Creating Markets, Creating Opportunities

# Management's Discussion and Analysis
# and
# Condensed Consolidated Financial Statements
# March 31, 2020
# (Unaudited)

March 31, 2020

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## I. INTRODUCTION

This document should be read in conjunction with the International Finance Corporation's (IFC or the Corporation) consolidated financial statements and management's discussion and analysis issued for the year ended June 30, 2019 (FY19). IFC undertakes no obligation to update any forward-looking statements.

***BASIS OF PREPARATION OF IFC'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***

The accounting and reporting policies of IFC conform to accounting principles generally accepted in the United States (GAAP). IFC's accounting policies are discussed in more detail in Note A to IFC's condensed consolidated financial statements as of and for the three and nine months ended March 31, 2020 (FY20 YTD condensed consolidated financial statements).

Prior to the year ending June 30, 2020 (FY20), Management has used Income Available for Designations (a non-GAAP measure) as a basis for designations of retained earnings. Income Available for Designations generally comprised net income excluding: net unrealized gains and losses on equity investments and net unrealized gains and losses on non-trading financial instruments accounted for at fair value, income from consolidated entities other than the IFC Asset Management Company (**AMC**[1]), and expenses reported in net income related to prior year designations.

Management is in the process of reviewing the methodology for designations of retained earnings in FY20 due to the suspension of transfers to IDA beginning in FY20.

## II. SELECTED FINANCIAL DATA AND FINANCIAL RATIOS

| | As of and for the nine months ended | | As of and for the three months ended | | As of and for the year ended |
|---|---|---|---|---|---|
| Investment Program (US$ millions) | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 | June 30, 2019 |
| Long-Term Finance Own Account Commitments | $ 6,279 | $ 4,348 | $ 1,812 | $ 1,476 | $ 8,920 |
| Core Mobilization | 6,680 | 5,750 | 1,618 | 1,811 | 10,206 |
| **Total Long-Term Finance Commitments (Own Account and Core Mobilization)** | **$ 12,959** | **$ 10,098** | **$ 3,430** | **$ 3,287** | **$ 19,126** |
| Condensed Consolidated Statement of Operations (US$ millions) | | | | | |
| **Net (loss) income** | **$ (2,275)** | **$ (192)** | **$ (2,554)** | **$ 655** | **$ 93** |

| Key Financial Ratios[2] | As of March 31, 2020 | As of March 31, 2019 | As of June 30, 2019 |
|---|---|---|---|
| Deployable strategic capital (DSC) as a percentage of Total Resources Available (TRA) | 19.3% | 12.0% | 11.6% |
| Cash and liquid investments as a percentage of next three years' estimated net cash requirements | 97% | 100% | 104% |
| Debt to equity ratio | 2.1:1 | 2.2:1 | 2.2:1 |
| Return on average assets (GAAP basis) | (3.1)% | (0.4)% | 0.1% |
| Return on average capital (GAAP basis) | (11.4)% | (1.4)% | 0.3% |

IFC's Capital Adequacy, as measured by DSC, was 19.3% at the end of FY20 Q3, compared to 11.6% at the end of FY19. The 7.7 percentage points (pp) increase in DSC was largely due to the combined effect of a reduction in capital required for the investment portfolios and an increase in the capital available due to an increase in comprehensive income, after excluding unrealized equity losses and loan loss provisions.

IFC's debt-to-equity ratio was 2.1:1, well within the maximum of 4:1 required by the policy approved by IFC's Board of Directors and IFC's overall liquidity as a percentage of the next three years' estimated net cash needs stood at 97%, above the minimum requirement of the Board of 45%.

[1] Effective January 31, 2020, AMC was merged with and into IFC. The AMC business is now operated as a Vice Presidency Unit within IFC. This change did not have a significant impact on IFC's financial position, results of operations or cash flows.
[2] Returns on average assets and capital are annualized.

## III. OVERVIEW

IFC is the largest global development institution focused on the private sector in developing countries. Established in 1956, IFC is owned by 185 member countries, a group that collectively determines its policies. IFC is a member of the World Bank Group (WBG)[3] but is a legal entity separate and distinct from IBRD, IDA, MIGA, and ICSID, with its own Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is open only to member countries of IBRD.

IFC helps developing countries achieve sustainable growth by financing private sector investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments. IFC's principal investment products are loans, equity investments, debt securities and guarantees. IFC also plays an active and direct role in mobilizing additional funding from other investors and lenders through a variety of means. Such means principally comprise: loan participations, parallel loans, the Managed Co-lending Portfolio Program (MCPP), the non-IFC portion of structured finance transactions, and the non-IFC portion of commitments in funds managed by AMC, (collectively Core Mobilization). Unlike most other development institutions, IFC does not accept host government guarantees of its exposures. IFC raises virtually all of the funds for its lending activities through the issuance of debt obligations in the international capital markets, while maintaining a small borrowing window with IBRD. Equity investments are funded from capital (or net worth).

IFC's capital base and its assets and liabilities, other than its equity investments, are primarily denominated in U.S. dollars ($ or US$) or swapped into U.S. dollars along with borrowings denominated in currencies other than U.S. dollars which are invested in such currencies. Overall, IFC seeks to minimize foreign exchange and interest rate risks arising from its loans, debt securities and liquid assets by closely matching the currency and rate bases of its assets in various currencies with liabilities having the same characteristics. IFC generally manages non-equity investment related and certain lending related residual currency and interest rate risks by utilizing currency and interest rate swaps and other derivative instruments.

The Management's Discussion and Analysis contains forward looking statements which may be identified by such terms as "anticipates," "believes," "expects," "intends," "plans" or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond IFC's control. Consequently, actual future results could differ materially from those currently anticipated. IFC undertakes no obligation to update any forward-looking statements.

### *COVID-19 SUPPORT PACKAGE*

In March 2020, in response to the global outbreak of the Coronavirus disease (COVID-19), IFC's Board of Directors approved a COVID-19 support package in the amount of $8 billion, as part of a WBG package.

The IFC response has four components:

- $2 billion from the **Real Sector Crisis Response Facility**, which will support existing clients in the infrastructure, manufacturing, agriculture and services industries vulnerable to the pandemic. IFC will offer loans to companies in need, and if necessary, make equity investments. This instrument will also help companies in the healthcare sector that are seeing an increase in demand.
- $2 billion from the existing **Global Trade Finance Program**, which will cover the payment risks of financial institutions so they can provide trade financing to companies that import and export goods. IFC expects this will support small and medium-sized enterprises involved in global supply chains.
- $2 billion from the **Working Capital Solutions program**, which will provide funding to emerging-market banks to extend credit to help businesses shore up their working capital, the pool of funds that firms use to pay their bills and compensate workers.
- $2 billion from the **Global Trade Liquidity Program, and the Critical Commodities Finance Program**, both of which offer risk-sharing support to local banks so they can continue to finance companies in emerging markets.

### *COVID-19 IMPACT ASSESSMENT*

In light of COVID-19, IFC faces additional credit, market and operational risks for its financial activities. The extent of the impact on IFC's investment (debt and equity investments) and treasury (liquid assets and borrowings) portfolios is uncertain and continues to evolve. IFC continues to monitor developments and manage the risks associated with these portfolios. IFC's response is within its existing financial, operational, and risk management policies as well as prescribed limits, which have not been modified as a result of the planned response to the outbreak.

[3] The other institutions of the World Bank Group are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

Since December 31, 2019, the outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

### TREASURY PORTFOLIOS

As of March 31, 2020, IFC had sufficient resources to meet its liquidity requirements and has been able to access capital markets to fund its liquidity requirements, despite recent market volatility. IFC continues to maintain a robust liquidity position and flexibility to access the necessary liquidity resources, mainly as a result of its prudent approach to liquidity management. IFC has experienced widening of credit spreads in its liquid asset and funding portfolios during the three months ended March 31, 2020. Management remains vigilant in assessing funding needs in the context of severe market movements.

### INVESTMENT PORTFOLIOS

COVID-19 has had a significant negative impact on the valuation of IFC's equity investment portfolio at March 31, 2020. Recognizing there is a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19, IFC has utilized, where available, comparator, sector and country information, in addition to discounted cash flow models, in valuing its equity investment portfolio at March 31, 2020. Valuations of equity investments at March 31, 2020 were significantly lower than as of December 31, 2019 and June 30, 2019. Debt securities and loans accounted for at fair value that do not have available market prices were primarily valued using discounted cash flow approaches and reflected spreads at March 31, 2020. IFC generally saw a widening of such spreads at March 31, 2020 when compared to December 31, 2019 resulting in an increase in unrealized losses on loans and debt securities in the three months ended March 31, 2020.

IFC recognizes impairment on loans not carried at fair value through a reserve against losses. The reserve against losses on loans reflects management's estimates of both identified probable losses and probable losses inherent in the portfolio but not specifically identifiable. Reserves against losses as of March 31, 2020 reflects credit risk assessments as of March 31, 2020. The assessment of level of reserves against losses also carried a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19. In evaluating the appropriateness of IFC's reserves against losses at March 31, 2020, IFC has considered the impact of COVID-19 largely through its rating system that classifies its loans according to credit worthiness and risk. In light of COVID-19, many of the credit risk ratings of individual loans deteriorated at March 31, 2020 when compared to December 31, 2019 reflecting general credit considerations and specific COVID-19 related considerations. As a result, IFC has reported higher provisions for losses in the three-months ended March 31, 2020.

Valuations of equity investments, debt securities and certain loans reported at fair value and reserves against losses reflect management's best estimates as of March 31, 2020.

### OPERATIONAL CONSIDERATIONS

As of March 31, 2020, home-based work has been invoked in all IFC offices throughout the world, with certain exceptions, in line with IFC's business continuity procedures. In addition, IFC has adopted other prudent measures to ensure the health and safety of its employees, including imposing travel restrictions, rescheduling public events or holding them in virtual format. IFC's operations remain functional, even with these significant changes in working arrangements.

### FORWARD-LOOKING CONSIDERATIONS

During the quarter ending June 30, 2020, IFC is implementing a loan modification program in response to requests received from borrowers for short-term modifications such as payment deferrals due under existing loans that are related to COVID-19.

The duration and extent of COVID-19 is difficult to predict at this time. The length and severity of the pandemic and its impact on the financial results and condition of IFC in future periods cannot be reasonably estimated at the current time.

IFC has incorporated its best estimates and judgment in reporting assets and liabilities on its March 31, 2020 balance sheet which may vary significantly when it prepares its June 30, 2020 balance sheet using conditions in existence at that future time.

IFC continues to monitor the situation closely.

## IV. CLIENT SERVICES

### *BUSINESS OVERVIEW*

For all new investments, IFC articulates the expected impact on sustainable development, and, as the projects mature, IFC assesses the quality of the development benefits realized.

IFC's strategic focus areas are aligned to advance the WBG's global priorities.

### *INVESTMENT SERVICES*

IFC's investments are normally made in its developing member countries. The Articles of Agreement mandate that IFC shall invest in productive private enterprises. The requirement for private ownership does not disqualify enterprises that are partly owned by the public sector if such enterprises are organized under local commercial and corporate law, operate free of host government control in a market context and according to profitability criteria, and/or are in the process of being completely or partially privatized.

IFC's investment products and services are designed to meet the needs of clients in different industries, with a special focus on infrastructure, manufacturing, agribusiness services, and financial markets. Investment services product lines include: loans, equity investments, debt securities, trade and supply-chain finance, local currency finance, partial credit guarantees, portfolio risk-sharing facilities, securitizations, blended finance, venture capital, the IDA Private Sector Window (IDA-PSW), client risk management and various mobilization products such as loan participations, parallel loans and the Managed Co-lending Portfolio Program.

IFC supervises its projects to monitor project performance and compliance with contractual obligations and with IFC's internal policies and procedures.

### *INVESTMENT PROGRAM*

COMMITMENTS

Total Long-Term Finance Commitments (Own Account and Core Mobilization) were $12,959 million in FY20 YTD, an increase of $2,861 million or 28% from FY19 YTD. IFC's FY20 YTD Long-Term Finance Own Account Commitments were $6,279 million, compared to $4,348 million in FY19 YTD and Core Mobilization was $6,680 million, as compared to $5,750 million for FY19 YTD, mainly due to increased mobilization in trade finance by $1,277 million offset by a decrease in syndications by $550 million.

In addition, Short-Term Finance Commitments were $4,268 million at FY20 YTD, as compared to $4,503 million at FY19 YTD.

## CORE MOBILIZATION

Core Mobilization is financing from entities other than IFC that becomes available to clients due to IFC's direct involvement in raising resources. IFC mobilizes such private sector finance from other entities through a number of means, as outlined in the Table below.

**Table 1: FY20 YTD vs FY19 YTD Long-Term Finance Commitments (Own Account and Core Mobilization) (US$ millions)**

| | FY20 YTD | FY19 YTD |
|---|---|---|
| **Total Long-Term Finance Commitments (Own Account and Core Mobilization)[4]** | **$ 12,959** | **$ 10,098** |
| **Long-Term Finance Own Account Commitments** | | |
| Loans | $ 5,285 | $ 3,748 |
| Equity Investments | 502 | 375 |
| Guarantees | 439 | 191 |
| Client Risk Management | 53 | 34 |
| **Total Long-Term Finance Own Account Commitments** | **$ 6,279** | **$ 4,348** |
| **Core Mobilization** | | |
| Parallel Loans | $ 2,295 | $ 2,519 |
| Loan Participations | 820 | 1,257 |
| Managed Co-lending Portfolio Program | 414 | 302 |
| Debt Securities Mobilization - Anchor Investment | 62 | — |
| Debt Security Mobilization | 19 | 86 |
| Other Mobilization | 432 | 504 |
| **Total loan participations, parallel loans and other mobilization** | **$ 4,042** | **$ 4,668** |
| **AMC** (see definitions in Table 2) | | |
| GEM Funds | $ 15 | $ 89 |
| FIG Fund | 2 | 18 |
| Asia Fund | — | 43 |
| Global Infrastructure Fund | — | 33 |
| MENA Fund | — | 9 |
| WED Fund | — | 9 |
| Catalyst Funds | — | 3 |
| **Total AMC-Related** | **$ 17** | **$ 204** |
| **Other:** | | |
| Global Trade Liquidity Program, Critical Commodities Finance Program, Global Warehouse Finance Program and Global Structured Trade Finance Program | $ 1,318 | $ 41 |
| Public Private Partnership | 853 | 351 |
| Debt and Asset Recovery Program | 299 | 486 |
| CFS Equity Mobilization | 151 | — |
| **Total Other** | **$ 2,621** | **$ 878** |
| **Total Core Mobilization** | **$ 6,680** | **$ 5,750** |

## INVESTMENT DISBURSEMENTS

IFC disbursed $7,419 million for its own account in FY20 YTD ($7,008 million in FY19 YTD): $5,705 million of loans ($5,582 million in FY19 YTD), $620 million of equity securities ($651 million in FY19 YTD), and $1,094 million of debt securities ($775 million in FY19 YTD).

## INVESTMENT PORTFOLIO

The carrying value of IFC's investment portfolio was $39,550 million at March 31, 2020 ($43,462 million at June 30, 2019), comprising the loan portfolio of $23,204 million ($23,983 million at June 30, 2019), the equity portfolio of $10,013 million ($13,130 million at June 30, 2019), and the debt security portfolio of $6,333 million ($6,349 million at June 30, 2019).

[4] Debt security commitments are included in loans and equity investments based on their predominant characteristics.

The carrying value of IFC's investment portfolio comprises: (i) the disbursed investment portfolio; (ii) less reserves against losses on loans; (iii) unamortized deferred loan origination fees, net and other; (iv) disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets; (v) unrealized gains and losses on equity investments held by consolidated variable interest entities; and (vi) unrealized gains and losses on investments.

GUARANTEES AND PARTIAL CREDIT GUARANTEES

IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds and/or loans. IFC's guarantee is available for debt instruments and trade obligations of clients and covers commercial as well as noncommercial risks. IFC will provide local currency guarantees, but when a guarantee is called, the client will generally be obligated to reimburse IFC in U.S. dollars terms. Guarantee fees are consistent with IFC's loan pricing policies.

Guarantees of $3,454 million were outstanding (i.e., not called) at March 31, 2020 ($2,899 million at June 30, 2019).

MCPP

As of March 31, 2020, eight global investors have committed $8.1 billion to MCPP; four investors participate exclusively in infrastructure projects, two exclusively in financial institutions, and two others are cross-sectoral. Investors have also approved funding for 162 projects totaling $6.3 billion across 46 countries as of March 31, 2020. IFC will continue to deploy the remaining funds raised as IFC identifies projects that meet investors' investment criteria.

IDA-PSW

As of March 31, 2020, $740 million of instruments under the IDA-PSW had been approved, of which $415 million related to IFC. Refer to Note Q to the FY20 Q3 condensed consolidated financial statements for transaction details.

***AMC***

AMC invests third-party capital and IFC capital, enabling outside investors to benefit from IFC's expertise in achieving strong equity returns, as well as positive development impact in the countries in which it invests in developing and frontier markets. Investors in funds managed by AMC include sovereign wealth funds, national pension funds, multilateral and bilateral development institutions, national development agencies and international financial institutions (IFIs). AMC helps IFC mobilize additional capital resources for investment in productive private enterprise in developing countries.

Effective January 31, 2020, AMC, then a wholly owned subsidiary of IFC, was merged with IFC. The AMC business is now operated as a Vice Presidency Unit within IFC. This change did not have a significant impact on IFC's financial position, results of operations or cash flows.

Cumulatively through March 31, 2020, AMC has raised total funds of $10.1 billion ($10.1 billion at June 30, 2019).

The Funds Managed by AMC and their activities as of and for the nine months ended March 31, 2020 and 2019 are summarized as follows:

**Table 2: Funds Managed by AMC and their Activities FY20 YTD vs FY19 YTD (US$ millions unless otherwise indicated)**

| | Through March 31, 2020 | | | | For the nine months ended March 31, 2020 | |
|---|---|---|---|---|---|---|
| | Total funds raised since inception | | | Cumulative investment commitments ** | Investment commitments made by Fund *** | Investment disbursements made by Fund |
| | Total | From IFC | From other investors | | | |
| **Investment Period** | | | | | | |
| IFC Financial Institutions Growth Fund, LP (FIG Fund) | $ 505 | $ 150 | $ 355 | $ 161 | $ 3 | $ 7 |
| IFC Middle East and North Africa Fund, LP (MENA Fund) | 162 | 60 | 102 | 66 | — | 6 |
| IFC Emerging Asia Fund, LP (Asia Fund) | 693 | 150 | 543 | 146 | 1 | 6 |
| **Post Investment Period** | | | | | | |
| IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund) | 1,275 | 775 | 500 | 1,226 | — | — |
| IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund) | 1,725 | 225 | 1,500 | 1,614 | — | — |
| IFC African, Latin American and Caribbean Fund, LP (ALAC Fund) | 1,000 | 200 | 800 | 876 | — | 1 |
| Africa Capitalization Fund, Ltd. (Africa Capitalization Fund) | 182 | — | 182 | 130 | — | — |
| IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds) | 418 | 75 | 343 | 365 | — | 22 |
| IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)* | 1,430 | 200 | 1,230 | 929 | 17 | — |
| IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds) | 800 | 150 | 650 | 757 | — | 63 |
| Women Entrepreneurs Debt Fund, LP (WED Fund) | 115 | 30 | 85 | 110 | — | — |
| China-Mexico Fund, LP (China-Mexico Fund) | 1,200 | — | 1,200 | 320 | — | 35 |
| IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)**** | 550 | 250 | 300 | 82 | — | — |
| **Total** | **$10,055** | **$2,265** | **$ 7,790** | **$ 6,782** | **$ 21** | **$ 140** |

* Includes co-investment fund managed by AMC on behalf of Fund LPs.
** Net of commitment cancellations.
*** Excludes commitment cancellations from prior periods.
**** The Russian Bank Cap Fund has completed the exit from all its investments and was liquidated during FY18.

| | Through March 31, 2019 | | | | For the nine months ended March 31, 2019 | |
|---|---|---|---|---|---|---|
| | Total funds raised since inception | | | Cumulative investment commitments ** | Investment commitments made by Fund *** | Investment disbursements made by Fund |
| | Total | From IFC | From other investors | | | |
| **Investment Period** | | | | | | |
| China-Mexico Fund, LP (China-Mexico Fund) | $ 1,200 | $ — | $ 1,200 | $ 320 | $ — | $ 30 |
| IFC Financial Institutions Growth Fund, LP (FIG Fund) | 505 | 150 | 355 | 158 | 25 | 6 |
| IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds) | 800 | 150 | 650 | 507 | 110 | 63 |
| IFC Middle East and North Africa Fund, LP (MENA Fund) | 162 | 60 | 102 | 66 | 14 | 7 |
| Women Entrepreneurs Debt Fund, LP (WED Fund) | 115 | 30 | 85 | 110 | 23 | 24 |
| IFC Emerging Asia Fund, LP (Asia Fund) | 693 | 150 | 543 | 145 | 55 | 45 |
| **Post Investment Period** | | | | | | |
| IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund) | 1,275 | 775 | 500 | 1,226 | — | — |
| IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund) | 1,725 | 225 | 1,500 | 1,614 | — | — |
| IFC African, Latin American and Caribbean Fund, LP (ALAC Fund) | 1,000 | 200 | 800 | 876 | — | 2 |
| Africa Capitalization Fund, Ltd. (Africa Capitalization Fund) | 182 | — | 182 | 130 | — | — |
| IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds) | 418 | 75 | 343 | 384 | 5 | 47 |
| IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)* | 1,430 | 200 | 1,230 | 931 | 40 | 55 |
| IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)**** | 550 | 250 | 300 | 82 | — | — |
| **Total** | **$10,055** | **$2,265** | **$ 7,790** | **$ 6,549** | **$ 272** | **$ 279** |

* Includes co-investment fund managed by AMC on behalf of Fund LPs.
** Net of commitment cancellations.
*** Excludes commitment cancellations from prior periods.
**** The Russian Bank Cap Fund has completed the exit from all its investments and was liquidated during FY18.

### *ADVISORY AND UPSTREAM SERVICES*

It takes more than finance to achieve sustainable development. IFC's experience shows the powerful role advice can play in creating markets, unlocking private sector investment, helping businesses to expand and create jobs. IFC's advisory engagements play an important role in helping to strengthen the WBG's efforts to end poverty and boost shared prosperity.

IFC is continuing to address increasingly complex development challenges and is now enhancing its Creating Markets strategy by introducing new upstream activities to generate investment pipelines for IFC. Upstream and Advisory are critical for IFC's delivery on this new strategy by bringing together the diverse WBG actions needed to create markets and by focusing on building a pipeline of bankable projects, especially in IDA countries and Fragile and Conflict Affected States (FCS). Advisory will also continue to deliver proven solutions that support clients to raise their standards and expand their market access, while working to enable sector reform and develop a level playing field in IFC's client countries. IFC began an assessment of the impact from COVID-19 on IFC's Advisory portfolio during FY20 Q3.

## V. LIQUID ASSETS

All liquid assets are managed according to an investment authority approved by the Board of Directors and liquid asset investment guidelines approved by IFC's Corporate Risk Committee, a subcommittee of IFC's Management Team.

IFC funds its liquid assets from two sources, borrowings from the market (the Funded Liquidity Portfolio) and capital (the Net Worth Funded Portfolio). Liquid assets are managed in a number of portfolios related to these sources.

IFC generally invests its liquid assets in highly rated fixed and floating rate instruments issued by, or unconditionally guaranteed by, governments, government agencies and instrumentalities, multilateral organizations, and high quality corporate issuers; these include asset-backed securities (ABS) and mortgage-backed securities (MBS), time deposits, and other unconditional obligations of banks and financial institutions. Diversification across multiple dimensions ensures a favorable risk return profile. IFC manages the individual liquid assets portfolios on an aggregate portfolio basis against each portfolio's benchmark within specified risk parameters. In implementing these portfolio management strategies, IFC utilizes derivative instruments, principally currency and interest rate swaps, foreign exchange forward contracts, and futures and options, and it takes positions in various industry sectors and countries.

IFC's liquid assets are accounted for as trading portfolios. The net asset value of the liquid assets portfolio was $43.0 billion at March 31, 2020 ($39.7 billion at June 30, 2019). The increase in FY20 YTD was due to (i) a $1.3 billion increase in funded liquidity due to net debt issuances, both short-term and long-term, net of disbursements to clients and (ii) an increase of $2.0 billion in the Net Worth Funded portfolio that reflects investment of cash from net equity sales plus net income from Investment Operations related to mission-loans and liquidity management.

### *FUNDED LIQUIDITY PORTFOLIO*

IFC's primary funding source for liquid assets is market borrowings. Proceeds of borrowings from market sources not immediately disbursed for loans and loan-like debt securities are managed internally against money market benchmarks in the Funded Liquidity portfolio. During FY20 YTD, there was a small portion of Funded Liquidity managed by third parties that was liquidated and is now managed internally.

### *NET WORTH FUNDED PORTFOLIO*

The second funding source of liquid assets is that portion of IFC's net worth not invested in equity and equity-like investments. These funds comprise the Net Worth Funded Portfolio which is managed against a U.S. Treasury benchmark. A portion of these assets were managed by third parties with the same benchmark as the part managed internally. During FY20 YTD, these funds were liquidated and are now managed internally.

Income from liquid assets trading activities[5] was $781 million in FY20 YTD, $300 million from the Funded Liquidity Portfolio (net asset value of $30.2 billion at March 31, 2020) and $481 million from the Net Worth Funded Portfolio (net asset value of $12.8 billion at March 31, 2020).

## VI. FUNDING RESOURCES

### *BORROWINGS*

The major source of IFC's borrowings is the international capital markets. Under the Articles of Agreement, IFC may borrow in the public markets of a member country only with approvals from that member, together with the member in whose currency the borrowing is denominated.

IFC's new medium and long-term borrowings (after the effect of borrowing-related derivatives and including discount notes with maturities greater than three months of $3.2 billion in FY20 YTD) totaled $12.8 billion during FY20 YTD ($13.1 billion in FY19 YTD) reflecting a paced implementation of the funding program. In addition, the Board of Directors has authorized the repurchase and/or redemption of debt obligations issued by IFC, which enhances the liquidity of IFC's borrowings. IFC is increasingly using its borrowings issuances as a tool to promote capital markets development in emerging and frontier markets. Proceeds of these issuances not disbursed into loans have primarily been invested in securities of the related sovereign and sovereign instrumentalities in the currency of the issuances. Borrowings from market sources at March 31, 2020 with no associated interest rate swap or currency swap amounted to 4% of the total borrowings from market sources (4% at June 30, 2019).

Market borrowings are generally swapped into floating-rate obligations denominated in U.S. dollars. IFC's mandate to help develop domestic capital markets can result in raising local currency funds. As of March 31, 2020, $1.9 billion ($2.2 billion as of June 30, 2019) of such non-U.S. dollar denominated market borrowings were outstanding, denominated in Bangladeshi taka, Botswana pula, Costa Rican colòn, Dominican peso, Georgian lari, Indonesian rupiah, Indian rupee, Kazakhstan tenge, Namibian dollar, Philippine peso, new Romanian lei, new Serbian dinar, Turkish lira and Uzbekistan sum. Proceeds of such borrowings were invested in such local currencies, on-lent to clients, and/or partially swapped into U.S. dollars.

[5] Reported gross of borrowing costs and excluding foreign exchange gains and losses on local currency Funded Liquidity which are reported separately in foreign currency gains and losses on non-trading activities.

IFC has short term discount note programs in US dollar and Chinese renminbi to provide an additional funding and liquidity management tool for IFC in support of certain of IFC's trade finance and supply chain initiatives and to expand the availability of short term local currency finance. The discount note programs provide for issuances with maturities ranging from overnight to one year. During FY20 YTD, IFC issued $14.0 billion of discount notes and $3.7 billion were outstanding as of March 31, 2020 under the short term discount note programs.

***CAPITAL AND RETAINED EARNINGS***

**Table 3: IFC's Capital (US$ millions)**

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| **Capital** | | |
| Capital stock, authorized | $ 2,580 | $ 2,580 |
| Capital stock, subscribed and paid-in | 2,567 | 2,567 |
| Accumulated other comprehensive loss | (1,146) | (1,232) |
| Retained earnings | 23,996 | 26,271 |
| **Total capital** | **$ 25,417** | **$ 27,606** |

At March 31, 2020 and June 30, 2019, retained earnings comprised the following:

**Table 4: IFC's Retained Earnings (US$ millions)**

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| **Undesignated Retained Earnings** | **$ 23,544** | **$ 25,905** |
| **Designated Retained Earnings:** | | |
| Grants to IDA | 213 | 115 |
| Creating Markets Advisory Window | 145 | 166 |
| Advisory Services | 78 | 66 |
| IFC SME Ventures for IDA countries | 15 | 16 |
| Performance-Based Grants | 1 | 3 |
| **Total Designated Retained Earnings** | **$ 452** | **$ 366** |
| **Total Retained Earnings** | **$ 23,996** | **$ 26,271** |

Following the Spring Meetings in April 2018, a financing package, comprising: (i) a three-step capital raising process: Conversion of a portion of retained earnings into paid-in capital, a Selective Capital Increase (SCI) and a General Capital Increase (GCI) that would provide up to $5.5 billion in additional paid-in capital; (ii) a planned suspension of grants to IDA after the conclusion of the IDA 18 replenishment cycle; and (iii) internal measures for increased efficiency was endorsed by the Board of Governors.

The GCI and SCI Resolutions were adopted and became effective on April 16, 2020 and the subscription process was formally launched on April 22, 2020. Accordingly, the increase in authorized capital and the conversion of a portion of retained earnings to paid-in capital will be reflected in FY20 Q4.

## DESIGNATIONS OF RETAINED EARNINGS

Amounts available to be designated are determined based on a Board of Directors-approved income-based formula and, beginning in FY08, on a principles-based Board of Directors-approved financial distribution policy, and are approved by the Board of Directors.

IFC's Board of Directors approved a change to the sliding-scale formula and the methodology used for calculating the incremental rate of designation, beginning with the designation in respect of FY17. The revised approach establishes a threshold that no designations of any kind can take place if IFC's Deployable Strategic Capital (DSC) ratio is below 2%, and establishes a framework for prioritizing future designations to Advisory Services and for grants to IDA based on IFC's DSC ratio and a cushion for Advisory Services. IFC has also created a new mechanism that was funded for the first time in FY18, the Creating Markets Advisory Window (CMAW), to focus on market creation in eligible IDA countries and fragile and conflict situations.

The revised approach establishes a maximum cumulative amount that can be contributed to IDA, during the IDA 18 Replenishment, of $300 million, with no more than $100 million in any given year (plus any shortfall from earlier years).

The approach also caps grants to IDA during a fiscal year at IFC's Net Income, if any, for the nine months ended March 31 of that fiscal year with actual transfer to occur in June of that fiscal year. Any amounts designated the prior year and not transferred pursuant to this requirement would be deferred to the next fiscal year. Grants to IDA will also be deferred to the next fiscal year if capital as reported on IFC's consolidated balance sheet has declined between June 30 of the prior fiscal year and March 31 of that fiscal year.

IFC recognizes designations of retained earnings for Advisory Services and CMAW when the Board of Directors approves it and recognizes designation of retained earnings for grants to IDA when it is noted with approval by the Board of Governors. Expenditures for the various approved designations are recorded as expenses in IFC's condensed consolidated statement of operations in the period in which they occur, and have the effect of reducing retained earnings designated for this specific purpose.

Given the CMAW spending cushion at FY19-end, IFC did not make an additional designation in FY19 and expects to continue to make designations in future years as allowed by IFC's net income and as CMAW spending ramps up.

On August 8, 2019, the Board of Directors approved a designation of $24 million of IFC's retained earnings for Advisory Services, and, subject to the conditions detailed above, a designation of $98 million of IFC's retained earnings for grants to IDA. These designations were noted with approval by the Board of Governors on October 18, 2019. IFC did not recognize expenditures against designations for grants to IDA in FY19 (from FY18 designations) and the transfer was deferred to FY20 due to IFC's net loss for the nine months ended March 31, 2019 in accordance with the Board of Directors approved framework for designations. IFC did not recognize expenditures against designations for grants to IDA in FY20 from FY18 and FY19 designations, and both transfers were deferred to FY21, due to IFC's net loss for the nine months ended March 31, 2020.

Management is in the process of reviewing the methodology for designations of retained earnings in FY20 due to the suspension of transfers to IDA beginning in FY20.

## VII. RESULTS OF OPERATIONS

### *OVERVIEW*

The overall market environment has a significant influence on IFC's financial performance. The main elements of IFC's net income and comprehensive income and influences on the level and variability of net income and comprehensive income from period to period are:

**Table 5: Main Elements of Net Income and Comprehensive Income**

| ELEMENTS | SIGNIFICANT INFLUENCES |
|---|---|
| **Net income:** | |
| Yield on interest earning assets | Market conditions including spread levels and degree of competition. Nonaccruals and recoveries of interest on loans formerly in nonaccrual status and income from participation notes on individual loans are also included in income from loans. |
| Liquid asset income | Realized and unrealized gains and losses on the liquid asset portfolios, in particular the portion of the liquid assets portfolio funded by net worth, which are driven by external factors such as: the interest rate environment and liquidity of certain asset classes within the liquid asset portfolio. |
| Income from the equity investment portfolio | Global climate for emerging markets equities, fluctuations in currency and commodity markets and company-specific performance for equity investments. Overall performance of the equity portfolio. |
| Provisions for losses on loans and guarantees | Risk assessment of borrowers, probability of default, loss given default and loss emergence period. |
| Other income and expenses | Level of advisory services provided by IFC to its clients, the level of expense from the staff retirement and other benefits plans, and the approved and actual administrative expenses and other budget resources. |
| Gains and losses on other non-trading financial instruments accounted for at fair value | Principally, differences between changes in fair values of borrowings, excluding IFC's credit spread (beginning in FY19, changes attributable to IFC's credit spread are reported in other comprehensive income, prior to FY19, such changes were reported in net income) and associated derivative instruments and unrealized gains or losses associated with the investment portfolio including puts, warrants and stock options which in part are dependent on the global climate for emerging markets. These securities may be valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable. |
| Grants to IDA | Level of the Board of Governors-approved grants to IDA. |
| **Other comprehensive income:** | |
| Unrealized gains and losses on debt securities accounted for as available-for-sale | Global climate for emerging markets, fluctuations in currency and commodity markets and company-specific performance and consideration of the extent to which unrealized losses are considered other than temporary. Debt securities may be valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable. |
| Unrealized gains and losses attributable to instrument-specific credit risk on borrowings at fair value under the fair value option | Fluctuations in IFC's own credit spread measured against US dollar LIBOR resulting from changes over time in market pricing of credit risk. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded. |
| Unrecognized net actuarial gains and losses and unrecognized prior service costs on benefit plans | Returns on pension plan assets and the key assumptions that underlay projected benefit obligations, including financial market interest rates, staff expenses, past experience, and management's best estimate of future benefit cost changes and economic conditions. |

The following paragraphs detail significant variances between FY20 YTD vs FY19 YTD, covering the periods included in IFC's FY20 YTD condensed consolidated financial statements.

NET INCOME

NINE MONTHS ENDED MARCH 31, 2020

IFC reported a loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of $1,611 million in FY20 YTD, as compared to loss of $127 million in FY19 YTD.

The $1,484 million decrease in income before net unrealized gains and losses on non-trading instruments accounted for at fair value and grants to IDA in FY20 YTD when compared to FY19 YTD was principally a result of the following:

**Table 6a: Change in Net (Loss) Income FY20 YTD vs FY19 YTD (US$ millions)**

| | Increase (decrease) FY20 YTD vs FY19 YTD |
|---|---|
| Higher unrealized losses on equity investments and associated derivatives, net | $ (1,253) |
| Higher provisions for losses on loans, guarantees, accrued interest and other receivables | (439) |
| Lower income from loans, guarantees and associated derivatives, including realized gains and losses | (189) |
| Lower income from liquid asset trading activities | (124) |
| Lower administrative expenses | 76 |
| Higher realized gains on equity investments and associated derivatives, net | 89 |
| Higher foreign currency transaction gains on non-trading activities | 89 |
| Lower other-than-temporary impairments on debt securities | 141 |
| Lower charges on borrowings | 198 |
| Other, net | (72) |
| **Change in income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **$ (1,484)** |

| | FY20 YTD | FY19 YTD |
|---|---|---|
| **Loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **$ (1,611)** | **$ (127)** |
| Net unrealized losses on non-trading financial instruments accounted for at fair value | (664) | (65) |
| **Net loss** | **$ (2,275)** | **$ (192)** |

THREE MONTHS ENDED MARCH 31, 2020

IFC reported loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of $1,889 million in FY20 Q3, as compared to an income of $590 million in FY19 Q3.

The $2,479 million decrease in income before net unrealized gains and losses on non-trading instruments accounted for at fair value and grants to IDA in FY20 Q3 when compared to FY19 Q3 was principally a result of the following:

**Table 6b: Change in Net (Loss) Income FY20 Q3 vs FY19 Q3 (US$ millions)**

| | Increase (decrease) FY20 Q3 vs FY19 Q3 |
|---|---|
| Higher unrealized losses on equity investments and associated derivatives, net | $ (2,420) |
| Higher provisions for losses on loans, guarantees, accrued interest and other receivables | (281) |
| Lower income from loans and guarantees, realized gains and losses on loans and associated derivatives | (148) |
| Lower income from liquid asset trading activities | (96) |
| Lower administrative expenses | 98 |
| Lower charges on borrowings | 127 |
| Higher foreign currency transaction gains on non-trading activities | 213 |
| Other, net | 28 |
| **Change in income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **$ (2,479)** |

| | FY20 Q3 | FY19 Q3 |
|---|---|---|
| **(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **$ (1,889)** | **$ 590** |
| Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value | (665) | 65 |
| **Net (loss) income** | **$ (2,554)** | **$ 655** |

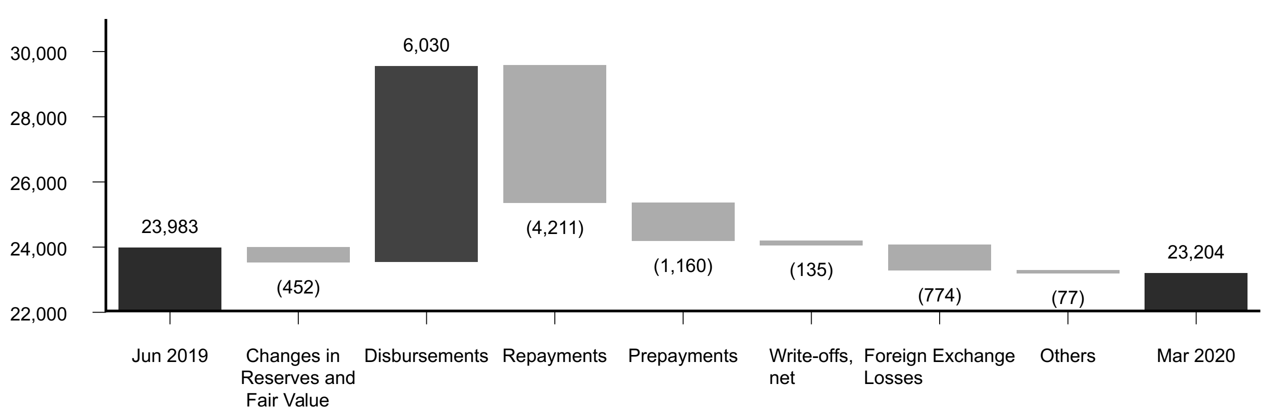
A more detailed analysis of the components of IFC's net income follows.

*INCOME FROM LOANS AND GUARANTEES, INCLUDING REALIZED GAINS AND LOSSES ON LOANS AND ASSOCIATED DERIVATIVES*

Income from loans and guarantees, including realized gains and losses on loans and associated derivatives for FY20 YTD totaled $1,162 million, compared with $1,351 million in FY19 YTD, a decrease of $189 million. The decrease was primarily driven by lower LIBOR rates, lower front-end fee income, and lower payments received on capitalized interest from restructured debt compared to FY19 YTD.

The carrying amount of IFC's loan portfolio on IFC's condensed consolidated balance sheet was $23,204 million at March 31, 2020 ($23,983 million at June 30, 2019) analyzed as follows.

**Figure 1: Carrying Amount of Loan Portfolio (US$ millions)**



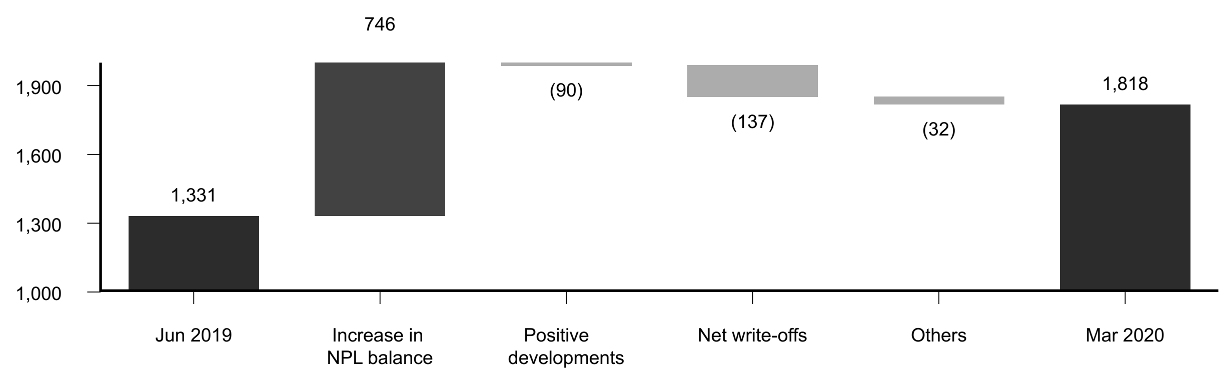

The carrying value of the loan portfolio declined by $779 million. New disbursements exceeded repayments and prepayments by $659 million. Currency exchange rate losses were $774 million as IFC's reporting currency, the US dollar, appreciated against investment currencies, particularly the Brazilian real, Indian rupee, Euro, and Colombian peso, changes in reserves and fair value totaled $(452) million reflecting greater credit risk in IFC's loan portfolio, and write-offs net of recoveries totaled $135 million. The remainder of the change is due to loan conversions and capitalized interest and charges.

The weighted average contractual interest rate on loans at March 31, 2020 was 5.4% (6.3% as of June 30, 2019), down from 6.4% at March 31, 2019 reflecting the decline in LIBOR rates as many of IFC's loans periodically reprice.

*PROVISION FOR LOSSES ON LOANS, GUARANTEES, ACCRUED INTEREST AND OTHER RECEIVABLES*

Non-performing loans (NPLs) increased $487 million, from $1,331 million at June 30, 2019 to $1,818 million[6] at March 31, 2020. The increase was due to $746 million of loans and loan-like debt securities being placed in NPL status partially offset by write-offs, net of recoveries ($137 million), positive developments such as repayments and prepayments ($90 million) and other changes ($32 million), In FY20 YTD, sixteen loans greater than $10 million, totaling $710 million, were placed in NPL status.

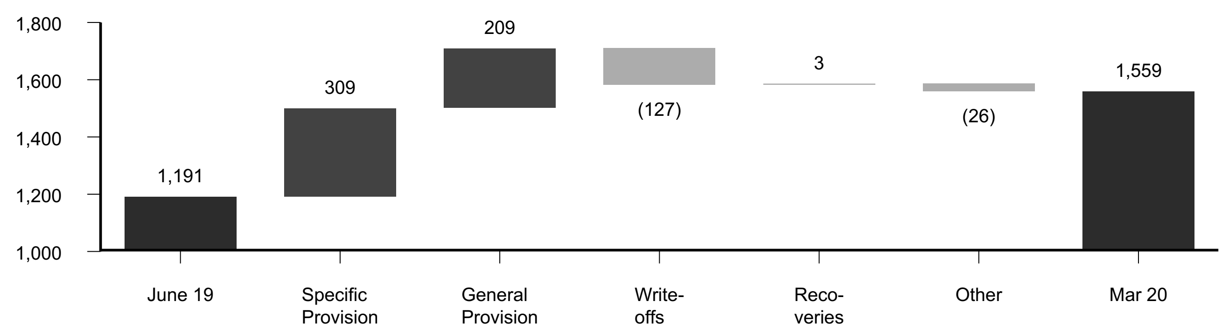
**Figure 2: Non-performing Loans**




IFC recorded a net provision for losses on loans, guarantees, accrued interest and other receivables of $511 million in FY20 YTD ($309 million of specific provisions on loans, $209 million of portfolio provisions on loans, $7 million net release of provision on guarantees, other receivables and accrued interest) as compared to a provision of $72 million in FY19 YTD ($62 million of specific provisions on loans; $6 million release of portfolio provisions on loans; and $16 million net provision on guarantees, other receivables and accrued interest). Project-specific developments on ten loans comprised 66% of the specific provision for losses on loans in FY20 YTD (excluding release of provisions).

Total reserve against losses on loans increased by $368 million to $1,559 million at March 31, 2020 ($1,191 million at June 30, 2019) analyzed as follows.

**Figure 3: Loan Loss Reserve**




At March 31, 2020, IFC's total reserves against losses on loans were $1,559 million or 6.5% of the carrying value of loans at amortized cost ($1,191 million or 4.9% at June 30, 2019), an increase of $368 million from June 30, 2019. The increase in reserves against losses on loans due to provisions of $518 million and other adjustments of $7 million was partially offset by write-offs and

[6] Includes $163 million reported as debt securities on the Balance Sheet as of March 31, 2020 ($51 million - June 30, 2019).

net of recoveries of $124 million and foreign exchange gains related to reserves held against non-US dollar-denominated loans of $33 million.

Reserves against losses as of March 31, 2020 reflects credit risk assessments as of March 31, 2020. The assessment of level of reserves against losses also carried a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19. In evaluating the appropriateness of IFC's reserves against losses at March 31, 2020, IFC has considered the impact of COVID-19 largely through its rating system that classifies its loans according to credit worthiness and risk. In light of COVID-19, many of the credit risk ratings of individual loans deteriorated at March 31, 2020 when compared to December 31, 2019 reflecting general credit considerations and specific COVID-19 related considerations. As a result, IFC has reported higher provisions for losses in the three-months ended March 31, 2020 which included a qualitative overlay general provision of $121 million considered necessary to reflect the impact of COVID-19.

Specific reserves against losses on loans at March 31, 2020 of $758 million ($580 million at June 30, 2019) are held against impaired loans of $1,668 million ($1,240 million at June 30, 2019), a coverage ratio of 45% (47% at June 30, 2019).

*INCOME (LOSS) FROM EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES*

Income from the equity investment portfolio, including associated derivatives, decreased by $1,179 million from $445 million of losses in FY19 YTD to losses of $1,624 million in FY20 YTD.

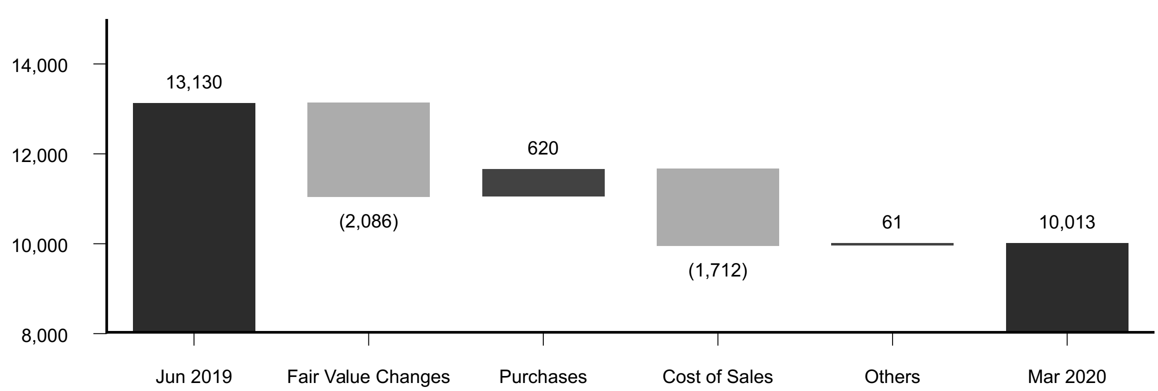
IFC sells equity investments where IFC's developmental role is complete, where pre-determined sales trigger levels have been met and, where applicable, lock ups have expired. Gains and losses on equity investments and associated derivatives comprise realized and unrealized gains.

IFC recognized realized net gains on equity investments and associated derivatives in FY20 YTD of $320 million, as compared to net gains of $231 million in FY19 YTD, an increase of $89 million. Realized gains on equity investments and associated derivatives are concentrated in a small number of investments. In FY20 YTD, there were ten investments that generated individual realized capital gains in excess of $20 million totaling $530 million and five investments that generated individual realized capital losses in excess of $20 million totaling $231 million, or 93% of the FY20 YTD net realized gains, compared to four investments that generated individual realized capital gains in excess of $20 million for a total of $264 million and three investments that generated individual realized capital losses in excess of $20 million totaling $82 million, or 79%, of the FY19 YTD net realized gains. Dividend income in FY20 YTD totaled $109 million, as compared with $124 million in FY19 YTD.

COVID-19 has had a significant negative impact on the valuation of IFC's equity investment portfolio at March 31, 2020. Recognizing there is a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19, IFC has utilized, where available, comparator, sector and country information, in addition to discounted cash flow models, in valuing its equity investment portfolio at March 31, 2020. Valuations of equity investments at March 31, 2020 were significantly lower than as of June 30, 2019. Net unrealized losses on equity investments and associated derivatives were $2,057 million in FY20 YTD, reflecting the significant decline in the emerging markets, including the impact of COVID-19 in FY20 Q3, compared to net unrealized losses of $804 million in FY19 YTD.

The carrying amount of IFC's equity investment portfolio declined by $3,117 million to $10,013 million at March 31, 2020 ($13,130 million at June 30, 2019) analyzed as follows.

**Figure 4: Carrying Amount of Equity Investments Portfolio (US$ millions)**

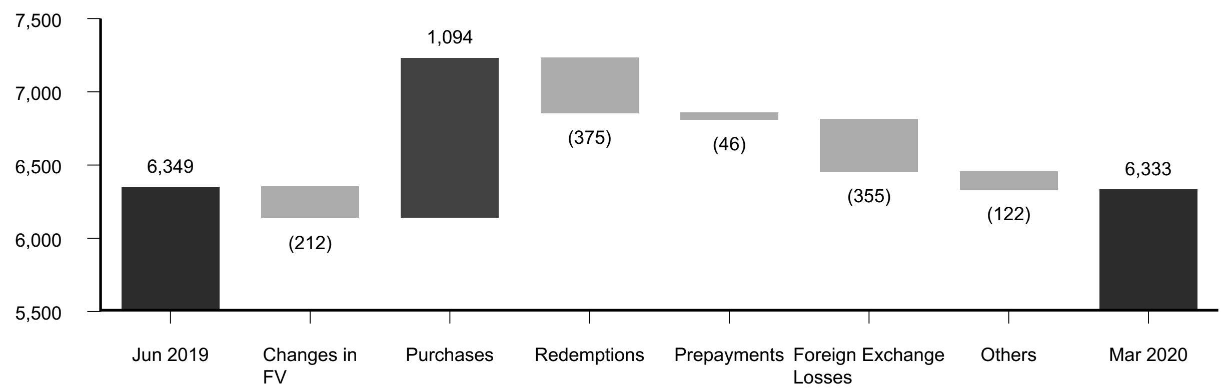


*INCOME FROM DEBT SECURITIES AND REALIZED GAINS AND LOSSES ON DEBT SECURITIES AND ASSOCIATED DERIVATIVES*

Income from debt securities and associated derivatives increased $126 million from income of $37 million in FY19 YTD to income of $163 million in FY20 YTD. The increase was primarily due to lower impairments on debt securities in FY20 YTD as compared to FY19 YTD. Other-than-temporary impairments on debt securities totaled $106 million in FY20 YTD and were largely credit-related in specific investments. Other-than-temporary impairments of $247 million in FY19 YTD included $238 million related to cumulative foreign exchange losses from the significant currency depreciation in a country with a large debt security exposure deemed as other than temporary. There was also a decrease in interest income of $27 million in FY20 YTD when compared with FY19 YTD, driven by lower LIBOR rates (after swaps).

The carrying amount of IFC's debt securities portfolio declined by $16 million to $6,333 million at March 31, 2020 ($6,349 million at June 30, 2019) analyzed as follows:

**Figure 5: Carrying Amount of Debt Securities Portfolio (US$ millions)**




*INCOME FROM LIQUID ASSET TRADING ACTIVITIES*

The liquid asset portfolio, net of derivatives and securities lending activities, increased by $3.3 billion from $39.7 billion at June 30, 2019, to $43.0 billion at March 31, 2020. The increase in FY20 YTD was primarily due to a $1.3 billion increase in Funded Liquidity as net issuance of market borrowings (both short-term and long-term) exceeded net loan disbursements to clients and an increase of $2.0 billion in the Net Worth Funded portfolio with contributions from net equity and quasi equity divestments and net income from investment operations and liquidity management.

Income, net of allocated funding costs, from liquid asset trading activities totaled $342 million in FY20 YTD compared to $351 million in FY19 YTD, a decrease of $9 million.

Interest income in FY20 YTD totaled $553 million, compared to $569 million in FY19 YTD. The portfolio of ABS and MBS experienced fair value losses totaling $104 million in FY20 YTD. Holdings in other products, including U.S. Treasuries, global government bonds, high quality corporate bonds, and derivatives generated $332 million of gains in FY20 YTD, resulting in net gains of $228 million (realized and unrealized). This compares to a total gain (realized and unrealized) of $336 million in FY19 YTD.

In FY20 YTD, the liquid assets portfolios underperformed their benchmarks by $92 million, down from an out-performance of $121 million in FY19 YTD. The COVID-19 crisis hit the United States hard in March prompting a flight-to-quality and an unprecedented policy response by the Federal Reserve. Widening credit spreads resulted in capital losses that exceeded the gains that were in the valuations in February by a considerable margin and resulted in a loss in FY20 YTD from Funded Liquidity net of benchmarks. The declines were widespread with credit spreads in every sector widening substantially. Losses were exacerbated by adverse movements in cross-currency basis-swap spreads and forward foreign exchange rates.

At March 31, 2020, and June 30, 2019 trading securities classified as Level 3 securities (those with predominantly unobservable inputs used to measure the fair value of the securities) were an insignificant proportion of total trading securities.

*CHARGES ON BORROWINGS*

IFC's charges on borrowings decreased by $198 million, from $1,167 million in FY19 YTD (net of $1 million gain on extinguishment of borrowings) to $969 million in FY20 YTD (net of $2 million gain on extinguishment of borrowings), due to lower LIBOR rates over the period compared to the same period in FY19 YTD.

*OTHER INCOME*

Other income of $371 million in FY20 YTD was $53 million lower than $424 million in FY19 YTD primarily due to a loss of $24m in FY20 YTD ($42m loss in FY20 Q3) from Post-Employment Benefit Plan assets driven by lower investment returns in equity strategy and the private equity portfolio and lower income from management fees earned by AMC.

*OTHER EXPENSES*

Administrative expenses (the principal component of other expenses) decreased by $76 million from $1,038 million in FY19 YTD to $962 million in FY20 YTD primarily due to a decrease in staff costs from reduced staff hiring, a decline in operational costs due to COVID-19, and a decrease in severance costs incurred during FY19 under the work force planning initiative, partially offset by an increase in pension service costs due to the increase in amortization of the actuarial loss from the lower discount rate at the end of FY19 and the lower expected return on net assets. Administrative expenses include the grossing-up effect of certain revenues and expenses attributable to IFC's reimbursable program.

Advisory services expenses decreased by $19 million from $249 million in FY19 YTD to $230 million in FY20 YTD due to a decrease in donor funds utilized in providing advisory services.

*FOREIGN CURRENCY TRANSACTION GAINS AND LOSSES ON NON-TRADING ACTIVITIES*

Foreign currency transaction gains reported in net income in FY20 YTD totaled $243 million (gains of $154 million - FY19 YTD). Foreign currency transaction losses of $250 million in FY20 YTD (losses of $144 million - FY19 YTD) on debt securities accounted for as available-for-sale are reported in other comprehensive income, while foreign currency transaction gains and losses on the derivatives economically hedging such debt securities are reported in net income. IFC has recorded foreign exchange related losses of $7 million (gains of $10 million - FY19 YTD) in a combination of net income and other comprehensive income.

*NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS*

IFC accounts for certain financial instruments at fair value with unrealized gains and losses on such financial instruments being reported in net income, namely: (i) market borrowings with associated currency or interest rate swaps; (ii) unrealized gains and losses on certain loans, debt securities and associated derivatives; and (iii) borrowings from IDA.

**Table 7: Net Unrealized Gains and Losses on Non-Trading Financial Instruments FY20 YTD vs FY19 YTD (US$ millions)**

| | FY20 YTD | FY19 YTD |
|---|---|---|
| Unrealized gains and losses on loans, debt securities and associated derivatives | **$ (521)** | $ (33) |
| Unrealized gains and losses on borrowings from market, IDA and associated derivatives, net | **(143)** | (32) |
| **Net unrealized gains and losses on non-trading financial instruments accounted for at fair value** | **$ (664)** | **$ (65)** |

IFC reported net unrealized losses on loans, debt securities and associated derivatives of $521 million in FY20 YTD (unrealized losses of $33 million in FY19 YTD).

In FY20 YTD, this comprised unrealized losses of $233 million ($263 million losses in FY20 Q3) on the loan and debt security portfolio carried at fair value with changes in fair value being reported in net income, unrealized losses of $215 million on lending-related swaps ($163 million losses in FY20 Q3), unrealized losses of $104 million on client risk management swaps ($120 million losses in FY20 Q3), and unrealized gains of $31 million on other derivatives ($37 million gains in FY20 Q3), mainly conversion features, warrants in investment contracts, and interest rate and currency swaps economically hedging client obligations. The unrealized losses on loans and debt securities is due to widening credit risk spreads, particularly in FY20 Q3. The unrealized losses of $215 million on lending related currency and interest rate swaps economically hedging loans is generally due to COVID-19 crisis related monetary accommodation by central banks and is concentrated in interest rate swaps hedging USD fixed rate loans, where longer tenor USD fixed rates fell sharply in FY20 Q3, and also in Turkish lira and the Brazilian real swap portfolios, where longer term swap discount rates during FY20 YTD also fell. Unrealized losses of $104 million on client risk management swaps owed to significantly wider credit risk spreads on IFC client swaps, also due to risk aversion occasioned by the spread of COVID-19.

Changes in the fair value of IFC's borrowings from market, IDA, and associated derivatives, net, includes the impact of changes in IFC's own credit spread when measured against U.S. dollar LIBOR. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded (notwithstanding the impact of other factors, such as changes in risk-free interest and foreign currency exchange rates). The magnitude and direction (gain or loss) can be volatile from period to period but does not alter the cash flows. IFC's policy is to generally match the currency, amount, and timing of cash flows on market borrowings with the cash flows on the associated derivatives entered into contemporaneously.

Beginning in FY19, the portion of the total change in fair value of borrowings, accounted for at fair value, resulting from a change in IFC's own credit spread is reported as a separate component of Other Comprehensive Income due to the adoption of Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) as discussed in Note A to the accompanying condensed consolidated financial statements. ASU 2016-01 was applied through a cumulative adjustment to beginning period balances with no change to prior period reported results.

The yield on the benchmark 5-year U.S. Treasury bond was 1.8% at the beginning of the fiscal year and 1.65% at the end of December 2019, before declining to an unprecedented level under 0.4% at the end of Q3 as the COVID-19 crisis spread and was met by concerted efforts by central banks around the world to ease liquidity. U.S. dollar LIBOR rates at the 5 year tenor also fell in step over FY20 YTD, from 1.74% to 0.52%. As a result, IFC recorded unrealized losses of $1,207 million through net income on medium and long-term borrowings carried at fair value, comprising $1,185 million loss on market borrowings and a $22 million loss on borrowings from IDA. Losses on borrowings were not fully offset by unrealized gains of $1,064 million on borrowing-related derivatives due to spread narrowing on cross-currency basis-swaps. Overall, IFC has reported $143 million of net unrealized losses on borrowings from market sources and associated derivatives, net and borrowings from IDA in FY20 YTD (net unrealized losses of $32 million in FY19 YTD).

## OTHER COMPREHENSIVE INCOME (OCI)

### *UNREALIZED GAINS AND LOSSES ON DEBT SECURITIES AND BORROWINGS*

**Table 8: Other Comprehensive Income (Loss) - Unrealized Gains and Losses on Debt Securities and Borrowings FY20 YTD vs FY19 YTD (US$ millions)**

| | FY20 YTD | FY19 YTD |
|---|---|---|
| Net unrealized gains and losses on debt securities arising during the period: | | |
| Unrealized gains | $ 204 | $ 323 |
| Unrealized losses | (624) | (473) |
| Reclassification adjustment for realized gains, credit related portion of impairments which were recognized in net income and other-than-temporary impairments included in net income | 100 | 244 |
| **Net unrealized (losses) gains on debt securities** | **$ (320)** | **$ 94** |
| Net unrealized gains and losses attributable to instrument-specific credit risk on borrowings at fair value under the fair value option arising during the period: | | |
| Unrealized gains | $ 615 | $ 367 |
| Unrealized losses | (250) | (262) |
| Reclassification adjustment for realized gains included in net income upon derecognition of borrowings | — | 1 |
| **Net unrealized gains on borrowings** | **$ 365** | **$ 106** |
| **Total unrealized gains on debt securities and borrowings** | **$ 45** | **$ 200** |

In FY20 YTD, other-than-temporary impairments on debt securities of $106 million were concentrated in three impairments totaling $81 million. In FY19 YTD, other-than-temporary impairments on debt securities of $247 million were reclassified to net income, which included $238 million due to the significant currency depreciation in a country with a large debt security exposure considered other than temporary.

Net unrealized gains on debt securities and borrowings were $45 million in FY20 YTD, (net unrealized gains of $200 million in FY19 YTD). An unrealized gain on borrowings of $365 million was recognized through other comprehensive income in FY20 YTD. This was due to a significant widening of 20 to 30 basis points (bps) in the instrument specific credit risk on IFC borrowings at fair value, mainly in Q3. Credit spreads widened in almost all currencies of issuance, but most notably in IFC's Australian dollar, U.S. dollar, Turkish lira, Mexican peso, and Euro denominated bond portfolios.

## VIII. GOVERNANCE AND CONTROL

### *SENIOR MANAGEMENT AND CHANGES*

The following is a list of the principal officers of IFC as of March 31, 2020:

| | |
|---|---|
| President | David Malpass |
| Chief Executive Officer | Philippe Le Houérou |
| Chief Operating Officer | Stephanie von Friedeburg |
| Regional Vice President, Latin America & Caribbean and Europe & Central Asia | Georgina Baker |
| Regional Vice President, Middle-East and Africa | Sérgio Pimenta |
| Regional Vice President, Asia and Pacific | Nena Stoiljkovic (*) |
| Vice President and General Counsel (**) | Christopher Stephens (***) |
| Vice President, Risk and Finance | Mohamed Gouled |
| Vice President, Corporate Strategy and Resources | Monish Mahurkar |
| Vice President, Treasury and Syndications | John Gandolfo |
| Vice President, Economics and Private Sector Development | Hans Peter Lankes |
| Vice President, IFC Asset Management Company (****) | Marcos Brujis (*****) |
| Vice President, Partnerships, Communications and Outreach | Karin Finkelston |

(*) On March 27, 2020, IFC announced that Nena Stoiljkovic will be leaving IFC in July 2020.

(**) Effective July 1, 2019, the Legal, Compliance Risk & Environmental, Social and Governance (ESG) Sustainability Vice Presidency Unit (VPU) was changed to the Legal and Compliance Risk VPU, after separating the ESG functions.

(***) On May 28, 2019, IFC announced that Ethiopis Tafara had been appointed as the new Vice President, Corporate Services and Chief Risk, Legal and Administrative Officer of MIGA. On August 5, 2019, IFC announced that Christopher Stephens had been appointed as Vice President and General Counsel of IFC. Both appointments became effective on September 23, 2019.

(****) Effective January 31, 2020, AMC was merged with and into IFC. The AMC business is now operated as a Vice Presidency Unit within IFC.

(*****) On April 16, 2020, IFC announced that Marcos Brujis will be leaving IFC on May 31, 2020.

### *AUDITOR INDEPENDENCE*

The external auditor is appointed to a five-year term, with a limit of two consecutive terms, and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. On November 28, 2017, following a mandatory rebidding of the external audit contract, IFC's Directors approved the appointment of Deloitte as IFC's external auditor for a five-year term commencing FY19.

The appointment of the external auditor for IFC is governed by a set of Board-approved principles that previously included prohibiting the external auditor from providing any non-audit-related services. During FY17, the Board approved amendments to the policy on the appointment of an external auditor which went into effect for the FY19 audit period. The primary amendments now permit the external auditor to provide non-prohibited non-audit related services subject to monetary limits. Broadly, the list of prohibited non-audit services include those that would put the external auditor in the roles typically performed by management or in a position of auditing their own work, such as accounting services, internal audit services, and provision of investment advice. The total non-audit services fees over the term of the relevant external audit contract shall not exceed 70 percent of the audit fees over the same period.

### *OTHER*

During FY19 Q3, the Supreme Court of the United States (Supreme Court) decided on a narrow question of US statutory law. The US International Organizations Immunities Act (IOIA) provides certain international organizations, including IFC, with the same immunity from suit in the United States as foreign states. This statutory grant of immunity is in addition to and independent of the immunities set forth in IFC's Articles of Agreement, as codified in a separate US statute. The Supreme Court decided that the grant of immunity under the IOIA had changed over time in line with changes in sovereign immunity, and that the IOIA now includes certain exceptions. The Supreme Court decision did not affect any of IFC's other immunities under US law, nor did it cover other sources of IFC's immunities under international law such as the IFC's Articles of Agreement and the United Nations Convention on the Privileges and Immunities of the Specialized Agencies. There are currently two court cases in the United States that may be impacted by the Supreme Court decision. Following the Supreme Court's decision these cases restarted in United States lower courts, and IFC has continued to present a number of jurisdictional arguments (including immunities based arguments) for the dismissal of both cases. One of the two cases has been dismissed by the relevant lower court, subject to possible appeal. Neither of these two cases has reached a merits stage. See also Note S to the FY20 Q3 condensed consolidated financial statements.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2020

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# CONDENSED CONSOLIDATED BALANCE SHEETS

as of March 31, 2020 (unaudited) and June 30, 2019 (unaudited)
(US$ millions)

| | March 31 | June 30 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks - Note C | $ 515 | $ 1,197 |
| Time deposits - Note C | 14,379 | 17,500 |
| Trading securities - Notes C and K | 33,228 | 28,526 |
| Securities purchased under resale agreements and receivable for cash collateral pledged - Notes C and P | 2,593 | 1,862 |
| Investments - Notes B, D, E, F, G, K and M | | |
| Loans | | |
| $951 at March 31, 2020, $877 at June 30, 2019 at fair value; | | |
| net of reserve against losses of $1,559 at March 31, 2020, $1,191 at June 30, 2019) | | |
| - Notes D, E, K and M | 23,204 | 23,983 |
| Equity investments | | |
| - Notes B, D, G, K and M | 10,013 | 13,130 |
| Debt securities - Notes D, F, K and M | 6,333 | 6,349 |
| Total investments | 39,550 | 43,462 |
| Derivative assets - Notes J, K and P | 4,257 | 2,856 |
| Receivables and other assets - Note C | 4,551 | 3,854 |
| **Total assets** | **$ 99,073** | **$ 99,257** |
| **Liabilities and capital** | | |
| Liabilities | | |
| Securities sold under repurchase agreements and payable for cash collateral received - Note P | $ 8,452 | $ 8,454 |
| Borrowings outstanding - Note K | | |
| From market and other sources at amortized cost | 4,431 | 3,023 |
| From market sources at fair value | 50,032 | 50,392 |
| From International Development Association at fair value | 615 | 717 |
| Total borrowings | 55,078 | 54,132 |
| Derivative liabilities - Notes J, K and P | 5,684 | 3,964 |
| Payables and other liabilities - Note C | 4,442 | 5,101 |
| Total liabilities | **73,656** | **71,651** |
| Capital | | |
| Capital stock, authorized (2,580,000 at March 31, 2020 and June 30, 2019) | | |
| shares of $1,000 par value each | | |
| Subscribed and paid-in | 2,567 | 2,567 |
| Accumulated other comprehensive loss - Note H | (1,146) | (1,232) |
| Retained earnings - Note H | 23,996 | 26,271 |
| Total capital | 25,417 | 27,606 |
| **Total liabilities and capital** | **$ 99,073** | **$ 99,257** |

The notes to the condensed consolidated financial statements are an integral part of these statements.

# CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

for each of the three and nine months ended March 31, 2020 (unaudited) and March 31, 2019 (unaudited)
(US$ millions)

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Income from investments** | | | | |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives - Note E | $ 355 | $ 503 | $ 1,162 | $ 1,351 |
| Provision for losses on loans, guarantees, accrued interest and other receivables - Note E | (302) | (21) | (511) | (72) |
| (Loss) income from equity investments and associated derivatives - Note G | (1,910) | 388 | (1,624) | (445) |
| Income from debt securities, including realized gains and losses on debt securities and associated derivatives - Note F | 62 | 93 | 163 | 37 |
| **Total (loss) income from investments** | **(1,795)** | **963** | **(810)** | **871** |
| Income from liquid asset trading activities - Note C | 247 | 343 | 781 | 905 |
| Charges on borrowings | (286) | (413) | (969) | (1,167) |
| **(Loss) income from investments and liquid asset trading activities, after charges on borrowings** | **(1,834)** | **893** | **(998)** | **609** |
| **Other income** | | | | |
| Advisory services income | 75 | 81 | 211 | 225 |
| Service fees | 23 | 21 | 73 | 71 |
| Other - Note B | (1) | 60 | 87 | 128 |
| **Total other income** | **97** | **162** | **371** | **424** |
| **Other expenses** | | | | |
| Administrative expenses - Note O | (279) | (377) | (962) | (1,038) |
| Advisory services expenses | (79) | (86) | (230) | (249) |
| Other - Notes B and O | (14) | (9) | (35) | (27) |
| **Total other expenses** | **(372)** | **(472)** | **(1,227)** | **(1,314)** |
| Foreign currency transaction gains on non-trading activities | 220 | 7 | 243 | 154 |
| **(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **(1,889)** | **590** | **(1,611)** | **(127)** |
| Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value - Note I | (665) | 65 | (664) | (65) |
| **Net (loss) income** | **$ (2,554)** | **$ 655** | **$ (2,275)** | **$ (192)** |

The notes to the condensed consolidated financial statements are an integral part of these statements.

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

for each of the three and nine months ended March 31, 2020 (unaudited) and March 31, 2019 (unaudited)
(US$ millions)

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Net (loss) income** | **$ (2,554)** | **$ 655** | **$ (2,275)** | **$ (192)** |
| **Other comprehensive income** | | | | |
| **Unrealized gains and losses on debt securities** | | | | |
| Net unrealized (losses) gains on available-for-sale debt securities arising during the period | (351) | 60 | (420) | (150) |
| Reclassification adjustment for realized gains included in net income (income from debt securities and realized gains and losses on debt securities and associated derivatives) | (1) | (1) | (6) | (3) |
| Reclassification adjustment for other-than-temporary impairments included in net income (income from debt securities and realized gains and losses on debt securities and associated derivatives) | 27 | 1 | 106 | 247 |
| **Net unrealized (losses) gains on debt securities** | **(325)** | **60** | **(320)** | **94** |
| **Unrealized gains and losses on borrowings** | | | | |
| Net unrealized gains (losses) arising during the period attributable to instrument-specific credit risk on borrowings at fair value under the fair value option | 387 | (78) | 365 | 105 |
| Reclassification adjustment for realized gains included in net income upon derecognition of borrowings | — | — | — | 1 |
| **Net unrealized gains (losses) on borrowings** | **387** | **(78)** | **365** | **106** |
| **Net unrecognized net actuarial gains and unrecognized prior service credits on benefit plans - Note O** | **14** | **8** | **41** | **25** |
| **Total other comprehensive income (loss)** | **76** | **(10)** | **86** | **225** |
| **Total comprehensive (loss) income** | **$ (2,478)** | **$ 645** | **$ (2,189)** | **$ 33** |

The notes to the condensed consolidated financial statements are an integral part of these statements.

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL

for the nine months ended March 31, 2020 (unaudited) and March 31, 2019 (unaudited)
(US$ millions)

| | Undesignated retained earnings | Designated retained earnings | **Total retained earnings** | Accumulated other comprehensive income (loss) - Note H | Capital stock | **Total IFC capital** | **Total capital** |
|---|---|---|---|---|---|---|---|
| **At June 30, 2018** | **$ 23,116** | **$ 190** | **$ 23,306** | **$ 264** | **$2,566** | **$26,136** | **$26,136** |
| Cumulative effect of adoption of ASU 2016-01, effective July 1, 2018 - Note A | 2,872 | | 2,872 | (1,359) | | 1,513 | 1,513 |
| **Nine months ended March 31, 2019** | | | | | | | |
| Net loss | (192) | | (192) | | | (192) | (192) |
| Other comprehensive income | | | | 225 | | 225 | 225 |
| Designations of retained earnings - Note H | (230) | 230 | — | | | — | — |
| Expenditures against designated retained earnings - Note H | 30 | (30) | — | | | — | — |
| **At March 31, 2019** | **$ 25,596** | **$ 390** | **$ 25,986** | **$ (870)** | **$2,566** | **$27,682** | **$27,682** |
| **At June 30, 2019** | **$ 25,905** | **$ 366** | **$ 26,271** | **$ (1,232)** | **$2,567** | **$27,606** | **$27,606** |
| **Nine months ended March 31, 2020** | | | | | | | |
| Net loss | (2,275) | | (2,275) | | | (2,275) | (2,275) |
| Other comprehensive income | | | | 86 | | 86 | 86 |
| Designations of retained earnings - Note H | (122) | 122 | — | | | — | — |
| Expenditures against designated retained earnings - Note H | 36 | (36) | — | | | — | — |
| **At March 31, 2020** | **$ 23,544** | **$ 452** | **$ 23,996** | **$ (1,146)** | **$2,567** | **$25,417** | **$25,417** |

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the nine months ended March 31, 2020 (unaudited) and March 31, 2019 (unaudited)
(US$ millions)

| | 2020 | 2019 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Loan disbursements | $ (5,705) | $ (5,582) |
| Investments in equity securities | (620) | (651) |
| Investments in debt securities | (1,094) | (775) |
| Loan repayments | 5,121 | 4,807 |
| Debt securities repayments | 289 | 172 |
| Proceeds from sales of loan investments | 10 | 22 |
| Proceeds from sales of equity investments | 2,023 | 1,316 |
| Proceeds from sales of debt securities | 73 | 35 |
| Investment in fixed assets | (39) | (82) |
| **Net cash provided by (used in) investing activities** | **58** | **(738)** |
| **Cash flows from financing activities** | | |
| Medium and long-term borrowings | | |
| Issuance | 13,220 | 13,272 |
| Retirement | (11,661) | (12,001) |
| Medium and long-term borrowings related derivatives, net | (413) | (176) |
| Short-term borrowings, net | 1,448 | (760) |
| **Net cash provided by financing activities** | **2,594** | **335** |
| **Cash flows from operating activities** | | |
| Net loss | (2,275) | (192) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Realized losses (gains) on loans and associated derivatives, net | 12 | (40) |
| Realized gains on debt securities and associated derivatives, net | (19) | (3) |
| Losses on equity investments and related derivatives, net | 1,737 | 573 |
| Provision for losses on loans, guarantees, accrued interest and other receivables | 511 | 72 |
| Other-than-temporary impairments on debt securities | 106 | 247 |
| Net premiums paid at issuance of borrowings (net of swaps) | — | (3) |
| Net discounts paid on retirement of borrowings | (41) | (40) |
| Net realized gains on extinguishment of borrowings | (2) | (1) |
| Foreign currency transaction gains on non-trading activities | (243) | (154) |
| Net unrealized losses on non-trading financial instruments accounted for at fair value | 664 | 65 |
| Depreciation and amortization | 44 | 43 |
| Change in accrued income on loans and trading portfolios (after swaps), net | (68) | (196) |
| Change in accrued expenses on borrowings (after swaps), net | (15) | 180 |
| Change in trading securities | (5,562) | 1,577 |
| Change in securities purchased under resale agreements and receivable for cash collateral pledged | (731) | (135) |
| Change in receivables and other assets | 304 | (175) |
| Change in other derivatives, net | (408) | (475) |
| Change in securities sold under repurchase agreements and payable for cash collateral received | (2) | 1,763 |
| Change in payables and other liabilities | (199) | 1,432 |
| **Net cash (used in) provided by operating activities** | **(6,187)** | **4,538** |
| Change in cash and cash equivalents | (3,535) | 4,135 |
| Effect of exchange rate changes on cash and cash equivalents | (268) | 673 |
| Net change in cash and cash equivalents | (3,803) | 4,808 |
| Beginning cash and cash equivalents | 18,697 | 14,405 |
| **Ending cash and cash equivalents** | **$ 14,894** | **$ 19,213** |
| **Composition of cash and cash equivalents** | | |
| Cash and due from banks | $ 515 | $ 1,260 |
| Time deposits | 14,379 | 17,953 |
| **Total cash and cash equivalents** | **$ 14,894** | **$ 19,213** |

The notes to the condensed consolidated financial statements are an integral part of these statements.

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the nine months ended March 31, 2020 (unaudited) and March 31, 2019 (unaudited)
(US$ millions)

| **Supplemental disclosure** | **2020** | **2019** |
|---|---|---|
| Change in ending balances resulting from currency exchange rate fluctuations: | | |
| Loans outstanding | $ (774) | $ (196) |
| Debt securities | (355) | (160) |
| Loan and debt security-related currency swaps | 1,004 | 315 |
| Borrowings | 3,058 | 772 |
| Borrowing-related currency swaps | (2,874) | (725) |
| Charges on borrowings paid, net | $ 984 | $ 986 |
| Non-cash items: | | |
| Loan and debt security conversion to equity, net | $ 98 | $ 18 |

The notes to the condensed consolidated financial statements are an integral part of these statements.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**PURPOSE**

The International Finance Corporation (IFC), an international organization, was established in 1956 to further economic development in its member countries by encouraging the growth of private enterprise. IFC is a member of the World Bank Group (WBG), which also comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Each member is legally and financially independent. Transactions with other World Bank Group members are disclosed in the notes that follow. IFC's activities are closely coordinated with and complement the overall development objectives of the other World Bank Group institutions. IFC, together with private investors, assists in financing the establishment, improvement and expansion of private sector enterprises by making loans, equity investments and investments in debt securities where sufficient private capital is not otherwise available on reasonable terms. IFC's share capital is provided by its member countries. It raises most of the funds for its investment activities through the issuance of notes, bonds and other debt securities in the international capital markets. IFC also plays a catalytic role in mobilizing additional funding from other investors and lenders through parallel loans, loan participations, partial credit guarantees, securitizations, loan sales, risk sharing facilities, and fund investments through the IFC Asset Management Company, LLC[7] and other IFC crisis initiatives. In addition to project finance and mobilization, IFC offers an array of financial and technical advisory services to private businesses in the developing world to increase their chances of success. It also advises governments on how to create an environment hospitable to the growth of private enterprise and foreign investment.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES**

The condensed consolidated financial statements include the financial statements of IFC and its consolidated subsidiary as detailed in Note B. The accounting and reporting policies of IFC conform with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, the condensed consolidated financial statements reflect all adjustments necessary for the fair presentation of IFC's financial position and results of operations.

**Condensed Consolidated Financial Statements presentation** - The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP for interim financial information. Accordingly, they do not include all of the information and note disclosures required for complete condensed consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The accompanying condensed consolidated financial statements include IFC's accounts as well as the accounts of other entities in which IFC has a controlling financial interest. All intercompany accounts and transactions have been eliminated. Certain prior period amounts in the condensed consolidated statements of cash flows have been changed to conform to the current period's presentation. Results for the nine months ended March 31, 2020 may not necessarily be indicative of the results for the year ending June 30, 2020.

**Functional currency** - IFC's functional currency is the United States dollar (US dollars or $).

**Use of estimates** - The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expense during the reporting periods. Actual results could differ from these estimates. A significant degree of judgment has been used in the determination of: the reserve against losses on loans and impairment of debt securities; estimated fair values of financial instruments accounted for at fair value (including equity investments, debt securities, loans, trading securities and derivative instruments); projected pension benefit obligations, fair value of pension and other postretirement benefit plan assets, and net periodic pension income or expense. There are inherent risks and uncertainties related to IFC's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of IFC.

IFC uses internal models to determine the fair values of derivative and other financial instruments and the aggregate level of the reserve against losses on loans and impairment of debt securities. IFC undertakes continuous review and analysis of these models with the objective of refining its estimates, consistent with evolving best practices appropriate to its operations. Changes in estimates resulting from refinements in the assumptions and methodologies incorporated in the models are reflected in net income in the period in which the enhanced models are first applied.

**Consolidation, non-controlling interests and variable interest entities** - IFC consolidates:
i) all majority-owned subsidiaries;
ii) limited partnerships in which it is the general partner, unless the presumption of control is overcome by certain management participation or other rights held by minority shareholders/limited partners; and
iii) variable interest entities (VIEs) for which IFC is deemed to be the VIE's primary beneficiary (together, consolidated subsidiaries).

Significant intercompany accounts and transactions are eliminated in consolidation.

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[7] Effective January 31, 2020, AMC was merged with and into IFC. The AMC business is now operated as a Vice Presidency Unit within IFC. This change did not have a significant impact on IFC's financial position, results of operations or cash flows.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

An entity is a VIE if:

i) its equity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties;
ii) its equity investors do not have decision-making rights about the entity's operations; or
iii) its equity investors do not absorb the expected losses or receive the expected returns of the entity proportionally to their voting rights.

A variable interest is a contractual, ownership or other interest whose value changes as the fair value of the VIE's net assets change. IFC's variable interests in VIEs arise from financial instruments, service contracts, guarantees, leases or other monetary interests in those entities.

IFC is considered to be the primary beneficiary of a VIE if it has the power to direct the VIE's activities that most significantly impact its economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE.

**Fair Value Option** - IFC has elected the Fair Value Option under the subsections of ASC Topic 825, *Financial Instruments* (ASC 825 or the Fair Value Option) for several of its financial assets and financial liabilities. ASC 825 permits the measurement of eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the Fair Value Option is available when an entity first recognizes a financial asset or liability or upon entering into a firm commitment.

IFC has elected the Fair Value Option (FVO) for the following financial assets and financial liabilities:

i) direct equity investments which give IFC significant influence, which in the absence of FVO, would have to be accounted for under equity method and all other all other financial interests in the investee (e.g., guarantees, loans)
ii) all market borrowings that are economically hedged with financial instruments accounted for at fair value with changes therein reported in earnings;
iii) borrowings from IDA;

effective July 1, 2018:

iv) substantially all investments in debt securities; and
v) substantially all hybrid instruments in the loan investment portfolio;

All borrowings for which the Fair Value Option has been elected are economically hedged with derivative or other financial instruments accounted for at fair value with changes in fair value reported in earnings as such changes occur. Measuring at fair value those borrowings for which the Fair Value Option has been elected mitigates the earnings volatility that would otherwise occur, due to measuring the borrowings and related economic hedges differently, without having to apply ASC Topic 815, *Derivatives and Hedging* (ASC 815)'s complex hedge accounting requirements.

Measuring at fair value those equity investments that would otherwise require equity method accounting simplifies the accounting and renders a carrying amount on the condensed consolidated balance sheet based on a measure (fair value) that IFC considers preferable to equity method accounting. For the investments that otherwise would require equity method accounting for which the Fair Value Option is elected, ASC 825 requires the Fair Value Option to also be applied to all eligible financial interests in the same entity. IFC has disbursed loans and issued guarantees to some of those investees; therefore, the Fair Value Option is also applied to those loans and issued guarantees. IFC elected the Fair Value Option for equity investments, through June 30, 2018, with 20% or more ownership where it did not have significant influence so that the same measurement method (fair value) was applied to all equity investments with more than 20% ownership.

The FVO was elected through June 30, 2018, for certain hybrid instruments in the investment portfolio that would have otherwise required bifurcation of the host and embedded derivative. Election of the FVO for these instruments eliminated the bifurcation requirement.

The FVO has been elected for substantially all investments in debt securities and hybrid loan instruments recognized after June 30, 2018. Among other things, measuring all investments in debt securities and hybrid loan instruments at fair value eliminates the requirement to bifurcate the host and embedded derivative that may have otherwise applied in certain instances, results in more accounting consistency across IFC’s investment portfolio and results in a measurement method that is consistent with the manner in which the portfolio is managed.

**Fair Value Measurements**

IFC has adopted FASB Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels and applies to all items measured at fair value, including items for which impairment measures are based on fair value.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

ASC 820 defines fair value as the price that would be received to sell an asset or transfer a liability (i.e., an exit price) in an orderly transaction between independent, knowledgeable and willing market participants at the measurement date assuming the transaction occurs in the entity's principal (or most advantageous) market. Fair value must be based on assumptions market participants would use (inputs) in determining the price and measured assuming that market participants act in their economic best interest, therefore, their fair values are determined based on a transaction to sell or transfer the asset or liability on a standalone basis. Under ASC 820, fair value measurements are not adjusted for transaction costs.

ASC 820 established a fair value hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical unrestricted assets and liabilities (Level 1), the next highest priority to observable market based inputs or unobservable inputs that are corroborated by market data from independent sources (Level 2) and the lowest priority to *unobservable* inputs that are not corroborated by market data (Level 3). Fair value measurements are required to maximize the use of available observable inputs.

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2: Other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly for substantially the full term of the asset or liability. It includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and financial instruments that are valued using models and other valuation methodologies. These models consider various assumptions and inputs, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity and current market and contractual pricing for the underlying asset, as well as other relevant economic measures. Substantially all of these inputs are observable in the market place, can be derived from observable data or are supported by observable levels at which market transactions are executed.

Level 3: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. It consists of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are non-observable. It also includes financial instruments whose fair value is estimated based on price information from independent sources that cannot be corroborated by observable market data.

IFC's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

IFC estimates the fair value of its investments in private equity funds that do not have readily determinable fair value based on the funds' net asset values (NAVs) per share as a practical expedient to the extent that a fund reports its investment assets at fair value and has all the attributes of an investment company, pursuant to ASC Topic 946, *Financial Services - Investment Companies* (ASC 946). If the NAV is not as of IFC's measurement date, IFC adjusts the most recent NAV, as necessary, to estimate a NAV for the investment that is calculated in a manner consistent with the fair value measurement principles established by ASC 820.

**Remeasurement of foreign currency transactions -** Monetary assets and liabilities not denominated in US dollars, are expressed in US dollars at the exchange rates prevailing at March 31, 2020 and June 30, 2019. Income and expenses are recorded based on the rates of exchange prevailing at the time of the transaction. Transaction gains and losses are credited or charged to income.

**Loans** - IFC originates loans to facilitate project finance, restructuring, refinancing, corporate finance, and/or other developmental objectives. Loans are recorded as assets when disbursed. Loans are generally carried at the principal amounts outstanding adjusted for net unamortized loan origination costs and fees. It is IFC's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees.

Certain loans are carried at fair value in accordance with the Fair Value Option as discussed above. Unrealized gains and losses on loans accounted for at fair value under the Fair Value Option are reported in Net unrealized gains and losses on non-trading financial instruments accounted for at fair value on the condensed consolidated statement of operations.

Certain loans originated by IFC contain income participation, prepayment and conversion features. These features are bifurcated and separately accounted for in accordance with ASC 815 if IFC has not elected the Fair Value Option for the loan host contracts and the features meet the definition of a derivative and are not considered to be clearly and closely related to their host loan contracts. Otherwise, these features are accounted for as part of their host loan contracts in accordance with IFC's accounting policies for loans as indicated herein.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

**Revenue recognition on loans** - Interest income and commitment fees on loans are recorded as income on an accrual basis. Loan origination fees and direct loan origination costs are deferred and amortized over the estimated life of the originated loan; such amortization is determined using the interest method unless the loan is a revolving credit facility in which case amortization is determined using the straight-line method. Prepayment fees are recorded as income when received.

IFC does not recognize income on loans where collectability is in doubt or payments of interest or principal are past due more than 60 days unless management anticipates that collection of interest will occur in the near future. Any interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the actual payment is received. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income, included in the condensed consolidated balance sheet in payables and other liabilities, and credited to income only when the related principal is received. Such capitalized interest is considered in the computation of the reserve against losses on loans in the condensed consolidated balance sheet.

**Reserve against losses on loans** - IFC recognizes impairment on loans not carried at fair value in the condensed consolidated balance sheet through the reserve against losses on loans, recording a provision or release of provision for losses on loans in net income, which increases or decreases the reserve against losses on loans. Individually impaired loans are measured based on the present value of expected future cash flows to be received, observable market prices, or for loans that are dependent on collateral for repayment, the estimated fair value of the collateral.

The reserve against losses on loans reflects management’s estimates of both identified probable losses on individual loans (specific reserves) and probable losses inherent in the portfolio but not specifically identifiable (portfolio reserves). The determination of identified probable losses represents management’s judgment of the creditworthiness of the borrower. Reserves against losses are established through a review of individual loans undertaken on a quarterly basis. IFC considers a loan as impaired when, based on current information and events, it is probable that IFC will be unable to collect all amounts due according to the loan’s contractual terms. Information and events, with respect to the borrower and/or the economic and political environment in which it operates, considered in determining that a loan is impaired include, but are not limited to, the borrower’s financial difficulties, breach of contract, bankruptcy/reorganization, credit rating downgrade as well as geopolitical conflict, financial/ economic crisis, commodity price decline, adverse local government action and natural disaster. Unidentified probable losses are the losses incurred at the reporting date that have not yet been specifically identified. The risks inherent in the portfolio that are considered in determining unidentified probable losses are those proven to exist by past experience and include: country systemic risk; the risk of correlation or contagion of losses between markets; uninsured and uninsurable risks; nonperformance under guarantees and support agreements; and opacity of, or misrepresentation in, financial statements.

For purposes of providing certain disclosures about IFC’s entire reserve against losses on loans, IFC considers its entire loan portfolio to comprise one portfolio segment. A portfolio segment is the level at which the method for estimating the reserve against losses on loans is developed and documented.

Loans are written-off when IFC has exhausted all possible means of recovery, by reducing the reserve against losses on loans. Such reductions in the reserve are partially offset by recoveries, if any, associated with previously written-off loans.

**Equity investments** - IFC invests primarily for developmental impact; IFC does not seek to take operational, controlling, or strategic equity positions within its investees. Equity investments are acquired through direct ownership of equity instruments of investees, as a limited partner in LLPs and LLCs, and/or as an investor in private equity funds.

Pursuant to Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01) and ASC Topic 321, *Investments - Equity Securities* (ASC 321), effective July 1, 2018 all equity investments are measured at fair value, with unrealized gains and losses reported in earnings.

IFC’s investments in certain private equity funds in which IFC is deemed to have a controlling financial interest, are consolidated by IFC, as the presumption of control by the fund manager or the general partner has been overcome. Certain equity investments, for which recovery of invested capital is uncertain, are accounted for under the cost recovery method, such that receipts are first applied to recovery of invested capital and then to income from equity investments. The cost recovery method is applied to IFC's investments in its natural resources unincorporated joint ventures (UJVs). IFC’s share of conditional asset retirement obligations related to investments in UJVs are recorded when the fair value of the obligations can be reasonably estimated. The obligations are capitalized and systematically amortized over the estimated economic useful lives.

Unrealized gains and losses on equity investments accounted for at fair value are reported in income from equity investments and associated derivatives on the condensed consolidated statements of operations. Unrealized gains and losses on equity investments which were accounted for as available-for-sale were reported in other comprehensive income. Realized gains on the sale or redemption of equity investments are measured against the average cost of the investments sold.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

Dividends on listed equity investments are recorded on the ex-dividend date, and dividends on unlisted equity investments are recorded upon receipt of notice of declaration. Realized gains on listed equity investments are recorded upon trade date, and realized gains on unlisted equity investments are recorded upon incurring the obligation to deliver the applicable shares. Losses are recognized when incurred.

IFC enters into put options, call options and warrant agreements in connection with equity investments; these are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative. Put options, call options and warrant agreements that do not meet the definition of a derivative are measured at fair value with unrealized gains and losses recognized in earnings in accordance with ASU 2016-01 and included in “Equity investments” on the condensed consolidated balance sheets.

**Gains and losses on debt conversions and exchanges of equity interests** - Loan and debt security conversions to equity interests are based on the fair value of the equity interests received. Transfers of equity interests in exchange for equity interests in other entities and other non-cash transactions are generally accounted for based on the fair value of the asset relinquished unless the fair value of the asset received is more clearly evident in which case the accounting is based on the fair value of the asset received. The difference between the fair value of the asset received and the recorded amount of the asset relinquished is recorded as a gain or loss in the condensed consolidated statements of operations.

**Debt securities** - Debt securities in the investment portfolio classified as available-for-sale are carried at fair value on the condensed consolidated balance sheets with unrealized gains and losses included in accumulated other comprehensive income until realized.

Unrealized gains and losses on debt securities accounted for at fair value under the Fair Value Option are reported in “Net unrealized gains and losses on non-trading financial instruments accounted for at fair value” on the condensed consolidated statements of operations.

IFC invests in certain debt securities with conversion features; if the hybrid instrument is not measured at fair value with unrealized gains and losses reported in earnings, these features are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative.

**Impairment of debt securities** - In determining whether an unrealized loss on debt securities classified as available-for-sale is other-than-temporary, IFC considers all relevant information including the length of time and the extent to which fair value has been less than amortized cost, whether IFC intends to sell the debt security or whether it is more likely than not that IFC will be required to sell the debt security, the payment structure of the obligation and the ability of the issuer to make scheduled interest or principal payments, any changes to the ratings of a security, and relevant adverse conditions specifically related to the security, an industry or geographic sector.

Debt securities in the investment portfolio classified as available-for-sale are assessed for impairment each quarter. When impairment is identified, the entire impairment is recognized in net income if (1) IFC intends to sell the security, or (2) it is more likely than not that IFC will be required to sell the security before recovery. However, if IFC does not intend to sell the security and it is not more likely than not that IFC will be required to sell the security but the security has a credit loss, the impairment charge will be separated into the credit loss component, which is recognized in net income, and the remainder which is recorded in other comprehensive income. The impaired value becomes the new amortized cost basis of the debt security. Subsequent fair value increases and decreases in the fair value of debt securities, if not an additional other-than-temporary impairment, are included in other comprehensive income.

The difference between the new amortized cost basis of debt securities for which an other-than-temporary impairment has been recognized in net income and the cash flows expected to be collected is accreted to interest income using the effective yield method. Significant subsequent increases in the expected or actual cash flows previously expected are recognized as a prospective adjustment of the yield.

**Guarantees** - IFC extends financial guarantee facilities to its clients to provide credit enhancement for their debt security issuances and loan obligations. As part of these financial guarantee facilities, IFC offers partial credit guarantees to clients covering, on a risk-sharing basis, client obligations on bonds or loans. Under the terms of IFC's guarantees, IFC agrees to assume responsibility for the client’s financial obligations in the event of default by the client (i.e., failure to pay when payment is due). Guarantees are regarded as issued when IFC commits to the guarantee. Guarantees are regarded as outstanding when the underlying financial obligation of the client is incurred, and this date is considered to be the “inception” of the guarantee. Guarantees are regarded as called when IFC’s obligation under the guarantee has been invoked. There are two liabilities associated with the guarantees: (i) the stand-ready obligation to perform and (ii) the contingent liability. The fair value of the stand-ready obligation to perform is recognized at the inception of the guarantee unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantee is recognized when it is probable the guarantee will be called and when the amount of guarantee called can be reasonably estimated. When the guarantees are called, the amount disbursed is recorded as a new loan, and specific reserves against losses are established, based on the estimated probable loss. Guarantee fees are recorded in income as the stand-ready obligation to perform is fulfilled. Commitment fees on guarantees are recorded

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

as income on an accrual basis. All liabilities associated with guarantees are included in payables and other liabilities, and the receivables are included in other assets on the condensed consolidated balance sheet.

**Designations of retained earnings** - IFC establishes funding mechanisms for specific Board approved purposes through designations of retained earnings. Designations of retained earnings for grants to IDA are recorded as a transfer from undesignated retained earnings to designated retained earnings when the designation is noted with approval by the Board of Governors. All other designations are recorded as a transfer from undesignated retained earnings to designated retained earnings when the designation is approved by the Board of Directors. Expenditures resulting from such designations are recorded as expenses in IFC's condensed consolidated statement of operations in the year in which they are incurred and reduces the respective designated retained earnings for such purposes. Expenditures are deemed to have been incurred when IFC has ceded control of the funds to the recipient.

**Liquid asset portfolio** - The liquid asset portfolio, as defined by IFC, consists of: time deposits and securities; related derivative instruments; securities purchased under resale agreements and receivable for cash collateral pledged, securities sold under repurchase agreements and payable for cash collateral received; receivables from sales of securities and payables for purchases of securities; and related accrued income and charges. IFC's liquid funds are invested in government, agency and government-sponsored agency obligations, time deposits and asset-backed, including mortgage-backed, securities. Government and agency obligations include positions in high quality fixed rate bonds, notes, bills, and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies and instrumentalities or by multilateral organizations. Asset-backed and mortgage-backed securities include agency and non-agency residential mortgage-backed securities, commercial mortgage-backed securities, consumer, auto and student loan-backed securities, commercial real estate collateralized debt obligations and collateralized loan obligations.

Securities and related derivative instruments within IFC's liquid asset portfolio are classified as trading and are carried at fair value with any changes in fair value reported in income from liquid asset trading activities. Interest on securities and amortization of premiums and accretion of discounts are also reported in income from liquid asset trading activities. Gains and losses realized on the sale of trading securities are computed on a specific security basis.

IFC classifies cash and due from banks and time deposits (collectively, cash and cash equivalents) as cash and as cash equivalents in the condensed consolidated statement of cash flows because they are generally readily convertible to known amounts of cash within 90 days of acquisition generally when the original maturities for such instruments are under 90 days (or in some cases are under 180 days).

**Repurchase, resale and securities lending agreements** - Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. Resale agreements are contracts under which a party purchases securities and simultaneously agrees to resell the same securities at a specified future date at a fixed price. Securities lending agreements are similar to repurchase agreements except that the securities loaned are securities that IFC has received as collateral under unrelated agreements and allowed by contract to rehypothecate. Amounts due under securities lending agreements are included in securities sold under repurchase agreements and payable for cash collateral received on the condensed consolidated balance sheet.

It is IFC's policy to take possession of securities purchased under resale agreements, which are primarily liquid government securities. The market value of these securities is monitored and, within parameters defined in the agreements, additional collateral is obtained when their value declines. IFC also monitors its exposure with respect to securities sold under repurchase agreements and, in accordance with the terms of the agreements, requests the return of excess securities held by the counterparty when their value increases.

Repurchase, resale and securities lending agreements are accounted for as collateralized financing transactions and recorded at the amount at which the securities were acquired or sold plus accrued interest.

**Borrowings** - To diversify its access to funding, and reduce its borrowing costs, IFC borrows in a variety of currencies and uses a number of borrowing structures, including foreign exchange rate-linked, inverse floating rate and zero coupon notes. In managing the currency exposure inherent in borrowing in a variety of currencies, generally, IFC either simultaneously converts such borrowings into variable rate US dollar borrowings through the use of currency and interest rate swap transactions or utilizes liquid asset portfolio or debt investments denominated in the same currency to economically hedge changes in the fair value of certain borrowings. Under certain outstanding borrowing agreements, IFC is not permitted to mortgage or allow a lien to be placed on its assets (other than purchase money security interests) without extending equivalent security to the holders of such borrowings. Interest on borrowings and amortization of premiums and accretion of discounts are reported in charges on borrowings.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

Substantially all borrowings are carried at fair value under the Fair Value Option. All changes in the fair value of such borrowings through June 30, 2018 were reported in “Net unrealized gains and losses on non-trading financial instruments accounted for at fair value” in the condensed consolidated statement of operations. Effective July 1, 2018, in accordance with ASU 2016-01, the change in the fair value of these borrowings resulting from changes in instrument-specific credit risk is reported in other comprehensive income, while the remaining change in fair value is reported in “Net unrealized gains and losses on non-trading financial instruments accounted for at fair value” in the condensed consolidated statement of operations.

**Risk management and use of derivative instruments** - IFC enters into transactions in various derivative instruments primarily for financial risk management purposes in connection with its principal business activities, including lending, investing in debt securities and equity investments, client risk management, borrowing, liquid asset portfolio management and asset and liability management. There are no derivatives designated as accounting hedges.

All derivative instruments are recorded on the condensed consolidated balance sheet at fair value as derivative assets or derivative liabilities. Where they are not clearly and closely related to the host contract, certain derivative instruments embedded in loans, debt securities and equity investments are bifurcated from the host contract and recorded at fair value as derivative assets or liabilities unless the hybrid instrument is accounted for at fair value with any changes in fair value reported in income. The fair value at inception of such embedded derivatives is excluded from the carrying amount of the host contracts on the condensed consolidated balance sheet. Changes in fair values of derivative instruments used in the liquid asset portfolio are recorded in income from liquid asset trading activities. Changes in fair values of derivative instruments other than those in the liquid asset portfolio are recorded in net unrealized gains and losses on non-trading financial instruments accounted for at fair value. The risk management policy for each of IFC’s principal business activities and the accounting policies particular to them are described below.

*Lending activities* IFC’s policy is to closely match the currency, interest rate basis, and maturity of its loans and borrowings. Derivative instruments are used to convert the cash flows from fixed rate US dollar or non-US dollar loans into variable rate US dollars. Changes in fair value of all derivatives associated with these activities are reported in net income in ”Net unrealized gains and losses on non-trading financial instruments accounted for at fair value,” in the condensed consolidated statements of operations. Realized gains and losses associated with these activities are reported in “Income from loans and guarantees, including realized gains and losses on loans and associated derivatives.

*Client risk management activities* IFC enters into derivatives transactions with its clients to help them hedge their own currency, interest rate, or commodity risk, which, in turn, improves the overall quality of IFC’s loan portfolio. To hedge the market risks that arise from these transactions with clients, IFC enters into offsetting derivative transactions with matching terms with authorized market counterparties. Changes in fair value of all derivatives associated with these activities are reported in net income in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value", in the condensed consolidated statements of operations.” Realized gains and losses associated with these activities are reported in “Other Income”, in the condensed consolidated statements of operations

*Borrowing activities* IFC issues debt securities in various capital markets with the objectives of minimizing its borrowing costs, diversifying funding sources, and developing member countries’ capital markets, sometimes using complex structures. These structures include borrowings payable in multiple currencies, or borrowings with principal and/or interest determined by reference to a specified index such as a stock market index, a reference interest rate, a commodity index, or one or more foreign exchange rates. IFC generally uses derivative instruments with matching terms, primarily currency and interest rate swaps, to convert certain of such borrowings into variable rate US dollar obligations, consistent with IFC’s matched funding policy. IFC elects to carry at fair value, under the Fair Value Option, all market borrowings for which a derivative instrument, liquid asset portfolio investment or debt investment is used to create an economic hedge. Changes in the fair value of such borrowings and the associated derivatives are reported in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value" in the condensed consolidated statements of operations. Realized gains and losses associated with these activities are reported in “Charges on borrowings”, in the condensed consolidated statements of operations.

*Liquid asset portfolio management activities* IFC manages the interest rate, currency and other market risks associated with certain of the time deposits and securities in its liquid asset portfolio by entering into derivative transactions to convert the cash flows from those instruments into variable rate US dollars or by utilizing market borrowings denominated in the same currency to economically hedge changes in the fair value of certain liquid asset portfolio investments. The derivative instruments used include short-term, over-the-counter foreign exchange forwards (covered forwards), interest rate and currency swaps, and exchange-traded interest rate futures and options. As the entire liquid asset portfolio is classified as trading portfolio, all securities (including derivatives) are carried at fair value with changes in fair value reported in "Income from liquid asset trading activities" in the condensed consolidated statements of operations.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

*Asset and liability management* In addition to the risk managed in the context of its business activities detailed above, IFC faces residual market risk in its overall asset and liability management. Residual currency risk is managed by monitoring the aggregate position in each lending currency and reducing the net excess asset or liability position through sales or purchases of currency. Interest rate risk arising from mismatches due to write-downs, prepayments and reschedulings, and residual reset date mismatches is monitored by measuring the sensitivity of the present value of assets and liabilities in each currency to each basis point change in interest rates.

IFC monitors the credit risk associated with these activities by careful assessment and monitoring of prospective and actual clients and counterparties. In respect of liquid assets and derivatives transactions, credit risk is managed by establishing exposure limits based on the credit rating and size of the individual counterparty. In addition, IFC has entered into master agreements with its derivative market counterparties governing derivative transactions that contain close-out and netting provisions and collateral arrangements. Under these agreements, if the credit exposure to one of the parties to the agreement, on a mark-to-market basis, exceeds a specified level, that party must post collateral to cover the excess, generally in the form of liquid government securities or cash. IFC does not offset the fair value amounts of derivatives and obligations to return, or rights to receive, cash collateral associated with these master-netting agreements. Changes in fair value of all derivatives associated with these activities are reported in net income in "Net unrealized gains and losses on non-trading financial instruments accounted for at fair value," in the condensed consolidated statements of operations. Realized gains and losses associated with these activities are reported in "Other income", in the condensed consolidated statements of operations.

**Loan participations** - IFC mobilizes funds from commercial banks and other financial institutions (Participants) by facilitating loan participations, without recourse. These loan participations are administered and serviced by IFC on behalf of the Participants. The disbursed and outstanding balances of loan participations that meet the applicable accounting criteria are accounted for as sales and are not included in IFC's condensed consolidated balance sheet. All other loan participations are accounted for as secured borrowings; the participated loans are included in loans on IFC's condensed consolidated balance sheets, with the related secured borrowings included in payables and other liabilities on IFC's condensed consolidated balance sheets.

**Advisory services** - Funding received for IFC advisory services from governments and other donors are recognized as contribution revenue when the conditions on which they depend are substantially met. Advisory services expenses are recognized in the period incurred. Advisory client fees and administration fees are recognized as income when earned. See Notes L and N.

**Pension and other postretirement benefits** - IBRD sponsors a Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that are defined benefit plans and cover substantially all of its staff members as well as the staff of IFC and of MIGA.

The SRP provides regular pension benefits and includes a cash balance plan. The RSBP provides certain health and life insurance benefits to eligible retirees. The PEBP provides pension benefits administered outside the SRP. All costs associated with these plans are allocated between IBRD, IFC, and MIGA based upon their employees' respective participation in the plans. In addition, IFC and MIGA reimburse IBRD for their share of any contributions made to these plans by IBRD.

In accordance with ASU 2017-07, the service cost component of the net periodic benefit costs allocated to IFC is included in "Administrative expenses" in the condensed consolidated statement of operations. The remaining components of the net periodic benefit costs allocated to IFC are included in "Other" in the condensed consolidated statement of operations. IFC includes a receivable from IBRD in receivables and other assets, representing prepaid pension and other postretirement benefit costs.

**Recently adopted accounting standards** - In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 introduced a new accounting model that resulted in lessees recording most leases on the balance sheet. IFC adopted ASU 2016-02 effective July 1, 2019 with no material impact on IFC's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08). ASU 2017-08 shortens the amortization period for certain investments in callable debt securities purchased at a premium by requiring the premium to be amortized to the earliest call date. IFC adopted ASU 2017-08 effective July 1, 2019 with no material impact on IFC's financial position, results of operations or cash flows.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

In January 2016, the FASB issued ASU 2016-01. ASU 2016-01 requires all investments in equity securities to be accounted for at fair value through net income (except investments accounted for under the equity method and those that result in consolidation of the investee), and separate presentation in other comprehensive income (OCI) the portion of the total change in fair value resulting from a change in the instrument-specific credit risk when the entity has elected to measure a liability at fair value under the FVO. Given the magnitude of its investments in equity securities and the inherent volatility of prices for equity securities, the adoption of ASU 2016-01 introduced and will continue to cause a significant volatility in IFC's reported net earnings. IFC adopted this ASU on July 1, 2018 by means of a cumulative-effect adjustment to the condensed consolidated balance sheet, and a summary of the impact is listed below:

| **Increase (decrease)** | **Cumulative effect of adoption of ASU 2016-01, effective July 1, 2018 (in US$ millions)** | | | |
|---|---|---|---|---|
| | **Equity investments** | **Accumulated other comprehensive income** | **Retained earnings** | **Total Capital** |
| Recognizing cumulative unrealized gains on equity securities that were previously accounted for at cost less impairment | $ 1,433 | $ — | $ 1,433 | $ 1,433 |
| Reclassifying cumulative unrealized gains on equity securities previously classified as available-for-sale | — | (1,402) | 1,402 | — |
| Recognizing the fair value of other equity-related financial instruments | 80 | — | 80 | 80 |
| Reclassifying cumulative gains on borrowings measured at fair value under FVO due to changes in Instrument specific credit risk | — | 43 | (43) | — |
| **Total** | **$ 1,513** | **$ (1,359)** | **$ 2,872** | **$ 1,513** |

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 replaces most existing revenue recognition guidance by establishing a single recognition model for revenue arising from contracts with customers to deliver goods and services and requires additional disclosure regarding those revenues - it does not change current accounting guidance for derivative contracts, investments in and transfers of financial instruments or guarantees. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, that amends ASU 2014-09's principal-versus-agent guidance. It requires a reporting entity to evaluate whether it is a principal or agent for each specified good or service in a contract with a customer and clarifies the application of the related indicators in accordance with ASU 2014-09's control principle. IFC adopted ASU 2016-08 and ASU 2014-09 effective July 1, 2018 with no material impact on IFC's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 requires an entity to report the service cost component of net periodic benefit costs in the same line item as other compensation costs. The other components of net periodic benefit cost are required to be presented in the statement of operations separately from the service cost component, and are not eligible for capitalization. For IFC, this ASU became effective from the quarter ended September 30, 2018. Given the immateriality of the amounts subject to reclassification under the ASU, IFC has applied the requirements prospectively from the quarter ended September 30, 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions made and Contributions Received* (ASU 2018-08). ASU 2018-08 provides guidance to assist entities in evaluating whether transactions are contributions and whether a contribution is conditional. For contributions received, ASU 2018-08 is effective for annual periods beginning after June 15, 2018, including interim periods within those annual periods (which is the year ended June 30, 2019 for IFC). For contributions paid, ASU 2018-08 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods (which is the year ended June 30, 2020 for IFC). IFC adopted ASU 2018-08 effective July 1, 2018 and July 1, 2019 for contributions received and contributions paid, respectively, with no material impact on IFC's financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-05). In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-08). ASU 2016-15 and ASU 2016-18 clarify guidance in ASC 230. IFC adopted ASU 2016-15 and ASU 2016-18 effective July 1, 2018 with no material impact on IFC's financial position, results of operations or cash flows.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

**Accounting standards and regulations under evaluation** - In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 requires the measurement of estimated credit losses on financial instruments held at the balance sheet date based on historical loss experience, current conditions, and reasonable and supportable forecasts of future economic conditions. Contrary to the incurred impairment loss accounting model currently in place, this forward-looking approach is intended to result in the immediate recognition of all estimated credit losses expected to occur over the remaining life of the instruments. The resulting allowance for current expected credit losses reduces the amortized cost basis of a financial asset to an amount expected to be collected. For future periods which cannot be forecasted in a reasonable and supportable manner, the reporting entity will revert to historical loss experience. Although ASU 2016-13 does not prescribe a specific methodology, it requires a collective assessment for financial assets with similar risk characteristics. Credit losses for financial assets that do not share similar risk characteristics with other financial assets will be measured individually. Impairment of investments in available-for-sale debt securities will be recognized via the allowance method, which allows for reversals of credit losses. IFC is in process of completing its development, validation, and implementation of models and processes used to estimate current expected credit losses as required by the credit losses guidance. IFC's approach for estimating current expected credit losses for loans includes utilizing macroeconomic assumptions to project losses over a reasonable and supportable forecast period. Subsequent to the forecast period, IFC will revert to longer term historical loss experience to estimate expected credit losses over the remaining contractual life.

Subsequent to the issuance of ASU 2016-13, the FASB has issued additional ASUs containing clarifying guidance, transition relief provisions and minor updates to the original ASU. These include ASU 2019-04 (issued in April 2019), ASU 2019-05 (issued in May 2019), ASU 2019-11 (issued in November 2019), and ASU 2020-02 (issued in February 2020). ASU 2016-13 and subsequent ASUs issued as clarification, are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019 (which is the quarter ending September 30, 2020 for IFC).

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to ,Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments* (ASU 2019-04). ASU 2019-04 amends its standards on Derivatives and Hedging, and Financial Instruments to address implementation issues. With respect to Hedge Accounting, the amendments address partial-term fair value hedges and fair value hedge basis adjustments. The amendment to the Hedging standard has the same effective date as the original standard (that is quarter ending September 30, 2019 for IFC). The amendments to Financial Instruments recognition and measurement guidance are effective for fiscal years beginning after December 15, 2019 (which is the quarter ending September 30, 2020 for IFC). The amendments to the Derivatives and Hedging standards did not impact IFC because IFC does not utilize accounting hedges. IFC is currently evaluating the impact of the Financial Instruments standard.

In February 2020, the FASB issued ASU 2020-02, Leases (Topic 842) *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)* (ASU 2020-02). ASU 2020-02 was effective upon its issuance. ASU 2020-02 extends the effective date for Topic 842 Leases (Topic 842) for certain public entities. This extension is not relevant for IFC because IFC has already implemented Topic 842.

In August 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). ASU 2018-13 amends the fair value disclosure requirements to include: (a) the amount of gain or loss for the period included in other comprehensive income attributable to fair value changes in Level 3 assets or liabilities, and (b) for Level 3 fair value measurements, the range and weighted average used to develop significant unobservable inputs and the method of calculating the weighted average. Existing fair value disclosure requirements eliminated by ASU 2018-13 include: (a) the amounts and reasons for transfers between Level 1 and Level 2 fair value measurements, and (b) the policy for determining when transfers between fair value measurement Levels occur. ASU 2018-13 modifies existing fair value disclosure requirements by (a) requiring a narrative description of the uncertainty of fair value measurements from the use of significant unobservable inputs if those inputs reasonable could have been different at reporting date, and (b) requiring disclosure of the estimate of the timing of liquidation events for investments measured using the Net Asset Value practical expedient only if such information has been communicated to the investor or announced publicly by the investee. ASU 2018-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 (which is the quarter ending September 30, 2020 for IFC). Early adoption is permitted. The amendments that result in additional requirements and the narrative description with respect to uncertainty must be applied prospectively. All other amendments must be retrospectively applied to all periods presented. IFC is currently evaluating the impact of ASU 2018-13.

In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* (ASU 2018-14). ASU 2018-14 amends the disclosure requirements for defined benefit pension and other postretirement benefit plans. The added disclosures include the weighted-average interest crediting rates used in the reporting entity's cash balance pension plans and a narrative description for the reasons for significant gains or losses affecting the benefit obligation and any other significant changes in the benefit obligations or plan assets during the period that are not otherwise apparent in the other required disclosures. The disclosures removed include, among other things, the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit costs over the next year and the effects of a one-percent change in the assumed

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES** (continued)

health care costs on service cost, interest cost, and the postretirement benefit obligation. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 (which is the quarter ending September 30, 2020 for IFC). Earlier adoption is permitted. IFC is currently evaluating the impact of ASU 2018-14.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (ASU 2018-15). ASU 2018-15 amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The guidance will be effective for IFC from the quarter ending September 30, 2020. ASU 2018-15 is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In October 2018, the FASB issued ASU 2018-17, *Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities* (ASU 2018-17). ASU 2018-17 amends the guidance for how a decision maker or service provider must determine whether its fee is a variable interest in a VIE when a related party also has an interest in the VIE. Under the amendment, the decision maker must consider interests held be its related parties on a proportionate basis when determining if such interests could absorb more than an insignificant amount of the VIE's variability. Current guidance requires the decision maker to consider such interests in their entirety. ASU 2018-17 is effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2019 (which is the quarter ending September 30, 2020 for IFC). ASU 2018-17 is not expected to have a material impact on IFC's financial position, results of operations or cash flows.

In January 2020, the FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. The amendments on the interactions between Topic 321 and Topic 323 clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. These amendments do not impact IFC because IFC has elected an FVO for direct equity investments which give IFC significant influence, which in the absence of FVO, would have to be accounted for under equity method. The amendments on the interactions between Topic 323 and Topic 815, clarify that an entity should not consider whether, upon the settlement of a nonderivative forward contract or exercise of a nonderivative purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. The impact of this amendment is expected to be minimal for IFC, because IFC is already accounting for non-derivative contracts on equity securities in accordance with ASC 321. ASU 2020-01 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2020 (which is the quarter ending September 30, 2021 for IFC).

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments (ASU 2020-03)* as part of its ongoing project for improving the Codification or correcting its unintended application. The items addressed in that project generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments ASU 2020-03 are similar to those items and are therefore expected to have a minimal impact on IFC.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. ASU 2020-04 was issued to address certain operational challenges likely to arise in accounting for contract modifications and hedge accounting because of reference rate reform. The amendments in this ASU are elective and are effective upon issuance for all entities. IFC is evaluating the impact of this ASU.

**NOTE B - SCOPE OF CONSOLIDATION**

**IFC managed AMC Funds**

Effective January 31, 2020, IFC Asset Management Company, LLC (AMC) which had been a wholly owned subsidiary of IFC was merged into IFC. IFC continues the operations of the AMC, which is to mobilize capital from outside IFC's traditional investor pool and manage third-party capital.

As of the date of the merger, AMC's cash, receivables and other assets were $45 million, equity investments were less than $0.5 million, and payables and other liabilities were $7 million. Until the merger, AMC had been consolidated into IFC's financial statements. AMC's assets and liabilities that had been consolidated into IFC's financial statements at June 30, 2019 are shown in the following table (US$ millions):

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE B - SCOPE OF CONSOLIDATION** (continued)

| | June 30, 2019 |
|---|---|
| Cash, receivables and other assets | $ 49 |
| Equity investments | —* |
| Payables and other liabilities | 2 |

* Less than $0.5 million.

As a result of the consolidation of AMC prior to January 31, 2020, amounts included in IFC's condensed consolidated statement of operations for the three and nine months ended March 31, 2020 and 2019 comprise (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020* | 2019 | 2020* | 2019 |
| Other income | $ 4 | $ 16 | $ 31 | $ 50 |
| Other expenses | 3 | 6 | 14 | 18 |

*Income and expenses reported until AMC merged with IFC on January 31, 2020.

At March 31, 2020, IFC managed twelve funds (collectively referred to as the AMC Funds), none of which requires consolidation by IFC. All AMC Funds are investment companies and are required to report their investment assets at fair value through net income. IFC's investments in AMC Funds are accounted for at fair value. IFC's ownership interests in these AMC Funds are shown in the following table:

| AMC Funds | IFC's ownership interest |
|---|---|
| IFC Capitalization (Equity) Fund, L.P. | 61%* |
| IFC Capitalization (Subordinated Debt) Fund, L.P. | 13% |
| IFC African, Latin American and Caribbean Fund, LP | 20% |
| Africa Capitalization Fund, Ltd. | — |
| IFC Catalyst Funds | 18%** |
| IFC Global Infrastructure Fund, LP | 17% |
| China-Mexico Fund, LP | — |
| IFC Financial Institutions Growth Fund, LP | 30% |
| IFC Global Emerging Markets Fund of Funds | 19%*** |
| IFC Middle East and North Africa Fund, LP | 37% |
| Women Entrepreneurs Debt Fund, LP | 26% |
| IFC Emerging Asia Fund, LP | 22% |

* By virtue of certain rights granted to non-IFC limited partner interests, IFC does not control or consolidate this fund.
** The ownership interest of 18% reflects IFC's ownership interest taking into consideration the overall commitments for the IFC Catalyst Funds, which is comprised of IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, IFC Catalyst Funds). IFC does not have an ownership interest in either the IFC Catalyst Fund (UK), LP or the IFC Catalyst Fund (Japan), LP.
*** The ownership interest of 19% reflects IFC's ownership interest taking into consideration the current committed amounts for the IFC Global Emerging Markets Fund of Funds, which are comprised of IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds, (Japan Parallel) LP. IFC does not have an ownership interest in the IFC Global Emerging Markets Fund of Funds, (Japan Parallel) LP.

**Other Consolidated entities**

In August 2015, IFC created a special purpose vehicle, IFC Sukuk Company, to facilitate a $100 million Sukuk under IFC's borrowings program. The Sukuk is scheduled to mature in September 2020. IFC Sukuk Company is a VIE and has been consolidated into these condensed consolidated financial statements because IFC is the VIE's primary beneficiary. The collective impact of this and other entities consolidated into these condensed consolidated financial statements under the VIE or voting interest model is insignificant.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE C - LIQUID ASSET PORTFOLIO

### Income from liquid asset trading activities

Income from liquid asset trading activities for the three and nine months ended March 31, 2020 and 2019 comprises (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income, net | $ 163 | $ 195 | $ 553 | $ 569 |
| Net gains and losses on trading activities (realized and unrealized) | 84 | 148 | 228 | 336 |
| **Total income from liquid asset trading activities** | **$ 247** | **$ 343** | **$ 781** | **$ 905** |

Net gains and losses on trading activities comprise net losses on asset-backed and mortgage-backed securities of $98 million and $104 million for the three and nine months ended March 31, 2020 (net gains of $15 million and net losses of $27 million - three and nine months ended March 31, 2019) and net gains on other trading securities of $182 million and $332 million for the three and nine months ended March 31, 2020 (net gains of $133 million and $363 million - three and nine months ended March 31, 2019).

### Composition of liquid asset portfolio

The composition of IFC's liquid asset portfolio included in the condensed consolidated balance sheet captions is as follows (US $ millions):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 104 | $ 790 |
| Time deposits | 14,379 | 17,500 |
| Trading securities | 33,228 | 28,526 |
| Securities purchased under resale agreements and receivable for cash collateral pledged | 2,593 | 1,862 |
| Derivative assets | 565 | 154 |
| Receivables and other assets: | | |
| Receivables from unsettled security trades | 1,128 | 499 |
| Accrued interest income on time deposits and securities | 147 | 153 |
| Accrued income on derivative instruments | 38 | 36 |
| **Total assets** | **52,182** | **49,520** |
| **Liabilities** | | |
| Securities sold under repurchase agreements and payable for cash collateral received | 8,452 | 8,454 |
| Derivative liabilities | 307 | 358 |
| Payables and other liabilities: | | |
| Payables for purchase of securities | 380 | 960 |
| Accrued charges on derivative instruments | 49 | 35 |
| **Total liabilities** | **9,188** | **9,807** |
| **Total net liquid asset portfolio** | **$ 42,994** | **$ 39,713** |

The liquid asset portfolio is denominated primarily in US dollars; investments in other currencies, net of the effect of associated derivative instruments that convert non-US dollar securities into US dollar securities, represent 0.9% of the portfolio at March 31, 2020 (0.9% - June 30, 2019).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE D - INVESTMENTS

The carrying amount of investments at March 31, 2020 and June 30, 2019 comprises (US$ millions):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| **Loans** | | |
| Loans at amortized cost | $ 23,812 | $ 24,297 |
| Less: Reserve against losses on loans | (1,559) | (1,191) |
| Loans at amortized cost less reserve against losses | 22,253 | 23,106 |
| Loans accounted for at fair value under the Fair Value Option | | |
| (outstanding principal balance $1,133 at March 31, 2020, $968 - June 30, 2019) | 951 | 877 |
| **Total loans** | **23,204** | **23,983** |
| **Equity investments** | | |
| Equity investments accounted for at fair value* | | |
| (cost $11,855 at March 31, 2020, $12,885 - June 30, 2019) | 10,013** | 13,130** |
| **Total equity investments** | **10,013** | **13,130** |
| **Debt securities** | | |
| Debt securities accounted for at fair value as available-for-sale | | |
| (amortized cost $3,996 at March 31, 2020, $4,495 - June 30, 2019) | 3,669 | 4,488 |
| Debt securities accounted for at fair value under the Fair Value Option | | |
| (amortized cost $2,729 at March 31, 2020, $1,784 - June 30, 2019) | 2,664 | 1,861 |
| **Total debt securities** | **6,333** | **6,349** |
| **Total carrying amount of investments** | **$ 39,550** | **$ 43,462** |

* Equity investments at fair value as of March 31, 2020 are comprised of investments in common or preferred shares of $6,447 million ($8,910 million as of June 30, 2019), equity interests in private equity funds of $3,533 million ($4,191 million as of June 30, 2019), and equity-related options and other financial instruments of $33 million ($29 million as of June 30, 2019).

** Includes $5 million and $17 million for March 31, 2020 and June 30, 2019 of equity investments primarily accounted for under the cost recovery method. As the recovery of invested capital is uncertain, the fair value measurement is not applicable to these investments.

## NOTE E - LOANS AND GUARANTEES

### Loans

Income from loans and guarantees, including realized gains and losses on loans and associated derivatives for the three and nine months ended March 31, 2020 and 2019 comprise the following (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income | $ 337 | $ 428 | $ 1,089 | $ 1,229 |
| Commitment fees | 9 | 12 | 26 | 31 |
| Other financial fees | 21 | 18 | 59 | 51 |
| Realized gains (losses) on loans, guarantees and associated derivatives | (12) | 45 | (12) | 40 |
| **Income from loans and guarantees, including realized gains and losses on loans and associated derivatives** | **$ 355** | **$ 503** | **$ 1,162** | **$ 1,351** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

**Reserve against losses on loans and provision for losses on loans**

Reserves against losses as of March 31, 2020 reflects credit risk assessments as of March 31, 2020. The assessment of level of reserves against losses also carried a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19. In evaluating the appropriateness of IFC's reserves against losses at March 31, 2020, IFC has considered the impact of COVID-19 largely through its rating system that classifies its loans according to credit worthiness and risk. In light of COVID-19, many of the credit risk ratings of individual loans deteriorated at March 31, 2020 when compared to December 31, 2019 reflecting general credit considerations and specific COVID-19 related considerations. As a result, IFC has reported higher provisions for losses in the three and nine months ended March 31, 2020 which included a qualitative overlay general provision of $121 million in the three months ended March 31, 2020 considered necessary to reflect the impact of COVID-19.

Changes in the reserve against losses on loans for the three and nine months ended March 31, 2020 and 2019, as well as the related recorded investment in loans evaluated for impairment individually (specific reserves) and on a pool basis (portfolio reserves) respectively, are summarized below (US$ millions):

| | Three months ended March 31, 2020 | | | Nine months ended March 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Specific reserves | Portfolio reserves | Total reserves | Specific reserves | Portfolio reserves | Total reserves |
| Beginning balance | $ 657 | $ 666 | $ 1,323 | $ 580 | $ 611 | $ 1,191 |
| Provision (release of provision) for losses on loans, net | 141 | 152 | 293 | 309 | 209 | 518 |
| Write-offs | (30) | — | (30) | (127) | — | (127) |
| Recoveries of previously written-off loans | 3 | — | 3 | 3 | — | 3 |
| Foreign currency transaction adjustments | (14) | (17) | (31) | (15) | (18) | (33) |
| Other adjustments* | 1 | —*** | 1 | 8 | (1) | 7 |
| **Ending balance** | **$ 758** | **$ 801** | **$ 1,559** | **$ 758** | **$ 801** | **$ 1,559** |
| Related recorded investment in loans at March 31, 2020 evaluated for impairment** | $ 23,812 | $22,144 | $ 23,812 | $ 23,812 | $ 22,144 | $ 23,812 |
| Recorded investment in loans with specific reserves | $ 1,668 | | | $ 1,668 | | |

| | Three months ended March 31, 2019 | | | Nine months ended March 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Specific reserves | Portfolio reserves | Total reserves | Specific reserves | Portfolio reserves | Total reserves |
| Beginning balance | $ 579 | $ 607 | $ 1,186 | $ 651 | $ 642 | $ 1,293 |
| Provision (release of provision) for losses on loans, net | (15) | 25 | 10 | 62 | (6) | 56 |
| Write-offs | (38) | — | (38) | (219) | — | (219) |
| Recoveries of previously written-off loans | 7 | — | 7 | 34 | — | 34 |
| Foreign currency transaction adjustments | (1) | (1) | (2) | (3) | (4) | (7) |
| Other adjustments* | 3 | 1 | 4 | 10 | —*** | 10 |
| **Ending balance** | **$ 535** | **$ 632** | **$ 1,167** | **$ 535** | **$ 632** | **$ 1,167** |
| Related recorded investment in loans at March 31, 2019 evaluated for impairment** | $ 24,308 | $ 23,148 | $ 24,308 | $ 24,308 | $23,148 | $ 24,308 |
| Recorded investment in loans with specific reserves | $ 1,160 | | | $ 1,160 | | |

* Other adjustments comprise reserves against interest capitalized as part of a debt restructuring.

** IFC individually evaluates all loans for impairment. Portfolio reserves are established for losses incurred, but not specifically identifiable, on loans for which no specific reserve is established.

*** Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

**Reserve for losses on guarantees, accrued interest and other receivables and provision for losses on guarantees and other receivables**

Changes in the reserve against losses on guarantees for the three and nine months ended March 31, 2020 and 2019, are summarized below (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Beginning balance | $ 7 | $ 19 | $ 25 | $ 15 |
| Provision (release of provision) for losses on guarantees | 1 | 8 | (17) | 12 |
| **Ending balance** | **$ 8** | **$ 27** | **$ 8** | **$ 27** |

Changes in the reserve against losses on other receivables and accrued interest for the three and nine months ended March 31, 2020 and 2019, are summarized below (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Beginning balance | $ 10 | $ 9 | $ 8 | $ 8 |
| Provision (release of provision) for losses on other receivables and accrued interest | 8 | 3 | 10 | 4 |
| **Ending balance** | **$ 18** | **$ 12** | **$ 18** | **$ 12** |

**Impaired loans**

The average recorded investment and the recorded investment in loans at amortized cost that are impaired with specific reserves at March 31, 2020 and June 30, 2019 are as follows (US$ millions):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Average recorded investment in loans at amortized cost that are impaired | $ 1,744 | $ 1,294 |
| Recorded investment in loans at amortized cost that are impaired | 1,668 | 1,240 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

Loans at amortized cost that are impaired with specific reserves are summarized by geographic region and industry sector as follows (US$ millions):

| | As of March 31, 2020 | | | | For the nine months ended March 31, 2020 |
|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related specific reserve | Average recorded investment | Interest income recognized |
| Asia | | | | | |
| Manufacturing, agribusiness and services | $ 100 | $ 169 | $ 51 | $ 107 | $ 1 |
| Financial markets | 77 | 81 | 45 | 80 | 1 |
| Infrastructure and natural resources | 83 | 152 | 38 | 101 | 7 |
| Total Asia | **260** | **402** | **134** | **288** | **9** |
| Europe, Middle East and North Africa | | | | | |
| Manufacturing, agribusiness and services | 230 | 253 | 70 | 240 | 5 |
| Financial markets | 164 | 164 | 102 | 165 | 4 |
| Infrastructure and natural resources | 202 | 301 | 113 | 205 | 6 |
| Total Europe, Middle East and North Africa | **596** | **718** | **285** | **610** | **15** |
| Sub-Saharan Africa, Latin America and Caribbean | | | | | |
| Manufacturing, agribusiness and services | 362 | 389 | 164 | 367 | 8 |
| Financial markets | 27 | 67 | 10 | 30 | 2 |
| Infrastructure and natural resources | 423 | 495 | 165 | 449 | 12 |
| Total Sub-Saharan Africa, Latin America and Caribbean | **812** | **951** | **339** | **846** | **22** |
| Other | | | | | |
| Manufacturing, agribusiness and services | — | 15 | — | — | — |
| Disruptive technologies and funds | —* | —* | —* | —* | — |
| Total Other | **—*** | **15** | **—*** | **—*** | **—** |
| **Total** | **$ 1,668** | **$ 2,086** | **$ 758** | **$ 1,744** | **$ 46** |

* Less than $0.5 million.

All impaired loans at March 31, 2020 had specific reserves.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

| | As of June 30, 2019 | | | | For the year ended June 30, 2019 |
|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related specific reserve | Average recorded investment | Interest income recognized |
| Asia | | | | | |
| Manufacturing, agribusiness and services | $ 71 | $ 190 | $ 33 | $ 83 | $ 2 |
| Financial markets | 48 | 53 | 23 | 47 | 3 |
| Infrastructure and natural resources | 106 | 174 | 52 | 112 | 1 |
| Total Asia | **225** | **417** | **108** | **242** | **6** |
| Europe, Middle East and North Africa | | | | | |
| Manufacturing, agribusiness and services | 201 | 224 | 79 | 200 | 6 |
| Financial markets | 1 | 1 | 1 | 1 | — |
| Infrastructure and natural resources | 213 | 315 | 110 | 259 | 8 |
| Total Europe, Middle East and North Africa | **415** | **540** | **190** | **460** | **14** |
| Sub-Saharan Africa, Latin America and Caribbean | | | | | |
| Manufacturing, agribusiness and services | 238 | 266 | 91 | 227 | 6 |
| Financial markets | 13 | 46 | 9 | 17 | 1 |
| Infrastructure and natural resources | 349 | 396 | 182 | 348 | 14 |
| Total Sub-Saharan Africa, Latin America and Caribbean | **600** | **708** | **282** | **592** | **21** |
| Other | | | | | |
| Manufacturing, agribusiness and services | — | 15 | — | — | — |
| Disruptive technologies and funds | —* | —* | —* | —* | — |
| Total Other | **—*** | **15** | **—*** | **—*** | **—** |
| **Total** | **$ 1,240** | **$ 1,680** | **$ 580** | **$ 1,294** | **$ 41** |

* Less than $0.5 million.

All impaired loans at June 30, 2019 had specific reserves.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

**Nonaccruing loans**

Loans on which the accrual of interest has been discontinued amounted to $1,655 million at March 31, 2020 ($1,280 million - June 30, 2019). The interest income on such loans for the three and nine months ended March 31, 2020 and 2019 is summarized as follows (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income not recognized on nonaccruing loans | $ 47 | $ 33 | $ 118 | $ 104 |
| Interest income recognized on loans in nonaccrual status related to current and prior years, on cash basis | 21 | 13 | 46 | 39 |

The recorded investment in nonaccruing loans at March 31, 2020 and June 30, 2019 is summarized by geographic region and industry sector as follows (US$ millions):

| March 31, 2020 | Manufacturing, agribusiness and services | Financial markets | Infrastructure and natural resources | Disruptive technologies and funds | Total recorded investment in non-accruing loans |
|---|---|---|---|---|---|
| Asia | $ 101 | $ 153 | $ 88 | $ — | $ 342 |
| Europe, Middle East and North Africa | 152 | 209 | 266 | — | 627 |
| Sub-Saharan Africa, Latin America and Caribbean | 448 | 6 | 395 | — | 849 |
| Other | — | — | — | —* | —* |
| **Total disbursed loans** | **$ 701** | **$ 368** | **$ 749** | **$ —*** | **$ 1,818**** |

| June 30, 2019 | Manufacturing, agribusiness and services | Financial markets | Infrastructure and natural resources | Disruptive technologies and funds | Total recorded investment in non-accruing loans |
|---|---|---|---|---|---|
| Asia | $ 54 | $ 82 | $ 120 | $ — | $ 256 |
| Europe, Middle East and North Africa | 128 | 1 | 271 | — | 400 |
| Sub-Saharan Africa, Latin America and Caribbean | 359 | 23 | 292 | — | 674 |
| Other | — | — | 1 | —* | 1 |
| **Total disbursed loans** | **$ 541** | **$ 106** | **$ 684** | **$ —*** | **$ 1,331**** |

* Less than $0.5 million.

** Includes $163 million reported as debt securities on the Balance Sheet as of March 31, 2020 ($51 million - June 30, 2019).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

**Past due loans**

An age analysis, based on contractual terms, of IFC's loans at amortized cost by geographic region and industry sector follows (US$ millions):

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 31-60 days past due | 61-90 days past due | Greater than 90 days past due | Total past due | Current | Total loans |
| Asia | | | | | | |
| Manufacturing, agribusiness and services | $ 10 | $ — | $ 64 | $ 74 | $ 1,712 | $ 1,786 |
| Financial markets | — | — | 56 | 56 | 3,472 | 3,528 |
| Infrastructure and natural resources | — | — | 83 | 83 | 1,763 | 1,846 |
| Total Asia | 10 | — | 203 | 213 | 6,947 | 7,160 |
| Europe, Middle East and North Africa | | | | | | |
| Manufacturing, agribusiness and services | — | 5 | 121 | 126 | 1,376 | 1,502 |
| Financial markets | — | — | 5 | 5 | 1,431 | 1,436 |
| Infrastructure and natural resources | — | — | 100 | 100 | 1,524 | 1,624 |
| Total Europe, Middle East and North Africa | — | 5 | 226 | 231 | 4,331 | 4,562 |
| Sub-Saharan Africa, Latin America and Caribbean | | | | | | |
| Manufacturing, agribusiness and services | 69 | 84 | 255 | 408 | 2,294 | 2,702 |
| Financial markets | 2 | — | 2 | 4 | 4,027 | 4,031 |
| Infrastructure and natural resources | — | — | 58 | 58 | 3,438 | 3,496 |
| Total Sub-Saharan Africa, Latin America and Caribbean | 71 | 84 | 315 | 470 | 9,759 | 10,229 |
| Other | | | | | | |
| Manufacturing, agribusiness and services | 82 | — | — | 82 | 474 | 556 |
| Financial markets | — | — | — | — | 1,298 | 1,298 |
| Infrastructure and natural resources | — | — | — | — | 135 | 135 |
| Disruptive technologies and funds | — | — | —* | —* | — | —* |
| Total Other | 82 | — | —* | 82 | 1,907 | 1,989 |
| **Total disbursed loans at amortized cost** | **$ 163** | **$ 89** | **$ 744** | **$ 996** | **$ 22,944** | **$ 23,940** |
| Unamortized deferred loan origination fees, net and other | | | | | | (127) |
| Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets | | | | | | (1) |
| **Recorded investment in loans at amortized cost** | | | | | | **$ 23,812** |

At March 31, 2020, loans 90 days or greater past due still accruing were insignificant.

* Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

| | June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 31-60 days past due | 61-90 days past due | Greater than 90 days past due | Total past due | Current | Total loans |
| Asia | | | | | | |
| Manufacturing, agribusiness and services | $ — | $ — | $ 38 | $ 38 | $ 1,698 | $ 1,736 |
| Financial markets | — | 26 | — | 26 | 3,178 | 3,204 |
| Infrastructure and natural resources | — | — | 106 | 106 | 1,991 | 2,097 |
| Total Asia | — | 26 | 144 | 170 | 6,867 | 7,037 |
| Europe, Middle East and North Africa | | | | | | |
| Manufacturing, agribusiness and services | — | — | 85 | 85 | 1,732 | 1,817 |
| Financial markets | — | — | 1 | 1 | 1,554 | 1,555 |
| Infrastructure and natural resources | — | — | 96 | 96 | 1,575 | 1,671 |
| Total Europe, Middle East and North Africa | — | — | 182 | 182 | 4,861 | 5,043 |
| Sub-Saharan Africa, Latin America and Caribbean | | | | | | |
| Manufacturing, agribusiness and services | 8 | 2 | 251 | 261 | 2,546 | 2,807 |
| Financial markets | — | — | 6 | 6 | 3,989 | 3,995 |
| Infrastructure and natural resources | 3 | — | 91 | 94 | 3,743 | 3,837 |
| Total Sub-Saharan Africa, Latin America and Caribbean | 11 | 2 | 348 | 361 | 10,278 | 10,639 |
| Other | | | | | | |
| Manufacturing, agribusiness and services | — | — | — | — | 665 | 665 |
| Financial markets | — | — | — | — | 854 | 854 |
| Infrastructure and natural resources | — | — | — | — | 194 | 194 |
| Disruptive technologies and funds | — | — | —* | —* | — | —* |
| Total Other | — | — | —* | —* | 1,713 | 1,713 |
| **Total disbursed loans at amortized cost** | **$ 11** | **$ 28** | **$ 674** | **$ 713** | **$ 23,719** | **$ 24,432** |
| Unamortized deferred loan origination fees, net and other | | | | | | (133) |
| Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets | | | | | | (2) |
| **Recorded investment in loans at amortized cost** | | | | | | **$ 24,297** |

At June 30, 2019, loans 90 days or greater past due still accruing were insignificant.

* Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

**Loan Credit Quality Indicators**

IFC utilizes a rating system to classify loans according to credit worthiness and risk. A description of each credit rating and categorization in terms of the attributes of the borrower, the business environment in which the borrower operates or the loan itself under the rating system follows:

| Credit Risk Rating | Indicative External Rating | Category | Description |
|---|---|---|---|
| CR-1 | AAA, AA+, AA, AA- | Very Strong | An obligor rated CR-1 is the highest rating assigned by IFC. The obligor's ability to meet its financial obligations is very strong. |
| CR-2 | A+, A, A- | Strong | An obligor rated CR-2 is slightly more susceptible to the negative effects of changes in circumstances and economic conditions than obligors rated CR-1. The obligor's ability to meet its financial obligations remains strong. |
| CR-3 | BBB+ | Adequate | An obligor rated CR-3 exhibits an adequate financial profile, even though at a weaker level than "CR-1" and "CR-2." |
| CR-4 | BBB | | An obligor rated CR-4 exhibits an adequate financial profile. However, adverse economic conditions or changing circumstances are more likely to lead to a deterioration of the obligor’s ability to meet its financial obligations. |
| CR-5 | BBB- | | An obligor rated CR-5, as the lowest of the investment grade ratings, exhibits an adequate financial profile. However, adverse economic conditions and/or changing circumstances are more likely to lead to a weaker financial profile and a deterioration of the obligor’s ability to meet its financial obligations. |
| CR-6 | BB+ | Moderate | An obligor rated CR-6, as the first non-investment grade rating, is less vulnerable to default than other non-investment obligors. |
| CR-7 | BB | | An obligor rated CR-7 can face major uncertainties. Exposure to negative business, financial, or economic conditions could lead to the obligor's insufficient financial profile and a deterioration of the obligor’s ability to meet its financial obligations. |
| CR-8 | BB- | | An obligor rated CR-8 faces major ongoing uncertainties. Exposure to negative business, financial, or economic conditions could lead to the obligor's insufficient financial profile and a deterioration of the obligor’s ability to meet its financial obligations. |
| CR-9 | B+ | Weak | An obligor rated CR-9 is less vulnerable to default than obligors rated 'CR-10’ or ‘CR-11'. Significantly negative business, financial, or economic conditions will likely weaken the obligor's financial profile and ability to meet its financial obligations. |
| CR-10 | B | | An obligor rated CR-10 is more vulnerable to default than obligors rated 'CR-9’ but the obligor still has the capacity to meet its financial obligations. Negative business, financial, or economic conditions will likely weaken the obligor's financial profile and ability to meet its financial obligations. |
| CR-11 | B- | | An obligor rated CR-11 is more vulnerable to default than obligors rated 'CR-9’ or ‘CR-10’. The obligor still has the capacity to meet its obligations but slightly negative business, financial, or economic conditions are more likely to weaken the obligor's financial profile and ability to meet its financial obligations than a company rated CR-10. |
| CR-12 | CCC+ | Very Weak/ Special Attention | An obligor rated CR-12 faces significant challenges. While such obligors will likely have some positive characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. The obligor is dependent upon favorable business, financial, and economic conditions to meet its financial obligations. |
| CR-13 | CCC | Very Weak/ Substandard | An obligor rated CR-13 is currently vulnerable to default, and is dependent upon significantly favorable business, financial, and economic conditions to meet its financial obligations. In the event of negative business, financial, or economic conditions, the obligor is not likely to meet its financial obligations and rescheduling and/or restructuring is likely to be required. |
| CR-14 | CCC- | Extremely Weak/ Doubtful | An obligor rated CR-14 is highly vulnerable to default. It is highly likely that a rescheduling and/or restructuring are required without which a default under IFC’s accounting definition would ensue. In some cases, even though default has not occurred yet, cash flow may be insufficient to service debt in full. |
| CR-15 | Worse than CCC- and D | Imminent Default /Default | An obligor rated CR-15 is currently extremely vulnerable to nonpayment and there are indications that the next payment will not be made before meeting IFC’s accounting definition of default. |
| D | | | An obligor rated D is in payment default according to IFC’s accounting definition of default. |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

A summary of IFC's disbursed loans at amortized cost by credit quality indicator effective March 31, 2020 and June 30, 2019 respectively, as well as by industry sector and geographic region follows (US$ millions):

| | Very Strong | Strong | Adequate | Moderate | Weak | Very Weak/ Special Attention | Very Weak/ Substandard | Extremely Weak/ Doubtful | Imminent Default/ Default | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Total disbursed loans at amortized cost at March 31, 2020 | $ 73 | $ 778 | $ 3,772 | $ 7,968 | $ 7,824 | $ 1,220 | $ 425 | $ 859 | $ 1,021 | $ 23,940 |
| Total disbursed loans at amortized cost at June 30, 2019 | $ 52 | $ 825 | $ 3,626 | $ 9,020 | $ 8,885 | $ 227 | $ 563 | $ 296 | $ 938 | $ 24,432 |

| March 31, 2020 | Very Strong | Strong | Adequate | Moderate | Weak | Very Weak/ Special Attention | Very Weak/ Substandard | Extremely Weak/ Doubtful | Imminent Default/ Default | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Geographic Region** | | | | | | | | | | |
| Asia | $ — | $ 147 | $ 1,607 | $ 2,654 | $ 2,240 | $ 178 | $ 93 | $ 59 | $ 182 | $ 7,160 |
| Europe, Middle East and North Africa | — | 314 | 309 | 1,107 | 1,850 | 325 | 91 | 237 | 329 | 4,562 |
| Sub-Saharan Africa, Latin America and Caribbean | — | 315 | 1,682 | 2,674 | 3,527 | 717 | 241 | 563 | 510 | 10,229 |
| Other | 73 | 2 | 174 | 1,533 | 207 | — | — | —* | —* | 1,989 |
| **Total geographic region** | **$ 73** | **$ 778** | **$ 3,772** | **$ 7,968** | **$ 7,824** | **$ 1,220** | **$ 425** | **$ 859** | **$ 1,021** | **$ 23,940** |

| March 31, 2020 | Very Strong | Strong | Adequate | Moderate | Weak | Very Weak/ Special Attention | Very Weak/ Substandard | Extremely Weak/ Doubtful | Imminent Default/ Default | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Industry Sector** | | | | | | | | | | |
| Manufacturing, agribusiness and services | $ 73 | $ 427 | $ 1,258 | $ 2,189 | $1,282 | $ 432 | $ 181 | $ 173 | $ 531 | $ 6,546 |
| Financial markets | — | 38 | 1,969 | 5,050 | 2,814 | 149 | 66 | 166 | 41 | 10,293 |
| Infrastructure and natural resources | — | 313 | 545 | 729 | 3,728 | 639 | 178 | 520 | 449 | 7,101 |
| Disruptive technologies and funds | — | — | — | — | — | — | — | —* | — | —* |
| **Total industry sector** | **$ 73** | **$ 778** | **$ 3,772** | **$ 7,968** | **$7,824** | **$ 1,220** | **$ 425** | **$ 859** | **$ 1,021** | **$23,940** |

* Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE E - LOANS AND GUARANTEES** (continued)

| June 30, 2019 | Very Strong | Strong | Adequate | Moderate | Weak | Very Weak/ Special Attention | Very Weak/ Substandard | Extremely Weak/ Doubtful | Imminent Default/ Default | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Geographic Region** | | | | | | | | | | |
| Asia | $ — | $ 158 | $ 1,511 | $ 2,719 | $2,357 | $ 31 | $ 101 | $ 16 | $ 144 | $ 7,037 |
| Europe, Middle East and North Africa | — | 334 | 514 | 1,662 | 1,909 | 100 | 107 | 88 | 329 | 5,043 |
| Sub-Saharan Africa, Latin America and Caribbean | — | 330 | 1,332 | 3,521 | 4,348 | 96 | 355 | 192 | 465 | 10,639 |
| Other | 52 | 3 | 269 | 1,118 | 271 | — | — | —* | — | 1,713 |
| **Total geographic region** | **$ 52** | **$ 825** | **$ 3,626** | **$ 9,020** | **$8,885** | **$ 227** | **$ 563** | **$ 296** | **$ 938** | **$ 24,432** |

| June 30, 2019 | Very Strong | Strong | Adequate | Moderate | Weak | Very Weak/ Special Attention | Very Weak/ Substandard | Extremely Weak/ Doubtful | Imminent Default/ Default | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Industry Sector** | | | | | | | | | | |
| Manufacturing, agribusiness and services | $ 52 | $ 452 | $ 1,333 | $ 2,646 | $1,701 | $ 107 | $ 226 | $ 109 | $ 399 | $ 7,025 |
| Financial markets | — | 24 | 1,780 | 4,852 | 2,874 | 13 | 51 | 1 | 13 | 9,608 |
| Infrastructure and natural resources | — | 349 | 513 | 1,522 | 4,310 | 107 | 286 | 186 | 526 | 7,799 |
| Disruptive technologies and funds | — | — | — | — | — | — | — | —* | — | —* |
| **Total industry sector** | **$ 52** | **$ 825** | **$ 3,626** | **$ 9,020** | **$8,885** | **$ 227** | **$ 563** | **$ 296** | **$ 938** | **$ 24,432** |

* Less than $0.5 million.

Loan modifications, including past due amounts capitalized and written off, during the three and nine months ended March 31, 2020 considered troubled debt restructurings totaled $25 million and $203 million ($48 million and $271 million - three and nine months ended March 31, 2019). There were no loans that defaulted during the nine months ended March 31, 2020 that had been modified in a troubled debt restructuring within 12 months prior to the date of default (one loan defaulted during the nine months ended March 31, 2019, with an outstanding balance of $12 million).

**Guarantees**

IFC extends financial guarantee facilities to its clients to provide full or partial credit enhancement for their debt securities and trade obligations. Under the terms of IFC's guarantees, IFC agrees to assume responsibility for the client's financial obligations in the event of default by the client, where default is defined as failure to pay when payment is due. Guarantees entered into by IFC generally have maturities consistent with those of the loan portfolio. Guarantees signed at March 31, 2020 totaled $4,033 million ($4,017 million - June 30, 2019). Guarantees of $3,454 million that were outstanding (i.e., not called) at March 31, 2020 ($2,899 million - June 30, 2019), were not included in loans on IFC's condensed consolidated balance sheet. The outstanding amount represents the maximum amount of undiscounted future payments that IFC could be required to make under these guarantees.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE F - DEBT SECURITIES

Income from debt securities, including realized gains and losses on debt securities and associated derivatives for the three and nine months ended March 31, 2020 and 2019 comprise the following (US$ millions):

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Nine months ended March 31, 2020 | Nine months ended March 31, 2019 |
|---|---|---|---|---|
| Interest income | $ 88 | $ 93 | $ 250 | $ 277 |
| Dividends | — | — | — | 4 |
| Realized gains on debt securities and associated derivatives | 1 | 1 | 19 | 3 |
| Other-than-temporary impairments | (27) | (1) | (106) | (247)* |
| **Total income from debt securities, including realized gains on debt securities and associated derivatives** | **$ 62** | **$ 93** | **$ 163** | **$ 37** |

* Includes impairments of available-for-sale debt securities of $238 million for the nine months ended March 31, 2019 to write down the cumulative foreign exchange losses due to significant currency depreciation, as IFC considers the foreign exchange losses associated with those debt securities as other-than-temporary.

Debt securities accounted for as available-for-sale at March 31, 2020 and June 30, 2019 comprise (US$ millions):

March 31, 2020

| | Amortized cost | Unrealized gains | Unrealized losses | Foreign currency transaction losses | Fair value |
|---|---|---|---|---|---|
| Corporate debt securities | $ 3,314 | $ 48 | $ (127) | $ (310) | $ 2,925 |
| Preferred shares | 73 | 75 | (2) | — | 146 |
| Asset-backed securities | 609 | 25 | — | (36) | 598 |
| **Total** | **$ 3,996** | **$ 148** | **$ (129)** | **$ (346)** | **$ 3,669** |

June 30, 2019

| | Amortized cost | Unrealized gains | Unrealized losses | Foreign currency transaction losses | Fair value |
|---|---|---|---|---|---|
| Corporate debt securities | $ 3,686 | $ 104 | $ (98) | $ (93) | $ 3,599 |
| Preferred shares | 117 | 101 | (1) | — | 217 |
| Asset-backed securities | 692 | — | (17) | (3) | 672 |
| **Total** | **$ 4,495** | **$ 205** | **$ (116)** | **$ (96)** | **$ 4,488** |

The following table shows the unrealized losses and fair value of debt securities at March 31, 2020 and June 30, 2019 by length of time that individual securities had been in a continuous loss position where the fair value of securities declined below their cost basis (US$ millions):

March 31, 2020

| | Less than 12 months | | 12 months or greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Corporate debt securities | $ 1,083 | $ (47) | $ 547 | $ (80) | $ 1,630 | $ (127) |
| Preferred shares | 6 | (1) | 1 | (1) | 7 | (2) |
| **Total** | **$ 1,089** | **$ (48)** | **$ 548** | **$ (81)** | **$ 1,637** | **$ (129)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE F - DEBT SECURITIES** (continued)

| June 30, 2019 | Less than 12 months | | 12 months or greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Corporate debt securities | $ 301 | $ (25) | $ 893 | $ (73) | $ 1,194 | $ (98) |
| Preferred shares | — | — | 8 | (1) | 8 | (1) |
| Asset-backed securities | — | — | 107 | (17) | 107 | (17) |
| **Total** | **$ 301** | **$ (25)** | **$ 1,008** | **$ (91)** | **$ 1,309** | **$ (116)** |

Corporate debt securities comprise investments in bonds and notes. Fair value associated with corporate debt securities is primarily attributable to movements in the credit default swap spread curve applicable to the issuer, and also impacted by movements in the risk-free rates and foreign currency exchange rates. Based upon IFC's assessment of expected credit losses, IFC has determined that the issuer is expected to make all contractual principal and interest payments. Accordingly, IFC expects to recover the cost basis of these securities.

Preferred shares comprise investments in preferred equity investments that are redeemable at the option of IFC or mandatorily redeemable by the issuer. Unrealized losses associated with preferred shares are primarily driven by changes in discount rates associated with changes in credit spreads or interest rates, minor changes in exchange rates and comparable market valuations in the applicable sector. Based upon IFC's assessment of the expected credit losses, IFC expects to recover the cost basis of these securities.

**Nonaccruing debt securities**

Debt securities on which the accrual of interest has been discontinued amounted to $163 million at March 31, 2020 ($51 million - June 30, 2019).

**NOTE G - EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES**

Income from equity investments and associated derivatives for the three and nine months ended March 31, 2020 and 2019 comprises the following (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Unrealized (losses) gains on equity investments and associated derivatives* | $ (2,046) | $ 374 | $ (2,057) | $ (804) |
| Realized gains (losses) on equity investments and associated derivatives, net | 84 | (11) | 320 | 231 |
| (Losses) gains on equity investments and associated derivatives, net | (1,962) | 363 | (1,737) | (573) |
| Dividends | 49 | 24 | 109 | 124 |
| Custody, fees and other | 3 | 1 | 4 | 4 |
| **Total (loss) income from equity investments and associated derivatives** | **$ (1,910)** | **$ 388** | **$ (1,624)** | **$ (445)** |

* Including unrealized gains and losses related to equity securities still held at March 31, 2020 - net losses of $1,747 million and $1,666 million for the three and nine months ended March 31, 2020.

Equity investments include several private equity funds that invest primarily in emerging markets across a range of sectors and that are accounted for at fair value under the Fair Value Option. The fair values of these funds have been determined using the net asset value of IFC's ownership interest in partners' capital as a practical expedient and totaled $3,533 million as of March 31, 2020 ($4,191 million - June 30, 2019). These investments cannot be redeemed. Instead distributions are received through the liquidation of the underlying assets of the funds. IFC estimates that the underlying assets of the funds will be liquidated over five to eight years. As of March 31, 2020, the maximum unfunded commitments subject to capital calls for these funds are $1,262 million ($1,121 million - June 30, 2019). As of March 31, 2020, IFC invested $542 million ($840 million - June 30, 2019) as a limited partner in funds managed by AMC. The sale of IFC's limited partner interests in these funds needs prior consent from the other limited partners.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE H - RETAINED EARNINGS DESIGNATIONS AND RELATED EXPENDITURES AND ACCUMULATED OTHER COMPREHENSIVE INCOME

### Designated retained earnings

The components of designated retained earnings and related expenditures are summarized below (US$ millions):

| | Grants to IDA | Advisory Services | Creating Markets Advisory Window | Performance-Based Grants | SME Ventures for IDA countries | Total Designated Retained Earnings |
|---|---|---|---|---|---|---|
| **At June 30, 2018** | **$ —** | **$ 46** | **$ 122** | **$ 5** | **$ 17** | **$ 190** |
| **Year ended June 30, 2019** | | | | | | |
| Designations of retained earnings | 115 | 45 | 70 | — | — | 230 |
| Expenditures against designated retained earnings | — | (25) | (26) | (2) | (1) | (54) |
| **At June 30, 2019** | **$ 115** | **$ 66** | **$ 166** | **$ 3** | **$ 16** | **$ 366** |
| **Nine months ended March 31, 2020** | | | | | | |
| Designations of retained earnings | 98 | 24 | — | — | — | 122 |
| Expenditures against designated retained earnings | — | (12) | (21) | (2) | (1) | (36) |
| **At March 31, 2020** | **$ 213** | **$ 78** | **$ 145** | **$ 1** | **$ 15** | **$ 452** |

On August 8, 2019, the Board of Directors approved a designation of $24 million of IFC’s retained earnings for Advisory Services, and, subject to the conditions detailed on page 14, a designation of $98 million of IFC’s retained earnings for grants to IDA. These designations were noted with approval by the Board of Governors on October 18, 2019. IFC did not recognize expenditures against designations for grants to IDA in FY19 (from FY18 designations) and the transfer was deferred to FY20 due to IFC's net loss for the nine months ended March 31, 2019 in accordance with the Board of Directors approved framework for designations. IFC did not recognize expenditures against designations for grants to IDA in FY20 from FY18 and FY19 designations, and both transfers were deferred to FY21, due to IFC's net loss for the nine months ended March 31, 2020.

### Accumulated other comprehensive loss

The components of accumulated other comprehensive loss at March 31, 2020 and June 30, 2019 are summarized as follows (US$ millions):

| | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Net unrealized losses on available-for-sale debt securities | $ (327) | $ (7) |
| Net unrealized gains on borrowings at fair value under the fair value option due to changes in instrument-specific credit risk | 496 | 131 |
| Unrecognized net actuarial losses and unrecognized prior service costs on benefit plans | (1,315) | (1,356) |
| **Total accumulated other comprehensive loss** | **$ (1,146)** | **$ (1,232)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE I - NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS ACCOUNTED FOR AT FAIR VALUE

Net unrealized gains and losses on non-trading financial instruments accounted for at fair value for the three and nine months ended March 31, 2020 and 2019 comprise (US$ millions):

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Unrealized gains and losses on loans, debt securities and associated derivatives:** | | | | |
| Unrealized gains (losses) on loans and associated derivatives | $ (335) | $ (70) | $ (304) | $ (93) |
| Unrealized gains (losses) on debt securities and associated derivatives | (173) | 46 | (217) | 60 |
| **Total net unrealized gains (losses) on loans, debt securities and associated derivatives** | **(508)** | **(24)** | **(521)** | **(33)** |
| **Unrealized gains and losses on borrowings from market, IDA and associated derivatives:** | | | | |
| Unrealized gains and losses on market borrowings accounted for at fair value: | | | | |
| Interest rate, foreign exchange and other components | (880) | (488) | (1,185) | (586) |
| Total unrealized gains (losses) on market borrowings | (880) | (488) | (1,185) | (586) |
| Unrealized gains (losses) on derivatives associated with market borrowings | 742 | 586 | 1,064 | 572 |
| Unrealized gains (losses) on borrowings from IDA accounted for at fair value | (19) | (9) | (22) | (18) |
| **Total net unrealized gains (losses) on borrowings from market, IDA and associated derivatives** | **(157)** | **89** | **(143)** | **(32)** |
| **Net unrealized gains and losses on non-trading financial instruments accounted for at fair value** | **$ (665)** | **$ 65** | **$ (664)** | **$ (65)** |

Market borrowings economically hedged with financial instruments, including derivatives, accounted for at fair value under the Fair Value Option. Differences arise between the movement in the fair value of market borrowings and the fair value of the associated derivatives primarily due to movements in IFC's own credit risk spread, foreign currency exchange risk premiums and accrued interest balances. The magnitude and direction (gain or loss) can be volatile from period to period but they do not alter the timing of cash flows on market borrowings. Changes in the fair value of borrowings resulting from changes in IFC’s own credit risk spread are recorded through other comprehensive income whereas changes in fair value due to other factors, and all fair value changes on hedging derivatives, are accounted through earnings.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE J - DERIVATIVES

As discussed in Note A, “Summary of significant accounting and related policies”, IFC enters into transactions in various derivative instruments for financial risk management purposes in connection with its principal business activities, including lending, investing in debt securities, equity investments, client risk management, borrowing, liquid asset management and asset and liability management. None of these derivative instruments are designated as hedging instruments under ASC Topic 815. Note A describes IFC’s risk management and use of derivative instruments.

The fair value of derivative instrument assets and liabilities by risk type at March 31, 2020 and June 30, 2019 is summarized as follows (US$ millions):

| Condensed Consolidated Balance Sheet location | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Derivative assets | | |
| Interest rate | $ 1,300 | $ 505 |
| Foreign exchange | 424 | 93 |
| Interest rate and currency | 2,324 | 2,097 |
| Equity | 164 | 161 |
| Credit and other | 45 | — |
| **Total derivative assets** | **$ 4,257** | **$ 2,856** |
| Derivative liabilities | | |
| Interest rate | $ 1,025 | $ 699 |
| Foreign exchange | 107 | 189 |
| Interest rate and currency | 4,549 | 3,065 |
| Equity | 3 | 11 |
| **Total derivative liabilities** | **$ 5,684** | **$ 3,964** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE J - DERIVATIVES** (continued)

The effect of derivative instrument contracts on the condensed consolidated statement of operations for the three and nine months ended March 31, 2020 and 2019 is summarized as follows (US$ millions):

| Derivative risk category | Condensed Consolidated Statement of Operations location | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Nine months ended March 31, 2020 | Nine months ended March 31, 2019 |
|---|---|---|---|---|---|
| Interest rate | Loss from loans and guarantees, including realized gains and losses on loans and associated derivatives | (2) | 1 | (3) | — |
| | (Loss) Income from debt securities, including realized gains and losses on debt securities and associated derivatives | (1) | 1 | (2) | 3 |
| | Loss from liquid asset trading activities | (131) | (31) | (166) | (71) |
| | Charges on borrowings | 15 | (21) | 10 | (40) |
| | Other income | 8 | 4 | 17 | 18 |
| | Net unrealized gains on non-trading financial instruments accounted for at fair value | 525 | 221 | 563 | 406 |
| Foreign exchange | Income from liquid asset trading activities | 831 | 71 | 1,088 | 215 |
| | Foreign currency transaction losses on non-trading activities | (6) | (91) | (4) | (249) |
| | Net unrealized gains (losses) on non-trading financial instruments accounted for at fair value | 1 | — | 2 | (1) |
| Interest rate and currency | Loss from loans and guarantees, including realized gains and losses on loans and associated derivatives | (22) | (18) | (60) | (55) |
| | Loss from debt securities, including realized gains and losses on debt securities and associated derivatives | (7) | (2) | (22) | (1) |
| | Income from liquid asset trading activities | 142 | 62 | 274 | 176 |
| | Charges on borrowings | 135 | 117 | 451 | 411 |
| | Foreign currency transaction losses on non-trading activities | (2,120) | 145 | (1,871) | (293) |
| | Other Income | 3 | — | 3 | 1 |
| | Net unrealized gains on non-trading financial instruments accounted for at fair value | (67) | 277 | 181 | 66 |
| Equity | Income (Loss) from equity investments and associated derivatives | 49 | (44) | 29 | (79) |
| | Income from loans and guarantees, including realized gains and losses on loans and associated derivatives | — | 39 | — | 39 |
| | Net unrealized losses on non-trading financial instruments accounted for at fair value | (6) | (1) | (15) | (5) |
| Other derivative contracts | Net unrealized gains on non-trading financial instruments accounted for at fair value | 45 | — | 45 | — |
| | **Total** | **(608)** | **730** | **520** | **541** |

The income related to each derivative risk category includes realized and unrealized gains and losses.

At March 31, 2020, the outstanding volume, measured by US$ equivalent notional, of interest rate contracts was $54,594 million ($51,273 million at June 30, 2019), foreign exchange contracts was $16,183 million ($21,509 million at June 30, 2019) and interest rate and currency contracts was $44,400 million ($43,225 million at June 30, 2019). At March 31, 2020, there were 172 equity contracts related to IFC's loan and equity investment portfolio and 4 other derivative contract recognized as derivatives assets or liabilities under ASC Topic 815 (187 equity risk and no other contracts at June 30, 2019).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE K - FAIR VALUE MEASUREMENTS

Many of IFC's financial instruments are not actively traded in any market. Accordingly, estimates and present value calculations of future cash flows are used to estimate the fair values. Determining future cash flows for fair value estimation is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The excess or deficit resulting from the difference between the carrying amounts and the fair values presented does not necessarily reflect the values which will ultimately be realized, since IFC generally holds loans, borrowings and other financial instruments with contractual maturities with the aim of realizing their contractual cash flows.

The estimated fair values as of March 31, 2020 and June 30, 2019 reflect multiple factors such as interest rates, credit risk, foreign currency exchange rates and commodity prices. Reasonable comparability of fair values among financial institutions is not likely because of the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices. This lack of objective pricing standard in the market introduces a greater degree of subjectivity and volatility to these derived or estimated fair values. Therefore, while disclosure of estimated fair values of financial instruments is required, readers are cautioned in using these data for purposes of evaluating the financial condition of IFC. The fair values of the individual financial instruments do not represent the fair value of IFC taken as a whole.

COVID-19 has had a significant negative impact on the valuation of IFC's equity investment portfolio at March 31, 2020. Recognizing there is a heightened degree of uncertainty and judgment in incorporating the impact of COVID-19, IFC has utilized, where available, comparator, sector and country information, in addition to discounted cash flow models, in valuing its equity investment portfolio at March 31, 2020. Valuations of equity investments at March 31, 2020 were significantly lower than as of December 31, 2019 and June 30, 2019. Debt securities and loans accounted for at fair value that do not have available market prices were primarily valued using discounted cash flow approaches and reflected spreads at March 31, 2020.

All of IFC's financial instruments in its liquid assets portfolio are managed according to an investment authority approved by the Board of Directors and investment guidelines approved by IFC's Corporate Risk Committee, a subcommittee of IFC's Management Team. Third party independent vendor prices are used to price the vast majority of the liquid assets. The vendor prices are evaluated by IFC's Treasury department and IFC's Corporate and Portfolio Risk Management department maintains oversight for the pricing of liquid assets.

IFC's regional and industry departments are primarily responsible for fair valuing IFC's investment portfolio (equity investments, debt securities, loan investments and related derivatives). The Investment Valuation Unit in IFC's Corporate Risk Management department in the Risk and Finance Vice Presidency provides oversight over the fair valuation process by monitoring and reviewing the fair values of IFC's investment portfolio. IFC's Operations Committee, a subcommittee of IFC's management team, is also responsible for oversight of complex or high risk projects, Debt and Equity portfolio performance and asset allocation.

IFC's borrowings are fair valued by the Quantitative Analysis department in IFC's Treasury and Syndications Vice Presidency under the oversight of the Corporate Risk Management department.

The methodologies used and key assumptions made to estimate fair values as of March 31, 2020, and June 30, 2019, are summarized below.

**Liquid assets** - The primary pricing source for the liquid assets is valuations obtained from external pricing services (vendor prices). The most liquid securities in the liquid asset portfolio are exchange traded futures, options, and US Treasuries. US Treasuries and US Government agency bonds are classified as Level 1. The remaining liquid assets valued using vendor prices are classified as Level 2 or Level 3 based on the results of IFC's evaluation of the vendor's pricing methodologies and individual security facts and circumstances. Most vendor prices use some form of matrix pricing methodology to derive the inputs for projecting cash flows or to derive prices. When vendor prices are not available, liquid assets are valued internally by IFC using yield-pricing approach or comparables model approach and these are classified as Level 2 or Level 3 depending on the degree that the inputs are observable in the market.

The critical factors in valuing liquid assets in both Level 2 and Level 3 are the estimation of cash flows and yield. Other significant inputs for valuing corporate securities, quasi-government securities and sovereign or sovereign-guaranteed securities include reported trades, broker/dealer quotes, benchmark securities, option adjusted spread curve, volatilities, and other reference data. In addition to these inputs, valuation models for securitized or collateralized securities use collateral performance inputs, such as weighted average coupon rate, weighted average maturity, conditional prepayment rate, constant default rate, vintage, and credit enhancements.

**Loans and debt securities** - Loans and debt securities in IFC's investment portfolio that do not have available market prices are primarily valued using discounted cash flow approaches. The majority of loans measured at fair value are classified as Level 3. Certain loans contain embedded conversion and/or income participation features. If not bifurcated as standalone derivatives, these features are considered in determining the loans' fair value based on the quoted market prices or other calculated values of the equity investments into which the loans are convertible and the discounted cash flows of the income participation features. The significant unobservable inputs used in the fair value measurement of loans and debt securities are discount rates, credit default swap spreads, and expected recovery rates. The valuation techniques and significant unobservable inputs for available-for-sale debt securities classified as Level 3 as of March 31, 2020 and June 30, 2019 are presented below respectively. Valuation

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

techniques and significant inputs for loans and debt securities accounted for at fair value under the fair value option are materially consistent with available-for-sale debt securities.

March 31, 2020

| | Valuation technique | Fair value (US$ millions) | Significant inputs | Range (%) | Weighted average (%) |
|---|---|---|---|---|---|
| Debt securities – preferred shares | Discounted cash flows | $ 56 | Discount rate | 7.0 - 30.0 | 13.4 |
| | Relative valuations | 185 | Valuation multiples* | | |
| | Recent transactions | 120 | | | |
| | Other techniques | 11 | | | |
| Total preferred shares | | 372 | | | |
| Other debt securities | Discounted cash flows | 3,327 | Credit default swap spreads | 0.9 - 17.9 | 4.2 |
| | | | Expected recovery rates | 35.0 - 85.0 | 49.6 |
| | Recent transactions | 1,072 | | | |
| | Other techniques | 465 | | | |
| Total other debt securities | | 4,864 | | | |
| **Total** | | **$ 5,236** | | | |

* Including price/earnings ratio, price/book value ratio, price/sales ratio, enterprise value/sales ratio and enterprise value/earnings before interest, taxes, depreciation and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.

June 30, 2019

| | Valuation technique | Fair value (US$ millions) | Significant inputs | Range (%) | Weighted average (%) |
|---|---|---|---|---|---|
| Debt securities – preferred shares | Discounted cash flows | $ 53 | Discount rate | 6.6 - 29.2 | 12.6 |
| | Relative valuations | 59 | Valuation multiples* | | |
| | Recent transactions | 97 | | | |
| | Other techniques | 8 | | | |
| Total preferred shares | | 217 | | | |
| Other debt securities | Discounted cash flows | 2,172 | Credit default swap spreads | 1.1 - 5.4 | 2.4 |
| | | | Expected recovery rates | 0.0 - 85.0 | 48.2 |
| | Recent transactions | 804 | | | |
| | Other techniques | 57 | | | |
| Total other debt securities | | 3,033 | | | |
| **Total** | | **$ 3,250** | | | |

* Including price/earnings ratio, enterprise value/sales ratio and enterprise value/earnings before interest, taxes, depreciation and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.

**Borrowings** – Fair values derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate are classified as Level 2. Fair values derived from market source pricing are also classified as Level 2. The significant inputs used in valuing borrowings classified as Level 2 are presented below:

| Classes | Significant Inputs |
|---|---|
| Structured bonds | Foreign exchange rate and inter-bank yield curves, IFC's credit curve and swaption volatility matrix, foreign exchange rate volatility, equity spot price, volatility and dividend yield. |
| Unstructured bonds | Inter-bank yield curve and IFC's credit curve. |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

As of March 31, 2020, IFC had bond issuances with a total fair value of $119 million classified as level 3 in Costa Rican colon, Dominican peso, Kazakhstan tenge, Uzbekistan sum and Uruguayan peso where the significant unobservable inputs were yield curve data. As of March 31, 2020, the weighted average effective interest rate on medium and long-term borrowings carried at amortized cost was 6.8% and the effective interest rate on short-term borrowings carried at amortized cost was 1.5%.

**Derivative instruments** - The various classes of derivative instruments include interest rate contracts, foreign exchange contracts, interest rate and currency contracts, equity contracts and other derivative contracts. Certain over the counter derivatives in the liquid asset portfolio priced in-house are classified as Level 2, while certain over the counter derivatives priced using external manager prices are classified as Level 3. Fair values for derivative instruments are derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate.

The significant inputs used in valuing the various classes of derivative instruments classified as Level 2 and significant unobservable inputs for derivative instruments classified as Level 3 as of March 31, 2020 and June 30, 2019 are presented below:

| Level 2 derivatives | Significant Inputs |
|---|---|
| Interest rate | Inter-bank yield curves, foreign exchange basis curve and yield curves specified to index floating rates. |
| Foreign exchange | Foreign exchange rate, inter-bank yield curves and foreign exchange basis curve. |
| Interest rate and currency | Foreign exchange rate, inter-bank yield curves, foreign exchange basis curve and yield curves specified to index floating rates. |

March 31, 2020

| Level 3 derivatives | Type | Fair value (US$ millions) | Significant inputs | Range (%) | Weighted average (%) |
|---|---|---|---|---|---|
| Equity related derivatives | Fixed strike price options | $ 9 | Volatilities | 22.4 - 49.6 | 46.0 |
| | Variable strike price options | 151 | Contractual strike price* | | |
| | Other | 1 | | | |
| Interest rate and currency swap assets | Vanilla swaps | 50 | Yield curve points, exchange rates | | |
| Interest rate and currency swap liabilities | Vanilla swaps | (32) | Yield curve points, exchange rates | | |
| **Total** | | **$ 179** | | | |

* In case of valuation techniques with multiple significant inputs, the range and weighted average are not provided.

June 30, 2019

| Level 3 derivatives | Type | Fair value (US$ millions) | Significant inputs | Range (%) | Weighted average (%) |
|---|---|---|---|---|---|
| Equity related derivatives | Fixed strike price options | $ 12 | Volatilities | 22.4 - 35.4 | 28.5 |
| | Variable strike price options | 137 | Contractual strike price* | | |
| | Other | 1 | | | |
| Interest rate and currency swap assets | Vanilla swaps | 15 | Yield curve points, exchange rates | | |
| Interest rate and currency swap liabilities | Vanilla swaps | (2) | Yield curve points, exchange rates | | |
| **Total** | | **$ 163** | | | |

* In case of valuation techniques with multiple significant inputs, the range and weighted average are not provided.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

**Equity investments** - Equity investments valued using quoted prices in active markets are classified as Level 1. Equity investments classified as Level 2 are valued using quoted prices in inactive markets. Equity investments classified as Level 3 are primarily valued using discounted cash flow and relative valuation approaches. The significant unobservable inputs include cost of equity, weighted average cost of capital, asset growth rate, return on assets, perpetual growth rate and market multiples. The valuation techniques and significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy for equity investments that were required to be measured at fair value through net income as of March 31, 2020 and June 30, 2019 are presented below. Valuation techniques and significant inputs for equity investments accounted for at fair value under the fair value option are materially consistent with equity investments required to be measured at fair value.

March 31, 2020

| Sector | Valuation technique | Fair value (US$ millions) | Significant inputs | Range | Weighted average (%) |
|---|---|---|---|---|---|
| Banking and other financial Institutions | Discounted cash flows | $ 790 | Cost of equity (%) | 10.5 - 23.7 | 14.4 |
| | | | Asset growth rate (%) | (36.2) - 118.0 | 12.0 |
| | | | Return on assets (%) | (10.1) - 8.5 | 1.8 |
| | | | Perpetual growth rate (%) | 2.1 - 16.0 | 5.3 |
| | Relative valuations | 43 | Valuation multiples* | | |
| | Listed price (adjusted) | 203 | Discount for lack of marketability (%) | ** | 35.0 |
| | Recent transactions | 294 | | | |
| | Other techniques | 219 | | | |
| | Associated options*** | 23 | | | |
| Total banking and other financial institutions | | 1,572 | | | |
| Funds | Recent transactions | 53 | | | |
| | Other techniques | 4 | | | |
| Total funds | | 57 | | | |
| Others | Discounted cash flows | 1,226 | Weighted average cost of capital (%) | 7.3 - 22.5 | 11.2 |
| | | | Cost of equity (%) | 9.7 - 16.9 | 13.1 |
| | Relative valuations | 586 | EV/EBITDA | 3.5 - 19.7 | 11.2 |
| | | | Price to book value | 0.6 - 2.1 | 1.0 |
| | | | Other valuation multiples* | | |
| | Recent transactions | 864 | | | |
| | Other techniques | 178 | | | |
| | Associated options*** | 73 | | | |
| Total others | | 2,927 | | | |
| **Total** | | **$ 4,556** | | | |

* Including price/book value ratio, price/earnings ratio, price/sales ratio, enterprise value/sales ratio, and enterprise value/earnings before interest, taxes, depreciation, and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.
** No range is provided as all of the projects that use this valuation technique are with the same institution and have the same discount percentage.
*** Fair values for associated options are derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| June 30, 2019 | | | | | |
|---|---|---|---|---|---|
| Sector | Valuation technique | Fair value (US$ millions) | Significant inputs | Range | Weighted average (%) |
| Banking and other financial Institutions | Discounted cash flows | $ 676 | Cost of equity (%) | 10.4 - 24.9 | 14.5 |
| | | | Asset growth rate (%) | (24.0) - 82.1 | 3.5 |
| | | | Return on assets (%) | (8.9) - 9.8 | 1.3 |
| | | | Perpetual growth rate (%) | 2.1 - 15.0 | 4.8 |
| | Relative valuations | 60 | Valuation multiples** | | |
| | Listed price (adjusted) | 578 | Discount for lack of marketability (%) | *** | 35.0 |
| | Recent transactions | 343 | | | |
| | Other techniques | 159 | | | |
| | Associated options**** | 18 | | | |
| Total banking and other financial institutions | | 1,834 | | | |
| Others | Discounted cash flows | 1,273 | Weighted average cost of capital (%) | 6.6 - 22.5 | 11.3 |
| | | | Cost of equity (%) | 10.9 - 16.7 | 11.3 |
| | Relative valuations | 325 | EV/EBITDA | 3.4 - 24.4 | 11.8 |
| | | | Price to book value | 0.6 - 2.0 | 1.1 |
| | | | Other valuation multiples** | | |
| | Listed price (adjusted) | —* | Discount for lack of marketability (%) | *** | 10.0 |
| | Recent transactions | 505 | | | |
| | Other techniques | 81 | | | |
| | Associated options**** | 49 | | | |
| Total others | | 2,233 | | | |
| **Total** | | **$ 4,067** | | | |

* Less than $0.5 million.

** Including price/book value ratio, enterprise value/sales ratio, and enterprise value/earnings before interest, taxes, depreciation, and amortization ratio, the range and weighted average are not provided due to the immaterial amounts.

*** No range is provided as all of the projects that use this valuation technique are with the same institution and have the same lock-up discount percentage.

**** Fair values for associated options are derived by determining the present value of estimated future cash flows using appropriate discount rates and option specific models where appropriate.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

**Fair value of assets and liabilities**

Estimated fair values of IFC's financial assets and liabilities and off-balance sheet financial instruments at March 31, 2020 and June 30, 2019 are summarized below (US$ millions):

| | March 31, 2020 | | June 30, 2019 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Cash and due from banks, time deposits, trading securities and securities purchased under resale agreements and receivable for cash collateral pledged | $ 50,715 | $ 50,715 | $ 49,085 | $ 49,085 |
| Investments: | | | | |
| Loans at amortized cost, net of reserves against losses | 22,253 | 22,612 | 23,106 | 24,349 |
| Loans accounted for at fair value under the Fair Value Option | 951 | 951 | 877 | 877 |
| Total loans | 23,204 | 23,563 | 23,983 | 25,226 |
| Equity investments accounted for at fair value | 10,013* | 10,008 | 13,130* | 13,113 |
| Debt securities accounted for at fair value as available-for-sale | 3,669 | 3,669 | 4,488 | 4,488 |
| Debt securities accounted for at fair value under the Fair Value Option | 2,664 | 2,664 | 1,861 | 1,861 |
| Total debt securities | 6,333 | 6,333 | 6,349 | 6,349 |
| Total investments | 39,550 | 39,904 | 43,462 | 44,688 |
| Derivative assets: | | | | |
| Borrowings-related | 1,087 | 1,087 | 896 | 896 |
| Liquid asset portfolio-related and other | 565 | 565 | 154 | 154 |
| Investment-related | 1,968 | 1,968 | 1,417 | 1,417 |
| Client risk management-related | 637 | 637 | 389 | 389 |
| Total derivative assets | 4,257 | 4,257 | 2,856 | 2,856 |
| Other investment-related financial assets | — | 4 | — | 8 |
| **Financial liabilities** | | | | |
| Securities sold under repurchase agreements and payable for cash collateral received | $ 8,452 | $ 8,452 | $ 8,454 | $ 8,454 |
| Market, IBRD, IDA and other borrowings outstanding | 55,078 | 55,083 | 54,132 | 54,138 |
| Derivative liabilities: | | | | |
| Borrowings-related | 4,281 | 4,281 | 2,857 | 2,857 |
| Liquid asset portfolio-related and other | 307 | 307 | 370 | 370 |
| Investment-related | 292 | 292 | 285 | 285 |
| Client risk management-related | 804 | 804 | 452 | 452 |
| Total derivative liabilities | 5,684 | 5,684 | 3,964 | 3,964 |

* For $5 million as of March 31, 2020 ($17 million - June 30, 2019) of equity investments primarily accounted for under the cost recovery method, no fair value measurement is provided since the recovery of invested capital is uncertain.

The fair value of loan commitments amounted to $35 million at March 31, 2020 ($39 million - June 30, 2019). Fair values of loan commitments are based on present value of loan commitment fees.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

**Fair value hierarchy**

The following tables provide information as of March 31, 2020 and June 30, 2019, about IFC's financial assets and financial liabilities measured at fair value on a recurring basis. As required by ASC 820, financial assets and financial liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurement (US$ millions):

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Trading securities: | | | | |
| Asset-backed securities | $ — | $ 5,608 | $ 348 | $ 5,956 |
| Corporate debt securities | — | 3,405 | — | 3,405 |
| Government obligations | 15,851 | 8,016 | — | 23,867 |
| Total trading securities | 15,851 | 17,029* | 348 | 33,228 |
| Loans | — | — | 924 | 924 |
| Loans measured at net asset value** | | | | 27 |
| Total Loans (Outstanding principal balance $1,133) | — | — | 924 | 951 |
| Equity investments: | | | | |
| Banking and other financial institutions | 759 | 76 | 1,572 | 2,407 |
| Funds | 31 | — | 57 | 88 |
| Others | 808 | 245 | 2,927 | 3,980 |
| Equity investments measured at net asset value** | | | | 3,533 |
| Total equity investments | 1,598 | 321 | 4,556 | 10,008 |
| Debt securities: | | | | |
| Corporate debt securities | — | 1,520 | 3,002 | 4,522 |
| Preferred shares | — | — | 372 | 372 |
| Asset-backed securities | — | 56 | 938 | 994 |
| Other debt securities | — | — | —**** | —**** |
| Debt securities measured at net asset value** | | | | 445 |
| Total debt securities | — | 1,576 | 4,312 | 6,333 |
| Derivative assets: | | | | |
| Interest rate | — | 1,300 | — | 1,300 |
| Foreign exchange | — | 424 | — | 424 |
| Interest rate and currency | — | 2,274 | 50 | 2,324 |
| Equity and other | — | 45 | 164 | 209 |
| Total derivative assets | — | 4,043 | 214 | 4,257 |
| **Total assets at fair value** | **$ 17,449** | **$ 22,969** | **$ 10,354** | **$ 54,777** |
| Borrowings: | | | | |
| Structured bonds | $ — | $ 6,391 | $ — | $ 6,391 |
| Unstructured bonds | — | 44,136 | 119 | 44,255 |
| Total borrowings (outstanding principal balance $52,408***) | — | 50,527 | 119 | 50,646 |
| Derivative liabilities: | | | | |
| Interest rate | — | 1,025 | — | 1,025 |
| Foreign exchange | — | 107 | — | 107 |
| Interest rate and currency | — | 4,517 | 32 | 4,549 |
| Equity and other | — | — | 3 | 3 |
| Total derivative liabilities | — | 5,649 | 35 | 5,684 |
| **Total liabilities at fair value** | **$ —** | **$ 56,176** | **$ 154** | **$ 56,330** |

* Includes securities priced at par plus accrued interest, which approximates fair value.

**In accordance with ASC 820, investments that are measured at fair value using net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in condensed consolidated balance sheet.

*** Includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $4,805 million, with a fair value of $2,027 million as of March 31, 2020.

**** Less than $0.5 million.

Note: For the nine months ended March 31, 2020: There were no trading securities transferred from level 1 to level 2 and from level 2 to level 1. Equity investments with fair value of $42 million transferred from level 1 to level 2 and $16 million from level 2 to level 1 due to decrease/increase in market activities. There were no bonds issued by IFC transferred from level 2 to level 1 & transferred from level 1 to level 2.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | June 30, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Trading securities: | | | | |
| Asset-backed securities | $ — | $ 5,044 | $ 1 | $ 5,045 |
| Corporate debt securities | — | 4,715 | — | 4,715 |
| Government obligations | 10,853 | 7,762 | — | 18,615 |
| Money market funds | — | 151 | — | 151 |
| Total trading securities | 10,853 | 17,672* | 1 | 28,526 |
| Loans | — | 1 | 850 | 851 |
| Loans measured at net asset value** | | | | 26 |
| Total Loans (Outstanding principal balance $968) | — | 1 | 850 | 877 |
| Equity investments: | | | | |
| Banking and other financial institutions | 1,445 | 148 | 2,422 | 4,015 |
| Funds | 23 | 29 | 61 | 113 |
| Others | 1,062 | 127 | 3,605 | 4,794 |
| Equity investments measured at net asset value** | | | | 4,191 |
| Total equity investments | 2,530 | 304 | 6,088 | 13,113 |
| Debt securities: | | | | |
| Corporate debt securities | — | 1,390 | 2,994 | 4,384 |
| Preferred shares | — | — | 495 | 495 |
| Asset-backed securities | — | 57 | 887 | 944 |
| Other debt securities | — | — | —**** | —**** |
| Debt securities measured at net asset value** | | | | 526 |
| Total debt securities | — | 1,447 | 4,376 | 6,349 |
| Derivative assets: | | | | |
| Interest rate | — | 505 | — | 505 |
| Foreign exchange | — | 93 | — | 93 |
| Interest rate and currency | — | 2,082 | 15 | 2,097 |
| Equity and other | — | — | 161 | 161 |
| Total derivative assets | — | 2,680 | 176 | 2,856 |
| **Total assets at fair value** | **$ 13,383** | **$ 22,104** | **$ 11,491** | **$ 51,721** |
| Borrowings: | | | | |
| Structured bonds | $ — | $ 7,044 | $ — | $ 7,044 |
| Unstructured bonds | — | 43,982 | 83 | 44,065 |
| Total borrowings (outstanding principal balance $54,255***) | — | 51,026 | 83 | 51,109 |
| Derivative liabilities: | | | | |
| Interest rate | — | 699 | — | 699 |
| Foreign exchange | — | 189 | — | 189 |
| Interest rate and currency | — | 3,063 | 2 | 3,065 |
| Equity and other | — | — | 11 | 11 |
| Total derivative liabilities | — | 3,951 | 13 | 3,964 |
| **Total liabilities at fair value** | **$ —** | **$ 54,977** | **$ 96** | **$ 55,073** |

IFC reassessed market data inputs for estimating whether its trading securities, debt securities, and borrowings are traded in an active market as defined by ASC 820. Based on market data as of June 30, 2019, trading securities (except US Treasuries and Agency securities), debt securities, and borrowings were transferred from level 1 to level 2.

* Includes securities priced at par plus accrued interest, which approximates fair value.

**In accordance with ASC 820, investments that are measured at fair value using net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in condensed consolidated balance sheet.

*** Includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of $5,571 million, with a fair value of $2,233 million as of June 30, 2019.

**** Less than $0.5 million.

Note: For the year ended June 30, 2019: Trading securities with fair value of $5,149 million transferred from level 1 to level 2 and $12 million from level 2 to level 1 due to decrease/increase in market activities. Equity investments with fair value of $119 million transferred from level 1 to level 2 and $112 million from level 2 to level 1 due to decrease/increase in market activities and reassessment of market data inputs. Debt securities with a fair value of $417million and bonds issued by IFC with a fair value of $28,326 million transferred from level 1 to level 2 due to reassessment of market data inputs. There were no bonds or debt securities transferred from level 2 to level1.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

The following tables present the changes in the carrying value of IFC's Level 3 financial assets and financial liabilities for the three and nine months ended March 31, 2020 and 2019 (US$ millions). IFC's policy is to recognize transfers in and transfers out at the beginning of the reporting period.

| | Three months ended March 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Net gains and losses (realized and unrealized) included in | | | | | | |
| | Balance as of January 1, 2020 | Net Income | Other comprehensive income | Purchases, issuances, sales, settlements and others | Transfers into Level 3 (*) | Transfers out of Level 3 (**) | Balance as of March 31, 2020 | Net unrealized gains/losses included in net income related to assets / liabilities held at period end |
| Trading securities: | | | | | | | | |
| Asset-backed securities | $ 426 | $ (62) | $ — | $ 146 | $ — | $ (162) | $ 348 | $ (62) |
| Corporate debt securities | — | — | — | — | — | — | — | — |
| Government obligations | — | — | — | — | — | — | — | — |
| Total trading securities | 426 | (62) | — | 146 | — | (162) | 348 | (62) |
| Loans | 829 | (163) | — | 258 | — | — | 924 | (153) |
| Equity investments: | | | | | | | | |
| Banking and other financial institutions | 2,140 | (564) | — | (4) | — | — | 1,572 | (711) |
| Funds | 101 | (1) | — | (43) | — | — | 57 | (1) |
| Others | 3,226 | (269) | — | (30) | — | — | 2,927 | (271) |
| Total equity investments | 5,467 | (834) | — | (77) | — | — | 4,556 | (983) |
| Debt securities: | | | | | | | | |
| Corporate debt securities | 2,850 | (131) | (219) | 174 | 378 | (50) | 3,002 | (102) |
| Preferred shares | 400 | (17) | (13) | 2 | — | — | 372 | (17) |
| Asset-backed securities | 1,040 | (31) | (19) | 7 | — | (59) | 938 | (27) |
| Other debt securities | —*** | —*** | — | — | — | — | —*** | — |
| Total debt securities | 4,290 | (179) | (251) | 183 | 378 | (109) | 4,312 | (146) |
| Derivative assets: | | | | | | | | |
| Interest rate and currency | 35 | 15 | — | — | 11 | (11) | 50 | 17 |
| Equity and other | 125 | 39 | — | | — | — | 164 | 39 |
| Total derivative assets | 160 | 54 | — | — | 11 | (11) | 214 | 56 |
| **Total assets at fair value** | **$ 11,172** | **$ (1,184)** | **$ (251)** | **$ 510** | **$ 389** | **$ (282)** | **$ 10,354** | **$ (1,288)** |
| Borrowings: | | | | | | | | |
| Structured bonds | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Unstructured bonds | (191) | 35 | — | (11) | — | 48 | (119) | 35 |
| Total borrowings | (191) | 35 | — | (11) | — | 48 | (119) | 35 |
| Derivative liabilities: | | | | | | | | |
| Interest rate | — | — | — | — | — | — | — | — |
| Interest rate and currency | (25) | (7) | — | — | (28) | 28 | (32) | (5) |
| Equity and other | (7) | 3 | — | 1 | — | — | (3) | 3 |
| Total derivative liabilities | (32) | (4) | — | 1 | (28) | 28 | (35) | (2) |
| **Total liabilities at fair value** | **$ (223)** | **$ 31** | **$ —** | **$ (10)** | **$ (28)** | **$ 76** | **$ (154)** | **$ 33** |

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2020.

(**) Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of January 1, 2020 beginning balance as of March 31, 2020.

*** Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | Nine months ended March 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Net gains and losses (realized and unrealized) included in | | | | | | |
| | Balance as of July 1 2019 | Net Income | Other comprehensive income | Purchases, issuances, sales, settlements and others | Transfers into Level 3 (*) | Transfers out of Level 3 (**) | Balance as of March 31, 2020 | Net unrealized gains/ losses included in net income related to assets / liabilities held at period end |
| Trading securities: | | | | | | | | |
| Asset-backed securities | $ 1 | $ (59) | $ — | $ 486 | $ 83 | $ (163) | $ 348 | $ (44) |
| Corporate debt securities | — | — | — | — | — | — | — | — |
| Government obligations | — | — | — | — | — | — | — | — |
| Total trading securities | 1 | (59) | — | 486 | 83 | (163) | 348 | (44) |
| Loans | 850 | (129) | — | 203 | — | — | 924 | (126) |
| Equity investments: | | | | | | | | |
| Banking and other financial institutions | 2,422 | (598) | — | (247) | 60 | (65) | 1,572 | (699) |
| Funds | 61 | (1) | — | (3) | — | — | 57 | — |
| Others | 3,605 | (225) | — | (437) | — | (16) | 2,927 | (314) |
| Total equity investments | 6,088 | (824) | — | (687) | 60 | (81) | 4,556 | (1,013) |
| Debt securities: | | | | | | | | |
| Corporate debt securities | 2,994 | (175) | (183) | 623 | 482 | (739) | 3,002 | (114) |
| Preferred shares | 495 | (25) | (27) | (71) | — | — | 372 | (31) |
| Asset-backed securities | 887 | (88) | 9 | 132 | 57 | (59) | 938 | (41) |
| Other debt securities | —*** | —*** | — | — | — | — | —*** | — |
| Total debt securities | 4,376 | (288) | (201) | 684 | 539 | (798) | 4,312 | (186) |
| Derivative assets: | | | | | | | | |
| Interest rate and currency | 15 | 14 | — | 1 | 35 | (15) | 50 | 17 |
| Equity and other | 161 | 6 | — | (3) | — | — | 164 | 6 |
| Total derivative assets | 176 | 20 | — | (2) | 35 | (15) | 214 | 23 |
| **Total assets at fair value** | **$11,491** | **$(1,280)** | **$ (201)** | **$ 684** | **$ 717** | **$ (1,057)** | **$10,354** | **$ (1,346)** |
| Borrowings: | | | | | | | | |
| Structured bonds | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Unstructured bonds | (83) | 39 | — | (97) | (60) | 82 | (119) | 39 |
| Total borrowings | (83) | 39 | — | (97) | (60) | 82 | (119) | 39 |
| Derivative liabilities: | | | | | | | | |
| Interest rate | — | — | — | — | — | — | — | — |
| Interest rate and currency | (2) | (7) | — | (2) | (54) | 33 | (32) | (8) |
| Equity and other | (11) | 7 | — | 1 | — | — | (3) | 7 |
| Total derivative liabilities | (13) | — | — | (1) | (54) | 33 | (35) | (1) |
| **Total liabilities at fair value** | **$ (96)** | **$ 39** | **$ —** | **$ (98)** | **$ (114)** | **$ 115** | **$ (154)** | **$ 38** |

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2020.
(**) Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of July 1, 2019 beginning balance as of March 31, 2020.
*** Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | Three months ended March 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Net gains and losses (realized and unrealized) included in | | | | | | |
| | Balance as of January 1, 2019 | Net Income | Other comprehensive income | Purchases, issuances, sales, settlements and others | Transfers into Level 3 (*) | Transfers out of Level 3 (**) | Balance as of March 31, 2019 | Net unrealized gains/ losses included in net income related to assets / liabilities held at period end |
| Trading securities: | | | | | | | | |
| Asset-backed securities | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Corporate debt securities | — | — | — | — | — | | — | — |
| Government obligations | 17 | — | — | — | — | — | 17 | — |
| Total trading securities | 17 | — | — | — | — | — | 17 | — |
| Loans | 959 | 25 | — | 10 | — | — | 994 | 11 |
| Equity investments: | | | | | | | | |
| Banking and other financial institutions | 2,939 | 8 | — | (33) | 5 | (330) | 2,589 | (8) |
| Funds | 94 | — | — | 3 | — | (50) | 47 | — |
| Others | 3,773 | 39 | — | (112) | — | — | 3,700 | 6 |
| Total equity investments | 6,806 | 47 | — | (142) | 5 | (380) | 6,336 | (2) |
| Debt securities: | | | | | | | | |
| Corporate debt securities | 2,028 | 11 | 41 | 10 | 666 | (220) | 2,536 | 17 |
| Preferred shares | 398 | 3 | 8 | 9 | — | — | 418 | 2 |
| Asset-backed securities | 734 | 4 | (11) | 5 | 80 | — | 812 | 5 |
| Other debt securities | 2 | (2) | — | — | — | — | — | (1) |
| Total debt securities | 3,162 | 16 | 38 | 24 | 746 | (220) | 3,766 | 23 |
| Derivative assets: | | | | | | | | |
| Interest rate and currency | 25 | (5) | — | 1 | — | (3) | 18 | (3) |
| Equity and other | 194 | (6) | — | (39) | — | — | 149 | (45) |
| Total derivative assets | 219 | (11) | — | (38) | — | (3) | 167 | (48) |
| **Total assets at fair value** | **$ 11,163** | **$ 77** | **$ 38** | **$ (146)** | **$ 751** | **$ (603)** | **$ 11,280** | **$ (16)** |
| Borrowings: | | | | | | | | |
| Structured bonds | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Unstructured bonds | (57) | (2) | — | (61) | — | — | (120) | (2) |
| Total borrowings | (57) | (2) | — | (61) | — | — | (120) | (2) |
| Derivative liabilities: | | | | | | | | |
| Interest rate | — | — | — | — | — | — | — | — |
| Interest rate and currency | (11) | — | — | — | — | 6 | (5) | 1 |
| Equity and other | (9) | — | — | — | — | — | (9) | — |
| Total derivative liabilities | (20) | — | — | — | — | 6 | (14) | 1 |
| **Total liabilities at fair value** | **$ (77)** | **$ (2)** | **$ —** | **$ (61)** | **$ —** | **$ 6** | **$ (134)** | **$ (1)** |

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2019.
(**)Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of January 1, 2019 beginning balance as of March 31, 2019.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | Nine months ended March 31, 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Net gains and losses (realized and unrealized) included in | | | | | | |
| | Balance as of June 30, 2018 | Adoption of new accounting pronounce ments | Net Income | Other comprehen sive income | Purchases, issuances, sales, settlements and others | Transfers into Level 3 (*) | Transfers out of Level 3 (**) | Balance as of March 31, 2019 | Net unrealized gains/losses included in net income related to assets / liabilities held at period end |
| Trading securities: | | | | | | | | | |
| Asset-backed securities | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Corporate debt securities | — | — | — | — | — | — | — | — | — |
| Government obligations | 18 | — | (1) | — | — | — | — | 17 | (1) |
| Total trading securities | 18 | — | (1) | — | — | — | — | 17 | (1) |
| Loans | 894 | — | 11 | — | 90 | — | (1) | 994 | 7 |
| Equity investments: | | | | | | | | | |
| Banking and other financial institutions | 1,326 | 1,985 | (133) | — | (35) | 74 | (628) | 2,589 | (69) |
| Funds | 83 | — | 3 | — | 11 | — | (50) | 47 | 1 |
| Others | 1,688 | 2,219 | (114) | — | (90) | — | (3) | 3,700 | (202) |
| Total equity investments | 3,097 | 4,204 | (244) | — | (114) | 74 | (681) | 6,336 | (270) |
| Debt securities: | | | | | | | | | |
| Corporate debt securities | 2,590 | — | (11) | (73) | 480 | 1,092 | (1,542) | 2,536 | 4 |
| Preferred shares | 383 | — | 44 | 18 | (27) | — | — | 418 | 42 |
| Asset-backed securities | 840 | — | (8) | (51) | 11 | 80 | (60) | 812 | 7 |
| Other debt securities | 2 | — | (2) | — | — | — | — | — | (1) |
| Total debt securities | 3,815 | — | 23 | (106) | 464 | 1,172 | (1,602) | 3,766 | 52 |
| Derivative assets: | | | | | | | | | |
| Interest rate and currency | 8 | — | 9 | — | 4 | — | (3) | 18 | 12 |
| Equity and other | 235 | — | (47) | — | (39) | — | — | 149 | (33) |
| Total derivative assets | 243 | — | (38) | — | (35) | — | (3) | 167 | (21) |
| **Total assets at fair value** | **$ 8,067** | **$ 4,204** | **$ (249)** | **$ (106)** | **$ 405** | **$ 1,246** | **$ (2,287)** | **$ 11,280** | **$ (233)** |
| Borrowings: | | | | | | | | | |
| Structured bonds | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Unstructured bonds | (46) | — | 4 | — | (83) | — | 5 | (120) | 4 |
| Total borrowings | (46) | — | 4 | — | (83) | — | 5 | (120) | 4 |
| Derivative liabilities: | | | | | | | | | |
| Interest rate | — | — | — | — | — | — | — | — | — |
| Interest rate and currency | (7) | — | (4) | — | — | — | 6 | (5) | (3) |
| Equity and other | (11) | — | 2 | — | — | — | — | (9) | 2 |
| Total derivative liabilities | (18) | — | (2) | — | — | — | 6 | (14) | (1) |
| **Total liabilities at fair value** | **$ (64)** | **$ —** | **$ 2** | **$ —** | **$ (83)** | **$ —** | **$ 11** | **$ (134)** | **$ 3** |

(*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of March 31, 2019.
(**) Transfers out of Level 3 are due to availability of observable market data resulting from an increase in market activity for these securities that were part of July 1, 2018 beginning balance as of March 31, 2019.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

The following tables present gross purchases, sales, issuances and settlements related to the changes in the carrying value of IFC's Level 3 financial assets and financial liabilities for the three and nine months ended March 31, 2020 and 2019 (US$ millions).

| | Three months ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Purchases | Sales | Issuances | Settlements and others | Net |
| Trading securities: | | | | | |
| Asset-backed securities | $ 171 | $ — | $ — | $ (25) | $ 146 |
| Corporate debt securities | — | — | — | — | — |
| Government obligations | — | — | — | — | — |
| Total trading securities | 171 | — | — | (25) | 146 |
| Loans | — | — | 339 | (81) | 258 |
| Equity investments: | | | | | |
| Banking and other financial institutions | 5 | (4) | — | (5) | (4) |
| Funds | 14 | — | — | (57) | (43) |
| Others | 53 | (42) | — | (41) | (30) |
| Total equity investments | 72 | (46) | — | (103) | (77) |
| Debt securities: | | | | | |
| Corporate debt securities | 250 | — | — | (76) | 174 |
| Preferred shares | 1 | (3) | — | 4 | 2 |
| Asset-backed securities | 34 | — | — | (27) | 7 |
| Total debt securities | 285 | (3) | — | (99) | 183 |
| Derivative assets: | | | | | |
| Interest rate and currency | — | — | — | — | — |
| Equity and other | — | — | — | — | — |
| Total derivative assets | — | — | — | — | — |
| **Total assets at fair value** | **$ 528** | **$ (49)** | **$ 339** | **$ (308)** | **$ 510** |
| Borrowings: | | | | | |
| Structured Bonds | $ — | $ — | $ — | $ — | $ — |
| Unstructured Bonds | — | — | (11) | — | (11) |
| Total Borrowings | — | — | (11) | — | (11) |
| Derivative liabilities: | | | | | |
| Interest rate | — | — | — | — | — |
| Interest rate and currency | — | — | — | — | — |
| Equity and other | — | — | — | 1 | 1 |
| Total derivative liabilities | — | — | — | 1 | 1 |
| **Total liabilities at fair value** | **$ —** | **$ —** | **$ (11)** | **$ 1** | **$ (10)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | Nine months ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Purchases | Sales | Issuances | Settlements and others | Net |
| Trading securities: | | | | | |
| Asset-backed securities | $ 550 | $ (40) | $ — | $ (25) | $ 485 |
| Corporate debt securities | — | — | — | — | — |
| Government obligations | — | — | — | — | — |
| Total trading securities | 550 | (40) | — | (25) | 485 |
| Loans | — | — | 532 | (329) | 203 |
| Equity investments: | | | | | |
| Banking and other financial institutions | 63 | (220) | — | (90) | (247) |
| Funds | 107 | — | — | (110) | (3) |
| Others | 162 | (573) | — | (26) | (437) |
| Total equity investments | 332 | (793) | — | (226) | (687) |
| Debt securities: | | | | | |
| Corporate debt securities | 815 | — | — | (192) | 623 |
| Preferred shares | 2 | (52) | — | (21) | (71) |
| Asset-backed securities | 204 | (1) | — | (71) | 132 |
| Total debt securities | 1,021 | (53) | — | (284) | 684 |
| Derivative assets: | | | | | |
| Interest rate and currency | — | — | 1 | — | 1 |
| Equity and other | — | — | — | (3) | (3) |
| Total derivative assets | — | — | 1 | (3) | (2) |
| **Total assets at fair value** | **$ 1,903** | **$ (886)** | **$ 533** | **$ (867)** | **$ 683** |
| Borrowings: | | | | | |
| Structured Bonds | $ — | $ — | $ — | $ — | $ — |
| Unstructured Bonds | — | — | (97) | — | (97) |
| Total Borrowings | — | — | (97) | — | (97) |
| Derivative liabilities: | | | | | |
| Interest rate | — | — | — | — | — |
| Interest rate and currency | — | — | (2) | — | (2) |
| Equity and other | — | — | — | 1 | 1 |
| Total derivative liabilities | — | — | (2) | 1 | (1) |
| **Total liabilities at fair value** | **$ —** | **$ —** | **$ (99)** | **$ 1** | **$ (98)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | Three months ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Purchases | Sales | Issuances | Settlements and others | Net |
| Trading securities: | | | | | |
| Asset-backed securities | $ — | $ — | $ — | $ — | $ — |
| Corporate debt securities | — | — | — | — | — |
| Government obligations | — | — | — | — | — |
| Total trading securities | — | — | — | — | — |
| Loans | — | — | 48 | (38) | 10 |
| Equity investments: | | | | | |
| Banking and other financial institutions | 49 | (100) | — | 18 | (33) |
| Funds | 19 | — | — | (16) | 3 |
| Others | 24 | (98) | — | (38) | (112) |
| Total equity investments | 92 | (198) | — | (36) | (142) |
| Debt securities: | | | | | |
| Corporate debt securities | 136 | (30) | — | (96) | 10 |
| Preferred shares | 11 | — | — | (2) | 9 |
| Asset-backed securities | 14 | — | — | (9) | 5 |
| Total debt securities | 161 | (30) | — | (107) | 24 |
| Derivative assets: | | | | | |
| Interest rate and currency | — | — | 1 | — | 1 |
| Equity and other | — | — | — | (39) | (39) |
| Total derivative assets | — | — | 1 | (39) | (38) |
| **Total assets at fair value** | **$ 253** | **$ (228)** | **$ 49** | **$ (220)** | **$ (146)** |
| Borrowings: | | | | | |
| Structured Bonds | $ — | $ — | $ — | $ — | $ — |
| Unstructured Bonds | — | — | (61) | — | (61) |
| Total Borrowings | — | — | (61) | — | (61) |
| Derivative liabilities: | | | | | |
| Interest rate | — | — | — | — | — |
| Interest rate and currency | — | — | — | — | — |
| Equity and other | — | — | — | — | — |
| Total derivative liabilities | — | — | — | — | — |
| **Total liabilities at fair value** | **$ —** | **$ —** | **$ (61)** | **$ —** | **$ (61)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE K - FAIR VALUE MEASUREMENTS** (continued)

| | Nine months ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Purchases | Sales | Issuances | Settlements and others | Net |
| Trading securities: | | | | | |
| Asset-backed securities | $ — | $ — | $ — | $ — | $ — |
| Corporate debt securities | — | — | — | — | — |
| Government obligations | — | — | — | — | — |
| Total trading securities | — | — | — | — | — |
| Loans | — | — | 240 | (150) | 90 |
| Equity investments: | | | | | |
| Banking and other financial institutions | 102 | (135) | — | (2) | (35) |
| Funds | 43 | — | — | (32) | 11 |
| Others | 142 | (215) | — | (17) | (90) |
| Total equity investments | 287 | (350) | — | (51) | (114) |
| Debt securities: | | | | | |
| Corporate debt securities | 647 | (31) | — | (136) | 480 |
| Preferred shares | 18 | (5) | — | (40) | (27) |
| Asset-backed securities | 39 | — | — | (28) | 11 |
| Total debt securities | 704 | (36) | — | (204) | 464 |
| Derivative assets: | | | | | |
| Interest rate and currency | — | — | 4 | — | 4 |
| Equity and other | — | — | — | (39) | (39) |
| Total derivative assets | — | — | 4 | (39) | (35) |
| **Total assets at fair value** | **$ 991** | **$ (386)** | **$ 244** | **$ (444)** | **$ 405** |
| Borrowings: | | | | | |
| Structured Bonds | $ — | $ — | $ — | $ — | $ — |
| Unstructured Bonds | — | — | (83) | — | (83) |
| Total Borrowings | — | — | (83) | — | (83) |
| Derivative liabilities: | | | | | |
| Interest rate | — | — | — | — | — |
| Interest rate and currency | — | — | — | — | — |
| Equity and other | — | — | — | — | — |
| Total derivative liabilities | — | — | — | — | — |
| **Total liabilities at fair value** | **$ —** | **$ —** | **$ (83)** | **$ —** | **$ (83)** |

Gains and losses (realized and unrealized) from trading securities, loans, equity investments and debt securities included in net income for the period are reported on the condensed consolidated statements of operations in income from liquid asset trading activities, Income from Loans and guarantees, including realized gains and losses on loans and associated derivatives, income from equity investments and associated derivatives, income from debt securities and realized gains and losses on debt securities and associated derivatives and net unrealized gains and losses on non-trading financial instruments accounted for at fair value.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE L - SEGMENT REPORTING**

For management purposes, IFC's business comprises three segments: investment services, treasury services and advisory services. The investment services segment consists primarily of lending and investing in debt and equity securities. The investment services segment also includes AMC, which is not separately disclosed due to its immaterial impact. Further information about the impact of AMC on IFC's condensed consolidated balance sheets and statements of operations can be found in Note B. Operationally, the treasury services segment consists of the borrowing, liquid asset management, asset and liability management and client risk management activities. Advisory services provide consultation services to governments and the private sector. Consistent with internal reporting, net income or expense from asset and liability management and client risk management activities in support of investment services is allocated from the treasury segment to the investment services segment.

The performance of investment services, treasury services and advisory services is assessed by senior management on the basis of net income for each segment, return on assets, and return on capital employed. Advisory services are primarily assessed based on the level and adequacy of its funding sources (See Note N). IFC's management reporting system and policies are used to determine revenues and expenses attributable to each segment. Consistent with internal reporting, administrative expenses are allocated to each segment based largely upon personnel costs and segment headcounts. Transactions between segments are immaterial and, thus, are not a factor in reconciling to the consolidated data.

The assets of the investment, treasury, and advisory services segments are detailed in Notes D, C, and N, respectively. An analysis of IFC's major components of income and expense by business segment for the three and nine months ended March 31, 2020 and 2019, is provided below (US$ millions):

| | Three months ended March 31, 2020 | | | |
|---|---|---|---|---|
| | Investment services | Treasury services | Advisory services | Total |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives | $ 355 | $ — | $ — | $ 355 |
| Provision for losses on loans, guarantees, accrued interest and other receivables | (302) | — | — | (302) |
| Loss from equity investments and associated derivatives | (1,910) | — | — | (1,910) |
| Income from debt securities, including and realized gains and losses on debt securities and associated derivatives | 62 | — | — | 62 |
| Income from liquid asset trading activities | — | 247 | — | 247 |
| Charges on borrowings | (157) | (129) | — | (286) |
| Advisory services income | — | — | 75 | 75 |
| Service fees and other income | 22 | — | — | 22 |
| Administrative expenses | (235) | (9) | (35) | (279) |
| Advisory services expenses | — | — | (79) | (79) |
| Expense from pension and other postretirement benefit plans | (3) | — | (2) | (5) |
| Other expenses | (9) | — | — | (9) |
| Foreign currency transaction gains and losses on non-trading activities | 220 | — | — | 220 |
| **(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **(1,957)** | **109** | **(41)** | **(1,889)** |
| Net unrealized losses on non-trading financial instruments accounted for at fair value | (508) | (157) | — | (665) |
| **Net loss** | **$ (2,465)** | **$ (48)** | **$ (41)** | **$ (2,554)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE L - SEGMENT REPORTING** (continued)

| | Nine months ended March 31, 2020 | | | |
|---|---|---|---|---|
| | Investment services | Treasury services | Advisory services | Total |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives | $ 1,162 | $ — | $ — | $ 1,162 |
| Provision for losses on loans, guarantees, accrued interest and other receivables | (511) | — | — | (511) |
| Loss from equity investments and associated derivatives | (1,624) | — | — | (1,624) |
| Income from debt securities, including and realized gains and losses on debt securities and associated derivatives | 163 | — | — | 163 |
| Income from liquid asset trading activities | — | 781 | — | 781 |
| Charges on borrowings | (530) | (439) | — | (969) |
| Advisory services income | — | — | 211 | 211 |
| Service fees and other income | 160 | — | — | 160 |
| Administrative expenses | (832) | (28) | (102) | (962) |
| Advisory services expenses | — | — | (230) | (230) |
| Expense from pension and other postretirement benefit plans | (9) | (1) | (4) | (14) |
| Other expenses | (21) | — | — | (21) |
| Foreign currency transaction gains and losses on non-trading activities | 243 | — | — | 243 |
| **(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **(1,799)** | **313** | **(125)** | **(1,611)** |
| Net unrealized losses on non-trading financial instruments accounted for at fair value | (521) | (143) | — | (664) |
| **Net (loss) income** | **$ (2,320)** | **$ 170** | **$ (125)** | **$ (2,275)** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE L - SEGMENT REPORTING** (continued)

| | Three months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | Investment services | Treasury services | Advisory services | Total |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives | $ 503 | $ — | $ — | $ 503 |
| Provision for losses on loans, guarantees, accrued interest and other receivables | (21) | — | — | (21) |
| Income from equity investments and associated derivatives | 388 | — | — | 388 |
| Income from debt securities, including and realized gains and losses on debt securities and associated derivatives | 93 | — | — | 93 |
| Income from liquid asset trading activities | — | 343 | — | 343 |
| Charges on borrowings | (195) | (218) | — | (413) |
| Advisory services income | — | — | 81 | 81 |
| Service fees and other income | 81 | — | — | 81 |
| Administrative expenses | (328) | (11) | (38) | (377) |
| Advisory services expenses | — | — | (86) | (86) |
| Expense from pension and other postretirement benefit plans | (1) | —* | (1) | (2) |
| Other expenses | (7) | — | — | (7) |
| Foreign currency transaction gains and losses on non-trading activities | 7 | — | — | 7 |
| **Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **520** | **114** | **(44)** | **590** |
| Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value | (24) | 89 | — | 65 |
| **Net income (loss)** | **$ 496** | **$ 203** | **$ (44)** | **$ 655** |

* Less than $0.5 million.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE L - SEGMENT REPORTING** (continued)

| | Nine months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | Investment services | Treasury services | Advisory services | Total |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives | $ 1,351 | $ — | $ — | $ 1,351 |
| Provision for losses on loans, guarantees, accrued interest and other receivables | (72) | — | — | (72) |
| Loss from equity investments and associated derivatives | (445) | — | — | (445) |
| Income from debt securities, including and realized gains and losses on debt securities and associated derivatives | 37 | — | — | 37 |
| Income from liquid asset trading activities | — | 905 | — | 905 |
| Charges on borrowings | (544) | (623) | — | (1,167) |
| Advisory services income | — | — | 225 | 225 |
| Service fees and other income | 199 | — | — | 199 |
| Administrative expenses | (912) | (29) | (97) | (1,038) |
| Advisory services expenses | — | — | (249) | (249) |
| Expense from pension and other postretirement benefit plans | (3) | —* | (2) | (5) |
| Other expenses | (22) | — | — | (22) |
| Foreign currency transaction gains and losses on non-trading activities | 132 | 22 | — | 154 |
| **(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA** | **(279)** | **275** | **(123)** | **(127)** |
| Net unrealized losses on non-trading financial instruments accounted for at fair value | (33) | (32) | — | (65) |
| **Net (loss) income** | **$ (312)** | **$ 243** | **$ (123)** | **$ (192)** |

* Less than $0.5 million.

**NOTE M - VARIABLE INTEREST ENTITIES**

**Significant variable interests**

IFC has identified investments in 213 VIEs which are not consolidated by IFC but in which it is deemed to hold significant variable interests at March 31, 2020 (223 investments - June 30, 2019).

The majority of these VIEs do not involve securitizations or other types of structured financing. IFC is usually the minority investor in these VIEs. These VIEs are mainly: (a) investment funds, where the general partner or fund manager does not have substantive equity at risk, which IFC does not consolidate because it does not have the power to direct the activities of the VIEs that most significantly impact their economic performance and (b) entities whose total equity investment is considered insufficient to permit such entity to finance its activities without additional subordinated financial support or whose activities are so narrowly defined by contracts that equity investors are considered to lack decision making ability, which IFC does not consolidate because it does not have the power to control the activities that most significantly impact their economic performance. IFC's involvement with these VIEs includes investments in equity interests and senior or subordinated interests, guarantees and risk management arrangements. IFC's interests in these VIEs are recorded on IFC's condensed consolidated balance sheet primarily in equity investments, loans, debt securities, and other liabilities, as appropriate.

Based on the most recent available data of these VIEs, the balance sheet size, including committed funding, in which IFC is deemed to hold significant variable interests, totaled $30,536 million at March 31, 2020 ($36,698 million - June 30, 2019). IFC's maximum exposure to loss as a result of its investments in these VIEs, comprising both carrying value of investments and amounts committed but not yet disbursed, was $5,131 million at March 31, 2020 ($5,911 million - June 30, 2019).

IFC transacted with a VIE, of which IFC is the primary beneficiary, to construct an office building at 2100 K Street on land owned by IFC adjacent to its current office premise. IFC commenced occupying the building in March 2019. The building and land, totaling $124 million are included in "Receivables and other assets" on IFC's condensed consolidated balance sheet.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE M - VARIABLE INTEREST ENTITIES** (continued)

The industry sector and geographical regional analysis of IFC's maximum exposures as a result of its investment in these VIEs at March 31, 2020 and June 30, 2019 is as follows (US$ millions):

| | March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Loans | Equity investments | Debt securities | Risk management | Total |
| Asia | | | | | |
| Manufacturing, agribusiness and services | $ 159 | $ 23 | $ 19 | $ — | $ 201 |
| Financial markets | 140 | 105 | — | — | 245 |
| Infrastructure and natural resources | 433 | 96 | 14 | 25 | 568 |
| Disruptive technologies and funds | 6 | 275 | — | — | 281 |
| Total Asia | 738 | 499 | 33 | 25 | 1,295 |
| Europe, Middle East and North Africa | | | | | |
| Manufacturing, agribusiness and services | 217 | 56 | — | — | 273 |
| Financial markets | 173 | — | 29 | — | 202 |
| Infrastructure and natural resources | 545 | 81 | 16 | 122 | 764 |
| Disruptive technologies and funds | — | 67 | — | — | 67 |
| Total Europe, Middle East and North Africa | 935 | 204 | 45 | 122 | 1,306 |
| Sub-Saharan Africa, Latin America and Caribbean | | | | | |
| Manufacturing, agribusiness and services | 33 | 83 | 1 | — | 117 |
| Financial markets | 235 | 45 | 33 | — | 313 |
| Infrastructure and natural resources | 809 | 300 | — | 102 | 1,211 |
| Disruptive technologies and funds | — | 189 | — | — | 189 |
| Total Sub-Saharan Africa, Latin America and Caribbean | 1,077 | 617 | 34 | 102 | 1,830 |
| Other | | | | | |
| Financial markets | 470 | 39 | — | 7 | 516 |
| Infrastructure and natural resources | 135 | 7 | — | — | 142 |
| Disruptive technologies and funds | — | 42 | — | — | 42 |
| Total Other | 605 | 88 | — | 7 | 700 |
| **Maximum exposure to VIEs** | **$ 3,355** | **$ 1,408** | **$ 112** | **$ 256** | **$ 5,131** |
| of which: | | | | | |
| Carrying value | $ 2,701 | $ 988 | $ 106 | $ 208 | $ 4,003 |
| Committed but not disbursed | $ 654 | $ 420 | $ 6 | $ 48 | $ 1,128 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE M - VARIABLE INTEREST ENTITIES** (continued)

| | June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Loans | Equity investments | Debt securities | Risk management | Total |
| Asia | | | | | |
| Manufacturing, agribusiness and services | $ 161 | $ 30 | $ 23 | $ — | $ 214 |
| Financial markets | 81 | 106 | 2 | — | 189 |
| Infrastructure and natural resources | 545 | 104 | 16 | 11 | 676 |
| Disruptive technologies and funds | 6 | 306 | — | — | 312 |
| Total Asia | 793 | 546 | 41 | 11 | 1,391 |
| Europe, Middle East and North Africa | | | | | |
| Manufacturing, agribusiness and services | 312 | 59 | — | — | 371 |
| Financial markets | 113 | — | 108 | — | 221 |
| Infrastructure and natural resources | 619 | 242 | 22 | 71 | 954 |
| Disruptive technologies and funds | — | 93 | — | — | 93 |
| Total Europe, Middle East and North Africa | 1,044 | 394 | 130 | 71 | 1,639 |
| Sub-Saharan Africa, Latin America and Caribbean | | | | | |
| Manufacturing, agribusiness and services | 111 | 144 | 16 | — | 271 |
| Financial markets | 152 | 59 | 40 | — | 251 |
| Infrastructure and natural resources | 965 | 330 | — | 83 | 1,378 |
| Disruptive technologies and funds | — | 183 | — | — | 183 |
| Total Sub-Saharan Africa, Latin America and Caribbean | 1,228 | 716 | 56 | 83 | 2,083 |
| Other | | | | | |
| Manufacturing, agribusiness and services | — | 11 | — | — | 11 |
| Financial markets | 402 | 60 | 76 | 7 | 545 |
| Infrastructure and natural resources | 194 | 8 | — | — | 202 |
| Disruptive technologies and funds | — | 40 | — | — | 40 |
| Total Other | 596 | 119 | 76 | 7 | 798 |
| **Maximum exposure to VIEs** | **$ 3,661** | **$ 1,775** | **$ 303** | **$ 172** | **$ 5,911** |
| of which: | | | | | |
| Carrying value | $ 2,836 | $ 1,331 | $ 294 | $ 128 | $ 4,589 |
| Committed but not disbursed | $ 825 | $ 444 | $ 9 | $ 44 | $ 1,322 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE N - ADVISORY SERVICES

IFC provides advisory services to government and private sector clients. IFC's advisory services to governments on private sector enabling environment and financial sector development are delivered in partnership with IBRD through WBG Global Practices. IFC funds this business line by a combination of cash received from government and other development partners, IFC’s operations via retained earnings and operating budget allocations, as well as fees received from the recipients of the services. IFC administers development partner funds through trust funds in accordance with donor administration agreements.

As of March 31, 2020, other assets include undisbursed donor funds of $568 million ($484 million - June 30, 2019) and IFC’s advisory services funding of $302 million ($311 million - June 30, 2019). Included in other liabilities as of March 31, 2020 is $568 million ($484 million - June 30, 2019) of refundable undisbursed donor funds.

## NOTE O - PENSION AND OTHER POSTRETIREMENT BENEFITS

IBRD, IFC and MIGA participate in a Staff Retirement Plan (SRP), a Retired Staff Benefits Plan and Trust (RSBP) and a Post-Employment Benefits Plan (PEBP) that cover substantially all of their staff members.

All costs, assets and liabilities associated with these plans are allocated between IBRD, IFC and MIGA based upon their employees’ respective participation in the plans. Costs allocated to IBRD are then shared between IBRD and IDA based on an agreed cost-sharing ratio.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the three and nine months ended March 31, 2020 and 2019 (US$ millions). For the three and nine months ended March 31, 2020 and 2019, the service cost of $67 million and $202 million ($59 million and $178 million) are included in “Administrative expenses” respectively. The components of net periodic pension cost, other than the service cost component, are included in “Other” in the condensed consolidated statement of operations.

| | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | 2019 | | | |
| | SRP | RSBP | PEBP | Total | SRP | RSBP | PEBP | Total |
| **Benefit cost** | | | | | | | | |
| Service cost | $ 47 | $ 11 | $ 9 | $ 67 | $ 41 | $ 9 | $ 9 | $ 59 |
| Other components: | | | | | | | | |
| Interest cost | 41 | 7 | 6 | 54 | 43 | 7 | 6 | 56 |
| Expected return on plan assets | (53) | (10) | — | (63) | (53) | (9) | — | (62) |
| Amortization of unrecognized prior service cost | 1 | 1 | — | 2 | —* | 1 | —* | 1 |
| Amortization of unrecognized net actuarial losses | 4 | — | 8 | 12 | 1 | — | 6 | 7 |
| Subtotal | (7) | (2) | 14 | 5 | (9) | (1) | 12 | 2 |
| **Net periodic pension cost** | **$ 40** | **$ 9** | **$ 23** | **$ 72** | **$ 32** | **$ 8** | **$ 21** | **$ 61** |

* Less than $0.5 million

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE O - PENSION AND OTHER POSTRETIREMENT BENEFITS** (continued)

| | Nine months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | 2019 | | | |
| | SRP | RSBP | PEBP | Total | SRP | RSBP | PEBP | Total |
| **Benefit cost** | | | | | | | | |
| Service cost | $ 142 | $ 32 | $ 28 | $ 202 | $ 125 | $ 27 | $ 26 | $ 178 |
| Other components: | | | | | | | | |
| Interest cost | 123 | 20 | 19 | 162 | 127 | 20 | 18 | 165 |
| Expected return on plan assets | (160) | (29) | — | (189) | (158) | (27) | — | (185) |
| Amortization of unrecognized prior service cost | 1 | 2 | 1 | 4 | 1 | 2 | 1 | 4 |
| Amortization of unrecognized net actuarial losses | 15 | — | 22 | 37 | 4 | — | 17 | 21 |
| Sub total | (21) | (7) | 42 | 14 | (26) | (5) | 36 | 5 |
| **Net periodic pension cost** | **$ 121** | **$ 25** | **$ 70** | **$ 216** | **$ 99** | **$ 22** | **$ 62** | **$ 183** |

**NOTE P - OFFSETTING OF DERIVATIVES, RESALE, REPURCHASE AND SECURITIES LENDING AGREEMENTS AND COLLATERAL**

IFC does not present derivative assets and liabilities or amounts due or owed under resale, repurchase and securities lending transactions related to contracts entered into with the same counterparty under a legally enforceable netting agreement on a net basis on its condensed consolidated balance sheet. The following table provides the gross and net positions of IFC's derivative contracts, resale, repurchase and securities lending agreements considering amounts and collateral held or pledged in accordance with enforceable counterparty credit support and netting agreements described below (US$ millions). The gross and net positions include derivative assets of $742 million and derivative liabilities of $85 million as of March 31, 2020, related to derivative contracts that are not subject to counterparty credit support or netting agreements. Collateral amounts are included only to the extent of the related net derivative fair values or net resale, repurchase and securities lending agreements amounts.

| | March 31, 2020 | | | |
|---|---|---|---|---|
| Assets | Gross amount of assets presented in the condensed consolidated balance sheet | Gross amounts not offset in the condensed consolidated balance sheet | | Net amount |
| | | Financial instruments | Collateral received | |
| Derivative assets | $ 4,822* | $ 3,020 | $ 471*** | $ 1,331 |
| Resale agreements | 95 | 95 | — | — |
| **Total assets** | **$ 4,917** | **$ 3,115** | **$ 471** | **$ 1,331** |

| | March 31, 2020 | | | |
|---|---|---|---|---|
| Liabilities | Gross amount of liabilities presented in the condensed consolidated balance sheet | Gross amounts not offset in the condensed consolidated balance sheet | | Net amount |
| | | Financial instruments | Cash Collateral pledged | |
| Derivative liabilities | $ 6,141** | $ 3,020 | $ 2,412 | $ 709 |
| Repurchase and securities lending agreements | 7,918 | 7,918 | — | — |
| **Total liabilities** | **$ 14,059** | **$ 10,938** | **$ 2,412** | **$ 709** |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE P - OFFSETTING OF DERIVATIVES, RESALE, REPURCHASE AND SECURITIES LENDING AGREEMENTS AND COLLATERAL** (continued)

| June 30, 2019 | | | | |
|---|---|---|---|---|
| Assets | Gross amount of assets presented in the condensed consolidated balance sheet | Gross amounts not offset in the condensed consolidated balance sheet | | Net amount |
| | | Financial instruments | Collateral received | |
| Derivative assets | $ 3,560* | $ 2,120 | $ 291*** | $ 1,149 |
| Resale agreements | 124 | — | — | 124 |
| **Total assets** | **$ 3,684** | **$ 2,120** | **$ 291** | **$ 1,273** |

| June 30, 2019 | | | | |
|---|---|---|---|---|
| Liabilities | Gross amount of liabilities presented in the condensed consolidated balance sheet | Gross amounts not offset in the consolidated balance sheet | | Net amount |
| | | Financial instruments | Cash Collateral pledged | |
| Derivative liabilities | $ 4,479** | $ 2,100 | $ 1,635 | $ 744 |
| Repurchase and securities lending agreements | 8,151 | 8,151 | — | — |
| **Total liabilities** | **$ 12,630** | **$ 10,251** | **$ 1,635** | **$ 744** |

* Includes accrued income of $565 million and $704 million as of March 31, 2020 and June 30, 2019 respectively.
** Includes accrued charges of $457 million and $515 million as of March 31, 2020 and June 30, 2019 respectively.
*** Includes cash collateral of $456 million and $143 million as of March 31, 2020 and June 30, 2019 respectively. The remaining amounts of collateral received consist of off-balance-sheet US Treasury securities reported in the above table at fair value.

IFC's derivative contracts with market counterparties are entered into under standardized master agreements published by the International Swaps and Derivatives Association ("ISDA" Agreements). ISDA Agreements provide for a single lump sum settlement amount upon the early termination of transactions following a default or termination event whereby amounts payable by the non-defaulting party to the other party may be applied to reduce any amounts that the other party owes the non-defaulting party. This setoff effectively reduces any amount payable by the non-defaulting party to the defaulting party.

IFC's ISDA Agreements are appended by a Credit Support Annex ("CSA") that provides for the receipt, and in some cases, posting, of collateral in the form of cash, U.S. Treasury securities or U.K. gilts to reduce mark-to market exposure among derivative market counterparties. IFC recognizes cash collateral received and a corresponding liability on its balance sheet for the obligation to return it. Securities received as collateral are not recognized on IFC's condensed consolidated balance sheet. As of March 31, 2020, $2,497 million of cash collateral was posted under CSAs ($1,734 million June 30, 2019). IFC recognizes a receivable on its balance sheet for its rights to cash collateral posted. In accordance with the CSAs, IFC may rehypothecate securities received as collateral, subject to the obligation to return such collateral and any related distributions received. In the event of a counterparty default, IFC may exercise certain rights and remedies, including the right to set off any amounts payable by the counterparty against any collateral held by IFC and the right to liquidate any collateral held. As of March 31, 2020, IFC had $534 million ($178 million at June 30, 2019) of outstanding obligations to return cash collateral under CSAs. The estimated fair value of all securities received and held as collateral under CSAs as of March 31, 2020, all of which may be rehypothecated was $25 million ($162 million - June 30, 2019). As of March 31, 2020, $0 of such collateral was rehypothecated under securities lending agreements ($0 - June 30, 2019).

Collateral posted by IFC in connection with repurchase agreements approximates the amounts classified as Securities sold under repurchase agreements. At March 31, 2020, no trading securities were pledged in connection with borrowings under a short-term discount note program, the carrying amount of which was $3,658 million ($2,207 million - June 30, 2019) (at June 30, 2019, trading securities with a carrying amount (fair value) of $197 million were pledged to secure this program).

Under certain CSA's IFC is not required to pledge collateral unless its credit rating is downgraded from its current AAA/Aaa. The aggregate fair value of derivatives containing such a credit risk-linked contingent feature in a net liability position was $46 million at March 31, 2020 ($71 million at June 30, 2019). At March 31, 2020, IFC had no collateral posted under these agreements. If IFC's credit rating were to be downgraded from its current AAA/Aaa to AA+/Aa1 or below, then collateral in the amount of $0 would be required to be posted against net liability positions with counterparties at March 31, 2020 ($0 at June 30, 2019).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE P - OFFSETTING OF DERIVATIVES, RESALE, REPURCHASE AND SECURITIES LENDING AGREEMENTS AND COLLATERAL** (continued)

IFC's resale, repurchase and securities lending transactions are entered into with counterparties under industry standard master netting agreements which generally provide the right to offset amounts owed one another with respect to multiple transactions under such master netting agreement and liquidate the purchased or borrowed securities in the event of counterparty default. The estimated fair value of all securities received and held as collateral under these master netting agreements as of March 31, 2020, was $95 ($124 million - June 30, 2019).

The following table presents an analysis of IFC's repurchase and securities lending transactions by (1) class of collateral pledged and (2) their remaining contractual maturity as of March 31, 2020 and June 30, 2019 (US$ millions):

| | Remaining Contractual Maturity of the Agreements - March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous | Up to 30 days | 30-90 days | Greater than 90 days | Total |
| **Repurchase agreements** | | | | | |
| U.S. Treasury securities | $ — | $ 7,839 | $ 95 | $ — | $ 7,934 |
| Agency securities | — | — | — | — | — |
| Municipal securities and other | — | — | — | — | — |
| **Total Repurchase agreements** | **—** | **7,839** | **95** | **—** | **7,934** |
| **Securities lending transactions** | | | | | |
| U.S. Treasury securities | $ — | $ — | $ — | $ — | $ — |
| **Total Securities lending transactions** | **—** | **—** | **—** | **—** | **—** |
| **Total Repurchase agreements and Securities lending transactions** | **$ —** | **$ 7,839** | **$ 95** | **$ —** | **$ 7,934*** |

As of March 31, 2020, IFC has no repurchase-to-maturity transactions outstanding.

* Includes accrued interest.

| | Remaining Contractual Maturity of the Agreements - June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous | Up to 30 days | 30-90 days | Greater than 90 days | Total |
| **Repurchase agreements** | | | | | |
| U.S. Treasury securities | $ — | $ 6,263 | $ 1,913 | $ — | $ 8,176 |
| Agency securities | — | — | — | — | — |
| Municipal securities and other | — | — | — | — | — |
| **Total Repurchase agreements** | **—** | **6,263** | **1,913** | **—** | **8,176** |
| **Securities lending transactions** | | | | | |
| U.S. Treasury securities | $ — | $ — | $ — | $ — | $ — |
| **Total Securities lending transactions** | **—** | **—** | **—** | **—** | **—** |
| **Total Repurchase agreements and Securities lending transactions** | **$ —** | **$ 6,263** | **$ 1,913** | **$ —** | **$ 8,176*** |

As of June 30, 2019, IFC has no repurchase-to-maturity transactions outstanding.

* Includes accrued interest.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## NOTE Q - RELATED PARTY TRANSACTIONS

IFC transacts with related parties including by providing grants to IDA (see Note H - Retained Earnings Designation and Related Expenditures and Accumulated Other Comprehensive Income), receiving loans, participating in shared service arrangements, as well as through cost sharing of IBRD's sponsored pension and other postretirement plans.

IFC's receivables from (payables to) its related parties are presented in the following table (US$ millions):

| | March 31, 2020 | | | June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | IBRD | IDA | Total | IBRD | IDA | Total |
| Services and Support Payables | $ (28) | $ — | $ (28) | $ (67) | $ — | $ (67) |
| PSW Facility | — | — | — | — | —* | —* |
| Borrowings | — | (615) | (615) | — | (717) | (717) |
| Pension and Other Postretirement Benefits | 390 | — | 390 | 414 | — | 414 |
| Share of Investments** | 134 | — | 134 | 114 | — | 114 |
| | **$ 496** | **$ (615)** | **$ (119)** | **$ 461** | **$ (717)** | **$ (256)** |

* Less than $0.5 million.

** Represents receivable from IBRD for IFC's share of investments associated with Post-Retirement Contribution Reserve Fund (PCRF), which is a fund established to stabilize contributions made to the pension plans.

The receivables from (payables to) these related parties are reported in the Balance Sheet as follows:

| **Receivables / Payables related to:** | **Reported as:** |
|---|---|
| Receivable for pension and other postretirement benefits, and shares of investments | Receivables and other assets |
| Payable for services and support | Payables and other liabilities |

### Services and Support Payments

IFC obtains certain administrative and overhead services from IBRD in those areas where common services can be efficiently provided by IBRD. This includes shared costs of the Boards of Governors and Directors, and other services such as communications, internal auditing, administrative support, supplies, and insurance. IFC makes payments for these services to IBRD based on negotiated fees, chargebacks and allocated charges, where chargeback is not feasible. Expenses allocated to IFC for the three and nine months ended March 31, 2020, were $36 million and $98 million ($30 million and $92 million- for the three and nine months ended March 31, 2019). Other chargebacks include $5 million and $14 million for the three and nine months ended March 31, 2020 ($4 million and $13 million - for the three and nine months ended March 31, 2019).

### IDA Private Sector Window (IDA-PSW)

As part of the IDA 18 Replenishment, a $2.5 billion IDA-PSW has been created to mobilize private sector investment in IDA-only and IDA-eligible fragile and conflict-affected states. Under the fee arrangement for the IDA-PSW, IDA will receive a fee for transactions executed under this window and will reimburse IFC and MIGA for the related costs incurred in administering transactions below.

### IDA-PSW transactions (in US$ millions)

| Facility | USD Notional | Net Asset/(Liability) position | Description | Balance Sheet Location |
|---|---|---|---|---|
| Local currency | 59 | 6 | Currency swaps with IDA to support local currency denominated loans | Derivative assets/ liabilities |

| Facility | Commitments | Net Asset/(Liability) position | Description | Balance Sheet Location |
|---|---|---|---|---|
| Blended Finance | 39 | (6) | Funding for IFC's IDA-PSW equity investments | Payables and other liabilities |
| Blended Finance | 120* | — | Guarantee from IDA that shares the first loss to support IFC's Small Loan Guarantee Program in IDA-PSW eligible countries | Off-balance sheet item |

* Includes $70 million that has been approved but not committed as of March 31, 2020.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**NOTE Q - RELATED PARTY TRANSACTIONS** (continued)

**Borrowings**

During the quarter ended September 30, 2014, IFC issued an amortizing, non-interest bearing promissory note, maturing September 15, 2039, to IDA (the Note) in exchange for $1,179 million. The Note requires payments totaling $1,318 million, resulting in an effective interest rate of 1.84%. With IFC's consent, IDA may redeem the Note after September 2, 2019, upon an adverse change in its financial condition or outlook. The amount due to IDA upon such redemption is equal to the present value of the all unpaid amounts discounted at the effective interest rate. IDA may transfer the Note; however, its redemption right is not transferrable. IFC has elected the Fair Value Option for the Note.

IFC has investments where IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence, and equity interests in private equity funds. However, IFC's transactions with its investment affiliates are limited to IFC's equity and debt investments and disclosed in other footnotes.

**Pension and Other Postretirement Benefits**

The receivable from IBRD represents IFC's net share of prepaid costs for pension and other postretirement benefit plans and Post-Employment Benefits Plan (PEBP) assets. These will be realized over the lives of the plan participants.

**NOTE R - SUBSEQUENT EVENTS**

Following the Spring Meetings in April 2018, a financing package was endorsed by the Board of Governors that included a three-step capital raising process: conversion of a portion of retained earnings into paid-in capital, a Selective Capital Increase (SCI) and a General Capital Increase (GCI) that would provide up to $5.5 billion in additional paid-in capital. The GCI and SCI Resolutions were adopted and became effective on April 16, 2020 and the subscription process was formally launched on April 22, 2020. Accordingly, the increase in authorized capital and the conversion of a portion of retained earnings to paid-in capital will be reflected in FY20 Q4.

The fair value of IFC's listed equity investments is based on market prices of such investments as of March 31, 2020. Changes in market prices subsequent to March 31, 2020 will be reported in the period in which such change occurs.

**NOTE S - CONTINGENCIES**

In the normal course of its business, IFC is from time to time named as a defendant or co-defendant in various legal actions on different grounds in various jurisdictions. Although there can be no assurances, based on the information currently available, IFC's Management does not believe the outcome of any of the various existing legal actions will have a material adverse effect on IFC's financial position, results of operations or cash flows.

Deloitte.

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# INDEPENDENT AUDITORS' REVIEW REPORT

President and Board of Directors
International Finance Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of the International Finance Corporation and its subsidiaries ("IFC") as of March 31, 2020, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended March 31, 2020 and 2019, and of changes in capital and cash flows for the nine-month periods ended March 31, 2020 and 2019 (the "interim financial information").

***Management's Responsibility for the Interim Financial Information***

IFC's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

***Auditors' Responsibility***

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

***Conclusion***

Based on our reviews, we are not aware of any material modifications that should be made to the interim financial information referred to above for it to be in accordance with accounting principles generally accepted in the United States of America.

***Report on Condensed Consolidated Balance Sheet as of June 30, 2019***

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of IFC as of June 30, 2019, and the related consolidated statements of operations, comprehensive income (loss), changes in capital, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated August 8, 2019. In our opinion, the accompanying condensed consolidated balance sheet of IFC as of June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

May 14, 2020