

INTERNATIONAL FINANCE CORPORATION

RATINGS:

AAA/Stable/A-1+
Initial rating (1989).....'AAA'

BASIC DATA (END-JUNE 2003)

Total assetsUS\$31,543 mil.
Development-related assetsUS\$12,002 mil.
Paid-in capital.....US\$2,360 mil.
Total shareholders' equity.....US\$6,789 mil.
Callable capital.....US\$0
Date last general capital increase approved.....1992
Amount of increase.....US\$1,000 mil.
Amount to be paid in.....US\$1,000 mil.
Date last scheduled payment due.....1996
Total shareholders.....175
Countries where assets115

PURPOSE:

To support economic growth and development by providing loans and making equity investments in private entities without government guarantees. IFC also acts as a catalyst through its cofinancings, syndications, securitizations, underwritings, and guarantees; and as a financial and technical advisor.

ISSUER WEBSITE:

www.ifc.org

ANALYSTS:

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Rationale

The ratings on the International Finance Corporation (IFC) are based upon:

- A strong financial profile, including adequate capital and ample liquidity;
- Conservative statutory and management policies; and
- Membership in the World Bank Group and expected treatment as a preferred creditor.

A member of the World Bank Group, IFC was established in 1956 to complement the activities of the International Bank for Reconstruction and Development (IBRD) by encouraging the growth and development of the private sector in its developing member countries. IFC pursues this mandate by making medium- and long-term loans to private sector entities without government guarantees; by making equity investments, both direct and through investment funds; by mobilizing funds from other lenders and investors through cofinancings, syndications, underwritings, and guarantees; and by providing a variety of financial and technical advisory services. While it cooperates closely with IBRD, IFC is legally and financially independent, with its own Articles of Agreement, shareholders, financial structure, management, and staff.

IFC had 175 member countries at end-FY2003 (June 30, 2003), second in number only to IBRD among multilateral development financial institutions (MDFIs). These shareholders have provided US\$2,360 million in paid-in capital, although the last general capital increase was approved in 1992. However, unlike most MDFIs, IFC has no callable capital. There are no plans at present for another capital increase.

IFC's gross loans and equity investments at end-FY2003 were US\$9,242 million and US\$2,760 million, respectively, 38% of total assets—a relatively low percentage for an MDFI. This reflects IFC's unusually high holdings of cash, deposits, and securities, which were 41% of total assets. In addition to the loans and equity

investments on its balance sheet, IFC had off-balance-sheet loan commitments of US\$2.7 billion and US\$1.1 billion in signed guarantees, of which US\$314 million was outstanding at end-FY2003.

As is the case with other MDFIs, IFC loans typically receive "preferred creditor" treatment from the governments of the countries of domicile of its borrowers. These governments make foreign exchange available to borrowers so that they may repay their loans to IFC, even in a time of exchange controls. However, IFC's loans are fully exposed to commercial risk, since none are to governments or are government-guaranteed.

IFC's loan portfolio has deteriorated in recent years, largely as a result of developments in Latin America and particularly in the Republic of Argentina, where IFC had its largest loan exposure at end-FY2001. This is reflected in high and increasing nonaccrual loans—US\$1,543 million at end-FY2003, 16.7% of total loans, up from US\$1,217 million, or 15.2%, one year earlier, and US\$1,054 million, or 12.9%, at end-FY2001. Impaired loans fell during FY2003, however, to US\$2,446 from US\$2,640 million.

Unlike the sovereign and sovereign-guaranteed loans accounting for all or most of the portfolios of most other large MDFIs, a portion of IFC's nonaccrual loans are eventually written off. Reflecting its prudent management, IFC maintains substantial loan-loss reserves. These totaled US\$1,684 million at end-FY2003, 109% of nonaccrual loans, down from US\$1,758 million, or 144%, one year earlier.

There is no expectation of preferred creditor treatment for the proceeds of IFC's equity investments, which historically have done well. IFC had US\$941 million in reserves against its equity investments, 34%, at end-FY2003, down from nearly 38% at end-FY2002.

In addition to its reserves for losses, IFC's creditworthiness is buttressed by its strong capital position. Its US\$2,360 million of paid-in capital is supplemented by retained earnings, which boosted shareholders' equity to US\$6,789 million

A full analysis on the International Finance Corporation is available to RatingsDirect subscribers at www.ratingsdirect.com.

