

**Credit Opinion: International Finance Corporation**

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**Ratings**

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aaa
Senior Unsecured	Aaa
Other Short Term	P-1

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**Key Indicators**

**International Finance Corporation[1]**

	2001	2002	2003	2004	2005	2006	2007
Assets (US\$ Mil.)	23,386	24,727	26,756	26,940	28,723	28,487	34,491
Equity (US\$ Mil.)	6,095	6,304	6,789	7,782	9,798	11,076	14,130
Brwgs+Gts./Subscr Cap+Acc Earn (X)	2.55	2.67	2.60	2.13	1.60	1.40	1.22
Loss Res/Loans (%)	16.68	21.88	18.22	14.02	9.91	8.30	6.53
Return on Average Assets (%) [2]	1.42	0.84	1.77	3.50	6.95	4.33	8.68
Return on Average Equity (%) [2]	4.79	2.77	5.89	11.27	20.22	11.23	20.84
Interest Coverage Ratio (X)	1.36	1.49	3.15	8.04	7.52	3.12	4.50

[1] Data for fiscal years which end June 30. [2] Using net income.

**Opinion**

**Credit Strengths**

Credit strengths of the IFC are:

- Strong shareholder support
- Solid asset quality, reinforced by preferred creditor status
- Robust capital base
- Very high liquidity

**Credit Challenges**

Credit challenges for the IFC are:

- Potential emerging market debt problems, as exemplified by the Argentine crisis. If generalized, this could seriously affect asset quality.

**Rating Rationale**

Moody's Aaa rating of the International Finance Corporation (IFC), a part of the World Bank Group, is based on its strong member support, preferred creditor status, and prudent capital adequacy and liquidity. These factors should continue to support the rating despite periods of financial and economic turmoil that sometimes affect the countries to which the IFC is exposed, leading to substantial increases in non-performing loans. The NPL ratio has come down from a high of over 16% in FY2003 to 2.9% in FY2007. This shift demonstrates not only the improvement of the global economic situation, but also the success of the IFC's measures to improve its portfolio.

The IFC is a profitable supranational agency organized as a joint stock company with sovereign owners, primarily serving private sector companies but guided by a mission to encourage private investment in support of economic development. The basic business - lending to and investing in private companies in developing country economies - is highly risky, but the risk is mitigated by strong capital and reserves as well as by the preferential treatment accorded from shareholder governments. Transfer risk, for example, is minimized by host government policies granting the IFC and its clients special access to foreign exchange.

Because the IFC's mission is very different from that of multilateral lenders that lend to governments, it is structured differently. For example, the organization does not have "callable capital," which is a factor in Moody's rating of the World Bank, for example. Thus, the IFC's rating is based more on the Corporation's ability to withstand a fairly high level of non-performing loans in its portfolio, something which does not occur in other multilateral lenders.

In addition, the IFC's rating depends on Moody's evaluation of the organization's risk management capabilities, since it takes considerably more risk than other multilaterals. The record of the organization to date has been good, with the level of write-offs being very low.

The ability of the IFC to manage payment difficulties in borrowing countries has been illustrated in several countries, including Argentina. While a number of its borrowers were severely affected by the economic situation in the country and could not continue to service their debts, the IFC still had a higher proportion of its borrowers that continued to make payments than did most other foreign lenders. The Argentine government specifically allowed IFC-client companies in the country access to foreign exchange that was not allowed to other companies.

The IFC is conservatively leveraged, with a 1.2:1 ratio of outstanding borrowings and guarantees to capital according to Moody's calculation. The IFC has a leverage policy ceiling of 4.0:1; the ratio is calculated with outstanding debt (including derivatives and other liabilities as well as borrowings) and commitments to capital. In recent years, actual leverage has been substantially below the ceiling. Since 1993, the corporation has controlled its off-balance sheet risk through use of a risk-weighted capital adequacy ratio. At fiscal year-end 2007, this ratio stood at 57.1% against the policy minimum of 30%.

## **Rating Outlook**

The outlook is stable. The IFC's credit strengths should continue to allow it to withstand financial problems in the countries in which its borrowers are located.

## **What Could Change the Rating - DOWN**

The IFC's Aaa rating is solid. However, should there be a generalized emerging market debt crisis that affected several of the organization's largest exposures, Moody's would have to examine the rating. This would depend upon the countries involved, the IFC's portfolio in those countries, and the financial condition of the IFC at that time. Such a scenario seems unlikely, though it cannot be ruled out.

## **Recent Developments/Results**

The Corporation released restated financial statements for the three years through FY 2007, ended June 30. The restatement was prompted by auditors' recommendation to treat as derivatives certain equity investments that had features such as provisions for profit sharing. As a result, the net income was lower than previously reported in all three years. The largest change was in 2007, when net income was reduced by \$128 million to \$2.5 billion, still the highest in the history of the Corporation.

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