



COURTESY OF NEWMONT

# Investment Operations

## Overview

In FY 2005, more than 55 percent of IFC's new investments were in the financial sector, infrastructure, information technology, and health and education. The share of investments for IFC's account in either high-risk or low-income countries was nearly 28 percent.

## Investment Commitments

IFC signed investment commitments of \$6.45 billion in FY05, including \$5.37 billion for its own account and \$1.08 billion in syndications, compared with \$5.63 billion in IFC commitments for FY04, which included \$4.75 billion for its own account and \$879 million in syndications. IFC provides a range of products and services for clients, including loans, equity, quasi-equity, structured finance, and risk management products that are funded through IFC's own financial resources. It also syndicates participations in its loans to international financial institutions. Of the investment commitments IFC signed for its own account, \$4.54 billion were for loan agreements (including loan-type quasi-equity), \$612 million were for equity investments (including equity-type quasi-equity), \$216 million were for guarantees, and \$4 million were for risk management products. Based on the total project costs of our FY05 projects, each \$1 in IFC commitments for our own account resulted in an additional \$3.38 in funding from other sources.

We committed a total of 236 projects in 67 countries, compared to 217 projects in 65 countries in FY04. Our investment portfolio at June 30, 2005, included \$19.3 billion for IFC's own account and \$5.3 billion in syndicated loans held for others. We added 174 companies to our portfolio this year, and 176 companies left the portfolio. Investment projects are detailed in the regional sections and listed in our project tables in Volume 2.

## Syndication and Resource Mobilization

IFC's syndications play a key role in mobilizing private sector finance in emerging markets, where tenors are generally limited to shorter maturities and market access is open primarily to top-tier companies in middle-income countries. Our B-loan program helps clients secure more favorable financing, often through landmark transactions. Signings of new B-loans totaled \$1.08 billion in FY05, compared with \$879 million in FY04. In addition, IFC mobilized \$65 million for the market by selling existing A-loans through the B-loan program. As of June 30, 2005, IFC's syndicated loan portfolio was \$5.3 billion in 204 projects.

In Brazil, Embraer raised \$145 million with tenors of up to 10 years, the longest maturity for a private corporate loan achieved in the country for many years. In Bolivia,

## IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005\* (millions of U.S. dollars)

Russian Federation . . . . .	1,432
Brazil . . . . .	1,398
India . . . . .	1,268
Mexico . . . . .	1,104
China . . . . .	999
Turkey . . . . .	981
Argentina . . . . .	731
Indonesia . . . . .	494
Philippines . . . . .	480
Nigeria . . . . .	419

\* Excludes individual country shares of regional and global projects.

## IFC Operations

(millions of U.S. dollars)	FY01	FY02	FY03	FY04	FY05
<b>OPERATIONS</b>					
<b>Investment commitments</b>					
Number of projects <sup>1</sup>	201	203	204	217	236
Number of countries	73	76	64	64	67
Total commitments signed <sup>2</sup>	3,934	3,494	5,037	5,632	6,449
For IFC's own account <sup>2</sup>	2,734	2,957	3,856	4,753	5,373
Held for others	1,201	518	1,181	879	1,076
<b>Investment disbursements</b>					
Total financing disbursed	2,370	2,072	4,468	4,115	4,011
For IFC's own account	1,535	1,498	2,959	3,152	3,456
Held for others	835	574	1,509	964	555
<b>Committed portfolio<sup>3</sup></b>					
Number of firms	1,378	1,402	1,378	1,333	1,314
Total committed portfolio <sup>2</sup>	21,841	21,569	23,379	23,460	24,557
For IFC's own account <sup>2</sup>	14,311	15,049	16,777	17,913	19,274
Held for others	7,530	6,519	6,602	5,546	5,283

1. Includes first commitment to projects in the fiscal year. Projects involving financing to more than one company are counted as one commitment.

2. Includes loan guarantees and risk management products.

3. Total committed portfolio and held for others include securitized loans.

Some data from prior years have been revised. All dollar amounts reflect rounding.

## Balance Sheet Highlights

(millions of U.S. dollars)	FY01	FY02	FY03	FY04	FY05
<b>ASSETS</b>					
Liquid assets, excluding derivatives	14,581	16,924	17,004	18,397	22,781
Net loan and equity investments	8,696	7,963	9,377	10,279	11,489
Derivative assets	1,143	1,077	1,734	1,092	1,516
Receivables and other assets	1,750	1,775	3,428	2,593	3,774
<b>Total assets</b>	<b>26,170</b>	<b>27,739</b>	<b>31,543</b>	<b>32,361</b>	<b>39,560</b>
<b>LIABILITIES</b>					
Borrowings outstanding	15,457	16,581	17,315	16,254	15,359
Derivative liabilities	1,768	1,576	1,264	1,549	2,332
Payables and other liabilities	2,850	3,278	6,175	6,776	12,071
<b>Total liabilities</b>	<b>20,075</b>	<b>21,435</b>	<b>24,754</b>	<b>24,579</b>	<b>29,762</b>
<b>CAPITAL</b>					
Capital stock	2,360	2,360	2,360	2,361	2,364
Retained earnings	3,723	3,938	4,425	5,418	7,433
Other	12	6	4	3	1
<b>Total capital</b>	<b>6,095</b>	<b>6,304</b>	<b>6,789</b>	<b>7,782</b>	<b>9,798</b>

## Income Statement Highlights

(millions of U.S. dollars)	FY01	FY02	FY03	FY04	FY05
Interest and financial fees from loans	732*	547*	477	518	660
Interest from time deposits and securities	773*	493*	318	278	533
Charges on borrowings	-961	-438	-226	-141	-309
Net interest income	544	602	569	655	884
Net gains and losses on trading activities	87	31	157	-104	-175
Net income from equity investments	26	160	145	658	1,365
Release of/provision for losses on loans and guarantees	-206	-389	-48	103	261
Net noninterest expense	-210	-243	-295	-330	-344
Income before expenditures for TAAS	241	161	528	982	1,991
Expenditures for TAAS	—	—	—	—	-38
Operating income	241	161	528	982	1,953
Net gains/losses on financial instruments	11	54	-41	11	62
Cumulative effect of change in accounting principle	93	—	—	—	—
Net income	345	215	487	993	2,015

\*Reclassified to conform to FY05 presentation.



COURTESY OF ASIAN COMMERCIAL BANK

## Local Currency Financing

IFC uses local currency financing to help clients mitigate foreign exchange risk and to develop local capital markets. Using market-based instruments, IFC provides local currency debt financing in several forms: loans in local currency, risk management swaps that allow clients to hedge foreign currency liabilities back into local currency, and credit enhancement structures that enable clients to borrow in local currency from other sources.

To date, IFC has disbursed over \$1 billion equivalent in local currency transactions through 39 loans and hedges in 10 currencies. In FY05, IFC committed its first local currency loans in Indonesian rupiah, Philippine pesos, and Turkish lira. This form of financing requires long-term derivatives markets, and IFC works closely with market counterparts and government regulators to extend the availability and liquidity of these markets.

IFC is at the forefront of domestic capital market development. Through its participation in the structuring and credit enhancement of transactions, IFC has helped introduce new asset classes. Transactions have not only enabled IFC's clients to secure attractive long-term local currency financing; they have also been catalysts for expansion of numerous domestic markets. IFC has completed 28 domestic market structured transactions for an exposure of \$406 million equivalent and has assisted in mobilizing over \$2 billion equivalent.

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Transierra was able to raise \$100 million from the market at a time of political uncertainty; this was the first time we combined our B-loan product with expropriation insurance from a private sector provider. IFC syndicated a \$65 million, six-year loan to Trakya Glass Bulgaria, part of the largest foreign direct investment in Bulgaria since 1989. In Russia, IFC completed its first acquisition financing syndication, enabling Orient-Express Hotels Ltd. to acquire a property in St. Petersburg.

## Client Risk Management Products

IFC provides currency, interest rate, and commodity price hedging products to clients in emerging markets, who usually cannot access them because of credit or country risk. Through its Client Risk Management program, IFC combines its experience in risk management with its traditional role in credit intermediation. Because we can accept our clients' long-term credit risk, IFC can intermediate between them and derivatives markets. Clients who hedge using risk management products protect their financial positions. The transactions also improve the quality of IFC's investment portfolio.

In the 14 years since the program was established, IFC has committed 82 risk management projects in 32 countries. The transactions have hedged a notional amount of over \$2.7 billion (the potential exposure or future risk of these transactions is a fraction of the notional amount). In FY05, the Corporation committed risk management transactions to provide interest rate hedging for Laredo, a raw sugar producer in Peru; for Merlon, an oil and gas producer in Egypt; and for Magadi Soda in Kenya.

Risk management products are offered to IFC customers solely for hedging purposes and not for speculation. IFC hedges its own market risk on these transactions and monitors exposure on an ongoing basis.

## Structured Finance Products

During FY05, IFC continued to develop and execute structured finance solutions for clients, including partial credit guarantees and securitizations. These tools are part of IFC's broader strategy to build domestic capital markets; to provide clients with new forms of cost-effective financing, with an emphasis on long-term local currency funding; and to increase investment capacity in strategic asset classes, including loans to small businesses, mortgages, and trade finance.

This year IFC invested \$218 million and mobilized a further \$1.1 billion through 13 structured finance transactions. Innovations widely recognized in the financial industry include the first securitization of nonperforming loans in Latin America; the first cross-border securitization of residential mortgages in Central and Eastern Europe, in Latvia; the first structured bond from a microfinance institution, which was also IFC's first direct partial credit guarantee in Mexico (see box, p. 53); the first structured risk-sharing facility in the education sector, in Ghana (see box, p. 17); and the first domestic partial credit guarantee in the agribusiness sector, in Peru.