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International Finance Corp.

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Major Rating Factors

Counterparty Credit Rating
Foreign Currency
AAA/Stable/A-1+
Local Currency
--/--/NR

Strengths:

- Strong financial profile, including ample capital and liquidity
- Conservative statutory and management policies
- High geographic diversification of its loans and clients' debt securities, equity investments, and guarantees (development-related exposure)
- Membership in the World Bank Group and expected treatment as a preferred creditor

Weaknesses:

- Higher-risk, private-sector focused mandate than most MDFIs, with income strongly influenced by equity markets

Rationale

International Finance Corp. (IFC) is a member of the World Bank Group (WBG), along with the International Bank for Reconstruction and Development (IBRD; AAA/Stable/A-1+ [all institutional ratings are Standard & Poor's Ratings Services' issuer credit ratings as of Feb. 26, 2010]), the International Development Association (IDA; not rated), the Multilateral Investment Guarantee Agency (not rated), and the International Centre for Settlement of Investment Disputes (not rated). Although it is cooperating increasingly closely with IBRD and IDA, IFC is legally and financially independent of other WBG entities and has its own articles of agreement, shareholders, financial structure, management, and staff.

IFC pursues its development mandate by:

- Making medium- and long-term loans and purchasing clients' debt instruments, none of which carry sovereign guarantees;
- Making equity investments, both directly and through investment funds;
- Mobilizing funds from other lenders and investors through cofinancings, syndications, underwritings, and guarantees; and
- Providing a variety of financial and technical advisory services.

IFC had US$51.5 billion in total assets at fiscal year-end 2009 (June 30), of which US$18.1 billion was client-issued loans and debt and US$5.3 billion was equity investments. In addition, IFC had US$1.4 billion in guarantees outstanding, bringing its development-related exposure (DRE) to US$24.8 billion, or 47% of total assets plus guarantees.

We believe that as a global institution, IFC's geographic exposure is well-diversified. Its DRE in Brazil, its country of largest exposure, was less than 10% of total DRE at fiscal year-end 2009, and its five largest country DREs amounted to 37% of total exposure. IFC's Brazilian exposure was 13.2% of its reserves for losses plus shareholders' equity less retained earnings designated for unremunerated technical services and grants (altogether, narrow risk-bearing capacity), and its exposure in its five countries of largest exposure was 50%. We view its portfolio by industry sector as well-diversified, also, despite a significant concentration in financial institutions (60% of narrow risk-bearing capacity at fiscal year-end 2009).

In addition to its reserves for losses, IFC's risk-bearing capacity is buttressed by its strong capital position, including US$2,369 million of paid-in capital and US$13,753 million of other shareholders' equity at fiscal year-end 2009. Accordingly, it had narrow risk-bearing capacity of US$16.6 billion at fiscal year-end 2009, equal to 67% of its DRE. The corporation has no callable capital, unlike most multilateral development finance institutions (MDFIs). Along with other WBG members, IFC is likely to benefit from any decision shareholder countries may make, likely by April, on increasing their capital contributions to the WBG.

IFC's operating income was negative for the first time in fiscal 2009, at negative US$603 million, a sharp deterioration from positive US$1.4 billion in fiscal 2008. Operating returns on average assets plus guarantees was negative 1.2% and returns on average shareholders' equity negative 3.5%, both the worst in IFC's history and among the worst performances of rated MDFIs during this period. This deterioration reflected broadly based softening in revenue sources, continuing the decline that began in fiscal 2008 and opposite to previous years, while expenditure continued the upward pattern of recent years.

First-quarter fiscal 2010 (ended Sept. 30, 2009) saw an uptick in financial performance, as global market conditions rebounded. Operating income for the quarter was positive, at US$339 million. Compared with fiscal 2009, on an annualized basis, although income from debt securities continued to decline and revenue from loans and guarantees rose only slightly, income from liquid asset trading soared to more than 2.5x its 2009 level). Income from equity investments also rebounded strongly (positive US$932 million, annualized), although it remained well below that of previous fiscal years (for instance, it was 45% below its 2008 value). Annualized operating return on average assets plus guarantees was 2.4% and annualized operating return on average shareholders' equity was 8.2%. Both were weaker than in 2008 or any of the preceding four fiscal years, but improved noticeably compared with fiscal 2009. With net unrealized gains on equity investments and debt securities during the first-quarter of fiscal 2010 of US$878 million not recognized in net income of US$80 million (these are recognized in comprehensive income--which was US$963 million during the quarter), we believe prospects for IFC to continue its first-quarter turnaround in financial performance are bright, assuming global market conditions continue to improve.

IFC has consistently maintained a high level of liquidity, among the best of MDFIs.

Outlook

The outlook on IFC is stable. Despite fiscal 2009 financial performance being the worst in the institution's history, the rating incorporates our expectation that the variation of the corporation's earnings will be high given its mandate and its mark to market accounting but that these variations of earnings can be accommodated by the institution's high level of capitalization and liquidity. If either its capitalization or liquidity ratios were to decline materially, or if shareholder support for its public policy role diminished, the ratings could come under pressure. Our outlook indicates that we expect IFC's financial fundamentals and shareholder support to remain strong.

Membership, Governance, And Organization

IFC was established in 1956 and ended that year with 56 member countries. Membership has increased gradually, standing at 182 at fiscal year-end 2009.

Each member country appoints a governor and an alternate. Under IFC's articles, governors of the World Bank are ex officio governors of IFC and meet at least annually, usually during the World Bank's annual meeting. Although the articles permit the governors to vote on specific questions without calling a board meeting, day-to-day decisions are delegated to the board of directors. IFC has 24 directors, one appointed by each of the five largest shareholders: the U.S. (AAA/Stable/A-1+), with 23.6% of total votes; Japan (AA/Negative/A-1+), with 5.9%; the Federal Republic of Germany (AAA/Stable/A-1+), with 5.4%; and the Republic of France (AAA/Stable/A-1+) and the U.K. (AAA/Negative/A-1+), with 5.0% each. The others are in principle elected by country constituencies, but three directors--those for the People's Republic of China (A+/Stable/A-1+), the Russian Federation (BBB/Stable/A-3), and the Kingdom of Saudi Arabia (AA-/Stable/A-1+)--represented one-country constituencies at fiscal year-end 2009.

Except as expressly provided, all decisions by both the board of governors and the board of executive directors are majority-vote. Exceptions include increasing IFC's authorized capital (aside from increases occasioned by the admission of new members), which requires a four-fifths vote from the governors; and amendments to the articles, which require a three-fifths vote. However, the boards typically reach decisions by consensus.

IFC's articles state that the president of IBRD is IFC's chairman ex officio. Although the articles do not require it, the World Bank president traditionally is also IFC's president. Day-to-day administration falls to Executive Vice President Lars H. Thunell, a Swedish national who assumed office Jan. 15, 2006, succeeding German Peter Woicke.

IFC has approximately 3,400 staff members, of which 49% were based at the organization's headquarters in Washington, D.C., down from 68% in 2001; the rest are in field offices around the world. Its staff has been increasing as its DRE and advisory activities have risen.

Balance Sheet And Accounting Principles

Before fiscal 2000, IFC prepared one set of financial statements that complied with both U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Differing treatments of derivatives and hedging transactions after that time made it impossible for IFC to comply with both, and the corporation has since been reporting only with U.S. GAAP. It plans to transition to IFRS from U.S. GAAP and will continue to reevaluate the timetable for this during fiscal 2010. In addition, IFC changed its auditor, Deloitte & Touche LLP, to KPMG LLP, in first-quarter fiscal 2009. The IFC follows a policy, established in 2003 for the entire WBG, of mandatory rebidding of the external audit contract every five years with a prohibition of any firm serving as auditor for more than two consecutive five-year terms. External auditors are appointed to a five-year term, subject to annual reappointment based on recommendation of the audit committee and approval of a board resolution.

From a credit perspective, the most interesting features of its balance sheet are:

- The large holdings of liquid assets (49% of total assets) at fiscal year-end 2009, consisting of deposits, due from banks, and securities;
- The presence of substantial equity investments, which differentiates IFC from most other MDFIs;
- The slower growth of loans (to 9%, from 20%) and guarantees (to 20%, from 41%) and the declines in debt securities (5%) and equity investments (27%), between fiscal year-end 2009 and one year earlier;
- The high level of shareholders' equity relative to assets (31%) and especially DRE (65%) at fiscal year-end 2009; and

- The portion of retained earnings designated for technical services, grants, and several developmental funds (US$791 million at fiscal year-end 2009; see table 1).

Table 1

International Finance Corp.--Summary Balance Sheet

	--Year ended June 30--				
(Mil. US$)	**2009**	**2008**	**2007**	**2006**	**2005**
Assets					
Cash, due from banks, and time deposits	4,257	8,762	5,361	3,118	1,938
Trading securities	20,243	12,346	14,297	16,286	14,561
Securities purchased under resale agreements	544	35	230	1,190	6,282
Loans*	16,566	15,229	12,744	10,727	9,973
Reserve against losses on loans	(1,238)	(848)	(832)	(898)	(989)
Debt securities classified as investments	1,542	1,620	733	206	N.A.
Equity investments¶	5,344	7,318	3,245	2,696	2,505
Derivative assets	2,195	1,630	1,151	1,128	1,516
Receivables and other assets	2,030	3,379	3,764	3,967	3,774
Total assets	51,483	49,471	40,599	38,420	39,560
Liabilities					
Securities sold under repurchase agreements and payable for cash collateral received	6,388	6,018	4,973	8,805	9,321
Borrowings from market sources	25,660	20,207	15,817	14,887	15,304
Borrowings from International Bank for Reconstruction and Development	51	54	62	80	55
Derivative liabilities	1,553	1,408	1,285	1,288	2,332
Payables and other liabilities	1,709	3,523	4,445	2,284	2,750
Total liabilities	35,361	31,210	26,582	27,344	29,762
Capital					
Paid-in capital§	2,369	2,366	2,365	2,364	2,364
Accumulated other comprehensive income	711	2,703	442	1	1
Retained earnings, of which:	13,042	13,192	11,210	8,711	7,433
Designated for unremunerated technical services and grants	791	826	606	852	562
Shareholders' equity	16,122	18,261	14,017	11,076	9,798
Memo items					
Guarantees outstanding**	1,365	1,141	808	494	291
Development-related exposure	24,817	25,308	17,530	14,123	12,769

*Accounting change first reflected in June 30, 2006 balance sheet figures. ¶Accounting changes reflected in June 30, 2004, and June 30, 2006, balance sheet figures. §Includes payments received on account of pending subscriptions. **The maximum size of undiscounted future payments that the corporation could be required to make under these guarantees.

Risk

IFC is unusual among MDFIs in acknowledging that it has two distinct business segments:

- Its treasury activities, which include its borrowing, liquid asset management, and asset/liability management; and which generate holdings of deposits, securities, and derivatives as well as borrowings; and

- Its development-related activities, which generate its loans, holdings of clients' debt securities, equity investments, guarantees, and risk-management exposure.

These different activities carry very different risk.

Treasury activities

Consistent with its more commercial orientation than that of most MDFIs, IFC seeks to bolster its income through its treasury activities, capitalizing on the 'AAA' credit rating and resulting low funding costs. However, it does so in a manner that contains the associated credit and market risk.

Credit risk. IFC invests its liquid assets in instruments issued--or unconditionally guaranteed--by governments and government agencies and instrumentalities (33% at fiscal year-end 2009); corporate securities (26%); asset-backed securities (ABS; 20%); time deposits and other unconditional obligations of banks and financial institutions (17%); money market funds (3%); and securities it purchased under resale agreements (2%). IFC only invests its liquid assets in securities that we or another designated rating agency rate 'AAA' or higher, for banks and other financial institutions (although it invests in deposits and does repos with those rated 'A' or higher); 'AA-' or better for sovereign, sovereign-guaranteed, and supranational fixed-income instruments; and 'AAA' for asset-backed and corporate securities.

Global market disruption in fiscals 2008 and 2009 contributed to deterioration in the value and liquidity of a substantial share of securities in IFC's liquid asset trading portfolio. In particular, the company suffered net losses on ABS and mortgage-backed securities (MBS): US$474 million in fiscal 2008; and a further US$368 million fiscal 2009. On the other hand, gains on U.S. Treasuries and other securities amounted to US$278 million in fiscal 2008 and US$334 million in fiscal 2009, increasingly offsetting the decline in the ABS and MBS holdings. At fiscal year-end 2009, trading securities were mostly government, agency, and government-sponsored agency obligations (US$8.2 billion), and corporate securities (US$6.4 billion), with ABS and MBS accounting for US%5.0 billion. US Treasuries make up almost all of the government and government-related holdings, along with some senior debentures issued by U.S. government-sponsored enterprises. Fannie Mae- or Freddie Mac-guaranteed MBS are included in the ABS and MBS holdings. Almost all liquid assets are denominated in U.S. dollars.

IFC also incurs credit risk from its extensive use of swaps. It contains counterparty risk by, among other things:

- Dealing only with counterparties that we or another designated rating agency rate 'A' or better, for banks, 'AA' or better, for insurance companies and other financial institutions, and 'AAA' for other companies;
- Limiting exposure to individual institutions, which IFC reviews monthly for changes in size and credit standing; and
- Agreements that call for posting collateral when exposure exceeds predetermined limits and that allow IFC to terminate swaps if the rating on a counterparty falls below 'BBB-' or if other early termination events occur.

Exchange-rate risk. IFC's reporting currency is the U.S. dollar, and 96% of its liquid assets and 73% of its net loans at fiscal year-end 2009 were U.S. dollar-denominated. At the same time, slightly more than half (53%) of its borrowings outstanding were in currencies other than the U.S. dollar, particularly the Japanese yen (19%). IFC's nondollar borrowings are generally swapped into floating-rate U.S. dollar obligations.

Interest-rate risk. Most of IFC's loans (79% at fiscal year-end 2009) are variable-rate and generally reprice in no more than one year, while its medium- and long-term liquid asset investments are predominantly fixed-rate. At the same time, IFC's borrowings are also predominantly fixed-rate. IFC employs swaps to transform its fixed-rate borrowings into variable-rate ones and to transform its fixed-rate loans and liquid assets into variable-rate ones.

Other risks. Residual market risk remains from asset write-offs, prepayments, reschedulings, and different LIBOR reset dates. IFC monitors this risk and periodically addresses it through market operations.

While there have been some unforeseen losses from its treasury operations, the risks appear to be well-contained.

Development-related activities

The bulk of the risk in IFC's activities lies in its loans, holdings of clients' debt securities, equity investments, and guarantees.

Purpose. IFC's articles call for it to "further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less-developed areas."

The corporation's development priorities have evolved, and in recent years it has focused more on activities with a high developmental content: financial markets (including collective investment vehicles), utilities and transportation, information technology, small and midsize enterprises (SMEs), and health and education. Although IFC does not engage in emergency lending to governments (unlike the IBRD), it nevertheless can respond to financial crises that affect the private sector. In addition to being consistent with its developmental role, such countercyclical behavior has often proven highly profitable for the corporation.

Client eligibility. IFC's articles direct it to support "productive private enterprise," although there are some exceptions for commercially operated public enterprises, particularly if they are privatizing.

In earlier years, the corporation did much of its business with the larger, stronger credits in its developing member countries. This partially reflected the paucity of medium- and long-term financing from commercial sources, even for these entities. In recent years, however, IFC has sought to support SMEs more than previously, either directly or--increasingly--through financial intermediaries. It established a mechanism to fund technical assistance and advisory services focused on SMEs in fiscal 2004, and in fiscal 2005 it designated US$250 million of retained earnings to fund performance-based grants for individual private sector projects. In fiscal 2009, it expended US$129 million on advisory services, most of which took the form of grants.

Composition of financing provided. IFC's articles state that "the corporation may make investments of its funds in such form or forms as it may deem appropriate under the circumstances." Its main financing activities remain loans and equity investments, but it began providing risk-management products (such as interest-rate and currency hedges) in 1990 and has more recently begun actively using its ability to provide guarantees. Table 2 shows the breakdown of IFC's DRE outstanding by financing product in the past five years.

Table 2

International Finance Corp.--Development-Related Exposure Outstanding By Type of Product

	--Year ended June 30--				
(% total)	2009	2008	2007	2006	2005
Loans	66.8	60.2	72.6	76.0	78.1
Debt securities	6.2	6.4	4.2	1.5	0.0
Equity investments	21.5	28.9	18.6	19.1	19.6
Guarantees	5.5	4.5	4.6	3.5	2.3

Loans. Loans remain IFC's most important financing instrument, accounting for 67% of DRE at fiscal year-end 2009. Its loans are typically medium-to-long-term at variable rates.

Unlike MDFIs lending to sovereigns or sovereign-guaranteed borrowers (which typically charge each borrower the same spread over their cost of funding), IFC is free to vary the terms of its financings by client. However, to the extent that it follows the directive in its articles to provide financing "in cases where sufficient private capital is not available on reasonable terms," accurate pricing benchmarks often are not available and appropriate pricing can be difficult to determine. IFC has developed a rigorous methodology to price its loans and guarantees.

B loan program. IFC's articles state that "the corporation shall seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms." One mechanism for complying with this directive is the sale of equity investments, which IFC does regularly. A second mechanism, in use since the early 1960s, is the B loan program. Under this program, the corporation lends to a borrower, maintaining a portion on its own balance sheet (the A loan) and participating the remainder to commercial financial institutions (originally commercial banks but subsequently institutional investors as well; this is the B loan). As IFC remains the lender of record on the borrower's books, the expectation is that the borrower will be permitted to purchase the foreign exchange to service its IFC loan (and, consequently, the participations in that loan) during financial stress, when exchange controls prohibit it from doing so to service foreign-currency loans from commercial lenders. This expectation is based upon many years' experience and was met during the Republic of Argentina's financial difficulties during 2001-2002.

These loans have been a relatively less prominent feature of IFC's activities since fiscal year-end 1998 (see table 3), when B loans outstanding were more than 110% of the loans on its balance sheet. That percentage was 40% at fiscal year-end 2009. Despite an increase of US$1.1 billion in fiscal-year 2009 (and in the preceding year), the absolute size of B loans outstanding at fiscal year-end 2009 was only US$118 million above levels earlier in the decade.

Table 3

International Finance Corp.--B Loan Program

	--Year ended June 30--				
(Mil. US$)	**2009**	**2008**	**2007**	**2006**	**2005**
Participants' loans outstanding	6,669	5,541	4,407	3,878	4,382
Participants' loans/IFC loans (%)	40.3	36.4	34.6	36.2	43.9
Loan participations committed but not disbursed	1,318	1,952	1,069	1,136	901
Participations committed/IFC loans committed (%)	18.1	27.6	18.1	20.5	18.7

Equity investments. IFC's equity portfolio is the second-largest among MDFIs, surpassed only by that of the European Bank for Reconstruction and Development (AAA/Stable/A-1+). The corporation's equity investments:

- Consist primarily of common and preferred stock and are usually denominated in the currency of the country in which the investment is made;
- Included a small amount of quasiequity (such as common or preferred shares with put or call features where the return or recovery of cost is fixed in U.S. dollar terms and not linked to company performance) at fiscal year-end 2009;
- Are concentrated in finance/insurance and collective investment vehicles (45% and 15%, respectively, of the total equity portfolio at fiscal year-end 2009), with the remainder widely diversified by industry; and
- Are intended to be sold when the developmental role has been completed and they have reached certain holding-period and pricing thresholds.

IFC's equity portfolio has been a very important contributor to the corporation's overall profitability.

Guarantees. For many years, IFC was reluctant to guarantee transactions on behalf of its clients. However, beginning in fiscal 2001, it began providing partial guarantees of its clients' obligations to help them diversify their sources of funding, extend maturities, and choose their currency of borrowing (including local currencies). At fiscal year-end 2009, issued guarantees (including trade-finance facilities)--those that IFC has committed itself to providing--were US$2.1 billion, up from US$1.9 billion one year earlier. Guarantees outstanding--those for which a client's underlying financial obligation has been incurred--were US$1.4 billion, up from US$1.1 billion the previous year. In addition to helping clients obtain local currency financing on terms otherwise unavailable, partial guarantees can also foster the development of domestic capital markets, which IFC views as part of its developmental role.

IFC Asset Management Co. In 2009, for the first time, IFC established a wholly-owned subsidiary to manage both IFC and third-party capital mobilized under various corporation development-related initiatives. The subsidiary, IFC Asset Management Co. (IFC AMC) is led by CEO Gavin Wilson, who brings experience from both IFC and other public and private sector organizations, including Goldman Sachs Group Inc., McKinsey & Co., and the Bank of England. IFC AMC's two inaugural initiatives are:

- The IFC Capitalization Fund, designed to protect systemically important emerging-market banks from the effects of the global financial crisis, funded with US$1 billion from IFC and US$2 billion from Japan Bank for International Cooperation (not rated); and
- The IFC Sovereign Fund Initiative, designed to allow sovereign wealth funds and similar investors to participate in IFC equity transactions in sub-Saharan Africa, Latin America, and the Caribbean, initially funded with US$1 billion from IFC.

IFC is considering other ways in which IFC AMC could help it recruit third-party funds to its developmental goals. We will monitor any potentially significant financial impacts to IFC as IFC AMC grows into its mandate.

Distribution of development-related exposure by industry. Table 4 shows the distribution of IFC's DRE by industry. A general, gradual increase in the percentage of exposure to the finance and insurance sector is clear, and the continued large percentage of commitments to this sector during fiscal 2008 suggests that the percentage will at least continue. Much of the financing to this sector is on lent by the recipients to other sectors, so the dominance of this sector is less than it might appear.

Table 4

International Finance Corp.--Development-Related Exposure Commitments And Outstanding By Industry

		--Outstandings at June 30--				
(% total)	Commitments during fiscal 2009	2009	2008	2007	2006	2005
Finance and insurance	45.4	41.7	45.2	41.8	34.4	28.3
Utilities	7.3	9.6	7.6	8.1	9.5	10.6
Oil, gas, and mining	3.9	6.9	6.3	5.9	7.1	7.5
Transportation and warehousing	7	5.3	5.0	5.2	5.7	6.3
Industrial and consumer products	4	2.7	2.6	3.4	5.4	6.3
Nonmetallic mineral product manufacturing	3.4	4.1	4.1	5.1	5.2	4.4
Food and beverages	2.6	4.2	4.8	4.7	3.9	4.6
Information	5	3.6	3.5	3.8	4.8	5.2
Chemicals	3.8	3.9	3.8	4.0	3.8	3.3
Agriculture & Forestry	3.1	3.3	3.0	2.6	3.7	2.7

Table 4

International Finance Corp.--Development-Related Exposure Commitments And Outstanding By Industry (cont.)						
Other	17.6	14.6	14.2	15.5	16.3	20.8
Memo item						
Total* (mil. US$)	10,547	23,837	22,330	17,057	13,929	12,615

*Includes risk management products

Countries of activity and country concentration. Candidates for financing must be in a country where IFC is open for business, which includes some countries that have graduated from eligibility for borrowing from IBRD and those that cannot borrow from IBRD but only from IDA. At fiscal year-end 2009, IFC had DRE in 124 member countries, in contrast to 79 for IBRD. The country distribution of IFC's DRE can change substantially in a few years. The corporation's single-largest country DRE exposure at fiscal year-end 2009, to Brazil, was US$2.2 billion, or 9.2% of total exposure outstanding (see table 5). Brazil vaulted into this position in 2009 even though IFC's exposure to the country slightly declined (by less than US$10 million), because the corporation's exposure to Russia fell US$581 million during the year. The earlier drop in exposure to Argentina was also large and rapid. The share of IFC's exposure to its five countries of largest exposure decreased slightly during fiscal 2009, to 37% from 41% a year earlier. Even after this, by this measure, IFC still had the second-most geographically diversified DRE portfolio among MDFIs as of their latest fiscal year-ends (after the Islamic Development Bank; [AAA/Stable/A-1+]).

Table 5

International Finance Corp.--Countries And Regions Of Largest Development-Related Exposure (DRE)

(Mil. US$)

		--As of June 30, 2009--			% Total IFC DRE at June 30§				
By country	Rating	Loans	Equity investments	Total DRE§	2009	2008	2007	2006	2005
Brazil	BBB-/Stable	1,716	204	2,183	9.2	9.8	7.5	7.3	7.1
India	BBB-/Negative	1,522	469	1,990	8.4	7.5	8.0	5.9	6.4
Russia	BBB/Stable	1,345	428	1,840	7.7	10.8	11.3	10.1	6.7
China	A+/Stable	914	527	1,444	6.1	6.8	7.0	6.2	4.4
Turkey	BB/Positive	1,062	229	1,305	5.5	6.0	6.4	5.8	6.7
Other	N/A	11,470	2,495	14,983	63.1	59.1	59.8	55.2	58.3
Total exposure	N/A	18,028	4,352	23,745	23,745	22,288	17,028	13,902	12,568
Five largest exposures (% total)		36.4	42.7	36.9	36.9	40.9	40.2	35.3	33.1
Disbursed exposure by region									
Latin America and Caribbean	N/A	4,598	993	6,321	26.6	26.8	28.8	30.8	34.7
Europe and Central Asia	N/A	4,728	1,064	6,039	25.4	28.8	31.1	31.9	28.1
Asia	N/A	4,278	1,107	5,707	24.0	23.5	23.2	21.9	22.2
Middle East and North Africa	N/A	1,504	565	2,107	8.9	7.5	7.3	6.2	6.5
Sub-Saharan Africa	N/A	1,361	297	1,789	7.5	6.7	8.1	8.3	7.4
Other	N/A	279	69	419	1.8	1.6	1.6	0.8	1.1

*Long-term foreign currency sovereign credit rating as of Feb. 26, 2010. §Includes loans, equity investments, and guarantees. Note: Numbers differ slightly from balance sheet numbers, which are on a fair value basis.

Portfolio quality and provisioning. All of IFC's loans are to private-sector entities, quasiprivate sector entities, or (more recently) municipalities; none carry sovereign guarantees. This results in a level of embedded credit risk in its loan portfolio that is much higher than that in the portfolios of other 'AAA' rated MDFIs.

Table 6 provides indicators of the quality of IFC's DRE and the adequacy of its provisioning for problem exposures. The first section of the table shows the breakdown of DRE by rating categories of countries (with confidential credit assessments used for countries without formal ratings). This breakdown for IFC is less meaningful than it is for institutions whose loans are all sovereign because:

- The risk in IFC's DRE is, on average, higher than that of the countries in which its clients are domiciled;
- The risk of the corporation's clients can change relative to that of the countries in which they are domiciled; and
- DRE includes equity investments (as well as guarantees).

Nevertheless, IFC's DRE is in higher-rated countries than it was in the past. At fiscal year-end 2009, 49% of the corporation's DRE was in investment-grade countries, up from 25% at fiscal year-end 2001. This is not by design--IFC has been attempting to increase its exposure in less-highly rated countries in recent years--but rather the result of numerous upgrades on countries in which it has traditionally done business, primarily in Eastern and Central Europe.

Table 6

International Finance Corp.--Indicators Of Asset Quality And Provisions

	--Year ended June 30--				
(Mil. US$ unless otherwise indicated)	**2009**	**2008**	**2007**	**2006**	**2005**
Distribution of DRE by ratings of countries of domicile of recipients of financing (%)					
A- and above	10	10	11	10	3
BBB	39	42	34	29	30
BB	29	28	37	38	41
B	15	17	15	20	22
CCC+ and below	8	3	3	3	4
Index of credit quality of country exposure (lower number denotes more favorable environment)	7.0	6.0	5.9	6.7	7.5
Impaired loans	552	347	433	671	1,191
As a % of loans outstanding	3.3	2.3	3.4	6.3	11.9
Nonaccrual loans	457	369	378	447	634
As a % of loans outstanding	2.8	2.4	3.0	4.2	6.4
Principal in arrears	457	369	219	263	406
As a % of loans outstanding	2.8	2.4	1.7	2.4	4.1
Loans written off	39	47	39	111	135
Writeoffs as a % of loans outstanding at previous end year	0	0	0	1.1	1.4
Interest due but not received (gross)	47	78	70	68	58
Interest collection rate (%)	97.1	94.5	93.7	92.5	92.9
Provision (release of provision) for losses on loans (Mil. US$)	441	37	(40)	10.1	(260)
Reserve for losses on loans	1,238	848	832	898	989
As a % of impaired loans	224.3	244.5	192.1	133.8	83.0
As a % of nonaccrual loans	270.9	229.9	220.1	200.9	156.0
As a % of total disbursed loans	7.5	5.6	6.5	8.4	9.9

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Table 6

International Finance Corp.--Indicators Of Asset Quality And Provisions (cont.)					
Equity investment impairment writedowns*	1,058	140	40	57	62
Provision (release of provision) for guarantees	(3)	1	(2)	5	(3)
Reserves for losses on guarantees	14	17	16	19	13
As a % of guarantees outstanding	1.0	1.5	2.0	3.8	4.5
Memo item					
Reserves against losses on loans and guarantees	1,252	866	848	917	1,002

*Accounting change first reflected in June 30, 2004, balance sheet figures

Impaired loans (those for which IFC believes it will be unable to collect all amounts due) at fiscal year-end 2009 rose to US$552 million from US$347 one year earlier, increasing them to 3.3% of total loans from 2.3% a year before, although remaining far below the 32.9% at fiscal year-end 2002. Nonaccrual loans rose to US$457 million at fiscal year-end 2009 from US$369 million a year earlier, likewise increasing them, slightly, to 2.8% of total loans from 2.4%, respectively, and likewise remaining far below the 16.7% at fiscal year-end 2003. Reacting both to this modest deterioration in its loan portfolio and the overall environment, IFC raised its reserve for loan losses significantly--to US$1.2 billion from US$848 million at fiscal year-end 2008, although still well below the US$1.76 billion at fiscal year-end 2002. This, combined with the modest deterioration in loan performance, resulted in the reserve for losses falling to 224% of impaired loans, but increasing to 271% of nonaccrual loans at fiscal year-end 2009, from 245% and 230%, respectively, one year earlier. These are both among the highest ratios in recent years. Accordingly, IFC's loan portfolio appears more well-provisioned to weather the current, challenging economic environment, than in almost any year of the past decade.

As a result of accounting changes first affecting IFC's fiscal year-end 2008 financial statements, most of the corporation's equity investments are now subject to fair-value accounting, with a minority still accounted for at cost less impairment. Most of the former are marked to market, being listed in markets that provide readily determinable fair values; the rest are marked to model.

IFC released US$3 million of provisions for losses on guarantees during fiscal 2009, in contrast to US$1 million during fiscal 2008. The reserve fell to 1.0% of guarantees outstanding at fiscal year-end 2009 from 1.5% one year earlier. IFC's reserve for guarantee losses as a share of guarantees outstanding has steadily declined in each year of the past decade. This, however, reflects the low proportion of guarantees outstanding that have been called in recent years. There were none in fiscal 2009; and while 6.3% were called in fiscal 2000, calls in every fiscal year since have been 0.5% or lower.

Risk-Bearing Capacity And Capital Adequacy

Standard & Poor's has two measures of risk-bearing capacity:

- Narrow risk-bearing capacity, which equals the allowance for losses on loans and, if applicable, for equity investments and guarantees; plus shareholders' equity (adjusted if necessary); and
- Broad risk-bearing capacity, which equals narrow risk-bearing capacity plus callable capital from countries that we rate 'AAA', if any.

Table 7

International Finance Corp.--Risk-Bearing Capacity And Capital Adequacy					
	--Year ended June 30--				
	2009	2008	2007	2006	2005
Risk-bearing capacity (Mil. US$)					
Reserves against losses on loans, equity investments, and guarantees	1,252	866	848	917	1,002
Shareholders' equity	16,122	18,261	14,017	11,076	9,798
Retained earnings designated for unremunerated technical services and grants	(791)	(826)	(606)	(852)	(562)
Narrow risk-bearing capacity	16,583	18,301	14,259	11,141	10,238
Capital adequacy (%)					
IFC's internal capital adequacy ratio*	44	48	57	54	50
Narrow risk-bearing capacity/total assets plus guarantees	31.4	36.2	34.4	28.6	25.7
Narrow risk-bearing capacity/development-related exposure	66.8	72.3	81.3	78.9	80.2

*Shareholders' equity minus designated retained earnings plus general reserves/risk weighted assets.

IFC's subscribed capital is virtually fully paid in. However, unlike all other 'AAA' rated MDFIs, it has no callable capital. Accordingly, its narrow and broad risk-bearing capacity is the same.

Beginning in fiscal 2004, IFC began designating a portion of its retained earnings to fund grants for technical assistance and advisory services. During fiscal 2005, the corporation designated a portion of retained earnings for performance-based grants, and during fiscal 2006, it designated a portion of retained earnings for grants to IDA to use in providing grants supporting IFC's mandates in certain IDA countries. At fiscal year-end 2009, the designated sums, net of expenditure made under each of these programs (which are recorded as expenditure in the income statement) were US$409 million for technical assistance and advisory services, US$183 million for performance-based grants, US$100 million for a Global Infrastructure Project Development Fund, and US$99 million for micro equity funds for small and medium enterprise development in IDA countries.

The maximum total of annual designations of retained earnings for IFC's grant programs are determined in light of the corporation's income before grant expenditures (and net gains and losses on nontrading financial instruments), with the marginal rate of designation increasing to a maximum of 35% for income exceeding US$1 billion from 20% for income in excess of US$150 million. These designations are not irrevocable, and IFC could undesignate these sums if necessary. Nevertheless, in calculating its narrow risk-bearing capacity, Standard & Poor's includes only the undesignated portion of retained earnings in its measure of narrow risk-bearing capacity (for the sake of maintaining comparability with other multilateral lending institutions, we do not follow this convention in preparing the comparative tables in the Supranationals Special Editions).

IFC calculates its own capital adequacy measures. It has recently implemented a new capital adequacy framework, which its board approved, which IFC refers to as its "risk-based economic capital" framework. Under this framework, the corporation would maintain a minimum level of total resources (including paid-in capital, total loss reserves, and retained earnings net of designations) equal to total potential losses for all on- and off-balance-sheet exposures estimated at levels IFC believes to be consistent with maintaining a 'AAA' rating. The total potential loss estimates for various risk asset classes are at least: 22% of loan and guarantee exposure (gross of reserves); 70% of equity exposure; 1.5% of treasury assets including liquid assets at market value and estimated total potential exposure (net of collateral) related to counterparty derivatives; 1.5% for other receivable assets; 1.5% for property assets; and 11% for eligible trade finance transactions. For operational risk, 1% of exposure net of specific reserves is added for each of the above asset classes. As of fiscal year-end 2009, the minimum resources required were US$10.9 billion, while total resources available were US$14.8 billion.

In addition, IFC has historically calculated another measure of capital adequacy based upon the Basel I scheme, using shareholders' equity minus designated retained earnings plus general reserves divided by risk-weighted assets. Its current board policies include the requirement that this ratio exceed 30%. However, IFC's ratio typically exceeds this requirement by a substantial amount (see table 7). At fiscal year-end 2009, the ratio was 44%, down from 48% one year earlier, a lower level than in recent years but still a multiple of similar ratios for highly rated commercial banks. This older capital adequacy measure is being phased out.

IFC's narrow (and broad) risk-bearing capacity relative to its total assets plus guarantees was 31% at fiscal year-end 2009, down from 36% one year earlier but still stronger than in 2006 or 2005. Another relevant measure is its narrow risk-bearing capacity relative to its DRE, although this measure is not strictly comparable with those for most other MDFIs due to the greater risk in IFC's DRE portfolio. Nevertheless, this ratio was 67% at fiscal year-end 2009, a decrease from 72% one year earlier and the lowest in recent years.

The past year has seen public discussion among WBG shareholders of increasing their capital contributions to the WBG given the global recession and the group's potential for contributing significantly to counter-cyclical policy, among other reasons. Along with other WBG members, IFC is likely to benefit from any such decision. We expect an announcement, in either case, by the group spring shareholder meeting, in April. We would view an increase in paid-in capital as more meaningful than a contribution of callable capital (for more information, see "For Development Banks, Callable Capital Is No Substitute For Paid-In Capital," published Dec. 31, 2009, on RatingsDirect).

Net Income

As an MDFI, IFC does not seek to maximize income. Rather, it seeks to balance its development goals against maintaining its financial strength and increasing its risk-bearing capacity. This is especially true now that it is making grants for various purposes, which are treated for accounting purposes as expenses in the income statement and therefore reduce both its operating and net income. Nevertheless, IFC's income (see table 8) is important because without a capital increase its income will be the principal source of increases in its risk-bearing capacity.

Table 8

International Finance Corp.--Summary Income Statement

	--Year ended June 30--				
(Mil. US$)	**2009**	**2008**	**2007**	**2006**	**2005**
Interest income and financial fees from loans and guarantees	871	1,065	1,062	804	660
Income from liquid asset trading activities	474	473	618	444	358
Charges on borrowings	(488)	(782)	(801)	(603)	(309)
Income (loss) from debt securities	71	163	27	7	N.A.
Net interest income	928	919	906	652	709
Release of (provision for) losses on loans and guarantees	(438)	(38)	43	(15)	261
Net interest income after provisions for losses on loans and guarantees	490	881	949	637	970
Total income from equity investments, of which:	(42)	1,688	2,292	1,224	1,365

Table 8

International Finance Corp.--Summary Income Statement (cont.)					
Realized capital gains on equity sales	1,004	1,396	1,941	928	723
Dividends and profit participations	311	428	385	323	258
Unrealized gains on equity investments	(299)	12	0	0	0
Equity investment impairment write-downs	(1,058)	(140)	(40)	(57)	(62)
Other, net	0	(8)	6	30	255
Administrative expenses	(582)	(549)	(482)	(436)	(403)
Net other income	106	107	81	68	66
Foreign currency transaction gains (losses) on nontrading activities	10	(39)	(5)	6	N.A.
Income before expenditues for TAAS, BPG, and net (losses) gains on non-trading financial instruments	(18)	2,088	2,835	1,499	1,998
Expenditures for TAAS	(129)	(123)	(96)	(55)	(38)
Expenditures for PBG and IFC SME ventures for IDA countries	(6)	(27)	0	(35)	0
Grants to IDA	(450)	(500)	(150)	0	0
Income after expenditures for TAAS and PBG (operating income)	(603)	1,438	2,589	1,409	1,960
Net gains (losses) on non-trading financial instruments	452	109	(99)	(145)	61
Net income	(151)	1,547	2,490	1,264	2,021
Memo items					
Operating return on average assets plus guarantees	(1.2)	3.1	6.4	3.6	5.4
Operating return on average shareholders' equity	(3.5)	8.9	20.6	13.5	22.3

*Limited liability partnerships and limited liability companies IDA--International Development Association. PBG--Performance-based grants. SME--Small and medium enterprise. TAAS--Technical assistance and advisory services. N.A.--Not available.

IFC's operating income fell into negative territory for the first time in fiscal 2009, at negative US$603 million, a sharp deterioration from the positive US$1.4 billion in fiscal 2008. This translates into an operating return on average assets plus guarantees of negative 1.2% and a return on average shareholders' equity of negative 3.5%, both the worst in IFC's history and among the worst performances of rated MDFIs during this period.

IFC's operating income fell as a result of a broadly-based softening in revenue sources, continuing the decline started in fiscal 2008 and opposite to the pattern of previous years, while expenditure continued the upward pattern of recent years. The following underlying moments led the deterioration:

- Interest income and financial fees from loans and guarantees fell US$194 million, or 18%, during fiscal year 2009, after stagnating in 2008, having increased steadily in 2003-2007.
- Provisions for losses on loans and guarantees spiked by US$400 million, a 10.5x increase compared with fiscal 2008, and much higher than in recent years.
- Realized capital gains on equity sales again dropped sharply, by US$392 million, or 28%, continuing the trend begun in fiscal 2008 with the same percentage decline, after having risen steadily in each year since 2003.
- Equity investment impairment write-downs (other-than-temporary impairment losses) ballooned by US$918 million, a more-than 6.5x increase, continuing the worsening trend started in fiscal 2008.

On the other hand, the following underlying movements contributed to containing the decline in operating income:

- Borrowing costs fell US$294 million, or 38%, as IFC benefited from the general decline in interest rates, and flight-to-quality during fiscal 2009.

- Expenditure for technical assistance and advisory services, performance-based grants, and grants to IDA, while still what we view as large, was slightly down from the preceding year. This totaled US$585 million during fiscal 2009, down US$65 million or 10% from fiscal 2008, although still noticeably above that in fiscal 2007 and in previous years.
- Administrative expenses increased US$33 million, or 6%. Although still an increase, this fiscal 2009 result was still a noticeable moderation in the rate of increase compared with the 14% in fiscal 2008.

IFC's net income consists of operating income plus net gains or losses on nontrading financial instruments. The latter is a volatile series, and a net gain of US$452 million in fiscal 2009 followed a net gain of US$109 million in fiscal 2008 and a net loss of US$99 million one year earlier. As a consequence, net income for fiscal 2009 was negative US$151 million. In fiscal 2009, the underlying movements greatly outweighed the net gains on nontrading financial instruments, leaving net income reduced by US$1.7 billion, or 110%, from the US$1.5 billion of one year earlier.

First-quarter fiscal 2010 (ended Sept. 30, 2009) saw an uptick in financial performance, as global market conditions rebounded. Operating income for the quarter was positive, at US$339 million. Compared with fiscal 2009, although annualized income from debt securities continued falling and revenue from loans and guarantees rose only slightly, income from liquid asset trading soared (to more than 2.5x its 2009 level), while income from equity investments also rebounded strongly (positive US$932 million, annualized), although the latter remained well-below achievements in previous fiscal years (e.g. 45% below its 2008 value). The jump in income from liquid asset trading resulted primarily from interest income and principal gains on U.S. Treasury securities, although it also benefited from substantial unrealized gains on MBS and ABS. One MBS security in the liquid asset portfolio did default in the quarter, but the loss this occasioned was insignificant (US$0.3 million).

Annualized operating return on average assets plus guarantees was 2.4%, and annualized operating return on average shareholders' equity was 8.2%. Both were weaker than in 2008 or any of the preceding four fiscal years, but noticeable improvements compared with fiscal 2009.

In contrast to most MDFIs, which do not make equity investments, the biggest uncertainty for IFC's operating income in the near term is contributions from its equity portfolio. Net unrealized losses on equity investments during fiscal 2009 were US$1.1 billion (not recognized in net income; these are recognized in comprehensive income--which was negative US$2.1 billion). By first-quarter fiscal 2010, the picture had already largely reversed, with net unrealized gains on equity investments during the quarter of US$773 million. Together with debt securities, net unrealized gains during the first quarter amounted to US$878 million. Given this, we believe prospects for IFC to continue its first-quarter turnaround in financial performance are bright, assuming global market conditions continue to improve, although we expect the contribution of equity investments to overall financial performance to remain highly variable.

Some further upside to the IFC's expense base could come from further reducing its expenditure for technical assistance and advisory services, and its dividend-like performance-based grants to IDA and others, in weak-revenue years.

Table 9 shows IFC's business by segment. Treasury services consist of its borrowing, liquid asset management, and asset/liability management. Client services consist primarily of lending, equity investing, and guarantees, but also include expenditure for technical assistance and advisory services and contributions to IDA. Although in the previous five years development-related operating income consistently accounted for more than 80% of total operating income, historically there has been huge variability in the relative contributions to operating and net income from IFC's development-related and treasury activities. Such swings reappeared in fiscal 2009, with operating income from treasury activities largely subsidizing negative operating income from development-related activities.

Table 9

International Finance Corp.--Income By Business Segment And Product

	--Year ended June 30--				
(Mil. US$)	**2009**	**2008**	**2007**	**2006**	**2005**
Income from development-related activities					
Interest income and financial fees from loans and guarantees	857	1,054	1,062	804	660
Charges on borrowings	(303)	(528)	(510)	(343)	(151)
Income from equity investments	(42)	1,688	2,292	1,224	1,365
Release of (provision for) losses on loans and guarantees	(438)	(38)	43	(15)	261
Income from debt securities	71	163	27	7	N.A.
Administrative expenses	(617)	(547)	(493)	(471)	(397)
Other income (expense)	153	113	99	109	18
Operating income from development-related activities	(319)	1,905	2,520	1,315	1,756
Expenditures for TAAS, PBG, and grants to IDA*	(585)	(650)	(246)	(90)	(38)
Income from development-related activities, TAAS, and PBG,and IDA grants (DRE operating income)	(904)	1,255	2,274	1,225	1,718
Foreign currency transaction (losses) gains on nontrading activities	10	(39)	(5)	6	
Net unrealized gains (losses) on non-trading financial instruments	71	92	(106)	35	18
Net income from development-related activities, TAAS, and PBG	(823)	1,308	2,163	1,266	1,736
Income from treasury activities					
Income from liquid asset trading activities	474	473	618	444	358
Interest income and financial fees from loans and guarantees	14	11	0	0	N.A.
Charges on borrowings	(185)	(254)	(291)	(260)	(158)
Administative expenses	(12)	(8)	(7)	(6)	(6)
Other noninterest income (expense)	0	0	0	0	0
Operating income from treasury activities	291	222	320	178	194
Net unrealized gains (losses) on nontrading financial instruments	381	17	7	(180)	44
Net income from treasury activities	672	239	327	(2)	238
Memo items					
Total operating income	(613)	1,477	2,594	1,403	1,912
Net income	(151)	1,547	2,490	1,264	2,014

DRE--Development-related exposure. IDA--International Development Association. PBG--Performance-based grants. TAAS--Technical assistance and advisory services. N.A.--Not available.

Liquidity

IFC modified its liquidity policy during fiscal 2007. Its former policy called for maintaining liquid assets equal to no less than 65% of projected net cash needs for the next three years. The new policy calls for liquid assets plus undrawn borrowing commitments from IBRD of no less than 45% of the next three year's projected net cash needs. Moreover, IFC will maintain proceeds from external funding equal to no less than 65% of the sum of:

- 100% of committed-but-undisbursed straight senior loans;
- 30% of committed guarantees; and
- 30% of committed client risk-management products.

Historically, IFC has maintained liquidity far exceeding its minimum required amounts. At fiscal year-end 2009, its cash and liquid assets were 75% of its three-year projected cash needs, well above the 45% minimum. By Standard & Poor's measures, liquid assets constituted 49% of total assets at fiscal year-end 2009, slightly increased from 43% at fiscal year-end 2008. In our view, the corporation continues to be among the most liquid of MDFIs.

Comparative Data

Comparative data for IFC and 15 other multilateral lending institutions may be found on pages 55 through 62 of Standard & Poor's Supranationals Special Edition 2009, which is available at www.standardandpoors.com. Enter "Supranationals Special Edition 2009" in the search box.

Ratings Detail (As Of February 26, 2010)*		
International Finance Corporation		
Counterparty Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Local Currency		--/--/NR
Senior Unsecured (454 Issues)		AAA
Counterparty Credit Ratings History		
09-Dec-1997	*Foreign Currency*	AAA/Stable/A-1+
05-Apr-1990		AAA/Stable/--
16-Jun-1989		AAA/--/--
09-Nov-1998	*Local Currency*	--/--/NR
09-Dec-1997		--/--/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.