How We Manage Risk

Overview and 2013 Information

In executing its sustainable private sector development business, IFC assumes various risks of various types. Active management of these risks is critical to IFC's ability to maintain financial sustainability and achieve development impact. IFC has developed a comprehensive enterprise risk management framework within which risks are continually identified, measured, monitored, analyzed and controlled. This framework is defined in terms of several interrelated dimensions:

- IFC's guiding principles provide the foundation for active management of risk in IFC's business, in its entirety, under the supervision of the Board of Directors, the Audit Committee, the Executive Vice President/CEO and the Management Team.
- Risk appetite is defined and implemented in the form of exposure limits, policies and procedures. The Risk Management and Portfolio Vice Presidency, together with independent institutional oversight bodies, monitors compliance with prescribed limits, policies and procedures.
- Risk governance is provided by a sub-committee of the Management Team, the Corporate Risk Committee, which reviews and approves all risk policies, sets risk standards and receives regular reports on different aspects of risk management at the enterprise level.
- As a member of the World Bank Group, IFC liaises with the corresponding Risk Management areas across the group on a regular basis.

Key Risk Management Principles
The key principles which guide IFC's integrated risk management framework are:

- The effective balancing of development impact, risk and reward;
- Ensuring business decisions are based on an understanding of risks;
- Being extremely selective in undertaking activities which may result in adverse reputational impact; and
- Shared responsibility for risk management across the Corporation.

Risk Profile
At the highest level, IFC's risk management objectives are to maintain financial soundness and preserve its reputation. Financial soundness is impacted by, among other things, the level of deployable strategic capital, IFC's cost of funding and the liquidity of the liquid asset portfolios. Key to maintaining IFC's reputation is the Corporation's ability to continually adapt to an evolving external business environment, the integrity and corporate governance of its business partners and clients, and the environmental and social effects of the projects with which IFC is associated. IFC's capacity to take risks is constrained primarily by its capital base.

Risk Appetite
IFC's risk appetite defines the types of risk which IFC is willing to assume in the pursuit of its business objectives. Risk tolerance defines the amount of each risk type that IFC considers acceptable in the context of its business activities. IFC translates risk appetite and tolerance into limits, policies, procedures and directives. The Corporation regularly measures, monitors and evaluates its risk profile to ensure that both individual and aggregated risks remain within the ranges deemed acceptable by Senior Management.

Risk Governance

The Board of Directors and Board Committees oversee the overall risk tolerance for the Corporation and provide the highest level of oversight. Centralized risk management is provided by IFC's Management Committees and Senior Management. IFC's Management Team, under the direction of the Executive Vice President and CEO, is responsible for the Corporation's day-today operations, including oversight and management of existing and potential risks. The Risk Management and Portfolio Vice Presidency is responsible for managing IFC's financial and operational risks. Project-specific environmental, social and corporate governance issues which arise out of IFC's activities are overseen by the Business Advisory Services Vice Presidency; legal issues are overseen by the General Counsel Vice Presidency. There is common and shared accountability for strategic and stakeholder risk management at the IFC Management Team level.

The Independent Evaluation Group assesses the alignment between projected and realized outcomes while the Compliance Advisor/Ombudsman, ensures that IFC remains accessible to its stakeholders. In addition, the World Bank Group's Internal Audit Vice Presidency monitors internal controls and governance while the Integrity Vice Presidency monitors integrity in operations and investigates allegations of fraud and corruption.

Managing Financial and Reputational Impact
The consequences of failing to manage risks optimally are financial loss and/or adverse impact to IFC's reputation. Reputational impact is of significant concern to IFC as negative perceptions of stakeholders and/or the general public may adversely impact IFC's ability to carry out its business effectively. Risks are mitigated in practice by a variety of measures including close monitoring by risk management units and oversight by IFC's Senior Management.

FY13 Enterprise Risk Highlights
Highlights from significant changes made in FY13 are as follows:

- Updated the existing framework to include a more comprehensive approach to measuring economic capital for IFC's Treasury activities.
- Created a working group, tasked with improving and formalizing the process and methodology for Corporation-wide stress testing.
- Extended Risk and Control Self-Assessment to all departments to support active management of operational risk.
- Designed enhancements to IFC's Integrity Due Diligence process to increase consistency, better manage accountability and augment decision-making
- efficiency.
- Created a new Regional Chief Risk Officer role to serve IFC's decentralized business model and provide senior risk oversight for the Sub-Saharan Africa region.
- Benchmarked IFC against industry best practice in workouts and operational risk management.

Strategic Risk
IFC defines strategic risk as the potential reputation, financial, and other consequences of a failure to achieve its strategic objectives, and in particular, the risk of not achieving IFC's purpose of furthering economic development by "encouraging the growth of productive private enterprise in member countries" and its vision "that people should have the opportunity to escape poverty and improve their lives. The key guiding principles and policies established as part of the framework for managing IFC's strategic risks consist of:

- An ex-ante assessment of strategic fit of each project;
- Guiding principles for IFC's operations (catalytic role, business partnership and additionality);
- Environment and social policies; and
- IFC's sanctions procedures.

The overall management of strategic risk is effected through the design, confirmation and implementation of an annual strategy for IFC. The strategy is developed by Senior Management and approved by the Board of Directors. IFC monitors the implementation of its strategy through many processes, including: (i) corporate and department scorecards; (ii) cascaded objectives; (iii) and an integrated quarterly management report. In addition, the Independent Evaluation Group conducts ex-post evaluations of the implementation of IFC's strategy on an ongoing basis. Given the nature and scope of products and services that IFC provides its clients in furtherance of its development mandate, operational or business conflicts of interest can arise in the normal course of its activities. IFC recognizes that adverse reputational, client-relationship and other implications can arise if such conflicts are not carefully managed. In order to properly manage operational or business conflicts, IFC has implemented processes directed at (i) the identification of such conflicts as and when they arise; and (ii) the application of mitigation measures specifically tailor IFC's Sustainability Framework articulates the Corporation's strategic commitment to sustainable development and is an integral component of IFC's approach to risk management. The Sustainability Framework comprises IFC's Policy and Performance Standards on Environmental and Social Sustainability and IFC's Access to Information Policy:

- The Policy on Environmental and Social Sustainability describes IFC's commitments, roles and responsibilities in relation to environmental and social sustainability.
- The Performance Standards are intended to help guide clients on sustainable business practices a part of which involves continually identifying and managing risks through stakeholder engagements and client disclosure obligations in relation to project-level activities.
- IFC's Access to Information Policy reflects the Corporation's commitment to transparency and good governance and outlines institutional disclosure obligations.

IFC uses the Sustainability Framework along with other strategies, policies and initiatives to focus business activities on achieving the Corporation's development objectives. All project teams are required to record expectations of development outcomes with time-bound targets using standard indicators. These indicators are tracked and performance is rated on an annual basis for the entire duration of every project.

Guiding Principles for IFC's Operations
Catalytic role: IFC will seek above all to be a catalyst in facilitating productive investments in the private sector of its developing member countries. It does so by mobilizing financing from both foreign and domestic investors from the private and public sectors. Business partnership: IFC functions as a business in partnership with the private sector. Thus, IFC takes the same commercial risks as do private institutions, investing its funds under the discipline
of the marketplace.

Additionality: IFC participates in an investment only when it can make a special contribution not offered or brought to the deal by other investors. sanctions procedures In FY07, IFC established a set of procedures to sanction parties involved in IFC projects committing corrupt, fraudulent, collusive, coercive or obstructive practices. In April 2010, the World Bank Group concluded an agreement with other multilateral development banks (MDBs) whereby entities debarred by one MDB may be sanctioned for the same misconduct by the other participating development banks. The enhanced emphasis on combating fraud and corruption does not change the high expectations IFC has always held for its staff, clients and projects, including due diligence and commitment to good corporate governance.

FY13 Strategic Risk Highlights
IFC's Development Goals (IDGs) are targets for reach, access, or other tangible development outcomes that IFC projects are expected to deliver during their lifetime. In FY12, the testing phase for two such goals, IDG 2 (Health and Education) and IDG 3 (Financial Services), was completed and in FY13, they moved into implementation and are fully integrated into IFC's corporate scorecard and incentives for management.

Financial Risk

Financial risk management is about taking calculated risks that are aligned with the Corporation's overall risk appetite and within the boundaries of established tolerances. As such, financial risk management at IFC begins with an articulation of the Corporation's risk appetite as defined by the types of risk that the Corporation is willing to take in the pursuit of its strategic objectives. Following from this articulation is an enterprise risk management framework that encompasses strategy, capital planning, target setting and risk monitoring and management.

IFC's risk appetite, as it pertains to financial risk, has been defined by Senior Management and the Board of Directors as maintaining a AAA rating within a three-year time horizon. To align risk tolerance with this definition, IFC uses its economic capital framework to measure the capital required to maintain its AAA rating. Further, processes are in effect which translate IFC's risk appetite into limits, policies, procedures and directives that help guide the management of IFC's financial risk within acceptable tolerance bands.

An important consideration when setting IFC's risk appetite is the need to use capital efficiently by recognizing the inherent trade-offs involved with maintaining reserve capital. Excess capital that is not deployed has limited financial and no development impact; at the same time, keeping some capital in reserve allows IFC to maintain financial strength and respond proactively in the event of future crises.

Key Financial Policies and Guidelines

IFC operates under a number of key financial policies and guidelines as detailed below, which have been approved by its Board of Directors:

- Minimum liquidity (liquid assets plus undrawn borrowing commitments from IBRD) must be sufficient at all times to cover at least 45% of IFC's estimated net cash requirements for the next three years.
- Loans are funded with liabilities that have similar characteristics in terms of interest rate basis and currency and, for fixed rate loans, duration except for the Board of Directors-approved new products involving asset-liability mismatches.
- IFC maintains a minimum level of liquidity, consisting of proceeds from external funding, that covers at least 65% of the sum of: (i) 100% of committed but undisbursed straight senior loans; (ii) 30% of committed guarantees; and (iii) 30% of committed client risk management products. IFC is required to 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 the maintenance of a AAA rating.

Credit Risk

IFC defines credit risk as the risk that third parties that owe IFC money, securities or other assets will not fulfill their obligations. These parties may default on their obligations to IFC due to bankruptcy, lack of liquidity, operational failure or other reasons. Credit risk management consists of policies, procedures and tools for managing credit risk, primarily in IFC's loan portfolio, but also related to counterparty risk taken in the liquid asset and borrowing portfolios. Credit risk management spans investment origination to final repayment or sale; it includes portfolio management and risk modeling activities that provide an integrated view of credit risks and their drivers across the Corporation. With respect to IFC's credit risk exposure to clients in developing emerging markets, at key steps during the investment approval process, information obtained from the investment departments is analyzed and an independent review of the credit risk of the transaction undertaken, including the assignment of a credit risk rating. The credit risk rating, together with investment size and product type, is a key input into the risk tiering that determines authority levels required for transaction approval. After commitment, the quality of IFC's investment portfolio is monitored according to principles and procedures defined in the Operational Policies and Procedures. Responsibility for the day-to-day monitoring and management of credit risk in the portfolio rests with the individual investment departments.

Credit risk also includes concentration risk: the risk of extreme credit losses due to concentration of credit exposure to a common risk factor. IFC manages concentration risk through a number of operational and prudential limits, including limitations on single project/client exposure, single country exposure, and segment concentration. Similarly, credit policies and guidelines have been formulated covering treasury operations; these are subject to annual review and approval by the Corporate Risk Committee. Credit risk across IFC's investment portfolio is monitored and managed through proactive identification of emerging risks and portfolio stress testing in focus sub-portfolios. For impaired loans and other investments at risk, rapid response is essential, as early involvement is the key to recovery when projects get into difficulty. IFC provides focused attention on portfolio projects that require more sophisticated workout and restructuring.

To help enable early involvement, seasoned professionals from IFC's Special Operations Department comprised of workout professionals with extensive experience in handling such projects, work in close coordination with IFC's Legal Department to provide rapid response.
The credit risk of loans is quantified in terms of the probability of default, loss given default and exposure at risk. These risk parameters are used to determine risk based economic capital for capital adequacy, capital allocation and internal risk management purposes as well as for setting general loan loss reserves and limits. Treasury counterparty credit risk is managed to mitigate potential losses from the failure of a trading counterparty to fulfill its contractual obligations. General counterparty eligibility criteria are set by the Board of Directors-approved Asset-Liability Management and Derivative Products Authorization and Liquid Asset Management General Investment Authorization. IFC Counterparties are subject to conservative eligibility criteria and are predominantly restricted to banks and financial institutions with high quality credit ratings by leading international credit rating agencies.

The eligibility criteria and limits of Treasury counterparties are stipulated by the "Liquid Asset Investment Directives." Specifically, IFC has adopted the following key financial policies
and guidelines that have been approved by the Corporate Risk Committee:

Investment Operations

- IFC does not normally finance for its own account more than 25% of a project's cost.
- Total exposure to a country is based on the amount of economic capital required to support its investment portfolio in that country.
- Exposure limits are set for each country based on the size of its economy and its risk score. Sub-limits apply for certain sector exposures within a country.
- Lender of record exposure in a country may not exceed a specified percentage of a country's total long-term external debt. Lower trigger levels are set for certain countries.
- IFC's total exposure to a single obligor and groups of obligors may not exceed stipulated economic capital and nominal limits based on the riskiness of the obligor.
- IFC's committed exposure in guarantees that are subrogated in local currency is limited to $300 million for currencies for which there are no adequate currency and interest rate risk hedging instruments as determined by IFC's Treasury Department at the time of commitment. There is a sublimit of $100 million for an individual currency under this limit.

Treasury Operations

- Counterparties are subject to conservative eligibility criteria. For derivative instruments, IFC's counterparties are currently restricted to banks and financial institutions with high quality credit ratings (with a mark-to-market agreement) by leading international credit rating agencies. In addition to IFC's traditional use of top-rated international banks as swap counterparties, for the sole purpose of funding local currency loans, IFC has recently extended the universe of eligible swap counterparties to include central banks and select local banks.

- Exposures to individual counterparties are subject to concentration limits. For derivatives, exposure is measured in terms of replacement cost for measuring total potential exposure.
- Institution-specific limits are updated at least quarterly based on changes in the total size of IFC derivatives portfolio or as needed according to changes in counterparty's fundamental situation or credit status.
- To limit its exposure, IFC signs collateral agreements with counterparties that require the posting of collateral when net mark-to-market exposures exceed certain predetermined thresholds.
- IFC also requires that low quality counterparties should not have more than 30% of total net-of-collateral exposures.
- Because counterparties can be downgraded during the life of a given transaction, the agreements provide an option for IFC to terminate all swaps if the counterparty is downgraded below investment grade or if other early termination events materialize.
- For exchange-traded instruments, IFC limits credit risk by restricting transactions to a list of authorized exchanges, contracts and dealers, and by placing limits on the Corporation's position in each contract.

FY13 Credit Risk Highlights

Investment operations

The quality of IFC's loan portfolio, as measured by aggregate risk ratings was substantially unchanged between June 30, 2012 and June 30, 2013. IFC does not recognize income on loans where collectability is in doubt or payments of interest or principal are past due more than 60 days unless collection of interest is expected in the near future. The amount of non-performing loans as a percentage of the disbursed loan portfolio4, a key indicator of loan portfolio performance, was 5.6% at June 30, 2013 (4.1% at June 30, 2012). The principal amount outstanding on non-performing loans totaled $1,272 million at June 30, 2013, an increase of $413 million (48%) from the June 30, 2012 level of $859 million. The increase in the amount of non-performing loans as a percentage of the disbursed loan portfolio was largely driven by the placing of seven loans with principal outstanding greater than $45 million for an aggregate amount of $423 million, partially offset by the removal of one loan with principal outstanding of $45 million.

Total reserves against losses on loans at June 30, 2013, increased to $1,628 million ($1,381 million at June 30, 2012). Total reserves against losses on loans are equivalent to 7.2% of the disbursed loan portfolio (6.6% — June 30, 2012).

The guarantee portfolio is exposed to the same idiosyncratic and systematic risks as IFC's loan portfolio and the inherent probable losses in the guarantee portfolio need to be covered by a reserve for loss. The reserve at June 30, 2013, was $17 million, down from $21 million at June 30, 2012, based on the year-end portfolio, and is included in payables and other liabilities on IFC's consolidated balance sheet. There was a release of provision of $4 million on guarantees in the consolidated income statement in FY13 ($3 million release of provision — FY12).

Treasury operations

Counterparty credit risk in IFC's Treasury operations is managed on a daily basis through strict eligibility criteria and accompanying limits. Treasury operations counterparties also remain well diversified by sector and geography. In accordance with IFC's key financial policies and guidelines noted above, IFC holds collateral in the amount of $1,274 million at June 30, 2013 ($3,570 million — June 30, 2012).

Market Risk

IFC's exposure to market risk is largely mitigated by the Corporation's matched-funding policy and by the use of derivative instruments to convert most of IFC's assets that are funded from market borrowings and such market borrowings into floating rate US dollar assets and liabilities with similar duration. Additional strategies that are employed are as described below.

Investment Operations

IFC takes equity risk in its listed and unlisted equity investments in emerging markets. The Corporate Equity Committee, a subcommittee of the Management Team, provides guidance on IFC's overall strategy in equity investments, equity portfolio management and asset allocation. Numerous factors are taken into consideration when making asset allocation decisions, reflecting IFC's roles as a development institution and long-term investor, as well as the fact that most of the Corporation's equity investments are in private securities, at least at origination. The factors taken into consideration by the Corporate Equity Committee include projected developmental impact, IFC's additionality and comparative advantages, country diversification, sector diversification, IFC's country exposure considerations, macro-economic considerations, global trends in equity markets, and valuations.

Interest rate and currency exchange risk associated with fixed rate and/or non-US dollar lending is largely economically hedged via currency and interest rate swaps that convert cash flows into variable rate US dollar flows.

Market risk resulting from derivative transactions with clients, which are intended to facilitate clients' risk management, is mitigated by entering into offsetting positions with highly rated market counterparties.

Liquid Asset Portfolios

The market risk in the internally-managed liquid asset portfolios is measured using a corporate value-at-risk model, which calculates daily value-at-risk measurements, interest rate exposure and credit spread exposure. The primary instruments for maintaining sufficient liquidity are IFC's seven liquid asset portfolios:

- P0, which is generally invested in short-dated deposits, money market funds, fixed certificates of deposits, one-month floater securities and repos, reflecting its use for short-term funding requirements
- P1 and P2, which are generally invested in: (a) high quality foreign sovereign, sovereign-guaranteed and supranational fixed income instruments; (b) US Treasury or agency instruments; (c) high quality ABS rated by at least two rating agencies and/or other high quality notes issued by corporations; (d) MBS; (e) interest rate futures and swaps to manage currency risk in the portfolio, as well as its duration relative to benchmark; and (f) cash deposits and repos
- P3, which is an outsourced portion of the P1 portfolio (managed by external managers)
- P4, which is an outsourced portion of the P2 portfolio (managed by external managers)
- P6, which is invested in short-term local currency money market instruments and local government securities
- P7, which consists of after-swap proceeds from variable-rate
- Borrowings denominated and invested in Euros and proceeds from fixed-rate borrowing denominated and invested in Nigerian naira.

The P0, P1 and P3 portfolios are managed to variable rate US dollar benchmarks, on a portfolio basis. To this end, a variety of derivative instruments are used, including short-term, over-the counter foreign exchange forwards (covered forwards), interest rate and currency swaps, and exchange-traded interest rate futures and options. IFC takes both long and short positions in securities in the management of these portfolios to their respective benchmarks. The primary source of interest rate risk in the liquid asset portfolios is the P2 and P4 portfolios, which are managed to Barclay's 1-3 year US Treasury Index benchmark. P2 represents the portion of IFC's capital not disbursed as equity investments, and the benchmark reflects the chosen risk profile for this un-invested capital (paid-in capital and retained earnings).

P4 represents an outsourced portion of the P2 portfolio. In addition, the P1 and P3 portfolios also contain spread risk of high quality credit counterparties. The P6 portfolio consists of foreign currency proceeds raised locally through swaps and other funding instruments to provide more flexible local currency loan products to clients. The Euro portion of the P7 portfolio is managed to six equal-weighted EURIBID deposits maturing at the next six monthly reset dates of outstanding liabilities, rebalanced at each calendar month-end. The Nigerian naira portion of the P7 portfolio is managed to
the related IFC debenture issued in FY13.

Borrowing Activities

IFC expands its access to funding and decreases its overall funding cost by issuing debt securities in various capital markets in a variety of currencies, sometimes using complex structures. These structures include borrowings payable in multiple currencies, or borrowings with principal and/or interest determined by reference to a specified index such as a reference interest rate, or one or more foreign exchange rates.

Market risk associated with fixed rate obligations and structured instruments entered into as part of IFC's funding program is generally mitigated by using derivative instruments to convert them into variable rate US dollar obligations, consistent with the matched-funding policy.

Asset-Liability Management

While IFC's matched-funding policy provides a significant level of protection against currency and interest rate risk, IFC can be exposed to residual market risks in its overall asset and liability management of the market borrowings funded balance sheet. Residual currency risk arises from events such as changes in the level of non-US dollar loan loss reserves. The aggregate position in each lending currency is monitored on a daily basis and the risk is managed within a range of +/– $5 million equivalent in each currency. Residual interest rate risk may arise from differing interest rate reset dates on assets and liabilities or assets that are fully match-funded at inception, which can become mismatched over time due to write-downs, prepayments, or rescheduling. The residual interest rate risk is managed by measuring the sensitivity of the present value of assets and liabilities in each currency to a one basis point change in interest rates and managed on a daily basis within a range of +/– $50,000.

FY13 Market Risk Highlights

The overall level of market risk in IFC's Treasury operations increased in FY13 due to increasing volatility of Sovereign interest rates near the end of FY13 yet Treasury market risk still remained low compared to other portfolios and risk types. Interest rate, foreign exchange, and spread risk are all carefully controlled on a daily basis using a system of limits that remained in compliance during FY13. Shortly after the fiscal year began, the European Central Bank announced their, not-yet- used, Outright Monetary Transactions (OMT) program aimed at equalizing borrowing costs for private borrowers across the European Union by providing support for short-dated sovereign government bonds. Risk premia receded across financial markets in response. The decrease in risk premia was further supported by the United States when it avoided the "fiscal cliff" and the Bank of Japan, which announced a much greater-than-expected ease in monetary policy. The liquid asset portfolios benefitted from this improvement in the markets and remained fully invested in spread risk throughout the fiscal year.

The overall level of market risk in IFC's equity portfolio was quite elevated in FY13, due to large fluctuations in global equity markets, foreign exchange rates and commodity prices. Equity valuations improved steadily during the first half of FY13, both in local currency and, to a greater degree, in IFC's reporting currency, the US$, as most emerging market currencies appreciated moderately against the US$ in the first half of FY13. This period was followed by sideways fluctuations in the third quarter of FY13 and the first half of the last quarter of FY13, but the last seven weeks of FY13 virtually erased all gains from the first half of FY13, as prospects of a less accommodative Federal Reserve and renewed concerns on global growth, dominated world markets. It should also be noted that emerging market equities lagged most developed equity markets in FY13, accelerating the trend that started in late 2010.

In response to such heightened volatility, the Corporation remained especially selective at entry and managed its equity investment portfolio pro-actively through close monitoring, quarterly portfolio reviews and continued oversight from the Corporate Equity Committee. Active portfolio management enabled the Corporation to revolve its funds significantly in FY13, and maintain an acceptable level of profitability.

Liquidity Risks

IFC's investments are predominantly illiquid in nature due to the lack of capital flows, the infrequency of transactions, and the lack of price transparency in many emerging markets. To offset this liquidity risk, strict investment eligibility criteria for the Liquid Asset portfolios are defined in the Liquid Asset Management Investment Guidelines. Examples of these criteria include minimum sizes for bond issuances, single bond issue concentration limits and percentage of total bond issuance limits. Consequently, a significant portion of the liquid assets is invested in highly liquid securities such as: (i) high quality foreign sovereign, sovereign-guaranteed and supranational fixed income instruments; (ii) US Treasury or agency instruments; and (iii) money market mutual funds. In the event of a liquidity crisis, these assets will be available to generate funds that are needed to support IFC's cash requirements. IFC's liquid assets maintained similar exposure to high credit quality counterparties, while credit spread risk declined in FY13 due to improving credit conditions. Net interest rate risk of IFC's Liquid Asset portfolios remained concentrated in short-maturity obligations and the spread risk is well diversified by sector and geography.

FY13 Liquidity Risk Highlights

On June 30, 2013, IFC's liquid assets portfolio stood at $31.2 billion ($30.4 billion on June 30, 2012). Current levels of liquid assets also represented 309% of the sum of (i) 100% of committed but undisbursed straight senior loans; (ii) 30% of committed guarantees; and (iii) 30% of committed client risk management products (327% on June 30, 2012).

Funding Risk

IFC's primary objective with respect to managing funding risk is to maintain its triple-A credit ratings and, thereby, maintain access to market funding as needed at the lowest possible cost. The risk of higher funding costs is also reduced by IFC's annual funding targets, the US$ benchmark bonds, and the Discount Note Program. Accessing the capital markets for financing establishes investor confidence, liquidity, price transparency, and a diversified investor base, all of which help to reduce financing cost. IFC's Discount Note Program provides swift access to funded liquidity, to complement traditional funding sources, and to provide a natural funding source for short term financing programs.

FY13 Funding Risk Highlights

During FY13, IFC raised $12.8 billion, net of derivatives ($11.9 billion in FY12 and $10.3 billion in FY11). The outstanding balance under the Discount Note Program at June 30, 2013 was $1.3 billion ($1.4 billion — June 30, 2012). During FY13, credit spreads for IFC's new borrowing deteriorated to around Libor flat for a 5 year term issue, from Libor minus 10 basis points in FY12.

Operational Risk

Consistent with "Internal Convergence of Capital Measurement and Capital Standards, A Revised Framework" issued by the Basel Committee on Banking Supervision in June 2004, IFC defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. IFC's Operational Risk Management (ORM) program is based on a directive approved by the Corporate Risk Committee during FY10. This directive establishes the approach and roles and responsibilities for operational risk management in the Corporation. IFC's ORM approach is designed to ensure that operational risks are identified, assessed, and managed so as to minimize potential adverse impacts and to enable Senior Management to determine which risks IFC will: (i) manage internally, as part of its ongoing business; (ii) mitigate through contingency planning; or (iii) transfer to third parties, whether by subcontracting, outsourcing, or insurance.

IFC seeks to mitigate the risks it manages internally by maintaining a comprehensive system of internal controls that is designed not only to identify the parameters of various risks but also to monitor and control those areas of particular concern. IFC utilizes risk transfer, including insurance, at both the project and the institutional levels for mitigation of low frequency and high severity operational risks. At both levels, IFC identifies and evaluates risks, determines available contractual transfer and insurance options, implements the optimal structure, and tracks its effectiveness over time. IFC also insures its corporate assets and operations against catastrophic losses where commercially viable.

Other key components of IFC's operational risk management approach include:

- Operational risk assessment and measurement based on market practices and tools.
- Adoption of the COSO5 control framework as the basis for its evaluation of the effectiveness of its internal controls over financial reporting.
- Ongoing independent review of the effectiveness of IFC's internal controls in selected key areas and functions performed by the
- Internal Audit Vice Presidency of the World Bank Group.
- Promoting data integrity in the Corporation based on its data management policy.
- Ensuring that processes and controls are in place to manage the risks in new products and initiatives before they are executed, through a New Initiative and Product Assessment Group with representation from key business and support functions.

FY13 Operational Risk Highlights
IFC is continuing a multiyear effort to develop and implement enhanced methodologies for identifying, measuring, monitoring and managing operational risk in its key activities. IFC continued the program established in FY12 for obtaining annual written assertions on operational risk management by Vice Presidents and Directors. To support this, IFC also:

- Formalized a network of departmental Operational Risk Management Liaisons and provided training for them in applying operational risk management tools to their business processes.
- Extended Risk and Control Self-Assessment to all departments.
- Continued rolling out other operational risk management methodologies and tools, including risk events tracking, root cause analysis and key risk indicators.
- Conducted events to promote and raise awareness of operational risk management.
- IFC also continues to focus on its preparedness to react to an emergency situation that could disrupt its normal operations.