	$ 8,863
Adjustable	5,976	-	8,863	-
Loans				
Fixed	-	1,064	16	7,671
Adjustable	3,217	1,507	7,671	16
Borrowings				
Fixed	14,839	207	56,080	349
Adjustable	900	17,555	4,406	60,030
Other				
Fixed	-	-	1,730	313
Adjustable	-	-	313	1,730

	December 31, 2015			
Derivative type/	Currency swaps		Interest Rate swaps	
Rate type	Receivable	Payable	Receivable	Payable
Investments				
Fixed	$ -	$ 4,822	$ -	$ 8,416
Adjustable	4,949	-	8,416	-
Loans				
Fixed	-	745	31	8,455
Adjustable	3,473	2,107	8,455	31
Borrowings				
Fixed	14,263	186	49,841	349
Adjustable	1,345	18,111	4,402	53,387
Other				
Fixed	-	-	2,036	350
Adjustable	-	-	350	2,036

The Bank's derivatives are subject to enforceable master netting agreements (the Agreements). The Bank has made the accounting policy election to present all derivative assets and liabilities on a gross basis. The gross and net information about the Bank's derivatives subject to the Agreements as of September 30, 2016 and December 31, 2015 are as follows (in millions):

	September 30, 2016			
	Gross Amounts of Assets Presented in the	Gross Amounts Not Offset in the Balance Sheet		
Description	Balance Sheet [1]	Financial Instruments	Collateral Received [3]	Net Amount
Derivatives	$ 3,116	$ (2,334)	$ (732)	$ 50

	Gross Amounts of Liabilities Presented in the	Gross Amounts Not Offset in the Balance Sheet		
Description	Balance Sheet [2]	Financial Instruments	Collateral Pledged	Net Amount
Derivatives	$ (3,188)	$ 2,334	$ -	$ (854)

	December 31, 2015			
	Gross Amounts of Assets Presented in the	Gross Amounts Not Offset in the Balance Sheet		
Description	Balance Sheet [1]	Financial Instruments	Collateral Received [3]	Net Amount
Derivatives	$ 2,382	$ (1,782)	$ (549)	$ 51

	Gross Amounts of Liabilities Presented in the	Gross Amounts Not Offset in the Balance Sheet		
Description	Balance Sheet [2]	Financial Instruments	Collateral Pledged	Net Amount
Derivatives	$ (3,528)	$ 1,782	$ -	$ (1,746)

[1] Includes accrued interest of $139 million and $158 million, in 2016 and 2015, respectively, presented in the Condensed Balance Sheet under Accrued interest and other charges.

[2] Includes accrued interest of $58 million and $(87) million, in 2016 and 2015, respectively, presented in the Condensed Balance Sheet under Accrued interest and other charges.

[3] Includes cash collateral amounting to $611 million (2015 - $440 million). The remaining amounts represent off-Balance Sheet U.S. Treasury securities received as collateral by the Bank.

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

Close-out netting provisions

The close-out netting provisions of the ISDA Agreements provide for the calculation of a single lump sum amount upon the early termination of transactions following the occurrence of an event of default or termination event. The setoff provisions of the ISDA Agreements allow the non-defaulting party to determine whether setoff applies and, if so, provide that any lump sum amount calculated following the early termination of transactions payable by the non-defaulting party to the other party may be applied to reduce any amounts that the other party owes the non-defaulting party under other agreements between them. This setoff, if enforceable in the circumstances of a given early termination, effectively reduces the amount payable by the non-defaulting party under the applicable ISDA Agreement.

Terms of collateral agreements

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

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

The Bank classifies the cash collateral received under Cash flows from financing activities in the Statement of Cash Flows as this collateral primarily relates to borrowing swaps.

NOTE H – FAIR VALUE MEASUREMENTS

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

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

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

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

Substantially all other Bank investment instruments are valued based on quoted prices in markets that are not active, external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies apply to investments in obligations of governments and agencies, corporate bonds, asset-backed and mortgage-backed securities, bank obligations, and related financial derivative instruments. These instruments are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches.

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

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

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

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

The following tables set forth the Bank's financial assets and liabilities that were accounted for at fair value as of September 30, 2016 and December 31, 2015 by level within the fair value hierarchy (in millions). As required by the framework for measuring fair value, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial assets:

Assets	Fair Value Measurements September 30, 2016[1]	Level 1	Level 2	Level 3
Investments - Trading:				
Obligations of the United States Government and its corporations and agencies	$ 5,259	$ 5,259	$ -	$ -
U.S. Government-sponsored enterprises	437	-	437	-
Obligations of non-U.S. governments	7,636	1,830	5,806	-
Obligations of non-U.S. agencies	10,453	-	10,453	-
Obligations of non-U.S. sub-sovereigns	1,848	-	1,848	-
Obligations of supranationals	2,782	-	2,782	-
Bank obligations [2]	7,926	-	7,926	-
Corporate securities	404	-	404	-
Mortgage-backed securities	197	-	197	-
Asset-backed securities	35	-	22	13
Total Investments - Trading	36,977	7,089	29,875	13
Currency and interest rate swaps	3,116	-	3,116	-
Total	$ 40,093	$ 7,089	$ 32,991	$ 13

[1] Represents the fair value of the referred assets, including their accrued interest presented on the Condensed Balance Sheet under Accrued interest and other charges of $148 million for trading investments and $139 million for currency and interest rate swaps.

[2] May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

Assets	Fair Value Measurements December 31, 2015[1]	Level 1	Level 2	Level 3
Investments - Trading:				
Obligations of the United States Government and its corporations and agencies	$ 3,977	$ 3,977	$ -	$ -
U.S. Government-sponsored enterprises	296	-	296	-
Obligations of non-U.S. governments	5,757	1,813	3,944	-
Obligations of non-U.S. agencies	8,633	-	8,633	-
Obligations of non-U.S. sub-sovereigns	1,496	-	1,496	-
Obligations of supranationals	2,501	-	2,501	-
Bank obligations [2]	5,023	-	5,023	-
Corporate securities	55	-	55	-
Mortgage-backed securities	213	-	213	-
Asset-backed securities	48	-	34	14
Total Investments - Trading	27,999	5,790	22,195	14
Currency and interest rate swaps	2,382	-	2,382	-
Total	$ 30,381	$ 5,790	$ 24,577	$ 14

[1] Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheet under Accrued interest and other charges of $98 million for trading investments and $158 million for currency and interest rate swaps.

[2] May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

Financial liabilities:

Liabilities	Fair Value Measurements September 30, 2016[1]	Level 1	Level 2	Level 3
Borrowings measured at fair value	$ 55,765	$ -	$ 55,765	$ -
Currency and interest rate swaps	3,188	-	3,188	-
Total	$ 58,953	$ -	$ 58,953	$ -

[1] Represents the fair value of the referred liabilities, including their accrued interest presented on the Condensed Balance Sheet under Accrued interest on borrowings of $319 million for borrowings and under Accrued interest and other charges of $58 million for currency and interest rate swaps.

Liabilities	Fair Value Measurements December 31, 2015[1]	Level 1	Level 2	Level 3
Borrowings measured at fair value	$ 49,411	$ -	$ 49,411	$ -
Currency and interest rate swaps	3,528	-	3,528	-
Total	$ 52,939	$ -	$ 52,939	$ -

[1] Represents the fair value of the referred liabilities, including their accrued interest presented on the Balance Sheet under Accrued interest on borrowings of $346 million for borrowings and under Accrued interest and other charges of $(87) million for currency and interest rate swaps.

As of September 30, 2016, the investment portfolio includes $13 million ($14 million at December 31, 2015) of securities classified as Level 3. The pricing information for these securities is not developed or adjusted by the Bank, and is obtained through external pricing sources.

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

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

The table below show a reconciliation of the beginning and ending balances of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and 2015 (in millions). There were no Level 3 financial liabilities for the nine months ended September 30, 2016 and 2015. For the three months ended September 30, 2016 and 2015, there were no changes to the unrealized gains or losses related to financial assets.

Financial assets:	Nine months ended September 30,					
	2016			2015		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Investments - Trading	Currency and Interest Rate Swaps	Total	Investments - Trading	Currency and Interest Rate Swaps	Total
Balance, beginning of year	$ 14	$ -	$ 14	$ 15	$ -	$ 15
Total gains included in Net income [1]	-	-	-	1	-	1
Settlements	(1)	-	(1)	(1)	-	(1)
Balance, end of period	$ 13	$ -	$ 13	$ 15	$ -	$ 15
Total losses for the period included in Net income attributable to the change in unrealized gains or losses related to assets still held at the end of the period [1]	$ (1)	$ -	$ (1)	$ (1)	$ -	$ (1)

[1] Gains (losses) on Level 3 financial assets are reported in Income from Investments - Net gains (losses) in the Condensed Statement of Income and Retained Earnings.

There were no transfers between levels during the first nine months of 2016 and 2015, for securities held at the end of those reporting periods. The Bank's policy for transfers between levels is to reflect these transfers as of the beginning of the reporting period.

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

The fair value of the loan portfolio, which amounted to approximately $82,526 million as of September 30, 2016 ($81,060 million as of December 31, 2015) was determined using a discounted cash flow method (income approach) by which cash flows are discounted at (i) applicable market yield curves adjusted for the Bank's own funding cost plus its lending spread, for sovereign-guaranteed loans, and (ii) market yield curves consistent with the borrower's S&P credit rating equivalent, for non-sovereign-guaranteed loans. The Bank is one of the very few lenders of development loans to Latin American and Caribbean countries and, it does not sell its loans nor does it believe there is a comparable market for its loans. Therefore, this methodology has been developed based on valuation assumptions that management believes a market participant in an assumed transaction would use in pricing the Bank's loans. The Bank considers that, for its sovereign-guaranteed loans, multilateral lending institutions that share the Bank's developmental mission would constitute the most appropriate assumed market participants to which the Bank would sell its loans in an orderly transaction. The valuation assumptions used include observable inputs, such, as the market yield curves mainly based on LIBOR, and unobservable inputs, such as internal credit risk assumptions. Due to the fact that the unobservable inputs are considered significant, the fair value disclosure of the Bank's loan portfolio has been classified as Level 3.

The fair value of borrowings recorded at amortized cost, which amounted to approximately $33,906 million as of September 30, 2016 ($30,436 million as of December 31, 2015) was determined using the same inputs and valuation techniques as disclosed above for the borrowings recorded at fair value. Such valuation techniques are based on discounted cash flows or pricing models (income approach) and utilize market observable inputs. Accordingly, the fair value disclosure for borrowings recorded at amortized cost is considered Level 2 under the fair value hierarchy.

NOTE I – NET FAIR VALUE ADJUSTMENTS ON NON-TRADING PORTFOLIOS AND FOREIGN CURRENCY TRANSACTIONS

Net fair value adjustments on non-trading portfolios and foreign currency transactions gains and losses for the three and nine months ended September 30, 2016 and 2015 comprise the following (in millions):

	Three months ended September 30,	
	2016	2015
Fair value adjustments - gains (losses) [1]		
Borrowings	$ (11)	$ 968
Derivatives		
Borrowing swaps	(311)	(518)
Lending swaps	202	41
Equity duration swaps	(13)	11
Currency transaction losses on borrowings and loans at amortized cost, and other	(96)	(160)
	$ (229)	$ 342

	Nine months ended September 30,	
	2016	2015
Fair value adjustments - gains (losses) [1]		
Borrowings	$ (1,127)	$ 2,124
Derivatives		
Borrowing swaps	1,366	(1,818)
Lending swaps	26	342
Equity duration swaps	3	9
Currency transaction losses on borrowings and loans at amortized cost, and other	(207)	(336)
	$ 61	$ 321

[1] Amounts include foreign currency transaction gains and losses, as detailed below.

Net fair value adjustments of $61 million (2015 - $321) million) mostly relate to changes in the fair value of (a) borrowings at fair value due to changes in the Bank's own credit spreads, (b) lending and certain borrowing swaps due to changes in USD interest rates, which are not offset with changes in the value of the related loans and borrowings that are not recorded at fair value, as well as (c) equity duration swaps due to changes in USD interest rates.

The Bank transacts in multiple currencies. However, assets and liabilities, after swaps, are substantially held in United States dollars. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets and by maintaining basically all its equity in United States dollars. Accordingly, exchange rate fluctuations have a minimum impact on earnings. The impact of foreign exchange fluctuations, included in the table above, for the three and nine months ended September 30, 2016 and 2015, comprise the following (in millions):

	Three months ended September 30,	
	2016	2015
Currency transaction gains (losses):		
Borrowings, at fair value	$ (175)	$ 1,247
Derivatives, at fair value:		
Borrowing swaps	177	(1,275)
Lending swaps	97	191
	99	163
Currency transaction gains (losses) related to:		
Borrowings at amortized cost	(3)	29
Loans	(97)	(190)
Other	4	1
	(96)	(160)
Total	$ 3	$ 3

	Nine months ended September 30,	
	2016	2015
Currency transaction gains (losses):		
Borrowings, at fair value	$ (420)	$ 2,169
Derivatives, at fair value:		
Borrowing swaps	435	(2,214)
Lending swaps	204	380
	219	335
Currency transaction gains (losses) related to:		
Borrowings at amortized cost	(41)	92
Loans	(182)	(379)
Other	16	(49)
	(207)	(336)
Total	$ 12	$ (1)

NOTE J – BOARD OF GOVERNORS APPROVED TRANSFERS

As part of the ninth general increase in the resources of the Bank (IDB-9), the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide $200 million annually in transfers of Ordinary Capital income to the IDB Grant Facility, beginning in 2011 through 2020. During 2011 - 2015, the Bank approved income transfers from the Ordinary Capital in the amount of $200 million each year or a total of $1,000 million. On April 10, 2016, at its Annual Meeting in Nassau, Bahamas, the Board of Governors approved a Resolution requesting Management to present for the consideration of the Board of Governors an annual report reflecting the Fund balance of the IDB Grant Facility, the disbursement needs of the Bank's operations in Haiti and a Proposed Resolution confirming the Board of Governors' consideration of the report and continued support for Haiti's reconstruction and development consistent with the IDB-9. Where applicable, the report shall further include a proposal for additional transfers of Ordinary Capital income to the IDB Grant Facility up to a total amount of $1,000 million, over a time period and in amounts consistent with the disbursement needs of the Bank's operations with Haiti and subject to the requirements of the Agreement.

Such income transfers are recognized as an expense when approved by the Board of Governors and funded in accordance with the IDB Grant Facility funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Condensed Balance Sheet.

NOTE K – CAPITAL STOCK

On February 29, 2012, the IDB-9 entered into effect providing for an increase in the Bank's Ordinary Capital of $70,000 million, subscribed to by Bank members in five annual installments beginning in 2012. Of this amount, $1,700 million was paid-in capital stock and the remainder constituted callable capital stock.

On February 29, 2016, the effective date of the fifth and last installment, 1,160,644 shares in the amount of $14,001 million were made effective ($340 million paid-in; $13,661 million callable).

The changes in subscribed capital during the nine months ended September 30, 2016 and the year ended December 31, 2015 were as follows (in millions, except for share information):

	Subscribed capital			
	Shares	Paid-in	Callable	Total
Balance at January 1, 2015	11,958,339	$ 5,357	$ 138,901	$ 144,258
Subscriptions during 2015	1,166,381	342	13,729	14,071
Canada's replacement of callable capital	(45,303)	-	(546)	(546)
Canada's return of callable capital	(69,953)	-	(844)	(844)
Balance at December 31, 2015	13,009,464	5,699	151,240	156,939
Subscriptions during 2016	1,160,644	340	13,661	14,001
Balance at September 30, 2016	14,170,108	$ 6,039	$ 164,901	$ 170,940

The changes in Capital subscriptions receivable during the nine months ended September 30, 2016 and the year ended December 31, 2015, were as follows (in millions):

	Capital Subscriptions Receivable
Balance at January 1, 2015	$ 84
Subscriptions during 2015	342
Collections	(281)
Amounts paid in advance that became effective in 2015	(70)
Balance at December 31, 2015	75
Subscriptions during 2016	340
Collections	(272)
Amounts paid in advance that became effective in 2016	(46)
Balance at September 30, 2016	$ 97

Capital subscriptions receivable have been recorded as a reduction from equity in the Condensed Balance Sheet.

NOTE L – PENSION AND POSTRETIREMENT BENEFIT PLANS

The Bank has two defined benefit retirement plans (Plans) for providing pension benefits to employees of the Bank: the Staff Retirement Plan for international employees, and the Local Retirement Plan for national employees in the country offices. The Bank also provides health care and certain other benefits to retirees under the Postretirement Benefits Plan (PRBP).

CONTRIBUTIONS: All contributions are made in cash during the fourth quarter of the year. As of September 30, 2016, the estimate of contributions expected to be paid to the Plans and the PRBP for the year 2016 was $54 million and $30 million, respectively, the same amount disclosed in the December 31, 2015 financial statements. Contributions for 2015 were $54 million and $29 million, respectively.

PERIODIC BENEFIT COST: Net periodic benefit costs are allocated between the Ordinary Capital and the FSO in accordance with an allocation percentage approved by the Board of Governors for administrative expenses and are included under Administrative expenses in the Condensed Statement of Income and Retained Earnings.

The following table summarizes the benefit costs associated with the Plans and the PRBP for the three and nine months ended September 30, 2016 and 2015 (in millions):

	Pension Benefits			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	$ 22	$ 27	$ 66	$ 80
Interest cost	38	37	114	111
Expected return on plan assets [1]	(53)	(51)	(157)	(153)
Amortization of net actuarial losses	1	6	1	20
Net periodic benefit cost	$ 8	$ 19	$ 24	$ 58
Of which:				
ORC's share	$ 8	$ 18	$ 23	$ 56
FSO's share	-	1	1	2

[1] The expected return of plan assets is 6.25% in 2016 and 2015.

	Postretirement Benefits			
	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	$ 10	$ 14	$ 30	$ 41
Interest cost	18	19	54	56
Expected return on plan assets [1]	(22)	(22)	(66)	(64)
Amortization of:				
Prior service credit	(3)	(1)	(8)	(2)
Net actuarial losses	-	5	1	14
Net periodic benefit cost	$ 3	$ 15	$ 11	$ 45
Of which:				
ORC's share	$ 3	$ 15	$ 11	$ 44
FSO's share	-	-	-	1

[1] The expected return of plan assets is 6.25% in 2016 and 2015.

NOTE M – VARIABLE INTEREST ENTITIES

The Bank has identified loans and guarantees to Variable Interest Entities (VIEs) in which it is not the primary beneficiary but in which it is deemed to hold significant variable interest at September 30, 2016. The majority of these VIEs do not involve securitizations or other types of structured financing. These VIEs are mainly: (i) special purpose vehicles or investment funds, where the sponsor, the general partner or fund manager does not have substantive equity at risk; (ii) operating entities where the total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support; and (iii) entities where the operating activities are so narrowly defined by contracts (e.g. concession contracts) that equity investors are considered to lack decision making ability.

The Bank's involvement with these VIEs is limited to loans and guarantees, which are reflected as such in the Bank's financial statements. Based on the most recent available data from these VIEs, the size of the VIEs measured by total assets in which the Bank is deemed to hold significant variable interests totaled $6,116 million at September 30, 2016 and $6,327 million at December 31, 2015. The Bank's total loans and guarantees outstanding to these VIEs were $419 million and $31 million, respectively ($463 million and $49 million, respectively, at December 31, 2015). Amounts committed not yet disbursed related to such loans and guarantees amounted to $72 million ($77 million at December 31, 2015), which combined with outstanding amounts results in a total maximum Bank exposure of $522 million at September 30, 2016 ($589 million at December 31, 2015).

Of those loans and guarantees where the Bank is deemed to hold a significant variable interest, the Bank has made loans amounting to approximately $37 million ($32 million at December 31, 2015) to VIEs for which it is deemed to be the primary beneficiary. The Bank's involvement with these VIEs is limited to such loans, which are reflected as such in the Bank's financial statements. Based on the most recent available data, the size of these VIEs measured by total assets amounted to approximately $37 million ($32 million at December 31, 2015), which is considered immaterial and, thus, not consolidated with the Bank's financial statements.

NOTE N – RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES

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

	Nine months ended September 30,	
	2016	**2015**
Net income	$ 875	$ 610
Difference between amounts accrued and amounts paid or collected for:		
Loan income	94	(213)
Income from investments	(100)	(19)
Other interest income	1	-
Other income	(8)	1
Interest and other costs of borrowings, after swaps	144	(936)
Administrative expenses, including depreciation	(64)	58
Special programs	(35)	(17)
Transfers to the IDB Grant Facility	(62)	86
Net fair value adjustments on non-trading portfolios and foreign currency transactions	(61)	(321)
Net increase in trading investments	(8,355)	(2,158)
Net unrealized (gains) losses on trading investments	(41)	36
Provision for loan and guarantee losses	153	49
Net cash used in operating activities	$ (7,459)	$ (2,824)
Supplemental disclosure of noncash activities		
Increase (decrease) resulting from exchange rate fluctuations:		
Trading investments	$ 31	$ (24)
Loans outstanding	24	4
Borrowings	25	(45)

NOTE O – SEGMENT REPORTING

Management has determined that the Bank has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries.

For the nine months ended September 30, 2016 and 2015, loans made to or guaranteed by three countries individually generated in excess of 10% of loan income, before swaps, as follows (in millions):

	Nine months ended September 30,	
	2016	**2015**
Argentina	$ 327	$ 280
Brazil	256	190
Mexico	372	330

NOTE P – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Bank in measuring the fair value for its financial instruments, as also discussed in Note H – Fair Value Measurements:

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

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

Loans: The fair value of the Bank's loan portfolio is estimated using a discounted cash flow method.

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

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

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of September 30, 2016 and December 31, 2015 (in millions):

	September 30, 2016 [1]		December 31, 2015 [1]	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 810	$ 810	$ 641	$ 641
Investments - Trading	36,977	36,977	27,999	27,999
Loans outstanding, net	79,180	82,526	78,891	81,060
Currency and interest rate swaps receivable				
Investments - Trading	21	21	59	59
Loans	681	681	624	624
Borrowings	2,378	2,378	1,660	1,660
Others	36	36	39	39
Other assets [2]	573	573	605	605
Borrowings				
Short-term	714	714	513	513
Medium- and long-term:				
Measured at fair value	55,765	55,765	49,411	49,411
Measured at amortized cost	32,422	33,906	29,696	30,436
Currency and interest rate swaps payable				
Investments - Trading	453	453	196	196
Loans	920	920	726	726
Borrowings	1,815	1,815	2,601	2,601
Others	-	-	5	5
Other liabilities [2]	573	573	605	605

[1] Includes accrued interest.

[2] Amounts are related to EEA guarantees given.

NOTE Q – CONTINGENCIES

In the normal course of its business, the Bank is from time to time named as a defendant or co-defendant in various legal actions on different grounds in various jurisdictions. Although there can be no assurances, based on the information currently available, management does not believe the outcome of any of the various existing legal actions will have a material adverse effect on the Bank's financial position, results of operations or cash flows.

NOTE R – RELATED PARTY TRANSACTIONS

In connection with the implementation of the reorganization of the non-sovereign guaranteed activities of the IDB Group effective January 1, 2016, certain services are being provided by the Bank and the Inter-American Investment Corporation (IIC) to each other. The total estimated fees for the services provided by the Bank to the IIC, and those provided by the IIC to the Bank are $8 million and $38 million, respectively, for the nine months period ended September 30, 2016. The Bank and the IIC are in the process of negotiating service level agreements for certain administrative and overhead services that include human resources and information technology support provided by the Bank, as well as loan origination, execution, and monitoring services provided to the Bank.

NOTE S – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 10, 2016, which is the date the financial statements were issued. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the Bank's Condensed Quarterly Financial Statements as of September 30, 2016.