# International Finance Corporation (IFC)

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| | Issuer Rating | Outlook |
|---|---|---|
| Moody's | Aaa | Stable |
| S&P | AAA | Stable |
| Fitch | - | - |

*Source: Moody's, S&P and Fitch*

## Background and Ownership

The International Finance Corporation (IFC) is a multilateral development bank (MDB) and part of the World Bank Group. The organisation was established in 1956 to support economic growth in developing countries by providing debt and equity financing to private enterprises. IFC is organised as a joint stock company and is legally distinct from other World Bank Group (WBG) entities. In 2018, shareholders agreed to a capital increase, which would substantially lift the amount of paid-in capital held. This is the first major increase since 1992 and allows IFC's investment portfolio to grow to support high-impact projects in line with IFC's 3.0 strategy. The plan included a USD17bn conversion of retained earnings into equity and USD5.5bn in additional paid-in capital from its members. As of end-June 2021 (FY21), IFC's paid-in capital had risen to USD20.7bn from USD2.5bn back in 2018.

IFC counts 185 members with the single largest shareholders being the U.S. (19.8% of voting shares), Japan (7.8%), Germany (5%), UK (4.5%) and France (4.5%). More than 50% of IFC's capital is held by 'AAA'/ 'AA' rated sovereigns. In order to become a member of IFC, countries must first join the International Bank for Reconstruction and Development (IBRD), which in turn requires prior membership of the International Monetary Fund (IMF). Unlike most other multilateral institutions, IFC does not accept host government guarantees of its exposures but it does enjoy preferred creditor status.

## Main Activities

IFC's business comprises three core segments:
**Investment Services** – offers loans, bonds and other fixed income instruments; equity; trade and commodity finance; derivative and structured finance; as well as blended finance. These services are intended to enable companies to manage risk and broaden their access to foreign and domestic capital markets.

**Advisory Services** – offers advice, problem solving and training to companies, industries and governments, all aimed at helping private sector enterprises.

**Asset Management Company** – a wholly-owned subsidiary of IFC, which manages funds on behalf of a variety of institutional investors – sovereign funds, pension funds and development finance institutions – providing them with the ability to invest alongside projects funded by IFC. It mobilises additional funding through parallel loans, loan participations, partial credit guarantees, securitizations, loan sales, risk sharing facilities and fund investments. By attracting new investors, IFC introduces its clients to new sources of capital and better ways of doing business.

**International Finance Corporation – Key Data**

| USDbn - Balance Sheet | FY21 | FY20 | FY19 |
|---|---|---|---|
| Total assets | 105.2 | 95.8 | 99.2 |
| Development-related investments | 44.9 | 41.1 | 43.4 |
| Trading securities | 33.4 | 30.2 | 28.5 |
| Total borrowings | 55.6 | 55.4 | 54.1 |
| Total equity | 31.2 | 25.1 | 27.6 |
| **USDbn – P&L** | **FY21** | **FY20** | **FY19** |
| Income from investments | 4.8 | 0.03 | 1.5 |
| Operating expenses | 1.6 | 1.6 | 1.7 |
| Net income | 4.2 | -1.6 | 0.09 |
| **% - Key Financial Ratios** | **FY21** | **FY20** | **FY19** |
| Overall liquidity ratio | 114 | 96 | 104 |
| Debt to equity ratio | 2.1 | 2.2 | 2.2 |
| Deployable Strategic Capital Ratio | 23.4 | 17.9 | 11.6 |
| NPL ratio | 4.4 | 5.5 | 4.3 |

Source: Investor Reports

## Business Strategy

In December 2016, the organisation adopted its corporate strategy, 'IFC 3.0', which builds on two previous iterations. One of the main features is to align its advisory business more closely with investment operations to better support upstream work. Being involved earlier in the project development cycle and being more pro-active in supporting seed investment opportunities is in some cases expected to create markets where none existed before. IFC also wants to mobilise more private capital for development purposes, especially in low-income countries and those affected by fragility and conflict. In order to do so, they want to work more closely with WBG members to help achieve the 2030 Agenda for Sustainable Development to end extreme poverty and boost shared prosperity in every developing country. The recent capital increase will allow IFC to expand its capabilities and take on a broader set of challenges while engaging with a broader base of co-investors.

## Financial Indicators

**Profitability** – As with other multilateral development banks, IFC does not aim to maximise profit, but rather to make a return adequate to preserve its financial strength and support its activities. IFC's net income at end-June 2021 was USD4.2bn, which is a strong reversal of the USD1.7bn loss recorded for the same period last year. One of the main reasons for the high losses in 2020 were Covid-related changes in equity valuations that experienced a rebound in 2021 reflecting a gradual recovery from the pandemic. The fall in income from loans and guarantees (-26% yoy) to USD1.1bn was more than offset by the release of loan loss provisions (USD201m), income from equity investments (USD3.2bn) and lower charges on borrowings (-USD326m) which all improved on last year's figures. Looking ahead, loan loss provisions are expected to return to a normalised pre-pandemic level of some USD100m. FY21 income available for designations was USD1bn compared to just USD572m one year prior.

**Asset quality** – IFC has total assets of USD105bn at FY21, of which development-related investments (loans, equity & debt investments) amounted to USD44.9bn (+9.4% yoy) and the liquid assets portfolio totalled USD41.7bn. As IFC lends only to private enterprises, and without any sovereign guarantee, the intrinsic credit risk in its loan portfolio is higher than at most other multilateral development banks. This is mitigated somewhat by IFC's preferred creditor status as well as strict exposure limits by country, sector and company. IFC also tends to restructure and write-off non-performing assets in response to the weaker credit quality of its borrowers compared to other MDB that keep sovereign NPL's on their books. Total impaired loan volumes stood at USD1.49bn, translating to an NPL ratio of 4.4% (5.5% at FY20).

**Funding** – IFC generates most of the funds for its investment activities through the issuance of debt securities in the international capital markets. These are diversified by geography, investors and currency. New medium and long-term funding totalled USD18.2bn as at FY21 (FY20: USD14.6bn). The entity borrowed in 26 currencies and final maturities range from three months to 40 years. Total outstanding borrowings have a weighted average remaining contractual maturity of 5.8 years at end-June 2021 (FY20: 7.4 years). IFC's funding policy generally prescribes that there should only be minimal asset/liability misalignments, with the exception of new products approved by the board. In late August 2021, IFC became the first entity to issue a fixed-rate USD benchmark referencing the Secure Overnight Financing Rate (SOFR) mid-swap curve. This was done as an alternative to referencing LIBOR ahead of the mandatory transition away from LIBOR starting in 2022. It is therefore also the first fixed-rate issuance marketed and priced using SOFR among IFC's peer group. In June, IFC launched its inaugural SOFR-linked benchmark floating-rate note and since February 2021, IFC has been swapping its outstanding plain vanilla fixed-rate issuances to SOFR, thus moving its balance sheet to the new reference rate.

The issuer has green and social bond programmes that are fully aligned with ICMA's bond principles. As at FY21, IFC had issued 178 green bonds totalling USD10.5bn, predominantly in USD (62.8%), SEK (10.6%) and GBP (7.4%). Social bonds amounted to USD3.8bn across 63 deals issued in USD (50.5%), AUD (33.3%) and SEK (9.1%). Liquid assets stood at USD41.7bn (+2.2% yoy) while the overall liquidity ratio was 114%, comfortably above the 45% required under IFC liquidity policy to cover the next three years' estimated net cash requirements.

**Capitalisation** – Total equity at FY21 stood at USD31.2bn of which 66% was paid-in capital and 36% related to undesignated retained earnings. Unlike other multilateral organisations, IFC has no callable shareholder capital. This is offset by the large proportion of paid-in capital, more than 50% of which is held by 'AAA'/ 'AA' rated sovereigns. IFC's capital adequacy, as measured by the deployable strategic capital (DSC) ratio was 23.4% at the end of FY21 (FY20: 17.9%). DSC is capital available for additional commitments, over and above the current portfolio, and calculated as total resources available less total resources required less capital buffers. The increase was largely attributed to effects of the capital increase and partially offset by an increase in requirements to support the business and treasury portfolios.

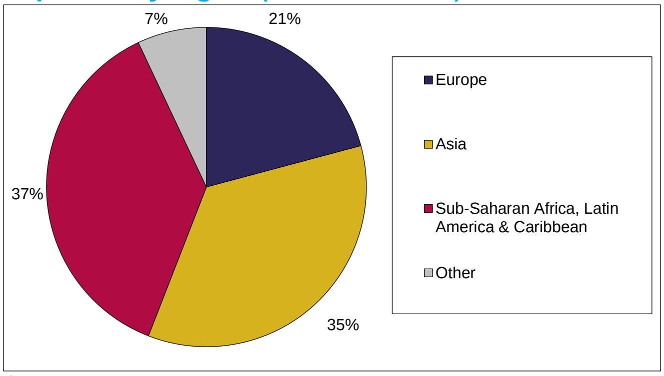
## Rating agencies' views

**Moody's –** The credit profile of the IFC reflects its robust capital base, abundant liquidity, diversified portfolio and funding base, and highly rated shareholders with strong willingness and capacity to support the corporation. These strengths mitigate a somewhat riskier business model than other multilateral development banks (MDBs) and the lack of callable capital. Borrower credit quality and asset performance tend to be weaker due to the IFC's focus on lending to the private sector and taking inherently riskier equity positions. The IFC's highly diversified lending and investment portfolio, large size and global reach are credit strengths. It has a highly liquid balance sheet, very prudent liquidity policies, and unfettered access to international capital markets, with a diversified and deep funding base. The very strong governance and quality of management is reflected in an upward qualitative adjustment. Strength of member support is considered "High", a deviation from the adjusted score of "Medium", reflecting the assessment that shareholders' ability and willingness to support the IFC is stronger than what is captured in the quantitative metrics. Specifically, large, highly-rated, non-borrowing shareholders assign particular importance to the IFC, reflected also in the assessment of very strong willingness to support the institution.

**S&P –** The stable outlook reflects S&P's expectation that IFC will maintain an extremely strong financial risk profile, underpinned by high capital, strong liquidity, and expected continuity of its robust risk management policies. The agency further expects that IFC will maintain a very strong enterprise risk profile while remaining relevant for its member countries through the COVID-19 pandemic and for the World Bank Group's (WBG) general strategy under the cascade approach. Ratings could be lowered if, in the next two years and contrary to S&P's expectations, relationships with shareholders deteriorate or IFC's financial indicators slip from currently extremely strong. The institution has also played a key role in deploying financing to its members in the context of COVID-19, particularly through trade finance and on-lending to the small and medium-sized enterprise sector.

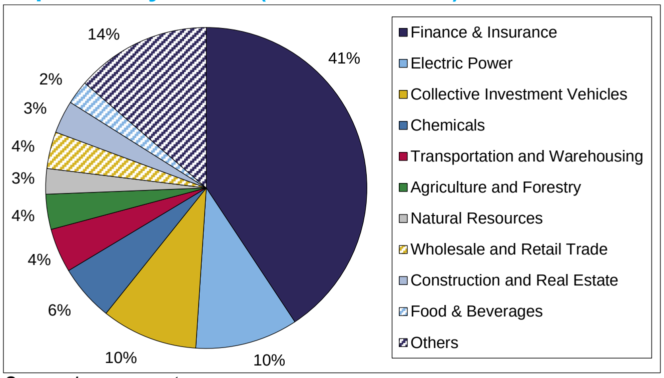
S&P assess IFC's financial risk profile as extremely strong based on a risk-adjusted capital (RAC) ratio of 34.6%, as of fiscal-year 2020 (ending June 30). The agency expect the general capital increase to strengthen IFC's capital base, but this will be counterbalanced, in their view, by the strategic increase in lending to IDA-eligible and FCS countries, possibly neutralising the benefit of the RAC ratio. IFC's funding is broadly diversified geographically and by type of investor, given the institution's frequent issuance in many markets and currencies. Robust funding and liquidity ratios support IFC's financial risk.

### Exposure by region (end-June 2021)




*Source: Issuer reports*

### Exposure by sector (end-June 2021)




*Source: Issuer reports*

### Recent Benchmark Transactions

| Issue Date | Security | Maturity/Call | Currency | Size (m) | Type | Coupon | Yield | Final Spread (bps) |
|---|---|---|---|---|---|---|---|---|
| 31/08/2021 | Sr. Unsecured | 5Y | USD | 2,000 | Fixed | 0.75% | 0.863% | SOFR MS + 19 |
| 23/07/2021 | Sr. Unsecured (Tap) | 3Y | AUD | 350 | Fixed | 1.45% | 0.4025% | ASW + 3 |
| 13/07/2021 | Sr. Unsecured (Tap) | 7Y | AUD | 300 | Fixed | 0.75% | 1.323% | ASW + 25 |
| 22/06/2021 | Sr. Unsecured (WNG) | 2Y | USD | 1,000 | FRN | SOFR + 9 | SOFR + 9 | SOFR + 9 |

*Source: BondRadar*

*This is an issuer profile and contains factual statements only. All statements are sourced from IFC's financial reports, which can be found at [https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-info/financial+statements](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/ir-info/financial+statements)*

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Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

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