

APPENDIX 4

Risk Classification of Projects in PRI Portfolio as of December 31, 2001

Semi-Annual Review: This is the process conducted by PRI every six months to review each project in the private sector portfolio. This process involves the production of Semi-Annual Review Reports and their discussion within PRI with LEG, ROS and AUG participation. In meetings with investment officers, loan administration officers and the PRI Credit Risk Unit, PRI management discusses financial and environmental and social covenant compliance, payment status, operational performance, sponsor's support, creditworthiness and future prospects. PRI then assigns one of the four risk categories to each loan and guarantee (category definitions are below) based on an assessment of both current performance and future prospects. Allowing time for the production of financial statements dated as of December 31 and June 30 and the completion of Semi-Annual Review Reports and their discussion, the risk classification takes place every six months in mid-May and mid-November.

Definitions of Risk Categories:

- **Excellent:** Borrower fully complies with all credit related loan covenants. Based upon current operations and future prospects, the risk of loss is extremely low. Projects in this category would compare favorably to those, which have received 'investment grade' ratings from Moody's, S&P or equivalent rating agencies. This category would roughly compare to the higher end of the "Satisfactory A" rating category utilized by the Inter-American Investment Corporation (IIC).
- **Satisfactory:** Borrower complies with all material credit related loan covenants. Based upon current operations and future prospects, the risk of loss is low. This category would roughly compare to the "Satisfactory B" rating category utilized by the IIC.
- **Watch list:** Borrower is expected to remain current on its payment obligations in the near term. However, problems in current operations or negative trends exist which, if not remedied, could lead to a future payment default. Borrower either is in violation of, or is at risk of violation of, one or more material credit related loan covenants. Project will be monitored more closely by PRI. This category would roughly compare to the "Mentioned" category utilized by the IIC.
- **Impaired:** An impaired loan is one which has been determined to be incapable of paying either all of part of its principal or interest payments as originally scheduled. An impaired guarantee is one in which a call on the guarantee has been made or is expected to be made in the future. All impaired loans and guarantees will be further placed in at least one of three other categories depending upon treatment given by PRI Management and the Bank's Private Sector Non-Accrual Review Committee. Project could either be placed on Non-Accrual, Specific Loss Provision and/or Write-Off status. This category would roughly compare to the three highest risk categories utilized by IIC ("Substandard," "Doubtful," and "Loss").