

Annual Report 2011

Inter-American Development Bank



The Year in Review



Financial Summary 2007–2011

Ordinary Capital

(In millions of U.S. dollars)

	2011	2010	2009	2008	2007
Operational Highlights					
Loans and Guarantees Approved ^{1,2}	\$10,400	\$12,136	\$15,278	\$11,085	\$ 8,577
Gross Loan Disbursements ³	7,898	10,341	11,424	7,149	6,725
Loan Repayments	4,601	5,598	4,542	4,740	5,265
Balance Sheet Data					
Cash and Investments–Net, After Swaps	\$13,882	\$16,585	\$20,204	\$16,371	\$16,301
Loans Outstanding	66,130	63,007	58,049	51,173	47,954
Undisbursed Portion of Approved Loans	23,994	22,357	21,555	19,820	16,428
Total Assets	89,432	87,217	84,006	72,510	69,907
Borrowings Outstanding, After Swaps	58,015	57,874	57,697	47,779	45,036
Equity	19,794	20,960	20,674	19,444	20,353
Income Statement Data					
Loan Income, After Swaps	\$ 1,742	\$ 1,830	\$ 2,002	\$ 2,355	\$ 2,436
Investment Income (Loss)	108	624	831	(973)	487
Borrowing Expenses, After Swaps	462	550	951	1,764	2,135
Operating Income (Loss)	836	1,252	1,294	(972)	283
Ratio					
Total Equity ⁴ to Loans Ratio	31.3%	33.4%	34.2%	35.3%	40.2%

Fund for Special Operations

(In millions of U.S. dollars)

	2011	2010	2009	2008	2007
Operational Highlights					
Loans Approved	\$ 181	\$ 297	\$ 228	\$ 138	\$ 152
Gross Loan Disbursements	368	398	414	415	393
Loan Repayments	195	214	220	229	275
Balance Sheet Data					
Cash and Investments	\$ 1,212	\$ 1,413	\$ 1,410	\$ 1,355	\$ 1,565
Loans Outstanding, Net ⁵	4,162	4,004	4,317	4,101	3,966
Undisbursed Portion of Approved Loans	846	1,038	1,290	1,502	1,783
Total Assets	6,025	6,112	6,449	6,289	6,305
Fund Balance	5,429	5,346	5,907	5,786	5,878
Income Statement Data					
Loan Income	\$ 68	\$ 74	\$ 83	\$ 91	\$ 90
Technical Cooperation Expense	(9)	24	23	33	23
Debt Relief Expense	—	484	(3)	—	—
General Reserve Transfers	44	364	122	50	50
Net Income (Loss)	20	(792)	(14)	(72)	9

¹ Excludes guarantees issued under the Trade Finance Facilitation Program.

² In 2009, includes \$800 million of loan approvals cancelled during the year.

³ Loan disbursements are presented after swaps.

⁴ “Total Equity” is defined as paid-in capital stock, retained earnings, and the allowances for loan and guarantee losses, minus borrowing countries’ local currency cash balances, net receivable from members (but not net payable to members), and the cumulative effects of net fair value adjustments on non-trading portfolios.

⁵ In 2007 and 2008, net of allowance for debt relief.

Letter of Transmittal

As required by the By-Laws of the Inter-American Development Bank, the Board of Executive Directors hereby submits to the Board of Governors the Annual Report of the Bank for 2011. The Annual Report consists of a printed volume entitled “The Year in Review,” containing a review of the Bank’s operations in 2011 (loans, guarantees, and grants). The electronic version of the Annual Report at www.iadb.org/ar/2011 contains, in addition, the full set of the financial statements of the Bank’s resources.

February 28, 2012

On the cover: Guatemala—The human capital investment program Mi Familia Progresá (MiFaPro) aims at reducing child malnutrition and primary school drop-out rates in largely indigenous rural communities.



A Partner for Latin America and the Caribbean

Annual Report 2011 The Year in Review

The IDB Group is composed of the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

The IDB, the oldest and largest regional multilateral development bank, is the main source of multilateral financing for economic, social, and institutional development in Latin America and the Caribbean.

The IIC focuses on support for small and medium-sized businesses, while the MIF promotes private-sector growth through grants and investments.

By the end of 2011, the IDB had approved \$207 billion in loans and guarantees to finance projects with investments totaling over \$438 billion, as well as \$4.8 billion in grants and contingent-recovery technical cooperation financing.

The IDB obtains its own financial resources from its 48 member countries, borrowings on the financial markets and trust funds that it administers, and through cofinancing ventures. The IDB's debt rating is AAA, the highest available.

The IDB is headquartered in Washington, D.C. and has Country Offices in all 26 of its member countries in Latin America and the Caribbean, as well as in Paris and Tokyo.

MEMBER COUNTRIES

Argentina, Austria, Bahamas, Barbados, Belgium, Belize, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Croatia, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Germany, Guatemala, Guyana, Haiti, Honduras, Israel, Italy, Jamaica, Japan, Republic of Korea, Mexico, Netherlands, Nicaragua, Norway, Panama, Paraguay, Peru, Portugal, Slovenia, Spain, Suriname, Sweden, Switzerland, Trinidad and Tobago, United Kingdom, United States, Uruguay, Venezuela.

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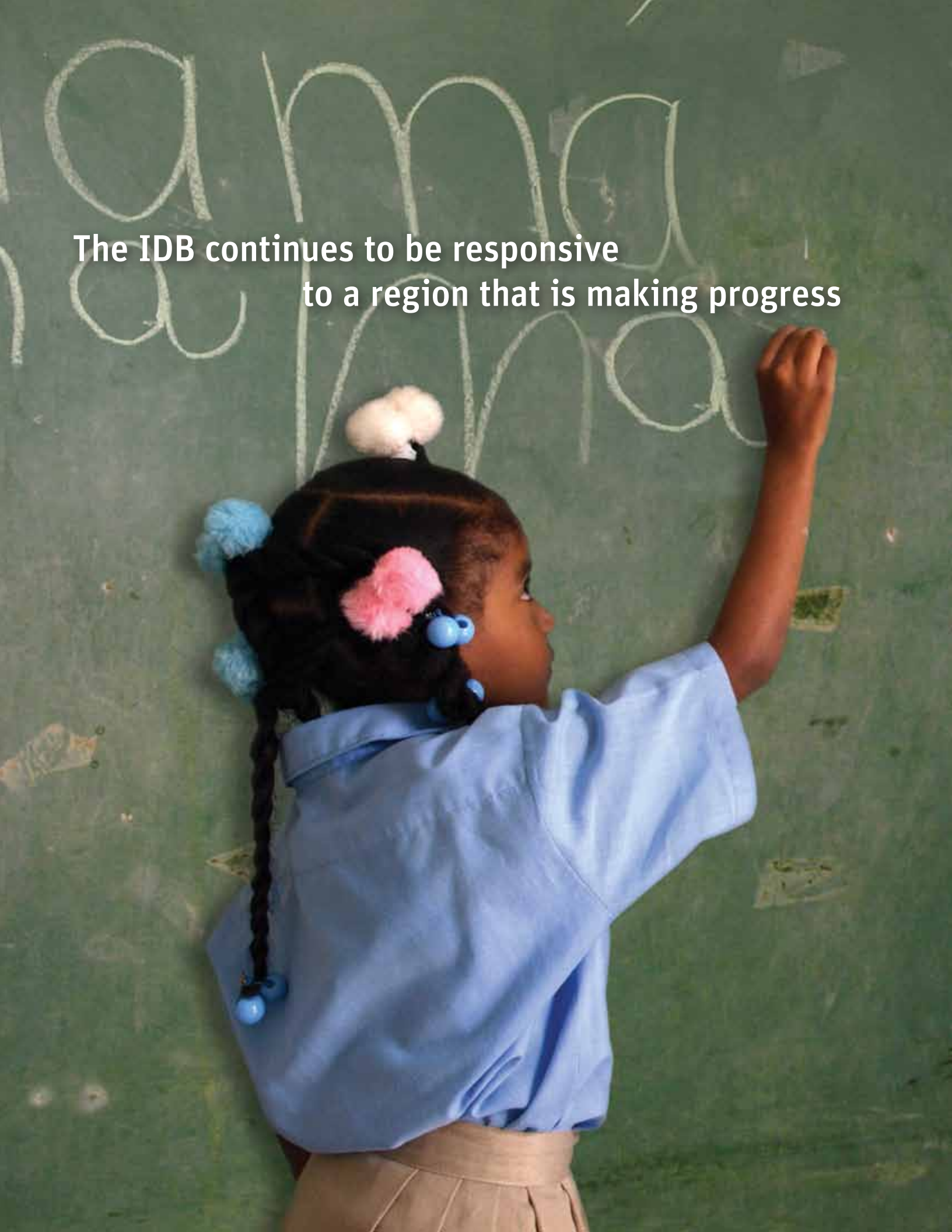
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Management's Discussion and Analysis: Ordinary Capital

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**The IDB continues to be responsive
to a region that is making progress**



Message from the President

Two thousand eleven was a year that stood out in many different ways. On the political front, in response to mass demonstrations demanding immediate democratic changes, we saw regimes fall that had held power for decades.

On the economic front, given the problems caused by high levels of indebtedness in several Mediterranean countries of Europe, we are facing the possibility of continued volatility.

On the social front, in the context of unyielding unemployment rates in the developed economies, we have seen millions of people in the streets peacefully expressing their disaffection.

In the midst of this complex situation, the region of Latin America and the Caribbean, as a whole, grew at a healthy rate of 4.3 percent in 2011 and now accounts for close to 9 percent of the world's economy. This progress has been accompanied by appreciable declines in unemployment and poverty levels.

In contrast with previous times, today we are described as a stable region where new opportunities arise each day for investment and productive undertakings. Other parts of the world want to learn more about our experiences, whether in transitioning to democracy, in managing public debt, or in designing and implementing innovative interventions in the social sectors.

The region is on the right path. We have stronger economies with solid foreign exchange positions, low levels of indebtedness, and a sound and well-regulated financial sector. We also have democratic governments that are increasingly effective in reducing structural poverty, expanding the coverage of public services, and building infrastructure.

This does not mean that we are immune from what is going on in the rest of the world. As in other parts of the globe we are now in a period of uncertainty, facing complex scenarios and dependent, in part, on Europe's ability to minimize the instability of financial markets. While there is room for optimism about the agreements in the eurozone, which should delimit fiscal imbalances and support the euro, it is also true that continued effort is needed to return to a path of growth and fiscal stability.

On this side of the Atlantic, too, it is hoped that the political difficulties affecting efforts to gradually reduce the public debt in the United States will be surmounted. A strengthened fiscal position will facilitate a return to faster growth and an accelerated reduction in unemployment.

China may also register a more moderate expansion than in recent years. Nevertheless, the main global trends continue to show a gradual shift of economic power toward the Pacific.

We are experiencing what may be the decade of Latin America and the Caribbean—a period of sustained and inclusive growth for the region. That said, there is much that remains to be done. There are risks that must be confronted, if the region is to build on its achievements and keep moving forward. Our worst enemy is complacency.

To think we can drop our guard and diminish our drive to reform would be an unforgiveable error. We continue to be the region with the worst income distribution indices in the world. There are 174 million people living in poverty, 73 million of whom are destitute, which means that one out of every seven of our fellow citizens cannot guarantee his or her own daily food security.

Correcting the social disparities that affect us is a challenge that will require concerted effort for a long time.

The Inter-American Development Bank needs to be responsive, technically and financially, to a region that is making progress. Continuing to be the leading development partner of Latin America and the Caribbean at the region's intersection with the world requires an ongoing commitment to relevant, efficient, and effective interventions.

During 2011, we made significant headway in implementing the Ninth General Capital Increase. We are pleased to report that the Bank fulfilled all commitments slated for completion by the end of the year. The strategic and management framework driven by the capital increase is fully operational.

This required enormous commitment and dedication by the Board of Executive Directors and Management. The many days of work and deliberation have resulted in significant advances. Strategies were approved for the IDB-9 priority sectors, and guidelines established for their implementation. The Private Sector Development Strategy and business plan for non-sovereign guaranteed operations were approved. The methodology for conducting macroeconomic sustainability analyses was developed, including a procedure for incorporating them into the annual programming exercises. We revised and implemented the new Development Effectiveness Matrix, and strengthened our capacity to evaluate operations. Implementation of the income management model and results-based budgeting continued. In the area of governance, the Access to Information Policy came into force, the Bank's ethics, conduct, and grievance systems were revised, and the Human Capital Strategy was approved.

With these important transitional achievements in place, the Bank prudently managed the financing of operations consistent with the Long-term Financial Projections. As a result, we approved 167 projects for \$10.9 billion, including financing through the FSO and the IDB Grant Facility. The program included 142 investment projects for \$9.2 billion. Of these, 46 were non-sovereign guaranteed projects and guarantees for \$1.5 billion. Seven projects for \$241 million were approved through the grant facility for Haiti. The volume of project approvals was considerably higher than the average of \$6.1 billion for the period 2002-2006, and

approaches the \$11.9 billion achieved between 2007 and 2011. The Bank disbursed \$8.4 billion, \$175 million under the IDB Grant Facility. As a result, the net flow of operations to the region was positive at \$3.6 billion, with a cash flow of \$1.2 billion.

Looking ahead, and following the roadmap of the capital increase, the Bank faces an intensive work agenda in a complex global context.

The challenge of productivity is a key issue for the region. We are still encountering too many bottlenecks that act as a drag on private initiative and our prospects for progress.

In this regard, no area is more important than education. We are overcoming the challenge of coverage, particularly in primary and secondary education, but the crucial issue of quality remains pending. Graduating thousands of students will be of little avail if they do not have the skills to survive in an increasingly globalized world economy. Continued progress will require a commitment from governments, parents, and civil society. The effort should also be directed towards eliminating the gaps in a region where the poor receive a poor education, while the children of higher-income families receive higher-quality education, thereby perpetuating inequality.

We continue to lag far behind in infrastructure. Although investments in this sector have increased in recent years, they are still not enough to bring us up to par with other emerging economies. Apart from this, climate change has made it evident that we have cities, ports, bridges, and highways in particularly vulnerable locations, which compels us not just to adopt stricter standards, but also to do much more in terms of resources.

A great deal also needs to be done in science and technology. Regional spending on research and development is very low compared to other regions. Despite the fact that the model for government support has changed, we still need to understand that properly targeted investments in this field can bring very high returns.

In social policy, we must enhance our ability to innovate. Conditional cash transfer programs have been key to lifting millions out of poverty, but there is a limit to their effectiveness.



President Luis Alberto Moreno visits with a young beneficiary of Uruguay's Plan Ceibal, which uses technology to consolidate improvements in primary and secondary education as part of a national development strategy that emphasizes social inclusion.

We must look at areas such as the informal workforce and the creation of more and better jobs as ways of overcoming disparities. It is also time to think about the middle class that has grown so much in recent years, which must be nurtured and not slowed by excessive tax burdens. One lesson from Europe that we should take into account is that sustainable social security systems are imperative. Health care coverage needs to be increased and the quality of services improved, but the burden of financing should not rest exclusively on public budgets. As for pensions, individual savings systems are the best solution, applying, in the case of the very poor, principles of solidarity to ensure that our elders can age with dignity.

Efforts to combat violence, crime, and corruption must be redoubled. We also have much to do in promoting sustainable development, in light of climate change. Regardless of the difficulties in reaching global consensus, we can show the rest of the world that the people of Latin America and the Caribbean are capable of squarely addressing issues of citizen security, governance and sustainability.

Latin America and the Caribbean cannot remain complacent with the progress made in the past few years. Neither can the Bank. We are optimistic, but also realistic, and know that the road ahead will not be easy. In 2012, the IDB renews its commitment to work to ensure that the people of Latin America and the Caribbean attain, sooner rather than later, a much higher standard of living—the standard of living that they want, and that they deserve.

A stylized, handwritten signature in black ink, consisting of a large loop followed by a series of connected strokes.

Luis Alberto Moreno

President
Inter-American Development Bank

The Board of Executive Directors

The IDB shareholders—its 48 member countries—are represented by the Board of Governors, the highest decision-making authority of the Bank. The Governors delegate many of their powers to the Board of Executive Directors, whose 14 members they elect or appoint for three-year terms. Executive Directors for the United States and Canada represent their own countries; all others represent groups of countries. The Board of Executive Directors also includes 14 Alternates, who have full power to act when their principals are absent.

The Board of Executive Directors is responsible for day-to-day oversight of the Bank's operations. It establishes the institution's policies, approves projects, sets interest rates for Bank loans, authorizes borrowings in the capital market, and approves the institution's administrative budget. The work of the Board of Executive Directors is guided by the Regulations of the Board of Executive Directors and the Code of Ethics for Executive Directors. The agendas and minutes of the meetings of the Board of Executive Directors and its standing committees are public documents.



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Infrastructure improves the
quality of everyday life





I. The Bank in 2011

Projects: Approvals, Disbursements, Net Flows, and Active Portfolio

This was a year of transition, when the Bank managed the sources of financing for operations carefully and prudently consistent with the Long-term Financial Projections (LTFP), awaiting the successful and timely conclusion of the subscription process for the Ninth General Capital Increase (IDB-9).

Against that background, in 2011 the Bank approved a program of 167 projects with a total of \$10.9 billion in funding. This program included 142 investment projects for \$9.2 billion, 46 of them non-sovereign guaranteed operations and guarantees totaling \$1.5 billion, and seven operations totaling \$241 million approved under the IDB Grant Facility. In addition, 25 policy-based loans were approved for \$1.7 billion. Of that amount, \$1.6 billion was from the Ordinary Capital (OC), \$62 million from the Fund for Special Operations (FSO), and \$35 million from the IDB Grant Facility for Haiti.

On average, approvals have increased around 100 percent in the last five years, in relation to the results for the preceding five-year period, increasing from average annual approvals of \$6.1 billion for the period 2002-2006, to \$11.9 billion for the period 2007-2011. These results demonstrate the Bank's firm commitment to increase lending to the region.

By country group, 48 percent of all approved resources went to Group A countries, 12 percent to Group B, 14 percent to Group C, 21 percent to Group D, and regional projects accounted for the remaining five percent (See box this page for Country Groups.)

In 2011, the Bank remained a leading source of multilateral financing for Latin America and the Caribbean, particularly in terms of support to the Group C and D countries.

Approvals by sector. In 2011, 62 percent of approved financing was focused on infrastructure and environment sector programs, 29 percent on strengthening of institutional capacity and finance, 9 percent on social sector programs, and 1 percent on integration and trade sector programs. In terms of the number of projects, 43 percent of the new operations were approved for the infrastructure and environment sectors, 37 percent for institutional strengthening and finance, 13 percent for the social sectors, and 7 percent for integration and trade (Figure 1).

Disbursements. In 2011, the Bank disbursed a total of \$8.4 billion, of which \$175 million correspond to the IDB Grant Facility for Haiti. Although lower than the levels of 2009 and 2010, this figure maintained the rising trend in disbursements observed before the crisis.

Net cash flow. In 2011, the net loan flow to the region was positive at \$3.6 billion. In addition, the net cash flow to the region was positive at \$1.2 billion. The latter figure is based on the resources disbursed, less scheduled payments of principal (\$4.5 billion), prepayments (\$287 million), payments of interest and fees (\$2.3 billion), and \$147 million in conversions under the Local Currency

IDB Country Groups

The seven Group A and B countries are defined as those with relatively large economies, with GDP of more than \$127 billion. The 19 C and D countries are smaller, more vulnerable countries, with GDP of less than \$55 billion.

Group A

Argentina
Brazil
Mexico
Venezuela

Group B

Chile
Colombia
Peru

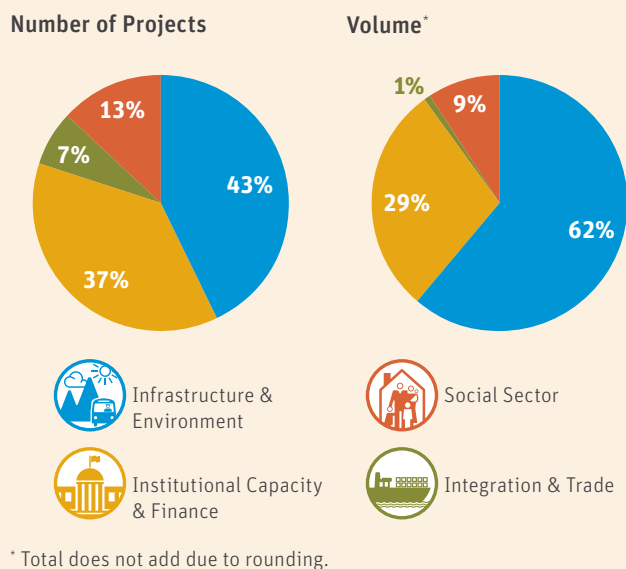
Group C

Barbados
Bahamas
Costa Rica
Jamaica
Panama
Suriname
Trinidad
& Tobago
Uruguay

Group D

Belize
Bolivia
Dominican Republic
Ecuador
El Salvador
Guatemala
Guyana
Haiti
Honduras
Nicaragua
Paraguay

Figure 1. 2011 Approvals by Sector



Facility. If disbursements for technical cooperation operations are included, the net inflow to the region was \$1.4 billion.

Active portfolio. At year-end 2011 the Bank's active portfolio of sovereign-guaranteed projects in execution comprised 591 operations with an undisbursed balance of \$22.6 billion. Of total undisbursed resources, 63 percent corresponded to the infrastructure and environment sector, 21 percent to institutional capacity and finance programs, and 16 percent to social sector programs.

In terms of performance, 64 percent of the active portfolio of sovereign-guaranteed (SG) projects were rated "satisfactory," 23 percent were on the watch list ("alert" status), and 13 percent were "problem projects." Projects classified as on "problem" or "alert" status were monitored throughout the year to identify and implement actions necessary to improve execution. The most common reasons for classifying a project in the "problem" category included: (a) delays in competitive bidding processes; (b) defects in project design; (c) optimistic projections for annual planning figures; (d) lack of clarity on Bank administrative processes or procedures on the part of the executing agency.

Over the course of the year, the Bank engaged in a sustained effort to support project execution. The most significant innovation in this regard was the mandatory deployment of the Project Risk Management methodology for sovereign guaranteed loans. A training program was designed and implemented for operational staff. In total, 751 staff members and consultants received training in 53 specialized clinics and 8 informational sessions, imparted between March and July.

As of July 2011, the application of the new procedures had become mandatory for all SG operations, grants to Haiti, and investment grants over \$3 million. The new procedures for identifying and managing project risks have been integrated with other existing Bank systems, such as the Progress Monitoring Report (PMR) and the supervision plan. As of 2012, the new risk information will enable Bank staff to focus greater effort and resources on projects with more risk.

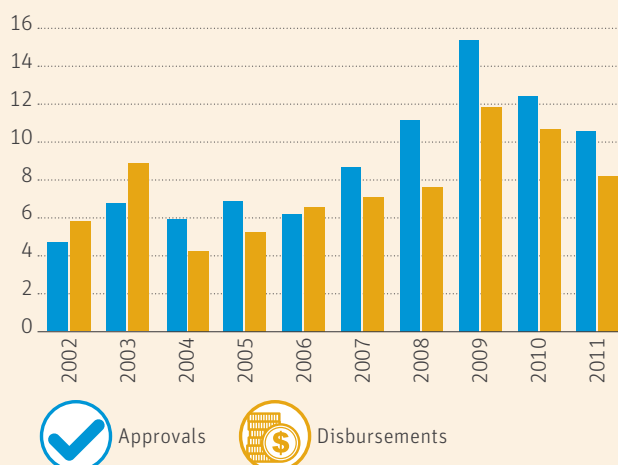
Additionally, in March 2011 the Bank instituted the first annual PMR review cycle. The Office of Strategic Planning and Development Effectiveness (SPD) reviewed 580 PMRs from sovereign guaranteed projects to enhance their content so as to improve the monitoring of operations. Also launched in 2011 was a new, easier to navigate version of the automated PMR system featuring faster response times, a portal with notices, and other functionality to gather and facilitate analysis of data. One of the new features is the ability to identify outcome and output indicators included in the IDB-9 Results Framework, which facilitates data aggregation to measure progress toward the targets set. Pursuant to the new Access to Information Policy, PMRs are posted to the Bank's website.

Introduction of the Flexible Financing Facility

In recent years, the Bank has been committed to developing and providing flexible market-based financial products to IDB borrowers to further enhance their asset-liability management strategies. In line with this strategy, in 2011 the Bank approved the Flexible Financing Facility (FFF) which took effect on January 1, 2012, and as of that date became the only financial product platform for approval of all new Ordinary Capital Sovereign Guaranteed loans.

Figure 2. Approvals and Disbursements 2002-2011

(In billions of U.S. dollars)





Uruguay—a \$28 million loan approved in 2011 seeks to improve rural productivity in quantity and quality, with particular attention to issues of climate change and sustainability.

Through built-in options in FFF loans, borrowers have the ability to tailor financial terms at approval or during the life of the loan, subject to market availability and operational considerations. The FFF platform enables 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 discontinued financial products; and, (iv) execute hedges with the Bank at a loan portfolio level.

A broad communication strategy was implemented to promote the FFF product. Internet-based and targeted marketing materials were developed to ensure staff and borrower awareness and understanding of the FFF, including: (i) the development of a new Internet portal to disseminate information on the FFF in three languages; (ii) the development of easy-to-download marketing brochures in three languages that can be accessed by borrowers and

staff alike, and (iii) development of operational procedures that borrowers can access to facilitate understanding of new features under the FFF and how to make use of them.

In addition, FFF implementation has drawn upon broad marketing efforts and a Bank wide resource mobilization strategy. Significant, targeted and effective dissemination and outreach efforts at all levels of the Bank have been key to reaching as many staff as possible within a short period and with maximum resource efficiency. In 2012, the Bank will raise awareness of the FFF with officials at the highest levels of government. To actively disseminate the FFF, the information will be communicated to all public debt offices in the region.

For additional information on financial aspects of the Bank's activities in 2011, see the Basic Financial Statements in Chapter V and the Management's Discussion and Analysis and Financial Statements on-line at <http://www.iadb.org/ar/2011/>.



Dominican Republic—Bank resources have provided life skills training and job placement support for more than 57,000 at-risk youth in the country. A 2011 loan is expected to benefit an additional 24,000, with a job insertion rate of 80 percent.

TABLE I. 2011 APPROVALS BY SECTOR GROUP¹

(In millions of U.S. dollars)

Sector	Number of Projects	Amount	%
Agriculture and rural development	11	\$ 565	5
Energy	22	1,585	15
Environmental protection and natural disasters	8	410	4
Tourism	3	115	1
Transportation	11	2,249	21
Water and sanitation	16	1,788	16
Subtotal Infrastructure & Environment	71	6,711	62
Capital markets	22	707	6
Industry	2	252	2
Microenterprises	2	52	0
Multisector credit and preinvestment	2	55	1
Private sector development	2	31	0
Reform / Modernization of the State	24	1,226	11
Urban development and housing	8	841	8
Subtotal Institutional Capacity & Finance	62	3,163	29
Integration and trade	13	94	1
Subtotal Integration & Trade	13	94	1
Education	5	465	4
Health	5	128	1
Science and technology	—	—	—
Social investment	11	350	3
Subtotal Social Sector	21	943	9
Total	167	\$ 10,911	

¹ Totals may not add due to rounding.

TABLE II. YEARLY (2011) AND CUMULATIVE (1961–2011) APPROVALS AND DISBURSEMENTS^{1,2}
(In millions of U.S. dollars)

Country	TOTAL COST OF PROJECTS				APPROVALS ⁴				DISBURSEMENTS			
	Total Amount		Total Amount		Total Amount		Ordinary Capital		Total Amount		Ordinary Capital	
	2011	1961–2011	2011	1961–2011	2011	1961–2011	1961–2011	1961–2011	2011	1961–2011	1961–2011	1961–2011
Argentina	\$ 1,682.7	\$ 57,129.3	\$ 1,312.7	\$ 31,434.1	\$ 30,740.0	\$ 644.9	\$ 49.2	\$ 49.2	\$ 1,268.5	\$ 27,265.7	\$ 26,571.6	\$ 49.2
Bahamas	131.0	920.5	131.0	622.4	620.4	—	2.0	2.0	57.0	477.3	475.3	—
Barbados	70.0	997.9	70.0	696.4	635.7	41.7	19.0	19.0	77.8	536.7	476.0	41.7
Belize	10.8	253.8	10.0	183.7	183.7	—	—	—	10.2	139.4	139.4	—
Bolivia	290.3	7,062.0	259.1	4,646.1	1,961.9	2,612.0	72.2	72.2	176.9	3,966.3	1,549.3	72.2
Brazil	4,656.5	117,877.2	2,188.0	42,004.6	40,314.4	1,555.9	134.3	134.3	757.8	35,418.6	33,728.4	134.3
Chile	96.1	15,325.8	91.8	6,472.2	6,221.1	206.3	44.8	44.8	50.8	6,172.4	5,921.3	206.3
Colombia	785.2	31,955.4	785.2	18,184.7	17,330.6	767.6	86.5	86.5	692.4	16,863.5	16,029.4	767.6
Costa Rica	187.8	6,292.3	132.4	3,642.1	3,133.7	371.2	137.2	137.2	174.2	2,920.0	2,411.6	137.2
Dominican Republic	608.9	6,374.1	464.8	4,668.9	3,826.5	753.4	89.0	89.0	354.5	4,069.1	3,226.7	753.4
Ecuador	609.5	11,054.2	568.8	6,837.3	5,744.5	998.1	94.7	94.7	452.2	5,705.2	4,619.5	991.0
El Salvador	274.3	6,500.6	263.1	4,562.9	3,609.9	806.2	146.8	146.8	203.8	4,137.7	3,184.8	806.1
Guatemala	55.5	6,072.6	50.3	4,450.5	3,651.3	729.5	69.7	69.7	219.0	3,849.8	3,072.0	708.1
Guyana	17.8	1,433.0	17.0	1,232.9	209.2	1,016.8	6.9	6.9	51.6	1,096.4	166.3	923.2
Haiti	—	1,774.4	241.0	2,018.3	—	1,154.3	864.0	864.0	174.8	1,537.7	—	1,154.3
Honduras	185.2	5,560.1	172.0	3,728.3	1,200.5	2,462.7	65.1	65.1	286.0	3,161.9	856.7	2,240.0
Jamaica	328.0	4,209.4	328.0	3,244.9	2,871.8	174.2	198.9	198.9	131.4	2,862.6	2,489.6	174.1
Mexico	3,009.7	63,266.2	1,638.3	30,093.4	29,376.9	559.0	157.5	157.5	1,567.5	27,178.0	26,531.5	559.0
Nicaragua	171.8	4,679.7	107.0	3,167.0	651.8	2,447.2	68.0	68.0	173.0	2,802.6	472.0	2,263.4
Panama	258.8	12,775.8	228.2	4,054.3	3,716.7	296.2	41.4	41.4	228.8	3,089.4	2,751.8	296.2
Paraguay	294.4	4,055.4	170.0	3,000.4	2,298.1	690.0	12.3	12.3	91.4	2,424.6	1,773.1	639.2
Peru	1,594.4	22,851.0	450.0	10,241.9	9,580.0	440.8	221.1	221.1	242.4	9,584.0	8,922.1	440.8
Suriname	80.0	411.3	80.0	292.5	286.1	6.4	—	—	82.8	221.0	216.2	4.8
Trinidad and Tobago	290.0	2,214.2	290.0	1,657.1	1,601.3	30.6	25.2	25.2	241.9	1,467.6	1,411.8	30.6
Uruguay	353.4	7,024.9	317.6	5,537.4	5,391.4	104.2	41.8	41.8	177.2	4,913.7	4,767.7	104.2
Venezuela	145.0	19,131.0	120.0	7,229.0	7,054.7	101.4	72.9	72.9	381.7	5,862.0	5,687.7	101.4
Regional	1,699.6	21,093.9	425.0	4,076.5	3,828.9	233.6	14.0	14.0	119.0	3,066.5	2,818.9	233.6
TOTAL	\$17,886.7	\$438,296.0	\$10,911.3	\$207,979.8	\$186,041.1	\$19,204.2	\$2,734.5	\$2,734.5	\$8,444.6	\$180,789.7	\$160,270.7	\$18,355.8
												\$2,163.2

¹ Cumulative amounts are after cancellations and exchange adjustments. Totals may not add up due to rounding.

² Detail includes non-sovereign-guaranteed loans, net of participations, and guaranties, as applicable.

³ Includes loans and financings of the IDB Grant Facility.

⁴ Excludes lines of credit approved and guaranties issued under the Trade Finance Facilitation Program.

Private Sector and Non-Sovereign Guaranteed Operations

In 2011, the Bank approved 46 Non-Sovereign Guaranteed (NSG) operations for a total amount of \$1.5 billion, including eight loans for \$41.8 million under the Trade Finance Facilitation Program (TFFP). In addition, 15 new lines of financing were approved under the TFFP program for \$235 million. Additionally, the Inter-American Investment Corporation (IIC) approved a total of 71 projects for \$464.7 million.

In 2011, the **Structured and Corporate Financing Department (SCF)** articulated a new departmental vision that, in line with the IDB-9 priorities, focuses on three objectives for the next five years: improving the standards of living of 15 million people, supporting climate friendly investments of \$10 billion, and meeting the funding needs of 250,000 SMEs. SCF has since created a strategy framework that translates into priority action areas necessary to fulfill this vision.

SCF aggregate approvals in 2011 totaled 35 projects (loans and guarantees) amounting to \$1.4 billion, of which 36 percent were in Group C and D countries. Disbursements to year-end 2011 totaled \$597 million. Project approvals only translate into impact if they achieve financial closing. In 2011, SCF successfully closed 20 transactions for \$565 million in A loans, and \$397 million in B loans.

Under the Trade Finance Facilitation Program (TFFP), the Bank approved eight A loans amounting to \$41.8 million, and 15 new uncommitted credit lines and increases amounting to \$235 million. Under the same program, the Bank disbursed \$46.9 million in loans and issued \$621.2 million in guarantees.

The **Inter-American Investment Corporation (IIC)** approved 71 projects for a total of \$465 million, well above the projected amount of approvals for the year. In addition, the IIC disbursed \$400 million in loan and equity investments for 2011. This amount exceeded the projected disbursement target of \$350 million for the year. Furthermore, the IIC mobilized an additional \$463 million in B loan and equity disbursements.

Interest in the FINPYME Technical Assistance program was strong, with participation by more than 1,200 beneficiary firms, primarily in the ExportPlus program. FINPYME also conducted nearly 400 diagnostics of SMEs to help them improve their financial and organizational management.

The work of the **Multilateral Investment Fund (MIF)** in 2011 was focused on three main areas: Access to Finance, Access to Markets, and Access to Basic Services. The MIF increasingly sought ways to target the poor and to measure the impact of programs on final beneficiaries, either low-income households or small and medium-sized enterprises. In the

Nicaragua—through a \$40 million non-sovereign guaranteed loan to the company PENZA the IDB will help with development of what at the completion of the project will become a 72 MW geothermal power plant. The renewable geothermal resources will contribute to offsetting use of fossil fuel electricity sources and reduce carbon emissions.





El Salvador—The Market Solutions for Social Change Fund, an initiative of the Bank's Opportunities for the Majority sector, is helping the social enterprise VisionSpring provide eyeglasses to low-income people throughout the country.

Access to Markets area, the MIF carried out important initiatives to bring the poor into inclusive value chains.

During 2011, 74 projects were approved for a total of \$108.2 million—64 of the projects were technical cooperation grants, and ten combined investment operations and grants. MIF projects leveraged additional financial resources totaling over \$285 million. Nearly half of the projects and resources approved for national programs in 2011 benefited Group C and D countries (\$60.1 million, 58 percent of approved resources). At the end of 2011, the MIF had an active portfolio of 671 operations for an approved amount of \$710 million.

In 2011, seven projects were approved under the Social Entrepreneurship Program (SEP), with a total value of \$6.8 million, utilizing resources from the OC and the Spanish Fund for the Social Entrepreneurship Program. These projects combined long-term loans and technical cooperation components to improve the access of rural populations and small producers to financial services, health care, and value chain markets in coordination with private sector organizations and companies. Ninety percent of SEP resources were placed in C and D countries.

The **Opportunities for the Majority (OMJ)** initiative, focused on developing innovative market-based projects for low-income communities, has a total of 32 approved projects, with

commitments totaling \$190.2 million. In 2011, 11 projects were approved for a total of \$48.4 million—representing an approximate increase of 7 percent over the 2010 level of approvals. The new projects will benefit 15 countries. In order to increase the impact of its operations, OMJ, in coordination with the Syndications Unit of the Structured and Corporate Financing Department, raised \$6.5 million in B loans for its projects in 2011.

Grant Financing Operations

In July, after a thorough review of the Bank's Strategy for Knowledge and Capacity Building, the Working Group that in late 2010 had been assigned the task of recommending policy changes released its final operational document, the Operational Guidelines for Technical Cooperation Products. These guidelines provide an innovative approach to technical cooperation processing that is built around six concepts: (i) product taxonomy; (ii) strategic financing; (iii) programming; (iv) preparation, processing and approval; (v) execution; and (vi) monitoring and evaluation.

The new guidelines establish three categories of technical cooperation: (i) Operational Support, or those projects that contribute to the preparation, execution or evaluation of a loan or guarantee; (ii) Client Support, or those projects that are not

linked to a financial product, but are requested by a borrowing member country or a private sector client; and (iii) Research and Dissemination, or knowledge products and dissemination activities that originate in the Bank.

Grant financing approvals, including investment grants, reached a total of \$404 million in 2011. This reflects a reduction of 27 percent compared to 2010. This result is mainly due to the reduced availability of resources especially those from the Spanish Cooperation Fund for Water and Sanitation. If operations for technical assistance alone were considered, the level of approvals would be similar to previous years. In 2011, the average size of operations remained at approximately \$500,000 (excluding investment grant operations).

Disbursements of grants in 2011 amounted to \$238 million, 42 percent more than in 2010. In general, the quality of the grant financing portfolio has improved, as evidenced by a 15 percent decrease in operations with execution issues. At the end of 2011, the grant financing portfolio had 1,538 operations for an approved amount of \$1.6 billion, of which 30 percent had been disbursed.

In 2011, three new Special Programs/Grants were approved: *the Social Entrepreneurship Fund (SEF)*, *the CT/Intra Program*, and *the Small and Vulnerable Countries Program* with two windows; the Action Plan for C and D countries and Eligible FSO Countries.

Likewise, the Food Price Crises Fund was extended, and its scope modified from attending existing crises to preventing future crises, and its name was subsequently changed to the Food Security Fund. Progress was also made in 2011 on the preparation of two additional Special Programs/Grants and parallel multidonor funds: (i) Sustainable Emerging Cities and (ii) Citizen Security and Crime Prevention. Of these, the Emerging and Sustainable Cities Multidonor Fund was approved with a \$1.3 million contribution from Austria.

With respect to donor trust funds, the AusAID-MIF Partnership Trust Fund for the Reduction of Poverty in Latin America (AUS), the first donor trust fund from the Government of Australia, was approved in 2011. This fund will cofinance MIF operations that promote access to financial services, markets and basic services, and has received its first contribution of A\$5 million. The Government of Australia has pledged A\$5 million in additional contributions over the next three years.

The IDB also approved the proposal to create the multi-donor Regional Infrastructure Integration Fund (FIRII+), which will

accompany the existing FIRII Special Program/Grant from OC by adding a donor window. This Fund will complement FIRII's emphasis on the preparation of "hardware" projects (infrastructure investments) by financing "software" improvements to facilitate the advancement of regional trade logistics and supply chains. Mexico, Canada and the United States have each pledged contributions, and the fund is expected to reach \$20 million after contributions from all donors are taken into account.

The Bank also entered into two co-lending arrangements and one accreditation with the World Bank, whereby the IDB will act as an implementing agency of two funds. The first is the Strategic Climate Fund (SCF), which represents the second of the climate investment funds, complementing the Clean Technology Fund (CTF). The SCF serves as an overarching fund that will support targeted pilots with potential for scaled-up, transformational action aimed at specific climate change challenges. The second, the Guyana REDD+ Investment Fund (GRIF), with financing from Norway, will help borrowing member countries reduce greenhouse gas emissions resulting from deforestation. The IDB also gained accreditation for the Adaptation Fund (AF), which offers access to financing for the region's most vulnerable countries to address both current and anticipated climate change impacts. Partnership with the AF will lend continuity to the Bank's adaptation work and will address the increasing demand for adaptation-related initiatives throughout the region.

Cofinancing

To allow a higher capacity for financing by Donor Trust Funds and Special Programs/Grants from OC, the Bank has continued negotiating agreements with Donors for the cofinancing of specific projects. In 2011 the Bank reached a total of \$2 billion in parallel cofinancing, totaling 56 cofinancing contributions for 32 operations. In 2011 the Bank's major cofinanciers were the Japanese International Cooperation Agency (JICA), the Korean Import-Export Bank (K-EXIM), the European Investment Bank (EIB), the International Finance Corporation (IFC), Proparco, the World Bank, the Overseas Private Investment Corporation (OPIC), the Export-Import Bank of China, CIDA, KfW Bankengruppe, USAID, the European Commission, the *Caixa Econômica Federal* and FINNVERA of Finland.



Guyana—the Expansion of the Basic Nutrition Program focuses on preventing and treating anemia among pregnant women and children between six and 24 months, hospital certification and child-health interventions in 149 health posts.

TABLE III. GRANT FINANCING BY COUNTRY

(In thousands of U.S. dollars)

Country	2011	1961–2011
Argentina	\$ 1,334	\$ 90,405
Barbados	1,790	26,996
Bahamas	1,462	27,528
Belize	2,390	17,103
Bolivia	23,831	218,373
Brazil	4,799	258,335
Chile	7,041	40,437
Colombia	15,434	126,644
Costa Rica	7,048	98,148
Dominican Republic	2,975	108,288
Ecuador	6,201	135,050
El Salvador	9,431	109,074
Guatemala	15,002	164,529
Guyana	2,460	73,522
Haiti ¹	317,674	1,067,984
Honduras	33,093	151,514
Jamaica	7,542	60,341
Mexico	5,567	71,936
Nicaragua	11,652	122,489
Peru	5,531	145,241
Panama	8,209	96,138
Paraguay	66,657	231,309
Suriname	1,800	41,934
Trinidad and Tobago	4,222	27,740
Uruguay	3,267	58,426
Venezuela	2,308	16,329
Regional	76,290	1,186,900
Total	\$645,010	\$4,772,713

¹ Haiti figures include \$241 million in GRF approvals for 2011 and \$858 million cumulative between 1961 and 2011.

TABLE IV. COFINANCING IN 2011¹*(In millions of U.S. Dollars)*

Cofinancier	Amount
Accenture	\$ 0.25
Acción Social	0.03
Agencia Española de Cooperación Internacional para el Desarrollo (AECID)	0.21
Agronomes et Vétérinaires Sans Frontières	1.50
Andean Development Corporation	0.03
AusAID Australian Agency for International Development	1.60
Bank Im Bistum Essen eG (Germany)	3.00
Bank of Tokyo - Mitsubishi UFJ, LTD.	0.08
Barbados Tourism Authority	0.03
Blue Orchard Finance S.A.	0.03
Brightstar Corporation	0.10
Caixa Economica Federal	356.48
Camargo Correa	0.04
Canadian International Development Agency (CIDA)	31.28
Center for Development Enterprise (CDE)	0.22
Central American Bank for Economic Integration (CABEI)	9.03
CHTA/CAST	1.43
CITI Foundation	1.13
Clinton Bush Haiti Foundation	1.50
Coca Cola Company	0.25
CTO	0.60
Department for International Development, U.K. (DFID)	1.21
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)	0.20
Dutch International Guarantees for Housing Foundation	8.00
Ecopetrol S.A.	0.01
European Commission	101.87
European Investment Bank	53.57
Export-Import Bank of China	100.00
Fédération Internationale de Football Association (FIFA)	0.25
FINNVERA	900.00
First Citizens Bank Limited	1.00
Fundación Carolina	0.01
Fundación Femsa AC	5.00
Goldman Sachs Foundation	0.09
Hivos	0.50
INCOFIN	2.03
Instituto Unibanco	0.20
Intel Corporation	0.05
Inter-American Investment Corporation (IIC)	0.02
Inter-American Investment Corporation (IIC, using funds from the Korean-IIC SME trust fund)	0.50
International Finance Corporation	62.73

(continued on next page)

TABLE IV. COFINANCING IN 2011¹ (CONTINUED)*(In millions of U.S. Dollars)*

Cofinancier	Amount
Itaú Unibanco	0.17
Japan International Cooperation Agency (JICA)	12.30
KfW Bankengruppe	27.32
Korea Institute for Public Finance	1.36
Korea KSP	0.30
Korean Export-Import Bank (K-EXIM)	27.26
Le Groupe Savoie	0.02
MasterCard Foundation	4.00
Microsoft Corporation	0.07
Ministry of Energy, Jamaica	0.16
Ministry of Finance, Costa Rica	0.15
Ministry of Finance, Paraguay	0.15
Ministry of Finance, Republic of Korea	0.43
Ministry of Public Administration and Security, Republic of Korea	0.36
Ministry of Tourism, Bahamas	0.16
Netherlands Development Organisation (SNV)	0.50
Nordic Development Fund	2.89
Office of the Mayor of Cali	0.23
Office of the Prime Minister, Barbados	0.16
OikoCredit	6.00
OPEC Fund for Intl. Development (OFID)	20.00
Overseas Private Investment Corporation (OPIC)	55.00
PepsiCo International	0.56
Personas-Alered S.A.	0.82
Petrobas	0.06
PricewaterhouseCoopers	2.00
Proparco	37.70
Quebec Housing Corporation	0.01
Quebec Ministry of Economic Development	0.02
responsAbility	0.03
Save the Children	0.14
SEBRAE	0.06
Secretaria de Hacienda y Crédito Público, Mexico	0.12
Sumitomo Mitsui Banking Corporation	0.04
The Nature Conservancy	5.00
Trilogy International Partners LLC	0.15
United Nations Environmental Programme	0.22
USAID	125.50
VDK Spaarbank (Belgium)	3.00
World Bank	30.00
TOTAL COFINANCING IN 2011	\$2,010.48

¹ This list represents funds committed by donors in 2011 and funds received for Bank-sponsored fora. Includes parallel and joint cofinancing.

TABLE V. ACTIVE FUNDS IN ADMINISTRATION, 2011

Country/Institution	Name	2011 Cumulative contributions (US\$ millions equivalent)
Australia	Australian Partnership Trust Fund	5.3
Austria, Switzerland, Pepsico	Multidonor AquaFund	6.7
Austria	Opportunities for the Majority	1.2
Austria, Canada, and Norway	Multidonor Gender and Diversity Fund	7.2
Austria, Finland, Germany, Italy, Japan, United Kingdom, and Spain	Sustainable Energy and Climate Change Initiative Multidonor Trust Fund	27.9
Austria	Emerging and Sustainable Cities Multidonor Fund	1.3
Canada	IDB-Canada Trade Fund	4.7
Canada, Japan, Republic of Korea, and Spain	Multidonor Disaster Prevention Trust Fund	11.9
Canada, United Kingdom, and Switzerland	Aid for Trade	11.8
Chile	Chilean Trust Fund for Supporting Technological Innovation in Central America	0.8
China	Institutional Capacity Strengthening Thematic Fund	75.0
Denmark	Danish Trust Fund for Consulting Services	2.8
Finland, Spain	Knowledge Economy Fund	5.2
Finland	Finnish Technical Assistance Program	6.3
France	French Technical Cooperation Fund for Consultancy and Training Activities	19.4
Gates Foundation, Carlos Slim Institute and Spain	Mesoamerican Health Facility	64.5
Italy	Italian Trust Fund for Consulting Firms and Specialized Institutions	15.1
Italy	Italian Trust Fund for MIF Project Preparation	3.3
Italy	Italian Trust Fund for Microenterprise Development	7.4
Italy	Italian Trust Fund for Information and Communication Technology for Development	6.9
Italy	Italian Trust Fund for Regional Competitiveness	6.0
Japan	Japan Special Fund	250.3
Japan	Japanese Trust Fund for Consultancy Services	43.8
Korea, Republic of	Knowledge Partnership Fund for Technology and Innovation	50.0
Korea, Republic of	Korean Poverty Reduction Fund	47.5
Netherlands	IDB-Netherlands Water Partnership Program (INWAP)	10.0
Norway	Anticorruption Activities Fund	4.9
Norway	Norwegian Trust Fund for Consulting Services	0.9
Portugal	Portuguese Technical Cooperation Fund	3.9
Regional	Indigenous Peoples' Fund	21.1
Regional	Regional Fund for Agricultural Technology (FONTAGRO)	81.8
Regional	Donor Resources for Haiti (DHR)	8.2
Spain	Spanish Cooperation Fund for Water and Sanitation	579.6
Spain	Spanish Trust Fund for the Social Entrepreneurship Program	10.0
Spain	Spanish General Cooperation Fund	53.3
Sweden	Swedish Trust Fund for Consulting Services	3.1
Switzerland	Swiss Technical Cooperation Fund for Consulting Services and Training Activities	5.7
World Bank (as trustee)	Haiti Reconstruction Fund (HRF)	36.5
World Bank (as trustee)	Clean Technology Fund (CTF)	175.9
World Bank (as trustee)	IDB/Global Environment Facility Trust Fund	99.5
World Bank (as trustee)	Strategic Climate Fund	3.9
World Bank (as trustee)	Guyana REDD+ Investment Fund	6.5
World Bank (as trustee)	Global Agriculture and Food Security Program Trust Fund	26.2

Knowledge Products

To promote the generation, application and dissemination of policy-relevant knowledge, improve the quality of loans and operations, increase the relevance of the Bank in the region, and contribute to the quality and depth of the country dialogue, 85 Economic and Sector Work products (ESW, formerly known as KCPs funded with administrative budget) and 38 Corporate Input Programs (CIPs) for \$23.4 million were developed for 2011. As an example, by the end of 2011, the Bank will have produced applicable knowledge for the region, among others, in the form of approximately 26 databases and datasets, more than 150 publications, 59 technical documents, 151 seminars, forums and policy dialogue events, and 15 capacity building activities, and other products.

The 2011 Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean program reflects the priority assigned to cross-sector responses for development challenges, and supports strategic dialogue with the countries and development of operations that deliver greater added value for our clients. The cross cutting nature of areas such as sustainable cities challenges the capacity of the Bank to effectively and efficiently respond to complex demands. A key element to undertake these cross-cutting areas successfully is greater collaboration among Divisions and Departments to develop comprehensive solutions.

During 2011, the Bank contributed to improve flows of relevant knowledge and capacity-building within the Bank and in the region. Learning programs coordinated by the Knowledge and Learning Department (KNL) for executing agencies and other strategic partners in the region, were developed and implemented in topics such as climate change, local economic development, education, labor markets and project management.

In relation to capacity-building for key regional stakeholders in the region, INDES has helped to leverage the Bank's readily available knowledge and expertise, to develop and deliver learning activities targeted at policy-makers and program executives. The pilot online courses that were developed last year reached full maturity during 2011, reaching audiences that traditionally have not had access to the Bank's knowledge products. By mid-November, 2,938 external participants from borrowing member countries (policy-makers in national and sub-national government, NGOs/foundations, international organizations, the private sector, and academic and research centers) participated in face-to-face and/or online learning courses and seminars organized by KNL.

In 2011, the Bank launched its Repository of Institutional Knowledge (BRIK) to enhance the accessibility and visibility of the Bank's knowledge products to internal and external audiences. To promote the effectiveness and sustainability of the Repository, KNL coordinated an inter-departmental effort to

Brazil—the MIF's Sustainable Livelihoods through Sustainable Agriculture (Terramiga) Program benefited more than 1,000 poor families in the southern part of the state of Bahia. The average incomes of tilapia farmers increased nine times.





Argentina—A tourism competitiveness program near Villa La Angostura included a component to mitigate the effects of ash from the eruption of the Puyehue volcano.

approve an updated and expanded policy for publication of knowledge products and a new policy for the governance of BRIK. In November 2011, BRIK contained a stock of approximately 5,000 knowledge products.

THEMATIC PLATFORMS

In line with the Institutional Strategy, the Bank has continued to develop integrated solutions to effectively address the growing need for intersectoral responses to the structural challenges faced by the countries of the region. Thus, progress has been made on development and implementation of the Sustainable Emerging Cities Platform, which will provide these cities with greater comprehensive technical support, better enabling them to build the capacity to promote environmental, urban, and fiscal sustainability.

A similar approach is being used to address crosscutting areas of work in the development of the Citizen Security Platform, which will support the countries in their efforts to strengthen public policy management by leveraging new technologies, de-

veloping violence prevention programs, and strengthening intraregional cooperation.

Progress has also been made on design of the platform to meet the challenges of technology and innovation, which will include support to accelerate broadband penetration and use as a means of contributing to improved competitiveness, productivity, and quality of life.

Work began on the formulation of the Food Security Platform, aimed at improving the coordination of activities related to agricultural productivity and rural development, and the Biodiversity Platform, which will focus on biodiversity loss, valuation of biodiversity goods and services, institutions and governance, and climate change.

The *Sustainable Emerging Cities Platform*, launched in March at the Bank's Annual Meeting in Calgary following approval by the Board of Executive Directors, is part of the Bank's commitment to sustainable development in the region. The Platform's aim is to further the development of the region's fastest-growing mid-sized cities, which are best positioned to

shape an urban environment that operates on principles of respect for the environment and environmental stewardship—while addressing climate-change challenges—as well as competitiveness, efficiency, and equity.

The Platform defines sustainability as an integrated concept encompassing environment and climate change, urban quality and citizen security, and fiscal sustainability and governance. The technical assistance delivered under this Platform helps to conduct greenhouse gas emission inventories and devise maps and strategies to address climate change vulnerabilities and produce diagnostic assessments of priority areas, using 60 indicators.

Prefeasibility studies are produced for specific programs or projects in areas where quick action will have a greater impact on a city's sustainability. Depending on the priorities of a particular city, the Bank also combines Platform assistance with its other programs such as citizen security or PRODEV programs, as well as with the MIF and others.

In 2011, work was done in four pilot cities, each representing a region: Goiânia, Brazil, in the Southern Cone; Trujillo, Peru, in the Andean region; Santa Ana, El Salvador, in Central America; and Port-of-Spain, Trinidad and Tobago, in the Caribbean. In Trujillo, the first pilot city, studies are already being commissioned on transportation, solid waste management, security and safety, and fiscal issues, with PRODEV support. In Port-of-Spain and Santa Ana, diagnostic assessments have been produced, and work to devise solutions is proceeding with prefeasibility studies to be conducted in the areas of water, transportation, security and safety, and land-use planning. The highest-impact areas identified in Santa Ana are planning, citizen security, and climate change vulnerability; PRODEV is ready to support these actions. A rollout phase has been developed, to build on the gains achieved in the pilot stage. A proposal will be submitted to the Bank's Board of Executive Directors in the first quarter of 2012 to create a Special Program and a Multidonor Fund to finance support to one city in each of the Bank's borrowing member countries, that is, 22 additional cities in a four-year period.

To address the IDB-9 mandate and the mounting demand for technical and financial assistance around public safety issues, the Bank recast its strategic approach in this sector, resting on three pillars: (i) renewal of the conceptual framework for operational work around violence prevention; (ii) development of an

applied knowledge strategy to add value for clients, and (iii) design and launch of a citizen security and peaceful coexistence initiative as a catalyst for more effective reforms.

With this renewed work focus in the sector the Bank will encourage the adoption of more effective citizen security policies that are more likely to be successful. Towards that end, in 2011 the Bank worked to develop the ***Hemispheric Initiative on Citizen Security and Peaceful Coexistence*** that will complement its operational work in the sector. Through grant support, this initiative will provide countries in the region with the foundations for policy design and development, targeting three areas: (i) information on crime and its risk factors, to enhance policy analysis, monitoring, and assessment; (ii) management tools for cities and countries so that their policies are more likely to be effective; and (iii) creation of a hemispheric platform for cooperation, to optimize the efficiency and scope of the assistance offered by countries in both operations and knowledge. Cooperation agreements signed between the Bank, Mexico, and Colombia constitute the first phase of this Platform.

In the new digital economy, increasing the penetration and use of broadband services has become an essential part of economic and social development. Since every 10 percent increase in the broadband penetration rate in a developing country raises its GDP by 1.38 percent, and businesses that make more intensive use of information technologies can double their exports and boost their productivity, activities continued throughout 2011 to accelerate broadband penetration and use among different societal actors (individuals, businesses, and government).

The main pillars of the ***Broadband Platform*** were identified, including public policy development, review and/or development of regulatory strategies, telecommunications infrastructure requirements to achieve affordable universal access to these services, and generation of crosscutting applications and services and capacity building. Effective work around these pillars will enable a qualitative and quantitative change in how the region does business and how members of society interact.

Regional dialogues were conducted to identify cross-cutting projects in the Caribbean region, in Central America, and in the Southern Cone where the ICT industry generally, and the telecommunications sector in particular, will drive economic and social development.

A young boy with dark hair, wearing an orange and white striped shirt and blue shorts, is smiling as he washes his hands under water flowing from a public tap. He is wearing red sandals with a Spider-Man design. The background shows a brick wall, green foliage, and a red bucket.

**Access to basic services yields
immediate and lasting results**



II. Implementation of the Ninth General Increase in Resources

Throughout 2011, the Bank focused on implementing the mandates agreed by Governors as part of the *Report on the Ninth General Increase in Resources of the IDB* (IDB-9). IDB-9 has established the strategic direction for the Bank for the years to come, and provides the accountability framework under which the institution's performance is being measured beginning in 2012. IDB-9 entered into effect for the Fund for Special Operations in 2011, and becomes effective for the Ordinary Capital in 2012. During 2011, meanwhile, the foundation was put in place to ensure that the additional financial capacity of the Bank will be used effectively.

The Bank's Institutional Strategy under IDB-9 is framed by the challenges that will be at the cornerstone of development in the Region: reduce poverty and inequality, and achieve sustainable growth. To reduce poverty and inequality, the Bank will need to expand from traditional social programs that aim to redistribute income, to ones that tackle the inequities in access to services and productive employment in the Region; this expansion will be essential to address the structural causes of poverty. Sustainable growth must balance the broadening of the Region's economic base with the challenges posed by climate change and the demand for sustainable sources of energy. Efforts to meet these two challenges are at the center of the Bank's sector priorities for the coming years. In 2011, the Bank focused on ensuring that the strategic framework for each sector priority was in place. The Board of Executive Directors approved strategy documents corresponding to the Institutional Strategy's priorities, in the sectors of: *Social policy for equity and productivity*, *Institutions for growth and social welfare*, *Regional integration*, and *Climate change and sustainable and renewable energy*. Progress achieved in Bank operations and programs under the headings of the four approved strategies, is described in chapter III, below.

IDB-9 also focuses on two strategic goals that build on the Bank's comparative advantages and mission: to address the special needs of the small and vulnerable countries, and to promote development through the private sector. The needs of small and vulnerable countries require that the Bank be able to provide effective solutions to the most pressing development challenges facing the Region. These countries need the Bank to provide support that is country-focused and effective. Promoting development through the private sector requires integrating non-sovereign lending fully into the Bank's strategic framework, recognizing the role of the private sector in generating robust growth and creating jobs, both of which are elements needed to address poverty and inequality effectively. An integrated Private Sector Development Strategy and the NSG Business Plan for 2012-2015 were approved in 2011.

The Bank continued to strengthen its program with Haiti, with Governors approving in March of 2011 the first transfer of \$200 million in OC resources to the IDB Grant Facility (see box at the end of this chapter on Special Support for Haiti).

The Bank has been actively engaged in delivering on the commitments set forth by the Governors in the IDB-9 Report's Better Bank Agenda. During 2011, the Bank began the implementation of the new Access to Information Policy, continued the implementation of the Results-Based Budget (RBB) Methodology for the 2012 budget, and issued its second Long-term Financial Plan.

During 2011, the major focus in RBB was on promoting a change in culture to results, fostering planning and monitoring, and improving the quality of data and access to information for informed decision-making.

See the Bank's 2012 Program and Budget at www.iadb.org/budget/2012.

In 2011, a new Development Effectiveness Matrix was implemented, and as of January 1, an evaluability threshold for all Bank operations has been in place. The second Development Effectiveness Overview (DEO), which included both reporting

on accountability and learning from the Bank's work, was presented at the Board of Governors meeting in Calgary in March of 2011. The Board of Directors approved the methodology for preparation of the IDB-9 mandated Macroeconomic Sustainability Assessments (MSA) and by year-end, Management made substantial progress in preparing the first set of MSA. New Operational Guidelines for Technical Cooperation were approved in July to streamline the programming, approval and execution of these important products. A review of investment lending instruments was also completed, leading to rationalization of the Bank's instrument menu.

Jamaica—a technical assistance project to improve the livelihoods of the families of fishermen in the village of Portmore Causeway will focus on access to markets and credit, with an emphasis on the role of women along the value chain.





Special Support to Haiti

In keeping with the commitment to provide resources to Haiti annually through the IDB Grant Facility, the Board of Governors approved at the Annual Meeting in Calgary a transfer of \$200 million from Ordinary Capital to the Grant Facility for 2011. In addition to this financial support, the Bank continued to provide substantial technical and human support to Haiti.

During the year, in the context of the political changes associated with forming a new government, the Bank maintained constant dialogue with Haitian authorities, placing special emphasis on operational continuity. Within this context, the Bank's Country Strategy 2011-2015 was approved, targeting six sectors with major potential to substantially and sustainably transform Haiti's economy and society: education, private sector development, energy, agriculture, transportation, and water and sanitation.

In 2011, seven projects financed with resources from the IDB Grant Facility were approved, for \$241 million. Cofinancing was also obtained for five new operations, as well as the two existing programs, totaling over \$67 million. The Bank strengthened execution capacity, both internally and in the executing agencies, which pushed disbursements to a level of \$175 million for projects under the IDB Grant Facility. The average level of disbursements for the five-year period 2007-2011 was three times the average level of the preceding five-year period (2002-2006). This lays the foundation for reaching the target of disbursing \$230 million beginning in 2012. This disbursement target represents a major challenge in terms of accountability, transparency, and monitoring.

Operations. The post-earthquake situation elicited unprecedented collaboration between the different stakeholders operating in the country, and it was possible to align programs with the principle of "Rebuild Better" under government leadership. In 2011, the Bank consolidated its position as the largest donor in Haiti, with grant approvals representing approximately 2 percent of GDP.

Construction of the Northern Industrial Park in Caracol began with strict adherence to environmental and social controls (including a detailed and in-depth plan to compensate people affected by

the project). This project of the Haitian government and its main partners—the United States government, the European Commission, and the Bank—consists in constructing the basic infrastructure needed to facilitate the establishment of large manufacturing firms which, in recent years, have shown interest in investing in Haiti and taking advantage of the logistical and commercial opportunities it offers. The main private partner in the project is SAE-A—a leading enterprise in the Republic of Korea, which will invest \$78 million and eventually hire some 20,000 local workers.

The first pillar of the innovative Productive Haiti program, Business Development Services, was approved; and the first call for SME business proposals has been launched. This will enable Haitian SMEs to improve their management capacity and gain easier access to credit, taking advantage of the new business opportunities that are emerging in the country's recovery process. To complement Productive Haiti, the Partial Credit Guarantees Fund received a disbursement of \$10 million, which will allow it to extend guarantees to a first group of firms whose operations have been approved. In addition, the Haiti Social Investment Fund was set up between the Government of Spain and the Inter-American Investment Corporation (IIC) with assets totaling €51 million. This fund will operate for 12 years to provide financing for SMEs by increasing the availability of loans and reducing borrowing costs by offering preferential interest rates. In November the Bank organized the Second Investment Forum in Port-au-Prince, in conjunction with the Haitian government and the Clinton Foundation, bringing together over 1,000 entrepreneurs in an unprecedented show of private sector interest in the country's economic potential.

Under the education reform framework defined by the Haitian government, approximately 35,000 children were enrolled in primary school free of charge through the Bank-supported subsidy program. This was complemented with the selection of sites for new schools, the development of technical studies, and the process of rebuilding the first 30 beneficiary schools.

**Social inclusion is a key
component of development**





III. Sector Priorities

Social Policy for Equity and Productivity

The Bank approved its Strategy on Social Policy for Equity and Productivity (“Social Strategy”) in March 2011 in response to one of the five institutional priorities contained in the IDB’s Report on the Ninth General Capital Increase (IDB-9).

In 2011, the Bank approved 21 projects totaling \$943 million in the social sectors. Of these operations, 17 support C and D countries, contributing to one of the key priorities of IDB-9. In terms of sectoral composition, 48 percent of the volume of this lending supports education programs, and 14 percent supports health sector programs.

In 2011, significant progress has been made in implementing the Social Strategy action plan, notably in the area of generation and dissemination of knowledge. Actions carried out included the following: (i) a high-level event to launch the action plan to implement the Operational Policy on Gender Equality, (ii) the eighth conference on employment and development in the region (along with the World Bank and Germany’s Institute for the Study of Labor), (iii) the publication of the book *Skills that Matter*, (iv) the seminar “Alternative Routes in Teaching,” (v) the technical note *Caring and Labor Force Participation in Mexico*, (vi) the development of databases for health management and prevention of chronic diseases for Paraguay and Ecuador, (vii) the completion of the first stage in the preparation of databases on early childhood development for 20 countries in the region, and (viii) the workshop “The Next Generation. A Strategic Agenda for Youth Development.”

The Bank’s support for special initiatives in the social sector included the preparation of the assessment and request for extension of the Special Program for Employment Promotion, Poverty Reduction and Social Development in Support of the Millennium Development Goals (the “Social Fund,” SOF), originally created in 2007, for an additional four years, and the development, together with the Institutional Capacity and Finance Sector, of the new Special Program for Citizen Security and Crime Prevention.

In 2011, Management prepared and approved the Gender Action Plan (GAP), which will facilitate implementation of the Operational Policy on Gender Equality in Development, which was approved by the Board of Executive Directors in 2010, to mainstream gender issues in Bank operations. To measure results, mechanisms to monitor the Gender Policy indicators have been created, starting with the inclusion of gender “additionality” in the Development Effectiveness Matrix (DEM) for projects; the DEM now records whether the Bank’s involvement adds value to a project’s development impact through its contribution to gender equality. Within the framework of the GAP, IDB divisions, departments, and country offices have committed to over 130 specific actions, most of them related to mainstreaming gender in operations.

Infrastructure for Competitiveness and Social Welfare

In the area of **transport** the Bank developed a broad and diverse program of operations to respond to client needs. In 2011, 11 projects in the sector were approved for a total of \$2.2 billion. The approvals continued the trend begun in 2010 of developing a more balanced operational portfolio that includes a significant share of sustainable transport operations and operations that support regional integration. Also in 2011, 19 technical cooperation projects were approved totaling \$10.4 million. In addition, the Bank continued its efforts in knowledge development in three areas—road safety, freight logistics, sustainable transport—and added a new one, large-scale projects. The work in these fields is considered key to the future development of the transport sector in the Region, and involves areas in which the Bank offers a high degree of value-added.

In the area of **energy**, the Bank approved 22 projects (in Barbados, Bolivia, the Dominican Republic, Ecuador, Haiti, Jamaica, Nicaragua, Peru, and Venezuela) for a total of \$1.6 billion. These operations focus on sustainable energy and the development of unconventional renewable sources by supporting sectoral policies (Barbados, El Salvador, Haiti, Peru, and the Dominican Republic), access to electricity services (Ecuador and Nicaragua), energy efficiency (Barbados and Jamaica), and the rehabilitation of hydroelectric capacity (Haiti), allowing countries to utilize clean energy sources to meet growing electricity demand.

In the area of **water and sanitation**, 16 projects were approved for a total of \$1.8 billion. Notable among them were a water and sanitation program for rural areas in Mexico for \$250 million, a project to expand water and sanitation coverage in the metropolitan area of Buenos Aires, Argentina, for \$200 million, and a water and sanitation program for rural areas in Venezuela for \$100 million. Five new investment grant projects in the sector were approved in 2011 for a total of \$111 million. Also approved during 2011 was the Caribbean Regional Fund for Wastewater Management for a total of \$6.6 million to benefit Barbados, Belize, Costa Rica, Jamaica, Guatemala, Guyana, Honduras, Panama, Suriname, and Trinidad and Tobago. In 2011, 19 technical cooperation projects were approved for \$10.5 million for project preparation, technical assistance to counterparts, and funding for pilot projects.

Institutions for Growth and Social Welfare

In March 2011, the Board approved the Strategy for Institutions for Growth and Social Welfare with the objective of improving the effectiveness of the Bank in strengthening the institutional basis for development in the Region. The pillars of the strategy include enhancing small and medium enterprise (SME) productivity and growth; institutions for innovation and technological development; public sector management and finance; providing access to financial services to the majority; reducing insecurity and violence; anti-corruption and transparency; and registries for social and economic growth.

As a complement to the Strategy's pillar to enhance SME productivity and growth, Management also approved the Small and Medium Enterprise Finance and Development Guidelines in March 2011. Under these guidelines, the pillars for action on SME include expanding access to finance for productive SMEs; improving the business climate and generating incentives for formalization; improving firm-level development programs and policies; and generating policy-relevant knowledge. The guidelines set specific recommendations on how to address these issues and contain, among other topics, a common reporting standard for the Bank.

On the credit demand side, during 2011 Bank programs sought to increase access of SMEs to programs that support entrepreneurship, innovation and application of new technologies, and the use of cluster and value chain approaches to firm development, originated in banks and other public sector financing institutions. On the supply side, activities focused on improving the legal underpinnings of credit operations such as regulations on guarantees and bankruptcy in four countries and financing in partnership with the national development banks of the Region. In order to make the IDB a leading partner on SME development topics, special emphasis was placed on expanding the Bank's knowledge base for the design and implementation of effective programs, such as experimental work in the field of psychometric screening to evaluate credit risk for entrepreneurs without credit histories—a project that was a winner of the G-20 SME Finance Challenge.

Approximately 8,500 SMEs received IDB funds to support innovation, the adoption of new technologies, improvement of business practices and the use of cluster and value chain approaches to firm development in 2011 and an additional 90,000 firms had access to credit financed with IDB programs. In partnership with Brazil's BNDES, the Bank supported the *Cartão BNDES* program, which focuses on providing credit for very small firms with an average loan size of \$20,000.

During 2011, throughout the Region, the Bank continued its support to strengthening public financial systems, including the modernization of tax administration and revenue systems. The support included the implementation of on-going technical cooperation and loan operations; and new lending programs in Argentina, Jamaica and Suriname.

The Bank's assistance to civil and identification registries seeks to strengthen universal birth registration and legal identity and to support targeted public policies reaching the "last 10 percent." After successfully implementing several smaller initiatives, the first major loan operation in this area in Ecuador began implementation in 2011. While the focus of the Ecuador loan is on increasing the number of documented citizens over 18 years old by approximately two million people, this project will also support registration of children under five. Through the Suriname population census project, it is estimated that the number of people who will be registered will increase by 3 percent or 15,000 persons since the last census.

During 2011, through its financial and non-financial support to member countries, the Bank made significant progress towards meeting its estimated output for 2015—a ratio of public expenditure managed at the decentralized levels to total public expenditure equal to at least 78 percent. Specific Bank financial products included a program in Mexico to support sub-national



Paraguay—In 2011, the Bank organized a workshop jointly with the Registro de Estado Civil on “The Right to Identity,” focusing on techniques to ensure “identity management,” beginning with birth registries.

governments to increase revenue and expand and improve expenditures through budgeting for results; a program in Bolivia to assist in the design of a legal framework to strengthen sub-national income, improve expenditures and ensure fiscal sustainability; an investment program in Panama to finance the modernization of tax administration—updating tax processes, infrastructure and compliance mechanisms; a program in Guatemala to increase revenue and reduce municipal dependency on national transfers; and a program in Brazil to support sub-national governments to improve their public financial systems (budget, income and debt).

Non-financial products included various grants financed with resources of the PRODEV line for sub-national governments in Brazil, Colombia, Costa Rica, Ecuador, Mexico, Panama, and Peru, with the objective of improving the quality of public expenditure; and a training course benefiting more than 600 officials on “Territorial Economic Development Integrated Management” to strengthen fiscal management capacity of sub-national government officials to aid in the economic development of the territories. As described in Chapter I, 2011 saw the launch of the Hemispheric Initiative on Citizen Security and Peaceful Coexistence.

The Bank has a robust portfolio of financial programs that provide direct subsidies for social housing aimed at reducing poverty and improving equity in the region in several countries, including Argentina, Barbados, Bolivia, Brazil, Ecuador, Haiti, Mexico, Nicaragua, and Suriname. These programs have been

complemented with technical assistance, workshops, publications and analytical studies, including the Development in the Americas book on housing that provides alternative solutions, and expand the policy options and instruments to close the housing deficits (both in quantity and in quality) in the region.

Competitive Regional and Global Integration

During 2011, the Board of Executive Directors approved the Bank’s Sector Strategy to Support Competitive Global and Regional Integration. It provides the framework for reaching a 15 percent target of annual lending by the end of 2015, and to contribute to all dimensions of the regional development goals related to integration established in IDB-9.

The central tenet of the Strategy is that the Bank needs to act simultaneously on the *software* (policy and regulatory frameworks) and the *hardware* (physical integration) of integration, ensuring coherence between national and regional interventions. Focusing on the *software-hardware continuum* and strengthening the production of regional public goods will be crucial to retaining the historical comparative advantage of the IDB as the Region’s integration bank.

In the second half of the year, Management prepared an implementation plan, whose purpose is to map the road to 2015 by defining actions and resources to pursue the objectives defined in the Strategy, assigning responsibility, defining timeframes, and outlining how progress will be measured through a results framework.



Peru—The IDB’s Multilateral Investment Fund and the Opportunities for the Majority Sector have combined to support the “Grow my Business” program of Banco de la Microempresa S. A. (MiBanco), designed to provide access to finance and training for women microentrepreneurs throughout the country.

The implementation plan specifies the Bank-wide commitments and actions needed to operationalize the new strategic approach to support integration. The plan summarizes actions, responsibilities, sources of funding and implementation starting dates. It covers the following areas: a) *non-financial instruments*, including the support to regional strategic initiatives, the production of applied research on integration, the organization of policy dialogues and private sector forums, the development of capacity-building and exchange of best practices programs, and strengthening the programming process of integration operations, particularly in the context of IIRSA, *Plan Mesoamerica* and similar undertakings in the Caribbean; and b) *financial instruments*, including grants that will be used to incentivize and build capacity to execute cross-border integration programs; and *loans* that will be designed and executed in a more focused manner at the national level to serve integration objectives.

During 2011, the Bank undertook actions consistent with the implementation plan across all segments of the agenda. Highlights included:

- support to the annual Regional Finance Ministers meeting and to other similar initiatives at the regional and sub-regional levels;
- the mainstreaming of integration topics in the Bank’s regional policy dialogues, particularly in the areas of trade, integration and infrastructure;

- the preparation of a flagship report on trade integration and internal transport costs in the Region;
- the development of a comprehensive program of capacity-building and exchange of best practices;
- the creation of a multi-donor Regional Infrastructure Integration Fund (RIIF) with contributions by borrowing and non-borrowing members; and
- the engagement of the Bank in important integration initiatives such as IIRSA and the *Corredor de Integración Mesoamericano*.

Environment, Climate Change and Food Security

In March 2011, the IDB Board of Directors approved the Integrated Strategy for Climate Change Adaptation and Mitigation, and for Sustainable and Renewable Energy (CCS), which will guide the Bank’s response to regional demands for action in this area. Leveraging the IDB’s institutional strengths and its unique advantages, the CCS promotes the development and use of a range of public and private sector financial and nonfinancial instruments to strengthen the institutional, technical, and financial capacity of the IDB and its regional members to address climate change challenges.

The CCS makes a case for investing along five strategic lines: knowledge generation, capacity building, mainstreaming within the Bank, increased lending and technical cooperation, and

leveraging of external resources for mitigation and adaptation operations. The CCS also calls for a strong mobilization of Bank resources and for a major effort to expand access to international climate finance and partnerships including: the Green Climate Fund, the Global Environment Facility, the Adaptation Fund, the Forest-Carbon Partnership Facility, and the Climate Investment Funds, as well as available bilateral fast-track financing.

In the area of **environment, rural development, tourism, and disaster risk management**, 22 projects were approved totaling \$1.1 billion including: (i) eleven projects in agriculture and rural development for \$565 million, and (ii) three projects for sustainable tourism (Argentina, the Dominican Republic, and Uruguay) for \$115 million. Also during the year, the Bank approved 57 technical assistance projects for these sectors totaling \$28.7 million, including two operations financed by the Global Environment Fund (GEF).

In 2011, the IDB approved two projects (Peru and Trinidad and Tobago) for a total of \$105 million to support the development and implementation of public policies on climate change. The Bank also participated in a number of key international forums, including the Ibero-American Network of Climate Change Offices and the Asia-Pacific Economic Cooperation conference, the latter specifically addressed the development of low carbon strategies. Also, through the Regional Policy Dialogue, several Bank divisions worked together on sub-regional forums—for example, a meeting in July of seven Mesoamerican countries—to focus on operational responses to climate change by financial institutions, bilateral climate finance programs, and implementation of sub-national strategies on climate change. Water and adaptation issues were addressed with case studies on inter-Andean glaciers and water reservoirs in the Caribbean. The Bank published a manual and tools for energy efficiency for water companies. As regards carbon markets, the Carbon Finance platform was launched at the Carbon Expo in April, and a training manual was published on estimating opportunity costs related to REDD (reducing emissions from deforestation and soil degradation).

In 2009, the Bank engaged an Independent Advisory Group on Sustainability to assess the implementation of the Bank's Environment and Safeguards Compliance Policy. This group found that the policy is adequate overall, but that there were certain areas for improvement. On this basis, the Executive Vice-President convened the Sustainability Working Group, which in 2011 developed an Action Plan geared to mainstream environmental and sustainability aspects of the Bank's operations and to address sustainability considerations in the Bank's private sector operations in particular.

Private Sector Development

After multiple public consultations, including two presentations at the IDB Annual Meeting in Calgary, the Private Sector Development Strategy (PSDS) was approved by the IDB and IIC Boards of Executive Directors in June 2011. The PSDS capitalizes on the lessons learned over the last 15 years and emphasizes the synergies to be gained from a more integrated action between the public and private sector windows of the Bank. Following the IDB-9 mandate, it promotes an integrated approach of Private Sector Development (PSD) and Private Sector Operations (PSO) with the aim of maximizing development impact.

Following the approval of the PSDS, the NSG Business Plan was approved by the IDB and IIC Boards of Executive Directors in December 2011. The NSG Business Plan outlines the four strategic objectives for private sector and non-sovereign guaranteed (NSG) activities for the 2012-2014 period as well as describes the coordination of NSG activities among the windows of the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP) and the rest of the Bank. The NSG Business Plan also incorporates a Memorandum of Understanding (MOU) between the IDB and IIC, which pledges inter-institutional cooperation and coordination in private sector and NSG activities, plus joint financing efforts. The MOU also identifies areas for future collaborative efforts, including cross-marketing, knowledge dissemination and staff mobility across institutions.

Following the recommendations by the Office of Oversight and Evaluation expressed in "An Evaluation of the Bank's Non-Sovereign Operations with Sub-national Entities: 2007-2010," management is currently reviewing the operational guidelines for NSG lending to sub-nationals. A proposal for modification of the guidelines is expected to be submitted for consideration of the Board of Executive Directors in 2012.

As outlined under IDB-9, in order to diversify its instruments to support development through the private sector, advisory services will be established. The services will focus on core competencies that are consistent with the development nature of the Bank, may be provided under a fee-based scheme. To that end, during 2011, VPP coordinated a proposal related to the provision of "Client Support Services" that proposes to encompass both technical assistance and fee-based services and draws upon the Bank's comparative advantages while not crowding out such services provided by private sector companies. The "Client Support Services" platform, along with suggested pilot business lines, which may include public-private partnerships, Base of the Pyramid, local economic development, SMEs, and sustainability, is expected to be discussed at the IDB's Board of Executive Directors in 2012.



The work we do today creates
opportunities for the next generation



IV. Other Key Areas

Civil Society

Work with civil society organizations (CSOs) is a priority within the Bank's broad and inclusive dialogue with the countries of the region. In 2011, engagement with CSOs advanced at the regional and country level, and through initiatives undertaken by the Vice Presidency for Countries at headquarters.

Bank-civil society engagement at the regional level included a seminar on the role of civil society in building sustainable prosperity in the Region at the Bank's Board of Governor's Meeting in Calgary; a dialogue in Jamaica with the Civil Society Consulting Groups (ConSOCs) of seven Caribbean countries; and the Eleventh IDB-Civil Society Meeting in Paraguay, attended by more than 150 organizations from the 26 borrowing-member countries.

At the country level, there were more than 100 meetings with the ConSOCs, the main platform for dialogue, consultation, and information exchange between the Bank and CSOs. There are now more than 300 CSOs participating in the ConSOCs.

At headquarters there was ongoing engagement with CSOs as well, including a presentation of the Final Report of the Independent Advisory Group on Sustainability. The IDB continues to foster strategic partnerships with civil society organizations at the operational level. A call for proposals was launched with the Japan Fund for CSOs to submit poverty-alleviation projects to promote the development of the Region's most vulnerable communities, with almost 2,000 submissions.

In 2011, **IDB Youth** supported IDB operations related to sports and culture for development, employment generation, violence prevention and social inclusion. IDB Youth helped launch the second phase of the \$2.8 million Youth and Technology MIF/Microsoft Fund to promote the use of IT skills for labor insertion; and several sports for development programs including the Sports Alliance with the NBA; the FC Barcelona Foundation; the government of the City of Rio and the partnerships with the Korean Poverty Reduction Fund, FIFA, Coca-Cola and Street Football World.

The Agents of Change campaign with MTV, launched in Latin America and the Caribbean to highlight the contributions of young people to their communities, was expanded to MTV Tres, which represents an additional market reach of 37 million households in the US and the English-speaking Caribbean. Also with MTV in 2011, the Bank co-produced a new television program for young people (funded by a \$200,000 grant of the Korean Poverty Reduction Fund), filmed in Argentina, Chile, Mexico, and Colombia on youth-related topics including climate change, road safety, employment generation, violence prevention, and sexual health.

Finally, IDB Youth organized Youth Day, as part of the Annual Meeting in Calgary, with 500 participants and ten youth leaders selected from a pool of more than 1,800 applicants.

Development Effectiveness

The *Development Effectiveness Overview (DEO)* 2010 reported on aspects of the IDB-9 Results Framework for which information was available, including the report on the progress on regional development goals, certain outputs generated in the five strategy areas in 2010, and measures of operational effectiveness and efficiency. In 2011, work continued on improving information on outputs generated by Bank operations, particularly standardizing the units of measure reported for those outputs in the results framework. In March 2012, during the Annual Meeting of the Board of Governors in Montevideo, the Bank will launch MapAmericas, an initiative that aims to provide via new visual formats the results of the Bank's operations and programs.

See MapAmericas at www.iadb.org/mapamericas.

The year 2011 marked the implementation of a revised Development Effectiveness Matrix for sovereign guaranteed (SG) and NSG operations. In February of 2011, the Board of Executive Directors approved a proposal to update the Development Effectiveness Matrix taking into account the mandates of the Board of Governors in the IDB-9 report on the need for all projects considered by the Board to achieve a minimum evaluability score. The proposal was developed in cooperation with OVE, and defined standards, manuals, and processes for project teams to design evaluations.

The new process allows for project teams to address evaluability elements from the early stages of design. Accordingly, project evaluability is reviewed by the Office of Strategic Planning and Development Effectiveness (SPD) at three stages of the project approval process. First, at the Eligibility Review Meeting (ERM), SPD provides comments. Second, at the Quality and Risk Review (QRR) of the Proposal for Operation Development (POD), a preliminary DEM score is provided. Finally, a validation of the DEM post-QRR is sent to the Operations Policy Committee (OPC), where the review focuses on ensuring that QRR evaluability comments have been incorporated into the design.

The DEO 2010, published for the Bank's Annual Meeting in March of 2011, showed that the ex-ante evaluability of the Bank's projects has improved, and that a greater number of projects have rigorous impact evaluations. In 2011, all of the Bank's SG and NSG operations, as well as Country Strategies were rated for evaluability. The DEO, as mandated by the Governors, reported on the number of projects approved in 2010 with ERR calculations (85 percent of approved projects), and ex post impact evaluations for any projects evaluated in that year, including for NSG projects.

See the Development Effectiveness Overview 2011 at www.iadb.org/deo/2011.

In 2010, the Bank implemented the new Progress Monitoring Report (PMR). The PMR focused the Bank's reporting on project progress on the achievement of outputs and outcomes in time and within costs. The PMR for each sovereign-guaranteed loan in execution is made public on the Bank's website.

Between 2010 and 2011, the Bank worked to ensure that teams and counterparts have the capacity to design evaluable

Mexico—The IDB's Youth Development and Outreach Program ("IDB Youth") promotes the participation of the Region's youth in many aspects of social and economic development. A youth soccer team in Leona Vicario, Quintana Roo, inaugurates a soccer field that was rehabilitated through a Bank-sponsored community service event in 2010.



projects, monitor output and outcomes, and conduct evaluations. During this period, 70 percent of sector staff has been trained in impact evaluation; 83 percent of completed projects have some kind of ex post evaluation. SG projects with rigorous evaluation designs (counterfactuals) increased from 8 percent in 2008, to 11 percent in 2009, to 27 percent in 2010, and 32 percent in 2011.

Ethics and Integrity

At the direction of the Board of Executive Directors, the Bank hired the firm Global Compliance, Inc. (Global Compliance) to review the Bank's Ethics, Conduct and Employee Grievance Resolution systems. The review considered the structures and authorities currently in place at the Bank, and assessed these against best practices of comparators in the international community. As part of their review, Global Compliance conducted interviews with the various stakeholders (e.g., members of the Board of Executive Directors, Management officials, employees working with and using these systems, the current judges serving on the Bank's Administrative Tribunal, the President and Board members of the Bank's Staff Association), as well as officials from comparator organizations, to benefit from their experiences and distinct points of view. Additionally, Global Compliance conducted an online survey for all Bank employees, and held focus groups with the participation of employees in both Headquarters and Country Offices.

Overall, Global Compliance concluded that the Bank has a solid system for addressing allegations and employee misconduct, and that the Bank had taken a number of positive steps in the last several years in establishing an effective Ethics program and fostering an ethical culture, including: updating the Bank's Code of Ethics and Professional Conduct and the Bank's Whistleblowers and Witnesses Policy, creating an Ethics Office and providing ethics training to every member of the staff. The review also found that Bank employees view the IDB as an ethical place to work to a greater degree than employees of other organizations analyzed by Global Compliance.

In the study, areas that the Bank can further strengthen were also identified, ranging from reduction of the average time for resolving Administrative Tribunal cases, to introducing annual ethics training and improving the Code of Ethics.

The Global Compliance study also found that the combination of both formal and informal systems used by the Bank provides flexibility to resolve most employee grievances in a way that would be beneficial to both employees and Management.

During 2011, Management worked with the Board of Executive Directors on a comprehensive Action Plan to implement the recommendations of the Global Compliance report. It

is expected that these actions will further strengthen confidence in the Bank's commitment to the principles of ethics and integrity, the Bank's systems for addressing allegations of misconduct, protections for the rights of whistleblowers, and due process in the handling of employee grievances and related decision-making processes.

Throughout the year, the Bank made great strides in its efforts to implement the recommendations issued by the Preliminary Report Concerning the Anti-Corruption Framework of the Inter-American Development Bank (Thornburgh report). By December 2011, 19 out of the 20 recommendations had been implemented.

The Bank's new Anticorruption Policy Committee (ACPC) and restructured Sanctions Committee began operating on April 1, 2011. The ACPC, which replaced the Oversight Committee on Fraud and Corruption (OCFC), became responsible for considering policy proposals and for overseeing the implementation of systems for the prevention, detection and sanctioning of prohibited practices in Bank-financed activities. In parallel, the system associated with the new Sanctions Procedures became fully operational; all corruption allegations received on or after April 1 were investigated and sanctioned under this new process. The Sanctions Committee was expanded from five members (all internal) to seven (three internal and four external); and the Bank appointed a Case Officer and a Secretary of the Sanctions Committee to provide support to the Committee.

The IDB approved amendments, effective in May, to the Bank's corporate and project procurement policies based on the various report recommendations, and modified its procurement procedures to permit the Bank to implement the agreement with other multilateral development banks to cross-debar individuals and firms sanctioned for prohibited practices, providing further deterrence against corruption in IDB operations.

A protocol for the selection of cases to be investigated by the Office of Institutional Integrity (OII) was approved by the Anti-Corruption Policy Committee (ACPC) in September 2011. The action plan and operational guidelines for enhanced performance of the justice administration systems was approved by Management in October, and submitted for the information of the Board of Executive Directors in November 2011.

With regards to the outstanding recommendation, the establishment of a voluntary cooperation program that would enable wrongdoers to voluntarily disclose their conduct and arrange for a compliance plan, the ACPC decided to wait and monitor the implementation of a similar program at the World Bank before making a decision on its implementation at the Bank.



Bolivia—A \$30 million loan for a Multiphase Neighborhood Improvement program is helping to finance housing upgrades in La Paz and other municipalities throughout the country.

The *Office of Institutional Integrity (OII)* began the year with 65 active cases, and in the course of 2011 worked on the review and processing of 130 cases, for a total of 195 active cases. A total of 150 of those 195 cases were closed during the year. Of the new cases, 20 percent were referred to other Bank units or closed because they did not involve Bank activities or Prohibited Practices. The outcomes of the cases investigated by the OII were as follows: 12 percent (16 cases) were substantiated, 58 percent were unsubstantiated, 27 percent were unfounded, and 3 percent were closed. Of the 16 substantiated cases, 14 involved acts of fraud, and two involved collusion.

In 2011, OII also processed a total of 288 requests for consultation, 237 of them associated with non-sovereign guaranteed operations. Of these, OII participated and provided comments in 146 eligibility and credit approval processes. The remaining requests for consultation were from Bank staff, clients, and the general public regarding measures to prevent or mitigate risks of fraud or corruption, as well as requests for assistance with the interpretation of the anticorruption policies of the IDB Group.

OII also conducted six Integrity Risk Reviews. These reviews take the special circumstances of the country or sector into account in delineating an integrity risk map.

In 2011, the *Ethics Office* managed a total of 54 allegations of potential misconduct, 44 newly received and 10 carried over

from the prior year. Of the 54 allegations, 36 were closed. A total of 11 cases were dismissed by the Ethics Committee due to insufficient evidence or because the allegations were proven to be unfounded. Seven additional allegations were closed by the Ethics Officer for lack of jurisdiction or because even though the alleged acts were proven true, they were not considered violations of the Code of Ethics and Professional Conduct. In addition, three complainants did not provide sufficient information to complete an allegation that could be investigated. Finally, six cases were referred to Management, the Human Resources Department or the Domestic Abuse Coordinator, and in one case, the Office of the Auditor General was informed. During 2011, a total of four cases were substantiated, with findings by the Ethics and Professional Conduct Committee that misconduct had occurred. Of these four, two resulted in recommendations to the Vice President for Finance and Administration that the employment contract be terminated, one resulted in a recommendation of removal from office and one resulted in a recommendation for a salary and grade freeze.

The Ethics Office also continued its priority work in prevention and outreach activities in 2011. The Office answered 280 consultations requesting specific guidance on ethical situations in the workplace, the large majority of them having to do with real or potential conflicts of interest. The Office also

offered ethics training in two new employee orientations, a specialized session for new Bank supervisors, as well as in training sessions conducted in Country Offices.

In 2011, the Bank expanded the Annual Declaration of Interests program, requiring employees at grades 4 and above to complete the detailed Declaration of their financial and external activities, and added a new schedule for reporting gifts and favors. The declaration form was completed by 805 employees and 1,205 employees submitted an Affidavit certifying their adherence with the Code of Ethics.

The Independent Consultation and Investigation Mechanism

This year was the first full cycle of operations for the new Independent Consultation and Investigation Mechanism (ICIM), during which it completed its formal staffing structure with the appointment of the Executive Secretary early in the second quarter of 2011.

An unprecedented milestone was also met in 2011 in relation to the number of requests received and declared eligible (cases). ICIM handled a total of 31 requests (nine in 2010, and 22 received in 2011), 15 of which were declared eligible either for the Consultation Phase or for the Compliance Phase and processed as cases over the course of the year.

Of the 15 cases processed to date, three were resolved successfully in the Consultation Phase, and eight are at different stages of the process in the Consultation Phase; the other four are in the Compliance Phase. One request remained pending a determination of eligibility in the Consultation Phase.

Audit and Evaluation

In 2011, the **Office of the Executive Auditor (AUG)** continued using an integrated risk-based audit approach to provide internal auditing services to support the IDB Group. As part of its core activities, in the operational area, AUG performed one functional audit, and reviewed project supervision in six sector divisions, as well as the internal controls and administrative activities of eight country offices. In the non-operational areas, AUG performed audits of information technology, general computer controls, finance, procurement, budget, and human resources, including the retirement and post-retirement benefits plans.

In addition, on behalf of Management and external auditors, AUG tested the effectiveness of Bank-wide controls, certain key controls of business processes, and information technology related controls, as part of the Bank's annual process of reporting on the effectiveness of internal controls over financial reporting.

The year was one of significant changes for the **Office of Evaluation and Oversight (OVE)**. Early in the year an Independent

Review Panel of external experts was set up by the Board of Executive Directors to undertake an in-depth assessment of the Bank's evaluation function. Their report, *Strengthening Evaluation to Improve Development Results*, made a number of recommendations to ensure a vibrant and useful evaluation function in the IDB. A new OVE Director was appointed in June and has worked since then to address issues raised in the report, including updating the mix of evaluation products, building a collaborative learning environment, and expanding OVE's emphasis on outreach and communication. OVE is also working with Management to strengthen self-evaluation and tracking of Management's response to evaluation recommendations, two activities that will continue to be emphasized in 2012.

OVE continued to produce a full range of evaluations in 2011. Country Program Evaluations (CPEs) were completed for nine countries—Bolivia, Brazil, Colombia, Ecuador, Haiti, Honduras, Peru, Suriname, and Uruguay—and will contribute to the development of new Bank strategies for these countries. The Bank's private sector lending was the subject of two focused evaluations—on risk management and on lending to sub-national entities. OVE also completed a number of ex-post impact evaluations and an evaluation of aspects of the Bank's Knowledge and Learning Strategy. Importantly, it helped launch a major evaluation capacity development initiative—the CLEAR program (Centers for Learning on Evaluation and Results)—in the Region. Going forward, OVE's strategy will continue to emphasize quality and usefulness in its own products, and partnership, outreach, and capacity development in its interactions with Management, clients, and other stakeholders.

Risk Management

During 2011, the Bank continued strengthening the effectiveness of its financial and operational risk management practices by enhancing its capabilities through the execution of several projects/initiatives contemplated in the IDB-9 agreement.

The Financial Risk Report was introduced with the aim of providing Senior Management and the Board of Executive Directors with a consolidated overview of financial and operational risks incurred by the Bank. It also looks to strengthen the Bank's risk management awareness and culture.

The completion of the Bank's Risk Taxonomy was a key part of the continuing efforts to ensure Bank-wide coordination in the management and oversight of the various risks faced by the Bank. This taxonomy facilitates the analysis of key risks, and creates an inventory of the Bank's current risk management and supervision activities.

In the area of credit risk, periodic portfolio management reviews of the Bank's NSG portfolio were performed to monitor

credit quality and portfolio diversification. In addition, a large-scale upgrade of the Bank's current Credit Risk Classification System (CRCS) was launched with the purpose of segregating the components of expected credit loss, and allowing a more accurate and detailed assessment and modeling.

In the area of strategic risk, the Bank continued to undertake the monitoring of its capital adequacy through modeling and quarterly reporting of the Capital Utilization Ratio (CUR), including the annual review of the methodology and parameters, taking into consideration the experience acquired during the implementation of the policy. As a result of the annual review, the Bank's exposure to changes in its obligation to fund its retirement plans was introduced as a new risk type and—among other changes—correlations among the different risk types were included in the calculations and their impact reflected on the quarterly CUR reports issued during 2011.

The Bank continued to perform Asset Liability Management (ALM) activities, including ALM modeling, reporting, and implementation of the respective guidelines consistent with the new ALM Policy approved by the Board of Executive Directors in 2010. The policy provides for a comprehensive review of

ALM aspects, including new elements to increase efficiency of equity allocation. These, together with a new strategy of actively managing equity duration and placing a limit on the amount of debt redemption, are designed to give stable and enhanced returns on equity and control refinancing risk.

In the area of treasury risk, the Bank has deployed an enhanced strategic asset allocation process, which will be used to update the Bank's investment strategy. With respect to the current economic environment, the Bank remained vigilant of market developments, including the European debt crisis, the U.S. budget deficit discussions and debt ceiling debate, and the condition of the European banks, as well as the developments in the European and U.S. residential MBS sector. The periodic assessment of these factors, including the effects of global macroeconomic growth and liquidity conditions in the financial markets is considered when undertaking in-depth fundamental assessment of issuers and complex investment securities and derivative counterparties. To this end, risk measures such as Value-at-Risk (VAR), scenario analysis and stress tests are carried out to assess their impact on the Bank's treasury and derivatives portfolio, including the holdings of ABS/MBS. Given the foreseen negative

Nicaragua—A program to strengthen animal and plant health services focuses on preventing and eradicating livestock diseases, food safety, and a national agri-food certification system.





Ecuador—To spur the competitiveness of micro, small and medium-sized enterprises in the canton of Otavalo, a MIF program emphasizes the model of partnerships as part of the formalization process, especially in the crafts and tourism sectors.

outlook, the Bank will continue to monitor these market developments closely.

In the area of operational risk, an Operational Risk Management Framework was approved following a comprehensive but cost-efficient approach appropriate to the nature of the operational risks faced by the Bank. This framework contemplates a risk management process that will operate as a continuous improvement cycle where business units periodically perform

Risk and Control Assessments, develop action plans to mitigate risks that exceed acceptable levels, and develop key risk indicators to monitor risk levels, deciding on actions to be taken when indicators exceed predefined thresholds. Building on lessons learned from an initial phase, the implementation of the framework continued to be executed in a phased manner, giving priority to the areas of the Bank more susceptible to large operational risk events.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2011		2010	
ASSETS				
Cash and investments				
Cash—Notes C and W	\$ 1,189		\$ 242	
Investments—Trading—Notes D, K, L and W, Appendix I-1 . . .	13,703	\$14,892	16,356	\$16,598
Loans outstanding—Notes E, T and W, Appendixes I-2 and I-3 . .				
Allowance for loan losses.	66,130		63,007	
	(150)	65,980	(145)	62,862
Accrued interest and other charges				
On investments	40		38	
On loans.	466		480	
On swaps, net	345	851	347	865
Receivable from members—Note G				
Non-negotiable, non-interest-bearing obligations:				
Demand notes.	73		90	
Term notes.	221		236	
Amounts required to maintain value of currency holdings.	1	295	52	378
Currency and interest rate swaps—Notes K, L and W				
Investments—trading—Appendix I-1	11		7	
Loans.	112		38	
Borrowings—Appendix I-4.	6,702		5,887	
Other.	215	7,040	—	5,932
Other assets				
Assets under retirement benefit plans—Note S	—		163	
Receivable for investment securities sold	2		48	
Property, net—Note H.	325		324	
Miscellaneous	47	374	47	582
Total assets.		\$89,432		\$87,217
LIABILITIES AND EQUITY				
Liabilities				
Borrowings—Notes I, J, L and W, Appendix I-4				
Short-term	\$ 898		\$ 30	
Medium- and long-term:				
Measured at fair value	48,901		52,846	
Measured at amortized cost	14,124	\$63,923	10,077	\$62,953
Currency and interest rate swaps—Notes K, L and W				
Investments—trading—Appendix I-1	80		55	
Loans	1,658		693	
Borrowings—Appendix I-4.	794		808	
Other	—	2,532	72	1,628
Payable for investment securities purchased and cash collateral received.		943		13
Liabilities under retirement benefit plans—Note S		796		74
Due to IDB Grant Facility		272		72
Amounts payable to maintain value of currency holdings—Note G		219		535
Accrued interest on borrowings.		538		555
Accounts payable and accrued expenses.		415		427
Total liabilities.		69,638		66,257
Equity				
Capital stock—Note O, Appendixes I-5 and I-6				
Subscribed 8,702,335 shares	104,980		104,980	
Less callable portion.	(100,641)		(100,641)	
Paid-in capital stock.	4,339		4,339	
Retained earnings—Note P.	15,488		15,771	
Accumulated other comprehensive income (loss)—Note Q	(33)	19,794	850	20,960
Total liabilities and equity		\$89,432		\$87,217

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND RETAINED EARNINGS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Income			
Loans			
Interest, after swaps—Notes E and K	\$ 1,683	\$ 1,764	\$ 1,934
Other loan income	59	66	68
	<u>1,742</u>	<u>1,830</u>	<u>2,002</u>
Investments—Note K			
Interest	99	178	303
Net gains	9	446	528
Other interest income—Note K	112	7	—
Other	18	21	15
Total income	<u>1,980</u>	<u>2,482</u>	<u>2,848</u>
Expenses			
Borrowing expenses			
Interest, after swaps—Notes I, J, K and L	455	523	929
Borrowing issue costs	12	27	24
Debt repurchase income	(5)	—	(2)
	<u>462</u>	<u>550</u>	<u>951</u>
Provision (credit) for loan and guarantee losses—Note F	3	24	(21)
Administrative expenses—Note B	600	573	530
Special programs	79	83	94
Total expenses	<u>1,144</u>	<u>1,230</u>	<u>1,554</u>
Income before Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers	836	1,252	1,294
Net fair value adjustments on non-trading portfolios—Notes I, J, K and R	(919)	(850)	(500)
Board of Governors approved transfers—Note N	(200)	(72)	—
Net income (loss)	(283)	330	794
Retained earnings, beginning of year	15,771	15,441	14,647
Retained earnings, end of year	<u>\$15,488</u>	<u>\$15,771</u>	<u>\$15,441</u>

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Net income (loss)	\$ (283)	\$330	\$ 794
Other comprehensive income (loss)—Note Q			
Translation adjustments	(3)	(25)	(72)
Recognition of changes in assets/liabilities under retirement benefit plans—Note S	(880)	(19)	506
Reclassification to income—cash flow hedges	—	—	2
Total other comprehensive income (loss)	<u>(883)</u>	<u>(44)</u>	<u>436</u>
Comprehensive income (loss)	<u>\$(1,166)</u>	<u>\$286</u>	<u>\$1,230</u>

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ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	\$ (7,898)	\$(10,341)	\$(11,424)
Loan collections (net of participations)	4,601	5,598	4,542
Net cash used in lending activities	(3,297)	(4,743)	(6,882)
Gross purchases of held-to-maturity investments	—	(4,409)	(4,232)
Gross proceeds from maturities or sale of held-to-maturity investments	—	7,373	4,253
Purchase of property	(21)	(33)	(21)
Miscellaneous assets and liabilities	(9)	(30)	(8)
Net cash used in lending and investing activities	(3,327)	(1,842)	(6,890)
Cash flows from financing activities			
Medium- and long-term borrowings:			
Proceeds from issuance	6,808	11,726	16,181
Repayments	(7,919)	(9,998)	(6,086)
Short-term borrowings:			
Proceeds from issuance	6,121	469	2,571
Repayments	(5,253)	(2,349)	(3,752)
Cash collateral received	898	12	1
Collections of receivable from members	71	30	3
Payments of maintenance of value to members	(317)	—	—
Net cash provided by (used in) financing activities	409	(110)	8,918
Cash flows from operating activities			
Gross purchases of trading investments	(21,150)	(31,865)	(33,542)
Gross proceeds from sale or maturity of trading investments	23,977	32,691	30,475
Loan income collections, after swaps	1,748	1,864	2,152
Interest and other costs of borrowings, after swaps	(215)	(373)	(1,009)
Income from investments	18	251	305
Other interest income	114	—	—
Other income	18	21	15
Administrative expenses	(576)	(574)	(446)
Special programs	(69)	(55)	(38)
Net cash provided by (used in) operating activities	3,865	1,960	(2,088)
Effect of exchange rate fluctuations on cash	—	(8)	1
Net increase (decrease) in Cash	947	—	(59)
Cash, beginning of year	242	242	301
Cash, end of year	\$ 1,189	\$ 242	\$ 242

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,	
	2011	2010
ASSETS		
Cash and investments		
Cash—Notes C and P	\$ 426	\$ 400
Investments—Notes D, E, P and Appendix II-1	<u>786</u>	<u>1,013</u>
	\$1,212	\$1,413
Loans outstanding—Notes F, P and Appendix II-2	4,162	4,004
Accrued interest and other charges on loans	17	18
Receivable from members—Note H		
Non-negotiable, non-interest-bearing obligations:		
Demand notes	449	454
Term notes	121	133
Amounts required to maintain value of currency holdings	<u>63</u>	<u>89</u>
	633	676
Other assets	1	1
Total assets	<u>\$6,025</u>	<u>\$6,112</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued expenses	\$ 5	\$ 4
Undisbursed technical cooperation projects and other		
financings—Note I	49	86
Due to IDB Grant Facility—Note J	253	384
Amounts payable to maintain value of currency holdings—		
Note H	<u>289</u>	<u>292</u>
	\$ 596	\$ 766
Fund balance		
Contribution quotas authorized and subscribed—Note K and		
Appendix II-3	10,189	10,000
Less: Contribution quotas receivable	<u>(120)</u>	<u>—</u>
	10,069	10,000
General reserve (deficit)—Note L	(4,738)	(4,758)
Accumulated translation adjustments—Note M	<u>98</u>	<u>104</u>
	5,429	5,346
Total liabilities and fund balance	<u>\$6,025</u>	<u>\$6,112</u>

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND GENERAL RESERVE (DEFICIT)

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Income			
Loans			
Interest	\$ 65	\$ 69	\$ 75
Other loan income	3	5	8
	<u>68</u>	<u>74</u>	<u>83</u>
Investments—Note D	5	17	57
Total income	<u>73</u>	<u>91</u>	<u>140</u>
Expenses			
Administrative expenses—Note B	18	11	12
Total expenses	<u>18</u>	<u>11</u>	<u>12</u>
Income before technical cooperation, debt relief, and			
Board of Governors approved transfers	55	80	128
Technical cooperation expense	(9)	24	23
Debt relief expense—Note G	—	484	(3)
Board of Governors approved transfers to IDB Grant Facility—			
Note L	44	364	122
Net income (loss)	<u>20</u>	<u>(792)</u>	<u>(14)</u>
General reserve (deficit), beginning of year	<u>(4,758)</u>	<u>(3,966)</u>	<u>(3,952)</u>
General reserve (deficit), end of year	<u><u>\$(4,738)</u></u>	<u><u>\$(4,758)</u></u>	<u><u>\$(3,966)</u></u>

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Net income (loss)	\$20	\$(792)	\$(14)
Translation adjustments—Note M	(6)	(7)	9
Comprehensive income (loss)	<u>\$14</u>	<u>\$(799)</u>	<u>\$ (5)</u>

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from lending activities			
Loan disbursements	\$ (368)	\$ (398)	\$(414)
Loan collections	195	214	220
Loan participations, net	(5)	(4)	(2)
Miscellaneous assets and liabilities	1	—	—
Net cash used in lending activities	(177)	(188)	(196)
Cash flows from financing activities			
Collections of receivable from members	51	30	49
Contribution quotas from members	68	236	125
Net cash provided by financing activities	119	266	174
Cash flows from operating activities			
Gross purchases of investments	(1,585)	(1,847)	(886)
Gross proceeds from sale or maturity of investments	1,771	1,867	872
Loan income collections	70	74	80
Income from investments	37	19	31
Administrative expenses	(20)	(10)	(13)
Technical cooperation and other financings	(26)	(26)	(25)
Cash transfers to the IDB Grant Facility	(175)	(134)	(41)
Net cash provided by (used in) operating activities	72	(57)	18
Effect of exchange rate fluctuations on Cash	12	10	8
Net increase in Cash	26	31	4
Cash, beginning of year	400	369	365
Cash, end of year	\$ 426	\$ 400	\$ 369

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,	
	2011	2010
ASSETS		
Cash	\$ —	\$ —
Investments—Notes C, D and Appendix III-1	171	200
Total assets	\$171	\$200
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to Ordinary Capital	\$ 4	\$ 7
Fund balance	167	193
Total liabilities and fund balance	\$171	\$200

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Additions			
Income from investments—Note C	\$ 1	\$ 5	\$ 12
Total additions	1	5	12
Deductions			
Interest paid on behalf of Ordinary Capital borrowers.	27	33	39
Total deductions	27	33	39
Change in fund balance	(26)	(28)	(27)
Fund balance, beginning of year	193	221	248
Fund balance, end of year	\$167	\$193	\$221

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from operating activities			
Income from investments	\$ 4	\$ 4	\$ 1
Interest paid on behalf of Ordinary Capital borrowers.	(30)	(33)	(35)
Net decrease in investments	26	28	34
Net cash used in operating activities			
and net decrease in cash	—	(1)	—
Cash, beginning of year	—	1	1
Cash, end of year	\$ —	\$ —	\$ 1

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

IDB GRANT FACILITY
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,	
	2011	2010
ASSETS		
Due from Fund for Special Operations	\$253	\$384
Due from Ordinary Capital	272	72
Total assets	<u>\$525</u>	<u>\$456</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Undisbursed grants—Note D	\$481	\$415
Fund balance	44	41
Total liabilities and fund balance	<u>\$525</u>	<u>\$456</u>

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Additions			
Transfers from Fund for Special Operations	\$ 44	\$364	\$122
Transfers from Ordinary Capital	200	72	—
Total additions	<u>244</u>	<u>436</u>	<u>122</u>
Deductions			
Grants	241	395	122
Change in fund balance	3	41	—
Fund balance, beginning of year	41	—	—
Fund balance, end of year	<u>\$ 44</u>	<u>\$ 41</u>	<u>\$ —</u>

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from operating activities			
Cash transfers from Fund for Special Operations	\$ 175	\$ 134	\$ 41
Grant disbursements	(175)	(134)	(41)
Net cash flows from operating activities	<u>—</u>	<u>—</u>	<u>—</u>
Cash, beginning of year	—	—	—
Cash, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Notes and Appendixes are an integral part of these financial statements and can be found on the Bank's website at www.iadb.org/ar/2011.

APPENDIX I. STATEMENT OF APPROVED OPERATIONS (ABOVE \$5 MILLION), 2011

(In millions of U.S. dollars)

Country	Project	Type	Amount
Argentina	Development of Tourism Corridors	GOM	80
	Supply Electricity to Country's Regions under Federal Electricity Transmission Plan	ESP	120
	Strengthening of Policies on Childhood, Adolescence, and Family	ESP	10
	Barrio Improvement Program, Second Individual Operation	CLP	400
	Provincial Agricultural Services Program—PROSAP III	CLP	230
	Water and Sanitation for the Buenos Aires Metropolitan Area	CLP	200
	Strengthening of the Ministry of Economy and Finance	ESP	13
	Highway Infrastructure II	CLP	200
	Plaza Logistica	PSI	20
	Emergency program in response to the Puyehue Volcano eruption	ERF	20
	CMF Bank—SME Facility	PSI	15
Barbados	Support for Sustainable Energy Framework (SEFB) II	PBP	70
Bahamas	Air Transport Reform Program	PBL	50
	New Providence Water Supply and Sanitation Systems Upgrade	ESP	81
Belize	Flood Mitigation Infrastructure Program for Belize City	ESP	10
Bolivia	Fiscal Policy and Decentralization Support Program II	PBP	62
	Improvement Program for Municipal Management	ESP	52
	Water and Sanitation Program for Small Localities and Rural Communities	GOM	20
	Strengthening of Integrated Health Networks in the Department of Potosi	ESP	35
	Strengthening of Value Chains at the Base of the Pyramid	PSI	5
	Master Registry of Beneficiaries Program	ESP	5
	Cochabamba—La Paz Transmission Line	ESP	78
Brazil	Health Modernization and Humanization Program	ESP	22
	Program for Modernization of Federal Government Immovable Asset Management	ESP	15
	Integrated Social and Urban Development Program of the Municipio of Paranagua	GCR	17
	PROFISCO-Fiscal Modernization Project of the State of Sergipe (PROMOFAZ)	ESP	6
	Rehabilitation for the Furnas and Luiz Carlos Barreto Hydroelectric Power Plant	ESP	129
	Environmental Sanitation Program for Municipios in the Guanabara Bay Area-PSAM	GOM	452
	Mario Covas Rodoanel Project—Northern Section	ESP	1,149
	Social and Environmental Program for the Igarapes in Manaus—PROSAMIM III	GOM	280
	“Banorte Todo Dia -The Bank of the Neighborhood”	PSI	5
	SCB TFFP Project BicBanco	PSI	5
	Delba Vessel—Amendment to the Contingent Facility and Restructuring	PSS	5
	BIC Bank—access2services Facility	PSI	50
Chile	Support for the Establishment of an Integrated Foreign Trade System	ESP	8
	Subsole	PSI	32
	BICE Bank—access2services Facility	PSI	50
Colombia	Program to Support the National Logistics Policy	PBP	300
	Strategic Public Transportation Systems	GOM	320
	Strengthen the Office of the Attorney General - Phase Two	ESP	10
	Mortgage Project Program for Low Income Families	PGU	5
	Disaster Risk Management and Climate Change Adaptation Program	PBP	120
	Bancolombia Green Guarantee Mechanism	PGU	30

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APPENDIX I. STATEMENT OF APPROVED OPERATIONS (ABOVE \$5 MILLION), 2011 (CONTINUED)

(In millions of U.S. dollars)

Country	Project	Type	Amount
Costa Rica	Violence Prevention and Social Inclusion Promotion Program	ESP	132
Dominican Republic	Tourism Development Program - Colonial City of Santo Domingo	ESP	30
	Program to Support the National Employment System	ESP	20
	Insurance Facility for Emergencies Caused by Catastrophic Natural Disasters	ESP	24
	Support for the Social Protection Program—Phase III	PFM	80
	AgriFood Health and Safety Program	ESP	10
	Bani Wind Power Project	PSI	28
	Power Sector Sustainability and Efficiency Program	PBP	200
	PECASA Wind Power Project	PSI	51
	SCB TFFP project Banreservas	PSI	23
Ecuador	Program for Strengthening the Preinvestment Cycle	ESP	40
	Electrification Program for Rural and Marginal Urban Areas	ESP	40
	Public Administration Institutional Reform Program	ESP	250
	Citizen Security Program	ESP	10
	Financing for Banco Pichincha under the LACC Subordinated Debt Facility	PSI	40
	Banco Bolivariano SME Finance	PSI	15
	Financing for Banco Guayaquil under the LACC Subordinated Debt Facility	PSI	15
	Global Credit Program for Microfinance Support	GCR	50
	Protection and Recovery of Cultural Heritage Assets	ESP	38
	National Urban Development Program	GOM	71
El Salvador	Proposal for Reduction of Vulnerability in Informal Urban Neighborhoods	ESP	50
	Transportation Program for the San Salvador Metropolitan Area	ESP	45
	Ciudad Mujer	ESP	20
	Program to Support Production Development for International Integration	ESP	30
	Programatic Support to the Agenda of Structural Reforms in Electric Energy	PBP	100
	Rural Connectivity Program for the Northern and Eastern Zones	GOM	15
Guatemala	Financing for Banco G&T Continental under the LACC Subordinated Debt Facility	PSI	45
	Banco Industrial S.A. TFFP project under SCB facility	PSI	5
Guyana	Linden Water Supply Rehabilitation Program	ESP	12
	Sustainable Operation of the Electricity Sector and Improved Quality of Service	ESP	5
Haiti	Supplementary Financing for the Peligre Hydroelectric Plant	SUP	20
	Support for Transport Sector	GOM	55
	Infrastructure Program	GOM	55
	Business Development and Training Services Program for Investment	ESP	11
	Technology Transfer to Small Farmers	ESP	15
	Support to the Implementation of the Education Plan and Reform	ESP	50
	Institutional Transformation and Modernization Program of the Energy Sector I	PBP	35
Honduras	Support for the 2012 Population and Housing Census	ESP	25
	Primary Education and Technology Integration Program	ESP	37
	Strengthen the Financial Security Network and Improve Access to Financing	PBP	40
	Banco Atlantica Green Line	PSI	20
	Support for Reform of Pension Institutions and Human Resources Management	PBP	40

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APPENDIX I. STATEMENT OF APPROVED OPERATIONS (ABOVE \$5 MILLION), 2011 (CONTINUED)

(In millions of U.S. dollars)

Country	Project	Type	Amount
Jamaica	Energy Efficiency and Conservation Programme	ESP	20
	Public Financial and Performance Management Programme III	PBP	60
	Human Capital Protection Programme II	PBP	50
	Kingston Metropolitan Area (KMA) Water Supply Improvement Programme	ESP	133
	Fiscal Administration Modernization Programme	ESP	65
Mexico	Program to Strengthen Rural Public Goods	ESP	190
	Sustainability of Water Supply and Sanitation Services in Rural Communities III	GOM	250
	Rural Financing Program	GCR	20
	Infrastructure, Public Services, and Institution-Strengthening II	CLP	310
	Second Individual Operation for Entrepreneurial Development	CLP	50
	Water, Sanitation, and Hygiene Program in Basic Education	ESP	350
	Comprehensive Program to Address Urban Poverty	ESP	280
	Mareña Renewables Wind Project	PSI	75
	Clean Technology Fund Renewable Energy Financing Facility	GCR	70
	First Disbursement—Infonavit Mezzanine Finance Facility	PSI	35
Nicaragua	National Sustainable Electrification and Renewable Energy Program (PNESER) II	ESP	22
	Improvement of Social Protection and Health Spending and Management	PBP	45
	Housing and Comprehensive Habitat Improvement Program	ESP	20
	Improving Family and Community Health in Highly Vulnerable Urban Areas	ESP	20
Panama	Program to Strengthen Fiscal Management	ESP	50
	Health Equity Improvement and Services Strengthening Program	ESP	50
	Program to Reduce Vulnerability to Natural Disasters and Climate Change I	PBP	100
	Emergency Program for an Immediate Response to the Flooding	ERF	20
Paraguay	Program to Support the Modernization of the Banco Nacional de Fomento	TCR	6
	Support for the National Population and Housing Census	ESP	13
	Tupi Cement	PSI	52
	Water and Sanitation Program for the Chaco Region and Intermediate Cities	GOM	20
	Cadastral Registry Program II	ESP	25
	Support for the Development Financing Agency (AFD)—CCLIP III	GCR	50
	Labor Insertion Support Program	ESP	5
Peru	Modernization of the Justice Administration System	ESP	26
	Development of a New Sustainable Energy Matrix, Program III	PBP	25
	Cajamarquilla, Nieveria and Cerro Camote—Expansion of Water and Sanitation	ESP	100
	Early Education Improvement Program in Ayacucho, Huancavelica and Huanuco	ESP	25
	Agricultural Competitiveness Program II	PBP	25
	Program to Reduce the Vulnerability of the State to Disasters II	PBP	25
	Proposal for a project for the Second Generation Sanitation Sector Reform Program	PBP	25
	Support for the Climate Change Agenda II	PBP	25
	Chaglla Hydroelectric Power Project	PSI	150
	Banco Interamericano de Finanzas—Financing from LACC Subordinated Debt Facility	PSI	20

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APPENDIX I. STATEMENT OF APPROVED OPERATIONS (ABOVE \$5 MILLION), 2011 (CONTINUED)*(In millions of U.S. dollars)*

Country	Project	Type	Amount
Regional	Higher Education Financing for Low Income Students	PSI	10
	BESI Lending Facility	PSI	50
	Patrimonio Hoy	PGU	10
	IMPESA Wind Energy Investment Program	PSI	150
	Abengoa Line of Credit	PSI	200
Suriname	Social Protection Support Program	ESP	15
	Financial Sector Strengthening I	PBP	40
	Public Capital Expenditure Management Program	PBP	20
	National Population and Housing Census: Increasing Use of Basic Statistics	ESP	5
Trinidad and Tobago	Social Safety Net Reform Program	HIB	50
	Wastewater Infrastructure Rehabilitation Program	ESP	50
	Program to Support the Climate Change Agenda I	PBP	80
	Sustainable Energy Program	PBP	60
	Strengthening of the Financial Sector Supervisory and Regulatory Framework	PBP	50
Uruguay	Program to Support Global Export Services	ESP	10
	Montevideo Sanitation Program (PSU IV) Supplementary Financing	SUP	43
	Rural Productive Development Program	ESP	28
	Program to Support E-Government Management II	ESP	11
	Support for Tourism Development	ESP	5
	Montes del Plata	PSI	200
	Drainage and Environmental Sanitation	ESP	21
Venezuela	Support for Rural and Small Town Water Supply Systems - Phase II	GOM	100
	Emergency Response Program to Rains	ERF	20

Key: CLP, Conditional Credit Line for Investment; ERF, Emergency Reconstruction Facility; ESP, Investment; GCR, Global Credit; GOM, Global of Multiple Works; PBL/PBP/HIB, Policy-based and Programmatic; PFM, Multi-Phase; PGU, Private Sector Guarantee; PSI, Private Sector Investment; PSS, Private Sector Supplemental; SUP, Supplemental Financing; TCR, Reimbursable Technical Cooperation

APPENDIX II. STATEMENT OF LOANS OUTSTANDING AS OF DECEMBER 31, 2011

(In millions of U.S. dollars)

Member in whose territory loans have been made	Ordinary Capital			Fund for Special Operations ¹	Total
	Sovereign- guaranteed	Non-sovereign- guaranteed	Sub-Total		
Argentina	\$10,563	\$ 89	\$10,652	\$ 63	\$10,715
Bahamas	178	—	178	—	178
Barbados	243	—	243	5	248
Belize	110	—	110	—	110
Bolivia	203	34	237	558	795
Brazil	14,176	1,005	15,181	139	15,320
Chile	601	43	644	—	644
Colombia	6,763	83	6,846	60	6,906
Costa Rica	360	221	581	21	602
Dominican Republic	1,992	62	2,054	251	2,305
Ecuador	1,944	160	2,104	379	2,483
El Salvador	1,739	47	1,786	336	2,122
Guatemala	1,887	91	1,978	277	2,255
Guyana	34	—	34	332	366
Honduras	204	35	239	612	851
Jamaica	1,310	36	1,346	18	1,364
Mexico	9,782	119	9,901	2	9,903
Nicaragua	178	23	201	772	973
Panama	1,341	121	1,462	9	1,471
Paraguay	855	25	880	248	1,128
Peru	3,260	646	3,906	17	3,923
Suriname	165	3	168	4	172
Trinidad and Tobago	665	—	665	5	670
Uruguay	1,987	39	2,026	6	2,032
Venezuela	2,105	—	2,105	—	2,105
Regional	169	334	503	48	551
Inter-American Investment Corporation	—	100	100	—	100
Total	\$62,814	\$3,316	\$66,130	\$4,162	\$70,292

¹ Excludes loan participations sold to the Social Progress Trust Fund for a total of \$22 million, including \$2 million to Costa Rica, \$3 million to the Dominican Republic, \$4 million to Ecuador, \$8 million to El Salvador, \$2 million to Guatemala, \$2 million to Panama and \$1 million to Paraguay.

APPENDIX III. SUBSCRIPTIONS TO CAPITAL STOCK, CONTRIBUTION QUOTAS, AND VOTING POWER, AS OF DECEMBER 31, 2011¹

(In millions of U.S. dollars)

Member countries	Ordinary Capital Subscribed Capital Stock			Percent of Total Number of Votes ²	FSO Contribution Quotas
	Paid-in	Callable	Total		
Regional developing members					
Argentina	\$465.1	\$10,393.8	\$10,858.9	10.751	\$ 532.2
Bahamas	11.6	198.3	209.9	0.209	11.2
Barbados	5.6	124.3	129.9	0.130	1.9
Belize	7.2	103.5	110.7	0.111	8.0
Bolivia	37.3	834.4	871.7	0.865	51.1
Brazil	465.1	10,393.8	10,858.9	10.751	544.4
Chile	127.7	2,853.9	2,981.6	2.953	166.1
Colombia	127.7	2,853.9	2,981.6	2.953	161.2
Costa Rica	18.7	417.1	435.7	0.433	24.5
Dominican Republic	24.9	556.8	581.7	0.577	35.7
Ecuador	24.9	556.8	581.7	0.577	31.9
El Salvador	18.7	417.1	435.7	0.433	22.5
Guatemala	24.9	556.8	581.7	0.577	34.4
Guyana	7.8	153.8	161.6	0.162	8.7
Haiti	18.7	417.1	435.7	0.433	22.9
Honduras	18.7	417.1	435.7	0.433	27.8
Jamaica	24.9	556.8	581.7	0.577	30.2
Mexico	299.0	6,681.3	6,980.3	6.912	329.0
Nicaragua	18.7	417.1	435.7	0.433	25.4
Panama	18.7	417.1	435.7	0.433	26.7
Paraguay	18.7	417.1	435.7	0.433	29.3
Peru	62.3	1,390.7	1,453.0	1.440	84.0
Suriname	5.7	82.9	88.6	0.089	6.3
Trinidad and Tobago	18.7	417.1	435.7	0.433	20.9
Uruguay	49.9	1,114.3	1,164.2	1.154	58.7
Venezuela	249.3	5,568.5	5,817.8	5.761	315.3
Total regional developing members	2,170.5	48,311.4	50,481.1	50.015	2,610.3
Canada³	173.7	7,906.1	8,079.8	4.001	327.2
United States	1,303.0	29,006.7	30,309.7	30.006	5,076.4
Nonregional members					
Austria	6.9	153.7	160.6	0.161	21.0
Belgium	14.2	316.8	331.0	0.329	44.6
China	0.1	2.1	2.2	0.004	131.1
Croatia	2.1	46.4	48.5	0.050	6.2
Denmark	7.3	163.4	170.8	0.171	21.0
Finland	6.9	153.7	160.6	0.161	19.9
France	82.3	1,831.4	1,913.7	1.896	232.8
Germany	82.3	1,831.4	1,913.7	1.896	241.3
Israel	6.8	151.5	158.3	0.158	18.0
Italy	82.3	1,831.4	1,913.7	1.896	227.2
Japan	217.1	4,833.2	5,050.3	5.001	623.3
Korea, Republic of	0.1	2.1	2.2	0.004	1.0
Netherlands	14.6	325.6	340.3	0.338	36.9
Norway	7.3	163.4	170.8	0.171	21.0
Portugal	2.3	51.7	54.0	0.055	7.8
Slovenia	1.3	28.1	29.4	0.031	3.6
Spain	82.3	1,831.4	1,913.7	1.896	226.4
Sweden	14.1	314.8	328.9	0.327	42.2
Switzerland	20.4	454.2	474.7	0.471	66.7
United Kingdom	41.8	929.9	971.7	0.964	183.9
Total nonregional members	692.5	15,416.5	16,109.0	15.979	2,175.9
GRAND TOTAL	\$ 4,339	\$ 100,641	\$ 104,980	100.000	\$ 10,189

¹ Data are rounded; detail may not add up to subtotals and grand total because of rounding.

² Each member country's voting power is the same in making decisions concerning the operations of the Ordinary Capital and the FSO. Except where otherwise expressly provided in the Agreement Establishing the Bank, all matters are decided by a majority of the total voting power of the member countries.

³ Ordinary Capital's subscribed capital stock includes 334,887 non-voting temporary callable shares with a par value of \$4,039.9 million. These shares are excluded from the calculation of the voting power.

APPENDIX IV. COUNTRY OFFICES AND REPRESENTATIVES

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As of December 31, 2011

APPENDIX V. TEN YEARS OF IDB OPERATIONS, 2002–2011

(In millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CAPITAL										
Subscriptions (End of Year)										
Ordinary Capital	100,951	100,951	100,951	100,953	100,953	100,953	100,938	104,980	104,980	104,980
Fund for Special Operations	9,636	9,636	9,637	9,639	9,639	9,640	9,636	9,762	10,000	10,189
Other Funds ¹	2,769	2,938	3,026	3,078	2,772	3,274	3,422	4,162	4,459	4,823
Total	113,356	113,525	113,614	113,670	113,364	113,867	113,996	118,904	119,439	119,872
BORROWINGS²										
Outstanding (End of Year)	46,859	48,112	46,190	43,999	43,959	44,854	44,624	57,641	61,124	59,630
Gross Annual Borrowings	9,340	9,109	4,710	4,937	5,419	6,089	11,069	17,886	13,719	6,798
OPERATIONS										
Loans and Guarantees Approved (Cumulative)³										
Ordinary Capital ⁴	100,834	110,436	116,799	117,804	124,580	135,006	148,991	162,533	176,180	186,041
Fund for Special Operations	15,774	16,652	17,391	17,486	18,257	18,525	18,519	18,870	19,054	19,204
Other Funds ⁵	1,736	1,769	1,747	1,743	1,751	1,772	1,755	1,768	1,791	1,877
Total	118,344	128,857	135,937	137,033	144,588	155,303	169,265	183,171	197,025	207,122
Loans and Guarantees Approved (Annual)⁶										
Ordinary Capital ^{4,6}	4,143	6,232	5,468	6,448	5,632	8,577	11,085	15,278	12,136	10,400
Fund for Special Operations	406	578	552	410	605	152	138	228	297	181
Other Funds ⁵	—	—	—	—	2	6	3	1	31	90
Total	4,549	6,810	6,020	6,858	6,239	8,735	11,226	15,507	12,464	10,671
Loan Disbursements (Annual)⁷										
Ordinary Capital ⁴	5,522	8,416	3,768	4,899	6,088	6,725	7,149	11,424	10,341	7,902
Fund for Special Operations	313	486	463	424	398	393	415	414	398	368
Other Funds ⁵	2	—	1	5	3	6	44	13	34	—
Total	5,837	8,902	4,232	5,328	6,489	7,124	7,608	11,851	10,773	8,270
Loan Repayments (Annual)^{6,7}										
Ordinary Capital	4,106	7,279	5,199	5,224	8,615	5,265	4,740	4,542	5,598	4,601
Fund for Special Operations	256	296	294	301	290	275	229	220	214	195
Other Funds	13	12	9	5	3	4	4	5	5	6
Total	4,375	7,587	5,502	5,530	8,908	5,544	4,973	4,767	5,817	4,802
Loans Outstanding										
Ordinary Capital	47,958	50,655	49,842	48,135	45,932	47,954	51,173	58,049	63,007	66,130
Fund for Special Operations	6,198	6,670	6,971	6,878	3,733	3,966	4,101	4,317	4,004	4,162
Other Funds	118	104	98	94	94	96	126	135	156	142
Total	54,274	57,429	56,911	55,107	49,759	52,016	55,400	62,501	67,167	70,456
Grant Financings Approved (Annual)⁸										
Ordinary Capital	—	—	—	12	34	37	68	94	86	93
Fund for Special Operations	36	30	36	36	28	34	43	33	36	—
IDB Grant Facility ⁹	—	—	—	—	—	50	50	122	251	241
Other Funds	45	47	39	57	53	92	109	283	457	311
Total	81	77	75	105	115	213	270	532	830	645
Multilateral Investment Fund Operations Approved (Annual)¹⁰										
	99	69	116	114	125	135	178	119	122	108
ADMINISTRATION										
Administrative Expenses										
Total—All Bank Funds	376	386	404	473	507	564	501	542	584	618

¹ Includes the Multilateral Investment Fund. Excludes terminated funds.

² Medium- and long-term borrowings net of unamortized discounts (before swaps and mark-to-market adjustments).

³ Net of cancellations. Includes exchange adjustments.

⁴ Net of non-sovereign-guaranteed loan participations. Includes Project Preparation Execution Facility.

⁵ Does not include IDB Grant Facility.

⁶ In 2009, includes \$800 million of loan approvals cancelled during the year.

⁷ Based on original amounts in U.S. dollar equivalent.

⁸ Includes Social Entrepreneurship Program financing, technical cooperations, special program, project specific and other grants. Excludes Multilateral Investment Fund operations which are presented separately.

⁹ In 2010, excludes \$144 million of undisbursed loan balances transferred from the Fund for Special Operations converted to grants.

¹⁰ Includes technical cooperations, loans and equity investments. Also includes increases of already existing operations.

INTERNATIONAL STAFF—SALARY STRUCTURE

(as of December 31, 2011)

(In U.S. dollars)

Grade	Representative Job Titles	Minimum	Maximum	Staff at Grade Level (%)	Average Salary/ Grade	Average Benefits ¹
12	Administrative Support	\$ 36,912	\$ 59,060	0.3	\$ 42,158	\$ 17,706
11	Assistant	41,109	65,775	2.3	50,502	21,211
10	Senior Assistant	47,188	75,501	5.5	61,507	25,833
9	Analyst—Administrative Coordinator	58,522	87,783	3.6	72,279	30,357
8	Senior Analyst—Senior Administrative Coordinator	66,054	99,081	4.5	79,994	33,598
7	Associate	75,301	112,951	5.8	84,006	35,282
6	Senior Associate	84,755	127,132	10.2	92,614	38,898
5	Specialist	94,914	142,371	16.5	104,392	43,845
4	Senior Specialist	104,178	166,684	19.4	121,147	50,882
3	Lead Specialist/Advisor	118,403	189,446	17.3	147,391	61,904
2	Unit Chief—Principal Specialist/Senior Advisor	141,875	212,812	6.9	177,623	74,602
1	Division Chief—Principal Tech. Leader/Principal Advisor	162,106	235,054	3.7	201,733	84,728
R	Country Representative	162,106	250,218	1.4	198,094	83,199
E5	Sector Manager	200,174	250,218	1.3	230,167	96,670
E4	Head of Independent Office	225,353	281,691	0.1	278,034	116,774
E3	General Manager	256,004	320,005	1.0	288,333	121,100
E2	Vice President	274,358	329,229	0.3	311,206	130,706
E1	Executive Vice President	292,257	350,708	0.1	350,708	147,297
P	President		428,792 ²	0.1	428,792	180,093

¹ Includes annual leave, medical, life and disability insurance; accrued termination benefits; and other non-salary benefits.

² Does not include Executive Allowance of \$76,740.

CONSOLIDATED ADMINISTRATIVE EXPENSES

(In millions of U.S. dollars)

Category	2009 Actual	2010 Actual	2011 Actual
Board of Governors	\$ 4.0	\$ 3.3	\$ 4.0
Board of Executive Directors	19.2	20.0	20.1
Evaluation Office	7.2	7.1	7.1
Independent Consultation and Investigation Mechanism (MEC)	—	—	1.7
Headquarters and Country Offices	482.8	524.2	552.4
Total Administrative Gross^{1,2,3,4,5}	513.2	554.6	585.3
Reimbursement from Funds under Administration and IIC	(4.0)	(4.1)	(5.6)
MIF and INTAL Reimbursements, Administrative Income	(5.2)	(5.8)	(4.6)
Total Administrative Net	504.0	544.7	575.1
Capital	25.9	41.9	29.8
Total Administrative Net and Capital	\$529.9	\$586.6	\$604.9

¹ Excludes depreciation of \$20.7 million, \$22.6 million and \$24.8 million in 2009, 2010, and 2011, respectively.

² Includes an increase in prepaid post-retirement benefit costs of \$9.0 million and \$2.6 million in 2009 and 2010, respectively; excludes a decrease in prepaid post-retirement benefit costs of \$4.7 million in 2011.

³ Excludes \$4.0 million in expenses in 2009, related to prior years.

⁴ When applicable, excludes \$14.2 million, \$2.4 million and \$4.1 million in realignment expenses, the Inter-American Culture and Development Foundation, the IDB's 50th anniversary, loss on disposal of fixed assets, and capital project expenditures not capitalized in 2009, 2010, and 2011, respectively.

⁵ Includes prepaid expenses of \$5.5 million, \$2.2 million, and \$1.8 million in 2009, 2010, and 2011, respectively.

PRINCIPAL OFFICERS

President	Luis Alberto Moreno
Executive Vice President	Julie T. Katzman
Vice President for Countries	Roberto Vellutini
Vice President for Sectors and Knowledge	Santiago Levy Algazi
Vice President for Finance and Administration	Jaime Alberto Sujoy
Vice President for Private Sector and Non-Sovereign Guaranteed Operations	Steven J. Puig
General Manager and Chief Economist a.i., Department of Research and Chief Economist	Eduardo Lora
General Manager, Country Department—Southern Cone	Carlos Hurtado López
General Manager, Country Department—Andean Group	Veronica Zavala
General Manager, Country Department—Central America, Mexico, Panama, and the Dominican Republic	Gina Montiel
General Manager, Country Department—Caribbean	Gerard S. Johnson
General Manager, Country Department—Haiti	José Agustín Aguerre
Secretary	Germán Quintana
General Counsel a.i.	John Scott
Chief of Staff, Office of the Presidency	Luis Alberto Giorgio
Chief Advisor to the Executive Vice President	Juan Pablo Bonilla
General Manager and Chief Financial Officer, Finance Department	Edward Bartholomew
General Manager and Chief Development Effectiveness Officer, Office of Strategic Planning and Development Effectiveness	Luis Estanislao Echebarría
General Manager, Budget and Administrative Services Department	Yeshvanth Edwin
General Manager, Structured and Corporate Finance Department	Hans Schulz
General Manager, Human Resources Department	Claudia Bock-Valotta
General Manager and Chief Information Officer, Information Technology Department	Simon Gauthier
General Manager, Office of the Multilateral Investment Fund	Nancy Lee
Executive Auditor a.i.	Enrique Rodríguez
Advisor, Office of External Relations	George de Lama
Sector Manager, Infrastructure and Environment Sector	Alexandre Meira da Rosa
Sector Manager, Social Sector	Kei Kawabata
Sector Manager, Institutional Capacity and Finance Sector	Ana Maria Rodriguez-Ortiz
Sector Manager, Integration and Trade Sector	Antoni Estevadeordal
Sector Manager, Knowledge and Learning Sector	Graciela Schamis
Sector Manager, Opportunities for the Majority Sector	Luiz Ros
Advisor, Office of Outreach and Partnerships	Bernardo Guillamón
Advisor, Office of Risk Management and Chief Risk Officer	Gustavo De Rosa
Chief, Office of Institutional Integrity	Brigida Benítez

As of December 31, 2011

GOVERNORS AND ALTERNATE GOVERNORS

Country	Governor	Alternate Governor
ARGENTINA	Hernán Lorenzino	Mercedes Marcó del Pont
AUSTRIA	Maria Fekter	Edith Frauwallner
BAHAMAS	Zhivargo S. Laing	Ehurd Cunningham
BARBADOS	Christopher Peter Sinckler	Grantley W. Smith
BELGIUM	Steve Vanackere	Franciscus Godts
BELIZE	Dean Barrow	Joseph Waight
BOLIVIA	Elba Viviana Caro Hinojosa	Luis Alberto Arce Catacora
BRAZIL	Miriam Aparecida Belchior	Carlos Augusto Vidotto
CANADA	John Baird	James Haley
CHILE	Felipe Larraín	Julio Dittborn
CHINA	Xiaochuan Zhou	Yi Gang
COLOMBIA	Juan Carlos Echeverry Garzón	Hernando José Gómez Restrepo
COSTA RICA	Fernando Herrero Acosta	Rodrigo Bolaños Zamora
CROATIA	Dalic Martina	Zdravko Maric
DENMARK	Susan Ulbæk	Thomas Djurhuus
DOMINICAN REPUBLIC	Daniel Toribio	Juan T. Montás
ECUADOR	Patricio Rivera Yáñez	Jeannette Sánchez Zurita
EL SALVADOR	Alexander E. Segovia Cáceres	Carlos Enrique Cáceres Chávez
FINLAND	Anne Sipiläinen	Jorma Julin
FRANCE	François Baroin	Ramón Fernández
GERMANY	Gudrun Kopp	Martin Dippl
GUATEMALA	Alfredo Del Cid Pinillos	Edgar Baltazar Barquín Durán
GUYANA	Ashni Kumar Singh	
HAITI	André Lemercier Georges	Jude Hervey Day
HONDURAS	William Chong Wong	María Elena Mondragón Ordóñez
ISRAEL	Stanley Fischer	Oded Brook
ITALY	Mario Monti	Ignazio Visco
JAMAICA	Audley Shaw	Wesley Hughes
JAPAN	Jun Azumi	Masaaki Shirakawa
KOREA, REPUBLIC OF	Jaewan Bahk	Choongsoo Kim
MEXICO	José Antonio Meade Kuribreña	Gerardo Rodríguez Regordosa
NETHERLANDS	Ben Knapen	Yoka Brandt
NICARAGUA	Alberto J. Guevara Obregón	Manuel Coronel Novoa
NORWAY	Ingrid Fiskaa	Aud Lise Nordheim
PANAMA	Frank De Lima Gercich	Mahesh C. Khemlani
PARAGUAY	Dionisio Borda	Manuel Vidal Caballero Giménez
PERU	Luis Miguel Castilla Rubio	Carlos Augusto Oliva Neyra
PORTUGAL	Vitor Gaspar	Maria Luís Albuquerque
SLOVENIA	Franc Krizanic	Mitja Mavko
SPAIN	Elena Salgado	José Manuel Campa Fernández
SURINAME	Gillmore Hoefdraad	Adelien Wijnerman
SWEDEN	Johan Borgstam	Per Örneus
SWITZERLAND	Beatrice Maser Mallor	Sybille Suter
TRINIDAD AND TOBAGO	Winston Dookeran	Bhoendradatt Tewarie
UNITED KINGDOM	Andrew Mitchell	Alan Duncan
UNITED STATES	Timothy F. Geithner	Robert D. Hormats
URUGUAY	Fernando Lorenzo	Luis Porto
VENEZUELA	Jorge A. Giordani C.	Alí Rodríguez Araque

As of December 31, 2011

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS

			Number of votes	Percentage of voting power
Yasuhiro Atsumi, JAPAN Gerry Duffy (Alternate), UNITED KINGDOM	Elected by: Croatia Japan Korea, Republic of	Portugal Slovenia United Kingdom	511,113	6.105
Mattia Adani, ITALY Ulrike Metzger (Alternate), GERMANY	Elected by: Belgium China Germany Israel	Italy Netherlands Switzerland	426,523	5.092
Gustavo Arnavat, UNITED STATES Vacant (Alternate), UNITED STATES	Appointed by: United States		2,512,664	30.006
Adina Bastidas, VENEZUELA Antonio De Roux (Alternate), PANAMA	Elected by: Panama	Venezuela	518,658	6.194
Richard Bernal, JAMAICA Kurt Kisto (Alternate), TRINIDAD AND TOBAGO	Elected by: Bahamas Barbados Guyana	Jamaica Trinidad and Tobago	126,574	1.511
Marcelo Bisogno, URUGUAY Luis Hernando Larrazábal (Alternate), BOLIVIA	Elected by: Bolivia Uruguay	Paraguay	205,291	2.452
Eugenio Díaz-Bonilla, ARGENTINA Martín Bès (Alternate), ARGENTINA	Elected by: Argentina	Haiti	936,545	11.184
Alejandro Foxley Tapia, CHILE Xavier Eduardo Santillán (Alternate) ECUADOR	Elected by: Chile Ecuador		295,653	3.530
Carmen María Madrí, COSTA RICA Vacant (Alternate)	Elected by: Belize Costa Rica El Salvador	Guatemala Honduras Nicaragua	202,692	2.420
Vacant Sérgio Portugal (Alternate), BRAZIL	Elected by: Brazil	Suriname	907,766	10.840
Cecilia Ramos Ávila, MEXICO Muriel Alfonseca (Alternate) DOMINICAN REPUBLIC	Elected by: Dominican Republic Mexico		627,122	7.489
María Pérez Ribes, SPAIN Orla Bakdal (Alternate), DENMARK	Elected by: Austria Denmark Finland France	Norway Spain Sweden	400,427	4.783
Roberto Prieto Uribe, COLOMBIA Juan Valdivia Romero (Alternate), PERU	Elected by: Colombia Peru		367,878	4.393
Vinita Watson, CANADA Carol Nelder-Corvari (Alternate), CANADA	Elected by: Canada		335,022	4.001
TOTAL			8,373,928	100.00*

Office of Evaluation and Oversight

Cheryl W. Gray, Director

As of December 31, 2011

* The total may not add up due to rounding.

CHANNELS OF COMMUNICATION AND DEPOSITORIES

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

As of December 31, 2011

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Annual Report **2011**
Financial Statements

Letter of Transmittal

As required by the By-Laws of the Inter-American Development Bank, the Board of Executive Directors hereby submits to the Board of Governors the Annual Report of the Bank for 2011. The Annual Report consists of a printed volume entitled "The Year in Review," containing a review of the Bank's operations in 2011

(loans, guarantees, and grants). The electronic version of the Annual Report at www.iadb.org/ar/2011 contains, in addition, the full set of the financial statements of the Bank's resources.

March 9, 2012

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Management's Discussion and Analysis:
Ordinary Capital

FINANCIAL OVERVIEW

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

The purpose of the Bank is to further the economic and social development of Latin America and the Caribbean by promoting environmentally sustainable growth, as well as poverty reduction and social equity. Alongside these objectives are two strategic goals: addressing the special needs of the less developed and smaller countries and fostering development through the private sector. The Bank is an international institution established in 1959, pursuant to the Agreement establishing the Inter-American Development Bank (the Agreement), and is owned by its member countries. These members include 26 borrowing member countries and 22 non-borrowing member countries. The five largest members by shareholdings (with their share of total voting power) are the United States (30.0%), Argentina (10.8%), Brazil (10.8%), Mexico (6.9%) and Venezuela (5.8%).

The resources of the Bank consist of the Ordinary Capital, the Fund for Special Operations (FSO), the Intermediate Financing Facility Account (IFF) and the IDB Grant Facility (GRF).

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

The principal assets are loans to member countries. As of December 31, 2011, 95% of loans outstanding were sovereign-guaranteed. In addition, under certain conditions and subject to certain limits, the Bank makes loans and guarantees without a sovereign guarantee (i) in all economic sectors, and (ii) directly to private sector or sub-national entities carrying out projects in borrowing member countries. The Bank can also lend to other development institutions without sovereign guarantee. Non-sovereign-guaranteed operations are currently capped to an amount such that risk capital requirements for such operations do not exceed 20 percent of Total Equity⁽¹⁾ calculated in the context of the Bank's capital adequacy policy. As of September 30, 2011, the date of the latest quarterly report to the Board of Executive Directors, the risk capital requirements for non-sovereign-guaranteed operations was \$1,091 million, or 5%⁽²⁾ of Total Equity.

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

Assets and liabilities, after swaps, are held primarily in United States dollars, but also in euro, Japanese yen and Swiss francs. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets and by maintaining basically all equity in United States dollars. However, the reported levels of assets, liabilities, income and expenses are affected by exchange rate movements between such major currencies and the reporting currency, the United States dollar.

Financial Statement Reporting

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

A substantial amount of the Bank's borrowings and all swaps, including borrowing, lending, and equity duration⁽³⁾ 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 the regular results of its operations. The Bank defines Income before Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers⁽⁴⁾ as "Operating Income". Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers are reported separately in the Statement of Income and Retained Earnings.

Accounting Developments: As described in Note B to the financial statements, in 2011 the Financial Accounting Standards Board (FASB): (i) provided additional guidance to help creditors in determining whether a restructuring constitutes a troubled debt restructuring; (ii) issued converged fair value measurement guidance expanding certain disclosures about fair value measurements; and (iii) eliminated the current option to report other comprehensive income and its components in the statement of changes in equity, by requiring the presentation of items of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. These standards do not have a material effect on the Bank's financial statements.

The FASB also required disclosure of both gross information and net information about financial and derivative instruments eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement, for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Bank is in the process of evaluating the impact of this new standard on its financial statements.

⁽¹⁾ "Total Equity" is defined as Paid-in capital stock, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries' local currency cash balances, net receivable from members (but not net payable to members) and the cumulative effects of Net fair value adjustments on non-trading portfolios.

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

⁽³⁾ 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.

⁽⁴⁾ References to captions in the financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in this Management's Discussion and Analysis.

Economic Environment

Following the downgrade of the U.S. government credit rating by S&P in August 2011 and growing concerns regarding the European sovereign debt crisis, world capital markets were marked by high volatility and general risk aversion in credit markets. During 2011, the trading investments portfolio experienced net mark-to-market gains of \$9 million, compared to \$396 million in 2010. Net losses of \$59 million (relative to purchased price) were realized, compared to \$19 million in 2010. The investment portfolio continued to perform except for \$1.1 million of principal losses (2010—\$2.1 million).

Despite the increased lending in response to the global financial crisis, the current economic situation, and the extension of the time for approval of the Ordinary Capital's increase, the capitalization of the Bank remains strong. In addition, the Bank's liquidity levels are robust and in line with Bank policy.

The volatility in the equity markets during the second half of the year affected the investment performance of the Bank's Pension and Postretirement Benefit Plans ("Plans"). In addition, the reduction in market interest rates increased the liabilities of the Plans. Most of these changes, which affect the funded status of the Plans, are recognized through comprehensive income. At December 31, 2011, the Balance Sheet shows Liabilities under retirement benefit plans of \$796 million compared with net assets under retirement benefit plans of \$89 million at December 31, 2010. The reduction in the funded status of the Plans of \$885 million reflects an increase in benefit obligation of \$917 million, to \$4,801 million, mostly due to a decrease of 1% in the rate used to discount the liabilities. At the end of the year, the Plans' assets represented 83% of the benefit obligations compared with 102% at the end of the prior year. For further information, refer to Note S of the financial statements.

Financial Highlights

Lending Operations: Box 1 presents the Bank's lending summary and other selected financial data. During 2011, the Bank's loan and guarantee approvals decreased by \$1,736 million as compared to 2010. Approved loans amounted to \$10,346 million (160 loans), compared to \$12,075 million (162 loans) in 2010. The undisbursed portion of approved loans increased to \$23,994 million at year-end 2011 from \$22,357 million at year-end 2010.

During the year, three non-trade related guarantees without sovereign counter-guarantee were approved for \$54 million (2010—four for \$61 million). In addition, 268 trade finance guarantees in the aggregate amount of \$621 million were issued (2010—131 guarantees in the aggregate amount of \$239 million).

The portfolio of non-sovereign-guaranteed loans increased slightly to a level of \$3,316 million compared to \$3,224 million at December 31, 2010. In addition, the non-sovereign guarantees exposure increased \$176 million to \$847 million compared to \$671 million the previous year. As of December 31, 2011, 6.2% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 6.1% at December 31, 2010.

Total allowances for loan and guarantee losses amounted to \$175 million at December 31, 2011 compared to \$172 million in 2010. The Bank had non-sovereign-guaranteed loans with outstanding balances of \$129 million classified as impaired at December 31, 2011 compared to \$140 million at December 31, 2010. All impaired loans have specific allowances for loan losses amounting to \$41 million at December 31, 2011, compared to \$55 million at December 31, 2010.

Flexible Financing Facility: Over the last few years, the Bank has been committed to developing and providing flexible, market-based financial products to borrowers to further enhance their asset liability management strategies. In line with this strategy, in 2011 the Bank approved the Flexible Financing Facility (FFF), effective on January 1, 2012. The FFF is now the only financial product platform for approval of all new Ordinary Capital sovereign-guaranteed loans. Through built-in features in 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 enables 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.

Borrowing Operations: The Bank issued medium- and long-term debt securities for a total face amount of \$6,798 million equivalent (2010—\$13,719 million) that generated proceeds of \$6,665 million equivalent (2010—\$11,789 million) and had an average life of 6.8 years (2010—5.3 years). Such debt securities were issued through a strategy of combining large global benchmark bonds with smaller transactions targeted to particular segments of demand.

Financial Results: Operating Income for 2011 was \$836 million, compared to \$1,252 million in 2010, a decrease of \$416 million. This decrease was due to lower net investment gains of \$437 million, and higher net non-interest expense of \$26 million, which were partially offset by higher net interest income of \$33 million, and a decrease in the provision for loan and guarantee losses of \$21 million.

For 2011, the Board of Executive Directors approved a lending spread of 0.80%, a credit commission of 0.25% and no supervision and inspection fee. While changes in interest rates will, over the long term, result in corresponding changes in operating income, the effect on a single year is relatively small due to the fact that equity is mostly funding fixed rate assets and that for debt-funded assets the interest rate exposure is mostly passed through to the borrowers or hedged through the use of derivative instruments.

With the election of the fair value option for a substantial number of the borrowings in 2008, the changes in fair value of the borrowing swaps are significantly offset by the changes in the fair values of the associated borrowings. However, income volatility still results from changes in the Bank's credit spreads and swap basis spreads, which affect the valuation of borrowings and swaps, respectively, the changes in fair value of 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, and the changes in fair value of equity duration swaps. To reduce the income volatility resulting from these financial instruments, effective January 1, 2011, the Bank modified its borrowing fair value option policy, addressing income volatility on a financial instruments portfolio basis rather than on an instrument-by-instrument basis.

During 2011, the Bank had net fair value losses on non-trading portfolios of \$919 million, compared to \$850 million in 2010. Fair value losses on lending swaps (\$1,106 million) and losses associated with the changes in the Bank's credit spreads on the borrowing portfolio (approximately \$192 million) were partially offset by gains on equity duration swaps of \$287 million, gains on swaps for which the underlying bonds were not

elected for fair value option (\$71 million), and gains from changes in swap basis spreads (approximately \$15 million). See Note R to the financial statements for further discussion on changes in fair value on non-trading portfolios.

Capitalization: To enhance the Bank's financial capacity following its response to the global economic crisis, the Board of Governors, on July 21, 2010, agreed to vote on a proposed resolution, as part of the ninth general increase in the resources of the Bank (IDB-9), that would provide for an increase in the Bank's Ordinary Capital of \$70,000 million that would be subscribed to by Bank members in five annual installments, starting in 2011 through 2015. Of this amount, \$1,700 million would be in the form of paid-in capital stock, payable in U.S. dollars, and the remainder would constitute callable capital stock. The increase was originally scheduled to enter into effect on October 31, 2011. On October 26, 2011, the Board of Executive Directors approved a resolution extending the deadline for approval of the Ordinary Capital increase and the date of the first subscription installment to January 31, 2012. See the Subsequent and Other Developments section for additional IDB-9 related developments occurring after December 31, 2011.

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

The Total Equity-to-Loans Ratio (TELR) at December 31, 2011 was 31.3% compared to 33.4% at the end of the last year (See Table 7).

Asset and Liability Management: In 2010, the Board of Executive Directors approved the conversion of non-borrowing member country currency holdings subject to maintenance of value to United States dollars. Conversions of \$3,225 million were carried out in December 2010 and May 2011. Settlement of maintenance of value obligations is being made upon consultation with each member country subject to the terms of the Bank's Charter. As a result, during 2011, the Bank made payments of \$317 million to certain non-borrowing member countries.

As part of the asset/liability management policy, starting in 2010 it has been the Bank's policy to maintain basically all equity in United States dollars; as a result, net currency translation adjustments have been substantially reduced.

SUBSEQUENT AND OTHER DEVELOPMENTS

IDB-9: Effective January 18, 2012, the Board of Governors adopted a resolution authorizing the increase in the Bank's Ordinary Capital. On February 29, 2012, the increase in the Bank's Ordinary Capital entered into effect, which was also the effective date of the first installment. As of this

date, commitments to subscribe from 46 member countries amounting to \$65,731 million were received by the Bank and 5,134,300 shares of ordinary capital stock in the amount of \$61,937 million or 88% of the total increase were eligible for allocation, representing the amount of shares committed to be subscribed, less shares that may not be allocated as of February 29, 2012 in order to comply with the associated minimum voting power requirements of the Agreement. Of this amount, \$1,504 million represents paid-in capital stock and \$60,433 million represents callable capital stock. The Board of Executive Directors approved a resolution, effective February 29, 2012, which extended the deadline to March 30, 2012 for member countries that have not subscribed to their respective shares of the increase. The Bank will issue additional ordinary capital stock in the amount of \$8,063 million upon allocation of the remaining shares. In addition, on February 29, 2012, Canada notified the Bank of its intent to exercise its right to replace shares of non-voting callable capital stock with shares allocated under the IDB-9. See "Sources of Funds—Capitalization—Temporary Increase in Canada's Callable Capital" for further information.

Financial Reform—The Dodd-Frank Wall Street Reform and Consumer Protection Act:

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. Pending the development of these rules, no impact on the Bank has been determined as of December 31, 2011. The Bank continues to assess the potential future impact of this financial regulatory reform on its operations.

Patient Protection and Affordable Care Act (PPACA) and Health Care and Education Reconciliation Act of 2010 (HCERA):

In March 2010, the President of the United States signed into law the PPACA and the HCERA. The new legislation seeks to reform aspects of the U.S. health care system and its various provisions will be regulated and become effective over the following several years. It is the Bank's intention to implement provisions of the legislation to the extent not already reflected in the Bank's employee medical insurance program and as may be deemed appropriate given its status as an international organization. The Bank continues to closely monitor the implementation of the legislation. Management believes that the impact of the legislation will not be material to the Bank's financial position and results of operations.

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

Box 1: Selected Financial Data

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

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2011	2010	2009	2008	2007
Operational Highlights					
Loans and guarantees approved ⁽¹⁾⁽²⁾	\$10,400	\$12,136	\$15,278	\$11,085	\$ 8,577
Gross loan disbursements	7,898	10,341	11,424	7,149	6,725
Net loan disbursements ⁽³⁾	3,297	4,743	6,882	2,409	1,460
Balance Sheet Data					
Cash and investments-net ⁽⁴⁾ , after swaps.	\$13,882	\$16,585	\$20,204	\$16,371	\$16,301
Loans outstanding ⁽⁵⁾	66,130	63,007	58,049	51,173	47,954
Undisbursed portion of approved loans	23,994	22,357	21,555	19,820	16,428
Total assets	89,432	87,217	84,006	72,510	69,907
Borrowings outstanding ⁽⁶⁾ , after swaps.	58,015	57,874	57,697	47,779	45,036
Equity					
Callable capital stock ⁽⁷⁾	100,641	100,641	100,641	96,599	96,613
(of which, subscribed by United States, Canada, Japan and the other nonregional members)	52,329	52,329	52,329	48,287	48,302
Paid-in capital stock	4,339	4,339	4,339	4,339	4,340
Retained earnings ⁽⁸⁾	15,455	16,621	16,335	15,105	16,013
Total	19,794	20,960	20,674	19,444	20,353
Income Statement Data					
Loan income, after swaps.	\$ 1,742	\$ 1,830	\$ 2,002	\$ 2,355	\$ 2,436
Investment income (loss)	108	624	831	(973)	487
Other interest income	112	7	—	—	—
Borrowing expenses, after swaps	462	550	951	1,764	2,135
Loan and guarantee loss provision (credit)	3	24	(21)	93	(13)
Net non-interest expense	661	635	609	497	518
Operating Income (Loss)⁽⁹⁾	836	1,252	1,294	(972)	283
Net fair value adjustments on non-trading portfolios ⁽¹⁰⁾	(919)	(850)	(500)	950	(149)
Board of Governors approved transfers	(200)	(72)	—	—	—
Net income (loss)	(283)	330	794	(22)	134
Ratios					
Net borrowings ⁽¹¹⁾ as a percentage of callable capital stock subscribed by United States, Canada, Japan and the other nonregional members	86.3%	80.6%	74.1%	69.3%	61.2%
Interest coverage ratio ⁽¹²⁾	2.81	3.28	2.36	0.45	1.13
Total Equity ⁽¹³⁾ to loans ⁽¹⁴⁾ ratio	31.3%	33.4%	34.2%	35.3%	40.2%
Cash and investments as a percentage of borrowings outstanding, after swaps.	23.9%	28.7%	35.0%	34.3%	36.2%
Returns and Costs, after swaps					
Return on:					
Average loans outstanding	2.75%	3.12%	3.75%	4.85%	5.35%
Average liquid investments ⁽¹⁵⁾	0.65%	3.37%	4.29%	(5.27%)	2.93%
Average earning assets	2.35%	3.14%	3.91%	2.12%	4.69%
Average cost of:					
Borrowings outstanding during the year	0.81%	0.96%	1.78%	3.84%	4.92%
Total funds available	0.59%	0.71%	1.32%	2.66%	3.36%

⁽¹⁾ In 2009, includes \$800 million of loan approvals cancelled during the year.

⁽²⁾ Excludes guarantees issued under the Trade Finance Facilitation Program.

⁽³⁾ Includes gross loan disbursements less principal repayments.

⁽⁴⁾ Net of Payable for investment securities purchased and cash collateral received and Receivable for investment securities sold.

⁽⁵⁾ Excludes lending swaps in a net liability position of \$1,546 million in 2011 (2010—net liability of \$655 million; 2009—net asset of \$77 million).

⁽⁶⁾ Net of premium/discount.

⁽⁷⁾ From 2009, includes \$4,039.9 million capital subscription received from Canada for 334,887 shares of non-voting callable capital stock redeemable from 2014 to 2017.

⁽⁸⁾ Includes Accumulated other comprehensive income.

⁽⁹⁾ See page 17 for a full discussion of Operating Income.

⁽¹⁰⁾ Net fair value adjustments on non-trading portfolios mostly relate to (a) the changes in the fair value of the Bank's lending swaps due to changes in USD interest rates (and for which the offsetting changes in value of the loans are not recognized since the loans are not fair valued), as well as (b) the changes in the fair value of the Bank's borrowings due to changes in the Bank's own credit spreads. See Note R to the financial statements for further details.

⁽¹¹⁾ Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps).

⁽¹²⁾ The interest coverage ratio is computed using Operating Income (Loss).

⁽¹³⁾ "Total Equity" is defined as Paid-in capital stock, Retained earnings and the allowances for loan and guarantee losses, minus borrowing countries' local currency cash balances, net receivable from members (but not net payable to members) and the cumulative effects of Net fair value adjustments on non-trading portfolios.

⁽¹⁴⁾ Includes loans outstanding and net guarantee exposure.

⁽¹⁵⁾ Geometrically-linked time-weighted returns.

DEVELOPMENT OPERATIONS

General

The Bank makes loans and guarantees to the governments, as well as governmental entities, enterprises, and development institutions of its borrowing member countries to help meet their development needs. In the case of loans and guarantees to borrowers other than national governments or central banks, the Bank follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the national government. Loans and guarantees may also be made directly to other eligible entities carrying out projects in the territories of borrowing member countries, including private sector entities or sub-sovereign entities, without a sovereign guarantee and in all sectors, provided they meet the Bank's lending criteria. The Bank also provides financing to borrowing member countries for non-reimbursable and contingent recovery assistance that is aligned with its overall strategy for the region.

Development Objective

The Bank's objective is to promote sustainable growth, poverty reduction and social equity. The Report on the Ninth General Increase in the Resources of the Bank identifies five sector priorities to work towards achieving this objective:

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

Lending Cycle

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

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

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

Loans

The Bank's sovereign-guaranteed lending generally falls into one of two categories: investment loans for specific projects, including loans to intermediaries for on-lending purposes, or

Box 2: Lending Operations Principles

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

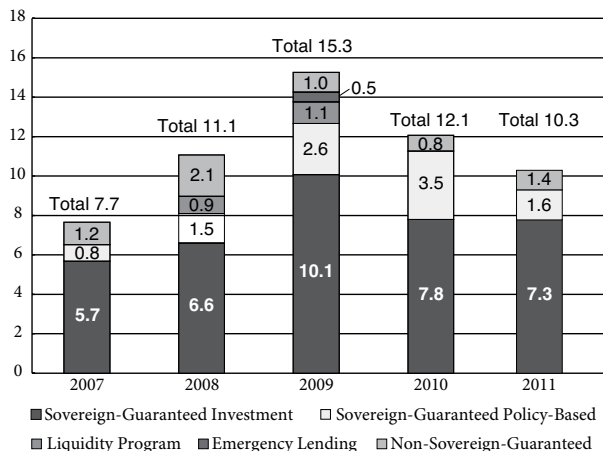
policy-based loans. Investment lending is generally used to finance goods, works and services in support of economic and social development projects in a broad range of sectors. Policy-based lending generally supports social, structural and institutional reforms with the aim of improving specific sectors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

In addition, the Bank lends directly to eligible entities without a sovereign guarantee for the financing of investments for transactions in all sectors, subject to an exclusion list. These loans and guarantees are made on the basis of market-based pricing and are subject to certain eligibility requirements and volume limits. The Bank also lends to other development institutions for on-lending purposes without a sovereign guarantee. Non-sovereign-guaranteed operations are currently capped to an amount such that risk capital requirements for such operations do not exceed 20 percent of Total Equity. As of September 30, 2011 (the date of the latest quarterly report to the Board of Executive Directors), the risk capital requirements of non-sovereign-guaranteed operations was \$1,091 million, or 5.0% of Total Equity.

Non-sovereign-guaranteed loans and guarantees are also subject to certain limits, including a ceiling on financing the lesser of (a) \$200 million and (b) (i) 50% of the total project cost for expansion projects and credit guarantees irrespective of the country, subject to such financing not exceeding 25% (certain smaller countries 40%) of the borrower or obligor's total capitalization of debt and equity or (ii) 25% of the total project cost (certain smaller countries 40%) for new projects. The Bank can also provide political risk guarantees of up to the lesser of \$200 million or 50% of the total project cost. In exceptional circumstances, the Board of Executive Directors may approve loans and credit and political guarantees of up to \$400 million. The Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed the lesser of (i) 2.5% of the Bank's equity and (ii) \$500 million at the time of approval. In addition, the Bank has established sector limits to maintain a diversified portfolio across sectors.

Figure 1 presents a breakdown of approvals by loan type during the last five years. Over the past five years, sovereign-guaranteed investment lending per year has fluctuated between \$5.7 billion and \$10.1 billion, policy-based lending between \$0.8 billion and \$3.5 billion, and non-sovereign-guaranteed lending between \$0.8 billion and \$2.1 billion. There were no emergency loan approvals in 2011 and 2010.

Figure 1: LOAN APPROVALS BY TYPE
For the years ended December 31, 2007 through 2011
(Expressed in billions of United States dollars)



During 2011, loan approvals totaled \$10,346 million compared to \$12,075 million in 2010. A summary of loan approvals by country during 2011 and 2010 appears in **Table 1**. By loan type, investment and policy-based loan approvals decreased \$424 million and \$1,934 million, respectively, while non-sovereign-guaranteed loan approvals increased \$629 million.

Table 1: LOAN APPROVALS BY COUNTRY⁽¹⁾
For the years ended December 31, 2011 and 2010
(Expressed in millions of United States dollars)

COUNTRY	2011	2010
Argentina	\$ 1,313	\$ 1,165
Bahamas	131	—
Barbados	70	85
Belize	10	10
Bolivia	196	141
Brazil	2,188	2,260
Chile	92	69
Colombia	730	685
Costa Rica	132	92
Dominican Republic	465	335
Ecuador	569	509
El Salvador	263	435
Guatemala	50	291
Guyana	8	18
Honduras	129	250
Jamaica	328	630
Mexico	1,560	2,952
Nicaragua	54	125
Panama	228	340
Paraguay	157	152
Peru	450	341
Suriname	80	12
Trinidad and Tobago	290	140
Uruguay	318	88
Venezuela	120	890
Regional	415	60
Total	<u>\$10,346</u>	<u>\$12,075</u>

⁽¹⁾ Includes non-sovereign-guaranteed loans.

At December 31, 2011, the total volume of outstanding loans was \$66,130 million, \$3,123 million higher than the \$63,007 million at December 31, 2010. This increase was mainly due to a higher level of loan disbursements (\$7,898 million) than collections (\$4,601 million, including prepayments of \$287 million). Undisbursed balances at December 31, 2011, totaled \$23,994 million, an increase of \$1,637 million from December 31, 2010. This change was mainly due to higher loan approvals than disbursements, partially offset by cancellations.

During 2011, the portfolio of non-sovereign-guaranteed loans increased to a level of \$3,316 million compared to \$3,224 million at December 31, 2010. In addition, the non-sovereign guarantee exposure increased \$176 million to \$847 million compared to \$671 million the previous year. As of December 31, 2011, 6.2% of the outstanding loans and guarantees exposure was non-sovereign-guaranteed, compared to 6.1% at December 31, 2010.

A summary statement of loans outstanding by country at December 31, 2011 and 2010 is set forth in Appendix I-2 to the financial statements.

Financial Terms of Loans

Currently Available Financial Terms: In 2011, the Bank approved the FFF, effective on January 1, 2012. The FFF is now the only financial product platform for approval of all new Ordinary Capital sovereign guaranteed loans. Through built-in features in 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 enables borrowers to: (i) manage currency, interest rate and other types of exposures; (ii) address project changing needs by customizing loan repayment terms to better manage liquidity risks; (iii) manage loans under legacy financial products; and, (iv) execute hedges with the Bank at a loan portfolio level. The FFF loans have an interest rate based on LIBOR plus a funding margin, as well as the Bank's spread. The Bank also offers emergency loans with sovereign guarantee. **Table 2** presents the available terms for sovereign-guaranteed loans approved after December 31, 2011.

The Bank offers loans to eligible entities without sovereign guarantees, under various terms. Non-sovereign-guaranteed loans can be denominated in United States dollars, Japanese yen, euro,

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

		Flexible Financing Facility	Emergency Lending Facility
Interest rate option		LIBOR-based loans ⁽³⁾	LIBOR-based loans
Currencies offered	Approval	USD or borrowing member local currency	USD
	Disbursement	Currency of approval or converted currency	
	Repayment	Currency disbursed/converted	
Cost Base		LIBOR ± funding margin, currency equivalent of LIBOR ± funding margin, or actual funding cost	6-month LIBOR
Funding Margin to LIBOR		Actual funding margin or estimated funding margin at the time of disbursement/conversion	Not applicable
Lending Spread ⁽¹⁾⁽²⁾		62 ⁽⁵⁾	400
Credit commission ⁽¹⁾⁽²⁾		25 ⁽⁵⁾	75
Supervision and inspection fee ⁽¹⁾⁽²⁾		0 ⁽⁵⁾	Not applicable
Front-end fee ⁽¹⁾		Not applicable	100
Maturity ⁽⁴⁾		Up to 20 years for policy based loans and up to 25 years for investment loans	5 years
Grace Period		For investment loans: 6 months after original disbursement period. For policy-based loans: 5 years.	3 years
Repayment Profile		Flexible repayment profile based on loan's contractual weighted average life.	Not applicable

⁽¹⁾ Loan charges expressed in basis points (bps).

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

⁽³⁾ FFF LIBOR-based loan balances can be converted to fixed-base cost rate or to any member currency, subject to market availability.

⁽⁴⁾ For "parallel loans" (a blending of loans from the Ordinary Capital and the FSO) maturity is 30 years and grace period is 6 years.

⁽⁵⁾ Loan charges effective January 1, 2012.

Swiss franc or local currency, and borrowers have the option of either fixed interest rate loans or floating rate loans. For floating rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus the lending spread. Lending spreads and fees are set on a case-by-case basis.

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

SCF LIBOR-based loans have an interest rate that is adjusted quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's funding cost, as well as the Bank's spread. Borrowers have the option to convert their SCF LIBOR loan balances to fixed-base cost rate.

For loans approved under the LCF, public and private sector borrowers have the option to receive local currency financing under three different modalities: i) direct local currency financing or conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency disbursement of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. Outstanding loan balances in the LCF carry a fixed-base cost, floating or inflation-linked interest rate. The LCF was incorporated into the FFF product for sovereign-guaranteed loans effective January 1, 2012 and is still available for non-sovereign-guaranteed operations. At December 31, 2011, the Bank had local currency loans outstanding of \$2,128 million, which were swapped back-to-back to United States dollars.

Up to June 30, 2009, the Bank offered SCF adjustable rate loans with interest rates adjusted every six months to reflect the currency-specific effective cost during the previous six months of the pool of borrowings allocated to fund such loans, plus the Bank's lending spread.

In the past, the Bank also offered loans under the Currency Pooling System (CPS). For these loans, the Bank historically maintained a targeted currency composition of 50% United States dollars, 25% Japanese yen and 25% European currencies. With the approval of the FFF product in 2011, the Board of Executive Directors also approved to gradually convert the currency composition of these loans to 100% United States dollars. Loans approved prior to 1989 carry a fixed interest rate while loans approved from 1990 to 2003 carry an adjustable rate. The adjustable rate, which resets twice a year, represents the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's lending spread.

Up to June 2007, the Bank also offered fixed rate and LIBOR-based U.S. Dollar Window Program loans with sovereign guarantee, destined for on-lending to private sector borrowers. In addition, effective in 2008 and up to December 31, 2009, the Bank offered loans under the Liquidity Program, a program for loans within the emergency lending category.

Conversion of SCF and CPS Adjustable Rate Loans to LIBOR-Based Loans: In 2009 and 2010, the Bank converted outstanding loan balances of \$31,956 million as follows: \$3,036 million of CPS to USD LIBOR-based rate, \$6,639 million of CPS to USD fixed-base cost rate, \$1,929 million of SCF to USD LIBOR-based rate, and \$20,352 million of SCF to fixed-base cost rate.

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

Table 3: LOANS OUTSTANDING BY LOAN PRODUCT⁽¹⁾
December 31, 2011 and 2010
(Amounts expressed in millions of United States dollars)

	2011		2010	
	Amount	%	Amount	%
SCF-LIBOR-based.	\$29,554	44.7	\$25,322	40.2
SCF-fixed-base cost.	27,483	41.6	28,409	45.1
SCF-adjustable.	1,397	2.1	1,305	2.1
LCF.	2,048	3.1	2,110	3.3
Emergency lending.	500	0.8	500	0.8
Liquidity Program.	98	0.1	102	0.2
Non-sovereign-guaranteed-fixed.	766	1.2	627	1.0
Non-sovereign-guaranteed-floating.	2,297	3.5	2,363	3.8
Non-sovereign-guaranteed-local currency.	80	0.1	45	0.1
Currency Pooling System ..	1,380	2.0	1,603	2.5
U.S. Dollar Window.	336	0.5	415	0.7
Others.	191	0.3	206	0.2
Total.	<u>\$66,130</u>	<u>100.0</u>	<u>\$63,007</u>	<u>100.0</u>

⁽¹⁾ Non-sovereign-guaranteed loans in the amount of \$173 million (2010—\$189 million) to other development institutions are included in SCF-LIBOR-based, U.S. Dollar Window and Others, as applicable.

Of the \$23,994 million undisbursed loan balances at December 31, 2011, 84% pertains to the SCF LIBOR-based, 4% to the SCF-adjustable and 11% to the non-sovereign-guaranteed-floating portfolios.

The Bank uses currency and interest rate swaps in order to hedge exposures from loans where either a cost pass-through of the funding cost is not applicable or the currency of the loans is not the same as the one of the underlying funding.

Charges on Loans with Sovereign Guarantee (Excluding Emergency Lending)

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

During late 2011, the Board of Executive Directors approved lending spreads for 2012 of 0.62%, a credit commission of 0.25% and no supervision and inspection fee. **Table 4** shows loan charges prevailing during the periods indicated.

Table 4: LOAN CHARGES

	Lending spread %	Credit commission %	Supervision and inspection fee %
2009:			
First semester	0.30	0.25	—
Second semester . . .	0.95	0.25	—
2010:			
First semester	0.95	0.25	—
Second semester . . .	0.95	0.25	—
2011:			
First semester	0.80	0.25	—
Second semester . . .	0.80	0.25	—

Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the limit established for non-sovereign-guaranteed operations, or with a member country sovereign-guarantee. These guarantees are denominated in United States dollars or in local currency.

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

During 2011, three non-trade-related guarantees without sovereign counter-guarantee were approved for \$54 million (2010—four for \$61 million). In addition, the Bank's Trade Finance Facilitation Program (TFFP) provides full credit guarantees without sovereign counter-guarantees on trade-finance transactions. This Program authorizes lines of credit in support of approved issuing banks, with an aggregate program limit of up to \$1,000 million outstanding at any time. During 2011, 268 trade-finance guarantees in the aggregate amount of \$621 million were issued. This compares with 131 guarantees in the aggregate amount of \$239 million issued in 2010.

As of December 31, 2011, guarantees of \$980 million (2010—\$814 million), including \$418 million issued under the TFFP (2010—\$153 million), were outstanding and subject to call. No guarantees have ever been called. The net present value of guarantee exposure on non-sovereign guarantees, net of reinsurance, was \$847 million at December 31, 2011 (2010—\$671 million).

Technical Assistance

In addition to loans and guarantees, the Bank provides technical assistance to its member countries both in connection with, and independent of, its lending operations. Such assistance focuses on transferring knowledge, and supports project preparation, feasibility studies, regional programs and training. Technical assistance activities are funded by resources from the Ordinary Capital's special programs, funds under administration, and, up to December 31, 2010, FSO resources. In 2011, the Bank approved technical assistance for a total of \$242 million (2010—\$296 million), including \$88 million (2010—\$86 million) funded by the Ordinary Capital.

LIQUIDITY MANAGEMENT

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

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

The Bank's liquidity policy targets an investment portfolio sufficient to cover between six and twelve months of debt repayments and loan disbursements. The policy allows Management to manage liquidity dynamically based on the Bank's expected future cash flow needs. It requires a liquidity level ranging within a band established early in the year and sent to the Board of Executive Directors for their information. Liquidity for this purpose is essentially defined as non-borrowing countries convertible currency cash and investments, excluding the assets funded by the Bank's Discount Note Program and assets with limited or restricted availability. The policy band may be reviewed during the year depending on whether or not there are any changes in the components that generate the band (i.e., loan disbursements and debt redemptions, as well as net guarantee exposure). At December 31, 2011, liquidity was \$12,810 million, within policy limits. During the year, liquidity, as defined, averaged \$14,311 million compared to \$15,615 million in 2010.

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

Box 3: Liquidity Management Principles

The primary objective in the management of the Bank's liquid assets is preservation of capital, and maintaining a portfolio of adequate size invested in high quality liquid assets to enable the Bank to meet its financial obligations even at times when access to the capital markets becomes temporarily impaired. The secondary investment objective is to efficiently manage risk/return trade-offs of all eligible asset classes within the defined risk tolerance of the Bank, in order to help minimize the cost of carrying liquidity.

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

Liquid investments are maintained in two distinct sub-portfolios: transactional and operational, (trading investments portfolio) each with different risk profiles and performance benchmarks. Up to December 2010, the Bank also maintained a Held-to-Maturity (HTM) portfolio. The transactional portfolio is used to meet the day-to-day cash flow requirements. The operational portfolio holds the majority of the Bank's liquid holdings.

Investments of up to 10% of the portfolio may be contracted out to external managers. At December 31, 2011, the Bank had no investments managed by external firms (2010—\$571 million or 3.4% of the investments portfolio).

The returns of the liquid investment portfolios in 2011 and 2010 are shown in **Table 5**. The decrease in the return of the trading investments portfolio in 2011, as compared to 2010, is primarily due to the high volatility and general risk aversion in credit markets, which resulted in substantially lower mark-to-market investment gains, and lower overall interest rates. The return of the HTM portfolio in 2010 includes the recognition of unrealized gains as a result of the discontinuation of the portfolio in December 2010. Excluding these gains, which amounted to \$54 million, the HTM portfolio return would have been 2.39%.

Performance and Exposure of Liquid Investments Portfolio

Following the downgrade of the U.S. government credit rating by S&P in August 2011 and growing concerns regarding the European sovereign debt crisis, world capital markets were marked by high volatility and general risk aversion in credit markets.

Table 5: LIQUID INVESTMENT PORTFOLIOS⁽¹⁾
December 31, 2011 and 2010
(Amounts expressed in millions of United States dollars)

Portfolio	2011		2010	
	Ending Balance	Return (%) ⁽²⁾⁽³⁾⁽⁴⁾	Ending Balance	Return (%) ⁽²⁾⁽³⁾⁽⁴⁾
Transactional	\$ 3,524	0.18	\$ 4,504	0.21
Operational	10,080	0.76	11,852	4.51
Held-to-Maturity . . .	—	—	—	4.41
Overall Portfolio . . .	<u>\$13,604</u>	<u>0.65</u>	<u>\$16,356</u>	<u>3.37</u>

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

⁽²⁾ Combined return for all currencies in each portfolio.

⁽³⁾ Geometrically-linked time-weighted returns.

⁽⁴⁾ Includes gains and losses.

Exposure to structured assets continued to be reduced through repayments at par of \$927 million (2010—\$1,011 million) and selected asset sales. The volatility and limited liquidity in the asset-backed and mortgage-backed securities markets continued to affect the Bank's ability to mitigate its credit risk by selling or hedging its exposures. Nevertheless, certain sub-sectors improved, permitting the execution of limited sales thereby reducing exposure at higher prices. Valuations on the remaining portfolio continue to be impacted by market factors, such as uneven liquidity, rating agency actions, and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of the market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

The Bank continues to closely monitor the asset quality of its investments portfolio, analyzing and assessing the fundamental value of its securities, with a particular focus on its asset-backed and mortgage-backed securities.

In 2011, the Bank recognized \$9 million of mark-to-market gains in its trading investments portfolio (2010—\$396 million). These investment gains mostly relate to gains recognized in the first half of the year in the \$2,019 million (2010—\$2,968 million) asset-backed and mortgage-backed securities portion of the portfolio that were substantially reversed by a decline in valuations across asset classes in the second half of the year in response to increased risk aversion in the credit markets. As of December 31, 2011, 13.5% of the asset-backed and mortgage-backed securities portion of the portfolio was rated AAA and 72.9% was rated investment grade compared to 38.3% and 78.0%, respectively, at December 31, 2010. The reduction in AAA holdings came mainly as a result of downgrades into other investment grade categories.

The exposure for the whole investment portfolio, excluding swaps, amounted to \$13,743 million at December 31, 2011 compared to \$16,394 million at December 31, 2010. The quality of the overall portfolio continues to be high, as 88.3% of the credit exposure is rated AAA and AA (2010—78.9%), 0.8% carry the highest short-term ratings (A1+) (2010—11.6%), 4.3% is rated A (2010—4.1%), and 6.6% is rated below A/A1+ (2010—5.4%). The investment portfolio continued to perform except for \$1.1 million of principal losses (2010—\$2.1 million). Net losses of \$59 million (relative to purchased price) were realized, compared to \$19 million in 2010.

Table 6 shows a breakdown of the trading investments portfolio at December 31, 2011 and 2010 by major security class together with unrealized gains and losses included in Income from Investments-Net gains on securities held at the end of the respective year.

**Table 6: TRADING INVESTMENTS PORTFOLIO
BY MAJOR SECURITY CLASS
December 31, 2011 and 2010**
(Amounts expressed in millions of United States dollars)

Security Class	2011		2010	
	Fair Value ⁽¹⁾	Unrealized Gains (Losses) ⁽²⁾	Fair Value ⁽¹⁾	Unrealized Gains (Losses) ⁽²⁾
Obligations of the United States Government and its corporations and agencies	\$ 1,974	\$ —	\$ 822	\$ —
U.S. Government-sponsored enterprises	841	—	505	(7)
Obligations of non-U.S. governments and agencies	5,586	(7)	7,045	8
Bank obligations	3,323	(6)	5,054	(2)
Mortgage-backed securities	1,269	(41)	1,925	165
U.S. residential	444	(7)	573	87
Non-U.S. residential ..	419	(54)	875	21
U.S. commercial	167	13	182	44
Non-U.S. commercial ..	239	7	295	13
Asset-backed securities ..	750	27	1,043	106
Collateralized loan obligations	470	22	633	64
Other collateralized debt obligations	125	4	152	30
Other asset-backed securities	<u>155</u>	<u>1</u>	<u>258</u>	<u>12</u>
Total trading investments	13,743	(27)	16,394	270
Currency and interest rate swaps—investments-trading ..	<u>(96)</u>	<u>(41)</u>	<u>(71)</u>	<u>(8)</u>
Total	<u>\$13,647</u>	<u>\$(68)</u>	<u>\$16,323</u>	<u>\$262</u>

⁽¹⁾ Includes accrued interest of \$40 million (2010—\$38 million) and \$(27) million (2010—\$(23) million), presented in the Balance Sheet under Accrued interest and other charges-on investments and Accrued interest and other charges-on swaps-net, respectively.

⁽²⁾ Represents unrealized gains and losses included in Income from Investments—Net gains for the corresponding year.

Contractual Obligations

In the normal course of business, the Bank enters into various contractual obligations that require future cash payments. The most significant contractual obligations relate to the repayment of borrowings. The maturity structure of medium- and long-term borrowings outstanding at December 31, 2011 is presented in Appendix I-4 to the financial statements. In addition, the Bank has a number of other

obligations to be settled in cash, which are reflected in its financial statements, including undisbursed loans, short-term borrowings, payable for currency and interest rate swaps, Payable for investment securities purchased and cash collateral received, Due to IDB Grant Facility, and Liabilities under retirement benefit plans.

SOURCES OF FUNDS

Equity

Equity at December 31, 2011 was \$19,794 million compared with \$20,960 million at December 31, 2010. The decrease of \$1,166 million primarily reflects Other comprehensive loss of \$883 million (essentially composed of the effect of the decrease in the funded status of the Bank's pension and postretirement plans of \$880 million), Net fair value adjustments on non-trading portfolios of \$919 million, and Board of Governors approved transfers of \$200 million, partially offset by Operating Income of \$836 million.

The Bank's equity base plays a critical role in securing its financial objectives, enabling the Bank to absorb risk out of its own resources and protecting member countries from a possible call on callable capital stock. **Table 7** presents the composition of the TELR at December 31, 2011 and 2010. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" for further information.

**Table 7: TOTAL EQUITY-TO-LOANS RATIO
December 31, 2011 and 2010**
(Amounts expressed in millions of United States dollars)

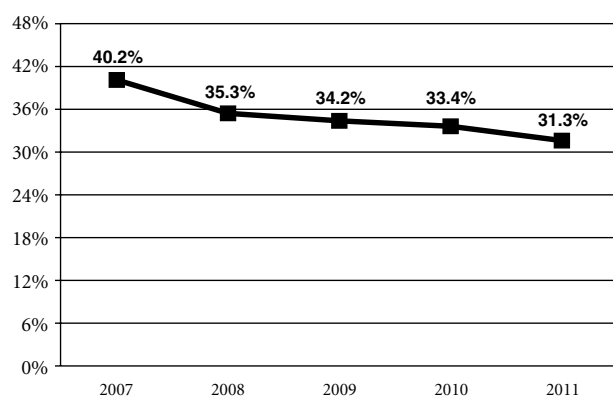
	2011	2010
Equity:		
Paid-in capital stock	\$ 4,339	\$ 4,339
Retained earnings:		
General reserve ⁽¹⁾	12,890	14,056
Special reserve ⁽¹⁾	<u>2,565</u>	<u>2,565</u>
	19,794	20,960
Plus:		
Allowances for loan and guarantee losses	175	172
Minus:		
Borrowing countries' local currency cash balances	173	136
Net receivable from members	76	—
Cumulative net fair value adjustments on non-trading portfolios	<u>(1,241)</u>	<u>(322)</u>
Total Equity	\$20,961	\$21,318
Loans outstanding and net guarantee exposure	\$67,030	\$63,731
Total Equity-to-Loans Ratio	<u>31.3%</u>	<u>33.4%</u>

⁽¹⁾ Includes Accumulated other comprehensive income.

As presented in **Table 7**, the TELR decreased from 33.4% at December 31, 2010, to 31.3% at December 31, 2011. The decrease was mainly due to an increase of \$3,299 million in loans outstanding and net guarantee exposure and a decrease in Total Equity of \$357 million, mostly resulting from Other

comprehensive loss of \$883 million and Board of Governors approved transfers of \$200 million, partially offset by Operating Income of \$836 million. **Figure 2** presents the changes in the TELR during the last five years. Prior to 2007, this ratio had increased steadily as a result of the growth in the Total Equity and lower loans outstanding. From 2008, the ratio reflects the increase in Bank lending to the region.

Figure 2: TOTAL EQUITY-TO-LOANS RATIO



Capitalization

Shareholders' support for the Bank is reflected in the capital backing it has received from its members. At December 31, 2011, subscribed capital stock was \$104,980 million, of which \$4,339 million had been paid-in and \$100,641 million was callable.

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

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

Callable Capital Stock: The callable portion of the capital stock subscriptions is subject to call only when required and to the extent necessary to meet the obligations of the Bank on borrowings of funds or guarantees. In the event of a call, payment may be made at the option of the member in gold, United States dollars, fully convertible currency of the member country or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. Calls are

required to be uniform, but obligations of the members of the Bank to make payment upon such calls are independent of each other. Failure of one or more members to make payments on any such call would not excuse any other member from its obligation to make payment, and successive calls could be made on non-defaulting members if necessary to meet the Bank's obligations. However, no member could be required on any such call to pay more than the unpaid balance of its capital stock subscription. No call has ever been made on the Bank's callable capital stock.

At December 31, 2011, the total subscription of the United States, the Bank's largest shareholder, was \$30,310 million, of which the United States had paid \$1,303 million as subscriptions to the Bank's paid-in capital stock. Of the United States' callable capital stock subscription of \$29,007 million, \$3,800 million had been fully authorized and appropriated, without fiscal year limitation, by United States legislation, and no further appropriation is necessary to enable the Secretary of the Treasury to pay this amount if any part were to be called to meet obligations of the Bank. The balance of the United States' callable capital stock subscription, \$25,207 million, has been authorized by the United States Congress but not yet appropriated. In 1979, in connection with the United States' subscription to an increase in the callable capital stock, the Bank obtained an opinion of the General Counsel of the Treasury stating that appropriations were not legally required to back subscriptions to such callable capital stock unless and until payment was required of the United States on a call made by the Bank. The opinion further states that an appropriation is not required to make United States callable capital stock subscriptions, authorized by United States legislation, binding obligations backed by the full faith and credit of the United States, and that an obligation contracted by the United States pursuant to a Congressional grant of authority for constitutional purposes is fully binding on the United States notwithstanding that a future appropriation might be necessary in order to fund that obligation.

Temporary Increase in Canada's Callable Capital: In 2009, Canada subscribed to 334,887 shares of non-voting callable capital stock, increasing Canada's total subscription to the Bank's Ordinary Capital to 669,774 shares. As a result, the authorized ordinary capital stock of the Bank was increased by an amount of \$4,039.9 million to a total of \$104,980.0 million represented by 8,702,335 shares, authorized and subscribed. The paid-in ordinary capital stock of the Bank remained unchanged. The terms and conditions of Canada's subscription to non-voting callable capital stock stipulate that the subscription is on a temporary basis, with Canada required to transfer 25% of the shares back to the Bank on each of the dates that is five, six, seven and eight years from the subscription date. If the Board of Governors approves an increase in the Bank's authorized ordinary capital stock prior to this scheduled transfer of shares, Canada shall have the right to replace its temporary subscription with shares issued under the capital increase, as and when effective.

Capital Increase: As part of the IDB-9, on July 21, 2010, the Board of Governors, agreed to vote on a proposed resolution, that would provide for an increase in the Bank's Ordinary Capital of \$70,000 million that would be subscribed to by Bank members in five annual installments, starting in 2011 through 2015. Of this amount, \$1,700 million would be in the form of paid-in capital stock, payable in U.S. dollars, and the remainder would constitute callable capital stock. The increase was originally scheduled to enter into effect on October 31, 2011. On October 26, 2011, the Board of Executive Directors approved a resolution extending the deadline for approval of the Ordinary Capital increase and the date of the first subscription installment to January 31, 2012. See the Subsequent and Other Developments section for additional IDB-9 related developments occurring after December 31, 2011.

Borrowings

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

In 2011, the proceeds from medium- and long-term debt raised directly in financial markets amounted to \$6,665 million compared to \$11,789 million in 2010. The decrease in borrowings was due, primarily, to lower net loan disbursements of \$1,446 million and the positive impact on the Bank's liquidity levels of the conversion of \$3,225 million of non-borrowing member currency holdings subject to maintenance of value as well as the dynamic nature of the Bank's liquidity policy. Borrowing operations for 2011 and 2010 are summarized in **Table 8**.

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2011, the Bank executed three strategic benchmark global bond issues denominated in United States dollars with five-, seven- and thirty-year maturities for a combined amount of \$4,700 million. The Bank also issued its first-ever bond denominated in Norwegian krone. Bonds denominated in borrowing member country currencies in the aggregate amount of \$407 million were issued (2010—\$733 million), composed of the following currencies: Brazilian reais—\$382 million and Chilean pesos—\$25 million (2010—Brazilian reais—\$707 million, Mexican pesos—\$16 million and Colombian pesos—\$10 million). In addition, the Bank transacted various bonds denominated in Indian rupees, Indonesian rupiahs, South African rand, New Turkish liras, and United States dollars. New medium- and long-term

Box 4: Borrowing Policy

The Bank's policy is to limit the amount of its Net Borrowings to the subscribed callable capital stock of its non-borrowing member countries (the United States, Canada, Japan and the other nonregional members). Net Borrowings is the amount of borrowings (after swaps), plus gross guarantee exposure, less qualified liquid assets (after swaps), which include the special reserve assets. Special reserve assets can only be used for meeting the Bank's obligations on borrowings and guarantees. As of December 31, 2011, Net Borrowings represented 86.3% of the subscribed callable capital stock of the non-borrowing member countries compared to 80.6% in 2010. Accordingly, the unused borrowing capacity at the end of the year amounted to \$7,176 million, compared to \$10,152 million in 2010.

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

Table 8: SUMMARY OF ANNUAL BORROWING OPERATIONS
For the years ended December 31, 2011 and 2010
(Amounts expressed in millions of United States dollars)

	2011	2010
Total medium- and long- term borrowings ⁽¹⁾	\$6,665	\$11,789
Average life (years) ⁽²⁾	6.8	5.3
Number of transactions	40	85
Number of currencies	8	10

⁽¹⁾ Represents proceeds on a trade date basis.

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

borrowings by currency for 2011, as compared to 2010, are shown in **Figure 3**.

Borrowings outstanding by currency as of December 31, 2011 and 2010, are shown in **Table 9**.

The Bank may retire its debt earlier than the maturity date. For example, debt may be repurchased to facilitate secondary market liquidity and bonds may be called to reduce the cost of borrowing. During 2011, the Bank early retired \$309 million of its borrowings (2010—\$506 million).

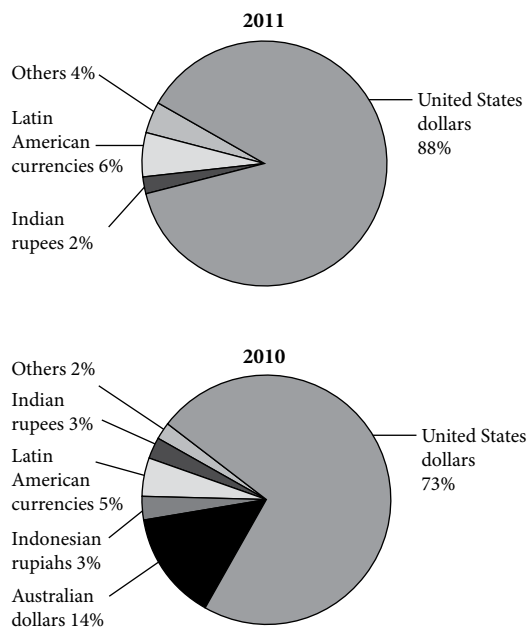
**Table 9: OUTSTANDING BORROWINGS⁽¹⁾
BY CURRENCY**
December 31, 2011 and 2010
(Expressed in millions of United States dollars)

Currency	2011	2010
Australian dollars	\$7,503	\$8,505
Brazilian reais	1,317	1,145
British pounds sterling	895	887
Canadian dollars	3,657	3,692
Chilean pesos	68	50
Colombian pesos	50	57
Costa Rican colones	51	52
Euro	1,317	1,336
Hong Kong dollars	64	96
Indian rupees	421	306
Indonesian rupiahs	630	674
Japanese yen	975	1,271
Mexican pesos	927	1,123
New Turkish liras	228	257
New Zealand dollars	1,710	1,865
Norwegian krone	84	—
Peruvian new soles	120	116
Russian rubles	36	37
South African rand	212	332
Swiss francs	692	694
United States dollars	38,673	38,629
Total	<u>\$59,630</u>	<u>\$61,124</u>

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

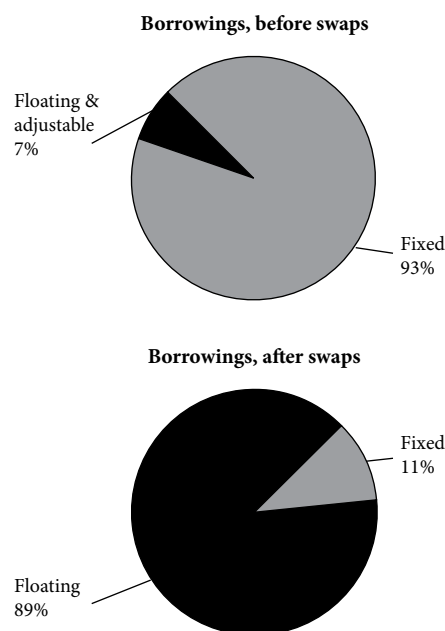
Use of Derivatives: The Bank may enter into currency and interest rate swaps contemporaneously with borrowing transactions in order to convert the proceeds mostly into United States dollars but also into euro, Japanese yen or Swiss francs and fixed or floating rate funding to meet its loan disbursement obligations. In 2011, almost all new fixed rate borrowings were swapped into United States dollars at floating rates and all non-United States dollar borrowings were swapped into United States dollars. **Figures 4** and **5** illustrate the effect of swaps on both the interest rate structure and currency composition of the medium- and long-term borrowing portfolio at December 31, 2011. More detailed information with respect to the Bank's borrowings and related derivatives is contained in Notes I, J, K and L and Appendix I-4 to the financial statements.

Figure 3: BORROWINGS BY CURRENCY⁽¹⁾
For the years ended December 31, 2011 and 2010



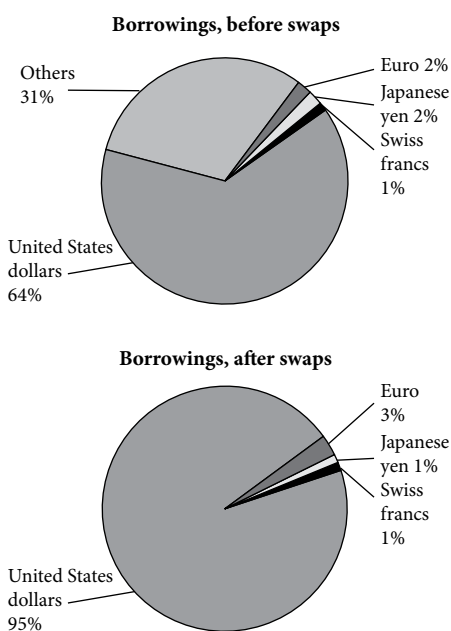
⁽¹⁾ Includes medium- and long-term borrowings, excluding swaps, and represents proceeds on a trade date basis.

Figure 4: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS⁽¹⁾
December 31, 2011



⁽¹⁾ Medium- and long-term borrowings only.

Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS⁽¹⁾
December 31, 2011



⁽¹⁾ Medium- and long-term borrowings only.

RESULTS OF OPERATIONS

Operating Income

Operating Income includes the net interest income on earning assets and the income contribution of the Bank's equity, other loan income, net investment gains, the provision (credit) for loan and guarantee losses and net non-interest expense. **Table 10**

Table 10: OPERATING INCOME
For the years ended December 31, 2011, 2010 and 2009
(Expressed in millions of United States dollars)

	2011	2010	2009
Loan interest income	\$1,683	\$1,764	\$1,934
Investment interest income	99	178	303
Other interest income	112	7	—
	1,894	1,949	2,237
Less:			
Borrowing expenses	462	550	951
Net interest income	1,432	1,399	1,286
Other loan income	59	66	68
Net investment gains	9	446	528
Other expenses (credits):			
Provision (credit) for loan and guarantee losses	3	24	(21)
Net non-interest expense	661	635	609
Total	664	659	588
Operating Income	\$ 836	\$1,252	\$1,294

shows the breakdown of Operating Income during the last three years.

Year 2011 versus 2010: The Operating Income for 2011 was \$836 million compared to \$1,252 million in 2010, a decrease of \$416 million. This decrease was mostly due to lower net investment gains of \$437 million and higher net non-interest expense of \$26 million, which were partially offset by higher net interest income of \$33 million and a decrease in the provision for loan and guarantee losses of \$21 million.

Year 2010 versus 2009: The Operating Income for 2010 was \$1,252 million compared to \$1,294 million in 2009, a decrease of \$42 million. This decrease was due to lower net investment gains of \$82 million, higher net non-interest expense of \$26 million, and a provision for loan and guarantee losses of \$24 million, compared to a credit of \$21 million in 2009, which were partially offset by higher net interest income of \$113 million, resulting mainly from an increase in net interest income from loans.

Net Interest Income

Year 2011 versus 2010: The Bank had net interest income of \$1,432 million in 2011, compared to \$1,399 million in 2010. The increase was mainly due to an increase in the income contribution of the portion of the loan portfolio funded with equity, partially offset by a reduction of net interest income from loans. The lending spread on most of the Bank's loans decreased from 0.95% in 2010 to 0.80% in 2011, which was partially compensated by an increase in the average loan balance of \$4,688 million.

The equity duration strategy established in late 2010 resulted in an increase in interest income from the swaps (where the Bank is a variable interest rate payer and a fixed interest rate receiver) of \$105 million over the prior year, offsetting the decline in interest income from equity funding variable interest rate loans.

Year 2010 versus 2009: The Bank had net interest income of \$1,399 million in 2010, compared to \$1,286 million in 2009. The increase of \$113 million was substantially due to higher net interest income from loans. The lending spread on most of the Bank's loans increased from an average of 0.63% in 2009 to 0.95% in 2010 while the average loan balance increased by \$5,298 million. The effect of this increase was partially offset by a reduction in the return on the portion of the portfolio funded with equity.

Net Investment Gains

Year 2011 versus 2010: The Bank's trading investments portfolio contributed net mark-to-market gains of \$9 million, compared to \$396 million in 2010, a decrease of \$385 million mostly due to the high volatility and general risk aversion in credit markets during the second half of the year.

Year 2010 versus 2009: The Bank's trading investments portfolio contributed net mark-to-market gains of \$396 million, compared to \$528 million in 2009, a decrease of \$132 million mostly due to a slow-down in the recovery of the financial

markets. In addition, the Bank recognized net gains of \$50 million from the HTM portfolio substantially resulting from the discontinuance of this portfolio in 2010.

The average interest earning asset and interest bearing liability portfolios, after swaps, and the respective returns and costs for 2011, 2010, and 2009 are shown in **Table 11**.

Table 11: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS
For the years ended December 31, 2011, 2010 and 2009
(Amounts expressed in millions of United States dollars)

	2011		2010		2009	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans ⁽¹⁾	\$63,420	2.65	\$58,732	3.01	\$53,434	3.62
Liquid investments ⁽²⁾⁽³⁾	15,110	0.65	19,631	3.37	19,061	4.29
Total earning assets	<u>\$78,530</u>	<u>2.27</u>	<u>\$78,363</u>	<u>3.10</u>	<u>\$72,495</u>	<u>3.80</u>
Borrowings	<u>\$56,794</u>	<u>0.81</u>	<u>\$57,555</u>	<u>0.96</u>	<u>\$53,372</u>	<u>1.78</u>
Net interest margin ⁽⁴⁾		<u>1.82</u>		<u>1.79</u>		<u>1.77</u>

⁽¹⁾ Excludes loan fees.

⁽²⁾ Geometrically-linked time-weighted returns.

⁽³⁾ Includes gains and losses.

⁽⁴⁾ Represents net interest income as a percent of average earning assets.

Net Non-interest Expense

The main components of net non-interest expense are presented in **Table 12**.

Table 12: NET NON-INTEREST EXPENSE
For the years ended December 31, 2011, 2010 and 2009
(Expressed in millions of United States dollars)

	2011	2010	2009
Administrative expenses			
Staff costs	\$426	\$401	\$361
Consultant fees	81	78	70
Operational travel	28	25	24
Realignment expenses	—	1	11
Other expenses	83	79	76
Total gross administrative expenses	618	584	542
Less: Share of Fund for Special Operations	(18)	(11)	(12)
Net administrative expenses	600	573	530
Service fee revenues	(6)	(5)	(5)
Special programs	79	83	94
Other income	(12)	(16)	(10)
Net non-interest expense	<u>\$661</u>	<u>\$635</u>	<u>\$609</u>

Year 2011 versus 2010: Net non-interest expense increased from \$635 million in 2010 to \$661 million in 2011. The increase is mainly due to higher staff costs of \$25 million, of which \$17 million relates to higher net pension and postretirement benefit costs.

Year 2010 versus 2009: Net non-interest expense increased from \$609 million in 2009 to \$635 million in 2010. The increase is substantially due to higher net pension and postretirement benefit costs of \$25 million due to the change in the attribution period for medical benefits in 2009, which is being amortized over two years.

FINANCIAL RISK MANAGEMENT

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

Governance

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

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

Credit Risk

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

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

The credit quality of the sovereign-guaranteed lending portfolio as of December 31, 2011 and 2010, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies (generally, Standard & Poor's), is depicted in **Figure 6**.

Relative to December 31, 2011, **Figure 6** shows that the relative amount of lending exposure to sovereign borrowers rated at investment grade and B+ to B- levels increased from 46% to 56%, and from 26% to 28%, respectively, while the lending exposure to sovereign borrowers in the BB+ to BB- category decreased from 22% to 10%. The relative lending exposure in the non-sovereign-guaranteed category remained unchanged at 6%. No borrower was in selective default. Note that the weighted average credit quality of the Bank's sovereign lending exposure remains at the BB level.

The Bank's exposure reflects the overall size and concentration of the portfolio. Exposure is limited only by the Bank's lending authority; there are no per-country lending limits. Taking into consideration the regional nature of the Bank's operations and the relative sizes of the economies of its borrowing members, the Bank expects to consistently have a concentrated portfolio. As shown in **Figure 7**, from 2010 to 2011, the lending exposure concentration remained basically unchanged. About 67% of the total exposure still is held by the five largest borrowers.

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

Capital Adequacy Framework: The Bank's capital adequacy framework consists of a policy on capital adequacy and systems that support the determination of capital requirements for credit and market risk in both its lending and treasury operations. In addition, the policy includes capital requirements for operational risk and the exposure from the obligation to fund any changes in the shortfall/surplus of the Bank's

Figure 6: CREDIT QUALITY OF SOVEREIGN-GUARANTEED LEADING EXPOSURE REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES December 31, 2011 and 2010

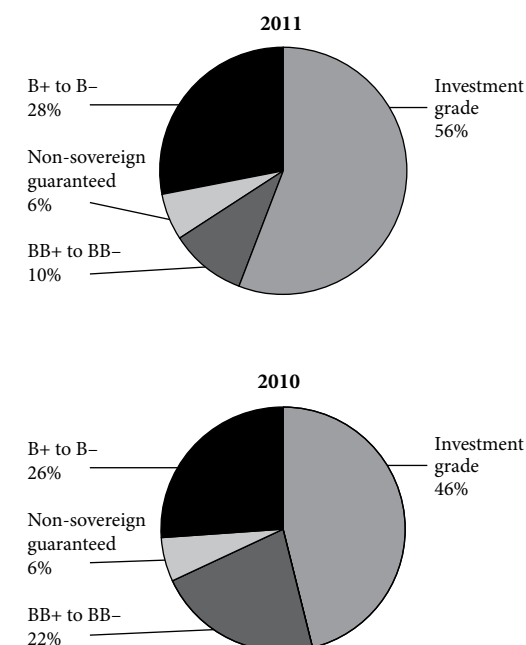
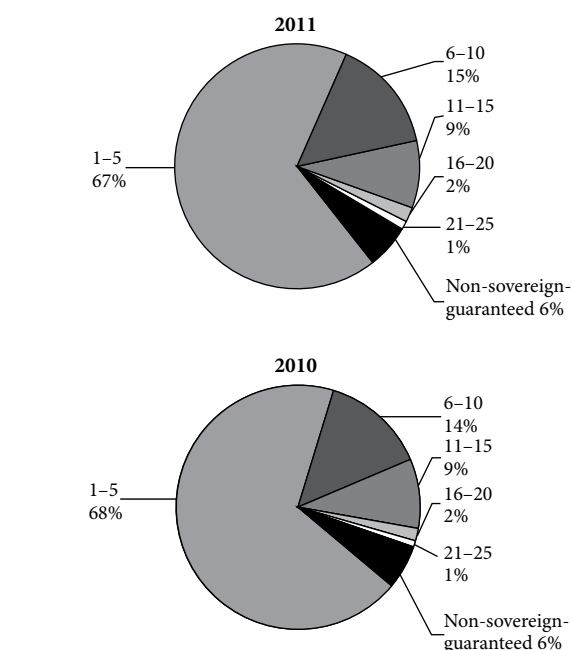


Figure 7: CONCENTRATION OF LENDING EXPOSURE December 31, 2011 and 2010



retirement funds. The policy allows the Bank to measure the inherent risk in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, and to make flexible adjustments to changing market conditions. As such, specific risk limits in terms of capital requirements for investments and derivatives are included that enables Management to design more efficient funding and investment strategies following the risk tolerance established by the Board of Executive Directors.

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

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

Non-performing Loans: Except for non-sovereign-guaranteed loans, loan service delays by a borrower in a member country preclude new loan approvals to borrowers in the member country, may lead to the suspension of loan disbursements, may result in the loan being placed in non-accrual status, and may cause the loan to be declared due and payable. The Bank exercises its policy under a graduated approach as summarized in **Table 13**.

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

In the case of non-sovereign-guaranteed loans, the Private Sector Non-Accrual and Loss Provisioning Committee, chaired by the Chief Risk Officer, determines when the loan is classified in nonaccrual status, which can happen anytime between 30 and 90 days of being overdue or, if special circumstances warrant, at any time prior to the expiry of 30 days.

Loan and Guarantee Loss Allowances: Because of the nature of its borrowers and guarantors, the Bank expects that each of its Ordinary Capital sovereign-guaranteed loans will be repaid. In addition, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio since its establishment. During the Bank's 52 years of history, only five borrowing countries have been in nonaccrual, for varying times during 1988–1992. The maximum aggregate balance in nonaccrual never exceeded 8% of total loans outstanding, and the Bank received the full principal and interest due on these loans. The Bank maintains allowances for loan and guarantee losses to recognize the probable losses inherent in its loan and guarantee portfolios, primarily related to non-sovereign-guaranteed operations. At December 31, 2011, the Bank had one non-sovereign-guaranteed loan classified as impaired for \$129 million (2010—two for \$140 million). Pursuant to Bank policy, a provision for loan and guarantee losses of \$3 million was recognized during 2011 (2010—\$24 million). Total allowances of \$175 million were maintained at December 31, 2011 (2010—\$172 million). The non-sovereign-guaranteed allowances for loan and guarantee losses were 4.0% of the corresponding combined outstanding portfolios (2010—4.2%).

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

Table 13: TREATMENT OF NON-PERFORMING SOVEREIGN-GUARANTEED LOANS

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

instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank will only invest in high quality debt instruments issued by governments, government agencies, multilateral organizations, financial institutions, and corporate entities, including asset-backed securities. The Bank's process for controlling its commercial credit risk includes: a) specifying authorized investments; b) establishing approved lists of acceptable counterparties, issuers, and dealers; c) defining acceptable credit rating limits; and d) specifying exposure limits and term limits for acceptable counterparties, issuers, and dealers based on their size and creditworthiness.

As part of its regular investment, funding, and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, for hedging purposes. The use of derivatives is limited to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank has established exposure limits for each derivative counterparty and has entered into master derivative agreements that contain enforceable closeout netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual thresholds. Counterparty exposure against established limits are calculated and monitored on the basis of potential credit exposures modeled throughout the life of each counterparty's portfolio. Simulation is used to

model the complex interactions of market risk factors, the dynamics of the portfolio, and the impact of risk mitigation mechanisms such as collateral thresholds and termination triggers, to estimate the potential credit exposure. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its swap counterparties.

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

Table 14 provides details of the estimated current credit exposure on the Bank's investment and swap portfolios, net of collateral, by counterparty rating category. As of December 31, 2011, the credit exposure amounted to \$14,121 million,

Table 14: CURRENT CREDIT EXPOSURE, NET OF COLLATERAL HELD, BY COUNTERPARTY RATING CATEGORY
(Amounts expressed in millions of United States dollars)

	December 31, 2011					
	Investments				Total Exposure on	
Counterparty rating	Governments and Agencies	Banks	ABS and MBS	Net Swap Exposure	Investments and Swaps	% of Total
AAA ⁽¹⁾	\$3,756	\$ 490	\$ 273	\$ —	\$ 4,519	32.0
AA	4,436	2,587	701	290	8,014	56.8
A	147	246	202	88	683	4.8
BBB	62	—	296	—	358	2.5
BB	—	—	60	—	60	0.4
B	—	—	140	—	140	1.0
CCC	—	—	213	—	213	1.5
CC and below	—	—	134	—	134	1.0
Total	\$8,401	\$3,323	\$2,019	\$378	\$14,121	100.0

⁽¹⁾ Includes \$105 million of governments and agencies rated A1+, the highest short-term rating.

	December 31, 2010					
	Investments				Total Exposure on	
Counterparty rating	Governments and Agencies	Banks	ABS and MBS	Net Swap Exposure	Investments and Swaps	% of Total
AAA ⁽¹⁾	\$6,572	\$ 972	\$1,138	\$ —	\$ 8,682	50.8
AA	1,787	3,562	801	644	6,794	39.8
A	13	520	140	52	725	4.2
BBB	—	—	235	—	235	1.4
BB	—	—	194	—	194	1.1
B	—	—	92	—	92	0.5
CCC	—	—	239	—	239	1.4
CC and below	—	—	129	—	129	0.8
Total	\$8,372	\$5,054	\$2,968	\$696	\$17,090	100.0

⁽¹⁾ Includes \$1,896 million of governments and agencies rated A1+, the highest short-term rating.

compared to \$17,090 million as of December 31, 2010. The credit quality of the portfolios continue to be high, as 88.8% of the counterparties are rated AAA and AA, 4.8% are rated A, 2.5% are rated BBB, and 3.9% are rated below BBB, compared to 90.6%, 4.2%, 1.4% and 3.8%, respectively, in 2010. Excluding collateral, the current credit exposure from swaps increased from \$4,816 million at December 31, 2010 to \$5,050 million at December 31, 2011. This swap credit exposure is offset by collateral (U.S. Treasuries or cash) of \$4,653 million (2010—\$4,130 million). Total uncollateralized swap exposure at December 31, 2011 was \$378 million, compared to \$696 million in 2010.

As of December 31, 2011, out of the Bank's total current credit exposure in Europe of \$6,718 million, the direct exposure to three Eurozone countries rated A+ or lower (Italy, Portugal, and Spain) was \$147 million. The exposure was entirely composed of government agencies. In addition, in the countries specified, the Bank had \$401 million of exposure in asset-backed and mortgage-backed securities, generally rated higher than the sovereigns, and \$24 million on swaps. All the remaining European current exposure of \$6,146 million, regardless of asset class, was in countries rated AA- or higher.

Market Risk

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

Asset and Liability Management: The objective of asset and liability management is to manage the currency composition, maturity profile and interest rate sensitivity characteristics of the portfolio of liabilities supporting liquidity and each lending product in accordance with the particular requirements for that product and within prescribed risk parameters. The Bank employs derivatives to manage its asset and liability exposures by aligning the characteristics of its debt with the assets it is funding. In addition, the Bank utilizes derivatives to manage the modified duration of its equity within a defined policy band.

The Bank's policy for asset/liability management, among others, provides rules for the active management of equity duration and for limiting the bunching of debt redemptions within any 12-month period. As of December 31, 2011, asset/liability management swaps with a notional amount of \$6,143 million (2010—\$5,495 million) were outstanding to maintain the equity duration within policy limits.

Interest Rate Risk: The Bank is exposed to two potential sources of interest rate risk. The first is the exposure to changes in the net spread between the rate earned on assets and the cost of borrowings that fund those assets. The second is the exposure to changes in the income earned on the portion of the assets funded with equity.

The Bank mitigates its exposure to net spread changes through either a cost pass-through formulation, calculated

on an actual or estimated basis, incorporated in the lending rates charged or hedges of related interest rate exposures. The cost pass-through loans account for 94% of the existing outstanding loan portfolio as of December 31, 2011; the remaining 6% are emergency loans, non-sovereign-guaranteed loans and fixed-rate loans. A small portion of the cost pass-through loans (i.e., the adjustable rate loans) pose some residual interest rate risk given the six-month lag inherent in the lending rate calculation. The Bank funds and invests its liquidity at matching rate structures using specific duration gap constraints, thus avoiding any undue exposure to interest rate risk.

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

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

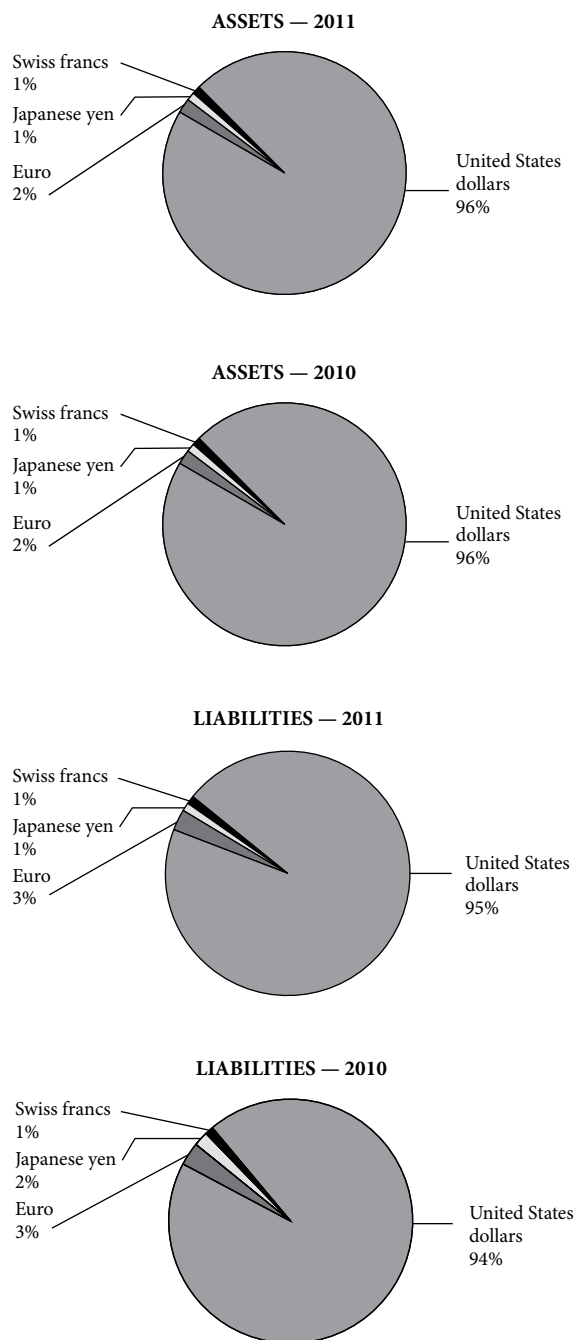
Figure 8 presents the currency composition of the Bank's assets and liabilities (after swaps) at the end of 2011 and 2010.

Liquidity Risk

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

The Bank manages liquidity risk through its liquidity policy, asset/liability management policy and its short-term borrowing program. The Bank's liquidity policy determines a minimum amount of liquidity which is designed to allow the Bank to refrain from borrowing for a period of time while continuing to meet its own obligations. The asset and liability management policy of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, limits the amounts of debt refinancing within a given period. Finally, under the short-term borrowing program, discount notes with maturities of less than one year are issued to manage short-term cash flow needs.

Figure 8: CURRENCY COMPOSITION OF ASSETS & LIABILITIES
December 31, 2011 and 2010



Operational Risk

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

risk includes fraud and failures in the Bank's execution of its contractual, fiduciary and agency responsibilities.

Within the Bank there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls. These are supplemented by the Bank's disaster recovery/contingency planning, the Information Disclosure Policy, client and project integrity due diligence procedures, the procedures for risk management and fiduciary arrangements in projects, and procurement and purchasing policies. Furthermore, the Bank developed and began the implementation of an Operational Risk Framework that governs the coordinated and consistent assessment, mitigation, and reporting of operational risks across the different business units.

Internal Control Over Financial Reporting: The Bank follows the Committee of Sponsoring Organizations of the Treadway Commission Internal Control-Integrated Framework for its financial reporting, and has in place an annual process for Management to report on the effectiveness of the internal control over financial reporting, and for the external auditors to audit and issue an opinion as to the effectiveness of the internal control over financial reporting. The Management report and external auditors' opinion on internal control over financial reporting for 2011 are included in the financial statements.

ADDITIONAL REPORTING AND DISCLOSURE

Basis of Reporting

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

Critical Accounting Policies

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

Fair Value of Financial Instruments: The Bank uses fair value measurements to account for the trading investments portfolio, borrowings elected under the fair value option and all derivatives (mostly interest and currency swaps), and for disclosures of financial instruments. Fair values are based on quoted market prices when they are available. Otherwise, fair values are based on prices from external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing discounted cash flows. Pricing models generally use inputs from market sources such as interest rate yield curves, currency exchange rates and option volatilities. These inputs have a significant

effect on the reported fair values of assets and liabilities and related income and expenses. Management believes its measurements of fair value are reasonable given its processes for obtaining and prioritizing observable inputs (i.e. external prices and parameters) and the consistent application of this approach from period to period.

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

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

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

External Auditors

General: The external auditors are appointed by the Board of Governors following a competitive bidding process. In 2002, Ernst & Young LLP (E&Y) was appointed as external auditors. Pursuant to an agreement between the Bank and E&Y, the parties extended, on a yearly basis through 2006, E&Y's appointment. In 2007, E&Y won a new competitive bidding and was appointed as the Bank's external auditors for a

second five-year period ending in 2011. Management is conducting a competitive bidding process to select a new external auditor for the five-year period 2012-2016, as E&Y will be completing its second and last five-year term in early 2012 in compliance with the Bank's mandatory rotation policy.

Contracted fees for audit services provided to the Bank by E&Y in connection with the 2011 financial statement and internal control audits amount to \$1,378,000. In addition, E&Y was paid \$131,000 during 2011 for services related to bond issuance. E&Y also provides audit services to trust funds administered by the Bank and to the Bank's staff retirement plans, for which contracted fees related to the 2011 audits are \$624,000.

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

- The work plan of the external auditors, including audit and audit-related services, must be approved by the Board of Executive Directors, based on the recommendation of the Audit Committee.
- External auditors participation in non-audit services is limited to exceptional audit related services and requires approval of the Board of Directors acting on the recommendation of the Audit Committee.
- The external auditors' engagement and review partners must rotate at least every five years.
- The performance of the external auditors is evaluated annually.
- The external auditors' independence must be confirmed annually by the Audit Committee.
- The external auditors have full access to the Audit Committee and the Board of Executive Directors.

FUND FOR SPECIAL OPERATIONS

General

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

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

In 2011, the Bank approved 19 parallel loans for a total of \$583 million, composed of \$181 million and \$402 million from the resources of the FSO and the Ordinary Capital, respectively (2010—31 loans totaling \$901 million composed of \$297 million from the FSO and \$604 million from the Ordinary Capital). As of December 31, 2011, FSO outstanding loans amounted to \$4,162 million (2010—\$4,004 million) and were fully performing. FSO operations generated Income before technical cooperation, debt relief, and Board of Governors approved transfers of \$55 million compared to \$80 million in 2010.

At December 31, 2011, the FSO's fund balance amounted to \$5,429 million (2010—\$5,346 million), mostly resulting from subscribed contribution quotas from member governments of the Bank less debt relief provided to the poorest borrowing member countries and Board of Governors approved transfers.

Increase in the Resources of the FSO

As part of the IDB-9, on October 31, 2011, the Board of Governors authorized the increase in the resources of the FSO consisting of an additional \$479 million of new contribution quotas to be paid by the Bank members in United States dollars. Member countries could elect to make contributions either in one installment (i.e., their share of the \$479 million) or in five equal annual installments of their share of the undiscounted amount of the \$479 million, established at \$517.3 million, starting in 2011. As of December 31, 2011, instruments of contribution have been received amounting to \$425 million, of which \$305 million have been paid.

INTERMEDIATE FINANCING FACILITY ACCOUNT

The resources of the IFF are used to defray a portion of the interest due by borrowers on certain loans approved from the Ordinary Capital up to December 31, 2006: a maximum of up to 3.62% per annum (5% per annum for certain loans) of the interest rate due on such loans. The IFF is funded from income earned on its own investments.

IDB GRANT FACILITY

In 2007, the Board of Governors approved the creation of the GRF for the purpose of making grants appropriate for dealing with special circumstances arising in specific countries (currently only Haiti) or with respect to specific projects. The GRF is funded by transfers from the FSO and the Ordinary Capital, and possible direct contributions from donor countries.

As part of the IDB-9, the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide \$200 million annually in transfers of Ordinary Capital income to the GRF, beginning in 2011 through 2020. In March 2011, the Board of Governors approved the transfer of \$200 million (2010—\$72 million) of Ordinary Capital income to the GRF. In addition, general reserve transfers from the FSO of \$44 million (2010—\$364 million) were made, completing the transfers agreed to during the IDB-9 process. Effective December 2011, FSO general reserve transfers to the GRF were discontinued.

Total grants approved for Haiti from the GRF during 2011 amounted to \$241 million (2010—\$395 million, including undisbursed loans balances from the FSO converted to grants of \$144 million).

FINANCIAL STATEMENTS

ORDINARY CAPITAL

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

March 9, 2012

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

Management has assessed the effectiveness of the Bank's Ordinary Capital internal control over financial reporting as of December 31, 2011. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2011.

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

Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Ordinary Capital internal control over financial reporting. In addition, the Bank's Ordinary Capital financial statements, as of December 31, 2011, have been audited by Ernst & Young LLP.



Luis Alberto Moreno
President



Jaime Alberto Sujoy
Vice President for Finance and Administration



Edward Bartholomew
Finance General Manager and CFO

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited Inter-American Development Bank (Bank)—Ordinary Capital’s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank’s Management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank’s Ordinary Capital internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Bank’s Ordinary Capital maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Inter-American Development Bank—Ordinary Capital as of December 31, 2011 and 2010, and the related statements of income and retained earnings, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 9, 2012 expressed an unqualified opinion thereon.

Washington, D.C.
March 9, 2012

Ernst & Young LLP

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheets of the Inter-American Development Bank (Bank)—Ordinary Capital as of December 31, 2011 and 2010, and the related statements of income and retained earnings, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Ordinary Capital at December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Inter-American Development Bank's Ordinary Capital internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012 expressed an unqualified opinion thereon.

Washington, D.C.
March 9, 2012

Ernst & Young LLP

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2011		2010	
ASSETS				
Cash and investments				
Cash—Notes C and W	\$ 1,189		\$ 242	
Investments—Trading—Notes D, K, L and W, Appendix I-1 . . .	<u>13,703</u>	\$14,892	<u>16,356</u>	\$16,598
Loans outstanding—Notes E, T and W, Appendixes I-2 and I-3 . .				
Allowance for loan losses.	<u>(150)</u>	<u>65,980</u>	<u>(145)</u>	<u>62,862</u>
Accrued interest and other charges				
On investments	<u>40</u>		<u>38</u>	
On loans.	<u>466</u>		<u>480</u>	
On swaps, net	<u>345</u>	<u>851</u>	<u>347</u>	<u>865</u>
Receivable from members—Note G				
Non-negotiable, non-interest-bearing obligations:				
Demand notes.	<u>73</u>		<u>90</u>	
Term notes.	<u>221</u>		<u>236</u>	
Amounts required to maintain value of				
currency holdings.	<u>1</u>	<u>295</u>	<u>52</u>	<u>378</u>
Currency and interest rate swaps—Notes K, L and W				
Investments—trading—Appendix I-1	<u>11</u>		<u>7</u>	
Loans.	<u>112</u>		<u>38</u>	
Borrowings—Appendix I-4.	<u>6,702</u>		<u>5,887</u>	
Other.	<u>215</u>	<u>7,040</u>	<u>—</u>	<u>5,932</u>
Other assets				
Assets under retirement benefit plans—Note S	<u>—</u>		<u>163</u>	
Receivable for investment securities sold	<u>2</u>		<u>48</u>	
Property, net—Note H.	<u>325</u>		<u>324</u>	
Miscellaneous	<u>47</u>	<u>374</u>	<u>47</u>	<u>582</u>
Total assets		<u><u>\$89,432</u></u>		<u><u>\$87,217</u></u>
LIABILITIES AND EQUITY				
Liabilities				
Borrowings—Notes I, J, L and W, Appendix I-4				
Short-term.	\$ 898		\$ 30	
Medium- and long-term:				
Measured at fair value	<u>48,901</u>		<u>52,846</u>	
Measured at amortized cost	<u>14,124</u>	<u>\$63,923</u>	<u>10,077</u>	<u>\$62,953</u>
Currency and interest rate swaps—Notes K, L and W				
Investments—trading—Appendix I-1	<u>80</u>		<u>55</u>	
Loans	<u>1,658</u>		<u>693</u>	
Borrowings—Appendix I-4.	<u>794</u>		<u>808</u>	
Other	<u>—</u>	<u>2,532</u>	<u>72</u>	<u>1,628</u>
Payable for investment securities purchased and cash				
collateral received.		<u>943</u>		<u>13</u>
Liabilities under retirement benefit plans—Note S		<u>796</u>		<u>74</u>
Due to IDB Grant Facility		<u>272</u>		<u>72</u>
Amounts payable to maintain value				
of currency holdings—Note G		<u>219</u>		<u>535</u>
Accrued interest on borrowings.		<u>538</u>		<u>555</u>
Accounts payable and accrued expenses.		<u>415</u>		<u>427</u>
Total liabilities		<u><u>69,638</u></u>		<u><u>66,257</u></u>
Equity				
Capital stock—Note O, Appendixes I-5 and I-6				
Subscribed 8,702,335 shares	<u>104,980</u>		<u>104,980</u>	
Less callable portion.	<u>(100,641)</u>		<u>(100,641)</u>	
Paid-in capital stock.	<u>4,339</u>		<u>4,339</u>	
Retained earnings—Note P.	<u>15,488</u>		<u>15,771</u>	
Accumulated other comprehensive income (loss)—Note Q	<u>(33)</u>	<u>19,794</u>	<u>850</u>	<u>20,960</u>
Total liabilities and equity		<u><u>\$89,432</u></u>		<u><u>\$87,217</u></u>

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND RETAINED EARNINGS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Income			
Loans			
Interest, after swaps—Notes E and K	\$ 1,683	\$ 1,764	\$ 1,934
Other loan income	59	66	68
	<u>1,742</u>	<u>1,830</u>	<u>2,002</u>
Investments—Note K			
Interest	99	178	303
Net gains	9	446	528
Other interest income—Note K	112	7	—
Other	18	21	15
Total income	<u>1,980</u>	<u>2,482</u>	<u>2,848</u>
Expenses			
Borrowing expenses			
Interest, after swaps—Notes I, J, K and L	455	523	929
Borrowing issue costs	12	27	24
Debt repurchase income	(5)	—	(2)
	<u>462</u>	<u>550</u>	<u>951</u>
Provision (credit) for loan and guarantee losses—Note F	3	24	(21)
Administrative expenses—Note B	600	573	530
Special programs	79	83	94
Total expenses	<u>1,144</u>	<u>1,230</u>	<u>1,554</u>
Income before Net fair value adjustments on non-trading portfolios and Board of Governors approved transfers	836	1,252	1,294
Net fair value adjustments on non-trading portfolios—Notes I, J, K and R	(919)	(850)	(500)
Board of Governors approved transfers—Note N	(200)	(72)	—
Net income (loss)	(283)	330	794
Retained earnings, beginning of year	15,771	15,441	14,647
Retained earnings, end of year	<u>\$15,488</u>	<u>\$15,771</u>	<u>\$15,441</u>

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Net income (loss)	\$ (283)	\$ 330	\$ 794
Other comprehensive income (loss)—Note Q			
Translation adjustments	(3)	(25)	(72)
Recognition of changes in assets/liabilities under retirement benefit plans—Note S	(880)	(19)	506
Reclassification to income—cash flow hedges	—	—	2
Total other comprehensive income (loss)	<u>(883)</u>	<u>(44)</u>	<u>436</u>
Comprehensive income (loss)	<u>\$(1,166)</u>	<u>\$286</u>	<u>\$1,230</u>

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	\$ (7,898)	\$(10,341)	\$(11,424)
Loan collections (net of participations)	4,601	5,598	4,542
Net cash used in lending activities	(3,297)	(4,743)	(6,882)
Gross purchases of held-to-maturity investments	—	(4,409)	(4,232)
Gross proceeds from maturities or sale of held-to-maturity investments . .	—	7,373	4,253
Purchase of property	(21)	(33)	(21)
Miscellaneous assets and liabilities	(9)	(30)	(8)
Net cash used in lending and investing activities	(3,327)	(1,842)	(6,890)
Cash flows from financing activities			
Medium- and long-term borrowings:			
Proceeds from issuance	6,808	11,726	16,181
Repayments	(7,919)	(9,998)	(6,086)
Short-term borrowings:			
Proceeds from issuance	6,121	469	2,571
Repayments	(5,253)	(2,349)	(3,752)
Cash collateral received	898	12	1
Collections of receivable from members	71	30	3
Payments of maintenance of value to members	(317)	—	—
Net cash provided by (used in) financing activities	409	(110)	8,918
Cash flows from operating activities			
Gross purchases of trading investments	(21,150)	(31,865)	(33,542)
Gross proceeds from sale or maturity of trading investments	23,977	32,691	30,475
Loan income collections, after swaps	1,748	1,864	2,152
Interest and other costs of borrowings, after swaps	(215)	(373)	(1,009)
Income from investments	18	251	305
Other interest income	114	—	—
Other income	18	21	15
Administrative expenses	(576)	(574)	(446)
Special programs	(69)	(55)	(38)
Net cash provided by (used in) operating activities	3,865	1,960	(2,088)
Effect of exchange rate fluctuations on cash	—	(8)	1
Net increase (decrease) in Cash	947	—	(59)
Cash, beginning of year	242	242	301
Cash, end of year	\$ 1,189	\$ 242	\$ 242

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

Note A—Origin

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

Note B—Summary of Significant Accounting Policies

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

New Accounting Pronouncements

In 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02 "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring"; ASU No. 2011-04 "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"; ASU No. 2011-05 "Comprehensive Income (Topic 220)"; ASU No. 2011-11 "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities"; and ASU No. 2011-12 "Comprehensive Income (Topic 220): Deferral of the Effective Date for

Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05".

ASU No. 2011-02 provides additional guidance in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. ASU No. 2011-02 was effective for the Bank as of September 30, 2011 and did not have a material impact on its financial statements.

ASU No. 2011-04, among other changes, expands existing disclosure requirements for fair value measurements to achieve common disclosure requirements with international standards, and clarifies the FASB's intent about the application of existing fair value measurement requirements. The amendments are effective for the Bank as of March 31, 2012 and are not expected to have a material impact on its financial condition or results of operations.

ASU No. 2011-05 eliminates the current option to report other comprehensive income and its components in a statement of changes in equity. This standard allows reporting entities to elect presenting items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. In either case, the statement(s) would need to be presented with equal prominence as the other primary financial statements. ASU No. 2011-12 defers the provisions of ASU No. 2011-05 that required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income; and reinstates the requirements for the presentation of reclassifications out of accumulated other comprehensive income that were in place before the issuance of ASU No. 2011-05. These standards are effective for the Bank as of March 31, 2012 and are not expected to have a material impact on its financial statements.

ASU No. 2011-11 requires disclosure of both gross information and net information about financial and derivative instruments eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement, for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards. The

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

required disclosures should be provided retrospectively for all comparative periods presented. The Bank is in the process of assessing the impact that these new disclosures will have on its financial statements.

Currency Accounting

The financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members, which are functional currencies to the extent that the operations are conducted in those currencies. The Ordinary Capital resources are derived from capital stock, borrowings and accumulated earnings in those various currencies. Assets and liabilities in functional currencies are translated into United States dollars at market exchange rates prevailing at the Balance Sheet dates. Except for currency holdings derived from paid-in capital stock that have maintenance of value, as described below, net adjustments resulting from the translation of functional currencies are charged or credited to Translation adjustments⁽¹⁾ and are presented as a separate component of Other comprehensive income (loss) in the Statement of Comprehensive Income. Borrowings and loans in non-functional currencies are translated with the gain or loss recorded in Net fair value adjustments on non-trading portfolios in the Statement of Income and Retained Earnings. Income and expenses are translated at market exchange rates prevailing during each month.

Valuation of capital stock

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

States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

Maintenance of value (MOV)

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

The amount related to MOV on non-borrowing member countries' currency holdings is presented as an asset or liability on the Balance Sheet, included in Amounts required/payable to maintain value of currency holdings. In December 2010, the Bank converted substantially all non-borrowing member countries' currency holdings subject to MOV to United States dollars. Subsequently in 2011, the Bank converted the remaining non-borrowing member countries' currency holdings subject to MOV to United States dollars.

Board of Governors approved transfers

In accordance with the Agreement, the Board of Governors may exercise its authority to approve transfers of Ordinary Capital income to the FSO or other accounts (currently only the GRF) administered by the Bank. These transfers, referred to as "Board of Governors approved transfers", are reported as expenses when incurred, upon approval, and are currently funded in accordance with the GRF funding requirements. The undisbursed portion of approved transfers is presented under Due to IDB Grant Facility on the Balance Sheet.

Retained earnings

Retained earnings comprise the general reserve and the special reserve. The general reserve consists of income from prior years, which have been retained to provide for possible annual excess of expenses over income.

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

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Investments

All investment securities and related derivative instruments (mostly currency and interest rate swaps) are designated as a trading portfolio, are recorded using trade-date accounting, and are carried and reported at fair value, with changes in fair value included in Income from investments in the Statement of Income and Retained Earnings.

Loans

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. In the case of sovereign-guaranteed loans to borrowers other than national governments or central banks, the Bank follows the policy of requiring a joint and several guarantee engaging the full faith and credit of the government. Non-sovereign-guaranteed loans and guarantees are also made directly to private sector or sub-sovereign entities ("eligible entities"), on the basis of market based pricing, and to other development institutions.

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

Income on loans is recognized following the accrual basis of accounting. The Bank considers a loan to be past due when the scheduled principal and/or interest payments have not been received on the date they are contractually due. It is the policy of the Bank to place on nonaccrual status all loans made to, or guaranteed by, a member of the Bank if principal, interest or other charges with respect to any such loan are overdue by more than 180 days. In addition, if loans made to a member country with resources of the FSO or certain other funds owned or administered by the Bank are placed on nonaccrual status, all Ordinary Capital loans made to, or guaranteed by, that member government will also be placed on nonaccrual status. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For non-sovereign-guaranteed loans, it is the general policy of the Bank to place on nonaccrual status loans made to a

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

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

Loans are divided in two main portfolios: sovereign-guaranteed and non-sovereign guaranteed, which are used for purposes of determining the allowance for loan losses. For the sovereign-guaranteed loan portfolio, the Bank does not reschedule and has not written off any such Ordinary Capital loans. In addition, because of the nature of its borrowers, the Bank expects that each of its sovereign-guaranteed loans will be repaid. Therefore, the Bank determines the nature and extent of its exposure to credit risk by considering the long-term foreign credit rating assigned to each borrower country by the rating agencies (generally, Standard & Poor's—S&P), adjusted by the probabilities of default to the Bank. For the non-sovereign-guaranteed loan portfolio, the Bank manages and measures credit risk using an internal credit risk classification system that takes into consideration three dimensions to reflect the risk of the borrower, the associated security or features of the transaction and the country related risk, which all combined produces a final rating that reflects the expected losses associated with the transaction. The final rating is estimated to map to the corporate rating scale of S&Ps and/or Moody's or an average of those two.

The Bank periodically reviews the collectibility of loans and, if applicable, records, as an expense, provisions for loan losses in accordance with its determination of the collectibility risk of the sovereign-guaranteed and non-sovereign-guaranteed loan portfolios. Such reviews consider the credit risk for each portfolio as defined above, as well as the potential for loss arising from delay in the scheduled loan repayments.

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Guarantees

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

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

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

Receivable from members

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

Property

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

Borrowings

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

A substantial number of the borrowings are carried at fair value on the Balance Sheet. The interest component of the changes in fair value of these borrowings is recorded in Borrowing expenses, over the life of the borrowing contract. The remaining changes in fair value of these instruments are recorded in Net fair value adjustments on non-trading portfolios in the Statement of Income and Retained Earnings.

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

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

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Derivatives

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the operations to produce the desired interest and/or currency type. In addition, in order to manage the sensitivity to changes in interest rates (duration or modified duration) of its equity, the Bank utilizes equity duration swaps to maintain the modified duration of its equity within a defined policy band of four to six years.

All derivatives are recognized on the Balance Sheet at their fair value and are classified as either assets or liabilities, depending on the nature (debit or credit) of their net fair value amount.

The interest component of the changes in fair value of investment, lending, borrowing, and equity duration derivatives is recorded in Income from Investments-Interest, Income from loans-Interest, after swaps, Borrowing expenses-Interest, after swaps, and Other interest income, respectively, over the life of the derivative contract, 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 for lending, borrowing and equity duration derivative instruments.

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

Administrative expenses

The administrative expenses of the Bank are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Governors. During 2011, the effective ratio of administrative expenses charged to the Ordinary Capital was 97.0% and 3.0% to the FSO (2010—98.0% and 2.0%; 2009—97.7% and 2.3%).

Special programs

Special programs provide financing for reimbursable, non-reimbursable and contingent recovery assistance to borrowing member countries. Reimbursable operations are recorded as Other assets. Non-reimbursable and contingent recovery operations are recorded as Special programs expense at the time of approval. Cancellations of undisbursed balances and recuperations of contingent recovery financings are recognized as an offset to Special programs expense in the period in which they occur.

Taxes

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

Pension and postretirement benefit plans

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

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

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

Note C—Restricted Currencies

At December 31, 2011, Cash includes \$173 million (2010—\$136 million) in currencies of regional borrowing members. These amounts may be used by the Bank in Ordinary Capital lending operations and for administrative expenses. One member has restricted the amount of \$53 million (2010—\$23 million) to be used for making payments for goods and services in its territory, in accordance with the provisions of the Agreement.

Note D—Investments

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

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NOTES TO FINANCIAL STATEMENTS (continued)

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

Net unrealized gains (losses) on trading portfolio instruments held at December 31, 2011 of \$(68) million (2010—\$262 million; 2009—\$382 million) were included in Income from Investments—Net gains.

The investment portfolio has been affected by the risk aversion prevalent in the markets due to weakening economic indicators, the downgrade of the U.S. government credit rating by S&P and growing concerns regarding the financial stability of various European countries, which affected credit markets generally. Valuations on the asset-backed and mortgage-backed portion of the portfolio continue to be impacted by market factors, such as uneven liquidity, rating agency actions, and the prices at which actual transactions occur. The Bank continues to maximize, where possible, the use of market inputs in the valuation of its investments, including external pricing services, independent dealer prices, and observable market yield curves.

As part of the asset/liability management policy, in 2010, the Board of Executive Directors approved the conversion to United States dollars of the Ordinary Capital's non-borrowing member country currency holdings subject to MOV, which were invested in the held-to-maturity portfolio. The implementation of this decision required the sale or transfer of securities in the held-to-maturity portfolio, thus triggering the discontinuation of the accounting for this portfolio at amortized cost and the immediate recognition of investment gains of \$54 million, which are included in Income from Investments—Net gains in the Statement of Income and Retained Earnings. Securities with a carrying value of \$1,758 million were sold and securities with a carrying value of \$754 million were transferred from the held-to-maturity portfolio to the trading investments portfolio. In addition, during the first quarter of 2010, the Bank transferred a security with a

carrying value of \$52 million from the held-to-maturity portfolio to the trading investments portfolio due to the further deterioration of the issuer's credit worthiness. A loss of \$4 million was included in earnings as a result of such transfer.

A summary of the trading portfolio instruments at December 31, 2011 and 2010 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1.

Note E—Loans and Guarantees Outstanding

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

The loan portfolio includes sovereign-guaranteed i) single currency pool loans (Single Currency Facility (SCF)-LIBOR-based, SCF-Adjustable, and U.S. Dollar Window Program loans) as well as multicurrency pool loans (CPS loans), and ii) single currency non-pool loans (SCF- and CPS- Adjustable rate loans converted to USD LIBOR-based and fixed-base cost rate, SCF-Fixed-base cost rate loans, emergency loans, and Local Currency Facility (LCF) loans). In addition, the loan portfolio includes non-sovereign-guaranteed loans.

SCF-LIBOR-based loans are denominated in one of four currencies: United States dollars, euro, Japanese yen and Swiss francs, or in a combination of such currencies, and have an interest rate that is adjusted quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's funding cost and the Bank's lending spread. SCF LIBOR-based loan balances can be converted to fixed-base cost rate subject to certain conditions.

SCF-Adjustable loans carry an interest rate that is adjusted every six months to reflect the currency-specific effective cost during the previous six months of the pool of borrowings allocated to fund such loans, plus the Bank's lending spread.

For CPS loans, the Bank has historically maintained a targeted currency composition of 50% United States dollars, 25% Japanese yen and 25% European currencies. In 2011, the Board of Directors approved to gradually convert the currency composition of these loans to 100% United States dollars. Loans approved prior to 1989 carry a fixed interest rate while the interest rate on loans approved from 1990 to 2003 is adjusted twice a year to reflect the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's lending spread.

As part of a conversion offer to borrowers approved by the Board of Directors, in 2009 and 2010, the Bank converted outstanding and undisbursed loan balances of \$31,956 million under the SCF and CPS adjustable rate products to USD

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NOTES TO FINANCIAL STATEMENTS (continued)

LIBOR-based or fixed-cost rate as follows: \$3,036 million of CPS to USD LIBOR-based rate, \$6,639 million of CPS to USD fixed-base cost rate, \$1,929 million of SCF to USD LIBOR-based rate, and \$20,352 million of SCF to fixed-base cost rate.

The Bank offers concessional lending through a blending of loans from the Ordinary Capital and the FSO ("parallel loans"). The Ordinary Capital's portion of parallel loans are SCF-Fixed rate loans with 30 years maturity and 6 years grace period.

Under the Emergency Lending Facility, the Bank also provides funding to address financial emergencies in the region for a revolving aggregate amount of up to \$3,000 million. Loans are denominated in United States dollars, have a term not to exceed five years, and principal repayments begin after three years. These loans carry a six-month LIBOR interest rate plus a spread of 400 basis points.

The LCF provides borrowers the option to receive local currency financing under three different modalities i) direct local currency financing or conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency disbursement of called guarantees. The use of these modalities is subject to the availability of the respective local currency and the appropriate risk mitigation instrument(s) in the financial markets. Outstanding loan balances in the LCF can carry a fixed-base cost, floating or inflation-linked interest rate. As of December 31, 2011, the Bank has carried out cumulative local currency conversions of loan disbursements and outstanding balances of \$2,192 million (2010—\$1,980 million).

Up to June 2007, the Bank offered fixed rate and LIBOR-based U.S. Dollar Window Program loans with sovereign guarantee, destined for on-lending to non-sovereign-guaranteed borrowers. In addition, effective in 2008 and up to December 31, 2009, the Bank offered loans under the Liquidity Program, a program for loans within the emergency lending category.

The Bank offers loans to eligible entities without sovereign guarantees under various terms. Non-sovereign-guaranteed loans can be denominated in United States dollar, Japanese yen, euro, Swiss francs or local currency, and borrowers have the option of either a fixed, floating or inflation-linked interest rate loan. For floating rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus a credit spread. The credit spreads and fees on these loans are set on a case-by-case basis. These financings are subject to certain limits, including a ceiling on financing the lesser of (a) \$200 million and (b) (i) 50% of the total project cost for expansion projects and credit guarantees irrespective of the country, subject to such financing not exceeding 25% (certain smaller countries 40%) of the borrower or obligor's total capitalization

of debt and equity or (ii) 25% of the total project cost (certain smaller countries 40%) for new projects. The Bank can also provide political risk guarantees of up to the lesser of \$200 million or 50% of the total project cost. In exceptional circumstances, the Board of Executive Directors may approve financings of up to \$400 million. The Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed the lesser of (i) 2.5% of the Bank's equity and (ii) \$500 million at the time of approval. In addition, the Bank has established sector limits to maintain a diversified portfolio across sectors. The Bank also has made certain loans without sovereign guarantee to other development institutions, including the Inter-American Investment Corporation, for on-lending purposes.

Non-sovereign-guaranteed operations are currently capped at an amount such that risk capital requirements for such operations do not exceed 20% of total equity calculated in accordance with the Bank's capital adequacy policy.

For 2011, the Bank's loan charges consisted of a lending spread of 0.80% per annum on the outstanding amount, a credit commission of 0.25% per annum on the undisbursed balance of the loan, and no supervision and inspection fee. These charges apply to sovereign-guaranteed loans, excluding emergency loans, comprising approximately 94% of the loan portfolio, and are subject to annual review and approval by the Board of Executive Directors.

Loan income has been reduced by \$506 million (2010—\$475 million; 2009—\$221 million) representing the net interest component of related lending swap transactions.

A summary statement of loans outstanding by country is presented in Appendix I-2 and a summary of the outstanding loans by currency and interest rate type and their maturity structure at December 31, 2011 and 2010 is shown in Appendix I-3.

Flexible Financing Facility

In 2011, the Bank approved the Flexible Financing Facility product (FFF), effective on January 1, 2012. The FFF is now the only financial product platform for approval of all new Ordinary Capital sovereign guaranteed loans. Through built-in features in 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 enables borrowers to: (i) manage currency, interest rate and other types of exposures; (ii) address project changing needs by customizing loan repayment terms to better manage liquidity risks; (iii) manage loans under legacy financial products; and, (iv) execute hedges with the Bank at a loan portfolio level. The LCF was incorporated into the FFF product for sovereign-guaranteed loans.

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NOTES TO FINANCIAL STATEMENTS (continued)

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

Inter-American Investment Corporation (IIC)

The Bank has approved a loan to the IIC (a separate international organization whose 44 member countries are also members of the Bank) of \$300 million. Disbursements under this loan are in United States dollars and carry a LIBOR-based interest rate. As of December 31, 2011 and 2010, there was \$100 million outstanding.

Loan participations and guarantees

Under the loan contracts with its borrowers, the Bank has the right to sell loan participations to commercial banks or other financial institutions, while reserving to itself the administration of the loans. As of December 31, 2011, there were \$2,755 million (2010—\$3,135 million) in outstanding participations in non-sovereign-guaranteed loans not included on the Balance Sheet.

As of December 31, 2011, the Bank had approved, net of cancellations and maturities, non-trade related guarantees without sovereign counter-guarantees of \$1,094 million (2010—\$1,179 million). In addition, the Bank has approved a guarantee with sovereign counter-guarantee of \$60 million. During 2011, there were three approved non-trade-related guarantees without sovereign counter-guarantee for \$54 million (2010—four for \$61 million).

Under its non-sovereign-guaranteed 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 2011, the Bank issued 268 guarantees for a total of \$621 million under this program (2010—131 guarantees for a total of \$239 million).

At December 31, 2011, guarantees of \$980 million (2010—\$814 million), including \$418 million (2010—\$153 million) issued under the TFFP, were outstanding and subject to call. This amount represents the maximum potential undiscounted future payments that the Bank could be required to make under these guarantees. An amount of \$38 million (2010—\$45 million) of guarantees outstanding has been re-insured to reduce the Bank's exposure. Outstanding guarantees have remaining maturities ranging from 1 to 14 years, except for trade related guarantees that have maturities of up to three years. No guarantees provided by the Bank have ever been called. As of December 31, 2011 and 2010, the Bank's

exposure on guarantees without sovereign counter-guarantee, net of reinsurance, amounted to \$847 million and \$671 million, respectively, and was classified as follows (in millions):

Internal Credit Risk Classification	2011	2010
Excellent	\$140	\$115
Very Strong	159	95
Strong	146	58
Satisfactory	253	17
Fair	27	253
Weak	106	118
Possible loss	16	15
Total	<u>\$847</u>	<u>\$671</u>

IFF subsidy

The IFF was established in 1983 by the Board of Governors of the Bank to subsidize part of the interest payments for which certain borrowers are liable on loans from the resources of the Ordinary Capital. The IFF interest subsidy was discontinued for loans approved after 2006. During 2011, the IFF paid \$27 million (2010—\$33 million; 2009—\$39 million) of interest on behalf of the borrowers.

Note F—Credit Risk from Loan Portfolio

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

The Bank manages two principal sources of credit risk from its loan activities: sovereign-guaranteed loans and non-sovereign-guaranteed loans. Approximately 95% 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.

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NOTES TO FINANCIAL STATEMENTS (continued)

For the Bank, the likelihood of experiencing a credit event 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 credit event. 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 credit event, the Bank suffers an economic loss from not charging interest on overdue interest while the credit event lasts.

The credit quality of the sovereign-guaranteed loan portfolio as of December 31, 2011 and 2010, as represented by the long-term foreign credit rating assigned to each borrower country by S&P, is as follows (in millions):

Country Ratings	2011	2010
A+ to A-	\$ 1,266	\$ 1,085
BBB+ to BBB-	35,864	28,400
BB+ to BB-	6,995	13,950
B+ to B-	18,478	16,194
CCC+ to CCC-	211	154
Total	<u>\$62,814</u>	<u>\$59,783</u>

The ratings presented above have been updated as of December 31, 2011 and 2010, respectively.

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

Credit risk evaluation related to transactions with financial institutions follows a uniform rating system which considers the following factors: capital adequacy, asset quality,

operating policies and procedures and risk management framework; quality of management and decision making; earnings and market position, liquidity and sensitivity to market risk; quality of regulations and regulatory agencies; and potential government or shareholder support.

The country rating is considered a proxy of the impact of the macro-economic environment to the ability of the borrower to reimburse the Bank and as such, it is considered a ceiling for the transaction dimension risk rating. The credit quality of the non-sovereign-guaranteed loan portfolio as of December 31, 2011 and 2010, excluding loans to other development institutions, as represented by the internal credit risk classification is as follows (in millions):

Risk Classification	2011	2010	S&P/Moody's Rating Equivalent
Excellent	\$ 117	\$ 215	BBB to Baa3 or higher
Very Strong	494	1,059	BB+ to Ba1
Strong	1,270	823	BB to Ba2
Satisfactory	517	312	BB- to Ba3
Fair	319	163	B+ to B1
Weak	114	261	B to B2
Possible Loss	183	62	B- to B3
Impaired	129	140	CCC-D to Caa-D
Total	<u>\$3,143</u>	<u>\$3,035</u>	

In addition, as of December 31, 2011, the Bank has loans to other development institutions of \$173 million (2010—\$189 million), with ratings ranging from AAA to A.

Past due and Non-accrual loans

As of December 31, 2011 and 2010, there are no loans considered past due, and a non-sovereign-guaranteed loan with an outstanding balance of \$129 million (2010—one loan for \$92 million) was on non-accrual status.

Impaired loans

At December 31, 2011, the Bank has one non-sovereign-guaranteed loan classified as impaired with an outstanding balance of \$129 million (2010—two loans for \$140 million), and the average balance of impaired loans during 2011 was \$126 million (2010—\$128 million). During 2011, income recognized on loans while impaired was \$5 million (2010—\$7 million; 2009—\$14 million). If these loans had not been impaired, income recognized would have been \$5 million (2010—\$7 million; 2009—\$14 million). All impaired loans have specific allowances for loan losses of \$41 million (2010—\$55 million).

Allowance for Loan and Guarantee Losses

Sovereign-guaranteed portfolio: A collective evaluation of collectibility is performed for sovereign-guaranteed loans and

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guarantees. The performance of said portfolio has been excellent, particularly given the market credit ratings of many of the Bank's borrowing countries. However, in the past the Bank has experienced delays in the receipt of debt service payments, sometimes for more than six months. Since the Bank does not charge interest on missed interest payments for these loans, such delay in debt service payments is viewed as a potential impairment as the timing of the cash flows are not met in accordance with the terms of the loan contract.

Non-sovereign-guaranteed portfolio: For non-sovereign guaranteed loans and guarantees, a collective loss allowance is determined based on the internal credit risk classification discussed above. The first step in the calculation of the collective loan loss allowance is the estimation of an expected rate of transition of projects from non-impaired risk categories to the impaired/default category. This impairment/default rate is applied to each risk category. Transitions of debt instruments from various risk categories to impairment/default status are modeled utilizing worldwide non-sovereign data gathered from the documented experience of rated non-sovereign-guaranteed debt issuances of similar risk levels.

An appropriate, estimated rate of loss from projects once impaired is determined generally based upon the Bank's specific experience gained in the assessment of the losses stemming from impairments in its own non-sovereign-guaranteed portfolio. Based upon (i) the impairment/default rate for each risk category, (ii) the distribution of the non-sovereign-guaranteed portfolio in each of these categories and (iii) the loss rate once defaulted, the required level of the collective loss allowance is determined.

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

The changes in the allowance for loan and guarantee losses for the years ended December 31, 2011, 2010 and 2009 were as follows (in millions):

	2011	2010	2009
Balance, beginning of year	\$172	\$148	\$169
Provision (credit) for loan and guarantee losses	3	24	(21)
Balance, end of year	<u>\$175</u>	<u>\$172</u>	<u>\$148</u>
Composed of:			
Allowance for loan losses	\$150	\$145	\$116
Allowance for guarantee losses ⁽¹⁾	25	27	32
Total	<u>\$175</u>	<u>\$172</u>	<u>\$148</u>

⁽¹⁾ The allowance for guarantee losses is included in Accounts payable and accrued expenses in the Balance Sheet.

The Provision (credit) for loan and guarantee losses includes provisions (credits) of \$1 million, \$(2) million, and \$(4) million related to sovereign-guaranteed loans in 2011, 2010, and 2009, respectively.

During 2011, 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 small amount of impaired loans on the non-sovereign-guaranteed portfolio, all loans and guarantees have been collectively evaluated for impairment. The collective allowance for loan and guarantee losses as of December 31, 2011 amounted to \$134 million (2010—\$117 million; 2009—\$119 million), including approximately \$125 million (2010—\$109 million; 2009—\$109 million) related to the non-sovereign-guaranteed portfolio.

Troubled debt restructurings

The Bank does not reschedule its sovereign-guaranteed loans. A modification of a 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 unless there is a noncompliance under the terms of the restructured agreement.

During 2011, there was a troubled debt restructuring of a non-sovereign-guaranteed loan classified as impaired, with an outstanding balance of \$100 million and a specific allowance for loan losses of \$46 million, before the restructuring occurred. As of December 31, 2011, the outstanding balance, amounts committed not yet disbursed, and the specific loan loss allowance were \$129 million, \$3 million, and \$41 million, respectively. The financial effect of the modification was to increase the Bank's exposure by \$32 million. Such loan agreement was mainly modified to provide an additional facility to cover cost overruns, extend the repayment date and commitment periods. There have been no payment defaults after the restructuring was made.

Note G—Receivable from (Payable to) Members

The composition of the net receivable from (payable to) members as of December 31, 2011 and 2010 is as follows (in millions):

	2011	2010
Regional developing members	\$ 294	\$ 364
Canada	—	(234)
Non-regional members	(218)	(287)
Total	<u>\$ 76</u>	<u>\$(157)</u>

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NOTES TO FINANCIAL STATEMENTS (continued)

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

	2011	2010
Receivable from members	\$ 295	\$ 378
Amounts payable to maintain value of currency holdings.	(219)	(535)
Total	<u>\$ 76</u>	<u>\$(157)</u>

Because of the nature of the Receivable from members, the Bank expects to collect all of the outstanding balance in full.

In 2009, the Bank reached an agreement with one of its borrowing member countries to consolidate its outstanding MOV obligations with the Ordinary Capital in the amount of \$252 million and agreed on a payment schedule of 16 annual installments starting in 2010. As of December 31, 2011, the amount outstanding was \$221 million (2010—\$236 million).

Note H—Property

At December 31, 2011 and 2010, Property, net consists of the following (in millions):

	2011	2010
Land, buildings, improvements, capitalized software and equipment, at cost	\$ 609	\$ 588
Less: accumulated depreciation.	(284)	(264)
	<u>\$ 325</u>	<u>\$ 324</u>

Note I—Borrowings

Medium- and long-term borrowings at December 31, 2011 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.0% to 11%, before swaps, and from (1.09)% (equivalent to 3-month USD-LIBOR less 148 basis points) to 8.14 %, after swaps, with various maturity dates through 2041. A summary of the medium- and long-term borrowing portfolio and its maturity structure at December 31, 2011 and 2010 is shown in Appendix I-4.

The Bank has short-term borrowing facilities that consist of a discount notes program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts not less than \$100,000, with maturities of up to 360 days. At December 31, 2011, the weighted average rate of short-term borrowings was 0.06% (2010—0.18%).

Borrowing expenses have been reduced by the net interest component of related borrowing swap transactions amounting to \$1,987 million during 2011 (2010—\$1,972 million; 2009—\$1,493 million).

Note J—Fair Value Option

Effective January 1, 2008, Management approved the election of the fair value option under GAAP for most of its

medium- and long-term debt (mostly borrowings funding floating rate assets) to reduce the income volatility resulting from the previous accounting asymmetry of marking to market borrowing swaps through income while recognizing all borrowings at amortized cost. The changes in the fair value of elected borrowings are now also recorded in income.

Effective January 1, 2011, in order to reduce the income volatility resulting from the changes in fair value of its 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, the Bank modified its borrowing fair value option policy to address income volatility on a financial instruments (i.e., borrowings and loans) portfolio basis rather than on an instrument-by-instrument basis.

The changes in fair value for borrowings elected under the fair value option have been recorded in the Statement of Income and Retained Earnings for the years ended December 31, 2011, 2010, and 2009 as follows (in millions):

	2011	2010	2009
Borrowing expenses—Interest, after swaps.	\$(2,076)	\$(2,082)	\$(1,773)
Net fair value adjustments on non-trading portfolios.	(1,040)	(2,785)	(1,825)
Total changes in fair value included in Net income (loss).	<u>\$(3,116)</u>	<u>\$(4,867)</u>	<u>\$(3,598)</u>

The difference between the fair value amount and the unpaid principal outstanding of borrowings measured at fair value as of December 31, 2011 and 2010, was as follows (in millions):

	2011	2010
Fair value	\$49,335 ⁽¹⁾	\$53,302 ⁽¹⁾
Unpaid principal outstanding	45,571	51,133
Fair value over unpaid principal outstanding. .	<u>\$ 3,764</u>	<u>\$ 2,169</u>

⁽¹⁾ Includes accrued interest of \$434 million and \$456 million in 2011 and 2010, respectively.

Note K—Derivatives

Risk management strategy and use of derivatives: The Bank's financial risk management strategy is designed to strengthen the Bank's ability to fulfill its purpose. This strategy consists primarily of designing, implementing, updating, and monitoring the Bank's interrelated set of financial policies and guidelines, and utilizing appropriate financial instruments and organizational structures. The Bank faces risks that result from market movements, primarily changes in interest and exchange rates, that 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,

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NOTES TO FINANCIAL STATEMENTS (continued)

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. In addition, the Bank utilizes derivatives to manage the duration of its equity within a prescribed policy band of 4 to 6 years.

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 policy limits.

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

Balance Sheet

Derivatives not Designated as Hedging Instruments	Balance Sheet Location	December 31, 2011 ⁽¹⁾		December 31, 2010 ⁽¹⁾	
		Assets	Liabilities	Assets	Liabilities
Currency swaps	Currency and interest rate swaps				
	Investments—Trading	\$ 11	\$ 45	\$ —	\$ 29
	Loans	109	186	10	249
	Borrowings	4,785	703	4,596	640
	Accrued interest and other charges	113	(69)	182	(12)
Interest rate swaps	Currency and interest rate swaps				
	Investments—Trading	—	35	7	26
	Loans	3	1,472	28	444
	Borrowings	1,917	91	1,291	168
	Other	215	—	—	72
	Accrued interest and other charges	252	89	189	36
		<u>\$7,405</u>	<u>\$2,552</u>	<u>\$6,303</u>	<u>\$1,652</u>

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

Statement of Income and Retained Earnings and Statement of Comprehensive Income

Derivatives not Designated as Hedging Instruments	Location of Gain or (Loss) from Derivatives	Years ended December 31,		
		2011	2010	2009
Currency swaps				
Investments—Trading	Income from Investments: Interest	\$ (24)	\$ (2)	\$ (2)
	Net gains	(12)	1	—
Loans	Income from Loans-Interest, after swaps	(94)	(70)	(32)
	Net fair value adjustments on non-trading portfolios	188	(152)	(76)
Borrowings	Borrowing expenses—Interest, after swaps	1,153	1,154	915
	Net fair value adjustments on non-trading portfolios	263	2,153	2,009
	Other comprehensive income (loss)—Translation adjustments	6	9	25
Interest rate swaps				
Investments—Trading	Income from Investments: Interest	(28)	(21)	—
	Net gains	(22)	(8)	(6)
	Other comprehensive income (loss)—Translation adjustments	(17)	(5)	(2)
Loans	Income from Loans—Interest, after swaps	(412)	(405)	(189)
	Net fair value adjustments on non-trading portfolios	(1,053)	(552)	239
Borrowings	Borrowing expenses—Interest, after swaps	834	818	578
	Net fair value adjustments on non-trading portfolios	687	493	(782)
	Other comprehensive income (loss)—Translation adjustments	(3)	(4)	3
Other	Other interest income	112	7	—
	Net fair value adjustments on non-trading portfolios	287	(72)	—
Futures				
	Income from Investments— Net gains	(2)	(1)	2
		\$1,863	\$3,343	\$2,682

The Bank is not required to post collateral under its derivative agreements as long as it maintains a AAA credit rating. Should the Bank credit rating be downgraded from the current AAA, the standard swap agreements detail, by swap counterparty, the collateral requirements the Bank would need to satisfy in this event. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on December 31, 2011 is \$180 million (2010—\$185 million) (after consideration of master netting derivative agreements). If the Bank was downgraded from the current AAA credit rating to AA+, it would still not be required to post collateral at December 31, 2011 (2010—\$33 million).

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NOTES TO FINANCIAL STATEMENTS (continued)

The following tables provide information on the contract value/notional amounts of derivative instruments as of December 31, 2011 and 2010 (in millions). Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or receivable leg. The Bank uses loan swaps to convert local currency loans to United States dollars, and fixed rate and fixed-base cost rate loans to floating rate. Included in the other category are interest rate swaps used to maintain the equity duration within policy limits. See Appendixes I-1 and I-4 for further details about investment and borrowing swaps.

Derivative type/ Rate type	December 31, 2011			
	Currency swaps		Interest Rate swaps	
	Receivable	Payable	Receivable	Payable
Investments				
Fixed	\$ —	\$ 1,345	\$ —	\$ 2,297
Adjustable	1,351	—	2,297	—
Loans				
Fixed	—	932	141	12,750
Adjustable	2,171	1,137	12,950	341
Borrowings				
Fixed	19,863	144	31,656	349
Adjustable	4,014	20,336	5,408	36,142
Other				
Fixed	—	—	6,143	—
Adjustable	—	—	—	6,143

Derivative type/ Rate type	December 31, 2010			
	Currency swaps		Interest Rate swaps	
	Receivable	Payable	Receivable	Payable
Investments				
Fixed	\$ —	\$ 618	\$ —	\$ 1,867
Adjustable	611	—	1,867	—
Loans				
Fixed	—	889	183	13,316
Adjustable	2,007	1,228	13,316	183
Borrowings				
Fixed	21,456	217	30,188	349
Adjustable	7,573	24,491	5,815	35,071
Other				
Fixed	—	—	5,495	—
Adjustable	—	—	—	5,495

Note L—Fair Value Measurements

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

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

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

Substantially all other Bank investment instruments are valued based on quoted prices in markets that are not active, 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 government agencies and corporate bonds, asset-backed and mortgage-backed securities, bank obligations, and related financial derivative instruments (primarily currency and interest rate swaps). These instruments are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches.

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

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

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NOTES TO FINANCIAL STATEMENTS (continued)

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 and spreads to generate continuous yield or pricing curves and the spot price of the underlying volatility and correlation. Significant market inputs are observable during the full term of these instruments. Correlation and items with longer tenors are generally less observable. The Bank considers, consistent with the requirements of the framework for measuring fair value, the impact of its own creditworthiness in the valuation of its borrowings. 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 December 31, 2011 and 2010 by level within the fair value hierarchy (in millions). As required by the framework for measuring fair value, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial assets:

Assets	Fair Value Measurements			
	December 31, 2011 ⁽¹⁾	Level 1	Level 2	Level 3
Investments—Trading:				
Obligations of the United States Government and its corporations and agencies	\$ 1,974	\$1,974	\$ —	\$—
U.S. Government-sponsored enterprises	841	—	841	—
Obligations of non-U.S. governments and agencies	5,586	143	5,443	—
Bank obligations	3,323	—	3,323	—
Mortgage-backed securities	1,269	—	1,264	5
U.S. residential	444	—	444	—
Non-U.S. residential. . .	419	—	414	5
U.S. commercial	167	—	167	—
Non-U.S. commercial. . .	239	—	239	—
Asset-backed securities . . .	750	—	680	70
Collateralized loan obligations	470	—	470	—
Other collateralized debt obligations	125	—	55	70
Other asset-backed securities	155	—	155	—
Total Investments—				
Trading	13,743	2,117	11,551	75
Currency and interest rate swaps	7,405	—	7,405	—
Total	<u>\$21,148</u>	<u>\$2,117</u>	<u>\$18,956</u>	<u>\$75</u>

⁽¹⁾ Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheet under Accrued interest and other charges—On investments of \$40 million for trading investments and under Accrued interest and other charges—On swaps, net of \$365 million for currency and interest rate swaps.

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NOTES TO FINANCIAL STATEMENTS (continued)

Assets	Fair Value Measurements			
	December 31, 2010 ⁽¹⁾	Level 1	Level 2	Level 3
Investments—Trading:				
Obligations of the United States Government and its corporations and agencies	\$ 822	\$ 822	\$ —	\$ —
U.S. Government-sponsored enterprises	505	—	505	—
Obligations of non-U.S. governments and agencies	7,045	430	6,615	—
Bank obligations	5,054	—	5,054	—
Mortgage-backed securities	1,925	—	1,916	9
U.S. residential	573	—	573	—
Non-U.S. residential. . .	875	—	866	9
U.S. commercial	182	—	182	—
Non-U.S. commercial. . .	295	—	295	—
Asset-backed securities . . .	1,043	—	952	91
Collateralized loan obligations	633	—	633	—
Other collateralized debt obligations	152	—	62	90
Other asset-backed securities	258	—	257	1
Total Investments—Trading	16,394	1,252	15,042	100
Currency and interest rate swaps	6,303	—	6,303	—
Total	<u>\$22,697</u>	<u>\$1,252</u>	<u>\$21,345</u>	<u>\$100</u>

⁽¹⁾ Represents the fair value of the referred assets, including their accrued interest presented on the Balance Sheet under Accrued interest and other charges—On investments of \$38 million for trading investments and under Accrued interest and other charges—On swaps, net of \$371 million for currency and interest rate swaps.

Financial liabilities:

Liabilities	Fair Value Measurements			
	December 31, 2011 ⁽¹⁾	Level 1	Level 2	Level 3
Borrowings measured at fair value	\$49,335	\$—	\$49,335	\$—
Currency and interest rate swaps	2,552	—	2,552	—
Total	<u>\$51,887</u>	<u>\$—</u>	<u>\$51,887</u>	<u>\$—</u>

⁽¹⁾ Represents the fair value of the referred liabilities, including their accrued interest presented on the Balance Sheet under Accrued interest on borrowings of \$434 million for borrowings and under Accrued interest and other charges—On swaps, net of \$20 million for currency and interest rate swaps.

Liabilities	Fair Value Measurements			
	December 31, 2010 ⁽¹⁾	Level 1	Level 2	Level 3
Borrowings measured at fair value	\$53,302	\$—	\$53,302	\$—
Currency and interest rate swaps	1,652	—	1,652	—
Total	<u>\$54,954</u>	<u>\$—</u>	<u>\$54,954</u>	<u>\$—</u>

⁽¹⁾ Represents the fair value of the referred liabilities, including their accrued interest presented on the Balance Sheet under Accrued interest on borrowings of \$456 million for borrowings and under Accrued interest and other charges—On swaps, net of \$24 million for currency and interest rate swaps.

The tables below show a reconciliation of the beginning and ending balances of all financial assets and financial liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2011, 2010 and 2009 (in millions), as applicable. There were no financial liabilities that used Level 3 inputs for the years ended December 31, 2011 and 2010. In addition, the tables show the total gains and losses included in Net income (loss) as well as the amount of these gains and losses attributable to the change in unrealized gains and losses relating to assets and liabilities still held as of December 31, 2011, 2010 and 2009 (in millions) and a description of where these gains or losses are reported in the Statement of Income and Retained Earnings, as applicable.

During 2010 and 2009, certain securities were transferred from Level 3 to Level 2 due to refinements in the utilization of observable market data in the Bank's internal valuation models. The Bank's policy for transfers between levels is to reflect these transfers effective as of the beginning of the reporting period.

Financial assets:

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

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NOTES TO FINANCIAL STATEMENTS (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 2010		
	Investments— Trading	Currency and Interest Rate Swaps	Total
Balance, beginning of year	\$104	\$ 20	\$124
Total gains (losses) included in:			
Net income (loss)	24	—	24
Other comprehensive income (loss) . .	(4)	—	(4)
Settlements	(24)	—	(24)
Transfer out of Level 3	—	(20)	(20)
Balance, end of year	<u>\$100</u>	<u>\$ —</u>	<u>\$100</u>
Total gains (losses) for the year included in Net income (loss) attributable to the change in unrealized gains or losses related to assets still held at the end of the year	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 21</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 2009		
	Investments— Trading	Currency and Interest Rate Swaps	Total
Balance, beginning of year	\$110	\$ 71	\$181
Total gains (losses) included in:			
Net income (loss)	(3)	(32)	(35)
Other comprehensive income (loss) . .	2	1	3
Settlements	(25)	(6)	(31)
Transfer in (out) of Level 3	20	(14)	6
Balance, end of year	<u>\$104</u>	<u>\$ 20</u>	<u>\$124</u>
Total gains (losses) for the year included in Net income (loss) attributable to the change in unrealized gains or losses related to assets still held at the end of the year	<u>\$ (9)</u>	<u>\$ (39)</u>	<u>\$ (48)</u>

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

	Year Ended December 31, 2011	
	Total Gains (Losses) included in Net Income (Loss) for the Year	Change in Unrealized Gains (Losses) related to Assets Still Held at the End of the Year
Income from Investments	\$4	\$2
Borrowing expenses—		
Interest, after swaps	—	—
Net fair value adjustments on non-trading portfolios	—	—
Total	<u>\$4</u>	<u>\$2</u>

	Year Ended December 31, 2010	
	Total Gains (Losses) included in Net Income (Loss) for the Year	Change in Unrealized Gains (Losses) related to Assets Still Held at the End of the Year
Income from Investments	\$24	\$21
Borrowing expenses—		
Interest, after swaps	—	—
Net fair value adjustments on non-trading portfolios	—	—
Total	<u>\$24</u>	<u>\$21</u>

	Year Ended December 31, 2009	
	Total Gains (Losses) included in Net Income (Loss) for the Year	Change in Unrealized Gains (Losses) related to Assets Still Held at the End of the Year
Income from Investments	\$ (3)	\$ (9)
Borrowing expenses—		
Interest, after swaps	8	—
Net fair value adjustments on non-trading portfolios	(39)	(39)
Total	<u>\$ (34)</u>	<u>\$ (48)</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 2010		
	Borrowings Measured at Fair Value	Currency and Interest Rate Swaps	Total
Balance, beginning of year	\$ 282	\$ 27	\$ 309
Total (gains) losses included in:			
Net income (loss)	—	—	—
Other comprehensive income (loss) . .	—	—	—
Issuances and settlements, net	—	—	—
Transfer out of Level 3	(282)	(27)	(309)
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Total (gains) losses for the year included in Net income (loss) attributable to the change in unrealized gains or losses related to liabilities still held at the end of the year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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NOTES TO FINANCIAL STATEMENTS (continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Year Ended December 31, 2009		
	Borrowings Measured at Fair Value	Currency and Interest Rate Swaps	Total
Balance, beginning of year	\$ 540	\$ 42	\$ 582
Total (gains) losses included in:			
Net income (loss)	78	(14)	64
Other comprehensive income (loss)	5	—	5
Issuances and settlements, net	(151)	(1)	(152)
Transfer out of Level 3	(190)	—	(190)
Balance, end of year	<u>\$ 282</u>	<u>\$ 27</u>	<u>\$ 309</u>
Total (gains) losses for the year included in Net income (loss) attributable to the change in unrealized gains or losses related to liabilities still held at the end of the year	<u>\$ 70</u>	<u>\$ (14)</u>	<u>\$ 56</u>

There were no (gains) losses included in the Statement of Income and Retained Earnings for the years ended December 31, 2011 and 2010. For the year ended December 31, 2009, (gains) losses included in the Statement of Income and Retained Earnings were as follows (in millions):

	Year Ended December 31, 2009	
	Total (Gains) Losses included in Net Income (Loss) for the Year	Change in Unrealized (Gains) Losses related to Liabilities Still Held at the End of the Year
Borrowing expenses—Interest, after swaps	\$ 8	\$—
Net fair value adjustments on non-trading portfolios	56	56
Total	<u>\$64</u>	<u>\$56</u>

Note M—Commercial Credit Risk

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

As part of its regular investment, lending, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for economic hedging purposes. The Bank has established exposure limits for each derivative counterparty and has entered into master derivative agreements that contain enforceable close-out netting provisions. These master agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. The Bank does not expect nonperformance by any of its derivative counterparties. As of December 31, 2011, the Bank had received eligible collateral (U.S. Treasuries and cash) of \$4,653 million (2010—\$4,130 million), as required under its master derivative agreements.

The derivative current credit exposures shown below represent the maximum potential loss, based on the gross fair value of the financial instruments without consideration of close-out netting provisions on master derivative agreements, the Bank would incur if the parties to the derivative financial instruments failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value. As of December 31, 2011 and 2010, such credit exposures, prior to consideration of any master derivative agreements or posted collateral, were as follows (in millions):

	2011	2010
Investments—Trading Portfolio		
Interest rate swaps	\$ 6	\$ 6
Loan Portfolio		
Currency swaps	99	9
Interest rate swaps	4	6
Borrowing Portfolio		
Currency swaps	4,930	4,780
Interest rate swaps	2,164	1,513
Other		
Interest rate swaps	220	1

Note N—Board of Governors approved transfers

As part of the Bank's ninth general increase in resources currently underway, on July 21, 2010, the Board of Governors approved the transfer of \$72 million of Ordinary Capital income to the GRF to provide grants to Haiti. The Board of Governors also agreed, in principle and subject to annual approvals, to provide \$200 million annually beginning in 2011 and through 2020. In March 2011, the Board of Governors approved the \$200 million transfer corresponding to 2011.

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NOTES TO FINANCIAL STATEMENTS (continued)

Note O—Capital Stock and Voting Power

Capital Stock

Capital stock consists of “paid-in” and “callable” shares. The subscribed “paid-in” capital stock has been paid, in whole or in part, in United States dollars or the currency of the respective member country, which in some cases has been made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest-bearing demand obligations have been accepted in lieu of the immediate payment of all or any part of the member’s subscribed “paid-in” capital stock. The subscribed “callable” portion of capital may only be called when required to meet obligations of the Bank created by borrowings of funds for inclusion in the Ordinary Capital resources or guarantees chargeable to such resources and is payable at the option of the member either in gold, in United States dollars, in the currency of the member country, or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. For a Statement of Subscriptions to Capital Stock at December 31, 2011 and 2010, see Appendix I-5.

To enhance the Bank’s financial capacity following its response to the global economic crisis, the Board of Governors, on July 21, 2010, agreed to vote on a proposed resolution, as part of the ninth general increase in the resources of the Bank (IDB-9), that would provide for an increase in the Bank’s Ordinary Capital of \$70,000 million that would be subscribed to by Bank members in five annual installments, starting in 2011 through 2015. Of this amount, \$1,700 million would be in the form of paid-in capital stock, payable in U.S. dollars, and the remainder would constitute callable capital stock. The increase was originally scheduled to enter into effect on October 31, 2011. On October 26, 2011, the Board of Executive Directors approved a resolution extending the deadline for approval of the Ordinary Capital increase and the date of the first subscription installment to January 31, 2012. See Note X—Subsequent Events for additional IDB-9 related developments occurring after December 31, 2011.

On August 17, 2009, the Bank received from Canada a letter of subscription for 334,887 shares of non-voting callable capital stock, thereby increasing Canada’s total subscription to 669,774 shares. Accordingly, effective on this date, the authorized capital stock of the Bank was increased by an amount of \$4,039.9 million to a total of \$104,980 million represented by 8,702,335 shares, authorized and subscribed. The paid-in capital stock remained unchanged. The terms and conditions of Canada’s subscription stipulate that the subscription is on a temporary basis, with Canada required to transfer 25% of the shares back to the Bank in each of the years from 2014 to 2017. If the Board of Governors approves an increase in the Bank’s authorized ordinary capital

stock prior to this scheduled transfer of shares, Canada shall have the right to replace its temporary subscription with shares issued under the capital increase, as and when effective.

Voting power

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

Total capital stock subscriptions and the voting power of the member countries as of December 31, 2011 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-6.

Note P—Retained Earnings

The composition of Retained earnings as of December 31, 2011, 2010 and 2009 is as follows (in millions):

	2011	2010	2009
General reserve.	\$12,823	\$13,106	\$12,776
Special reserve.	2,665	2,665	2,665
Total.	<u>\$15,488</u>	<u>\$15,771</u>	<u>\$15,441</u>

Note Q—Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) substantially comprises the effects of the postretirement benefits accounting requirements and currency translation adjustments. These items are presented in the Statement of Comprehensive Income.

The following is a summary of changes in Accumulated other comprehensive income (loss) for the years ended December 31, 2011, 2010 and 2009 (in millions):

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	Translation Adjustments Allocation		Other Adjustments	Total
	General Reserve	Special Reserve		
Balance at January 1, 2009	\$1,122	\$(102)	\$(562)	\$458
Translation adjustments	(78)	6	—	(72)
Reclassification to income—cash flow hedges	—	—	2	2
Recognition of changes in assets/liabilities on retirement benefit plans:				
Net actuarial gain	—	—	579	579
Prior service cost	—	—	(77)	(77)
Reclassification to income—amortization of net prior service cost	—	—	4	4
Balance at December 31, 2009	1,044	(96)	(54)	894
Translation adjustments	(21)	(4)	—	(25)
Recognition of changes in assets/liabilities on retirement benefit plans:				
Net actuarial loss	—	—	(58)	(58)
Reclassification to income—amortization of net prior service cost	—	—	39	39
Balance at December 31, 2010	1,023	(100)	(73)	850
Translation adjustments	(3)	—	—	(3)
Recognition of changes in assets/liabilities on retirement benefit plans:				
Net actuarial loss	—	—	(919)	(919)
Reclassification to income—amortization of net prior service cost	—	—	39	39
Balance at December 31, 2011	<u>\$1,020</u>	<u>\$(100)</u>	<u>\$(953)</u>	<u>\$(33)</u>

Note R—Net Fair Value Adjustments on Non-trading Portfolios

Net fair value adjustments on non-trading portfolios for the years ended December 31, 2011, 2010 and 2009 comprise the following (in millions):

	2011	2010	2009
Change in fair value of derivative instruments due to movements in:			
Exchange rates	\$ (351)	\$ 1,730	\$ 2,953
Interest rates	753	140	(1,563)
Other	(30)	—	—
Total change in fair value of derivatives	372	1,870	1,390
Change in fair value of borrowings due to movements in:			
Exchange rates	606	(1,764)	(2,783)
Interest rates	(1,646)	(1,021)	958
Total change in fair value of borrowings	(1,040)	(2,785)	(1,825)
Currency transaction gains (losses) on borrowings and loans at amortized cost	(251)	65	(77)
Amortization of borrowing and loan basis adjustments	—	—	14
Reclassification to income—cash flow hedges	—	—	(2)
Total gains (losses)	<u>\$ (919)</u>	<u>\$ (850)</u>	<u>\$ (500)</u>

Net fair value gains on non-trading derivatives resulting from changes in interest rates were \$753 million for 2011. These gains were offset by fair value losses on borrowings of \$1,646 million. The income volatility related to movements in interest rates, which amounted to a loss of \$893 million, was primarily due to fair value losses on lending swaps (\$1,106 million) and losses associated with changes in the Bank's credit spreads on the borrowings portfolio (approximately \$192 million), that were partially compensated by fair value gains on equity duration swaps (\$287 million), fair value gains on swaps for which the underlying bonds were not elected for fair value option (\$71 million) and gains from changes in swap basis spreads (approximately \$15 million).

Net fair value gains on non-trading derivatives resulting from changes in interest rates were \$140 million for 2010 (2009—losses of \$1,563 million). These gains were offset by fair value losses on borrowings of \$1,021 million (2009—gains of \$958 million). This income volatility related to movements in interest rates, which amounted to a loss of \$881 million, compared to a loss of \$605 million for 2009, was primarily due to fair value losses on lending swaps (\$614 million) and equity duration swaps (\$72 million) and losses associated with changes in the Bank's credit spreads on the borrowings portfolio (approximately \$213 million), that were partially compensated by gains from changes in swap basis spreads (approximately \$33 million).

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. During 2011, exchange rate changes decreased the value of borrowings and loans, resulting in a net gain of \$355 million (2010—loss of \$1,699 million; 2009—loss of \$2,860 million), that was partially offset by a net loss from changes in the value of the borrowing and lending swaps of \$351 million (2010—gain of \$1,730 million; 2009—gain of \$2,953 million).

Note S—Pension and Postretirement Benefit Plans

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

The Bank also provides health care and certain other benefits to retirees. All employees who retire and receive a monthly pension from the Bank or the IIC and who meet

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certain requirements are eligible for postretirement benefits. Retirees contribute toward the Bank's health care program based on an established premium schedule. The Bank and the IIC contribute the remainder of the actuarially determined cost of future postretirement benefits under the Postretirement Benefit Plan (PRBP). While all contributions and all other assets and income of the PRBP remain the property of the Bank, they are held and administered separately and apart from the other property and assets of the Bank solely for the purpose of payment of benefits under the PRBP.

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

Obligations and funded status

The Bank uses a December 31 measurement date for the Plans and the PRBP. The following table summarizes the Bank's share of the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRBP, and the amounts recognized on the Balance Sheet for the years ended December 31, 2011, 2010 and 2009 (in millions):

	Pension Benefits			Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Change in benefit obligation						
Benefit obligation, beginning of year	\$2,658	\$2,414	\$2,419	\$1,226	\$1,116	\$1,068
Service cost	67	55	63	34	30	35
Interest cost	151	145	139	72	68	60
Net transfers into the plan	2	1	—	—	—	—
Plan participants' contributions	23	22	22	—	—	—
Retiree drug subsidy received	—	—	—	1	1	1
Plan amendment	—	—	—	—	—	79
Benefits paid	(107)	(105)	(96)	(30)	(29)	(28)
Actuarial loss (gain)	483	126	(133)	221	40	(99)
Benefit obligation, end of year	<u>\$3,277</u>	<u>\$2,658</u>	<u>\$2,414</u>	<u>\$1,524</u>	<u>\$1,226</u>	<u>\$1,116</u>
Change in plan assets						
Fair value of plan assets, beginning of year	2,815	2,587	2,204	1,158	1,048	873
Net transfers into the plan	2	1	—	—	—	—
Actual return on plan assets	59	255	418	(8)	109	178
Employer contribution	59	55	39	34	30	25
Plan participants' contributions	23	22	22	—	—	—
Benefits paid	(107)	(105)	(96)	(30)	(29)	(28)
Fair value of plan assets, end of year	<u>\$2,851</u>	<u>\$2,815</u>	<u>\$2,587</u>	<u>\$1,154</u>	<u>\$1,158</u>	<u>\$1,048</u>
Funded status, end of year	<u>\$ (426)</u>	<u>\$ 157</u>	<u>\$ 173</u>	<u>\$ (370)</u>	<u>\$ (68)</u>	<u>\$ (68)</u>
Amounts recognized in Accumulated other comprehensive income (loss) consist of:						
Net actuarial loss (gain)	\$ 624	\$ 12	\$ (38)	\$ 320	\$ 16	\$ 8
Prior service cost	1	3	5	8	45	82
Net amount recognized	<u>\$ 625</u>	<u>\$ 15</u>	<u>\$ (33)</u>	<u>\$ 328</u>	<u>\$ 61</u>	<u>\$ 90</u>

The accumulated benefit obligation for the Plans, which excludes the effect of future salary increases, was \$2,821 million, \$2,326 million, and \$2,130 million at December 31, 2011, 2010 and 2009, respectively.

During 2011, the fair value of the Plans and the PRBP assets was affected by the continuing instability in the financial markets, contributing to the low return in plan assets during the year. In addition, a reduction in market interest rates increased the liabilities of the Plans and the PRBP, significantly affecting the funded status of these plans.

Net periodic benefit cost, recognized in Administrative expenses, and other changes in plans assets and benefit obligations recognized in Other comprehensive income (loss) for the years ended December 31, 2011, 2010 and 2009 consist of the following components (in millions):

Components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Service cost	\$ 67	\$ 55	\$ 63	\$ 34	\$ 30	\$ 35
Interest cost	151	145	139	72	68	60
Expected return on plan assets	(191)	(179)	(173)	(74)	(77)	(75)
Amortization of prior service cost	2	2	2	37	37	4
Net periodic benefit cost	<u>\$ 29</u>	<u>\$ 23</u>	<u>\$ 31</u>	<u>\$ 69</u>	<u>\$ 58</u>	<u>\$ 24</u>
Of which:						
Ordinary Capital's share	\$ 28	\$ 22	\$ 30	\$ 67	\$ 56	\$ 23
FSO's share	1	1	1	2	2	1

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

	Pension Benefits			Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Net actuarial loss (gain)	\$612	\$50	\$(377)	\$307	\$ 8	\$(202)
Amortization of prior service cost	(2)	(2)	(2)	(37)	(37)	(2)
Plan amendment	—	—	—	—	—	77
Total recognized in Other comprehensive income (loss)	<u>\$610</u>	<u>\$48</u>	<u>\$(379)</u>	<u>\$270</u>	<u>\$(29)</u>	<u>\$(127)</u>
Total recognized in net periodic benefit cost and Other comprehensive income (loss)	<u>\$639</u>	<u>\$71</u>	<u>\$(348)</u>	<u>\$339</u>	<u>\$ 29</u>	<u>\$(103)</u>

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

At the end of 2011, unrecognized actuarial losses exceed the 10% corridor triggering amortizations from Accumulated other comprehensive income (loss). Accordingly, the Bank estimates that net actuarial losses of \$36 million and \$18 million

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will be amortized from Accumulated other comprehensive income into net periodic benefit cost during 2012 for the Plans and for the PRBP, respectively. In addition, estimated prior service costs that will be amortized from Accumulated other comprehensive income (loss) during 2012 are \$1 million for the Plans and \$7 million for the PRBP.

Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and Management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses which exceed 10% of the greater of the benefit obligation or market-related value of plan assets at the beginning of the period are amortized over the average remaining service period of active employees expected to receive benefits under the SRP, LRP and PRBP, which approximates 11.5, 12.8 and 12 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the SRP, 13 years for the LRP, and 2.3 years for the PRBP.

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

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits			Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Discount rate.....	4.75%	5.75%	6.25%	5.00%	6.00%	6.25%
Rate of salary increase SRP.....	5.50%	5.50%	5.50%			
Rate of salary increase LRP.....	7.30%	7.30%	7.30%			
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits			Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
Discount rate.....	5.75%	6.25%	5.75%	6.00%	6.25%	5.75%
Expected long-term return on plan assets..	7.00%	6.75%	6.75%	6.75%	7.25%	7.25%
Rate of salary increase SRP.....	5.50%	5.50%	5.50%			
Rate of salary increase LRP.....	7.30%	7.30%	7.30%			

The expected long-term return on plan assets represents Management's best estimate, after surveying external investment specialists, of the expected long term (10 years or more) forward-looking rates of return of the asset categories employed

by the plans, weighted by the plans' investment policy asset allocations. The discount rates used in determining the benefit obligations are selected by reference to the year-end AAA and AA corporate bond rates.

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

	2011	2010	2009
Health care cost trend rates assumed for next year:			
Medical (non-Medicare).....	8.00%	8.50%	8.00%
Medical (Medicare).....	7.00%	7.50%	N/A
Prescription drugs.....	7.50%	8.00%	8.00%
Dental.....	5.50%	5.50%	5.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate).....	4.50%	4.50%	4.50%
Year that the rate reaches the ultimate trend rate.....	2018	2018	2017

N/A=Not available

For those participants assumed to retire outside of the United States, a 7% health care cost trend rate was used for 2011 (2010—7.50%; 2009—8.00%) with an ultimate trend rate of 4.5% in 2018.

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRBP. A one-percentage point change in assumed health care cost trend rates would have the following effects as of December 31, 2011 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components.....	\$ 17	\$ (13)
Effect on postretirement benefit obligation.....	220	(170)

Plan assets

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

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

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

The investment policy allocation for the PRBP was changed during 2011. The PRBP's allocations to emerging markets equities and debt, public real estate, commodity index futures and high yield fixed income, are pending full implementation. The funding for the pending investments will come primarily from the PRBP's developed markets equities. The investment policy target allocation as of December 31, 2011 is as follows:

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

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

For the Plans and PRBP, the asset classes include:

- U.S. equities: For the Plans and PRBP, commingled funds that invest, long-only, in U.S. common stocks. Management of the funds replicates or optimizes the large-capitalization (cap) S&P 500 Index, the all-cap Russell 3000 Index, the small-cap Russell 2000 Index and the small/mid-cap Wilshire 4500 Index; for the Staff Retirement Plan only, approximately one quarter of U.S. equities assets are managed in separate accounts holding individual stocks;
- Non-U.S. equities: For the Plans and PRBP, commingled funds that invest, long-only, in non-U.S. common stocks. Management of the funds optimizes the large/mid-cap MSCI EAFE Index; for the Staff Retirement Plan only, half of non-U.S. equities assets are managed in separate accounts holding individual stocks;
- Emerging markets equities: For the Plans only, an actively-managed commingled fund that invests, long-only, in emerging markets common stocks. Management of the fund selects securities, based upon fundamental characteristics, which are generally comprised within the large/mid-cap MSCI Emerging Markets Free Index;
- Public real estate: For the Staff Retirement Plan only, individual (separate) account which holds, long-only, real estate securities. The account is actively-managed based upon fundamental characteristics, investing in securities generally comprised within the MSCI U.S. REIT Index;
- Long duration fixed income bonds: For the Plans and PRBP, a mutual fund that invests, long-only, in long duration government and credit securities. Management of the fund invests in securities generally comprised within the Barclays Capital U.S. Long Government/Credit Bond Index; for the Staff Retirement Plan only, a portion of long duration fixed income assets are invested in a separate account holding individual bonds generally comprised within the Barclays Capital U.S. Long Government/Credit Bond Index;
- Core fixed income: a mutual fund that invests, long-only, in intermediate duration government and credit securities. Management of the fund selects securities, based upon fundamental characteristics, generally comprised within the Barclays Capital U.S. Aggregate Bond Index;
- High yield fixed income: are financial obligations of U.S. companies, rated below investment-grade by at

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least one of the nationally recognized statistical rating organizations. The Fund's investible universe is generally comprised of the securities within the Barclays Capital High Yield 2% Constrained Index, as well as opportunistic investments in non-index securities;

- U.S. inflation-indexed bonds: individual U.S. Treasury Inflation Protected Securities;
- Emerging markets debt: For the Plans only, an actively-managed commingled fund that invests, long-only, in emerging markets fixed income. The fund invests in sovereign and sub-sovereign United States dollar- and local-denominated debt. Management of the fund invests in securities generally comprised within the J.P. Morgan EMBI Global Diversified Index;
- Private real estate: For the Plans only, commingled fund which invests, long-only, in U.S. real estate properties. The fund is actively-managed, based upon fundamental characteristics of properties;
- Commodity index futures: For the Local Retirement Plan, commingled fund which invests in commodity futures contracts generally comprised within the S&P GSCI Index; for the Staff Retirement Plan, a separate account which holds, long-only, commodity index futures generally comprised within the S&P GSCI Index.

The following tables set forth the investments of the Plans and PRBP as of December 31, 2011 and 2010, which are measured at fair value and presented together with their weighted average allocation, by level within the fair value hierarchy (in millions). As required by the fair value measurements accounting framework, these investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, except for certain investment funds which classification within the fair value hierarchy depends on the ability to redeem their corresponding shares at their net asset value in the near term.

Plans assets:

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2011	Weighted Average Allocations
Equity and equity funds:					
U.S. equities	\$ 136	\$ 582	\$ —	\$ 718	25%
Non-U.S. equities	295	383	—	678	24%
Emerging markets equities	—	110	—	110	4%
Public real estate	56	—	—	56	2%
Government bonds and diversified bond funds:					
Long duration fixed income bonds					
Core fixed income	376	54	—	430	15%
High yield fixed income	135	—	—	135	5%
U.S. inflation-indexed bonds	—	54	—	54	2%
Emerging markets debt	423	—	—	423	15%
Real estate investment funds:	—	83	—	83	3%
Private real state	—	—	64	64	2%
Commodity index futures	—	3	—	3	0%
Short-term investment funds	61	36	—	97	3%
Total	<u>\$1,482</u>	<u>\$1,305</u>	<u>\$64</u>	<u>\$2,851</u>	<u>100%</u>

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2010	Weighted Average Allocations
Equity and equity funds:					
U.S. equities	\$ 160	\$ 648	\$ —	\$ 808	29%
Non-U.S. equities	304	384	—	688	25%
Emerging markets equities	—	109	—	109	4%
Government bonds and diversified bond funds:					
Long duration fixed income bonds					
Core fixed income	429	—	—	429	15%
U.S. inflation-indexed bonds	123	—	—	123	4%
Emerging markets debt	424	—	—	424	15%
Real estate investment funds:	—	77	—	77	3%
Private real state	—	—	59	59	2%
Short-term investment funds	92	6	—	98	3%
Total	<u>\$1,532</u>	<u>\$1,224</u>	<u>\$59</u>	<u>\$2,815</u>	<u>100%</u>

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PRBP assets:

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2011	Weighted Average Allocations
Equity and equity funds:					
U.S. equities.....	\$ —	\$460	\$—	\$ 460	40%
Non-U.S. equities	—	273	—	273	24%
Public real estate.....	11	—	—	11	1%
Government bonds and diversified bond funds:					
Long duration fixed income bonds.....					
	171	—	—	171	15%
Core fixed income bonds ..	56	—	—	56	5%
U.S. inflation-indexed bonds.....					
	169	—	—	169	15%
Total investments.....	<u>\$407</u>	<u>\$733</u>	<u>\$—</u>	1,140	100%
Other assets				14	
Total				<u>\$1,154</u>	

Category of Investments	Level 1	Level 2	Level 3	Fair Value Measurements December 31, 2010	Weighted Average Allocations
Equity and equity funds:					
U.S. equities.....	\$ —	\$445	\$—	\$ 445	39%
Non-U.S. equities	—	312	—	312	27%
Government bonds and diversified bond funds:					
Core fixed income bonds and funds.....					
	226	—	—	226	20%
U.S. inflation-indexed bonds.....					
	131	—	—	131	11%
Short-term investment funds ..	(5) ⁽¹⁾	36	—	31	3%
Total investments.....	<u>\$352</u>	<u>\$793</u>	<u>\$—</u>	1,145	100%
Other assets				13	
Total				<u>\$1,158</u>	

⁽¹⁾ Includes forward contracts.

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

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

Private real estate investment funds are measured at fair value based on the net asset value of these investment funds

and are classified as Level 3 as the length of time required to redeem these investments is uncertain. The valuation assumptions used by these investment funds include i) market value of similar properties, ii) discounted cash flows, iii) replacement cost and iv) debt on property (direct capitalization). These methodologies are valuation techniques consistent with the market and cost approaches.

The tables below show a reconciliation of the beginning and ending balance of the Plans' investments measured at fair value on a recurring basis using their net asset value per share and which redemption terms are uncertain (Level 3) for the years ended December 31, 2011 and 2010 (in millions):

	2011	2010
Balance, beginning of year.....	\$ 59	\$58
Total net gains	5	8
Purchases	30	—
Sales and income distributions	(30)	(7)
Balance, end of year	<u>\$ 64</u>	<u>\$59</u>
Total gain for the year attributable to the change in unrealized gains related to investments still held at December 31.		
	<u>\$ 5</u>	<u>\$ 8</u>

Cash flows

Contributions

Contributions from the Bank to the Plans and the PRBP during 2012 are expected to be approximately \$50 million and \$36 million, respectively. All contributions are made in cash.

Estimated future benefit payments

The following table shows the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years (in millions). These amounts are based on the same assumptions used to measure the benefit obligation at December 31, 2011.

Year	Plans	PRBP
2012	\$114	\$ 39
2013	119	42
2014	125	45
2015	132	48
2016	137	51
2017–2021	799	307

Note T—Variable Interest Entities

An entity is a variable interest entity (VIE) if it lacks: (i) equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) equity investors who have

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

decision-making rights about the entity's operations; or (iii) if it has equity investors who do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

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

The Bank has identified loans and guarantees in VIEs in which it is not the primary beneficiary but in which it is deemed to hold significant variable interest at December 31, 2011 and 2010. The majority of these VIEs do not involve securitizations or other types of structured financing. These VIEs are mainly: (i) investment funds, where the general partner or fund manager does not have substantive equity at risk; (ii) operating entities where the total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support; and (iii) entities where the operating activities are so narrowly defined by contracts (e.g. concession contracts) that equity investors are considered to lack decision making ability.

The Bank's involvement with these VIEs is limited to loans and guarantees, which are reflected as such in the Bank's financial statements. Based on the most recent available data from these VIEs, the size of the VIEs measured by total assets in which the Bank is deemed to hold significant variable interests totaled \$2,967 million at December 31, 2011 (2010—\$6,058 million). The Bank's total loans and guarantees outstanding to these VIEs were \$356 million and \$90 million, respectively (2010—\$609 million and \$157 million, respectively). Amounts committed not yet disbursed related to such loans and guarantees amounted to \$3 million (2010—\$58 million), which combined with outstanding amounts results in a total Bank exposure of \$449 million at December 31, 2011 (2010—\$824 million).

During 2011, the Bank made a \$32 million loan to one VIE for which the Bank is deemed to be the primary beneficiary. The Bank's involvement with this VIE is limited to such loan, which is reflected as such in the Bank's financial statements. Based on the most recent available data, the size of this VIE measured by total assets amounted to approximately \$32 million, which is considered immaterial and, thus, not consolidated with the Bank's financial statements.

Note U—Reconciliation of Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities

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

	Years ended December 31,		
	2011	2010	2009
Net income (loss)	\$ (283)	\$ 330	\$ 794
Difference between amounts accrued and amounts paid or collected for:			
Loan income	6	33	150
Investment income	(158)	(111)	(143)
Other interest income	2	(7)	—
Net unrealized (gain) loss on trading investments	68	(262)	(382)
Interest and other costs of borrowings, after swaps	247	178	(58)
Administrative expenses, including depreciation	24	(1)	84
Special programs	10	28	55
Net fair value adjustments on non-trading portfolios	919	850	500
Transfer to the IDB Grant Facility	200	72	—
Net (increase) decrease in trading investments	2,827	826	(3,067)
Provision (credit) for loan and guarantee losses	3	24	(21)
Net cash provided by (used in) operating activities	<u>\$3,865</u>	<u>\$1,960</u>	<u>\$(2,088)</u>
Supplemental disclosure of noncash activities			
Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments	\$ (17)	\$ (180)	\$ 73
Held-to-maturity investments	—	(46)	210
Loans outstanding	40	123	(41)
Borrowings	5	(137)	(27)
Receivable from members-net	(13)	28	(203)
Transfer of investment securities from held-to-maturity to trading portfolio	—	754	—

Note V—Segment Reporting

Management has determined that the Bank has only one reportable segment since it does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries. For the years 2011, 2010 and 2009, loans made to or guaranteed by four countries individually generated in excess of 10 percent of loan income, before swaps, as follows (in millions):

	Years ended December 31,		
	2011	2010	2009
Argentina	\$335	\$367	\$357
Brazil	412	469	494
Colombia	213	233	231
Mexico	388	294	209

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NOTES TO FINANCIAL STATEMENTS (continued)

Note W—Fair Values of Financial Instruments

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

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

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

Loans: The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. It does not sell its loans nor does it believe there is a comparable market for its loans. The absence of a secondary market for the Bank's loans made it difficult to estimate their fair value despite the flexibility offered by the fair value framework. However effective in 2011, Management, in recognition of a steady practice of several years in the multilateral development institutions industry, made the decision of estimating and disclosing the fair value of the Bank's loan portfolio using a discounted cash flow method, 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. During 2011, the Bank completed the required enhancements to certain specific systems which now allow for the calculation of the fair value of its loan portfolio on a prospective basis, without incurring in excessive costs.

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

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

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of December 31, 2011 and 2010 (in millions):

	2011 ⁽¹⁾		2010 ⁽¹⁾	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash.....	\$ 1,189	\$ 1,189	\$ 242	\$ 242
Investments				
Trading.....	13,743	13,743	16,394	16,394
Loans outstanding, net.....	66,446	70,882	63,342	N/A
Currency and interest rate swaps receivable				
Investments—trading.....	5	5	6	6
Loans.....	103	103	11	11
Borrowings.....	7,077	7,077	6,285	6,285
Others.....	220	220	1	1
Borrowings				
Short-term.....	898	898	30	30
Medium- and long-term:				
Measured at fair value ...	49,335	49,335	53,302	53,302
Measured at amortized cost.....	14,228	15,463	10,176	11,046
Currency and interest rate swaps payable				
Investments—trading.....	101	101	77	77
Loans.....	1,738	1,738	759	759
Borrowings.....	713	713	750	750
Others.....	—	—	66	66

N/A = Not available

⁽¹⁾ Includes accrued interest.

Note X—Subsequent Events

Management has evaluated subsequent events through March 9, 2012, which is the date the financial statements were issued. As a result of this evaluation, except as disclosed below, there are no subsequent events that require recognition or disclosure in the Bank's financial statements as of December 31, 2011.

IDB-9: Effective January 18, 2012, the Board of Governors adopted a resolution authorizing the increase in the Bank's Ordinary Capital. On February 29, 2012, the increase in the Bank's Ordinary Capital entered into effect, which was also the effective date of the first installment. As of this date, commitments to subscribe from 46 member countries amounting to \$65,731 million were received by the Bank and 5,134,300 shares of ordinary capital stock in the amount of \$61,937 million or 88% of the total increase were eligible for allocation, representing the amount of shares committed to be subscribed, less shares that may not be allocated as of February 29, 2012 in order to comply with the associated minimum voting power requirements of the Agreement. Of this amount, \$1,504 million represents paid-in capital stock and \$60,433 million represents callable capital stock. The Board of Executive Directors approved a resolution, effective February 29, 2012, which extended the deadline to March 30, 2012 for member countries that have not subscribed to their respective shares of the increase. The Bank will issue additional ordinary capital stock in the amount of \$8,063 million upon allocation of the remaining shares. In addition, on February 29, 2012, Canada notified the Bank of its intent to exercise its right to replace shares of non-voting callable capital stock with shares allocated under the IDB-9. See Note O for further information.

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INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS⁽¹⁾ – NOTE D

December 31, 2011

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Others	All currencies
Obligations of the United States Government and its corporations and agencies:						
Carrying value	—	—	—	2,813	—	2,813 ⁽²⁾
Average balance during year	—	—	—	2,002	—	2,002
Net gains for the year	—	—	—	1	—	1
Obligations of non-U.S. governments and agencies:						
Carrying value	753	537	34	4,028	204	5,556
Average balance during year	1,095	576	198	4,532	267	6,668
Net gains (losses) for the year	9	(9)	—	(9)	1	(8)
Bank obligations:						
Carrying value	392	181	224	2,523	—	3,320
Average balance during year	300	145	76	3,527	13	4,061
Net losses for the year	(5)	(4)	(1)	(3)	(4)	(17)
Asset-backed and mortgage-backed securities:						
Carrying value	927	—	—	1,087	—	2,014
Average balance during year	1,155	—	—	1,408	—	2,563
Net gains (losses) for the year	(2)	—	—	69	—	67
Total trading investments:						
Carrying value	2,072	718	258	10,451	204	13,703
Average balance during year	2,550	721	274	11,469	280	15,294
Net gains (losses) for the year	2	(13)	(1)	58	(3)	43
Net interest rate swaps:						
Carrying value ⁽³⁾	(2)	—	—	(33)	—	(35)
Average balance during year	(1)	—	—	(25)	—	(26)
Net losses for the year	(1)	—	—	(21)	—	(22)
Currency swaps receivable:						
Carrying value ⁽³⁾	—	—	—	1,364	—	1,364
Average balance during year	—	—	—	1,329	—	1,329
Net gains for the year	—	—	—	6	—	6
Currency swaps payable:						
Carrying value ⁽³⁾	(567)	(557)	(68)	—	(206)	(1,398)
Average balance during year	(728)	(420)	(34)	—	(221)	(1,403)
Net gains (losses) for the year	2	(1)	(1)	—	(18)	(18)
Total trading investments and swaps:						
Carrying value	1,503	161	190	11,782	(2)	13,634
Average balance during year	1,821	301	240	12,773	59	15,194
Net gains (losses) for the year	3	(14)	(2)	43	(21)	9
Return for the year (%)	1.21	0.09	0.11	0.62	1.65	0.65

⁽¹⁾ Excludes accrued interest.⁽²⁾ Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities, of \$841 million. GSE obligations are not backed by the full faith and credit of the United States Government.⁽³⁾ Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. Currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS⁽¹⁾ – NOTE D

December 31, 2010

Expressed in millions of United States dollars

	<u>Euro</u>	<u>Japanese yen</u>	<u>Swiss francs</u>	<u>United States dollars</u>	<u>Others</u>	<u>All currencies</u>
Obligations of the United States Government and its corporations and agencies:						
Carrying value	—	—	—	1,328	—	1,328 ⁽²⁾
Average balance during year	—	—	—	2,948	—	2,948
Net losses for the year	—	—	—	(3)	—	(3)
Obligations of non-U.S. governments and agencies:						
Carrying value	843	431	200	5,200	340	7,014
Average balance during year	551	454	79	4,025	28	5,137
Net losses for the year	(6)	—	—	(10)	—	(16)
Bank obligations:						
Carrying value	164	12	32	4,754	88	5,050
Average balance during year	345	11	73	4,495	7	4,931
Net gains for the year	1	—	—	2	—	3
Asset-backed and mortgage-backed securities:						
Carrying value	1,217	—	—	1,747	—	2,964
Average balance during year	1,315	—	—	2,064	—	3,379
Net gains for the year	85	—	—	333	—	418
Total trading investments:						
Carrying value	2,224	443	232	13,029	428	16,356
Average balance during year	2,211	465	152	13,532	35	16,395
Net gains for the year	80	—	—	322	—	402
Net interest rate swaps:						
Carrying value ⁽³⁾	(2)	—	—	(17)	—	(19)
Average balance during year	(2)	—	—	(23)	—	(25)
Net losses for the year	(1)	—	—	(6)	—	(7)
Currency swaps receivable:						
Carrying value ⁽³⁾	—	—	—	629	—	629
Average balance during year	—	—	—	85	—	85
Net gains for the year	—	—	—	1	—	1
Currency swaps payable:						
Carrying value ⁽³⁾	(439)	—	—	—	(219)	(658)
Average balance during year	(69)	—	—	—	(18)	(87)
Net gains (losses) for the year	—	—	—	—	—	—
Total trading investments and swaps:						
Carrying value	1,783	443	232	13,641	209	16,308
Average balance during year	2,140	465	152	13,594	17	16,368
Net gains for the year	79	—	—	317	—	396
Return for the year (%)	4.48	0.16	0.11	2.86	2.80	3.16

⁽¹⁾ Excludes accrued interest.⁽²⁾ Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities, of \$505 million. GSE obligations are not backed by the full faith and credit of the United States Government.⁽³⁾ Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. Currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF LOANS – NOTE E⁽¹⁾

December 31, 2011 and 2010

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding balance—2011			Currency in which outstanding balance is collectible		Undisbursed	Total outstanding balance 2010
	Sovereign- guaranteed	Non- Sovereign- guaranteed	Total	Non-borrowing country currencies ⁽²⁾	Borrowing country currencies		
Argentina	\$10,563	\$ 89	\$10,652	\$10,624	\$ 28	\$ 4,168	\$10,254
Bahamas	178	—	178	178	—	145	130
Barbados	243	—	243	243	—	160	184
Belize	110	—	110	110	—	44	104
Bolivia	203	34	237	237	—	413	207
Brazil	14,176	1,005	15,181	15,147	34	6,186	15,735
Chile	601	43	644	644	—	140	633
Colombia	6,763	83	6,846	6,831	15	1,229	6,549
Costa Rica	360	221	581	581	—	722	455
Dominican Republic	1,992	62	2,054	2,054	—	456	1,788
Ecuador	1,944	160	2,104	2,104	—	1,125	1,775
El Salvador	1,739	47	1,786	1,786	—	425	1,678
Guatemala	1,887	91	1,978	1,978	—	579	1,841
Guyana	34	—	34	34	—	43	21
Honduras	204	35	239	239	—	344	100
Jamaica	1,310	36	1,346	1,346	—	382	1,269
Mexico	9,782	119	9,901	9,901	—	2,227	9,049
Nicaragua	178	23	201	201	—	180	140
Panama	1,341	121	1,462	1,462	—	965	1,336
Paraguay	855	25	880	880	—	523	873
Peru	3,260	646	3,906	3,906	—	488	3,948
Suriname	165	3	168	168	—	70	93
Trinidad and Tobago	665	—	665	665	—	189	473
Uruguay	1,987	39	2,026	2,026	—	624	1,962
Venezuela	2,105	—	2,105	2,094	11	1,367	1,870
Regional	169	434	603	603	—	800	540
Total 2011	<u>\$62,814</u>	<u>\$3,316</u>	<u>\$66,130</u>	<u>\$66,042</u>	<u>\$ 88</u>	<u>\$23,994</u>	
Total 2010	<u>\$59,783</u>	<u>\$3,224</u>	<u>\$63,007</u>	<u>\$62,904</u>	<u>\$103</u>	<u>\$22,357</u>	<u>\$63,007</u>

⁽¹⁾ This table excludes outstanding participated non-sovereign-guaranteed loans of \$2,755 million at December 31, 2011 (2010—\$3,135 million). This table also excludes guarantees outstanding of \$980 million at December 31, 2011 (2010—\$814 million).

⁽²⁾ Includes \$2,128 million of loans in borrowing country currencies, which have been swapped to United States dollars.

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INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

**SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY
AND INTEREST RATE TYPE⁽¹⁾ – NOTE E**

December 31, 2011

Expressed in millions of United States dollars

Currency/Rate type	Multicurrency loans ⁽²⁾		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed-base cost	\$ 19	6.89	\$ —	—	—	\$ 19	6.89
Adjustable.....	137	2.26	—	—	—	137	2.26
Japanese yen							
Fixed-base cost	36	6.87	—	—	—	36	6.87
Adjustable.....	253	2.26	—	—	—	253	2.26
LIBOR-based floating.....	—	—	92	0.43	6.12	92	0.43
Swiss francs							
Fixed-base cost	23	7.03	—	—	—	23	7.03
Adjustable.....	156	2.26	—	—	—	156	2.26
United States dollars							
Fixed-base cost	93	6.89	28,320	5.09	6.72	28,413	5.10
Adjustable.....	667	2.26	1,397	3.29	7.93	2,064	2.96
LIBOR-based floating.....	—	—	32,721	1.63	9.33	32,721	1.63
Others							
Fixed-base cost	88	4.00	991	5.64	4.88	1,079	5.51
Adjustable	—	—	1,137	5.08	5.61	1,137	5.08
Loans outstanding							
Fixed-base cost	259	5.91	29,311	5.11	6.66	29,570	5.12
Adjustable.....	1,213	2.26	2,534	4.09	6.89	3,747	3.50
LIBOR-based floating.....	—	—	32,813	1.62	9.32	32,813	1.62
Total	<u>\$1,472</u>	<u>2.90</u>	<u>\$64,658</u>	<u>3.30</u>	<u>8.02</u>	<u>\$66,130</u>	<u>3.29</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2011

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans ⁽²⁾		Single currency loans		All loans		
	Fixed-base cost ⁽⁴⁾	Adjustable	Fixed-base cost ⁽⁴⁾	Adjustable ⁽³⁾	Fixed-base cost ⁽⁴⁾	Adjustable ⁽³⁾	Total
2012	\$ 87	\$ 163	\$ 2,856	\$ 1,397	\$ 2,943	\$ 1,560	\$ 4,503
2013	67	159	2,709	1,734	2,776	1,893	4,669
2014	47	158	2,629	2,165	2,676	2,323	4,999
2015	19	156	2,957	2,321	2,976	2,477	5,453
2016	7	133	2,287	2,069	2,294	2,202	4,496
2017 to 2021	27	349	9,124	10,782	9,151	11,131	20,282
2022 to 2026	5	89	4,469	8,706	4,474	8,795	13,269
2027 to 2031	—	6	1,970	4,986	1,970	4,992	6,962
2032 to 2036	—	—	273	1,125	273	1,125	1,398
2037 to 2041	—	—	37	62	37	62	99
Total	<u>\$ 259</u>	<u>\$1,213</u>	<u>\$29,311</u>	<u>\$35,347</u>	<u>\$29,570</u>	<u>\$36,560</u>	<u>\$66,130</u>
Average maturity (years)	<u>2.25</u>	<u>4.59</u>	<u>6.66</u>	<u>9.15</u>	<u>6.62</u>	<u>9.00</u>	<u>7.93</u>

⁽¹⁾ Information presented before currency and interest rate swaps.

⁽²⁾ Average maturity-Multicurrency loans: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.

⁽³⁾ Includes LIBOR-based floating loans.

⁽⁴⁾ Includes a total of \$1,175 million in fixed rate loans.

ORDINARY CAPITAL
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APPENDIX I-3

**SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY
AND INTEREST RATE TYPE⁽¹⁾ – NOTE E**

December 31, 2010

Expressed in millions of United States dollars

Currency/Rate type	Multicurrency loans ⁽²⁾		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed-base cost	\$ 29	6.94	\$ —	—	—	\$ 29	6.94
Adjustable	154	3.19	—	—	—	154	3.19
Japanese yen							
Fixed-base cost	64	6.92	—	—	—	64	6.92
Adjustable	335	3.19	—	—	—	335	3.19
LIBOR-based floating	—	—	94	0.80	6.62	94	0.80
Swiss francs							
Fixed-base cost	35	7.06	—	—	—	35	7.06
Adjustable	175	3.19	—	—	—	175	3.19
United States dollars							
Fixed-base cost	130	6.94	29,149	5.24	6.66	29,279	5.25
Adjustable	684	3.19	1,305	3.52	7.66	1,989	3.41
LIBOR-based floating	—	—	28,595	1.69	9.44	28,595	1.69
Others							
Fixed-base cost	103	4.00	927	5.76	5.43	1,030	5.58
Adjustable ⁽³⁾	—	—	1,228	5.33	6.29	1,228	5.33
Loans outstanding							
Fixed-base cost	361	6.11	30,076	5.26	6.62	30,437	5.27
Adjustable	1,348	3.19	2,533	4.40	6.99	3,881	3.98
LIBOR-based floating	—	—	28,689	1.68	9.43	28,689	1.68
Total	<u>\$1,709</u>	<u>3.81</u>	<u>\$61,298</u>	<u>3.55</u>	<u>7.95</u>	<u>\$63,007</u>	<u>3.56</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2010

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans ⁽²⁾		Single currency loans		All loans		
	Fixed-base cost ⁽⁵⁾	Adjustable	Fixed-base cost ⁽⁵⁾	Adjustable ⁽³⁾⁽⁴⁾	Fixed-base cost ⁽⁵⁾	Adjustable ⁽³⁾⁽⁴⁾	Total
2011	\$102	\$ 172	\$ 2,955	\$ 1,165	\$ 3,057	\$ 1,337	\$ 4,394
2012	87	164	2,832	1,416	2,919	1,580	4,499
2013	67	156	2,693	1,719	2,760	1,875	4,635
2014	46	154	2,614	1,998	2,660	2,152	4,812
2015	20	150	2,951	2,265	2,971	2,415	5,386
2016 to 2020	32	424	9,081	9,235	9,113	9,659	18,772
2021 to 2025	7	113	4,667	7,661	4,674	7,774	12,448
2026 to 2030	—	15	1,985	4,636	1,985	4,651	6,636
2031 to 2035	—	—	278	1,087	278	1,087	1,365
2036 to 2039	—	—	20	40	20	40	60
Total	<u>\$361</u>	<u>\$1,348</u>	<u>\$30,076</u>	<u>\$31,222</u>	<u>\$30,437</u>	<u>\$32,570</u>	<u>\$63,007</u>
Average maturity (years)	<u>2.44</u>	<u>4.93</u>	<u>6.62</u>	<u>9.23</u>	<u>6.57</u>	<u>9.05</u>	<u>7.85</u>

⁽¹⁾ Information presented before currency and interest rate swaps.

⁽²⁾ Average maturity-Multicurrency loans: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.

⁽³⁾ These loans were previously reported as Fixed-base cost and have been reclassified to Adjustable to conform with the 2011 presentation.

⁽⁴⁾ Includes LIBOR-based floating loans.

⁽⁵⁾ Includes a total of \$1,146 million in fixed rate loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

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

December 31, 2011

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 778	4.26	1.54	\$ —	—	—	\$ —	—	—	\$ 778	4.26	1.54
	—	—	—	—	—	—	(778)	4.26	1.54	(778)	4.26	1.54
Adjustable	574	5.05	5.22	1,225	1.33	3.93	778	1.19	1.54	2,577	2.12	3.50
	—	—	—	(781)	3.99	4.63	—	—	—	(781)	3.99	4.63
Japanese yen												
Fixed	584	5.81	4.22	—	—	—	—	—	—	584	5.81	4.22
	—	—	—	(517)	5.67	4.24	—	—	—	(517)	5.67	4.24
Adjustable	391	1.57	6.80	473	0.03	0.13	39	(0.38)	6.83	903	0.68	3.31
	—	—	—	(352)	1.28	6.80	(39)	1.23	6.83	(391)	1.28	6.80
Swiss francs												
Fixed	693	2.63	6.55	—	—	—	—	—	—	693	2.63	6.55
	—	—	—	(693)	2.63	6.55	—	—	—	(693)	2.63	6.55
Adjustable	—	—	—	821	(0.10)	0.71	—	—	—	821	(0.10)	0.71
	—	—	—	(379)	(0.14)	0.80	—	—	—	(379)	(0.14)	0.80
United States dollars												
Fixed	36,497	3.41	5.39	144	6.37	4.66	348	5.25	5.96	36,989	3.44	5.39
	—	—	—	—	—	—	(30,878)	3.17	5.10	(30,878)	3.17	5.10
Adjustable	3,200	0.91	1.87	17,817	0.45	4.40	35,325	0.46	4.40	56,342	0.48	4.26
	—	—	—	(2,297)	0.30	2.36	(5,369)	0.76	2.78	(7,666)	0.62	2.65
Others												
Fixed	18,653	6.06	4.31	—	—	—	—	—	—	18,653	6.06	4.31
	—	—	—	(18,653)	6.06	4.31	—	—	—	(18,653)	6.06	4.31
Adjustable	204	4.75	2.98	—	—	—	—	—	—	204	4.75	2.98
	—	—	—	(204)	4.75	2.98	—	—	—	(204)	4.75	2.98
Total												
Fixed	57,205	4.30	4.99	144	—	—	348	—	—	57,697	4.31	4.99
	—	—	—	(19,863)	—	—	(31,656)	—	—	(51,519)	4.25	4.77
Adjustable	4,369	1.69	2.80	20,336	—	—	36,142	—	—	60,847	0.56	4.16
	—	—	—	(4,013)	—	—	(5,408)	—	—	(9,421)	0.99	2.92
Principal at face value . .	61,574	4.12	4.83	(3,396)	—	—	(574)	—	—	57,604	0.95	4.65
Fair value adjustments . .	3,395	—	—	(1,479)	—	—	(1,826)	—	—	90	—	—
Net unamortized discount	(1,944)	—	—	793	—	—	574 ⁽³⁾	—	—	(577)	—	—
Total	<u>\$63,025</u>	<u>4.12</u>	<u>4.83</u>	<u>\$ (4,082)</u>	—	—	<u>\$ (1,826)</u>	—	—	<u>\$ 57,117</u>	<u>0.95</u>	<u>4.65</u>

⁽¹⁾ As of December 31, 2011, the average repricing period of the net currency obligations for adjustable rate borrowings was 3.8 months.

⁽²⁾ Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency and interest rate swaps of \$4,082 million and \$1,826 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$6,702 million and currency and interest rate swap liabilities at fair value of \$794 million, included on the Balance Sheet.

⁽³⁾ Represents the unamortized discount on zero coupon interest rate swaps.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2011

Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2012	\$10,534	2017 through 2021	\$13,200
2013	7,602	2022 through 2026	2,809
2014	10,954	2027 through 2031	806
2015	7,917	2037 through 2041	1,979
2016	5,773	Total	<u>\$61,574</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

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

December 31, 2010

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgt'd. avg cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 804	4.26	2.54	\$ —	—	—	\$ —	—	—	\$ 804	4.26	2.54
	—	—	—	—	—	—	(804)	4.26	2.54	(804)	4.26	2.54
Adjustable	593	5.03	6.22	2,257	0.80	2.98	804	0.70	2.54	3,654	1.46	3.41
	—	—	—	(1,565)	2.35	3.12	—	—	—	(1,565)	2.35	3.12
Japanese yen												
Fixed	838	5.39	3.68	—	—	—	—	—	—	838	5.39	3.68
	—	—	—	(653)	5.24	4.06	—	—	—	(653)	5.24	4.06
Adjustable	433	1.69	8.00	1,341	0.05	0.72	37	(0.40)	7.83	1,811	0.43	2.60
	—	—	—	(996)	0.61	3.55	(37)	1.23	7.83	(1,033)	0.63	3.70
Swiss francs												
Fixed	696	2.63	7.55	—	—	—	—	—	—	696	2.63	7.55
	—	—	—	(696)	2.63	7.55	—	—	—	(696)	2.63	7.55
Adjustable	—	—	—	1,017	—	1.43	—	—	—	1,017	—	1.43
	—	—	—	(548)	(0.06)	1.34	—	—	—	(548)	(0.06)	1.34
United States dollars												
Fixed	35,514	3.71	5.18	217	6.19	3.85	349	5.25	6.96	36,080	3.74	5.19
	—	—	—	—	—	—	(29,384)	3.43	5.19	(29,384)	3.43	5.19
Adjustable	4,250	0.67	2.22	19,876	0.33	4.76	34,230	0.33	4.55	58,356	0.36	4.45
	—	—	—	(4,242)	0.19	2.04	(5,778)	0.60	3.64	(10,020)	0.43	2.96
Others												
Fixed	20,107	6.15	4.95	—	—	—	—	—	—	20,107	6.15	4.95
	—	—	—	(20,107)	6.15	4.95	—	—	—	(20,107)	6.15	4.95
Adjustable	222	5.33	3.74	—	—	—	—	—	—	222	5.33	3.74
	—	—	—	(222)	5.33	3.74	—	—	—	(222)	5.33	3.74
Total												
Fixed	57,959	4.58	5.07	217	—	—	349	—	—	58,525	4.59	5.08
	—	—	—	(21,456)	—	—	(30,188)	—	—	(51,644)	4.52	5.07
Adjustable	5,498	1.41	3.17	24,491	—	—	35,071	—	—	65,060	0.43	4.29
	—	—	—	(7,573)	—	—	(5,815)	—	—	(13,388)	0.73	2.99
Principal at face value...	63,457	4.30	4.90	(4,321)	—	—	(583)	—	—	58,553	0.91	4.69
Fair value adjustments ..	1,799	—	—	(651)	—	—	(1,123)	—	—	25	—	—
Net unamortized discount.....	(2,333)	—	—	1,016	—	—	583 ⁽³⁾	—	—	(734)	—	—
Total	\$62,923	4.30	4.90	\$ (3,956)	—	—	\$ (1,123)	—	—	\$ 57,844	0.91	4.69

⁽¹⁾ As of December 31, 2010, the average repricing period of the net currency obligations for adjustable rate borrowings was 3.8 months.⁽²⁾ Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency and interest rate swaps of \$3,956 million and \$1,123 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$5,887 million and currency and interest rate swap liabilities at fair value of \$808 million, included on the Balance Sheet.⁽³⁾ Represents the unamortized discount on zero coupon interest rate swaps.**MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING**

December 31, 2010

Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2011.....	\$ 7,869	2016 through 2020.....	\$14,311
2012.....	10,589	2021 through 2025.....	2,096
2013.....	7,074	2026 through 2030.....	2,019
2014.....	10,547	2037 through 2040.....	1,286
2015.....	7,666	Total.....	<u>\$63,457</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTES O

December 31, 2011 and 2010

Expressed in millions of United States dollars⁽¹⁾

Members	Shares	Paid-in portion of subscribed capital		Callable portion of subscribed capital	Total 2011	Total 2010
		Freely convertible currencies ⁽³⁾	Other currencies			
Argentina	900,154	\$ 361.1	\$ 104.1	\$ 10,393.8	\$ 10,858.9	\$ 10,858.9
Austria	13,312	6.9	—	153.7	160.6	160.6
Bahamas	17,398	7.5	4.1	198.3	209.9	209.9
Barbados	10,767	3.9	1.8	124.3	129.9	129.9
Belgium	27,438	14.2	—	316.8	331.0	331.0
Belize	9,178	3.6	3.6	103.5	110.7	110.7
Bolivia	72,258	29.0	8.4	834.4	871.7	871.7
Brazil	900,154	361.1	104.1	10,393.8	10,858.9	10,858.9
Canada ⁽²⁾	669,774	173.7	—	7,906.1	8,079.8	8,079.8
Chile	247,163	99.1	28.6	2,853.9	2,981.6	2,981.6
China	184	0.1	—	2.1	2.2	2.2
Colombia	247,163	99.2	28.6	2,853.9	2,981.6	2,981.6
Costa Rica	36,121	14.5	4.2	417.1	435.7	435.7
Croatia	4,018	2.1	—	46.4	48.5	48.5
Denmark	14,157	7.3	—	163.4	170.8	170.8
Dominican Republic	48,220	19.3	5.6	556.8	581.7	581.7
Ecuador	48,220	19.3	5.6	556.8	581.7	581.7
El Salvador	36,121	14.5	4.2	417.1	435.7	435.7
Finland	13,312	6.9	—	153.7	160.6	160.6
France	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Germany	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Guatemala	48,220	19.3	5.6	556.8	581.7	581.7
Guyana	13,393	5.2	2.6	153.8	161.6	161.6
Haiti	36,121	14.5	4.2	417.1	435.7	435.7
Honduras	36,121	14.5	4.2	417.1	435.7	435.7
Israel	13,126	6.8	—	151.5	158.3	158.3
Italy	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Jamaica	48,220	19.3	5.6	556.8	581.7	581.7
Japan	418,642	217.1	—	4,833.2	5,050.3	5,050.3
Korea, Republic of	184	0.1	—	2.1	2.2	2.2
Mexico	578,632	232.1	66.9	6,681.3	6,980.3	6,980.3
Netherlands	28,207	14.6	—	325.6	340.3	340.3
Nicaragua	36,121	14.5	4.2	417.1	435.7	435.7
Norway	14,157	7.3	—	163.4	170.8	170.8
Panama	36,121	14.5	4.2	417.1	435.7	435.7
Paraguay	36,121	14.5	4.2	417.1	435.7	435.7
Peru	120,445	48.3	14.0	1,390.7	1,453.0	1,453.0
Portugal	4,474	2.3	—	51.7	54.0	54.0
Slovenia	2,434	1.3	—	28.1	29.4	29.4
Spain	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Suriname	7,342	3.5	2.2	82.9	88.6	88.6
Sweden	27,268	14.1	—	314.8	328.9	328.9
Switzerland	39,347	20.4	—	454.2	474.7	474.7
Trinidad and Tobago	36,121	14.5	4.2	417.1	435.7	435.7
United Kingdom	80,551	41.8	—	929.9	971.7	971.7
United States	2,512,529	1,303.0	—	29,006.7	30,309.7	30,309.7
Uruguay	96,507	38.7	11.2	1,114.3	1,164.2	1,164.2
Venezuela	482,267	216.0	33.3	5,568.5	5,817.8	5,817.8
Total 2011	<u>8,702,335</u>	<u>\$ 3,870</u>	<u>\$ 469</u>	<u>\$ 100,641</u>	<u>\$ 104,980</u>	
Total 2010	<u>8,702,335</u>	<u>\$ 3,870</u>	<u>\$ 469</u>	<u>\$ 100,641</u>		<u>\$ 104,980</u>

⁽¹⁾ Data are rounded; detail may not add up to total because of rounding.⁽²⁾ Includes 334,887 non-voting temporary callable shares with a par value of \$4,039.9 million.⁽³⁾ In 2010 and 2011, the Bank converted to United States dollars all the Ordinary Capital's non-borrowing member currency holdings, including capital originally paid in non-U.S. dollars.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2011

Member countries	Subscribed voting shares	Number of votes	% of total number of votes ⁽¹⁾
Regional developing members			
Argentina	900,154	900,289	10.751
Bahamas	17,398	17,533	0.209
Barbados	10,767	10,902	0.130
Belize	9,178	9,313	0.111
Bolivia	72,258	72,393	0.865
Brazil	900,154	900,289	10.751
Chile	247,163	247,298	2.953
Colombia	247,163	247,298	2.953
Costa Rica	36,121	36,256	0.433
Dominican Republic	48,220	48,355	0.577
Ecuador	48,220	48,355	0.577
El Salvador	36,121	36,256	0.433
Guatemala	48,220	48,355	0.577
Guyana	13,393	13,528	0.162
Haiti	36,121	36,256	0.433
Honduras	36,121	36,256	0.433
Jamaica	48,220	48,355	0.577
Mexico	578,632	578,767	6.912
Nicaragua	36,121	36,256	0.433
Panama	36,121	36,256	0.433
Paraguay	36,121	36,256	0.433
Peru	120,445	120,580	1.440
Suriname	7,342	7,477	0.089
Trinidad and Tobago	36,121	36,256	0.433
Uruguay	96,507	96,642	1.154
Venezuela	482,267	482,402	5.761
Total regional developing members	4,184,669	4,188,179	50.015
Canada⁽²⁾	334,887	335,022	4.001
United States	2,512,529	2,512,664	30.006
Nonregional members			
Austria	13,312	13,447	0.161
Belgium	27,438	27,573	0.329
China	184	319	0.004
Croatia	4,018	4,153	0.050
Denmark	14,157	14,292	0.171
Finland	13,312	13,447	0.161
France	158,638	158,773	1.896
Germany	158,638	158,773	1.896
Israel	13,126	13,261	0.158
Italy	158,638	158,773	1.896
Japan	418,642	418,777	5.001
Korea, Republic of	184	319	0.004
Netherlands	28,207	28,342	0.338
Norway	14,157	14,292	0.171
Portugal	4,474	4,609	0.055
Slovenia	2,434	2,569	0.031
Spain	158,638	158,773	1.896
Sweden	27,268	27,403	0.327
Switzerland	39,347	39,482	0.471
United Kingdom	80,551	80,686	0.964
Total nonregional members	1,335,363	1,338,063	15.979
Grand total	8,367,448	8,373,928	100.000

⁽¹⁾ Data are rounded; detail may not add to subtotals and grand total because of rounding.⁽²⁾ Excludes 334,887 non-voting temporary callable shares.

FUND FOR SPECIAL OPERATIONS

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

March 19, 2012

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

Management has assessed the effectiveness of the Bank's Fund for Special Operations internal control over financial reporting as of December 31, 2011. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2011.

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

Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Fund for Special Operations internal control over financial reporting. In addition, the Bank's Fund for Special Operations financial statements, as of December 31, 2011, have been audited by Ernst & Young LLP.



Luis Alberto Moreno
President



Jaime Alberto Sujoy
Vice President for Finance and Administration



Edward Bartholomew
Finance General Manager and CFO

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited Inter-American Development Bank (Bank)—Fund for Special Operations' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Bank's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report Regarding the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's Fund for Special Operations internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Bank's Fund for Special Operations maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2011 and 2010, and the related statements of income and general reserve (deficit), comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 19, 2012 expressed an unqualified opinion thereon.

Washington, D.C.
March 19, 2012

Ernst & Young LLP

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheets of the Inter-American Development Bank (Bank)—Fund for Special Operations as of December 31, 2011 and 2010, and the related statements of income and general reserve (deficit), comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Fund for Special Operations as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Inter-American Development Bank's Fund for Special Operations internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 19, 2012 expressed an unqualified opinion thereon.

Washington, D.C.
March 19, 2012

Ernst + Young LLP

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2011		2010	
ASSETS				
Cash and investments				
Cash—Notes C and P	\$ 426		\$ 400	
Investments—Notes D, E, P and Appendix II-1	<u>786</u>	<u>\$1,212</u>	<u>1,013</u>	<u>\$1,413</u>
Loans outstanding—Notes F, P and Appendix II-2		4,162		4,004
Accrued interest and other charges on loans		17		18
Receivable from members—Note H				
Non-negotiable, non-interest-bearing obligations:				
Demand notes	449		454	
Term notes	121		133	
Amounts required to maintain value of currency holdings	<u>63</u>	<u>633</u>	<u>89</u>	<u>676</u>
Other assets		<u>1</u>		<u>1</u>
Total assets		<u><u>\$6,025</u></u>		<u><u>\$6,112</u></u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	\$ 5		\$ 4	
Undisbursed technical cooperation projects and other				
financings—Note I	49		86	
Due to IDB Grant Facility—Note J	253		384	
Amounts payable to maintain value of currency holdings—				
Note H	<u>289</u>	<u>\$ 596</u>	<u>292</u>	<u>\$ 766</u>
Fund balance				
Contribution quotas authorized and subscribed—Note K and				
Appendix II-3	10,189		10,000	
Less: Contribution quotas receivable	<u>(120)</u>		<u>—</u>	
	<u>10,069</u>		<u>10,000</u>	
General reserve (deficit)—Note L	(4,738)		(4,758)	
Accumulated translation adjustments—Note M	<u>98</u>	<u>5,429</u>	<u>104</u>	<u>5,346</u>
Total liabilities and fund balance		\$6,025		\$6,112

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF INCOME AND GENERAL RESERVE (DEFICIT)

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Income			
Loans			
Interest	\$ 65	\$ 69	\$ 75
Other loan income	3	5	8
	68	74	83
Investments—Note D	5	17	57
Total income	73	91	140
Expenses			
Administrative expenses—Note B	18	11	12
Total expenses	18	11	12
Income before technical cooperation, debt relief, and			
Board of Governors approved transfers	55	80	128
Technical cooperation expense	(9)	24	23
Debt relief expense—Note G	—	484	(3)
Board of Governors approved transfers to IDB Grant Facility— Note L	44	364	122
Net income (loss)	20	(792)	(14)
General reserve (deficit), beginning of year	(4,758)	(3,966)	(3,952)
General reserve (deficit), end of year	<u>\$(4,738)</u>	<u>\$(4,758)</u>	<u>\$(3,966)</u>

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Net income (loss)	\$20	\$(792)	\$(14)
Translation adjustments—Note M	(6)	(7)	9
Comprehensive income (loss)	<u>\$14</u>	<u>\$(799)</u>	<u>\$ (5)</u>

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from lending activities			
Loan disbursements	\$ (368)	\$ (398)	\$(414)
Loan collections	195	214	220
Loan participations, net	(5)	(4)	(2)
Miscellaneous assets and liabilities	1	—	—
Net cash used in lending activities	(177)	(188)	(196)
Cash flows from financing activities			
Collections of receivable from members	51	30	49
Contribution quotas from members	68	236	125
Net cash provided by financing activities	119	266	174
Cash flows from operating activities			
Gross purchases of investments	(1,585)	(1,847)	(886)
Gross proceeds from sale or maturity of investments	1,771	1,867	872
Loan income collections	70	74	80
Income from investments	37	19	31
Administrative expenses	(20)	(10)	(13)
Technical cooperation and other financings	(26)	(26)	(25)
Cash transfers to the IDB Grant Facility	(175)	(134)	(41)
Net cash provided by (used in) operating activities	72	(57)	18
Effect of exchange rate fluctuations on Cash	12	10	8
Net increase in Cash	26	31	4
Cash, beginning of year	400	369	365
Cash, end of year	\$ 426	\$ 400	\$ 369

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

Note A—Origin

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

Note B—Summary of Significant Accounting Policies

The financial statements of the FSO are prepared in conformity with United States generally accepted accounting principles (GAAP). The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have been made in the valuation of certain financial instruments and the determination of the adequacy of the allowance for loan losses.

New accounting pronouncements

In 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-04 "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs", and ASU No. 2011-05 "Comprehensive Income (Topic 220)".

ASU No. 2011-04, among other changes, expands existing disclosure requirements for fair value measurements to achieve common disclosure requirements with international standards, and clarifies the FASB's intent about the application of existing fair value measurement requirements. The amendments are effective for the FSO in 2012 and are not expected to have a material impact on its financial condition or results of operations.

ASU No. 2011-05 eliminates the current option to report other comprehensive income and its components in a statement of changes in equity. This standard allows reporting entities to elect presenting items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. In either case, the statement(s) would need to be presented with equal prominence as the other primary financial statements. The new requirements are effective for the FSO in 2012 and will not have a material impact on its financial statements.

Translation of currencies

The financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members, which are functional currencies. The FSO resources are derived from contribution quotas and accumulated earnings in those various currencies. Assets and liabilities denominated in currencies other than the United States dollar are translated at market exchange rates prevailing at the Balance Sheet dates. Income and expenses in such currencies are translated at market rates of exchange prevailing during each month. Exchange rate fluctuations do not have any effect on the United States dollar equivalents of currencies subject to the maintenance of value (MOV) provision described below. Net adjustments resulting from the translation into United States dollars of assets and liabilities in currencies that do not have MOV protection, which are derived from the 1983, 1990, 1995 and 2011 increases in contribution quotas, are presented as a component of Comprehensive income⁽¹⁾ in the Statement of Comprehensive Income.

Investments

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

Loans

The Bank utilizes FSO resources to make highly concessional loans, denominated in the currencies of non-borrowing member countries, to the least-developed borrowing members, their agencies or political subdivisions. In previous years, the Bank also made concessional loans in local currencies to borrowing members. In the case of loans to borrowers other than national governments, central banks or other governmental

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

or inter-governmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Under the loan contracts with the borrowers, the Bank sells participations in certain loans to the Social Progress Trust Fund, reserving to itself the administration of those loans.

Income on loans is recognized following the accrual basis of accounting. The FSO considers a loan to be past due when the scheduled principal and/or interest payments have not been received on the date they are contractually due. It is the policy of the Bank to place on nonaccrual status all loans to a member government if service under any loan to, or guaranteed by, the member government, made from any fund owned or certain funds administered by the Bank, is overdue more than 180 days. On the date that a member's loan is placed on nonaccrual status, all loans to that member country are also placed on nonaccrual status. When a loan is placed on nonaccrual status, charges that had been accrued and remain unpaid are deducted from the income of the current period. Charges on nonaccruing loans are included in income only to the extent that payments have actually been received. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored, and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

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

The FSO does not reschedule its loans. In addition, because of the nature of its borrowers, the FSO expects that each of its loans will be repaid. The nature and extent of the FSO exposure to credit risk is determined by considering the long-term foreign credit rating assigned to each borrower country by the rating agencies (generally, Standard & Poor's—S&P), adjusted by the probabilities of default to the Bank.

The Bank periodically reviews the collectibility of loans and, if applicable, records, as an expense, provisions for loan losses in accordance with its determination of the collectibility risk of the total loan portfolio. Such reviews consider the credit risk, as defined above, as well as the potential for loss arising from delay in the scheduled loan repayments.

Recognition of debt relief: The Bank has participated in debt relief initiatives concerted by international organizations to address the debt problems of member countries identified as heavily indebted poor countries (HIPC) by partially or fully forgiving future debt service payments on outstanding FSO loans. The principal component of loans affected by the Bank's debt relief initiatives is recognized as Debt relief expense in the

Statement of Income and General Reserve (Deficit), and as a reduction in Loans outstanding, through an allowance for debt relief, when the FSO commitment is probable and the amount of debt relief is estimable.

Receivable from members

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

Contribution quotas

Recognition: The Bank's ninth general increase in resources (IDB-9) provides for an increase in the resources of the FSO. Additional contribution quotas are paid by Bank members in one installment or in five equal annual installments. Advance contributions were allowed of the entire increase in contributions of a member or the first installment of such increase.

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

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

Maintenance of value

In accordance with the Agreement, each member is required to maintain the value of its currency held in the FSO to the extent

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

established by the terms for the respective increases in contribution quotas. Likewise, and subject to the same terms of the contribution quota increases, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency held in the FSO. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959. Currency holdings derived from the 1983, 1990, 1995 and 2011 increases in contribution quotas do not have MOV protection.

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

Administrative expenses

All administrative expenses of the Bank are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Governors. During 2011, the effective ratio of administrative expenses charged was 3.0% to the FSO and 97.0% to the Ordinary Capital (2010—2.0% and 98.0%; 2009—2.3% and 97.7%).

Technical cooperation

Non-reimbursable technical cooperation projects, as well as certain financings whose recovery is explicitly contingent on events that may not occur, are recorded as Technical cooperation expense at the time of approval. Cancellations of undisbursed balances and recuperations of contingently recoverable financings are recognized as an offset to Technical cooperation expense in the period in which they occur.

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

Board of Governors approved transfers

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

Effective December 2011, FSO general reserve transfers to the GRF were discontinued.

Note C—Restricted Currencies

As of December 31, 2011, Cash includes \$400 million (2010—\$375 million) in currencies of regional borrowing members. One member has restricted the amount of \$48 million (2010—\$20 million) to be used for making payments for goods and services in its territory, in accordance with the provisions of the Agreement.

Note D—Investments

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

The Bank manages two investment pools for the benefit of the FSO and the IFF. During 2011, the FSO's share of unrealized investment gains (losses) from these pools amounted to \$(5) million (2010—\$5 million; 2009—\$28 million).

A summary of the trading portfolio securities at December 31, 2011 and 2010, including the FSO's proportionate share of the investment pools assets, is shown in the Summary Statement of Investments in Appendix II-1. The average return on investments, including realized and unrealized gains and losses, during 2011 was 0.52% (2010—1.64%; 2009—5.09%).

Note E—Fair Value Measurements

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

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

The FSO's investment instruments valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, include obligations of the United States government amounting to \$25 million and \$111 million in 2011 and 2010, respectively. Such instruments are classified within Level 1 of the fair value hierarchy. As required by the framework for measuring fair value, the Bank does not adjust the quoted price for such instruments.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

All other FSO investment securities are measured at fair value based on quoted prices in markets that are not active, external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies represent valuation techniques consistent with the market and income approaches. These investment securities are classified within Level 2 of the fair value hierarchy. See Appendix II-1 for a breakdown of the trading portfolio investment securities by class.

Note F—Loans Outstanding and Allowance for Loan Losses

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, fulfill certain conditions precedent as required by contract. Loans approved up to 2007 generally had up to 40 years final maturity and up to a 10 year grace period for principal payments, and generally carried an interest rate of 1% during the grace period and 2% thereafter. Since 2007, the Bank offers a blending of loans from the FSO and the Ordinary Capital (“parallel loans”). The FSO’s portion of parallel loans are bullet loans with up to 40 years maturity and an interest rate of 0.25%. The principal amount of loans and accrued interest are repayable in the currencies lent.

Loans outstanding by country are shown in the Summary Statement of Loans Outstanding in Appendix II-2. The average interest rate for loans outstanding at December 31, 2011 and 2010 was 1.55% and 1.63%, respectively, and the average maturity was 14.2 years and 13.4 years in 2011 and 2010, respectively.

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

The credit quality of the loan portfolio as of December 31, 2011 and 2010, as represented by the long-term foreign credit rating assigned to each borrower country by the rating agencies, is as follows (in millions):

Country Ratings	2011	2010
A	\$ 5	\$ 6
BBB+ to BBB-	506	254
BB+ to BB-	661	758
B+ to B-	1,887	2,012
CCC+ to CCC-	1,103	974
Total	<u>\$4,162</u>	<u>\$4,004</u>

The ratings presented above have been updated as of December 31, 2011 and 2010, respectively.

Past due and Non-accrual Loans

As of December 31, 2011 and 2010, there were no loans considered past due or in non-accrual status.

The Bank performs collective evaluations of the collectibility of the FSO loans portfolio. As of December 31, 2011 and 2010, the allowance for loan losses was *de minimis*. In addition, there were no changes to the FSO’s policy with respect to the allowance for loan losses during the year.

Note G—Allowance for Debt Relief

The changes in the Allowance for debt relief for the years ended December 31, 2011, 2010 and 2009 were as follows (in millions):

	2011	2010	2009
Balance at January 1,	\$—	\$ —	\$423
Debt relief expense—Principal component	—	484	(10)
Debt relief delivered during the year:			
Enhanced HIPC Initiative	—	—	(10)
Multilateral Debt Relief Initiative (MDRI)	—	—	(403)
IDB-9 (Note—O)	—	(484)	—
Balance at December 31,	<u>\$—</u>	<u>\$ —</u>	<u>\$ —</u>

Note H—Receivable from Members

The composition of the net receivable from members as of December 31, 2011 and 2010 is as follows (in millions):

	2011	2010
Regional developing members	\$ 571	\$ 617
Canada	13	10
Non-regional members	(240)	(243)
Total	<u>\$ 344</u>	<u>\$ 384</u>

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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

	2011	2010
Receivable from members	\$ 633	\$ 676
Amounts payable to maintain value of currency holdings	(289)	(292)
Total	<u>\$ 344</u>	<u>\$ 384</u>

In 2009, the Bank reached an agreement with one of its borrowing member countries to consolidate its outstanding MOV obligations with the FSO in the amount of \$146 million and agreed on a payment schedule in 16 annual installments starting in 2010. As of December 31, 2011, the amount outstanding was \$121 million (2010—\$133 million).

Because of the nature of the Receivable from members, the Bank expects to collect them in full.

Note I—Undisbursed Technical Cooperation Projects and Other Financings

The following is a summary of changes in Undisbursed technical cooperation projects and other financings for the years ended December 31, 2011 and 2010 (in millions):

	2011	2010
Balance at January 1,	\$ 86	\$ 89
Approvals	—	36
Cancellations	(5)	(8)
Disbursements	(32)	(31)
Balance at December 31,	<u>\$ 49</u>	<u>\$ 86</u>

Note J—Due to IDB Grant Facility

The following is a summary of changes in Due to IDB Grant Facility for the years ended December 31, 2011, 2010 and 2009 (in millions):

	2011	2010	2009
Balance at January 1,	\$ 384	\$ 154	\$ 73
Board of Governors approved transfers	44	364	122
Disbursements	(175)	(134)	(41)
Balance at December 31,	<u>\$ 253</u>	<u>\$ 384</u>	<u>\$ 154</u>

Note K—Contribution Quotas Authorized and Subscribed

As part of the IDB-9, on October 31, 2011, the Board of Governors authorized the increase in the resources of the FSO consisting of an additional \$479 million of new contribution quotas to be paid by the FSO's members in U.S. dollars. Member countries could elect to make contributions either in one installment (i.e., their respective share of the \$479 million) or in five equal annual installments of their share of the undiscounted amount of the \$479 million, established at \$517.3 million, starting in 2011. As of December 31, 2011, instruments of contribution have been received amounting to \$425 million composed of the following (in millions):

	Total	Paid	Receivable
Advance contributions	\$ 281	\$248	\$ 33
One installment	42	42	—
Five installments	102	15	87
Balance at December 31, 2011	<u>\$425</u>	<u>\$305</u>	<u>\$120</u>

Non-negotiable, non-interest-bearing demand obligations have been accepted in lieu of the immediate payment of all or part of a member's contribution quotas on previous replenishments. The payment of contribution quotas is conditional on the members' budgetary and, in some cases, legislative processes. For a Statement of Contribution Quotas at December 31, 2011 and 2010, see Appendix II-3.

The following table summarizes the changes in contribution quotas subscribed for the years ended December 31, 2011 and 2010 (in millions):

	Contribution quotas subscribed
Balance at December 31, 2009	\$ 9,763
IDB-9 advance contributions received ..	236
Additional contributions from Canada Trust Fund	1
Balance at December 31, 2010	10,000
IDB-9 additional contributions subscribed	189
Balance at December 31, 2011	<u>\$10,189</u>

Voting power

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

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note L—General Reserve (Deficit)

The General reserve (deficit) consists of income and losses from prior years. The following is a summary of changes in the General reserve (deficit) for the years ended December 31, 2011, 2010, and 2009 (in millions):

	Debt relief	Income (loss), excluding debt relief	Total General reserve (deficit)
Balance at January 1, 2009	\$(4,698)	\$746	\$(3,952)
Net income (loss)	3	(17)	(14)
Balance at December 31, 2009 ...	(4,695)	729	(3,966)
Net loss	(484)	(308)	(792)
Balance at December 31, 2010 ...	(5,179)	421	(4,758)
Net income	—	20	20
Balance at December 31, 2011 ...	<u>\$(5,179)</u>	<u>\$441</u>	<u>\$(4,738)</u>

As part of the IDB-9, the Board of Governors approved general reserve transfers from the FSO to the GRF of \$280 million and the subsequent discontinuation of such transfers. During 2011, the FSO made general reserve transfers to the GRF of \$44 million (2010—\$236 million), completing the amount approved by the Board of Governors. Additional general reserve transfers from the FSO to the GRF of \$128 million and \$122 million were approved by the Board of Governors in 2010 and 2009, respectively.

Note M—Accumulated Translation Adjustments

The following is a summary of changes in the Accumulated translation adjustments for the years ended December 31, 2011, 2010, and 2009 (in millions):

	2011	2010	2009
Balance at January 1,	\$104	\$111	\$102
Translation adjustments	(6)	(7)	9
Balance at December 31,	<u>\$ 98</u>	<u>\$104</u>	<u>\$111</u>

Note N—Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities

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

	Years ended December 31,		
	2011	2010	2009
Net income (loss)	\$ 20	\$(792)	\$(14)
Difference between amounts accrued and amounts paid or collected for:			
Loan income	2	—	(3)
Investment income	28	—	—
Net unrealized (gain) loss on investments	5	2	(26)
Administrative expenses	(2)	1	(1)
Technical cooperation and other financings	(36)	(2)	(2)
Transfers to the GRF	(131)	230	81
Net (increase) decrease in investments ...	186	20	(14)
Debt relief	—	484	(3)
Net cash provided by (used in) operating activities	<u>\$ 72</u>	<u>\$ (57)</u>	<u>\$ 18</u>

Supplemental disclosure of noncash activities

Increase (decrease) resulting from exchange rate fluctuations:

Investments	\$ (8)	\$ (6)	\$ 11
Loans outstanding	(20)	(19)	10
Receivable from members—net	10	7	(20)

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note O—Debt Relief and Concessional Finance Reform

The Bank participated in the HIPC Initiatives, Original and Enhanced, concerted international initiatives endorsed by the Group of Seven Countries (G-7), the International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund, for addressing the debt problems of a group of countries identified as the heavily indebted poor countries. Furthermore in 2007, the Bank approved the MDRI and Concessional Finance Reform providing for 100 percent debt relief on eligible FSO loans to heavily indebted poor member countries and the restructuring of the FSO's operations. By the end of 2009, all five HIPC member countries (Bolivia, Guyana, Haiti, Honduras and Nicaragua) had become eligible for debt relief under the MDRI. As a result of the three initiatives, the Bank provided total debt relief of \$4,695 million.

As part of the IDB-9, the Board of Governors approved, effective upon the receipt of advance contributions to the FSO, (i) the full cancellation of Haiti's debt to the FSO and (ii) the transfer of all undisbursed loan balances from the FSO to the GRF and the subsequent conversion to grants. Upon the receipt of advance contributions from certain member countries in 2010, Haiti's debt to the FSO in the amount of \$484 million was cancelled and undisbursed loan balances of \$144 million were transferred to the GRF and subsequently converted to grants.

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:

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

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

Loans: The Bank is one of very few lenders of development loans to Latin America and Caribbean countries. The Bank believes that there is no comparable market for FSO loans and does not intend to sell them. The absence of a secondary market for the FSO loans made it difficult to estimate their fair value despite the flexibility offered by the fair value framework. However, effective in 2011, the Bank, in recognition of a steady practice of several years in the multilateral institutions industry, made the decision of estimating and disclosing the fair value of the FSO's loan portfolio using a discounted cash flow method, by which cash flows are discounted at applicable market yield curves adjusted by the Bank's Ordinary Capital funding cost plus its lending spread, consistent with the rates at which loans would currently be made to similar borrowers in the Ordinary Capital. During 2011, the Bank completed the required enhancements to certain specific systems which now allow for the calculation of the fair value of the FSO loan portfolio on a prospective basis, without incurring in excessive costs.

The following table presents the fair values of the financial instruments, along with the respective carrying amounts, as of December 31, 2011 and 2010 (in millions):

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 426	\$ 426	\$ 400	\$ 400
Investments	786	786	1,013	1,013
Loans outstanding ⁽¹⁾	4,179	3,491	4,022	N/A

N/A=Not available

⁽¹⁾ Includes accrued interest.

Note Q—Subsequent Events

Management has evaluated subsequent events through March 19, 2012, which is the date the financial statements were approved by the Board of Governors. As a result of this evaluation there are no subsequent events, as defined, that require recognition or disclosure in the FSO's financial statements as of December 31, 2011.

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE D

December 31, 2011 and 2010

Expressed in millions of United States dollars

Investments	2011	2010
Investment pools ⁽¹⁾ :		
Obligations of the United States		
Government and its corporations and agencies .	\$ 25	\$ 91
U.S. government-sponsored enterprises	1	9
Obligations of non-U.S. governments		
and agencies.	250	342
Bank obligations	164	177
Mortgage-backed securities:		
U.S. residential.	12	13
Non-U.S. residential	27	60
Asset-backed securities.	33	48
	<u>512</u>	<u>740</u>
Direct investments:		
Obligations of the United States Government		
and its corporations and agencies	—	20
Obligations of non-U.S. governments		
and agencies.	260	220
Bank obligations	14	33
	<u>\$786</u>	<u>\$1,013</u>

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

The currencies of the above investments are as follows:

Currencies	2011	2010
British pounds sterling	\$ 24	\$ 21
Canadian dollars	65	56
Danish kroner	2	2
Euro.	165	143
Swedish kronor	6	5
United States dollars.	524	786
	<u>\$786</u>	<u>\$1,013</u>

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-2

SUMMARY STATEMENT OF LOANS OUTSTANDING – NOTE F

December 31, 2011 and 2010

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2011 ⁽¹⁾	Currency in which outstanding balance is collectible		Undisbursed	Outstanding 2010 ⁽¹⁾
		Non-borrowing country currencies	Borrowing country currencies		
Argentina	\$ 63	\$ —	\$ 63	\$ —	\$ 71
Barbados	5	5	—	—	6
Bolivia	558	533	25	267	476
Brazil	139	—	139	—	167
Colombia	60	—	60	—	68
Costa Rica	21	19	2	—	29
Dominican Republic	251	243	8	—	274
Ecuador	379	337	42	7	407
El Salvador	336	329	7	—	362
Guatemala	277	240	37	21	290
Guyana	332	331	1	91	296
Honduras	612	585	27	223	494
Jamaica	18	15	3	—	23
Mexico	2	—	2	—	4
Nicaragua	772	754	18	184	678
Panama	9	7	2	—	13
Paraguay	248	235	13	51	261
Peru	17	1	16	—	21
Suriname	4	3	1	2	1
Trinidad and Tobago	5	—	5	—	6
Uruguay	6	2	4	—	7
Regional	48	47	1	—	50
Total 2011	<u>\$4,162</u>	<u>\$3,686</u>	<u>\$ 476</u>	<u>\$ 846</u>	<u>\$4,004</u>
Total 2010		<u>\$3,464</u>	<u>\$ 540</u>	<u>\$1,038</u>	

⁽¹⁾ Excludes loan participations sold to the Social Progress Trust Fund for a total of \$22 million (2010—\$27 million), including \$2 million (2010—\$3 million) to Costa Rica, \$3 million (2010—\$5 million) to Dominican Republic, \$4 million (2010—\$5 million) to Ecuador, \$8 million (2010—\$8 million) to El Salvador, \$2 million (2010—\$3 million) to Guatemala, \$2 million (2010—\$2 million) to Panama and \$1 million (2010—\$1 million) to Paraguay.

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

Currencies	2011	2010	Currencies	2011	2010
British pounds sterling	\$ 23	\$ 25	Norwegian kroner	\$ 8	\$ 9
Canadian dollars	107	118	Swedish kronor	6	7
Danish kroner	18	20	Swiss francs	24	26
Euro	339	370	United States dollars	3,043	2,766
Japanese yen	118	123		<u>\$3,686</u>	<u>\$3,464</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2011 and 2010

Expressed in millions of United States dollars

Year of maturity	2011	Year of maturity	2010
2012	\$ 199	2011	\$ 201
2013 to 2016	792	2012 to 2015	801
2017 to 2021	851	2016 to 2020	916
Thereafter	2,320	Thereafter	2,086
Total	<u>\$4,162</u>	Total	<u>\$4,004</u>

FUND FOR SPECIAL OPERATIONS
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX II-3

STATEMENT OF CONTRIBUTION QUOTAS – NOTE K

December 31, 2011 and 2010

Expressed in millions of United States dollars⁽¹⁾

	Contribution quotas authorized and subscribed					Contribution quotas receivable from members 2011
Members	Subject to maintenance of value		Not subject to maintenance of value	Total 2011	Total 2010	
	Before adjustments	Adjustments ⁽²⁾				
Argentina	\$ 402.8	\$ 29.5	\$ 99.9	\$ 532.2	\$ 505.4	\$ 26.8
Austria	11.0	—	10.0	21.0	20.0	—
Bahamas	8.8	—	2.4	11.2	10.6	0.6
Barbados	1.4	—	0.5	1.9	1.8	0.1
Belgium	27.1	—	17.5	44.6	42.5	—
Belize	—	—	8.0	8.0	7.6	0.3
Bolivia	32.5	9.7	8.9	51.1	51.1	—
Brazil	402.8	62.2	79.4	544.4	544.4	—
Canada	228.1	12.6	86.5	327.2	326.3	—
Chile	111.4	24.0	30.7	166.1	157.7	6.7
China	—	—	131.1	131.1	125.0	—
Colombia	111.4	20.1	29.7	161.2	153.7	—
Costa Rica	16.2	4.0	4.3	24.5	23.4	—
Croatia	3.1	—	3.1	6.2	5.9	0.3
Denmark	11.7	—	9.3	21.0	20.0	—
Dominican Republic	21.7	7.9	6.1	35.7	33.9	1.4
Ecuador	21.7	4.2	6.0	31.9	30.3	1.3
El Salvador	16.2	2.0	4.3	22.5	21.4	0.9
Finland	11.0	—	8.9	19.9	19.0	—
France	133.4	—	99.4	232.8	221.1	9.4
Germany	136.7	—	104.6	241.3	230.0	—
Guatemala	21.7	6.8	5.9	34.4	32.8	—
Guyana	7.0	—	1.7	8.7	8.7	—
Haiti	16.2	2.4	4.3	22.9	22.9	—
Honduras	16.2	7.1	4.5	27.8	27.8	—
Israel	10.8	—	7.2	18.0	18.0	—
Italy	133.4	—	93.8	227.2	215.7	9.1
Jamaica	21.7	2.7	5.8	30.2	28.8	—
Japan	148.8	—	474.5	623.3	591.9	25.1
Korea, Republic of	—	—	1.0	1.0	—	—
Mexico	259.2	15.0	54.8	329.0	329.0	—
Netherlands	20.3	—	16.6	36.9	36.9	—
Nicaragua	16.2	4.8	4.4	25.4	25.4	—
Norway	11.7	—	9.3	21.0	20.0	—
Panama	16.2	5.9	4.6	26.7	25.4	—
Paraguay	16.2	8.5	4.6	29.3	27.9	—
Peru	54.5	14.3	15.2	84.0	79.8	3.4
Portugal	5.0	—	2.8	7.8	7.8	—
Slovenia	1.8	—	1.8	3.6	3.4	0.1
Spain	133.4	—	93.0	226.4	226.4	—
Suriname	5.3	—	1.0	6.3	6.3	—
Sweden	23.7	—	18.5	42.2	40.1	1.7
Switzerland	39.2	—	27.5	66.7	63.4	—
Trinidad and Tobago	16.2	1.5	3.2	20.9	20.9	—
United Kingdom	133.4	—	50.5	183.9	175.3	—
United States	4,100.0	243.7	732.7	5,076.4	5,043.0	33.4
Uruguay	43.5	3.7	11.5	58.7	55.9	—
Venezuela	250.1	12.1	53.1	315.3	315.3	—
Total 2011	\$ 7,230	\$ 505	\$2,454	\$10,189		\$ 120
Total 2010	\$ 7,229	\$ 505	\$2,266		\$10,000	

⁽¹⁾ Data rounded; detail may not add to totals because of rounding.⁽²⁾ Represent maintenance of value adjustments resulting from the changes in the values of currencies in 1972 and 1973 due to the devaluation of the United States dollar in those years.

INTERMEDIATE FINANCING FACILITY ACCOUNT

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheets of the Inter-American Development Bank (Bank)—Intermediate Financing Facility Account as of December 31, 2011 and 2010, and the related statements of changes in fund balance and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Intermediate Financing Facility Account as of December 31, 2011 and 2010, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Washington, D.C.
March 19, 2012

Ernst & Young LLP

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,	
	2011	2010
ASSETS		
Cash	\$ —	\$ —
Investments—Notes C, D and Appendix III-1	171	200
Total assets	<u>\$171</u>	<u>\$200</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Due to Ordinary Capital	\$ 4	\$ 7
Fund balance	167	193
Total liabilities and fund balance	<u>\$171</u>	<u>\$200</u>

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Additions			
Income from investments—Note C	\$ 1	\$ 5	\$ 12
Total additions	1	5	12
Deductions			
Interest paid on behalf of Ordinary Capital borrowers.	27	33	39
Total deductions	27	33	39
Change in fund balance	(26)	(28)	(27)
Fund balance, beginning of year	193	221	248
Fund balance, end of year	<u>\$167</u>	<u>\$193</u>	<u>\$221</u>

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from operating activities			
Income from investments	\$ 4	\$ 4	\$ 1
Interest paid on behalf of Ordinary Capital borrowers.	(30)	(33)	(35)
Net decrease in investments	26	28	34
Net cash used in operating activities			
and net decrease in cash	—	(1)	—
Cash, beginning of year	—	1	1
Cash, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>

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

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

Note A—Origin

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

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

Note B—Summary of Significant Accounting Policies

The financial statements are prepared in conformity with United States generally accepted accounting principles (GAAP). The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New Accounting Pronouncements

In 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04 "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs", which among other changes, expands existing disclosure requirements for fair value measurements to achieve common disclosure requirements with international standards and clarifies the FASB's intent about the application of existing fair value measurement requirements. The ASU 2011-04 is effective for the IFF in 2012 and it is not expected to have a material impact on its financial position or results of operations.

Investments

Investment securities transactions are recorded on the trade date and are held in a trading portfolio carried at fair value,

with changes in fair value included in Income from investments⁽¹⁾. Fair values for investment securities are based on quoted prices, where available; otherwise, they are based on external pricing services, independent dealer prices, or discounted cash flows.

Administrative expenses

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

Note C—Investments

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

The IFF's proportionate share of the investment pools assets at December 31, 2011 and 2010 is presented in the Summary Statement of Investments in Appendix III-1. All investments are held in United States dollars. During 2011, the IFF's share of unrealized investment gains (losses) from these pools amounted to \$(1) million (2010—\$1 million; 2009—\$6 million). The average return on investments during 2011, including realized and unrealized gains and losses, was 0.87% (2010—2.13%; 2009—5.26%).

Note D—Fair Value Measurements

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

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

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

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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

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

The IFF's investment instruments valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, include obligations of the United States government amounting to \$34 million and \$51 million in 2011 and 2010, respectively. Such instruments are classified within Level 1 of the fair value hierarchy. As required by the framework for measuring fair value, the Bank does not adjust the quoted price for such instruments.

All other IFF investment securities are measured at fair value based on quoted prices in markets that are not active, external pricing services, where available, solicited broker/dealer prices or prices derived from alternative pricing models, utilizing available observable market inputs and discounted cash flows. These methodologies represent valuation techniques consistent with the market and income approaches. These investment securities are classified within Level 2 of the fair value hierarchy. See Appendix III-1 for a breakdown of the trading portfolio investment securities by class.

Note E—Commitments

The payment by the IFF of part of the interest due from borrowers is contingent on the availability of resources. At December 31, 2011, the amounts disbursed and outstanding and undisbursed, classified by country, under loans on which the IFF would pay part of the interest are as follows (in millions):

Country	Disbursed and Outstanding	Undisbursed
Barbados	\$ 20	\$ —
Bolivia	20	—
Costa Rica	42	—
Dominican Republic	268	8
Ecuador	461	20
El Salvador	341	—
Guatemala	406	17
Jamaica	195	11
Nicaragua	43	—
Panama	36	—
Paraguay	202	68
Suriname	54	2
Trinidad and Tobago	29	—
Uruguay	6	—
Regional	22	—
	<u>\$2,145</u>	<u>\$126</u>

The interest rate subsidy on certain Ordinary Capital loans is reset quarterly or semiannually. The subsidy can be no more than 3.62% per annum (5% per annum for certain loans).

Loans approved after December 31, 2006 are no longer eligible for subsidy. It is expected that, over time, the Bank will distribute all of the IFF's resources to subsidize part of the interest payments for which certain Ordinary Capital borrowers are liable.

Note F—Reconciliation of Change in Fund Balance to Net Cash Used in Operating Activities

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

	Years ended December 31,		
	2011	2010	2009
Change in fund balance	\$(26)	\$(28)	\$(27)
Difference between amounts accrued and amounts paid or collected for:			
Investments income	(4)	—	—
Net unrealized (gain) loss on investments	1	(1)	(11)
Interest paid on behalf of Ordinary Capital borrowers	3	—	4
Net decrease in investments	26	28	34
Net cash used in operating activities	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ —</u>

Note G—Subsequent Events

Management has evaluated subsequent events through March 19, 2012, which is the date the financial statements were approved by the Board of Governors. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the IFF's financial statements as of December 31, 2011.

INTERMEDIATE FINANCING FACILITY ACCOUNT
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX III-1

SUMMARY STATEMENT OF INVESTMENTS – NOTE C

December 31, 2011 and 2010

Expressed in millions of United States dollars

Investments	2011	2010
Investment pools ⁽¹⁾ :		
Obligations of the United States		
Government and its corporations and agencies	\$ 34	\$ 51
U.S. government-sponsored enterprises	—	5
Obligations of non-U.S. governments and agencies	80	90
Bank obligations	39	30
Mortgage-backed securities:		
U.S. residential	2	2
Non-U.S. residential	4	10
Asset-backed securities	12	12
	<u>\$171</u>	<u>\$200</u>

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

IDB GRANT FACILITY

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheets of the Inter-American Development Bank (Bank)—IDB Grant Facility as of December 31, 2011 and 2010 and the related statements of changes in fund balance and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—IDB Grant Facility as of December 31, 2011 and 2010, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Washington, D.C.
March 19, 2012

Ernst & Young LLP

IDB GRANT FACILITY
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,	
	2011	2010
ASSETS		
Due from Fund for Special Operations	\$253	\$384
Due from Ordinary Capital	272	72
Total assets	<u>\$525</u>	<u>\$456</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Undisbursed grants—Note D	\$481	\$415
Fund balance	44	41
Total liabilities and fund balance	<u>\$525</u>	<u>\$456</u>

STATEMENT OF CHANGES IN FUND BALANCE

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Additions			
Transfers from Fund for Special Operations	\$ 44	\$364	\$122
Transfers from Ordinary Capital	200	72	—
Total additions	<u>244</u>	<u>436</u>	<u>122</u>
Deductions			
Grants	241	395	122
Change in fund balance	3	41	—
Fund balance, beginning of year	41	—	—
Fund balance, end of year	<u>\$ 44</u>	<u>\$ 41</u>	<u>\$ —</u>

STATEMENT OF CASH FLOWS

Expressed in millions of United States dollars

	Years ended December 31,		
	2011	2010	2009
Cash flows from operating activities			
Cash transfers from Fund for Special Operations	\$ 175	\$ 134	\$ 41
Grant disbursements	(175)	(134)	(41)
Net cash flows from operating activities	<u>—</u>	<u>—</u>	<u>—</u>
Cash, beginning of year	—	—	—
Cash, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

IDB GRANT FACILITY
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS

Note A—Origin

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

Note B—Summary of Significant Accounting Policies

The financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Grants

Grants are recorded as a deduction from the fund balance when approved. Cancellations of the undisbursed portion of grants approved are recorded as an offset to Grants¹ in the period in which they occur.

Transfers from the FSO and the Ordinary Capital

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

Administrative expenses

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

Note C—Transfers from the FSO and the Ordinary Capital

As part of the ninth general increase in the Bank's resources (IDB-9), the Board of Governors agreed, in principle and subject to annual approvals by the Board of Governors, to provide \$200 million annually in transfers of Ordinary Capital income to the GRF, beginning in 2011 through 2020. During 2011, the Bank approved income transfers from the Ordinary Capital in the amount of \$200 million (2010—\$72 million) and general reserve transfers from the FSO of \$44 million (2010—\$364 million; 2009—\$122 million). Effective December, 2011, FSO general reserve transfers to the GRF were discontinued.

Note D—Undisbursed Grants

As part of the IDB-9, in 2010, the Board of Governors approved the full cancellation of Haiti's debt to the FSO and the transfer of undisbursed loan balances of \$144 million from the FSO to the GRF for subsequent conversion to grants. Total grants approved for Haiti during 2011 amounted to \$241 million (2010—\$395 million, including converted undisbursed loan balances from the FSO of \$144 million; 2009—\$122 million). The following is a summary of changes in Undisbursed grants for the years ended December 31, 2011, 2010 and 2009 (in millions):

	Years ended December 31,		
	2011	2010	2009
Balance at January 1,	\$ 415	\$ 154	\$ 73
Approvals	241	395	122
Disbursements	(175)	(134)	(41)
Balance at December 31,	<u>\$ 481</u>	<u>\$ 415</u>	<u>\$154</u>

Note E—Subsequent Events

Management has evaluated subsequent events through March 19, 2012, which is the date the financial statements were approved by the Board of Governors. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the GRF's financial statements as of December 31, 2011.

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

