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August 25, 2009

For meeting of Board: Thursday, September 17, 2009

FROM: The Acting Corporate Secretary

Annual Portfolio Performance Review - FY09

1. Attached is a document entitled "Annual Portfolio Performance Review - FY09", that will be discussed at a meeting of the Board of Directors on **Thursday, September 17, 2009.**

2. Questions on this document should be referred to Mr. Babin (ext. 80041) or Mr. Todd (ext. 38992).

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ANNUAL PORTFOLIO PERFORMANCE REVIEW – FY09

September 2009

International Finance Corporation

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ABBREVIATIONS

AEF	=	Africa Enterprise Fund
EITF	=	Emerging Issues Task Force
FAS	=	Financial Accounting Standard
IFRS	=	International Financial Reporting Standards
IRR	=	Internal Rate of Return
LAC	=	Latin America & Caribbean
LIBOR	=	London Interbank Offered Rate
MENA	=	Middle East and North Africa
MSCI	=	Morgan Stanley Capital International
MSME	=	Micro-, Small-and-Medium Sized Enterprises
SECA	=	Southern Europe & Central Asia
SFAS	=	Statement of Financial Accounting Standards
SPI	=	Summary of Project Information
TAAS	=	Technical Assistance and Advisory Services
UJV	=	Unincorporated Joint Venture
US GAAP	=	Generally Accepted Accounting Principles in the United States

GLOSSARY

Cancelled investment	Undisbursed, committed balance of an equity investment, loan or guarantee cancelled by mutual consent of IFC and a project company.
Capital gain	Profit from the sale of an equity investment, being the difference between the sales proceeds and the cost.
Committed investment	An investment approved by IFC's Board of Directors for which the investment agreement has been signed by the client company and IFC.
Disbursed investment	Investment with an outstanding loan and/or equity balance.
Dropped investment	An investment approved by IFC's Board of Directors that has failed to become a signed agreement. Also called a "droppage."
Equity income	Income from equity investments including dividends and realized capital gains.
Executed Guarantee	A committed and outstanding guarantee that is earning fees for the risks being guaranteed and which may be called.
Executed Risk Management Product	A committed and outstanding risk management product. Risk management products hedge financial risk of IFC clients through the use of derivatives.
General loss reserve	An allowance for existing probable losses resulting from risks that cannot be identified with specific investments.
Gross interest collection rate	Interest collected during the year (including any amount collected but overdue from prior years) as a percentage of interest contractually due during the current year.
Gross non-accrual rate	Gross non-accrued interest added during the year as a percentage of interest contractually due in the current year.
Gross non-accrued interest	Interest due and unpaid on a non-accruing loan.
Gross (portfolio) return	Gross portfolio income, representing income before cost of funds and all expenses, divided by the average disbursed portfolio for the year (calculated either before or after specific loss provisions).
Interest in arrears	Loan interest payments that are overdue.
Internal rate of return	A measure of an investment's financial performance over the entire holding period. The IRR takes into account both the amount and timing of disbursements and cash receipts. In the case of an outstanding equity investment, an estimated valuation of the investment is included as an element in calculating the IRR.
Loss provisions	The annual charge against income that is the net result of increases and decreases of reserves on specific investments, plus the increase or decrease in general loss reserve.
Loss reserve	The accumulation of charges to income made to accommodate significant and relatively permanent declines in the value of specific investments (specific loss reserves) and to cover portfolio risks that cannot be identified with specific investments (general loss reserve).
Net interest collection rate	Interest collected during the year (excluding amounts collected but overdue from prior years) as a percentage of interest contractually due during the current year.

Net non-accrual rate	Net non-accrued interest for the year divided by the amount of interest contractually due during the year.
Net non-accrued interest	The amount of interest due on a non-accruing loan after deducting any recoveries of unpaid interest due from prior years.
Non-accrued interest	Unless collection is anticipated in the near future, interest overdue more than 60 days is reversed out of current income. Income is recognized on such loans only when payments are received.
Non-accruing loan	A loan on which interest and/or principal is overdue more than 60 days and on which collection is not anticipated in the near future.
Non-performing loan	A loan with interest in non-accrual status or overdue principal payments.
Prepaid loan	A loan paid off ahead of the original amortization schedule.
Principal in arrears	Loan principal repayments that are overdue.
Quasi-Equity	Direct IFC investments in debt or equity instruments that are neither Straight Senior Loans nor Straight Equity investments. Quasi-equity investments in debt-type instruments include senior loans with option features that provide IFC additional upside return potential and Subordinated Loans which are junior in liquidation to senior loans or which include deferability of interest and/or principal payments. Quasi-Equity investments in equity-type instruments must meet the primary criteria of having a return profile or recovery of costs which is fixed in US dollar terms only, and not linked to company performance. In general, Quasi-Equity instruments do not bear all the risks of pure Equity and therefore need not participate in the full upside of Common Shares.
Recovery (Interest)	Interest payment received during the current year that relates to interest that was not accrued in previous years.
Recovery (Reserves)	Amounts recovered when an investment is sold or disposed of for more than its loss-reserved or written-down value; or, recovery of income from reducing a specific loss reserve, thereby reducing net loss provisions for the year.
South-South Investments	Investments for companies based in emerging markets that are investing in other developing nations.
Specific loss reserve	The portion of the total loss reserves that reflects a significant and relatively permanent impairment to specific investments.
Total committed portfolio	Committed (disbursed and undisbursed) loans, debt securities, and equity investments net of repayments, prepayments, sales and cancellations.
Undisbursed portfolio	Committed but not yet disbursed loans, debt securities, and/or equity investments.

CORPORATE PORTFOLIO MANAGEMENT DEPARTMENT
INTERNATIONAL FINANCE CORPORATION

ANNUAL PORTFOLIO PERFORMANCE REVIEW (APPR) – FY09

Executive Vice President, Lars Thunell
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Note: Values in tables may not equal totals due to rounding.

INTRODUCTION

This report provides (i) a brief overview of IFC's investment environment and outlook for portfolio performance, (ii) a comprehensive review of IFC's investment portfolio and performance and (iii) a review of the development effectiveness of IFC's portfolio. The report should be viewed as a snapshot of portfolio trends as of the end of FY09 which will be supplemented throughout the year by IFC's Quarterly Report to the Board, as well as other regular reports including IFC's Annual Report, IFC's Annual Report on Financial Risk Management and Capital Adequacy, IFC's Business Plan and Budget, and IFC's Road Map.

Section I of the report provides an overview of emerging market investment conditions. New to this section is a brief discussion of portfolio performance going forward. Section II examines changes in the size and composition of the portfolio and provides information on the most important portfolio trends of the fiscal year. Section III analyzes equity portfolio trends, performance, and return volatility and Section IV focuses on the loan and guarantee portfolio. Section V provides details on the development effectiveness of IFC's portfolio.

This year's report contains three annexes and three appendices. Annex A provides a summary of IFC policies and procedures with respect to Portfolio Management. Annex B lists IFC's committed portfolio by country and Annex C provides details of key portfolio performance trends in charts and tables. Appendix I lists new approvals in FY09, Appendix II lists new commitments, and Appendix III provides details on cancellations and prepayments.

Development results presented in Section V are based on data gathered through IFC's Development Outcome Tracking System, known as DOTS, which covers all active companies in the IFC portfolio as well as all new business. The section highlights that development results for the Corporation remained strong in FY09. Projects with high development results exceeded 70% for the past two years. This year's results compares favorably to the long run average of about 60% (prior to the past two years) and the long run target of 65%. The financial crisis did negatively affect development results in hard-hit Europe and Central Asia, but development results in Latin America improved substantially. As in prior years, analysis shows that repeat projects and projects with larger IFC investments have a higher likelihood of achieving better development results. In Sub-Saharan Africa, for example, weighted results were 25% points higher than unweighted results, making Sub-Saharan Africa the most successful region when weighting development result by the size of investments.

In CY2008, IFC clients provided 2.1 million jobs, served 5.5 million health patients, and helped educate 1.2 million students. Our clients reached over 200 million water, power, and gas customers, provided phone connections to 220 million people, and provide 9.8 million loans to micro, small and medium-sized enterprises.

The global financial crisis, which originated in the developed markets and spread rapidly to developing markets, significantly affected IFC's investment portfolio during the year. New investment activity slowed significantly after the crisis unfolded in the first quarter of the fiscal year due to loss of project pipeline. The Corporation responded to the crisis with a series of initiatives to meet client needs in key areas, in particular, trade finance and bank capitalization. Despite the crisis, the Corporation remained focused on growing its investment portfolio in IDA countries.

In FY09, new commitments totaled $10.5 billion, a 7% decline from FY08. New IDA country commitments, however, grew strongly with new commitments in IDA countries up 25% to $4.4 billion, an all time high. IDA commitments represented 42% of all commitments, up from a 31% share in FY08; moreover, by project count, IDA projects represented more than 50% of total projects. On a regional

basis, Sub-Saharan Africa was the only region to record an increase in new commitments with the volume of new commitments growing 32% over FY08. Although the Southern Europe & Central Asia region recorded a decline of almost 24% in new commitments, central Asian countries within the region continued to grow strongly, with new commitments increasing more than 80% to $252 million. Guarantees accounted for 24% of total new commitments as compared to 16% in FY08, largely due to increased demand for trade finance guarantees. Trade guarantees grew 67% to $2,380 million in FY09 and represented 96% of total guarantee commitments.

The IFC portfolio became less concentrated on a country basis in FY09 with the top ten countries representing 48% of the portfolio on a committed basis, down from 51% in FY08. The top ten countries in the disbursed and executed portfolio represented 52% of the total portfolio as compared to 57% in FY08.

Droppages and cancellations more than doubled to $2,971 million with the increase underpinned by the difficult economic environment. Loan prepayments slowed significantly, declining 57% to $490 million, as the financial crisis limited client access to alternative finance. The ratio of prepayments to the disbursed loan portfolio was less than 3%, down from 7% in FY08 and 13% in FY06.

Gross portfolio income declined 16% to $2.5 billion and the gross return on the portfolio after Fair Value Option losses and loss provisions was 3.1%. Principal outstanding on non-accruing loans increased 24% to $457 million, but represented just 2.5% of disbursed principal at year end, up from 2.2% in FY08. With respect to the equity portfolio, the real IRR on the active equity portfolio was 15.0%, down from 27.6% in FY08.

I. GLOBAL EMERGING MARKET ECONOMIC CONDITIONS

Market Performance

1.1 Emerging markets have been greatly impacted by the financial crisis that originated in the U.S. and Europe. The resulting global credit crunch and lack of confidence within the financial system translated into increased risk aversion and a collapse in global demand. Key events that highlighted a deepening crisis in the U.S., were quickly followed by a collapse in capital inflows and a steep increase in the cost of funding in emerging markets, including a sharp drop in the availability of trade finance. Emerging Europe was significantly affected by these developments due to its high dependence on foreign finance; effects in Asia and the Middle East were less severe thanks to the cushion provided by ample reserves and higher saving rates. Lower commodity prices also benefitted the Asia region. Latin America suffered significantly due to its strong links to the U.S. and the impact of weaker commodity markets.

1.2 The depth and magnitude of the crisis became apparent with the fall of large financial institutions in the U.S. in the first quarter of FY09. Global contagion was immediate and by the end of October 2008 the S&P BMI equity composite index had lost about half of its value relative to June 2008. A lack of confidence across financial institutions in the U.S. generated a collapse in interbank markets that threatened the entire financial system. Governments and central banks across the globe intervened by providing capital and liquidity lines. Despite interventions, trade finance and capital flows to emerging markets shut down in the last quarter of 2008 and real economic activity experienced record declines globally. Although strong corrections continued throughout the first quarter of 2009, confidence in developing economies returned as a consensus emerged that a recovery would begin by the end of 2009. Consequently, emerging market equities gained about 40 percent in the last quarter of FY09, partially offsetting prior losses.

1.3 Figure 1-1 shows total return indices for equity markets in developing economies. The S&P BMI emerging markets composite index declined by 25 percent during FY09 relative to declines of 28 percent and 34 percent for the S&P 500 and MSCI EAFE indices, respectively.[1] All regions declined significantly, though not at the same pace. Emerging Europe was hit hardest, followed by Latin America; the impact in MENA and Asia was more limited, but still significant. Interestingly, the aggregate decline in emerging markets during FY09 was below what was experienced in FY98 and FY01 due to the better performance of Asian markets during the present crisis.

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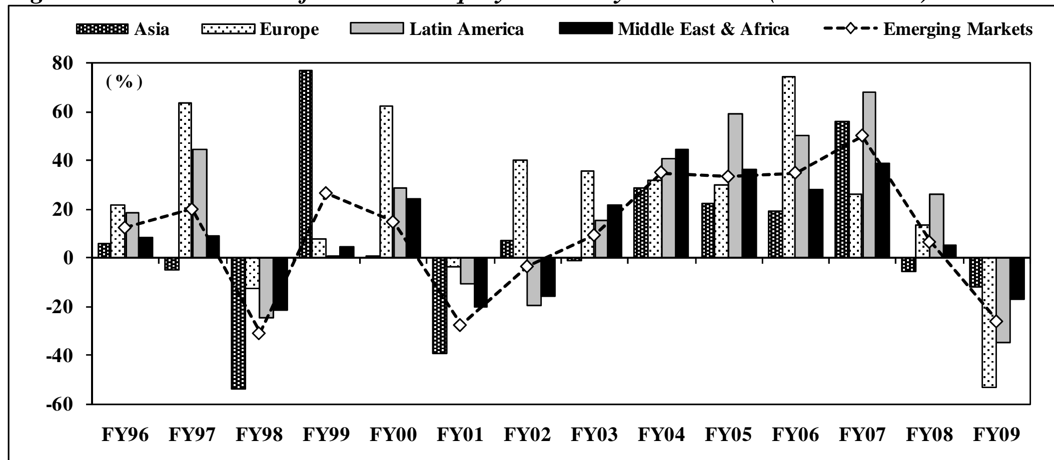
[1] *The S&P Emerging Broad Market Index is a comprehensive, rules-based index designed to measure global stock market performance across major emerging markets (as defined by Standard and Poors). The index covers all publicly listed equities with float adjusted market values of US$ 100 million or more and annual dollar value traded of at least US$ 50 million in all included countries. The S&P 500 index contains a sample of 500 companies, chosen on the basis of market size, liquidity and industrial sector, that trade on the New York and American Stock Exchanges. The MSCI EAFE index is a market-capitalization-based index designed to measure developed market equity performance, excluding the US & Canada.*

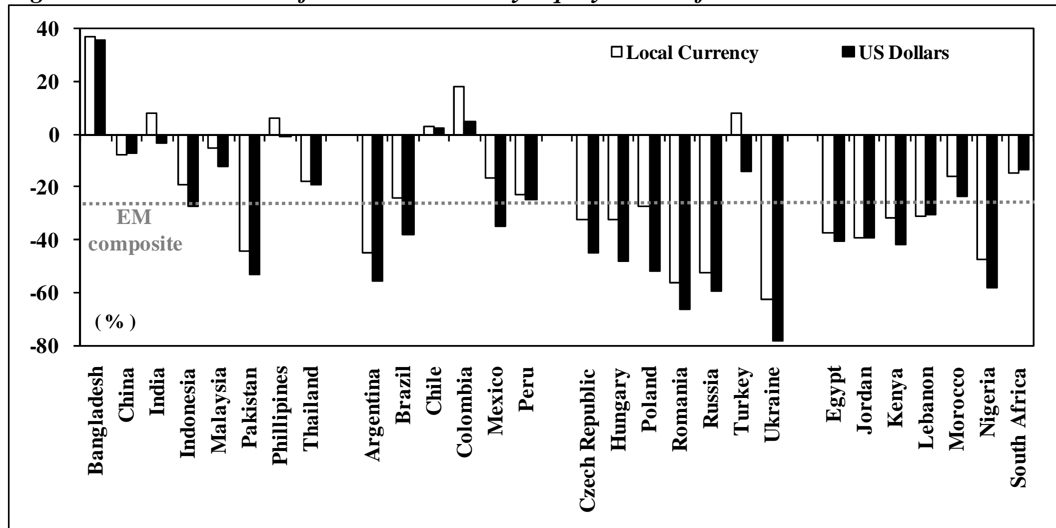
Figure 1-1: Total Return of S&P BMI Equity Indices by Fiscal Year (FY96 - FY09)



Source: Standard & Poor's

1.4 Within regions, equity market performance varied across developing countries depending on their particular external and domestic conditions, as well as their fiscal and monetary policy response. Figure 1-2 shows market performance during FY09 for a select group of countries in U.S. dollar terms and local currency. With very few exceptions, most emerging markets delivered negative returns in local currency and U.S. dollars. Furthermore, lower U.S. dollar-denominated returns (relative to local-currency returns) show that the depreciation of emerging market currencies that took place in the second quarter of FY09 has yet to fully recover. While the largest markets in Asia (China and India) show some of the lowest losses, the major countries in Latin America (Argentina, Brazil and Mexico) under-performed compared to the emerging markets composite. With the exception of Turkey, all emerging European markets experienced losses of more than 40 percent. Most markets in the Middle East and Africa under-performed relative to the composite as well.

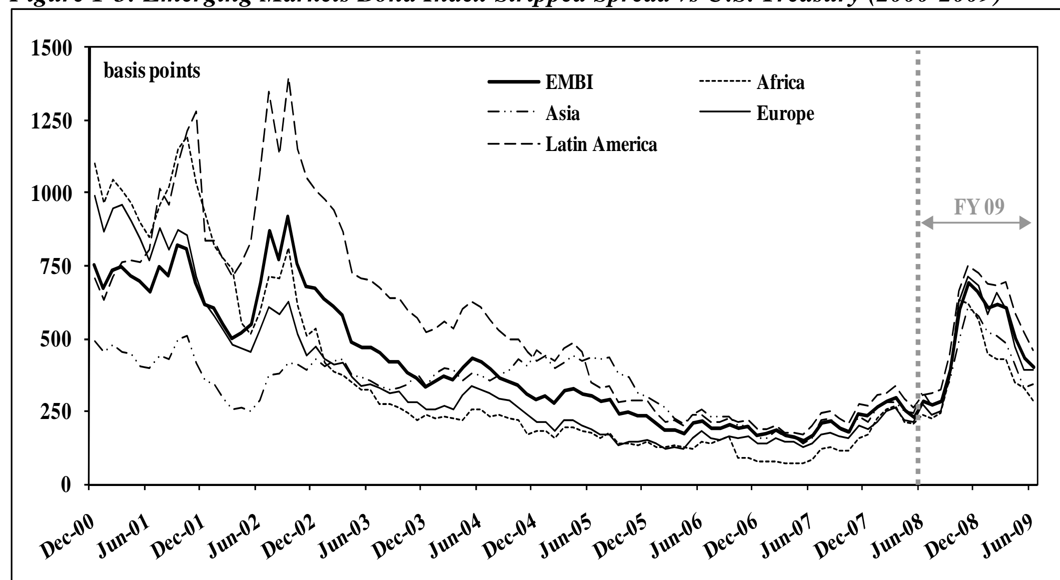
Figure 1-2: Total Return of S&P BMI Country Equity Indices for FY09



Source: Standard & Poor's

1.5 Borrowing conditions for emerging markets have become more challenging since the end of FY08. The sharp increase in global risk aversion observed during the second quarter of FY09 resulted in a steep and sudden jump in emerging market spreads, as displayed in Figure 1-3. After achieving a peak level of around 700 basis points in November 2008 (from 295 basis points at beginning of FY09), the spread between the EMBI+ and U.S. Treasury Bonds declined to 424 basis points by the end of the fiscal year.[2] This trend was consistent across all regions. Despite the magnitude of the global credit crunch, the costs of borrowing in emerging markets during the fiscal year remained below those observed in the late 1990s and the early 2000s. In fact, the spreads at the end of FY09 are comparable to the levels observed between 2003 and 2004.

Figure 1-3: Emerging Markets Bond Index Stripped Spread vs U.S. Treasury (2000-2009)



Source: JP Morgan

1.6 Private sector flows to developing countries collapsed in 2008 after peaking in 2007 as shown in Figure 1-4. The collapse was a by-product of the stall in international financial markets and the sharp increase in risk aversion globally. Foreign Direct Investment fell back to its 2006 level in 2008 (which was 25 percent below the level observed in 2007) and is expected to continue declining in 2009. Portfolio equity flows reversed and a net outflow of $35 billion was recorded in 2008 (net inflow of $104 billion in 2007), and a net outflow is also expected for 2009. Private debt flows declined more than 70 percent from its 2007 level; a net outflow is expected in 2009.[3]

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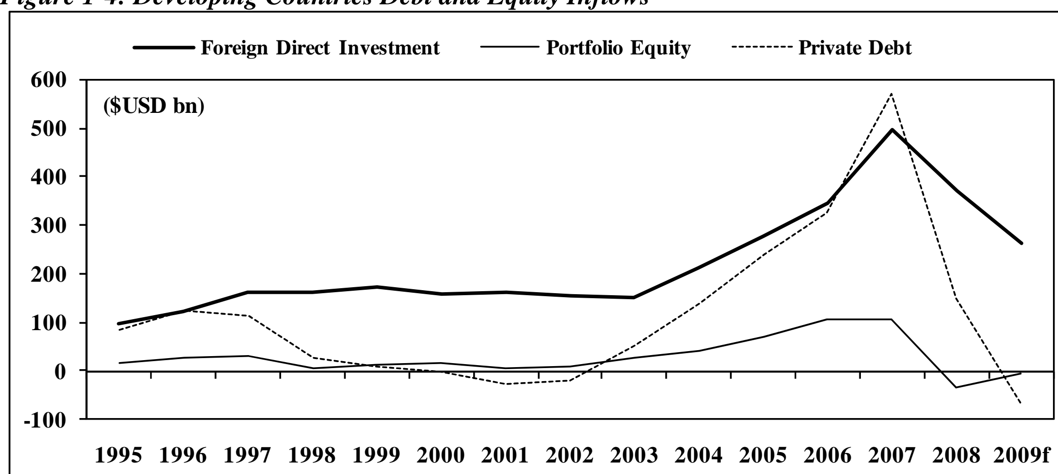
[2] *JP Morgan Emerging Bond Index Plus (EMBI+). This index represents liquid US-dollar emerging markets sovereign debt. The Stripped Spread on sovereign debt is used as an indicative measure.*

[3] *Private Debt refers to the sum of the following Balance of Payments accounts: Portfolio Investment Debt Securities Liabilities + Other Investment Banks Liabilities + Other Investment in Other Sector Liabilities.*

Figure 1-4: Developing Countries Debt and Equity Inflows



Source: International Financial Statistics (IMF), Institute of International Finance (IIF)

Economic Environment

1.7 The economic performance of developing countries deteriorated in 2008 due to the downturn in the global business cycle and the massive shocks linked to the financial crisis in the U.S. and Europe. Further sharp declines in economic activity are expected to be recorded across emerging markets in 2009 as the full effect of the crisis spreads globally. This expected slowdown has been reflected in the various downward revisions of economic growth forecasts by private analysts, governments and international organizations throughout the second half of FY09.

1.8 Table 1-1 presents GDP growth and inflation rates for the top ten IFC country exposures at the end of FY09. Except for Brazil and Peru, the average growth rate in the period 2003-2007 was above the levels recorded for 2008. The consensus forecast for 2009 is for economic contraction in the non-Asian countries listed (except Peru), and a significant slowdown in growth rates (well below the 1998-2002 average) for most of the remaining countries.

1.9 Inflation on a global basis has been closely linked to the business cycle. Figure 1-5 shows GDP-weighted averages of year-on-year inflation rates and annual interest rates for the major developed and developing countries.[4] The worrisome upward trend in prices through FY08, driven by strong global demand and a corresponding surge in food and commodity prices, ended with the economic correction in FY09. Since then, emerging market inflation has declined to the low historical levels observed during 2004-2006, and the focus has changed to avoiding deflation. While some countries did not register a decline in inflation with the accompanying lower growth in 2008 (Colombia, Mexico, Peru, Philippines, Russia and Turkey), as shown in Table 1-1, consensus forecasts suggest slower price growth across most emerging markets, Mexico and Russia being notable exceptions.

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[4] *The developed countries are represented by the G3 (Germany, Japan and the United States); the emerging market countries include Argentina, Brazil, China, Colombia, Egypt, India, Indonesia, Mexico, Pakistan, Peru, Philippines, Romania, Russia, Turkey and Ukraine. Interest rates correspond to 1-month interbank rates as reported by Bloomberg or Central Banks.*

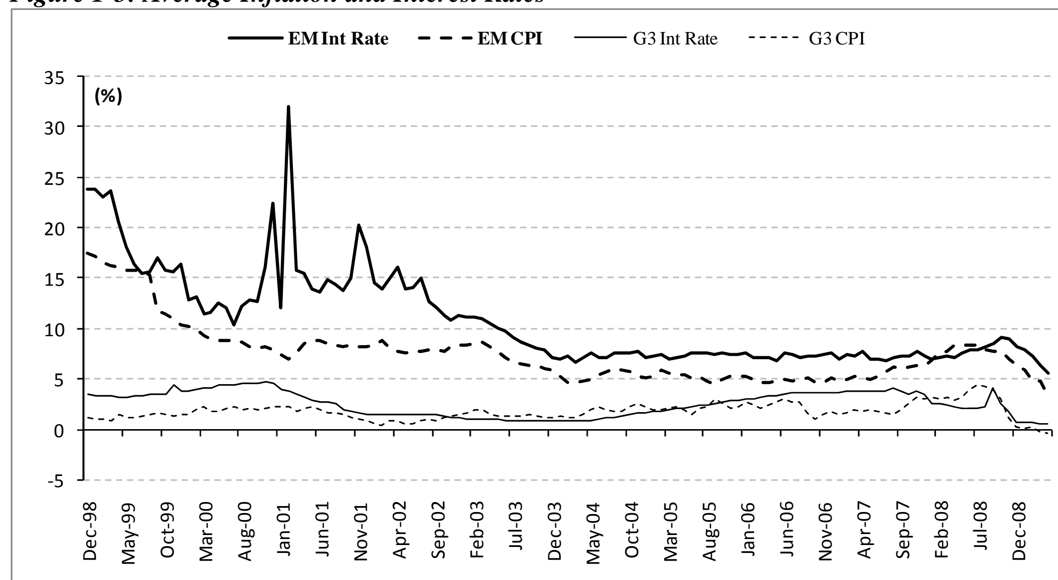
Table 1-1: Economic Growth and Inflation Indicators

	Real GDP Growth (%)				CPI Inflation (%)			
	Average 1998-2002	Average 2003-07	2008	2009f	Average 1998-2002	Average 2003-07	2008	2009f
Argentina	-3.1	8.8	7.0	-1.8	7.5	8.1	7.2	6.0
Brazil	1.7	4.0	5.1	-0.9	7.4	6.0	5.9	4.1
China	8.2	11.0	9.0	7.5	-0.2	3.3	1.2	-0.3
Colombia	0.8	5.9	3.1	-0.7	9.9	5.4	7.7	4.3
India	5.3	8.9	6.5	5.8	5.0	5.6	0.7	5.5
Mexico	3.2	3.3	1.3	-5.9	10.0	4.1	6.5	4.4
Peru	1.7	6.5	9.8	2.2	3.0	2.5	6.7	2.5
Philippines	3.0	5.8	5.2	0.6	5.6	5.5	11.6	3.6
Russia	4.2	7.3	5.9	-5.0	34.9	11.1	13.6	11.3
Turkey	1.4	6.9	1.1	-4.7	55.2	9.6	10.1	6.5

Source: Institute of International Finance (IIF) and Consensus Forecasts

1.10 Monetary policy in developing countries lagged inflation signals in FY08 and FY09. As shown in Figure 1-5 monetary conditions were not changed aggressively until the first quarter of FY09, despite higher levels of inflation from the second half of FY08. The monetary tightening, however, was temporary and central banks relaxed policy once the effects of the financial crisis impacted export markets, capital flows and foreign credit, and slowed growth and inflation across emerging markets.

Figure 1-5: Average Inflation and Interest Rates



Source: Bloomberg

1.11 The external positions of many emerging market countries deteriorated during 2008. Decreasing current account surpluses in some countries and increasing deficits in others implied lower foreign reserves accumulation and in some cases higher reliance on external and short-term debt. Table 1-2 compares external indicators for IFC's top ten country exposures in 2008 with the preceding 5-year average. Current account balances deteriorated in 2008 relative to the period 2003-2007 in all countries, except China. Although all countries increased their levels of reserves in 2008 relative to the 2003-2007 average, they did so at a slower pace. Moreover, India, Russia and Turkey saw a decline in foreign reserves relative to 2007. In addition, while all countries experienced declining levels of external debt to GDP since 2003, sizable increases in external debt are expected in some countries during 2009, especially

across Emerging Europe. Most countries had either a lower or stable level of short-term debt in 2008 relative to the previous 5-year average, although, in the case of China, short-term debt has increased every year since 2003.

Table 1-2: External Indicators

	Current Account/GDP (%)		Foreign Exchange Reserves (US$ bn)		External Debt as % of GDP		Short Term Debt as % of Total External Debt	
	Average 2003-07	2008	Average 2003-07	2008	Average 2003-07	2008	Average 2003-07	2008
Argentina	3.5	2.3	27.2	44.9	86.7	47.8	11.9	13.2
Brazil	1.1	-1.8	83.8	192.8	27.9	19.7	14.1	13.5
China	6.8	9.2	891.1	1,948.1	12.3	9.4	47.6	56.9
Colombia	-1.6	-2.1	14.7	22.2	29.8	19.7	12.5	12.7
India	-0.3	-3.0	176.6	242.6	20.0	18.1	14.2	8.1
Mexico	-0.8	-1.7	66.7	85.4	23.3	20.9	19.8	18.1
Peru	0.8	-3.3	15.8	30.3	38.2	27.1	11.6	18.1
Philippines	2.6	1.1	18.6	34.3	61.3	35.7	13.3	12.5
Russia	8.7	3.9	225.1	399.5	33.6	27.2	25.5	25.0
Turkey	-4.6	-5.7	50.8	71.0	40.2	38.6	20.3	19.0

Source: Institute of International Finance (IIF)

1.12 The ability of emerging markets to manage a reduction in global liquidity is summarized in Table 1-3. Moody's External Vulnerability Indicator, which compares the size of short-term external obligations relative to foreign reserves, continued improving in 2008 for all countries. The largest improvements in this indicator relative to the 2003-2007 average were observed in Argentina and Brazil followed by Colombia and the Philippines; Argentina and Turkey continue to show significant vulnerabilities according to this measure. Table 1-3 also presents the level of foreign reserves in terms of months of imports. Using this measure, China, Brazil and the Philippines saw improvements in external vulnerability; Mexico and Turkey, with less than 4 months of imports in reserves, had the highest levels of external vulnerability.

Table 1-3: External Vulnerability Indicators

	External Vulnerability Indicator (*)			Foreign Reserves (# Imports Months)		
	Average 1998-2002	Average 2003-07	2008	Average 1998-2002	Average 2003-07	2008
Argentina	313	378	158	5.7	6.8	6.7
Brazil	161	96	30	4.8	7.1	8.5
China	26	21	15	8.9	13.4	18.3
Colombia	106	81	47	6.0	5.6	5.0
India	64	42	39	7.1	10.3	7.9
Mexico	95	57	43	2.3	3.1	2.9
Peru	65	42	30	9.2	8.5	8.3
Philippines	94	76	47	3.1	3.7	5.1
Russia	258	58	42	3.3	11.1	9.7
Turkey	225	167	156	4.5	4.6	3.8

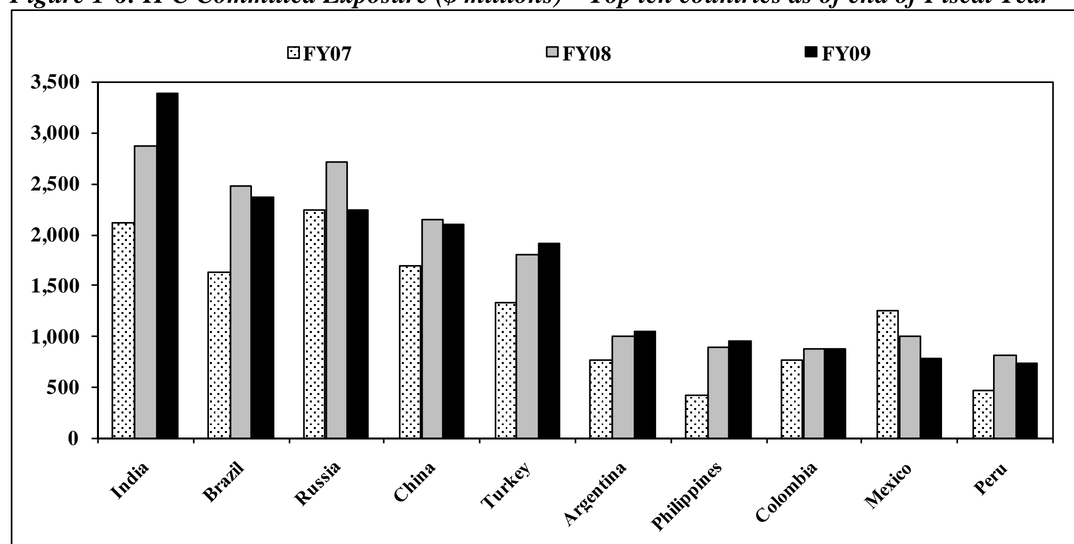
(*) (Short-Term External Debt + currently maturing Long-Term External Debt +Total Nonresident Deposits over one year)/Official Foreign Exchange Reserves.
Source: Moody's (*) and Institute of International Finance (IIF)

IFC Country Exposure and Coincident Risk Issues

1.13 Figure 1-6 presents the current top ten IFC country exposures measured on a committed basis. Collectively, these countries accounted for 48% of IFC's total exposure at the end of FY09 (51% in FY08) and 67% of developing economies' total GDP in the period 2003-2007. IFC's largest country exposures are India with $3.4 billion, followed by Brazil and Russia with $2.4 and $2.2 billion, respectively. In terms of portfolio growth, IFC's total committed exposure increased by 7% in FY09 (compared to 27% in FY08), while exposure in the top 10 countries declined by 1% (compared to an increase of 29% in FY08).

1.14 The composition of the group represented in Figure 1-6 remained relatively stable in FY09, as Indonesia (tenth in FY08) was the only country to drop out of the top ten and was replaced by Peru (eleventh in FY08). The so called BRICT countries (Brazil, Russia, India, China and Turkey) remained the top five country exposures and account for 35 percent of total exposure. India, Turkey, Argentina and the Philippines were the only countries in the group that recorded an increase in portfolio size during FY09. On the other hand, Russia and Mexico had the largest exposure declines during the fiscal year (17% and 22%, respectively).

Figure 1-6: IFC Committed Exposure ($ millions) – Top ten countries as of end of Fiscal Year



Relevant issues for each of the top ten countries include the following: [5]

India: Continuity in economic policy is expected to foster capital flows and private investment, which will help maintain sustainable current account deficit levels in coming years. However, structural reforms to foster private sector development remain a challenge. Lower inflation due to stable food and energy prices should provide room for monetary policy support during the current slowdown. Fiscal sustainability on the other hand, raises particular concerns as it may compromise the ability to make future investments in education and infrastructure which are needed to ensure long-term growth.

Russian Federation: In addition to a sharp correction in commodity prices, a domestic financial crisis unfolded after a steep decline in local equity markets in the last quarter of 2008. The government

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[5] *The country issues highlighted below represent the views of the global investment community as expressed in various publications and summarized by the Corporate Portfolio Management Department.*

response was massive and provided liquidity and capital to the financial system, but this was associated with a significant reduction in foreign reserves and currency depreciation. Despite these efforts, the financial system continues to face significant challenges. Domestic demand and output plummeted as a consequence of the domestic credit crunch and the harsh external environment. These events suggest that diversifying the economic structure away from commodities as well as improving the business climate to foster private savings and investment, remain as key challenges going forward.

Brazil: Resilient domestic demand, despite a sharp fall in industrial output, has limited any slowdown in economic activity. The relative strength of the economy in the current environment comes from its diversified structure, as well as sound monetary, fiscal and exchange rate policies in recent years. Combined, these factors have led to significant capital inflows and resulting currency appreciation, which may have implications for trade competitiveness going forward. The development of key infrastructure to foster high growth in the long term remains a challenge.

China: Despite the global recession, China is expected to continue growing at a high rate owing to government investment and credit expansion. While these measures appear to be working in the short run by offsetting depressed export-linked sectors activities, they raise questions about their effects on public finances, inflation, over-capacity and credit quality in the medium term. Structural reforms to strengthen private consumption and ageing demographics remain as challenges going forward.

Turkey: Reliance on external financing plus high external debt have taken a heavy toll on the economy under the global credit crunch. Currency depreciation under a gloomy global outlook, in addition to sharp slowdowns in external and domestic funding, provoked a collapse in domestic demand despite fiscal loosening and monetary stimulus. The success of current negotiations with the IMF will be important in determining the economic outlook in the coming years. External financing and (public and private) debt will continue being critical constraints to economic development in the near future.

Argentina: The rapid decline of economic activity, despite continued expansionary fiscal policy and relaxed monetary conditions, threatens the fiscal position substantially. In addition, commodity market weakness, low appetite from international investors due to instability in the business environment – including inflation, exchange rate policy, and unresolved defaulted debt issues – imply tight external financing conditions going forward. Such constraints under a tense social and political environment pose serious questions about the ability to make infrastructure investment and business climate improvements, which are needed to foster confidence and growth in the medium term.

Mexico: Strong ties to the U.S. economy, especially in manufacturing, as well as remittances, have implied substantially larger negative effects from the current crisis than for most (non-European) emerging markets. Inflation has been persistent given the strong contraction in economic activity since 2008 and has not provided much room for monetary policy support. Fiscal stimulus has been limited due to high levels of debt, structural rigidities and sustainability issues. The H1N1 pandemic has required additional government spending and reduced tourism revenues. The surge in domestic violence remains an increasing concern going forward.

Philippines: Global demand weakness has impacted growth significantly due to the large role of export sectors in the economy. In addition, declines in capital flows compromise external funding, which is not helped by relatively low growth rates of remittances from overseas workers. While weak domestic demand and commodity prices (in particular oil) eased inflationary pressures and allowed monetary policy support, high levels of public debt constrain fiscal stimulus going forward. Structural changes to improve the business climate and public finances remain as key points in the reform agenda.

Colombia: The global recession has impacted growth and elevated the unemployment rate to one of the highest in Latin America. Inflation pressures have receded, providing room for counter-cyclical monetary policy. Concerns about the vulnerability of the financial system due to consumer credit growth issues have dissipated. Although current short-term external financing is secured, the sustainability of growing current account and fiscal deficits is in question due to the weakness of flows to emerging markets, relative weakness of the economic outlook going forward, political uncertainty around the possibility of a second presidential re-election and remaining challenges on the security front – including the resources to finance these programs in the coming years.

Peru: Thanks to sound macroeconomic management and a strong institutional framework, the effects of the global recession have been relatively limited. In fact, the economy is one of the few in the region not expected to contract in 2009. Reserves accumulation, a current account surplus and public savings in recent years provided the tools for economic stimulus in the current global turmoil. However, unresolved issues regarding the high levels of poverty and inequality remain a concern, as they may generate social tensions and political instability in the future.

IFC Portfolio Performance Analysis: Going Forward

1.15 The Corporate Portfolio Management Department has been leading the development of a unified stress testing framework for IFC investments since Q1 FY08, working together with portfolio units in the financial and non-financial sector clusters. During FY08 and FY09 around 100 banks across more than 20 countries and 300 non-financial projects across 12 countries, accounting for more than $10 billion dollars of IFC's committed exposure, have undergone stress tests. The countries represented in the analysis include some of IFC's largest exposures (including 8 of the IFC top ten country exposures)[6] and those perceived as most vulnerable within emerging markets (including all major exposures in the banking portfolio across Emerging Europe).

1.16 Stress tests in the non-financial sectors focus on the ability of companies to service debt. The results of the analysis suggest that the majority of country portfolios included in the analysis are capable of handling a sharp slowdown scenario, which corresponds with the situation observed across most emerging markets during FY09. Stress tests on banks focus on capitalization, liquidity and solvency. In this case the results show that most of the assets in the Africa, East Asia, Latin America and South Asia regions tend to have relatively strong capital and liquidity positions. In contrast, the majority of banking portfolios within Eastern and Southern Europe, and the Middle East appear vulnerable under a strong slowdown scenario. Importantly, the stress tests have been a valuable tool to identify vulnerable assets within the portfolio across several dimensions, and have served as a start-up process to design appropriate portfolio management strategies and work out particular issues with clients across the globe.

1.17 In addition to the stress tests and in response to the global crisis that unfolded during FY09, the Corporate Portfolio Management Department led a corporate-wide effort to estimate the level of problem loans as a result of the crisis. The estimation included default expectations for all projects with at least $20 million exposure. The aggregate results suggested that only a marginal increase in non-performing loans was to be expected by the end of the fiscal year, which has agreed with the observed level of non-performing loans to outstanding loans as of the end of FY09 (2.5 percent compared to 2.2 percent at end of FY08). Going forward, the view among portfolio managers is that further deterioration in the portfolio will occur in FY10, unless global economic conditions improve, but that the level of loan defaults will remain limited relative to previous crises.

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[6] *Stress tests on both the financial and non-financial sectors were done for Argentina, Brazil, India, Russia and Turkey. Additional stress tests for the banking sector included China, Indonesia and the Philippines.*

1.18 An outlook for non-performing loans (NPL) over the coming three years was developed on the basis of the same economic model used in IFC bank stress tests. Employing the forecast economic scenarios presented in the March 2009 IBRD Global Economic Prospects (GEP), and which were the basis for the outlooks used in the IFC Road Map FY10-12, we are able to project expected NPLs at the global portfolio level. According to the GEP, emerging market economic growth is expected to drop to 2.1 percent, a fall of 4.4 percent from 2008. Using our model, that translates into an increase in NPLs to 6.3 percent at end-CY2009, an increase of 3.7 percent from its level last year. This base case projection can be extended to future years as well. The GEP projection is for growth to increase to 4.4 and 5.0 percent in CY2010 and 2011, respectively; these growth rates would lead to drop in future NPLs to 4.4 and 3.9 percent respectively. In addition to the base case projections, we also considered low and high scenarios for growth. In the low growth scenario, NPLs peak at 6.8 percent at end-2009 and then decline to 4.7 percent in 2011. Under the high growth scenario, NPLs peak at 5.4 percent in 2009 and then decline to 2.6 percent in 2011.

1.19 In June, GEP growth forecasts were revised with emerging market growth expected to fall to 1.2 percent in 2009. For CY2010 and CY2011, economic growth was forecast to increase to 4.4 and 5.7 percent, respectively. Using our model and based on the revised growth forecasts, NPLs would increase to 7.0 percent at the end-CY2009; NPLs would drop to 4.4 and 3.3 percent at the end of CY2010 and CY2011, respectively.

1.20 The relationship between macroeconomic conditions and equity market performance is reflected in the positive correlation observed between IFC equity returns and the global business cycle. Based on this evidence the Corporate Portfolio Management Department developed a framework to estimate potential losses in the equity portfolio from significant macroeconomic stress. Estimations at the beginning of the fiscal year suggested that losses in the equity portfolio could range from 30 percent (under a strong slowdown) to 55 percent (under a severe crisis scenario). An analysis of actual equity value change shows that the IFC equity portfolio lost as much as 30 percent in the midst of the crisis (between the second and third quarters of FY09) relative to its value at the beginning of the fiscal year. Although the IFC equity portfolio outperformed the S&P BMI emerging markets composite total return index benchmark during FY09, the total loss in equity value during the fiscal year was still around 25 percent. The latest estimations suggest that under the weak global growth scenario for the next 3 years forecast in the World Bank's Global Development Finance 2009 report, expected equity price increases should be modest.

II. OVERALL PORTFOLIO REVIEW

2.1 This section of the report contains an overview of the portfolio, its growth and performance during the last fiscal year. Some of the highlights are:

- The committed portfolio grew 7% to $34.5 billion from $32.3 billion in FY08. Growth was supported by increases in the committed loan and equity portfolios which grew 7% and 6%, respectively.
- The volume of new commitments fell more than 7% relative to FY08. New commitments in the Sub-Saharan Africa region, however, grew 32% with the region being the only IFC region to record new commitment growth in FY09. New commitments in central Asian countries (within the Southern Europe & Central Asia region) increased 81%.
- Droppages and cancellations more than doubled to $2,971 million from $1,414 million in FY08. Droppages tripled to $1,302 million, a level well above the $563 million averaged during the previous five years. Cancellations increased 63% to $1,669 million. On a regional basis, the Latin America & Caribbean (22%), Central & Eastern Europe (19%) and the East Asia & Pacific (18%) regions had the largest shares of droppages and cancellations.
- Prepayments declined 57% to $490 million. Limited access to alternative finance and weaker cash flow generation by portfolio companies contributed to the significantly lower level of prepayments. The Latin America & Caribbean (28%), the Central & Eastern Europe (25%), and the East Asia & Pacific (12%) regions had the largest shares of prepayments.
- The disbursed loan and equity portfolio grew 6% to $22.4 billion from $21.1 billion in FY08. New disbursements totaled $5.6 billion in FY09 as compared to repayments, prepayments, and equity sales which totaled $2.7 billion. Loan disbursements declined $1.4 billion (24%) from FY08 levels while equity disbursements declined $532 million (31%).
- Gross portfolio income declined by 16% to $2,509 million, after realized capital gain income, dividend income and loan portfolio income fell $251 million, $121 million, and $133 million, respectively. The gross return on the loan and equity portfolio after Fair Value Option losses and loss provisions was 3.1% (14.8 % in FY08).
- Estimated unrealized capital gains on the equity portfolio fell 40% to $4,120 million as compared to an increase of 49% in FY07 and an increase of 1% in FY08. Equity sales during the year were $394 million (at cost) with realized gains totaling $996 million. The estimated real internal rate of return (IRR) on IFC's active equity portfolio was 15.0%, down from 27.6% in FY08 and 34.2% in FY07.
- Cash dividends declined 28% to $318 million. Dividends from Unincorporated Joint Ventures (UJVs) represented 18% of total dividends (13% in FY08), down from 41% as recently as FY05. The dividend yield on IFC's equity portfolio (excluding UJVs) was 2.6% (based on Fair Value) as compared to 2.9% for the MSCI Emerging Markets Index.
- Principal outstanding on non-accruing loans increased 24% to $457 million, but only represented 2.5% of disbursed principal at year-end (2.2% in FY08 and 6.4% in FY05). Total arrears (principal, interest and charges) increased 12% to $425 million.
- Total loan loss reserves increased $390 million to $1,238 million and represented 6.9% of the outstanding loan portfolio, up from 5.1% in FY08. Total loan and equity write-offs increased to $1,106 million in FY09 (from $191 million in FY08).

1. Portfolio Growth, Size and Composition

2.2 Table 2-1 shows the main portfolio volume indicators for the last five fiscal years. At year-end, IFC's total committed portfolio (including guarantees and risk management products) stood at $34.5 billion, almost 7% higher than in FY08. Portfolio growth was underpinned by strong growth in new trade finance guarantee commitments and new loan and equity commitments. The committed loan portfolio (loans and loan type quasi-equity) grew 7% during the fiscal year as compared to 25% in FY08; the equity portfolio (equity and equity type quasi-equity) grew 6% as compared to 34% in FY08. The committed portfolio of guarantee and risk management products grew 8% to $2.3 billion and represented 6% of the total committed portfolio. Growth in the disbursed portfolio slowed to 6% and totaled $22.4 billion, from 30% growth in FY08.

2.3 Prior to FY07, IFC reported its investments in debt securities within the loan and equity portfolios consistent with the character of each instrument. In FY07, IFC began reporting its investments in debt securities separately on the balance sheet. IFC's investments in debt securities broadly comprise of (i) investments in corporate securities; (ii) investments in asset-backed securities; and (iii) investments in preferred shares that contain features that make them more "debt-like" (e.g., mandatorily redeemable preferred shares).

2.4 Debt securities with a fair value of $1.6 billion have been separately reported on IFC's FY09 balance sheet ($1.6 billion in FY08). The APPR, however, continues to report debt securities within the loan and equity portfolios based on the characteristics of each instrument.

Table 2-1: Total IFC Portfolio-Growth and Composition, FY05-09

	FY05 ($ Mil)	FY06 ($ Mil)	FY07 ($ Mil)	FY08 ($ Mil)	FY09 ($ Mil)
Approvals Pending Commitments [1]	3,472	3,557	5,118	7,334	8,584
Droppages	648	240	830	387	1,302
Commitments [2]					
Loans	4,125	4,214	4,692	6,267	4,867
Quasi-Equity Loan Type	416	754	957	1,099	1,093
Quasi-Equity Equity Type	73	126	110	77	134
Equity	538	997	1,477	2,077	1,935
Guarantees	216	588	982	1,791	2,479
o/w Trade Finance	-	*270*	*772*	*1,429*	*2,380*
o/w Non-Trade Finance	*216*	*318*	*210*	*362*	*98*
Risk Management	4	23	2	88	40
Total Commitments	**5,373**	**6,703**	**8,220**	**11,399**	**10,547**
Commitments Pending Disbursement					
Loans & Quasi-Equity Loan Type	4,819	5,550	5,913	7,068	7,276
Equity & Quasi-Equity Equity Type	1,013	1,361	1,741	2,064	2,596
Total Commitments Pending Disbursement	**5,832**	**6,911**	**7,655**	**9,132**	**9,873**
Cancellations					
Loans & Quasi-Equity Loan Type	486	602	804	642	1,310
Equity & Quasi-Equity Equity Type	48	80	118	161	256
Loan and Equity Cancellations	**535**	**683**	**922**	**804**	**1,565**
Guarantees & Risk Management	0	221	189	223	104
Total Cancellations	**535**	**903**	**1,111**	**1,027**	**1,669**
Committed Portfolio					
Loans	12,849	14,080	15,934	19,839	20,933
Quasi-Equity Loan Type	1,932	2,326	3,056	3,851	4,372
Quasi-Equity Equity Type	159	279	324	351	426
Equity	3,168	3,633	4,561	6,214	6,522
Loan and Equity Committed Portfolio	**18,108**	**20,318**	**23,875**	**30,255**	**32,253**
Guarantees	998	1,150	1,415	1,924	2,055
o/w Trade Finance	-	*183*	*405*	*684*	*1,118*
o/w Non-Trade Finance	-	*967*	*1,010*	*1,240*	*937*
Risk Management Products (IFC Exposure)	168	159	122	163	196
Total Committed Portfolio	**19,274**	**21,627**	**25,411**	**32,342**	**34,503**
Disbursements [2]					
Loans	2,537	3,214	3,691	4,878	3,732
Quasi-Equity Loan Type	331	504	1,011	931	711
Quasi-Equity Equity Type	23	55	46	85	127
Equity	566	656	1,093	1,644	1070
Total Disbursements	**3,457**	**4,428**	**5,841**	**7,538**	**5,640**
Disbursed Portfolio					
Loans	8,326	9,049	10,494	13,414	14,567
Quasi-Equity Loan Type	1,636	1,808	2,582	3,208	3,461
Quasi-Equity Equity Type	100	127	143	216	305
Equity	2,214	2,424	3,001	4,286	4,047
Total Disbursed Portfolio	**12,276**	**13,408**	**16,220**	**21,124**	**22,380**
Executed Portfolio of Gurantees and Risk Management Products					
Guarantees	291	494	781	1,141	1,364
Risk Management Products	48	27	29	42	92
Grand Total of Disbursed and Executed Portfolio	**12,615**	**13,929**	**17,030**	**22,307**	**23,836**
Equity Sales (at cost)	*517*	*539*	*596*	*463*	*394*
Loan Repayments	*2,283*	*2,752*	*2,563*	*2,673*	*2,305*
o/w Prepayments	*1,161*	*1,440*	*1,240*	*1,142*	*490*
Called Guarantees	1.3	0.2	0.0	1.0	0.0
Companies in Committed Portfolio (No.)	1,314	1,368	1,410	1,491	1,579

1. Includes active, approved and not signed products (loan, equity, quasi-equity, guarantees and risk management products)
2. Includes underwriting for IFC's own account.

New Commitments and Disbursements

[Annex C provides additional figures and tables for Section II. See Figure C-1 for portfolio growth and Tables C-1, C-2 and C-3 for regional, sector, and IDA/non-IDA distribution of new commitments.]

2.5 *New Commitments*: The level of new commitments declined 7% in FY09 as compared to a 39% increase in FY08. New loan and loan type quasi-equity commitments fell 19% to $6.0 billion while new equity and equity type quasi-equity commitments fell 4% to $2.1 billion. Guarantee and risk management commitments continued to increase, up 34%, after growth of over 90% in FY08, and totaled $2.5 billion (as compared to $0.2 billion as recently as FY05). Guarantee growth was underpinned by trade finance guarantee commitments which grew 67% to $2.4 billion. New syndicated loan commitments (representing B-loans and DFI Agented Loans) totaled $1.9 billion, down from $3.3 billion in FY08. On a regional basis, new commitments in Sub-Saharan Africa grew 32% to 1,824 million and the region was the only IFC region to record growth. The East Asia & Pacific (down 27% to $1,197 million) and the Southern Europe & Central Asia (down 24% to $1,146 million) regions registered the most significant declines in new commitments relative to FY08. New commitments in central Asian countries continued to show robust growth increasing 81% to $252 million ($139 million in FY08). The Latin America & Caribbean region had the largest share of new commitments (26%) followed by the Sub-Saharan Africa (17%) and Middle East & North Africa regions (12%).

2.6 The Chemicals sector registered the highest growth rate in new commitments with new commitments increasing 56% to $402 million. Financial Services represented 45% of all new commitments (40% in FY08) while Infrastructure and Manufacturing represented 19% and 12%, respectively. The level of new commitments declined substantially in the Oil, Gas & Mining (down 53%) and Industrial and Consumer Services (down 42%) sectors.

2.7 *New Disbursements:* New disbursements fell 25% to $5.6 billion, following a 29% increase in FY08. Despite the decline, the level of disbursements was 63% higher than the level recorded in FY05. Loan and loan type quasi-equity disbursements declined 24% to $4.4 billion while equity and equity-type quasi-equity disbursements fell 31% to $1.2 billion. Loan and loan type quasi-equity disbursements were 4% higher than the $4.3 billion averaged in the four-year period between FY05 and FY08. Equity and equity type quasi-equity disbursements were 15% above the $1,042 million averaged during the previous four years.

IDA Commitments

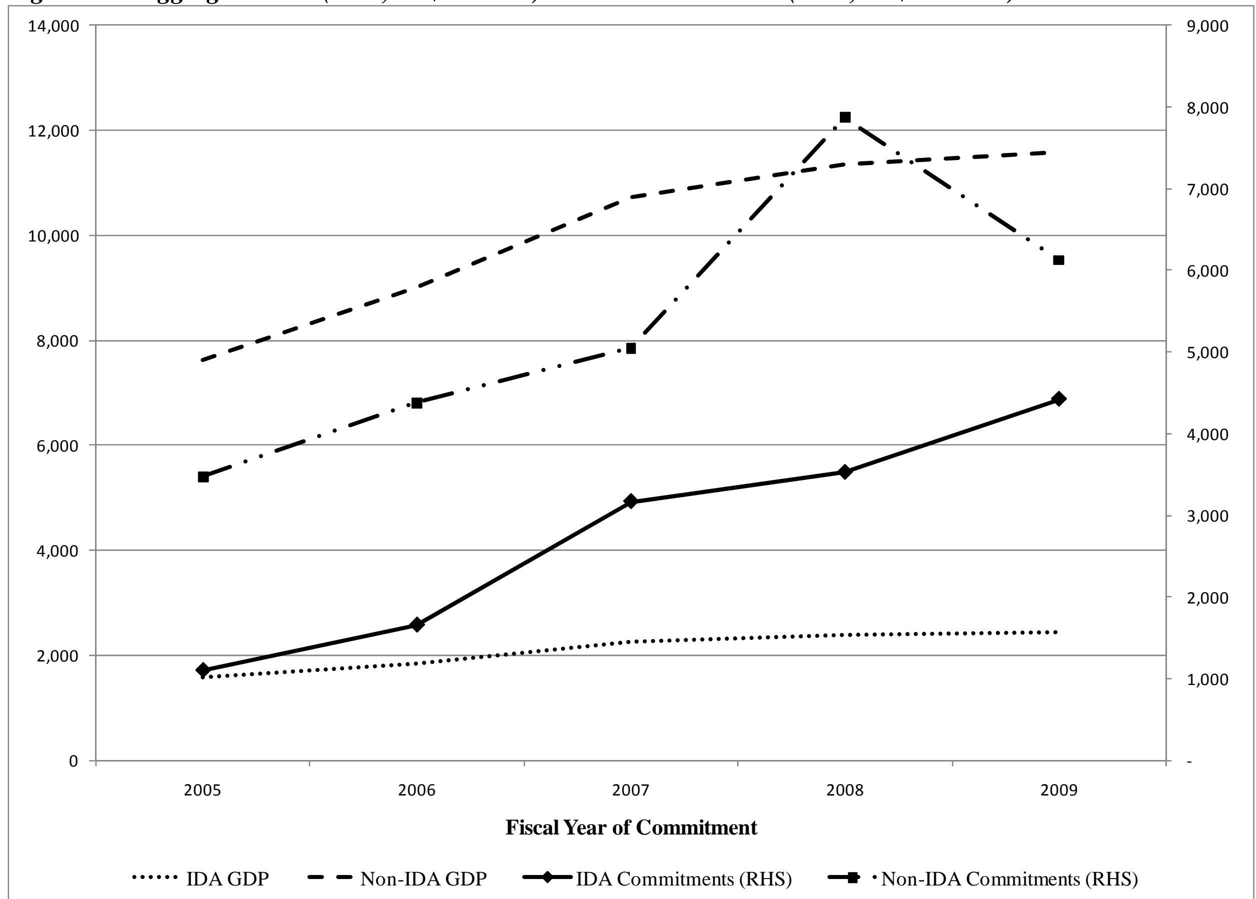
2.8 In FY09, new commitments in IDA countries grew by 25% to $4.4 billion, an all-time high. The number of projects in IDA countries reached 225, above the total of 222 for non-IDA countries. Average project size was marginally larger in non-IDA countries; $24.8 million compared to $19.7 million for IDA-country projects.

2.9 Figure 2-1 shows the evolution of IDA country commitments over the last five years. In the figure one can see that the level of new commitments in IDA countries accelerated in FY09, maintaining a growth trend that began about five years ago. In contrast, the volume in non-IDA countries, including regional investments, declined to $6.1 billion from $7.9 billion in FY08, as IFC concentrated its focus on IDA countries.

2.10 The relationship between IFC commitments and GDP is explored further in Figure 2-2, which shows commitments by fiscal year relative to the size of IDA and non-IDA countries as measured by

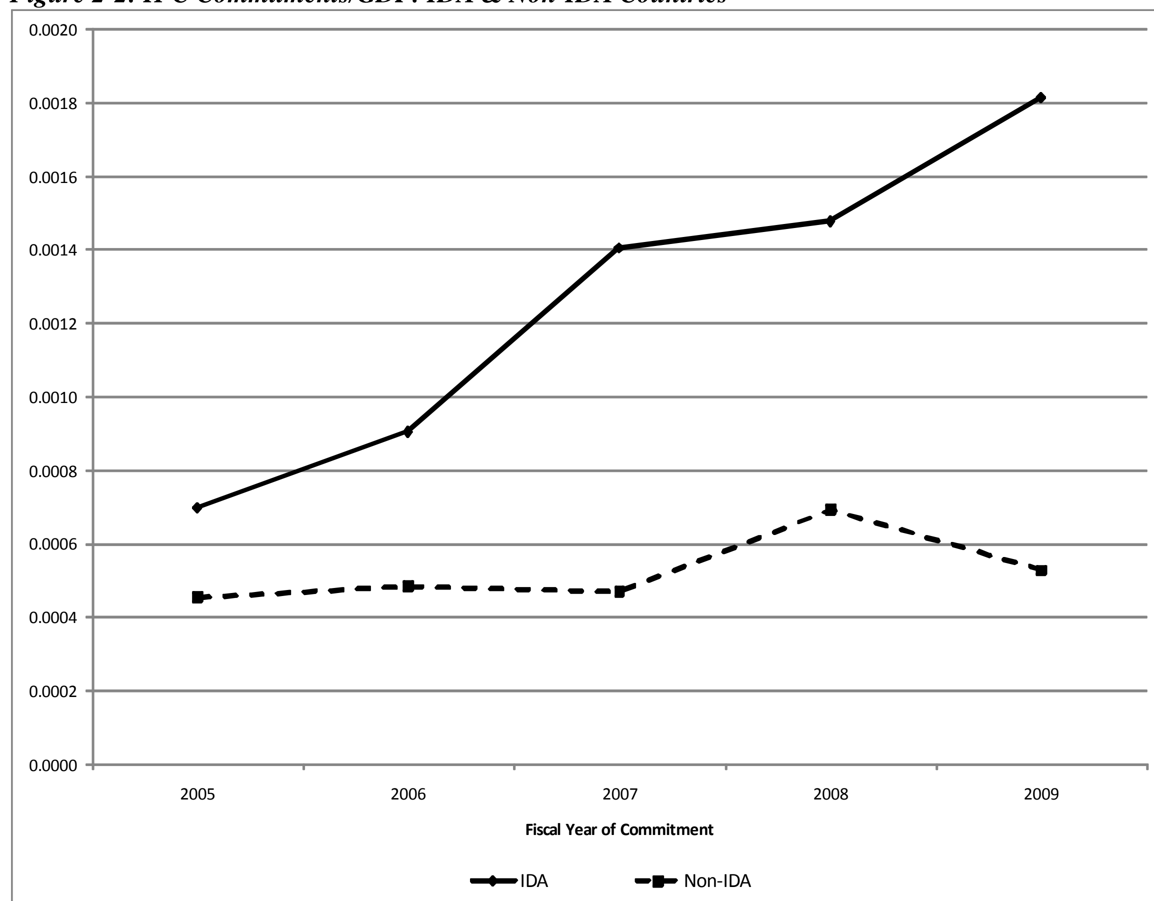
GDP. The figure shows that IFC commitment activity in IDA countries relative to the size of those markets has substantially exceeded commitment activity in non-IDA countries over the last five years.

Figure 2-1: Aggregate GDP (LHS, US$ billions) & IFC Commitments (RHS, US$ millions)



1. GDP values for 2009 are based on 2007 GDP data using assumed growth rates for 2008-09 as reported by the IMF. FY05 and FY06 do not include regional commitments as regional commitments for those years were not classified as IDA / non-IDA.

Figure 2-2: IFC Commitments/GDP: IDA & Non-IDA Countries[1]



1. The approvals/GDP ratios for FY09 is based on 2007 GDP data using assumed EM growth rates for 2008-09 as reported by the IMF.

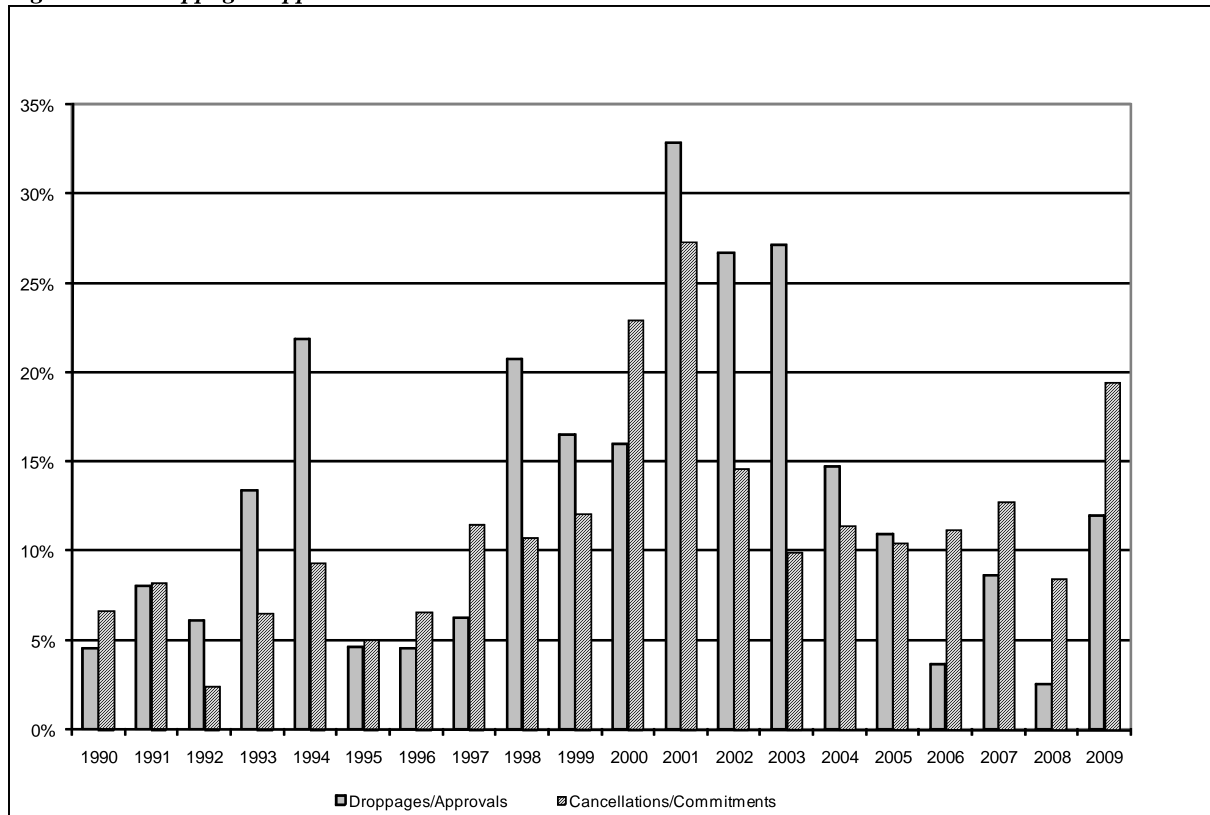
Droppages and Cancellations

[See Figure C-2 for historical droppage and cancellation trends and Tables C-4 and C-5 for regional and sectoral distributions.]

2.11 The total volume of droppages and cancellations more than doubled (up 110%) to $2,971 million in FY09. Droppages grew to $1,302 million in FY09, from $387 million in FY08, and were well above the $526 million averaged between FY05 and FY08. Cancellations increased 63% to $1,669 million.

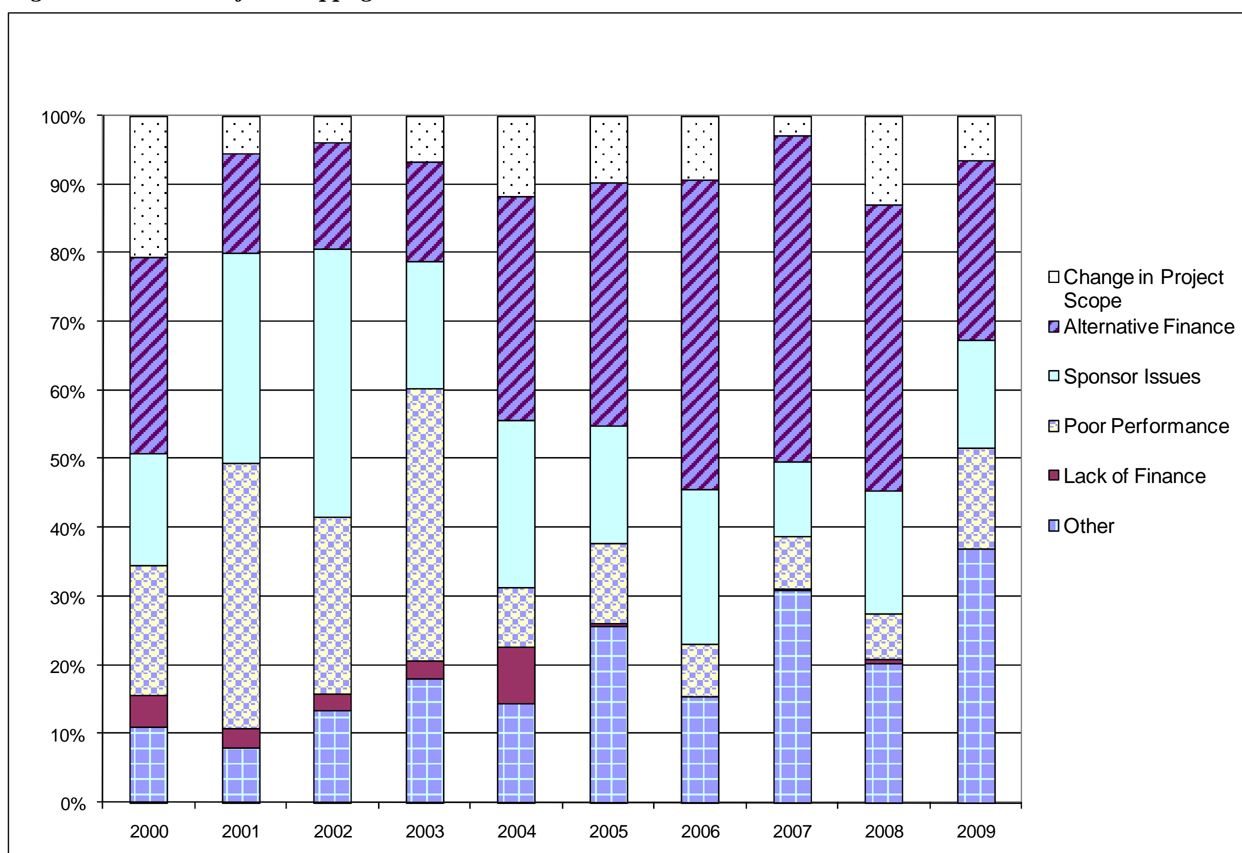
2.12 Since the size of the underlying portfolio changes over time, the relative importance of any given level of nominal droppages or cancellations also changes. For this reason, it is meaningful to compare the level of droppages and cancellations to the level of approvals and commitments, respectively; this is presented for loan and equity investments in Figure 2-3. As shown in the figure, the substantial increase in droppages in FY09 increased the ratio of droppages relative to approvals to almost 12% from less than 3% in FY08. Although higher than in previous years, the approval/droppage ratio remained well below the 33% level observed in FY01. Similarly, a higher rate of cancellations and a lower level of commitments resulted in the ratio of those two increasing to more than 19% from about 8% in FY08. The cancellation to commitment ratio in FY09 was the highest since FY01 and well above the 11% averaged in the previous 7 years.

Figure 2-3: Droppages/Approvals & Cancellations/Commitments



2.13 The reasons for droppages and cancellations have been classified into six categories for analysis: alternative finance, poor performance, sponsor issues, lack of finance, change in project scope and other. In FY09, the categories of sponsor issues and poor performance grew in terms of importance as reasons for droppages and cancellations. Collectively the two categories represented 31% of loan and equity droppages and cancellations by volume, up from 25% in FY08 and 19% in FY07. Alternative finance, the leading reason for droppages and cancellations in each of the last six fiscal years, declined in importance and represented 26% of droppages and cancellations as compared to 42% in FY08 and 47% in FY07. More than a third of droppages and cancellations fell into the category of other; this category represented a wide variety of reasons including regulatory issues, changes to equity subscriptions, expiration of availability periods and partial cancellations related to changes in exchange rates. Figure 2-4 presents the importance of each of the six reasons for the ten most recent fiscal years.

Figure 2-4: Reasons for Droppages & Cancellations



Committed Portfolio

[See Figure C-3 for loan and equity composition, Table C-6 for regional distribution, Table C-7 for country income distribution, Table C-8 for IDA/Non-IDA distribution, and Table C-9 for sector distribution.]

2.14 IFC's committed portfolio of $34.5 billion consisted of $25.3 billion in loans and loan type quasi-equity, $6.9 billion in equity and equity type quasi-equity and $2.3 billion in guarantees and risk management products representing 73%, 20%, and 7% of the portfolio, respectively. The loan and equity portions of the total portfolio grew 7% and 6%, respectively, as compared to 25% and 34% in FY08. The guarantee portfolio grew 7% as compared to 36% in FY08, but the composition changed significantly with trade finance guarantees representing 54% of the guarantee portfolio (36% in FY08). The overall age of the portfolio remained nearly unchanged, with nearly 79% of the portfolio having been committed during the last four years, as compared to 80% in FY08. The slight aging of the overall portfolio reflects trends in both the loan and equity portfolios, with 80% of the loan and loan type quasi-equity portfolio having been committed during the last four years versus 81% at the end of FY08 and 77% at the end of FY05. Similarly, 77% of the equity and equity type quasi-equity portfolio was committed during the last four years versus 75% at the end of FY08.

2.15 There were 1,579 companies in the committed portfolio at year-end, a 6% increase from FY08. The number of countries with commitments was 129, up from 123 in FY08. Annex B lists IFC's committed portfolio by country.

Regional Distribution

2.16 IFC's committed portfolio was most heavily weighted in the Latin America & Caribbean and Southern Europe & Central Asia regions, with the two regions representing 25% and 14% of the total, respectively, (25% and 14% in FY08). The share of the committed portfolio held by the largest two regions has steadily declined in recent years from 47% in FY05 to 39% in the most recent year as growth rates in less heavily weighted regions have accelerated, in particular, the Middle East & North Africa region. In FY09, the Sub-Saharan Africa region recorded the highest growth rate in committed exposure (20%), followed by the South Asia (13%) and the Middle East & North Africa (7%) regions. Continued strong growth in central Asian countries (80%) offset declines in other countries within the Southern Europe & Central Asia region and overall exposure in that region remained largely unchanged. Committed exposure in the Central & Eastern Europe region declined nearly 8% following 18% growth in FY08. The share of the committed portfolio in the ten largest client countries declined to 48% (51% in FY08); significant growth in the India portfolio was offset by declines in other top 10 countries. Portfolio growth in countries outside the top ten further contributed to reduced country concentration of the portfolio. India's share of the committed portfolio increased to 9.8% from 8.9% in FY08; Russia and Brazil's shares declined to 6.5% and 6.9%, respectively, from 8.4% and 7.7% in FY08.

Country Income Category Distribution

2.17 IFC's committed portfolio (excluding regional investments) is distributed across four income categories based on gross national income levels; these four categories are low income, lower middle income, upper middle income, and high income. The committed portfolio grew in the lower middle and high country income categories in FY09 with the most significant growth on a dollar and a percentage basis in the lower middle income category (up 39% to $13,865 million). Strong growth in the lower middle income category was primarily due to the movement of India and Mongolia (representing 11% of the non-regional committed portfolio) from the low income to the lower middle income category. If these two countries had remained in the low income category, low income portfolio growth would have been 15% to $7,362 million (vs. -39% to $3,915 million) and lower middle income portfolio growth would have been 4% to $10,418 million (vs. 39% to $13,865 million).

2.18 Countries in the low income category with strong growth in committed portfolio levels included Ghana and Vietnam; together these two countries had a net increase of $487 million in committed portfolio. Growth in the high income category was largely due to the movement of Hungary and Oman from the upper middle to high income category.

IDA and non-IDA Distribution

2.19 IFC's committed portfolio in IDA countries (excluding regional investments) was $9.7 billion at year-end, up 16% from $8.4 billion in FY08. The IDA country portfolio represented 32% of the committed portfolio on a dollar basis (29% in FY08) and 43% (820 of 1,903) of total project commitments that could be categorized as being either IDA or non-IDA. Committed portfolio growth in IDA countries was led by increases in India (up $513 million), Ghana (up $369 million), and Georgia (up $228 million). Of the 129 countries in which IFC had commitments at year-end, 67, or 52%, were IDA countries.

Sector Distribution

2.20 The Financial Services sector accounted for the largest share of the committed portfolio, at 35% (down from 38% in FY08), followed by Infrastructure and Manufacturing, with 22% and 16% shares, respectively. Collective Investment Vehicles and Agriculture had the highest growth rates in FY09 with the committed portfolio in those sectors growing 34% and 25%, respectively. The Social Services sector registered the largest annual compound growth rate during the FY05-09 period (28%) followed closely by Chemicals (23%). Financial Services was one of two sectors to record negative growth in FY09; commitments in the sector fell 1% from FY08 levels after growing 29% in FY08 and at an 18% compound rate over the FY05-FY09 period. Commitments in the Oil, Gas & Mining sector fell less than 1%.

Disbursed Portfolio

[See Figure C-7.]

2.21 The disbursed portfolio was $22.4 billion at year-end, a 6% increase over the FY08 level. The increase in the total disbursed amount reflected new loan, quasi-equity and equity disbursements totaling $5.6 billion which more than offset $2.3 billion in repayments (including prepayments of $0.5 billion), equity write-offs of $1.1 billion, and $0.4 billion in equity sales (at cost).

2. Portfolio Income and Return

Table 2-2: Portfolio Income and Return, FY05-09

		FY05	FY06	FY07	FY08	FY09
Gross Portfolio Income [1]	($Mil)	1,670	2,045	3,392	2,974	2,509
Fair Value Option(FVO) Unrealized Gains[2]		-	-	-	(9)	(360)
Gross Portfolio Income after FV(	($Mil)	**1,670**	**2,045**	**3,392**	**2,965**	**2,149**
Equity Write-Offs	($Mil)	(5)	(65)	(45)	(140)	(1,065)
Loan Specific Loss Provisions/Recoveries[3]		194	105	52	28	(108)
General Loss Provisions	($Mil)	270	(120)	(21)	(88)	(309)
Total Provisions/Write-Offs/Recoveries		458	(80)	(14)	(201)	(1,481)
of which Currency Translation Effect		*(5)*	*(4)*	*(12)*	*(23)*	*24*
Gross Income after FVO and Provisions		**2,128**	**1,965**	**3,378**	**2,764**	**668**
Gross Return[4] on Portfolio:						
Before FVO/Loss Provisions/Write-Offs/Recoveries		13.6%	15.9%	22.9%	15.9%	11.5%
After FVO, Before Loss Provisions/Write-Offs/Recoveries		13.6%	15.9%	22.9%	15.9%	9.9%
After FVO/Loss Provisions/Write-Offs/Recoveries		17.3%	15.3%	22.8%	14.8%	3.1%

1. Gross Income represents income before cost of funds and all expenses. Includes unrealized loss on fair-valued loans and realized gains on loan sale. It excludes guarantee income and gain on equity non-monetary exchange.
2. Effective FY08, IFC elected SFAS 159 Fair Value Option for certain investments.
3. Includes capitalized interest provisions, currency revaluation effect on foreign currency loss reserves, and recoveries of prior years' write-offs.
4. Returns based on average disbursed portfolio.

[Table 2-2 shows gross portfolio income and return. In Annex C, Tables C-18 and C-19 and Figure C-9, give details of regional and sector loan and equity income, provisions and returns.]

2.22 IFC’s gross portfolio income (before Fair Value Option losses, provisions and equity write-offs) declined 16% to $2,509 million, following a 12% contraction in FY08. The fall in gross income was due to declines in realized capital gains (down $251 million), dividends (down $121 million) and total loan income (down $133 million). After Fair Value Option losses, provisions, write-offs and recoveries, gross portfolio income declined 76% to $668 million from $2,764 million in FY08. The return on the portfolio after Fair Value Option losses, loss provisions and write-offs was 3.1% (14.8% in FY08) and was below the 16.1% return averaged during the previous five years.

2.23 The Latin America & Caribbean region, representing 28% of the disbursed portfolio, generated the largest share of portfolio income, 28%, before Fair Value Option losses and specific provisions. After Fair Value Option losses, provisions, equity write-offs and reversals of specific reserves, the region had positive income of $333 million. The East Asia & Pacific region had the highest gross return after specific provisions, at 15.3% (21.4% in FY08); gross returns ranged between -4.1% (Central Asia & Eastern Europe) and 4.2% (Latin America & Caribbean) for the remaining regions. The Financial Services sector, representing 39% of the disbursed portfolio, had the highest total return after Fair Value Option losses, provisions and write-offs (6.2% as compared to 13.1% in FY08) followed by Infrastructure and Manufacturing. Four business sectors, Collective Investment Vehicles, Agriculture, Chemicals, and Industrial & Consumer Services recorded negative gross returns for FY09.

3. Reserves and Write-offs

[See Annex A for IFC's policy on loss reserves, Table C-30 for the distribution of write-offs by region.]

2.24 The Corporation partially or wholly wrote-off investments totaling $1,106 million ($41 million in loans and $1,065 million in equity) during the year, up from $191 million in FY08. The Central & Eastern Europe region had the largest share of write-offs, 22%, followed by the Latin America & Caribbean and the Southern Europe & Central Asia regions with 18% and 14%, respectively. By sector, Financial Services accounted for the largest share ($584 million, or 53%), followed by Infrastructure ($129 million, or 12%) and Oil, Gas & Mining ($123 million or 11%).

III. EQUITY PORTFOLIO REVIEW

1. Equity Portfolio Growth, Size, and Income

Equity Portfolio

[See Figure C-7 for portfolio growth, Table C-15 for regional distribution, and Table C-16 for sector distribution.]

3.1 The disbursed equity and equity type quasi-equity portfolio declined by 3% during the fiscal year to $4.4 billion in 661 companies (635 companies in FY08). The contraction in the size of the equity portfolio was primarily due to the high level of equity write-downs ($1,065 million in FY09, up from $146 million in FY08) which nearly equaled the level of new disbursements ($1,197 million). Disbursed equity grew in the Middle East & North Africa (+$179 million) and South Asia (+$23 million) regions, but declined in all other regions with the East Asia & Pacific region having the largest decline on a dollar basis (-$119 million). The share of the disbursed portfolio represented by the Financial Services sector fell to 44% (from 49% in FY08). IFC's financial policies limit the size of the Corporation's disbursed equity and quasi-equity combined to 100% of net worth. At year-end, this ratio was 57.9%. With respect to the age of the disbursed equity portfolio, 71% was committed in the prior four years, the same as in FY08, and up from 60% in FY06.

Directorships

3.2 As of year-end, IFC had nominated 112 individuals to serve on the boards of directors of 164 client companies (23% increase compared to 134 at the end of FY08) and had the right to nominate directors to the boards of a further 94 companies[7].

Equity Income

[See Table 3-1 for the equity income and return breakdown, Table C-20 for dividend income detail, Figure C-10 for dividend yield, Table C-21 for dividend income by region, and Table C-22 for capital gains by region.]

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[7] *IFC acquires the option to nominate a director in a variety of ways, including through shareholder agreements, charter provisions, invitation of controlling shareholders, and through effect of law. IFC exercises its right to nominate someone to the board of an investee company when it believes that by doing so, it will add value to the client's operations, advance IFC's development mandate and create shareholder value. An IFC nominee director may bring a specific set of skills to the board that are currently lacking. It is not uncommon for a company's board to have an IFC-nominated director during the early stages of the investment, and for IFC to later decline to keep such a nominee on the board as the investment, and the company, matures. Currently, IFC policies and practices on nominee directorships are undergoing a comprehensive revision to ensure that IFC has a professional approach to directorships and acts consistent with the best practices in this area. The new Directive on nominee directorships with corresponding IT systems will be implemented in the coming year.*

Table 3-1: Equity Income and Return Breakdown, FY05-09

	FY05		FY06		FY07		FY08		FY09	
	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)
Equity Portfolio										
Realized Capital Gains [1 5]	723	73.7	928	73.9	1,942	83.0	1,247	73.5	996	98.1
Dividend Income	258	26.3	327	26.1	398	17.0	439	25.8	318	31.3
of which										
Common/Pref.Rcpts. [2]	*152*	*15.5*	*241*	*19.2*	*334*	*14.3*	*379*	*22.3*	*262*	*25.8*
UJV Profit Particip. [3]	*106*	*10.8*	*86*	*6.9*	*64*	*2.7*	*59*	*3.5*	*56*	*5.5*
Fair Value Option Unrealized Gains[4]	-		-		-		12	0.7	(299)	(29.4)
Total Equity Income	981	100.0	1,255	100.0	2,340	100.0	1,698	100.0	1,015	100.0
Write-offs[5]	(6)		(82)		(45)		(140)		(1,065)	
Recovery of Prior Years' Write-offs	1		17							
Equity Income after Provisions & Recoveries	**975**		**1,191**		**2,296**		**1,558**		**(50)**	
Gross Equity Return Before Provisions & Write-Offs [6]	40.3%		51.6%		82.2%		44.4%		22.9%	
Gross Equity Return After Provisions&Write-Offs [6]	40.0%		48.9%		80.6%		40.8%		-1.1%	

1. *Includes realized capital gain/loss on equity sale, excludes gain/loss on equity non-monetary exchange.*
2. *Excludes UJV Profit Participations.*
3. *UJV income is recognized after the investment is recovered.*
4. *Effective FY08, IFC elected SFAS 159 Fair Value Option for certain investments.*
5. *Write-off recoveries and loss on divestment included in realized capital gains from FY07 onward.*
6. *This is an accounting based return.*

3.3 Gross equity income (after Fair Value Option gains/losses and before write-offs) declined 40% to $1,015 million due to a $251 million decline in realized capital gains, a $121 million decline in dividends and a $299 million loss for those equities IFC elected to account for under the Fair Value Option (SFAS No. 159). Equity returns after write-offs fell to a negative 1.1%, from 40.8% in FY08. Regionally, the East Asia & Pacific region, representing 20% of disbursed equity, had the highest equity return at 51.5% (50.9% in FY08); the South Asia region had a return of 0.1% (2.7% in FY08). All other regions recorded negative returns including Central & Eastern Europe (-39.8%), Southern Europe & Central Asia (-20.6%) and Middle East & North Africa (-11.7%). The Infrastructure and Financial Services sectors were the only sectors posting positive equity returns after specific provisions with returns of 14.1% and 6.0%, respectively (54.0% and 28.6% in FY08). The Agriculture sector registered the most significant negative return, -27.0% (101.1% return in FY08), but the sector represented only 3% of disbursed equity. The Industrial & Consumer Services and Chemicals sectors also performed poorly with returns of -24.4% and -22.5%, respectively. The best performing sector in FY08, Oil, Gas & Mining, posted equity returns of -12.6% in FY09 (120.2% in FY08) due to writes offs of $123 million and losses under the Fair Value Option of $111 million.

3.4 Dividends declined 28% to $318 million after reaching a record a level of $439 million in FY08. Four projects, an Oil and Gas project in Argentina, a mining project in Peru, a mining project in Chile, a telecom project in Nigeria and together represented $151 million (47%) of total dividends. Dividends from UJVs represented 18% of total dividends (13% in FY08 and 26% in FY06); dividend declines in non-UJVs (-31%) outpaced declines in UJVs (-5%). Dividends from Latin America & Caribbean projects collectively represented 53% of total dividends. The overall dividend yield (based on the original disbursed cost) declined to 6.0%, from 10.4%; excluding UJVs, dividend yield decreased to 5.0% from 9.0%. The dividend yield based on fair value was 3.2% (or 2.6% excluding UJVs); this dividend yield is

similar to comparable benchmarks such as the MSCI Emerging Markets Index (2.9%). The number of dividend-paying companies was 179, up from 177 in FY08.

3.5 Total realized gains were $996 million as compared to $1,247 million in FY08. The East Asia & Pacific region accounted for 53% of realized gains while the South Asia and Latin America & Caribbean regions accounted for 14% each. In FY09, 13 investments generated capital gains in excess of $15 million as compared to 21 in FY08. The three largest capital gains represented 46% of total capital gains as compared to 29% in FY08; these gains were realized from three Financial Services projects in the East Asia & Pacific region. The Financial Services sector accounted for 70% of total realized capital gains (42% in FY08). Significantly weaker equity market performances across all regions, especially in Eastern Europe, contributed to the decline in realized capital gains. The MSCI Emerging Markets Price Index declined by 30.0% for the year (the Total Return Index was down 27.8%), with the Europe, Latin America, Africa and Asia emerging market indices recording respective declines of 55.8%, 37.4%, 22.3% and 20.1%, in dollars.

2. Equity Portfolio Performance Indicators

Unrealized Capital Gains

[See Figures C-16 and C-17 and Tables C-23 and C-24 for gross return of the listed portfolio.]

3.6 Estimated unrealized capital gains on the equity portfolio fell by $2.8 billion in FY09 and were $4.1 billion at year-end. The 40% decline in unrealized gains was a sharp departure from trends in FY05-FY07, a period in which unrealized capital gains recorded substantial increases. The Corporation's unrealized capital gains peaked at about $8.2 billion in October of 2007, falling to around $2.9 billion in February 2009, before recovering in the final four months of the year. Unrealized capital gains in China fell over 65% from their October peak (from about $2.7 billion) to about $930 million in February 2009; the MSCI China equity index also tumbled about 65%. The East Asia & Pacific and the Latin America & Caribbean regions accounted for a 36% and 29% share, respectively, of unrealized gains at year-end. The Financial Services sector represented 44% of total unrealized gains followed by Oil, Gas & Mining with 21%. About 54% of unrealized capital gains in the Financial Services sector were in China.

3.7 At year-end, 133 investments were listed on stock exchanges (132 in FY08). The total return of IFC's listed equities during FY09 was a negative 22.4%, as compared to the 27.8% drop for the MSCI Emerging Markets Total Return Index. Outperformance of the listed portfolio relative to the MSCI Emerging Markets Index was largely due to stock selections in the East Asia & Pacific region, the most heavily weighted region. On a regional basis, the listed portfolio underperformed relative to calculated regional indices in the Sub-Saharan Africa, South Asia, Central & Eastern Europe, Southern Europe & Central Asia and Latin America & Caribbean regions primarily due to stock selections. A slight overweight position and stock picking in the Middle East & North Africa region as compared to the MSCI Emerging Markets Index, contributed to the outperformance of the listed portfolio.

Internal Rate of Return (IRR)

[See Figure C-15 for total IRR, Table C-25 for regional IRRs, and Table C-26 for sector IRRs.]

3.8 The estimated real IRR on IFC's active and closed equity portfolio declined to 14.7% from 20.3% in FY08. The IRR remains well above the 5.4% and 5.9% registered in FY02 and FY03, respectively. The IRR on active investments also decreased, falling to 15.0% from 27.6% (3.5% in FY02, 5.1% in FY03, 6.1% in FY04, 19% in FY05, 28% in FY06, 34% in FY07). The Southern Europe & Central Asia region had the highest IRR on active and closed investments, 26.6%, followed by the East Asia and Pacific region with 19.2%. By business sector, Information & Telecommunication, 26.6%, had the highest IRR as of the end of FY09, followed by Finance & Insurance (23.6%), and Oil, Gas & Mining (21.6%). Construction & Real Estate (-5.3%), Textile, Apparel & Leather (-2.1%) and Accommodation & Tourism Services (-1.0%) were the only business sectors with a negative IRR.

3. IFC's Equity Portfolio Performance – Historical Perspective and Track Record

3.9 This section reviews the performance of IFC's equity portfolio against MSCI's Emerging Market equity index over the past 17 fiscal years. The period is divided in two, before and after the creation of the Equity Management desk, the establishment of Portfolio Units in investment departments, and the creation of the Credit Review Department. Specifically, the table below presents equity performance indicators over the last 17 fiscal years, and compares IFC's track record during the latest ten fiscal years (FY00 to FY09) with the seven previous years (FY93 to FY99).

Table 3-2: Equity Performance Indicators FY93-09

Equity Performance Indicators	FY93-FY09	FY93-FY99	FY00-FY09
IFC Portfolio: Annualized Total Return	**17.4%**	10.2%	22.7%
IFC Portfolio: Total Return Volatility	**12.6%**	11.0%	13.5%
MSCI Global EM Index: Annualized Total Return	**8.0%**	6.6%	9.0%
MSCI Global EM Index: Total Return Volatility	**24.4%**	23.6%	25.0%
IFC Portfolio vs MSCI: Annualized Alpha	**9.4%**	3.7%	13.7%
IFC Portfolio vs MSCI: Volatility of Alpha	**19.9%**	18.3%	20.9%
IFC Portfolio vs MSCI: Sharpe Ratio[1]	**0.47**	0.20	0.65

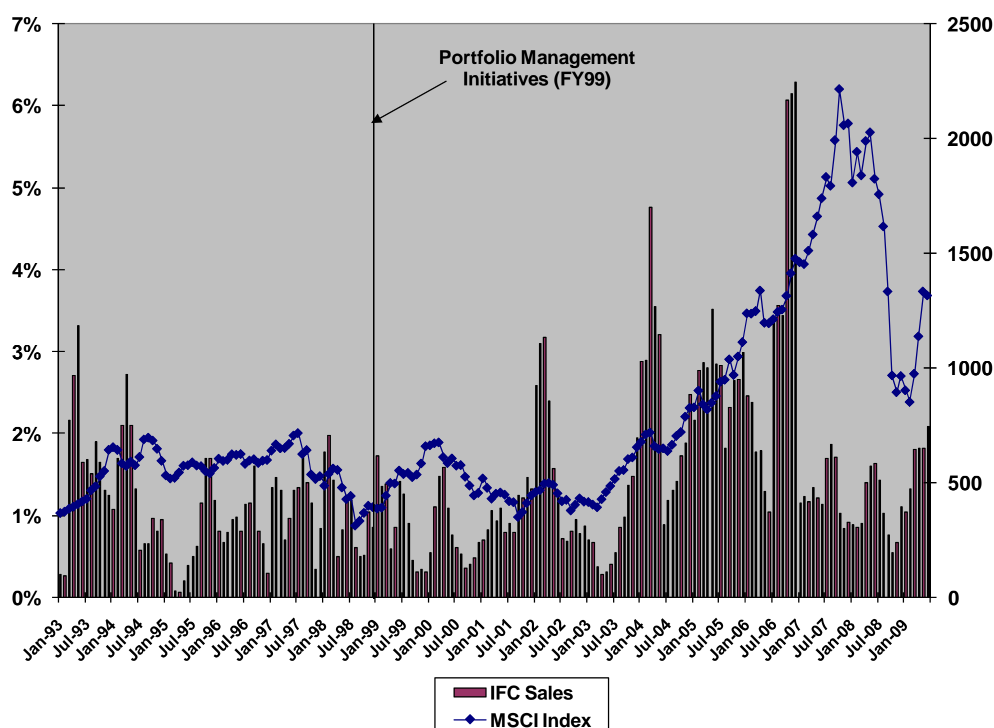
1. Sharpe Ratio = Historic Average Differential Return / Historic Volatility of Differential Return.
Source: S&P, IFC (monthly portfolio data on equity valuation, loss reserves, sales, dividends and write-offs)

3.10 The return on IFC's equity portfolio has averaged 17.4% per annum over the last 17 fiscal years, with a volatility of 12.6%. This performance compares favorably with the MSCI Emerging Markets Index, which has returned 8.0% on average per annum over the same period, with a volatility of 24.4%. It should be emphasized that more than two-thirds of IFC's portfolio (on a cost basis) consists of unlisted equities, the valuations of which are less volatile and less correlated to global indices than are listed stock holdings. Therefore, one should naturally expect IFC portfolio returns to be less volatile than the index. But the 9.4% average incremental return achieved over the past 17 years reflects the Corporation's positive track record of outperforming the index, through differences in regional allocations, asset selection capability, deal structuring and the timing of entry and exit.

3.11 Splitting the 17-year horizon into two segments – before and after the portfolio management initiatives of the late 1990s – shows meaningful improvement between the two consecutive periods. Namely, the average incremental return of the portfolio versus the index went from 3.7% per annum during FY93-FY99 to 13.7% during FY00-FY09, for only a marginal increase in incremental risk from 18.3% to 20.9% per annum. As a result, the Sharpe Ratio increased from 0.20 to 0.65 between the two periods. The Sharpe Ratio of a fund or investment strategy measures the expected differential return per unit of additional risk versus a benchmark – in this case, versus the MSCI Emerging Markets Index.

3.12 To complement these observations, Figure 3-1 illustrates IFC's equity sales during the past fiscal years. The figure shows the overall proceeds from IFC equity sales (left hand scale) as a percentage of total portfolio valuation. The MSCI Emerging Market is shown on the right hand scale.

Figure 3-1: IFC's Equity Sales Volumes (LHS) vs. MSCI EM Total Return Index (RHS)
(3-month Moving Average of Monthly Sales Proceeds as % of Total Portfolio Fair Value)



4. Management of Older Equity Investments

3.13 In FY08, all equity investments made prior to FY00 had been reviewed with the purpose of evaluating IFC's role and to develop careful exit strategies for each investment. The review had identified 206 equity investments disbursed prior to FY00[8]; these investments represented about 22% of the total equity portfolio on a dollar basis and 34% by count. Following implementation of exit strategies, 37 of those investments were sold and 17 more investments were partially sold, bringing the total number of older equities down to 169 at year-end. This management effort was continued during FY09, when 17 investments made prior to FY00 were sold on the back of the implementation of exit strategies for older equity investments and 27 more investments were partially sold, bringing the total number of older equities down to 152 at year-end. IFC generated about $170.7 million in proceeds from these sales, including $132.6 million in capital gains. As of June 30, 2009 twenty-six (of the 152) equity investments were identified as being more than 20 years old, of which 12 belonged to the "deadwood" category. Deadwood investments are those equity investments in which recovery is unlikely, but which have not been fully written off in order to preserve IFC's legal rights. Action plans for the remaining 20+ year investments are in place with 10 investments planned for sale within the next two years.

5. Equity Write-Offs

[See Table C-32 for equity impairment and write-offs and Table C-33 for regional equity impairment.]

3.14 In FY09, equity fair value write-downs and losses on sales totaled $1,070 million for 210 companies, as compared to $146 million for 60 companies in FY08. In FY09, the top ten write-offs accounted for about 35% of total equity write-offs and the two largest write-offs, $103 million for a Financial Services investment in Central & Eastern Europe and $53 million for a Financial Services investment in the Southern Europe & Central Asia region, collectively represented about 15% of total write-offs. The Central & Eastern Europe region accounted for 23% of equity write-offs while the Latin America & Caribbean and Southern Europe & Central Asia regions accounted for 19% and 15%, respectively. By sector, equity write-offs were highest in Financial Services ($584 million, 55%), Oil, Gas & Mining ($123 million, 12%), and Infrastructure ($120 million, 11%).

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[8] *An initial review identified 202 investments (OM2008-0046). Subsequently, another four companies that had been completely written-off were put back on the books.*

IV. LOAN AND GUARANTEE PORTFOLIO REVIEW

1. Loan Portfolio Growth, Size and Income

Loan Portfolio

[See Table C-10 for portfolio growth, Table C-11 for regional distribution, Table C-12 for sector distribution, Table C-13 for currency composition, Figure C-8 for interest rate composition, and Table C-14 for participant portfolio.]

4.1 The disbursed loan and loan type quasi-equity portfolio grew 8% during the fiscal year as compared to 27% growth in FY08. Loan growth was strong across several regions with the highest level being recorded in the Sub-Saharan Africa region (30%); disbursed loans in Central and Eastern Europe, however, decreased by 10%. The Latin America & Caribbean region had the largest share of loans (30%) followed by the Southern Europe & Central Asia region (15%). On a sector basis, Financial Services continued to account for the greatest share of disbursed loans (37%), followed by Infrastructure and Manufacturing; collectively these three sectors accounted for 78% of the total. The Infrastructure sector was the fastest growing sector (31% growth), followed by closely by the Oil, Gas & Mining (30%) sector. The US dollar remained the dominant currency denomination in the loan portfolio (70%), followed by the Euro (12%); local currency loans represented almost 18% of the portfolio, up from 7% in FY05. Seventy-nine percent of the loan portfolio (excluding debt securities) had a variable interest rate as compared to 72% and 84%, respectively, in FY08 and FY05. The B-loan portfolio grew 20% to $6,669 million, largely due to new commitments in the Financial Services and Infrastructure sectors and a sharp slowdown in prepayments. The Latin America & Caribbean region had the largest share of disbursed B-loans (46% or $3.1 billion); the Middle East & North Africa region recorded the highest rate of growth with disbursed B-loans increasing 162% to $228 million. B-loans in Sub-Saharan Africa fell 26% to $173 million.

Guarantees

4.2 The committed portfolio of guarantees grew 7% to $2,055 million ($1,924 million in FY08). Trade finance guarantees represented 54% of the committed guarantee portfolio, up from 36% in FY08. Sixty-six percent ($1,365 million) of the guarantee portfolio was executed and in force at year-end with trade finance guarantees representing 82% of the total. The largest portion of the committed guarantee portfolio was in the Latin America & Caribbean, Sub-Saharan Africa and Middle East & North Africa regions, representing 26%, 20% and 17% of the total, respectively. The Financial Services sector represented 87% of the total committed guarantee portfolio; the Infrastructure sector accounted for an additional 8%.

Quasi-Equity Portfolio

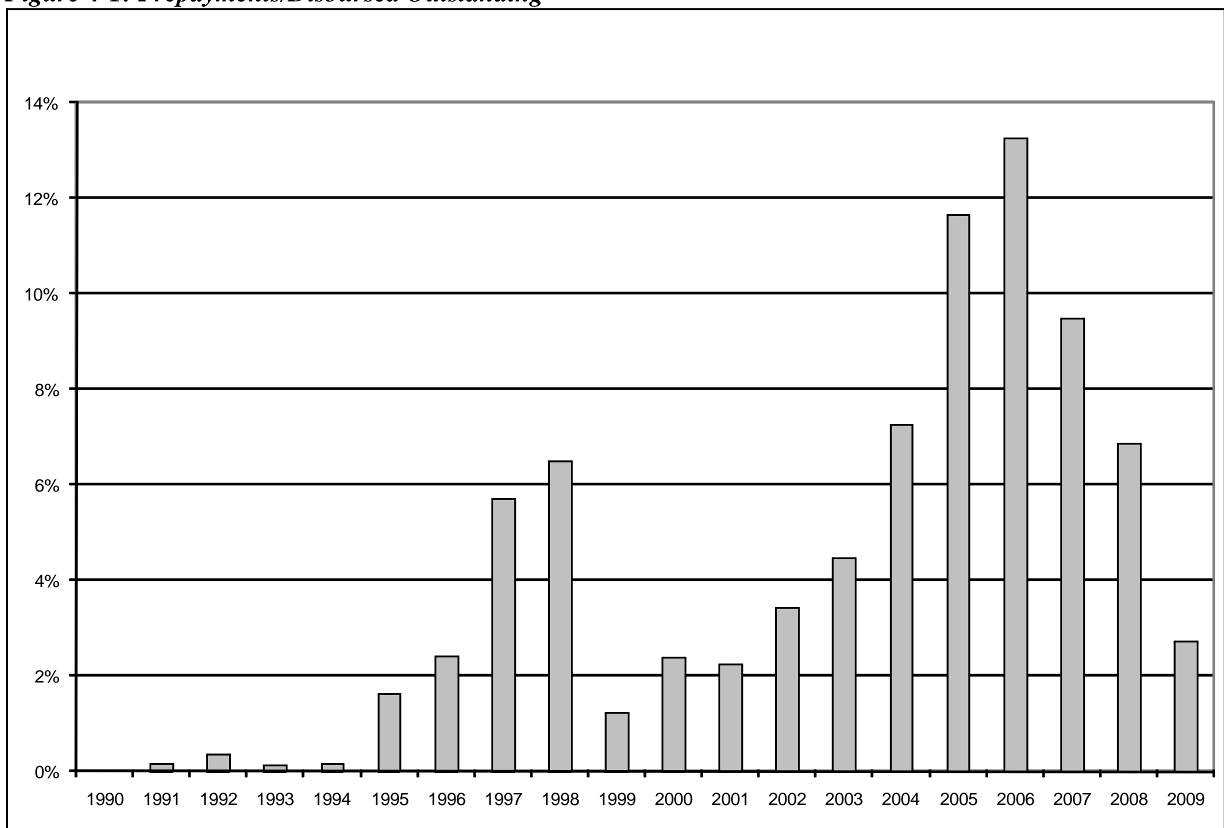
4.3 The disbursed quasi-equity portfolio grew 10% to $3.8 billion at year-end, as compared to 26% growth in FY08. Quasi-equities accounted for 17% of the total disbursed portfolio, up slightly from 16% in FY08. Loan type quasi-equity grew 8% in FY09, while equity type quasi-equity grew 41% and represented 8% of the quasi-equity portfolio at year-end.

Prepayments

[See Figure C-2 for historical prepayment trends and Tables C-4 and C-5 for regional and sectoral distributions.]

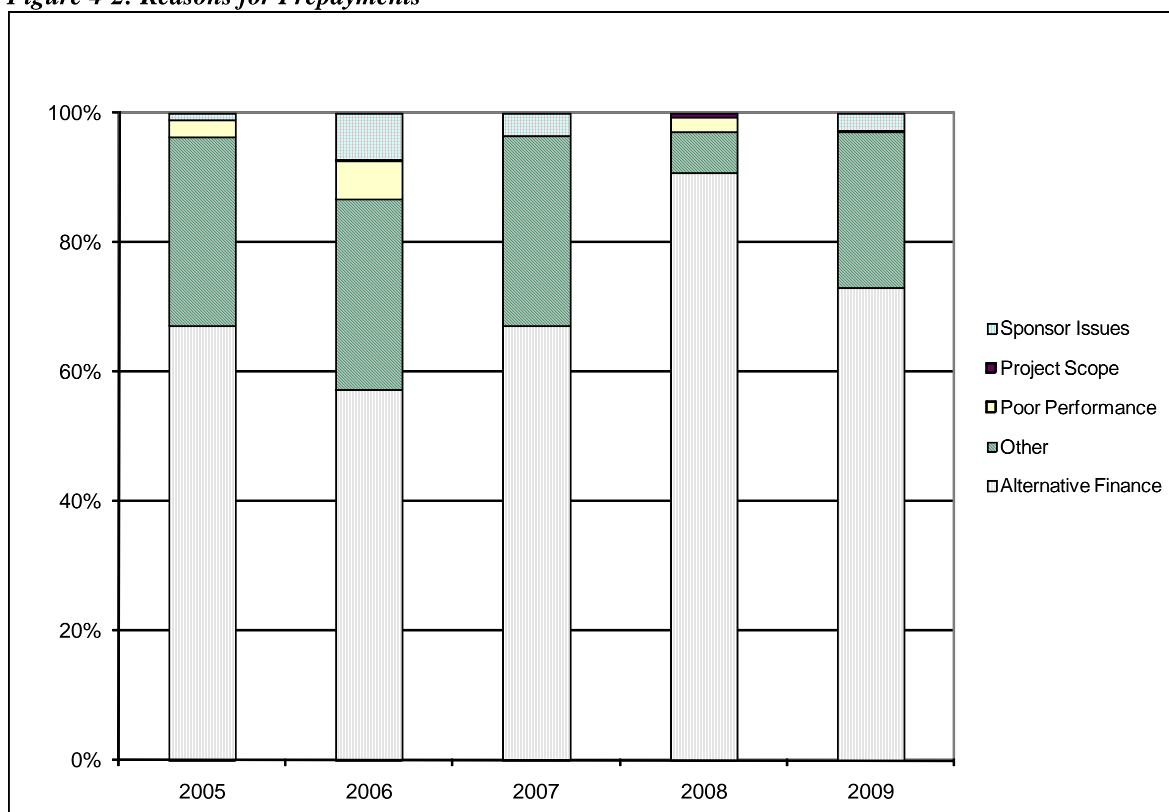
4.4 The volume of prepayments declined by 57% to $490 million in FY09, the lowest volume since FY03. Since the size of the underlying portfolio changes over time, the relative importance of any given level of nominal prepayments also changes. For this reason, it is meaningful to compare the level of prepayments to the level of the disbursed loan portfolio, which is presented in Figure 4-1. In FY09, the level of prepayments relative to the size of the disbursed portfolio was just under 3% as compared to 7% in FY08 and 13% in FY06. The prepayment to disbursed loan portfolio ratio was the lowest observed since 2001.

Figure 4-1: Prepayments/Disbursed Outstanding



4.5 The reasons for prepayments have been classified into five categories for analysis: alternative finance, poor performance, sponsor issues, change in project scope, and other. By total value, alternative finance (73%) was the leading reason for prepayments in FY09 (91% in FY08). Over the last five fiscal years, alternative finance has represented about 70% of all prepayments. Figure 4-2 presents the importance of each of the five reasons for each of the five most recent fiscal years.

Figure 4-2: Reasons for Prepayments



Loan Income and Return

Table 4-1: Loan Income and Return Breakdown, FY05-09

	FY05		FY06		FY07		FY08		FY09	
	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)
Loan Portfolio [1]										
Interest Income	622	53 9	740	95 5	1,019	94 2	1,190	98 6	1,164	162 2
Financial Fees	68	5 9	50	6 4	32	2 9	46	3 8	31	4 3
Fair Value Option Unrealized Gains [2]							(21)	(1 7)	(61)	(8 5)
Other [3]	-		-		-		52	4 3		-
Total Loan Income	690	59 8	790	102 0	1,051	97 2	1,267	105 0	1,134	158 0
Specific Loss Provisions [4]	178	15 4	96	12 4	49	4 5	20	1 7	(122)	(17 0)
General Loss Provisions	270	23 4	(120)	(15 5)	(21)	(1 9)	(88)	(7 3)	(309)	(43 0)
Recovery of Prior Years' Write-offs	16	1 4	9	1 1	3	0 3	8	0 6	15	2 0
Loan Income after Provisions & Recoveries	**1,153**	**100.0**	**775**	**100.0**	**1,082**	**100.0**	**1,207**	**100.0**	**717**	**100.0**
Gross Loan Return Before Provisions & Recoveries	7 0%		7 6%		8 8%		8 5%		6 5%	
Gross Loan Return After Provisions & Recoveries	11 7%		7 4%		9 0%		8 1%		4 1%	

1. *Includes recoveries of prior years' non-accrued interest.*
2. *Effective FY08, IFC elected SFAS 159 Fair Value Option for certain investments.*
3. *Includes $52.4 million gain on loan sale in FY08.*
4. *Provisions on capitalized interest, which are charged to the deferred income account and have no impact on reported income, are shown for performance measurement purposes. Excludes guarantee provisions.*

[See Figure C-11 for regional loan returns and Figure C-12 for sector loan returns.]

4.6 Gross loan income totaled $1,134 million, a 10% decline from the previous fiscal year. The decrease in gross loan income was underpinned by a decline in interest rates, a $61 million unrealized loss on fair valued loans, and lower fee income. Specific reserves of $122 million were added as compared to a reversal of $20 million in FY08. Fee income declined to $31 million, from $46 million in FY08. The return on the loan portfolio (after provisions and recoveries) was 4.1%, down from 8.1% in FY08.

Table 4-2: Guarantees – Type, Exposure and Performance FY01-09

$ millions	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Approvals FY	617	527	412	288	697	576	1,116	429	945
Approved Pending Commitment	549	526	317	308	731	679	1,212	1,366	2,320
Droppages FY	59	84	81	96	67	27	73	81	57
Commitments FY	547	271	439	271	218	588	982	1,791	2,479
Cancelled	4	6	112	330	20	221	54	166	97
Expired	221	53	49	97	-	25	79	1	-
Outstanding	78	223	314	315	291	494	781	1,141	1,365
Pending Execution	511	571	765	584	707	656	634	783	690
Committed	589	794	1,080	899	998	1,150	1,415	1,924	2,055
Called	1	1	0	1	1	0	-	1	-
Reserves	2	29	34	16	13	19	16	17	14
Specific	2	3	4	-	-	-	-	-	-
General/Contingent Liab (FY04+)	-	26	30	16	13	19	16	17	14
Provisioning	(0)	27	5	(18)	(3)	5	(3)	2	(4)
Fee Income	2	4	11	0	1	5	15	18	19
Net Impact on Income Statement (Income less Provisions & Called)	1	(24)	5	17	2	(1)	18	15	22
Return on Avg. Outstanding	1.7%	-15.8%	2.0%	5.5%	0.8%	-0.3%	2.8%	1.6%	1.8%
Number of Transactions									
Approvals for FY[1]	20	22	12	12	13	18	25	17	17
Projects with Active Commitments	47	57	63	57	60	70	70	145	191
Projects with Outstanding Balances	25	40	42	38	35	48	48	116	172

1. Approvals for GTFP program are under one master project.

4.7 Guarantee fee income increased by 4% to $18.5 million ($17.8 million in FY08) after executed guarantees grew 20% to $1,365 million. Trade finance guarantees represented 82% of the total executed guarantees. Gross return on the guarantee portfolio was 1.8% as compared to 1.6% in FY08.

2. Loan Portfolio Performance Indicators

[Table 4-3 summarizes the main loan performance indicators. See Table C-27 for non-accruing loans by region and Table C-28 for arrears by region.]

Table 4-3: Selected Loan Performance Indicators, FY05-09

		FY05	FY06	FY07	FY08	FY09
Income						
Gross Loan Income[1]	$Mil	690	790	1,051	1,267	1,134
Gross Non-accrued Interest	$Mil	57	68	70	78	47
Recoveries of Non-accrued Interest	$Mil	23	13	16	7	5
Non-Accruing Loans						
Number of Non-accruing Loans[2]	No.	159	124	99	81	86
Principal on Non-accruing Loans	$Mil	634	447	378	369	457
as % of Principal Outstanding	%	6.4	4.1	2.9	2.2	2.5
Arrears						
Principal in Arrears	$Mil	406	263	219	184	223
Principal in Arrears as % of Principal Outstanding	%	4.1	2.4	1.7	1.1	1.2
Interest and Charges in Arrears	$Mil	291	263	252	194	203
Reserves and Write-offs						
Number of Loans with Specific Reserves	No.	232	164	136	110	112
as % of Outstanding Loans	%	29.2	21.8	18.1	14.5	14.3
Specific Loan Loss Reserves	$Mil	589	378	291	219	300
as % of Outstanding Loans	%	5.9	3.5	2.2	1.3	1.7
Loan Write-offs (before Recoveries)	$Mil	143	114	39	51	41

1. Gross Loan Income includes interest income, financial fees, and other loan related income. It excludes guarantee income.
2. Loans under agency lines have not been consolidated for this count.

Non-Accruing Loans

4.8 There were 86 loans in non-accrual status at fiscal year-end, representing 11% (by number) of disbursed loans. Principal on non-accruing loans increased by 24% to $457 million, but represented only 2.5% of disbursed principal at year-end (2.2% in FY08 and 6.4% in FY05). The Latin America & Caribbean region represented the largest share of the total with 33% (33% in FY08), followed by Southern Europe & Central Asia with 19% (3% in FY08). Non-accruing principal increased in all but two regions, Central & Eastern Europe and South Asia. On both a percentage and dollar basis, Southern Europe & Central Asia recorded the most significant increase in non-accruing principal, climbing about seven-fold, to $85 million. Non-accruing principal in the Middle East & North Africa and East Asia & Pacific regions increased 68% and 33%, respectively. The Financial Services sector had the lowest level of non-accruals at year-end (less than 0.2% of disbursed loans); Chemicals had the highest level (8.1%). Non-accruing principal is concentrated in a few loans, with 10 loans representing 51% of total non-accruing principal.

Arrears

4.9 Total arrears (principal, interest, and charges) increased 13% during the year to $426 million. The largest increases in arrears (in percentage terms) were recorded in the Central & Eastern Europe (75%) and Middle East & North Africa (49%) regions; however, Central & Eastern Europe only represented a 4% share of total arrears while the Middle East & North Africa represented 22%. The Latin American & Caribbean region had the largest share of total arrears (25%) with arrears increasing by $26 million to $106 million. Total arrears in the East Asia & Pacific and Sub-Saharan Africa regions declined 31% and 15%, respectively, and were the only regions to register declines.

3. Loan Reserves and Write-offs

[See Table 4-4 and Figure 4-3 for specific and general loss reserves, Figure C-16 for specific loan reserves, Table C-30 for regional specific loan loss reserves and Figure C-18 for write-offs.]

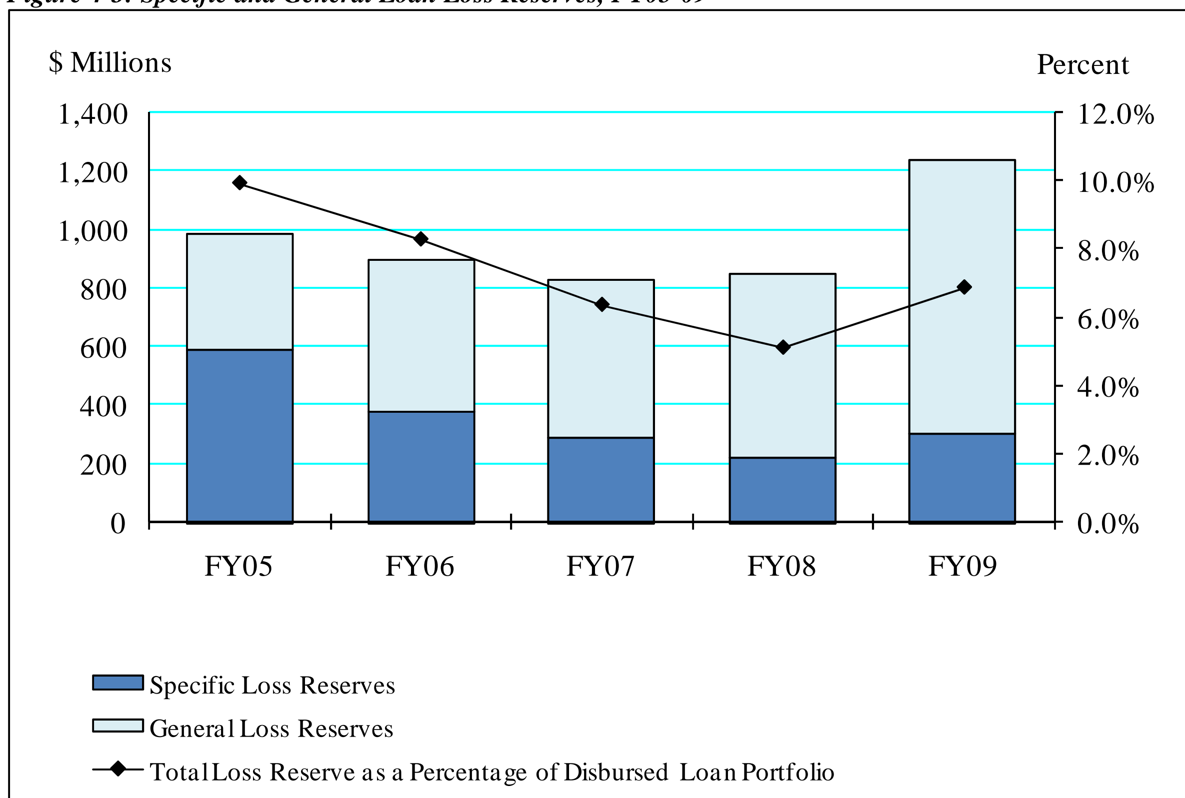
4.10 Loan specific loss reserves stood at $300 million at year-end ($219 million in FY08), representing 1.7% of the outstanding loan portfolio, up from 1.3% last year (5.9% in FY05). The increase in the level of loan specific loss reserves primarily reflects the effects of the global financial crisis and, in particular, some problem projects in Turkey, Croatia, China, Pakistan and Brazil. After write-offs, the Southern Europe & Central Asia registered the largest dollar and percentage increase, up $43 million or twelve-fold. The Latin America & Caribbean region had a $23 million increase in specific loan loss reserves and reserves grew 55% in the Middle East & North Africa region. By sector, Manufacturing had the largest increase in dollar terms (up $29 million or 27%) followed by Industrial & Consumer Services (up $27 million or five-fold)

Table 4-4: Specific and General Loan Loss Reserves, FY05, FY08 & FY09

	FY05		FY08		FY09	
	($Mil)	(%)[1]	($Mil)	(%)[1]	($Mil)	(%)[1]
Specific Reserves	589	5.9	219	1.3	300	1.7
General Reserve	400	4.0	629	3.8	938	5.2
Total Reserves	**989**	**9.9**	**848**	**5.1**	**1,238**	**6.9**

1. Loans: percent of outstanding loan portfolio.

Figure 4-3: Specific and General Loan Loss Reserves, FY05-09



4.11 IFC wrote-off $41 million in loans (before recoveries) to 15 companies, compared with $51 million to 23 companies in FY08. An Agriculture project in Indonesia, an Infrastructure project in Thailand and a Manufacturing project in China represented 23%, 23%, and 18%, respectively, of total loan write-offs. The East Asia & Pacific region accounted for 64% of loan write-offs while the Sub-Saharan Africa region accounted for 30%. By sector, loan write-offs were highest in Manufacturing ($20 million, 48%), Agriculture ($10 million, 24%) and Infrastructure ($9 million, 23%). Despite global weakness, loan write-offs in the Financial Services sector were negligible (less than $100,000) in FY09.

V. DEVELOPMENT RESULTS

1. IFC's Development Outcome Tracking System (DOTS)

5.1 IFC's Development Outcome Tracking System – known as DOTS – measures the development results of IFC's investments and advisory services. This section focuses on DOTS for investments. The launch of DOTS was accompanied by major training efforts, reaching about 1,500 staff each in FY06 and FY07. Beginning with the FY07 Annual Report, IFC was the first multilateral development bank to report on current development results for its entire portfolio and to have an external firm review the application of its methodology and reported results, as part of assurance for nonfinancial aspects of our reporting. Our training efforts continue, reaching about 1,350 staff in FY09 in 37 events, many of them in the field. After certain exclusions[9] DOTS now covers all active companies in supervision in IFC's portfolio, as well as all new business. Our reporting universe for the 2009 Annual Report consisted of projects approved between 2000 and 2005 that are still active in our portfolio. We always report on a rolling time frame such that we do not include investments that are too immature to measure results reliably or too old and thus less relevant for today's operations. Furthermore a development results portal (www.ifc.org/results) complements the information provided in the Annual Report.

5.2 DOTS allows for real-time tracking of results throughout the project cycle. Staff identify clear, standardized, and monitorable indicators, with baselines and targets, at the outset of a project. They then track progress throughout supervision, which allows for contemporaneous feedback into operations. DOTS uses a similar ratings framework as that used by IFC's Independent Evaluation Group (IEG), which is also in line with established good practice standards for private sector evaluation agreed among multilateral development banks. Development outcome is rated on a six-point scale (from highly unsuccessful to highly successful) and is a synthesis rating based on four underlying performance indicators: (1) financial, (2) economic, (3) environmental & social performance and (4) private sector development impacts, which are rated on a four-point scale. The top half of the ratings (highly successful, successful, and mostly successful for development outcome; excellent and satisfactory for the four performance indicators) are categorized as being "rated high".

Enhancing Results Measurement

5.3 The launch of an improved system, "DOTS-2," in FY10 will further standardize indicators across regions and industries, and significantly enhance the indicators themselves. We will be able to compare actual results against the original baselines and expectations faster and more accurately, feeding findings to new operations and investment strategies sooner, to ultimately enhance IFC's development impact on an ongoing basis. Beyond IFC, our results measurement framework is considered best practice among multilateral development banks. We constantly share our experience with the broader development community, including other multilateral development banks, foundations, and donors. Since 2005, we have fostered the improvement and harmonization of development results measurement among multilateral development bank through the Common Performance Assessment System, an annual self-assessment exercise led every year by a different multilateral development bank by rotation. The World Bank Group led the preparation of the 2008 report, and IFC prepared inputs from all multilateral development banks on private sector operations.

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[9] DOTS coverage is determined after certain exclusions, typically in cases where the development results are tracked under a different company or project, such as projects that do not count separately (e.g. fund management companies), splits (e.g. holding and operating company), rights issues, etc. Some projects are tracked on a program basis, such as the Global Trade Finance Program. After these exclusions, DOTS covers all 1375 companies in IFC's active portfolio in supervision.

Highlights of Development Results

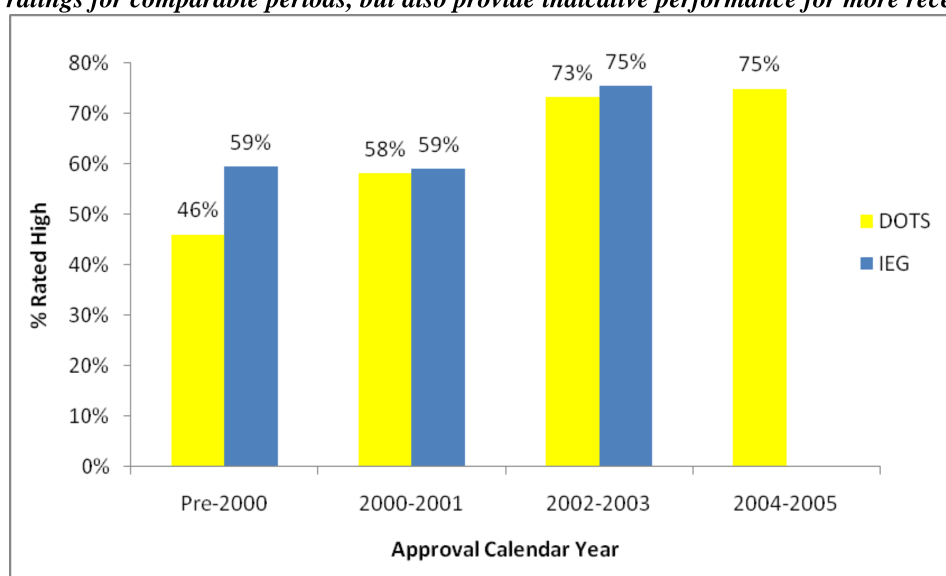
5.4 The highlights of development results this year, which will be covered in more detail in the following sections are as follows:

- **Development results remain strong.** Both IEG and DOTS show continued very strong results. The percentage of projects with high development results for the last two fiscal years exceeds 70% using both IEG and DOTS data, compared to a long-run average of about 60% prior to the last two years. IFC thus continues to exceed its long-run target of 65%. However, we will need to watch carefully how the global financial crisis will affect developing countries in the coming year.
- **Europe and Central Asia has been severely affected by the crisis, but performance in Latin America has improved**. Development results in Europe and Central Asia have deteriorated substantially, since this region has been hit first and most severely. The region has also been focus of several of IFC's crisis initiatives. Conversely, development results in Latin America have improved substantially, mostly because strong-performing new projects have been added to the reporting universe, whereas many projects that had performed poorly, in large part due to the Argentine crisis, dropped out of the reporting universe.
- **The performance of agribusiness projects has substantially improved, whereas funds investments have been most affected by the crisis and manufacturing and services continues to show weaker performance, particularly for small investments in difficult investment climates**. Development results of agribusiness projects have improved substantially, mainly because well-performing newer projects have been added to the reporting universe, whereas poorly performing older projects have dropped out. Agribusiness has to date also not been affected very much by the financial crisis, whereas private equity and funds have already seen a major deterioration. The performance of manufacturing and services remains weaker, mainly because of the poor performance of small, direct investments in difficult investment climates, notably Sub-Saharan Africa. IFC has thus adapted its strategy to (a) a major focus on improving investment climates through advisory services; (b) improving infrastructure in these difficult countries; and (c) indirect support to SMEs through linkages to larger enterprises and through financial intermediaries, which have provided much better results, even in difficult environments, particularly where investments were combined with advice.
- **Financial performance continued to be closely aligned with other performance areas. Larger and repeat projects continued to have better development results.** Several performance patterns established earlier remained stable, including the close correlation between financial performance and other areas of development results, and the better performance of larger and repeat projects.
- **IDA countries: Compared to GDP and FDI, IFC's portfolio is heavily concentrated in IDA countries, and its new business – both investments and advisory services – even more so.**

Comparing DOTS and IEG results

5.5 While there are some differences compared to the IEG approach[10], DOTS results are highly consistent with IEG evaluation results for comparable time periods (Figure 5-1). It is important to point out that the reason for the lower DOTS scores for the pre-2000 approvals is that DOTS currently reports only on companies with active investments. Among the pre-2000 approvals there is a negative bias because successful projects have typically already been repaid or sold, whereas projects that have run into difficulties (e.g. restructuring, litigation or even liquidation) are often still on IFC's books.
An IEG evaluation[11] this fiscal year found that DOTS for investments had developed – within a very short period of time – into a reliable management tool, with a high degree of consistency with IFC's long-established evaluation system that is considered best-practice among multilateral development banks. The incidence of net downgrades was as minimal as for the in-depth evaluation system, and DOTS thus complements evaluations by providing current and unbiased assessments of the development results of IFC's entire active portfolio, and information about project performance both before and after the once-in-a-lifetime evaluations. From a management perspective, having indicative performance of projects up to two years earlier than the evaluation system is extremely valuable to feed results earlier into strategy and operations. DOTS is thus used as an operational tool to track progress on the corporate scorecard and other strategic analysis, and IFC is being recognized for being at the forefront in development results based performance management among multilateral development banks.

Figure 5-1: Recent development results are very strong. DOTS ratings are highly consistent with IEG ratings for comparable periods, but also provide indicative performance for more recent approvals

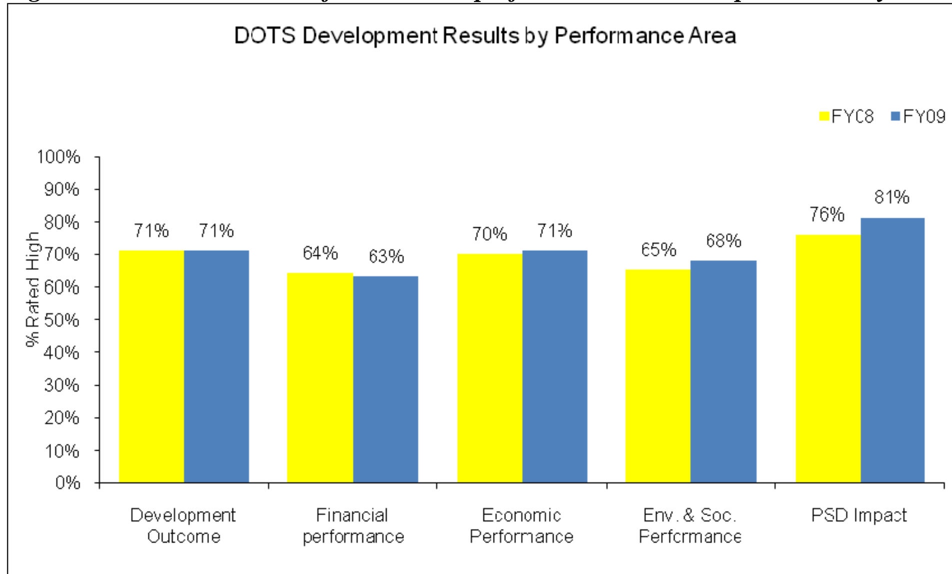


As shown by figure 5-2, the analysis of the four performance areas underlying the overall DOTS development outcome scores shows that no major shift took place compared to FY08, with differences for

[10] For example, DOTS ratings are company-, rather than project-, based and use proxies (e.g. annual returns on invested capital) rather than the more in-depth evaluation methods (e.g. life-of-project re-estimated financial and economic returns) used at the evaluation stage. Also, IEG covers closed projects, whereas DOTS focuses on the active portfolio. Over time, since DOTS ratings are updated prior to project closure, DOTS reporting will also be able to cover either only the active portfolio, or the active and closed portfolio.
[11] Biennial Report on Operations Evaluation in IFC 2008: Enhancing Monitoring & Evaluation for Better Results, IFC/R2008-0293

all performance areas staying within five percentage points, and only financial performance showing a minimal deterioration (minus 1%).

Figure 5-2: Small variations for all DOTS performance areas compared to last year

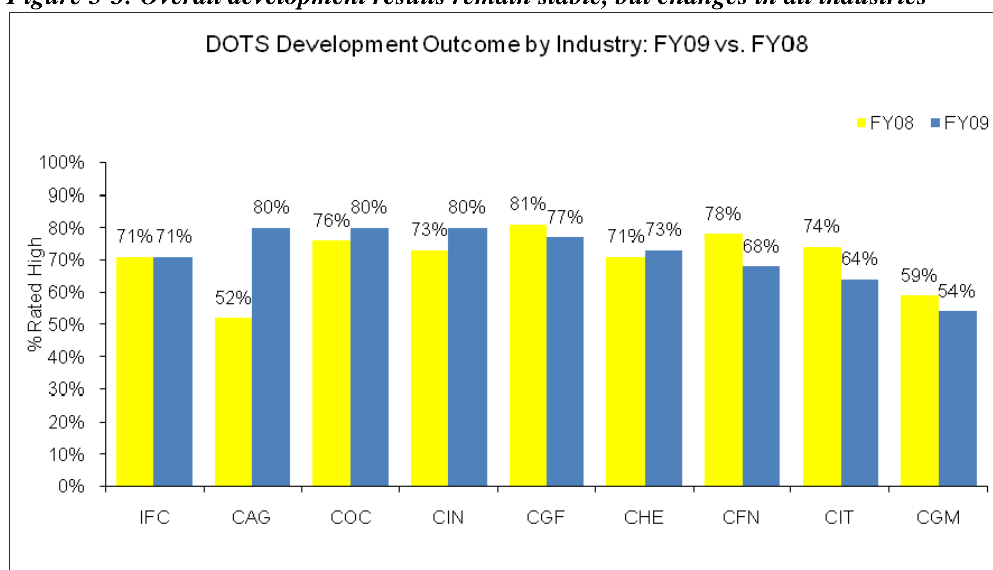


FY09: DOTS data as of June 30, 2009 for projects approved in calendar years 2000-2005
FY08: DOTS data as of June 30, 2008 for projects approved in calendar years 1999-2004

Development Results by Industry

5.6 IFC's development results in FY09 remained as strong as in FY08, with 71 percent of our investments rated high, compared to 63% in FY07 and 64% in FY06. However, as figure 5-3 shows, this overall stability, masks development results changes in virtually all industries.

Figure 5-3: Overall development results remain stable, but changes in all industries



FY09: DOTS data as of June 30, 2009 for projects approved in calendar years 2000-2005;
FY08: DOTS data as of June 30, 2008 for projects approved in calendar years 1999-2004
Legend: CAG – Agribusiness; COC – Oil, Gas, Mining and Chemicals; CIN – Infrastructure; CGF - Global Financial Markets; CHE - Health and Education; CFN – Private Equity and Investment Funds; CIT -Global Information and Communication Technologies; CGM - Global Manufacturing and Services. CSF – Subnational Finance: not shown, given that most operations are not yet sufficiently mature to assess results fully.

5.7 Among our industry departments, Agribusiness, Oil, Gas, Mining and Chemicals, and Infrastructure had the strongest development results. For agribusiness, the DOTS score rose by 28 percentage points to 80 percent. The improvement was partly due to several older low-rated projects dropping out and many newer high-rated projects entering our reporting universe. The stronger performance also was attributable to the fact that many agribusiness projects were not yet affected during the initial period of the crisis.

5.8 Infrastructure's development results further improved from 73 to 80 percent compared to FY08. Part of this improvement has to be attributed to the fact that mature projects were less affected by the crisis than projects in the implementation phase. Additionally, some low-rated projects approved in 1999 dropped out of the reporting universe. The positive performance of infrastructure projects was mainly driven by power sector investments, while last year water and gas projects were infrastructure's best performing sub-sectors. At the regional level, most high-rated projects were concentrated in Latin America. Development results in Europe and Central Asia were weaker than infrastructure projects in other regions, but still at par with IFC's average for all sectors.

5.9 Despite weaker commodity prices throughout most of FY09, Oil, Gas, Mining and Chemicals client companies built on their already solid performance in FY08. One third of the Oil, Gas, Mining and Chemicals investments were located in Sub-Saharan Africa, and the percentage of projects rated high was in line with the department's overall results (80 percent). However, in East Asia and the Pacific and in the Middle East and North Africa regions results were somewhat lower, due to higher concentration and weaker performance of some basic chemical manufacturing projects. The limited size of each regional portfolio, however, does not allow drawing definitive conclusions.

5.10 Despite the global financial crisis originated in the United States, Global Financial Markets' development results deteriorated only slightly compared to last year, from 81 to 77 percent. This very moderate deterioration is partly explained by significant regional variations, ranging from substantial

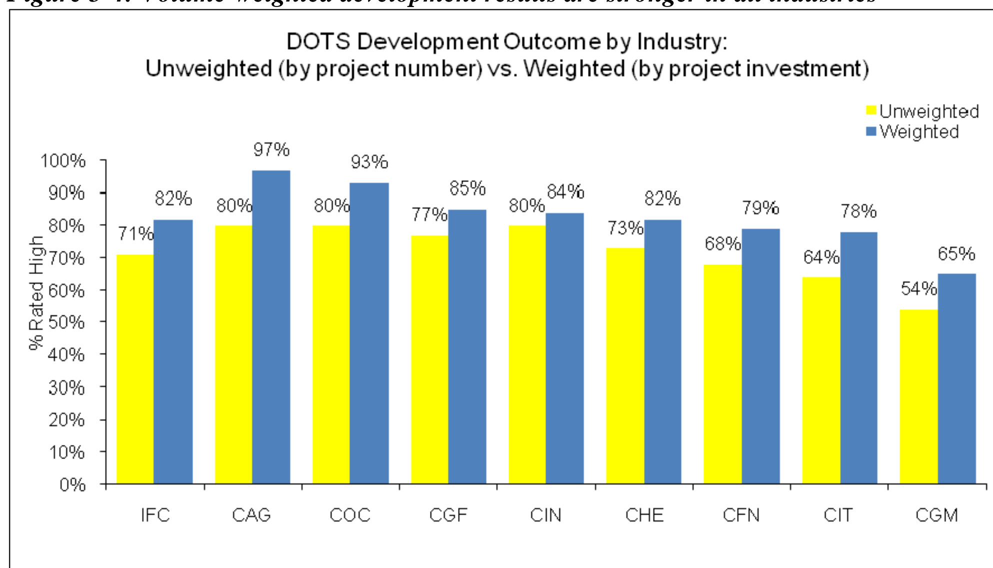
performance deteriorations in Central and Eastern Europe (-25 percent) to strong gains in South Asia (+18 percent). These regional differences reflected numerous local factors related to the business environment of the counties where IFC invested, including varying degrees of integration in global financial markets, diverse macroeconomic fundamentals, different compositions by sub-sector and financial instruments, and distinct extents of leverage and liquidity of local financial systems. Additionally, IFC's strategic approach to financial markets operations – which often combines investments and advisory services with the intent of maximizing the synergies between the two – also helped sustain Global Financial Markets' development results during this challenging year.

5.11 The development results of two departments – Private Equity and Investment Funds and Information and Communication Technologies – deteriorated by 10 percentage points. For Private Equity and Investment Funds, the deterioration mostly reflected the downturn of equity markets. For Information and Communication Technologies, it was partly the result of IFC's shift away from telecom projects that traditionally have been very successful and toward other projects, including IT, cable and broadband, which arguably are more innovative and risky.

5.12 The Global Manufacturing and Services department remained the weakest performer among industry departments, though with significant regional variations (73 percent of projects were rated high in South Asia but only 20 percent in sub-Saharan Africa) that underscored the sensitivity of manufacturing projects—particularly those involving small businesses—to difficult investment climates and poor infrastructure. In response, IFC strategy in recent years has increasingly focused on improving client countries' business climates and infrastructure while shifting away from direct support to small businesses toward indirect support through financial intermediaries.

5.13 As in FY08, results weighted by IFC's investment volume proved to be stronger, with 82 percent of investments rated high. Figure 5-4 shows that weighted results were higher in all industries, indicating, on average, that larger investments and companies tend to perform better.

Figure 5-4: Volume-weighted development results are stronger in all industries



DOTS data as of June 30, 2009, for projects approved in calendar years 2000-2005

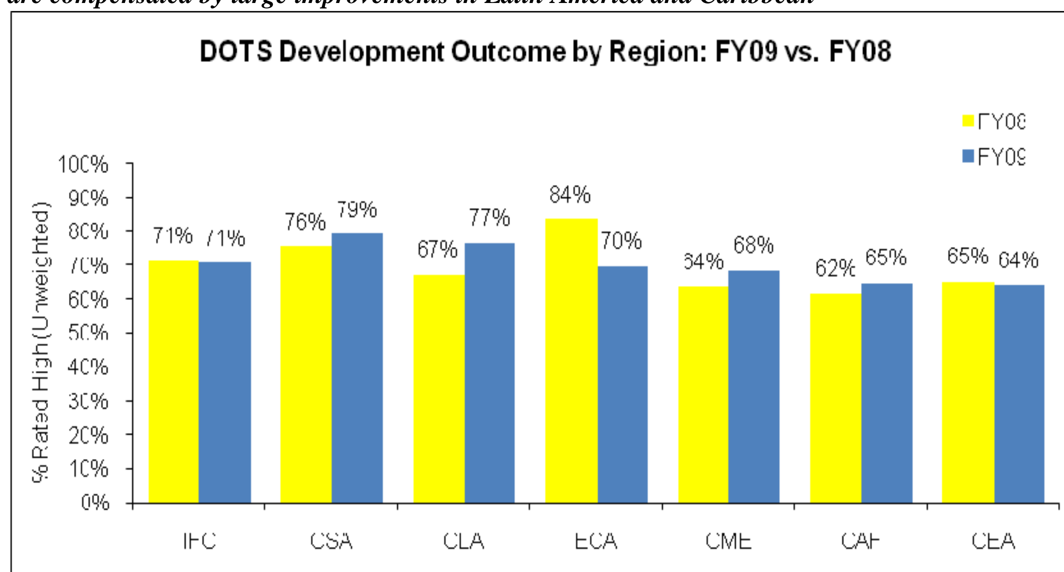
5.14 This, in part, is due to a higher risk profile for small businesses and investments, and the economies of scale of larger companies, often with better management and corporate governance that make it easier for companies to overcome difficult business environments and external shocks. In sub-

Saharan Africa, for example, weighted results were 25 percentage points higher than unweighted results, confirming that larger projects were able to overcome the region's challenges and produce very strong development results while smaller investments were particularly vulnerable to difficult investment climates, poor infrastructure, and limited access to finance. See also the following section on development results by region for further analysis.

Development Results by Region

5.15 As shown by figure 5-5, Eastern Europe and Central Asia (ECA) was the region hardest hit by the current crisis. Whereas in FY08 it had the highest DOTS score among all regions (84 percent), this year ECA has seen the biggest drop of any region, minus 14 percentage points. The region is projected to experience a sharp economic contraction in 2009, compared to strong growth in the last few years. The decline in the real sector, induced by the global economic slump, has been magnified by a dearth of capital. The local financial sector has been affected by the failure of some regional banks and reduced activity by local branches of global financial institutions. Prior gains in poverty reduction are at risk of being reversed.

Figure 5-5: FY09 vs. FY08: Overall results stay the same, but deteriorations in Europe and Central Asia are compensated by large improvements in Latin America and Caribbean



FY09: DOTS data as of June 30, 2009 for projects approved in calendar years 2000-2005;
FY08: DOTS data as of June 30, 2008 for projects approved in calendar years 1999-2004
Legend: CSA – South Asia; CLA – Latin America and the Caribbean; ECA – Europe and Central Asia; CME – Middle East and North Africa; CAF – Sub-Saharan Africa; CEA – East Asia and the Pacific.

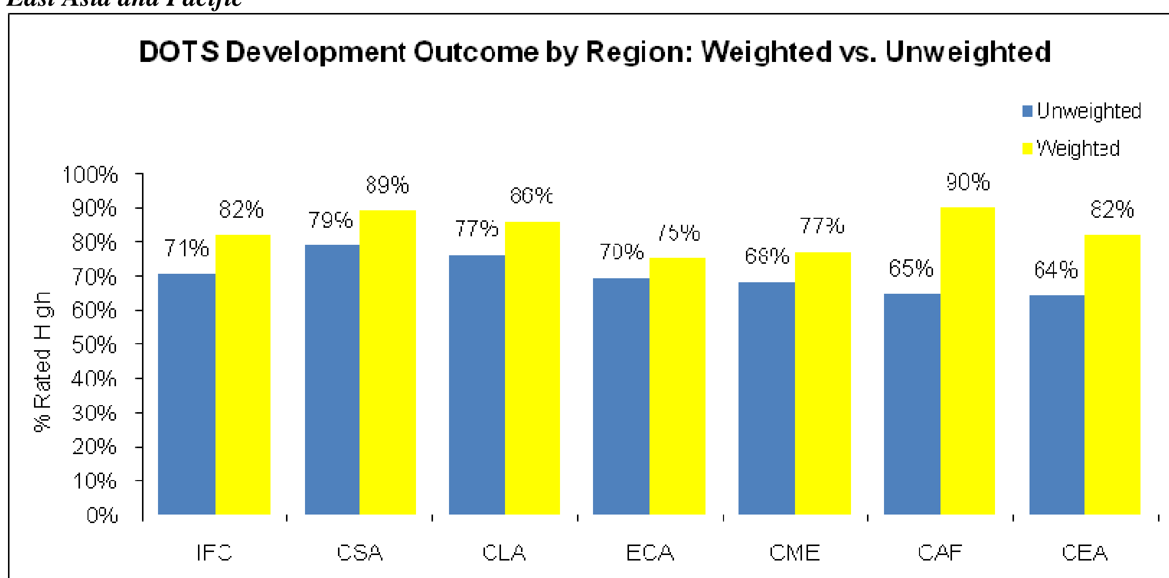
5.16 IFC has taken several initiatives to stem the decline in ECA, making capital available to support existing clients in key sectors through short-term finance, guarantees, quasi-equity investments, trade finance, and advisory services. In addition, IFC has helped mobilize capital for the region through multilateral initiatives, such as the Eastern European Banking Facility, the IFC Capitalization Fund, and the Global Trade Liquidity Program.

5.17 Latin America and the Caribbean region has been affected by global financial sector stress and deleveraging, decline in commodity prices, and slowdown in remittances. However, as in other regions except ECA, development results of our client companies have not been compromised by the crisis. In fact, LAC region has seen an increase in DOTS score from 67 percent in FY08 to 77% in FY09. The main

reason is that quite a few projects that had been affected by the Argentina crisis dropped out of the reporting cohort, while projects in the newly added 2005 cohort performed extremely well.

5.18 In response to the crisis, IFC quickly adopted a countercyclical strategy in the region and concentrated its resources on supporting micro, small, and medium enterprises. Paraguay's Banco Continental became the first financial institution to receive financing from the new IFC Bank Capitalization Fund. The $20 million equity investment will ensure continued support for Paraguay's small and medium enterprises. At a time when credit became scarce, IFC joined other international financial institutions to fill the financing gap for the expansion of the Panama Canal. With IFC's help, the $5.3 billion project was able to go ahead on schedule fully financed, while an estimated $67 billion of new and existing projects in developing countries face postponement or cancellation as financing has dried up.

Figure 5-6: Volume-weighted results are better in all regions, particularly in Sub-Saharan Africa, and East Asia and Pacific



DOTS data as of June 30, 2009, for projects approved in calendar years 2000-2005

5.19 As in prior years, development results weighted by IFC investment are better for all regions. This is a pattern that has held consistently over time – larger investments have better development results thanks to the fact that they usually have better corporate governance and greater capability to overcome difficulties in investment climate. Figure 5-6 shows that compared to unweighted results, weighted results were particularly better for Sub-Saharan Africa and East Asia and Pacific, 25 percentage points and 18 percentage points higher respectively.

5.20 In Sub-Saharan Africa, it is particularly noteworthy that the development results weighted by IFC's investment have now become the strongest of any region. At least in part this shows that the new strategy IFC adopted in 2003 is starting to work. This new strategy included substantially more investment climate work, strengthening IFC's advisory services, with a particular focus on MSMEs, as well as more proactive project development for investment projects and increased field presence. This new strategy has resulted not only in substantially increased investment volumes, but DOTS gives an early indication that the development results of recent investments are also much stronger. Whereas the overall results for Sub-Saharan Africa are still somewhat below IFC's overall results (65% vs. 71%), this masks that while Africa was trailing IFC substantially in the early years (2000-2002 approvals: 43% rated high vs. 63% for IFC), for more recent results Africa is even slightly ahead of IFC (2003-2005 approvals:

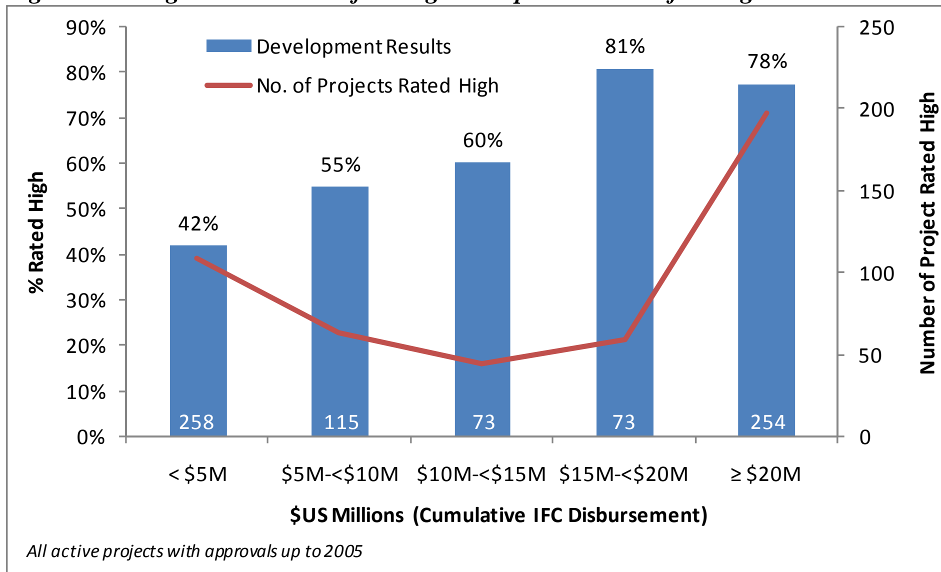
78% vs. 75% for IFC). Another positive indication is substantially increased reach by IFC's client companies. For example, in 2008 IFC's clients generated enough power to serve over 19 million customers (up from 13 million in 2007), provided 6.1 million new phone connections (6.9 million in 2007) and provided 192,000 jobs (up from 124,000 in 2007).

5.21 The shift in strategy also included a move from direct investments in SMEs to providing support to SMEs through financial intermediaries, which proved much more effective. In Sub-Saharan Africa, we used to reach about 50 SMEs per year through direct investments, at considerable cost to IFC. Last year, by comparison, financial intermediaries in which IFC had invested provided over 358,000 loans to micro, small and medium enterprises. IFC's investments in Africa are typically accompanied by advisory services, and an IEG evaluation of financial intermediaries supporting SMEs in frontier markets shows that this combination increased the likelihood of high development results by more than 20 percent.

Notable development results performance patterns

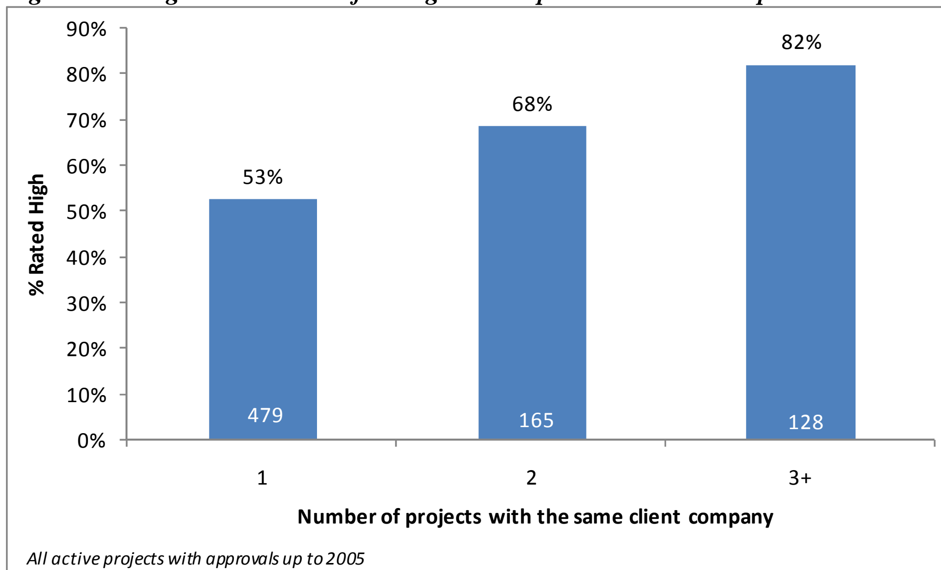
5.22 Larger IFC investments have a higher likelihood of achieving high development results. While only 42% of companies with total IFC disbursements of less than $5 million achieved high development results, about 80% of companies with total IFC disbursements of more than $15 million did (figure 5-7). This pattern holds across industries, and in-depth evaluations by IEG show similar results. Projects with larger IFC investments tend in particular to have stronger financial and economic performance. This points to economies of scale for larger companies. In depth analysis also shows weaker management and corporate governance for smaller companies. IFC's development results for smaller investments were particularly lower in regions with poorer investment climates – see particularly the analysis of Sub-Saharan Africa in the regional section. IFC of course needs to maintain a proper balance between smaller and larger projects and IFC investments.

Figure 5-7: Higher likelihood of strong development results for larger investments



5.23 Long-term partnerships can lead to higher development results (see Figure 5-8). Long-term partnerships are one of the strategic pillars of IFC's strategy, and often involve either deepening of interactions through advisory services or repeat investments – a second or subsequent investment in the same client company, sometimes expanding to a different market. Repeat investments tend to have better development results, because there is an advantage to working with an existing client where a prior relationship existed and where the company has developed a successful track record. Analysis shows that repeat clients tend to have higher quality of management and better corporate governance, as well as higher quality products and services. IFC of course needs to maintain a proper balance between supporting existing clients and developing new business with new client companies.

Figure 5-8: Higher likelihood of stronger development result with repeat investments



Financial performance, value added and development results

5.24 The main reasons why financial performance may differ from development results are externalities or market distortions. IFC addresses both of these aspects in its screening and monitoring, for example by not supporting projects that depend for their financial viability on subsidies and protection. IFC also assesses and mitigates environmental and social risks ex-ante and actively assists client companies in improving their environmental and social performance. IFC's clients mention this as being a key are of IFC's value addition.

5.25 One way to assess tradeoffs is to compare financial rates of return (FRRs), which measure returns from the point of view of the financiers, with economic rates of return (ERRs), which measure returns from the point of view of society as a whole (including the financiers). IEG evaluated projects between 2005-2007 show that benefits for society as a whole clearly exceeded those for financiers alone in *90%* of cases, compared to 6% where the reverse was true. We estimate that these 63 projects generated *$9.2* billion in value-added over and above their project costs of $8.7 billion (of which IFC financed $1.2 billion and mobilized $770 million from B-lenders), and these benefits were about evenly split between financiers (53%) and other stakeholders (47%). The median economic rate of return was 15%, and the median financial rate of return was 10% (both in real, i.e. inflation adjusted terms).

5.26 Based on past results, we calculated how much leverage IFC obtained from its investments and what development results were achieved. Using both historical portfolio data and a random, representative sample of IFC projects that had been evaluated by IEG over a relatively long timeframe spanning both bad and good economic conditions for emerging markets, we extrapolated the results using DOTS and IEG results as of last year (updated financial and economic rates of return were not yet available).

5.27 IFC provides both loans and equity investments. Although equity investments require IFC to set aside more capital, they typically enable IFC to raise more funding from other investors. Loans, on the other hand, require IFC to set aside less capital, but usually leverage less capital from other investors. Overall, for every dollar of IFC capital (either supporting equity or loan investments), IFC helped support projects worth about $17.50.

5.28 These projects, in turn, generated benefits above and beyond a risk-free return. Their added value accrued to investors in the form of profits and to a variety of other stakeholders in many different ways: customers who got new, more affordable, or better products and services; employees who got better job opportunities; suppliers whose sales increased; governments that received more in taxes and other payments; and neighbors who benefited from community development programs.
Based on FY08 results, we estimate that for every dollar of IFC capital invested, the value added generated was some $11.50— or about 66 cents per dollar of project costs. Creating value added and opportunities is particularly important in an adverse economic environment, and negative growth is forecast for the world economy in 2009.

5.29 DOTS data also shows that financial performance is strongly correlated with development outcome, and all three other indicators – economic, PSD impact and – to a lesser extent – environmental & social performance (figures 5-9 to 12). This pattern is not surprising for overall development outcome and economic performance, since financial performance is a component of both.

Figure 5-9: Better development results with better financial performance

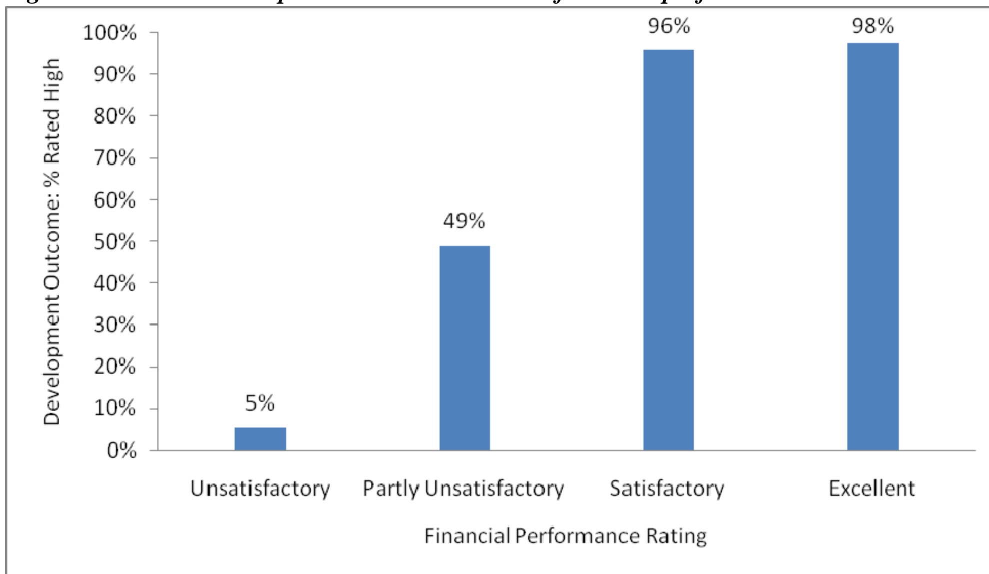


Figure 5-10: Better economic performance with better financial performance

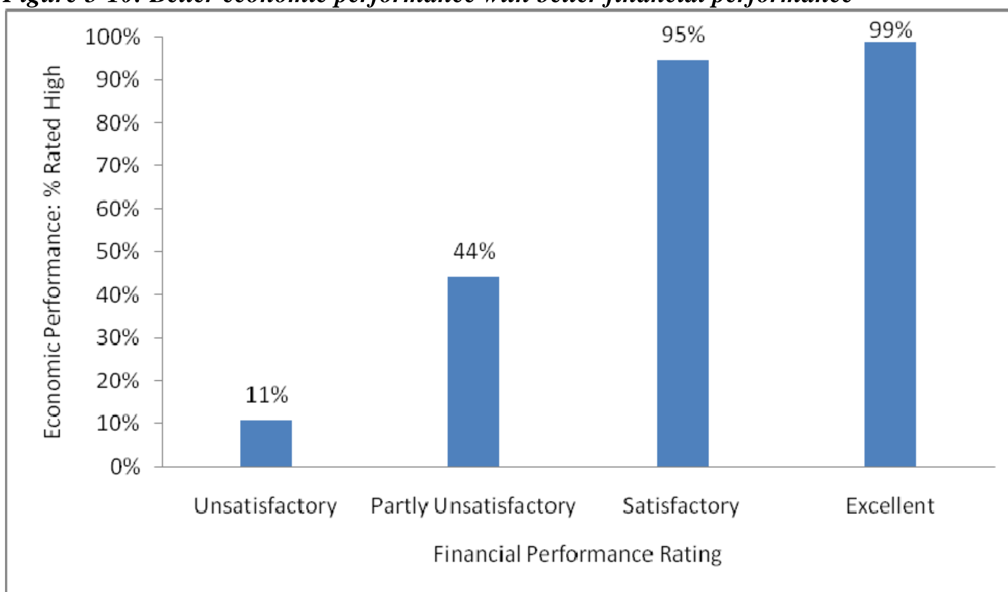


Figure 5-11: Weak environmental and social performance with unsatisfactory financial performance

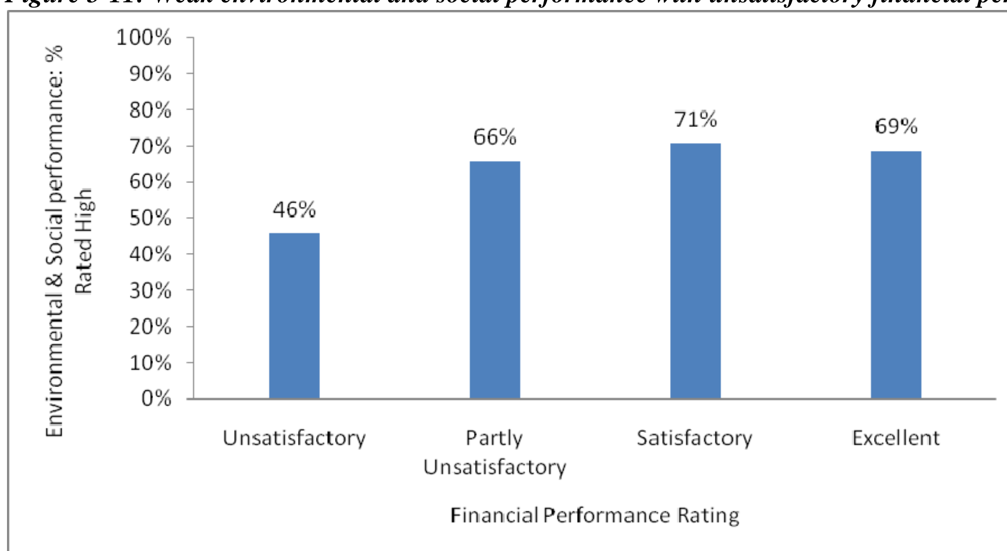
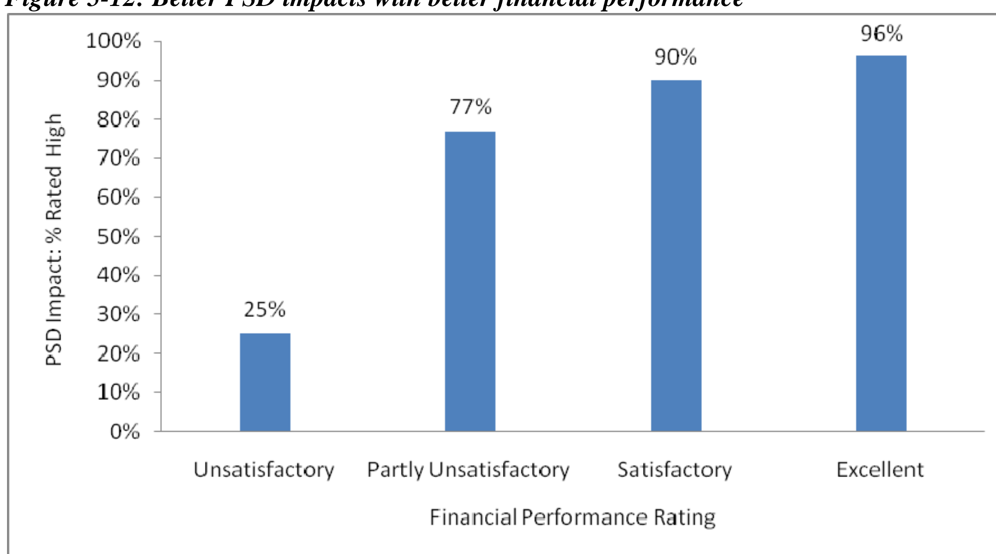


Figure 5-12: Better PSD impacts with better financial performance



5.30 However, there is also a correlation between financial and environmental and social performance: With particularly weak financial performance (i.e. unsatisfactory ratings), environmental and social performance was also weaker. Environmental and social risk ratings (ESRRs) also tend to be associated with financial performance as measured by credit risk ratings (CRRs), non-performing loans (NPLs) and equity performance. Better environmental and performance was associated with better financial performance. This patter contradicts – at least for IFC's client companies – a view held by some observers that strong financial performance is being achieved at the expense of environmental and socia1 performance. On the contrary, IFC's experience shows that: (1) well managed companies tend to perform well on financial as well as on environmental and social matters; and (2) companies with financial problems also tend to apply inadequate resources (and attention) to environmental and social matters and vice versa.

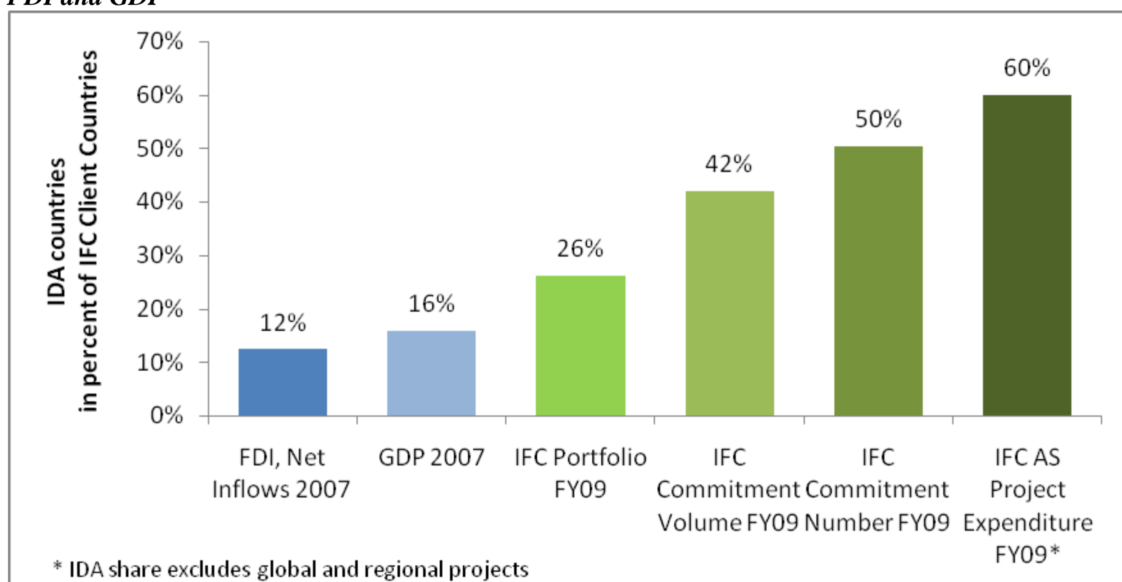
5.31 Positive private sector development impact is also strongly correlated with financial performance. To positively affect the private sector, a project cannot be a commercial failure. In summary, good financial performance is a necessary, albeit not sufficient, condition for good development results and is closely associated with other development aspects.

IFC's investments in IDA countries

5.32 IFC's purpose is to stimulate investment and create conditions that are conducive to the flow of investment. Notwithstanding the current decline of foreign direct investment in the short run, investment in emerging markets has risen substantially over a longer time horizon. IFC has thus adapted its strategy to focus increasingly on IDA countries. Historically, development results of projects in IDA countries are slightly lower than projects in non-IDA countries (66% vs. 74%). However, there is a continuous need to increase investments in IDA countries as they are only able to attract only a small portion of the global FDI flow.

5.33 As a result, IFC's investments are significantly more concentrated in IDA countries than either gross domestic product (GDP) or foreign direct investment (FDI) – see figure 5-13. Our investments need partners-other investors typically put up at least $3 for every $1 from IFC – and this can pose a challenge in difficult environments. IFC's advisory services are even more heavily concentrated in IDA countries, as they are often needed as a first step that improves the likelihood of success when investing in these environments. Our advice often focuses on addressing gaps in access to infrastructure or financial services in IDA countries and on helping investment clients there incorporate local SMEs in their supply chain.

Figure 5-13: IFC Investments and Advisory Services are More Concentrated in IDA Countries than FDI and GDP



Development Reach

5.34 IFC supports firms that make a wide range of contributions in developing countries. **Reach indicators** are used to capture *who* these firms benefit and *how*. They tally the number of people that have benefited (and are expected to benefit) from specific goods and services provided (and utilized) by our clients. For some stakeholder groups, *how* they benefit from our clients' activities is best captured in dollar or other numerical terms. Ultimately, reach indicators give an indication of the different groups *touched* by IFC client companies.

5.35 However, we cannot claim that this reach is solely attributable to IFC. IFC is always a minority investor, and in some cases, IFC's investment may be small compared to the company's overall size. Nevertheless, knowing how many people's lives are being touched through our clients is important in assessing the indirect reach of IFC's activities.

5.36 There are two types of reach indicators reported: portfolio reach, which tell us the *actual* number of people that *have benefited* from clients in IFC's current portfolio, and new business expectations, which tell us the *target* number of people *expected to benefit* from projects committed by IFC during the *Fiscal year* in question. However, time periods reported and definitions vary somewhat across departments.

5.37 Reach indicators are primarily aggregated within a particular industry department using available information from client companies for which the particular indicator is relevant. MSME loan figures, for example, are tracked and reported by financial markets only. Some corporate reach indicators, like employment, are aggregated across industry departments.

5.38 Reported reach figures are affected by changes in the portfolio and new business, and coverage. Our covered portfolio varies by year. This happens due to portfolio changes – every year new clients (possibly in different sectors than before) enter the portfolio, some existing investments close, and we are also not always able to get information from our clients. For example, to date local purchases are currently only covered for less than 60% of the portfolio, whereas in other areas coverage reaches or exceeds 80%. Hence, for now some of the reach indicators understate the reach of our client companies. Also, it is likely that for many indicators it will not be possible to get information from all of our client companies.

Table 5-1 shows our client companies' development reach for CY07 and CY08, as well as the new business expectations for FY09. Differently from prior years, and in addition to total employment figures, this year we are able for the first time to report on the female employment provided by our client companies.

Table 5-1: Development reach by IFC's client companies

Investments	Portfolio CY07	CY08
Employment provided (million jobs)*	1.9	2.1
Microfinance loans		
Number (million)	7.0	8.5
Amount ($ billion)	7.9	9.3
SME loans		
Number (million)	1.0	1.3
Amount ($ billion)	86.0	90.6
Customers reached with services:		
Power generation (million)	152.5	140.9
Power distribution (million)	21.6	25.2
Water distribution (million)	18.7	20.5
Gas distribution (million)	10.7	12.5
Phone connections (million)	139.7	220.1
Patients reached (million)**	4.7	5.5
Students reached (million)	0.6	1.2
Payments to suppliers and governments:		
Local purchases of goods and services ($ billion)*	40.4	47.0
Contribution to government revenues or savings ($ billion)	19.0	22.7

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients. Indicator definitions and reporting periods vary somewhat across industries.

* Selected departments only. Employment: CY08 data includes infrastructure (172,819 jobs, 107 companies, which only had partial data for CY07 (57,797 jobs, 24 companies).

** Includes just over one million patients in a hospital chain in India, in which IFC has a 1.3% equity stake. Some CY07 data have been revised.

5.39 In 2008, IFC's client companies employed some 361,000 women across all regions and industries. Overall, nearly 30 percent of the total workforce of our client for which we have data is composed by women, with – however – significant underlying variations.

5.40 When looking at industry and sector-level data, employment opportunities for women have been highest in the health sector, where 59 percent of the total workforce is composed by women, and education (48 percent). On the contrary, jobs in traditionally male-dominated areas such as oil, gas and mining, constructions, heavy industries, and utilities, have predictably continued to be scarce. Not surprisingly, the ratio of female to total employment in all these sectors is much lower.

5.41 At the regional level, the ratio of female to total employment reflects the different extent to which formal employment opportunities are available to women across the world. In Europe and Central Asia, the ratio of female to total employment is about 40 percent; in the Middle East, Africa, and South Asia, consistently with the more general patterns of female labor force participation of these regions, it drops to less than 20 percent. The limited female labor force participation of these regions represents a critical development challenge that has significant economic costs for their respective societies. In the Middle East and North Africa, for example, it is estimated that the limited labor force participation of women costed 0.7 percentage points of per capita GDP growth during 1990s to the region – a significant lost

potential when considering that the Middle East and North Africa's average per capita income growth for the decade was 1.9 percent.

5.42 This year we are also reporting first the first time on the employment provided by our infrastructure client companies. Data show that these clients provided nearly 173,000 jobs as of the end of CY08. Partial data for CY07 show that they also provided almost 58,000 jobs in CY07.

5.43 Data for the indicators on which we were already reporting on show significant increases in students reached (85 percent), phone connections (58 percent), loans to small and medium enterprises (27 percent), and microfinance loans (21 percent).

How IFC projects benefit various stakeholder groups

5.44 IFC-supported firms make a wide range of contributions in developing countries. Their success can have ripple effects across the economy, giving the poor a chance to better their lives. These firms benefit employees and their families, local communities, suppliers, investors, and the customers who buy what they produce. They also generate significant tax revenues for national and local governments, freeing up resources available for assisting the poor. They use IFC's funding and advice to upgrade environmental performance, strengthen corporate governance, and improve their management systems and adherence to industry standards.

Employees

In 2008, IFC's clients provided some 2.1 million jobs, including more than 520,000 in manufacturing and services and almost 320,000 in infrastructure, information technology and telecommunications. In addition, businesses supported indirectly through IFC-supported investment funds provided almost 740,000 jobs, about 300,000 of which were added after the funds started investing.

- IFC's invested in a denim garment-making facility in rural Pakistan that provided direct and indirect jobs to more than 6,400 people, of whom 2,500 live on site.
- In South Africa, IFC invested in a mining company that employs 24,000 people around the country and is emerging as a national model of private-public partnerships for the enterprise and the local communities.

Customers

In 2008, IFC's clients:

- Provided 9.8 million loans to micro, small, and medium enterprises totaling almost $100 billion. Of these, more than 9 million loans were for microfinance.
- Provided basic utilities to almost 200 million customers. This included water distribution to 20.5 million customers, power generation and distribution to more than 165 million, and gas distribution to 12.5 million.
- Provided 220 million phone connections, 47 million of which were new.
- Provided health services to 5.5 million patients and education to more than 1 million students. For example, an IFC-supported private South American university had almost 25,000 students, including non-degree students and those participating in distance learning. New student enrollment at the university has increased by 11 percent over 2007, and scholarships or discounts have been provided to approximately 1,300 students.

Local Communities

IFC's policies, processes, and performance standards help our clients enhance their positive impact on local communities while avoiding or mitigating negative effects.

- Last year our clients in oil, gas, mining, and chemicals spent $165 million on community development programs.
- An African mining client spent over $7 million on community development programs including skills training, agricultural assistance and funding of a long term foundation that will support community development programs over the long term.
- IFC's investment supports a company in Peru—now considered a model for environmental and social performance for toll roads in the country—that completed all resettlement and archeological rescue activities according to international best practices.

Suppliers

In 2008, IFC's clients purchased goods and services worth almost $47 billion from local suppliers, including $32.8 billion in manufacturing and services and $14.2 billion in oil, gas, and mining. Agribusiness clients reached 1.6 million farmers.

- An agribusiness client engaged more than 58,000 Asian grape farmers through its supply chain.
- A client in Ghana partnered with IFC Advisory Services to promote local economic development and awarded $3.7 million in contracts to predominantly local SME suppliers during FY09.

Environment

IFC's clients are helping address climate change and advancing environmental and social sustainability.

- An efficient lighting program led to a 20-fold increase in annual sales of compact fluorescent bulbs in Peru from 250,000 to 5 million and an 80 percent drop in the price of such bulbs in Argentina.

Government

Last year, IFC's clients generated some $22.7 billion dollars in government revenues. This includes $11.5 billion from oil, gas, mining, and chemicals activities; $4.3 billion from manufacturing and services; and $4.3 billion from infrastructure.

- IFC recently helped a Brazilian energy company become one of the first of its kind listed on the New York Stock Exchange. The company has contributed $2 billion in taxes to the Brazilian government.
- In Africa, IFC invested in an oil company that has paid the government over $1.9 billion in royalties and taxes since the project began.
- In Bangladesh, our recommendations for improving the investment climate helped the government reduce the time required to register a business from 35 days to one.

Investors

Profits are essential for private companies to be sustainable and to attract more investment—to the company itself and to other companies in developing countries.

- IFC invested in a Latin American fund, which, despite the financial crisis, posted an internal rate of return of more than 600 percent in 2008, sending a strong signal that profitable investments can be made in emerging markets—even during a time of crisis.

- IFC partnered with an SME private equity fund to provide $1.1 million in financial assistance to its African portfolio companies for them to achieve international recognized environmental standards.

Private Companies

IFC's activities help companies and other private sector partners in developing countries address constraints to private sector growth.

- IFC invested in an oil company in South Asia that enhanced private sector involvement in the Indian oil and gas industry, and developed infrastructure now available to other private users in the country.
- IFC supported an Egyptian port by financing a well-managed and efficient container cargo facility. IFC's investment is helping reallocate trade from ports on the Mediterranean coast to the Red Sea and is stimulating industrial development along the Red Sea coast.
- IFC invested in a Russian energy company that received an award from the Association for the Protection of Investors' Rights. Because of its strong performance, the project has helped generate competition in the sector and attract the interest of potential entrants in the energy sector.
- In Madagascar, an IFC-supported project helped fruit exporters get international certification and double their exports to the European Union, resulting in earnings of some $42 million in one year.

Reach Figures by Cluster

DEVELOPMENT REACH

Financial Markets Cluster

	Portfolio		New Business Expectations
MSME and housing finance reach indicators	**CY07**	**CY08**	**FY09****
SME loans ($ million)*	86,005	90,632	27,395
SME loans (million of loans)*	1.02	1.27	0.82
Microfinance loans ($ million)*	7,887	9,322	91,579
Microfinance loans (million of loans)*	6.99	8.49	72.37
Housing finance loans ($ million)***	14,320	13,561	5,306
Housing finance loans (million of loans)***	0.51	0.54	0.06
Private Equity and Investment Funds ****	**CY07**	**CY08**	**FY09**
Number of SMEs reached	255	234	59
New jobs	162,081	303,905	22,715
Number of investee companies with frontier exposure/IDA	112	189	88
Number of high-growth investees companies (>20% growth / + growth)	223	285	93

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.

* Portfolio reach figures represent SME and microfinance outstanding loan portfolio of IFC clients as of end of CY07 and CY08, for MSME oriented financial institutions/projects. 197 and 215 clients w ere required to report their end-of-year SME and microfinance portfolios in CY07 and CY08, respec ively. 163 and 178 clients did so for CY07 and CY08, respectively. The missing data w as extrapolated.

** For FY09 New Business Expectations, dollar amounts represent the expected outstanding portfolio by the end of CY13, and the number of loans represent the number of expected new loans to be disbursed from CY09-13 by IFC clients w i h w hom IFC committed SME, microfinance, or housing related projects in FY09. For FY09, expected microfinance lending includes IFC Microfinance Liquidity Facility & Micro Vest Equity Fund II w hich together account for 70M loans and $90B of outstanding portfolio over the life of the projects.

*** Portfolio reach figures represent housing finance outstanding loan portfolio of IFC clients as of end of CY07 and CY08, for housing finance oriented financial institutions/projects. 43 and 39 clients w ere required to report their end-of-year housing finance portfolios in CY07 and CY08, respec ively. 32 and 34 clients did so for CY07 and CY08, respec ively. The missing data w as extrapolated.

**** Calculations for the portfolio are based on new business committed betw een 2000 and the respective year, and not on he total portfolio of projects. FY09 expectations are projected for the life of the funds.

Global Trade Finance Program indicators	**FY06**	**FY07**	**FY08**	**FY09**
Guarantees (amount / number of guarantees)	$267 m / 320	$767 m / 564	$1,429 m / 1,008	$2,393 m / 1,869
SME *(by* number *of guarantees)*	81%	71%	75%	73%
Africa *(by amount)*	70%	49%	41%	27%
South-South *(by number of guarantees)*	38%	36%	34%	40%
Total trade supported	$395 m	$1,160 m	$1,880 m	$3,054 m

DEVELOPMENT REACH
Infrastructure Cluster

	Portfolio		New Business Expectations*
	CY07***	**CY08**	**FY09**
Employment**	305,578	443,035	44,080
Payments to government ($ million)	15,295	17,992	11,369
Local purchase of goods and services ($ million)***	13,078	14,209	946
Outlays for community development programs ($ million)***	148.2	164.9	3
Total phone connections (million)****	137.4	218.7	12.0
Power generated (millions of customers)	152.5	140.9	12.1
Power distribution (millions of customers)	21.5	25.1	0.2
Gas distribution (millions of customers)	10.7	12.5	0.3
Water distribution (millions of customers)	18.4	20.5	3.0
Waste water treated (million m3 p.a.)	403.5	436.2	-
Airport/Airlines passengers (million)	85.0	92.2	15.6
Transport and road customers (million)	3.8	3.5	-
Roads - number of vehicles (million)	235.6	327.5	-
Railway passengers (million)	155.3	154.3	-
Rail freight (million tons)	162.6	173.8	-
Cargo/grain ports (million tons)	15.8	11.1	-

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.

Employment and payments to government breakdow n by industry available on line at http://w w w .ifc.org/results

Time horizons for expectations differ by department: * Expectations projected for CY12, payments to government for CY09-16 / *** Oil, Gas, Mining and Chemicals for CY09/ ****Information and Communication Technologies for CY13. Expected payments to government revenues include $9 billion by one large Latin American infrastructure client.

** CY08 Infrastructure employment data is reported by first time and includes 172,819 jobs from 107 companies, but only partial data for CY07 (57,797 jobs, 24 companies).

***** Some data have been revised.

DEVELOPMENT REACH
Real Sector Cluster

	Portfolio		New Business* Expectations
	CY07**	**CY08**	**FY09**
Employment	948,839	876,336	206,681
Agribusiness	*400,315*	*295,102*	*98,189*
Manufacturing and Services	*504,512*	*528,749*	*72,460*
Health and Education	*44,012*	*52,485*	*36,032*
Number of farmers reached (million)	0.8	1.6	0.2
Number of patients reached (million)	4.7	5.5	5.6
Number of students reached (million) ***	0.6	1.2	0.01
Local purchases ($ million)	27,313	32,778	6,360
Payments to government ($ million)	3,754	4,737	1,422

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.

* FY09 expectations projected through 2015.

** Some data have been revised. In particular, applying a tighter definition, data on employment and payments to government for a large retail chain now only includes those from companies most closely associated w ith IFC's investment, rather than the w hole group (i.e. employment of 8,938 vs. 268,000; payments to government $23 million vs. $843 million, local purchases of $833 million vs. $21.9 billion) and due to revised figures obtained for three health projects, reducing previously reported numbers of patients by one million. Data includes just over one million patients in a hospital chain in India, in w hich IFC has a 1.3% equity stake.

*** Includes students reached w ith IT services in universities in Africa (350,000 in CY07, 300,000 in CY08).

Reach Figures by Region

DEVELOPMENT REACH
Sub-Saharan Africa

	Portfolio		New Business Expectations
	CY07	CY08	FY09
MSME loans (number of loans)	222,829	161,329	671,530
MSME loans (amount in $ million)	2,438	2,109	2,440
Power generated (millions of customers)	17.1	19.1	-
Utility services distribution (millions of customers)*	2.7	2.9	-
New phone connections (millions of customers)	6.9	6.1	3.3
Patients reached	89,392	112,450	230,000
Students reached	380,000	388,000	525
Employment	124,262	134,515	26,344
Local purchase of goods and services ($ million)	1,166.1	1,394.9	65.8
Payments to government ($ million)	2,608.4	3,309.2	221.3

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.
Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries.
Some data from previous years have been revised.
* Including power, gas and water

DEVELOPMENT REACH
East Asia and the Pacific

	Portfolio		New Business Expectations
	CY07	CY08	FY09
MSME loans (number of loans)	1,231,563	1,421,169	209,456
MSME loans (amount in $ million)	17,025	20,496	1,064
Power generated (millions of customers)	13.4	20.9	1.6
Utility services distribution (millions of customers)*	15.6	19.6	-
New phone connections (millions of customers)	5.2	2.3	1.3
Patients reached	1,068,100	1,025,258	-
Students reached	33,192	27,636	-
Employment	502,735	602,093	23,466
Local purchase of goods and services ($ million)	4,090.9	9,364.4	2,019.2
Payments to government ($ million)	457.4	968.0	956.8

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.
Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries.
Some data from previous years have been revised.
* Including power, gas and water

DEVELOPMENT REACH
South Asia

	Portfolio		New Business Expectations
	CY07	**CY08**	**FY09**
MSME loans (number of loans)	880,683	917,517	-
MSME loans (amount in $ million)	5,407	8,476	3,758
Power generated (millions of customers)	31.5	20.8	9.0
Utility services distribution (millions of customers)*	1.0	0.8	3.0
New phone connections (millions of customers)	34.0	36.2	0.2
Number of farmers reached (million)	634,706	1,169,596	52,410
Patients reached	1,523,386	2,125,991	4,000,000
Employment	163,581	199,569	96,926
Local purchase of goods and services ($ million)	5,377.8	2,374.8	1,528.0
Payments to government ($ million)	1,553.0	1,837.5	808.3

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.
Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries.
Some data from previous years have been revised.
* Including power, gas and water

DEVELOPMENT REACH
Europe and Central Asia

	Portfolio		New Business Expectations
	CY07	**CY08**	**FY09**
MSME loans (number of loans)	1,113,154	1,063,484	691,060
MSME loans (amount in $ million)	49,934	34,391	16,230
Utility services distribution (millions of customers)*	4.8	5.5	0.3
New phone connections (millions of customers)	3.0	1.5	-
Patients reached	721,171	683,582	15,000
Students reached	8,776	9,574	-
Employment	282,953	322,623	42,245
Local purchase of goods and services ($ million)	13,297.7	16,061.3	2,226.5
Payments to government ($ million)	3,540.8	4,167.6	277.0

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.
Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries.
Some data from previous years have been revised. In particular, applying a tighter definition, data on employment, payments to government and local purchases for a large retail chain now only includes those from the companies most closely associated with IFC's investment, rather than the whole group (i.e. employment of 8,938 vs. 268,000; payments to government $23 million vs. $843 million, local purchases of $833 million vs. $21.9 billion).
* Including power, gas and water

DEVELOPMENT REACH
Latin America and Caribbean

	Portfolio		New Business Expectations
	CY07	CY08	FY09**
MSME loans (number of loans)	3,711,939	4,814,271	1,413,472
MSME loans (amount in $ million)	15,475	25,302	4,771
Power generated (millions of customers)	59.4	59.7	0.7
Utility services distribution (millions of customers)*	24.7	26.9	-
New phone connections (millions of customers)	1.4	0.8	1.5
Patients reached	886,579	1,281,370	52,000
Students reached	214,727	760,127	-
Employment	662,299	575,323	69,290
Local purchase of goods and services ($ million)	15,394.0	17,300.6	1,089.9
Payments to government ($ million)	9,813.4	10,228.7	10,066.0

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries.

Some data from previous years have been revised.

* Including power, gas and water

** For FY09, expected payments to government revenues capture payments from 2009-2016 and include $9 billion by one large Latin American infrastructure client.

DEVELOPMENT REACH
Middle East and North Africa

	Portfolio		New Business Expectations
	CY07	CY08	FY09
MSME loans (number of loans)	851,713	1,375,493	104,000
MSME loans (amount in $ million)	3,612	9,180	512
Power generated (millions of customers)	19.9	20.4	-
Utility services distribution (millions of customers)*	2.4	2.5	0.18
Patients reached	378,511	291,099	1,298,000
Students reached	5,740	448	13,100
Employment	83,378	71,895	9,825
Local purchase of goods and services ($ million)	819.7	412.7	377.4
Payments to government ($ million)	850.3	1,747.8	444.0

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients.

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries.

Some data from previous years have been revised.

* Including power, gas and water

ANNEX A - IFC Policies and Procedures with Respect to Portfolio Management

Policy on Exposure Limits

IFC's exposure policies seek to diversify risk while remaining responsive to the developmental needs of its clients in member countries. To achieve these objectives, IFC Management has set guidelines to limit exposure at the country, sector, investment and product level.[13] The guidelines take into account the Corporation's total portfolio, leverage, net worth, and general reserves. In applying these guidelines, IFC Management seeks to balance financial prudence with flexibility on a case-by-case basis.

IFC's guidelines are designed to ensure systematic monitoring and management of exposure and to focus Management's attention on potential exposure issues in a timely fashion. The country exposure review triggers are determined by taking into account the economic environment, risk and size of each country. Business sector guidelines reflect common risk factors.

The main features of the guidelines are summarized below:

- Country exposure guidelines are based on a percentage of the Corporation's net worth plus general reserves. The maximum exposure to any country[14] is limited to 20% of net worth plus general reserves. Exceptions to country specific limits / review triggers can be made to manage exposure in transition situations or in light of special country circumstances.
- Countries are divided into four categories based on the size of their economy and their risk rating. The category determines a country's maximum exposure, ranging from 2.5% to 10% of IFC's net worth plus general reserves.
- The outstanding exposure, net of specific reserves, to a single-risk business sector, which is dependent on a single, measurable, worldwide risk factor (such as world price for an internationally traded commodity), is limited to 12% of IFC's net worth plus general reserves, and is subject to a review trigger of 6% of IFC's net worth plus general reserves.
- The outstanding exposure, net of specific reserves, guideline for single investments is 4% of IFC's net worth plus general reserves. Within this total amount, each straight equity investment is subject to a maximum of 1.5% of net worth plus general reserves, and total single equity investment (including quasi-equity) is subject to a maximum of 3% of IFC's net worth plus general reserves.
- Outstanding exposure, net of specific reserves, to the Finance and Insurance sector in any country is subject to a guideline level set to the higher of 5% of IFC's net worth plus general reserves and 50% of the country exposure review trigger level. For countries with an aggregate exposure guideline below 5% of IFC's net worth plus general reserves, the Finance and Insurance sector exposure is capped by the country exposure guideline.

Senior Management may occasionally grant exceptions to these exposure guidelines to allow for extenuating circumstances (e.g. risk-mitigating factors such as offshore guarantees)[15].

[13] *See, for reference, "IFC FY07 Annual Report on Financial Risk Management" (IFC/R2007-0147).*

[14] *The country exposure guideline is applied to the outstanding portfolio, including guarantees and client risk management products, net of specific reserves.*

[15] *Investments in the Finance and Insurance sector can be jointly affected by crisis in any individual country. In addition, investments in this sector are usually not secured with "real" assets and therefore tend to have higher losses when they are affected by country crisis. This exposure review trigger / guideline is in place in view of the potential joint impact of country events on investments in Finance and Insurance sector. Discussion of risk management and financial policies is contained in the "FY07 IFC's Annual Report on Financial Risk Management" (IFC/R2007-0147).*

In May 2007, IFC's Board of Directors reviewed and approved modifications to the Corporation's capital adequacy framework.[16] The new framework calls for the following capital coverage:

- IFC will maintain a minimum level of total resources (including paid-in capital, total loss reserves and retained earnings net of designations) equal to total potential losses for all on- and off-balance sheet exposures estimated at levels consistent with maintenance of a AAA rating.

In addition, the following financial policies remain in effect:[17]

- As stipulated in IFC's Articles of Agreement, the Corporation will ensure at all times that the ratio of its drawn debt, including guarantees, to the total of subscribed capital and accumulated earnings, does not exceed 4.0:1.

- Total outstanding equity and quasi-equity investments (net of specific reserves) are limited to 100% of IFC's net worth.

Policy on Portfolio Management Authorization[18]

In November 2001, the Board of Directors approved the Portfolio Management Authorization and granted Management delegated authority, on a pilot basis for an initial period of 18 months, to manage the financial risks and exposures incurred by the Corporation in connection with its portfolio of loan and equity investments through the use of market-based risk management instruments, tools and strategies. In May 2003, the Board of Directors approved an extension until June 30, 2004 to the Portfolio Management Authorization.[19] In May 2004, the Board of Directors approved the Portfolio Management Authorization on an indefinite basis.[20] Under Portfolio Management Authorization: (i) the notional value of all outstanding Portfolio Risk Management transactions falling under the Authorization is limited to 10% of the notional value of the combined loan and equity portfolio, net of specific loss reserves; (ii) the notional value of all outstanding shares bought back are subject to an additional limit of 10% of the notional value of the equity portfolio, net of specific loss reserves, and the aggregate marked-to-market losses must not exceed $20 million; (iii) an aggregate stop loss limit of $50 million per annum is imposed on the combined fair value of all such transactions; and (iv) counterparties must be rated single-A or higher to be considered for eligibility and there is a cap on counterparties with whom IFC does not have collateral agreements.

Policy on Loan Investments: Revenue Recognition, Loss Reserves and Write-Offs

Loan Revenue Recognition

Interest income and commitment fees on loans are recorded as income on an accrual basis. Beginning in the year ending June 30, 2006, the Corporation began amortizing net loan origination costs and fees over the estimated life of the originated loan to which the fees relate. Prior to the year ending June 30, 2006, loan origination costs were expensed as incurred, and loan origination fees were recognized in income when received. The net of loan origination fees and loan origination costs was considered insignificant. All other fees are recorded as income when received in freely convertible currencies.

The Corporation does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 60 days unless Management anticipates that collection of interest will occur in the near future. (The 60-day period is shorter than the periods used by most commercial banks and far more stringent than the accrual policies of many multilateral development institutions). Any interest accrued on a loan placed in non-accrual status is reversed out of current income and is thereafter recognized as income only when the actual payment

[16] *See, for reference, "Proposed Modifications to IFC's 1994 Capital Adequacy Framework" (IFC/R2007-0093).*
[17] *See, for reference, "Review of IFC's Financial Policies" (IFC/R93-33/1).*
[18] *See, for reference, "Managing IFC's Portfolio of Loan and Equity Investments Proposed Portfolio Management Authorization" (IFC/R2001-0200).*
[19] *See, for reference, "IFC's Annual Report on Financial Risk Management" (IFC/R2003-0085).*
[20] *See for reference, "Portfolio Management Authorization Review of the Pilot Program and Proposal to make the Authority Permanent" (IFC/R2004-0056).*

is received. Interest not previously recognized, but capitalized as part of a debt restructuring, is recorded as deferred income and credited to current income only when the related principal is received.

Certain loans are carried at fair value in accordance with the Fair Value Option. Unrealized gains and losses on loans accounted for at fair value under the Fair Value Option are reported in income from loans and guarantees on the condensed consolidated income statement.

Loan Loss Reserves

The Corporation recognizes loan portfolio impairment in its financial statements via the provision for losses in the income statement and the reserves against losses in the balance sheet. The Corporation's reserves against losses cover both the existing identified and unidentified probable losses in the loan portfolio. Identified probable losses are estimated at the individual loan level and are covered by specific loss reserves. Unidentified probable losses are estimated at the aggregate loan portfolio level and are covered by general loss reserves.

Identified probable losses are the existing identified losses in value of specific loan investments which are judged to be relatively permanent. The determination of the identified probable losses for the Corporation's loan investments is in the final instance a judgment of the creditworthiness of a borrower. This judgment is made by staff responsible for investment supervision in compliance with accounting standard requirements and IFC's loan loss provisioning guidelines. The amount of the specific loss reserve for an impaired loan investment is equal to the identified probable loss. The specific loss reserve is established through a loan-by-loan review undertaken on a quarterly basis and reflects probable impairment loss to specific loan investments.

Unidentified probable loan losses are the probable losses in excess of the identified probable losses. These are existing probable losses resulting from inherent risks in the loan portfolio which cannot be identified and assessed through a loan-by-loan review. These main inherent risks are (i) delay in receipt of financial statements, (ii) non-transparency of financial statements/fraud in presentation of financial statements, (iii) reneged guarantees and support agreements, (iv) uninsured and uninsurable risks by borrower, (v) country systemic risk, and (vi) correlation/contagion risk. Because history has proven these inherent risks to exist, the Corporation establishes a general loan loss reserve.

IFC Management determines the general loan loss reserve by judgment with as main guidance the loan loss probability distribution of the unimpaired loan portfolio produced by the CAPRI framework[21] (probable loss at expected level of the distribution with default probability horizon of 3 years and loss-given-default at the 99% confidence level).[22]

IFC's balance sheet shows the combined amount of the specific loss reserve and the general loss reserve as the "reserve against losses" for loan investments.

Loan Write-offs

Although the Corporation establishes reserves against losses as soon as it observes a significant and relatively permanent impairment in the value of a loan investment, it generally continues, consistent with its developmental role, to devote staff resources to help resolve the problems affecting the viability of enterprises in difficulty. Only after IFC determines that the venture cannot be made viable, does it write off the irrecoverable portion of the outstanding amount of the loan investment.

Policy on Debt Securities: Revenue Recognition and Impairment

Debt Security Revenue Recognition

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[21] *"Proposed Modifications to IFC's 1994 Capital Adequacy Framework", IFC/R2007-0093, April 25, 2007.*

[22] *At year-end FY07 the Corporation adopted the CAPRI framework for the determination of the general loan loss reserve (LLA). This change in methodology was needed (i) to better align the Corporation's methods for determining the general loan loss reserves with IFRS accounting standards and industry practices, (ii) to comply with a recommendation made by IAD to use actual loan loss history when modeling loan portfolio credit losses, and (iii) to align the loan loss provisioning framework with the Corporation's new capital adequacy framework.*

Prior to FY07, IFC reported its investments in debt securities within the loan and equity portfolios. In FY07, IFC began reporting its investment in debt securities separately on the face of the balance sheet for transparency[23]. IFC's investments in debt securities broadly comprise (i) investments in Corporate securities; (ii) investments in asset-backed securities; and (iii) investments in preferred shares that contain features that make them more "debt-like" e.g., mandatorily redeemable preferred shares.

In accordance with SFAS No. 115, investments in debt securities can be classified as held-to-maturity (HTM), available-for-sale (AFS) or trading. HTM securities are accounted for on the balance sheet at cost less impairment. Trading securities are accounted for at fair value on the balance sheet with changes in fair value being recorded in net income. AFS securities are accounted for at fair value on the balance sheet with changes in fair value being recorded in a separate component of retained earnings, Accumulated Other Comprehensive Income, until realized. Management has elected to classify all of its debt securities as AFS as being the most appropriate given its perspective as a long-term investor without wishing to have the significant restrictions on managing the portfolio that would result from classifying such securities as HTM and so as not to be confused with the IFC's Liquid Asset portfolios that are accounted for as a Trading Portfolio.

Debt securities within the investment portfolio at June 30, 2006 have also been reclassified to conform to the current period presentation.

Debt Security Impairment

Debt securities classified as available-for-sale are assessed for impairment each quarter. If the fair value of a debt security is lower than its amortized cost at the measurement date, then the debt security is impaired and IFC will determine whether the impairment is other than temporary. According to new FASB accounting guidance issued in April 2009, when an impairment of a debt security is identified, it is generally deemed to be other than temporary, if IFC (i) intends to sell the security, or (ii) most likely will sell the security before recovering its cost, or (iii) does not expect to recover the entire cost of the security, that is, IFC does not intend to sell the debt security, but it is probable that IFC will not collect all amounts due according to contractual terms (i.e. credit loss exists)[24].

In case of (i) and (ii), the other than temporary impairment is recognized in earnings. In case of (iii), the amount is separated into the amount relating to credit loss that is recognized in earnings, and the amount relating to all other impairment factors that is recognized in other comprehensive income.

Once a credit loss is recognized, the debt security must be adjusted to a new amortized cost basis equal to the previous amortized cost basis less the amount recognized in earnings. Subsequent increases and decreases in the fair value of an available-for-sale debt security are recognized in other comprehensive income, unless a decrease is considered other than temporary.

Policy on Contingent Loss Allowance for Guarantee Portfolio

The guarantee portfolio is exposed to the same idiosyncratic and systematic risks as the loan portfolio. The Corporation establishes a loss allowance for the contingent risk in the outstanding guarantee portfolio. IFC Management determines this contingent loss allowance using the CAPRI framework. The contingent loss allowance for the guarantee portfolio is shown as a liability item on IFC's balance sheet.

Policy on Equity Investments: Revenue Recognition and Impairment

Equity Revenue Recognition

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[23] *The FY2007 APPR reports IFC investments in debt securities within the loan and equity portfolios.*

[24] FAS 115-2 and FAS 124-2, *Recognition and presentation of Other-Than-Temporary Impairments*, is effective for interim and annual periods ending after June 15, 2009. The impairment recognition guidance contained in this FSP (FASB Staff Position) applies to debt securities classified as available-for-sale and held-to-maturity, and does not apply to equity securities.

Effective July 1, 2007, equity investments which are listed in markets that provide readily determinable fair values are accounted for as available-for-sale securities at fair value with unrealized gains and losses being reported in other comprehensive income in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Also effective July 1, 2007, direct equity investments in which IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence and certain investments in LLPs and LLCs that maintain specific ownership accounts are accounted for at fair value under SFAS No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities* (The Fair Value Option).

Direct equity investments in which IFC does not have significant influence and which are not listed in markets that provide readily determinable fair values are carried at cost less impairment.

IFC's investments in certain private equity funds in which IFC is deemed to be the Primary Beneficiary of a VIE, are fully consolidated into IFC's books.

Certain equity investments, for which recovery of invested capital is uncertain, are accounted for under the cost recovery method, such that receipts of freely convertible currencies are first applied to recovery of invested capital and then to income from equity investments. The cost recovery method is principally applied to IFC's investments in its oil and gas unincorporated joint ventures (UJVs). IFC's share of conditional asset retirement obligations related to investments in UJVs are recorded when the fair value of the obligations can be reasonably estimated. The obligations are capitalized and systematically amortized over the estimated economic useful lives.

IFC enters into put and call option and warrant agreements in connection with equity investments; these are accounted for in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended to the extent they meet the definition of a derivative.

Dividends and profit participations received on equity investments are generally recorded as income when received in freely convertible currencies. Realized gains on the sale or redemption of equity investments are measured against the average cost of the investments sold and are generally recorded as income in income from equity investments when received in freely convertible currencies. Capital losses are recognized when incurred.

Equity Impairment

Equity investments accounted for at cost less impairment and available-for-sale are assessed for impairment each quarter. When impairment is identified, it is generally deemed to be other than temporary, and the equity investment is written down to its fair value. The amount of the write-down is included in net income (that is, accounted for as a realized loss) but subsequent recoveries in the fair value of available-for-sale equity investments are not included in net income but in other comprehensive income - subsequent decreases in fair value, if not other than temporary are also included in other comprehensive income.

The determination of the fair value of an equity investment is a judgment of the current market value of an investee company. This judgment is made by staff responsible for investment supervision in compliance with accounting standard requirements and IFC's equity valuation guidelines. The fair values are established through an equity-by-equity review undertaken on a quarterly basis.

Streamlined and Regular Procedures

To provide for the better balance of projects discussed by the Board, each investment department will present a minimum of one to four projects every fiscal year under the Regular Procedure. The actual number presented by departments will depend on the total number of projects for which a department intends to seek Board approval during the year. To place a greater emphasis on projects involving substantial financial exposure or raising policy, program or role issues, investments are processed under the Regular Procedure if they meet the following criteria:

- IFC's first investment in a country;

- Investments that represent a new approach to a sector;

- Investments that present novel or unusual features, exceptional risks, significant environmental issues, or major policy issues;

- Investments with novel mobilization features or with large B loan syndications of $275 million or more;
- Projects with large IFC exposure (greater than US$75 million in aggregate exposure per investment or US$25 million in equity).

Even if no project in the country meets the above criteria, at least one project per year will be selected from the following countries for presentation to the Board:

- IFC's eight largest exposure countries (determined on the basis of IFC's committed portfolio at the beginning of the fiscal year); and,
- Countries where IFC's exposure is increasing rapidly (growth in dollar volume of approvals of at least 25% over prior year) and IFC's current held portfolio in such countries is 3% or more.

A Board member will continue to have the option to request that any Streamlined Procedure project be considered under the Regular Procedure on the basis of the Project Summary, or if the Board member requests with supplementary materials or a full Board paper as the basis for such discussion. In the absence of such a request, the project will be approved through Streamlined Procedure project and the Board is informed through the Monthly Operations Report.

The selection of projects to be presented to the Board should be made in coordination with the relevant Vice President of Investment Operations. The choice of streamlined or regular procedure should also be discussed at the Corporate Operations Committee (COC) and reviewed during project processing in light of any significant changes.

Equity Sales

IFC's equity sales policy, approved by the Board on April 4, 1996, gives Management the authority to approve all share sales that are in compliance with the existing share sales policy. The share sales policy provides that:

- Shares are sold at a price which is comparable to the investment's intrinsic value and the prospects of the company.
- In the case of negotiated sales, IFC will pay due regard to the identity of the buyer in light of the best interests of the company.

Equity sales made under this procedure are reported to the Board in the Monthly Operations Report. Included in this report are terms of the transaction; reasons for the sale; capital gains or losses realized; the rate of return on the investments; and when available, names of buyers (if through private placement) or names of stock exchanges used. The former Accelerated Procedure for equity sales with an original price of under $2.5 million (approved in FY89) was discontinued.

Modifications to Approved Investments and Reschedulings

The FY96 modified procedures include the authority for Management to approve changes in a project after the project has been approved under either the Streamlined or Regular Procedure. However, projects with material changes will continue to be brought to the Board (usually under the No-objection Procedure). In addition, approval of rescheduling of investments that do not involve an additional IFC investment will also be assigned to Management. These reschedulings must be reported to the Board in the Monthly Operations Report of the month in which they are approved.

Restructurings and Jeopardy Cases

IFC's Board of Directors approved a paper titled "IFC's Board Procedures" (IFC/R96-68), whereby Management received delegated authority for a range of activities, including the authority to approve the restructuring or settlement of jeopardy cases. This authority was most recently amended in June 2009 to allow Management to approve restructuring or settlement of jeopardy cases where IFC's balance sheet exposure is US$30 million equivalent or less and there is not additional exposure for IFC. Under

this delegated authority, Management approves restructurings and settlements under the threshold and reports quarterly to the Board on those actions upon completion. Restructurings or settlements greater than US$30 million in balance sheet exposure would go to the Board for approval under the No-objection Procedure. Details on restructurings and jeopardy cases concluded under delegated authority are reported to the Board in the next IFC Quarterly Report to the Board.

In August 2001, the Board approved a paper entitled "Investment Facility for Jeopardy Cases" (IFC/R2001-0171). This facility provided Management Delegated Authority to invest under very limited circumstances new money into IFC jeopardy cases. The use of this Facility was limited to ensure that IFC was not pouring "good money after bad." It was addressed by a requirement that a favorable restructuring or an exit for IFC's investment be expected to occur within one year after approval of the use of the Facility as well as by ensuring appropriate seniority and security in the case of use for working capital financing. As approved by the Board in June 2009, the Investment Facility for Jeopardy Cases was increased to a total amount of US$200 million per year (up from $50 million). The individual use limits were increased as follows: (a) commit up to US$20 million to emergency working-capital loans/funding (up from US$7.5 million); (b) invest up to US$20 million to purchase loans from other lenders to an IFC Jeopardy project to facilitate a more favorable restructuring or exit for IFC's investments (up from US$7.5 million); (c) invest up to US$12.5 million to purchase equity from other shareholders in IFC jeopardy projects to facilitate a more favorable restructuring or exit for IFC's investment (up from US$5 million); (d) make payments of up to US$20 million per project in judicial auction proceedings where IFC may, to protect its rights, bid and make payments for assets securing IFC's investments (up from US$7.5 million); (e) discretionary use of the Facility (as the need presents itself) by management in an amount up to US$5 million per project with the aim of protecting IFC's interests (up from US$2 million); and (f) use of the Facility in an amount of up to US$20 million per project for investments that are necessary for the survival of a company in jeopardy (such as requirements to comply with local laws or regulations) or to deal with unforeseen events (such as environmental disaster clean-up or avian flu) (up from US$7.5 million). In addition, the Facility could also be used in an amount of up to US$20 million to invest in jeopardy cases, where an IFC client is facing liquidity problems. Jeopardy projects approved under the Facility are reported to the Board in the Monthly Operations Report.

B Loans

At the beginning of each fiscal year, the Board will provide Management with the authority to approve increases in B Loans to previously approved projects with A Loans up to an aggregate ceiling amount for the year. Management will have authority to increase and add B Loans under this ceiling provided there is no concurrent increase in exposure for IFC's own account. In the event that the approved ceiling is insufficient, Management will request additional authority from the Board. B Loans undertaken under this authority will be reported to the Board in the next IFC's Quarterly Report, including the names of the banks that are participating in the additional transaction.

Rights Issues

At the beginning of each fiscal year, the Board will provide Management with the authority to approve rights issues up to an aggregate ceiling amount for the year. Management will have authority to approve rights issues under this ceiling, provided the total subscription price for each transaction does not exceed a specific cap for individual rights issues. The aggregate ceiling and individual transaction cap will be requested in IFC's annual budget paper. Following the FY08-10 Business Plan and Budget exercise, the aggregate annual threshold was raised from US$60 million to US$120 million, and the cap for individual rights issues was raised from US$5 million to US$10 million. The next IFC Quarterly Report to the Board will contain details regarding the exercise of rights under the cap. Exercise of rights with a subscription price of over $10 million will be sent to the Board for approval under the No-objection Procedure.

Interest and Currency Risk Management Products

At the beginning of each fiscal year, the Board will authorize Management to undertake an aggregate dollar amount of interest and currency swaps for the year. Such authority is limited to interest and currency swaps where the loan equivalent exposure is $5 million or less. The ceilings will be requested in IFC's annual budget paper. The next IFC's Quarterly Report will contain details on risk management products so undertaken. The Board will review individually other types of risk management transactions, such as commodity products, and transactions with loan equivalent exposures over $5 million.

Policy on Rescheduling[25]

In circumstances where rescheduling provides the best means of protecting IFC's interests, IFC is willing to reschedule the repayment terms of existing loans. The determination of the correct circumstances and the implementation of the IFC policy is done by IFC Management within certain general principles. Whenever possible, an IFC rescheduling is made conditional on other investors and creditors of the relevant company sharing the burden of the company's difficulties by providing additional equity, or rescheduling their loans, or a combination of these. In FY96, the approval authority for rescheduling of investments that do not involve an additional IFC investment was assigned to Management (see above). In practice, the Corporation deals with each rescheduling on a case-by-case basis in order to respond to the needs of the borrower in the particular circumstances. Several factors need to be present for IFC to reschedule a loan. The overriding principle is that alternative courses of action, including the liquidation of the borrower, should have been considered and found to be less desirable. Rescheduling has not been, nor is it, deemed appropriate merely to avoid a default. If the financial condition of the borrower has deteriorated beyond the point of recovery, IFC will proceed with liquidation or settlement (that is, IFC will seek to withdraw from the company).

Policy on Environmental and Social Issues

IFC policy requires all projects be carried out in an environmentally and socially sustainable manner. Projects must comply with IFC's Policy and Performance Standards on Social and Environmental Sustainability (PPS)[26], as well as be compliant with applicable national laws, including those laws implementing host country obligations under international law.

The Environmental and Social Review Procedure (ESRP) outlines the process through which proposed projects are reviewed and supervised for environmental and social performance throughout the project life cycle.

Appraisal

Proposed projects are reviewed as per the Environmental and Social Review Procedure (ESRP)[27] to ensure that they are or can become compliant with the Performance Standards (PS), that environmental and social (E&S) issues are addressed as early as possible in the project cycle, and that the sponsor considers relevant alternatives, mitigation measures and efficiency improvements. The World Bank Group's and IFC's Environmental, Health and Safety Guidelines are used to assist specialists in their determination of sector specific performance criteria that projects must adhere to.

Projects are classified into one of three types: Direct Investments, Financial Intermediary Investments or Assistance and Advisory Services (AS) to determine the type of E&S review procedure required. *For Direct Investments,* initial screening attempts to identify potential E&S issues that present particular risks or opportunities for the client as well as identifying Performance Standards relevant to the project; an E&S Category that reflects the magnitude of the potential impacts is assigned after appraisal based on the following attributes: (a) Category A: projects which may result in potentially significant adverse environmental or social impacts that are diverse, irreversible or unprecedented require a disclosure period of 60 days before consideration by

[25] *See, for reference, "IFC Policy and Practice Regarding Rescheduling of Loan Investments" (IFC/R84-3).*

[26] *IFC's Environment and Social Safeguard Polices were replaced by IFC's Policy and Performance Standards on Social and Environmental Sustainability w.e.f April 30, 2006.*

[27] ESRP *version 2.0 was issued July 31st 2007*

IFC Board; (b) Category B: projects with potentially limited adverse environmental or social impact that are few in number, site specific, largely reversible, and readily addressed through mitigation require a 30 day disclosure; and (c) Category C: projects with minimal or no adverse environmental and social impacts, no further review is required.

For Financial Intermediary Investments the specialist first determines the nature of the business activities that will be supported by the FI and the degree to which these investments expose the FI to environment or social risks. IFC's requirements are proportional to the level of potential risk such that (a) FIs whose business activities have minimal or no adverse impacts are considered to be Category C; (b) all other FIs are categorized as FI and are subject to IFC's Exclusion List; and (c) in addition to the Exclusion List, those FIs providing long term corporate or project finance will require the recipient of such finance to follow (i) host country laws and regulation in the case of limited environment and/or social risks or (ii) IFC Performance Standards where the activity financed presents a greater social or environmental risk. The FI will be required to establish and maintain a social and environment management system to ensure that its investments meet IFC requirements.

Advisory Services are provided by IFC in a wide range of interventions from advice in connection with large scale business to grass-roots support for small enterprise. IFC does not provide advice to support activities that are described in the Exclusion List, and encourages recipients of IFC advisory services to enhance opportunities to promote good social and environmental practices. When IFC is providing advice for large scale investment projects, the Performance Standards are used as a reference in addition to national laws.

Monitoring and Evaluation

IFC monitors the environmental and social performance of projects in its portfolio. Monitoring usually occurs in one or more of the following ways:

a) Review of Annual Monitoring Reports (AMR) prepared by the project company (in a format agreed by IFC);

b) Supervision missions carried out by the Investment Department; and/or

c) Project site visits by staff of the Environment and Social Development Department. The frequency of the site visits depends on the category and the environment and social risk rating (ESRR) of a project.

The investment officer, in cooperation with the technical specialist and after consultation with the environmental and social development specialists, is responsible for ensuring that supervision reports include information on the project company's compliance with environmental and social requirements which comes in the form of the AMR. The investment officer is also responsible for ensuring that the AMR is provided to the Environment and Social Development Department's Investment Support Group (CESIG) as required in the legal documentation for the project. CESIG is responsible for reviewing such AMRs to determine whether the project company is compliant with the PS and will generate an ESSR score. The ESRR incorporates a scoring of the status of each relevant Performance Standard on a four point scale: Excellent -1, Satisfactory -2, Partially Unsatisfactory -3, and Unsatisfactory-4. Category A projects require the review of the AMR by a qualified external expert.

In the case of non-compliance, CESIG discusses an appropriate course of action with the Investment and Legal Departments. The investment officer notifies the project company of this action and any follow-up requirements. The investment officer is responsible for follow-up with both the Project Company and CESIG until the non-compliance situation is resolved. Project Supervision Reports (PSRs), which IFC prepares at least annually, must include a section on E&S compliance with regard to covenants in the investment agreement as well as an ESSR score. In addition, the PSR must state whether CESIG has received the AMR (as required in the investment agreement), the date it was submitted to IFC and the date reviewed by CESIG.

A Quality Assurance unit was established within CESIG during FY06 to help provide CES management with oversight of the overall review and supervision process. A systematic approach to data

analysis will generate E&S performance information on both a project and aggregate portfolio basis. Some of this information will be used as input for IFC's Development Outcomes Tracking System (DOTS).

Baseline data gathered by the client and performance metrics established by IFC during appraisal will enable a more tailored AMR, this in turn will allow improved measurement of IFC value add to the projects E&S performance, and development impact.

Policy on Disclosure of Information

IFC's Policy on Disclosure of Information[28] maintains a presumption in favor of disclosure where disclosure would not materially harm the business and competitive interests of clients. IFC's policy is to be open about its activities and to seek out opportunities to explain its work to the widest possible audience. Accordingly, IFC releases publicly information about its operations and policies not related to specific projects, such as its Annual Report, Strategic Directions Paper, Budget and Business Plan, discussion papers, booklets, papers on IFC's experience in a region or a sector and policy papers sent to the Board of Directors, after they have been approved by the Board. The minutes of formal meetings of IFC's Board of Directors (other than Executive Sessions) are publicly available after the Board has approved them. The IFC also makes publicly available through the World Bank infoshop:
(a) The Environmental and Social Review Summary (ESRS) for Category A and B projects includes a description of the main social and environmental risks and impacts, key measures identified to mitigate those risks and impacts, specifying any actions that will need to be implemented, and the rationale for IFC's categorization. The ESRS is disclosed no later than 60 days before IFC Board of Directors consideration of the project for Category A and 30 days for Category B. Where the project sponsor has undertaken a process of environmental and social assessment, the sponsor will publicly disclose the assessment document(s) as well as the Action Plan in the local language, in a culturally appropriate manner.
(b) The Summary of Proposed Investment (SPI) contains a brief factual summary of the main elements of the projects and potential investment including reference to the environmental and social data available for the project, including any ESRS, and in the case of Category C projects and FIs (that do not have an ESRS) the rationale for categorization. In the case of an investment in a FI project, a brief summary of any key enhancements to be made to the FI's environmental and social management system should also be included.
(c) An annual report to the donor community, which describes IFC Advisory Services (AS) for a given fiscal year and contains information about contributions to donor-supported AS activities.
The new IFC Policy on Disclosure of Information provides for a Disclosure Policy Advisor who will review any complaints from persons who have requested information from IFC and feel that their request has been unreasonably denied or IFC's policy interpreted incorrectly.

Insurance Review

According to the "Guideline for Insurance Review of IFC Projects" that was implemented by IFC, all proposed projects are reviewed to ensure that IFC's investment is adequately protected against applicable insurable risks.

The review process takes into account the project's size, complexity, risk exposure, local insurance legislative requirements, availability, and cost of insurance. Prior to disbursement and during the life of a project, compliance with IFC's insurance requirements is monitored through desk reviews, site visits (as needed) and regular meetings with investment departments. Certain equity investments without increased risk (as determined by the Insurance Officer and discussed during IRM) are not subject to ongoing insurance compliance. On such projects, insurance is however a condition of disbursement documented in the respective equity subscription agreement.

An insurance database (IDB) is used to facilitate ongoing reviews and track changes in insurance programs. This is now accessible via a link under the project in iDesk.

[28] *IFC's Policy on Disclosure of Information was updated during FY06 and the revised version dated April 30, 2006 became effective as of that date.*

The insurance classification as well as the PSR wording are automatically pushed from the IDB to the respective system.

ANNEX B – IFC's Committed Portfolio by Country at June 30, 2009 (amounts in $ thousands)

Country/Region	No. of Projects	Loan*	Equity	Total	%
IDA Countries					
Afghanistan	8	81,098	11,550	92,656	0.27%
Angola	3	59,389	-	59,392	0.17%
Armenia	9	24,273	11,417	35,699	0.10%
Azerbaijan	23	95,996	7,503	103,522	0.30%
Bangladesh	14	103,988	20,413	124,414	0.36%
Benin	2	5,612	-	5,614	0.02%
Bhutan	3	8,860	-	8,863	0.03%
Bolivia	17	111,008	4,351	115,376	0.33%
Bosnia and Herzegovina	16	146,562	14,381	160,959	0.47%
Burkina Faso	6	14,243	11,509	25,757	0.07%
Burundi	2	450	845	1,297	0.00%
Cambodia	12	69,363	7,375	76,750	0.22%
Cameroon	10	136,717	1,827	138,554	0.40%
Cape Verde	2	7,139	-	7,141	0.02%
Chad	2	7,027	-	7,029	0.02%
Congo, Democratic Republic of	8	85,739	7,290	93,037	0.27%
Cote D'Ivoire	20	20,524	49,533	70,077	0.20%
Djibouti	1	4,000	-	4,001	0.01%
Ethiopia	1	55,000	-	55,001	0.16%
Gambia, The	3	11,720	-	11,723	0.03%
Georgia	18	277,224	39,176	316,418	0.92%
Ghana	26	518,879	2,514	521,419	1.51%
Grenada	1	1,879	-	1,880	0.01%
Guinea	3	-	35,000	35,003	0.10%
Guyana	3	-	7,993	7,996	0.02%
Haiti	2	118	4,033	4,153	0.01%
Honduras	10	180,403	939	181,352	0.53%
India	151	2,514,141	875,015	3,389,307	9.82%
Indonesia	41	632,167	102,782	734,990	2.13%
Kenya	35	147,454	17,481	164,971	0.48%
Kiribati	1	1,798	-	1,799	0.01%
Kyrgyz Republic	14	24,605	2,260	26,879	0.08%
Lao People's Democratic Republic	9	14,033	4,152	18,194	0.05%
Liberia	6	10,250	1,080	11,336	0.03%
Madagascar	14	34,320	9,577	43,911	0.13%
Malawi	6	23,510	523	24,039	0.07%
Maldives	6	97,669	5,615	103,290	0.30%
Mali	8	33,040	3,208	36,257	0.11%
Mauritania	2	13,544	-	13,546	0.04%
Moldova	11	23,429	4,144	27,584	0.08%
Mongolia	14	53,760	3,867	57,641	0.17%
Mozambique	11	80,474	23,121	103,606	0.30%
Nepal	8	33,900	350	34,258	0.10%
Nicaragua	14	153,440	3,000	156,454	0.45%
Niger	1	565	-	566	0.00%
Nigeria	42	485,184	71,101	556,326	1.61%
Pakistan	60	554,006	159,928	713,994	2.07%
Papua New Guinea	3	40,000	3,663	43,666	0.13%
Rwanda	6	27,481	2,000	29,487	0.09%
Saint Lucia	2	22,800	-	22,802	0.07%
Samoa	2	10,462	396	10,860	0.03%
Sao Tome and Principe	1	68	-	69	0.00%
Senegal	7	69,566	3,068	72,642	0.21%
Sierra Leone	4	28,627	-	28,631	0.08%
Sri Lanka	12	98,851	39,133	137,996	0.40%
Sudan	2	-	0	2	0.00%
Tajikistan	16	32,567	3,234	35,818	0.10%
Tanzania, United Republic of	14	97,545	13,873	111,433	0.32%
Togo	2	6,633	-	6,635	0.02%
Tonga	1	6,787	-	6,788	0.02%
Uganda	10	196,961	0	196,971	0.57%
Uzbekistan	10	8,418	1,540	9,968	0.03%
Vanuatu	1	9,019	-	9,020	0.03%
Vietnam	23	304,464	28,239	332,726	0.96%
Yemen, Republic of	10	146,634	0	146,644	0.43%
Zambia	6	15,844	8,250	24,100	0.07%
Zimbabwe	9	4,311	22	4,342	0.01%
IDA Countries Total	***820***	***8,085,538***	***1,628,272***	***9,714,630***	***28.16%***

IFC's Committed Portfolio by Country at June 30, 2009 (amounts in $ thousands)

Country/Region	No. of Projects	Loan*	Equity	Total	%
Non-IDA Countries					
Albania	5	91,836	28,060	119,896	0.35%
Algeria	9	58,889	67,295	126,184	0.37%
Argentina	52	908,490	145,241	1,053,731	3.05%
Barbados	1	6,522	1,535	8,057	0.02%
Belarus	11	66,775	2,115	68,890	0.20%
Belize	1	4,308	-	4,308	0.01%
Botswana	5	31,209	9,768	40,977	0.12%
Brazil	106	2,159,271	208,196	2,367,467	6.86%
Bulgaria	16	195,139	47,672	242,812	0.70%
Chile	20	345,698	35,769	381,468	1.11%
China	119	1,410,911	693,616	2,104,527	6.10%
Colombia	37	595,520	277,190	872,710	2.53%
Costa Rica	4	29,776	976	30,752	0.09%
Croatia	10	330,125	5,196	335,322	0.97%
Czech Republic	3	14,394	0	14,394	0.04%
Dominican Republic	14	147,488	33,887	181,375	0.53%
Ecuador	8	67,584	848	68,433	0.20%
Egypt	43	291,768	326,854	618,622	1.79%
El Salvador	7	113,087	-	113,087	0.33%
Fiji	1	22,934	-	22,934	0.07%
Gabon	1	30,000	-	30,000	0.09%
Greece	1	-	0	0	0.00%
Guatemala	14	120,309	79,187	199,497	0.58%
Hungary	5	163,769	0	163,769	0.47%
Iran, Islamic Republic of	2	13,418	-	13,418	0.04%
Iraq	2	-	4,286	4,286	0.01%
Jamaica	9	138,487	10,000	148,487	0.43%
Jordan	21	289,850	25,290	315,140	0.91%
Kazakhstan	14	292,950	31,152	324,102	0.94%
Korea, Republic of	8	-	18,631	18,631	0.05%
Latvia	1	1,196	-	1,196	0.00%
Lebanon	10	161,711	20,200	181,911	0.53%
Lithuania	2	14,185	-	14,185	0.04%
Macedonia, Former Yugoslav Repu	7	49,431	22,346	71,777	0.21%
Mauritius	3	20,000	0	20,000	0.06%
Mexico	65	570,257	210,478	780,735	2.26%
Montenegro	5	38,673	-	38,673	0.11%
Morocco	13	207,959	64,648	272,608	0.79%
Namibia	2	11,275	-	11,275	0.03%
Oman	7	120,265	27,136	147,401	0.43%
Panama	11	436,157	34,941	471,098	1.37%
Paraguay	6	81,341	-	81,341	0.24%
Peru	44	644,470	99,474	743,944	2.16%
Philippines	33	872,901	87,599	960,500	2.78%
Poland	5	37,687	5,237	42,924	0.12%
Romania	22	479,007	69,945	548,952	1.59%
Russian Federation	115	1,663,292	580,262	2,243,555	6.50%
Saudi Arabia	4	62,746	30,166	92,912	0.27%
Serbia	9	264,706	47,067	311,773	0.90%
Slovakia	1	2,018	-	2,018	0.01%
South Africa	29	500,410	77,306	577,716	1.67%
Swaziland	1	3,849	-	3,849	0.01%
Syrian Arab Republic	4	13,200	9,226	22,426	0.06%
Thailand	8	81,272	31,907	113,179	0.33%
Trinidad and Tobago	7	129,705	-	129,705	0.38%
Tunisia	11	202,235	76,195	278,429	0.81%
Turkey	54	1,657,276	252,590	1,909,866	5.54%
Ukraine	30	707,228	23,561	730,788	2.12%
United Arab Emirates	1	18,285	-	18,285	0.05%
Uruguay	6	129,218	0	129,218	0.37%
Venezuela	5	50,000	8,959	58,959	0.17%
West Bank and Gaza	13	51,195	12,356	63,551	0.18%
Non-IDA Countries Total	***1083***	***17,223,658***	***3,844,362***	***21,068,020***	***61.1%***

IFC's Committed Portfolio by Country at June 30, 2009 (amounts in $ thousands)

Country/Region	*No. of Projects*	*Loan**	*Equity*	*Total*	*%*
Region					
Africa Region	26	286,097	331,683	617,780	1.79%
Caribbean Region	1	12,503	2,490	14,993	0.04%
Central Africa Region	1	0	7,062	7,062	0.02%
Central America Region	7	124,429	5,244	129,673	0.38%
Central Asia Region	3	35,500	11,772	47,272	0.14%
Central Europe Region	6	710	25,905	26,616	0.08%
East Asia and Pacific Region	13	0	130,536	130,536	0.38%
Eastern Africa Region	5	32,700	8,562	41,262	0.12%
Eastern Europe Region	10	73,437	67,506	140,943	0.41%
Latin America Region	25	102,447	126,131	228,579	0.66%
MENA Region	13	279,800	188,641	468,441	1.36%
Southeast Asia Region	2	0	66	66	0.00%
Southern Africa Region	3	8,214	29,689	37,903	0.11%
Southern Asia Region	1	150,000	0	150,000	0.43%
Southern Europe Region	15	124,306	238,726	363,032	1.05%
Western Africa Region	3	0	45,002	45,002	0.13%
World Region	36	1,015,854	256,377	1,272,231	3.69%
Grand Total	**170**	**2,245,998**	**1,475,392**	**3,721,390**	**10.79%**
Grand Total	**2,073**	**27,555,195**	**6,948,026**	**34,503,221**	**100.00%**

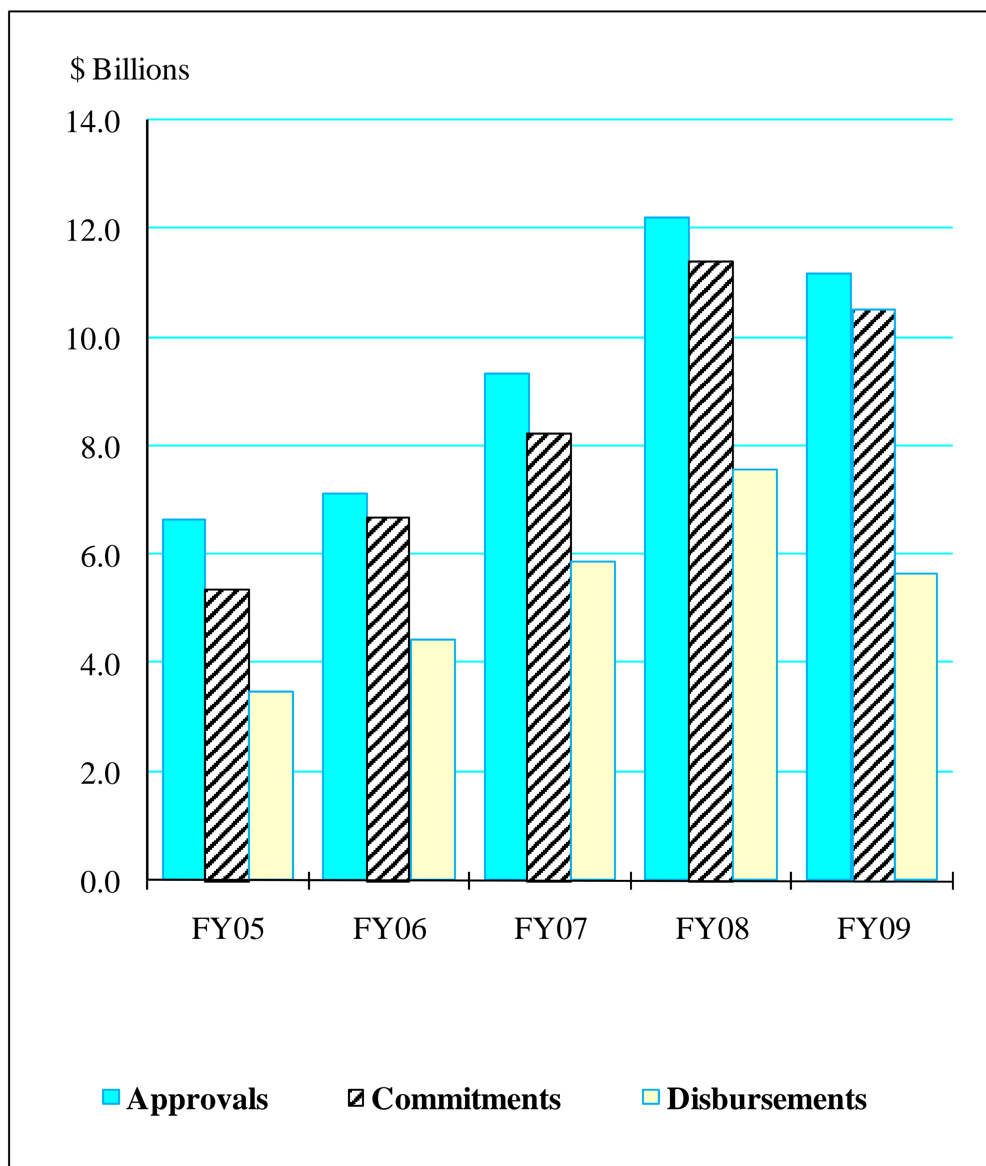
**Includes guarantees and risk management facilities.*

ANNEX C – Tables and Graphs

I. Portfolio Growth, Size and Composition

Commitments and Disbursements

Figure C-1: Approvals, Commitments and Disbursements, FY05-09[1]



1. Approvals and Commitments include risk management and guarantees.

Table C-1: New Commitments by Region, FY08-09 [1]

	Commitments FY08		Commitments FY09[2]		% Change
	$ Mil	**%**	**$ Mil**	**%**	**FY08-09**
Sub-Saharan Africa	1,380	12.1	1,824	17.3	32.2
East Asia & Pacific	1,634	14.3	1,197	11.4	(26.7)
South Asia	1,264	11.1	1,215	11.5	(3.9)
Central & Eastern Europe	1,178	10.3	1,000	9.5	(15.1)
Southern Europe & Central Asia	1,502	13.2	1,146	10.9	(23.7)
Latin America & Caribbean	2,943	25.8	2,721	25.8	(7.5)
Middle East & North Africa	1,442	12.7	1,260	11.9	(12.6)
World	56	0.5	184	1.7	227.6
Total IFC	**11,399**	**100.0**	**10,547**	**100.0**	**(7.5)**

1. Includes guarantees and risk management

2. Some amounts include regional shares of investments that are officially classified as World or multi-regional projects.

Table C-2: New Commitments by Sector, FY08-09 [1]

	Commitments FY08		Commitments FY09		% Change
	$ Mil	**%**	**$ Mil**	**%**	**FY08-09**
Agriculture	466	4.1	326	3 1	(30.1)
Chemicals	258	2.3	402	3.8	55.7
Collective Investment Vehicles	527	4.6	664	6 3	26.0
Financial Services	4,605	40.4	4,793	45.4	4.1
Industrial and Consumer Services	668	5.9	390	3.7	(41.6)
Infrastructure	2,691	23.6	2,047	19.4	(23.9)
Manufacturing	980	8.6	1,296	12 3	32.2
Oil, Gas & Mining	878	7.7	411	3 9	(53.2)
Social Services	326	2.9	218	2 1	(33.2)
Total IFC	**11,399**	**100.0**	**10,547**	**100.0**	**(7.5)**

1. Includes guarantees and risk management.

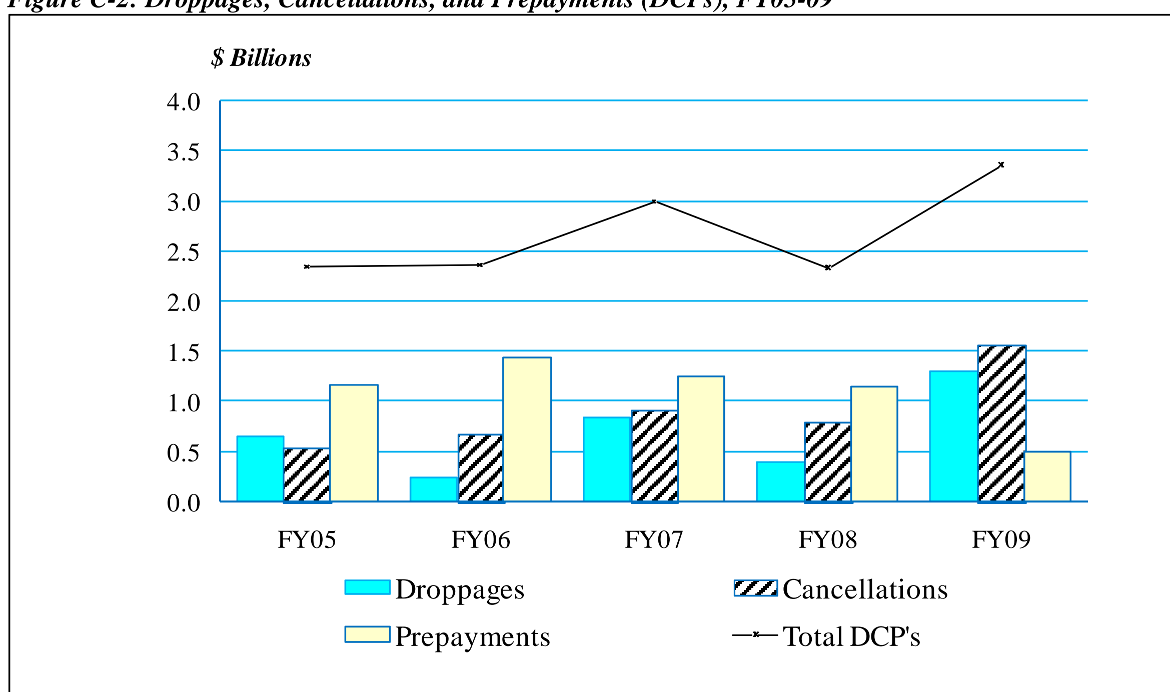
Table C-3: New Commitments by IDA/Non IDA Category, FY08-09 [1]

	Commitments FY08		Commitments FY09		% Change
	$ Mil	%	$ Mil	%	FY08-09
IDA	3,529	31.0	4,424	41.9	25.4
Non-IDA	7,869	69.0	6,123	58.1	(22.2)
Total IFC	**11,399**	**100.0**	**10,547**	**100.0**	**(7.5)**

1. Includes guarantees and risk management transactions for all years.
Country and regional commitments are included in totals.

Droppages, Cancellations and Prepayments (DCPs)

Figure C-2: Droppages, Cancellations, and Prepayments (DCPs), FY05-09[1]



1. Loan and Equity Portfolio

Table C-4: Droppages, Cancellations and Prepayments by Region, FY09

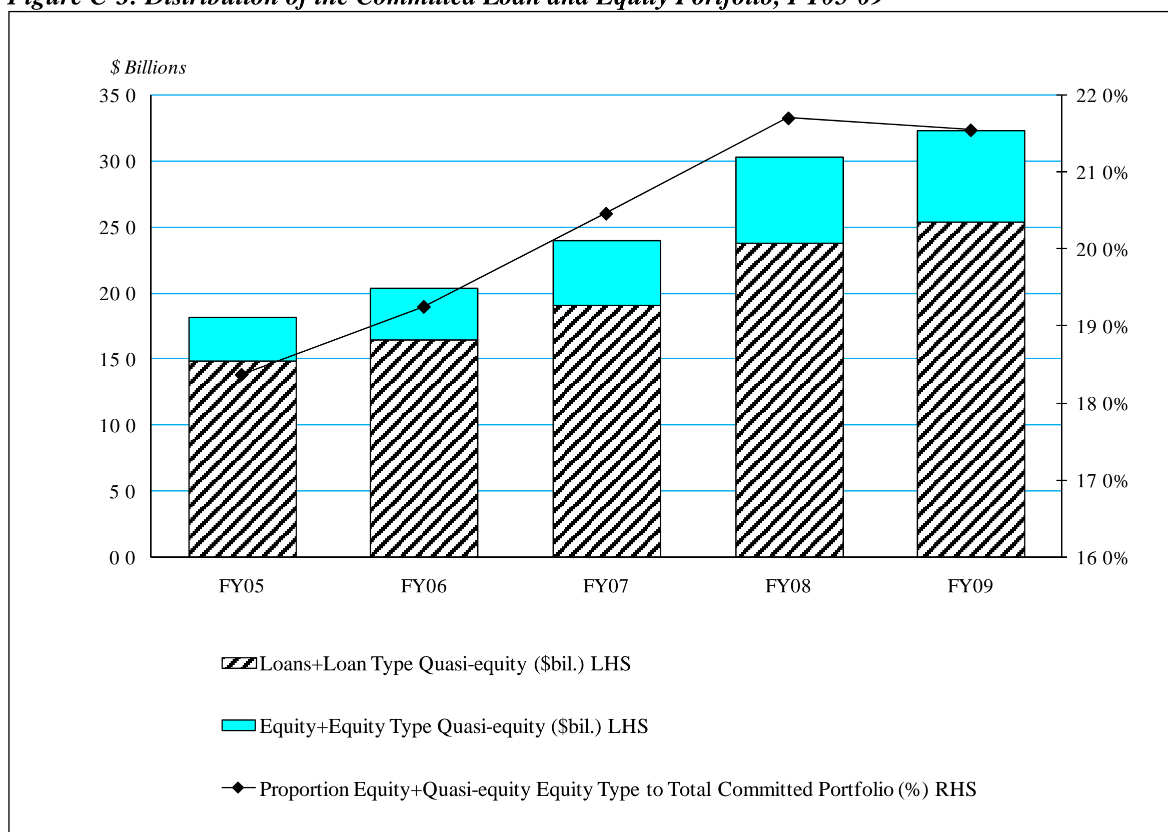
	Droppages	Cancellations	Prepayments	Total DCPs	
	$ Mil	$ Mil	$ Mil	$ Mil	%
Sub-Saharan Africa	15	85	57	157	4.5
East Asia & Pacific	335	208	59	602	17.4
South Asia	152	195	50	397	11.5
Central & Eastern Europe	367	209	123	699	20.2
Southern Europe & Central Asia	181	249	46	476	13.8
Latin America & Caribbean	246	395	136	777	22.5
Middle East & North Africa	5	328	19	352	10.2
World	0	0	0	0	0.0
Total IFC	**1,302**	**1,669**	**490**	**3,461**	**100.0**

Table C-5: Droppages, Cancellations and Prepayments by Sector, FY09

	Droppages	Cancellations	Prepayments	Total DCPs	
	$ Mil	$ Mil	$ Mil	$ Mil	%
Agriculture	0	3	2	5	0.2
Chemicals	32	102	35	169	4.9
Collective Investment Vehicles	27	53	10	90	2.6
Financial Services	746	710	77	1,533	44.3
Industrial and Consumer Services	95	86	25	206	6.0
Infrastructure	267	388	186	841	24.3
Manufacturing	113	178	70	361	10.4
Oil, Gas & Mining	2	95	68	165	4.8
Social Services	19	55	16	90	2.6
Total IFC	**1,302**	**1,669**	**490**	**3,461**	**100.0**

Committed Portfolio

Figure C-3: Distribution of the Committed Loan and Equity Portfolio, FY05-09[1]



1. Excludes Guarantees and Risk Management Products

Table C-6: Committed Portfolio: Regional Growth FY05-FY09[1]

	FY05	FY06	FY07	FY08	FY09	% Change	
	$ Mil	$ Mil	$ Mil	$ Mil	$ Mil	FY05-09	FY08-09
Sub-Saharan Africa	1,698	2,023	2,712	3,252	3,896	129.5	19.8
East Asia & Pacific	2,940	3,248	3,579	4,596	4,643	57.9	1.0
South Asia	1,634	1,785	2,645	3,486	3,948	141.7	13.2
Central & Eastern Europe	2,604	3,215	3,497	4,121	3,801	46.0	(7.8)
Southern Europe & Central Asia	2,694	3,185	3,536	4,673	4,678	73.6	0.1
Latin America & Caribbean	6,125	6,299	6,780	8,234	8,688	41.8	5.5
Middle East & North Africa	1,210	1,527	2,477	3,343	3,577	195.7	7.0
World	370	346	185	639	1,272	243.8	99.3
Total IFC	**19,275**	**21,627**	**25,411**	**32,342**	**34,503**	**79.0**	**6.7**

1. Includes guarantees and risk management.

Table C-7: Country Income Group Distribution of Committed Portfolio, FY05-FY09[1]

Country Income Group[2]	FY05		FY08		FY09		% Change	
	($ Mil)	%[4]	($ Mil)	%[4]	($ Mil)	%[4]	FY05-09	FY08-09
Low income	3,124	18.3	6,411	21.7	3,915	12.7	25.3	(38.9)
Low middle income	7,717	45.3	10,000	33.8	13,865	45.0	79.7	38.7
High middle income	5,956	34.9	12,788	43.2	12,407	40.3	108.3	(3.0)
High income	245	1.4	387	1.3	595	1.9	142.9	53.7
Subtotal	**17,042**	**100.0**	**29,586**	**100.0**	**30,782**	**100.0**	**80.6**	**4.0**
Regional and Other[3]	**2,232**		**2,756**		**3,721**		**66.7**	**35.0**
Total IFC	**19,274**		**32,342**		**34,503**		**79.0**	**6.7**

1. Includes guarantees and risk management transactions for all years.
2. Income Group data for FY09 and FY08 are based on 2007 and 2006 gross national income (GNI) per capita, respectively, calculated using the World Bank Atlas method.
3. "Regional and Other" refers to countries for which income data was not available
4. Percentage of year-end committed portfolio

- Strong growth in the lower middle income category in FY09 was due to the movement of India and Mongolia from the low category to the lower middle category. If these two countries had remained in the low category, low income portfolio growth would have been 15% to $7,362 million (vs. -39% to $3,915 million) and lower middle income portfolio growth would have been 4% to $10,418 million (vs. 39% to $13,865 million).

Table C-8: IDA/Non-IDA Country Distribution of Committed Portfolio, FY05, FY08 & FY09[1]

	FY05		FY08		FY09		% Change	
	($ Mil)	%	($ Mil)	%	($ Mil)	%	FY05-09	FY08-09
IDA	4,968	29.2	8,382	28.6	9,714	31.6	95.5	15.9
Non-IDA	12,074	70.8	20,961	71.4	21,068	68.4	74.5	0 5
Subtotal	**17,042**	**100.0**	**29,343**	**100.0**	**30,782**	**100.0**	**80.6**	**4 9**
Regional	**2,232**		**2,999**		**3,721**		**66.7**	**24.1**
Total IFC	**19,274**		**32,342**		**34,503**		**79.0**	**6.7**

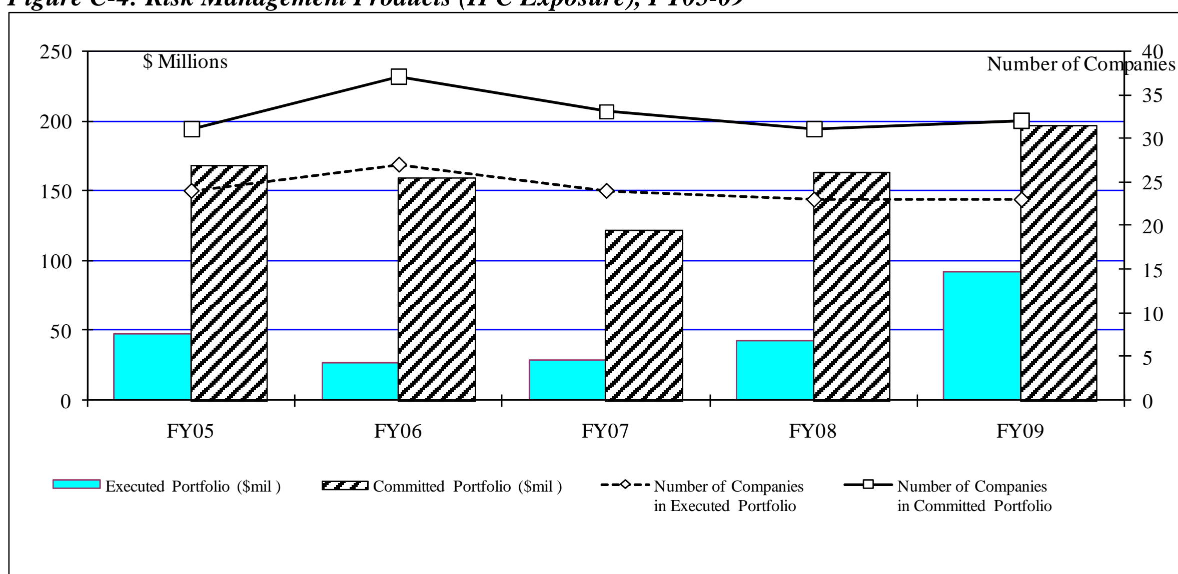
1. Includes guarantees and risk management transactions for all years.
Regional transactions were not classified as IDA / non-IDA prior to FY07. Regional transactions, therefore, have not been included IDA / non-IDA totals.

Table C-9: Business Sector Trends – Committed Portfolio, FY05-FY09[1]

	FY05		FY08		FY09		% Change	
	($ Mil)	%	($ Mil)	%	($ Mil)	%	FY05-09 [2]	FY08-09
Agriculture	540	2 8	918	2 8	1,146	3 3	20 7	24 9
Chemicals	575	3 0	1,278	4 0	1,327	3 8	23 3	3 8
Collective Investment Vehicles	923	4 8	1,489	4 6	1,988	5 8	21 1	33 5
Financial Services	6,235	32 3	12,295	38 0	12,165	35 3	18 2	(1 1)
Industrial and Consumer services	1,139	5 9	1,734	5 4	1,753	5 1	11 4	1 1
Infrastructure	3,979	20 6	6,466	20 0	7,492	21 7	17 1	15 9
Manufacturing	4,188	21 7	5,082	15 7	5,465	15 8	6 9	7 5
Oil, Gas and Mining	1,423	7 4	2,441	7 5	2,430	7 0	14 3	(0 4)
Social Services	274	1 4	639	2 0	737	2 1	28 1	15 3
Total IFC	**19,274**	**100.0**	**32,342**	**100.0**	**34,503**	**100.0**	**15.7**	**6.7**

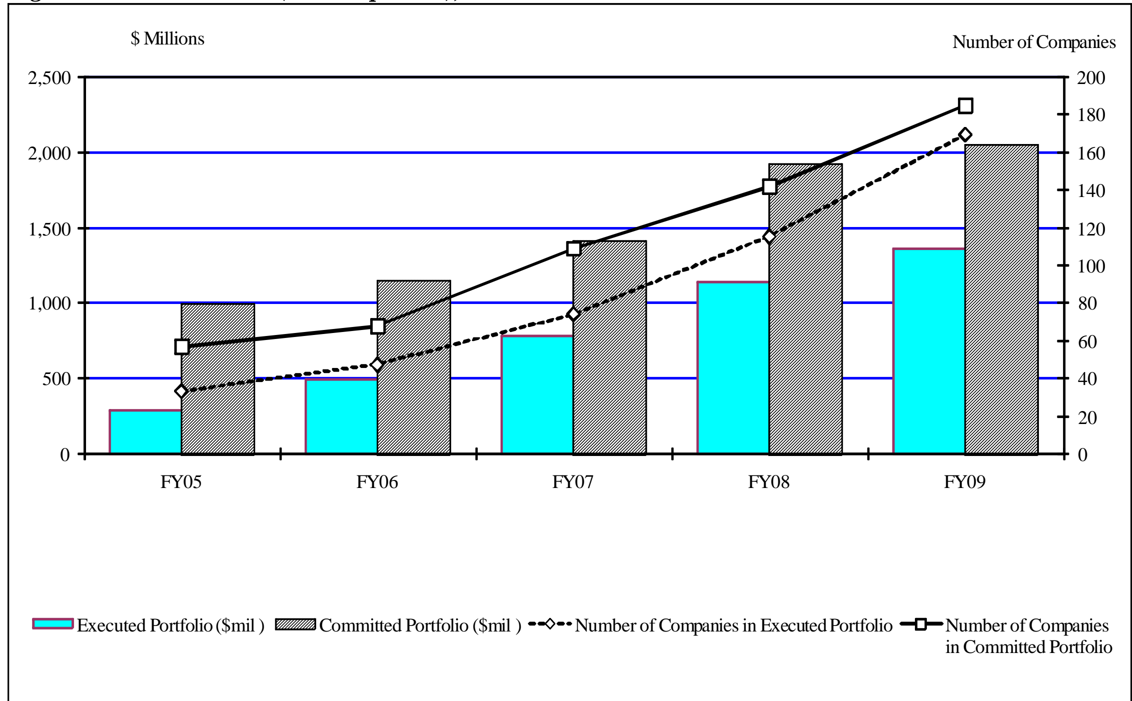
1. *Includes guarantees and risk management transactions for all years*
2. *Annual compounded increase over the FY05-09 period.*

Figure C-4: Risk Management Products (IFC Exposure), FY05-09



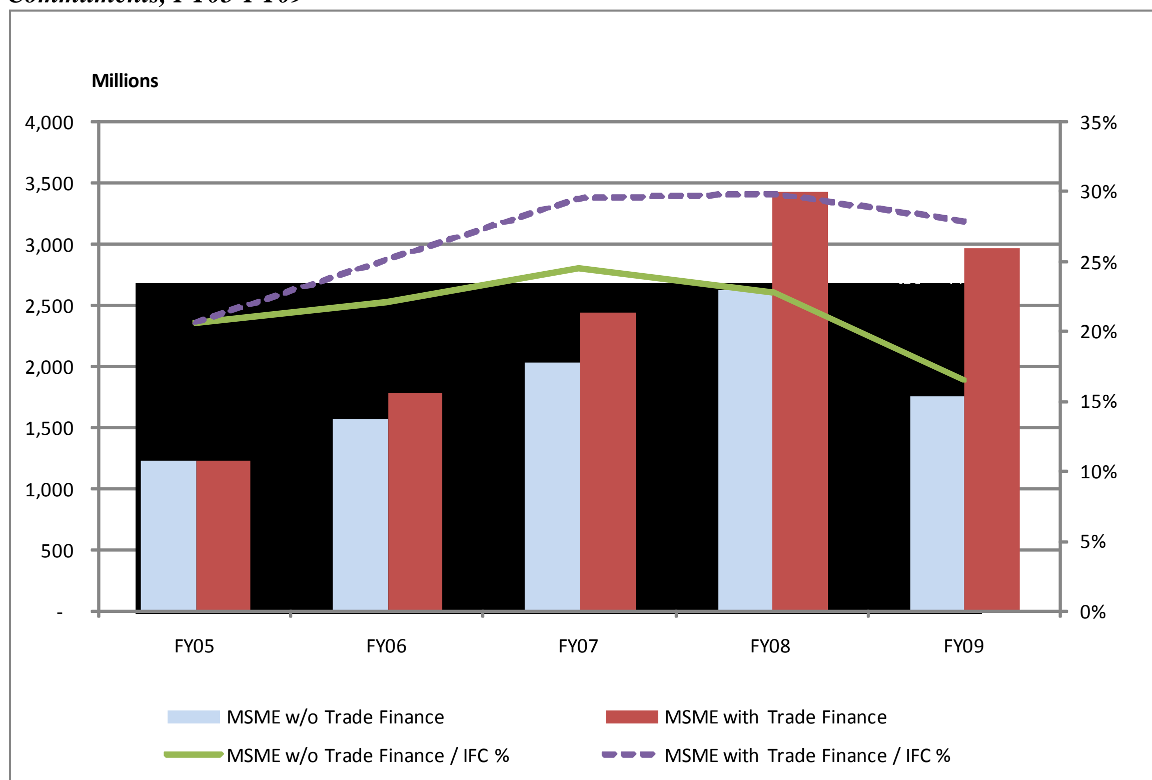
- The committed portfolio of risk management products increased 20% to $196 million. The executed portfolio increased to $92 million from $42 million in FY08 (execution is the loan equivalent to disbursement for risk management products).
- The committed portfolio was distributed over IFC's operating regions as follows: South Asia 35%, Sub-Saharan Africa 24%, Middle East & North Africa 17%, Latin America & Caribbean 16%, East Asia & Pacific 3%, Central & Eastern Europe 2%, and Southern Europe & Central Asia 1%.
- The largest sectors represented were Chemicals 57%, Infrastructure 22%, Financial Services 8%, and Oil, Gas & Mining 8%.

Figure C-5: Guarantees (IFC Exposure), FY05-09



- The committed portfolio of guarantees grew 7% to $2,055 million and the executed portfolio grew 20% to $1,364 million (execution is the loan equivalent to disbursement for guarantees).
- The committed portfolio was distributed over IFC's operating regions as follows: Latin America & Caribbean 26%, Sub-Saharan Africa 20%, Middle East & North Africa 17%, East Asia & Pacific 16%, Central & Eastern Europe 13%, South Asia 4%, and Southern Europe & Central Asia 4%.
- The largest sectors represented were Financial Services 87%, Infrastructure 8%, and Social Services 4%.
- Trade finance guarantees represented 54% of total committed guarantees (36% in FY08) and 82% of executed guarantees (60% in FY08).

Figure C-6: IFC MSME Commitments by Fiscal Year and by Percent of Total IFC Commitments, FY05-FY09



- Despite the drop in non-trade MSME investment volume in FY09 largely due to the global financial crisis, 81% of all non-trade Financial Markets projects supported MSME in FY09 (72% in FY08), the highest percentage during FY06-09 period.

Disbursed Portfolio

Figure C-7: Disbursed Outstanding Portfolio, FY05-09

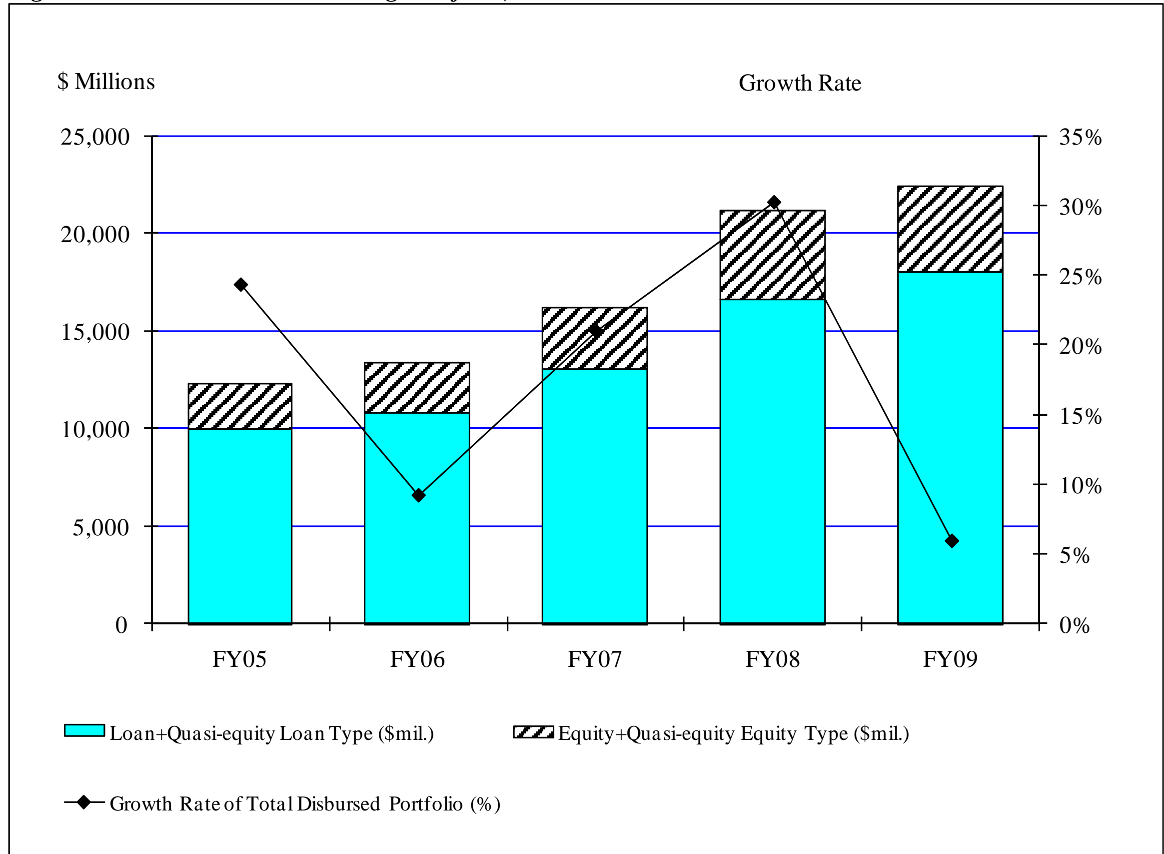


Table C-10: Disbursed Portfolio Growth, FY05-09

		FY05	FY06	FY07	FY08	FY09
Number of Companies in Outstanding Loan Portfolio [1]	No.	795	753	750	759	781
Total Outstanding Loans	$Mil	9,962	10,857	13,076	16,622	18,028
Yearly Growth Rate of Outstanding Loans	%	2.3	9.0	20.4	27.1	8.5
Average Disbursed Balance per Company	$Mil	13	14	17	22	23
Number of Companies in Disbursed Equity Portfolio	No.	577	570	571	635	658
Net Disbursed Equity	$Mil	2,314	2,551	3,144	4,502	4,352
Yearly Growth Rate of Disbursed Equity	%	10.0	10.2	23.2	43.9	(3.3)
Average Disbursed Equity per Company	$Mil	4	4	6	7	7

1. Loans under agency lines have not been consolidated for this count.

Loan Portfolio

Table C-11: Disbursed Loan Portfolio by Region, FY05, FY08 & FY09

	Disbursed Loans ($ Mil)			Regional Share (%)		
	FY05	**FY08**	**FY09**	**FY05**	**FY08**	**FY09**
Sub-Saharan Africa	677	1,144	1,490	6.8	6.9	8.3
East Asia & Pacific	1,042	2,332	2,564	10.5	14.0	14.2
South Asia	880	1,527	1,874	8.8	9.2	10.4
Central & Eastern Europe	1,072	2,511	2,266	10.8	15.1	12.6
Southern Europe & Central Asia	1,775	2,620	2,635	17.8	15.8	14.6
Latin America & Caribbean	3,681	4,949	5,331	36.9	29.8	29.6
Middle East & North Africa	672	1,261	1,522	6.7	7.6	8.4
World	163	278	346	1.6	1.7	1.9
Total IFC	**9,962**	**16,622**	**18,028**	**100.0**	**100.0**	**100.0**

Table C-12: Disbursed Loan Portfolio by Sector, FY05-FY09

	Disbursed Loans ($ Mil)			Sectoral Share (%)		
	FY05	**FY08**	**FY09**	**FY05**	**FY08**	**FY09**
Agriculture	207	485	542	2.1	2.9	3.0
Chemicals	337	696	810	3.4	4.2	4.5
Collective Investment Vehicles	56	29	28	0.6	0.2	0.2
Financial Services	2,637	6,962	6,677	26 5	41.9	37.0
Industrial and Consumer Services	827	894	1,073	8 3	5.4	6.0
Infrastructure	2,302	2,840	3,724	23.1	17.1	20.7
Manufacturing	2,655	3,477	3,607	26.6	20.9	20.0
Oil, Gas and Mining	775	1,024	1,331	7.8	6.2	7.4
Social Services	167	215	236	1.7	1.3	1.3
Total IFC	**9,962**	**16,622**	**18,028**	**100.0**	**100.0**	**100.0**

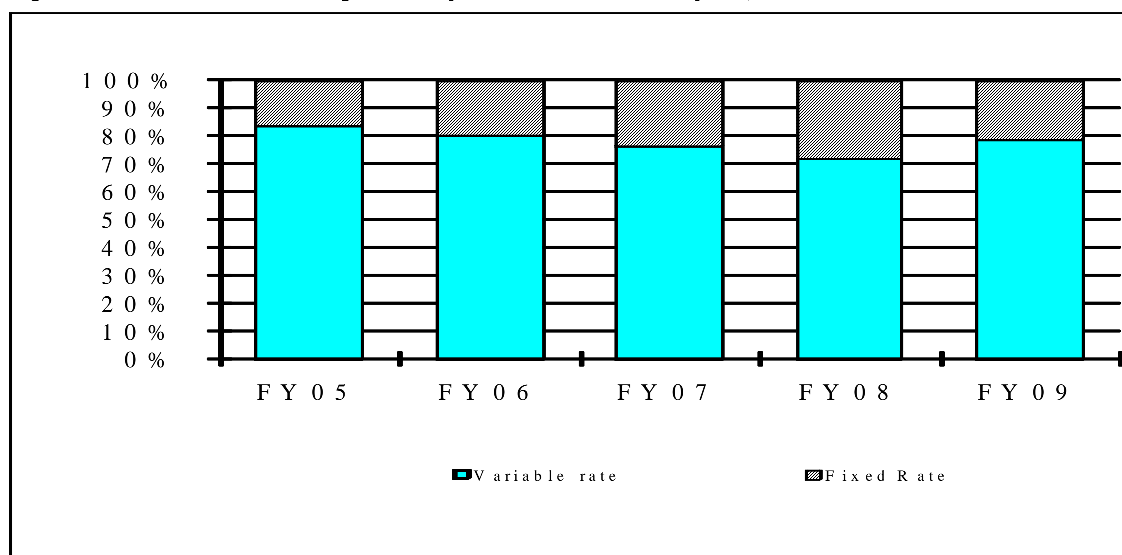
Table C-13: Currency Composition of Disbursed Loan Portfolio, FY05, FY08 & FY09[1]

	FY05		FY08		FY09	
	($ Mil)	(%)	($ Mil)	(%)	($ Mil)	(%)
U.S. Dollar	8,075	81.1	10,899	65.6	12,611	70 0
Colombian Peso	-	0 0	242	1.5	215	1.2
Philippine Peso	-	0 0	259	1.6	325	1 8
South African Rand	117	1.2	257	1.5	257	1.4
Korean Won	41	0.4	-	0.0	0	0 0
Euro [2]	1,193	12 0	2,145	12.9	2,203	12.2
Pound Sterling	35	0.4	-	0.0	0	0 0
Indian Rupee	-	0 0	273	1.6	233	1 3
Chinese Yuan (RENMINBI)	-	0 0	290	1.7	291	1 6
Indonesian Rupiah	-	0 0	259	1.6	251	1.4
Russian Ruble	-	0 0	507	3.0	314	1.7
Brazilian Real	-	0 0	921	5.5	836	4 6
Mexican New Peso	-	0 0	195	1.2	136	0 8
Other Currencies [3]	502	5 0	375	2.3	356	2 0
Total	**9,962**	**100.0**	**16,622**	**100.0**	**18,028**	**100.0**

1. Includes loan types quasi-equity instruments.
2. Effective January 1, 1999, eleven member states of the European Union adopted the Euro as their common currency and the European Currency Unit (ECU) was automatically redenominated into the Euro. The ECU and relevant European currencies have been recast into Euros in above table.
3. Includes 15 different currencies.

- IFC loans are offered in a range of currencies with the borrower's currency choice reflecting a number of factors. US dollar denominated loans remained the single largest part of the total followed by the Euro. Brazilian real, Philippine peso, Russian ruble and several other local currencies represented almost 18% of disbursed loans. Non-dollar denominated loans are expressed in US dollars on the balance sheet at the exchange rate prevailing at the fiscal year-end.

Figure C-8: Interest Rate Composition of Disbursed Loan Portfolio, FY05-09[1]



1. Includes loan type quasi-equity instruments.

Table C-14: Disbursed Loan Portfolio, IFC and Participants, FY08-09[1]

	IFC				Participants			
	FY08		FY09		FY08		FY09	
Region	**($Mil)**	**(%)**	**($Mil)**	**(%)**	**($Mil)**	**%**	**($Mil)**	**%**
Sub-Saharan Africa	1,144	6.9	1,490	8.3	233	4.2	173	2.6
East Asia & Pacific	2,332	14.0	2,564	14.2	319	5.8	439	6.6
South Asia	1,527	9.2	1,874	10.4	635	11.5	599	9.0
Central & Eastern Eur	2,511	15.1	2,266	12.6	656	11.8	1,143	17.1
Southern Europe & C	2,620	15.8	2,635	14.6	657	11.9	906	13.6
Latin America & Cari	4,949	29.8	5,331	29.6	2,845	51.3	3,091	46.4
Middle East & North	1,261	7.6	1,522	8.4	87	1.6	228	3.4
World	278	1.7	346	1.9	110	2.0	90	1.3
Total	**16,622**	**100.0**	**18,028**	**100.0**	**5,541**	**100.0**	**6,669**	**100.0**

1. Includes loan type quasi-equity underwriting.

- In FY09, the disbursed syndicated loan portfolio (representing B-loans and DFI Agented loans, Secured Borrowings and Guarantees) increased from $5.5 billion to $6.8 billion with growth underpinned by new commitments in Financial Markets and Infrastructure. New syndicated loan commitments totaled $1.9 billion, including $62.5 million in DFI parallel loans, which resulted in a total committed syndicated loan portfolio of $8.2 billion (includes DFIs, Secured Borrowings and Guarantees). The syndicated portfolio showed continued growth even in light of the difficult market conditions resulting from the impact of the global financial and economic crisis. As noted above, CMO broadened its mobilization and agency platform by seeking to build cooperation and mobilize parallel financing from DFIs, raising and agenting $62.5 million for our clients to fill the financing gap in the syndicated loan market due to the ongoing financial crisis.

  Key participant portfolio figures:
  - In FY09, the Latin America & Caribbean region represented 39% of new Syndicated loan commitments with Central & Eastern Europe at 30%, East Asia 15%, and Southern Europe & Central Asia at 13%.
  - New commitments in the Financial Markets sector totaled $777 million and commitments in the Infrastructure sector totaled $386 million; the two sectors respectively represented 40% and 20% of total new Syndicated loan commitments.
  - The approximate $1.4 billion difference between the total committed B-loan portfolio of $8.2 billion and the disbursed portfolio of $6.7 billion was attributable to the time lag effect in disbursement activity, particularly due to the slow disbursement of infrastructure and greenfield projects.
  - Prepayment volume decreased to a record low of $38 million from $646 million in FY08 another indicator of limited refinancing opportunities for existing IFC borrowers due to the global financial and economic crisis

Equity Portfolio

Table C-15: Disbursed Equity Portfolio by Region, FY05, FY08 & FY09

	Equity Disbursed ($ Million)			Regional Share (%)		
	FY05	FY08	FY09	FY05	FY08	FY09
Sub-Saharan Africa	186	344	296	8.0	7.6	6.8
East Asia & Pacific	581	888	769	25.1	19.7	17.7
South Asia	156	484	507	6.7	10.8	11.6
Central & Eastern Europe	198	615	540	8.6	13.7	12.4
Southern Europe & Central Asia	342	671	592	14.8	14.9	13.6
Latin America & Caribbean	618	1023	982	26.7	22.7	22.6
Middle East & North Africa	107	405	584	4.6	9.0	13.4
World	126	72	82	5.4	1.6	1 9
Total IFC	**2,314**	**4,502**	**4,352**	**100.0**	**100.0**	**100.0**

Table C-16: Disbursed Equity Portfolio by Sector, FY05, FY08 & FY09

	Equity Disbursed ($US million)			Sectoral Share (%)		
	FY05	FY08	FY09	FY05	FY08	FY09
Agriculture	60	134	151	2.6	3.0	3.5
Chemicals	74	144	160	3.2	3.2	3.7
Collective Investment Vehicles	402	513	639	17.4	11.4	14.7
Financial Services	846	2203	1935	36.5	48.9	44.5
Industrial and Consumer Services	128	176	175	5.5	3.9	4.0
Infrastructure	356	584	516	15.4	13.0	11.9
Manufacturing	279	272	302	12.0	6.0	6.9
Oil, Gas and Mining	167	374	297	7.2	8.3	6.8
Social Services	3	102	177	0.1	2.3	4.1
Total IFC	**2,314**	**4,502**	**4,352**	**100.0**	**100.0**	**100.0**

Country Exposure

Table C-17: Country Exposure – Top 10 Disbursed Portfolio, FY09[1]

Country	Disbursed	
	($ Mil)	%
Brazil	2,184	9.2
India	1,991	8.4
Russian Federation	1,840	7.7
China	1,444	6.1
Turkey	1,305	5.5
Philippines	858	3.6
Argentina	850	3.6
Colombia	686	2.9
Mexico	611	2.6
Indonesia	602	2.5
Total Top 10	**12,371**	**51.9**
Total IFC	**23,836**	**100.0**

1. Includes executed guarantees and risk management products.

2. Portfolio Income and Returns

Total Portfolio Income and Returns

Table C-18: Regional Income and Returns, FY08-09 ($ mil)

	Loan Income[1]		Loan Provisions [2]		Loan Return		Equity Income [3]		Equity Write-Offs [4]		Equity Return		Dividend Yield[5]		Total Return[2,3,4,5,6]	
	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09
Sub-Saharan Africa	117	122	(7)	(44)	10.3%	6.0%	308	64	(1)	(100)	115.2%	-11.3%	28.8%	16.1%	31.4%	2.6%
East Asia & Pacific	172	121	(13)	(46)	8.4%	3.1%	454	556	(32)	(129)	50.9%	51.5%	4.6%	4.2%	21.4%	15.3%
South Asia	104	88	5	(30)	7.6%	3.4%	74	127	(64)	(127)	2.7%	0.1%	2.8%	2.1%	6.6%	2.7%
Central & Eastern Europe	197	173	(11)	(64)	7.9%	4.6%	51	13	(2)	(244)	11.7%	-39.8%	1.1%	0.4%	8.5%	-4.1%
Southern Europe & Central	180	161	(8)	(76)	7.2%	3.2%	29	27	(0)	(157)	4.6%	-20.6%	1.8%	3.4%	6.7%	-1.4%
Latin America & Caribbean	406	377	8	(89)	9.4%	5.6%	654	170	(9)	(200)	70.3%	-3.0%	29.4%	17.0%	20.0%	4.2%
Middle East & North Africa	77	71	(33)	(68)	4.0%	0.2%	87	46	(29)	(104)	19.1%	-11.7%	7.2%	5.2%	7.3%	-2.9%
World	14	21	(1)	0	5.4%	6.6%	41	12	(2)	(5)	41.1%	9.4%	6.1%	1.6%	15.5%	7.2%
Total IFC	**1,267**	**1,134**	**(61)**	**(416)**	**8.1%**	**4.1%**	**1,698**	**1,015**	**(140)**	**(1065)**	**40.8%**	**-1.1%**	**11.5%**	**7.2%**	**14.8%**	**3.1%**

1. Includes interest income, financial fees, and unrealized gain/loss on equity under SFAS 159 Fair Value Option(FY08 $21m loss,FY09 $61m loss). Excludes guarantee and risk management facility income.

2. Includes capitalized interest provisions, currency revaluation effect on foreign currency loss reserves, general loss provisions and recoveries of prior years' write-offs. Excludes guarantee provisions.

3. Includes realized capital gain/loss on equity sale, dividend income and unrealized gain/loss on equity under SFAS 159 Fair Value Option (FY08 $12m gain,FY09 $299m loss). Excludes gain/loss on equity non-monetary exchange.

4. Write-off recoveries and loss on divestment included in equity income.

5. Dividend yield is cash dividends for the fiscal year expressed as a percentage of average disbursed equity.

6. Total returns are based on accounting numbers and, with the exception of those investments that are fair valued, do not reflect changes in unrealized capital gains.

Table C-19: Sector Income and Returns, FY08-09 ($ mil)

	Loan Income[1]		Loan Provisions[2]		Loan Return		Equity Income [3]		Equity Write-Offs[4]		Equity Return		Dividend Yield[5]		Total Return[2,3,4,5,6]	
	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09
Agriculture	39	33	11	(31)	12.0%	0.4%	88	(9)	(3)	(29)	101.1%	-27.0%	1.7%	0.3%	26.0%	-6.1%
Chemicals	57	37	(6)	(30)	7.9%	0.9%	26	26	(19)	(60)	6.1%	-22.5%	3.8%	4.1%	8.4%	-3.4%
Collective Investment Vehicl	4	1	(4)	5	0.0%	25.3%	186	(49)	(2)	(30)	38.7%	-13.7%	2.9%	0.8%	37.9%	-12.8%
Financial Services	547	496	(43)	(63)	8.4%	6.3%	567	708	(44)	(584)	28.6%	6.0%	3.1%	3.2%	13.1%	6.2%
Industrial and Consumer Ser	64	55	(12)	(43)	6.8%	1.2%	8	3	(3)	(46)	3.5%	-24.4%	1.1%	1.3%	6.3%	-2.8%
Infrastructure	207	202	(25)	(101)	7.1%	3.0%	320	198	(40)	(120)	54.0%	14.1%	21.8%	15.6%	14.9%	4.6%
Manufacturing	255	205	14	(129)	8.3%	2.2%	124	56	(14)	(56)	37.6%	0.0%	5.6%	4.3%	10.7%	2.0%
Oil, Gas and Mining	76	90	(3)	(23)	8.1%	5.6%	379	81	(13)	(123)	120.2%	-12.6%	75.9%	41.7%	36.4%	1.6%
Social Services	18	15	7	0	11.3%	6.8%	0	1	(2)	(16)	-3.6%	-10.5%	0.1%	0.1%	8.2%	0.2%
Total IFC	**1,267**	**1,134**	**(61)**	**(416)**	**8.1%**	**4.1%**	**1,698**	**1,015**	**(140)**	**(1,065)**	**40.8%**	**-1.1%**	**11.5%**	**7.2%**	**14.8%**	**3.1%**

1. Includes interest income, financial fees, and unrealized gain/loss on equity under SFAS 159 Fair Value Option(FY08 $21m loss, FY09 $61m loss). Excludes guarantee and risk management facility income.

2. Includes capitalized interest provisions, currency revaluation effect on foreign currency loss reserves, general loss provisions and recoveries of prior years' write-offs. Excludes guarantee provisions.

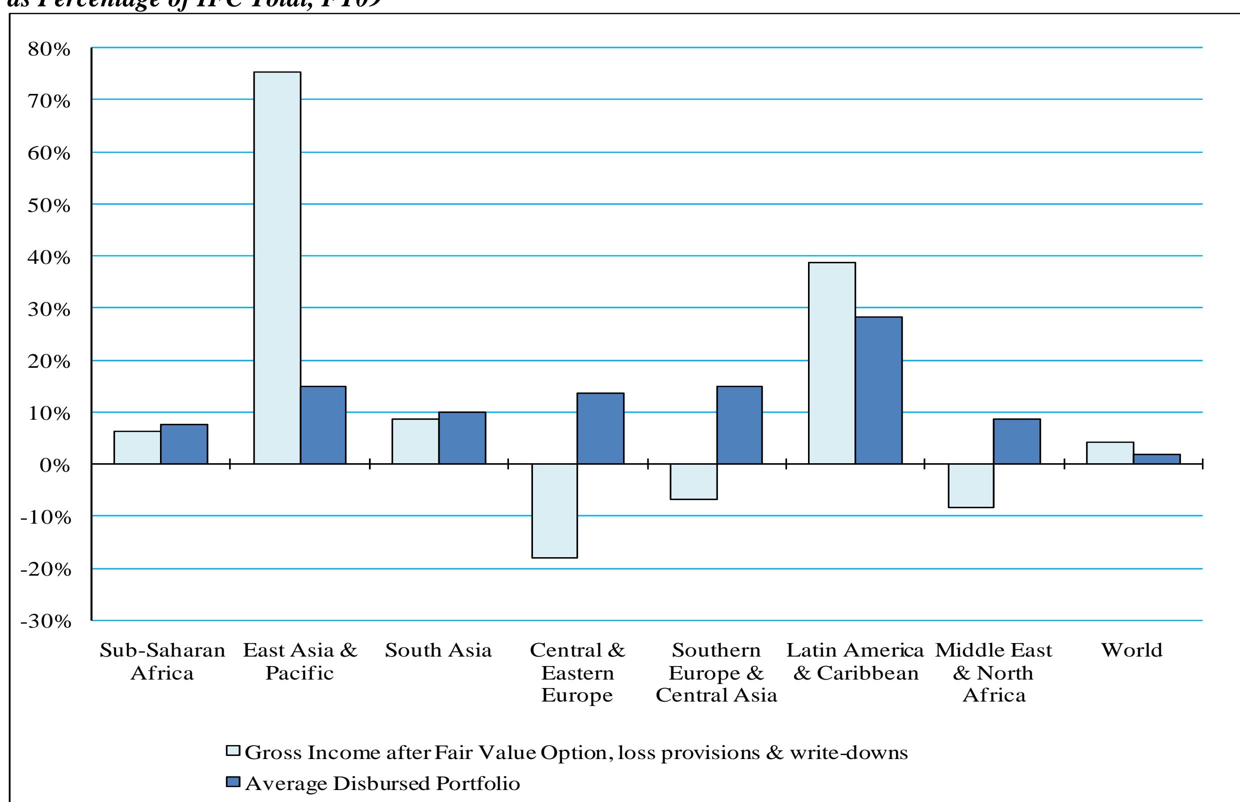
3. Includes realized capital gain/loss on equity sale, dividend income and unrealized gain/loss on equity under SFAS 159 Fair Value Option (FY08 $12m gain, FY09 $299m loss). Excludes gain/loss on equity non-monetary exchange.

4. Write-off recoveries and loss on divestment included in equity income.

5. Dividend yield is cash dividends for the fiscal year expressed as a percentage of average disbursed equity.

6. Total returns are based on accounting numbers and, with the exception of those investments that are fair valued, do not reflect changes in unrealized capital gains.

Figure C-9: Gross Income Distribution afterFair Value Option, Loss Provisions & Write-offs by Region, as Percentage of IFC Total, FY09



Equity Income and Returns

Table C-20: Dividend Income, FY05-09

		FY05	FY06	FY07	FY08	FY09
Dividends	($ Mil)	258	327	398	439	318
of which:						
Common/Pref. Receipts	*($ Mil)*	152	241	334	379	262
Unincorporated Joint Ventures 1/	*($ Mil)*	106	86	64	59	56
% of Total Dividends by UJVs	*(%)*	41.0	26.3	16.1	13.5	17.7
As a Percentage of Avg. Net Disbursed Equity						
Total Dividends	(%)	11.7	13.5	14.0	11.4	6.3
Common/Pref Receipts	(%)	6.9	9.9	11.7	9.9	5.1
Number of Dividend Paying Companies	(No)	192	175	175	177	179
of which :						
Common/Pref. Receipts	(No)	189	171	171	174	176
Unincorporated Joint Ventures 1/	(No)	3	4	4	3	3
Number of Div. Paying Cos. As % of total	(%)	32.0	30.3	30.6	27.9	27.1
Dividends from Top Ten Common/Pref. Payers		79	146	242	261	190
% of Total Common/Pref. Dividends	(%)	52.1	60.4	72.4	68.7	72.5

1. Unincorporated Joint Ventures in the oil/gas sector, income is recognized after the investment is recovered.

Figure C-10: Dividends as % of Average Disbursed Portfolio FY05-09

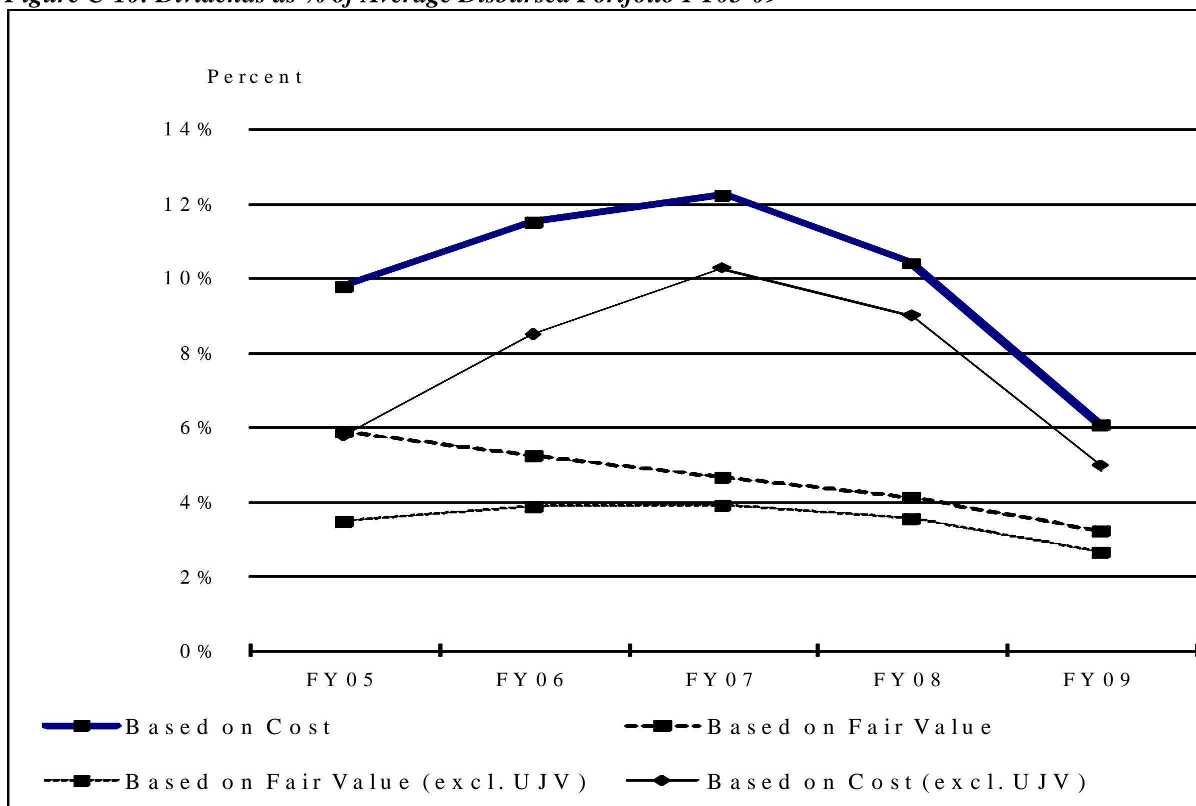


Table C-21: Dividend Income by Region, FY05-09

	($ millions)					% Change
	FY05	**FY06**	**FY07**	**FY08**	**FY09**	**FY08-09**
Sub-Saharan Africa	34	17	60	77	52	(33.0)
East Asia & Pacific	29	30	23	38	34	(9.5)
South Asia	8	6	9	11	10	(6.8)
Central & Eastern Europe	5	10	2	5	3	(48.8)
Southern Europe & Central Asia	20	26	43	11	22	97.3
Latin America & Caribbean	149	216	230	269	170	(36.6)
Middle East & North Africa	14	22	25	22	25	15.8
World	1	0	6	6	1	(79.2)
Total IFC	**258**	**327**	**398**	**439**	**318**	**(27.6)**

Table C-22: Capital Gains by Region, FY05-09

	(US$ millions)					% Change
	FY05	**FY06**	**FY07**	**FY08**	**FY09**	**FY08-09**
Sub-Saharan Africa	184	56	145	245	61	(75.2)
East Asia & Pacific	107	199	119	432	529	22.4
South Asia	70	75	39	66	141	113.1
Central & Eastern Europe	79	118	336	41	32	(21.0)
Southern Europe & Central Asia	49	74	1,039	54	52	(3.4)
Latin America & Caribbean	199	318	238	311	139	(55.4)
Middle East & North Africa	34	51	21	63	41	(35.1)
World	0	37	5	35	2	(95.2)
Total IFC	**723**	**928**	**1,942**	**1,247**	**996**	**(20.1)**

Figure C-11: Return on Loan Portfolio after Provisions and Recoveries of Prior Years' Write-offs, by Region FY08-09

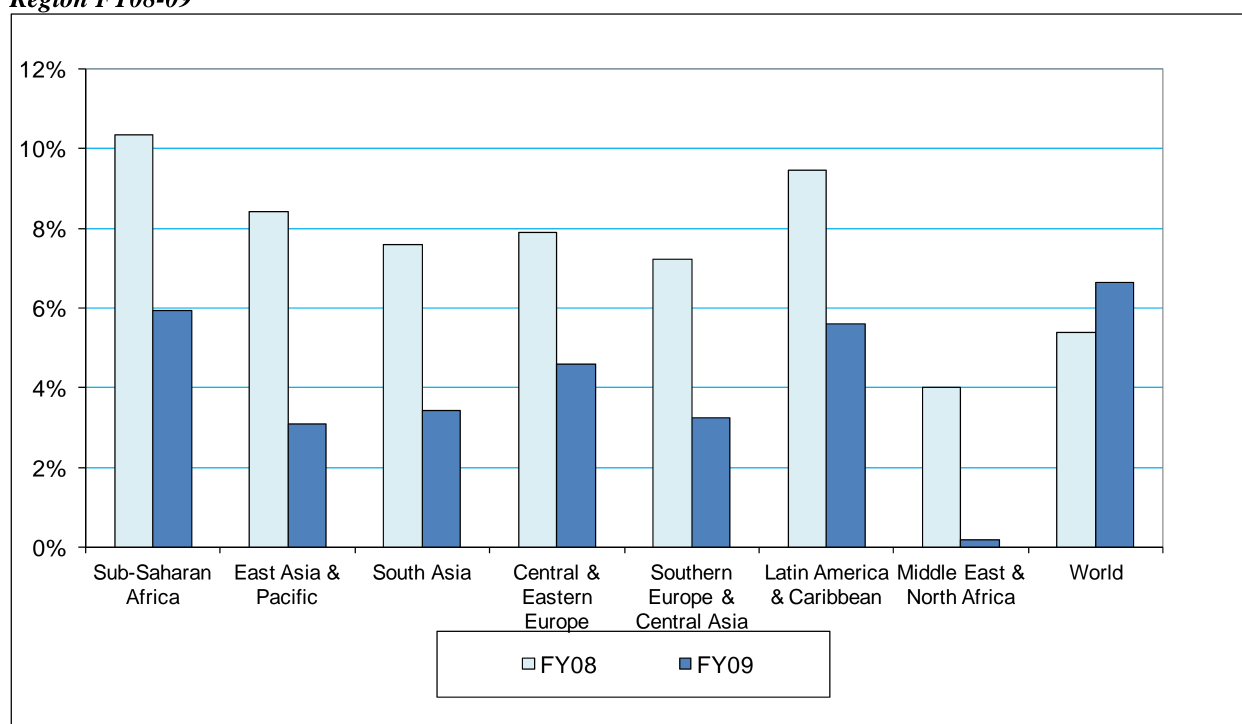
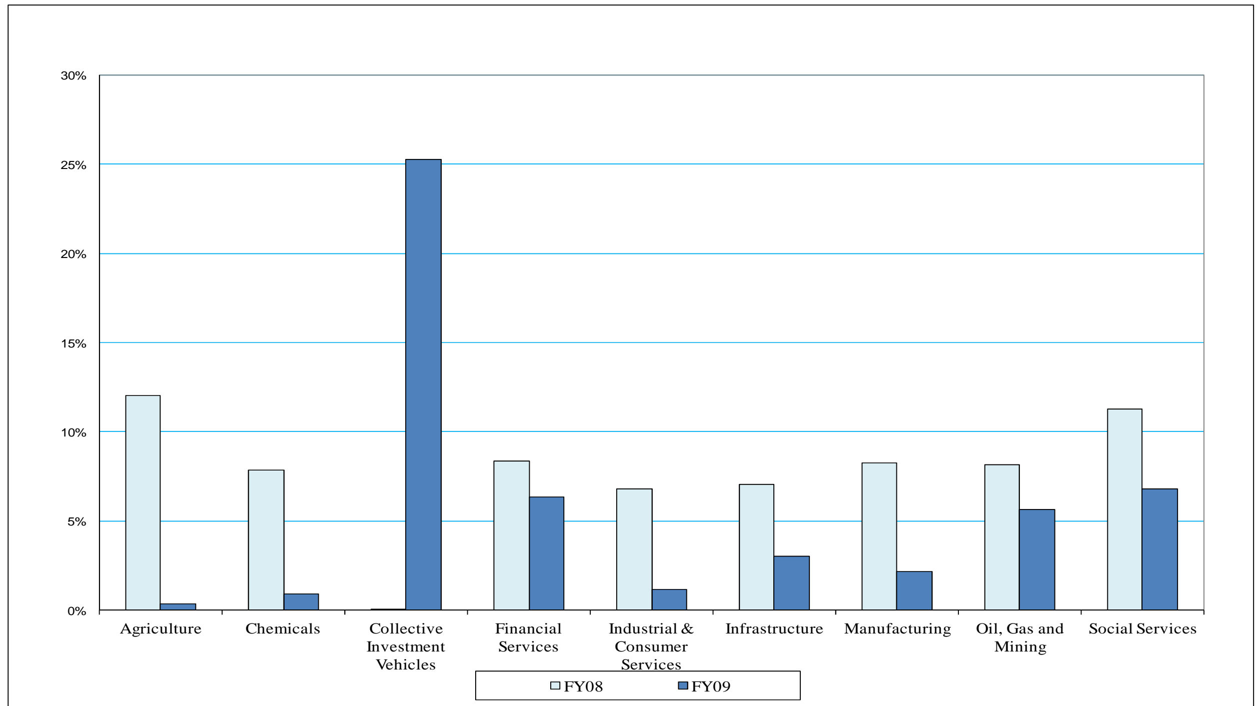


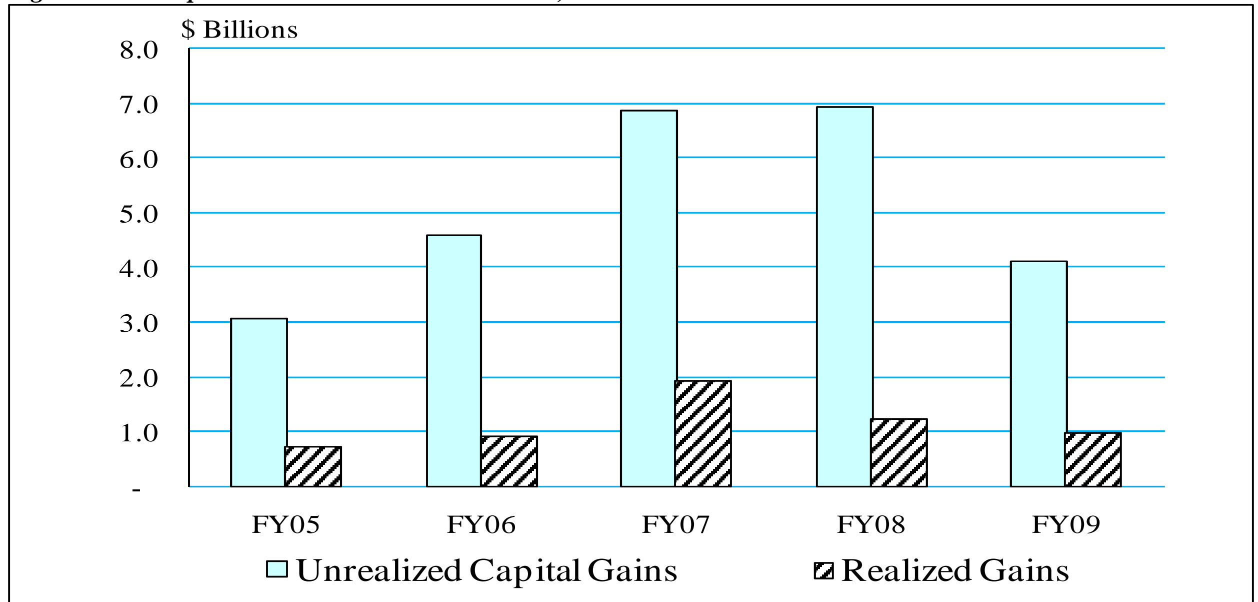
Figure C-12: Return on Loan Portfolio after Provisions and Recoveries of Prior Years' Write-offs, by Sector FY08-09



3. Equity Portfolio Performance Indicators

Unrealized Capital Gains

Figure C-13: Capital Gains – Realized/Unrealized, FY05-09



1. Capital Gains net of Loss on Sales plus recoveries.

Figure C-14: Breakdown of Estimated Equity Valuation FY09

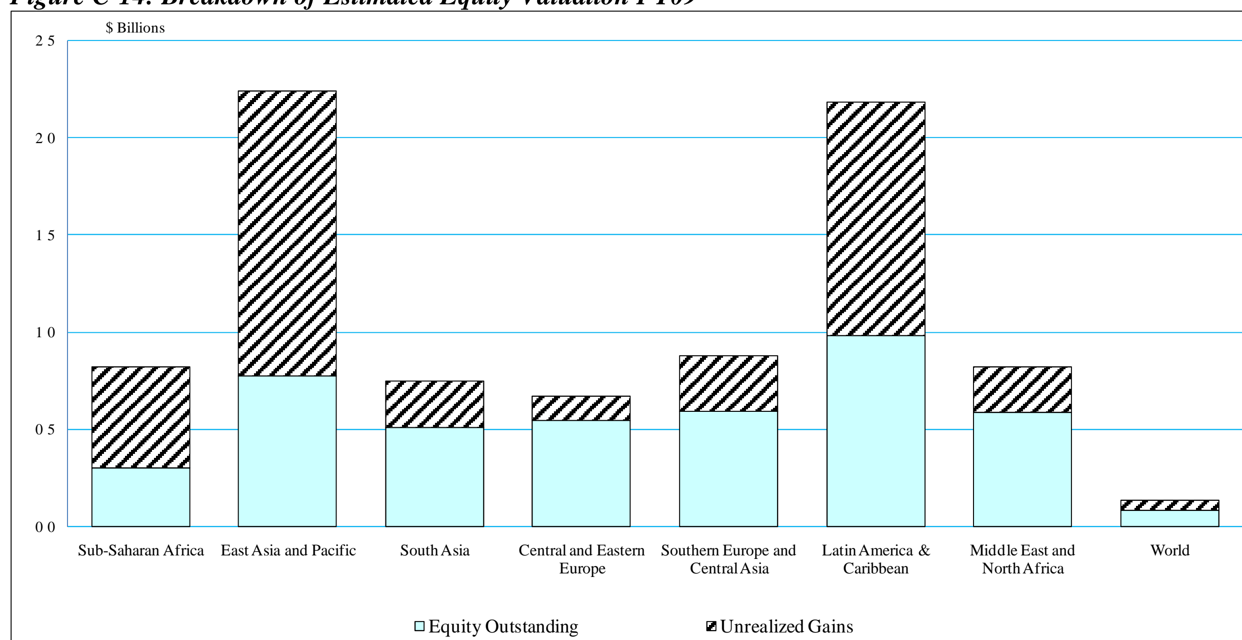


Table C-23: Portfolio Valuation Groupings, FY09

Method of Valuation	Number		Cost [1]		Unrealized Gains	
	(No)	(%)	($ Mil)	(%)	($ Mil)	(%)
Stock Market	116	17.5	1,117	25.7	1,491	36.2
Other (Computed or Estimated)	545	82.5	3,235	74.3	2,629	63.8
Total	661	100.0	4,352	100.0	4,120	100.0

1. Costs after write-downs.

Table C-24: Listed Equity Portfolio Gross Return by Region, FY09[1] vs. MSCI Emerging Markets Total Return[2]

	IFC		MSCI		IFC vs IFCG Performance	
	Return %	Weight %	Return %	Weight %	Shift Region %	Stock Picking %
Sub-Saharan Africa	-52.5	6	-16.8	8	-0.1	-2.3
East Asia & Pacific	6.2	37	-19.0	44	-0.6	9.3
South Asia	-19.9	14	-5.0	6	1.6	-2.0
Central & Eastern Europe	-82.2	4	-58.0	11	2.0	-1.0
Southern Europe & Central Asia	-32.9	13	-24.9	2	0.2	-1.0
Latin America & Caribbean	-53.7	15	-35.2	22	0.5	-2.8
Middle East & North Africa	-24.8	11	-37.3	7	-0.3	1.3
World	-43.2	1	0.0	0	0.1	-0.2
Total Listed Equities Valued at Mkt	**-22.4**	**100**	**-27.1**	**100**	**3.5**	**1.3**

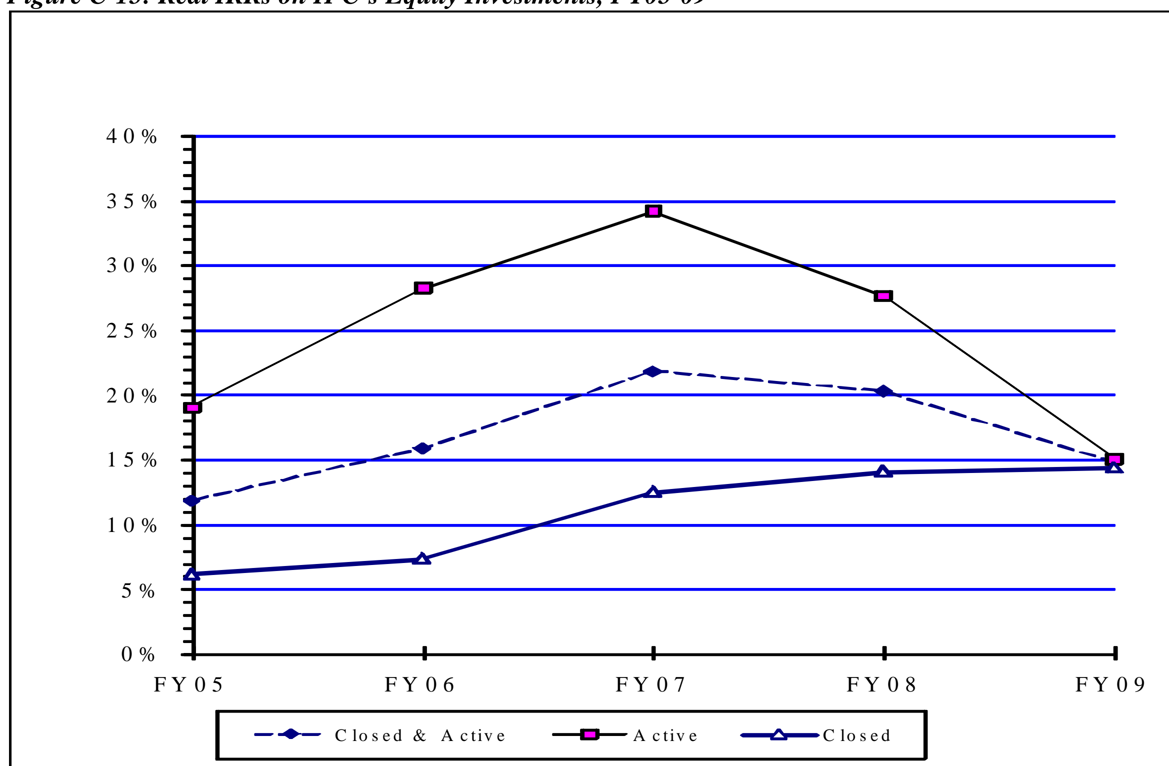
1. Annual change in valuation during the FY of IFC equity holdings plus income, as a % of average market value of IFC equities.

2. MSCI Emerging Markets Total Return Index shown in Table C-24 was calculated using regional returns and average month-end market capitalizations (including dividend reinvestments).

The actual return on the MSCI Emerging Markets Index for FY09 was -27.8.

Internal Rate of Return (IRR)

Figure C-15: Real IRRs on IFC's Equity Investments, FY05-09



- In order to have meaningful comparisons given that in some years there was double-digit inflation, Real IRRs have been provided. The Real IRR for the portfolio as a whole is computed from the aggregated cash flow streams of individual investments after discounting them to constant US dollars, using the US dollar deflator and actual cashflow dates. To remove the timing effect of equity investments, all investments in constant dollars are brought to start at the same specific point of time. For active investments, terminal values are based on market prices, book values, costs net of specific reserves and write-offs or are estimated using proxy prices at which investments are assumed to be sold as of a certain date (June 30, 2009 for this review).

Table C-25: Real IRRs on Active and Closed-out Equity Investments by Region, FY05-09

	FY05	FY06	FY07	FY08	FY09	Net Present Value at 6/30/09	Cum. Equity Disbursements at 6/30/09 in 2009 $	Cumulative Equity Disbursements at 6/30/09	Active & Closed-out Equity Invest. at 6/30/09	Closed-out Equity Invest. at 6/30/09
	%	%	%	%	%	$ Mil	$ Mil	$ Mil	(No.)	(No.)
Sub-Saharan Africa	10 1	15.2	17.8	22.0	14.3	1,122.5	1,570 2	1,209.3	332	217
East Asia & Pacific	9.4	12.8	29.9	22.4	19.2	3,829.9	3,216.4	2,469.9	344	217
South Asia	9.6	8.9	14.4	10.3	7.2	579.9	1,432 1	1,189.3	202	115
Central & Eastern Europe	9.8	16.0	20.2	22.0	10.9	699.7	1,787 1	1,530.6	152	100
Southern Europe & Central Asi	25 1	48.3	46.6	37.1	26.6	1,604.8	1,634 2	1,347.4	147	88
Latin America & Caribbean	13 9	15.9	18.4	19.5	14.9	5,123.8	5,342.4	4,059.6	458	330
Middle East & North Africa	5.4	6.0	6.6	6.7	4.3	452.5	1,730 9	1,342.8	213	134
World	25.8	18.9	19.0	17.2	15.1	276.6	388 3	294.3	52	37
Total IFC	**11 8**	**15.8**	**21.8**	**20.3**	**14.7**	**13,689.7**	**17,101.6**	**13,443.2**	**1,900**	**1,238**

Table C-26: Real IRRs on Active and Closed-out Equity Investments – Composite IRR by Business Sector, FY05-09

Business Sector	FY05	FY06	FY07	FY08	FY09	Net Present Value at 6/30/09	Cum. Eq Disbursements at 6/30/09 in 2009 $	Cumulative Equity Disbursements at 6/30/09	Active & Closed-out Equity Invest. at 6/30/09	Closed-out Equity Invest. at 6/30/09
	%	%	%	%	%	$ Mil	$ Mil	$ Mil	(No.)	(No.)
Accomodation & Tourism Services	-0 6	0 5	0 4	0 8	-1 0	-19 5	246 7	171 5	64	49
Agriculture & Forestry	10 6	47 0	33 1	27 3	19 4	166 7	344 8	288 5	60	46
Chemicals	10 3	10 8	12 5	12 5	9 2	575 7	793 2	534 2	107	78
Collective Investment Vehicles	7 1	7 9	9 6	9 3	7 6	865 8	2,600 5	2,123 0	319	142
Construction and Real Estate	21 5	16 0	83 7	16 8	-5 3	-7 3	140 4	135 5	13	5
Finance & Insurance	21 2	36 7	49 6	37 9	23 6	4,924 4	5,084 7	4,371 4	490	307
Food & Beverages	11 4	13 5	16 0	16 2	14 5	570 5	537 5	370 9	94	78
Health Care	-12 4	-7 9	2 9	-0 1	0 2	0 8	227 5	216 6	27	13
Industrial and Consumer Products	8 0	7 1	8 2	6 6	5 8	301 5	657 6	414 1	109	85
Information	20 6	25 4	33 4	30 8	26 6	1,076 8	628 3	506 2	72	45
Nonmetallic Mineral Product Manufacturir	16 0	13 8	16 1	16 0	14 1	837 8	664 6	420 5	88	75
Oil, Gas and Mining	22 3	28 0	28 0	33 8	21 6	3,343 4	2,492 1	1,996 3	137	95
Plastics & Rubber	4 2	2 4	5 0	4 0	0 7	3 9	82 7	61 7	14	11
Primary Metals	1 8	2 0	2 3	2 3	2 0	47 0	377 6	186 9	39	34
Professional, Scientific and Technology	-0 1	11 6	13 6	9 8	8 0	26 3	70 2	56 2	20	13
Pulp & Paper	-0 3	0 1	1 1	1 2	0 9	31 2	434 3	262 6	45	37
Textile, Apparel & Leather	-2 1	-2 0	-1 9	-1 9	-2 1	-50 8	342 1	180 9	75	58
Transportation and Warehousing	3 3	4 2	4 5	4 8	5 2	202 9	416 3	315 6	57	41
Utilities	17 0	23 9	38 7	31 4	21 4	791 1	797 0	692 3	50	18
Wholesale and Retail Trade	-3 2	1 1	8 3	7 4	1 7	11 8	152 8	129 7	13	5
Total IFC	**11.8**	**15.8**	**21.8**	**20.3**	**14.7**	**13,689.7**	**17,101.6**	**13,443.2**	**1,900**	**1,238**

4. Loan Portfolio Performance Indicators

Table C-27: Principal Outstanding on Non-accruing Loans by Region, FY08-09

	Principal				Number of Companies			
	FY08		FY09		FY08		FY09	
Region	($Mil)	(%)	($Mil)	(%)	(No)	(%)	(No)	(%)
Sub-Saharan Africa	60	16.4	67	14.7	40	49.4	30	34 9
East Asia & Pacific	58	15.6	77	16.9	8	9.9	10	11.6
South Asia	50	13.5	17	3.8	3	3.7	3	3 5
Central & Eastern Europe	35	9.4	4	0.9	4	4.9	2	2 3
Southern Europe & Central Asia	11	3.0	85	18.6	3	3.7	10	11.6
Latin America & Caribbean	121	32.9	149	32.6	11	13.6	18	20 9
Middle East & North Africa	34	9.1	57	12.4	12	14.8	13	15 1
World	-	0.0	-	0.0	-	0.0	-	0.0
Total IFC	**369**	**100.0**	**457**	**100.0**	**81**	**100.0**	**86**	**100.0**

Table C-28: Arrears – Principal Interest and Other Charges – by Region, FY08-09

	Principal				Interest			
	FY08		FY09		FY08		FY09	
Region	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)
Sub-Saharan Africa	38	20.4	32	14.5	53	27.5	45	22.2
East Asia & Pacific	30	16.1	20	8.9	7	3.9	6	2.8
South Asia	10	5.4	11	4.8	70	35.8	71	35.0
Central & Eastern Europe	4	2.1	10	4.6	5	2.6	6	2.8
Southern Europe & Central Asia	11	6.1	15	6.9	7	3.4	9	4.6
Latin America & Caribbean	61	33.4	80	36.1	19	9.8	26	12.7
Middle East & North Africa	30	16.4	54	24.3	33	17.0	40	19.9
World	-	0.0	-	0.0	-	0.0	-	0.0
Total IFC	**184**	**100.0**	**223**	**100.0**	**194**	**100.0**	**203**	**100.0**

5. Reserves and Write-offs

Whole Portfolio

Table C-29: Distribution of Write-offs by Region, FY05-09

	FY05		FY08		FY09	
	($Mil)	(%) [1]	($Mil)	(%) [1]	($Mil)	(%) [1]
Sub-Saharan Africa	39	6.5	23	12.1	113	10.2
East Asia & Pacific	182	30.2	39	20.2	155	14.0
South Asia	46	7.7	64	33.3	127	11.4
Central & Eastern Europe	15	2.5	2	1.0	245	22.2
Southern Europe & Central Asia	26	4.3	8	4.1	157	14.2
Latin America & Caribbean	252	41.9	25	13.0	201	18.1
Middle East & North Africa	41	6.8	29	15.2	104	9.4
World	1	0.2	2	1.1	5	0.4
Total IFC	**603**	**100**	**191**	**100**	**1,106**	**100**

1. Percentage of total write-offs.

Loan Portfolio

Figure C-16: Specific Loan Loss Reserves, FY05-09

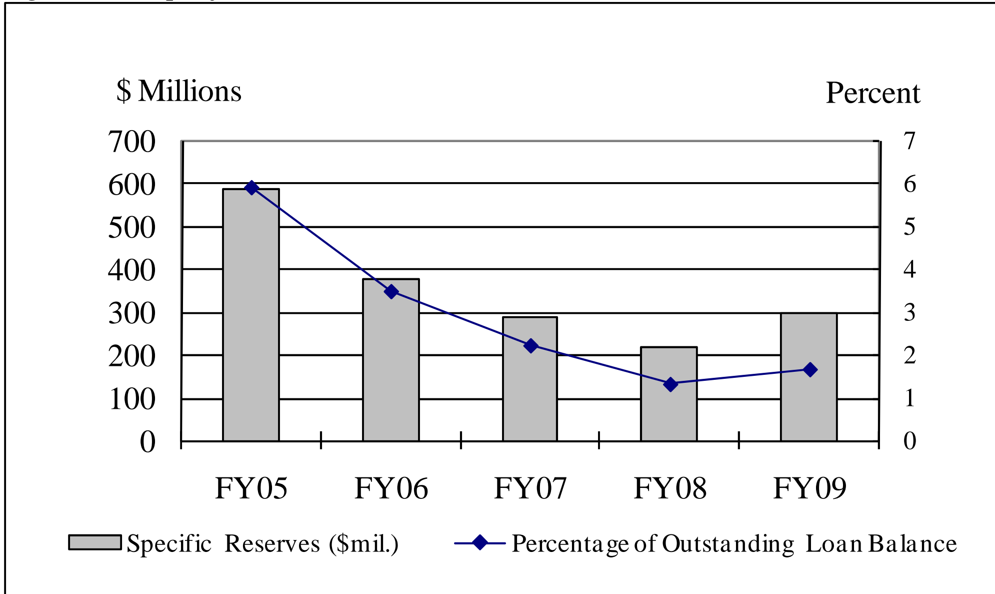


Figure C-17: Non-accruing Loans and Specific Reserves as a Percent of the Disbursed Loan Portfolio FY83-FY09

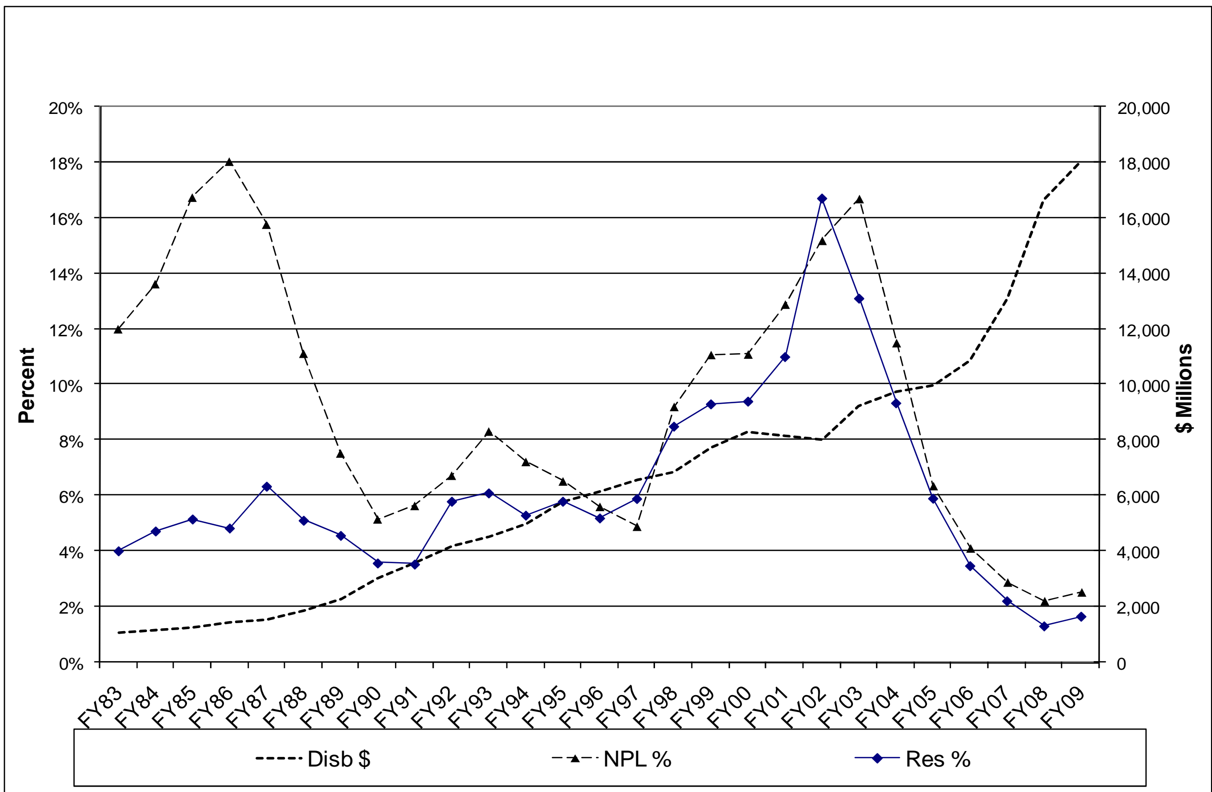


Table C-30: Specific Loan Loss Reserves by Region, FY08-09

Region	Reserve				Change	
	FY08		FY09			
	($Mil)	(%)	($Mil)	(%)	($Mil)	(%)
Sub-Saharan Africa	44	20.2	55	18.1	10	22.7
East Asia & Pacific	56	25.4	45	15.0	(11)	(19.4)
South Asia	6	2.8	11	3.6	5	75.0
Central & Eastern Europe	4	2.0	1	0.5	(3)	(68.8)
Southern Europe & Central Asia	4	1.6	47	15.6	43	1207.1
Latin America & Caribbean	78	35.7	101	33.5	22	28.4
Middle East & North Africa	27	12.2	41	13.8	15	55.1
World	-	0.0	-	0.0	0	0.0
IFC	**219**	**100.0**	**300**	**100.0**	**81**	**37.0**

Figure C-18: Loan Write-offs (before recoveries), FY05-09

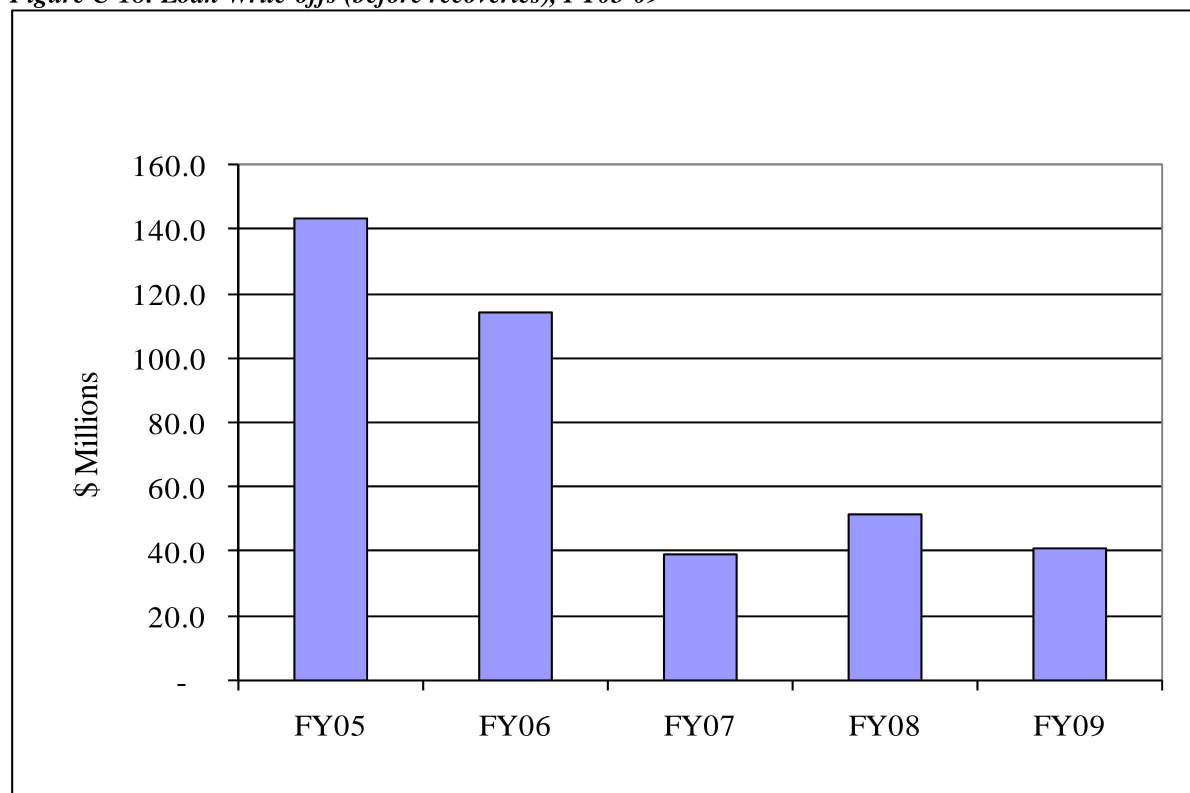
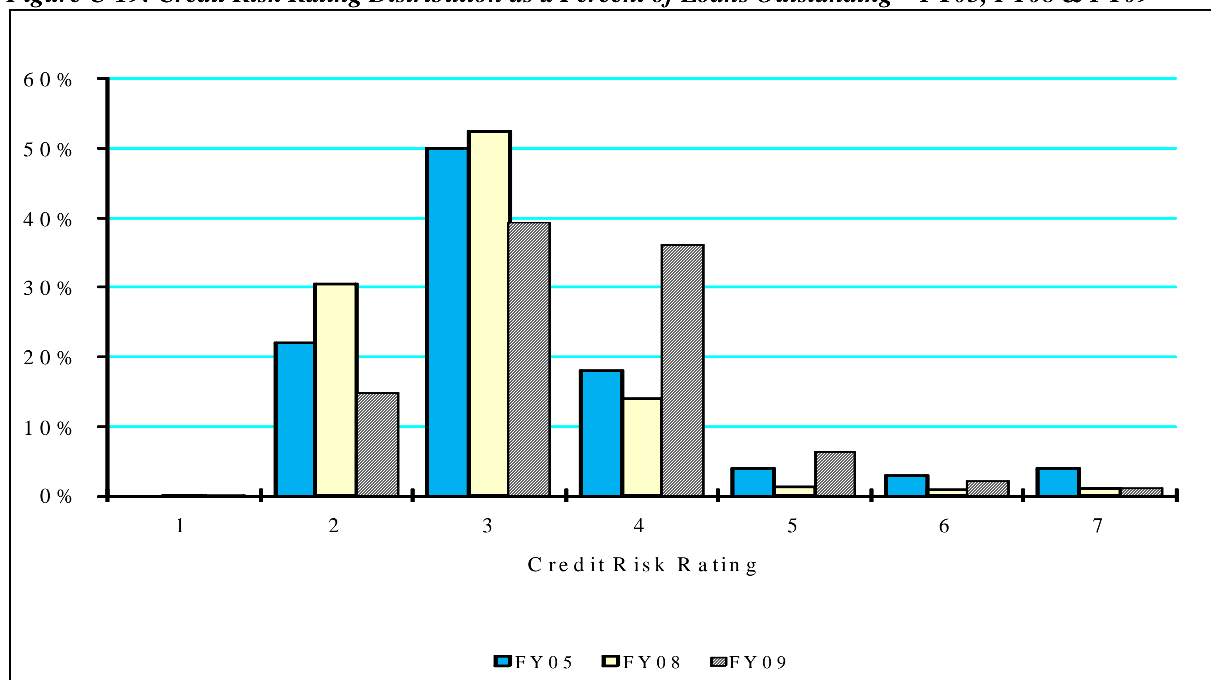


Figure C-19: Credit Risk Rating Distribution as a Percent of Loans Outstanding – FY05, FY08 & FY09



- IFC's Credit Risk Rating (CRR) system provides information on the credit health of individual investments. When aggregated, the CRRs are a useful indicator of the overall health and quality of IFC's portfolio at a point in time and of rating trends when periods are compared. The CRRs are effective predictors of loan defaults and investment impairment, and consequently are also used in determining general loan loss provisions. The CRR system has been in widespread use as part of the quarterly portfolio supervision process since 1998.

- The CRR loan rating methodology uses assessments of subjective information about country risk, market situation, management quality, and industry-wide profit margins, with quantifiable factors including past debt service record, expected debt service strength, security and support arrangements, and the profit trend of the obligor. CRR prompts the rater (usually an investment or portfolio officer) to assess risks and input company information related to the factors. The model than assigns numerical scores for each risk factor, and generates an overall risk score for loans, which is scaled into seven ratings.

- Ratings are defined on a seven category scale range which characterizes the creditworthiness of the rated entity. The better ratings (1 – very good, 2 – good, and 3 – average) generally indicate little or no problem. A rating of 4 (or watch) requires closer supervision, while those rated 5 (substandard), 6 (doubtful), and 7 (loss) indicate problems which in all likelihood require interventions.

- Figure C-19 presents the distribution of CRR at end-FY09 and two prior years for comparison. The figure shows that there has been deterioration in the distribution of ratings, with more projects rated 4 and 5 than in prior years and fewer projects rated 2 and 3, reflecting the potential impact of the global slowdown on client performance and their ability to service debt.

Equity Portfolio

Table C-31: Equity Write-off and Loss Reserve/Write-Down Trends, FY05-09

	Write-offs		Equity with Value below Disbursed			
	Number of Cos.	($ Mil)	Number of Cos.	% of Disbursed Companies	Impaired Equity ($ Mil)	% of Disbursed Equity
FY05 [2]	246	460	209	36.2	413	15.1
FY06 [3]	109	73	207	36.3	422	14.2
FY07 [3]	73	45	205	35.6	409	11.5
FY08 [3]	60	146	199	31.3	455	10.1
FY09	210	1,070	304	46.0	1,288	22.8

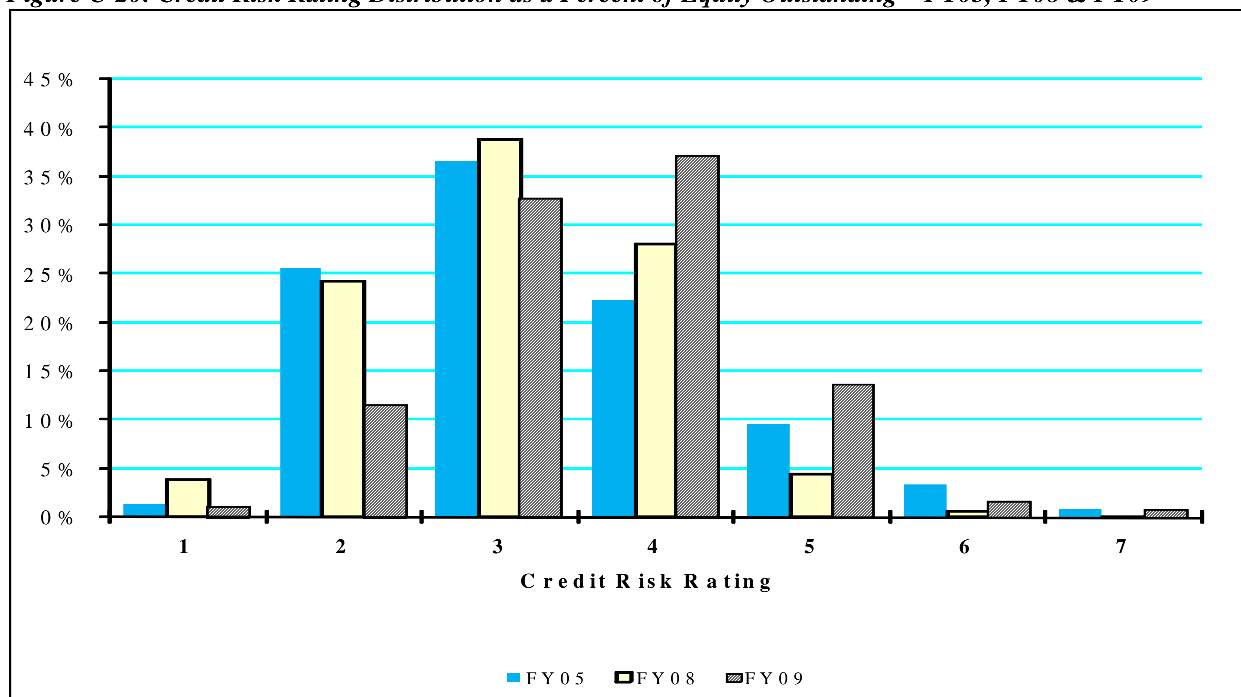
1. Impaired Equity represents the amount of equity write-downs for equities with disbursed balances still on IFC's books net of write-off recoveries.
2. Higher level of Write-offs in FY05 followed implementation of EITF 03-1 when specific equity reserves were written-down.
3. Write-offs include loss on equity sales.

Table C-32: Impaired Equity[1] by Region, FY08-09

	FY08		FY09	
	($ Mil)	(%) [2]	($ Mil)	(%) [2]
Sub-Saharan Africa	11	3.1	100	25.2
East Asia & Pacific	86	9.7	193	20.0
South Asia	96	19.8	176	25.8
Central & Eastern Europe	9	1.5	176	23.3
Southern Europe & Central Asia	20	3.0	164	22.9
Latin America & Caribbean	183	17.9	321	24.7
Middle East & North Africa	48	11.8	152	20.6
World	2	2.8	5	6.2
Total IFC	**455**	**10.1**	**1,288**	**22.8**

1. Represent the amount of equity write-downs for equities with disbursed balances still on IFC's book.
2. Percentage of equity disbursed in the region.

Figure C-20: Credit Risk Rating Distribution as a Percent of Equity Outstanding – FY05, FY08 & FY09

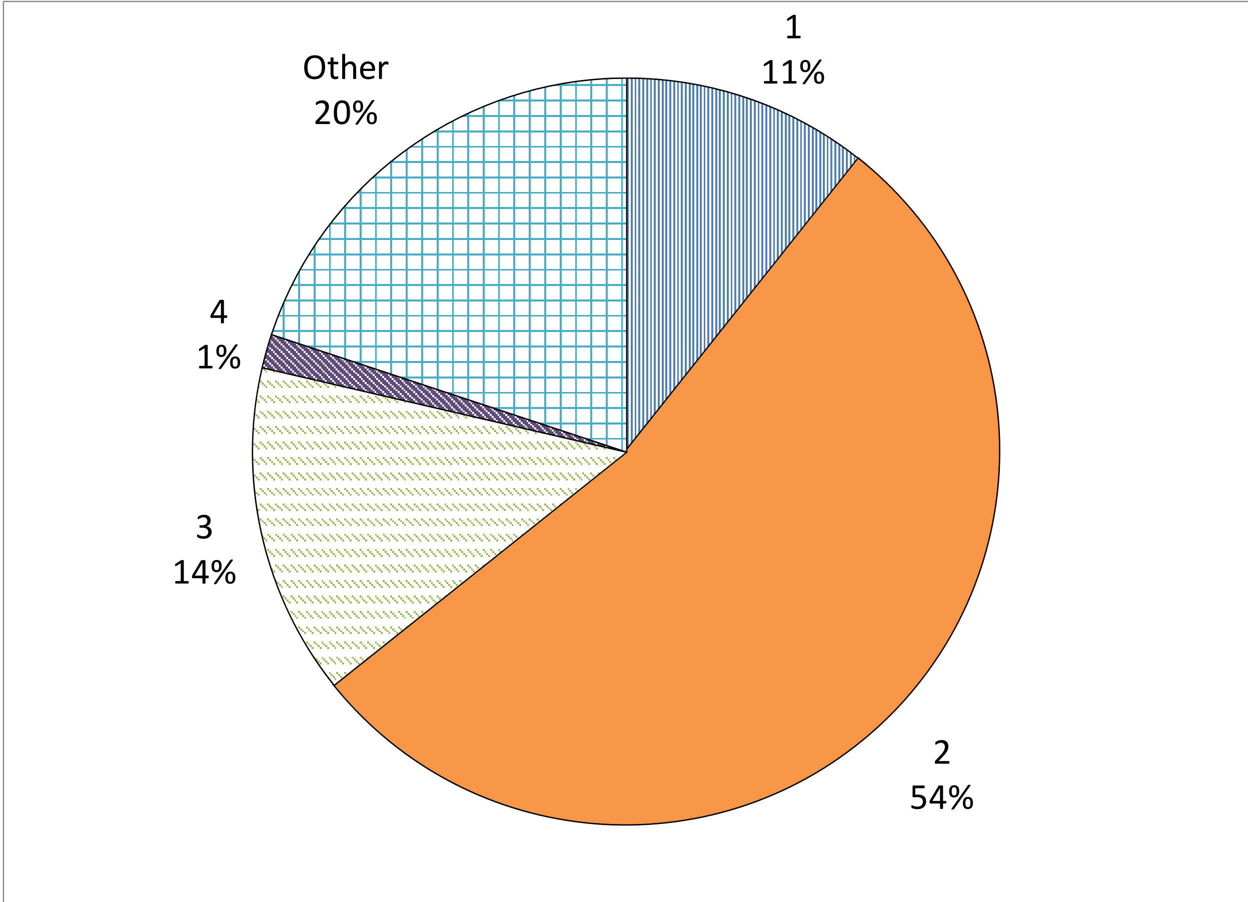


- The CRR equity rating methodology uses assessments which include subjective information about country risk, market situation, management quality, and industry-wide profit margins, equity value versus cost and future growth expectations. CRR prompts the rater (usually an investment or portfolio officer) to assess risks and input company information related to the factors. The model than assigns numerical scores for each risk factor, and generates an overall risk score for loans, which is scaled into seven ratings.

- Ratings are defined on a seven category scale ranging which characterizes the health of the rated equity investment. The better ratings (1 – very good, 2 – good, and 3 average) generally indicate little or no problem. A rating of 4 (or watch) requires closer supervision, while those rated 5 (substandard), 6 (doubtful), and 7 (loss) indicate problems.

- Figure C-20 presents the distribution of CRR at end-FY09 and two prior years for comparison. The figure shows that there has been deterioration in the distribution of ratings during FY09, with more clients rated 4 and 5 than in prior years and fewer clients rated 2 and 3, reflecting the potential impact of the global slowdown on clients and the value of their equity.

Figure C-21: Environmental and Social Risk Rating Distribution (ESRR), FY09



- IFC calculates an environmental and social risk rating (ESRR) for most of its portfolio projects. Figure C-21 shows the distribution of disbursed outstanding balances at year-end sorted by ESRR. Projects rated 1 have very low risk according to this rating, with the level of risk increasing through level 4 projects, which have high risk. Each project is also categorized by their potential for adverse environmental or social impacts. Projects with minimal potential for environmental or social impacts are not assigned an ESSR; in addition, some projects in the portfolio have no ESSR for reasons related to data availability. These projects are reported in the figure as "Other". The figure shows that projects rated 1 and 2 account for 65% of the total portfolio (56% in FY08).