

IFC's Approach to Risk



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INTERNATIONAL
BANKING
FORUM

NEW CHALLENGES. NEXT CHANGES.

UBI Banca

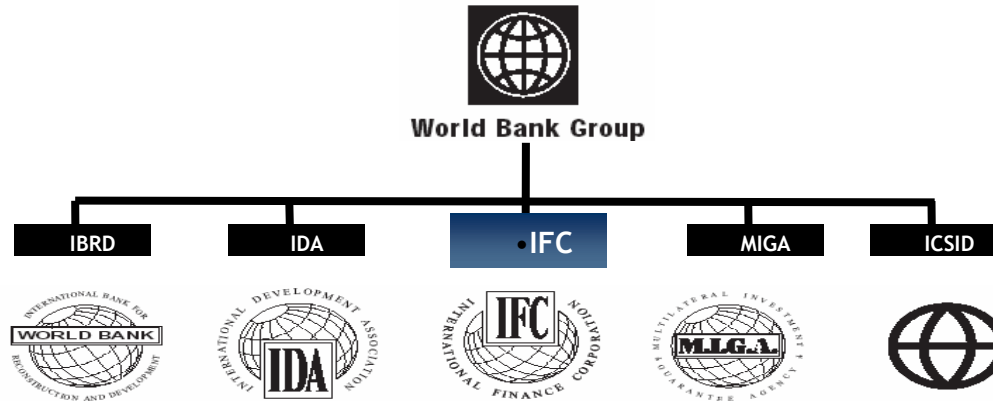
Agenda

- IFC: Who we are, What we do
- IFC and Sustainability
- IFC and Approach to Risk
- Conclusion

IFC, is the main driver of private sector development in the World Bank Group

Vision

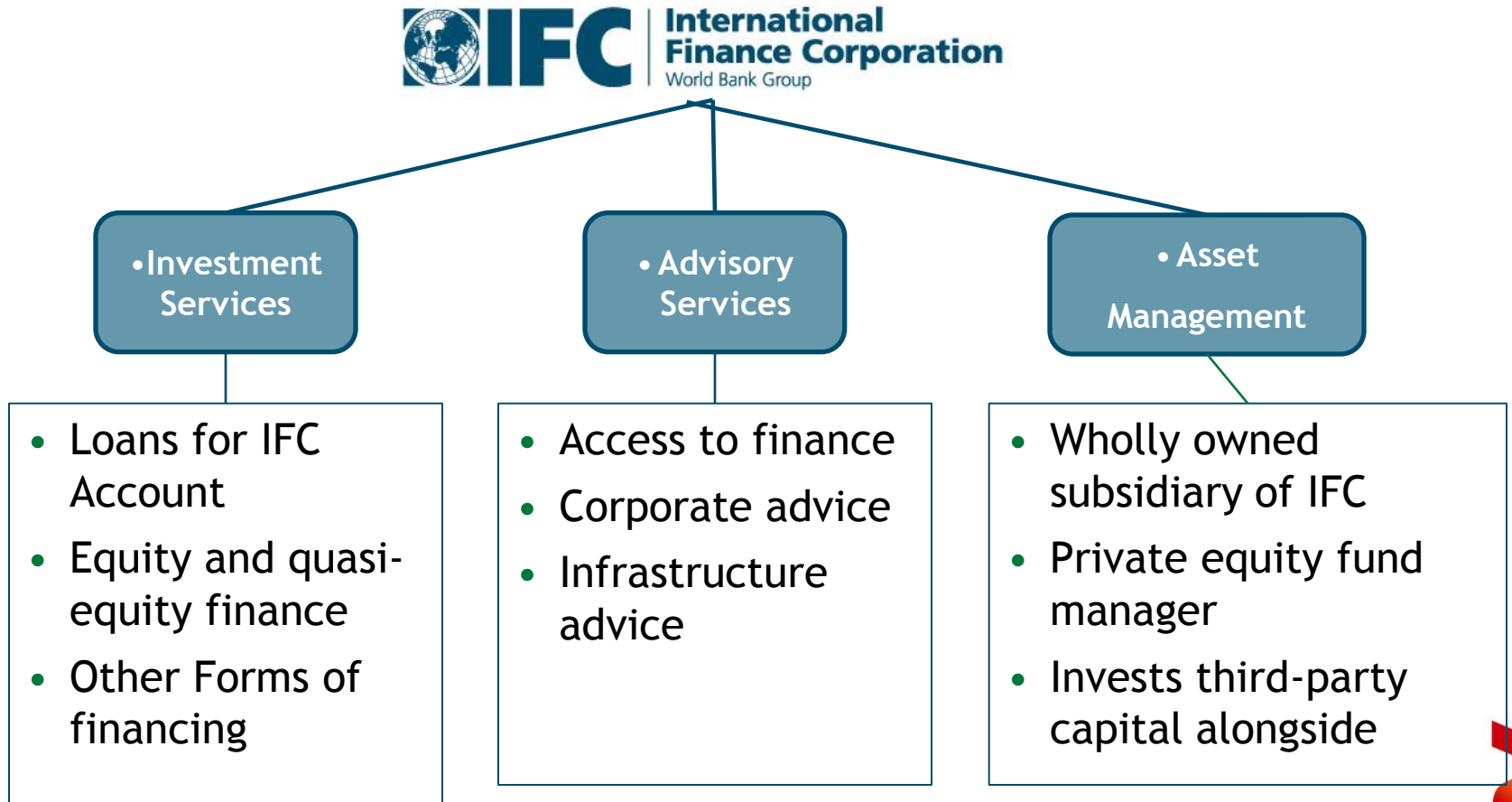
- “People should have the opportunity to escape poverty and improve their lives.”



- Financial Institution with Development Goals;
- Promote and support economic growth by catalyzing private sector investment in developing countries;
- Largest and only global multilateral source of debt and equity financing for private enterprise in developing countries.

IFC's Business

- IFC's business consists of three complementary 'pillars' that support its mandate and strategic priorities.

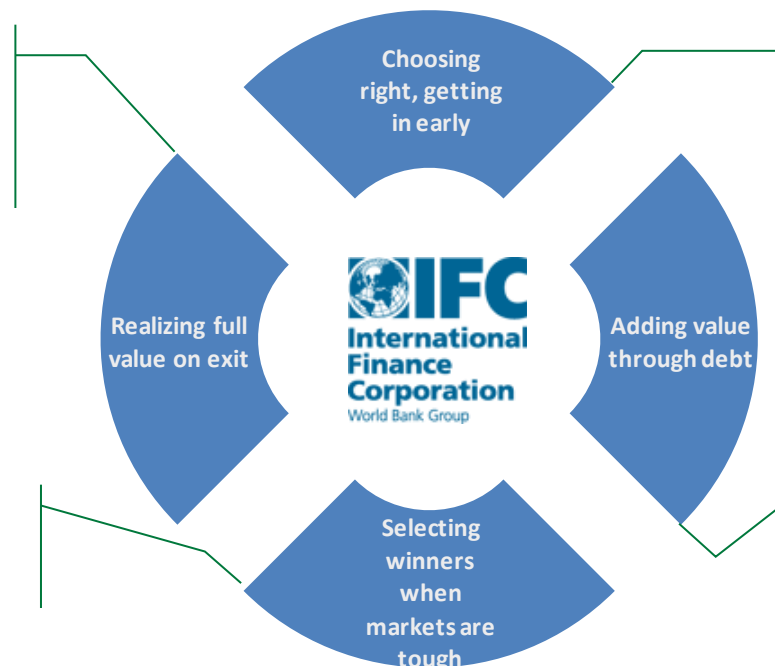


Example: IFC's Approach to Equity Investments

- IFC equity ownership is typically limited to 20%
- IFC does not operate companies

• IFC invests as a minority shareholder

• IFC has a long-term investment horizon.



• Significant returns achieved by IFC (e.g. telecom and banking)

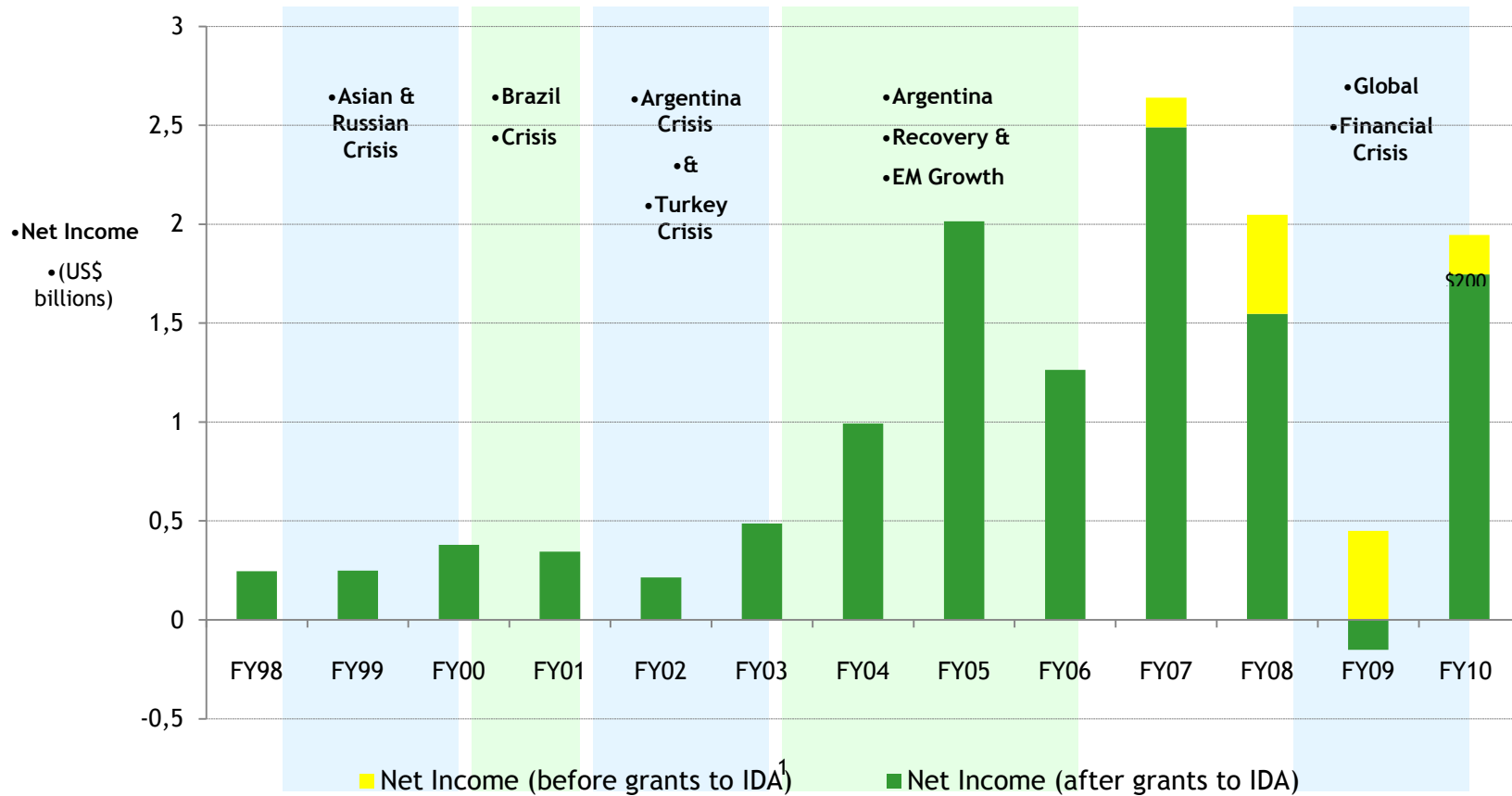
• Full range of financial products

IFC's Balance Sheet Overview (As of June 30, 2010)

(In US\$ billions)

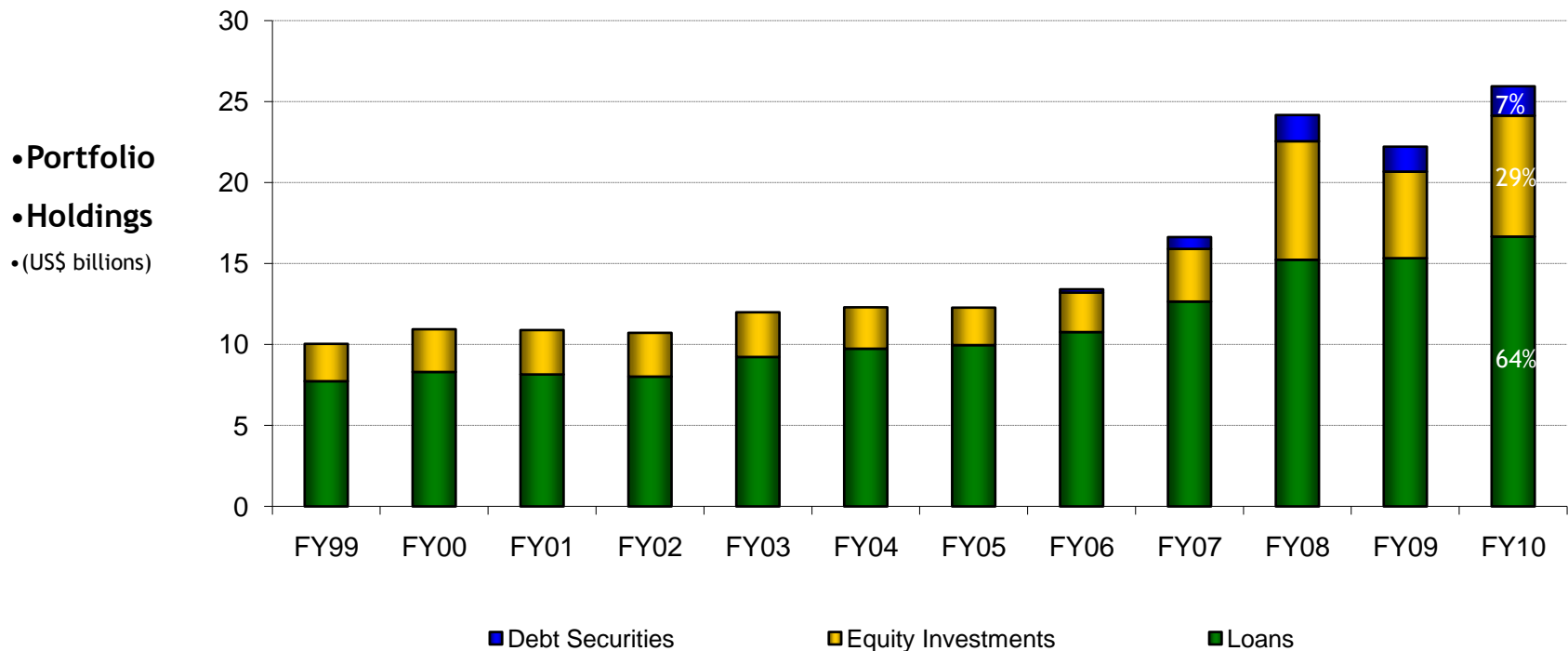
| ASSETS | | LIABILITIES AND CAPITAL | |
|---|----------------|--------------------------------------|----------------|
| Liquid Assets (gross) | \$29.93 | Borrowings | \$31.11 |
| Loans and Equity Investments (net of \$1.35 in reserves) | \$25.94 | Payables and Other Liabilities | \$11.61 |
| Net Loans: \$16.66 | | Net Worth | \$18.36 |
| Equity Investments: \$7.47 | | Paid in Capital: \$2.37 | |
| Debt Securities: \$1.82 | | Retained Earnings: \$14.79 | |
| Receivables and Other Assets | \$5.20 | Accumulated Other | |
| | | Comprehensive Income: \$1.20 | |
| Total Assets | \$61.08 | Total Liabilities and Capital | \$61.08 |

Net Income (As of June 30, 2010)



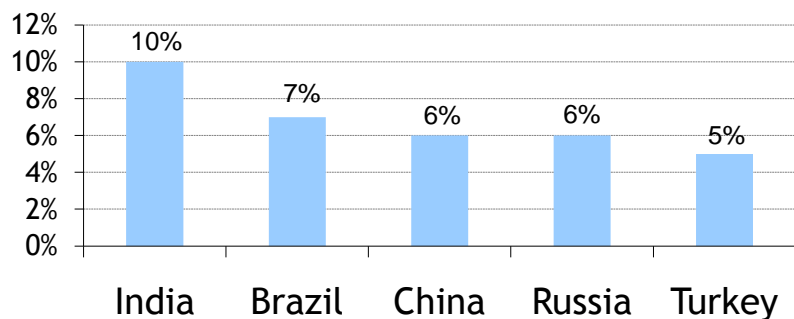
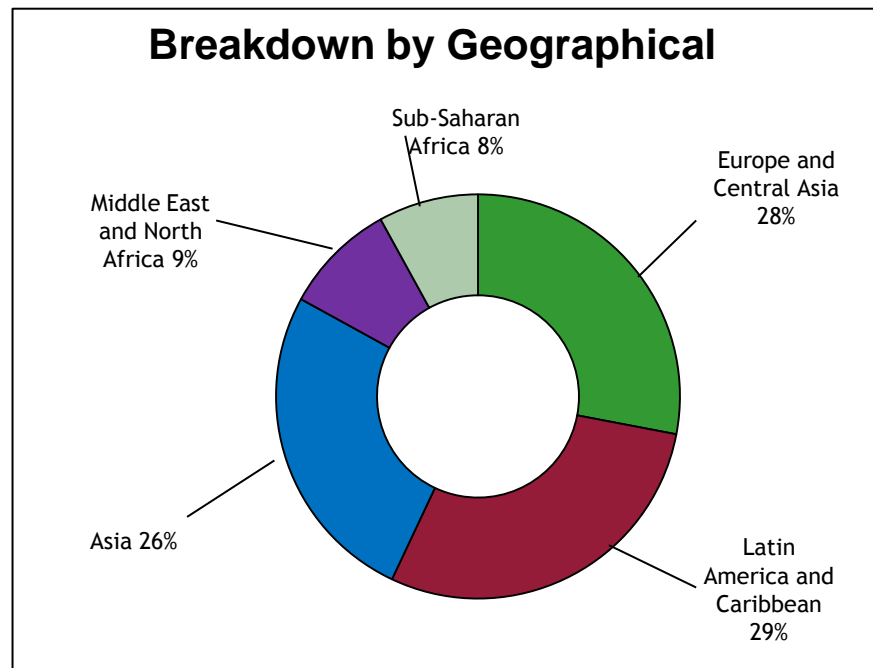
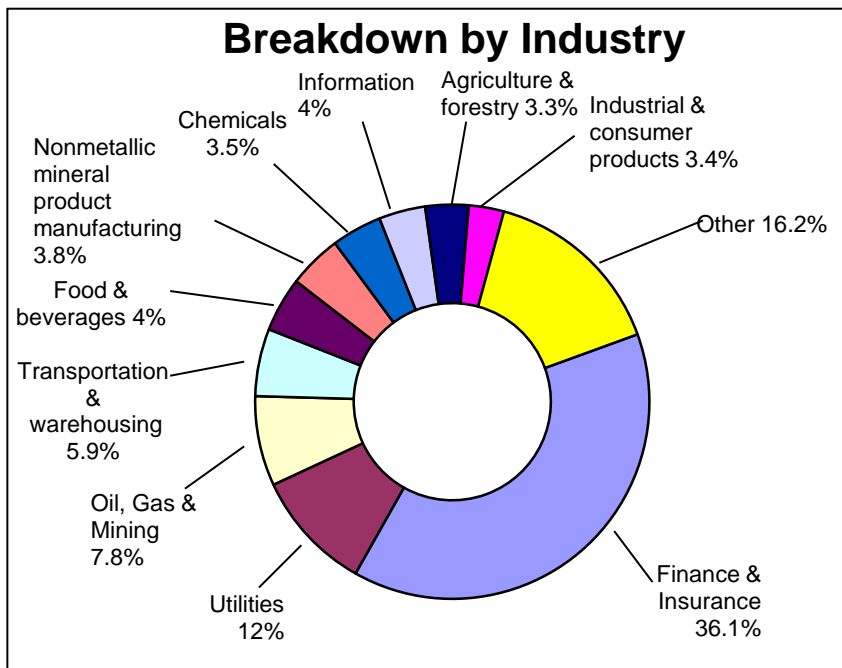
IFC Disbursed Portfolio (As of June 30, 2010)

- Breakdown of IFC Total Investment
- (gross of \$1,349 mn reserves)



Disbursed Portfolio Distribution (As of June 30, 2010)

- IFC has diversified exposure in 103 countries and 1,656 companies.



- Top Five Exposures by Country as a % of Total Committed Portfolio (FY10)

IFC and Sustainability

WHAT WE MEAN BY 'SUSTAINABILITY'

Four dimensions of **good business performance**:

- **Financial** sustainability;
- **Economic** sustainability;
- **Environmental** sustainability;
- **Social** sustainability.

Environmental and Social Sustainability is Central to the IFC Mission

- Pioneer of socially and environmentally responsible investments
- Strong environmental and social due diligence
 - Environment & Social Staff
 - Project Categories
 - Exclusion List
- IFC's Equator Principles are widely adopted by financial institutions

• 68 leading financial institutions from 28 countries have adopted the **Equator Principles** as of August 2010, accounting for nearly 95 percent of project finance transactions worldwide.

Why IFC Focuses On Sustainability

Sustainability is one of IFC's five core strategic priorities. Key drivers:

- Accountability to shareholders
- Response to external stakeholders
- Strategic priorities
- Correlation of credit and environmental risk

Example:

Credit risk positively correlated with environmental risk

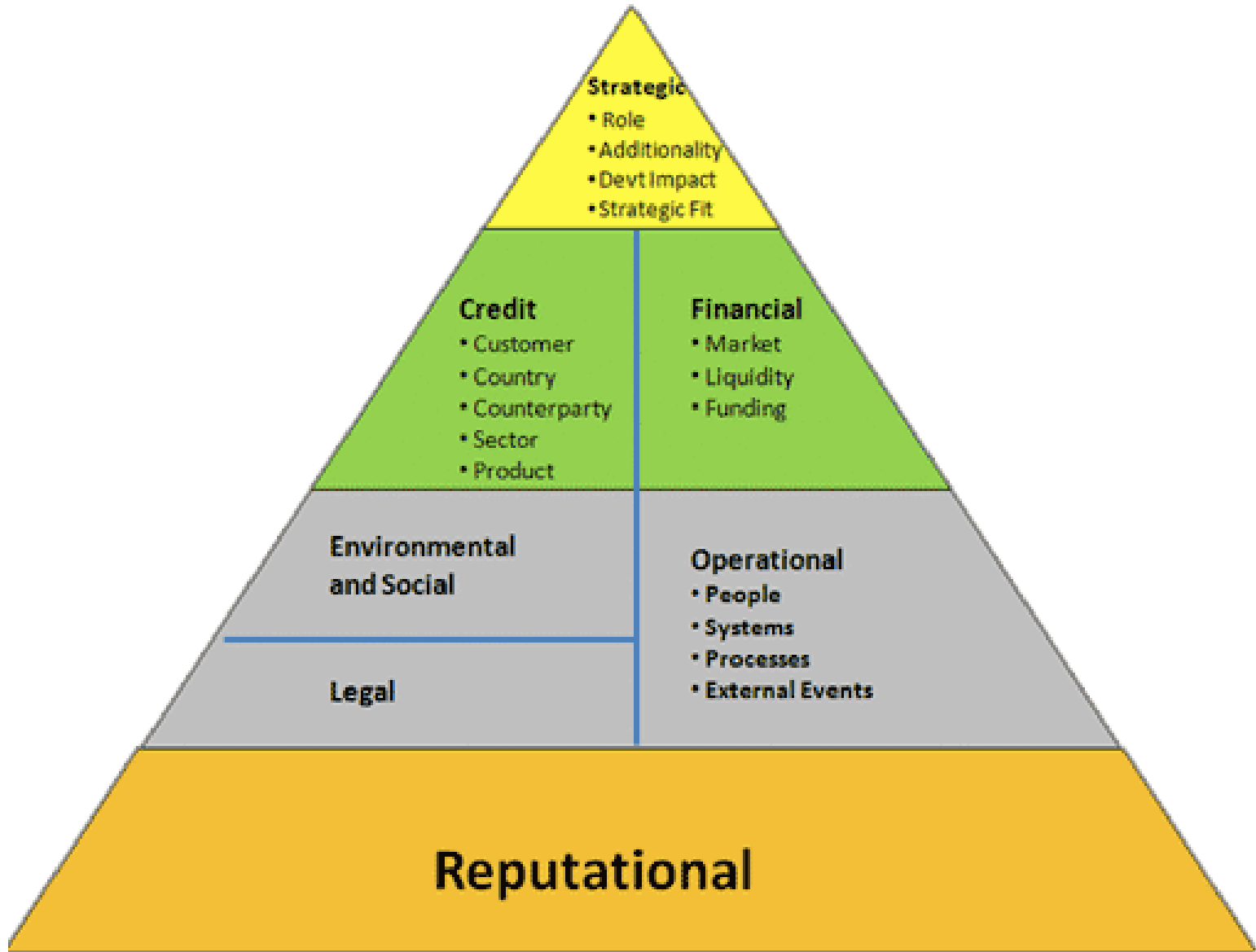
| Env & Social Risk Rating (ESRR) score | IRR (equity investments) |
|---------------------------------------|--------------------------|
| 1 (very low risk) | 8% |
| 2 | 4% |
| 3 | -1% |
| 4 (very high risk) | -31% |

IFC's Approach to Risk

General Architecture of Risk Management



Risk Management Framework



Risk, Conventional vs IFC

Risks, Conventional

- Credit
- Finance
- Operational

Risks, IFC

- Strategic
 - Reputational
 - Role
 - Additionality
 - Development Impact
- Environmental And Socia

On-Site Appraisal of Client

Process:

- Multi-disciplinary team including investment officers, sector specialist, engineers, social environment specialist, legal, governance specialist, as applicable
- Review operations in the field
- Review operational, legal, financial, environmental & social, and other risks
- Review client's management, sponsors, organizational structure and performance
- Reputational Risk is Assessed Measured and Monitored TROUGHOUT THE ENTIRE PROJECT CYCLE
- Hold initial structuring/term sheet discussion with client
- A detailed Loan Portfolio Review is conducted for Fis.

Conclusion

- IFC is a Financial Institution with Development Goals
- Sustainability is a key strategic factor
- IFC's Risk Management supports and in the meantime it is shaped by our Mission and Strategy.