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## Research Update:

# Ratings On International Finance Corporation Affirmed At 'AAA/A-1+' On Criteria Revision; Outlook Stable

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Ratings On International Finance Corporation Affirmed At 'AAA/A-1+' On Criteria Revision; Outlook Stable

## Overview

- Following a review of the International Finance Corporation (IFC) under our revised criteria for multilateral lending institutions (MLIs), we have affirmed our long- and short-term issuer credit ratings on IFC at 'AAA/A-1+'.
- The stand-alone credit profile for IFC is 'aaa', reflecting our assessment of its "very strong" business profile and "extremely strong" financial profile, as our criteria define these terms.
- The stable outlook reflects our view that IFC's capital position and liquidity are strong enough to withstand a period of severe financial distress affecting private sector entities in its countries of operations.

## Rating Action

On Dec. 27, 2012, Standard & Poor's Ratings Services affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings (ICRs) on the International Finance Corporation (IFC). The outlook is stable.

## Rationale

The ratings on the IFC are based on its "very strong" business profile and "extremely strong" financial profile, as our criteria define these terms. Its stand-alone credit profile (SACP) is 'aaa'. We outline these factors in our revised criteria, "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," published Nov. 26, 2012, on RatingsDirect on the Global Credit Portal.

Our "very strong" assessment of IFC's business profile rests on our view of its role, mandate, strength of its relationship with shareholders, governance, and preferential treatment by shareholders vis-à-vis commercial lenders. IFC is a member of the World Bank Group, along with the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. Although it cooperates closely with IBRD, the IFC is legally and financially independent of other World Bank Group entities, with its own Articles of Agreement, shareholders, financial structure, management, and staff. It was established in 1956 to complement the activities of IBRD by encouraging the growth and

development of the private sector in developing member countries. IFC has gradually increased its number of shareholders during the past 56 years: It began with 56 members, and currently has 184 members -- second only to IBRD, among rated MLIs, in terms of the breadth of global representation among shareholders.

IFC pursues its mandate principally by lending to and investing in private-sector entities, without government guarantees. Although in the past IFC obligors have been exempted from exchange controls when debtors of commercial external creditors have not and although the IFC has greater influence on governmental policy formation regarding the members' business environment, it does not benefit from preferred creditor treatment in the same manner as an MLI lending only to the public sector, in our view.

Our assessment of IFC's financial profile is "extremely strong". IFC had US\$76 billion in total assets at fiscal year-end 2012, of which US\$23 billion was loans and debt issued by clients and US\$10 billion was equity investments. In addition, IFC had US\$3 billion in guarantees outstanding, bringing its purpose-related exposure (PRE) to US\$36 billion, or 46% of total assets plus guarantees. This relatively low percentage for an MLI is mirrored by IFC's unusually high holdings of cash, deposits, and liquid securities, which equaled 49% of total assets.

As a global institution, IFC's geographic exposure is well diversified, both within countries and aggregating exposures at the country level. In terms of aggregate country level exposures, the Republic of India has been IFC's largest country of exposure for several years, with about 9% of its disbursed investment portfolio at fiscal year-end June 30, 2012. Its five largest country PREs totaled less than 33% of total exposure. IFC's high level of geographical and sectorial diversification accounts in part for our calculation of risk-adjusted capital (RAC) after adjustments of 31% being higher than our figure of 18% before adjustments. The main cause of the higher ratio after adjustments is, however, the cap to the risk weight for high risk exposures, so that the capital allocated does not exceed the exposure amount. In addition, IFC's loss experience has been modest. The IFC wrote off US\$69 million in loans during the past two years (less than 0.5% of total loans as of fiscal 2012 year-end, and partially offset by recoveries of US\$6 million).

We expect IFC to be able to finance a large part of its growth through internal capital generation, given its profitable record. IFC recorded net income of US\$1.3 billion in fiscal 2012, and US\$1.5 billion before net losses on non-trading financial instruments; the latter measure represented a return on equity of more than 5% in each of the past 10 years except fiscal 2009 (in which IFC lost about 3.5%, by this measure). Although habitual grants to IDA and other board of governors approved transfers (US\$330 million in fiscal 2012) reduce the flow from income to retained earnings, we still expect the latter to continue to grow, as they have in each of the past 10 years except fiscal 2009.

In addition, on March 9, 2012, IFC's board of governors approved a US\$200

million increase in paid-in capital, to be paid in over a number of years.

Our funding and liquidity ratios for IFC indicate that it would be able to fulfill its mandate for at least one year, even under extremely stressed market conditions, without access to the capital markets. Moreover, we estimate that it would not need to reduce the scheduled disbursements of its loan commitments, even if half of the total commitments were to be drawn in one year. We believe IFC benefits from strong access to capital markets, bolstered by frequent issuance in many markets and currencies.

IFC has no callable capital, unlike most MLIs, so our ICRs reflect our 'aaa' SACP.

## Outlook

The outlook on IFC is stable. We expect IFC's capital position and liquidity to be strong enough to withstand severe financial distress in its countries of operation. The most recent capital increase, while small, nevertheless shows continued shareholder commitment to the MLI. If -- contrary to our expectations -- either IFC's capitalization or liquidity ratios were to decline materially, or we were to come to the view that shareholder support for its public policy importance had diminished, the ratings could come under pressure.

## Related Criteria And Research

Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012

## Ratings List

Ratings Affirmed

International Finance Corp.

Issuer Credit Rating

Foreign Currency

AAA/Stable/A-1+

Senior Unsecured

AAA

Senior Unsecured

cnAAA

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