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**Follow-Up
Materials**



MEMORANDUM

TO: DOCUMENT CONTROL

FROM: Paul M. Dudek, Chief
Office of International Corporate Finance
Division of Corporation Finance

RE: INTERNATIONAL BANK RECORD DATA

FORM TYPE: IADB

COMPANY NAME: Inter American Development Bank

COMPANY ADDRESS: _____

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OFFICE OF INTERNATIONAL
CORPORATE FINANCE

File No. 83-1
Regulation IA
Rule 3

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

100 F Street, NE
Washington, D.C. 20549

REPORT OF
INTER-AMERICAN DEVELOPMENT BANK

In respect of
proposed issues of
Securities of the Bank

Filed pursuant to Rule 3 of Regulation IA

Dated: March 28, 2008

SEC Mail
Mail Processing
Section

APR 07 2008

Washington, DC
- 109

The following information is filed pursuant to Rule 3 of Regulation IA in respect of proposed issues of Securities of the Inter-American Development Bank (hereinafter referred to as the "Bank"). As authorized by Rule 4 of Regulation IA, certain information is provided in the form of an Information Statement (hereinafter referred to as "Information Statement"), which is attached hereto as an exhibit. Certain information specified in Schedule A to Regulation IA is not available at the date of this report, but when available will be filed as promptly as possible.

- | | |
|---------|---|
| Item 1. | <u>Description of Securities</u>

See cover page. When the terms of an offering of any Securities are established, such Securities will be described in a Prospectus. |
| Item 2. | <u>Distribution of Securities</u>

Not yet known. |
| Item 3. | <u>Distribution Spread</u>

Not yet known. |
| Item 4. | <u>Discounts and Commissions to Sub-Underwriters and Dealers</u>

Not yet known. |
| Item 5. | <u>Other Expenses of Distribution</u>

Not yet known. |
| Item 6. | <u>Application of Proceeds</u>

See pages 6 and 13 of the enclosed Information Statement. |
| Item 7. | <u>Exhibits</u>

Information Statement, dated March 28, 2008. |

Information Statement

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OFFICE OF INTERNATIONAL
CORPORATE FINANCE

Inter-American Development Bank



The Inter-American Development Bank (Bank or IADB) intends from time to time to issue its debt securities with maturities and on terms based on market conditions at the time of sale. The debt securities may be sold to dealers or underwriters, who may resell them in public offerings or otherwise, or they may be sold by the IADB directly or through agents. The details of the debt securities being offered at a particular time will be explained in a prospectus or supplemental information statement.

Unless otherwise stated, all information in this annual Information Statement is provided as of December 31, 2007, and all amounts are expressed in current United States dollars, translated from their original currencies as described in "Currency Accounting" in Note B to the financial statements.

AVAILABILITY OF INFORMATION

The IADB will provide, upon request, copies of this Information Statement without charge. Written or telephone requests should be directed to the principal office of the Bank at 1300 New York Avenue, N.W., Washington, D.C. 20577, *Attention:* Finance Department, telephone: (202) 623-1310. The Information Statement is also available on the Bank's website at http://www.iadb.org/fin/financial_info.cfm?language=En&parid=3&item1id=2&item2id=3. Other documents and information on this website are not intended to be incorporated by reference in this Information Statement.

Recipients of this Information Statement should retain it for future reference, since it is intended that each prospectus and any supplemental Information Statement issued after the date hereof will refer to this Information Statement for a description of the IADB and its financial condition, until a subsequent Information Statement is issued.

March 28, 2008

SUMMARY INFORMATION

As of December 31, 2007

The purpose of the IADB 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. The IADB 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 21 non-borrowing member countries. The five largest members by shareholdings are the United States, Argentina, Brazil, Mexico and Venezuela.

The principal office of the IADB is located in Washington, D.C. with offices in each of its borrowing member countries as well as in Paris and Tokyo.

The resources of the IADB consist of the Ordinary Capital, the Fund for Special Operations (FSO), the Intermediate Financing Facility Account (IFF) and the IDB Grant Facility (GRF). All information provided in this Summary Information refers to the IADB's Ordinary Capital.

Equity and Borrowings

Equity: The equity of the IADB includes the subscribed capital stock and retained earnings. The subscribed capital stock is divided into paid-in capital stock of \$4.3 billion and callable capital stock of \$96.6 billion. The callable capital stock is available as needed for debt service payments and thus provides the ultimate backing for borrowings and guarantees. It cannot be called to make loans. The Bank's Ordinary Capital has generated net income in every year since its inception, which has been substantially maintained in retained earnings aggregating \$16.0 billion. During 2007, Income before SFAS 133 and currency transaction adjustments¹, which is defined as "Operating Income" in this Information Statement, totaled \$283 million.

At the end of the year, the Total Equity to Loans Ratio or TELR² equaled 40.2%. The IADB's capital adequacy policy measures the sufficiency of economic capital and defines the desired level for the TELR as 38%. Management has presented to the Board of Executive Directors a consultation document on options for the use of equity above 38%. To support progress in this matter, Management sought the input of an External Advisory Group (EAG) to advise on

how the IADB might allocate operating income most effectively. Once the EAG's recommendations are analyzed, Management will present a document to the Board with its recommendations on how to allocate operating income going forward, with specific recommendations for the use of equity above a 38% TELR.

Borrowings: The IADB diversifies its borrowings by currency, maturity, format, and structure to provide flexibility and cost-effectiveness in funding. Outstanding borrowings of \$47.0 billion, before swaps, were denominated in 19 currencies and included \$2.2 billion of short-term borrowings.

The IADB limits its Net Borrowings³ to the callable capital stock of its non-borrowing member countries (the United States' share of such capital stock was 60.1%, with the balance from Japan, Canada and the other nonregional members). Net Borrowings were \$29.6 billion, or 61.2% of the \$48.3 billion of callable capital stock of the non-borrowing member countries.

Assets

Loan Portfolio: The principal earning asset is the loan portfolio amounting to \$48.0 billion, of which over 97% was sovereign-guaranteed. The total amount of outstanding loans and guarantees is limited to the paid-in capital stock plus the general reserve and the callable capital stock of non-borrowing member countries.

The IADB 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 loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the IADB follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Up to 10% of the outstanding loans and guarantees, not including emergency lending, may be made without a sovereign guarantee. Effective August 2006, the IADB expanded the scope of authority for lending to the private sector without sovereign guarantees, under the existing 10% limit, to include sub-sovereign entities, as well as financings in all sectors.

Most outstanding loans are priced on a cost pass-through basis, in which the cost of borrowing, plus a lending spread and other charges, are passed on to the borrower. The IADB lends and invests the proceeds of borrowings in the after-swap currencies.

¹ 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 the Information Statement.

² The TELR is the ratio of the sum of "equity" (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), Postretirement benefit assets and the cumulative impact of SFAS 133 and currency transaction adjustments) to outstanding loans and net guarantee exposure.

³ "Net Borrowings" are borrowings and gross guarantee exposure, less qualified liquid assets (after swaps), and the special reserve assets, which are kept solely for meeting the Bank's obligations on borrowings and guarantees.

With respect to 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. Historically, virtually all the sovereign-guaranteed loan portfolio has been fully performing. The IADB does not reschedule sovereign-guaranteed loans and has not written off, and has no expectation of writing off, such loans from its Ordinary Capital. The allowances for loan and guarantee losses chiefly cover probable losses related to non-sovereign-guaranteed loans and guarantees. Such allowances totaled \$70 million, or approximately 0.1% of total outstanding loans and guarantees.

Liquid Investments: The IADB's liquidity policy calls for holdings of liquid assets to be sufficiently large to ensure that adequate resources are available to meet future cash flow needs. Under its liquidity policy, the IADB establishes yearly minimum and maximum liquidity levels, computed as 20% and 40%, respectively, of the projected year-end outstanding loan balance, and a desired level of 30%. At December 31, 2007, liquidity was \$13.9 billion compared to a desired level of \$14.0 billion. Net cash and investments totaled \$16.3 billion at the end of the year, equal to 36.2% of total debt (after swaps). Investments were held in high-quality securities. The recent sub-prime mortgage crisis resulted in realized and unrealized (mark to market) investment losses for the year on the \$12.3 billion trading investment portfolio of \$11 million (0.1%) and \$280 million (2.3%), respectively, virtually all related to the asset-backed and mortgage-backed securities. The trading investment portfolio's exposure to the sub-prime asset-backed and mortgage-backed securities at December 31, 2007, involved only AAA rated securities and was \$511 million (4.2%) of the portfolio.

Risk Management

The IADB conducts its operations within a framework of prudent financial policies and follows a well-defined risk management decision-making process, directed to avoid or limit its risk exposure. It minimizes exchange rate risk by matching its liabilities in various currencies with assets in those same currencies and the currency composition of its equity to that of its outstanding loans. The IADB also limits

the interest rate risk in its loan and liquidity portfolios by passing through the cost of borrowings funding its loans and by funding and investing its liquidity portfolio in floating interest rate instruments.

Commercial credit risk in the liquid asset investment portfolio and derivatives portfolio is managed through conservative risk policies that require exposures to be limited to high quality issuers and counterparties. Credit exposures to swap counterparties are further mitigated through netting and collateralization arrangements.

As a result of the recent sub-prime mortgage crisis and the contagion effect across market sectors, the Bank has been monitoring the asset quality of its investments portfolio, continuously analyzing and assessing the fundamental value of the securities, with a particular focus on its structured credit products.

Realignment of the IADB's Organization

The realignment process that was approved by the Board of Executive Directors in December 2006 continued throughout 2007. The IADB's realignment process includes changes in its basic organization directed at improving the operational efficiency and capacity to fulfill its fundamental purpose. This new organizational model seeks to enhance the strategic capacity of the IADB in order to better respond to the new demands of the member countries in Latin America and the Caribbean and fulfill its mandate to assist the region's social and economic progress. It is estimated that realignment expenses will be between \$75 million and \$100 million, which are expected to be recovered through cost savings resulting from efficiency gains. During 2007, the Bank incurred realignment expenses of \$55 million.

Multilateral Debt Relief and Concessional Finance Reform

On March 15, 2007, the Board of Governors approved 100% debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua on FSO loan balances outstanding as of December 31, 2004. Under this agreement, the IADB forgave approximately \$3.4 billion in FSO loan principal payments, including approximately \$0.4 billion for Haiti to be effective once it reaches Completion Point under the Enhanced HIPC Initiative, and \$1.0 billion of future interest payments. For further information, refer to the section named "Multilateral Debt Relief and Concessional Finance Reform" under Fund for Special Operations.

The above information is qualified by the detailed information and financial statements appearing elsewhere in this Information Statement. In addition, the Information Statement 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.

FINANCIAL OVERVIEW

Unless otherwise indicated, all information provided in this Information Statement refers to the Bank's Ordinary Capital.

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, 2007, over 97% of loans were sovereign-guaranteed.

Up to 10% of outstanding loans and guarantees, not including emergency loans, may be made directly to private sector and (as of August 2006) sub-sovereign entities ("eligible entities") without a sovereign guarantee ("non-sovereign-guaranteed operations"), subject to certain limits. As of December 31, 2007, 3.5% of outstanding loans and guarantees, not including emergency loans, were non-sovereign-guaranteed.

The Bank issues debt securities in a variety of currencies, maturities, structures, and formats 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 are held primarily in United States dollars, euro, Japanese yen and Swiss francs. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets. The reported levels of assets, liabilities, income and expense are affected by exchange rate movements between such major currencies and the reporting currency, the United States dollar. The Bank matches the currencies of its equity with those of its loans; thus fluctuations in exchange rates do not significantly impact its risk-bearing capacity.

Financial Highlights

During 2007, the Bank approved 89 loans amounting to \$7.7 billion as compared to 90 loans that totaled \$5.4 billion in 2006. The increase in the amount of loan approvals was mostly due to an increase in investment and non-sovereign-guaranteed lending that was partially offset by a decrease in policy-based lending. Also, disbursements in 2007 totaled the equivalent of \$6.7 billion, higher than the \$6.1 billion disbursed in 2006. The undisbursed portion of approved loans increased to \$16.4 billion at year-end 2007 from \$16.1 billion at year-end 2006. The Bank also approved four non-trade related guarantees without sovereign counter-guarantees for \$0.9 billion, no guarantees with sovereign counter-guarantee, and 12 trade-finance guarantee lines of credit for \$0.2 billion, compared to two guarantees for

\$0.2 billion, one guarantee for \$0.1 billion and ten guarantee lines of credit for \$0.1 billion, respectively, in 2006.

In March 2007, as part of the Multilateral Debt Relief and Concessional Finance Reform, an initiative that provides 100% relief of eligible FSO debt for Bolivia, Guyana, Haiti, Honduras and Nicaragua, and the restructuring of the FSO's operations, the Board of Governors approved a blending of loans from the FSO and the Ordinary Capital ("parallel loans") for countries previously eligible for FSO lending, excluding Haiti. As a result, Bolivia, Guyana, Honduras and Nicaragua now have access to Ordinary Capital loans under this structure.

At December 31, 2007, the Bank had one non-sovereign-guaranteed loan classified as impaired for \$2 million (2006—5 loans for \$66 million). The allowances for loan and guarantee losses amounted to \$70 million compared to \$104 million in 2006. The decrease was mainly due to improvements in the non-sovereign-guaranteed loan portfolio risk and a loan write off of \$21 million.

In 2007, the Bank issued medium- and long-term debt securities for a total face amount of \$6.1 billion equivalent (2006—\$5.4 billion), that generated proceeds of \$5.5 billion equivalent (2006—\$5.3 billion) and had an average life of 7.9 years (2006—6.5 years). Such debt securities were issued through a strategy of combining large global benchmark bonds with smaller transactions targeted to particular segments of demand.

The Bank enters into currency and interest rate swaps to manage its interest and exchange rate exposures as part of its borrowing operations. According to SFAS 133, these derivatives are valued at their fair value with changes in fair value recorded in income. Management believes that the reported income volatility of applying SFAS 133 is not representative of the underlying economics of the transactions as the Bank generally holds its derivatives and related bonds to maturity. Accordingly, Income before SFAS 133 and currency transaction adjustments is defined herein as "Operating Income", which is more representative of the net results of the Bank's operations. The effects of SFAS 133 and currency transaction adjustments are shown separately in the Statement of Income and Retained Earnings and are excluded from the determination of ratios and other financial parameters. Effective January 1, 2008, the Bank will adopt the new SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities", and will elect the fair value option for substantially all its borrowings that fund floating rate assets, significantly reducing the net income volatility generated by SFAS 133. For further information, refer to the section "Effects of SFAS 133 and Currency Transaction Adjustments" under Additional Reporting and Disclosure.

Operating Income was \$283 million in 2007 compared with \$627 million in 2006. The decrease was largely due to a reduction in net interest income, a lower credit for loan and guarantee losses, and an increase in net non-interest expense. Net interest income decreased \$228 million primarily due to significant unrealized (mark to market) losses on the Bank's trading investments portfolio resulting from the recent sub-prime crisis, including the contagion effect on market values,

that was partially offset by an increase in the income contribution of the Bank's cost free equity funds and slightly higher loan rates. Net non-interest expense increased \$82 million during the year mainly due to realignment expenses (\$55 million), and an increase in the percentage of administrative expenses charged to the Ordinary Capital (\$29 million).

Changes in market interest rates generally do not significantly affect Operating Income, as a substantial amount of the loans are cost pass-through loans, and the Bank matches the interest rate structures of its liquid assets and the liabilities funding them.

The Effects of SFAS 133 and currency transaction adjustments for 2007 was lower than in the previous year (\$149 million negative versus \$384 million negative) mostly due to a milder overall increase in long-term interest rates during the year. During 2007, the impact of interest rates on the value of borrowing and lending swaps amounted to a decrease in income of \$170 million, compared to a decrease of \$469 million in 2006.

During 2007, the Board of Executive Directors maintained the same level of loan charges as the second semester 2006, at 0.15% lending spread, 0.10% credit commission and no

supervision and inspection fee. These loan charges are lower than standard loan charges, which are applied by policy when the TELR is between 32% and 38%. In the event that the actual TELR exceeds the upper limit of the band, as it is the case now (see below), the Board may decide loan charges different from standard ones.

The Bank manages its financial condition by monitoring certain financial ratios, in particular the TELR. The TELR at December 31, 2007, was 40.2% compared with 40.8% at December 31, 2006, with the decrease mainly due to an increase in loans outstanding and net guarantee exposure of \$2.3 billion, partially offset by an increase in equity resulting from operating income. Management has presented to the Board of Executive Directors a consultation document on options for the use of equity above 38%. To support progress in this matter, Management sought the input of an External Advisory Group (EAG) to advise on how the Bank might allocate operating income most effectively. Once the EAG's recommendations are analyzed, Management will present a document to the Board with its recommendations on how to allocate operating income going forward, with specific recommendations for the use of equity above a 38% TELR.

Box 1: Selected Financial Data

The following information is based upon, and should be read in conjunction with, the detailed information appearing in this Information Statement.

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2007	2006	2005	2004	2003
Operational Highlights					
Loans and guarantees approved	\$ 8,812	\$ 5,774	\$ 6,738	\$ 5,468	\$ 6,232
Gross loan disbursements	6,725	6,088	4,899	3,768	8,416
Net loan disbursements ⁽¹⁾	1,460	(2,527)	(325)	(1,431)	(1,137)
Balance Sheet Data					
Cash and investments-net ⁽²⁾ , after swaps	\$16,301	\$16,051	\$13,717	\$13,046	\$14,855
Loans outstanding	47,954	45,932	48,135	49,842	50,655
Undisbursed portion of approved loans . .	16,428	16,080	17,000	16,093	15,619
Total assets	69,907	66,475	65,382	67,346	69,669
Borrowings outstanding ⁽³⁾ , after swaps . .	45,036	43,550	43,988	45,144	49,275
Equity					
Callable capital stock	96,613	96,613	96,613	96,611	96,611
(of which, subscribed by United States, Japan, Canada and the other nonregional members)	48,302	48,302	48,302	48,300	48,300
Paid-in capital stock	4,340	4,340	4,340	4,340	4,340
Retained earnings ⁽⁴⁾	16,013	15,468	14,387	14,171	12,772
Total equity	20,353	19,808	18,727	18,511	17,112
Income Statement Data					
Loan income	\$ 2,436	\$ 2,466	\$ 2,413	\$ 2,498	\$ 2,711
Investment income	487	619	403	288	298
Borrowing expenses, after swaps	2,135	2,070	1,733	1,572	1,636
Loan and guarantee loss provision (credit) ⁽⁵⁾	(13)	(48)	(14)	21	(1,370)
Net non-interest expense	518	436	385	331	309
Operating Income	283	627	712	862	2,434
Effects of SFAS 133 and currency transaction adjustments ⁽⁶⁾⁽⁷⁾	(149)	(384)	50	314	(1)
Net income	134	243	762	1,176	2,433
Ratios					
Net borrowings ⁽⁸⁾ as a percentage of callable capital stock subscribed by United States, Japan, Canada and the other nonregional members	61.2%	57.9%	63.5%	67.3%	72.1%
Interest coverage ratio ⁽⁵⁾	1.13	1.30	1.41	1.55	2.49
Total equity ⁽⁹⁾ to loans ⁽¹⁰⁾ ratio (TELR)	40.2%	40.8%	37.3%	36.1%	33.0%
Cash and investments as a percentage of borrowings outstanding, after swaps	36.2%	36.9%	31.2%	28.9%	30.1%
Returns and Costs, after swaps					
Return on:					
Average loans outstanding	5.35%	5.22%	5.04%	5.02%	5.51%
Average liquid investments	2.93%	4.39%	3.29%	2.17%	2.00%
Average earning assets	4.69%	5.02%	4.68%	4.42%	4.70%
Average cost of:					
Borrowings outstanding during the year	4.92%	4.78%	4.07%	3.40%	3.37%
Total funds available	3.36%	3.40%	2.92%	2.53%	2.57%
Term Duration (in years)					
Investments and loans	4.65	4.49	4.41	4.36	4.33
Debt	3.87	3.89	4.00	4.15	4.46

⁽¹⁾ Includes gross loan disbursements less principal repayments.

⁽²⁾ Net of payable and receivable for investment securities purchased or sold.

⁽³⁾ Net of premium/discount.

⁽⁴⁾ Includes Accumulated other comprehensive income.

⁽⁵⁾ The interest coverage ratio is computed using Operating Income and, in 2003, included a one-time reduction in the Allowance for loan losses of \$1.4 billion, which was credited to income.

⁽⁶⁾ SFAS 133 refers to Statement of Financial Accounting Standards 133 "Accounting for Derivative Instruments and Hedging Activities", along with its related amendments.

⁽⁷⁾ Effective January 1, 2004, the Bank discontinued the use of hedge accounting, resulting in a higher impact of SFAS 133.

⁽⁸⁾ Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps) and the special reserve assets.

⁽⁹⁾ 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), Postretirement benefit assets and the cumulative effects of SFAS 133 and currency transaction adjustments.

⁽¹⁰⁾ Includes loans outstanding and net guarantee exposure.

DEVELOPMENT OPERATIONS

General

The Bank offers 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. Loans and guarantees may also be made directly to private sector entities carrying out projects in the territories of borrowing member countries 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 Objectives

The Bank's two main goals are to promote sustainable growth, as well as poverty reduction and social equity. To attain these goals, the Bank focuses its work on four priority areas:

- Fostering competitiveness through support for policies and programs that increase a country's potential for development in an open global economy.
- Modernizing the state by strengthening the efficiency and transparency of public institutions.
- Investing in social programs that expand opportunities for the poor.
- Promoting regional economic integration by forging links among countries to develop larger markets for their goods and services.

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 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.
- (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 on-going progress with respect to the development objectives of each operation through the Bank's Country Offices in each of its 26 borrowing member countries, and fiduciary arrangements are in place to ensure proper use of Bank resources to achieve the operation's objectives.

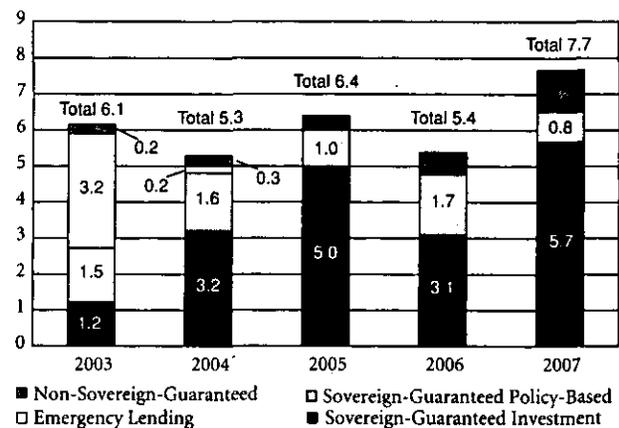
policy-based loans. Investment lending is generally used to finance goods, works and services in support of economic and social development projects in a broad range of sectors. Policy-based lending generally supports social, structural and institutional reforms with the aim of improving specific sectors 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 a program of emergency lending 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, are subject to certain eligibility requirements and cannot exceed 10% of the Bank's outstanding loans and guarantees, excluding emergency lending. Such non-sovereign-guaranteed loans and guarantees are also subject to certain limits, including a ceiling on financing the lesser of \$200 million or 50% of the total project cost for expansion projects and credit guarantees, subject to such financing not exceeding 25% (certain countries 40%) of a company's total capitalization of debt and equity, and 25% of the total project cost (certain 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. In addition, the Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed 2.5% of the Bank's equity at the time of approval.

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 \$1.2 billion and \$5.7 billion, and policy-based lending between \$0.8 billion and \$1.7 billion. Approvals under the Emergency Lending Facility amounted to \$3.2 billion and \$0.2 billion in 2003, and 2004, respectively, with no approvals thereafter.

Under the New Lending Framework for 2005 to 2008, the Bank has more flexibility in lending up to a maximum cumulative amount of \$20.6 billion for investment loans and \$9.8 billion for policy-based loans and a \$6 billion limit for outstanding emergency loans. Under this Lending Framework there are no minimum disbursement periods for investment and policy-based loans, and policy-based loans can be made with single-tranche disbursements.

Figure 1: LOAN APPROVALS BY TYPE
For the years ended December 31, 2003 through 2007
(Expressed in billions of United States dollars)



During 2007, loan approvals totaled \$7.7 billion (2006—\$5.4 billion). A summary of loan approvals by country during 2007 and 2006 appears in Table 1. Loan approvals increased during 2007 due to \$2.6 billion more investment loans and \$0.6 billion more non-sovereign-guaranteed loans, partially offset by \$0.9 billion less policy-based loans.

Table 1: LOAN APPROVALS BY COUNTRY⁽¹⁾
For the years ended December 31, 2007 and 2006
(Expressed in millions of United States dollars)

COUNTRY	2007	2006
Argentina	\$2,484	\$1,626
Bahamas	—	9
Barbados	5	1
Belize	—	25
Bolivia	52	—
Brazil	1,445	479
Chile	119	213
Colombia	731	580
Costa Rica	450	70
Dominican Republic	80	181
Ecuador	425	315
El Salvador	—	100
Guatemala	193	239
Guyana	17	—
Honduras	68	—
Mexico	250	207
Nicaragua	40	—
Panama	176	304
Paraguay	52	252
Peru	831	475
Suriname	7	—
Trinidad and Tobago	—	28
Uruguay	102	191
Venezuela	150	26
Regional	—	60
Total	<u>\$7,677</u>	<u>\$5,381</u>

⁽¹⁾ Includes non-sovereign-guaranteed loans.

At December 31, 2007, the total volume of outstanding loans was \$48.0 billion, \$2.1 billion higher than the \$45.9 billion at December 31, 2006. This increase was mainly due to a higher level of loan disbursements (\$6.7 billion) than collections (\$5.3 billion, including prepayments of \$0.8 billion) and positive currency translation adjustments of \$0.6 billion. Undisbursed balances at December 31, 2007, totaled \$16.4 billion, an increase of \$0.3 billion from December 31, 2006. This change was mainly due to higher loan approvals than disbursements and cancellations.

Under the Agreement, the total amount of outstanding loans and guarantees may not exceed, at any time, the total amount of subscribed capital, plus reserves and surplus, exclusive of income assigned to certain reserves, including a special reserve to meet borrowings and guarantee obligations. The Bank's policy, however, is more stringent and limits the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital stock of non-borrowing member countries. At December 31, 2007, the total amount of loans outstanding and gross guarantee exposure as a percentage of the policy limit of \$66.3 billion, after excluding the cumulative effects of SFAS 133 and currency transaction adjustments, was 73.3% compared to 70.5% in 2006.

A summary statement of loans outstanding by country at December 31, 2007 and 2006 is set forth in Appendix I-3 to the financial statements.

Financial Terms of Loans

Currently Available Financial Terms

The Bank currently offers a product mix that provides borrowers with flexibility to select terms that are compatible with their debt management strategy. Table 2 presents the currently avail-

able financial terms for sovereign-guaranteed loans. As of December 31, 2007, the Bank offers two basic types of loans, each denominated in the currency or currencies chosen by the borrower, as available under the programs: Single Currency Facility (SCF) adjustable rate and SCF LIBOR-based loans. SCF adjustable rate loans, introduced in 1996, have an interest rate that is adjusted every six months to reflect the currency-specific effective cost of the pool of borrowings allocated to such loans, plus the Bank's spread. The SCF LIBOR-based loans, introduced in 2003, 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 sub-LIBOR funding cost, as well as the Bank's spread. Effective June 20, 2007, the Bank offers its borrowers an option to convert their SCF LIBOR loan balances to fixed rate. The Bank also offers emergency loans with sovereign guarantee.

In addition, the Bank offers loans to eligible entities without sovereign guarantees, under various terms. Non-sovereign-guaranteed loans are denominated in United States dollars and borrowers have the option of either fixed interest rate loans or floating rate loans. For fixed rate loans, the interest rate is fixed based on a LIBOR rate plus the lending spread. 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.

Under the Local Currency Facility (LCF) approved in 2005, public and private sector borrowers have the option to receive local currency financing under three different modalities: i) local currency conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency conversion of called guarantees. The use of these modalities is

Table 2: CURRENTLY AVAILABLE FINANCIAL TERMS OF LOANS WITH SOVEREIGN GUARANTEE⁽³⁾

Interest rate option	Single Currency Facility		Emergency Lending
	Adjustable rate loans	LIBOR-based loans ⁽⁴⁾	LIBOR-based loans
Currencies offered	USD, EUR, JPY, CHF or a combination of these currencies		USD
Cost base	Weighted average cost of allocated debt	3-month LIBOR	6-month LIBOR
Funding cost margin		Weighted average cost margin of debt allocated to this product	
Lending spread ⁽¹⁾⁽²⁾	15	15	400
Credit commission ⁽¹⁾⁽²⁾	10	10	75
Supervision and inspection fee ⁽¹⁾⁽²⁾	0	0	Not applicable
Front-end fee ⁽¹⁾	Not applicable	Not applicable	100
Maturity ⁽⁵⁾	15-25 years		5 years
Grace period ⁽⁵⁾	For investment loans: original disbursement period For policy-based loans: 5 years		3 years

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

⁽²⁾ Loan charges on sovereign-guaranteed, non-emergency loans are subject to semi-annual review and approval by the Board of Executive Directors. Standard loan charges, consisting of a lending spread of 0.30%, a credit commission of 0.25%, and no supervision and inspection fee are applied when Operating Income is positive and the TELR is increasing within a range between 32% and 38%.

⁽³⁾ Under the LCF, borrowers have the option to convert future loan disbursements and/or outstanding loan balances to local currency under certain terms and conditions and a conversion fee of 0.25%.

⁽⁴⁾ SCF LIBOR-based loan balances can be converted to fixed rate subject to certain conditions and a conversion fee of 0.05%.

⁽⁵⁾ For SCF "parallel loans" maturity is 30 years and grace period 6 years.

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, floating or inflation-linked interest rate. At December 31, 2007, the Bank had local currency loans outstanding of \$147 million, which were swapped back-to-back to United States dollars.

Previously Available Financial Terms

In previous years, the Bank offered loans under a Currency Pooling System (CPS) established in 1982 and discontinued in 2003. The Bank maintains a targeted currency composition in the CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. 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 spread. At December 31, 2007, these loans represented 30.4% (2006—35.5%) of loans outstanding.

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.

Table 3 presents a breakdown of the loan portfolio by loan product. For more information, see Appendix I-4 to the financial statements.

Table 3: LOANS OUTSTANDING BY LOAN PRODUCT
December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

	2007		2006	
	Amount	%	Amount	%
Single Currency Facility- adjustable	\$22,349	46.6	\$21,505	46.8
Single Currency Facility- LIBOR-based	8,437	17.6	4,643	10.1
Emergency Lending	630	1.3	1,520	3.3
Non-sovereign- guaranteed Loans	1,168	2.4	1,089	2.4
Currency Pooling System .	14,575	30.4	16,299	35.5
U.S. Dollar Window	643	1.4	714	1.5
Others	152	0.3	162	0.4
Total	<u>\$47,954</u>	<u>100.0</u>	<u>\$45,932</u>	<u>100.0</u>

Of the \$16.4 billion undisbursed loan balances at December 31, 2007, 60% pertains to the SCF-adjustable and 24% to the SCF-LIBOR-based portfolios.

Charges on Loans with Sovereign Guarantee (Excluding Emergency Lending)

The Bank's standard loan charges for loans made under the SCF, the U.S. Dollar Window Program and the CPS consist of a lending spread of 0.30% per annum on the outstanding amount, a credit commission of 0.25% per annum on the undisbursed amount of the loan, and no supervision and inspection fee. The standard loan charges, according to the Capital Adequacy Policy, are applied when the TELR is increasing between 32% and 38%, and as long as Operating Income is positive. Loan charges are

subject to semi-annual review and approval by the Board of Executive Directors. In 2006 and 2007, the TELR exceeded the upper band. The Board of Executive Directors maintained, during 2007, the same level of loan charges as the second semester of 2006, at 0.15% lending spread, 0.10% credit commission 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 %
2005:			
First semester	0.30	0.25	—
Second semester	0.10	0.10	—
2006:			
First semester	0.10	0.10	—
Second semester	0.15	0.10	—
2007:			
First semester	0.15	0.10	—
Second semester	0.15	0.10	—

Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the 10% limit established for non-sovereign-guaranteed operations, or with a member country sovereign counter-guarantee. These guarantees are denominated in United States dollars or in local currency. Regardless of the currency in which a guarantee is denominated, the Bank's exposure is, in all cases, capped at an amount in United States dollars determined at the time each guarantee is approved.

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 2007, four non-trade-related guarantees without a sovereign counter-guarantee were approved for \$900 million compared to two guarantees for \$180 million in 2006, and there were no guarantees approved with sovereign counter-guarantee (2006—one for \$60 million). The Bank has a Trade Finance Facilitation Program (TFFP) to provide partial credit guarantees without sovereign counter-guarantees on trade-finance

transactions. This Program, which began to operate in 2005, authorizes up to \$40 million in credit support per approved trade-finance bank, and an aggregate of no more than \$400 million outstanding at any time. During 2007, 12 trade-finance guarantee lines of credit in the aggregate amount of \$227 million were authorized and an already existing line of credit was increased by \$9 million, while 68 guarantees for a total of \$135 million were issued during the year. This compares with ten lines of credit in the aggregate amount of \$133 million authorized and 36 guarantees for a total of \$68 million issued in 2006.

As of December 31, 2007, guarantees of \$689 million (2006—\$379 million), including \$99 million issued under the TFFP (2006—\$51 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, which is the amount counted towards the non-sovereign-guaranteed operations 10% limit, was \$523 million at December 31, 2007 (2006—\$215 million).

LIQUIDITY MANAGEMENT

The Bank invests its liquid assets in highly rated debt 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**.

Under its liquidity policy, the Bank establishes yearly minimum and maximum liquidity levels, computed at 20% and 40%, respectively, of the projected year-end outstanding loan balance, and a desired level of 30%. For 2007, the liquidity level was established to range between \$9.3 billion and \$18.7 billion, with the mid-point of \$14.0 billion being the desired level. At December 31, 2007, the Bank's liquidity (largely comprised of net cash and investments, after swaps, minus short-term borrowings and borrowing countries' local currency cash balances) was \$13.9 billion. During the year, liquidity averaged \$16.3 billion compared to \$13.6 billion in 2006.

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 short-term funding facilities are used to cover short-term cash flow needs.

Box 3: Liquidity Management Principles

The primary objective in the management of the Bank's liquidity is to limit exposure to credit, market and liquidity risks. Within the constraints determined by this primary objective, the Bank strives to maximize returns on the invested asset portfolio while limiting the volatility of the Bank's net investment income, which is the spread between investment returns and funding costs.

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 three distinct sub-portfolios: transactional and operational (trading investments portfolio) and held-to-maturity (HTM), each with different risk profiles and performance benchmarks. The transactional portfolio is used to meet the day-to-day cash flow requirements. The operational portfolio holds the majority of the Bank's liquid holdings. The HTM portfolio consists primarily of the special reserve assets.

Investments of up to 10% of the portfolio may be contracted out to external managers. Separate investment guidelines that conform to the Bank's overall Investment Guidelines are provided to each external manager. At December 31, 2007, the Bank had investments of \$431 million managed by external firms.

The returns of the liquid investment portfolios in 2007 and 2006 are shown in **Table 5**. The lower yield levels on the total portfolio in 2007, as compared to 2006, are primarily due to unrealized (mark to market) losses resulting from the recent sub-prime crisis, including the contagion effect on the market

values, on the trading investments portfolio, as described below. HTM yields increased slightly during the year.

Table 5: LIQUID INVESTMENT PORTFOLIOS⁽¹⁾
December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

Portfolio	2007		2006	
	Ending Balance	Financial Return (%) ⁽²⁾	Ending Balance	Financial Return (%) ⁽²⁾
Transactional	\$ 567	1.65	\$ 224	5.19
Operational	11,720	2.86	12,013	4.72
Held-to-Maturity	3,814	3.45	3,538	3.31
Overall Portfolio	<u>\$16,101</u>	2.93	<u>\$15,775</u>	4.39

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

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

Difficult Financial Market Conditions

There has been a great deal of turbulence in the financial markets over the last several months, which has led to less liquidity, a flight to quality, significantly higher volatility, widening of credit spreads across many sectors, and a lack of price transparency. The Bank operates in certain sectors of these markets, primarily through exposures in asset- and mortgage-backed investment securities, and has been and will continue to be adversely affected by this market disruption.

These conditions have increased the level of difficulty and complexity for the Bank in valuing these securities in the existing market environment. To determine the fair value of its investment securities, the Bank maximizes the use of market inputs, including observable market yield curves, external pricing services, and independent dealer prices. Valuations will continue to be impacted by market factors, external to the Bank, such as default rates, rating agency actions, and the prices at which actual transactions occur. Moreover, the Bank's ability to mitigate its risk by selling or hedging its exposure may also be limited by the market environment.

Performance and Exposure of Liquid Investments Portfolio

As a result of the recent sub-prime mortgage crisis and the contagion effect across market sectors, the Bank has been monitoring the asset quality of its investments portfolio, continuously analyzing and assessing the fundamental value of the securities, with a particular focus on its structured credit products.

At December 31, 2007, the credit exposure for the whole investment portfolio amounted to \$16.1 billion. Despite the crisis, the quality of the portfolio continues to be high, as 90% of the issuers were rated AAA and AA, and an additional 1% of the portfolio carried the highest short-term ratings, with the remaining 9% rated A. **Table 6** shows a breakdown of the trading investments portfolio at December 31, 2007, by asset category (for further information refer to Appendix I-1 of the financial statements):

Table 6: TRADING INVESTMENTS PORTFOLIO BY ASSET CATEGORY
December 31, 2007

(Amounts expressed in millions of United States dollars)

Asset Category	Carrying Value
Obligations of the United States Government and its corporations and agencies	\$ 454
Obligations of other governments and agencies	127
Bank obligations	4,707
Corporate securities	411
Asset-backed and mortgage-backed securities	6,608
Total trading investments	<u>\$12,307</u>

During 2007, realized and unrealized (mark to market) losses for the \$12.3 billion trading investments portfolio were \$11 million (0.1%) and \$280 million (2.3%), respectively, virtually all related to the \$6.6 billion of asset-backed and mortgage-backed securities. The trading investments portfolio's exposure to the sub-prime asset-backed and mortgage-backed securities at December 31, 2007, involved only AAA rated securities and was \$511 million (4.2%) of the portfolio.

Subsequent to December 31, 2007, the ongoing events in the financial markets mentioned above have created continued pressure on the market pricing of the Bank's investments. The Bank will continue to closely monitor and evaluate these developments in determining the fair value of its investment portfolio.

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, 2007 is presented in Appendix I-5 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, and payable for investment securities purchased.

SOURCES OF FUNDS

Equity

Total equity at December 31, 2007, was \$20.4 billion compared with \$19.8 billion at December 31, 2006. The increase primarily reflects the net income for the year of \$134 million and other comprehensive income of \$411 million (essentially comprised of the increase in the funded status of the Bank's pension and postretirement benefit plans of \$130 million, and positive translation adjustments of \$280 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. For risk management purposes, the Bank monitors equity as defined and utilized in the TELR, which measures the adequacy of its risk-bearing capacity. Table 7 presents the composition of this measure at December 31, 2007 and 2006. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" below, for more information on the TELR.

Table 7: TOTAL EQUITY TO LOANS RATIO
December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

	2007	2006
Equity		
Paid-in capital stock	\$ 4,340	\$ 4,340
Retained earnings:		
General reserve ⁽¹⁾	13,470	12,971
Special reserve ⁽¹⁾	2,543	2,497
Plus:		
Allowances for loan and guarantee losses	70	104
Minus:		
Borrowing countries' local currency cash balances	135	142
Net receivable from members ⁽²⁾	—	103
Postretirement benefit assets	973	863
Cumulative effects of SFAS 133 and currency transaction adjustments ⁽³⁾	(176)	(27)
Equity used in Total Equity to Loans Ratio	\$19,491	\$18,831
Loans outstanding and net guarantee exposure	\$48,529	\$46,199
Total Equity to Loans Ratio	<u>40.2%</u>	<u>40.8%</u>

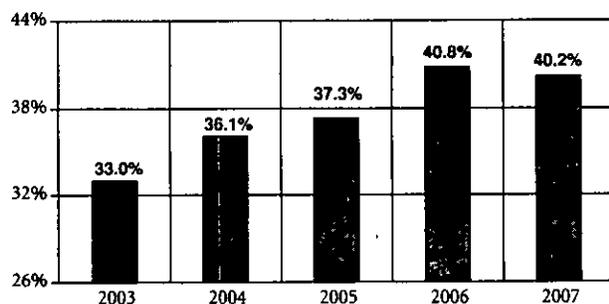
⁽¹⁾ Includes Accumulated other comprehensive income.

⁽²⁾ Excludes Net payable to members, when applicable.

⁽³⁾ Includes cumulative effect of SFAS 133 on cash flow hedges for \$2 million and \$1 million in 2007 and 2006, respectively.

As presented in Table 7, the TELR decreased from 40.8% at December 31, 2006, to 40.2% at December 31, 2007. The decrease was mainly due to an increase of \$2.3 billion in loans outstanding and net guarantee exposure, partially offset by an increase in equity resulting from operating income. Prior to 2007, the TELR had increased steadily as a result of the growth in the equity base and lower loans outstanding (see Figure 2).

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, 2007, subscribed capital stock was \$100.9 billion, of which \$4.3 billion had been paid in and \$96.6 billion 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 gold, 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, 2007, the total subscription of the United States, the Bank's largest shareholder, was \$30.3 billion, of which the United States had paid \$1.3 billion as subscriptions to the Bank's paid-in capital stock. Of the United States' callable capital stock subscription of \$29.0 billion, \$3.8 billion 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, \$25.2 billion, 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 capi-

tal 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.

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**.

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, Japan, Canada and the other nonregional members). Net Borrowings is the amount of borrowings plus gross guarantee exposure, less qualified liquid assets and 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, 2007, Net Borrowings represented 61.2% of the subscribed callable capital stock of the non-borrowing member countries compared to 57.9% in 2006.

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).

In 2007, the proceeds from medium- and long-term debt raised directly in financial markets amounted to \$5.5 billion compared to \$5.3 billion in 2006. Borrowing operations for 2007 and 2006 are summarized in **Table 8**.

Table 8: SUMMARY OF ANNUAL BORROWING OPERATIONS

For the years ended December 31, 2007 and 2006
(Amounts expressed in millions of United States dollars)

	2007	2006
Total medium- and long-term borrowings ⁽¹⁾	\$5,504	\$5,263
Average life (years) ⁽²⁾	7.9	6.5
Number of transactions	45	33
Number of currencies	12	7

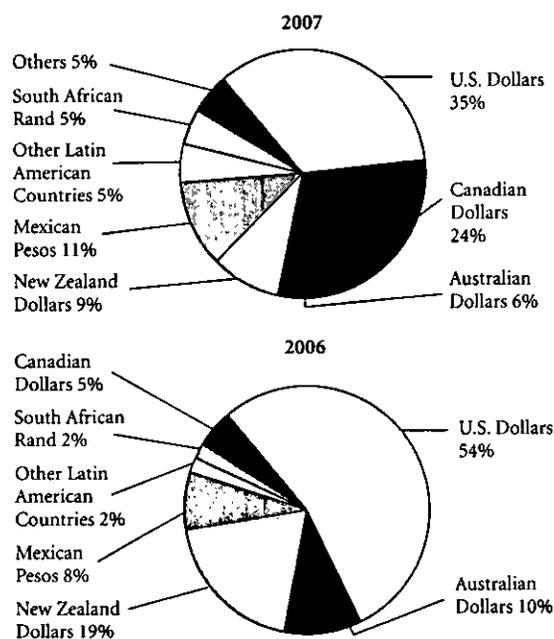
⁽¹⁾ Represents proceeds on a trade date basis.

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

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2007, the Bank issued its first-ever bond denominated in Costa Rican colones, Indian rupees and new Turkish liras. In addition, the Bank issued one \$1 billion global benchmark bond maturing in 2012. Bonds denominated in borrowing member country currencies in the aggregate amount of \$909 million were issued during 2007 (2006—\$526 million), comprised of the following currencies: Brazilian reais—\$197 million, Colombian pesos—\$30 million, Costa Rican colones—\$50 million, and Mexican pesos—\$632 million (2006—Mexican pesos—\$406 million and Peruvian new soles—\$120 million). In addition, the Bank transacted various bonds denominated in Australian dollars, Canadian dollars, Icelandic krónur, New Zealand dollars, South African rand, and United States dollars.

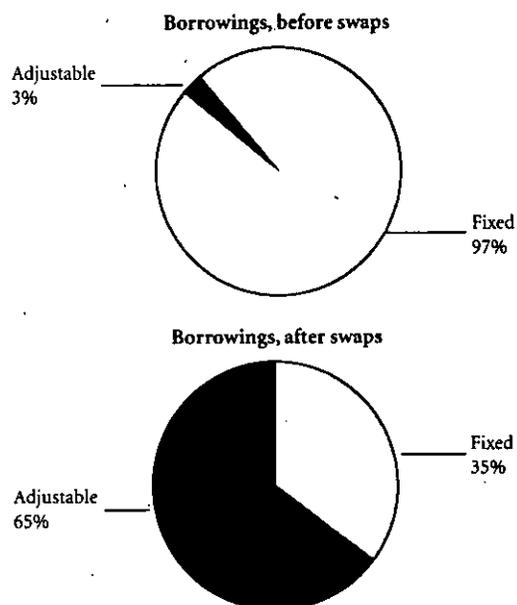
New medium- and long-term borrowings by currency for 2007, as compared to 2006, are shown in **Figure 3**. In 2007 and 2006, all non-United States dollar borrowings were initially swapped into United States dollars.

Figure 3: BORROWINGS BY CURRENCY⁽¹⁾
For the years ended December 31, 2007 and 2006



⁽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, 2007



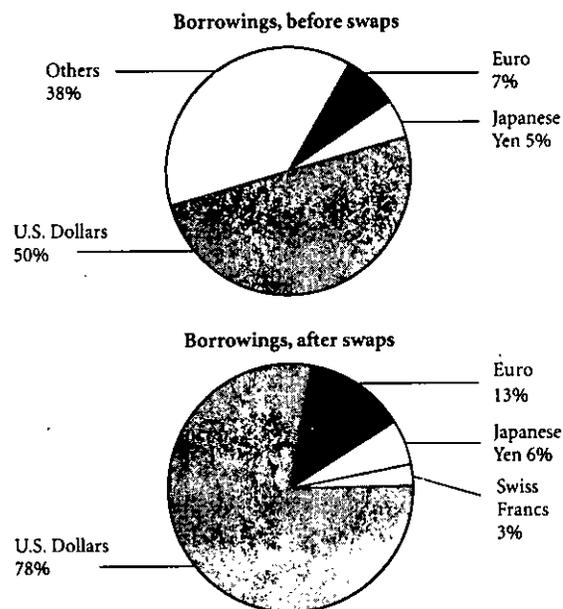
⁽¹⁾ Medium- and long-term borrowings only.

The Bank strategically repurchases, calls or prepays its debt to reduce the cost of borrowings and the exposure to re-funding requirements in a particular year, or to meet other operational needs. During 2007, the Bank partially repurchased \$326 million of two of its borrowings (2006—\$0).

Use of Derivatives: The Bank may enter into currency and interest rate swaps contemporaneously with borrowing transactions in order to convert the proceeds into euro, Japanese yen, Swiss francs or United States dollars and fixed or floating rate funding to meet its loan disbursement obligations. In 2007, all the new borrowings were initially swapped into United States dollars at floating rates, with conversion to fixed-rate and/or euro, Japanese yen and Swiss francs funding being carried out subsequently in accordance with funding requirements. 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, 2007.

More detailed information with respect to the Bank's borrowings and derivatives is contained in Notes H and I and Appendix I-5 to the financial statements.

Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS⁽¹⁾
December 31, 2007



⁽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, the credit for loan and guarantee losses and net non-interest expense. Table 9 shows the breakdown of Operating Income during the last three years.

Table 9: OPERATING INCOME
(Expressed in millions of United States dollars)

	2007	2006	2005
Loan interest income	\$2,404	\$2,435	\$2,368
Investment income ⁽¹⁾	487	619	403
	2,891	3,054	2,771
Less:			
Borrowing expenses	2,135	2,070	1,733
Net interest income	756	984	1,038
Other loan income	32	31	45
Other expenses (credits):			
Credit for loan and guarantee losses	(13)	(48)	(14)
Net non-interest expense	518	436	385
Total	505	388	371
Operating Income	<u>\$ 283</u>	<u>\$ 627</u>	<u>\$ 712</u>

⁽¹⁾ Includes realized and unrealized gains and losses.

Year 2007 versus 2006: In 2007, Operating Income was \$344 million lower than the previous year due to a decrease in net interest income, an increase in net non-interest expense, which is chiefly comprised of administrative expenses, and a lower credit for loan and guarantee losses.

Year 2006 versus 2005: In 2006, Operating Income was \$85 million lower than the previous year due to a reduction in the net interest income generated by the loan portfolio and an increase in net non-interest expense, partially offset by a higher credit for loan and guarantee losses.

Net Interest Income

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2007, 2006, and 2005 are shown in Table 10.

Year 2007 versus 2006: Net interest income decreased \$228 million in 2007 with respect to 2006, primarily due to unrealized (mark to market) losses of \$280 million on the Bank's trading investments portfolio, as explained under Liquidity Management above, that was partially offset by an increase in the income contribution of the Bank's cost free equity funds and slightly higher loan rates.

Year 2006 versus 2005: Net interest income decreased \$54 million in 2006 with respect to 2005, primarily due to a reduction in emergency loans outstanding and lower lending spreads on sovereign-guaranteed, non-emergency loans. This decrease was partially offset by an increase in the income generated by the equity resources.

Net Non-interest Expense

The main components of net non-interest expense are presented in Table 11.

Table 11: NET NON-INTEREST EXPENSE
(Expressed in millions of United States dollars)

	2007	2006	2005
Administrative expenses			
Staff costs	\$355	\$342	\$331
Consultant fees	58	50	47
Operational travel	20	20	21
Realignment expenses	55	—	—
Other expenses	76	95	74
Total gross administrative expenses	564	507	473
Less: Share of Fund for Special Operations	(64)	(93)	(86)
Net administrative expenses ...	500	414	387
Service fee revenues	(6)	(5)	(6)
Special programs	37	34	12
Other income	(13)	(7)	(8)
Net non-interest expense	<u>\$518</u>	<u>\$436</u>	<u>\$385</u>

Table 10: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS
(Amounts expressed in millions of United States dollars)

	2007		2006		2005	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans ⁽¹⁾	\$45,569	5.28	\$47,207	5.16	\$47,837	4.95
Liquid investments	16,791	2.93	14,226	4.39	12,341	3.29
Total earning assets	62,360	4.65	61,433	4.98	60,178	4.61
Borrowings	43,349	4.92	43,314	4.78	42,609	4.07
Interest rate spread ⁽²⁾		(0.27)		0.20		0.54
Net interest margin ⁽³⁾		1.21		1.60		1.72

⁽¹⁾ Excludes loan fees.

⁽²⁾ Negative interest rate spread during 2007 substantially due to a reduction in net investment income.

⁽³⁾ Represents net interest income as a percent of average earning assets.

Year 2007 versus 2006: Net non-interest expense increased by \$82 million in 2007 mainly due to realignment expenses (\$55 million), an increase in the percentage of administrative expenses charged to the Ordinary Capital (\$29 million), and increases in salaries and related benefits (\$13 million), partially offset by a decrease in depreciation expense (\$19 million).

Year 2006 versus 2005: Net non-interest expense increased by \$51 million in 2006 mainly due to an increase in depreciation and amortization (\$22 million), regular salary and related benefit increases (\$11 million), and expenditures under special programs approved by the Board of Executive Directors (\$22 million).

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 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. As part of the Bank's realignment, three risk management units of the Bank—strategic risk, treasury risk and non-sovereign guaranteed credit risk—were combined to form the Risk Management Office, which now reports directly to the Executive Vice President. The Asset Liability Management Committee (ALCO), as the successor to the Committee on Asset Liability Management, was established as 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

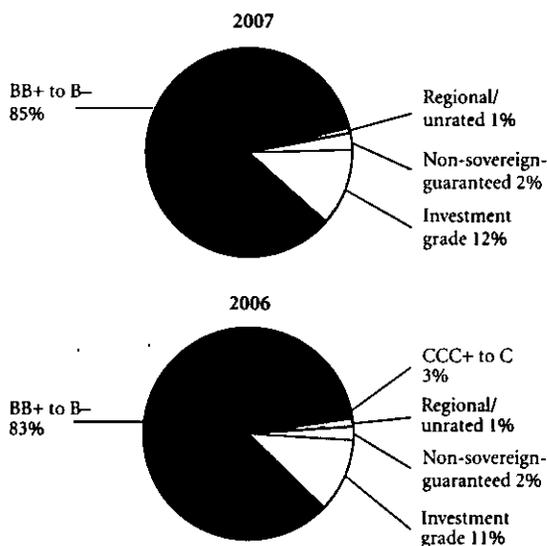
Credit risk is the potential loss that could result from the default of borrowers (loan portfolio credit risk or country credit risk) or from the default/downgrade of investment, trading or swap counterparties (commercial credit risk). Almost all of the Bank's loans are sovereign-guaranteed.

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.

Since December 31, 2006, the effects of ratings upgrades for a number of the Bank's largest borrowers and the increase in Loans outstanding increased the percentage of the portfolio rated investment grade and BB+ to B-, and decreased the concentration held by relatively lower-rated countries.

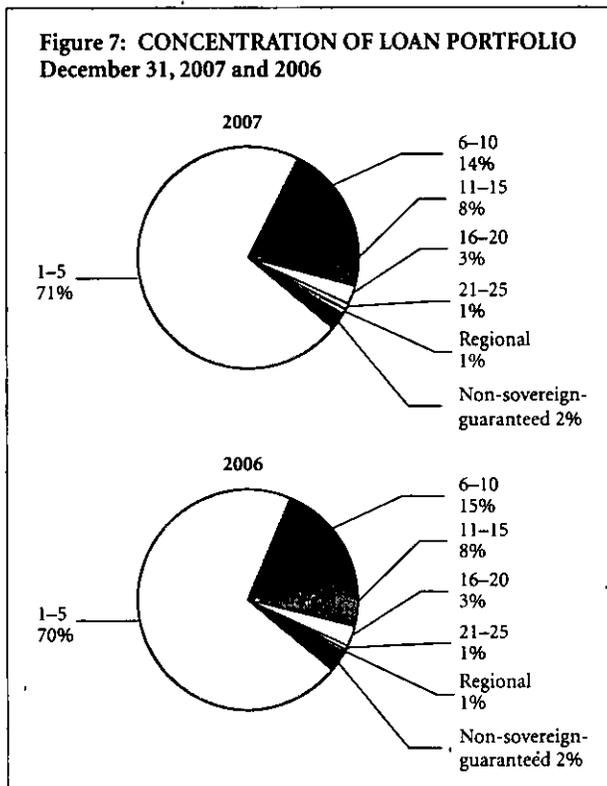
The credit quality of the sovereign-guaranteed loan portfolio as of December 31, 2007, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies (generally, Standard & Poor's), is depicted in Figure 6.

Figure 6: CREDIT QUALITY OF SOVEREIGN-GUARANTEED LOAN PORTFOLIO REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES December 31, 2007 and 2006



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**, as of December 31, 2007, 71% of the portfolio is held by the five largest borrowers compared to 70% in 2006. Refer to Appendix I-3 to the financial statements for more information.



Lending Limitation: The Bank's policy is to limit the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital of the non-borrowing member countries. This lending limit is stricter than that prescribed by the Agreement, which includes the unimpaired callable capital of all members.

Capital Adequacy Framework: The capital adequacy framework of the Bank consists of a credit risk model, a policy on capital adequacy and an associated loan pricing methodology. The framework allows the Bank to manage the risk inherent in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, while also offering its borrowers low and stable loan charges.

The Bank's economic capital is measured by the TELR, whose desired level of 38% was determined based on an analysis of the Bank's economic capital needs under various hypothetical financial stress scenarios. The capital adequacy framework provides that, as long as Operating Income is positive and the TELR is increasing within a range between 32% and 38%, the Bank will apply standard loan charges equal to a lending spread of 0.30%, a credit commission of 0.25%, and no supervision and inspection fee.

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 nonaccrual 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 12**.

If loans made to a member country funded with resources of the FSO or of any other fund 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, a subcommittee of the ALCO 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. At December 31, 2007, the Bank had one non-sovereign-guaranteed loan classified as impaired with an outstanding balance of \$2 million (see Note E to the financial statements).

TABLE 12: 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 the programming, preparing or processing of loans are suspended.

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 48 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. Pursuant to Bank policy, a credit for loan and guarantee losses of \$13 million was recognized in income during 2007. Total allowances of \$70 million were maintained at December 31, 2007 (2006—\$104 million). At December 31, 2007, the non-sovereign-guaranteed allowances for loan and guarantee losses were 3.3% of the corresponding combined outstanding portfolios (2006—6.7%).

Commercial Credit Risk: Commercial credit risk is the exposure to losses that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank will only invest in high quality debt instruments issued by governments, government agencies, multi-lateral 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.

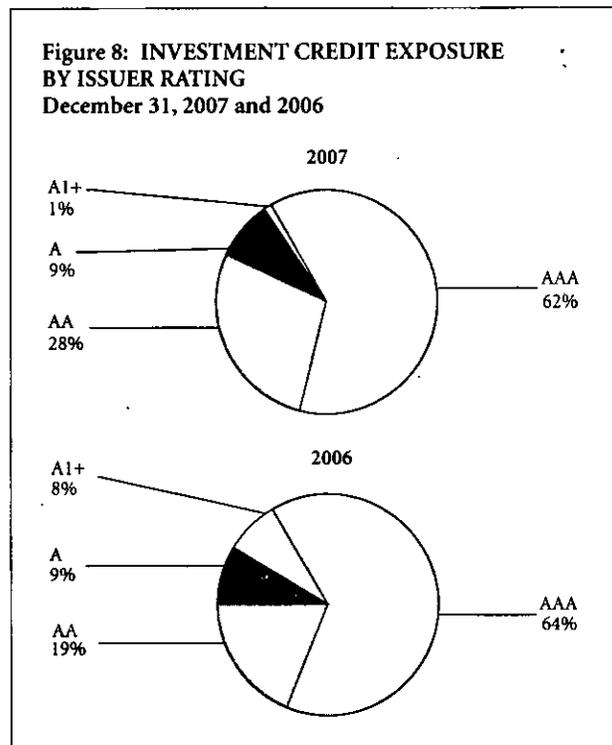
As a result of the recent sub-prime mortgage crisis and the contagion effect across market sectors, the Bank has been monitoring the asset quality of its investments portfolio, continuously analyzing and assessing the fundamental value of the securities, with a particular focus on its structured credit products.

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. Master derivative agreements with derivative counterparties have been amended to make risk mitigation provi-

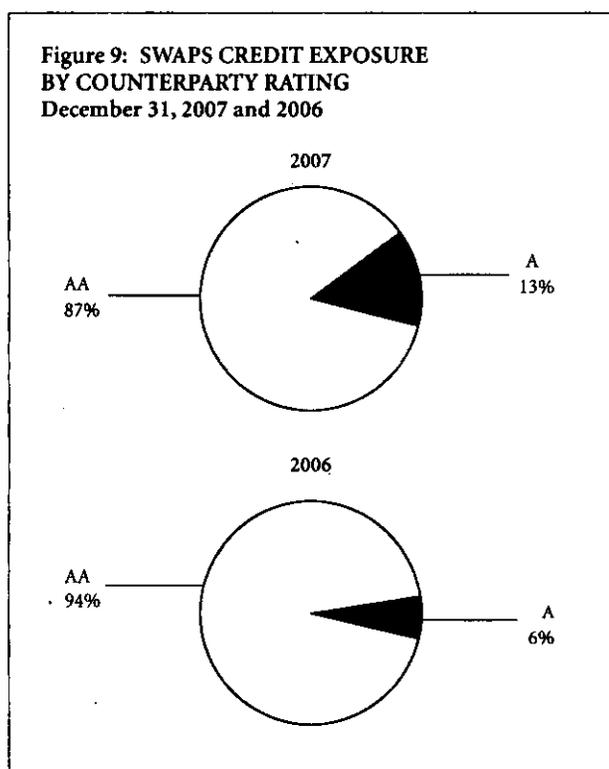
sions consistent with more conservative levels required under the current derivatives credit risk management policy. Counterparty exposure limits are calculated and monitored on the basis of potential credit exposures modeled throughout the life of each counterparty's portfolio. Simulation is used to 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, then the Bank's exposure to the counterparty is considered to be zero.

Figure 8 provides details of the estimated credit exposure on investments by issuer rating category. As of December 31, 2007, the credit exposure for the whole investment portfolio amounted to \$16.1 billion compared to \$15.8 billion at December 31, 2006. The credit quality of the investment portfolio for



2007 continues to be high, as 90% of the issuers were rated AAA and AA, and an additional 1% of the portfolio carried the highest short-term ratings, compared to 83% and 8%, respectively, in 2006. Figure 9 provides details of the estimated credit exposure (netted by counterparty) on the swap portfolio, by rating category. As of December 31, 2007, the swap credit exposure increased to \$2.5 billion from \$1.5 billion a year earlier. The credit quality of the swap portfolio continues to be high, as 87% of the counterparties were rated AA in 2007, compared to 94% in 2006. These swap credit exposures are collateralized. As of December 31, 2007, \$2.1 billion of collateral in the form of U.S. Treasury bonds had been posted with the Bank's custodian (compared to \$1.3 billion in 2006), which significantly reduced the credit exposure on swaps discussed above to only \$0.4 billion (2006—\$0.2 billion).



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 ensure adequate funding for each product at the most attractive cost available, and 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 and align the characteristics of its assets and liabilities, enhance investment returns and lower borrowing costs.

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 a cost pass-through formulation incorporated in the lending rates charged on most of its existing loans, in addition to a carefully designed term structure management. These cost pass-through loans account for 94% of the existing outstanding loan portfolio as of December 31, 2007; the remaining 6% are emergency loans, non-sovereign-guaranteed loans and fixed-rate loans. Some of the cost pass-through loans, primarily the adjustable rate loans, pose some residual interest rate risk given the six-month lag inherent in the lending rate calculation (see "Development Operations—Financial Terms of Loans" above). 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 investing these funds in long-term loan and investment assets, with stable returns.

Exchange Rate Risk: In order to minimize exchange rate risk in a multicurrency environment, the Bank matches the after-swap borrowing obligations in any one currency with assets in the same currency, as prescribed by the Agreement. In addition, the Bank's policy is to minimize the exchange rate sensitivity of its TELR by performing periodic currency conversions to maintain the currencies underlying its equity and allowances for loan and guarantee losses aligned with those of the outstanding loans and net guarantee exposure. In order to minimize currency misalignments, the Bank also aligns the currency composition of the special reserve assets with that of its outstanding borrowings.

Figure 10 presents the currency composition of the Bank's assets and liabilities (after swaps) at the end of 2007 and 2006.

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 of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, determines the proper term-duration gap between loans and debt to both lower funding costs and reduce refunding risk. Finally, under the short-term borrowing program, discount notes with maturities of less than one year are issued to cover short-term cash flow needs whenever the liquidation of a position is not desirable.

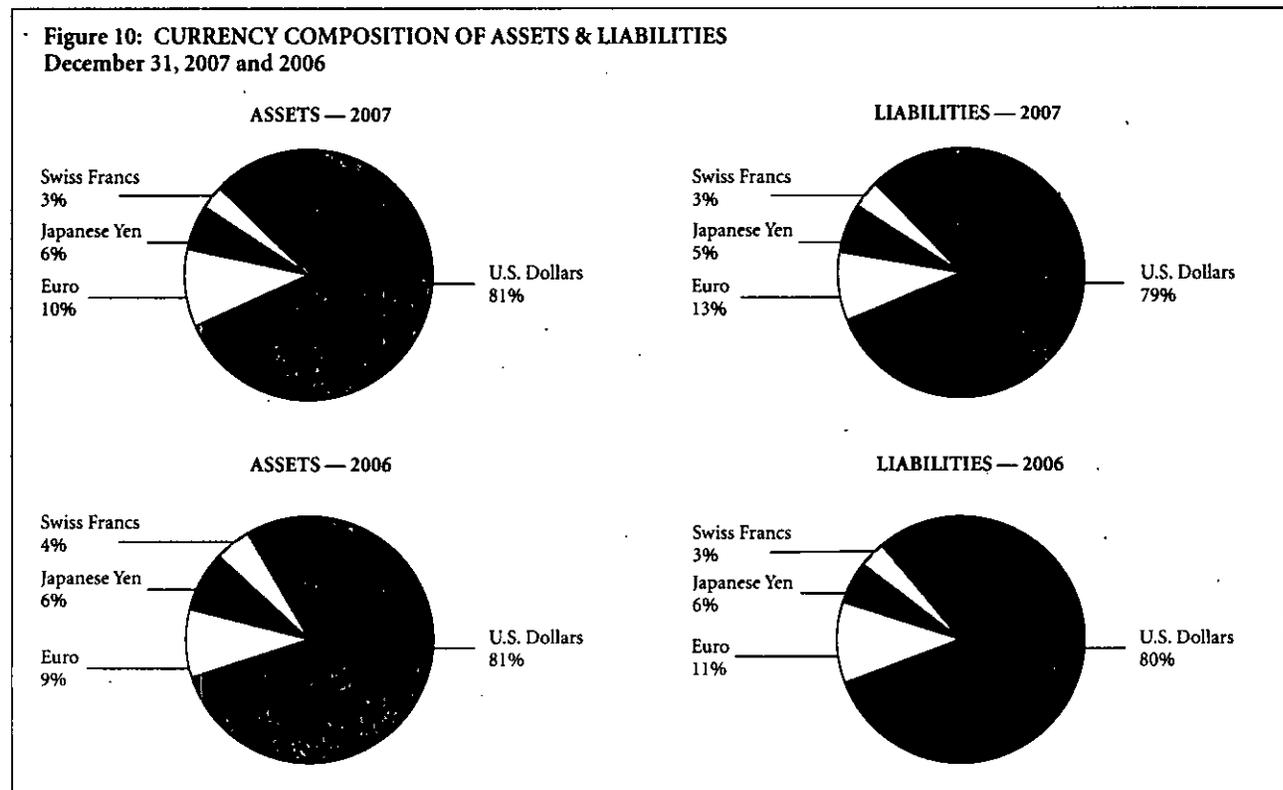
Operational Risk

Operational risk is the potential loss arising from internal activities or external events, caused by breakdowns in informa-

tion, communication, physical safeguards, business continuity, supervision, transactions processing, pricing, cash and securities movements and settlement systems. In addition, operational risk includes fraud and failures in the execution of legal, 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, and procurement and purchasing policies. Furthermore, the Bank takes an active role, through its newly created Risk Management Office, to effectively assess the operational risk aspects in a coordinated manner.

Internal Control Over Financial Reporting: During 2006, the Bank implemented the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework for its financial reporting, and established 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 2007 are included in the financial statements.



ADDITIONAL REPORTING AND DISCLOSURE

Basis of Reporting

The financial statements are prepared in accordance with United States generally accepted accounting principles (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 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 dealer prices, prices of comparable instruments or discounted cash flows using pricing models. Pricing models 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 external prices and parameters and the consistent application of this approach from period to period.

Changes in the fair value of trading securities and related derivatives are presented in Income from investments on the Statement of Income and Retained Earnings. Changes in the fair value of all derivatives other than investment derivatives are reported in Effects of SFAS 133 and currency transaction adjustments. See "Effects of SFAS 133 and Currency Transaction Adjustments" below.

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 Inter-American Investment Corpora-

tion (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 Executive Directors. The underlying actuarial assumptions used to determine the projected benefit obligations, fair value of plan assets and 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 N to the financial statements.

Effects of SFAS 133 and Currency Transaction Adjustments

As required by SFAS 133, the Bank marks to market all derivative instruments with changes in fair value recognized in income. Up to December 31, 2003, the Bank designated in hedging relationships most of the derivatives related to its borrowing and lending activities, following the SFAS 133 criteria. Accordingly, changes in the fair values of hedged assets and liabilities were also recognized in income, substantially offsetting the derivatives mark to market adjustments. The changes in fair value of both the derivative instrument and the underlying borrowing included changes in fair value due to changes in exchange rates, which offset each other almost entirely under hedge accounting.

Effective January 1, 2004, the Bank elected to discontinue hedge accounting for all its SFAS 133 hedging relationships while continuing to measure all derivatives at fair value, with changes in fair value recognized in income. In addition, the effect of exchange rate changes that had been included in the borrowings' fair value adjustments is now recognized as currency transaction adjustments. Management considers that these two elements are economically related and hence are reported together in a separate line in the Statement of Income and Retained Earnings.

The discontinuation of hedge accounting required the Bank to start amortizing the previously recorded fair value adjustments on borrowings and loans. In addition, the Bank's current application of SFAS 133 requires that only derivative instruments be marked to market. During 2007, the amortization of fair value adjustments on borrowings and loans, the net impact of exchange rates on borrowing transactions, and the impact of interest rates on borrowing and lending swaps amounted to an increase (decrease) in income of \$57 million, \$(35) million, and \$(170) million, respectively (2006—\$62 million, \$30 million, and \$(469) million, respectively; 2005—\$85 million, \$(32) million, \$5 million, respectively) (for additional information, see Note I to the financial statements). As a result of the discontinuation of hedge accounting in 2004, Effects of SFAS 133 and currency transaction adjustments has been substantially higher (negative \$149 million and \$384 million in 2007 and 2006, respectively, and positive \$50 million and \$314 million in 2005 and 2004, respectively). Management believes that the reported income volatility is not representative of

the underlying economics of the transactions as the Bank generally holds its swaps to maturity.

During 2007, Management approved the election of the fair value option provided by SFAS 159 for substantially all its borrowings funding floating rate assets. SFAS 159, which is effective on January 1, 2008, requires that changes in the fair value of elected financial instruments be recorded in income. As a result of this election, Management estimates that the volatility in the reported net income will be significantly reduced without having to apply complex hedge accounting provisions. Refer to "New Accounting Pronouncements" in Note B to the financial statements.

ADMINISTRATION AND GOVERNANCE OF THE BANK

Realignment of the Bank's Organization

The realignment process that was approved by the Board of Executive Directors in December 2006 continued throughout 2007. The Bank's realignment process includes changes in its basic organization, effective July 1, 2007, directed at improving the operational efficiency and capacity to fulfill its fundamental purpose. This new organizational model seeks to enhance the strategic capacity of the Bank in order to better respond to the new demands of the member countries in Latin America and the Caribbean and fulfill its mandate to assist the region's social and economic progress. The Bank's administration is now composed of the Board of Governors, the Board of Executive Directors, the President, the Executive Vice President, the Vice President for Countries, the Vice President for Sectors and Knowledge, the Vice President for Finance and Administration, the Vice President for Private Sector and Non-Sovereign-Guaranteed Operations, other officers and the staff.

The Board of Governors

All the powers of the Bank are vested in the Board of Governors, which consists of one Governor and one Alternate Governor appointed by each member country. The Governor or Alternate Governor from each member country exercises the voting power to which that member country is entitled, each member country having 135 votes plus one vote for each share of the Bank's Ordinary Capital stock subscribed by that member. The Agreement, as amended, provides that subscriptions to the capital stock will not become effective if the result would be to reduce the voting power of (i) the regional developing countries below 50.005%; (ii) the United States below 30%; or (iii) Canada below 4% of the total voting power. This permits nonre-

gional members to have a voting power of up to 15.995%, including approximately 5% for Japan. A list of the members at December 31, 2007, showing the voting power and the number of shares subscribed by each member, is set forth in the Statement of Subscriptions to Capital Stock and Voting Power (see Appendix I-7 to the financial statements). The Board of Governors holds regular annual meetings.

The Board of Executive Directors

The Board of Executive Directors consists of 14 Directors: one appointed by the United States, one elected by the Governor for Canada, three elected by the Governors for the nonregional member countries, and the remaining nine elected by the Governors for the borrowing member countries. Executive Directors are persons of recognized competence and wide experience in economic and financial matters. The members of the Board of Executive Directors also bring to the Bank valuable multicultural viewpoints that are consistent with its multilateral nature. Each Executive Director appoints an Alternate Executive Director who has full power to act for the Executive Director when he or she is not present. Executive Directors serve full-time, generally for three years.

The Board of Governors has delegated to the Board of Executive Directors all its powers except certain powers reserved to the Governors under the Agreement. Each Executive Director is entitled to cast the number of votes of the member country which appointed him or her, or, if elected, the number of votes that counted toward the election. All matters before the Board of Governors and the Board of Executive Directors are decided by a majority of the total voting power of the Bank, except in certain cases provided in the Agreement that require a higher percentage.

The Executive Directors have established several standing committees, including: the Audit Committee; the Budget and Financial Policies Committee; the Ethics Committee; the Organization, Human Resources; and Board Matters Committee; the Policy and Evaluation Committee; and the Programming Committee.

The Board of Executive Directors, including its Committees, functions in continuous session at the principal offices of the Bank and meets as often as business requires. Unless otherwise decided by the Board, the Committees do not vote on issues before their consideration but rather make, when appropriate, recommendations to the Board of Executive Directors.

The following is an alphabetical list of the members of the Board of Executive Directors, the member countries by which they were appointed or elected and the Alternates appointed by the Executive Directors as of the date of this Information Statement:

Executive Directors	Alternates	Member Countries
Adina Bastidas (Venezuela)	Fernando Eleta C. (Panama)	Panama and Venezuela
Marcelo Bisogno (Uruguay)	Hugo Rafael Cáceres Agüero (Paraguay)	Bolivia, Paraguay and Uruguay
Jerry Butler (The Bahamas)	Winston A. Cox (Barbados)	The Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago
Eugenio Díaz-Bonilla (Argentina)	Martín Bès (Argentina)	Argentina and Haiti
Luis Guillermo Echeverri (Colombia)	Xavier Santillán (Ecuador)	Colombia and Ecuador
Hans Hammann (Germany)	Francesca Manno (Italy)	Belgium, Germany, Israel, Italy, The Nether- lands and Switzerland
Nelly Lacayo-Anderson (El Salvador)	Raúl Barrios (Nicaragua)	Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
Luis M. Linde (Spain)	Olivier Myard (France)	Austria, Denmark, Finland, France, Norway, Spain and Sweden
José Carlos Miranda (Brazil)	Sérgio Portugal (Brazil)	Brazil and Suriname
*	Jan E. Boyer (United States)	United States
Jaime Quijandría (Peru)	Alex Foxley (Chile)	Chile and Peru
Cecilia Ramos Avila (Mexico)	Roberto B. Saladín (Dominican Republic)	Mexico and Dominican Republic
Tsuyoshi Takahashi (Japan)	Stewart Mills (United Kingdom)	Croatia, Japan, Portugal, the Republic of Korea, Slovenia and United Kingdom
Vinita Watson (Canada)	Jill Johnson (Canada)	Canada

*Vacant

Audit Committee of the Board of Executive Directors: The primary responsibilities of the Audit Committee are to assist the Board of Executive Directors in overseeing the Bank's (i) financial reporting, (ii) risk management and internal control processes, (iii) internal and external audit functions, (iv) communications of senior management and the Executive Directors with the external auditors and (v) activities in promoting institutional integrity, including with regard to matters involving fraud and corruption. The Committee has responsibility for reviewing the performance of and recommending to the Board of Executive Directors (which, in turn, recommends to the Board of Governors) the appointment of the external auditor, as well as monitoring the external auditor's independence. The Committee also participates in the oversight of the internal audit function, including reviewing responsibilities, staffing, the annual internal audit plan and the effectiveness of the internal control audit function. The Audit Committee, which includes all the members of the Board of Executive Directors, meets regularly and as circumstances dictate, and may meet periodically in executive sessions with the Bank's management and the external auditors. The Committee may obtain advice and assistance from outside advisors as deemed appropriate to perform its duties and responsibilities.

Office of Evaluation and Oversight: The Office of Evaluation and Oversight, which reports directly to the Board of Executive Directors, undertakes independent and systematic evaluations of the Bank's strategies, policies, programs, activities, delivery support functions and systems, and disseminates the findings of such evaluations so that recommendations for improvement can be used in new operations. The Office of Evaluation and Oversight also provides oversight and support for the enhancement of the effectiveness of the Bank's evaluation system.

Principal Officers

The President is elected by the Board of Governors and is the institution's chief executive officer. Under the direction of the Board of Executive Directors, the President conducts the ordinary business of the Bank, assisted by the Executive Vice President and four Vice Presidents. The President also serves as the presiding officer at meetings of the Board of Executive Directors, and has no vote at such meetings, except when his vote is needed to break a tie.

The Executive Vice President is elected by the Board of Executive Directors and functions as the chief operating officer, supervising the four Vice Presidents and the senior staff. Under the direction of the Board of Executive Directors and the Presi-

dent, the Executive Vice President exercises such authority and performs such functions in the administration of the Bank as may be determined by the Board of Executive Directors and, in the absence or incapacity of the President, exercises the authority and performs the functions of the President.

The Vice President for Countries, the Vice President for Sectors and Knowledge, the Vice President for Finance and Administration, and the Vice President for Private Sector and Non-Sovereign-Guaranteed Operations are appointed by the Board of Executive Directors on the recommendation of the President of the Bank, and report to the Executive Vice President. Under the direction of the Board of Executive Directors, the President and the Executive Vice President, the Vice Presidents undertake the following responsibilities:

- The Vice President for Countries, the third ranking Bank official in order of precedence, is responsible for leading the dialogue and relationship of the Bank with all 26 borrowing member countries, assisted by four operations departments, and 26 country offices and the Operations Procurement Office. In the absence or incapacity of the President and the Executive Vice President, the Vice President for Countries exercises the authority and performs the functions of the President.
- The Vice President for Sectors and Knowledge is responsible for developing knowledge to support member countries in the design and execution of their development projects and programs, promoting integration and trade and developing a demand-driven learning program for staff skills in support of the Bank's business needs.
- The Vice President for Finance and Administration is responsible for mobilizing and managing the Bank's resources and the provision of support services, ensuring effective and efficient performance by the financial, legal, information technology, budget, and human resources staff.
- The Vice President for Private Sector and Non-Sovereign-Guaranteed Operations is responsible for coordinating the development and delivery of private sector and non-sovereign-guaranteed operational programs of the three components of the IADB Group⁴ and is in charge of the development and implementation of the Private Sector Integrated Business Plan, as well as the business plans of each of the three members of the IADB Group.

⁴ The IADB Group has three members that associate on activities concerning the development of the private sector: the IADB, the IIC and the Multilateral Investment Fund II (MIF). The IADB, the IIC and the MIF are distinct entities with separate ownership and financial resources. The IIC is a public international organization, and the MIF is a fund administered by the IADB. Each of the IIC and the MIF are described more fully in this Information Statement. None of these entities is responsible for the obligations of the others.

Management Changes

The Board of Executive Directors appointed Mr. Daniel M. Zelikow as Executive Vice President, effective March 5, 2007; Mr. Otaviano Canuto as Vice President for Countries, effective June 1, 2007; Mr. Santiago Levy as Vice President for Sectors and Knowledge and Mr. Manuel Rapoport as Vice President for Finance and Administration, effective March 1, 2008, and Mr. Steven J. Puig as Vice President for Private Sector and Non-Sovereign-Guaranteed Operations, effective November 7, 2007.

Mr. Edward Bartholomew was appointed as Finance General Manager and Chief Financial Officer, effective February 1, 2008.

The following is a list of the principal officers of the Bank as of the date of this Information Statement:

Luis Alberto Moreno	President
Daniel M. Zelikow	Executive Vice President
Otaviano Canuto	Vice President for Countries
Santiago Levy	Vice President for Sectors and Knowledge
Manuel Rapoport	Vice President for Finance and Administration
Steven J. Puig	Vice President for Private Sector and Non-Sovereign-Guaranteed Operations
Eduardo Lora	General Manager and Chief Economist, Department of Research, a.i.
Carlos Hurtado	General Manager, Country Department Southern Cone
Alicia Ritchie	General Manager, Country Department Andean Group
Gina Montiel	General Manager, Country Department Central America, Mexico, Panama and Dominican Republic
Dora Currea	General Manager, Country Department Caribbean Group
Hugo Eduardo Beteta	Secretary of the Bank
J. James Spinner	General Counsel
Edward Bartholomew	Finance General Manager and Chief Financial Officer
Luis Estanislao Echebarria	General Manager and Chief Development Effectiveness Officer, Office of Strategic Planning and Development Effectiveness
John R. Hauge	General Manager, Budget and Administrative Services Department
Hans Schulz	General Manager, Structured and Corporate Financing Department
Juan Manuel Fariña	General Manager, Human Resources Department, a.i.
Simon Gauthier	General Manager and Chief Information Officer, Information Technology Department

Donald F. Terry	General Manager, Office of the Multilateral Investment Fund
German Quintana	Chief, Office of the Presidency
Pablo Halpern	Advisor, Office of External Relations
Roberto Vellutini	Manager, Infrastructure and Environment Sector
Kei Kawabata	Manager, Social Sector
Mario Marcel	Manager, Institutional Capacity and Finance Sector
Antoni Estevadeordal	Manager, Integration and Trade Sector
Graciela Schamis	Manager, Knowledge and Learning Sector
Luiz Ros	Manager, Opportunities for the Majority Sector
Jamal A. Khokhar	Advisor, Office of Outreach and Partnerships
Domeniek Vangaever	Advisor, Office of Risk Management, a.i.
Alan N. Siegfried	Auditor General

Stephen A. Quick is the Director of the Office of Evaluation and Oversight

Ethical Matters

The Bank fosters an ethical work environment for its staff and is committed to safeguard the activities financed by the Bank from fraud and corruption. To this end, the Bank has taken several measures, some of which are described below.

Codes of Ethics: The Bank requires highly qualified, dedicated and motivated employees to maintain the highest standards of integrity. To assist in preserving such institutional standards, the Bank has in place a Code of Ethics and Professional Conduct that applies to all employees. This Code, which is available on the Bank's website: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1239020>, contains guidelines concerning conflicts of interest, use of Bank information, and an employee's financial and business interests, among other matters.

The Bank also has a separate Code of Ethics applicable to the Executive Directors. This Code, which is also available on the Bank's website: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=812259>, sets forth guiding principles relating to duty and loyalty to the institution, non-interference in the internal political affairs of the Bank's member countries and confidentiality of information, among other topics.

The Bank has separate Committees responsible for the interpretation and enforcement of the Codes for employees and for Executive Directors, respectively.

Office of Institutional Integrity: The Office of Institutional Integrity (OII), an independent unit reporting to the President, was established to promote institutional integrity. OII complies with its mandate through the detection and investigation of

fraud, corruption and misconduct and the support of initiatives for their prevention. Allegations of corrupt or fraudulent activities involving Bank-financed activities or Bank staff may be reported to the OII in person, by telephone, e-mail, facsimile, regular mail, or through the allegations forms available on the Bank's website: www.iadb.org/oii. Such allegations may be made confidentially or anonymously.

Oversight Committee on Fraud and Corruption: The Oversight Committee on Fraud and Corruption (OCFC) oversees the Bank's efforts against fraud and corruption in its sponsored programs and activities. It is chaired by the Executive Vice President, and its members include the Vice President for Finance and Administration, the General Counsel and the Auditor General. The OCFC reports directly to the President. The Secretariat for the OCFC is the OII.

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.

Contracted fees for audit services provided to the Bank by E&Y in connection with the 2007 financial statement and internal control audits amount to \$1,074,000. In addition, E&Y was paid \$55,000 during 2007 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 2007 audits are \$432,000.

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 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.
- Any other services to be performed by the external auditors on an exceptional basis may be hired by management following criteria established by 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.

The Agreement Establishing the Bank

The Agreement sets forth the Bank's purpose and functions, and its capital structure and organization. The Agreement outlines the operations in which the Bank may engage and prescribes limitations on these operations. The Agreement also establishes the status, immunities and privileges of the Bank and provides for the disposition of the currencies available to the Bank, the withdrawal and suspension of members and the suspension and termination of the Bank's operations.

The Agreement provides that it may be amended only by decision of the Board of Governors by a majority of the total number of Governors, including two-thirds of the Governors of regional members, representing not less than three-fourths of the total voting power of the member countries. The unanimous agreement of the Board of Governors is required for the approval of any amendment modifying the right to withdraw from the Bank, the right to purchase capital stock of the Bank and to contribute to the FSO, and the limitation on liability. The Agreement provides that any question of interpretation of its provisions arising between any member and the Bank or among members of the Bank shall be submitted to the Board of Executive Directors for decision. Such decision may then be submitted to the Board of Governors, whose decision shall be final. Although any member may withdraw from the Bank by delivering written notice of its intention to do so, any such member remains liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the notice.

Copies of the Agreement are available for inspection and distribution at the Bank's office in Washington, D.C. The full text of the Agreement is also available on the Bank's website at www.iadb.org/leg/Documents/Pdf/Convenio-Eng.pdf.

Legal Status, Immunities and Privileges

The following is a summary of the principal provisions of the Agreement relating to the legal status, immunities and privileges of the Bank in the territories of its members.

The Bank possesses juridical personality and has full capacity to contract, to acquire and dispose of immovable and movable property, and to institute legal proceedings. Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed debt securities. No action shall be brought against the Bank by members or persons acting for or deriving claims from members.

The property and assets of the Bank are immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank. Such property and assets are also immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action. The archives of the Bank are inviolable. The Governors, Executive Directors, their Alternates, officers and employees of the Bank are immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives this immunity.

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. The Bank is also immune from any other obligation relating to the payment, withholding or collection of any tax or duty.

Under the Agreement, debt securities issued by the Bank and the interest thereon are not subject to any tax by a member (a) which discriminates against such debt securities solely because they are issued by the Bank, or (b) if the sole jurisdictional basis for such taxation is the place or currency in which such debt securities are issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

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 have usually been longer and the interest rates lower than for loans from the Bank's Ordinary Capital. FSO resources are also used to fund technical assistance activities (see "Technical Assistance" below).

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).

At December 31, 2007, the FSO's fund balance amounted to \$5.8 billion, mostly resulting from subscribed contribution quotas from member governments of the Bank less debt relief provided to the poorest borrowing member countries. Outstanding FSO loans, net of allowance for debt relief, totaled \$4.0 billion, and the undisbursed portion of approved loans amounted to \$1.8 billion.

Heavily Indebted Poor Countries (HIPC) Initiative

The Bank participates in the HIPC Initiative, a concerted international initiative endorsed by the Group of Seven Countries (G-7), the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund, for addressing the debt problems of a group of countries identified as heavily indebted poor countries to ensure that reform efforts of these countries will not be put at risk by continued high external debt service burdens. Under the HIPC Initiative, all bilateral and multilateral creditors provide debt relief for countries that demonstrate good policy performance over an extended

period in order to bring their debt service burdens to sustainable levels.

The Bank's participation in the HIPC Initiative comprises the HIPC I approved in 1998 and the Enhanced HIPC Initiative approved in 2001. This debt relief has been implemented through a combination of write-offs of FSO loans' principal and interest, transfers from the FSO general reserve to the IFF, conversion of a substantial amount of FSO local currency holdings to United States dollars, and grants of member countries through the World Bank HIPC Trust Fund. As of December 31, 2007, eligible member countries were Bolivia, Guyana, Haiti, Honduras and Nicaragua.

As part of the HIPC Initiatives, the Bank has written off FSO loans to eligible member countries for \$1.3 billion. Haiti, which had reached Decision Point⁵ as of December 31, 2007, is expected to receive additional debt relief under the Enhanced HIPC Initiative of \$10 million.

Multilateral Debt Relief and Concessional Finance Reform

In 2006, the World Bank's International Development Agency, the International Monetary Fund and the African Development Fund approved their participation in the Multilateral Debt Relief Initiative (MDRI) to provide additional debt relief to HIPC countries. Although the MDRI did not include the Bank, the Bank's Board of Governors supported the principle of furthering FSO debt relief for HIPC-eligible countries in Latin America and the Caribbean.

Under a new initiative approved in December 2006, the Board of Governors authorized the Multilateral Debt Relief and Concessional Finance Reform in March 2007, which included the granting of 100% debt relief for Bolivia, Guyana, Haiti, Honduras and Nicaragua on FSO loan balances outstanding as of December 31, 2004. Under this initiative, the Bank forgave approximately \$3.4 billion in FSO loan principal payments, including approximately \$0.4 billion for Haiti to be effective once it reaches Completion Point⁵ under the Enhanced HIPC Initiative, and \$1.0 billion of future interest payments. FSO loan balances of approximately \$3.9 billion were written off in 2007 as part of the implementation of this initiative, including \$0.9 billion related to debt relief remaining to be delivered to eligible HIPC countries, except Haiti, under the Enhanced HIPC Initiative. In addition, as a result of the new concessional finance reform, effective January 1, 2007, FSO lending is in the form of 40-year bullet loans with a high degree of concessionality, which, when blended with Ordinary Capital loans via a parallel lending mechanism ("parallel loans"), allows the Bank to provide concessional resources to FSO countries consistent with a debt sustainability framework; FSO transfers to the IFF were discontinued; the FSO bears a smaller share of the administrative expenses of the Bank currently allocated between the Ordinary Capital and the FSO; and countries eligible for IFF subsidies continue to receive concessional resources for new

loans through 2015, in the form of parallel loans rather than a reduction in the interest rate billed, and still receive the reduction in the interest rate billed for loans approved up to December 31, 2006, subject to availability of resources in the IFF.

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 FSO resources, funds under administration, and resources from the Ordinary Capital's special programs. In 2007, the Bank provided technical assistance for a total of \$263 million (2006 – \$185 million), including \$100 million (2006 – \$71 million) funded by the MIF.

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 selected loans with increased subsidy under the HIPC I) of the interest rate due on such loans. The IFF is funded from income earned on its own investments and, up to December 31, 2006, by transfers from the FSO. It is expected that, over time, the Bank will use all the resources of the IFF to subsidize part of the interest payments on Ordinary Capital loans. For further information, refer to the "Multilateral Debt Relief and Concessional Finance Reform" under the Fund for Special Operations section.

IDB GRANT FACILITY

In June 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 general reserve transfers from the FSO and possible direct contributions from donor countries. During 2007, the GRF approved three grants to Haiti for \$50 million.

FUNDS UNDER ADMINISTRATION

General

In addition to its Ordinary Capital, the FSO, the IFF, and the GRF, the Bank administers on behalf of donors, such as member countries and other international organizations, funds for purposes consistent with the Bank's objectives of promoting economic and social development in its regional developing mem-

⁵ Decision point is reached once the country has established an adequate policy track record. Completion point is achieved once the country has demonstrated continued strong policy performance.

bers. These funds are mainly used to cofinance Bank lending projects and fund technical assistance activities, including project preparation and training. The funds under administration are held in trust separately from Bank assets. As of December 31, 2007, the Bank administered resources on behalf of donors of approximately \$1.1 billion. During 2007, the Bank received \$2.5 million as fees for administering these funds.

Multilateral Investment Fund II

The MIF is a fund administered by the Bank. Established in 1993 to encourage increased private investment and advance private sector development, the MIF fills a specialized development role, providing technical cooperation to test new approaches to strengthen competitiveness, demonstrate possibilities to commercial markets, and advance difficult reform issues.

During 2007, the MIF approved operations amounting to \$135 million for 133 projects. To date, the MIF has approved operations amounting to \$1.2 billion, net of cancellations, of which a substantial amount is technical cooperation grants. MIF operations include technical assistance, loans, equity investments and guarantees.

INTER-AMERICAN INVESTMENT CORPORATION

The activities of the Bank are complemented by those of the IIC. The IIC is a separate international organization, with a separate governance structure, including a separate Board of Governors and Board of Executive Directors, whose 43 member countries are also members of the Bank. The purpose of the IIC is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion and modernization of private enterprises, preferably those of small and medium-sized scale.

The funds of the IIC are completely separate from those of the Bank. During 2007, the IIC approved 62 operations,

which included equity investments and loans, in the aggregate amount of \$470 million. To date, the IIC has approved operations amounting to \$3.1 billion. At December 31, 2007, outstanding loans totaled \$869 million and outstanding equity investments totaled \$43 million.

The Bank has approved a loan to the IIC of \$300 million. Disbursements under this loan are to be made in United States dollars and carry a LIBOR-based interest rate. No disbursements have ever been made on this loan.

SUBSEQUENT DEVELOPMENTS

The Effect of Continued Difficult Financial Market Conditions on the Bank's Trading Investments Portfolio

Subsequent to December 31, 2007, the ongoing events of the financial market conditions discussed under "Liquidity Management" of this Information Statement continued to create downward pressure on the market pricing of the Bank's trading investments portfolio. During the two months ended February 29, 2008, the Bank incurred \$184 million of unrealized (mark-to-market) losses in its trading investments portfolio, virtually all of which are related to the \$6.3 billion asset-backed and mortgage-backed securities portion of the portfolio, and most of which securities remained AAA rated as of that date.

The Currency Exchange Fund N.V. ("TCX")

In January 2008, the Board of Executive Directors approved the granting of a \$100 million subordinated loan to TCX, a local currency hedge fund facility existing under the laws of The Netherlands, sponsored by Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. ("FMO") of The Netherlands, for the purpose of allowing the Bank to have access to TCX's local currency hedging services for non-sovereign guaranteed operations in certain Bank member countries. The Bank may sell \$2.5 million as a loan participation to the IIC to permit its access to TCX local currency hedging services through the Bank.

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ORDINARY CAPITAL

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

February 12, 2008

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, 2007. Based on this assessment, Management believes that the Bank's internal control over financial reporting is effective as of December 31, 2007.

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.

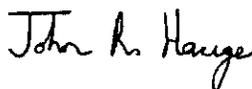
Ernst & Young LLP, an independent registered public accounting firm, has issued an opinion on the Bank's Ordinary Capital internal control over financial reporting. In addition, the Bank's Ordinary Capital financial statements, as of December 31, 2007, have been audited by Ernst & Young LLP.



Luis Alberto Moreno
President



Carlos Hurtado
Vice President for Finance and Administration



John R. Hauge
Finance General Manager and CFO
through January 31, 2008

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, 2007, 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, 2007, 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 sheet of the Inter-American Development Bank – Ordinary Capital as of December 31, 2007 and 2006, 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, 2007 and our report dated February 12, 2008 expressed an unqualified opinion thereon.

Washington, D.C.
February 12, 2008

Ernst + Young LLP

REPORT OF INDEPENDENT AUDITORS

Board of Governors
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank) – Ordinary Capital as of December 31, 2007 and 2006, 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, 2007. 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 as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with United States generally accepted accounting principles.

As discussed in Note B to the financial statements, in 2006 the Bank adopted Statement of Financial Accounting Standards 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans".

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, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2008 expressed an unqualified opinion thereon.

Ernst + Young LLP

Washington, D.C.
February 12, 2008

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

BALANCE SHEET

Expressed in millions of United States dollars

	December 31,			
	2007		2006	
ASSETS				
Cash and investments				
Cash.....	\$ 200		\$ 276	
Investments				
Trading.....	12,307		12,278	
Held-to-maturity.....	3,858	\$16,365	3,543	\$16,097
	<u>47,954</u>		<u>45,932</u>	
Loans outstanding	47,954		45,932	
Allowance for loan losses.....	(51)	47,903	(90)	45,842
Accrued interest and other charges				
On investments.....	103		95	
On loans.....	600		594	
On swaps, net.....	20	723	25	714
Receivable from members				
Non-negotiable, non-interest-bearing demand obligations.....	358		361	
Amounts required to maintain value of currency holdings.....	54	412	57	418
Currency and interest rate swaps				
Investments—trading.....	3		2	
Loans.....	4		5	
Borrowings.....	3,019	3,026	1,880	1,887
Other assets				
Postretirement benefit assets.....	973		863	
Property, net.....	296		301	
Unamortized borrowing costs.....	180		196	
Miscellaneous.....	29	1,478	157	1,517
Total assets		<u>\$69,907</u>		<u>\$66,475</u>
LIABILITIES AND EQUITY				
Liabilities				
Borrowings				
Short-term.....	\$ 2,204		\$ 658	
Medium- and long-term.....	44,845	\$47,049	44,030	\$44,688
Currency and interest rate swaps				
Investments—trading.....	2		1	
Loans.....	16		9	
Borrowings.....	1,006	1,024	742	752
Payable for investment securities purchased.....		67		47
Amounts payable to maintain value of currency holdings.....		616		315
Accrued interest on borrowings.....		596		586
Accounts payable and accrued expenses.....		202		279
Total liabilities		49,554		46,667
Equity				
Capital stock				
Subscribed 8,368,563 shares.....	100,953		100,953	
Less callable portion.....	(96,613)		(96,613)	
Paid-in capital stock.....	4,340		4,340	
Retained earnings.....	14,576		14,442	
Accumulated other comprehensive income.....	1,437	20,353	1,026	19,808
Total liabilities and equity		<u>\$69,907</u>		<u>\$66,475</u>

The accompanying notes 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,		
	2007	2006	2005
Income			
Loans			
Interest	\$ 2,404	\$ 2,435	\$ 2,368
Other loan income	32	31	45
	<u>2,436</u>	<u>2,466</u>	<u>2,413</u>
Investments	487	619	403
Other	19	12	14
Total income	<u>2,942</u>	<u>3,097</u>	<u>2,830</u>
Expenses			
Borrowing expenses			
Interest, after swaps	2,074	2,015	1,678
Amortization of borrowing costs	49	55	55
Debt repurchase costs	12	—	—
	<u>2,135</u>	<u>2,070</u>	<u>1,733</u>
Credit for loan and guarantee losses	(13)	(48)	(14)
Administrative expenses	500	414	387
Special programs	37	34	12
Total expenses	<u>2,659</u>	<u>2,470</u>	<u>2,118</u>
Income before SFAS 133 and currency transaction adjustments	283	627	712
Effects of SFAS 133 and currency transaction adjustments	(149)	(384)	50
Net income	134	243	762
Retained earnings, beginning of year	14,442	14,199	13,437
Retained earnings, end of year	<u>\$14,576</u>	<u>\$14,442</u>	<u>\$14,199</u>

STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2007	2006	2005
Net income	\$134	\$243	\$ 762
Other comprehensive income (loss)			
Translation adjustments	280	149	(554)
Recognition of changes in Postretirement benefit assets	130	—	—
Reclassification to income—cash flow hedges	1	8	8
Total other comprehensive income (loss)	<u>411</u>	<u>157</u>	<u>(546)</u>
Comprehensive income	<u>\$545</u>	<u>\$400</u>	<u>\$ 216</u>

The accompanying notes 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,		
	2007	2006	2005
Cash flows from lending and investing activities			
Lending:			
Loan disbursements (net of participations)	\$ (6,725)	\$ (6,088)	\$ (4,899)
Loan collections (net of participations)	5,265	8,615	5,224
Loan recoveries	—	3	9
Net cash (used in) provided by lending activities	(1,460)	2,530	334
Gross purchases of held-to-maturity investments	(2,378)	(2,049)	(2,392)
Gross proceeds from maturities of held-to-maturity investments	2,459	2,056	2,531
Purchase of property	(14)	(15)	(24)
Miscellaneous assets and liabilities	(7)	7	(6)
Net cash (used in) provided by lending and investing activities	(1,400)	2,529	443
Cash flows from financing activities			
Medium- and long-term borrowings:			
Proceeds from issuance	5,440	5,276	5,039
Repayments	(6,595)	(6,510)	(5,711)
Short-term borrowings:			
Proceeds from issuance	5,941	10,276	8,602
Repayments	(4,390)	(10,559)	(7,969)
Collections of receivable from members	5	12	26
Net cash provided by (used in) financing activities	401	(1,505)	(13)
Cash flows from operating activities			
Gross purchases of trading investments	(10,639)	(20,468)	(14,670)
Gross proceeds from sale or maturity of trading investments	10,761	18,672	13,329
Loan income collections	2,434	2,457	2,405
Interest and other costs of borrowings, after swaps	(1,953)	(1,857)	(1,544)
Income from investments	741	588	395
Other income	19	13	14
Administrative expenses	(433)	(367)	(335)
Special programs	(13)	(7)	(1)
Net cash provided by (used in) operating activities	917	(969)	(407)
Effect of exchange rate fluctuations on cash	6	(2)	(10)
Net (decrease) increase in Cash	(76)	53	13
Cash, beginning of year	276	223	210
Cash, end of year	\$ 200	\$ 276	\$ 223

The accompanying notes 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

On January 1, 2008, the Bank will adopt Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. It is estimated that the adoption of this standard will not have a material impact on the Ordinary Capital's financial position and results of operations.

In February 2007, the Financial Accounting Standard Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". The objective of SFAS No. 159 is to mitigate volatility in reported income by

measuring related assets and liabilities at fair value without having to apply complex hedge accounting provisions. On January 1, 2008, the Bank will adopt SFAS No. 159 and, in accordance with the transition provisions, will record a cumulative effect adjustment of approximately \$93 million (gain) to the opening balance of retained earnings, to reflect the difference between the carrying value and the fair value amount of certain borrowings for which the fair value option will be elected, including the write-off of deferred issue costs of \$163 million.

In 2006, the Bank adopted SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". SFAS 158 requires employers with single-employer defined benefit pension, retiree healthcare and other postretirement plans to fully recognize in their statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status through comprehensive income, as well as to measure its funded status as of the end of the year. Accordingly, the accompanying Balance Sheet includes the overfunded status of the Bank's pension and postretirement benefit plans as of December 31, 2007 and 2006. Note N to the financial statements discloses the incremental effect of applying this standard on the individual line items in the Balance Sheet for 2006.

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 in the Statement of Comprehensive Income. Borrowings in non-functional currencies are translated with the gain or loss recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and Retained Earnings. Income and expenses are translated at market exchange rates prevailing during each month.

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Valuation 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. 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 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.

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 for the Bank's operations. In accordance with resolutions of the Board of Governors, net income is generally added to the general reserve to provide for possible annual excess of expenses over income.

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

Investments

Investment securities are classified based on management's intention on the date of purchase, and are recorded using trade-date accounting. Securities which management has the intent and ability to hold until maturity are included in the held-to-maturity portfolio and reported at amortized cost. All other securities are held in a trading portfolio. Securities and related derivative instruments (mostly currency and interest rate swaps) held in the trading portfolio are carried and reported at fair value, with changes in fair value included in Income from investments on 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 loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Up to 10% of the outstanding loans and guarantees, not including emergency lending, may be made directly to private sector or (as of August 2006) sub-sovereign entities ("eligible entities") without a sovereign guarantee ("non-sovereign-guaranteed operations") on the basis of market based pricing. These financings are subject to certain limits, including a ceiling on financing the lesser of \$200 million or 50% of the total project cost for expansion projects and credit guarantees, subject to such financing not exceeding 25% (certain countries 40%) of an entity's total capitalization of debt and equity, and 25% of the total project cost (certain 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. In addition, the Bank's maximum exposure to any single obligor for non-sovereign-guaranteed operations cannot exceed 2.5% of the Bank's equity at the time of approval.

Loans representing approximately 30% of the outstanding balances have repayment obligations in various currencies determined on the basis of a currency pooling system (CPS). The principal amount of CPS loans is repayable, in aggregate, in the currencies lent. Single currency loans are repayable, on an after swap basis, in the specific currencies disbursed.

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 generally deferred and amortized over the first four

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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. 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 of any other fund 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 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 the future collectibility of principal or interest. 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. Income on impaired loans is recognized on a cash basis.

The Bank does not reschedule sovereign-guaranteed loans and has not written off any such Ordinary Capital loans. The Bank periodically reviews the collectibility of loans and guarantees and, if applicable, records, as an expense, provisions for loan and guarantee losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio. Such reviews consider the probabilities of default associated with the external credit ratings of each individual borrower, adjusted to reflect the probability of default to the

Bank, as well as the potential for loss arising from delay in the scheduled loan repayments. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will be repaid.

Guarantees

The Bank may make political risk and partial credit guarantees either without a sovereign counter-guarantee under the 10% limit 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 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 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. 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.

Receivable from members

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

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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 short-term discount notes for liquidity management purposes. Substantially all borrowings are carried on the Balance Sheet at their par value (face value), adjusted for any unamortized SFAS 133 fair value adjustments, premiums or discounts. The amortizations of SFAS 133 fair value adjustments and premiums or discounts are calculated following a methodology that approximates the effective interest method, and are included in Effects of SFAS 133 and currency transaction adjustments and in Interest under Borrowing expenses, respectively, on the Statement of Income and Retained Earnings. Borrowing costs associated with a bond offering 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 costs is presented separately under Other assets on the Balance Sheet, and the amortization is presented as a separate element under Borrowing expenses on the Statement of Income and Retained Earnings.

Derivatives

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respective operation to produce the desired interest and/or currency type.

The Bank complies with the derivative accounting requirements of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (hereinafter referred to as SFAS 133). Following SFAS 133, 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.

Changes in the fair value of investment derivatives and the related interest component are recorded in Income from investments. The interest component of lending and borrowing derivatives is recorded in loan income and borrowing expense, respectively, over the life of the derivative contract.

The Bank occasionally issues debt securities that contain an embedded derivative. The Bank assesses whether the eco-

nommic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the debt security, excluding the embedded derivative features, that is, the host contract. Debt securities that contain an embedded derivative that possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and would separately meet the definition of a derivative, are carried at fair value, as allowed by SFAS 155.

Administrative expenses

In 2007, the Board of Executive Directors approved the implementation of the realignment of the Bank's operations directed at improving its operational efficiency and capacity to fulfill its fundamental purpose. As a result, during 2007, realignment expenses of \$55 million were incurred and are included in Administrative expenses in the Statement of Income and Retained Earnings. It is expected that the realignment effort will last until 2009.

Administrative expenses of the Bank, excluding realignment expenses (which are fully absorbed by the Ordinary Capital), are allocated between the Ordinary Capital and the FSO pursuant to an allocation formula approved by the Board of Executive Directors. As a result of the Multilateral Debt Relief and Concessional Finance Reform (a Bank initiative approved in 2007 providing for one hundred (100) percent debt relief on eligible FSO loans to heavily indebted poor countries and the restructuring of the FSO's operations), the Board of Executive Directors approved a new expense allocation formula, whereby the FSO bears a smaller percentage of the administrative expenses of the Bank. Following this new allocation formula, during 2007, the effective ratio of administrative expenses charged to the Ordinary Capital was 88.5% and 11.5% to the FSO (2006—81.3% and 18.7%; 2005—81.5% and 18.5%, both years under the previous allocation formula).

Special programs

Special programs provide financing for non-reimbursable and contingent recovery assistance to borrowing member countries. The individual projects under these programs 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.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Pension and Postretirement Benefit Plans

The funded status of the Bank's benefit plans is recognized in 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 Postretirement benefit assets equal to this excess.

Net actuarial gain 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 in the Statement of Comprehensive Income. The net actuarial gain 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 remaining in Accumulated other comprehensive income.

Note C – Restricted Currencies

At December 31, 2007, Cash includes \$135 million (2006—\$142 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 \$25 million (2006—\$26 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.

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, asset-backed, and mortgage-backed securities with credit quality equivalent to a AAA rating. The Bank also invests in short-term securities of the eligible investment asset classes mentioned above, provided that they carry only the highest short-term credit ratings.

There has been a great deal of turbulence in the financial markets over the last several months, which has led to less liquidity, a flight to quality, significantly higher volatility, widening of credit spreads across many sectors, and a lack of price transparency. The Bank operates in certain sectors of these markets, primarily through exposures in asset- and mortgage-backed investment securities, and has been and will continue to be adversely affected by this market disruption.

These conditions have increased the level of difficulty and complexity for the Bank in valuing these securities. To determine the fair value of its investment securities, the Bank maximizes the use of market inputs, including observable market yield curves, external pricing services, and independent dealer prices. Valuations will continue to be impacted by market factors, external to the Bank, such as default rates, rating agency actions, and the prices at which actual transactions occur.

A summary of the trading portfolio instruments at December 31, 2007 and 2006 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1. In addition, a summary of the held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2007 and 2006 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2.

Net unrealized gains (losses) on trading portfolio instruments held at December 31, 2007, of \$(280) million (2006—\$3 million; 2005—\$(3) million) were included in Income from investments. Subsequent to December 31, 2007, the ongoing events in the financial markets mentioned above have created continued pressure on the market pricing of the Bank's investments. The Bank will continue to closely monitor these developments in order to properly reflect the value of its investment portfolio.

As of December 31, 2007 and 2006, the Bank does not have any investment that is other-than-temporarily impaired in its held-to-maturity investments portfolio. Held-to-maturity investments with continuous unrealized losses, that are not

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NOTES TO FINANCIAL STATEMENTS (continued)

deemed to be other-than-temporarily impaired as of December 31, 2007 and 2006, are summarized below (in millions):

Category of Investments	December 31, 2007					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of other governments and agencies ⁽¹⁾	\$310	\$(2)	\$1,539	\$(20)	\$1,849	\$(22)
Asset-backed and mortgage-backed securities	—	—	126	(2)	126	(2)
Total	<u>\$310</u>	<u>\$(2)</u>	<u>\$1,665</u>	<u>\$(22)</u>	<u>\$1,975</u>	<u>\$(24)</u>

Category of Investments	December 31, 2006					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of other governments and agencies ⁽¹⁾	\$942	\$(9)	\$905	\$(19)	\$1,847	\$(28)
Asset-backed and mortgage-backed securities	—	—	77	(2)	77	(2)
Total	<u>\$942</u>	<u>\$(9)</u>	<u>\$982</u>	<u>\$(21)</u>	<u>\$1,924</u>	<u>\$(30)</u>

⁽¹⁾Comprises non-U.S. governments and agencies.

The Bank only invests in high credit quality instruments. At December 31, 2007, 70% of the Held-to-maturity investments are rated AAA, 26% AA and 4% A. The unrealized losses on all categories of the Held-to-maturity investments were caused by interest rate increases and are not related to a deterioration in credit quality. Because the Bank has the ability and intent to hold these investments until maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2007, that is, the Bank expects to collect all amounts due according to the contractual terms prevailing on the acquisition date of these investments.

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) and U.S. Dollar Window Program) as well as multicurrency pool loans (CPS loans), and ii) single currency non-pool loans (Emergency Lending Facility). In addition, the loan portfolio includes non-sovereign-guaranteed loans.

SCF loans are denominated in one of four currencies: United States dollars, euro, Japanese yen and Swiss francs, or in a combination of such currencies, with LIBOR-based or ad-

justable interest rates, both at the option of the borrower. The interest rate on SCF LIBOR-based loans resets quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's sub-LIBOR funding cost and the Bank's spread. SCF LIBOR-based loan balances can be converted to fixed rate subject to certain conditions. The interest rate on SCF Adjustable loans resets semi-annually, based on the effective cost during the previous six months of each of the single-currency pools of borrowings allocated to fund such loans, plus the Bank's spread.

The Bank maintains a targeted currency composition in its CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. The interest rate on CPS loans made from January 1, 1983 to December 31, 1989 is fixed. The interest rate on CPS loans made after that date is adjusted twice a year based on the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's spread. Since September 2003, CPS loans are no longer available to borrowers.

Under the Emergency Lending Facility, funding is provided to address financial emergencies in the region for a revolving aggregate amount of up to \$6 billion. 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.

Non-sovereign-guaranteed loans are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. The interest rate on fixed-rate loans is based on a LIBOR rate plus a credit spread. 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.

Under the Local Currency Facility approved in 2005, borrowers have the option to receive local currency financing under three different modalities: i) local currency conversion of future loan disbursements and/or outstanding loan balances; ii) direct swaps into local currency against existing Bank debt; and iii) local currency conversion 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. As of December 31, 2007, the Bank has carried out cumulative local currency conversions of loan disbursements and outstanding balances amounting to \$148 million (2006—\$76 million).

A summary statement of loans outstanding by country is presented in Appendix I-3 and a summary of the outstanding loans by currency and product type and their maturity structure at December 31, 2007 and 2006 is shown in Appendix I-4.

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NOTES TO FINANCIAL STATEMENTS (continued)

Inter-American Investment Corporation (IIC)

The Bank has approved a loan to the IIC (a separate international organization whose 43 member countries are also members of the Bank) of \$300 million. Disbursements under this loan are to be made in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding as of December 31, 2007 and 2006.

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, 2007, there were \$944 million (2006—\$1,205 million) in outstanding participations in non-sovereign-guaranteed loans not included in the Balance Sheet.

As of December 31, 2007, the Bank had approved, net of cancellations and expirations, non-trade finance guarantees without sovereign counter-guarantees of \$1,389 million (2006—\$512 million). In addition, the Bank has approved a guarantee with sovereign counter-guarantee of \$60 million. The Bank also has a Trade Finance Facilitation Program (TFFP) to provide partial credit guarantees without sovereign counter-guarantees on trade finance transactions. This Program, which began to operate in July 2005, authorizes up to \$40 million in credit support per approved trade finance bank, and an aggregate of no more than \$400 million outstanding at any time. As of December 31, 2007, trade-finance guarantee lines of credit of \$659 million had been authorized (2006—\$423 million) under this Program.

As of December 31, 2007, guarantees of \$689 million (2006—\$379 million), including \$99 million issued under the TFFP (2006—\$51 million) were outstanding and subject to call. An amount of \$58 million (2006—\$61 million) has been re-insured to reduce the Bank's exposure. Outstanding guarantees have remaining maturities ranging from 3 to 18 years, except for trade related guarantees that have maturities of up to three years. As of December 31, 2007, no guarantees provided by the Bank had been called.

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. During 2007, the IFF paid \$48 million (2006—\$43 million; 2005—\$43 million) of interest on behalf of the borrowers. Up to December 31, 2006, the IFF was funded primarily from the general reserve of the FSO. As part of the Bank's Multilateral Debt Relief and Concessional Finance Reform, funding to the IFF was discontinued and the IFF interest

subsidy is no longer available for loans approved after December 31, 2006.

Nonaccrual and impaired loans and allowance for loan and guarantee losses

At December 31, 2007, all loans were performing. The recorded investment in impaired loans at December 31, 2007 was \$2 million (2006—\$66 million) and the average recorded investment during 2007 was \$24 million (2006—\$117 million). During 2007, income recognized on loans while impaired was \$4 million (2006—\$13 million; 2005—\$42 million, including \$29 million related to prior years). If these loans had not been impaired, income recognized would have been \$3 million (2006—\$11 million; 2005—\$16 million). There was no specific allowance for loan losses on impaired loans at December 31, 2007 (2006—\$19 million).

The changes in the allowance for loan and guarantee losses for the years ended December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Balance, beginning of year	\$104	\$188
Credit for loan and guarantee losses	(13)	(48)
Non-sovereign-guaranteed loans:		
Write-offs	(21)	(42)
Recoveries	—	6
Balance, end of year	<u>\$ 70</u>	<u>\$104</u>
Composed of:		
Allowance for loan losses	\$ 51	\$ 90
Allowance for guarantee losses ⁽¹⁾	19	14
Total	<u>\$ 70</u>	<u>\$104</u>

⁽¹⁾ Included in Accounts payable and accrued expenses.

Note F – Receivable from Members

The composition of the net receivable from members as of December 31, 2007 and 2006 is as follows (in millions):

	2007	2006
Regional developing members	\$ 401	\$ 406
Canada	(250)	(93)
Non-Regional members	(355)	(210)
Total	<u>\$ (204)</u>	<u>\$ 103</u>

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

	2007	2006
Receivable from members	\$ 412	\$ 418
Amounts payable to maintain value of currency holdings	(616)	(315)
Total	<u>\$ (204)</u>	<u>\$ 103</u>

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NOTES TO FINANCIAL STATEMENTS (continued)

Note G – Property

As of December 31, 2007 and 2006, Property, net consists of the following (in millions):

	<u>2007</u>	<u>2006</u>
Land, buildings, improvements, capitalized		
software and equipment, at cost	\$ 512	\$ 499
Less: accumulated depreciation	(216)	(198)
	<u>\$ 296</u>	<u>\$ 301</u>

Note H – Borrowings

The objective of the Bank's borrowing policy is to secure long-term capital market access, volume, and cost effectiveness. Medium- and long-term borrowings at December 31, 2007 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.38% to 16.38%, before swaps, and from 0.45% (equivalent to JPY-LIBOR less 58 basis points) to 12.25%, after swaps, with various maturity dates through 2037. A summary of the medium- and long-term borrowing portfolio and its maturity structure at December 31, 2007 and 2006 is shown in Appendix I-5.

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.

Borrowing expenses have been reduced by net interest receipts from related borrowing swap transactions amounting to \$340 million during 2007 (2006—\$307 million; 2005—\$564 million).

Note I – Derivatives and Hedging Activities

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. Financial derivative instruments are an important component of the set of financial instruments used by the Bank to enhance its financial efficiency while achieving its risk management objectives. These instruments, mostly currency and interest rate swaps, are used primarily for hedging purposes as part of the Bank's asset and liability management.

A significant number of the current borrowing operations include swaps to 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 hedge certain fixed-rate loans and loans in local currency, and

investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash.

Effects of SFAS 133 and currency transaction adjustments

Following the requirements of SFAS 133, the Bank records all derivatives at fair value on the Balance Sheet, with changes in fair value reported in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and Retained Earnings.

On January 1, 2001, the Bank adopted SFAS 133 and designated substantially all its borrowing and lending currency and interest rate swaps in fair value hedging relationships under this standard. Gains or losses on borrowings and loans for which a fair value exposure was being hedged were recorded in income and were offset by the fair value adjustment of the related derivative instrument. Upon discontinuance of hedge accounting on January 1, 2004, the Bank began to amortize the fair value adjustments on the borrowings and loans over the remaining lives of the related bonds or loans. This amortization is included in Effects of SFAS 133 and currency transaction adjustments.

Effects of SFAS 133 and currency transaction adjustments for the years ended December 31, 2007, 2006 and 2005 comprise the following (in millions):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Increase (decrease) in fair value of derivative instruments due to movements in:			
Exchange rates	\$ 1,106	\$ 619	\$(568)
Interest rates	(170)	(469)	5
Total change in fair value of derivatives	936	150	(563)
Currency transaction (losses) gains on borrowings	(1,141)	(589)	536
Change in fair value of hybrid borrowings	—	1	—
Amortization of borrowing and loan fair values adjustments	57	62	85
Reclassification to income—cash flow hedges	(1)	(8)	(8)
Total	<u>\$ (149)</u>	<u>\$ (384)</u>	<u>\$ 50</u>

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. During 2007, positive exchange rate changes, affecting the value of the borrowing swaps, amounting to \$1,106 million (2006—positive changes of \$619 million; 2005—negative changes of \$568 million) offset currency transaction losses on borrowings of \$1,141 million (2006—losses of \$589 million; 2005—gains of \$536 million).

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NOTES TO FINANCIAL STATEMENTS (continued)

Note J – Commercial Credit Risk

Commercial credit risk is the exposure to losses that could result from either the default or the downgrade by a credit rating agency 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. 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, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for 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, 2007, the Bank had received collateral in the form of U.S. Treasury bonds of \$2,131 million (2006—\$1,264 million) as required under its master derivative agreements.

The derivative 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, 2007 and 2006, such credit exposures, prior to consideration of any master derivative agreements or posted collateral, were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Investments—Trading Portfolio		
Interest rate swaps	\$ 5	\$ 8
Borrowing Portfolio		
Currency swaps	2,800	1,797
Interest rate swaps	241	113
Loan Portfolio		
Currency and interest rate swaps	4	5

Note K – 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 gold and/or United States dollars and in the currency of the respective member, 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, 2007 and 2006, see Appendix I-6.

Voting power

Under the Agreement, each member country shall have 135 votes plus one vote for each share of the Bank held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Inter-American Development Bank, 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, 2007 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

Note L – Retained Earnings

The composition of Retained earnings as of December 31, 2007 and 2006 is as follows (in millions):

	<u>2007</u>	<u>2006</u>
General reserve	\$11,911	\$11,777
Special reserve	2,665	2,665
Total	<u>\$14,576</u>	<u>\$14,442</u>

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NOTES TO FINANCIAL STATEMENTS (continued)

Note M – Accumulated Other Comprehensive Income

Other comprehensive income comprises the effects of SFAS 133 and SFAS 158 and currency translation adjustments. These items are presented on the Statement of Comprehensive Income.

The following is a summary of changes in Accumulated other comprehensive income for the years ended December 31, 2007, 2006, and 2005 (in millions):

	Translation Adjustments Allocation		SFAS 133 Adjustments	SFAS 158 Adjustments	Total
	General Reserve	Special Reserve			
Balance at January 1, 2005	\$879	\$(130)	\$(15)	\$ —	\$ 734
Translation adjustments	(484)	(70)	—	—	(554)
Reclassification to income—					
cash flow hedges	—	—	8	—	8
Balance at December 31, 2005	395	(200)	(7)	—	188
Translation adjustments	117	32	—	—	149
Reclassification to income—					
cash flow hedges	—	—	8	—	8
Initial recognition of deferred (cost) credit for postretirement benefits:					
Net actuarial gain	—	—	—	698	698
Prior service cost	—	—	—	(17)	(17)
Balance at December 31, 2006	512	(168)	1	681	1,026
Translation adjustments	234	46	—	—	280
Reclassification to income—					
cash flow hedges	—	—	1	—	1
Recognition of changes in Postretirement benefit assets:					
Net actuarial gain	—	—	—	126	126
Reclassification to income—					
amortization of net prior service cost	—	—	—	4	4
Balance at December 31, 2007	<u>\$746</u>	<u>\$(122)</u>	<u>\$ 2</u>	<u>\$811</u>	<u>\$1,437</u>

Note N – Pension and Postretirement Benefit Plans

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC, and the Local Retirement Plan (LRP) for the pension benefit of national employees in the country offices. The Plans are funded by employee and Bank contributions in accordance with the provisions of the Plans. Any and all Bank 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 certain health care and other benefits to retirees. All current staff of the Bank and the IIC who contribute to the SRP and LRP while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefits Plan (PRBP). Retirees contribute toward the Bank's health care program based on an established premium schedule. The Bank contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the 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, 2007, 2006 and 2005 (in millions):

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NOTES TO FINANCIAL STATEMENTS (continued)

	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Change in benefit obligation						
Benefit obligation,						
beginning of year.....	\$2,207	\$2,046	\$1,794	\$ 886	\$ 810	\$733
Service cost.....	58	58	56	32	31	28
Interest cost.....	132	112	105	58	44	42
Plan participants'						
contributions.....	21	21	20	—	—	—
Actuarial (gain) loss.....	(68)	39	136	42	21	23
Benefits paid.....	(86)	(69)	(65)	(22)	(20)	(16)
Benefit obligation,						
end of year.....	2,264	2,207	2,046	996	886	810
Change in plan assets						
Fair value of plan assets,						
beginning of year.....	2,826	2,499	2,259	1,130	994	899
Actual return on plan assets .	243	339	255	71	140	99
Employer contribution.....	34	35	30	16	16	12
Plan participants'						
contributions.....	21	21	20	—	—	—
Benefits paid.....	(86)	(69)	(65)	(22)	(20)	(16)
Net payments from						
other plans.....	—	1	—	—	—	—
Fair value of plan assets,						
end of year.....	3,038	2,826	2,499	1,195	1,130	994
Funded status, end of year...	774	619	453	199	244	184
Unrecognized:						
Net actuarial gain.....	—	—	(331)	—	—	(142)
Prior service cost.....	—	—	13	—	—	9
Net amount recognized.....	<u>\$ 774</u>	<u>\$ 619</u>	<u>\$ 135</u>	<u>\$ 199</u>	<u>\$ 244</u>	<u>\$ 51</u>
Amounts recognized on the						
Balance Sheet consist of:						
Postretirement benefit						
assets.....	\$ 774	\$ 619	\$ —	\$ 199	\$ 244	\$ —
Prepaid benefit cost.....	—	—	136	—	—	51
Accrued benefit liability..	—	—	(1)	—	—	—
Net amount recognized.....	<u>\$ 774</u>	<u>\$ 619</u>	<u>\$ 135</u>	<u>\$ 199</u>	<u>\$ 244</u>	<u>\$ 51</u>
Amounts recognized in						
Accumulated other						
comprehensive income						
consist of:						
Net actuarial gain.....	\$ (648)	\$ (492)		\$ (176)	\$ (206)	
Prior service cost.....	8	10		5	7	
Net amount recognized.....	<u>\$ (640)</u>	<u>\$ (482)</u>		<u>\$ (171)</u>	<u>\$ (199)</u>	

The incremental effect of applying SFAS 158 on individual line items on the Balance Sheet as of December 31, 2006 (year of adoption) was as follows (in millions):

	Before		After	
	Application of SFAS 158	Adjustments	Application of SFAS 158	
Postretirement benefit assets	\$ 182	\$681	\$ 863	
Other assets.....	836	681	1,517	
Total assets.....	65,794	681	66,475	
Accumulated other				
comprehensive income..	345	681	1,026	
Total equity.....	19,127	681	19,808	
Total liabilities and equity	65,794	681	66,475	

The accumulated benefit obligation for the Plans was \$1,943 million and \$1,911 million at December 31, 2007 and 2006, respectively.

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in Other comprehensive income for the years ended December 31, 2007, 2006 and 2005, as applicable, consist of the following components (in millions):

Components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Service cost.....	\$ 58	\$ 58	\$ 56	\$ 32	\$ 31	\$ 28
Interest cost.....	132	112	105	58	44	42
Expected return on						
plan assets.....	(154)	(139)	(132)	(61)	(55)	(53)
Amortization of prior						
service cost.....	2	2	2	2	2	2
Net periodic						
benefit cost.....	<u>\$ 38</u>	<u>\$ 33</u>	<u>\$ 31</u>	<u>\$ 31</u>	<u>\$ 22</u>	<u>\$ 19</u>
Of which:.....						
Ordinary Capital's						
share.....	\$ 32	\$ 26	\$ 25	\$ 26	\$ 17	\$ 15
FSO's share.....	6	7	6	5	5	4

Other changes in plan assets and benefit obligations recognized in Other comprehensive income:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Net actuarial (gain) loss....	\$ (156)	\$ (492)	\$ 30	\$ (206)
Prior Service cost.....	—	10	—	7
Amortization of prior				
service cost.....	(2)	—	(2)	—
Total recognized in Other				
comprehensive income...	<u>\$ (158)</u>	<u>\$ (482)</u>	<u>\$ 28</u>	<u>\$ (199)</u>
Total recognized in net				
periodic benefit cost and				
Other comprehensive				
income.....	<u>\$ (120)</u>	<u>\$ (449)</u>	<u>\$ 59</u>	<u>\$ (177)</u>

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

The estimated prior service cost that will be amortized from Accumulated other comprehensive income into net periodic benefit cost during 2008 is \$2 million for the Plans and \$2 million for the PRBP.

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NOTES TO FINANCIAL STATEMENTS (continued)

Actuarial assumptions

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. 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 10.5, 13.0 and 11.5 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the SRP, 13.0 years for the LRP, and 7.9 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		
	2007	2006	2005	2007	2006	2005
	Discount rate	6.25%	6.00%	5.50%	6.25%	6.00%
Rate of salary increase SRP	6.00%	6.00%	5.10%			
Rate of salary increase LRP	7.80%	7.80%	7.30%			

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,	Pension Benefits			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
	Discount rate	6.00%	5.50%	5.50%	6.00%	5.50%
Expected long-term return on plan assets	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Rate of salary increase SRP	6.00%	5.10%	5.10%			
Rate of salary increase LRP	7.80%	7.30%	6.90%			

The expected yearly rate of return on plan assets reflects the historical rate of returns of asset categories employed by the plans and conservatively applying those returns in formulating the investment policy asset allocations. The discount rates used in determining the benefit 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:

	2007	2006	2005
Health care cost trend rates assumed for next year:			
Medical	10.00%	8.00%	8.00%
Prescription drugs	10.00%	9.00%	9.50%
Dental	6.50%	6.50%	6.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	4.50%
Year that the rate reaches the ultimate trend rate	2018	2013	2013

For those participants assumed to retire outside of the United States, a 10.00% health care cost trend rate was used for 2007 (2006—8.00%; 2005—8.00%).

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, 2007 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	\$ 14	\$(11)
Effect on postretirement benefit obligation	125	(97)

Plan assets

The Plans and PRBP weighted-average asset allocations at December 31, 2007 and 2006, by asset category, are as follows:

Asset category	Plans		PRBP	
	2007	2006	2007	2006
U.S. equities	34%	35%	39%	40%
Non-U.S. equities	25%	26%	30%	31%
Emerging market equities	3%	3%	—	—
Emerging market debt	2%	2%	—	—
Fixed income bonds and funds	20%	20%	20%	19%
U.S. inflation-indexed bonds	7%	6%	10%	9%
Real estate investment funds and equities	6%	6%	—	—
Commodity index futures	3%	2%	—	—
Other	—	—	1%	1%
Total	100%	100%	100%	100%

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

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 PRBP investment policies. Investment policies have been developed so that, consistent with historical returns, there is a high equity allocation with the expectation of sufficient returns to meet long-term funding needs.

Investments maintain an average exposure between 60% and 70% to a well-diversified pool of equities. Assets are also invested in fixed-income securities (20%) to protect against disinflation, a mix of other types of investments (10% to 15%) that are expected to react positively to rising inflation to provide protection against loss of purchasing power, emerging market equities (0% to 5%), and emerging market debt (0% to 5%).

The investment policy target allocations as of December 31, 2007 are as follows:

	SRP	LRP	PRBP
U.S. equities	35%	40%	40%
Non-U.S. equities	25%	30%	30%
Emerging market securities ⁽¹⁾	5%	—	—
Fixed income	20%	20%	20%
Inflation-Sensitive investments ⁽²⁾ ..	15%	10%	10%

⁽¹⁾ Comprised of emerging market equities and debt.

⁽²⁾ Comprised of inflation-indexed U.S. Government bonds (5% to 15%), real estate investment funds and equities (0% to 6%), and full-collateralized commodity index futures (0% to 4%) for the SRP, inflation-indexed U.S. Government bonds (5% to 10%) and real estate investment funds and equities (0% to 5%) for the LRP, and inflation-indexed U.S. Government bonds (10%) for the PRBP.

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

Cash flows

Contributions

Contributions from the Bank to the Plans and the PRBP during 2008 are expected to be approximately \$23 million and \$17 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, 2007.

Year	Plans	PRBP
2008	\$ 85	\$ 28
2009	90	31
2010	98	33
2011	105	37
2012	111	40
2013-2017	651	246

Note O – Reconciliation of Net Income to Net Cash Provided by (Used In) Operating Activities

A reconciliation of Net income 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,		
	2007	2006	2005
Net income	\$ 134	\$ 243	\$ 762
Difference between amounts accrued and amounts paid or collected for:			
Loan income	(2)	(9)	(8)
Investment income	(26)	(19)	(7)
Net unrealized loss (gain) on trading investments	280	(12)	(1)
Interest and other costs of borrowings, after swaps	182	213	188
Administrative expenses, including depreciation	67	48	53
Special programs	24	27	11
Effects of SFAS 133 and currency transaction adjustments	149	384	(50)
Net decrease (increase) in trading investments	122	(1,796)	(1,341)
Credit for loan and guarantee losses	(13)	(48)	(14)
Net cash provided by (used in) operating activities	<u>\$ 917</u>	<u>\$ (969)</u>	<u>\$ (407)</u>

Supplemental disclosure of noncash activities

Increase (decrease) resulting from exchange rate fluctuations:			
Trading investments	\$ 438	\$ 316	\$ (272)
Held-to-maturity investments	347	167	(271)
Loans outstanding	583	366	(1,377)
Borrowings	840	536	(1,229)
Receivable from members-net	(302)	(139)	187

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

NOTES TO FINANCIAL STATEMENTS (continued)

Note P – 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 2007, 2006 and 2005, loans made to or guaranteed by two countries individually generated in excess of 10 percent of loan income, as follows (in millions):

	Years ended December 31,		
	2007	2006	2005
Argentina	\$463	\$476	\$460
Brazil	583	540	478

Note Q – 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 dealer prices of comparable instruments or discounted cash flows.

Loans: The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. For all loans and related commitments, the Bank believes that, due to its unique position in lending operations and the absence of a secondary market for development loans, it is not practicable to estimate a fair value for its lending portfolio.

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, 2007 and 2006 (in millions):

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	\$ 200	\$ 200	\$ 276	\$ 276
Investments				
Trading	12,307	12,307	12,278	12,278
Held-to-maturity	3,858	3,841	3,543	3,516
Loans outstanding, net	47,903	N/A	45,842	N/A
Currency and interest rate swaps receivable				
Investments—trading	3	3	2	2
Loans	4	4	5	5
Borrowings	3,019	3,019	1,880	1,880
Borrowings				
Short-term	2,204	2,204	658	658
Medium- and long-term	44,845	45,305	44,030	44,080
Currency and interest rate swaps payable				
Investments—trading	2	2	1	1
Loans	16	16	9	9
Borrowings	1,006	1,006	742	742

N/A = Not available

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-1

SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D

December 31, 2007

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:					
Carrying value	—	—	—	454	454 ⁽¹⁾
Average balance during year	—	—	—	519	519
Net gains for the year	—	—	—	3	3
Obligations of other governments and agencies:					
Carrying value	—	127	—	—	127
Average balance during year	24	90	—	—	114
Net losses for the year	(1)	—	—	—	(1)
Bank obligations:					
Carrying value	1,701	43	151	2,812	4,707
Average balance during year	1,736	93	265	3,034	5,128
Net gains (losses) for the year	(10)	—	—	14	4
Corporate securities:					
Carrying value	—	—	—	411	411
Average balance during year	—	—	—	449	449
Net losses for the year	—	—	—	(5)	(5)
Asset-backed and mortgage-backed securities:					
Carrying value	2,498	—	—	4,110	6,608
Average balance during year	2,416	—	—	4,834	7,250
Net losses for the year	(52)	—	—	(239)	(291)
Total trading investments:					
Carrying value	4,199	170	151	7,787	12,307
Average balance during year	4,176	183	265	8,836	13,460
Net losses for the year	(63)	—	—	(227)	(290)
Net interest rate swaps:					
Carrying value ⁽²⁾	1	—	—	—	1
Average balance during year	1	—	—	—	1
Net losses for the year	—	—	—	(1)	(1)
Total trading investments and swaps:					
Carrying value	4,200	170	151	7,787	12,308
Average balance during year	4,177	183	265	8,836	13,461
Net losses for the year	(63)	—	—	(228)	(291)
Return for the year (%)	2.78	0.59	2.37	2.84	2.79

⁽¹⁾ Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of \$226 million. GSE obligations are not backed by the full faith and credit of the United States government.

⁽²⁾ 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 – NOTE D.

December 31, 2006

Expressed in millions of United States dollars

	Euro	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:			
Carrying value	—	523	523 ⁽¹⁾
Average balance during year	15	216	231
Net gains (losses) for the year	(1)	1	—
Obligations of other governments and agencies:			
Carrying value	—	—	—
Average balance during year	112	50	162
Net losses for the year	(7)	(1)	(8)
Bank obligations:			
Carrying value	954	2,232	3,186
Average balance during year	1,043	2,176	3,219
Net gains for the year	—	1	1
Corporate securities:			
Carrying value	—	481	481
Average balance during year	51	389	440
Net gains (losses) for the year	—	—	—
Asset-backed and mortgage-backed securities:			
Carrying value	2,351	5,737	8,088
Average balance during year	2,164	4,934	7,098
Net gains for the year	2	45	47
Total trading investments:			
Carrying value	3,305	8,973	12,278
Average balance during year	3,385	7,765	11,150
Net gains (losses) for the year	(6)	46	40
Currency swaps receivable:			
Carrying value ⁽²⁾	—	—	—
Average balance during year	—	100	100
Net gains (losses) for the year	—	—	—
Currency swaps payable:			
Carrying value ⁽²⁾	—	—	—
Average balance during year	(120)	—	(120)
Net gains for the year	6	—	6
Net interest rate swaps:			
Carrying value ⁽²⁾	—	1	1
Average balance during year	—	—	—
Net gains for the year	4	—	4
Total trading investments and swaps:			
Carrying value	3,305	8,974	12,279
Average balance during year	3,265	7,865	11,130
Net gains for the year	4	46	50
Return for the year (%)	3.15	5.37	4.73

⁽¹⁾ Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of \$348 million. GSE obligations are not backed by the full faith and credit of the United States government.

⁽²⁾ 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 HELD-TO-MATURITY INVESTMENTS - NOTE D

December 31, 2007

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States						
Government and its corporations and agencies:						
Net carrying amount	48	—	—	5	—	53 ⁽¹⁾
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	48	—	—	5	—	53
Obligations of other governments and agencies:						
Net carrying amount	1,153	446	51	269	1,115	3,034
Gross unrealized gains	1	1	—	1	3	6
Gross unrealized losses	17	—	—	1	4	22
Fair value	1,137	447	51	269	1,114	3,018
Bank obligations:						
Net carrying amount	309	4	95	—	155	563
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	309	4	95	—	155	563
Asset-backed and mortgage-backed securities:						
Net carrying amount	—	—	—	60	148	208
Gross unrealized gains	—	—	—	—	1	1
Gross unrealized losses	—	—	—	—	2	2
Fair value	—	—	—	60	147	207
Total held-to-maturity investments:						
Net carrying amount	1,510	450	146	334	1,418 ⁽²⁾	3,858
Gross unrealized gains	1	1	—	1	4	7
Gross unrealized losses	17	—	—	1	6	24
Fair value	1,494	451	146	334	1,416	3,841
Return for the year (%)	3.64	0.56	2.29	3.92	4.38	3.45

⁽¹⁾ Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of \$53 million. GSE obligations are not backed by the full faith and credit of the United States government.

⁽²⁾ The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	\$1,085
British pounds sterling	230
Other	103
Total	<u>\$1,418</u>

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2007

Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2008	\$1,545	\$1,543
2009 to 2012	2,313	2,298
Total	<u>\$3,858</u>	<u>\$3,841</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-2

SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS - NOTE D

December 31, 2006

Expressed in millions of United States dollars

	Euro	Japanese yen	Swiss francs	United States dollars	Other currencies	All currencies
Obligations of the United States						
Government and its corporations and agencies:						
Net carrying amount.....	66	—	—	5	—	71 ⁽¹⁾
Gross unrealized gains.....	—	—	—	—	—	—
Gross unrealized losses.....	—	—	—	—	—	—
Fair value.....	66	—	—	5	—	71
Obligations of other governments and agencies:						
Net carrying amount.....	867	348	72	351	884	2,522
Gross unrealized gains.....	—	—	—	—	2	2
Gross unrealized losses.....	13	1	—	8	6	28
Fair value.....	854	347	72	343	880	2,496
Bank obligations:						
Net carrying amount.....	310	111	142	—	185	748
Gross unrealized gains.....	—	—	—	—	—	—
Gross unrealized losses.....	—	—	—	—	—	—
Fair value.....	310	111	142	—	185	748
Asset-backed and mortgage-backed securities:						
Net carrying amount.....	—	1	—	75	126	202
Gross unrealized gains.....	—	—	—	—	1	1
Gross unrealized losses.....	—	—	—	1	1	2
Fair value.....	—	1	—	74	126	201
Total held-to-maturity investments:						
Net carrying amount.....	1,243	460	214	431	1,195 ⁽²⁾	3,543
Gross unrealized gains.....	—	—	—	—	3	3
Gross unrealized losses.....	13	1	—	9	7	30
Fair value.....	1,230	459	214	422	1,191	3,516
Return for the year (%).....	3.42	0.26	1.84	4.14	4.32	3.31

⁽¹⁾ Includes obligations issued or guaranteed by Government-Sponsored Enterprises (GSE), such as debt and mortgage- and asset-backed securities of \$71 million. GSE obligations are not backed by the full faith and credit of the United States government.

⁽²⁾ The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars.....	\$ 887
British pounds sterling.....	217
Other.....	<u>91</u>
Total.....	<u>\$1,195</u>

MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS

December 31, 2006

Expressed in millions of United States dollars

Year of maturity	Net carrying amount	Fair value
2007.....	\$1,358	\$1,358
2008 to 2011.....	2,182	2,156
2012.....	3	2
Total.....	<u>\$3,543</u>	<u>\$3,516</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-3

SUMMARY STATEMENT OF LOANS – NOTE E

December 31, 2007 and 2006

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2007 ⁽¹⁾	Currency in which outstanding balance is collectible		Undisbursed	Outstanding 2006 ⁽¹⁾
		Non-borrowing country currencies ⁽²⁾	Borrowing country currencies		
Argentina	\$ 8,567	\$ 8,507	\$ 60	\$ 4,708	\$ 8,465
Bahamas	79	79	—	61	74
Barbados	133	133	—	61	141
Belize	96	96	—	4	80
Bolivia	195	195	—	52	233
Brazil	12,505	12,456	49	2,067	11,743
Chile	551	550	1	287	550
Colombia	4,813	4,791	22	664	4,294
Costa Rica	495	495	—	517	535
Dominican Republic	1,029	1,029	—	359	1,067
Ecuador	1,465	1,465	—	556	1,326
El Salvador	1,166	1,166	—	207	1,128
Guatemala	1,135	1,135	—	477	959
Guyana	3	3	—	16	6
Honduras	89	89	—	68	104
Jamaica	542	542	—	92	565
Mexico	4,574	4,574	—	1,055	3,999
Nicaragua	78	78	—	40	84
Panama	853	853	—	555	842
Paraguay	678	678	—	429	658
Peru	3,823	3,823	—	652	3,622
Suriname	55	55	—	25	49
Trinidad and Tobago	390	390	—	144	377
Uruguay	1,835	1,835	—	592	1,837
Venezuela	1,153	1,138	15	917	1,574
Regional	484	484	—	19	531
Non-sovereign-guaranteed loans	1,168	1,168	—	1,504	1,089
Inter-American Investment Corporation	—	—	—	300	—
Total 2007	<u>\$47,954</u>	<u>\$47,807</u>	<u>\$147</u>	<u>\$16,428</u>	
Total 2006		<u>\$45,779</u>	<u>\$153</u>	<u>\$16,080</u>	<u>\$45,932</u>

⁽¹⁾ This table excludes outstanding participated non-sovereign-guaranteed loans of \$944 million at December 31, 2007 (2006—\$1,205 million). This table also excludes guarantees outstanding of \$689 million at December 31, 2007 (2006—\$379 million).

⁽²⁾ Includes \$147 million of loans in borrowing country currencies, which have been swapped to United States dollars.

Non-sovereign-guaranteed loans outstanding have been made in the following countries (in millions):

	December 31,			December 31,	
	2007	2006		2007	2006
Argentina	\$ 2	\$ 52	Jamaica	\$ —	\$ 30
Bolivia	81	93	Mexico	105	236
Brazil	558	346	Nicaragua	7	7
Chile	9	12	Peru	201	127
Costa Rica	10	11	Suriname	7	—
Ecuador	25	22	Uruguay	—	10
Guatemala	25	—	Regional	138	143
				<u>\$1,168</u>	<u>\$1,089</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT - NOTE E

December 31, 2007

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	\$ 97	7.16	\$ —	—	—	\$ 97	7.16
Adjustable	1,959	4.25	12	4.53	5.24	1,971	4.25
Japanese yen							
Fixed	175	7.15	—	—	—	175	7.15
Adjustable	3,536	4.25	8	1.93	4.89	3,544	4.24
LIBOR-based floating	—	—	35	0.99	8.87	35	0.99
Swiss francs							
Fixed	94	7.22	—	—	—	94	7.22
Adjustable	1,839	4.25	—	—	—	1,839	4.25
United States dollars ⁽¹⁾							
Fixed	327	7.16	—	—	—	327	7.16
Adjustable	6,553	4.25	22,329	5.61	7.72	28,882	5.30
LIBOR-based fixed	—	—	417	5.71	3.63	417	5.71
LIBOR-based floating	—	—	10,426	5.62	9.42	10,426	5.62
Others							
Fixed	147	4.00	—	—	—	147	4.00
Loans outstanding							
Fixed	840	6.61	—	—	—	840	6.61
Adjustable	13,887	4.25	22,349	5.61	7.72	36,236	5.09
LIBOR-based fixed	—	—	417	5.71	3.63	417	5.71
LIBOR-based floating	—	—	10,461	5.60	9.42	10,461	5.60
Total	\$14,727	4.38	\$33,227	5.61	8.20	\$47,954	5.23

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2007

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans ⁽²⁾		Single currency loans		All loans		
	Fixed	Adjustable	Fixed ⁽³⁾	Adjustable ⁽³⁾	Fixed	Adjustable	Total
2008	\$223	\$ 1,913	\$ 66	\$ 2,142	\$ 289	\$ 4,055	\$ 4,344
2009	149	1,911	63	1,792	212	3,703	3,915
2010	124	1,834	65	2,038	189	3,872	4,061
2011	97	1,646	61	2,226	158	3,872	4,030
2012	82	1,384	58	2,267	140	3,651	3,791
2013 to 2017	140	3,863	89	10,882	229	14,745	14,974
2018 to 2022	22	1,168	15	7,451	37	8,619	8,656
2023 to 2027	3	168	—	3,376	3	3,544	3,547
2028 to 2032	—	—	—	636	—	636	636
Total	\$840	\$13,887	\$417	\$32,810	\$1,257	\$46,697	\$47,954
Average maturity (years) ...	2.97	4.64	3.63	8.26	3.19	7.18	7.07

⁽¹⁾ Includes \$147 million of loans in borrowing country currencies, which have been swapped to United States dollars.⁽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 loans.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-4

SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT - NOTE E

December 31, 2006

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	\$ 131	7.18	\$ —	—	—	\$ 131	7.18
Adjustable	1,942	4.14	14	3.72	5.65	1,956	4.14
Japanese yen							
Fixed	241	7.17	—	—	—	241	7.17
Adjustable	3,584	4.14	5	1.79	5.39	3,589	4.14
LIBOR-based floating	—	—	4	0.87	9.87	4	0.87
Swiss francs							
Fixed	138	7.21	—	—	—	138	7.21
Adjustable	2,013	4.14	—	—	—	2,013	4.14
United States dollars⁽¹⁾							
Fixed	522	7.18	—	—	—	522	7.18
Adjustable	7,735	4.14	21,486	5.41	7.92	29,221	5.07
LIBOR-based fixed	—	—	584	6.72	4.03	584	6.72
LIBOR-based floating	—	—	7,378	6.72	8.30	7,378	6.72
Others							
Fixed	155	4.00	—	—	—	155	4.00
Loans outstanding							
Fixed	1,187	6.77	—	—	—	1,187	6.77
Adjustable	15,274	4.14	21,505	5.41	7.92	36,779	4.88
LIBOR-based fixed	—	—	584	6.72	4.03	584	6.72
LIBOR-based floating	—	—	7,382	6.72	8.30	7,382	6.72
Total	<u>\$16,461</u>	<u>4.33</u>	<u>\$29,471</u>	<u>5.76</u>	<u>7.94</u>	<u>\$45,932</u>	<u>5.25</u>

MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2006

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans ⁽²⁾		Single currency loans		All loans		
	Fixed	Adjustable	Fixed ⁽³⁾	Adjustable ⁽³⁾	Fixed	Adjustable	Total
2007	\$ 291	\$ 1,885	\$ 85	\$ 2,280	\$ 376	\$ 4,165	\$ 4,541
2008	229	1,894	76	2,100	305	3,994	4,299
2009	157	1,893	71	1,683	228	3,576	3,804
2010	133	1,817	71	1,854	204	3,671	3,875
2011	107	1,593	78	1,985	185	3,578	3,763
2012 to 2016	242	4,531	177	9,139	419	13,670	14,089
2017 to 2021	25	1,430	26	6,574	51	8,004	8,055
2022 to 2026	3	223	—	2,666	3	2,889	2,892
2027 to 2031	—	8	—	606	—	614	614
Total	<u>\$1,187</u>	<u>\$15,274</u>	<u>\$584</u>	<u>\$28,887</u>	<u>\$1,771</u>	<u>\$44,161</u>	<u>\$45,932</u>
Average maturity (years) ...	<u>3.10</u>	<u>4.92</u>	<u>4.03</u>	<u>8.02</u>	<u>3.41</u>	<u>6.95</u>	<u>6.81</u>

⁽¹⁾ Includes \$74 million of loans in borrowing country currencies, which have been swapped to United States dollars.⁽²⁾ ⁽³⁾ See footnotes on previous page.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES H AND I

December 31, 2007

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgtd avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgtd avg cost (%)	Average maturity (years)	Amount ⁽²⁾ payable (receivable)	Wgtd avg cost (%)	Average maturity (years)	Amount payable (receivable)	Wgtd. avg cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 2,628	4.94	3.20	\$ 181	6.70	1.67	\$ —	—	—	\$ 2,809	5.05	3.10
	—	—	—	(659)	5.57	2.25	(1,168)	4.16	4.40	(1,827)	4.67	3.62
Adjustable	806	5.33	8.32	3,672	4.50	3.57	1,168	4.61	4.40	5,646	4.64	4.42
	—	—	—	(806)	5.33	8.32	—	—	—	(806)	5.33	8.32
Japanese yen												
Fixed	2,133	2.91	3.03	677	0.95	0.83	45	1.71	0.37	2,855	2.43	2.47
	—	—	—	(90)	5.03	6.36	(1,190)	1.89	1.58	(1,280)	2.11	1.92
Adjustable	242	2.35	11.41	154	0.59	0.86	1,172	0.67	1.84	1,568	0.92	3.22
	—	—	—	(663)	1.19	4.75	(27)	1.23	10.83	(690)	1.19	4.99
Swiss francs												
Adjustable	—	—	—	1,237	2.56	3.13	—	—	—	1,237	2.56	3.13
	—	—	—	—	—	—	—	—	—	—	—	—
United States dollars												
Fixed	23,727	5.29	5.42	620	5.62	2.33	580	5.25	6.77	24,927	5.29	5.37
	—	—	—	(650)	6.69	0.50	(11,566)	4.89	6.82	(12,216)	4.98	6.48
Adjustable	150	2.46	6.73	14,739	4.92	6.28	12,939	4.87	5.71	27,828	4.88	6.01
	—	—	—	(4,167)	4.84	3.66	(2,531)	4.74	5.44	(6,698)	4.81	4.33
Others												
Fixed	17,967	6.37	6.21	—	—	—	—	—	—	17,967	6.37	6.21
	—	—	—	(17,967)	6.37	6.21	—	—	—	(17,967)	6.37	6.21
Adjustable	118	10.11	5.31	—	—	—	—	—	—	118	10.11	5.31
	—	—	—	(118)	10.11	5.31	—	—	—	(118)	10.11	5.31
Total												
Fixed	46,455	5.58	5.49	1,478	—	—	625	—	—	48,558	5.51	5.38
	—	—	—	(19,366)	—	—	(13,924)	—	—	(33,290)	5.60	6.00
Adjustable	1,316	4.89	8.44	19,802	—	—	15,279	—	—	36,397	4.61	5.55
	—	—	—	(5,754)	—	—	(2,558)	—	—	(8,312)	4.63	4.79
Principal at face value	47,771	5.56	5.57	(3,840)	—	—	(578)	—	—	43,353	4.85	5.15
SFAS 133 —												
Fair value adjustments	(9)	—	—	599	—	—	(116)	—	—	474	—	—
Net unamortized discount	(2,917)	—	—	1,344	—	—	578 ⁽³⁾	—	—	(995)	—	—
Total	<u>\$44,845</u>	<u>5.56</u>	<u>5.57</u>	<u>\$ (1,897)</u>	—	—	<u>\$ (116)</u>	—	—	<u>\$42,832</u>	<u>4.85</u>	<u>5.15</u>

⁽¹⁾ As of December 31, 2007, the average repricing period of the net currency obligations for adjustable rate borrowings was five 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 \$1,897 million and \$116 million, respectively, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$3,019 million and currency and interest rate swap liabilities at fair value of \$1,006 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, 2007

Expressed in millions of United States dollars

Year of maturity	Year of maturity
2008	2013 through 2017
2009	2018 through 2022
2010	2023 through 2027
2011	2037
2012	Total
\$ 7,460	\$12,460
5,770	2,266
6,014	3,910
2,930	478
6,483	<u>\$47,771</u>

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-5

STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES H AND I

December 31, 2006

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 payable (receivable)	Wgt'd avg cost (%)	Average maturity (years) ⁽¹⁾
Euro												
Fixed	\$ 2,593	5.04	3.91	\$ 164	6.70	2.67	\$ 196	3.65	0.89	\$ 2,953	5.04	3.64
	—	—	—	(996)	5.57	2.27	(1,069)	4.15	5.34	(2,065)	4.84	3.86
Adjustable	896	5.26	7.73	3,153	3.37	3.08	1,069	3.45	5.34	5,118	3.72	4.37
	—	—	—	(896)	5.24	7.73	(196)	3.39	0.89	(1,092)	4.91	6.50
Japanese yen												
Fixed	2,463	3.03	3.31	635	0.95	1.83	42	1.71	1.37	3,140	2.59	2.98
	—	—	—	(464)	3.45	1.51	(1,115)	1.89	2.58	(1,579)	2.35	2.27
Adjustable	227	2.35	12.41	173	0.17	1.68	1,099	0.19	2.84	1,499	0.51	4.16
	—	—	—	(622)	0.90	5.75	(25)	1.23	11.83	(647)	0.91	5.98
Swiss francs												
Fixed	821	3.27	0.81	—	—	—	—	—	—	821	3.27	0.81
	—	—	—	—	—	—	—	—	—	—	—	—
Adjustable	—	—	—	616	1.42	2.94	—	—	—	616	1.42	2.94
	—	—	—	—	—	—	—	—	—	—	—	—
United States dollars												
Fixed	24,361	5.36	5.46	1,314	5.71	1.89	231	5.24	2.97	25,906	5.38	5.26
	—	—	—	(1,165)	5.68	1.19	(9,550)	4.70	6.71	(10,715)	4.81	6.11
Adjustable	150	2.46	7.73	12,906	5.20	5.59	10,786	5.14	6.54	23,842	5.16	6.03
	—	—	—	(2,558)	5.15	3.94	(1,468)	4.91	4.89	(4,026)	5.06	4.29
Others												
Fixed	14,789	6.19	5.49	—	—	—	—	—	—	14,789	6.19	5.49
	—	—	—	(14,789)	6.19	5.49	—	—	—	(14,789)	6.19	5.49
Adjustable	96	10.06	4.81	—	—	—	—	—	—	96	10.06	4.81
	—	—	—	(96)	10.06	4.81	—	—	—	(96)	10.06	4.81
Total												
Fixed	45,027	5.45	5.18	2,113	—	—	469	—	—	47,609	5.39	5.00
	—	—	—	(17,414)	—	—	(11,734)	—	—	(29,148)	5.38	5.43
Adjustable	1,369	4.81	8.30	16,848	—	—	12,954	—	—	31,171	4.64	5.60
	—	—	—	(4,172)	—	—	(1,689)	—	—	(5,861)	4.66	4.90
Principal at face value ..	46,396	5.43	5.27	(2,625)	—	—	—	—	—	43,771	4.96	5.16
SFAS 133 —												
Fair value adjustments	71	—	—	106	—	—	174	—	—	351	—	—
Net unamortized discount	(2,437)	—	—	1,207	—	—	—	—	—	(1,230)	—	—
Total	\$44,030	5.43	5.27	\$ (1,312)			\$ 174			\$42,892	4.96	5.16

⁽¹⁾ As of December 31, 2006, the average repricing period of the net currency obligations for adjustable rate borrowings was five 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 swaps of \$1,312 million and the net fair value amount payable from interest rate swaps of \$174 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$1,880 million and currency and interest rate swap liabilities at fair value of \$742 million, included on the Balance Sheet.

MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING

December 31, 2006

Expressed in millions of United States dollars

Year of maturity	Year of maturity
2007	2012 through 2016
\$ 6,272	\$15,469
2008	2017 through 2021
6,908	2,722
2009	2022 through 2026
5,048	1,740
2010	2027
4,893	600
2011	Total
2,744	\$46,396

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-6

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK - NOTE K

December 31, 2007 and 2006

Expressed in millions of United States dollars⁽¹⁾

Members	Shares	Paid-in portion of subscribed capital		Callable portion of subscribed capital	Total 2007	Total 2006
		Freely convertible currencies	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.....	334,887	173.7	—	3,866.2	4,039.9	4,039.9
Chile.....	247,163	99.1	28.6	2,853.9	2,981.6	2,981.6
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 before unallocated amount	8,367,264	3,870.6	468.8	96,598.5	100,937.9	100,937.9
Unallocated ⁽²⁾	1,299	0.9	—	14.8	15.7	15.7
Total 2007.....	<u>8,368,563</u>	<u>\$ 3,871</u>	<u>\$ 469</u>	<u>\$ 96,613</u>	<u>\$ 100,953</u>	
Total 2006.....	<u>8,368,563</u>	<u>\$ 3,871</u>	<u>\$ 469</u>	<u>\$ 96,613</u>		<u>\$ 100,953</u>

⁽¹⁾Data are rounded; detail may not add up to subtotals and totals because of rounding.⁽²⁾Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia.

ORDINARY CAPITAL
INTER-AMERICAN DEVELOPMENT BANK

APPENDIX I-7

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

December 31, 2007

Member countries	Subscribed shares	Number of votes	% of total number of votes ⁽¹⁾
Regional developing members			
Argentina	900,154	900,289	10.752
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	10.752
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	<u>4,184,669</u>	<u>4,188,179</u>	<u>50.016</u>
Canada	334,887	335,022	4.001
United States	2,512,529	2,512,664	30.007
Nonregional members			
Austria	13,312	13,447	0.161
Belgium	27,438	27,573	0.329
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	0.472
United Kingdom	80,551	80,686	0.964
Total nonregional members	<u>1,335,179</u>	<u>1,337,744</u>	<u>15.976</u>
Total before unallocated amount	8,367,264	8,373,609	100.000
Unallocated ⁽²⁾	1,299	1,434	
GRAND TOTAL	<u>8,368,563</u>	<u>8,375,043</u>	

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

⁽²⁾ Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia.

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The issuance of this Information Statement and any prospectus and the offering and sale of debt securities are not a waiver by the Bank or by any of its members, Governors, Executive Directors, their Alternates, officers or employees of any of the rights, immunities, privileges, or exemptions conferred upon any of them by the Agreement Establishing the Inter-American Development Bank or by any statute, law or regulation of any member of the Bank or any political subdivision of any member, all of which are hereby expressly reserved.

No person is authorized to give any information or to make any representation not contained or incorporated by reference in this Information Statement or any prospectus; and any information or representation not contained or incorporated by reference herein must not be relied upon as having been authorized by the Bank or by any dealer, underwriter or agent of the Bank. Neither this Information Statement nor any prospectus constitutes an offer to sell or solicitation of an offer to buy debt securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

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