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**Research Update:**

## International Finance Corp. 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable

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## Research Update:

# International Finance Corp. 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable

## Overview

- International Finance Corp.'s (IFC) performance in 2018 has continued to support solid financial metrics underpinning its extremely strong financial profile.
- We continue to assess IFC's business profile as very strong, reflecting its diverse shareholder composition across its 184 members and more than six decades of fulfilling its public policy mandate.
- We are affirming our 'AAA/A-1+' issuer credit ratings on IFC.
- The stable outlook reflects our view that the IFC would maintain an extremely strong financial 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 Dec. 13, 2018, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on multilateral lending institution International Finance Corp. (IFC). The outlook remains stable.

## Rationale

We base our ratings on IFC's very strong business profile and extremely strong financial profile. The institution has no callable capital, so the long-term issuer credit rating reflects our assessment of IFC's stand-alone credit profile at 'aaa'.

On April 21, 2018, the World Bank Group's (WBG) 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 International Bank for Reconstruction and Development (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 International Development Association (IDA)-eligible countries--given the WBG's increased focus on fragile and conflict-affected situations, and riskier, untested markets. 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 and associated toolkits to support market creation and private-sector mobilization.

During 2018, IFC delivered on its first transactions and developed a pipeline of projects for the IDA18 IFC-MIGA \$2.5 billion private-sector window, as well as approved a designation of US\$70 million of its retained earnings for the Creating Markets Advisory Window, which focuses on creating markets in IDA and FCS countries.

We also view its Managed Co-Lending Portfolio Program with over US\$7 billion raised as of fiscal-year 2018, and as IFC's subsidiary, the IFC Asset Management Co. LLC, which manages 12 funds with \$10.1 billion of assets under management, as important mechanisms to deliver on catalyzing private mobilization, an area shareholders are increasingly focusing on.

As such, we expect that these ancillary services will become increasingly more relevant to IFC's role and policy importance, which bolsters its very strong business profile.

We expect that IFC can maintain its solid financial performance during fiscal-year 2018, in line with the previous year, over the next two years.

IFC's risk-adjusted capital (RAC) ratio after diversification remained at 27%--well above our threshold for an extremely strong capital adequacy assessment. The RAC ratio after diversification does not reflect the criteria correction, "Criteria For Assessing Bank Capital Corrected," published July 11, 2017. In our assessment, the impact of the correction on the ratio is not material to the rating.

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 the change in methodology for calculating designations now linked to its capital adequacy framework and 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 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 its 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 a significantly larger portfolio over time with a stronger focus on lower-rated IDA and FCS countries--neutralizing the benefit on the RAC ratio.

Although IFC's loss experience peaked with nonaccruing loans increasing to 6.5% of average loans in 2016, it has consistently declined thereafter reaching 4.6% as of fiscal-year 2018, the lowest it's been in the past five years. 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\$304 million, compared with US\$417 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.

We expect that as IFC increasingly shifts more of its portfolio to higher risk IDA and FCS countries, this could generate further losses. However, we believe this will be largely mitigated by generally higher recovery prospects given the general lower project leverage and incentive for successful workouts in countries that typically have difficult legal environments.

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 fiscal year ended June 30, 2018 (fiscal 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 disbursed investment portfolio.

New long-term finance commitments show no particular region amounting to more than 25% of the committed portfolio: 20% are 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). This strong diversification partly explains the significant rise in our RAC ratio before adjustments for multilateral institutions to 27% from 15%.

IFC has a track record of more than six decades of fulfilling its public policy mandate--underpinning its very strong business profile. 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 IBRD, 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.

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 as supportive of its governance, which is further enhanced by its robust management expertise and its risk practices.

The corporation's private-sector-focused mandate and significant sectoral focus on financial services limit our assessment of its role, which we view as potentially being partly fulfilled by another private or domestic public institution. IFC's role in developing countries is to finance private-sector investment, mobilize capital in international financial markets, and provide advisory services.

IFC cannot benefit from preferred creditor treatment, given its focus on private-sector lending. Instead, IFC generally benefits from preferential treatment granted by the governments of countries in which it operates, and we expect this will continue. IFC has been exempt from exchange controls, whereas some commercial debtors have not (for example, in Ukraine).

At the same time, like other major multilateral institutions, IFC has a countercyclical mission, with its investments periodically shifting to those regions where the private sector may be experiencing difficulty accessing markets or facing a difficult economic environment.

Our funding and liquidity ratios--which support its extremely strong financial profile--indicate that IFC 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.

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 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 business 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.

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 2015
- Criteria - Governments - General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Criteria - Financial Institutions - Banks: Multilateral Lending Institutions Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Supranationals Special Edition 2017: Comparative Data For Multilateral Lending Institutions, Oct. 20, 2017

## Ratings List

Ratings Affirmed

International Finance Corp.

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

IFC Sukuk Co.

Senior Unsecured Foreign Currency	AAA
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action

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