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International Finance Corp.

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*(**Editor's Note:** This article, originally published Feb. 3, 2009, has been republished to clarify certain details regarding the IFC's own measurement of its capital adequacy.)*

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 [DRE])
- Membership in the World Bank Group and expected treatment as a preferred creditor

Weaknesses:

- Lack of 'AAA' callable capital, which makes IFC's broad risk-bearing capacity relative to the risk in its DRE lower than that of other 'AAA' rated multilateral development finance institutions

Rationale

International Finance Corp. (IFC) is a member of the World Bank Group, along with the International Bank for Reconstruction and Development (IBRD; AAA/Stable/A-1+ [all institutional ratings herein are Standard & Poor's Ratings Services' issuer credit ratings as of Jan. 28, 2009), the International Development Association (IDA; not rated), the Multilateral Investment Guarantee Agency (MIGA; not rated), and the International Centre for Settlement of Investment Disputes (ICSID; not rated). Although it is cooperating increasingly closely with IBRD and IDA, IFC is legally and financially independent of other World Bank Group 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$49.5 billion in total asset at fiscal year-end 2008 (June 30), of which US$16.8 billion was client-issued loans and debt and US$7.3 billion was equity investments. In addition, IFC had US$1.1 billion in guarantees outstanding, bringing its development-related exposure (DRE) to US$25.3 billion, or 50% of total assets plus guarantees.

As a global institution, IFC's geographic exposure is well-diversified, in our view. Its DRE in Russia, its country of largest exposure, was less than 11% of total DRE at fiscal year-end 2008, and its five largest country DREs totaled

41% of total exposure. IFC's Russian exposure was 12.7% of its reserves for losses plus shareholders' equity, and its exposure in its five countries of largest exposure was less than 48%. Its portfolio by industry sector is likewise diversified, in our opinion, with its heaviest concentration being financial institutions (41% at fiscal year-end 2008).

In addition to its reserves for losses, IFC's risk-bearing capacity is buttressed by its strong capital position, including US$2,366 million of paid-in capital and US$15,895 million of other shareholders' equity at fiscal year-end 2008. Accordingly, it had reserves for losses plus shareholders' equity of more than US$19 billion at fiscal year-end 2008, equal to almost 76% of its DRE. IFC has no callable capital, unlike most multilateral development finance institutions (MDFIs), and there are no plans for a capital increase.

IFC's operating income (income after grants but before net gains or losses on nontrading financial instruments) decreased to US$1.4 billion in fiscal 2008, a significant decline from a record US$2.6 billion the previous year, primarily due to a US$604 million decrease in income from equity investments. This resulted in an operating return on average assets plus guarantees of 3.1% and an operating return on average shareholders' equity of 8.9%, both significantly lower than the preceding year, but still above those of most MDFIs.

First-quarter fiscal 2009 (ended Sept. 30, 2008) saw further deterioration in financial performance, as global market conditions became increasingly difficult. Operating income for the quarter was negative, representing a loss of US$36 million. Although revenue from loans and guarantees, debt securities, and liquid asset trading also declined, the continued deterioration was again principally the result of the downturn in income from equity investments, which declined by 84% on an annualized basis. On the same basis, operating return on average assets plus guarantees was negative 0.1% and operating return on average shareholders' equity negative 0.2%, evidencing an unusually poor quarter for IFC. With net unrealized losses on equity investments during the first quarter of fiscal 2009 of US$991 million not recognized in net income of US$0.07 billion (these are recognized in comprehensive income--which was negative US$1.1 billion during the quarter), we expect this portfolio to contribute additional, significant drag on financial performance.

IFC has consistently maintained a high level of unencumbered liquid assets. Its liquidity ratios have been among the best of MDFIs.

Outlook

The outlook on IFC is stable. We believe its financial performance in fiscal 2009 will be among the worst in the institution's history due to specific provisions for recent equity investments that trade or are valued below cost, to mark-to-market losses on the rest of the equity portfolio, to rising allocations to loan loss provisions, and to the high level of grants to IDA that we view more as dividends but are accounted for as expenses in the following year. Still, the rating incorporates our expectation that the variation of IFC'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, due to protracted losses or dividend-like grants in excess of earnings, or if shareholder support for its public policy role diminished, then the ratings could come under pressure. Our stable 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 179 at fiscal year-end 2008.

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 meeting of the board, day-to-day decisions are delegated to the board of directors. IFC has 24 directors, one appointed by each of the five largest shareholders: U.S. (AAA/Stable/A-1+), with 23.6% of total votes; Japan (AA/Stable/A-1+), 5.9%; the Federal Republic of Germany (AAA/Stable/A-1+), 5.4%; and the Republic of France (AAA/Stable/A-1+) and the U.K. (AAA/Stable/A-1+), 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/Negative/A-3), and the Kingdom of Saudi Arabia (AA-/Stable/A-1+)--represented one-country constituencies at fiscal year-end 2008.

Except as expressly provided, all decisions by both the board of governors and the board of executive directors are made by 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 from them. However, the boards typically reach decisions by consensus.

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

IFC had 3,325 full time staff members at fiscal year-end 2008, of which 47% were based at the organization's headquarters in Washington, D.C., down from 68% at fiscal year-end 2001; the remainder of staff is based in 100 cities in 81 countries around the world. Its staff has been increasing as its DRE and advisory activities increase.

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 on a U.S. GAAP basis. It continues to plan to transition from U.S. GAAP to IFRS and plans to re-evaluate the timetable for this transition during fiscal 2009. 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 World Bank Group, 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 the recommendation of the audit committee and approval of a board resolution.

Table 1 summarizes IFC's balance sheet and key off-balance-sheet items. From a credit perspective, the most interesting features of its balance sheet are:

- The large holdings of liquid assets (43% of total assets) at fiscal year-end 2008, consisting of deposits, due from banks, and securities;
- The presence of substantial equity investments, which differentiates IFC from most other MDFIs;
- The rapid growth of loans (20%), debt securities (121%), equity investments (126%), and guarantees (41%), together totaling almost 24%, between fiscal year-end 2008 and one year earlier;
- The high level of shareholders' equity relative to assets (37%) and especially DRE (72%) at fiscal year-end 2008; and
- The portion of retained earnings designated for technical services and grants (US$626 million at fiscal year-end 2008).

Table 1

International Finance Corp.--Summary Balance Sheet

	--Year ended June 30--				
(Mil. US$)	**2008**	**2007**	**2006**	**2005**	**2004**
Assets					
Cash, due from banks, and time deposits	8,762	5,361	3,118	1,938	2,461
Trading securities	12,346	14,297	16,286	14,561	12,842
Securities purchased under resale agreements	35	230	1,190	6,282	3,094
Loans*	15,229	12,744	10,727	9,973	9,753
Reserve against losses on loans	(848)	(832)	(898)	(989)	(1,367)
Debt securities classified as investments	1,620	733	206	N.A.	N.A.
Equity investments¶	7,318	3,245	2,696	2,505	1,893
Reserve against losses on equity investments*	0	0	0	0	0
Derivative assets	1,630	1,151	1,128	1,516	1,092
Receivables and other assets	3,379	3,764	3,967	3,774	2,593
Total assets	49,471	40,599	38,420	39,560	32,361
Liabilities					
Securities sold under repurchase agreements and payable for cash collateral received	6,018	4,973	8,805	9,321	4,329
Borrowings from market sources	20,207	15,817	14,887	15,304	16,157
Borrowings from International Bank for Reconstruction and Development	54	62	80	55	97
Derivative liabilities	1,408	1,285	1,288	2,332	1,549
Payables and other liabilities	3,523	4,445	2,284	2,750	2,447
Total liabilities	31,210	26,582	27,344	29,762	24,579
Capital					
Paid-in capital§	2,366	2,365	2,364	2,364	2,362
Accumulated other comprehensive income	2,703	442	1	1	2
Retained earnings, of which:	13,192	11,210	8,711	7,433	5,418
Designated for unremunerated technical services and grants	826	606	852	562	225
Shareholders' equity	18,261	14,017	11,076	9,798	7,782
Memo items					
Guarantees outstanding**	1,141	808	494	291	315
Development-related exposure	25,308	17,530	14,123	12,769	11,961

Table 1

International Finance Corp.--Summary Balance Sheet (cont.)
*Accounting change first reflected in June 30, 2006, balance-sheet figures. ¶Accounting changes reflected in June 30, 2006, and June 30, 2004, 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. N.A.--Not available.

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 asset-backed securities (26% at fiscal year-end 2008); instruments issued--or unconditionally guaranteed--by governments and government agencies and instrumentalities (30%); time deposits and other unconditional obligations of banks and financial institutions (41%); money market funds (2%); corporate securities (1%); and securities purchased under resale agreements (below 1%). IFC only invests its liquid assets in securities that we or another designated rating agency rate: 'A' or higher, for banks and other financial institutions; 'AA-' or better for sovereign, sovereign-guaranteed, and supranational fixed-income instruments; and 'AAA' for asset-backed and corporate securities.

Global market disruption in fiscal 2008 and first-quarter fiscal 2009 contributed to deterioration in the value and liquidity of a substantial share of securities held in IFC's liquid asset trading portfolio. In particular, IFC suffered net losses on asset-backed securities (ABS) and mortgage-backed securities (MBS): US$474 million in fiscal 2008; and a further US$145 million first-quarter fiscal 2009. On the other hand, gains on U.S. Treasuries and other securities amounted to US$278 million in fiscal 2008 and US$59 million in the first quarter of 2009, somewhat offsetting the decline in the ABS and MBS holdings. At fiscal year-end 2008, trading securities were almost entirely accounted for by holdings of (i) government, agency and government-sponsored agency obligations (US$6.3 billion), and (ii) ABS and MBS (US$5.4 billion). US Treasuries make up almost all of (i), along with some senior debentures issued by US government-sponsored enterprises. Fannie Mae- or Freddie Mac-guaranteed MBS are included in (ii). Almost all liquid assets are denominated in U.S. dollars.

IFC also incurs credit risk from its extensive use of swaps. Its counterparty risk is contained by, inter alia:

- Dealing only with banks and financial institutions that we rate 'A' or better, and companies that we rate 'AAA';
- Limiting exposure to individual institutions, which IFC reviews monthly for changes in size and credit standing; and

- Agreements that call for the posting of collateral when exposure exceeds predetermined limits and that give IFC the option 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 95% of its liquid assets and 69% of its net loans at fiscal year-end 2008 were dollar denominated. At the same time, most of its borrowings outstanding (67%) were denominated in currencies other than the U.S. dollar, particularly the Japanese yen (22%). IFC's nondollar borrowings are generally swapped into floating-rate U.S. dollar obligations.

Interest-rate risk.
Most of IFC's loans (75% at fiscal year-end 2008) 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 predominantly fixed rate. IFC employs swaps to transform its fixed-rate borrowings into variable-rate borrowings and to transform its fixed-rate loans and liquid assets into variable-rate assets.

Other.
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.

In sum, 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 (as does the IBRD), it nevertheless can be responsive 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 in the process of privatization.

In earlier years, IFC did much of its business with the larger, stronger credits in its developing member countries. This partly 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 2008, it expended US$123 million on advisory services, most of which took the form of grants.

Composition of financing provided.

IFC's articles, as amended, 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 outstanding DRE by financing product over the past five years.

Table 2

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

	--Year ended June 30--				
(% total)	**2008**	**2007**	**2006**	**2005**	**2004**
Loans	60.2	72.6	76.0	78.1	81.5
Debt securities	6.4	4.2	1.5	0.0	0.0
Equity investments	28.9	18.6	19.1	19.6	15.8
Guarantees	4.5	4.6	3.5	2.3	2.6

Loans.

Loans remain IFC's most important financing instrument, accounting for 60% of DRE at fiscal year-end 2008. Its loans are typically for medium-to-long-term durations at variable rates.

Unlike MDFIs lending to sovereigns or sovereign-guaranteed borrowers (which typically charge each of their borrowers the same spread over their cost of funding), IFC is free to vary the terms of its financings from borrower to borrower. 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, IFC makes a loan 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 times of 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.

As table 3 shows, B loans have been a relatively less prominent feature of IFC's activities since fiscal year-end 1998, when B loans outstanding were more than 110% of the loans on its balance sheet. That percentage was 36% at fiscal year-end 2008. Even with an increase of US$1.1 billion in fiscal-year 2008, the absolute size of B loans outstanding at fiscal year-end 2008 was below levels earlier in the decade.

Table 3

International Finance Corp.--B Loan Program					
	--Year ended June 30--				
(Mil. US$)	2008	2007	2006	2005	2004
Participants' loans outstanding	5,541	4,407	3,878	4,382	5,092
Participants' loans/IFC loans (%)	36.4	34.6	36.2	43.9	52.2
Loan participations committed but not disbursed	1,952	1,069	1,136	901	454
Participations committed/IFC loans committed (%)	27.6	18.1	20.5	18.7	12.9

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+). IFC'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 US$69 million 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 2008;
- Are concentrated in finance/insurance and collective investment vehicles (50% and 12%, respectively, of the total equity portfolio at fiscal year-end 2008), 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.

As shown in the Net Income section, 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 2008, issued guarantees (including trade-finance facilities)--those that IFC has committed itself to providing--were US$1.9 billion, up from US$1.4 billion one year earlier. Guarantees outstanding--those for which a client's underlying financial obligation has been incurred--were US$1.1 billion, up from US$0.8 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.

Distribution of development-related exposure by industry.

Table 4 shows the distribution of IFC's DRE by industry. The 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 be maintained. Much of the financing provided 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

(% total)	Commitments during fiscal 2008	--Outstandings at June 30-- 2008	2007	2006	2005	2004	2003
Finance and insurance	40.7	45.2	41.8	34.4	28.3	24.3	22.3
Utilities	14.4	7.6	8.1	9.5	10.6	11.1	10.5
Oil, gas, and mining	7.9	6.3	5.9	7.1	7.5	6.5	5.7
Transportation and warehousing	6.0	5.0	5.2	5.7	6.3	5.9	6.6
Industrial and consumer products	1.7	2.6	3.4	5.4	6.3	5.7	5.1
Nonmetallic mineral product manufacturing	2.5	4.1	5.1	5.2	4.4	4.9	5.9
Food and beverages	2.2	4.8	4.7	3.9	4.6	5.5	6.9
Information	3.2	3.5	3.8	4.8	5.2	6.4	6.6
Chemicals	1.6	3.8	4.0	3.8	3.3	4.2	N.A.
Other	19.8	17.2	18.1	20.0	23.5	25.4	30.4
Memo item							
Total* (Mil. US$)	11,399	22,330	17,057	13,929	12,615	12,686	12,390

*Includes risk management products. N.A.--Not available.

Countries of activity and country concentration.

Candidates for financing must be domiciled 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 2008, IFC had DRE in 119 member countries, in contrast to 79 for IBRD. However, IFC now seeks to focus on 88 "frontier countries"--those classified as low income by the World Bank or as high-risk as per an Institutional Investor Magazine risk ranking of 30 or below (or no ranking). During fiscal 2008, projects in these countries accounted for one-third of IFC's total commitments. Its internal management guideline for the maximum DRE outstanding to any one country, net of specific reserves, is 20% of net worth plus general reserves. In addition, the corporation has country-specific triggers for DRE outstanding and outstanding-plus-committed, based upon the size of a country's economy and its risk rating. If exposure to a country exceeds these triggers, IFC undertakes an intensive review of current and expected exposure to that country, and the Finance and Risk Committee establishes a guideline for exposure.

The country distribution of IFC's DRE can change substantially over a few years. As Table 5 shows, IFC's single-largest country DRE exposure at fiscal year-end 2008, to Russia, was US$2.4 billion, or 10.8% of total exposure outstanding--a marked increase from US$0.8 billion (6.7%) three years earlier. 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 increased slightly during fiscal 2008, to 41.0% from 40.2% one year earlier, with growing exposure to Brazil just outweighing lessening exposure, as a share of all exposure, to the other major countries of exposure. 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$ unless otherwise indicated)

		--As of June 30, 2008--			--% Total IFC DRE at June 30§--				
By country	Rating*	Loans	Equity investments	Total DRE¶	2008	2007	2006	2005	2004
Russia	BBB/Negative	1,807	498	2,421	10.8	11.3	10.1	6.7	6.3
Brazil	BBB-/Stable	1,837	218	2,192	9.8	7.5	7.3	7.1	8.4
India	BBB-/Stable	1,238	432	1,670	7.5	8.0	5.9	6.4	6.7
China	A+/Stable	930	588	1,518	6.8	7.0	6.2	4.4	3.3
Turkey	BB-/Negative	1,047	284	1,331	6.0	6.4	5.8	6.7	6.1
Argentina	B-/Stable	696	61	822	3.7	3.7	4.4	4.2	5.2
Other	N/A	9,068	2,444	12,334	55.4	56.1	55.2	58.3	57.7
Total exposure	N/A	16,623	4,525	22,288	22,330	17,028	13,902	12,568	12,612
Five largest exposures (% total)	N/A	41.3	44.6	41.0	41.0	40.2	35.3	33.1	33.8
Disbursed exposure by region									
Europe and Central Asia	N/A	4,924	1,249	6,424	28.8	31.1	31.9	28.1	24.4
Latin America and Caribbean	N/A	4,240	1,017	5,971	26.8	28.8	30.8	34.7	37.7
Asia	N/A	3,699	1,218	5,232	23.5	23.2	21.9	22.2	22.1
Middle East and North Africa	N/A	1,240	386	1,666	7.5	7.3	6.2	6.5	6.9
Sub-Saharan Africa	N/A	1,017	358	1,504	6.7	8.1	8.3	7.4	8.5
Other	N/A	216	69	350	1.6	1.6	0.8	1.1	0.3

*Long-term foreign currency sovereign credit rating and outlook as of Feb. 3, 2009. ¶Includes loans, equity investments, and guarantees. Note: Numbers differ slightly from balance-sheet numbers, which are on a fair value basis. N/A--Not applicable.

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 IFC'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, it is clear that IFC's DRE has increasingly been in higher-rated countries than in the past. At fiscal year-end 2008, 52% of IFC's DRE was in investment-grade countries, up from 21% at fiscal year-end 2003. This is not by design--indeed, IFC has been attempting to increase its exposure in less highly rated countries in recent years--but rather the result of numerous upgrades of 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)	**2008**	**2007**	**2006**	**2005**	**2004**
Distribution of DRE by ratings of countries of domicile of recipients of financing (%)					
A and above	10	11	10	3	4
BBB	42	34	29	30	21
BB	27	37	38	41	32
B	17	15	19	22	33
CCC and below	3	3	4	4	10
Impaired loans	347	433	671	1,191	1,781
As a % of loans outstanding	2.3	3.4	6.3	11.9	18.3
Nonaccrual loans	369	378	447	634	1,121
As a % of loans outstanding	2.4	3.0	4.2	6.4	11.5
Loans written off	47	39	111	136	246
Writeoffs as a % of loans outstanding at previous end year	0	0	1.1	1.4	2.7
Interest due but not received (gross)	78	70	68	58	82
Interest collection rate (%)	94.5	93.7	92.5	92.9	86.9
Provision (release of provision) for losses on loans	37	(40)	10.1	(260)	(66)
Reserve for losses on loans	848	832	898	989	1,367
As a % of impaired loans	244.5	192.1	133.8	83.0	76.8
As a % of nonaccrual loans	229.9	220.1	200.9	156.0	121.9
As a % of total disbursed loans	5.6	6.5	8.4	9.9	14.0
Equity investment impairment writedowns*	140	40	57	62	0
Provision (release of provision) for guarantees	1	(2)	5	(3)	(14)
Reserves for losses on guarantees (Mil. US$)	17	16	19	13	16
As a % of guarantees outstanding	1.5	2.0	3.8	4.5	5.1
Memo item					
Reserves against losses on loans and guarantees	866	848	917	1,002	1,383

*Accounting change first reflected in June 30, 2004 balance-sheet figures. DRE--Development-related exposure.

Impaired loans (those for which IFC believes it will be unable to collect all amounts due) at fiscal year-end 2008 fell to US$347 million from US$433 one year earlier, reducing them as a percentage of total loans to 2.3% from 3.4%, respectively, and from 32.9% at fiscal year-end 2002. Nonaccrual loans fell to US$369 million at fiscal year-end 2008 from US$378 million a year earlier, reducing them as a percentage of total loans to 2.4% from 3.0%, respectively, and from 16.7% at fiscal year-end 2003. Despite the continued improvement in the loan portfolio, IFC raised its reserve for loan losses slightly--to US$848 million from US$832 million at fiscal year-end 2007, although still far below the US$1.76 billion at fiscal year-end 2002. Combined with the improvement in loan performance measures, even this small increase in the reserve for losses meant that the reserve increased to 245% of impaired loans and 230% of nonaccrual loans at fiscal year-end 2008, up from 192% and 220%, respectively, one year earlier. These are both the highest ratios in recent years. Accordingly, IFC enters this more challenging economic environment with an improving and well-provisioned loan portfolio.

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. The majority of the former are marked to market, being listed in markets that provide readily determinable fair values; the rest are marked to model.

IFC took US$1 million of provisions for losses on guarantees during fiscal 2008, in contrast to the US$2 million of provisions released during fiscal 2007. The reserve as a percentage of guarantees outstanding fell to 1.5% at fiscal year-end 2008 from 2.0% one year earlier.

Risk-Bearing Capacity And Capital Adequacy

Table 7 summarizes IFC's risk-bearing capacity and measures of 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--				
(Mil. US$)	**2008**	**2007**	**2006**	**2005**	**2004**
Risk-bearing capacity					
Reserves against losses on loans, equity investments, and guarantees	866	848	917	1,002	1,383
Shareholders' equity	18,261	14,017	11,076	9,798	7,782
Retained earnings designated for unremunerated technical services and grants	(826)	(606)	(852)	(562)	(225)
Narrow risk-bearing capacity	18,301	14,259	11,141	10,238	8,940
Capital adequacy (%)					
Internal capital adequacy ratio*	48	57	54	50	48
Narrow risk-bearing capacity/total assets plus guarantees	36.2	34.4	28.6	25.7	27.4
Narrow risk-bearing capacity/development-related exposure	72.3	81.3	78.9	80.2	74.7

*Shareholders' equity less 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, the corporation designated a portion of retained earnings for grants to IDA for use in the provision of grants to support IFC's mandates in certain IDA countries. At fiscal year-end 2008, the designated sums, net of expenditure made under each of these programs (which are recorded as expenditure in the income statement) were US$438 million for technical assistance and advisory services, US$188 million for performance-based grants, US$100 million for a Global Infrastructure Project Development Fund, and

US$100 million for micro equity funds for small and medium enterprise development in IDA countries. In addition, IFC's board of directors approved the designation of US$500 million for a Private Sector Development Grant program, as part of the 15th IDA replenishment. The latter, a US$500 million commitment, was expensed in fiscal 2008.

The maximum total of annual designations of retained earnings for IFC's grant programs are currently 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 in excess of 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 that appear 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, entitled the CAPRI (Capital Adequacy and Pricing) framework. Under CAPRI, IFC 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: (i) 22% of loan and guarantee exposure (gross of reserves); (ii) 70% of equity exposure; (iii) 1.5% of treasury assets including liquid assets at market value and estimated total potential exposure (net of collateral) related to counterparty derivatives; (iv) 1.5% for other receivable assets; (v) 11% for property assets; and (vi) 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 2008, the minimum resources required were US$10.3 billion, while total resources available were US$15.0 billion.

In addition, during fiscal 2008 and historically, IFC 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, as table 7 shows, IFC's ratio typically exceeds this requirement by a substantial amount. At fiscal year-end 2008, the ratio was 48%, down from 57% 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 36% at fiscal year-end 2008, an increase from 34% one year earlier and the highest such ratio in recent years. 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 72% at fiscal year-end 2008, a decrease from 81% one year earlier.

Net Income

As an MDFI, IFC does not seek to maximize income. Rather, it seeks to balance the pursuit of its development goals against its desire to maintain its financial strength and increase 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, hence, reduce both its operating and net income. Nevertheless, IFC's income is important because without a capital increase (which we do not expect), its income will be the principal source of increases in its risk-bearing capacity. Table 8 summarizes the corporation's income statement.

Table 8

International Finance Corp.--Summary Income Statement

	--Year ended June 30--				
(Mil. US$)	**2008**	**2007**	**2006**	**2005**	**2004**
Interest income and financial fees from loans and guarantees	1,065	1,062	804	660	518
Income from liquid asset trading activities	473	618	444	358	177
Charges on borrowings	(782)	(801)	(603)	(309)	(141)
Income (loss) from debt securities	163	27	7	N.A.	N.A.
Net interest income	919	906	652	709	554
Release of (provision for) losses on loans and guarantees	(38)	43	(15)	261	103
Net interest income after provisions for losses on loans and guarantees	881	949	637	970	657
Total income from equity investments, of which:	1,688	2,292	1,224	1,365	658
Realized capital gains on equity sales	1,396	1,941	928	723	386
Dividends and profit participations	428	385	323	258	207
Unrealized gains on equity investments	12	0	0	0	0
Equity investment impairment write-downs	(140)	(40)	(57)	(62)	0
Other, net	(8)	6	30	255	65
Administrative expenses	(549)	(482)	(436)	(403)	(360)
Net other income	107	81	68	66	56
Foreign currency transaction gains (losses) on nontrading activities	(39)	(5)	6	N.A.	N.A.
income before expenditues for TAAS, PBG, and net (losses) gains					
on nontrading financial instruments	2,088	2,835	1,499	1,998	1,011
Expenditures for TAAS	(123)	(96)	(55)	(38)	(29)
Expenditures for PBG	(27)	0	(35)	0	0
Grants to IDA	(500)	(150)	0	0	0
Income after expenditures for TAAS and PBG (operating income)	1,438	2,589	1,409	1,960	982
Net gains (losses) on nontrading financial instruments	109	(99)	(145)	61	11
Net income	1,547	2,490	1,264	2,021	993
Memo items					
Operating return on average assets plus guarantees	3.1	6.4	3.6	5.4	3.0
Operating return on average shareholders' equity	8.9	20.6	13.5	22.3	13.5

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

IFC's operating income retreated in fiscal 2008, to US$1.4 billion, well below US$2.6 billion a year earlier. This translates into an operating return on average assets plus guarantees of 2.9% and a return on average shareholders' equity of 8.1%, both low for IFC but high relative to those of most MDFIs.

The IFC's operating income fell as a result of a broadly-based softening in revenue sources, reversing the pattern of recent years, while expenditure continued the upward pattern of recent years. Highlights of the underlying movements include the following:

- Realized capital gains on equity sales dropped sharply, by US$545 million, or 28%, during fiscal year 2008, after

having risen steadily in each year since 2003.
- Income from liquid asset trading declined noticeably, by US$145 million, or 23%, during the year, after having increased substantially each year since 2004.
- Expenditure for technical assistance and advisory services, performance-based grants, and grants to IDA was what we view as large and significantly higher than in the preceding year. These totaled US$650 million during fiscal 2008, up from the US$246 million in fiscal 2007, or the US$90 million during fiscal 2006.
- Administrative expenses increased by US$67 million, or 14%, to US$549 million from fiscal 2007--these have increased significantly in each year since fiscal 2003.
- Interest income and financial fees from loans and guarantees increased by only US$3 million, or 0.3%, during fiscal year 2008, as compared to a US$258 million, or 32%, increase the preceding year.

IFC's net income consists of operating income plus net gains or losses on nontrading financial instruments. This is a volatile series, and a net gain of US$109 million in fiscal 2008 followed a net loss of US$99 million one year earlier. As a consequence, net income for fiscal 2008 was US$1.5 billion. In fiscal 2008, the underlying movements greatly outweighed this influence, leaving net income reduced by US$0.9 billion, or 38%, below the US$2.5 billion of one year earlier.

First-quarter fiscal 2009 (ended Sept. 30, 2008) saw further deterioration in financial performance, as global market conditions became increasingly difficult. Operating income for the quarter was negative US$36 million. Although revenue from loans and guarantees, debt securities, and liquid asset trading also declined, the continued deterioration was again principally the result of the downturn in income from equity investments, which declined by 84% on an annualized basis. The decline in income from liquid asset trading activities during the quarter was driven by net losses of US$145 million on ABS and MBS, more than offset by net gains on other trading securities of US$59 million and interest income. In addition, administrative expense continued to increase during the quarter, by 21% on annualized basis. As well, operating return on average assets plus guarantees was negative 0.1% and operating return on average shareholders' equity negative 0.2%, evidencing an unusually poor quarter for IFC. Net income, thanks to net gains on nontrading financial instruments of US$108 million during the quarter, was positive, though small, at US$72 million during the quarter. On an annualized basis, net income declined by 88% during the quarter.

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. With net unrealized losses on equity investments during first-quarter fiscal 2009 of US$991 million not recognized in net income (these are recognized in comprehensive income--which was negative US$1.1 billion during the quarter), we expect this portfolio to contribute additional significant drag on financial performance. Some upside to the IFC's expense base could come from revisiting its expenditure for technical assistance and advisory services, and its dividend-like performance-based grants to IDA and others.

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. Historically, there has been huge variability in the relative contributions to operating and net income from IFC's development-related and treasury activities. However, in the past five years, development-related operating income has accounted for more than 80% of total operating income.

Table 9

International Finance Corp.--Income By Business Segment And Product					
	--Year ended June 30--				
(Mil. US$)	**2008**	**2007**	**2006**	**2005**	**2004**
Income from development-related activities					
Interest income and financial fees from loans and guarantees	1,054	1,062	804	660	518
Charges on borrowings	(528)	(510)	(343)	(151)	(41)
Income from equity investments	1,688	2,292	1,224	1,365	658
Release of (provision for) losses on loans and guarantees	(38)	43	(15)	261	103
Income from debt securities	163	27	7	N.A.	N.A.
Administrative expenses	(547)	(493)	(471)	(397)	(354)
Other income (expense)	113	99	109	18	(14)
Operating income from development-related activities	1,905	2,520	1,315	1,756	870
Expenditures for TAAS, PBG, and grants to IDA	(650)	(246)	(90)	(38)	0
Income from development-related activities, TAAS, and PBG,and IDA grants (DRE operating income)	1,255	2,274	1,225	1,718	870
Foreign currency transaction (losses) gains on nontrading activities	(39)	(5)	6		
Net unrealized gains (losses) on non-trading financial instruments	92	(106)	35	18	37
Net income from development-related activities, TAAS, and PBG	1,308	2,163	1,266	1,736	907
Income from treasury activities					
Income from liquid asset trading activities	473	618	444	358	177
Interest income and financial fees from loans and guarantees	11	0	0	N.A.	N.A.
Charges on borrowings	(254)	(291)	(260)	(158)	(100)
Administative expenses	(8)	(7)	(6)	(6)	(6)
Other noninterest income (expense)	0	0	0	0	0
Operating income from treasury activities	222	320	178	194	71
Net unrealized gains (losses) on nontrading financial instruments	17	7	(180)	44	(26)
Net income from treasury activities	239	327	(2)	238	45
Memo items					
Total operating income	1,477	2,594	1,403	1,912	941
Net income	1,547	2,490	1,264	2,014	993

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 2008, its cash and liquid assets were 62% of its three-year projected cash needs, well above the 45% minimum. By Standard & Poor's measures, liquid assets constituted 43% of total assets at fiscal year-end 2008. While this was slightly reduced from 49% at fiscal year-end 2007, in our view, IFC 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 54 through 58 of Standard & Poor's Supranationals Special Edition 2008, which is available at www.standardandpoors.com. Enter "Supranationals Special Edition 2008" in the search box.

Ratings Detail (As Of February 13, 2009)*		
International Finance Corporation		
Counterparty Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Local Currency		--/--/NR
Senior Unsecured (416 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.