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Research Update:

International Finance Corp. Ratings Affirmed At 'AAA/A-1+' On Criteria Revision; Outlook Remains Stable

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Research Update:

International Finance Corp. Ratings Affirmed At 'AAA/A-1+' On Criteria Revision; Outlook Remains Stable

Overview

- Following a review of the International Finance Corp. (IFC) under our revised criteria for multilateral lending institutions (MLIs), we are affirming our 'AAA/A-1+' ratings on IFC and removing them from under criteria observation (UCO).
- The stand-alone credit profile for IFC is 'aaa', reflecting our assessment of its very strong enterprise risk profile and extremely strong financial risk profile.
- The stable outlook reflects our view that the IFC will maintain an extremely strong financial risk profile and robust management policies while remaining a relevant institution for its member countries and for the World Bank Group's general strategy.

Rating Action

On Feb. 13, 2019, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on the International Finance Corporation (IFC). The outlook remains stable.

At the same time, we removed the ratings from UCO, where we placed them on Dec. 14, 2018, after publishing our revised MLI criteria.

Rationale

The ratings on the IFC are based on its very strong enterprise risk profile and extremely strong financial risk profile. IFC has no callable capital, so the long-term issuer credit rating reflects our assessment of IFC's stand-alone credit profile at 'aaa'. We outline these factors in our revised criteria, "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," published Dec. 14, 2018.

The assessment of IFC's role and public policy mandate is supported by its track record of more than six decades of fulfilling its mandate. 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 World Bank Group (WBG). IFC is a legal entity, separate and distinct from the

International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes, with its own articles of agreement, share capital, financial structure, management, and staff.

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 following 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)--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 US\$5.5 billion capital increase for IFC as part of a US\$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 fragile and conflict-affected countries (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 countries.

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. 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.

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, and 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).

IFC is owned by 184 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--which is further enhanced by its robust management

expertise and its risk practices.

IFC's risk-adjusted capital (RAC) ratio after diversification as of fiscal-year 2018 (ending June 30) increased to 29% from 27% under our new criteria--well above our threshold for an extremely strong capital adequacy assessment (23%). The increase was driven by MLI-specific adjustments to the risk weights on IFC's exposures to financial institutions and corporate entities to capture the effects of preferential treatment.

In June 2018, IFC reported positive comprehensive income for the second year in a row of US\$1,086 million, supporting its capital base, which increased to US\$26.14 billion on June 30, 2018, from US\$25.05 billion the year before.

While market conditions in 2018 led to lower income from investments and liquid assets in its trading portfolio--as well as unrealized losses on its debt and equity investments--this was more than offset by higher income on loans and guarantees, lower equity write-offs, and a reduction in its IDA transfers.

We expect IFC will continue to accumulate capital, 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 US\$300 million with no more than US\$100 million in any given year. In fiscal-year 2018, transfers to IDA declined to US\$80 million compared with US\$101 million in fiscal-year 2017 and with \$330 million in fiscal-year 2016, when they exceeded net income. Additionally, IFC transfers to IDA (after IDA18) have also been suspended through fiscal-year 2030.

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 IDA and FCS 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.

IFC's loss experience has consistently declined, with nonaccruing loans reaching 4.6% of average loans as of fiscal-year 2018, having peaked at 6.5% in 2016. Total loss reserves also declined to 5.1% of the portfolio, down from 5.3% at the end of fiscal-year 2015. Write-offs of loan principal amounts decreased during fiscal-year 2018 to US\$302 million, compared with US\$385 million in 2017. Additionally, there has been a continued decrease in equity write-downs to US\$446 million in fiscal-year 2018 from US\$581 million in fiscal-year 2017 and US\$744 million in fiscal-year 2016. As a result, IFC's overall principal write-downs totaled US\$748 million in fiscal-year 2018, compared with US\$966 million the previous year.

IFC's lending portfolio continued increasing in 2018, a trend we expect will continue under its business plan for fiscal years 2018-2020. The outstanding portfolio increased to US\$46.0 billion at the end of fiscal-year 2018 from US\$43.7 billion the year before. The portfolio, including loans, equities, and guarantees, has expanded since 2015 and remains well diversified by country and sector; the 10 largest country exposures account for 45% of the disbursed portfolio, with the largest share of disbursements (44%) going to the finance and insurance sector. India has been IFC's largest country of exposure since 2010, accounting for about 10% of its committed portfolio.

New long-term finance commitments indicate that no particular region will amount to more than 25% of the committed portfolio: 20% is in Latin America and the Caribbean, 19% in Europe and Central Asia, 15% in East Asia and the Pacific, 17% in South Asia, and 12% in Sub-Saharan Africa. The largest change in the long-term finance commitments was with the 30% decrease in Sub-Saharan Africa (US\$1,409 million in fiscal-year 2018, down from US\$2,005 million in fiscal-year 2017).

Our funding and 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 2018 data and incorporating our updated liquidity haircuts, our 12-month liquidity ratio considering the netted derivatives position was 1.3x with scheduled loans disbursements while the six-month ratio was 1.5x.

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 2018, IFC raised US\$16 billion across 29 currencies, although the U.S. dollar remains its main funding currency. IFC's funding program authorization for fiscal-year 2019 allows for up to US\$17 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.

Outlook

The stable outlook reflects our expectation that the IFC would 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 WBG's general strategy under the cascade approach. 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.

Ratings Score Snapshot

Issuer credit rating	AAA/Stable/A-1+
SACP	aaa
Enterprise risk profile	Very strong
Policy importance	Strong
Governance and management	Strong
Financial risk profile	Extremely strong
Capital adequacy	Extremely strong
Funding and liquidity	Very strong
Extraordinary support	0
Callable capital	0
Group support	0
Holistic approach	0

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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Ratings On 32 Multilateral Lending Institutions And Supranationals Placed Under Criteria Observation On Criteria Update, Dec. 14, 2018
- Criteria Guidance: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Dec. 14, 2018
- Supranationals Special Edition, Oct. 11, 2018

Ratings List

Ratings Affirmed

International Finance Corp.

Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA
Senior Unsecured	AAAp

IFC Sukuk Co.

Senior Unsecured	AAA
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