

# Portfolio Review

IFC's committed portfolio at the end of FY 2005 increased by 7.6 percent to \$19.3 billion, from \$17.9 billion in FY04.<sup>1</sup> Nearly 77 percent of the committed portfolio was in loans amounting to \$14.8 billion, and 17 percent was in equity investments amounting to \$3.3 billion. Guarantee products of \$998 million accounted for 5 percent of the committed portfolio, and risk management products of \$168 million accounted for almost 1 percent. In addition, IFC held and managed for participants \$5.3 billion in loans it had syndicated. At the end of FY05, the committed portfolio included loan and equity investments, risk management products, and guarantees in 1,314 companies in 119 countries.

The net increase in the committed portfolio was \$1.4 billion after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. Loan principal repayments and prepayments totaled \$2.3 billion, and \$515 million in equity investments were sold or redeemed.

The total disbursed portfolio for IFC's own account remained nearly unchanged at \$12.3 billion at the end of FY05, primarily due to higher levels of loan prepayments. During the fiscal year, the disbursed loan portfolio grew by 2.3 percent, whereas the disbursed equity portfolio contracted by 9.5 percent.<sup>2</sup>

Many of the Corporation's investments are denominated in U.S. dollars, but IFC borrows in a variety of currencies to diversify access to funding and reduce borrowing costs. The currency breakdown of the disbursed loan portfolio on June 30, 2005, is shown in the notes to the financial statements (see Volume 2 of the IFC Annual Report). The Corporation minimizes its risk exposure to off-balance-sheet transactions by entering into offsetting swap, option, or forward contract positions with highly rated market counterparties and by performing thorough credit reviews of all counterparties.

## Commitments and Disbursements

New commitments for IFC's own account were concentrated in the Europe and Central Asia (36 percent), Latin America and Caribbean (26 percent), and East Asia and Pacific (14 percent) regions. The business sectors with the largest

volume of new commitments were finance and insurance with 41 percent and transportation and warehousing with 7 percent.

Disbursements in FY05 were \$3.5 billion, up from \$3.2 billion in FY04. Loan disbursements were \$2.9 billion and equity disbursements were \$588 million. IFC also disbursed \$555 million on behalf of financial institutions participating in its syndicated loans.

### BREAKDOWN OF IFC PORTFOLIO

June 30, 2005  
(millions of U.S. dollars)

<b>Committed loans and equity</b>	<b>18,108</b>
Loans	14,781
Equity	3,327
<b>Off-balance-sheet exposure</b>	<b>1,167</b>
(on risk management and guarantee products)	
<b>Total committed portfolio for IFC's own account</b>	<b>19,274</b>
<b>Total committed portfolio held for participants</b>	<b>5,283</b>
<b>Total disbursed portfolio</b>	<b>12,276</b>
<b>Total undisbursed portfolio</b>	<b>5,832</b>

## Portfolio Management

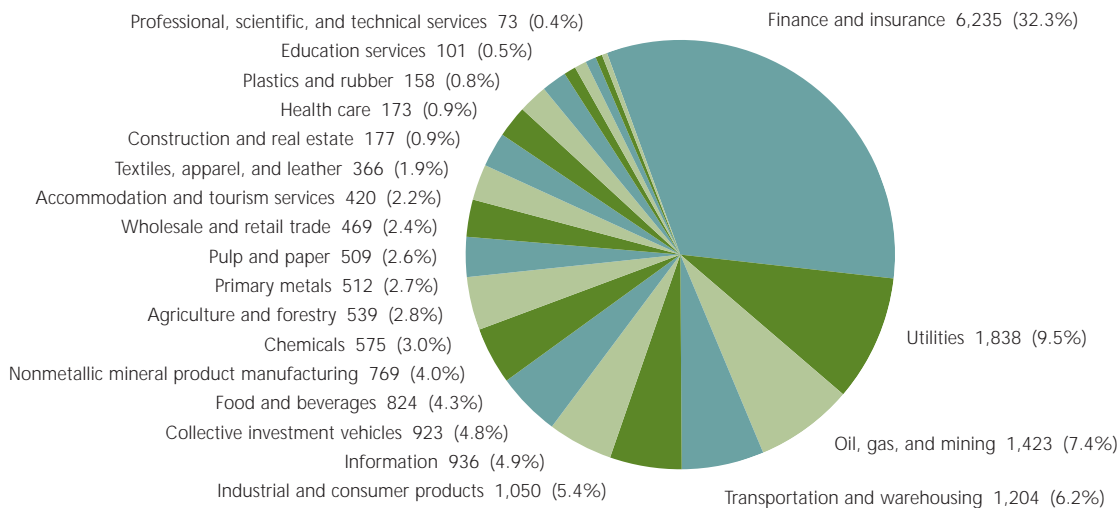
As part of its supervision efforts, IFC closely monitors compliance with investment agreements, visits sites to check on project status, and helps find solutions to problem projects. To strengthen portfolio supervision, the Corporation has in place portfolio management units in all investment departments, each under a portfolio manager. This structure helps identify problems early and address them in a timely manner. The maintenance of an investment credit risk-rating system also supports this process. Furthermore, headquarters staff has continued to be both rotated and relocated to the field, and local staff members in resident missions have increasingly been assigned to supervisory tasks. IFC makes special efforts to ensure that banks participating in IFC loans are kept regularly informed of project developments through the B-Loan Management Division. There is always a close and continuing consultation between IFC and its participants.

1. Committed portfolio includes guarantees and risk management products, which are off-balance sheet.

2. The Corporation complied with EITF 03-1 effective March 31, 2005. EITF 03-1 changed IFC's loss provisioning policies and impairment assessment procedures with respect to equity investments. EITF 03-1 requires that investments that are impaired and for which impairment is other than temporary be written down to their impaired values. It also requires that the impaired value become the new cost basis for the asset. Equity write-offs during FY05 totaled \$459.8 million. On the same basis as FY04, the disbursed equity portfolio would have grown approximately 6 percent.

## COMMITTED PORTFOLIO FOR IFC'S OWN ACCOUNT

By sector on June 30, 2005 (millions of U.S. dollars)



**TOTAL IFC PORTFOLIO \$19,274**

Operational departments evaluate projects case by case when difficulties arise. For projects with particularly severe problems, the Special Operations Department determines appropriate remedial action. In such situations, it seeks to negotiate agreements with all creditors and shareholders to share the burden of restructuring so that problems can be worked out while the project continues to operate. In exceptional cases, when the parties reach an impasse in negotiations, IFC takes all necessary and appropriate measures to protect its interests.

IFC's Corporate Portfolio Management Department manages financial risks and exposures in connection with the portfolio of loan and equity investments using market-based risk management instruments, tools, and strategies. Portfolio management activities approved include the use of market-based instruments to perform hedging transactions on the IFC loan and equity portfolio as well as equity buyback strategies. All

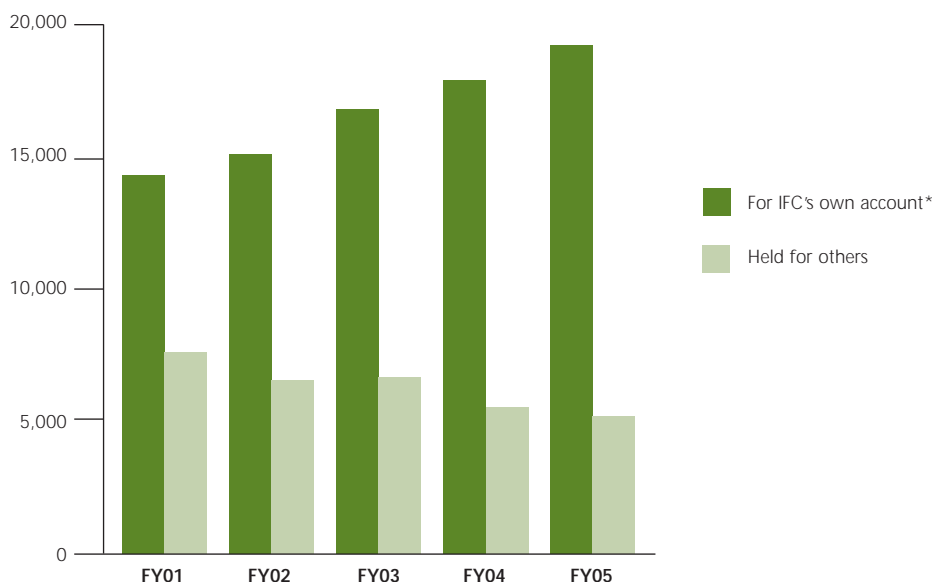
transactions and strategies share the common goal of protecting the portfolio against downside risk.

During FY05, loan and equity portfolio income was \$1.8 billion, up 63 percent from FY04, largely due to higher capital gain and dividend income from the equity portfolio. Principal outstanding on nonperforming loans as a percentage of the disbursed loan portfolio was 6.4 percent on June 30, 2005, compared with 11.5 percent on June 30, 2004. During the same period, principal in arrears as a percentage of the disbursed loan portfolio declined to 4.1 percent, from 5.1 percent. Furthermore, the risk level of the loan portfolio declined in FY05 due to sustained economic growth in emerging markets, which reduced country risk levels as well as credit risk levels of existing investments.

Estimated unrealized gains on the equity portfolio rose during FY05. Capital gains of \$723 million were realized, a

### IFC COMMITTED PORTFOLIO, FY01–05

(millions of U.S. dollars)



\*Totals for IFC's own account for FY01–05 include risk management and guarantees.

substantial increase from \$381 million in FY04. IFC received dividends of \$258 million, compared with \$207 million during FY04. Dividends in FY05 were higher than in FY04, primarily as a result of higher commodity prices.

Reserves against losses on loan investments decreased to \$989 million in FY05, representing 9.9 percent of the disbursed loan portfolio, down from 14.0 percent in FY04. The decrease was due to a \$321 million reduction in specific loan reserve after the write-off of \$143 million and a \$57 million reduction in general reserve. The Corporation changed its process of estimating impairment on equity investments in FY05 to adopt an impairment methodology based largely on fair value estimates. As a result, the Corporation recorded a release of provision for losses on equity investments in the amount of \$269 million.

Management determines specific reserves against loan losses on the basis of portfolio reviews and recommendations by the portfolio management units in the investment departments. For this purpose, the entire loan portfolio is reviewed quarterly. Management determines general reserves using a Monte Carlo-based simulation technique. The Corporation's external auditors examine closely the recommendations, policies, and methods for determining the reserves against losses.