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**INTER-AMERICAN INVESTMENT CORPORATION**

**OPERATING POLICY**



**Original: English**

[Redacted pursuant to Section IV.5 of the Disclosure of Information Policy]

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**OPERATING POLICY  
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## **PURPOSE**

1. The Inter-American Investment Corporation's (the "Corporation" or "IIC") purpose is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises, preferably those that are small and medium-scale, in such a way as to supplement the activities of the Inter-American Development Bank (the "Bank").
2. In making its operations, the Corporation will seek close cooperation with the Bank group on private sector development to promote joint activities which would broaden support for the private sector in regional developing member countries. Such cooperation will concentrate mainly on: identification of projects in the sectors of agriculture, manufacturing, forestry, tourism, infrastructure, health, education, technological enhancement, risk management and any other sectors where the Bank has existing programs; joint technical cooperation agreements to assist enterprises to access the international capital markets; joint efforts to identify promotion mechanisms for investments; and administrative support by the regional offices.

## **OPERATING PRINCIPLES**

3. The Corporation will invest in a broad range of activities. These may include new enterprises, expansions or modernizations, restructurings, privatizations, refinancing, working capital or other activities contributing to economic development, provided the Corporation's participation in such activities is consistent with its purpose.
4. Management shall establish appropriate guidelines and procedures in order to facilitate efficient transaction processing and administration of institutional affairs.
5. The Corporation will not be the only source of funding in any specific enterprise. The Corporation will seek to mobilize funds from other sources and attempt to ensure satisfactory convergence of interests among the various investors. The Corporation will not participate in transactions for which, in its opinion, sufficient capital could be obtained on adequate terms without the presence of the Corporation.
6. The Corporation will not normally finance the transfer of equity investments between private investors; exceptions will be made and disclosed to the Board of Executive Directors (the "Board") only if the change in ownership may bring about a substantial improvement in the enterprise.
7. The operation must be consistent with the host country's development plans, where applicable, with the Bank group country strategy and have good prospects for success. The Corporation will seek to enhance the operation, if warranted, by making recommendations towards improving its structure and risk/reward ratio. The Corporation will verify that the operation concept, technology, sponsorship and management are sound and that its environmental, social and labor practices are acceptable and in accordance with the applicable laws in the host country and the Corporation's environmental and labor policy; that a market exists for the client's products or services; and that the investment cost is reasonable and the financing plan adequate.

8. Each operation will be assessed on its merits concerning its economic development impact and its economic and financial return. Based on this assessment the Corporation shall select financial instruments and rates for each operation.
9. The funds provided by the Corporation may be used for foreign exchange or local currency expenditures, to acquire fixed assets, meet working capital requirements, refinance short term debt, or finance intangible assets, among others contributing to economic development.
10. The Corporation will ensure that procurement of goods and services acquired with IIC funds originate from member countries at adequate prices. It shall not establish as a condition that the proceeds of its financing be used to procure goods and services originating in a predetermined country.
11. In order to extend its reach and make the best use of its limited resources or to strengthen the local financial market, or whenever the Corporation may benefit from having a local partner, the Corporation will seek to work through financial intermediaries with presence in the region to support the Corporation's purpose.
12. The Corporation will assess risks of an operation to decide whether they are acceptable. The Corporation will help structure each operation to distribute risks appropriately among participants in the operations, including the entrepreneurs, the technology sponsors, the contractors, the raw-material suppliers, the customers, and the various financing agencies.
13. The Corporation will assess risk levels based on the industry, the company and the operation, as well as the host country's policies on investment, exchange rates, price controls, taxation and other relevant factors which may affect the viability of the operation, and structure appropriate security at a reasonable cost. As a further condition, the operation appraisal must include satisfactory evaluation of critical factors such as sponsor and shareholder quality and integrity, management capability, cash flow capacity, market, security, and structure of the Corporation's investment.
14. Once the Corporation has determined that the risk levels for each operation are acceptable, it will determine what return is appropriate.
15. The Corporation will take into account the risk profile of its current portfolio when considering each new operation.
16. In structuring its operations, the Corporation will submit to the host country's legislation, to another country's legislation, and/or to both, and will design the legal documentation in such a way that it adequately protects the Corporation's interests.

### **Approvals**

17. Management will promote, identify, select and appraise possible operations by applying financial, technical, economic, legal, environmental, labor and institutional feasibility criteria, as well as all other operating principles and relevant factors contained in the Agreement Establishing the Corporation (the "Agreement") and other applicable regulations.

18. Management will prepare an operation report (“Operation Report”) containing all material facts, including fee structures, necessary to reach a decision on operations whose approval by the Executive Committee of the Board of Executive Directors (“Executive Committee”) is recommended. Such report will be submitted to the Executive Committee and distributed to the other Executive Directors according to the procedures set forth in the relevant regulations.
19. Simultaneously, Management shall inform the host government about the operation and will request its "no-objection". If the Corporation does not receive a response before the meeting of the Executive Committee, the operation shall be considered as not being objected to by the host country government unless it has communicated its preference for a different procedure in writing.
20. The Executive Committee shall decide each case in accordance with the Agreement and other applicable regulations. Once an operation is approved by the Executive Committee, the corresponding Operation Report shall be submitted to the Board as per the procedures set forth in the relevant regulations. The approval of the Board shall be valid while there is no material change in the conditions presented to the Board.

## **ELIGIBILITY CRITERIA**

21. All operations in which the Corporation participates must provide additionality (development outcome and IIC value added) and meet the criteria of financial viability.

### **Additionality**

22. Fostering and building additionality, both financial and developmental, in IIC operations is at the core of the Corporation’s statutory mandate and strategic orientation. IIC operations will meet at least some of the following development outcome and value-added criteria:
  - (a) Developmental Outcome. Preference will be given to operations that meet many of the following key developmental characteristics:
    - (i) Contribute to business success and promote the development and use of local resources: projects that productively use otherwise unused factors of production, or increase their operating capacity, and contribute to business success through new investments;
    - (ii) Promote economic sustainability: projects that promote job creation (measured by the number and quality of jobs created by a specific investment as well as the investment cost required to create a job; foreign exchange generation and/or savings; and high economic rates of return;
    - (iii) Promote capital market development: achieved mainly by improving access for small and medium-size enterprises to capital markets;
    - (iv) Contribute to increased private sector investment through their demonstration effect;

- (v) Contribute to the financial performance and institutional strengthening of financial institutions, the growth of their SME portfolio, and the creation of new financial products for small and medium-size enterprises.
- (b) Value Added. The Corporation will maximize its impact by supporting operations in which the Corporation's participation provides added value, catalyzing private sector investment in the project. Added value goes beyond the financial viability of operations to include other aspects such as:
- (i) Alternative Financing (on similar terms) not available: the Corporation will finance operations for which, at the time of initial evaluation, adequate equity and/or loans is not available (without the Corporation's presence) from other sources at terms and conditions appropriate for the company. Adequacy relates to loan tenor, amount, pricing, and grace period;
  - (ii) Pioneering or innovative dimension. The Corporation will endeavor to support operations that involve pioneering or innovative characteristics. Such added value may consist of assisting sponsors in the design and execution of cost-effective financing structures, in supporting the introduction of new technologies, and introducing new financial products and services to countries or sectors;
  - (iii) Improve Environmental Standards, Social, Health and Safety, and/or Labor Standards. The Corporation will seek to assist its borrowers to improve the environmental, social, health and safety, and labor aspects of operations it finances, particularly in when areas for improvement have been identified;
  - (iv) Improved Corporate Governance. The Corporation will seek to improve corporate governance through the introduction of internationally accepted accounting standards, the presence of independent auditors, enhanced disclosure standards, and respect for the rights of minority shareholders. In the case of privately-held family businesses, the Corporation will seek to promote the application of best-practices for family corporate governance to ensure appropriate ownership and management governance standards. When possible and prudent, the Corporation will also seek to promote broader ownership of enterprises with public share offerings on the local stock market or through other arrangements.
  - (v) Catalytic effect. The Corporation will seek to foster growth and development by supporting initiatives that will generate change and promote an improved business environment that encourages greater private investment. This includes providing better access to financing for small and medium-size companies as well as creating increased business opportunities for clusters of companies that form supply chains.
  - (vi) Resource Mobilization. The Corporation will seek operations where it participates in mobilizing funds and attracting other investors and/or lenders.

### **Financial Viability**

23. Financial viability will be determined by evaluating the historical and projected operating and financial performance of the businesses. Financial viability will be measured by appropriate industry parameters and financial performance indicators such as cash flow, debt service coverage, and profitability.

### **Countries**

24. In making an operations decision, the Corporation will take into account the host member country's development plans, where applicable, and all factors which affect the feasibility of the operation.
25. The Corporation will maintain a reasonable geographically balanced and diversified portfolio of operations in regional developing member countries.
26. The Corporation will carry out operations only in countries where the Corporation's privileges and immunities as set out in the Agreement are in full force and effect under the law of the host country. Before committing to any operation, the Corporation will confirm that its privileges and immunities are in full force and effect, and that its financial instruments are binding and enforceable, in accordance with the laws of the country to which they are subject.

### **Sectors**

27. The Corporation may operate in any economic sector, provided the operation will benefit the economy of the host country, is compatible with the priorities of its government and is consistent with the Corporation's policies and guidelines.
28. The Corporation will maintain a reasonable sector balance by limiting the maximum portfolio share in any given sector, consistent with the exposure limits set forth in Paragraphs 77 and 78.

### **Enterprises**

29. Private and semi-public enterprises that are incorporated and domiciled in a regional developing member country are eligible for financing.
30. Enterprises with partial share participation by government or other public entities ("semi-public companies"), whose activities strengthen the private sector of the economy and meet all the other criteria described herein, are eligible for financing from the Corporation. The involvement of the Corporation should contribute to the reduction or elimination of the relative share participation of the Government or public entities
31. The Corporation may undertake operations with enterprises other than those described in the above paragraphs, provided that it does so through financial intermediaries and such operations benefit enterprises with the characteristics indicated in the preceding paragraphs.

32. The Corporation will preferably undertake operations benefiting small and medium-size enterprises.

- (a) For corporate operations, enterprise size is defined in terms of three parameters: assets, revenues, and number of employees. The enterprise will be classified in the corresponding category upon fulfillment of two of the three parameters applicable to each respective combination of country classification and economic sector:

*(all numbers are upper limits, currency indicated in US\$)*

		Corporate					
		Assets		Revenues		Number of Employees	
		Small	Medium	Small	Medium	Small	Medium
A and B <sup>1</sup> Countries	Primary	\$7,000,000	\$20,000,000	\$7,000,000	\$20,000,000	200	400
	Industry	\$7,000,000	\$20,000,000	\$7,000,000	\$20,000,000	150	350
	Service	\$7,000,000	\$20,000,000	\$7,000,000	\$20,000,000	100	300
C and D <sup>2</sup> Countries	Primary	\$3,000,000	\$10,000,000	\$3,000,000	\$10,000,000	150	250
	Industry	\$3,000,000	\$10,000,000	\$3,000,000	\$10,000,000	100	200
	Service	\$3,000,000	\$10,000,000	\$3,000,000	\$10,000,000	50	150

<sup>1</sup> Argentina, Brazil, Mexico, Venezuela, Chile, Colombia and Peru.

<sup>2</sup> Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad & Tobago, Uruguay, Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay.

- (b) For operations through Financial Intermediaries, enterprise size is defined by the size of the operations with end-beneficiaries according to the following criteria:

*(all numbers are upper limits, currency indicated in US\$)*

Operations through Financial Intermediaries			
Size of operations with end-beneficiaries			
	Micro	Small	Medium
A and B <sup>1</sup> Countries	\$10,000	\$250,000	\$1,000,000
C and D <sup>2</sup> Countries	\$10,000	\$150,000	\$500,000

<sup>1</sup> Argentina, Brazil, Mexico, Venezuela, Chile, Colombia and Peru.

<sup>2</sup> Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad & Tobago, Uruguay, Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay.

33. The above definitions apply to those enterprises which are considering expansion, modernization or upgrading plans for existing facilities. In the case of greenfield projects, only the asset size definition would apply to the proposed new enterprise.

34. Entities financed by the Corporation must be in satisfactory legal form and have adequate accounting and cost control procedures, taking into account the goals set forth in Paragraph 22(b)(iv).

### **Environmental and Labor Impact**

35. Operations shall meet adequate environmental and labor criteria, consistent with the Corporation's policies and guidelines. The Corporation's operations shall include adequate provisions for actions necessary to prevent, control and mitigate negative impacts on the environment, improve environmental quality, and for compliance with local labor laws and regulations and with the Corporation's standards, taking into account the goals set forth in Paragraph 22(b)(iii).

### **FINANCIAL INSTRUMENTS**

36. The Corporation may offer financial instruments, such as loans, equity and quasi-equity investments, guarantees, and capital market instruments. The Corporation will tailor these financial instruments to meet both the client's and the Corporation's objectives.
37. The Corporation may carry out its operations in any currency or combination of currencies. Consistent with Paragraph 105 (c), in making its operations, the Corporation will seek to maintain a neutral currency position through the mechanisms it deems appropriate, except in cases where it deems taking the foreign exchange risk to be acceptable.

#### **Loans**

38. Loans will be structured in accordance with the nature and requirements of each specific operation. The structure of the loan, such as amount, term, grace period, interest rates and fees, and security will take into account the requirements of the enterprise, the risks and costs to the Corporation, and the terms and conditions normally obtained by private investors for similar operations.
39. The Corporation will make loans with a maturity of up to 15 years, including a grace period of up to 5 years for repayment of principal. The maturities and the amortization schedule (including bullet payment structure) will be established based on the projected cash flow of the borrower on a case-by-case basis.
40. The Corporation may grant secured and/or unsecured loans, with or without subordination and/or collateral as it deems appropriate in order to fulfill its mission and protect its interests.

#### **Operations with Financial Intermediaries**

41. In its operations with Financial Intermediaries, the Corporation will aim to achieve one or more of the following:
  - (a) channel funds to smaller beneficiaries in a cost effective and expeditious manner by reaching a greater number of smaller enterprises and by achieving greater effectiveness and a faster impact on smaller enterprises;
  - (b) help establish, develop and strengthen financial institutions which will contribute to mobilize additional resources and provide better financial services;
  - (c) mobilize funds from other international sources;

- (d) provide technical advice and assistance to financial institutions and, when appropriate, to governments to strengthen their capabilities; and
  - (e) support the development of the economic sector and cluster lending activities consistent with the host government's goals.
42. To achieve its objectives, the Corporation will seek to establish operations with a variety of Financial Intermediaries. Operations with Financial Intermediaries include:
- (a) Credit lines;
  - (b) Colending or other types of agency lines;
  - (c) Guarantees;
  - (d) Subordinated and/or convertible debt;
  - (e) Equity; and
  - (f) Quasi-equity.
43. Financial Intermediaries with which the IIC will work shall be financially sound, meet appropriate standards of creditworthiness, and have sound management including appropriate anti-money laundering practices. In addition, the Financial Intermediary will have proven capabilities in corporate finance, project lending or investment. Should the Financial Intermediary lack any requisite capabilities, it will commit to develop these skills under a proposed IIC operation.
44. The Corporation will give priority to Financial Intermediaries which are wholly-owned by private investors.
45. The eligibility criteria of the subfinancing and the subborrowers will be established by IIC together with the Financial Intermediary, consistent with the criteria of additionality set forth in Paragraph 22. The Corporation will periodically receive relevant information on the subfinancing portfolio and will also schedule periodic supervision visits to the borrower to review in the field how the subfinancings are being processed and monitored.
46. All transactions with Financial Intermediaries shall include a list of excluded activities consistent with the Corporation's practices and policies. Such list will be disclosed on the IIC's website.

### **Equity**

47. Equity investments by the Corporation will provide financial capital for the establishment, expansion, or modernization of enterprises including Financial Intermediaries. The Corporation will also attempt to play a catalytic role by stimulating the flow of capital, national or foreign, into productive investment.
48. The Corporation will dispose of its equity investments when the investee enterprise has achieved its goals, provided the sale can be made under satisfactory terms and conditions.

Taking into account market conditions and expected developments, a put option will be negotiated at the time of making the original investment.

49. The Corporation will not be the largest shareholder in any specific enterprise.
50. The Corporation will seek to have its equity investments categorized as neutral by the host country to classify as foreign or national the ownership of the enterprise receiving the funds unless a specific operation or host country legislation warrants other treatments.

#### **Quasi-equity**

51. In order to provide additional funding and flexibility to clients, the Corporation will use quasi-equity instruments which combine features of equity and loans, which by their structure carry a higher risk and return than debt but a lower risk and return than equity. Application of the restriction set forth in Paragraph 49 shall include quasi-equity holdings.

#### **Guarantees**

52. The Corporation may grant direct or indirect guarantees to secure obligations of enterprises in regional developing member countries. IIC's guarantees will offer different coverage terms as required by market conditions and the needs of IIC's clients. Guarantees will be granted applying the same evaluation criteria as for loans.

### **PRICING**

53. The Corporation's financial priority is to preserve its capital base, increase its net worth with retained earnings, and to qualify for borrowing resources in the international capital markets.
54. In pricing its loans and guarantees the Corporation shall take into account the risk associated with each investment as well as prevailing market rates for investments with similar terms and conditions. Interest rate spreads and guarantee rates shall correlate to the risk rating of the investment.

#### **Fees and Charges**

55. The Corporation may charge its clients fees in an effort to cover the cost of making the operation. These fees are in addition to the interest rate associated with each loan, and are specifically associated with a particular aspect of the operation. [Redacted pursuant to Section IV.5 of the Disclosure of Information Policy]
56. From time to time, the Corporation may quote all its fees within the interest rate, depending on market conditions and local practices, or alter its fee structure to conform to evolving market practices.

#### **Interest and Guarantee Rates**

57. The Corporation will make variable and fixed rate loans. Consistent with Paragraph 37, loans will be priced at a margin with respect to the relevant reference rate for the

currency specified in the loan agreement. The margin will reflect both risk and competitive market conditions.

58. Guarantee rates will normally, but not exclusively, be equal to the interest rate margin associated with equivalent loans.

#### **Return on Equity**

59. The projected yield of an equity investment should in all cases exceed the lending rate so as to reflect the higher risk associated with equity. Yield will be in the form of dividends and capital appreciation. It will seek out opportunities that offer high up-side potential corresponding to the risks assumed in the investment.

#### **Return on Quasi-equity**

60. Quasi-equity commands higher returns than a loan, either through higher interest rates, profit sharing or equity warrants. This compensates the Corporation for its subordinate position to other lenders and the higher risks it assumes.

### **SPECIAL ACTIVITIES**

#### **Capital Markets**

61. The Corporation will participate in the development of capital markets of its regional developing member countries through:
- (a) the establishment, expansion, improvement and financing of development finance companies in the private sector and other institutions to assist the development for said sector, consistent with Paragraphs 29 and 30;
  - (b) the promotion of underwriting of shares and other securities issues and/or the undertaking of such underwriting, provided the appropriate conditions are met, either individually or jointly with other financial entities;
  - (c) the establishment of global bond programs and/or individual placement of bonds in the local capital markets;
  - (d) the establishment of country or regional funds formed with new capital or through debt conversion; and
  - (e) the administration of private, public and semi-public funds; for this purpose the Corporation may sign management and trustee contracts.

#### **Advisory Services**

62. The Corporation will render advisory services, including but not limited to:
- (a) Technical and financial advisory services, including project structuring and/or financial engineering, providing general management assistance and acting as financial agent of enterprises or governments; and

- (b) Promotional advisory services, including assistance for capital market development and foreign and domestic investment.

### **A/B Loan Cofinancing Operations**

- 63. The Corporation will structure and participate in “A/B loan” cofinancing operations involving the acquisition by foreign financial institutions of participations in Corporation’s loans in order to mobilize and diversify additional funds to a client and increase its access to the international or domestic capital markets. In such operations, the Corporation may have different terms and conditions but may not be subordinated to other lenders.
- 64. The Corporation will act as sole lender of record for the entire amount of the A/B loan. The Corporation may undertake to the borrower to make a proposed A/B loan either (a) on a “best efforts” basis whereby the Corporation will be responsible for funding only that portion of the loan which it intends to retain for its own account and will not be responsible for funding any portion of the loan for which it receives commitments from participants, or (b) fully underwritten by IIC whereby it fully funds the loan and assumes the risk of selling participations in the loan to other financial institutions.
- 65. In order for the Corporation to maintain adequate control over the operation, the Corporation will (a) maintain for its own account at least 15% of the total amount of the A/B loan and (b) be responsible for pursuing remedies on behalf of itself and the participants.
- 66. The Corporation will have no obligation to make payments to participants with respect to their participation in the loan, except as funds are actually collected by the Corporation from the borrower. Accordingly, the operation will not create a repayment liability of the Corporation to the participants. The Corporation will administer the loan on behalf of itself and the participants.
- 67. This section should not be interpreted so as to restrict the Corporation’s ability to undertake other types of cofinancing operations, such as colending and agency lines as set forth in Paragraph 42 and other risk transfer mechanisms.

### **Sale of portfolio risk**

- 68. The IIC may use a variety of instruments to sell participations or to sell the risk of its outstanding portfolio, such as by selling funded or unfunded participations. Unfunded participations may also take the form of guarantees and/or credit derivatives. Sale of portfolio risk shall be used to manage portfolio credit risk for the purpose of maintaining risk concentration at levels that are reasonable for the IIC.
- 69. When selling risk through unfunded participations, the IIC will preferably remain as the lender of record, and its obligations and responsibilities to the purchasers of said risks will be the same as those that the IIC assumes when it structures an A/B loan operation.
- 70. [Redacted pursuant to Section IV.5 of the Disclosure of Information Policy]

### **Underwriting of Securities**

71. The form of IIC participation in underwriting transactions will be customized to meet the particular needs of the issuer of the security and market constraints of an individual country.
72. The funds obtained by the final beneficiary through the issuance of securities generally shall be applied to investments of the same type that would be financed by the IIC.

### **Other Activities**

73. The Corporation shall carry out any other activities which are compatible with the Agreement, including but not limited to joint ventures and other forms of association, such as licensing arrangements, marketing or management contracts. Also, it may assist domestic financial institutions, international institutions and bilateral investment institutions.

## **PORTFOLIO MANAGEMENT**

### **Exposure Limits**

74. To reduce its portfolio risk, the Corporation will diversify its portfolio among countries, sectors, Economic Groups and clients.
75. Management shall develop and administer the Corporation's Portfolio so as to ensure compliance with the exposure limits set forth in this section at the end of each calendar year. Management shall verify that the limits set forth herein are observed in every operation presented to the Board of Executive Directors for approval. In case one or more limits would be exceeded by implementing a given operation, Management shall disclose this situation in the relevant report to the Board of Executive Directors. Should any exposure limits be exceeded at the end of the calendar year, Management shall within a forty-five (45) day period propose an action plan to bring the Portfolio into compliance as soon as possible.
76. Exposure to a particular country will not exceed 15% of the Corporation's Net Worth or Portfolio, whichever is higher.
77. In the case of direct exposure to enterprises other than Financial Intermediaries, IIC will adhere to the following limits:
  - (a) Per sector: 10% of the Corporation's Net Worth or Portfolio, whichever is higher;
  - (b) Per Economic Group: 6% of the Corporation's Net Worth or Portfolio, whichever is higher; and
  - (c) Per client: 5% of the Corporation's Net Worth or Portfolio, whichever is higher.
78. In the case of operations with Financial Intermediaries, IIC will adhere to the following exposure limits:
  - (a) Per sector:

- (i) aggregate exposure to Financial Intermediaries shall not exceed 75% of the Corporation's Net Worth or Portfolio, whichever is higher; and
    - (ii) aggregate exposure to Unregulated Financial Intermediaries shall not exceed 5% of the Corporation's Net Worth or Portfolio, whichever is higher.
  - (b) Per Economic Group:
    - (i) aggregate exposure to a Global Financial Group shall not exceed 12% of the Corporation's Net Worth or Portfolio, whichever is higher; and
    - (ii) aggregate exposure to a Regional Financial Group shall not exceed 8% of the Corporation's Net Worth or Portfolio, whichever is higher.
  - (c) Per client: aggregate exposure to a particular Financial Intermediary shall not exceed 5% of the Corporation's Portfolio or Net Worth, whichever is higher.
79. The Corporation's total equity and quasi-equity investments shall not exceed 40% of its own Net Worth with a maximum of 20% for the aggregate of investment funds.
80. The Corporation's equity and quasi-equity investment in each operation shall not exceed 2% of its Net Worth.
81. In the context of corporate operations with new enterprises, the Corporation will generally finance up to 33% of the total project costs.
82. In the context of general corporate lending activities for ongoing enterprises, including financing for working capital, trade finance, capital investments, expansion, and debt refinancing, among others, the Corporation will finance up to 100% of a company's net worth provided that the financing of a borrower's expanded assets does not exceed 33% of total assets as reported by the borrower at the end of previous fiscal year.
83. Consistent with Paragraph 49 above, the Corporation will normally not hold more than 33% of the share capital of any enterprise (including Financial Intermediaries).
84. IIC's exposure to a single Financial Intermediary shall not exceed 33% of the intermediary's liabilities.
85. In the case of Guarantees, the Corporation will apply the exposure limits for corporate or financial sector operations, depending on the nature of the guaranteed party.

#### **Credit Risk Rating System**

86. The Corporation will utilize a credit risk rating system to provide a uniform measure of credit exposure. The credit risk is taken into consideration in the project selection process and in the determination of pricing. The risk rating is to be updated on at least a semi-annual basis since it is used as a key element in monitoring the status of individual operations and the determination of appropriate loss provisions, as well as in determining the overall risk of the IIC's portfolio of committed investments.

### **Supervision**

87. The Corporation will carry out permanent and diligent supervision of its operations. The objective of supervision activities is to detect material facts and circumstances which may affect any operation, from the time it has been approved by the Board of Executive Directors so as to take timely corrective actions and to keep the Board of Executive Directors informed. The Corporation will require interim statements from the borrower and/or the investee company, as well as annual audited financial statements. It will also monitor collections of interest, principal, dividend and other income. When appropriate to supervise closely, the Corporation may carry out field visits and may be represented in the board of those companies in which it has made equity investments.

### **Loss Provision on Loan Investments**

88. The allowance for losses shall be maintained at a level that, in Management's judgment, is adequate to absorb estimated losses in the loan Portfolio. Management shall base its judgment on the risk ratings and performance of individual loan investments, economic conditions, and other factors considered significant by Management. The allowance for losses on loan investments shall reflect estimates of both probable losses already identified and probable losses inherent in the Portfolio but not specifically identifiable.
89. The determination of identified probable losses (specific provision) shall represent Management's best judgment of the creditworthiness of the borrower and shall be based upon the periodic review of individual loan investments. This estimate shall consider all available evidence, including, as appropriate, the present value of expected future cash flows discounted at the loan's contractual effective rate, the fair value of collateral less enforcement costs, and other observable market data. Secondary market value can also be used in this estimate. However, it is recognized that due to the Corporation's target market, this data is not always available.
90. The allowance for losses attributed to the remainder of the loan Portfolio (general provision) shall be established via a process that estimates the probable loss inherent to the Portfolio based on various analyses. Those analyses shall be based on the clients' financial statements, past experience, and available market information and shall include country risk, the risk of correlation or contagion of losses between markets and nonperformance under sponsor guarantees and support agreements.

### **Equity Investments**

91. Equity investments, which include direct equity investments and investments in limited liability partnerships ("LLPs") or similar vehicles, shall be initially recorded at cost, which generally is the fair value of the consideration given.
92. The Corporation's equity investments in companies in which it does not have significant influence shall be carried at cost less impairment.
93. The Corporation's equity investments in companies in which it has significant influence shall be accounted for at fair value or under the equity method, depending upon the circumstances. Equity methods or fair value accounting shall also be applied to equity investments in LLPs in which the Corporation's interest is considered more than minor.

94. Equity investments shall be assessed for impairment at least once a year on the basis of the latest financial information and any supporting documents available. These analyses are subjective and shall be based on relevant financial data, among other information. When impairment is identified and deemed to be other than temporary, the equity investment shall be written down to the impaired value, which shall become the new cost basis for the equity investment. Impairment losses shall not be reversed for subsequent recoveries in the value of the equity investment until it is sold.

#### **Arrears and Non-Accrual**

95. The Corporation shall automatically place a loan in non-accrual status when payment of principal, interest and/or fees under the loan is past due under the relevant contract and any amendments for 90 consecutive days. Notwithstanding, when Management determines that the collectability of future payments has been jeopardized, the Corporation may place a loan in non-accrual status even if there are no amounts overdue.

#### **Write-Off of a Loan**

96. A loan shall generally be written off when (i) it is fully impaired; (ii) the borrower has stopped paying; or (iii) the IIC has initiated legal proceedings to obtain repayment. The potential write-off of an asset shall be considered on a case-by-case basis. The timing of successful legal proceedings shall also be a key element for writing off a loan. If Management determines that loan collection resulting from successful legal actions will take more than 2 years, the loan will most likely be written off. Payments received after a loan is written off shall be accounted for as a recovery.

#### **Protection of Interests**

97. The Corporation will take all necessary actions to protect its interests in the event of potential or actual default, insolvency, or any such circumstances in which its operation is in jeopardy. [Redacted pursuant to Section IV.5 of the Disclosure of Information Policy]
98. The Corporation may agree with the host country authorities on the application of special exchange regulations whereby both the local client and the Corporation are protected from restrictive exchange regulations.
99. [Redacted pursuant to Section IV.5 of the Disclosure of Information Policy]

#### **Management**

100. The Corporation will not assume managerial responsibilities in any enterprise in which it has invested and will not exercise its voting rights for such purpose or for any other purpose which, in its opinion, is within the scope of managerial control. The Corporation and its representatives may promote compliance with the best practices of corporate governance and express their business judgment, provided this is done in a manner consistent with the corporate governance function of the body in which voting rights are held.

### **FINANCIAL MANAGEMENT**

#### **Approval Capacity**

101. Management shall not submit to the Board of Executive Directors project approvals, if, as a result, total approvals, net of droppages, cancellations, repayments of loans granted by the Corporation and sales of loans or equity investments, would exceed the approval capacity. The Corporation's approval capacity shall be defined as the total subscribed capital and retained earnings plus borrowing capacity.
102. If the cumulative net approvals (net of droppages, cancellations, loan repayments and sale of loans or equity) were to exceed the total of the Corporation's paid-in capital plus retained earnings and committed borrowings by the Corporation due to the approval of a new operation, Management will inform the Board of Directors of this situation when the new operation is presented to the Board for consideration.

#### **Borrowing Capacity and other Funding**

103. The Corporation may borrow funds and seek other sources of funding to meet its financial and operational needs. The sources of funding would include the Bank, financial intermediaries, private and public placements of securities, securitizations, commercial paper and other credit securities. The total amount outstanding on borrowing incurred or guarantees given by the Corporation, regardless of source, shall not exceed an amount equal to three times the sum of its subscribed capital, earned surplus and reserves. Management will seek authorization from the Board on an annual basis as to the amount and sources of funding to be used by the Corporation to meet its financial and operational needs during the following year. The report accompanying such authorization request will contain information concerning the Corporation's leverage position.

#### **Commitment Limits**

104. The Corporation will limit:
  - (a) the total amount of its disbursed and outstanding operations and undisbursed commitments so the same do not exceed the total of its capital and reserves plus its borrowing capacity; and
  - (b) any new operations commitment to the availability of funds to cover such commitment. Funds available shall include liquid assets and undisbursed borrowings taken up by the Corporation.

### **Structure of Assets and Liabilities**

105. The Corporation shall match the structure of its assets and liabilities so as to avoid risks that cannot be passed on to the borrower. The Corporation will fund itself on basically the same terms and conditions on which it makes loans. To attain this goal, the Corporation will attempt to match:
- (a) the amount of borrowing and lending in variable and fixed interest rates, respectively;
  - (b) the maturities of assets and liabilities so that the weighted average life of its assets never exceeds the weighted average life of its liabilities; and
  - (c) the currency denomination of its borrowing and lending operations.

### **Liquidity**

106. The Corporation will always hold liquid assets which cover 100% of the Corporation's undisbursed commitments. For the purpose of meeting liquidity requirements, liquid assets will also include the unused portion of committed credit lines from institutions rated AA- or better.

### **Investment of Liquid Assets**

107. The Corporation's liquid assets will be invested in instruments combining three criteria in the following order of priority: safety, liquidity and yield. These criteria will be observed by investing in securities of top credit rating, issued or guaranteed by member governments, institutions, or commercial banks of excellent credit rating and which have a very active secondary market and in liquidity funds. The yield of these instruments will be maximized through the adequate combination of sources of income and maturities. The portfolio duration shall not exceed four years.

## GLOSSARY

Controlling Entity:	An entity that has a direct interest exceeding twenty-five percent (25%) of the share capital of one or more subsidiaries and has the right to appoint and remove a majority of its directors or exercise management control of said subsidiaries.
Economic Group:	Collectively any group of two or more individuals or legal entities that are interrelated on account of any such individuals or legal entities (i) having a direct or indirect interest exceeding fifty percent (50%) of the share capital of one or more other such entities; and/or (ii) having the majority voting control on any such entity.
Financial Group:	A group of entities whose primary business is financial and whose regulated entities engage to a significant extent in banking and in at least one of the activities of insurance and/or securities.
Financial Intermediary:	Institutions involved in the intermediation of funds or capital, utilizing various financial instruments and mechanisms. Such institutions can be involved in the intermediation of:  (a) short/medium-term funds and instruments (such as commercial banks);  (b) medium/long-term funds (such as development finance companies and investment banks);  (c) specialized instruments and operations (such as leasing, securities, factoring, mortgage finance, financing of microenterprises); and  (d) risk capital (such as venture capital companies and investment funds).
Global Financial Group:	A Financial Group whose Controlling Entity is incorporated and domiciled in a country that (i) has an international credit rating of AA or higher and (ii) is a member of the OECD (Organization for Economic Cooperation and Development).
Net Active Approvals:	As of a specific date, the Corporation's total approvals net of droppages, cancellations, loan prepayments and sale of loans and equity.
Net Worth:	The amount by which assets exceeds liabilities at the end of the previous month.
Operation Report:	A report submitted to the Board of Executive Directors per Paragraph 18.

Portfolio:	The Corporation's Net Active Approvals at the end of the previous month.
Regional Financial Group:	A Financial Group whose Controlling Entity is incorporated and domiciled in a regional developing member country.
Unregulated Financial Intermediaries:	Financial Intermediaries that are not subject to specific banking regulation and supervision from the governmental banking authority.