

# DARP—DISTRESSED ASSET RECOVERY PROGRAM



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## THE DARP GLOBAL PLATFORM ENABLES IFC TO HAVE A DEVELOPMENT IMPACT AND MAKE AN ATTRACTIVE RETURN



- IFC established DARP in 2009 to scale up IFC's existing NPL investment program, creating a programmatic and strategic response to distressed assets ("DA") resolution in EMs
- DARP focuses on (i) acquisition and resolution of NPLs, (ii) refinancing and roll-over risk of viable emerging market entities, and (iii) restructurings of SMEs
- DARP is targeted to (i) be a solution for banks to improve their risk indicators; and (ii) to normalize the obligations of individuals and SMEs, allowing them to keep their assets and to re-enter the banking system
- DARP follows a servicer - partner approach, and thus DARP is building a global network of servicers that allows IFC to play an active role in the DA market

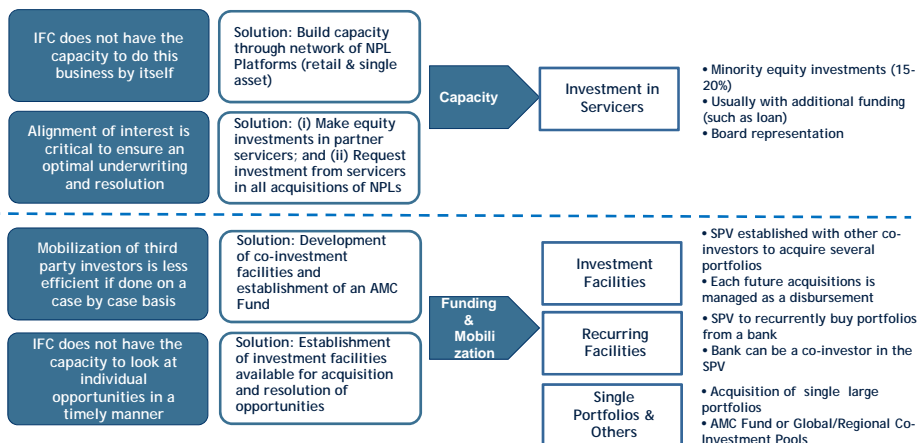


- DARP evolved from a crisis response initiative to a consolidated CGF mainstream business product in 2012
- DARP has committed US\$1.1 million with an average IRR of approximately 18-20%
- DARP has mobilized US\$3.2 billion dollars both from private sector investors as well as other DFIs
- DARP is proving to have a significant developmental impact allowing banks to off-load more than US\$30 billion in NPLs and helping almost 6 million individuals and SMEs to normalize their obligations



## DARP Strategy - Building on Lessons Learned

DARP strategy has been defined and evolved based on the lessons learned in past transactions, migrating from the first DARP projects with simple, low risk and low return structures, to acquire NPL pools, to a network of global servicers and more balanced risk-reward relation investment structures



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## DARP - Capacity

The global network of servicers allows IFC to play an active role in the DA market, while at the same time develops the much needed infrastructure for acquisition and resolution of DA in Emerging Markets



1. Capacity: Provides IFC with capacity to:
  - a) Source new investment opportunities and secure a steady deal-flow going forward
  - b) Value and price potential distressed assets to be acquired
  - c) Service/work-out acquired distressed assets
  - d) Compare performance among the servicers, creating "internal" competition and translating best practices
2. Alignment: Align interests between IFC and the servicers to maximize recoveries and return on investment
3. Collection Standards: Ensure the use of best/standard collection practices within the network of servicers
4. Institutional knowledge: Builds institution knowledge within IFC on the valuation and servicing/workout of DA

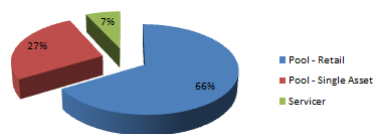
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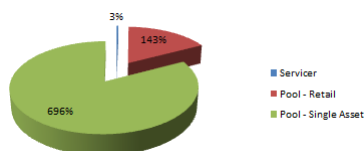
## DARP – Funding and Mobilization

DARP has invested a total in excess of US\$4 billion in distressed assets in emerging markets, with US\$1.1 billion from its own account and US\$3.2 billion mobilized from investors

Commitments by Asset Type



Mobilization By Asset Type




Characteristics of DARP Facilities

1. The main avenue for DARP to acquire and resolve DA pools (retail, SME and corporates) is through investment facilities in partnership with other investors and strategic servicers and workout companies
2. Facilities allow IFC to rapidly respond to DA opportunities with one single internal process, and to secure mobilization of funding from other investors
3. DARP funding focused more on equity and quasi-equity investments in order to match the risk profile of the underlying assets as well as to capture the upside of these investments (i.e. no standalone senior loan)
4. IFC retains the decision making power on whether to invest in the acquisition of NPL pools
5. DARP vehicles structured to avoid consolidation. Different structures allow for funding of up 90% without having to consolidate.

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**DARP HAS PROVEN TO DELIVER NOT ONLY SOLID FINANCIAL RETURNS, BUT ALSO STRONG DEVELOPMENTAL IMPACT**

	<b>UPB</b>	<b>US\$ 30 billion</b>	<i>Intermediaries offload their NPLs, improve their liquidity and allows them to originate new loans</i>
	<b># Borrowers</b>	<b>6 million individuals and SMEs</b>	<i>A large number of individuals and SMEs are able to avoid losing their assets and ultimately to re-enter the banking system</i>
	<b>Collections vs. Purchase</b>	<b>112%</b>	<i>Collections to date have already recovered the amount paid for the acquisition, and therefore a significant return is expected</i>
	<b>Real vs. Expected</b>	<b>94%</b>	<i>Actual collections are very close to the original expectations, showing the accuracy on pricing</i>
	<b>IRR</b>	<b>18-20%</b>	<i>DARP investments to date are showing a solid return, with an expected IRR of 18-20% at the asset level</i>

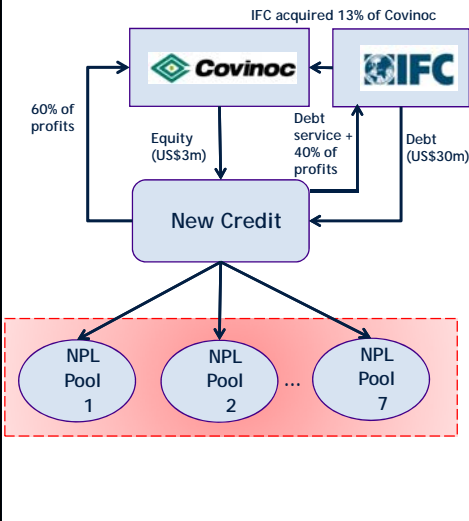


**I. DARP Overview**

**II. How we Invest: Example Transactions**



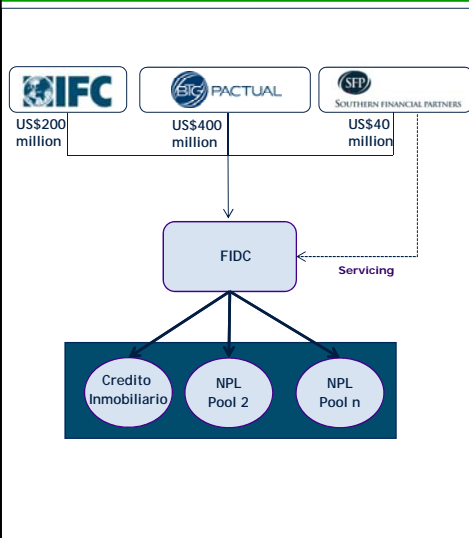
## DARP COVINOC - SERVICERS



1. In 2009 IFC acquired 13% of Covinoc, a specialized NPL servicer in Colombia, with the objective of establishing a NPL platform in the Andes Region.
2. Covinoc is the sole shareholder of NC with a capital injection equivalent to 10% of the total invested capital. At the same time, NC has no other assets than the NPL portfolios acquired with IFC's loan and the proceeds of its recovery.
3. NC acquires, holds and liquidates NPL pools funded with IFC's loan and NPL recoveries.
4. NC entered into a servicing agreement with Covinoc for the purposes of administering and collecting the portfolios to be acquired. NC pays Covinoc the operating expenses involved in servicing the assets.
5. Once the IFC loan is fully paid, the profits derived from the pools acquired, are shared between IFC (40%) and Covinoc (60%).
6. The project structure provides a balanced risk -reward mechanism and appropriately aligns Covinoc and IFC's interest.
7. To date, NC which is comprised of New Credit I (\*) and New Credit II, has acquired 16 NPL pools (7 in Colombia and 9 in Peru) comprising 420,546 NPLs with a total par value of US\$520 million equivalent.



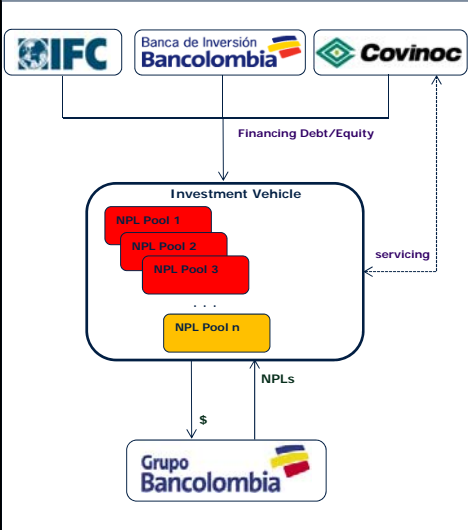
## DARP SFP - Investment Facilities



1. An SPV (a FIDC in this case) was established to purchase and hold pools of NPLs.
2. IFC, BTG Pactual and SFP were the sole shareholders of the SPV with a capital injection of US\$100 million, US\$200 million and US\$130 million, respectively.
3. The SPV was prevented from acquiring any debt, so effectively, there is no subordination.
4. BTG Pactual and SFP can only acquire NPLs through this SPV, in order to avoid cherry-picking.
5. The SPV entered into a servicing agreement with SFP for the purposes of administering and collecting the portfolios to be acquired. The SPV pays to SFP a servicing fee to cover expenses involved in servicing the assets.
6. Each acquisition of NPLs needs to be approved by IFC, following a standardized methodology.



## DARP Bancolombia - Recurring Facilities



1. In 2010 IFC entered into a recurring purchase NPL program with Bancolombia (Colombia).
2. Bancolombia's main objective was to find a solution that would allow it to (i) offload its NPLs without incurring in high costs associated to auctions; (ii) ensure best collection practices are used in a consistent manner to avoid reputational risks; (iii) access to the portfolios upside; and (iv) retain client base.
3. An investment vehicle was created to acquire and hold the NPL portfolios. Each acquisition is financed through a combination of debt/sub-debt/equity contributed by IFC, Banca de Inversion Bancolombia (investment arm of the Bancolombia group) and Covinoc (servicer).
4. Through its participation on the investment vehicle, Bancolombia captures the upside from recoveries.
5. Covinoc services and administers the investment vehicle.
6. To date, more than 300k loans have been acquired from Bancolombia, including, retail, mortgage, and SME obligations, and a face value of US\$560m.
7. Pricing is agreed bilaterally with the bank following a predetermined methodology known to all parties.
8. Acquisition time, including the bank's preparation of the portfolio is only 1.5 months.



**Thank you**

Josep M. Julià

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