OPERATING POLICY
INTER-AMERICAN INVESTMENT CORPORATION

ORIGINAL LANGUAGE: ENGLISH

PUBLIC VERSION

OPERATING POLICY
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ACRONYMS AND ABBREVIATIONS

IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IIC	Inter-American Investment Corporation
NSG	Non-Sovereign Guarantee
PBA	Priority Business Area

PURPOSE OF THIS POLICY

1. The purpose of this Operating Policy is to set out the provisions under which the Inter-American Investment Corporation (the "Corporation" or "IIC") shall carry out non-sovereign guaranteed operations and activities, as contemplated under the Agreement Establishing the Inter-American Investment Corporation (the "Agreement") and Resolution AG-9/15 and CII/AG-2/15 (the "Busan Resolution"). The Corporation will promote, target and strategically select operations with private enterprises and partially and wholly-owned state enterprises, excluding operations with sub-sovereign governments, aligned with the following five priority business areas ("PBAs"):

   (a) Increase access of micro, small and medium enterprises ("MSME") to finance and technical assistance,

   (b) Promote infrastructure for development,

   (c) Support innovation and technical development,

   (d) Enhance private provision of basic goods and services; and

   (e) Foster green growth.

   Periodic business plans will implement these PBAs in line with the Agreement and the Busan Resolution.

OPERATING PRINCIPLES

2. The Corporation will align its activities to the IDBG's strategic goals through its business plan and strategic programing, and will seek close cooperation with the IDBG on development through the private sector to enhance the effectiveness of the interventions supported by the IDBG in regional developing member countries.

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 social and economic development, provided the Corporation's participation in such activities is consistent with its purpose set forth in the Agreement and the Busan Resolution.

4. Management shall establish appropriate guidelines and procedures in order to facilitate efficient transaction processing and administration of institutional affairs.

5. 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 may finance the transfer of equity investments between private investors 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 IDBG country strategy, Institutional 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 with a view to maximizing the Corporation's additionality for the operation. 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 Social Sustainability Policy and any other environmental and social policies; that a market exists for the client's products or services; and that the investment cost is reasonable and the financing plan adequate.

8. [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy] Each operation will be assessed on its merits concerning its 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 financial resources 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 market prices. For operations jointly financed by IIC and IDB, goods and services may originate from any member country of the IIC or IDB. The Corporation 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 with partners, including 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.

<u>Approvals</u>

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, the Busan Resolution and other applicable regulations.

18. At least 30 calendar days prior to the expected date of consideration of an operation by the Board of Executive Directors, Management shall send a letter to the host government requesting its "no-objection", to which a project brief with the basic terms of the proposed operation (the "Project Brief") will be attached. [Redacted pursuant to Section IV c) of the IDB Invest Access to Information Policy].

19. [Redacted pursuant to Sections IV b) and c) of the IDB Invest Access to Information Policy].

20. The Executive Committee shall decide each case in accordance with the Agreement, the Busan Resolution 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.

21. Management shall implement operations in accordance with approved resolutions, in a manner consistent with the corresponding Operation Reports. Management's discretion in implementing an operation shall include the following actions which shall not require Board approval: (a) any increase in tenor of the Corporation's exposure (or the exposure of funds administered by the Corporation) of up to two years; and (b) any debt restructuring and settlement where the Corporation would contractually agree to a debt forgiveness not greater than the lesser of (i) US$10 million and (ii) 10% of the Corporation's outstanding exposure (including any funds administered by the Corporation), when deemed appropriate.

22. The Board of Executive Directors hereby delegates to the General Manager of the Corporation the authority to approve and directly execute all operations that fulfill the following conditions (the "Delegated Authority"):

    (a) Type of Operations: all types of operations carried out by the Corporation, except for operations classified as Category A under the Environmental and Social Sustainability Policy (CII/GP-16-7), as amended from time to time.

(b) [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy].

(c) Total Annual Approvals under Delegated Authority: in accordance with the targets set forth in the business plans of the Corporation from year to year.

(d) No-objection Process for Operations Processed pursuant to the Delegated Authority: at the time of execution of the corresponding mandate letter, Management shall send a letter to the host government requesting its no-objection, together with a Project Brief. [Redacted pursuant to Section IV c) of the IDB Invest Access to Information Policy].

(e) Policy compliance: all operations approved under the Delegated Authority must comply with all provisions of this Policy.

Management shall present to the Board of Executive Directors timely quarterly reports on the performance of the operations approved pursuant to the Delegated Authority.

ELIGIBILITY CRITERIA

Development Impact and Additionality

23. All operations in which the Corporation participates must provide development impact and additionality.

(a) Developmental impact will be measured according to the achievement of the following criteria:

(i) Contribution to company/business financial performance and sustainability;
(ii) Contribution to social and economic development;

(b) Both financial and developmental additionality are at the core of the Corporation's mandate and strategic orientation. Each operation will meet at least some of the following additionality criteria:

(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 enterprise. Adequacy relates to loan tenor, amount, pricing, and grace period;

(ii) Added value. The Corporation will add value by assisting clients in the design and execution of cost-effective and/or innovative transactions;

(iii) Improve environmental, 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 where areas for improvement have been identified;

(iv) Improved corporate governance and operational capabilities. The Corporation will contribute to improved client or executing agency capabilities including corporate governance and operational improvements.

(v) Resource Mobilization. The Corporation will seek operations where it participates in mobilizing funds and attracting other investors and/or lenders.

(vi) Improved regulatory/framework/country context. The Corporation will contribute to lasting and verifiable improvements in the legal and regulatory framework or the country context, from which other private sector participants are expected to benefit.

Financial Viability

24. 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, leverage, debt service coverage, and profitability.

Countries

25. 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.

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 country where the ultimate beneficiary of the financing is located. 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, as long as the operation will provide social and economic benefit for the host country, is compatible with the priorities of its government and is consistent with the Corporation’s policies and guidelines**.**

Enterprises

28. The Corporation may provide financing to entities organized in a member or non-member country, regardless of the degree of private or public sector ownership, that do not benefit from a full sovereign guarantee for repayment of the Corporation´s financing as long as the ultimate

beneficiary of the financing is an enterprise located in a regional developing member country. Sub-sovereign governments shall not be eligible for financing. Borrowers shall be classified as small and medium size enterprises if they meet the criteria set forth in Annex I.

29. 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 23(b)(iv).

Environmental and Social Impact

30. Operations shall meet adequate environmental and social sustainability 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 23(b)(iii).

Integrity and Use of Foreign Entities

31. The Corporation´s operations shall be subject to integrity due diligence in order to ensure appropriate determination, review, mitigation and disclosure of integrity-related risks via the institution's governance.

32. In addition, the Corporation´s operations shall be subject to due diligence in order to determine, review, mitigate and disclose risks posed by the use of foreign entities in their ownership structures.

33. These due diligence activities shall be conducted and related measures implemented, as applicable, according to appropriate guidelines and procedures adopted by the Corporation.

FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES

34. The Corporation may offer financial products, such as loans, equity and quasi-equity investments, guarantees, and capital market instruments, or other transaction structures. The Corporation will tailor these products to meet both the client's and the Corporation's objectives.

35. The Corporation may carry out its operations in any currency or combination of currencies.

Lending Products

36. Financing, including loans and guarantees, will be structured in accordance with the nature and requirements of each specific operation. The structure of the financing, 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.

37. 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.

38. The Corporation may grant secured and/or unsecured financing, 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

39. In its operations with Financial Intermediaries, the Corporation will aim to achieve one or more of the following:

(a) channel funds to strengthen the PBAs in a cost effective and expeditious manner by reaching a greater number of enterprises and by achieving greater effectiveness and a faster impact on enterprises including downscaling credit and/or supporting underserved markets;

(b) help establish, develop and strengthen Financial Intermediaries 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 Intermediaries and, when appropriate, to governments to strengthen their capabilities; and

(e) support the development of the regulatory environment, the economic sector, and/or cluster lending activities consistent with the host government's goals.

40. 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, or in any other activities related to its business. Should the Financial Intermediary lack any requisite capabilities, it will commit to develop these skills under a proposed IIC operation.

41. 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 23. 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.

42. 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

43. Equity investments by the Corporation will provide financial capital for the establishment, expansion, or modernization of enterprises including Financial Intermediaries, through direct ownership of equity instruments of investees, as a limited partner in LLPs and LLCs, and/or as an investor in investment funds and/or other vehicles. The Corporation will also attempt to play a catalytic role by stimulating the flow of capital, national or foreign, into productive investment.

44. 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, an exit strategy will be identified at the time of making the original investment.

45. 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.

46. 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.

Quasi-equity

47. 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 47 shall include quasi-equity holdings.

Guarantees

48. The Corporation may grant direct or indirect guarantees to secure obligations of enterprises eligible to receive IIC financing 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 Lending Products.

Capital Markets

49. 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 and other institutions to assist the development for the private sector, consistent with Paragraph 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.

Mobilization

50. Mobilization shall include A/B loan structures and any other type of cofinancing with funds, equity vehicles, guarantee instruments, agency lines and other risk transfer mechanisms with Financial Intermediaries, impact investors, institutional investors and or sovereign wealth funds.

51. The Corporation will structure and participate in "A/B loan" operations involving the acquisition by foreign Financial Intermediaries 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.

52. 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 committed by IIC whereby it fully funds the loan and assumes the risk of selling participations in the loan to other Financial Intermediaries.

53. In order for the Corporation to maintain adequate control over the operation, the Corporation will (a) maintain for its own account at least 10% of the total amount of the A/B loan and (b) be responsible for pursuing remedies on behalf of itself and the participants.

54. 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.

Underwriting of Securities

55. 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.

56. The funds obtained by the final beneficiary through the issuance of securities generally shall be applied to operations of the same type that would be financed by the IIC.

Non-financial Products and Services

57. The Corporation will render non-financial products and services, including but not limited to:

    (a) Technical and financial advisory services, including project structuring and/or financial engineering, public-private partnerships advisory services, providing general management assistance and acting as financial agent of enterprises or governments;

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

    (c) Technical assistance, training, and knowledge products to deliver value-added services to its existing and potential private sector clients in order to enhance sustainability in areas such as energy efficiency and eco-systems, shared value creation and gender inclusion, among others, as well as to improve their competitiveness, governance, environmental and social aspects and access to financing.

58. The Corporation may seek to involve strategic partnerships with public and private sector donors and partners to leverage its own financial and non-financial resources and expertise.

<u>Other Activities</u>

59. The Corporation shall carry out any other activities which are compatible with the Agreement and the Busan Resolution, 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 Intermediaries, international institutions and bilateral investment institutions.

PRICING

60. 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.

61. 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.

<u>Fees and Charges</u>

62. The Corporation may charge its clients fees in an effort to cover the cost of processing the operation. These fees are in addition to the interest rate associated with each operation, and are specifically associated with a particular aspect of the operation:

[Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy]

63. 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.

<u>Interest and Guarantee Rates</u>

64. 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.

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

<u>Return on Equity Operations</u>

66. 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 Operations

67. 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.

PORTFOLIO MANAGEMENT

Exposure Limits

68. Management shall develop and administer the Corporation's portfolio so as to ensure compliance with the exposure limits set forth in the Risk Appetite Policy at the end of each calendar year. Management shall verify that the limits set forth therein are observed in every operation presented to the Board of Executive Directors for approval. [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy]

Credit Risk Rating System

69. 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 for all operations is to be updated at least annually 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

70. 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. When appropriate, 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 covenant compliance, 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.

Sale of Portfolio Risk

71. The IIC may use a variety of instruments to sell participations, cover, insure or to sell the risk of its outstanding portfolio, such as by insuring or selling funded or unfunded participations. Unfunded participations may also take the form of guarantees and/or credit derivatives.

72. When selling, insuring or covering 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.

73. The amounts of risk in operations that have been sold, insured or covered through unfunded participations will not be included when calculating risk exposure limits. [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy].

Loss Provision on Loan Investments

74. The allowance for losses shall be maintained at a level that, in Management's judgment, is adequate to absorb estimated probable 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. [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy]

Equity Investments

75. The Corporation shall evaluate its equity investments to determine whether it holds a controlling financial interest or holds significant influence over these entities.

76. The Corporation shall record its equity investments in accordance with applicable accounting guidance and industry standards.

<u>Arrears and Non-Accrual</u>

77. [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy].

<u>Write-Off of a Loan</u>

78. A write-off is defined as a direct reduction in the amortized cost of a loan resulting from uncollectibility. A loan is considered uncollectible if the Corporation has no reasonable expectation of recovery. Therefore, partial or full loan write-offs are recorded when a loss has been realized through either a legal agreement or final bankruptcy settlement or when Management has determined with a reasonable degree of certainty that the relevant amount will not be collected. Payments received after a loan is written off shall be accounted for as a recovery.

<u>Protection of Interests</u>

79. 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 b) of the IDB Invest Access to Information Policy]

80. 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.

81. [Redacted pursuant to Section IV b) of the IDB Invest Access to Information Policy].

FINANCIAL MANAGEMENT

<u>Approval Capacity</u>

82. 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, earned surplus and reserves plus borrowing capacity.

83. 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, earned surplus and reserves plus 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.

<u>Borrowing Capacity and other Funding</u>

84. The Corporation may borrow funds and seek other sources of funding to meet its financial and operational needs, in accordance with the borrowing capacity defined in the Agreement. The sources of funding would include the Bank, Financial Intermediaries, private and public placements of securities, securitizations, commercial paper and other credit securities. 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.

GLOSSARY

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 multilateral and development finance institutions 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).

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 19.

ANNEX I – Micro, Small and Medium Size Enterprise Criteria

Corporate operations with small and medium sized enterprises are 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 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 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

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 Countries	$10,000	$250,000	$1,000,000
C and D Countries	$10,000	$150,000	$500,000