

Financial Performance Summary

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

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, 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. Performance of the equity portfolio (principally realized capital gains, dividends, equity impairments, gains on non-monetary exchanges and unrealized gains and losses on equity investments).
Provisions for losses on loans and guarantees	Risk assessment of borrowers and probability of default and loss given default.
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 budgets.
Gains and losses on other non-trading financial instruments accounted for at fair value	Principally, differences between changes in fair values of borrowings, including IFC's credit spread, 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 are 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 (LOSS)	
Unrealized gains and losses on listed equity investments and debt securities accounted for as available-for-sale	Global climate for emerging markets equities, fluctuations in currency and commodity markets and company-specific performance. Such equity investments are valued using unadjusted quoted market prices and debt securities are valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
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.

Global equity markets in emerging economies were volatile in the years ended June 30, 2016 (FY16) and June 30, 2015 (FY15). Additionally, there was further depreciation of certain of IFC's major investment currencies against IFC's reporting currency, the US\$, particularly in the Latin America and Caribbean region in the first six months of FY16, continuing the trend experienced throughout much of FY15. The second half of FY16 saw a partial reversal of the recent trend as certain of IFC's major investment currencies appreciated against the US\$. FY16 also saw a continuation of lower commodities prices. Collectively, these factors negatively impacted the valuation of many of IFC's investments in FY16.

The above factors, together with some adverse project-specific developments, have put downward pressure on IFC's investment portfolio returns in FY16, resulting in continuing high other-than-temporary impairments on equity investments and debt securities, albeit marginally lower than in FY15, along with higher provisions for losses on loans when compared to FY15. Partially offsetting these negative impacts on the investment portfolio, IFC

realized robust capital gains on equity investment sales, the largest of which occurred in the three months ended September 30, 2015 (FY16 Q1). Realized gains were concentrated in FY16, with six investments accounting for 56 percent of the realized gains.

Capital markets were particularly turbulent in FY16 Q4 with credit spreads widening significantly. By the end of FY16, however, markets had largely recovered and IFC ultimately recorded stronger liquid asset income in the second half of FY16 than in the first half of FY16, although gross income from liquid assets in FY16 remained lower than in FY15.

IFC has reported income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of \$500 million in FY16, \$355 million lower than FY15 (\$855 million) and \$1,282 million lower than FY14 (\$1,782 million).

Income Available for Designations (a non-GAAP measure)¹ was \$770 million, 42 percent lower than in FY15 (\$1,327 million) and 52 percent lower than in FY14 (\$1,614 million).

¹ Income available for designations generally comprises net income excluding unrealized gains and losses on investments and unrealized gains and losses on other non-trading financial instruments, income from consolidated VIEs, and expenses reported in net income related to prior year designations.

RECONCILIATION OF REPORTED NET INCOME TO INCOME AVAILABLE FOR DESIGNATIONS

	FY16	FY15	FY14
Net (loss) income attributable to IFC	\$ (33)	\$ 445	\$ 1,483
Add: Net losses (gains) attributable to non-controlling interests	(1)	(36)	5
Net (loss) income	\$ (34)	\$ 409	\$ 1,488
Adjustments to reconcile net income to Income Available for Designations			
Grants to IDA from prior year designations	330	340	251
Unrealized gains and losses on investments	470	456	(287)
Unrealized gains and losses on borrowings	(62)	52	74
Advisory Services Expenses from prior year designations	57	59	79
Other	9	11	9
Income Available for Designations	\$ 770	\$ 1,327	\$ 1,614

Based on the distribution policy approved by IFC's Board of Directors, the maximum amount available for designation relating to FY16 would be \$161 million. On August 4, 2016, the Board of Directors approved a designation of \$101 million of IFC's retained earnings for grants to IDA

and a designation of \$60 million of IFC's retained earnings for Advisory Services. These designations are expected to be noted with approval by the Board of Governors, and thereby concluded, in FY17.

CHANGE IN INCOME BEFORE NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS ACCOUNTED FOR AT FAIR VALUE, GRANTS TO IDA AND NET GAINS AND LOSSES ATTRIBUTABLE TO NON-CONTROLLING INTERESTS FY16 VS FY15 (US\$ MILLIONS)

	INCREASE (DECREASE) FY16 VS FY15
Higher provisions for losses on loans, guarantees and other receivables	\$ (188)
Higher charges on borrowings	(151)
Higher foreign currency transaction losses on non-trading activities	(99)
Lower realized gains on equity investments and associated derivatives, net	(71)
Higher other-than-temporary impairments on equity investments and debt securities	(24)
Lower unrealized losses on equity investments and associated derivatives, net	198
Other, net	(20)
Change in income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value, grants to IDA and net gains and losses attributable to non-controlling interests	\$(355)

IFC's net (loss) income for each of the past five fiscal years ended June 30 is presented below (US\$ millions):

IFC'S NET (LOSS) INCOME (US\$ MILLIONS)

FISCAL YEAR ENDED JUNE 30	
2012	1,328
2013	1,018
2014	1,483
2015	445
2016	(33)

SELECTED FINANCIAL DATA AS OF AND FOR THE LAST FIVE FISCAL YEARS (US\$ MILLIONS)

AS OF AND FOR THE YEARS ENDED JUNE 30	2016	2015	2014	2013	2012
CONSOLIDATED INCOME HIGHLIGHTS					
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 1,126	\$ 1,123	\$ 1,065	\$ 996	\$ 993
Provision for losses on loans, guarantees and other receivables	(359)	(171)	(88)	(243)	(117)
Income from equity investments and associated derivatives	518	427	1,289	732	1,548
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	129	132	89	69	71
Income from liquid asset trading activities	504	467	599	500	313
Charges on borrowings	(409)	(258)	(196)	(220)	(181)
Other income	501	505	461	441	448
Other expenses	(1,464)	(1,423)	(1,418)	(1,401)	(1,207)
Foreign currency transaction gains and losses on non-trading activities	(46)	53	(19)	35	145
Income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	500	855	1,782	909	2,013
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	(204)	(106)	(43)	441	(355)
Income before grants to IDA	296	749	1,739	1,350	1,658
Grants to IDA	(330)	(340)	(251)	(340)	(330)
Net (loss) income	(34)	409	1,488	1,010	1,328
Less: Net losses (gains) attributable to non-controlling interests	1	36	(5)	8	-
Net (loss) income attributable to IFC	\$ (33)	\$ 445	\$ 1,483	\$ 1,018	\$ 1,328

AS OF AND FOR THE YEARS ENDED JUNE 30	2016	2015	2014	2013	2012
CONSOLIDATED BALANCE SHEET HIGHLIGHTS					
Total assets	\$90,434	\$87,548	\$ 84,130	\$ 77,525	\$ 75,761
Liquid assets, net of associated derivatives	41,373	39,475	33,738	31,237	29,721
Investments	37,356	37,578	38,176	34,677	31,438
Borrowings outstanding, including fair value adjustments	55,142	51,265	49,481	44,869	44,665
TOTAL CAPITAL	\$22,766	\$24,426	\$23,990	\$22,275	\$20,580
of which					
Undesignated retained earnings	\$20,475	\$20,457	\$20,002	\$ 18,435	\$ 17,373
Designated retained earnings	133	184	194	278	322
Capital stock	2,566	2,566	2,502	2,403	2,372
Accumulated other comprehensive (loss) income (AOCI)	(431)	1,197	1,239	1,121	513
Non-controlling interests	23	22	53	38	-
KEY FINANCIAL RATIOS					
Financial ratios:^a					
Return on average assets (GAAP basis) ^b	0.0%	0.5%	1.8%	1.3%	1.8%
Return on average assets (non-GAAP basis) ^c	0.5%	1.3%	1.8%	0.9%	2.8%
Return on average capital (GAAP basis) ^d	(0.1)%	1.8%	6.4%	4.8%	6.5%
Return on average capital (non-GAAP basis) ^e	1.8%	4.6%	6.5%	3.1%	9.9%
Overall liquidity ratio ^f	85%	81%	78%	77%	77%
External funding liquidity level	504%	494%	359%	309%	327%
Debt to equity ratio ^g	2.8:1	2.6:1	2.7:1	2.6:1	2.7:1
Total reserves against losses on loans to total disbursed portfolio ^h	7.4%	7.5%	6.9%	7.2%	6.6%
Capital measures:					
Total Resources Required (\$ billions) ⁱ	19.2	19.2	18.0	16.8	15.5
Total Resources Available (\$ billions) ^j	22.5	22.6	21.6	20.5	19.2
Strategic Capital ^k	3.3	3.4	3.6	3.8	3.7
Deployable Strategic Capital ^l	1.0	1.1	1.4	1.7	1.8
Deployable Strategic Capital as a percentage of Total Resources Available	4%	5%	7%	8%	9%

a. Certain financial ratios, as described below, are calculated excluding the effects of unrealized gains and losses on investments, other non-trading financial instruments, AOCI, and impacts from consolidated Variable Interest Entities (VIEs).

b. Net income for the fiscal year as a percentage of the average of total assets at the end of such fiscal year and the previous fiscal year.

c. Return on average assets is defined as Net income, excluding unrealized gains/losses on investments accounted for at fair value, income from consolidated VIEs and net gains/losses on non-trading financial investments, as a percentage of total disbursed loan and equity investments (net of reserves), liquid assets net of repos, and other assets averaged for the current and previous fiscal year.

d. Net income for the fiscal year as a percentage of the average of total capital (excluding payments on account of pending subscriptions) at the end of such fiscal year and the previous fiscal year.

e. Return on average capital is defined as Net income, excluding unrealized gains/losses on investments accounted for at fair value, income from consolidated VIEs and net gains/losses on non-trading financial investments, as a percentage of the paid-in share capital and accumulated earnings (before certain unrealized gains/losses and excluding cumulative designations not yet expensed) averaged for the current and previous fiscal year.

f. Overall Liquidity Policy states that IFC would at all times maintain a minimum level of liquidity, plus undrawn borrowing commitments from the IBRD, that would cover at least 45% of the next three years' estimated net cash requirements (target range of 65-95%).

g. Leverage (Debt/equity) ratio is defined as the number of times outstanding borrowings plus outstanding guarantees cover paid-in capital and accumulated earnings (net of retained earnings designations and certain unrealized gains/losses).

h. Total reserves against losses on loans to total disbursed loan portfolio is defined as reserve against losses on loans as a percentage of the total disbursed.

i. Total resources required (TRR) is the minimum capital required to cover the expected and unexpected loss on IFC's portfolio, calibrated to maintain IFC's triple-A rating. TRR is the sum of the economic capital requirements for IFC's different assets, and it is determined by the absolute size of the committed portfolio, the product mix (equity, loans, short-term finance, and Treasury portfolio assets), and by operational and other risks.

j. Total resources available (TRA) is the total capital of the Corporation, consisting of (i) paid-in capital; (ii) retained earnings net of designations and some unrealized gains and losses; and (iii) total loan loss reserves. TRA grows based on retained earnings (profit minus distributions) and increases in reserves.

k. Total resources available less total resources required.

l. 90% of total resources available less total resources required.

COMMITMENTS

In FY16, the Long-Term Finance program was \$11,117 million, as compared to \$10,539 million in FY15 and Core Mobilization was \$7,739 million, as compared to \$7,133 million for FY15, a total increase of 7 percent, reflecting the more favorable investing climate in FY16.

In addition, the average outstanding balance for Short-Term Finance was \$2,807 million at June 30, 2016, as compared to \$2,837 million at June 30, 2015.

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 finances only a portion, usually not more than 25 percent, of the cost of any project. All IFC-financed projects, therefore, require other financial partners. IFC mobilizes such private sector finance from other entities through a number of means, as outlined in the table below.

FY16 AND FY15 LONG-TERM FINANCE AND CORE MOBILIZATION (US\$ MILLIONS)

	FY16	FY15
TOTAL LONG-TERM FINANCE AND CORE MOBILIZATION	\$18,856	\$17,672
LONG-TERM FINANCE		
Loans	\$ 8,097	\$ 7,019
Equity investments	2,595	3,187
Guarantees	378	273
Client risk management	47	60
TOTAL LONG-TERM FINANCE	\$ 11,117	\$10,539
CORE MOBILIZATION		
Loan participations, parallel loans, and other mobilization		
Loan participations	\$ 3,670	\$ 1,853
Parallel loans	1,205	1,522
Managed Co-lending Portfolio Program	541	818
Other Mobilization	554	881
TOTAL LOAN PARTICIPATIONS, PARALLEL LOANS AND OTHER MOBILIZATION	\$ 5,970	\$ 5,074
AMC (SEE DEFINITIONS IN TABLE 8, MANAGEMENT'S DISCUSSION AND ANALYSIS)		
China-Mexico Fund	\$ 140	\$ -
GEM Funds	87	-
FIG Fund	82	-
Catalyst Funds	66	66
ALAC Fund	43	86
Africa Capitalization Fund	28	-
WED Fund	20	-
MENA Fund	8	-
Global Infrastructure Fund (GIF)	2	226
GIF Co-Investments	-	230
Sub-debt Capitalization Fund	-	150
Equity Capitalization Fund	-	3
TOTAL AMC	\$ 476	\$ 761
OTHER INITIATIVES		
Public-Private Partnership	\$ 793	\$ 548
Global Trade Liquidity Program and Critical Commodities Finance Program	500	750
TOTAL OTHER INITIATIVES	\$ 1,293	\$ 1,298
TOTAL CORE MOBILIZATION	\$ 7,739	\$ 7,133

**ACTIVITIES OF THE FUNDS MANAGED BY AMC FY16 VS FY15
(US\$ MILLIONS UNLESS OTHERWISE INDICATED)**

	AS OF JUNE 30, 2016			FOR THE YEAR ENDED JUNE 30, 2016			
	TOTAL ASSETS UNDER MANAGEMENT			DISBURSEMENTS			
	TOTAL	FROM IFC	FROM OTHER INVESTORS	TO FUND FROM IFC	TO FUND FROM OTHER INVESTORS	MADE BY FUND	MADE BY FUND (NUMBER)*
Equity Capitalization Fund	\$ 1,275	\$ 775	\$ 500	\$ 2	\$ 1	\$ -	-
Sub-Debt Capitalization Fund	1,725	225	1,500	-	2	-	-
ALAC Fund	1,000	200	800	19	80	81	8
Africa Capitalization Fund	182	-	182	-	56	29	2
Russian Bank Cap Fund	550	250	300	2	2	-	-
Catalyst Funds	418	75	343	9	38	48	96
Global Infrastructure Fund**	1,430	200	1,230	24	104	102	5
China-Mexico Fund	1,200	-	1,200	-	13	4	1
FIG Fund	464	150	314	45	63	96	3
GEM Funds	406	81	325	7	26	25	16
MENA Fund	162	60	102	6	11	12	1
WED Fund	90	30	60	9	17	10	1
Total	\$8,902	\$2,046	\$6,856	\$123	\$413	\$407	133

* Number of disbursements may include multiple disbursements to a single investee company or fund.

** Includes co-investment fund managed by AMC on behalf of Fund LPs.

	AS OF JUNE 30, 2015			FOR THE YEAR ENDED JUNE 30, 2015			
	TOTAL ASSETS UNDER MANAGEMENT			DISBURSEMENTS			
	TOTAL	FROM IFC	FROM OTHER INVESTORS	TO FUND FROM IFC	TO FUND FROM OTHER INVESTORS	MADE BY FUND	MADE BY FUND (NUMBER)*
Equity Capitalization Fund	\$ 1,275	\$ 775	\$ 500	\$ 6	\$ 4	\$ 8	1
Sub-Debt Capitalization Fund	1,725	225	1,500	29	196	254	4
ALAC Fund	1,000	200	800	29	112	94	7
Africa Capitalization Fund	182	-	182	-	3	-	-
Russian Bank Cap Fund	550	250	300	5	5	-	-
Catalyst Funds	418	75	343	9	41	36	46
Global Infrastructure Fund**	1,430	200	1,230	27	298	293	7
China-Mexico Fund	1,200	-	1,200	-	6	-	-
FIG Fund	344	150	194	-	-	-	-
GEM Funds	406	81	325	-	-	-	-
MENA Fund	-	-	-	-	-	-	-
WED Fund	-	-	-	-	-	-	-
Total	\$8,530	\$1,956	\$6,574	\$105	\$665	\$685	65

* Number of disbursements may include multiple disbursements to a single investee company or fund.

** Includes co-investment fund managed by AMC on behalf of Fund LPs.



Letter to the Board of Governors

The Board of Directors of IFC has had this annual report prepared in accordance with the Corporation's bylaws. Jim Yong Kim, President of IFC and Chairman of the Board of Directors, has submitted this report with the audited financial statements to the Board of Governors. The Directors are pleased to report that, for the fiscal year ended June 30, 2016, IFC expanded its sustainable development impact through private sector investments and advice.