

RatingsDirect®

International Finance Corp.

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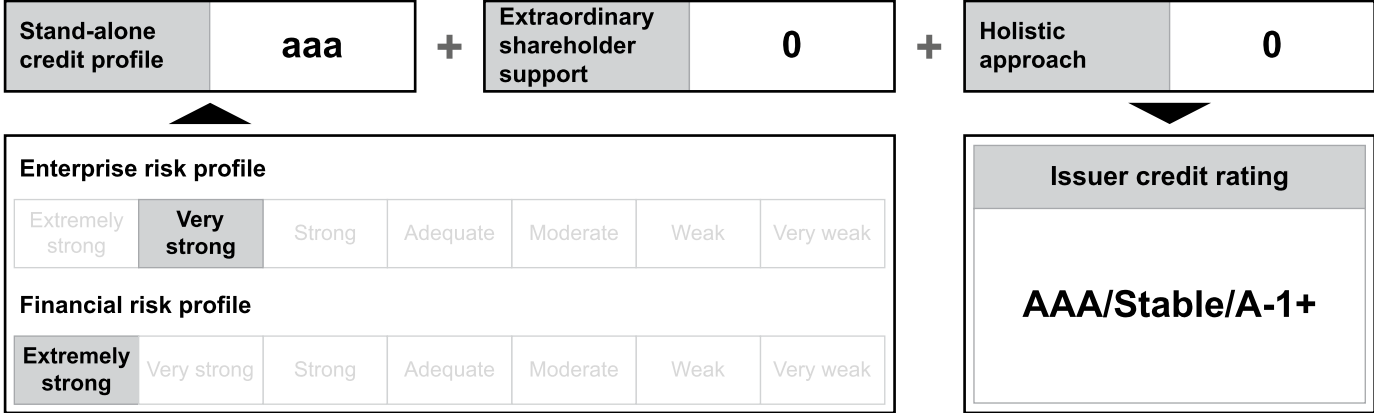
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International Finance Corp.



Outlook

The stable outlook reflects S&P Global Ratings' expectation that International Finance Corp. (IFC) will maintain an extremely strong financial risk profile, underpinned by high capital levels, a strong liquidity position, and expected continuity of its robust risk management policies. We further expect IFC will maintain a very strong enterprise risk profile while remaining a relevant institution for its member countries and for the World Bank Group's (WBG) general strategy under the cascade approach.

Issuer Credit Rating
AAA/Stable/A-1+

We could lower the ratings if, in the next two years and contrary to our expectations, relationships with shareholders deteriorate or IFC's financial indicators slip from currently extremely strong levels.

Rationale

Established in 1956, IFC is one of the oldest multilateral lending institutions and a member of the WBG. IFC's very strong enterprise risk profile is supported by its strong track record. In April 2018, WBG's Development Committee of the Board of Governors endorsed a \$5.5 billion paid-in capital increase, largely in support of IFC's 3.0 strategy designed to create a more deliberate approach to creating and opening new private-sector markets, particularly in International Development Association (IDA)-eligible and fragile and conflict-affected situations (FCS), as well as mobilizing new sources of funds to support private-sector solutions. We believe if IFC meaningfully delivers on this strategy, its enterprise risk profile could strengthen.

We assess IFC's financial risk profile as extremely strong based on a risk-adjusted capital (RAC) ratio of 32% as of fiscal-year 2019 (ending June 30). While we expect the capital increase to strengthen IFC's capital base, this will be counterbalanced, in our view, by the strategic increase in lending to IDA-eligible and FCS countries--possibly neutralizing the benefit on the RAC ratio.

IFC's funding program is broadly diversified both geographically and by type of investor, given the institution's frequent issuance in many markets and currencies. Our robust funding and liquidity ratios support IFC's financial risk profile.

Enterprise Risk Profile: Strong Shareholder Support for IFC's Private-Sector-Focused Mandate

- WBG's Development Committee of the Board of Governors renewed their commitment to IFC with the 2018 approved \$5.5 billion capital increase, underscoring the importance of private-sector-led development solutions.
- The reorganization around IFC's 3.0 long-term strategy could strengthen the policy importance in the medium term.
- IFC enjoys a diverse and balanced group of government shareholders and robust risk management practices.

Policy importance

Established in 1956, IFC is one of the oldest multilateral lending institutions and one of the largest by number of shareholders, and it is a member of the WBG. IFC is a legal entity, separate and distinct from the International Bank for Reconstruction and Development (IBRD), IDA, Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID), with its own articles of agreement, share capital, financial structure, management, and staff. IFC's policy importance is supported by its track record of more than six decades of fulfilling its mandate.

We view its private-sector-focused mandate and significant sectoral focus on financial services as being partly fulfilled by other private-sector-focused institutions or domestic public institutions in IFC's countries of operations. However, this could be counterbalanced by shareholders' renewed commitment to private-sector-led development solutions and IFC's stronger focus on creating and opening new markets to support private-sector mobilization through its advisory services, and risk mitigation and credit enhancement products (known as maximizing finance for development)--which is in line with the WBG's forward-looking vision introduced in 2016.

On April 21, 2018, the WBG's Development Committee of the Board of Governors endorsed a \$5.5 billion capital increase for IFC as part of a \$13 billion paid-in capital increase package for the IBRD and IFC. The additional capital is intended to strengthen IFC's ability to take on greater risks and bring innovative private-sector solutions at scale, particularly in FCS and IDA-eligible countries given the WBG's increased focus in these areas. In return, IFC has agreed to increase its commitments to IDA-eligible countries and FCS.

We view the IFC business model as particularly suited to achieve these goals, particularly with the adoption of the IFC 3.0 long-term strategy--which represents a more deliberate and systematic operating model to support market creation and private-sector mobilization. This has included a new operations team and workforce planning to align staffing and strategy with a greater focus at the regional and country level, as well as the introduction of new tools and frameworks to improve operational delivery and integrate the World Bank's development solutions.

New long-term finance commitments declined in fiscal-year 2019 to \$8.9 billion from \$11.6 billion in fiscal-year 2018, and loan and equity disbursements decreased to \$9.1 billion from \$11.2 billion--mainly driven by this reorganization,

although we expect a stronger pipeline in fiscal-year 2020 as most of these operational changes have now been completed. The institution's own-account long-term finance commitments has already increased by 56% in the first half of 2020 compared with the same period last year.

We believe that the successful implementation of this strategy--evidenced by an increase in exposure to FCS and IDA-eligible countries, growing use of IFC's advisory services, and co-lending platforms, combined with increased risk mitigating and credit enhancement products--would lead to a stronger enterprise risk profile over the medium term. The international community, including the multilateral sector, has renewed its focus on the private-sector development model and mobilization to bridge the infrastructure financing gap in support of the Sustainable Development Goals (SDGs) 2030 Agenda (See "It's Time For A Change: MLIs And Mobilization Of The Private Sector," Sept. 21, 2018).

In fiscal-year 2019, IFC's total core mobilization was \$10.2 billion, slightly lower than fiscal-year 2018 at \$11.7 billion. IFC mainly mobilizes private-sector capital through its loan participations or parallel loans, where it can act as lead arranger or lender of record. IFC's asset management company invests third-party capital along with IFC capital in its equity investments. It raised \$10.1 billion in funds cumulatively through fiscal-year 2019. IFC's managed co-lending portfolio program is another mobilization platform where investors pledge capital upfront and then IFC identifies eligible loan investments. As of fiscal-year 2019, eight global investors have committed over \$8.1 billion.

One of the challenges, however, is encouraging private-sector mobilization in IDA-eligible countries and FCS--which typically have lower mobilization rates. Part of IFC's strategy is to strengthen its upstream engagement to evaluate and implement country and sector reforms that support greater private-sector participation.

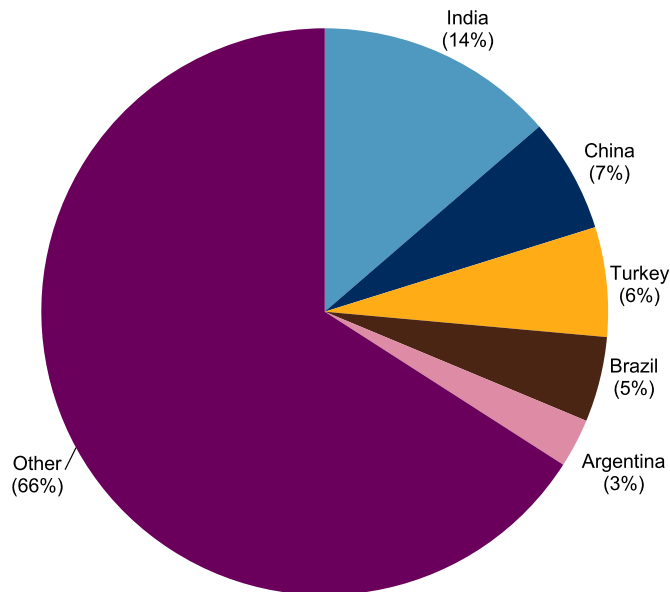
IFC created Global Upstream Units in 2019 and has worked to integrate its advisory services into its investment engagements. For instance, IFC created the Creating Markets Advisory Window in fiscal-year 2018 to focus on IDA and FCS markets and received \$70 million in approved funding. The \$2.5 billion IDA Private Sector Window, partly administered by IFC, is another tool to support market creation in high risk sectors and countries. As of fiscal-year 2019, \$578 million of instruments had been approved under this window, of which \$358 million relate to IFC. We believe these organizational changes, combined with IFC's advisory windows and financing mechanisms, will over time support higher mobilization rates in these countries.

As a fully specialized private-sector lender, IFC does not benefit from preferred creditor treatment (PCT)--which we only apply to sovereign exposures. Consequently, we do not incorporate PCT in our assessment of IFC's enterprise risk profile. However, IFC does generally benefit from preferential treatment granted by the governments of countries in which it operates. We expect this will continue, and we incorporate this into our assessment of IFC's financial risk profile. IFC has been exempt from exchange controls, whereas some commercial debtors have not (for example, in Ukraine).

Chart 1

IFC Five Largest Countries Purpose-Related Exposures

As a percentage of gross purpose-related assets plus guarantees



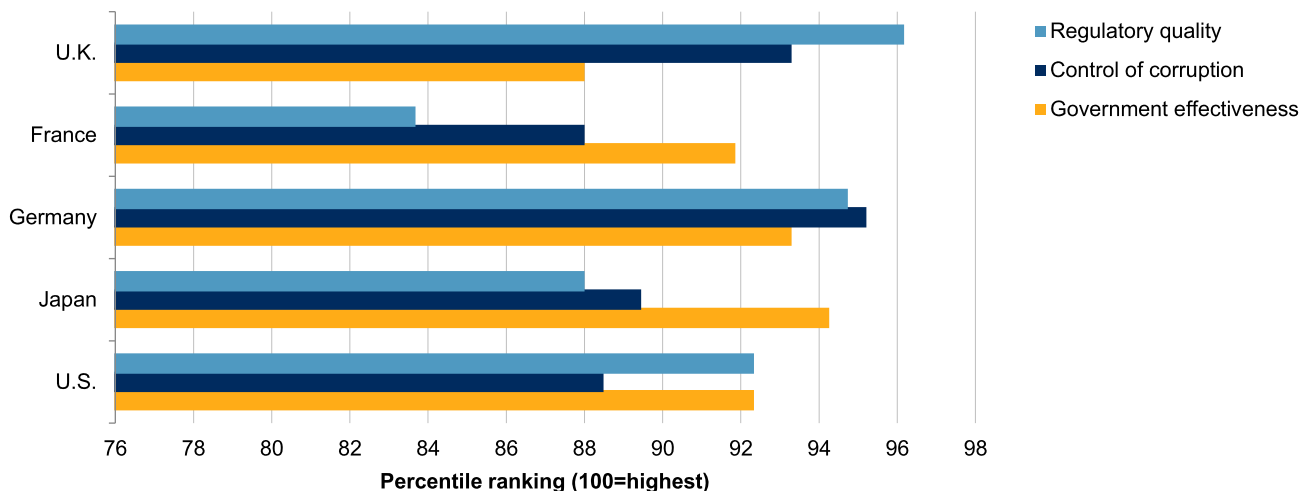
Source: S&P Global Ratings.
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Governance and management expertise

IFC is owned by 185 member countries, the U.S. being the largest shareholder with 21% of the voting rights, followed by Japan (6%) and Germany (4.8%). No major shareholder has recently withdrawn from IFC, and none are expected to withdraw in the medium term. We view IFC's shareholder diversity with, on average, countries with high-ranking governance as supportive of its governance assessment based on the World Bank's Governance Indicators--which is further enhanced by its robust management expertise and its risk practices.

Chart 2**Five Largest Shareholders**

Selected World Bank governance indicators



Source: S&P Global Ratings.

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IFC has no private-sector shareholding, and shareholders allow multilateral lending institution earnings to be retained, which further supports its assessment.

We view IFC's management as robust given its strategic implementation track record--particularly as it aligns to its IFC 3.0 strategy. Beginning in 2017, the institution underwent important organizational changes, which extended to workforce planning, a reorganization in managers and directors, as well as changes to its processes, frameworks, and methodologies. In fiscal-year 2019, IFC completed the restructuring of its operations leadership team, with 15 new directors appointed during the year. We now believe the institution is equipped with the right tools to deliver under the new strategy.

IFC's financial and risk management policies, limits, and methodologies are robust and conservative. We believe the institution has a strong credit and equity culture, supported by its four regional chief risk officers in addition to the organization chief risk officer. As a result, we believe IFC is well positioned to manage higher risks associated with its growing exposure to IDA-eligible countries and FCS.

Financial Risk Profile: Robust Capitalization Levels, And Very Strong Funding And Liquidity

- IFC enjoys an extremely strong capital adequacy, combined with its expected paid-in capital increase, which will support larger lending volumes.
- While mitigated by a strong recovery track record, the shift to higher-risk IDA and FCS countries could generate an increase in nonperforming loans and losses.

- IFC has a diversified funding base, along with a matched-funding policy limits risk.

Capital adequacy

We consider IFC's financial profile as extremely strong thanks to its substantial capitalization. We position its RAC ratio at 32% as of fiscal-year 2019, incorporating the parameters as of Jan. 14, 2020. The ratio increased from 29% as of fiscal-year 2018, driven by negative growth in the disbursed portfolio during the year given the institution's focus on implementing organizational changes in the context of IFC 3.0. No paid-in capital from the expected \$5.5 billion increase is factored in as of the end of June 2019.

The capital base continued to strengthen to \$27.6 billion as of June 30, 2019, from \$26.1 billion as of June 30, 2018. While IFC reported a comprehensive loss of \$44 million in fiscal-year 2019 (positive comprehensive income of \$1,086 million in fiscal-year 2018), the retained earnings benefited from a transition adjustment of \$2,872 million (of which \$1,402 million was a transfer from Accumulated Other Comprehensive Income) as the institution adopted a new accounting standard principle for measurement of financial assets and liabilities. The decrease in comprehensive income was driven by lower valuations on equity investments and higher debt security impairment losses due to currency losses.

IFC's capital position was also supported in part by its change in methodology for calculating designations--which are allocations of retained earnings used for grants, its advisory services, and other funds--now linked to its capital adequacy framework. In addition, IFC introduced a limit to the maximum cumulative amount that can be transferred to IDA during the IDA18 replenishment of \$300 million with no more than \$100 million in any given year. In fiscal-year 2019, no transfers to IDA were made, compared with \$80 million in fiscal-year 2018, \$101 million in fiscal-year 2017 and \$330 million in fiscal-year 2016, when they exceeded net income. IFC transfers to IDA (after IDA18) have also been suspended beginning in fiscal-year 2020.

Our expectation is that the capital injection will be accompanied by an increase in IFC's portfolio over time with a stronger focus on lower-rated IDA and FCS countries--possibly neutralizing the benefit on the RAC ratio. We expect that as IFC increasingly shifts more of its portfolio to higher-risk FCS and IDA-eligible countries, this could generate an increase in losses. However, we believe this will be largely mitigated by generally higher recovery prospects given that IFC tends to be a key stakeholder in these areas with strong ties at the government and project level, which supports working with countries that typically have difficult legal environments.

The disbursed investment portfolio decreased moderately to \$47.8 billion at the end of fiscal-year 2019 from \$48.5 billion the year before. However, we expect the portfolio to increase over the coming years, supported by the organizational changes already incorporated as well as the capital injection expected to go into effect between fiscal years 2020 and 2022. This trend can be witnessed during the first quarter of fiscal-year 2020 with the disbursements increasing by 10%.

The portfolio, including loans, equities, and guarantees remains well diversified by country and sector; the 10 largest country exposures account for 51% of the disbursed portfolio, with the largest share of the disbursed portfolio (45%) going to the finance and insurance sector. India has been IFC's largest country of exposure since 2010, accounting for about 12% of its committed portfolio.

New long-term finance commitments indicate that no particular region will amount to more than 25% of the committed portfolio: 25% is in Latin America and the Caribbean, 6% in Europe and Central Asia, 15% in East Asia and the Pacific, 18% in South Asia, and 17% in Sub-Saharan Africa. The largest change in the long-term finance commitments include 74% decrease in Europe and Central Asia (\$568 million in fiscal-year 2019, down from \$2,179 million in fiscal-year 2018).

IFC's loss experience has consistently improved, with nonaccruing loans reaching 4.3% of average loans as of fiscal-year 2019, having peaked at 6.5% in 2016. Total loss reserves also declined to 4.7% of the portfolio, down from 7.5% at the end of fiscal-year 2015. Write-offs of loan principal amounts decreased during fiscal-year 2019 to \$176 million, compared with \$302 million in 2018. Equity write-downs ceased to exist beginning in fiscal-year 2019 due to the change in the accounting standard (ASU 2016-01) requiring reporting the full fair value of equity investments through net income. As a result, IFC's overall principal writedowns totaled \$176 million in fiscal-year 2019, compared with \$1,047 million in fiscal-year 2016.

IFC's reported net income declined to \$93 million in fiscal-year 2019 from \$1,280 million in fiscal-year 2018--driven mainly by weaker total returns from the equity portfolio. Net income was also affected by the change in accounting standard. Also, lower realized gains on sales of equity investments and higher debt security impairment losses weighed on income.

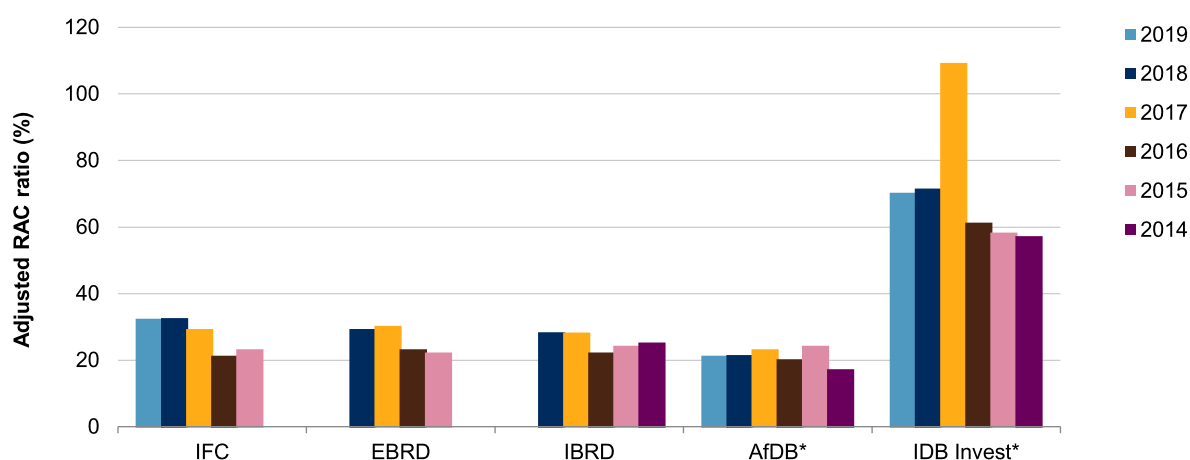
Table 1

IFC Risk-Adjusted Capital Framework Data: June 2019			
(Mil. \$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	18,702	1,815	10
Institutions	40,664	24,283	60
Corporate	19,214	27,647	144
Retail	-	-	-
Securitization	5,675	2,060	36
Other assets	3,846	6,670	173
Total credit risk	88,100	62,475	71
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the Banking Book	13,736	40,940	298
Trading book market risk		-	
Total market risk		40,940	
Operational risk			
Total operational risk		10,556	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments		113,970	100

Table 1

IFC Risk-Adjusted Capital Framework Data: June 2019 (cont.)		
MLI adjustments		
Single name (on corporate exposures)	203	1
Sector (on corporate portfolio)	(3,043)	(11)
Geographic	(20,481)	(20)
Preferred creditor treatment (on sovereign exposures)	-	-
Preferential treatment (on FI and corporate exposures)	(6,377)	(12)
Single name (on sovereign exposures)	-	-
Total MLI adjustments	(29,699)	(26)
RWA after MLI adjustments	84,271	74
	Total adjusted capital	S&P Global Ratings RAC Ratio (%)
Capital ratio before adjustments	27,032	23.7
Capital ratio after adjustments	27,032	32.1

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Chart 3**Risk-Adjusted Capital Ratio Peer Comparison**

Source: S&P Global Ratings. Note: Data is based on fiscal year end for all entities. *2019 data for AfDB and IDB Invest is as of June 30, 2019. IFC--International Finance Corp. EBRD--European Bank for Reconstruction and Development. AfDB--African Development Bank.

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Funding and liquidity

Funding. IFC's funding program is broadly diversified both geographically and by type of investor, given the institution's frequent issuance in many markets and currencies. In fiscal-year 2019, IFC raised \$15.5 billion across 28 currencies, although the U.S. dollar remains its main funding currency. IFC's funding program authorization for fiscal-year 2020 allows for up to \$19 billion equivalent, including short-term and medium-term notes.

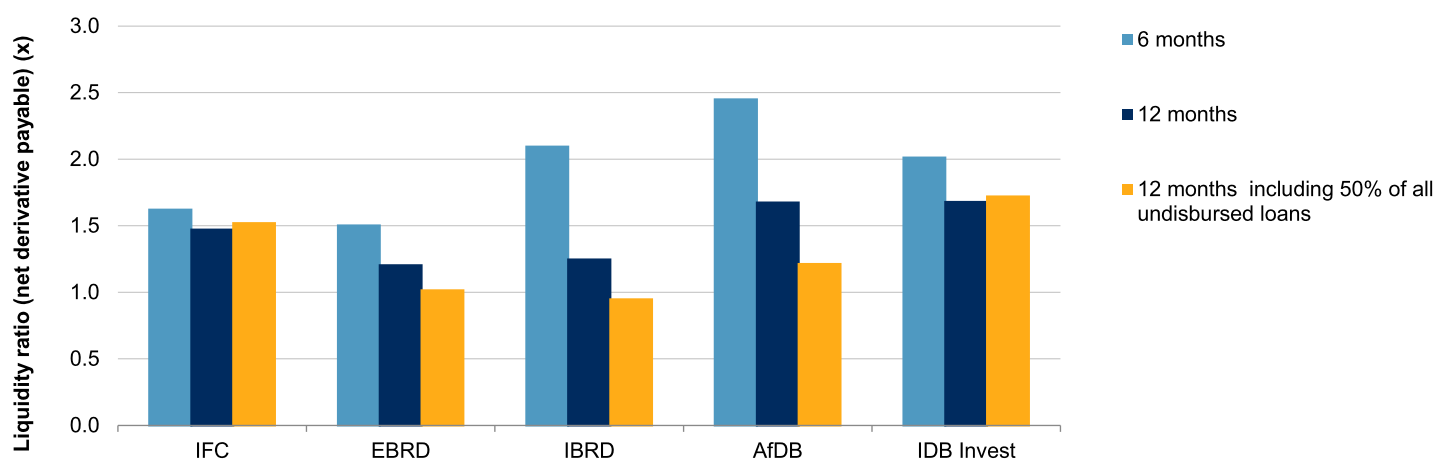
IFC follows a matched-funding policy under which loan assets are funded by liabilities that have similar characteristics in terms of interest rate basis, currency, and duration, except for new products, approved by the Board of Directors, involving asset-liability mismatches. Use of derivatives allows borrowings and investments in various currencies and interest rate schemes.

Liquidity. IFC maintains a strong liquid asset cushion, accounting for 49.5% of total adjusted assets and 91% of gross debt as of June 30 2019.

Our liquidity ratios--which support IFC's extremely strong financial risk profile--indicate that it would be able to fulfill its mandate as planned for at least one year, even under stressed market conditions, without access to the capital markets. For fiscal-year 2019 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio considering the netted derivatives position was 1.5x with scheduled loans disbursements while the six-month ratio was 1.6x. We estimate that IFC would not need to slow down disbursements under a stress scenario, which takes into account 50% of all undisbursed loans, regardless of the planned disbursement date, as if they were coming due in the next 12 months.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



Source: S&P Global Ratings. Note: Data for IFC is as of June 2019, IBRD is as of June 2018, and all other entities is as of December 2018. IFC--International Finance Corp. EBRD--European Bank for Reconstruction and Development. AfDB--African Development Bank.

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Extraordinary Shareholder Support

IFC has no callable capital, so the long-term issuer credit rating reflects our assessment of IFC's stand-alone credit profile at 'AAA'.

Table 2

IFC Selected Indicators					
(Mil. \$)	2019	2018	2017	2016	2015
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.)	47,552	47,653	45,530	42,609	42,489
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	0	0	0	0	0
Private-sector loans/purpose-related exposures (%)	100	100	100	100	100
Gross loan growth (%)	3.3	7.1	7.4	2.8	-3.9
PCT ratio	0	0	0	0	0
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	76.9	76.9	76.9	76.9	76.9
Concentration of top two shareholders (%)	27.0	27.0	27.0	27.0	27.0
Eligible callable capital	N.A.	N.A.	N.A.	N.A.	N.A.
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio	32.1	32.3	29	21	23
Net interest income/average net loans (%)	4.0	4.3	5.0	5.3	5.8
Net income/average shareholders' equity (%)	0.3	5.0	5.9	-0.1	1.7
Impaired loans and advances/total loans (%)	3.9	4.1	5.9	6.6	6.7
FUNDING AND LIQUIDITY					
Liquidity ratios					
Liquid assets/adjusted total assets (%)	49.5	48.1	49.6	51.1	50.0
Liquid assets/gross debt (%)	90.7	85.3	84.7	83.8	85.5
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables)	1.6	1.5	1.9	1.6	1.6
12 months (net derivate payables)	1.5	1.3	1.4	1.4	1.3
12 months (net derivate payables) including 50% of all undisbursed loans	1.5	1.1	1.1	N.A.	N.A.
Funding ratios					
Gross debt/adjusted total assets (%)	54.5	56.3	58.6	61.0	58.6
Short-term debt (by remaining maturity)/gross debt (%)	20.5	23.5	25.7	26.4	19.6
Static funding gap (without planned disbursements)					
12 months (net derivate payables)	1.4	1.5	1.4	1.2	1.4
SUMMARY BALANCE SHEET					
Total assets	99,257	94,272	92,254	90,434	87,548
Total liabilities	71,651	68,136	67,201	67,668	63,122
Shareholders' equity	27,606	26,136	25,053	22,766	24,426

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital.

Table 3

IFC Peer Comparison					
(Mil. \$)	IFC	EBRD	IBRD	AfDB	IDB Invest
Total purpose-related exposure	47,552	33,649	202,216	29,351	1,756
PCT	N.M.	N.M.	0.3	1.8	N.M.
RAC	32.1	29.0	28.1	21.0	71.3
Liquidity ratio 12 months (net derivate payables)	1.5	1.2	1.2	1.7	1.7
Funding gap 12 months (net derivate payables)	1.5	1.4	1.3	1.6	2.2

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.M.--Not meaningful. IFC--International Finance Corp. EBRD--European Bank for Reconstruction and Development. AfDB--African Development Bank. Note: Data for IFC is as of June 2019. Purpose-related exposures for IBRD are as of June 2019 and other data as of June 2018. Data for all other entities is as of December 2018.

Ratings Score Snapshot

Enterprise Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	Strong	Adequate	Moderate	Weak		
Governance and Management	Strong		Adequate		Weak		
Financial Risk Profile	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 16, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 16, 2019

Ratings Detail (As Of February 25, 2020)*

International Finance Corp.

Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	A-1+
Senior Unsecured	AAA
Short-Term Debt	A-1+

Issuer Credit Ratings History

09-Dec-1997	<i>Foreign Currency</i>	AAA/Stable/A-1+
05-Apr-1990		AAA/Stable/--
16-Jun-1989		AAA/--/--
27-Dec-2017	<i>Local Currency</i>	AAA/Stable/A-1+
09-Nov-1998		--/--/NR
09-Dec-1997		--/--/A-1+

Related Entities

IFC Sukuk Co.

Senior Unsecured	AAA
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*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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