

EXPERIENCE MATTERS

# FINANCIALS 2016



# Table of Contents

---

*–p. 2*

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

- 3 Executive Summary
- 7 Client Services
- 15 Liquid Assets
- 15 Funding Resources
- 18 Risk Management
- 26 Critical Accounting Policies
- 28 Results of Operations
- 38 Governance and Control

*–p. 41*

## **CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROL REPORTS**

- 42 Management’s Report Regarding Effectiveness of Internal Control  
over External Financial Reporting
- 44 Independent Auditors’ Report on Management’s Assertion  
Regarding Effectiveness of Internal Control over External  
Financial Reporting
- 45 Consolidated Balance Sheets
- 46 Consolidated Statements of Operations
- 47 Consolidated Statements of Comprehensive Income (Loss)
- 48 Consolidated Statements of Changes in Capital
- 50 Consolidated Statements of Cash Flows
- 52 Consolidated Statement of Capital Stock and Voting Power
- 53 Notes to Consolidated Financial Statements
- 110 Independent Auditors’ Report

*–p. 112*

## **INVESTMENT PORTFOLIO—CUMULATIVE GROSS COMMITMENTS BY REGION**

# Management's Discussion and Analysis

---

# Executive Summary

International Finance Corporation (IFC or the Corporation) is the largest global development institution focused on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines its policies. IFC is a member of the World Bank Group (WBG)<sup>1</sup> 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.

The mission of the WBG is defined by two goals:

- To end extreme poverty by reducing the percentage of people living on less than \$1.90 a day to no more than 3 percent globally by 2030; and
- To promote shared prosperity in a sustainable manner by fostering income growth for the bottom 40 percent of the population of every developing country.

In the year ended June 30, 2016 (FY16), WBG, together with the international community, agreed to support a more ambitious and broader development agenda, including the Sustainable Development Goals (SDGs), the climate change goals at the 21st Conference of Parties (COP21), and the Addis Ababa Action Agenda agreed at the Financing for Development (FFD) conference in Ethiopia.

IFC's overall strategy remains focused on contributing to the WBG strategy and goals.

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 and equity investments, with smaller debt securities and guarantee portfolios. 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, sales of loans, the non-IFC portion of structured finance transactions which meet core mobilization criteria, the non-IFC portion of commitments in IFC's initiatives, and the non-IFC investment portion of commitments in funds managed by IFC's wholly owned subsidiary, IFC Asset Management Company LLC (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 US dollars (\$) or US\$) or swapped into US dollars but it has a growing portion of debt issuances denominated in currencies other than USD and which are invested in such currencies. Overall, IFC seeks to minimize foreign exchange and interest rate risks arising from its loans 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.

## BASIS OF PREPARATION OF IFC'S 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 Section VI, Critical Accounting Policies, and in Note A to IFC's Consolidated Financial Statements as of and for the year ended June 30, 2016 (FY16 Consolidated Financial Statements).

Management uses income available for designations (Allocable Income) (a non-GAAP measure) as a basis for designations of retained earnings. Allocable Income generally comprises 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 AMC, and expenses reported in net income related to prior year designations.

<sup>1</sup> 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 Guaranty Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

FINANCIAL  
PERFORMANCE SUMMARY

From year to year, IFC's net income is affected by a number of factors that can result in volatile financial performance.

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's financial performance is detailed more fully in Section VII—Results of Operations.

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)<sup>2</sup> was \$770 million, 42 percent lower than in FY15 (\$1,327 million) and 52 percent lower than in FY14 (\$1,614 million).

<sup>2</sup> 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.

**TABLE 1: RECONCILIATION OF REPORTED NET INCOME TO INCOME AVAILABLE FOR DESIGNATIONS**

|  | FY16           | FY15           | FY14           |
|--|----------------|----------------|----------------|
| <b>Net (loss) income attributable to IFC</b>                             | <b>\$ (33)</b> | <b>\$ 445</b>  | <b>\$1,483</b> |
| Add: Net losses (gains) attributable to non-controlling interests        | (1)            | (36)           | 5              |
| <b>Net (loss) income</b>   | <b>\$ (34)</b> | <b>\$ 409</b>  | <b>\$1,488</b> |
| 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              |
| <b>Income Available for Designations</b>                                 | <b>\$770</b>   | <b>\$1,327</b> | <b>\$1,614</b> |

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.

**TABLE 2A: 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)<br>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)                                |
| <b>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</b> | <b>\$(355)</b>                      |

**TABLE 2B: 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 FY15 VS FY14 (US\$ MILLIONS)**

|   | INCREASE (DECREASE)<br>FY15 VS FY14 |
|---|-------------------------------------|
| Higher unrealized losses on equity investments and associated derivatives, net  | \$(658)                             |
| Higher other-than-temporary impairments on equity investments and debt securities   | (484)                               |
| Lower income from liquid asset trading activities   | (132)                               |
| Higher provisions for losses on loans, guarantees and other receivables   | (83)                                |
| Higher income from loans and guarantees, realized gains and losses on loans and associated derivatives  | 58                                  |
| Higher foreign currency transaction gains on non-trading activities   | 72                                  |
| Higher realized gains on equity investments and associated derivatives, net   | 275                                 |
| Other, net  | 25                                  |
| <b>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</b> | <b>\$(927)</b>                      |

**TABLE 3: 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     |
|--|-----------------|----------|----------|----------|----------|
| <b>Consolidated income highlights:</b>   |                 |          |          |          |          |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives                        | <b>\$ 1,126</b> | \$ 1,123 | \$ 1,065 | \$ 996   | \$ 993   |
| Provision for losses on loans, guarantees and other receivables  | <b>(359)</b>    | (171)    | (88)     | (243)    | (117)    |
| Income from equity investments and associated derivatives  | <b>518</b>      | 427      | 1,289    | 732      | 1,548    |
| Income from debt securities, including realized gains and losses on debt securities and associated derivatives                   | <b>129</b>      | 132      | 89       | 69       | 71       |
| Income from liquid asset trading activities  | <b>504</b>      | 467      | 599      | 500      | 313      |
| Charges on borrowings  | <b>(409)</b>    | (258)    | (196)    | (220)    | (181)    |
| Other income   | <b>501</b>      | 505      | 461      | 441      | 448      |
| Other expenses   | <b>(1,464)</b>  | (1,423)  | (1,418)  | (1,401)  | (1,207)  |
| Foreign currency transaction gains and losses on non-trading activities  | <b>(46)</b>     | 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 | <b>500</b>      | 855      | 1,782    | 909      | 2,013    |
| Net unrealized gains and losses on non-trading financial instruments accounted for at fair value                                 | <b>(204)</b>    | (106)    | (43)     | 441      | (355)    |
| Income before grants to IDA  | <b>296</b>      | 749      | 1,739    | 1,350    | 1,658    |
| Grants to IDA  | <b>(330)</b>    | (340)    | (251)    | (340)    | (330)    |
| <b>Net (loss) income</b>   | <b>(34)</b>     | 409      | 1,488    | 1,010    | 1,328    |
| Less: Net losses (gains) attributable to non-controlling interests   | <b>1</b>        | 36       | (5)      | 8        | -        |
| <b>Net (loss) income attributable to IFC</b>   | <b>\$ (33)</b>  | \$ 445   | \$ 1,483 | \$ 1,018 | \$ 1,328 |

| AS OF AND FOR THE YEARS ENDED JUNE 30                    | 2016             | 2015      | 2014      | 2013      | 2012      |
|--|------------------|-----------|-----------|-----------|-----------|
| <b>Consolidated balance sheet highlights:</b>            |                  |           |           |           |           |
| Total assets   | <b>\$90,434</b>  | \$ 87,548 | \$ 84,130 | \$ 77,525 | \$ 75,761 |
| Liquid assets, net of associated derivatives             | <b>41,373</b>    | 39,475    | 33,738    | 31,237    | 29,721    |
| Investments  | <b>37,356</b>    | 37,578    | 38,176    | 34,677    | 31,438    |
| Borrowings outstanding, including fair value adjustments | <b>55,142</b>    | 51,265    | 49,481    | 44,869    | 44,665    |
| <b>Total capital</b>                                     | <b>\$ 22,766</b> | \$ 24,426 | \$ 23,990 | \$ 22,275 | \$ 20,580 |
| of which   |                  |           |           |           |           |
| Undesignated retained earnings                           | <b>\$ 20,475</b> | \$ 20,457 | \$ 20,002 | \$ 18,435 | \$ 17,373 |
| Designated retained earnings                             | <b>133</b>       | 184       | 194       | 278       | 322       |
| Capital stock  | <b>2,566</b>     | 2,566     | 2,502     | 2,403     | 2,372     |
| Accumulated other comprehensive (loss) income (AOCI)     | <b>(431)</b>     | 1,197     | 1,239     | 1,121     | 513       |
| Non-controlling interests                                | <b>23</b>        | 22        | 53        | 38        | -         |

**TABLE 4: KEY FINANCIAL RATIOS**

|  | 2016          | 2015  | 2014  | 2013  | 2012  |
|--|---------------|-------|-------|-------|-------|
| <b>Financial ratios:<sup>a</sup></b>   |               |       |       |       |       |
| Return on average assets (GAAP basis) <sup>b</sup>                               | <b>0.0%</b>   | 0.5%  | 1.8%  | 1.3%  | 1.8%  |
| Return on average assets (non-GAAP basis) <sup>c</sup>                           | <b>0.5%</b>   | 1.3%  | 1.8%  | 0.9%  | 2.8%  |
| Return on average capital (GAAP basis) <sup>d</sup>                              | <b>(0.1)%</b> | 1.8%  | 6.4%  | 4.8%  | 6.5%  |
| Return on average capital (non-GAAP basis) <sup>e</sup>                          | <b>1.8%</b>   | 4.6%  | 6.5%  | 3.1%  | 9.9%  |
| Overall liquidity ratio <sup>f</sup>   | <b>85%</b>    | 81%   | 78%   | 77%   | 77%   |
| External funding liquidity level   | <b>504%</b>   | 494%  | 359%  | 309%  | 327%  |
| Debt to equity ratio <sup>g</sup>  | <b>2.8:1</b>  | 2.6:1 | 2.7:1 | 2.6:1 | 2.7:1 |
| Total reserves against losses on loans to total disbursed portfolio <sup>h</sup> | <b>7.4%</b>   | 7.5%  | 6.9%  | 7.2%  | 6.6%  |
| Capital measures:  |               |       |       |       |       |
| Total Resources Required (\$ billions) <sup>i</sup>                              | <b>19.2</b>   | 19.2  | 18.0  | 16.8  | 15.5  |
| Total Resources Available (\$ billions) <sup>j</sup>                             | <b>22.5</b>   | 22.6  | 21.6  | 20.5  | 19.2  |
| Strategic Capital <sup>k</sup>   | <b>3.3</b>    | 3.4   | 3.6   | 3.8   | 3.7   |
| Deployable Strategic Capital <sup>l</sup>  | <b>1.0</b>    | 1.1   | 1.4   | 1.7   | 1.8   |
| Deployable Strategic Capital as a percentage of Total Resources Available        | <b>4%</b>     | 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 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 percent of the next three years' estimated net cash requirements (target range of 65–95 percent).

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 percent of total resources available less total resources required.



# Client Services

## BUSINESS OVERVIEW

IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

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 World Bank Group'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 enterprise. 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 totally or partially privatized.

IFC provides a range of financial products and services to its clients to promote sustainable enterprises, encourage entrepreneurship, and mobilize resources that wouldn't otherwise be available. IFC's financing products are tailored to meet the needs of each project. Investment services product lines include: loans, equity investments, trade finance, loan participations, structured finance, client risk management services, and blended finance.

IFC's investment project cycle can be divided into the following stages:

- Business Development
- Concept Review
- Appraisal (Due Diligence)
- Investment Review
- Negotiations
- Public Disclosure
- Board of Directors Review and Approval
- Commitment
- Disbursement of funds

- Project Supervision and Development Outcome Tracking
- Evaluation
- Closing

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

## INVESTMENT PRODUCTS

**Loans**—IFC finances projects and companies through loans, typically for seven to twelve years. IFC also makes loans to intermediary banks, leasing companies, and other financial institutions for on-lending. IFC provides long-term local-currency solutions and helps companies access local capital markets through loans from IFC denominated in local currency, derivatives which allow clients to hedge existing or new foreign currency denominated liabilities back in to the client's local currency, and structured finance which enable clients to borrow in local currency from other sources. While IFC's loans have traditionally been dominated in the currencies of major industrial nations, IFC has made it a priority to structure local-currency products based on client demand and on IFC's ability to economically hedge loans in these currencies through the use of cross currency swaps or forward contracts.

Loans generally have the following characteristics:

- **Term**—typically amortizing with final maturities generally for seven to twelve years, although some loans have been made for tenors as long as 20 years
- **Currency**—primarily in major convertible currencies, principally US dollar, and to a lesser extent, Euro, but with a growing local-currency loan portfolio
- **Interest rate**—typically variable (or fixed and swapped into variable)
- **Pricing**—reflects such factors as market conditions and country and project risks

**Equity**—IFC's equity investments provide developmental support and long-term growth capital that private enterprises need. IFC invests directly in companies' equity, and also through private-equity funds. IFC generally invests between 5 and 20 percent of a company's equity. IFC's equity investments are typically in the form of common or preferred stock which is not mandatorily redeemable by the issuer or puttable to the issuer by IFC, and are usually denominated in the currency of the country in which the investment is made. IFC also uses put and call options, profit participation features, conversion features, warrants and other types of instruments in managing its equity investments.

**Debt Securities**—Investments typically in the form of bonds and notes issued in bearer or registered form, securitized debt obligations (e.g. asset-backed securities (ABS), mortgage-backed securities (MBS), and other collateralized debt obligations) and preferred shares that are mandatorily redeemable by the issuer or puttable to the issuer by IFC.



**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 US dollar terms.

**Client Risk Management Services**—IFC extends long-maturity risk management products to clients in developing countries. IFC provides derivative products to its clients to allow them to hedge their interest rate, currency, or commodity-price exposures. IFC intermediates between clients in developing countries and derivatives market makers to provide such clients with access to risk-management products to bridge the credit gap between its clients and the market.

**Loan Mobilization**—IFC promotes development by mobilizing financing for the private sector in its developing member countries. IFC mobilizes funds through loan participation programs, parallel loans and, beginning in FY14, a Managed Co-Lending Portfolio Program (MCPP).

*Loan Participations:* Through its “B Loan Program”, IFC offers commercial banks and other financial institutions the opportunity to lend to IFC-financed projects. These loans are a key part of IFC’s efforts to mobilize additional private sector financing in developing countries, thereby broadening the Corporation’s developmental impact. Through the B Loan Program, financial institutions share fully in the commercial credit risk of projects, while IFC remains the lender of record. When IFC participates a B Loan, it always maintains a portion for its own account (an A Loan). An A Loan Participation (ALP) is an exposure management tool which IFC uses to reduce its risk exposures to a client, country or sector. An ALP is created through the partial sale of an IFC A Loan to commercial banks or other financial institutions and is governed in much the same way as a B Loan. IFC remains the lender of record and an ALP participant shares all project risks with IFC.

*Parallel Loans:* IFC acts as an arranger (and can also act as an administrative agent) by using its existing mobilization platform, deal-structuring expertise and global presence to identify investments, perform due diligence, and negotiate loan documents in cooperation with parallel lenders.

*MCPP:* The MCPP allows institutional investors the opportunity to passively participate in IFC’s future loan portfolio. Investors provide capital on a portfolio basis, which can be deployed by IFC in individual investments in accordance with IFC’s strategy and processes. Through MCPP, IFC can expand its base of co-lending partners to include investors that do not have the capacity to invest on a “deal by deal” basis.

**Trade and Supply Chain Finance**—IFC’s Global Trade Finance Program (GTFP) guarantees trade-related payment obligations of approved financial institutions. Separately, the Global Trade Liquidity Program (GTLF) and Critical Commodities Finance Program (CCFP) provides liquidity for trade in developing countries. IFC has also commenced a number of other Trade and Supply Chain Finance-related programs, including Global Trade Supplier Finance (GTSF), Global Warehouse Finance Program, Working Capital and Systemic Solutions and Global Trade Structured Trade.

**Structured Finance**—IFC uses structured and securitized products to provide forms of financing that may not otherwise be available to clients to help clients diversify funding, extend maturities, and obtain financing in particular currencies. Products include partial credit guarantees, structured liquidity facilities, portfolio risk transfer, securitizations, and Islamic finance.

**Blended Finance**—IFC combines concessional funds, typically from donor partners, with IFC’s resources to finance certain projects.

## INVESTMENT PROGRAM

---

### 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 on the following page.

**TABLE 5: FY16 AND FY15 LONG-TERM FINANCE AND CORE MOBILIZATION (US\$ MILLIONS)**

|   | FY16             | FY15             |
|---|------------------|------------------|
| <b>Total Long-Term Finance and Core Mobilization<sup>3</sup></b>        | <b>\$18,856</b>  | <b>\$ 17,672</b> |
| <b>LONG-TERM FINANCE</b>  |                  |                  |
| Loans   | \$ 8,097         | \$ 7,019         |
| Equity investments  | 2,595            | 3,187            |
| Guarantees  | 378              | 273              |
| Client risk management  | 47               | 60               |
| <b>Total Long-Term Finance</b>  | <b>\$ 11,117</b> | <b>\$10,539</b>  |
| <b>CORE MOBILIZATION</b>  |                  |                  |
| <b>Loan participations, parallel loans, and other mobilization</b>      |                  |                  |
| Loan participations   | \$ 3,670         | \$ 1,853         |
| Parallel loans  | 1,205            | 1,522            |
| Managed Co-lending Portfolio Program                                    | 541              | 818              |
| Other Mobilization  | 554              | 881              |
| <b>Total loan participations, parallel loans and other mobilization</b> | <b>\$ 5,970</b>  | <b>\$ 5,074</b>  |
| <b>AMC (see definitions in Table 8)</b>                                 |                  |                  |
| 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                |
| <b>Total AMC</b>  | <b>\$ 476</b>    | <b>\$ 761</b>    |
| <b>Other initiatives</b>  |                  |                  |
| Public Private Partnership  | \$ 793           | \$ 548           |
| Global Trade Liquidity Program and Critical Commodities Finance Program | 500              | 750              |
| <b>Total other initiatives</b>  | <b>\$ 1,293</b>  | <b>\$ 1,298</b>  |
| <b>Total Core Mobilization</b>  | <b>\$ 7,739</b>  | <b>\$ 7,133</b>  |

<sup>3</sup> Debt security commitments are included in loans and equity investments based on their predominant characteristics.

**INVESTMENT DISBURSEMENTS**

IFC disbursed \$9,952 million for its own account in FY16 (\$9,258 million in FY15): \$7,248 million of loans (\$6,359 million in FY15), \$1,929 million of equity investments (\$2,299 million in FY15), and \$775 million of debt securities (\$600 million in FY15).

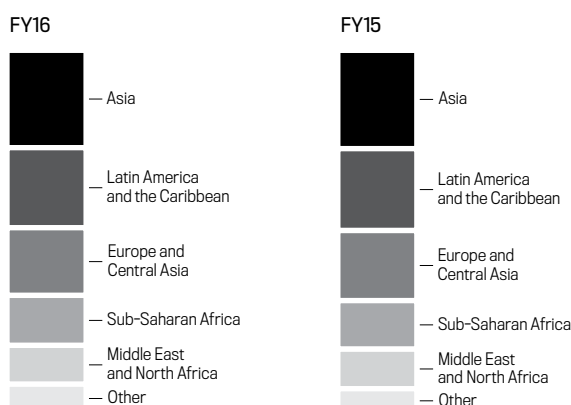
**DISBURSED INVESTMENT PORTFOLIO**

IFC's total disbursed investment portfolio (a non-GAAP performance measure) was \$37,554 million at June 30, 2016 (\$36,401 million at June 30, 2015), comprising the disbursed loan portfolio of \$23,910 million (\$23,252 million at June 30, 2015), the disbursed equity portfolio of \$10,793 million (\$10,581 million at June 30, 2015), and the disbursed debt security portfolio of \$2,851 million (\$2,568 million at June 30, 2015).

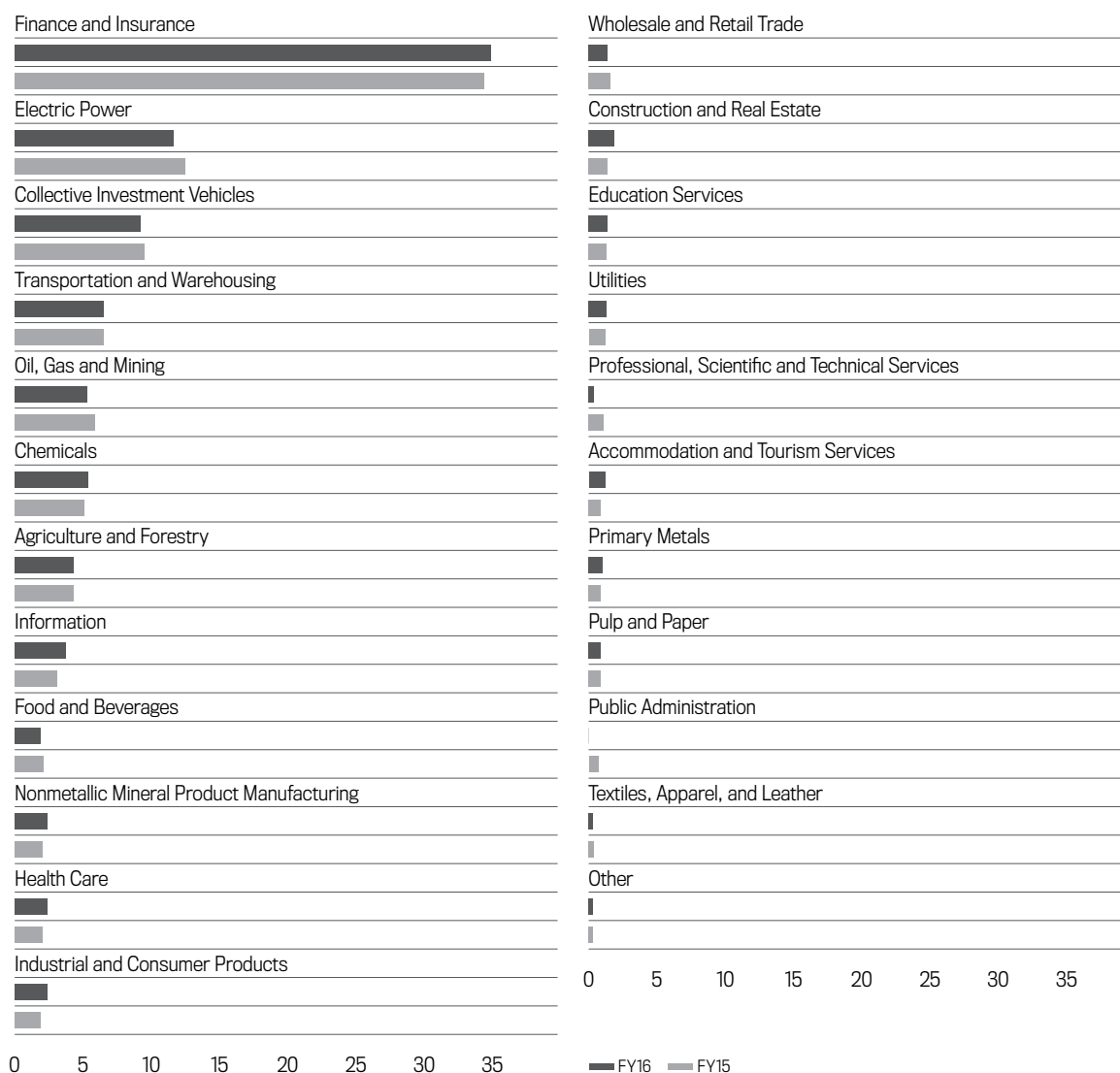
IFC's disbursed investment portfolio is diversified by industry sector and geographic region.

The following charts show the distribution of the disbursed investment portfolio by geographical region and industry sector as of June 30, 2016, and June 30, 2015:

**FIGURE 1: DISBURSED INVESTMENT PORTFOLIO DISTRIBUTION BY REGION**



**FIGURE 2: DISBURSED INVESTMENT PORTFOLIO DISTRIBUTION BY INDUSTRY SECTOR (PERCENTAGE)**



The carrying value of IFC’s investment portfolio comprises: (i) the disbursed investment portfolio; (ii) 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; (vi) unrealized gains and losses on investments accounted for at fair value as available-for-sale; and (vii) unrealized gains and losses on investments.

### LOANS

Loans comprise 64 percent of the disbursed investment portfolio as of June 30, 2016 (64 percent at June 30, 2015) and 58 percent of the carrying amount of the investment portfolio as of June 30, 2016 (57 percent at June 30, 2015).

IFC’s disbursed loan portfolio totaled \$23,910 million at June 30, 2016 (\$23,252 million at June 30, 2015). The carrying amount of IFC’s loan portfolio on IFC’s consolidated

balance sheet (comprising the disbursed loan portfolio together with adjustments as detailed in Note D to IFC’s FY16 Consolidated Financial Statements) grew 2.5 percent to \$21,868 million at June 30, 2016 (\$21,336 million at June 30, 2015).

Loans traditionally have been denominated in the currencies of major industrial nations, but IFC has an extensive portfolio of local currency products. IFC typically offers local currency products in other currencies where it can economically hedge the local currency loan cash flows back into US dollars using swap markets or where it can fund itself in local bond markets. IFC’s disbursed loan portfolio at June 30, 2016 includes \$2,458 million of currency products denominated in Brazilian reals, Indian rupees, Chinese renminbi, South African rands, Philippine pesos, Colombian pesos, Mexican pesos, Indonesian rupiahs, Russian rubles, Peruvian nuevos soles, New Romanian Lei, Hong Kong dollars and Dominican pesos (\$3,026 million at June 30, 2015). The \$568 million decline over FY16 in local currency loans outstanding measured in US dollars was mainly due to

repayments of loans denominated in Chinese renminbi, Mexican pesos, and Indonesian rupiahs. IFC has also made loans in a number of frontier market currencies such as Tunisian dinar, Paraguayan guarani, Rwandan franc, and Zambian kwacha. At June 30, 2016, 78 percent (75 percent at June 30, 2015) of IFC's disbursed loan portfolio was US dollar-denominated.

The currency position of the disbursed loan portfolio at June 30, 2016 and June 30, 2015 is shown below:

**FIGURE 3: CURRENCY POSITION OF THE DISBURSED LOAN PORTFOLIO (US\$ MILLIONS)**



## EQUITY INVESTMENTS

IFC's disbursed equity portfolio totaled \$10,793 million at June 30, 2016 (\$10,581 million at June 30, 2015), an increase of 2 percent.

Equity investments accounted for 29 percent of IFC's disbursed investment portfolio at June 30, 2016, compared with 29 percent at June 30, 2015 and 34 percent of the carrying amount of the investment portfolio at June 30, 2016 (36 percent at June 30, 2015).

The carrying amount of IFC's equity investment portfolio (comprising the disbursed equity portfolio, together with adjustments as detailed in Note D to IFC's FY16 Consolidated Financial Statements), fell 7 percent to \$12,588 million at June 30, 2016 (\$13,503 million at June 30, 2015). While equity disbursements were robust in FY16, this was more than offset by sales, other than temporary impairments and unrealized losses on equity investments accounted for at fair value, reflecting the tough overall environment for emerging markets equities in FY16.

The fair value of IFC's equity portfolio<sup>4</sup> was \$14,642 million at June 30, 2016 (\$15,721 million at June 30, 2015).

## DEBT SECURITIES

IFC's disbursed debt securities portfolio totaled \$2,851 million at June 30, 2016 (\$2,568 million at June 30, 2015).

Debt securities accounted for 7 percent of IFC's disbursed investment portfolio at June 30, 2016 (7 percent at June 30, 2015) and 8 percent of the carrying amount of the investment portfolio at June 30, 2016 (7 percent at June 30, 2015).

The carrying amount of IFC's debt securities portfolio (comprising the disbursed debt securities portfolio, together with adjustments as detailed in Note D to IFC's FY16 Consolidated Financial Statements), was \$2,900 million at June 30, 2016 (\$2,739 million at June 30, 2015).

Additional information on IFC's investment portfolio as of and for the years ended June 30, 2016, and June 30, 2015, can be found in Notes B, D, E, F, G, H, P and R to IFC's FY16 Consolidated Financial Statements.

## 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 US dollar terms. Guarantee fees are consistent with IFC's loan pricing policies.

Guarantees of \$3,478 million were outstanding (i.e., not called) at June 30, 2016 (\$3,168 million at June 30, 2015).

<sup>4</sup> Including "equity-like" securities classified as debt securities in IFC's consolidated balance sheet and equity-related options.

## ADVISORY SERVICES

It takes more than finance to achieve sustainable development. IFC's experience shows the powerful role advice can play in unlocking private sector investment and helping businesses expand and create jobs—thereby strengthening the World Bank Group's efforts to end poverty and boost shared prosperity.

That is why IFC continues to strengthen advisory work, which is now closely aligned with other areas of IFC and the World Bank, so that IFC's clients can benefit from the full range of capabilities available across the Bank Group. Advice is increasingly integrated into the wide suite of solutions IFC provides to clients.

During FY16, IFC provided advice in a number of areas critical to development:

**Financial Sector:** IFC helps increase the availability and affordability of financial services for individuals and for micro, small, and medium enterprises. IFC works with financial institutions to strengthen their risk management and diversify their product offering in areas such as SMEs, housing finance, and sustainable energy. As part of an integrated World Bank Group team in the Finance & Markets Global Practice, IFC also supports the development of financial markets—by promoting universal access to finance, strengthening capital markets, and establishing credit bureaus and collateral registries that open up new avenues for companies to create jobs and grow sustainably.

**Investment Climate:** As part of an integrated World Bank Group team in the Trade & Competitiveness Global Practice, IFC helps national and local governments implement reforms that improve the business environment and attract and retain investment—fostering growth, competitive markets, and job creation.

**Public-Private Partnerships:** IFC helps governments design and implement public-private partnerships in infrastructure and basic public services. IFC's advice helps increase public access to electricity, water, health, and education.

**Agribusiness:** IFC helps clients improve productivity and standards in agribusiness. IFC's efforts are focused on designing efficient value chains and boosting food security—thereby providing valuable social, economic, and environmental benefits for all stakeholders.

**Energy & Resource Efficiency:** IFC helps clients develop clean, affordable, competitive, and high-quality energy solutions across the value chain. IFC accelerates the development of commercial markets to increase renewable energy production and improve people's access to modern energy services.

IFC also provides advisory solutions that can be deployed across several industries. This includes helping businesses improve corporate governance and building the capacity of smaller businesses operating within the supply chains of larger companies, thereby increasing local

opportunities while helping clients make better use of local suppliers and resources. Central to IFC's advisory work is helping clients build robust and inclusive business performance by making them aware of, and invest in, the value women can bring either as a defined consumer segment that can be better served, as employees, as business leaders or as entrepreneurs and suppliers.

The IFC Advisory Services Portfolio<sup>5</sup> as of June 30, 2016 totaled \$1.3 billion (\$1.2 billion at June 30, 2015). FY16 program expenditures with clients was \$221 million (\$202 million–FY15) with a strong focus in strategic priority areas of IDA (62 percent) and FCS (21 percent) as of June 30, 2016 (65 percent and 20 percent at June 30, 2015). This emphasis is expected to continue in the coming years.

**TABLE 6: IFC ADVISORY SERVICES–PROGRAM EXPENDITURES BY REGION FOR FY16 VS FY15**

| IFC ADVISORY SERVICES PROGRAM BY REGION | FY16          |            | FY15          |            |
|---|---------------|------------|---------------|------------|
|   | US\$ MILLIONS | %          | US\$ MILLIONS | %          |
| Sub Saharan Africa                      | \$ 63         | 29         | \$ 54         | 27         |
| East Asia and the Pacific               | 39            | 18         | 38            | 19         |
| Europe and Central Asia                 | 34            | 15         | 34            | 17         |
| South Asia                              | 27            | 12         | 23            | 11         |
| Latin America and the Caribbean         | 25            | 11         | 22            | 11         |
| Middle East and North Africa            | 23            | 10         | 20            | 10         |
| World region                            | 10            | 5          | 11            | 5          |
| <b>Total expenditures</b>               | <b>\$221</b>  | <b>100</b> | <b>\$202</b>  | <b>100</b> |

**TABLE 7: IFC ADVISORY SERVICES–PROGRAM EXPENDITURES BY AREA FOR FY16 VS FY15**

| IFC ADVISORY SERVICES PROGRAM BY AREA | FY16          |            | FY15          |            |
|---------------------------------------|---------------|------------|---------------|------------|
|                                       | US\$ MILLIONS | %          | US\$ MILLIONS | %          |
| Financial Sector                      | \$ 67         | 30         | \$ 64         | 32         |
| Investment Climate                    | 57            | 26         | 50            | 25         |
| Cross-Industry Areas                  | 34            | 15         | 28            | 14         |
| Public-Private Partnerships           | 31            | 14         | 31            | 15         |
| Energy & Resource Efficiency          | 19            | 9          | 17            | 8          |
| Agribusiness                          | 13            | 6          | 12            | 6          |
| <b>Total expenditures</b>             | <b>\$221</b>  | <b>100</b> | <b>\$202</b>  | <b>100</b> |

Similar to FY15, the program results in FY16 were positive. Development effectiveness ratings of the projects reached 68 percent success rate (77 percent in FY15) and client satisfaction was 91 percent (91 percent in FY15).

<sup>5</sup> IFC Advisory Services Portfolio is the total of funds managed by IFC for active advisory projects.

## ASSET MANAGEMENT COMPANY

IFC Asset Management Company, LLC (AMC), a wholly-owned subsidiary of IFC, 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. AMC helps IFC mobilize additional capital resources for investment in productive private enterprise in developing countries.

At June 30, 2016, AMC managed twelve funds, with \$8.9 billion total assets under management (ten funds; \$8.5 billion at June 30, 2015):

**TABLE 8: LIST OF FUNDS MANAGED BY AMC AT JUNE 30, 2016**

| FUND NAME  | ESTABLISHED                     | DESCRIPTION   |
|--|---------------------------------|---|
| The IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)  | Year ended June 30, 2009 (FY09) | Help strengthen systemically important banks in emerging markets  |
| The Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)   | FY09                            | Help strengthen systemically important banks in emerging markets  |
| The African, Latin American and Caribbean Fund, LP (ALAC Fund)   | Year ended June 30, 2010 (FY10) | Invest in equity investments across a range of sectors in Sub-Saharan Africa, Latin America, and the Caribbean.   |
| The Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)  | FY10                            | Capitalize on systemically important commercial banking institutions in northern and Sub-Saharan Africa   |
| The Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)   | Year ended June 30, 2012 (FY12) | Invest in mid-sized commercial banks in Russia that are either: (i) privately owned and controlled; or (ii) state-owned; or (iii) controlled and on a clear path to privatization |
| The Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)                         | Year ended June 30, 2013 (FY13) | Make investments in selected climate- and resource efficiency-focused private equity funds in emerging markets  |
| The Global Infrastructure Fund, LP (Global Infrastructure Fund)  | FY13                            | Focus on making equity and equity-related investments in the infrastructure sector in global emerging markets   |
| The China-Mexico Fund, LP (China-Mexico Fund)  | FY15                            | Focus on making equity and equity-related investments across all sectors in Mexico  |
| The Financial Institutions Growth Fund, LP (FIG Fund)  | FY15                            | Invest in equity and equity-related investments in financial institutions in global emerging markets  |
| The Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds) | FY15                            | Primarily invest in a portfolio of investment funds in global emerging markets.   |
| The Middle East and North Africa Fund, LP (MENA Fund)  | FY16                            | Make equity and equity related investments in the Middle East and North Africa region   |
| Women Entrepreneurs Debt Fund, LP (WED Fund)   | FY16                            | Focus on extending senior loans to commercial banks for on-lending to women-owned small and medium enterprises in emerging markets  |

The activities of the funds managed by AMC at June 30, 2016 and 2015 can be summarized as follows:

**TABLE 9: 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 Funds           | 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                      |
| <b>Total</b>                 | <b>\$8,902</b>                | <b>\$2,046</b> | <b>\$6,856</b>       | <b>\$123</b>                     | <b>\$413</b>                 | <b>\$407</b> | <b>\$133</b>           |

\* 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 Funds           | 1,200                         | -              | 1,200                | -                                | 6                            | -            | -                      |
| FIG Fund                     | 344                           | 150            | 194                  | -                                | -                            | -            | -                      |
| GEM Funds                    | 406                           | 81             | 325                  | -                                | -                            | -            | -                      |
| MENA Fund                    | -                             | -              | -                    | -                                | -                            | -            | -                      |
| WED Fund                     | -                             | -              | -                    | -                                | -                            | -            | -                      |
| <b>Total</b>                 | <b>\$8,530</b>                | <b>\$1,956</b> | <b>\$6,574</b>       | <b>\$105</b>                     | <b>\$665</b>                 | <b>\$685</b> | <b>65</b>              |

\* 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.



# 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 (funded liquidity) and capital (net worth). Liquid assets are managed in a number of portfolios related to these sources.

IFC invests its liquid assets generally 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 and mortgage-backed securities, time deposits, and other unconditional obligations of banks and financial institutions. Diversification across multiple dimensions ensures a favorable risk return profile. IFC has a flexible approach to managing the liquid assets portfolios by making investments on an aggregate portfolio basis against its benchmarks within specified risk parameters. In implementing these portfolio management strategies, IFC utilizes derivative instruments, principally currency and interest rate swaps and futures and options, and 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 \$41.4 billion at June 30, 2016 (\$39.5 billion at June 30, 2015). The increase in FY16 was principally due to additions to the portfolio from the investment of the net proceeds of market borrowings, plus returns made on the investment portfolio partially offset by reductions due to investment disbursements.

## FUNDED LIQUIDITY

The primary funding source for liquid assets for IFC is borrowings from market sources. Proceeds of borrowings from market sources not immediately disbursed for loans and loan-like debt securities (Funded Liquidity) are managed internally against money market benchmarks. A small portion of Funded Liquidity is managed by third parties with the same benchmark as that managed internally.

## MANAGED NET WORTH

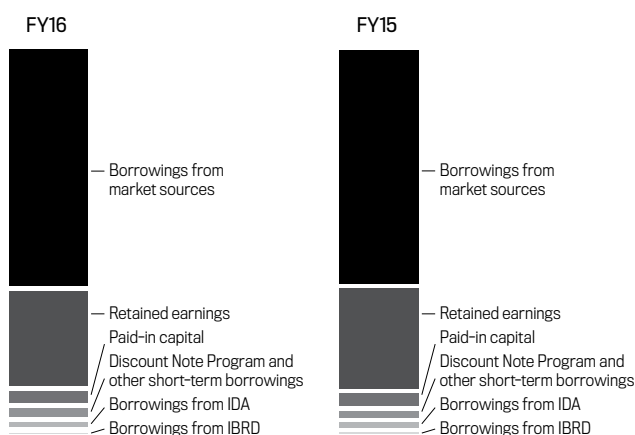
The second funding source of liquid assets is that portion of IFC's net worth not invested in equity and equity-like investments (Managed Net Worth) which is managed against a U.S. Treasury benchmark. A portion of these assets are managed by third parties with the same benchmark as that part managed internally.

Net income from liquid assets trading activities<sup>6</sup> from Funded Liquidity was \$419 million and from Managed Net Worth totaled \$85 million in FY16.

# Funding Resources

IFC's funding resources (comprising borrowings, capital and retained earnings) as of June 30, 2016 and June 30, 2015 are as follows:

FIGURE 4: IFC'S 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.

<sup>6</sup> Reported gross of borrowing costs and excluding foreign exchange gains and losses on local currency Funded Liquidity which are reported separately from income from liquid assets trading activities in foreign currency gains and losses on non-trading activities and the effects of internal trades related to foregone swapping of market borrowings and Funded Liquidity in certain currencies.

Beginning July 1, 2014, IFC has a General Funding Authorization that authorizes IFC to borrow within the limits of its risk policies without requiring annual authorizations from the Board of the Corporation as to the size of its borrowing program for the subsequent financial year.

IFC borrowed (after the effect of borrowing-related derivatives) \$14.3 billion during FY16 (\$14.8 billion in FY15 and \$15.3 billion in FY14). 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. During FY16, IFC repurchased and retired \$0.5 billion of outstanding debt (\$1.4 billion in FY15 and \$1.4 billion in FY14), generating gains on buybacks of \$6 million in FY16 (\$2 million—FY15 and \$3 million—FY14).

IFC uses 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. As a result, borrowings from market sources at June 30, 2016 that have not been swapped amounted to 5 percent of the total borrowings from market sources (6 percent at June 30, 2015 and 5 percent at June 30, 2014).

IFC diversifies its borrowings by currency, country, source, and maturity to provide flexibility and cost-effectiveness. In FY16 IFC borrowed in eighteen currencies and in final maturities ranging from one to 30 years. Remaining maturities have a weighted average remaining contractual maturity of 4.1 years at June 30, 2016 (3.3 years at June 30, 2015). Actual maturities may differ from contractual maturities due to the existence of call features in certain of IFC's borrowings.

Market borrowings are generally swapped into floating-rate obligations denominated in US dollars. As of June 30, 2016, IFC had gross payables from borrowing-related currency swaps of \$19.9 billion (\$19.6 billion at June 30, 2015) and from borrowing-related interest rate swaps in the notional principal payable amount of \$35.2 billion (\$35.2 billion at June 30, 2015). After the effect of these derivative instruments is taken into consideration, 95 percent of IFC's market borrowings at June 30, 2016 were variable rate US dollar-denominated (94 percent—June 30, 2015). The weighted average cost of market borrowings after currency and interest rate swap transactions was 1.1 percent at June 30, 2016 (0.5 percent at June 30, 2015). This was mainly due to developments in USD funding, where compared to the prior year, US\$ six-month LIBOR rates were 0.5 percent higher and IFC's credit spread widened by 0.1 percent.

IFC's mandate to help develop domestic capital markets can result in raising local currency funds. As of June 30, 2016, \$2.2 billion (\$2.5 billion as of June 30, 2015) of such non-US\$ denominated market borrowings were outstanding, denominated in Chinese Renminbi, Dominican Pesos, Indian Rupees, Namibia dollar, New Zambian

Kwacha, Nigerian Naira, Russian Ruble and Rwanda Francs. Proceeds of such borrowings were invested in such local currencies, on-lent to clients and/or partially swapped into US dollars.

IFC has short term discount note programs in US\$, Chinese renminbi and Turkish lira 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. The weighted average cost of discount note borrowing was at 0.33 percent at June 30, 2016. During FY16, IFC issued \$11.5 billion of discount notes and \$1.8 billion were outstanding as of June 30, 2016 under the short-term discount note programs.

## CAPITAL AND RETAINED EARNINGS

As of June 30, 2016, IFC's authorized capital was \$2.58 billion (\$2.58 billion—June 30, 2015), of which \$2.57 billion was subscribed and paid in at June 30, 2016 (\$2.57 billion at June 30, 2015).

**TABLE 10: IFC'S CAPITAL (US\$ MILLIONS)**

|  | JUNE 30, 2016   | JUNE 30, 2015   |
|--|-----------------|-----------------|
| <b>Capital</b>                                   |                 |                 |
| Capital stock,<br>subscribed and paid-in         | \$ 2,566        | \$ 2,566        |
| Accumulated other<br>comprehensive (loss) income | (431)           | 1,197           |
| Retained earnings                                | 20,608          | 20,641          |
| <b>Total IFC capital</b>                         | <b>\$22,743</b> | <b>\$24,404</b> |
| Non-controlling interests                        | 23              | 22              |
| <b>Total capital</b>                             | <b>\$22,766</b> | <b>\$24,426</b> |

At June 30, 2016 and June 30, 2015, retained earnings comprised the following:

**TABLE 11: IFC'S RETAINED EARNINGS (US\$ MILLIONS)**

|  | JUNE 30, 2016    | JUNE 30, 2015   |
|--|------------------|-----------------|
| <b>Undesignated retained earnings</b>  | <b>\$ 20,475</b> | <b>\$20,457</b> |
| <b>Designated retained earnings:</b>   |                  |                 |
| Advisory services  | 98               | 137             |
| Performance-based grants   | 12               | 16              |
| IFC SME Ventures for IDA<br>countries and Global<br>Infrastructure Project<br>Development Fund | 23               | 31              |
| <b>Total designated<br/>retained earnings</b>  | <b>\$ 133</b>    | <b>\$ 184</b>   |
| <b>Total retained earnings</b>   | <b>\$20,608</b>  | <b>\$20,641</b> |

---

### SELECTIVE CAPITAL INCREASE (SCI)

On July 20, 2010, the IFC Board of Directors recommended that the IFC Board of Governors approve an increase of \$130 million in the authorized share capital of IFC to \$2,580 million, through the issuance of \$200 million in shares (including \$70 million in unallocated shares). The Board of Directors also recommended that the Board of Governors approve an increase in Basic Votes aimed at enhancing the voice and participation of developing and transition countries which required an amendment to IFC's Articles of Agreement.

The resolution recommended by the Board of Directors was adopted by the Board of Governors on March 9, 2012 (IFC Resolution no. 256 entitled "Amendment to the Articles of Agreement and 2010 Selective Capital Increase"). The amendment to the Articles of Agreement and the increase in the authorized share capital became effective on June 27, 2012. As of the same date, eligible members were authorized to subscribe to their allocated IFC shares.

As of June 30, 2015, IFC had received payments with respect to the SCI totaling \$194 million and the balance of \$6 million has become part of IFC's authorized and unallocated capital stock.

---

### DESIGNATIONS OF RETAINED EARNINGS

Beginning in the year ended June 30, 2004, IFC began a process of designating retained earnings to increase its support of advisory services and, subsequently, for performance-based grants (PBG) (year ended June 30, 2005), grants to IDA (year ended June 30, 2006), the Global Infrastructure Project Development Fund (year ended June 30, 2008 (FY08), and IFC SME Ventures for IDA Countries (FY08). The levels and purposes of retained earnings designations are set based on the Board of Directors-approved principles, which are applied each year to assess IFC's financial capacity and to determine the maximum levels of retained earnings designations.

Amounts available to be designated are determined based on a Board of Directors-approved income-based formula and, beginning in the year ended June 30, 2008, on a principles-based Board of Directors-approved financial distribution policy, and are approved by the Board of Directors.

IFC recognizes designations of retained earnings for advisory services 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 consolidated income statement in the year in which they occur, and have the effect of reducing retained earnings designated for this specific purpose.

---

### FY15 DESIGNATIONS

On August 6, 2015, the Board of Directors approved a designation of \$330 million of IFC's retained earnings for grants to IDA and a designation of \$14 million of IFC's retained earnings for Advisory Services. On October 9, 2015, IFC's Board of Governors noted with approval these designations. On January 15, 2016 IFC recognized expenditures against designations of retained earnings for grants to IDA of \$330 million pursuant to signing of a grant agreement between IDA and IFC.

---

### FY16 DESIGNATIONS

Income available for designations in FY16 (a non-GAAP measure)<sup>7</sup> totaled \$770 million. Based on the distribution policy approved by IFC's Board of Directors the maximum amount available for designation 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.

---

### DEPLOYABLE STRATEGIC CAPITAL

IFC's deployable strategic capital (DSC) ratio was 4.4 percent at June 30, 2016, compared with 5.4 percent at June 30, 2015. Total Resources Available (TRA) decreased to \$22.5 billion at the end of FY16 from \$22.6 billion at the end of FY15. Total Resources Required (TRR) was unchanged at \$19.2 billion at the end of FY16. The increase in capital required for the investment portfolio was offset by a decline in capital to support the Treasury portfolio and for operational risk. The decrease in total resources available was heavily affected by the \$0.8 billion increase in the underfunded status of the pension plans—without this impact, the DSC ratio would have been 7.3 percent.

<sup>7</sup> 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.

# Risk Management

## ENTERPRISE RISK MANAGEMENT

IFC provides long-term investments to the private sector in emerging markets, which includes expanding the investment frontier into the most challenging markets. In doing so, IFC is exposed to a variety of financial and non-financial risks. Sound risk management is crucial in fulfilling IFC's mission.

The Corporate Risk and Sustainability Vice-Presidency combines all of IFC's financial and non-financial risk functions to streamline and enhance risk management at both corporate and project levels, as well as to improve support for IFC's external clients.

## ENTERPRISE RISK MANAGEMENT FRAMEWORK

IFC's enterprise risk management framework (ERM) is designed to enable the prudent management of financial and reputational impacts that originate from the Corporation's business activities. In this context, IFC's risk management efforts are designed specifically to help align the Corporation's performance with its strategic direction. The ERM framework that IFC adopted in FY14 is aligned broadly with industry standards and is designed to underpin IFC's response to risk by defining:

- IFC's core risk management principles;
- A common risk taxonomy for use across the organization, to help ensure that risk management efforts are coordinated and aligned across the distinct parts of the organization that share responsibility for managing different aspects of risk;
- A standard classification of roles and responsibilities for risk management, to differentiate and thereby clarify how different parts of the organization contribute towards the overall management of risk; and
- The structures, processes and methods that are necessary to put active risk management into practice.

## KEY RISK MANAGEMENT PRINCIPLES

The key principles that inform IFC's ERM Framework are:

- Maximizing development impact while maintaining financial sustainability;
- Ensuring that business decisions are based on a thorough understanding of risks and that risks and rewards are balanced appropriately;
- Being selective in undertaking activities that could cause significant, adverse reputational impact; and

- Sharing responsibility for risk management across the Corporation.

The ERM Framework comprises several components, each addressing a specific issue within the Framework. These components are dynamic in nature and reflect the fact that IFC's risk management evolution is a continual, iterative and interconnected effort.

The Framework is depicted as follows:

**FIGURE 5: IFC'S ENTERPRISE RISK MANAGEMENT FRAMEWORK**



**Risk Culture**—Starting with IFC's Management Team, building the right risk culture instills behaviors that are integral to the success of ERM.

**Risk Coverage**—IFC's risk profile is categorized across five classes of risk, namely Credit, Market, Operational, Liquidity and Business risks. Each of these is addressed in the following paragraphs.

**Risk Appetite**—A comprehensive set of explicit risk appetite statements, with associated metrics, will provide a consistent and integrated basis for making decisions that impact IFC's risk profile, while monitoring IFC's risk exposures, and taking action when risk tolerances are exceeded.

**Risk Governance and Policies**—IFC's risk governance structure is based on the industry-standard principle of "three lines of defense".

• IFC's first line of defense is line management, consisting of frontline decision makers on individual projects and transactions. The second line of defense is, collectively, the Management Team, its committees and IFC's independent risk management functions. Independent oversight bodies, together with the Board of Directors, serve as the third line of defense. These independent oversight bodies are:

- The **Independent Evaluation Group**, which assesses the alignment between projected and realized outcomes of IFC's investment and advisory projects undertaken with its clients;
- The **Compliance Advisor/Ombudsman**, which is the independent recourse mechanism for IFC's stakeholders, responding to complaints from project-affected

communities with the goal of enhancing social and environmental outcomes on the ground;

- The **World Bank Group's Internal Audit Vice Presidency**, which evaluates the effectiveness of the organization's governance, risk management, and control processes; and
- The **Integrity Vice-Presidency**, which investigates and pursues sanctions related to allegations of fraud and corruption in World Bank Group-financed activities.
- IFC's risk management policies define the types and amounts of risk that IFC's Management Team is willing to assume, via delegated authority from the Board.

**Risk Data and Infrastructure**—Source data is collected, integrated and analyzed to support decision-making across the Corporation.

**Measurement and Evaluation**—IFC uses a combination of quantitative and qualitative metrics to manage its risk profile. Key metrics for each category of risk are discussed later in this document.

**Control Environment**—Management relies on internal controls, modelled on the COSO Framework, to reduce the level of inherent risk to an acceptable level.

**Risk Response**—Risks are analyzed and monitored by IFC's risk oversight units and the Corporate Risk Committee, a subcommittee of IFC's Management Team, meets frequently to discuss and decide upon enterprise-level risk issues.

**Stress Testing**—Semi-annual, IFC-wide, stress testing provides Management with an additional tool to inform capital management and decision making. The testing involves multi-year projections of IFC's financial performance and capital adequacy under base case and stressed macroeconomic scenarios.

---

#### ENTERPRISE LEVEL RISK APPETITE

---

IFC has developed risk appetite statements which set the direction for the Corporation's willingness to take risks in fulfillment of its development goals. These statements reflect the Corporation's core values of maximizing development impact, preserving its financial sustainability and safeguarding its reputation.

At the strategic level, IFC has adopted the following risk appetite statements:

- **Developmental Impact:** IFC will maximize developmental impact by focusing on the World Bank Group's twin goals of addressing extreme poverty and boosting shared prosperity, while maintaining financial sustainability and safeguarding its brand.
- **Financial Sustainability:** IFC will generate and maintain sufficient financial resources, conduct its business and manage risks consistent with standards implied by a triple-A rating.
- **Safeguarding Reputation:** In determining what engagement and activities to pursue, IFC will assess whether any potential adverse impact to its reputation is balanced by the potential development impact.

From a financial sustainability perspective, the capital required to maintain a triple-A rating is assessed using an

economic capital framework, which is the foundation of financial risk management at IFC. Economic capital acts as a "common currency of risk" across the organization, providing IFC with an objective, quantifiable measure of risk that can be applied consistently across business lines, products, regions and sectors. IFC holds economic capital for credit, market and operational risks. The main measure of capital adequacy is DSC, which is the capital available to support future commitments, over and above the current portfolio. It is calculated as the amount by which Total Resources Available (TRA)<sup>8</sup> exceeds (a) Total Resources Required (TRR)<sup>9</sup>, plus (b) a conservation buffer<sup>10</sup> and is expressed as a percentage of TRA.

IFC operates under a number of key financial policies approved by its Board of Directors, as detailed below:

- **Capital Adequacy Policy**—IFC is required to maintain a minimum level of total resources (including paid-in capital, total loss reserves and retained earnings, net of designations) equal to total potential losses for all on- and off-balance sheet exposures estimated at levels consistent with maintaining a triple-A rating.
- **Leverage Policy**—IFC's outstanding debt plus guarantees held must not exceed four times its net worth.
- **Overall Liquidity Policy**—Minimum liquidity (liquid assets plus undrawn borrowing commitments from IBRD) must be sufficient at all times to cover at least 45 percent of IFC's estimated net cash requirements for the next three years.
- **External Funding Liquidity Policy**—IFC maintains a minimum level of liquidity, consisting of proceeds from external funding, covering at least 65 percent of the sum of: (i) 100 percent of committed but undisbursed straight senior loans; (ii) 30 percent of committed guarantees; and (iii) 30 percent of committed client risk management products.
- **Matched Funding Policy**—Loans are funded with liabilities that have similar characteristics in terms of interest rate basis, currency, and duration, except for new products, approved by the Board of Directors, involving asset-liability mismatches.

In order to safeguard its reputation, IFC pays close attention to potential adverse reputational impact, as negative perceptions of stakeholders or the general public may adversely impact its ability to carry out business effectively. In determining which engagements and activities to pursue, IFC assesses whether any potential adverse impact to its reputation is balanced by the potential development impact and financial returns.

One of the key tools used by IFC for managing reputational impact is effective communication. Communication activities are coordinated by the World Bank Group's External and Corporate Relations Vice Presidency. This unit provides advice on strategic and crisis communications for

<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> The conservation buffer is set at a pre-determined percent of TRA. Its purpose is to absorb short-term fluctuations in TRR and TRA that result from the volatile nature of IFC's portfolio.



managing potential and actual reputational impacts at both the corporate and project levels, throughout the project life cycle. It is also responsible for external and internal communications, campaigns, civil society engagement, brand marketing, and web, social, and other media. It collaborates across IFC and with the other World Bank Group entities to develop and implement effective communications strategies that strengthen the IFC brand.

## PORTFOLIO RISK MANAGEMENT

---

Portfolio management is an intrinsic part of managing IFC's business to ensure strong financial and development results of our projects. IFC's management reviews our entire portfolio on a semi-annual basis, looking at broad trends as well as select individual assets. IFC provides summary reports on portfolio performance to the Board on a quarterly basis, and provides an in-depth review of portfolio results to the Board annually. Our portfolio teams, largely based in field offices, complement global reviews with asset-by-asset quarterly reviews.

On the corporate level, IFC combines the analysis of our \$52.0 billion portfolio performance with projections of global macroeconomic and market trends to inform decisions about future investments. IFC also regularly tests the performance of the portfolio against possible macroeconomic developments to identify and proactively address risks. In FY16, in light of substantially volatility in emerging markets, IFC's senior management convened in-depth region-by-region portfolio reviews to analyze similar metrics across different markets.

At the core of active risk and portfolio management is the need to have timely and accurate information to drive informed business decisions. IFC continues to invest in its IT strategy and continues to improve its risk and portfolio management systems. This is critically important to allow IFC to actively manage its risks and portfolio, and to continue to be responsive to the challenging external environment.

In FY16, IFC began rolling out a new Investment Risk Platform (IRP), which will replace IFC's existing credit risk rating system and economic capital engine. The new systems are aimed at better aligning IFC's practice to internationally recognized standards, where they make sense given our portfolio. The new risk rating system will allow for easier comparison between outside ratings and IFC's internal ratings. More granular ratings will lead to better differentiation and a better understanding of client credit standing which will allow for more focus on those credits that most warrant the scrutiny. The improved predictive power for probability of default and loss given default will lead to more informed investment decisions.

## TREASURY RISK MANAGEMENT

---

Treasury risks are managed through a two-tier risk framework: (1) a comprehensive policy framework and

(2) a hard economic capital limit for treasury activities. The policy framework is based on four principles:

- Investment in high quality assets;
- Diversification via position size/concentration limits;
- Tight limits on market risks (credit spread, interest rate and foreign exchange risk);
- Proactive portfolio surveillance.

In line with the changes that are occurring in the global financial markets, IFC has enhanced its Treasury policy framework in FY16. Some of the key initiatives include: development of an expanded framework for stress testing and contingency planning; enhancements to IFC's approach to monitoring of counterparty risk and structured product credit; bilateral collateral exchanges with derivatives counterparties; and enhancements to IFC's model validation framework.

## CREDIT RISK MANAGEMENT

---

### DEFINITION AND SCOPE OF CREDIT RISK

---

IFC defines credit risk as the risk of loss of principal or loss of an expected financial return due to credit events such as a default or downgrade in credit ratings or any other failure to meet a contractual obligation that results in financial loss. IFC is exposed to credit risk in its loan portfolio and in the form of counterparty credit risk in its Treasury portfolios.

### INVESTMENT OPERATIONS

---

Credit risk in investment projects is actively managed throughout the project life cycle. Investment teams are responsible for gathering the necessary information from the client to verify the financial viability of the project, and for assigning a credit risk rating (CRR) at defined stages in the project approval process. The CRR, the investment size and the product type determine the authority level required for transaction approval. All projects are subject to independent credit assessment by a credit officer within the independent risk oversight function and who participates in the project approval process. Projects are approved with reference to a number of operational and prudential limits approved by the Corporate Risk Committee, including limits related to single project or client exposure, single country exposure, and sector concentration; these are detailed below:

- IFC's total exposure to a country is measured as the amount of economic capital required to support its investment portfolio in that country. Exposure limits are set for each country based on the size of its economy and its risk rating. Sub-limits apply for certain sector exposures within a country.
- IFC's total exposure to a single client or client group may not exceed stipulated economic capital and nominal limits based on the CRR for the client.
- Individual Investment Limits are applied at the individual project or client level to prevent excessive concentrations.

- Preferential debt exposure to a country is limited by reference to that country's total medium and long-term external debt.
- IFC's total equity and quasi-equity exposure (outstanding exposure net of impairments) shall not exceed IFC's net worth.

The quality of IFC's investment projects is actively monitored after commitment. CRRs are reviewed regularly for every project, and revised if required. In addition, an independent corporate portfolio team monitors and assesses the health of the portfolio, including stress testing of exposure to emerging risks. When projects get into difficulty, rapid response is the key to recovery. Seasoned professionals from IFC's Department of Special Operations provide focused attention on portfolio projects that require more sophisticated workout and restructuring.

The credit risk of loans is quantified in terms of the probability of default, loss given default and exposure at risk. These risk parameters are used to determine risk-based economic capital for capital adequacy, capital allocation and internal risk management purposes, as well as for setting the general reserve against loan losses and exposure limits.

#### TREASURY OPERATIONS

IFC's manages its exposures to counterparties in its Treasury operations to mitigate potential losses from the failure by a counterparty to fulfill its contractual

obligations. Conservative counterparty eligibility criteria are set by Authorizations from the Board of Directors and by Directives approved by IFC's senior management. Eligible counterparties are predominantly banks and financial institutions with high quality credit ratings issued by leading international credit rating agencies. Details of applicable financial policies and guidelines are given below:

- Counterparties are selected based on standard eligibility criteria, with a tenor limit for deposits and repurchase agreements.
- Counterparties for derivative instruments are restricted to banks and financial institutions with high quality credit ratings from leading international credit rating agencies; for the sole purpose of funding local currency loans, eligibility is extended to central banks and select local banks.
- Exposures to individual counterparties are subject to exposure limits. For derivatives, exposure is measured in terms of total potential exposure based on replacement cost.
- IFC signs collateral agreements with counterparties that require the posting of collateral when net mark-to-market exposures exceed certain predetermined thresholds.
- For exchange-traded instruments, credit risk is limited by restricting transactions to a list of authorized exchanges, contracts and dealers, and by placing limits on IFC's position in each contract.

### FY16 CREDIT RISK COMMENTARY

#### INVESTMENT OPERATIONS

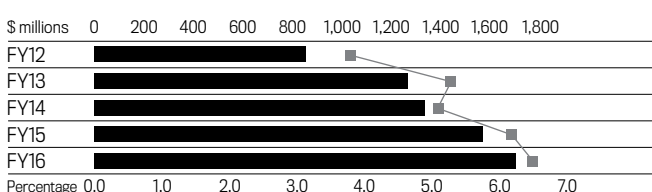
Selected indicators of credit risk exposure in IFC's loan portfolio, together with the five-year trend of non-performing loans (NPLs), are given below:

**TABLE 12: IFC LOAN PORTFOLIO CREDIT RISK INDICATORS**

| INDICATOR   | JUNE 30, 2016   | JUNE 30, 2015   | CHANGE           |
|---|-----------------|-----------------|------------------|
| NPLs as % of the loan portfolio <sup>11</sup>                           | 6.5%            | 6.2%            | Up 0.3%          |
| Principal amount outstanding on NPLs                                    | \$1,712 million | \$1,578 million | Up \$134 million |
| Total reserves against losses on loans                                  | \$1,775 million | \$1,743 million | Up \$32 million  |
| Total reserves against losses on loans as % of disbursed loan portfolio | 7.4%            | 7.5%            | Down 0.1%        |
| Total reserves against losses on guarantees                             | \$23 million    | \$20 million    | Up \$3 million   |

<sup>11</sup> A non-GAAP measure that includes loan-like debt securities.

**FIGURE 6: NPLS AS PERCENTAGE OF DISBURSED LOAN PORTFOLIO**





---

## TREASURY OPERATIONS

Treasury operations counterparties remain well diversified by sector and geography. In accordance with its agreements with counterparties, at June 30, 2016, IFC held \$305 million in cash and \$415 million in securities as collateral for changes in mark-to-market exposures on open trades (June 30, 2015—\$237 million in cash and \$756 million in securities).

## MARKET RISK MANAGEMENT

---

### DEFINITION AND SCOPE OF MARKET RISK

IFC defines market risk as the risk of losses in positions arising from movements in market prices. IFC's exposure to market risk is largely mitigated by its matched funding policy, whereby it uses derivative instruments to convert loans funded from market borrowings, and the market borrowings themselves, into floating rate US dollar assets and liabilities with similar duration. Similarly, market risk resulting from derivative transactions with clients, to facilitate clients' risk management, is typically mitigated by entering into offsetting positions with highly rated market counterparties. IFC's residual exposure to market risk arises primarily from its listed and unlisted equity investments in emerging markets, from its Treasury liquid asset portfolios, and also from its aggregate asset and liability management positions.

---

### EQUITY INVESTMENTS

The risk of loss in value of IFC's emerging markets equity investments is mitigated primarily by applying the same limits framework, decision making process and portfolio management methods as described above for its lending operations. IFC has a long time horizon for its equity investments and accepts short term price volatility of these investments, which can be significant.

---

### LIQUID ASSET PORTFOLIOS

Market risk in IFC's liquid assets portfolios is managed to the chosen risk profile of the respective portfolio benchmarks, using derivative and other financial instruments such as over-the-counter foreign exchange forward agreements, interest rate and currency swaps, and exchange-traded interest rate futures and options. Overall market risk exposure is also subject to daily monitoring, based on Directives approved by the Corporate Risk Committee, which limit interest rate and spread risk, foreign exchange exposure and value-at-risk.

---

### ASSET-LIABILITY MANAGEMENT

While IFC's matched-funding policy mitigates most currency and interest rate risk, IFC is still exposed to residual market risks in the market borrowings-funded portion of the balance sheet. Residual currency risk arises from factors such as changes in the level of reserves for losses on non-US dollar loans. The aggregate position in each lending

currency is monitored on a daily basis and the risk is managed within a range of +/- \$5 million equivalent in each currency. Residual interest rate risk may arise from differing interest rate reset dates on assets and liabilities, or from assets that are fully match-funded at inception, but become mismatched over time due to write-downs, prepayments, or rescheduling. The residual interest rate risk is managed by measuring the sensitivity of the present value of assets and liabilities in each currency to a one basis point change in interest rates and managing exposures on a daily basis to within a potential change in value of +/- \$50,000.

## FY16 MARKET RISK COMMENTARY

---

IFC's liquid asset portfolios have minimal interest rate risk due to short-tenor benchmarks and because deviations from those benchmarks are small. The overall level of market risk in IFC's Treasury operations reduced slightly between FY15 and FY16 due to lower credit spread exposure in a slightly larger liquid asset portfolio. FY16 was also characterized by periods of elevated Treasury portfolio volatility as credit spreads and interest rates fluctuated with external market events. Interest rate, foreign exchange, and spread risks are all controlled on a daily basis using a system of limits that remained in compliance during FY16.

In FY16, financial markets endured several rounds of global contagion risk concerns, higher volatility, and associated risk-off trading. FY16 Q1 started with the Chinese stock market turbulence and the risk that a decelerating of China's economy would dampen global growth. Sharp declines in oil and commodity prices in Q2 prompted IFC to increase surveillance on affected sectors and individual investments, although price trends started to stabilize in Q4. Divergence of monetary policies intensified across major central banks. In the U.S., the Federal Reserve raised interest rates in December 2015, which created significant challenges to emerging markets. The normalization of U.S. monetary policy, however, could still be some time away, with continuing mixed signals in domestic and global economies. Expanded quantitative easing policies in the European Union and Japan led to negative interest rates in almost a third of global government debt in those regions. Quantitative easing policies are also creating price distortions in some markets as a result of government intervention. The U.K. voting to exit the European Union ("Brexit") emerged as an additional major source of uncertainty, which could elevate the overall market stress both in the U.K. and European countries for an extended period of time.

Income from liquid assets was notably lower and less stable in FY16 as a result of the external market context. At the start of the fiscal year, Income from liquid assets was already forecast to be lower as a result of lower credit spreads and fewer attractive investment opportunities than in prior years. FY16 income from liquid assets was further depressed as a result of credit spread widening in many sectors due to heightened macro uncertainty. In addition, sector-specific mark-to-market losses in IFC's investments in US government-guaranteed student loan asset backed securities and U.K. residential mortgage backed securities had a proportionally larger contribution

than other sectors. In the case of student loans, mark-to-market losses were driven by concerns on the cash flow extension risk resulting from generous income-based repayment government programs. In the case of U.K. residential mortgages, mark-to-market losses resulted from the potential future impact of Brexit. More generally, portfolio volatility spiked on multiple occasions during FY16 as spreads widened and sovereign safe haven yields decreased in response to the contagion risks of a potential hard landing in China, the collapse in oil prices, and Brexit. Liquid asset holdings remain well diversified both geographically and across the eligible sectors of the eligible interest-bearing investment universe.

Volatility in Emerging Market (EM) equities persisted in FY16 with EMs significantly lagging behind the returns in developed markets. EMs sold off in FY16 Q1 on the back of a slowdown in the Chinese economy and concerns of substantial devaluation in the renminbi. This was followed by a stabilization during FY16 Q2. In January 2016, a significant deterioration in market sentiment due to weakening macro fundamentals in EMs and collapsing commodity prices led to another sharp correction which translated into a negative total return for EMs for the fiscal year. Investor sentiment on EMs remained subdued, with money mostly flowing out of those markets and seeking protection in markets with more solid fundamentals, such as India and Mexico. Economic growth in many markets was subdued and it was difficult for markets to post strong returns in this environment. The US dollar remained strong in FY16, leading to negative returns for US dollar-based investors. In this very challenging environment, IFC's equity portfolio performed well on a relative basis, again exceeding the overall market return as benchmarked by the MSCI Emerging Markets Index. IFC continues to focus on selectivity at entry and active management of its portfolio through close monitoring, portfolio reviews and oversight. Active management enabled the Corporation to continue its judicious divestitures in FY16 and take advantage of market opportunities to generate significant realized gains from its mature exposures. This significantly reduced the impact of write-downs and fair value changes linked to market turbulence.

## LIQUIDITY RISK MANAGEMENT

IFC defines liquidity risk as the risk of a financial loss arising from the inability to liquidate financial assets or to raise additional funds in the expected time frame to meet contractual obligations. IFC faces liquidity risk in its core development finance activities because its investments are predominantly illiquid in nature, due to the lack of capital flows, the infrequency of transactions, and the lack of price transparency in many emerging markets. To offset this risk, IFC maintains substantial liquid asset portfolios funded by market borrowings.

### LIQUID ASSET PORTFOLIOS

Liquidity risk in the liquid asset portfolios is addressed by strict eligibility criteria defined in Directives approved by the Corporate Risk Committee. Examples include minimum sizes for bond issuances, and limits on single bond

issue concentration and on the percentage of total bond issuance held by IFC. Consequently, a significant portion of the liquid asset portfolio is invested in highly liquid securities such as high quality sovereign, sovereign-guaranteed, and supranational fixed income instruments, and in short term investments such as money market mutual funds. IFC expects to continue to be able to realize these assets as needed to meet its cash requirements, even in a liquidity crisis.

## FUNDING

IFC's funding operations ensure that IFC has the funds it needs for its lending operations, and that it has sufficient liquidity to safeguard its triple-A rating and fulfill IFC's counter-cyclical role. IFC is able to access a variety of funding markets, including the US dollar benchmark market, the Australian dollar market and the Japanese retail market. IFC's discount note programs complement IFC's traditional funding sources by providing swift access to funded liquidity. IFC's triple-A rating is critical to the Corporation's ability to maintain its low cost of funds. Regular issuance in a variety of markets serves to sustain investor confidence and maintain a diversified investor base. IFC continued to enjoy one of the lowest funding costs of any multilateral development bank in FY16. As a result of changes to the external market interest rates and spreads, however, IFC's funding costs for large benchmark issues increased somewhat in FY16 compared to US dollar Libor.

## FY16 LIQUIDITY RISK COMMENTARY

On June 30, 2016, IFC's liquid asset portfolios totaled \$41.4 billion (June 30, 2015—\$39.5 billion). The externally funded liquidity ratio was 504 percent, above the required minimum of 65 percent and the Corporation's overall liquidity as a percentage of next three years' estimated net cash needs stood at 85 percent, above the minimum requirement of 45 percent. During FY16, IFC raised \$14.3 billion in market borrowings, net of derivatives (FY15—\$14.8 billion). The outstanding balance under the Discount Note Program at June 30, 2016 was \$1.8 billion (June 30, 2015—\$1.3 billion).

## OPERATIONAL RISK MANAGEMENT

Consistent with the Basel Framework, IFC defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

IFC's Operational Risk Management (ORM) program is based on a Directive approved by the Corporate Risk Committee. This directive establishes the approach and roles and responsibilities for operational risk management in the Corporation. IFC's ORM approach is designed to ensure that operational risks are identified, assessed, and managed so as to minimize potential adverse impacts, and to enable Senior Management to determine which risks IFC will accept, mitigate or transfer. IFC seeks to mitigate key risks by maintaining a comprehensive set of processes and internal controls.

IFC utilizes risk transfer mechanisms, including insurance, at both the project and the institutional levels for mitigation of low frequency and high severity operational risks. At both levels, IFC identifies and evaluates risks, determines available contractual transfer and insurance options, implements the optimal structure, and tracks its effectiveness over time. IFC also insures its corporate assets and operations against catastrophic losses where commercially viable.

## FY16 OPERATIONAL RISK COMMENTARY

IFC continues to develop and implement enhanced methodologies to identify, measure, monitor and manage material operational risks in its key activities. IFC adopted an enterprise-level approach to assess operational risks in FY15 and has continued to develop this approach in FY16. Under this approach, IFC assesses operational risks in the processes that support IFC's key business pillars, namely, equity, debt, and treasury. IFC also continues to focus on its preparedness to react to extreme situations that could disrupt its normal operations through the Business Continuity Management program, which covers all IFC offices.

## BUSINESS RISK MANAGEMENT

### DEFINITION AND SCOPE OF BUSINESS RISK

Business risk is risk that is specific to IFC given its mission and strategy and that is not covered by other risk dimensions. It has the following components, which are described in the paragraphs below together with the specific risk mitigation measures that are adopted: environment and social; corporate governance; integrity; conflict of interest; and external financing.

### ENVIRONMENT AND SOCIAL RISK

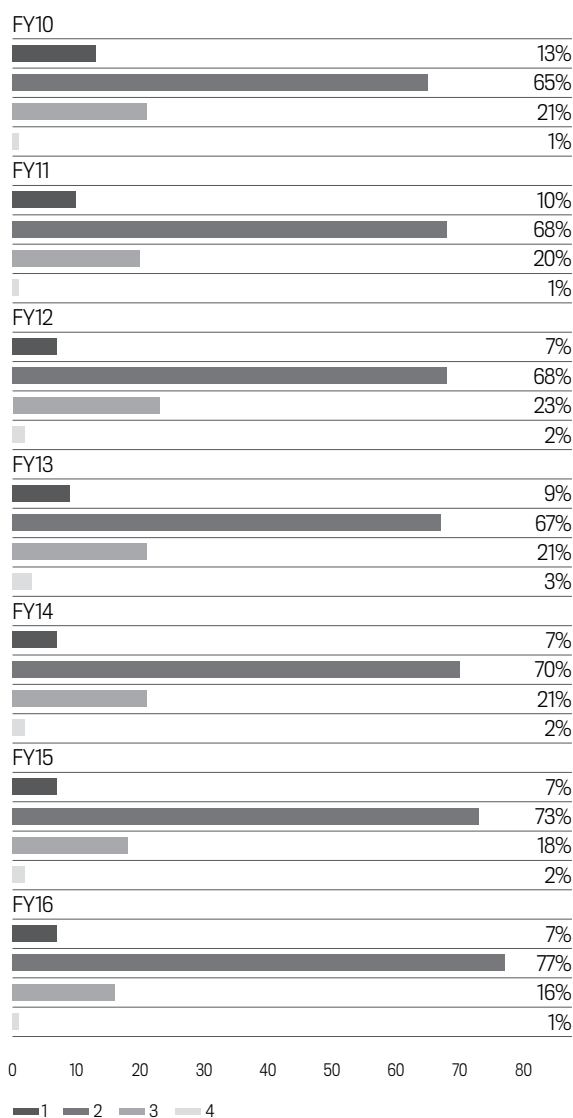
Environment and social (E&S) risk is the risk that IFC does not effectively engage and influence clients to fulfill the requirements of the Performance Standards on Environmental and Social Sustainability, potentially causing harm to people or the environment. The Performance Standards form part of IFC's Sustainability Framework, articulating the Corporation's strategic commitment to sustainable development:

- The Performance Standards guide clients on sustainable business practices, including continually identifying and managing risks through: analytical work such as environmental and social assessments; stakeholder engagement; and client disclosure obligations in relation to project-level activities.
- The Policy on Environmental and Social Sustainability describes IFC's commitments, roles and responsibilities in relation to environmental and social sustainability.
- IFC's Access to Information Policy reflects the Corporation's commitment to transparency and good governance and outlines institutional disclosure obligations.

IFC uses the Sustainability Framework along with other strategies, policies and initiatives to focus business activities on achieving the Corporation's development objectives. All project teams are required to record expectations of development outcomes with time-bound targets using standard indicators. These indicators are tracked and performance is rated on an annual basis for the duration of every project.

Focused supervision efforts in the last two fiscal years have improved the E&S risk profile of our portfolio by reducing the number of poor performing projects, defined as a historical environmental and social risk rating (ESRR) of 3 and 4. The ESRR evaluates a client's management of E&S risks and avoidance and control of adverse outcomes.

FIGURE 7: ENVIRONMENT AND SOCIAL RISK



ESRR distribution scale: 1) Excellent, 2) Satisfactory, 3) Partly Unsatisfactory, 4) Unsatisfactory. The score is calculated at appraisal as a baseline, and is then updated after each supervision activity.

---

### CLIENT CORPORATE GOVERNANCE RISK

Corporate governance risk is the risk that IFC's clients have inefficient or ineffective corporate governance practices, leading to adverse reputational or financial impact on IFC. IFC manages corporate governance risk primarily by conducting a structured evaluation of every investment project, covering the following five areas:

- Effectiveness of the Board of Directors;
- Sufficiency of internal controls, audit, risk management and compliance;
- Adequacy of financial disclosure;
- Adequacy of shareholders' rights; and
- Demonstration of the client's commitment to implement high quality corporate governance policies and practices.

The findings from these assessments are taken into account in the decision on whether to proceed with the project.

---

### INTEGRITY RISK

Integrity risk is the risk of engaging with external institutions or persons whose background or activities may have adverse reputational and/or financial impact on IFC. IFC works with a wide range of partners in both Investment Operations and Advisory Services, from multi-national to small companies, and from government institutions to Non-Governmental Organizations. Thus, each transaction or service opportunity presents unique integrity risks, affected by different factors including the structure and duration of the engagement. IFC has defined procedures for conducting Integrity Due Diligence and these are used to:

- Uncover integrity risk issues related to a project or engagement and the institutions and persons involved;
- Evaluate and assess integrity risks, including deciding on whether to mitigate or to accept the risks, and determining next steps, which may include IFC senior management and Board approval;
- Document results and appropriately classify documentation; and
- Monitor integrity risks and update documentation throughout the life of the project or engagement.

---

### OPERATIONAL CONFLICT OF INTEREST RISK

Operational conflict of interests can arise when IFC acts in the interests of more than one party, where the interests of those parties might be, or might be perceived to be, inconsistent. Given the nature and scope of products and services that IFC provides to its clients in furtherance of its development mandate, and the different roles played by other World Bank Group entities, actual or perceived operational conflicts of interest can arise in the normal course of its activities. IFC recognizes that adverse legal, reputational, client relationship and other implications may arise if such conflicts are not managed. IFC has implemented policies and procedures to manage these risks.

---

### EXTERNAL FINANCING RISK

As well as using its own resources to invest in and provide advice to clients, IFC raises additional funds from public and private sector investors, lenders and donors through several different mechanisms. External financing risk is the risk that when entrusted with oversight of such funds, IFC does not act in the best interests of the third parties involved.

To mitigate this risk, IFC works within agreed frameworks which establish IFC's responsibilities and obligations with respect to the third parties. For example, where financing to clients is mobilized through B Loans or the MCPP, the specialized Syndications Department follows defined processes to identify co-financiers, advise on structuring, and monitor compliance with investment agreements. In some cases, financing from third parties, including donors, is administered through trust funds. A separate unit within IFC follows predefined procedures for clearing all IFC trust fund proposals and agreements and overseeing IFC's trust fund portfolio. Finally, AMC, a wholly-owned subsidiary, provides for an independent governance process making decisions for the benefit of investors in funds managed by AMC.

---

### FY16 BUSINESS RISK COMMENTARY

During FY16, IFC established a centralized Business Risk and Compliance Department to enhance and build out oversight of compliance risk relating to IFC's operational, advisory and corporate functions, in particular relating to market conduct and the mobilization of third party capital; management of operational conflicts of interest; oversight of integrity risk, anti-money laundering, combating the financing of terrorism, sanctionable practices and debarment; information access and security; and use of offshore financial centers and tax behaviors, and to assist client departments and project teams improve consistency and accountability in relation to the management of such risks.

# Critical Accounting Policies

Note A to IFC's FY16 Consolidated Financial Statements contain a summary of IFC's significant accounting policies, including a discussion of recently adopted accounting standards and accounting and financial reporting developments. Certain of these policies are considered to be "critical" to the portrayal of IFC's financial condition and results of operations, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain.

These policies include:

- Determining the level of reserves against losses in the loan portfolio;
- Determining the level and nature of impairment for equity investments and debt securities carried at fair value with changes in fair value being reported in other comprehensive income (OCI) and for equity investments accounted for at cost less impairment (where impairment is determined with reference to fair value);
- Determining the fair value of certain equity investments, debt securities, loans, liquid assets, borrowings and derivatives, which have no quoted market prices and are accounted for at fair value; and
- Determining the future pension and postretirement benefit costs and obligations using actuarial assumptions based on financial market interest rates, past experience, and management's best estimate of future benefit cost changes and economic conditions.

Many of IFC's financial instruments are classified in accordance with the fair value hierarchy established by accounting standards for fair value measurements and disclosures where the fair value and/or impairment is estimated based on internally developed models or methodologies utilizing significant inputs that are non-observable.

## RESERVE AGAINST LOSSES ON LOANS

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. The reserve against losses for impaired loans reflects management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate. The reserve against losses for loans also includes an estimate of probable losses on loans inherent in the portfolio but not specifically identifiable. The reserve is established through periodic charges to income in the form of a provision for losses on loans. Loans written off, as well as any subsequent recoveries, are recorded through the reserve.

The assessment of the adequacy of reserves against losses for loans is highly dependent on management's judgment about factors such as its assessment of the financial capacity of borrowers, geographical concentration, industry, regional and macroeconomic conditions, and historical trends. Due to the inherent limitation of any particular estimation technique, management utilizes a capital pricing and risk framework to estimate the probable losses on loans inherent in the portfolio but not specifically identifiable. This Board of Directors-approved framework uses actual loan loss history and aligns the loan loss provisioning framework with IFC's capital adequacy framework.

The reserve against losses on loans is separately reported in the consolidated balance sheet as a reduction of IFC's total loans. Increases or decreases in the reserve level are reported in the income statement as provision for losses or release of provision for losses on loans, and guarantees. The reserve against losses on loans relates only to the Investment services segment of IFC (see Note S to the FY16 Consolidated Financial Statements for further discussion of IFC's business segments).

## OTHER-THAN-TEMPORARY IMPAIRMENTS ON EQUITY INVESTMENTS AND DEBT SECURITIES

IFC assesses all equity investments accounted for at fair value through OCI and all equity investments accounted for at cost less impairment for impairment each quarter. When impairment is identified and is deemed to be other-than-temporary, the equity investment is written down to its impaired value, which becomes the new cost basis in the equity investment. IFC generally

presumes that all equity impairments are deemed to be other-than-temporary. Impairment losses on equity investments accounted for at cost less impairment are not reversed for subsequent recoveries in value of the equity investment until it is sold. Recoveries in value on equity investments accounted for at fair value through OCI that have been the subject of an other-than-temporary impairments are reported in OCI until sold.

IFC assesses all debt security investments accounted for at fair value through OCI for impairment each quarter. When impairment is identified, the entire impairment is recognized in net income if certain conditions are met (as detailed in Note A to IFC's FY16 Consolidated Financial Statements). However, if IFC does not intend to sell the debt security and it is not more likely than not that IFC will be required to sell the security, but the security has suffered a credit loss, the credit-related impairment loss is recognized in net income and the non-credit related loss is recognized in OCI.

#### VALUATION OF FINANCIAL INSTRUMENTS WITH NO QUOTED MARKET PRICES

---

IFC reports at fair value all of its derivative instruments, all of its liquid asset trading securities and certain borrowings, loans, equity investments and debt securities. In addition, various investment agreements contain embedded or stand-alone derivatives that, for accounting purposes, are separately accounted as either derivative assets or liabilities, including puts, caps, floors, and forwards. IFC classifies all financial instruments accounted for at fair value based on the fair value hierarchy established by accounting standards for fair value measurements and disclosures as described in more detail in Notes A and R to IFC's FY16 Consolidated Financial Statements.

Many of IFC's financial instruments accounted for at fair value are valued based on unadjusted quoted market prices or using models where the significant assumptions and inputs are market-observable. The fair values of financial instruments valued using models where the significant assumptions and inputs are not market-observable are generally estimated using complex pricing models of the net present value of estimated future cash flows. Management makes numerous assumptions in developing pricing models, including an assessment about the counterparty's financial position and prospects, the appropriate discount rates, interest rates, and related volatility and expected movement in foreign currency exchange rates. Changes in assumptions could have a significant impact on the amounts reported as assets and liabilities and the related unrealized gains and losses reported in the income statement and statement of OCI. The fair value computations affect both the Investment services and Treasury segments of IFC (see Note S to the FY16 Consolidated Financial Statements for further discussion of IFC's business segments).

#### PENSION AND OTHER POSTRETIREMENT BENEFITS

---

IFC participates, along with IBRD and MIGA, in pension and postretirement benefit plans that cover substantially all of their staff members. All costs, assets and liabilities associated with the plans are allocated between IBRD, IFC and MIGA based upon their employees' respective participation in the plans. The underlying actuarial assumptions used to determine the projected benefit obligations, the fair value of plan assets and the funded status associated with these plans are based on financial market interest rates, past experience, and management's best estimate of future benefit cost changes and economic conditions. For further details, please refer to Note V to the FY16 Consolidated Financial Statements.



# 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 (loss) and comprehensive income (loss) and influences on the level and variability of net income and comprehensive income from year to year are:

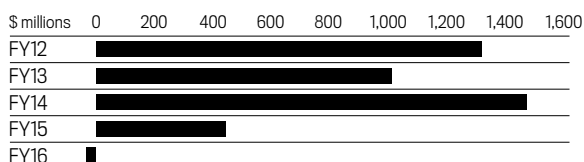
**TABLE 13: MAIN ELEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

| ELEMENTS   | SIGNIFICANT INFLUENCES   |
|--|--|
| <b>NET INCOME:</b>   |  |
| 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.  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS):</b>  |  |
| 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.   |



IFC's net (loss) income for each of the past five fiscal years ended June 30, 2016 is presented below (US\$ millions):

**FIGURE 8: IFC'S NET (LOSS) INCOME, FISCAL YEARS 2012-2016**



The following paragraphs detail significant variances between FY16 vs FY15 and FY15 vs FY14, covering the periods included in IFC's FY16 Consolidated Financial Statements.

### FY16 VERSUS FY15

#### NET INCOME

IFC reported 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 interest of \$500 million in FY16, as compared to \$855 million in FY15.

**TABLE 14: CHANGE IN NET INCOME FY16 VS FY15 (US\$ MILLIONS)**

|   | INCREASE (DECREASE)<br>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)                                |
| <b>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</b> | <b>\$(355)</b>                      |

|   | FY16           | FY15          |
|---|----------------|---------------|
| <b>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</b> | <b>\$ 500</b>  | <b>\$ 855</b> |
| Net unrealized gains/(losses) on non-trading financial instruments accounted for at fair value  | (204)          | (106)         |
| <b>Income before grants to IDA</b>  | <b>296</b>     | <b>749</b>    |
| Grants to IDA   | (330)          | (340)         |
| <b>Net (loss)/Income</b>  | <b>(34)</b>    | <b>409</b>    |
| Net losses attributable to non-controlling interests  | 1              | 36            |
| <b>Net (loss)/Income attributable to IFC</b>  | <b>\$ (33)</b> | <b>\$ 445</b> |

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

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

IFC's primary interest earning asset is its loan portfolio. Income from loans and guarantees, including realized gains and losses on loans and associated derivatives for FY16 totaled \$1,126 million, compared with \$1,123 million in FY15, an increase of \$3 million.

The disbursed loan portfolio increased \$658 million from \$23,252 million at June 30, 2015 to \$23,910 million at June 30, 2016.

The increase in the loan portfolio due to new disbursements exceeding repayments (\$1,233 million in FY16) was partially offset by the reduction in loans outstanding due to currency exchange rate fluctuations (\$244 million in FY16) as IFC's reporting currency, the US dollar appreciated against most of IFC's lending currencies in FY16 notwithstanding the depreciation of the US dollar against most of IFC's lending currencies in FY16.

**TABLE 15: FY16 CHANGE IN INCOME FROM LOANS AND GUARANTEES, INCLUDING REALIZED GAINS AND LOSSES ON LOANS AND ASSOCIATED DERIVATIVES (US\$ MILLIONS)**

|  |                |
|--|----------------|
| <b>Income from loans and guarantees, including realized gains and losses on loans and associated derivatives in FY15</b>   | <b>\$1,123</b> |
| Increase due to increase in the loan portfolio and interest rate environment   | 92             |
| Decrease due to lower realized gains on loans, guarantees and associated derivatives                                       | (55)           |
| Decrease due to higher amount of interest reversed on non-accurring loans, net   | (15)           |
| Decrease due to lower commitment and financial fees  | (11)           |
| Decrease due to lower income from participation notes and other income   | (8)            |
| <b>Change in Income from loans and guarantees, including realized gains and losses on loans and associated derivatives</b> | <b>\$ 3</b>    |
| <b>Income from loans and guarantees, including realized gains and losses on loans and associated derivatives in FY16</b>   | <b>\$1,126</b> |

The weighted average contractual interest rate on loans at June 30, 2016 was 5.1 percent, up from 4.9 percent June 30, 2015. Contributing to the increase was growth in fixed-rate local currency loans, and as many of IFC's loans periodically re-price against US\$ LIBOR, the increase in US\$ six-month LIBOR from 0.44 percent at June 30, 2015 to 0.92 percent at June 30, 2016. These factors combined resulted in \$92 million higher interest income in FY16 than in FY15. Realized gains on loans were significantly lower in FY16 primarily due to a successful workout of a loan and the conversion of a loan to equity in an investee company which together generated \$35 million of realized gains in FY15.

#### *INCOME FROM EQUITY INVESTMENTS AND ASSOCIATED DERIVATIVES*

Income from the equity investment portfolio, including associated derivatives, increased by \$91 million from \$427 million in FY15 to \$518 million in FY16.

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

IFC recognized realized gains on equity investments and associated derivatives in the form of cash and non-monetary considerations for FY16 of \$1,217 million, as compared with \$1,288 million for FY15, a decrease of \$71 million. Realized gains on equity investments and associated derivatives are concentrated in a small number of investments. In FY16, there were thirteen investments that generated individual capital gains in excess of \$20 million for a total of \$856 million, or 70 percent, of the FY16 realized gains, compared to twelve investments that generated individual capital gains in excess of \$20 million for a total of \$920 million, or 71 percent, of the FY15 realized gains.

Dividend income in FY16 totaled \$241 million, as compared with \$272 million in FY15. Dividend income in FY16 included returns from two unincorporated joint venture (UJVs) in the oil, gas and mining sectors accounted for under the cost recovery method, which totaled \$11 million, as compared with \$23 million from four such UJVs in FY15.

Other-than-temporary impairments on equity investments totaled \$744 million in FY16 (\$360 million on equity investments accounted for as available-for-sale; and \$384 million on equity investments accounted for at cost less impairment), as compared with \$732 million in FY15 (\$381 million on equity investments accounted for as available-for-sale; and \$351 million on equity investments accounted for at cost less impairment), an increase of \$12 million. Other-than-temporary impairments on equity investments in FY16 reflected the economic downturn in certain countries in the East Asia and the Pacific, Latin America and the Caribbean, and the Middle East and North Africa regions. In FY16, six investments generated individual other-than-temporary impairments in excess of \$20 million for a total of \$173 million. In FY15, four investment generated an individual other-than-temporary impairment in excess of \$20 million for a total of \$234 million.

Net unrealized losses on equity investments and associated derivatives totaled \$204 million (Net unrealized losses of \$402 million in FY15) reflecting a generally deteriorating macro environment in emerging market equities which has negatively impacted the value of many of IFC's equity investments accounted for at fair value in net income. Seven investments in equity funds accounted for \$194 million of the unrealized losses in FY16. In FY15 one investment accounted for \$58 million of the unrealized gains. Nine investments in equity funds accounted for \$179 million of the unrealized losses in FY15. Individual investments in such funds provided a significant component of such unrealized gains and losses.

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

Income from debt securities and realized gains and losses on debt securities and associated derivatives decreased to \$129 million in FY16 from \$132 million in FY15. The largest changes were higher interest income (\$18 million), lower realized gains on debt securities and associated derivatives (\$7 million) and higher other-than-temporary impairments (\$12 million) in FY16 when compared with FY15.

#### *PROVISION FOR LOSSES ON LOANS, GUARANTEES AND OTHER RECEIVABLES*

The quality of the loan portfolio, as measured by the weighted average country risk ratings and the weighted average credit risk ratings, deteriorated in FY16. Non-performing loans (NPLs) increased by \$134 million, from \$1,578 million of the disbursed loan portfolio at June 30, 2015 to \$1,712 million\* at June 30, 2016. The increase of \$134 million comprised \$713 million of loans and loan-like debt securities being placed in NPL status, \$542 million being removed from NPL status and a

\* Includes \$66 million reported as debt securities on the Balance Sheet as of June 30, 2016 (\$44 million—June 30, 2015).

\$37 million reduction due to repayments and currency translation adjustments. In FY16, 24 loans greater than \$10 million, and totaling \$638 million, were placed in NPL status.

IFC recorded a net provision for losses on loans, guarantees and other receivables of \$359 million in FY16 (\$319 million of specific provisions on loans; \$36 million of portfolio provisions on loans; \$3 million provision on guarantees; and \$1 million provision on other receivables) as compared to a provision of \$171 million in FY15 (\$199 million of specific provisions for losses on loans; \$30 million release of portfolio provisions for losses on loans; and net \$2 million of provision for losses on guarantees and other receivables). Project-specific developments on four loans comprised \$122 million of the specific provision for losses on loans in FY16.

At June 30, 2016, IFC's total reserves against losses on loans were \$1,775 million or 7.4 percent of the disbursed loan portfolio (\$1,743 million; 7.5 percent at June 30, 2015), an increase of \$32 million from June 30, 2015. The increase in reserves against losses on loans due to provisions of \$355 million has been partially offset by write-offs, net of recoveries, and other adjustments of \$298 million and foreign exchange gains related to reserves held against non-U.S. dollar-denominated loans and the strengthening of the U.S. dollar against many of IFC's lending currencies of \$25 million. In FY16, IFC actively sought to exit a number of loan exposures through settlement or sale or a recognition that the possibility of recovery was remote resulting in a significant amount of exits.

Specific reserves against losses on loans at June 30, 2016 of \$965 million (\$962 million at June 30, 2015) are held against impaired loans of \$1,752 million (\$1,722 million at June 30, 2015), a coverage ratio of 55 percent (56 percent at June 30, 2015).

#### *INCOME FROM LIQUID ASSET TRADING ACTIVITIES*

The liquid assets portfolio, net of derivatives and securities lending activities, increased by \$1.9 billion from \$39.5 billion at June 30, 2015, to \$41.4 billion at June 30, 2016. Gross income from liquid asset trading activities totaled \$504 million in FY16 compared to \$467 million in FY15, an increase of \$37 million.

Interest income in FY16 totaled \$561 million, compared to \$614 million in FY15. In addition, the portfolio of ABS and MBS experienced fair value losses totaling \$70 million in FY16. Holdings in other products, including US Treasuries, global government bonds, high quality corporate bonds and derivatives generated \$13 million of gains in FY16, a total loss of \$57 million (realized and unrealized). This compares to a total loss (realized and unrealized) of \$147 million in FY15.

In FY16, the liquid assets portfolios outperformed their benchmarks by \$145 million. The capital markets were highly turbulent during FY16 with contributions to the environment from highly volatile oil prices, Chinese foreign-exchange policy (weakening RMB) and political developments (Brexit). Surprisingly, in a fiscal year in which the Federal Reserve raised their benchmark

rates, U.S. Treasuries rallied strongly with the 10-year yield down 88 bps and the 2-year down 6 bps. Even though the U.S. S&P 500 index managed a small gain over the fiscal year, credit spreads were generally wider as tail risks increased. In addition, U.S. swap spreads (the yield difference between the fixed-leg of a fixed-floating swap versus USD LIBOR and the same maturity U.S. Treasury) narrowed significantly, e.g., 15 basis points for 5-year maturity. With spreads to U.S. Treasuries for high-quality credit securities already quite narrow, the "cheapening" of U.S. Treasuries to swaps led to a widening in the spreads of swaps for high-quality assets (including IFC's own issuances). As a result, liquid assets, many of which are swapped or indexed to LIBOR, generally underperformed their LIBOR-based benchmark. The aforementioned rise in perceived tail-risks also hindered the performance of liquid assets as did developments in the UK and in the market for U.S. government-guaranteed student loan ABS.

The absolute return on liquid assets in FY16 benefited from rising short-term interest rates (3-month LIBOR rose 37 bps) and a relatively dovish Federal Reserve, which supported a rally in U.S. Treasury yields that contributed to the performance of the net worth portion of liquid assets. Note that the increase in short-term interest rates was offset by a corresponding increase in IFC's funding cost.

In FY16 and FY15, all internally managed liquid asset portfolios outperformed their respective benchmarks.

At June 30, 2016, trading securities with a fair value of \$68 million are classified as Level 3 securities (\$86 million—June 30, 2015).

#### *CHARGES ON BORROWINGS*

IFC's charges on borrowings increased by \$151 million, from \$258 million in FY15 (net of \$2 million gain on extinguishment of borrowings) to \$409 million in FY16 (net of \$6 million gain on extinguishment of borrowings), largely attributable to increase in borrowings outstanding, rising LIBOR rates, and increased interest charges on the back of pricing in the SSA (Sovereigns, Supranational and Agency) market becoming more expensive due to USD swap curve tightening and widening borrowing spreads vs. LIBOR.

The weighted average cost of IFC's borrowings outstanding from market sources, after the effects of borrowing-related derivatives, and excluding short-term borrowings from market and other sources, was 1.1 percent at June 30, 2016, an increase from 0.5 percent at June 30, 2015. The size of the borrowings portfolio (excluding the short-term borrowings), net of borrowing-related derivatives and before fair value adjustments, increased by \$2.2 billion during FY16 from \$51.7 billion at June 30, 2015, to \$53.9 billion at June 30, 2016.

#### *OTHER INCOME*

Other income of \$501 million for FY16 was \$4 million lower than in FY15 (\$505 million). There were lower returns on the Post Employment Benefit Plan (PEBP) assets which are partly invested in global equities and reflected the challenging market for equity investments in FY16 as compared to the same period in FY15. The

decline in service fees was due to decreases in FY16 evaluation fees, supervision fees, and other project related fees, partially offset by an increase in mobilization fees when compared with FY15 activities.

Other income also includes management and other fees from IFC's consolidated subsidiary, AMC, of \$66 million (\$59 million in FY15) and income from Advisory Services, predominantly contributions from donors, of \$266 million (\$244 million in FY15). In FY16, income from advisory services comprised \$217 million of donor funds utilized (\$197 million—FY15) and \$49 million of fees from clients and administrative fees from donors (\$47 million—FY15).

#### *OTHER EXPENSES*

Administrative expenses (the principal component of other expenses) increased by \$32 million from \$901 million in FY15 to \$933 million in FY16. The increase in FY16 is due to marginally higher salary and benefit costs, the largest component of administrative expenses, and higher variable expenses, primarily consultants and travel.

Advisory services expenses totaled \$308 million in FY16 (\$285 million in FY15) with the increase from FY15 consistent with the increase in advisory services income.

IFC recorded expenses from pension and other postretirement benefit plans in FY16 of \$185 million, compared with \$197 million in FY15. This decrease, based on the beginning of the year actuarial assumptions and calculations, was driven by lower service and higher interest costs, partially offset by higher expected returns on plan assets.

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

Foreign currency transaction losses reported in net loss in FY16 totaled \$46 million (gains of \$53 million—FY15). Foreign currency transaction losses on debt securities accounted for as available-for-sale in the amount of \$49 million in FY16 (losses of \$115 million—FY15) are reported in Other Comprehensive Income, while gains and losses on the derivatives economically hedging such debt securities are reported in net income.

Largely due to IFC having a small population of unhedged non-U.S. dollar-denominated loans and debt securities and the U.S. dollar strengthening against such currencies, IFC has recorded overall foreign exchange related losses in a combination of Net Income and Other Comprehensive Income of \$95 million in FY16 (losses of \$62 million—FY15).

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

As discussed in more detail in Note A to IFC's FY16 Consolidated Financial Statements, 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) all market borrowings that are economically hedged with financial instruments that are accounted for at fair value with changes therein reported in net income; (ii) unrealized gains and losses on certain loans, debt securities and associated derivatives; and (iii) borrowings from IDA.

**TABLE 16: NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS FY16 VS FY15 (US\$ MILLIONS)**

|   | FY16           | FY15           |
|---|----------------|----------------|
| Unrealized gains and losses on loans, debt securities and associated derivatives                        | <b>\$(266)</b> | \$ (54)        |
| Unrealized gains and losses on borrowings from market, IDA and associated derivatives, net              | <b>62</b>      | (52)           |
| <b>Net unrealized gains and losses on non-trading financial instruments accounted for at fair value</b> | <b>\$(204)</b> | <b>\$(106)</b> |

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 US\$ 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 do not alter the cash flows. IFC's policy is to generally match currency, amount and timing of cash flows on market borrowings with cash flows on associated derivatives entered into contemporaneously.

In FY16, the trend of the first half of the fiscal year to higher after swap borrowing costs continued, coupled with an increase in volatility in credit markets. Additionally, at the end of FY16, the cost of economically hedging borrowings in US dollars, Australian dollars, New Zealand dollars and Japanese yen was more expensive across all maturities with respect to benchmarks as compared to the end of FY15. While these credit spreads for IFC borrowing issuances were higher than at the end of the prior year, interest rate levels had generally fallen by the end of FY16 back to below prior year levels. This coupled with the deterioration in credit spreads, resulted in unrealized losses on the valuation of IFC's market borrowings that were more than offset by gains on related hedging swaps. As a result, IFC has reported net \$62 million of unrealized gains on borrowings and associated derivatives in FY16 (net \$52 million of unrealized losses in FY15).

IFC reported net unrealized losses on loans, debt securities and associated derivatives of \$266 million in FY16 (net unrealized losses of \$54 million in FY15). In FY16 this comprised unrealized losses of \$143 million on the loan and debt securities portfolio carried at fair value, unrealized losses of \$107 million on asset liability management swaps, and unrealized losses of \$16 million on other derivatives, mainly conversion features, warrants in investment contracts and interest rate and currency swaps hedging the fixed rate and/or non-US\$ loan portfolio and funding local currency lending pools. Currency swap losses were mainly in instruments denominated in Brazilian real and Indian rupees reflecting declines in local interest rates and supply and demand in forward foreign exchange markets.

## GRANTS TO IDA

During FY16, IFC recorded a grant to IDA of \$330 million, as compared with \$340 million in FY15.

## OTHER COMPREHENSIVE INCOME (OCI)

### UNREALIZED GAINS AND LOSSES ON EQUITY INVESTMENTS AND DEBT SECURITIES

IFC's investments in debt securities and equity investments that are listed in markets that provide readily determinable fair values are classified as available-for-sale, with unrealized gains and losses on these investments being reported in OCI until realized. When realized, the gain or loss is transferred to net income. Changes in unrealized gains and losses on equity investments and debt securities reported in OCI are significantly impacted by (i) the global environment for emerging markets; and (ii) the realization of gains on sales of such equity investments and debt securities.

**TABLE 17: CHANGE IN OTHER COMPREHENSIVE  
INCOME (LOSS)—UNREALIZED GAINS AND LOSSES  
ON EQUITY INVESTMENTS AND DEBT SECURITIES  
FY16 VS FY15 (US\$ MILLIONS)**

|   | FY16            | FY15            |
|---|-----------------|-----------------|
| Net unrealized gains and losses on equity investments arising during the year:  |                 |                 |
| Unrealized gains  | \$ 355          | \$1,067         |
| Unrealized losses   | (871)           | (799)           |
| Reclassification adjustment for realized gains and other-than-temporary impairments included in net income  | (281)           | (393)           |
| <b>Net unrealized gains and losses on equity investments</b>  | <b>\$ (797)</b> | <b>\$ (125)</b> |
| Net unrealized gains and losses on debt securities arising during the year:   |                 |                 |
| Unrealized gains  | \$ 103          | \$ 110          |
| Unrealized losses   | (180)           | (182)           |
| Reclassification adjustment for realized gains, non-credit related portion of impairments which were recognized in net income and other-than-temporary included in net income | 10              | (7)             |
| <b>Net unrealized gains and losses on debt securities</b>   | <b>\$ (67)</b>  | <b>\$ (79)</b>  |
| <b>Total unrealized gains and losses on equity investments and debt securities</b>  | <b>\$ (864)</b> | <b>\$ (204)</b> |

Net unrealized losses on equity investments arising in FY16 totaled \$797 million, mainly due to decreases in equity fair values reflecting the volatile and overall significantly negative market conditions (equity, commodities and foreign exchange) in FY16. Unrealized losses of \$976 million were reported in FY16 Q1, unrealized gains of \$24 million in FY16 Q2, unrealized losses of \$55 million in FY16 Q3 and unrealized gains of \$143 million in FY16

Q4, reflecting the significantly weaker emerging markets environment that existed in FY16 Q1 when compared to FY16 Q2 and FY16 Q3 and larger realizations of gains on equity investments accounted for as available for sale early in FY16 Q1.

### UNRECOGNIZED NET ACTUARIAL GAINS AND LOSSES AND UNRECOGNIZED PRIOR SERVICE COSTS ON BENEFIT PLANS

Unrecognized pension adjustments largely represent the unrecognized net actuarial gains and losses on benefit plans. Actuarial gains and losses occur when actual results differ from expected results in determining the funded status of the pension plans. Since the pension plans are long term, changes in asset returns and discount rates cause volatility in fair value income. The decline in the funded status reflects the decline in interest rates and to a lesser extent the lower asset returns compared with the long-term projection. Given its long term planning horizon for pension plans, Management is focused mainly on ensuring that contributions to pension plans appropriately reflect long term assumptions about asset returns and discount rates.

During FY16, IFC experienced a loss of \$764 million primarily due to \$763 million and \$1 million of unrecognized net actuarial loss and prior service cost, resulting largely from the decrease in the discount rates used to determine the projected benefit obligations. The discount rate assumptions used to determine the projected benefit obligation for the Staff Retirement Plan and Post-Employment Benefits Plan decreased from 4.3 percent at June 30, 2015 to 3.4 percent at June 30, 2016 and from 4.4 percent at June 30, 2015 to 3.5 percent at June 30, 2016, respectively.

## FY15 VERSUS FY14

### NET INCOME

IFC reported income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of \$855 million in FY15, as compared to \$1,782 million in FY14.



**TABLE 18: CHANGE IN NET INCOME FY15 VS FY14  
(US\$ MILLIONS)**

|   | INCREASE (DECREASE)<br>FY15 vs FY14 |                 |
|---|-------------------------------------|-----------------|
| Higher other-than-temporary impairments on equity investments and debt securities   |                                     | \$(484)         |
| Lower gains on equity investments and associated derivatives, net   |                                     | (383)           |
| Lower income from liquid asset trading activities   |                                     | (132)           |
| Higher provisions for losses on loans, guarantees and other receivables   |                                     | (83)            |
| Higher income from loans and guarantees, realized gains and losses on loans and associated derivatives  |                                     | 58              |
| Higher foreign currency transaction gains on non-trading activities   |                                     | 72              |
| Other, net  |                                     | 25              |
| <b>Change in income before net unrealized gains and losses on non-trading financial instruments accounting for at fair value and grants to IDA and net gains and losses attributable to non-controlling interests</b> |                                     | <b>\$(927)</b>  |
|   | FY15                                | FY14            |
| <b>Income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA and net gains and losses attributable to non-controlling interests</b>            | <b>\$ 855</b>                       | <b>\$ 1,782</b> |
| Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value  | (106)                               | (43)            |
| <b>Income before grants to IDA</b>  | <b>749</b>                          | <b>1,739</b>    |
| Grants to IDA   | (340)                               | (251)           |
| Net losses (gains) attributable to non-controlling interests  | 36                                  | (5)             |
| <b>Net income attributable to IFC</b>   | <b>\$ 445</b>                       | <b>\$ 1,483</b> |

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

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

IFC's primary interest earning asset is its loan portfolio. Income from loans and guarantees, realized gains and losses on loans and associated derivatives for FY15 totaled \$1,123 million, compared with \$1,065 million in FY14, an increase of \$58 million.

The disbursed loan portfolio decreased by \$1,155 million, from \$24,407 million at June 30, 2014 to \$23,252 million at June 30, 2015.

New disbursements of loans exceeded repayments in FY15. The reduction in total loan outstanding was due to currency exchange rate fluctuations as IFC's reporting currency, the US dollar, appreciated significantly in FY15 against most of IFC's lending currencies. Loans outstanding decreased by \$1,076 million in FY15 from currency exchange rate fluctuations. As IFC economically hedges

the currency risk in most of its loan portfolio, substantially offsetting gains on lending-related derivatives due to currency exchange fluctuations have also been recorded.

**TABLE 19: FY15 CHANGE IN INCOME FROM LOANS AND GUARANTEES, INCLUDING REALIZED GAINS AND LOSSES ON LOANS AND ASSOCIATED DERIVATIVES (US\$ MILLIONS)**

|  |                 |
|--|-----------------|
| <b>Income from loans and guarantees, including realized gains and losses on loans and associated derivatives in FY14</b>   | <b>\$1,065</b>  |
| Increase due to change in loan portfolio and interest rate environment   | 94              |
| Increase due to higher realized gains on loans, guarantees and associated derivatives                                      | 48              |
| Decrease due to lower recoveries of interest on non-accruing loans, net  | (25)            |
| Decrease due to lower commitment and financial fees  | (11)            |
| Decrease due to lower income from participation notes and other income   | (48)            |
| <b>Change in income from loans and guarantees, including realized gains and losses on loans and associated derivatives</b> | <b>\$ 58</b>    |
| <b>Income from loans and guarantees, including realized gains and losses on loans and associated derivatives in FY15</b>   | <b>\$ 1,123</b> |

The weighted average contractual interest rate on loans at June 30, 2015 was 4.9 percent, up from 4.5 percent June 30, 2014. Contributing to the increase was growth in fixed-rate local currency loans, and as many of IFC's loans periodically re-price against US\$ LIBOR, the increase in US\$ six-month LIBOR from 0.33 percent at June 30, 2014 to 0.44 percent at June 30, 2015. These factors combined resulted in \$94 million higher interest income in FY15 than in FY14. Realized gains on loans were significantly higher in FY15 due mainly to a successful workout of a loan which generated \$19 million of gains, and the conversion of a loan to equity in an investee company which generated gains of \$16 million.

**INCOME FROM EQUITY INVESTMENTS AND  
ASSOCIATED DERIVATIVES**

Income from the equity investment portfolio, including associated derivatives decreased by \$862 million from \$1,289 million in FY14 to \$427 million in FY15.

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

IFC recognized gains on equity investments and associated derivatives in the form of cash and non-monetary considerations for FY15 of \$1,288 million, as compared with \$1,013 million for FY14, an increase of \$275 million with the majority of realized gains being recorded in the six months ended December 31, 2014. Realized gains on equity investments and associated derivatives are concentrated. In FY15, there were twelve investments that

generated individual capital gains in excess of \$20 million for a total of \$920 million, or 71 percent, of the FY15 realized gains, compared to thirteen investments that generated individual capital gains in excess of \$20 million for a total of \$733 million, or 72 percent, of the FY14 realized gains.

Dividend income in FY15 totaled \$272 million, substantially unchanged from \$274 million in FY14. Dividend income in FY15 included returns from four unincorporated joint ventures (UJVs) in the oil, gas and mining sectors accounted for under the cost recovery method, which totaled \$23 million, as compared with \$19 million from four such UJVs in FY14.

Other-than-temporary impairments on equity investments totaled \$732 million in FY15 (\$381 million on equity investments accounted for as available-for-sale; and \$351 million on equity investments accounted for at cost less impairment), as compared with \$268 million in FY14 (\$161 million on equity investments accounted for as available-for-sale; and \$107 million on equity investments accounted for at cost less impairment), an increase of \$464 million. Other-than-temporary impairments on equity investments in FY15 reflected the economic downturn in certain countries in Eastern Europe and Central Asia and Latin America and the Caribbean, a decline in the price of oil and currency depreciation versus the US dollar in most of IFC's equity investing currencies and some adverse project-specific developments. \$305 million (42 percent) of other-than-temporary impairments on equity investments in FY15 were in Europe and Central Asia and \$205 million (28 percent) were in Latin America and the Caribbean. In FY15, four investments generated individual other-than-temporary impairments in excess of \$20 million for a total of \$234 million. In FY14, one investment generated an individual other-than-temporary impairment in excess of \$20 million for a total of \$34 million.

Net unrealized losses on equity investments and associated derivatives totaled \$402 million (Net unrealized gains of \$256 million in FY14) in large part due to reversal of previously reported unrealized gains of \$235 million relating to unwinding the value of put options that were on IFC's balance sheet at June 30, 2014, together with the overall weak environment for emerging markets equities negatively impacting the value of many of IFC's equity investments accounted for at fair value in net income. One investment accounted for \$58 million of the unrealized gains in FY15. Nine investments in equity funds accounted for \$179 million of the unrealized losses in FY15. In FY14 one investment accounted for \$181 million of the unrealized gains. Six investments in equity funds accounted for \$31 million of the unrealized losses in FY14. Individual investments in such funds provided a significant component of such unrealized gains and losses.

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

Income from debt securities and realized gains and losses on debt securities and associated derivatives increased to \$132 million in FY15 from \$89 million in FY14, an increase of \$43 million. The largest components of the

increase were higher interest income (\$45 million) and realized gains on debt securities and associated derivatives (\$17 million) in FY15 when compared with FY14.

#### *PROVISION FOR LOSSES ON LOANS, GUARANTEES AND OTHER RECEIVABLES*

The quality of the loan portfolio, as measured by average country risk ratings and average credit risk ratings, deteriorated marginally in FY15. Non-performing loans increased by \$236 million, from \$1,342 million of the disbursed loan portfolio at June 30, 2014 to \$1,578 million at June 30, 2015. The increase of \$236 million comprised \$587 million of loans and loan-like debt securities being placed in NPL status, \$278 million being removed from NPL status and a \$73 million reduction due to repayments and currency translation adjustments.

IFC recorded a provision for losses on loans, guarantees and other receivables of \$171 million in FY15 (\$199 million of specific provisions on loans; \$30 million release of portfolio provisions on loans; \$2 million release of provision on guarantees; and \$4 million provision on other receivables) as compared to a provision of \$88 million in FY14 (\$127 million of specific provisions for losses on loans; \$44 million release of portfolio provisions for losses on loans; and \$5 million of provision for losses on guarantees and other receivables). Project-specific developments on two loans resulted in \$92 million of the specific provision for losses on loans in FY15.

On June 30, 2015, IFC's total reserves against losses on loans were 7.5 percent of the disbursed loan portfolio (6.9 percent at June 30, 2014), an increase of \$57 million. The increase in reserves against losses on loans due to provisions of \$169 million has been partially offset by foreign exchange gains related to reserves held against non-U.S. dollar-denominated loans and the strengthening of the U.S. dollar against many of IFC's lending currencies of \$80 million and write-offs, net of recoveries, and other adjustments of \$32 million.

Specific reserves against losses on loans at June 30, 2015 of \$962 million (\$838 million at June 30, 2014) are held against impaired loans of \$1,722 million (\$1,725 million at June 30, 2014), a coverage ratio of 56 percent (49 percent at June 30, 2014).

#### *INCOME FROM LIQUID ASSET TRADING ACTIVITIES*

The liquid assets portfolio, net of derivatives and securities lending activities, increased from \$33.7 billion at June 30, 2014, to \$39.5 billion at June 30, 2015. Gross income from liquid asset trading activities totaled \$467 million in FY15 (\$599 million in FY14).

Interest income in FY15 totaled \$614 million. In addition, the portfolio of ABS and MBS experienced fair value losses totaling \$38 million in FY15. Holdings in other products, including US Treasuries, global government bonds, high quality corporate bonds and derivatives generated \$109 million of losses in FY15, a net loss of \$147 million.

The primary driver of income for FY15 was interest earned over the period, totaling \$614 million (\$533 million—FY14). Relative to FY14, there were fewer gains from spread tightening, and income on liquid assets



denominated in foreign currencies was reduced by the strengthening of the U.S. dollar. Net foreign exchange losses for assets held in liquidity are offset by gains on foreign exchange hedges including, among other things, derivative instruments and debt issuances in the related currencies.

In FY15 and FY14, all internally managed liquid asset portfolios outperformed their respective benchmarks.

At June 30, 2015, trading securities with a fair value of \$86 million are classified as Level 3 securities (\$188 million on June 30, 2014).

#### CHARGES ON BORROWINGS

IFC's charges on borrowings increased by \$62 million, from \$196 million in FY14 (net of \$3 million gain on extinguishment of borrowings) to \$258 million in FY15 (net of \$2 million gain on extinguishment of borrowings), largely reflecting an increase in interest charges relating to fixed rate local currency bonds raised from capital market development activities (which in the aggregate have been invested in higher rate local currency assets).

The weighted average rate of IFC's borrowings outstanding from market sources, after the effects of borrowing-related derivatives, and excluding short-term borrowings from market and other sources, was 0.5 percent at June 30, 2015, slightly increased from 0.4 percent June 30, 2014. The size of the borrowings portfolio (excluding the short-term borrowings), net of borrowing-related derivatives and before fair value adjustments, increased by \$3.9 billion during FY15 from \$47.8 billion at June 30, 2014, to \$51.7 billion at June 30, 2015.

#### OTHER INCOME

Other income of \$505 million for FY15 was \$44 million higher than in FY14 (\$461 million) principally due to fee income generated from stronger mobilization activities in FY15 as compared with FY14. Other income in FY15 also includes management fees and service fee reimbursements of \$59 million (\$57 million in FY14) from IFC's consolidated subsidiary, AMC, and income from advisory services of \$244 million (\$254 million in FY14). In FY15, income from advisory services comprised \$197 million of donor funds utilized (\$216 million—FY14) and \$47 million of fees from clients and administrative fees from donors (\$38 million—FY14).

#### OTHER EXPENSES

Other expenses increased modestly in FY15 by \$5 million from \$1,418 million to \$1,423 million. Other expenses reflect higher expense from pension and other postretirement plans, driven by higher service and interest costs partially offset by higher expected returns on plan assets and higher expenses from AMC, driven by the growth in AMC's funds and assets under management.

Advisory services expenses totaled \$285 million in FY15 (\$324 million in FY14) with the decrease in advisory services reflecting the series of advisory service reforms and transition to the new organizational structure.

In addition, pursuant to a series of expenditure controls, administrative expenses were favorably impacted due to lower head count and resulting impact on staff salaries and benefits, lower spending on consultants and lower spending on travel, partially offset by an increase in service and support fees paid to IBRD due to an increase in shared services. Lastly, administrative expenses were also lower due to expenses being incurred in currencies other than US dollars.

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

Foreign currency transaction gains reported in net income in FY15 totaled \$53 million (\$19 million losses—FY14). Foreign currency transaction losses on debt securities accounted for as available-for-sale in the amount of \$115 million in FY15 (losses of \$8 million—FY14) are reported in Other Comprehensive Income, while gains and losses on the derivatives economically hedging such debt securities are reported in net income.

Largely due to IFC having a small population of unhedged non-U.S. dollar-denominated loans and debt securities and the U.S. dollar strengthening against such currencies, IFC has recorded overall foreign exchange related losses in both Net Income and Other Comprehensive Income of \$62 million in FY15 (losses of \$27 million—FY14).

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

As discussed in more detail in Note A to IFC's FY15 Consolidated Financial Statements, 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) all market borrowings that are economically hedged; and (ii) unrealized gains and losses on certain loans, debt securities and associated derivatives, (iii) substantially all market borrowings, and (iv) borrowings from IDA.

The resulting effects of fair value accounting for these non-trading financial instruments on net income in FY15 and FY14 are summarized as follows:

**TABLE 20: NET UNREALIZED GAINS AND LOSSES ON NON-TRADING FINANCIAL INSTRUMENTS FY15 VS FY14 (US\$ MILLIONS)**

|   | FY15           | FY14          |
|---|----------------|---------------|
| Unrealized gains and losses on loans, debt securities and associated derivatives                              | \$ (54)        | \$ 31         |
| Unrealized gains and losses on borrowings from market, IDA and associated derivatives, net                    | (52)           | (74)          |
| <b>Net unrealized gains and losses on other non-trading financial instruments accounted for at fair value</b> | <b>\$(106)</b> | <b>\$(43)</b> |

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 US\$ 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 do not alter cash flow. IFC's policy is to generally match currency, amount, and timing of cash flows on market borrowings with cash flows on associated derivatives entered into contemporaneously.

In FY15, modest unrealized losses were incurred on market borrowings after swaps, on balance, across funding currency portfolios. The cost of economically hedging borrowings in US dollars and Australian dollars after swaps was largely unchanged with respect to benchmarks at FY15 -end as compared to FY14-end. The cost of economically hedging borrowings in Japanese yen was slightly cheaper at FY15-end compared to FY14-end, while the cost of hedging the fair value of New Zealand dollar borrowings was more expensive at FY15-end. As a result, IFC has reported net \$52 million of unrealized losses on borrowings and associated derivatives in FY15 (net \$74 million of unrealized losses in FY14)

IFC reported net unrealized losses on loans, debt securities and associated derivatives (principally conversion features, warrants and interest rate and currency swaps economically hedging the fixed rate and/or non-US\$ loan portfolio) of \$54 million in FY15 (net unrealized gains of \$31 million in FY14).

#### GRANTS TO IDA

During FY15, IFC recorded a grant to IDA of \$340 million, as compared with \$251 million in FY14.

### OTHER COMPREHENSIVE INCOME

#### UNREALIZED GAINS AND LOSSES ON EQUITY INVESTMENTS AND DEBT SECURITIES

IFC's investments in debt securities and equity investments that are listed in markets that provide readily determinable fair values are classified as available-for-sale, with unrealized gains and losses on these investments being reported in OCI until realized. When realized, the gain or loss is transferred to net income. Changes in unrealized gains and losses on equity investments and debt securities reported in OCI are significantly impacted by (i) the global environment for emerging markets; and (ii) the realization of gains on sales of such equity investments and debt securities.

The net change in unrealized gains and losses on equity investments and debt securities in OCI can be summarized as follows:

**TABLE 21: CHANGE IN OTHER COMPREHENSIVE INCOME—UNREALIZED GAINS AND LOSSES ON EQUITY INVESTMENTS AND DEBT SECURITIES FY15 VS FY14 (US\$ MILLIONS)**

|   | FY15            | FY14         |
|---|-----------------|--------------|
| Net unrealized gains and losses on equity investments arising during the year:  |                 |              |
| Unrealized gains  | \$1,067         | \$ 882       |
| Unrealized losses   | (799)           | (228)        |
| Reclassification adjustment for realized gains and other-than-temporary impairments included in net income  | (393)           | (312)        |
| <b>Net unrealized gains and losses on equity investments</b>  | <b>\$ (125)</b> | <b>\$342</b> |
| Net unrealized gains and losses on debt securities arising during the year:   |                 |              |
| Unrealized gains  | \$ 110          | \$ 154       |
| Unrealized losses   | (182)           | (93)         |
| Reclassification adjustment for realized gains, non-credit related portion of impairments which were recognized in net income and other-than-temporary included in net income | (7)             | (16)         |
| <b>Net unrealized gains and losses on debt securities</b>   | <b>\$ (79)</b>  | <b>\$ 45</b> |
| <b>Total unrealized gains and losses on equity investments and debt securities</b>  | <b>\$ (204)</b> | <b>\$387</b> |

Net unrealized gains on equity investments arising in FY15 totaled \$268 million. This gains were achieved in spite of the overall negative environment for emerging markets equities through FY15 as a whole due to a small number of financial institution investments in Asia accounted for as available-for-sale that increased in value during FY15, despite significant volatility in that region late in FY15.

#### UNRECOGNIZED NET ACTUARIAL GAINS AND LOSSES AND UNRECOGNIZED PRIOR SERVICE COSTS ON BENEFIT PLANS

Changes in the funded status of pension and other post-retirement benefit plans are recognized in OCI, to the extent they are not recognized in net income under periodic benefit cost for the year.

During FY15, IFC experienced a gain of \$162 million primarily due to \$156 million of unrecognized net actuarial gains, resulting largely from the increase in the discount rates used to determine the projected benefit obligations. The discount rate assumptions used to determine the projected benefit obligation for the Staff Retirement Plan and Post-Employment Benefits Plan increased from 4.2 percent at June 30, 2014 to 4.3 percent at June 30, 2015 and from 4.3 percent at June 30, 2014 to 4.4 percent at June 30, 2015, respectively.

# Governance and Control

## SENIOR MANAGEMENT CHANGES

The following changes became effective July 1, 2015:

Nena Stoiljkovic assumed the role of Vice President, Global Client Services. Jean Philippe Prosper left the position of Vice President, Global Client Services and became an Adviser to IFC's Executive Vice President and CEO. Karin Finkelston left the position of Vice President, Global Partnerships to become Vice President and Chief Operating Officer of MIGA. Saran Kebet-Koulibaly assumed the role of Vice President, Corporate Risk and Sustainability. The units that previously reported to the Co-Vice Presidents, Global Partnerships, were realigned with synergistic functional areas in IFC.

James Scriven, Vice President, Corporate Risk and Sustainability on June 30, 2015 left IFC effective October 31, 2015.

Jin-Yong Cai left IFC effective January 8, 2016. IFC appointed Philippe Le Houérou Executive Vice President and CEO effective March 1, 2016. Ethiopis Tafara, IFC's Vice President and General Counsel was the acting Executive Vice President and CEO until Mr. Le Houérou's appointment became effective.

The following is a list of the principal officers of IFC as of June 30, 2016.

|  |                       |
|--|-----------------------|
| President  | Dr. Jim Yong Kim      |
| Executive Vice President and CEO   | Philippe Le Houérou   |
| Vice President, Global Client Services   | Dimitris Tsitsiragos  |
| Vice President, Global Client Services   | Nena Stoiljkovic      |
| Vice President, Corporate Risk & Sustainability and General Counsel                      | Ethiopis Tafara       |
| Vice President, Corporate Risk & Sustainability  | Saran Kebet-Koulibaly |
| Vice President, Treasury and Syndications  | Jingdong Hua          |
| Vice President, CEO, IFC Asset Management Company LLC (a wholly-owned subsidiary of IFC) | Gavin E.R. Wilson     |

## GENERAL GOVERNANCE

IFC's decision-making structure consists of the Board of Governors, the Board of Directors, the President, the Executive Vice President and CEO, management and staff. The Board of Governors is the highest decision-making authority. Governors are appointed by their member governments for a five-year term, which is renewable. The Board of Governors may delegate authority to the Board of Directors to exercise any of its powers, except those reserved to the Board of Governors under the Articles of Agreement.

## BOARD MEMBERSHIP

In accordance with its Articles of Agreement, Directors are appointed or elected every two years by their member governments. The Board currently has 25 Directors who represent all member countries. Directors are neither officers nor staff of IFC. The President is the only member of the Board from management, and he serves as a non-voting member and as Chairman of the Board.

The Board has established several Committees. These include:

- Audit Committee
- Budget Committee
- Committee on Development Effectiveness
- Committee on Governance and Executive Directors' Administrative Matters
- Human Resources Committee

The Board and its committees are in continuous session at the main IBRD offices in Washington DC, as business requires. Each committee's terms of reference establishes its respective roles and responsibilities. As committees do not vote on issues, their role is primarily to serve the Board in discharging its responsibilities.

The Board is required to consider proposals made by the President on the use of IFC's net income: retained earnings and designation of retained earnings and on other policies that affect its general operations. The Board is also responsible for presenting to the Board of Governors, at the Annual meetings, audited accounts, an administrative budget, and an annual report on operations and policies and on other matters.

## AUDIT COMMITTEE

---

### MEMBERSHIP

The Audit Committee consists of eight Directors. Membership in the Committee is determined by the Board, based on nominations by the Chairman of the Board, following informal consultation with Directors.

### KEY RESPONSIBILITIES

The Audit Committee is appointed by the Board for the primary purpose of assisting the Board in overseeing IFC's finances, accounting, risk management, internal controls and institutional integrity, specific responsibilities include:

- Oversight of the integrity of IFC's financial statements.
- Appointment, qualifications, independence and performance of the External Auditor.
- Performance of the Internal Audit Department.
- Adequacy and effectiveness of financial and accounting policies and internal controls and the mechanisms to deter, prevent and penalize fraud and corruption in IFC operations and corporate procurement.
- Effective management of financial, fiduciary, compliance in IFC.
- Oversight of the institutional arrangements and processes for risk management across IFC.

In carrying out its role, the Audit Committee discusses financial issues and policies that affect IFC's financial position and capital adequacy with Management, external auditors, and internal auditors. It recommends the annual audited financial statements for approval to the Board. The Audit Committee monitors and reviews developments in corporate governance and its own role on an ongoing basis.

### EXECUTIVE SESSIONS

Under the Audit Committee's terms of reference, it may convene in executive session at any time, without Management's presence. The Audit Committee meets separately in executive session with the external and internal auditors.

### ACCESS TO RESOURCES AND TO MANAGEMENT

Throughout the year, the Audit Committee receives a large volume of information to enable it to carry out its duties, and meets both formally and informally throughout the year to discuss relevant matters. It has complete access to Management and reviews and discusses with Management topics considered in its terms of reference.

The Audit Committee has the authority to seek advice and assistance from outside legal, accounting, or other advisors as it deems necessary.

## BUSINESS CONDUCT

---

The WBG promotes a positive work environment in which staff members understand their ethical obligations to the institution. In support of this commitment, the institution has in place a Code of Conduct. The WBG has both an Ethics HelpLine and a Fraud and Corruption hotline. A third-party service offers many methods of worldwide communication. Reporting channels include telephone, mail, email, or confidential submission through a website.

IFC has in place procedures for receiving, retaining, and handling recommendations and concerns relating to business conduct identified during the accounting, internal control and auditing processes.

WBG staff rules clarify and codify the staff's obligations in reporting suspected fraud, corruption, or other misconduct that may threaten the operations or governance of the WBG. These rules also offer protection from retaliation.

## AUDITOR INDEPENDENCE

---

The appointment of the external auditor for IFC is governed by a set of Board-approved principles. These include:

Prohibiting the external auditor from providing any non audit-related services;

Requiring all audit-related services to be pre-approved on a case-by-case basis by the Board, upon recommendation of the Audit Committee; and

Mandatory rebidding of the external audit contract every five years, with a limit of two consecutive terms and mandatory rotation thereafter, provided however that the Audit Committee may exceptionally recommend that the incumbent audit firm should be allowed to participate in the re-bidding.

The external auditor is appointed to a five-year term and is subject to annual reappointment based on the recommendation of the Audit Committee and approval of a resolution by the Board. In FY14, KPMG LLP began a second five-year term as IFC's external auditor.

Communication between the external auditor and the Audit Committee is ongoing and carried out as often as deemed necessary by either party. The Audit Committee meets periodically with the external auditor and individual committee members have independent access to the external auditor. IFC's external auditors also follow the communication requirements with audit committees set out under generally accepted auditing standards in the United States.

## INTERNAL CONTROL

---

### INTERNAL CONTROL OVER EXTERNAL FINANCIAL REPORTING

---

Each fiscal year, Management evaluates the internal controls over external financial reporting to determine whether any changes made in these controls during the fiscal year materially affect, or would be reasonably likely to materially affect IFC's internal control over external financial reporting. The internal control framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Internal Control-Integrated Framework (2013)" provides guidance for designing, implementing and conducting internal control and assessing its effectiveness. Beginning in FY15, IFC used the 2013 COSO framework to assess the effectiveness of the internal control over external financial reporting. As of June 30, 2016, these controls were determined to be effective. See "Management's report regarding effectiveness of Internal Control over External Financial Reporting" on Page 41.

Concurrently, IFC's external auditor provides a report on whether Management's assertion statement regarding the effectiveness of internal control over external financial reporting is fairly stated in all material respects. See "Independent Auditors Report on Management's Assertion Regarding Effectiveness of Internal Control over External Financial Reporting" on Page 43.

---

### DISCLOSURE CONTROLS AND PROCEDURES

---

Disclosure controls and procedures are designed to ensure that information required to be disclosed is gathered and communicated to Management as appropriate, to allow timely decisions regarding required disclosure by IFC. Management conducted an evaluation of the effectiveness of such controls and procedures and the President, the Executive Vice President and CEO, and the Vice President, World Bank Group Controller and IFC's Chief Administrative Officer have concluded that these controls and procedures were effective as of June 30, 2016.

# Consolidated Financial Statements and Internal Control Reports

---





## **Management's Report Regarding Effectiveness of Internal Control over External Financial Reporting**

August 4, 2016

The management of the International Finance Corporation (IFC) is responsible for the preparation, integrity, and fair presentation of its published consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and, as such, include amounts based on informed judgments and estimates made by management.

The consolidated financial statements have been audited by an independent audit firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and their Committees. Management believes that all representations made to the independent auditors during their audit of IFC's consolidated financial statements and attestation of its internal control over financial reporting were valid and appropriate. The independent auditor's reports accompany the audited consolidated financial statements.


Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial statement presentations in conformity with US GAAP. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded and financial records are reliable. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny by management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external consolidated financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

IFC assessed its internal control over external financial reporting for financial statement presentation in conformity with US GAAP as of June 30, 2016. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control - 2013 Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IFC maintained effective internal control over external financial reporting presented in conformity with US GAAP as of June 30, 2016. The independent audit firm that audited the consolidated financial statements has issued an attestation report on management's assertion on IFC's internal control over financial reporting.

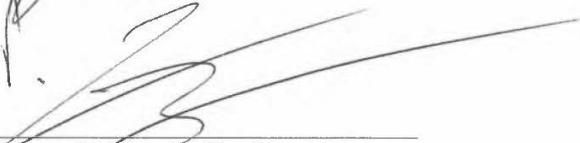
2121 Pennsylvania Ave., N.W. Washington, D.C. 20433 USA Phone: (202) 473-1000 . Facsimile: (202) 477-6391

The Board of Directors has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IFC. The Audit Committee is comprised entirely of Directors who are independent of IFC's management. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of IFC in addition to reviewing IFC's reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.



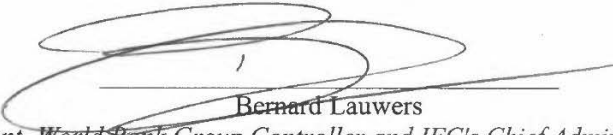
---

Jim Yong Kim  
*President*



---

Philippe Le Houérou  
*Executive Vice President and CEO*



---

Bernard Lauwers  
*Vice President, World Bank Group Controller and IFC's Chief Administrative Officer*



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Board of Directors  
International Finance Corporation:

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that the International Finance Corporation (IFC) maintained effective internal control over external financial reporting as of June 30, 2016, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). IFC's management is responsible for maintaining effective internal control over financial reporting, and for its assertion on the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, management's assertion that IFC maintained effective internal controls over financial reporting as of June 30, 2016 is fairly stated, in all material respects, based on the criteria established in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying consolidated financial statements of IFC, which comprise of consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in capital, and cash flows for each of the years in the three-year period ended June 30, 2016, and our report dated August 4, 2016 expressed an unmodified opinion on those consolidated financial statements.

**KPMG LLP**

August 4, 2016

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International  
Cooperative ("KPMG International"), a Swiss entity.

## INTERNATIONAL FINANCE CORPORATION

## CONSOLIDATED BALANCE SHEETS

as of June 30, 2016 and June 30, 2015  
(US\$ millions)

|  | 2016             | 2015             |
|--|------------------|------------------|
| <b>Assets</b>  |                  |                  |
| Cash and due from banks.....   | \$ 1,391         | \$ 1,509         |
| Time deposits – Note C.....  | 13,114           | 7,509            |
| Trading securities - Note C and R.....   | 31,212           | 34,731           |
| Securities purchased under resale agreements and receivable<br>for cash collateral pledged - Note C and W.....   | 495              | 68               |
| Investments - Notes B, D, E, F, G, R and T<br>Loans<br>(\$962 at June 30, 2016, \$784 at June 30, 2015 at fair value;<br>net of reserve against losses of \$1,775 at June 30, 2016, \$1,743 at June 30, 2015)<br>- Notes D, E and R..... | 21,868           | 21,336           |
| Equity investments<br>(\$9,443 at June 30, 2016, \$10,253 at June 30, 2015 at fair value) - Notes B, D, G and R  | 12,588           | 13,503           |
| Debt securities - Notes D, F and R .....   | 2,900            | 2,739            |
| <b>Total investments</b> .....   | <b>37,356</b>    | <b>37,578</b>    |
| Derivative assets - Notes Q, R and W.....  | 3,695            | 3,255            |
| Receivables and other assets – Note J.....   | 3,171            | 2,898            |
| <b>Total assets</b> .....  | <b>\$ 90,434</b> | <b>\$ 87,548</b> |
| <b>Liabilities and capital</b>   |                  |                  |
| <b>Liabilities</b>   |                  |                  |
| Securities sold under repurchase agreements and payable<br>for cash collateral received - Note C and W.....  | \$ 4,143         | \$ 4,695         |
| Borrowings outstanding - Note K and R<br>From market and other sources at amortized cost .....   | 2,061            | 1,587            |
| From market sources at fair value .....  | 51,777           | 48,329           |
| From International Development Association at fair value .....   | 1,099            | 1,136            |
| From International Bank for Reconstruction and Development at amortized cost .....   | 205              | 213              |
| <b>Total borrowings</b> .....  | <b>55,142</b>    | <b>51,265</b>    |
| Derivative liabilities - Notes Q, R and W.....   | 3,952            | 4,225            |
| Payables and other liabilities – Note L.....   | 4,431            | 2,937            |
| <b>Total liabilities</b> .....   | <b>67,668</b>    | <b>63,122</b>    |
| <b>Capital</b>   |                  |                  |
| Capital stock, authorized (2,580,000 at June 30, 2016 and June 30, 2015)<br>shares of \$1,000 par value each - Note M<br>Subscribed and paid-in .....  | 2,566            | 2,566            |
| Accumulated other comprehensive (loss) income - Note O .....   | (431)            | 1,197            |
| Retained earnings - Note O .....   | 20,608           | 20,641           |
| <b>Total IFC capital</b> .....   | <b>22,743</b>    | <b>24,404</b>    |
| Non-controlling interests .....  | 23               | 22               |
| <b>Total capital</b> .....   | <b>22,766</b>    | <b>24,426</b>    |
| <b>Total liabilities and capital</b> .....   | <b>\$ 90,434</b> | <b>\$ 87,548</b> |

The notes to the Consolidated Financial Statements are an integral part of these statements.

## INTERNATIONAL FINANCE CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

for each of the three years ended June 30, 2016  
(US\$ millions)

|   | <u>2016</u>    | <u>2015</u>    | <u>2014</u>     |
|---|----------------|----------------|-----------------|
| <b>Income from investments</b>  |                |                |                 |
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives - Note E .....  | \$ 1,126       | \$ 1,123       | \$ 1,065        |
| Provision for losses on loans, guarantees and other receivables - Note E.....   | (359)          | (171)          | (88)            |
| Income from equity investments and associated derivatives - Note G.....   | 518            | 427            | 1,289           |
| Income from debt securities, including realized gains and losses on debt securities and associated derivatives - Note F.....  | <u>129</u>     | <u>132</u>     | <u>89</u>       |
| <b>Total income from investments</b> .....  | <b>1,414</b>   | <b>1,511</b>   | <b>2,355</b>    |
| Income from liquid asset trading activities - Note C.....   | 504            | 467            | 599             |
| Charges on borrowings – Note K.....   | <u>(409)</u>   | <u>(258)</u>   | <u>(196)</u>    |
| <b>Income from investments and liquid asset trading activities, after charges on borrowings</b> .....   | <b>1,509</b>   | <b>1,720</b>   | <b>2,758</b>    |
| <b>Other income</b>   |                |                |                 |
| Advisory services income.....   | 266            | 244            | 254             |
| Service fees.....   | 117            | 137            | 75              |
| Other - Note B and N.....   | <u>118</u>     | <u>124</u>     | <u>132</u>      |
| <b>Total other income</b> .....   | <b>501</b>     | <b>505</b>     | <b>461</b>      |
| <b>Other expenses</b>   |                |                |                 |
| Administrative expenses – Note X.....   | (933)          | (901)          | (888)           |
| Advisory services expenses.....   | (308)          | (285)          | (324)           |
| Expense from pension and other postretirement benefit plans - Note V.....   | (185)          | (197)          | (173)           |
| Other - Note B.....   | <u>(38)</u>    | <u>(40)</u>    | <u>(33)</u>     |
| <b>Total other expenses</b> .....   | <b>(1,464)</b> | <b>(1,423)</b> | <b>(1,418)</b>  |
| Foreign currency transaction gains (losses) on non-trading activities.....  | <u>(46)</u>    | <u>53</u>      | <u>(19)</u>     |
| <b>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</b> ..... | <b>500</b>     | <b>855</b>     | <b>1,782</b>    |
| Net unrealized losses on non-trading financial instruments accounted for at fair value - Note P.....  | <u>(204)</u>   | <u>(106)</u>   | <u>(43)</u>     |
| <b>Income before grants to IDA</b> .....  | <b>296</b>     | <b>749</b>     | <b>1,739</b>    |
| Grants to IDA - Note O.....   | <u>(330)</u>   | <u>(340)</u>   | <u>(251)</u>    |
| <b>Net (loss) income</b> .....  | <b>(34)</b>    | <b>409</b>     | <b>1,488</b>    |
| Net losses (gains) attributable to non-controlling interests.....   | <u>1</u>       | <u>36</u>      | <u>(5)</u>      |
| <b>Net (loss) income attributable to IFC</b> .....  | <b>\$ (33)</b> | <b>\$ 445</b>  | <b>\$ 1,483</b> |

The notes to the Consolidated Financial Statements are an integral part of these statements.

## INTERNATIONAL FINANCE CORPORATION

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

for each of the three years ended June 30, 2016  
(US\$ millions)

|  | 2016              | 2015          | 2014            |
|--|-------------------|---------------|-----------------|
| <b>Net (loss) income attributable to IFC</b> .....   | <b>\$ (33)</b>    | <b>\$ 445</b> | <b>\$ 1,483</b> |
| <b>Other comprehensive (loss) income</b>   |                   |               |                 |
| <b>Unrealized gains and losses on debt securities</b>  |                   |               |                 |
| Net unrealized (losses) gains on available-for-sale debt securities<br>arising during the period.....  | (77)              | (72)          | 61              |
| Reclassification adjustment for realized gains included in net income<br>(income from debt securities and realized gains and losses<br>on debt securities and associated derivatives).....                   | (35)              | (40)          | (29)            |
| Reclassification adjustment for other-than-temporary impairments<br>included in net income (income from debt securities and realized<br>gains and losses on debt securities and associated derivatives)..... | 45                | 33            | 13              |
| <b>Net unrealized (losses) gains on debt securities</b> .....  | <b>(67)</b>       | <b>(79)</b>   | <b>45</b>       |
| <b>Unrealized gains and losses on equity investments</b>   |                   |               |                 |
| Net unrealized (losses) gains on equity investments arising<br>during the period.....  | (516)             | 268           | 654             |
| Reclassification adjustment for realized gains included in net income<br>(income from equity investments and associated derivatives).....  | (641)             | (774)         | (473)           |
| Reclassification adjustment for other-than-temporary impairments<br>included in net income (income from equity investments<br>and associated derivatives).....   | 360               | 381           | 161             |
| <b>Net unrealized (losses) gains on equity investments</b> .....   | <b>(797)</b>      | <b>(125)</b>  | <b>342</b>      |
| <b>Net unrecognized net actuarial losses and unrecognized<br/>  prior service credits on benefit plans - Note V</b> .....  | <b>(764)</b>      | <b>162</b>    | <b>(269)</b>    |
| <b>Total other comprehensive (loss) income</b> .....   | <b>(1,628)</b>    | <b>(42)</b>   | <b>118</b>      |
| <b>Total comprehensive (loss) income attributable to IFC</b> .....   | <b>\$ (1,661)</b> | <b>\$ 403</b> | <b>\$ 1,601</b> |

The notes to the Consolidated Financial Statements are an integral part of these statements.



INTERNATIONAL FINANCE CORPORATION

**CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL**

for each of the three years ended June 30, 2016  
(US\$ millions)

|  | Attributable to IFC            |                              |                         |  |                 |                   |                           |                  |
|--|--------------------------------|------------------------------|-------------------------|--|-----------------|-------------------|---------------------------|------------------|
|  | Undesignated retained earnings | Designated retained Earnings | Total retained earnings | Accumulated other comprehensive income (loss) - Note O | Capital stock   | Total IFC capital | Non-controlling interests | Total capital    |
| <b>At June 30, 2013</b>                                    | <b>\$ 18,435</b>               | <b>\$ 278</b>                | <b>\$ 18,713</b>        | <b>\$ 1,121</b>  | <b>\$ 2,403</b> | <b>\$ 22,237</b>  | <b>\$ 38</b>              | <b>\$ 22,275</b> |
| <b>Year ended June 30, 2014</b>                            |                                |                              |                         |  |                 |                   |                           |                  |
| Net income attributable to IFC                             | 1,483                          |                              | 1,483                   |  |                 | 1,483             |                           | 1,483            |
| Other comprehensive income                                 |                                |                              |                         | 118  |                 | 118               |                           | 118              |
| Payments received for IFC capital stock subscribed         |                                |                              |                         |  | 99              | 99                |                           | 99               |
| Designation of retained earnings - Note O                  | (251)                          | 251                          | -                       |  |                 | -                 |                           | -                |
| Expenditures against designated retained earnings - Note O | 335                            | (335)                        | -                       |  |                 | -                 |                           | -                |
| Non-controlling interests issued                           |                                |                              |                         |  |                 |                   | 10                        | 10               |
| Net gains attributable to non-controlling interests        |                                |                              |                         |  |                 |                   | 5                         | 5                |
| <b>At June 30, 2014</b>                                    | <b>\$ 20,002</b>               | <b>\$ 194</b>                | <b>\$ 20,196</b>        | <b>\$ 1,239</b>  | <b>\$ 2,502</b> | <b>\$ 23,937</b>  | <b>\$ 53</b>              | <b>\$ 23,990</b> |
| <b>Year ended June 30, 2015</b>                            |                                |                              |                         |  |                 |                   |                           |                  |
| Net income attributable to IFC                             | 445                            |                              | 445                     |  |                 | 445               |                           | 445              |
| Other comprehensive loss                                   |                                |                              |                         | (42)   |                 | (42)              |                           | (42)             |
| Payments received for IFC capital stock Subscribed         |                                |                              |                         |  | 64              | 64                |                           | 64               |
| Designations of retained earnings - Note O                 | (398)                          | 398                          | -                       |  |                 | -                 |                           | -                |
| Expenditures against designated retained earnings - Note O | 408                            | (408)                        | -                       |  |                 | -                 |                           | -                |
| Non-controlling interests issued                           |                                |                              |                         |  |                 |                   | 5                         | 5                |
| Net losses attributable to non-controlling interests       |                                |                              |                         |  |                 |                   | (36)                      | (36)             |
| <b>At June 30, 2015</b>                                    | <b>\$ 20,457</b>               | <b>\$ 184</b>                | <b>\$ 20,641</b>        | <b>\$ 1,197</b>  | <b>\$ 2,566</b> | <b>\$ 24,404</b>  | <b>\$ 22</b>              | <b>\$ 24,426</b> |

The notes to the Consolidated Financial Statements are an integral part of these statements.

## INTERNATIONAL FINANCE CORPORATION

**CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL**for each of the three years ended June 30, 2016  
(US\$ millions)

|  | Attributable to IFC                  |                                    |                               |  |                  |                      |                                  |                  |
|--|--------------------------------------|------------------------------------|-------------------------------|--|------------------|----------------------|----------------------------------|------------------|
|  | Undesignated<br>retained<br>earnings | Designated<br>retained<br>Earnings | Total<br>retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) -<br>Note O | Capital<br>stock | Total IFC<br>capital | Non-<br>controlling<br>interests | Total<br>capital |
| <b>At June 30, 2015</b>                                    | \$ 20,457                            | \$ 184                             | \$ 20,641                     | \$ 1,197   | \$ 2,566         | \$ 24,404            | \$ 22                            | \$ 24,426        |
| <b>Year ended June 30,<br/>2016</b>                        |                                      |                                    |                               |  |                  |                      |                                  |                  |
| Net loss attributable to IFC                               | (33)                                 |                                    | (33)                          |  |                  | (33)                 |                                  | (33)             |
| Other comprehensive loss                                   |                                      |                                    |                               | (1,628)  |                  | (1,628)              |                                  | (1,628)          |
| Payments received for IFC capital stock Subscribed         |                                      |                                    |                               |  | -                | -                    |                                  | -                |
| Designations of retained earnings - Note O                 | (344)                                | 344                                | -                             |  |                  | -                    |                                  | -                |
| Expenditures against designated retained earnings - Note O | 395                                  | (395)                              | -                             |  |                  | -                    |                                  | -                |
| Non-controlling interests issued                           |                                      |                                    |                               |  |                  |                      | 2                                | 2                |
| Net losses attributable to non-controlling interests       |                                      |                                    |                               |  |                  |                      | (1)                              | (1)              |
| <b>At June 30, 2016</b>                                    | \$ 20,475                            | \$ 133                             | \$ 20,608                     | \$ (431)   | \$ 2,566         | \$ 22,743            | \$ 23                            | \$ 22,766        |

The notes to the Consolidated Financial Statements are an integral part of these statements.

## INTERNATIONAL FINANCE CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

for each of the three years ended June 30, 2016  
(US\$ millions)

|  | 2016             | 2015            | 2014            |
|--|------------------|-----------------|-----------------|
| <b>Cash flows from investing activities</b>  |                  |                 |                 |
| Loan disbursements .....   | \$ (7,248)       | \$ (6,359)      | \$ (6,702)      |
| Investments in equity securities .....   | (1,929)          | (2,299)         | (1,528)         |
| Investments in debt securities .....   | (775)            | (600)           | (669)           |
| Loan repayments .....  | 5,988            | 6,269           | 4,925           |
| Debt securities repayments .....   | 292              | 256             | 244             |
| Proceeds from sales of loans .....   | -                | 19              | 2               |
| Proceeds from sales of equity investments .....  | 2,297            | 2,301           | 1,810           |
| Proceeds from sales of debt securities .....   | 141              | 110             | 13              |
| <b>Net cash used in investing activities</b> .....   | <b>(1,234)</b>   | <b>(303)</b>    | <b>(1,905)</b>  |
| <b>Cash flows from financing activities</b>  |                  |                 |                 |
| Medium and long-term borrowings  |                  |                 |                 |
| Issuance .....   | 15,462           | 15,462          | 15,515          |
| Retirement .....   | (10,981)         | (9,290)         | (11,226)        |
| Medium and long-term borrowings related derivatives, net .....   | (1,189)          | (688)           | (137)           |
| Short-term borrowings, net .....   | (434)            | (286)           | (106)           |
| Capital subscriptions .....  | -                | 64              | 99              |
| Non-controlling interests issued .....   | 2                | 5               | 10              |
| <b>Net cash provided by financing activities</b> .....   | <b>2,860</b>     | <b>5,267</b>    | <b>4,155</b>    |
| <b>Cash flows from operating activities</b>  |                  |                 |                 |
| 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 or loss to net cash used in operating activities:                          |                  |                 |                 |
| Realized gains on loans and associated derivatives, net .....  | (2)              | (57)            | (9)             |
| Realized gains on debt securities and associated derivatives, net .....  | (39)             | (46)            | (29)            |
| Gains on equity investments and related derivatives, net .....   | (1,013)          | (886)           | (1,269)         |
| Provision for losses on loans, guarantees and other receivables .....  | 359              | 171             | 88              |
| Other-than-temporary impairments on debt securities .....  | 45               | 33              | 13              |
| Other-than-temporary impairments on equity investments .....   | 744              | 732             | 268             |
| Net premiums received at issuance of borrowings .....  | 4                | 13              | 4               |
| Net discounts paid on retirement of borrowings .....   | (83)             | (5)             | (5)             |
| Net realized gains on extinguishment of borrowings .....   | (6)              | (2)             | (3)             |
| Foreign currency transaction gains and losses on non-trading activities .....                                  | 46               | (53)            | 19              |
| Net unrealized losses on non-trading financial instruments<br>accounted for at fair value .....                | 204              | 106             | 43              |
| Change in accrued income on loans, time deposits and securities .....  | (61)             | (69)            | (45)            |
| Change in payables and other liabilities .....   | 743              | (163)           | 1,179           |
| Change in receivables and other assets .....   | (279)            | (197)           | (63)            |
| Change in trading securities and securities purchased and sold under<br>resale and repurchase agreements ..... | 2,504            | (3,245)         | (3,418)         |
| <b>Net cash provided by (used in) operating activities</b> .....   | <b>3,132</b>     | <b>(3,259)</b>  | <b>(1,739)</b>  |
| Change in cash and cash equivalents .....  | 4,758            | 1,705           | 511             |
| Effect of exchange rate changes on cash and cash equivalents .....   | 729              | 578             | (281)           |
| Net change in cash and cash equivalents .....  | 5,487            | 2,283           | 230             |
| Beginning cash and cash equivalents .....  | 9,018            | 6,735           | 6,505           |
| <b>Ending cash and cash equivalents</b> .....  | <b>\$ 14,505</b> | <b>\$ 9,018</b> | <b>\$ 6,735</b> |
| <b>Composition of cash and cash equivalents</b>  |                  |                 |                 |
| Cash and due from banks .....  | \$ 1,391         | \$ 1,509        | \$ 819          |
| Time deposits .....  | 13,114           | 7,509           | 5,916           |
| <b>Total cash and cash equivalents</b> .....   | <b>\$ 14,505</b> | <b>\$ 9,018</b> | <b>\$ 6,735</b> |

The notes to the Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL FINANCE CORPORATION

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

for each of the three years ended June 30, 2016  
(US\$ millions)

| <b>Supplemental disclosure</b>  | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Change in ending balances resulting from currency exchange rate fluctuations: |             |             |             |
| Loans outstanding .....   | \$ (271)    | \$ (1,076)  | \$ 68       |
| Debt securities .....   | (49)        | (115)       | (8)         |
| Loan and debt security-related currency swaps .....                           | 335         | 1,195       | (19)        |
| Borrowings .....  | 368         | 4,129       | (269)       |
| Borrowing-related currency swaps .....  | (190)       | (3,895)     | 236         |
| Charges on borrowings paid, net .....   | \$ 413      | \$ 237      | \$ 200      |
| Non-cash items:   |             |             |             |
| Loan and debt security conversion to equity, net .....                        | \$ 52       | \$ 210      | \$ 18       |

The notes to the Consolidated Financial Statements are an integral part of these statements.

## INTERNATIONAL FINANCE CORPORATION

# CONSOLIDATED STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2016 (US\$ thousands)

| Members                        | Capital Stock |                  | Voting Power    |                  | Members                         | Capital Stock |                  | Voting Power    |                  |
|--------------------------------|---------------|------------------|-----------------|------------------|---------------------------------|---------------|------------------|-----------------|------------------|
|                                | Amount paid   | Percent of total | Number of votes | Percent of total |                                 | Amount paid   | Percent of total | Number of votes | Percent of total |
| Afghanistan.....               | 111           | *                | 931             | 0.03             | Lesotho .....                   | 71            | *                | 891             | 0.03             |
| Albania.....                   | 1,302         | 0.05             | 2,122           | 0.08             | Liberia .....                   | 83            | *                | 903             | 0.03             |
| Algeria.....                   | 5,784         | 0.23             | 6,604           | 0.24             | Libya .....                     | 55            | *                | 875             | 0.03             |
| Angola.....                    | 1,481         | 0.06             | 2,301           | 0.08             | Lithuania .....                 | 2,341         | 0.09             | 3,161           | 0.12             |
| Antigua and Barbuda.....       | 13            | *                | 833             | 0.03             | Luxembourg.....                 | 2,139         | 0.08             | 2,959           | 0.11             |
| Argentina.....                 | 42,405        | 1.65             | 43,225          | 1.59             | Macedonia, FYR of .....         | 536           | 0.02             | 1,356           | 0.05             |
| Armenia.....                   | 992           | 0.04             | 1,812           | 0.07             | Madagascar .....                | 432           | 0.02             | 1,252           | 0.05             |
| Australia.....                 | 47,329        | 1.84             | 48,149          | 1.77             | Malawi .....                    | 1,822         | 0.07             | 2,642           | 0.10             |
| Austria.....                   | 19,741        | 0.77             | 20,561          | 0.76             | Malaysia .....                  | 16,606        | 0.65             | 17,426          | 0.64             |
| Azerbaijan.....                | 2,367         | 0.09             | 3,187           | 0.12             | Maldives .....                  | 16            | *                | 836             | 0.03             |
| Bahamas, The.....              | 335           | 0.01             | 1,155           | 0.04             | Mali .....                      | 451           | 0.02             | 1,271           | 0.05             |
| Bahrain.....                   | 1,746         | 0.07             | 2,566           | 0.09             | Malta .....                     | 1,615         | 0.06             | 2,435           | 0.09             |
| Bangladesh.....                | 9,632         | 0.38             | 10,452          | 0.38             | Marshall Islands .....          | 663           | 0.03             | 1,483           | 0.05             |
| Barbados.....                  | 361           | 0.01             | 1,181           | 0.04             | Mauritania .....                | 214           | 0.01             | 1,034           | 0.04             |
| Belarus.....                   | 5,267         | 0.21             | 6,087           | 0.22             | Mauritius .....                 | 1,665         | 0.06             | 2,485           | 0.09             |
| Belgium.....                   | 50,610        | 1.97             | 51,430          | 1.89             | Mexico .....                    | 30,532        | 1.19             | 31,352          | 1.15             |
| Belize.....                    | 101           | *                | 921             | 0.03             | Micronesia, Fed. States of..... | 744           | 0.03             | 1,564           | 0.06             |
| Benin.....                     | 119           | *                | 939             | 0.03             | Moldova .....                   | 1,192         | 0.05             | 2,012           | 0.07             |
| Bhutan.....                    | 720           | 0.03             | 1,540           | 0.06             | Mongolia .....                  | 144           | 0.01             | 964             | 0.04             |
| Bolivia.....                   | 1,902         | 0.07             | 2,722           | 0.10             | Montenegro .....                | 1,035         | 0.04             | 1,855           | 0.07             |
| Bosnia and Herzegovina.....    | 620           | 0.02             | 1,440           | 0.05             | Morocco .....                   | 9,635         | 0.38             | 10,455          | 0.38             |
| Botswana.....                  | 113           | *                | 933             | 0.03             | Mozambique .....                | 322           | 0.01             | 1,142           | 0.04             |
| Brazil.....                    | 55,585        | 2.17             | 56,405          | 2.08             | Myanmar .....                   | 666           | 0.03             | 1,486           | 0.05             |
| Bulgaria.....                  | 4,934         | 0.19             | 5,754           | 0.21             | Namibia .....                   | 404           | 0.02             | 1,224           | 0.05             |
| Burkina Faso.....              | 836           | 0.03             | 1,656           | 0.06             | Nepal .....                     | 822           | 0.03             | 1,642           | 0.06             |
| Burundi.....                   | 100           | *                | 920             | 0.03             | Netherlands .....               | 56,131        | 2.19             | 56,951          | 2.10             |
| Cabo Verde.....                | 15            | *                | 835             | 0.03             | New Zealand .....               | 3,583         | 0.14             | 4,403           | 0.16             |
| Cambodia.....                  | 339           | 0.01             | 1,159           | 0.04             | Nicaragua .....                 | 715           | 0.03             | 1,535           | 0.06             |
| Cameroon.....                  | 885           | 0.03             | 1,705           | 0.06             | Niger .....                     | 147           | 0.01             | 967             | 0.04             |
| Canada.....                    | 81,342        | 3.17             | 82,162          | 3.02             | Nigeria .....                   | 27,672        | 1.08             | 28,492          | 1.05             |
| Central African Republic.....  | 119           | *                | 939             | 0.03             | Norway .....                    | 17,599        | 0.69             | 18,419          | 0.68             |
| Chad.....                      | 1,364         | 0.05             | 2,184           | 0.08             | Oman .....                      | 1,187         | 0.05             | 2,007           | 0.07             |
| Chile.....                     | 12,647        | 0.49             | 13,467          | 0.50             | Pakistan .....                  | 21,292        | 0.83             | 22,112          | 0.81             |
| China.....                     | 61,756        | 2.41             | 62,576          | 2.30             | Palau .....                     | 25            | *                | 845             | 0.03             |
| Colombia.....                  | 13,658        | 0.53             | 14,478          | 0.53             | Panama .....                    | 1,007         | 0.04             | 1,827           | 0.07             |
| Comoros.....                   | 14            | *                | 834             | 0.03             | Papua New Guinea .....          | 1,147         | 0.04             | 1,967           | 0.07             |
| Congo, Dem. Rep. of.....       | 2,159         | 0.08             | 2,979           | 0.11             | Paraguay .....                  | 436           | 0.02             | 1,256           | 0.05             |
| Congo, Republic of.....        | 131           | 0.01             | 951             | 0.04             | Peru .....                      | 8,373         | 0.33             | 9,193           | 0.34             |
| Costa Rica.....                | 952           | 0.04             | 1,772           | 0.07             | Philippines .....               | 13,658        | 0.53             | 14,478          | 0.53             |
| Côte d'Ivoire.....             | 3,544         | 0.14             | 4,364           | 0.16             | Poland .....                    | 7,605         | 0.30             | 8,425           | 0.31             |
| Croatia.....                   | 2,882         | 0.11             | 3,702           | 0.14             | Portugal .....                  | 8,324         | 0.32             | 9,144           | 0.34             |
| Cyprus.....                    | 2,139         | 0.08             | 2,959           | 0.11             | Qatar .....                     | 1,650         | 0.06             | 2,470           | 0.09             |
| Czech Republic.....            | 8,913         | 0.35             | 9,733           | 0.36             | Romania .....                   | 4,278         | 0.17             | 5,098           | 0.19             |
| Denmark.....                   | 18,554        | 0.72             | 19,374          | 0.71             | Russian Federation .....        | 102,853       | 4.01             | 103,673         | 3.82             |
| Djibouti.....                  | 21            | *                | 841             | 0.03             | Rwanda .....                    | 306           | 0.01             | 1,126           | 0.04             |
| Dominica.....                  | 42            | *                | 862             | 0.03             | Samoa .....                     | 35            | *                | 855             | 0.03             |
| Dominican Republic.....        | 1,187         | 0.05             | 2,007           | 0.07             | Sao Tome and Principe .....     | 439           | 0.02             | 1,259           | 0.05             |
| Ecuador.....                   | 2,161         | 0.08             | 2,981           | 0.11             | Saudi Arabia .....              | 51,038        | 1.99             | 51,858          | 1.91             |
| Egypt, Arab Republic of.....   | 13,380        | 0.52             | 14,200          | 0.52             | Senegal .....                   | 2,299         | 0.09             | 3,119           | 0.11             |
| El Salvador.....               | 29            | *                | 849             | 0.03             | Serbia .....                    | 1,803         | 0.07             | 2,623           | 0.10             |
| Equatorial Guinea.....         | 43            | *                | 863             | 0.03             | Seychelles .....                | 27            | *                | 847             | 0.03             |
| Eritrea.....                   | 935           | 0.04             | 1,755           | 0.06             | Sierra Leone .....              | 223           | 0.01             | 1,043           | 0.04             |
| Estonia.....                   | 1,434         | 0.06             | 2,254           | 0.08             | Singapore .....                 | 177           | 0.01             | 997             | 0.04             |
| Ethiopia.....                  | 127           | *                | 947             | 0.03             | Slovak Republic .....           | 4,457         | 0.17             | 5,277           | 0.19             |
| Fiji.....                      | 287           | 0.01             | 1,107           | 0.04             | Slovenia .....                  | 1,585         | 0.06             | 2,405           | 0.09             |
| Finland.....                   | 15,697        | 0.61             | 16,517          | 0.61             | Solomon Islands .....           | 37            | *                | 857             | 0.03             |
| France.....                    | 121,015       | 4.72             | 121,835         | 4.48             | Somalia .....                   | 83            | *                | 903             | 0.03             |
| Gabon.....                     | 1,268         | 0.05             | 2,088           | 0.08             | South Africa .....              | 17,418        | 0.68             | 18,238          | 0.67             |
| Gambia, The.....               | 94            | *                | 914             | 0.03             | South Sudan .....               | 1,880         | 0.07             | 2,700           | 0.10             |
| Georgia.....                   | 1,380         | 0.05             | 2,200           | 0.08             | Spain .....                     | 37,026        | 1.44             | 37,846          | 1.39             |
| Germany.....                   | 128,908       | 5.02             | 129,728         | 4.77             | Sri Lanka .....                 | 7,491         | 0.29             | 8,311           | 0.31             |
| Ghana.....                     | 5,546         | 0.22             | 6,366           | 0.23             | St. Kitts and Nevis .....       | 638           | 0.02             | 1,458           | 0.05             |
| Greece.....                    | 6,898         | 0.27             | 7,718           | 0.28             | St. Lucia .....                 | 74            | *                | 894             | 0.03             |
| Grenada.....                   | 74            | *                | 894             | 0.03             | Sudan .....                     | 111           | *                | 931             | 0.03             |
| Guatemala.....                 | 1,084         | 0.04             | 1,904           | 0.07             | Suriname .....                  | 620           | 0.02             | 1,440           | 0.05             |
| Guinea.....                    | 339           | 0.01             | 1,159           | 0.04             | Swaziland .....                 | 684           | 0.03             | 1,504           | 0.06             |
| Guinea-Bissau.....             | 18            | *                | 838             | 0.03             | Sweden .....                    | 26,876        | 1.05             | 27,696          | 1.02             |
| Guyana.....                    | 1,392         | 0.05             | 2,212           | 0.08             | Switzerland .....               | 44,063        | 1.72             | 44,883          | 1.65             |
| Haiti.....                     | 822           | 0.03             | 1,642           | 0.06             | Syrian Arab Republic .....      | 194           | 0.01             | 1,014           | 0.04             |
| Honduras.....                  | 495           | 0.02             | 1,315           | 0.05             | Tajikistan .....                | 1,212         | 0.05             | 2,032           | 0.07             |
| Hungary.....                   | 11,771        | 0.46             | 12,591          | 0.46             | Tanzania .....                  | 1,003         | 0.04             | 1,823           | 0.07             |
| Iceland.....                   | 42            | *                | 862             | 0.03             | Thailand .....                  | 11,781        | 0.46             | 12,601          | 0.46             |
| India.....                     | 102,947       | 4.01             | 103,767         | 3.82             | Timor-Leste .....               | 777           | 0.03             | 1,597           | 0.06             |
| Indonesia.....                 | 31,602        | 1.23             | 32,422          | 1.19             | Togo .....                      | 808           | 0.03             | 1,628           | 0.06             |
| Iran, Islamic Republic of..... | 1,444         | 0.06             | 2,264           | 0.08             | Tonga .....                     | 34            | *                | 854             | 0.03             |
| Iraq.....                      | 147           | 0.01             | 967             | 0.04             | Trinidad and Tobago .....       | 4,112         | 0.16             | 4,932           | 0.18             |
| Ireland.....                   | 1,290         | 0.05             | 2,110           | 0.08             | Tunisia .....                   | 3,566         | 0.14             | 4,386           | 0.16             |
| Israel.....                    | 2,135         | 0.08             | 2,955           | 0.11             | Turkey .....                    | 15,837        | 0.62             | 16,657          | 0.61             |
| Italy.....                     | 81,342        | 3.17             | 82,162          | 3.02             | Turkmenistan .....              | 810           | 0.03             | 1,630           | 0.06             |
| Jamaica.....                   | 4,282         | 0.17             | 5,102           | 0.19             | Uganda .....                    | 735           | 0.03             | 1,555           | 0.06             |
| Japan.....                     | 162,534       | 6.33             | 163,354         | 6.01             | Ukraine .....                   | 10,159        | 0.40             | 10,979          | 0.40             |
| Jordan.....                    | 941           | 0.04             | 1,761           | 0.06             | United Arab Emirates .....      | 4,033         | 0.16             | 4,853           | 0.18             |
| Kazakhstan.....                | 4,637         | 0.18             | 5,457           | 0.20             | United Kingdom .....            | 121,015       | 4.72             | 121,835         | 4.48             |
| Kenya.....                     | 4,041         | 0.16             | 4,861           | 0.18             | United States .....             | 569,379       | 22.19            | 570,199         | 20.99            |
| Kiribati.....                  | 12            | *                | 832             | 0.03             | Uruguay .....                   | 3,569         | 0.14             | 4,389           | 0.16             |
| Korea, Republic of.....        | 28,148        | 1.10             | 28,968          | 1.07             | Uzbekistan .....                | 3,873         | 0.15             | 4,693           | 0.17             |
| Kosovo.....                    | 1,454         | 0.06             | 2,274           | 0.08             | Vanuatu .....                   | 55            | *                | 875             | 0.03             |
| Kuwait.....                    | 15,073        | 0.59             | 15,893          | 0.58             | Venezuela, Rep. Boliv. de ..... | 27,588        | 1.08             | 28,408          | 1.05             |
| Kyrgyz Republic.....           | 1,720         | 0.07             | 2,540           | 0.09             | Vietnam .....                   | 446           | 0.02             | 1,266           | 0.05             |
| Lao People's Dem. Rep.....     | 278           | 0.01             | 1,098           | 0.04             | Yemen, Republic of .....        | 715           | 0.03             | 1,535           | 0.06             |
| Latvia.....                    | 2,150         | 0.08             | 2,970           | 0.11             | Zambia .....                    | 1,286         | 0.05             | 2,106           | 0.08             |
| Lebanon.....                   | 135           | 0.01             | 955             | 0.04             | Zimbabwe .....                  | 3,215         | 0.13             | 4,035           | 0.15             |
|                                |               |                  |                 |                  | Total June 30, 2016             | 2,566,199     | 100.00+          | 2,717,079       | 100.00+          |
|                                |               |                  |                 |                  | Total June 30, 2015             | 2,566,199     | 100.00+          | 2,717,079       | 100.00+          |

\* Less than .005 percent

+ May differ from the sum of the individual percentages shown because of rounding

The notes to the Consolidated Financial Statements are an integral part of these statements.

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

**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 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 Consolidated Financial Statements include the financial statements of IFC and consolidated subsidiaries 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 Consolidated Financial Statements reflect all adjustments necessary for the fair presentation of IFC's financial position and results of operation.

**Consolidated Financial Statements presentation** – Certain amounts in prior years have been changed to conform to the current year's presentation.

**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.

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

**Use of estimates** – The preparation of the 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 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 and equity investments; estimated fair values of financial instruments accounted for at fair value (including equity investments, debt securities, loans, trading securities and derivative instruments); projected 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 equity investments. 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.

Equity interests in consolidated subsidiaries held by third parties are referred to as non-controlling interests. Such interests and the amount of consolidated net income/loss attributable to those interests are identified within IFC's consolidated balance sheet and consolidated income statement as "non-controlling interests" and "net gains/losses attributable to non-controlling interests", respectively.

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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Prior to the adoption, effective July 1, 2015, of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-02, *Amendments to the Consolidation Analysis*, IFC was considered to be the primary beneficiary of a VIE if it had 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 have been significant to the VIE unless:

- i) the entity had the attributes of an investment company or for which it is industry practice to account for their assets at fair value through earnings;
- ii) IFC had an explicit or implicit obligation to fund losses of the entity that could potentially have been significant to that entity; and
- iii) the entity was a securitization vehicle, an asset-backed financing entity, or an entity that was formerly considered a qualifying special purpose entity, as well as entities that were required to comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940.

In those cases, IFC was considered to be the primary beneficiary if it would absorb the majority of the VIE's expected losses or expected residual returns. See "Recently adopted accounting standards" in this Note A and Note M for more information regarding the adoption of ASU 2015-02. IFC has a number of investments in VIEs that it manages and supervises in a manner consistent with other portfolio investments.

**Fair Value Option and Fair Value Measurements** – IFC has adopted FASB Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC 820) and the Fair Value Option subsections of ASC Topic 825, Financial Instruments (ASC 825 or the Fair Value Option). 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. 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.

### *The Fair Value Option*

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

- i) investees in which IFC has significant influence:
  - a) direct investments in securities issued by the investee and, if IFC would have otherwise been required to apply equity method accounting, all other financial interests in the investee (e.g., loans);
  - b) investments in Limited Liability Partnerships (LLPs), Limited Liability Companies (LLCs) and other investment fund structures that maintain specific ownership accounts and loans or guarantees to such;
- ii) direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence;
- iii) all equity interests in private equity funds;
- iv) certain hybrid instruments in the investment portfolio;
- v) all market borrowings that are economically hedged with financial instruments that are accounted for at fair value with changes therein reported in earnings; and
- vi) borrowings from IDA.

All borrowings for which the Fair Value Option has been elected are economically hedged with derivative or other financial instruments that are 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's, *Derivatives and Hedging* (ASC 815) 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 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 to certain of such investees; therefore, the Fair Value Option is also applied to those loans. IFC elected the Fair Value Option for equity investments with 20% or more ownership where it does not have significant influence so that the same measurement method (fair value) will be applied to all equity investments with more than 20% ownership.

The FVO has been elected for certain hybrid instruments in the investment portfolio that would otherwise require bifurcation of the host and embedded derivative. Election of the FVO for these instruments eliminates the bifurcation requirement.

### *Equity securities held by consolidated subsidiaries that are investment companies*

Pursuant to ASC Topic 946, *Financial Services - Investment Companies* (ASC 946) and ASC Topic 810, *Consolidation*, equity securities held by consolidated subsidiaries that are investment companies are accounted for at fair value, with unrealized gains and losses reported in earnings.

### *Fair Value Measurements*

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.

Notwithstanding the following paragraph, pursuant to ASC Topic 320, *Investments - Debt and Equity Securities* (ASC 320), IFC reports equity investments that are listed in markets that provide readily determinable fair values at fair value, with unrealized gains and losses being reported in other comprehensive income.

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

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. It includes IFC's debt securities and equity investments, which are listed in markets that provide readily determinable fair values, government issues and money market funds in the liquid assets portfolio, and market borrowings that are listed on exchanges.

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 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. Financial instruments categorized as Level 2 include non-exchange-traded derivatives such as interest rate swaps, cross-currency swaps, certain asset-backed securities, as well as the majority of trading securities in the liquid asset portfolio, and the portion of IFC's borrowings accounted for at fair value not included in Level 1.

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. Level 3 includes equity and debt securities in the investment portfolios that are not listed in markets that provide readily determinable fair values, all loans for which IFC has elected the Fair Value Option, and certain hard-to-price securities in the liquid assets portfolio.

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 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** – Assets and liabilities not denominated in US dollars, other than disbursed equity investments, are expressed in US dollars at the exchange rates prevailing at June 30, 2016 and June 30, 2015. Disbursed equity investments, other than those accounted for at fair value, are expressed in US dollars at the prevailing exchange rates at the time of disbursement. 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 consolidated income statement.

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.

Loans held for sale are carried at the lower of cost or fair value. The excess, if any, of amortized cost over fair value is accounted for as a valuation allowance. Changes in the valuation allowance are recognized in net income as they occur.

**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 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 consolidated balance sheet.

**Reserve against losses on loans** – IFC recognizes impairment on loans not carried at fair value in the 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

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

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. There were no changes, during the periods presented herein, to IFC's accounting policies and methodologies used to estimate its reserve against loan losses.

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.

**Revenue recognition on equity investments** – Equity investments, which are listed in markets that provide readily determinable fair values, are accounted for as available-for-sale securities at fair value with unrealized gains and losses reported in other comprehensive income in accordance with ASC 320. As noted above under "Fair Value Option and Fair Value Measurements", direct equity investments and investments in LLPs and LLCs that maintain separate ownership accounts in which IFC has significant influence, direct equity investments representing 20 percent or more ownership but in which IFC does not have significant influence and all new equity interests in funds are accounted for at fair value under the Fair Value Option. Direct equity investments in which IFC does not have significant influence and which are not listed in markets that provide readily determinable fair values are carried at cost, less impairment. Notwithstanding the foregoing, equity securities held by consolidated subsidiaries that are investment companies are accounted for 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 fully 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 oil and gas 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 under the Fair Value Option are reported in income from equity investments and associated derivatives on the consolidated income statement. Unrealized gains and losses on equity investments listed in markets that provide readily determinable fair values which are accounted for as available-for-sale are 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 and are generally recorded as income from equity investments and associated derivatives when received. Capital losses are recognized when incurred.

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 and call option and warrant agreements in connection with certain equity investments; these are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative.

**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 income statement.

**Impairment of equity investments** – Equity investments accounted for at cost, less impairment and available-for-sale are assessed for impairment each quarter. When impairment is identified, it is generally deemed to be other-than-temporary, and the equity investment is written down to the impaired value, which becomes the new cost basis in the equity investment. Such other-than-temporary impairments are recognized in net income. Subsequent increases in the fair value of available-for-sale equity investments are included in other comprehensive income, while subsequent decreases in fair value, if not other-than-temporary impairment, also are included in other comprehensive income.

**Debt securities** – Debt securities in the investment portfolio are classified as available-for-sale and carried at fair value on the consolidated balance sheet with unrealized gains and losses included in accumulated other comprehensive income until realized. Realized gains on sales of debt securities and interest on debt securities is included in income from debt securities and realized gains and losses on debt securities and associated derivatives on the consolidated income statement.

Certain debt securities are carried at fair value in accordance with the Fair Value Option as discussed above. 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 consolidated income statement.

IFC invests in certain debt securities with conversion features; these features are accounted for in accordance with ASC 815 to the extent they meet the definition of a derivative.

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

**Impairment of debt securities** – In determining whether an unrealized loss on debt securities 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 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 securities and trade 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 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 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 approved 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 noted with approval by the Board of Directors. Total designations of retained earnings are determined based on IFC's annual income before expenditures against designated retained earnings and net unrealized gains and losses on non-trading financial instruments accounted for at fair value in excess of \$150 million, and contemplating the financial capacity and strategic priorities of IFC.

Expenditures resulting from such designations are recorded as expenses in IFC's consolidated income statement 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. If the recipient is deemed to be controlled by IFC, the expenditure is deemed to have been incurred only when the recipient disburses the funds to a non-related party. On occasion, recipients who are deemed to be controlled by IFC make investments. In such cases, IFC includes those assets on its consolidated balance sheet until the recipient disposes of or transfers the asset or IFC is deemed to no longer be in control of the recipient. These investments have had no material impact on IFC's financial position, results of operations, or cash flows. Investments resulting from such designations are recorded on IFC's consolidated balance sheet in the year in which they occur, also having the effect of reducing the respective designated retained earnings for such purposes.

**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 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

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

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 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.

Substantially all borrowings are carried at fair value under the Fair Value Option with changes in fair value reported in net unrealized gains and losses on non-trading financial instruments accounted for at fair value in the consolidated income statement.

Interest on borrowings and amortization of premiums and accretion of discounts are reported in charges on borrowings.

**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 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 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 and those associated with equity investments 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.

*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.

*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 consolidated income statement.

*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.

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

**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 re-schedulings, 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.

**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 consolidated balance sheet. All other loan participations are accounted for as secured borrowings and are included in loans on IFC's consolidated balance sheet, with the related secured borrowings included in payables and other liabilities on IFC's consolidated balance sheet.

**Pension and other postretirement benefits** – IBRD has a defined benefit Staff Retirement Plan (SRP), a Retired Staff Benefits Plan (RSBP) and a Post-Employment Benefits Plan (PEBP) that 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.

The net periodic pension and other postretirement benefit income or expense allocated to IFC is included in income or expense from pension and other postretirement benefit plans in the consolidated income statement. IFC includes a receivable from IBRD in receivables and other assets, representing prepaid pension and other postretirement benefit costs.

**Recently adopted accounting standards** – In June 2013, the FASB issued ASU 2013-08, *Investment Companies (Topic 946): Amendments to the Scope, Measurement and Disclosure Requirements* (ASU 2013-08). Among other things, ASU 2013-08 amends the criteria for an entity to qualify as an investment company under ASC Topic 946, introduces new disclosure requirements applicable to investment companies, and amends the measurement criteria for certain investments by an investment company in another investment company. ASU 2013-08 is applicable for annual reporting periods and interim periods within those annual periods, beginning after December 15, 2013 (which was the year ended June 30, 2015 for IFC). IFC adopted ASU 2013-08 on July 1, 2014 with no material impact on IFC's financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 requires secured borrowing accounting for repurchase-to-maturity transactions, eliminates current accounting guidance on linking repurchase financing transactions and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and repurchase agreements, securities lending transactions and repurchase to maturity transactions accounted for as secured borrowings. The accounting changes and expanded disclosure requirements for certain transfers accounted as sales are applicable for the first interim or annual reporting period beginning after December 15, 2014 (which was the interim period ended March 31, 2015 for IFC). The disclosure requirements for certain transactions accounted for as secured borrowings are applicable for interim periods beginning after March 15, 2015 (which was the three months ended June 30, 2015 for IFC) and are reflected in Note P. IFC adopted ASU 2014-11's accounting changes on January 1, 2015 with no material impact on IFC's financial position, results of operations or cash flows.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at NAV (or its equivalent) under the practical expedient in the ASC, requires disclosure by reporting entities of the amount of investments measured at NAV (or its equivalent) under the practical expedient, and limits the disclosure requirements all investments eligible to be measured at NAV under the practical expedient to only those to which the practical expedient is applied. ASU 2015-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. As permitted, IFC early adopted ASU 2015-07 effective June 30, 2015 as reflected in Note R.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (ASU 2015-02). ASU 2015-02 amends ASC Topic 810, *Consolidation*, by modifying the evaluation of whether limited partnerships and similar entities are VIEs; eliminating the presumption that a general partner should consolidate a limited partnership; modifying the consolidation assessment of reporting entities that are involved with VIEs, particularly those that have fee arrangements (with the VIE) and related party relationships; providing a scope exception from Topic 810 for reporting entities with interests in certain money market funds. ASU 2015-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (which is the year ending June 30, 2017 for IFC). As permitted, IFC early adopted ASU 2015-02 on July 1, 2015, as reflected in Note M, with no material impact on IFC's financial position, results of operations or cash flows.



---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

In November 2014, the FASB issued ASU 2014-16, *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* (ASU 2014-16). ASU 2014-16 requires, for purposes of evaluating embedded features for bifurcation under ASU 815, the determination of the nature of a host contract issued in share form to be based on the economic characteristics and risks of the entire hybrid instrument, including the embedded feature being evaluated. Further, the ASU stipulates that the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host. ASU 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (which is the year ending June 30, 2017 for IFC). As permitted, IFC early adopted ASU 2014-16 on January 1, 2016 with no material impact on IFC's financial position, results of operations or cash flows.

**Accounting and financial reporting developments** – In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. The Act seeks to reform the U.S. financial regulatory system by introducing new regulators and extending regulation over new markets, entities, and activities. The implementation of the Act is dependent on the development of various rules to clarify and interpret its requirements. Pending the development of these rules, no impact on IFC has been determined as of June 30, 2016. IFC continues to evaluate the potential future implications of the Act.

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. ASU 2014-09 is currently applicable for annual reporting periods and interim periods within those annual periods, beginning after December 15, 2017 (which is the year ending June 30, 2019 for IFC). IFC is currently evaluating the impact of ASU 2014-09.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Instruments - Going Concern* (ASU 2014-15). ASU 2014-15 requires reporting entities to perform interim and annual assessments of their ability to continue as a going concern within one year of the date of issuance of the entity's financial statements (or within one year of the date on which the financial statements are available to be issued). A reporting entity will be required to make certain disclosures if there is substantial doubt about the entity's ability to continue to as a going concern. ASU 2014-15 is effective for annual periods ending after December 15, 2016 (which is the year ending June 30, 2017 for IFC) and for interim periods thereafter.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 requires all investments in equity securities to be accounted for at fair value through net income. However, entities may elect to account for equity investments that do not have readily determinable fair values at cost less impairment, as adjusted for observable price changes in orderly transactions for the identical and similar instrument of the issuer. ASU 2016-01 will require 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 the liability at fair value under the FVO. For public business entities, ASU 2016-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, (which is the year ending June 30, 2019 for IFC). ASC 2016-01's requirements are to be adopted by means of a cumulative-effect adjustment of the balance sheet as of the beginning of the fiscal year of adoption. Entities may adopt ASU 2016-01's guidance relative to OCI recognition of changes in fair value due to changes in the instrument-specific credit risk of liabilities measured under the FVO for financial statements of fiscal years or interim periods that have not yet been issued, as of the beginning of the fiscal year of adoption – otherwise early adoption is not permitted. IFC is currently evaluating the impact of ASU 2016-01.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 introduces a new accounting model that will result in lessees recording most leases on the balance sheet, aligns many of the underlying profit recognition principles with those in ASU 2014-09 and eliminates the use of "bright line" tests currently required for determining lease classification. ASU 2016-02 is effective for fiscal years, and interim periods within the fiscal years, beginning after December 15, 2018, (which is the year ending June 30, 2020 for IFC). Earlier adoption is permitted. IFC is currently evaluating the impact of ASU 2016-02.

In March 2016, the FASB issued ASU 2016-06, *Contingent Put and Call Options in Debt Instruments*; ASU 2016-07, *Simplifying the Transition to the Equity Method of Accounting*; and ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)*. ASU 2016-06 clarifies certain matters regarding the assessment required under ASC 815 of whether contingent puts and calls embedded in debt instruments require bifurcation. ASU 2016-06 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, (which is the year ended June 30, 2018 for IFC). Early adoption is permitted. ASU 2016-06 will have no material impact on IFC's financial position, results of operations or cash flows.

ASU 2016-07 simplifies the equity method of accounting by eliminating the requirement to retroactively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in ownership and/or degree of influence. Consequently, when an investment qualifies for equity method accounting, the cost of acquiring the additional ownership would be added to the investor's previous cost basis and the equity method subsequently applied upon the date the investor obtains the ability to exercise significant influence over the investee. ASU 2016-07 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2016, (which is the year ended June 30, 2018 for IFC). Given IFC's current election of the FVO for all investments that otherwise qualify for equity method accounting, ASU 2016-07 is not expected to materially impact IFC's financial position, results of operations or cash flows.

ASU 2016-08 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 ASC 2014-09's control principle. ASU 2016-08 has the same effective date as 2014-09, (which is the year ending June 30, 2019 for IFC). IFC is currently evaluating the impact of ASU 2016-08.

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 (CECL) 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

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 immediate reversals of credit losses. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (which is the year ended June 30, 2021 for IFC). IFC is currently evaluating the impact of ASU 2016-13.

In addition, during the year ended June 30, 2016, the FASB issued and/or approved various other ASUs. IFC analyzed and implemented the new guidance, as appropriate, with no material impact on the financial position, results of operations or cash flows of IFC.

**NOTE B – SCOPE OF CONSOLIDATION**

**IFC Asset Management Company, LLC (AMC) and AMC Funds**

IFC, through its wholly owned subsidiary, AMC, mobilizes capital from outside IFC's traditional investor pool and manages third-party capital. AMC is consolidated into IFC's financial statements. At June 30, 2016, IFC has provided \$2 million of capital to AMC (\$2 million - June 30, 2015).

As a result of the consolidation of AMC, amounts included in IFC's consolidated balance sheet at June 30, 2016 and June 30, 2015 comprise (US\$ millions):

|                                    | June 30,<br>2016 | June 30,<br>2015 |
|------------------------------------|------------------|------------------|
| Cash, receivables and other assets | \$ 55            | \$ 51            |
| Equity investments                 | *                | *                |
| Payables and other liabilities     | 2                | 3                |

\* less than \$0.5 million.

As a result of the consolidation of AMC, amounts included in IFC's consolidated statement of operations for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprise (US\$ millions):

|                | 2016  | 2015  | 2014  |
|----------------|-------|-------|-------|
| Other income   | \$ 66 | \$ 59 | \$ 57 |
| Other expenses | 24    | 20    | 15    |

At June 30, 2016, AMC managed twelve funds (collectively referred to as the AMC Funds). All AMC Funds are investment companies and are required to report their investment assets at fair value through net income. 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 Russian Bank Capitalization Fund, LP           | 45%                      |
| IFC Catalyst Funds                                 | 18%***                   |
| IFC Global Infrastructure Fund, LP                 | 17%                      |
| China-Mexico Fund, LP                              | -                        |
| IFC Financial Institutions Growth Fund, LP         | 32%                      |
| IFC Global Emerging Markets Fund of Funds          | 20%****                  |
| IFC Middle East and North Africa Fund, LP          | 37%                      |
| Women Entrepreneurs Debt Fund, LP                  | 33%                      |

\*\* 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 20% 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 is the sole limited partner of IFC Global Emerging Markets Fund of Funds, LP. IFC does not have an ownership interest in the IFC Global Emerging Markets Fund of Funds, (Japan Parallel) LP.

IFC's investments in AMC Funds, except for the IFC Russian Bank Capitalization Fund, LP (RBCF) created in June 2012 and IFC Global Emerging Markets Fund of Funds, LP (IFC GEMFOF) created in June 2015, are accounted for at fair value under the Fair Value Option. RBCF and IFC GEMFOF are both VIEs and consolidated by IFC because IFC is deemed their primary beneficiary.

As a result of consolidating RBCF, IFC's consolidated balance sheet at June 30, 2016 includes \$41 million of equity investments (\$41 million - June 30, 2015), and non-controlling interests of \$23 million (\$22 million - June 30, 2015). These non-controlling interests meet the FASB's definition of mandatorily redeemable financial instruments because the terms of the underlying partnership agreement provide for a termination date at which time its remaining assets are to be sold, its liabilities settled and the remaining net proceeds distributed to the non-controlling interest holders and IFC. RBCF's termination date is 2021 with a possible extension to 2023. As RBCF is considered an investment company, its investment securities (equity investments) are measured at fair value in IFC's consolidated balance sheet; therefore, the settlement value or estimate of cash that would

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

be due and payable to settle these non-controlling interests, assuming an orderly liquidation of RBCF on June 30, 2016, approximates the \$23 million of non-controlling interests reflected on IFC's consolidated balance sheet at June 30, 2016.

IFC is the sole limited partner of IFC GEMFOF and hence there are no non-controlling interests in this entity. As of June 30, 2016, IFC GEMFOF had \$5 million of equity investments (\$0 - June 30, 2015) included in IFC's consolidated balance sheet.

**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 Consolidated Financial Statements because IFC is the VIE's primary beneficiary. The collective impact of this and other entities consolidated into these Consolidated Financial Statements under the VIE or voting interest model is insignificant.

**NOTE C – LIQUID ASSET PORTFOLIO****Income from liquid asset trading activities**

Income from liquid asset trading activities for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprises (US\$ millions):

|  | 2016                 | 2015                 | 2014                 |
|--|----------------------|----------------------|----------------------|
| Interest income, net   | \$ 561               | \$ 614               | \$ 533               |
| Net gains and losses on trading activities (realized and unrealized) | <u>(57)</u>          | <u>(147)</u>         | <u>66</u>            |
| <b>Total income from liquid asset trading activities</b>             | <b><u>\$ 504</u></b> | <b><u>\$ 467</u></b> | <b><u>\$ 599</u></b> |

Net gains and losses on trading activities comprise net losses on asset-backed and mortgage-backed securities of \$70 million for the year ended June 30, 2016 (\$38 million losses - year ended June 30, 2015; \$67 million gains - year ended June 30, 2014) and net gains on other trading securities of \$13 million for the year ended June 30, 2016 (\$109 million losses - year ended June 30, 2015; \$1 million losses - year ended June 30, 2014).

The annualized rate of return on the liquid asset trading portfolio, calculated as total income from the liquid asset trading activities divided by fair value average daily balance of total trading securities, during the year ended June 30, 2016, was 1.4% (1.3% - year ended June 30, 2015; 1.8% - year ended June 30, 2014). After the effect of associated derivative instruments, the liquid asset portfolio generally reprices within one year.

**Composition of liquid asset portfolio**

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

|   | June 30, 2016           | June 30, 2015           |
|---|-------------------------|-------------------------|
| <b>Assets</b>   |                         |                         |
| Cash and due from banks   | \$ 886                  | \$ 980                  |
| Time deposits   | 13,114                  | 7,509                   |
| Trading securities  | 31,212                  | 34,731                  |
| Securities purchased under resale agreements and receivable for cash collateral pledged | 495                     | 68                      |
| Derivative assets   | 489                     | 850                     |
| Receivables and other assets:   |                         |                         |
| Receivables from unsettled security trades  | 775                     | 505                     |
| Accrued interest income on time deposits and securities                                 | 168                     | 171                     |
| Accrued income on derivative instruments  | 19                      | 13                      |
| <b>Total assets</b>   | <b><u>47,158</u></b>    | <b><u>44,827</u></b>    |
| <b>Liabilities</b>  |                         |                         |
| Securities sold under repurchase agreements and payable for cash collateral received    | 4,143                   | 4,695                   |
| Derivative liabilities  | 439                     | 244                     |
| Payables and other liabilities:   |                         |                         |
| Payables for unsettled security trades  | 1,099                   | 349                     |
| Short-Term Borrowings   | 36                      | 9                       |
| Liability for short sold securities   | 10                      | -                       |
| Accrued charges on derivative instruments   | 58                      | 55                      |
| <b>Total liabilities</b>  | <b><u>5,785</u></b>     | <b><u>5,352</u></b>     |
| <b>Total net liquid asset portfolio</b>   | <b><u>\$ 41,373</u></b> | <b><u>\$ 39,475</u></b> |

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 6.3% of the portfolio at June 30, 2016 (7.8% - June 30, 2015).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE C – LIQUID ASSET PORTFOLIO (continued)

Trading securities comprises:

|  | Year ended<br>June 30, 2016                           |  | At June 30, 2016              |   |
|--|---|--|-------------------------------|---|
|  | Fair value average<br>daily balance<br>(US\$ million) |  | Fair value<br>(US\$ millions) | Weighted average<br>contractual<br>maturity (years) |
| Government, agency and government-sponsored agency obligations | \$ 11,942   |  | \$ 11,083                     | 2.2   |
| Asset-backed securities  | 12,389  |  | 11,860                        | 17.1  |
| Corporate securities   | 6,882   |  | 7,842                         | 1.8   |
| Money market funds   | 916   |  | 427                           | n/a   |
| <b>Total trading securities</b>                                | <b>\$ 32,129</b>                                      |  | <b>\$ 31,212</b>              |   |
|  | Year ended<br>June 30, 2015                           |  | At June 30, 2015              |   |
|  | Fair value average<br>daily balance<br>(US\$ million) |  | Fair value<br>(US\$ millions) | Weighted average<br>contractual<br>maturity (years) |
| Government, agency and government-sponsored agency obligations | \$ 16,679   |  | \$ 15,088                     | 2.2   |
| Asset-backed securities  | 13,133  |  | 12,793                        | 17.4  |
| Corporate securities   | 5,918   |  | 5,757                         | 3.0   |
| Money market funds   | 1,163   |  | 1,093                         | n/a   |
| <b>Total trading securities</b>                                | <b>\$ 36,893</b>                                      |  | <b>\$ 34,731</b>              |   |

The expected maturity of the asset-backed securities may be significantly shorter than the contractual maturity, as reported above, due to prepayment features.

## NOTE D – INVESTMENTS

The carrying amount of investments at June 30, 2016 and June 30, 2015 comprises (US\$ millions):

|  | June 30, 2016    | June 30, 2015    |
|--|------------------|------------------|
| <b>Loans</b>   |                  |                  |
| Loans at amortized cost  | \$ 22,681        | \$ 22,295        |
| Less: Reserve against losses on loans  | (1,775)          | (1,743)          |
| Loans at amortized cost less reserve against losses  | 20,906           | 20,552           |
| Loans accounted for at fair value under the Fair Value Option<br>(outstanding principal balance \$1,093 at June 30, 2016, \$802 – June 30, 2015) | 962              | 784              |
| <b>Total loans</b>   | <b>21,868</b>    | <b>21,336</b>    |
| <b>Equity investments</b>  |                  |                  |
| Equity investments at cost less impairment*  | 3,145            | 3,250            |
| Equity investments accounted for at fair value as available-for-sale<br>(cost \$2,278 at June 30, 2016, \$2,505 – June 30, 2015)                 | 3,526            | 4,557            |
| Equity investments accounted for at fair value<br>(cost \$5,331 at June 30, 2016, \$4,800 – June 30, 2015)                                       | 5,917            | 5,696            |
| <b>Total equity investments</b>  | <b>12,588</b>    | <b>13,503</b>    |
| <b>Debt securities</b>   |                  |                  |
| Debt securities accounted for at fair value as available-for-sale<br>(amortized cost \$2,553 at June 30, 2016, \$2,329 – June 30, 2015)          | 2,474            | 2,317            |
| Debt securities accounted for at fair value under the Fair Value Option<br>(amortized cost \$442 at June 30, 2016, \$408 – June 30, 2015)        | 426              | 422              |
| <b>Total debt securities</b>   | <b>2,900</b>     | <b>2,739</b>     |
| <b>Total carrying amount of investments</b>  | <b>\$ 37,356</b> | <b>\$ 37,578</b> |

\* Equity investments at cost less impairment at June 30, 2016 includes unrealized gains of \$7 million (\$0 – June 30, 2015) related to equity investments accounted for as available-for-sale in previous periods and for which readily determinable fair values are no longer available.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE D – INVESTMENTS** (continued)

The distribution of the investment portfolio by industry sector and by geographical region and a reconciliation of total disbursed portfolio to carrying amount of investments is as follows (US\$ millions):

| Sector  | June 30, 2016    |                    |                 |                  | June 30, 2015    |                    |                 |                  |
|---|------------------|--------------------|-----------------|------------------|------------------|--------------------|-----------------|------------------|
|   | Loans            | Equity investments | Debt securities | Total            | Loans            | Equity investments | Debt securities | Total            |
| <b>Manufacturing, agribusiness and services</b>   |                  |                    |                 |                  |                  |                    |                 |                  |
| Asia  | \$ 1,497         | \$ 759             | \$ 288          | \$ 2,544         | \$ 1,933         | \$ 820             | \$ 190          | \$ 2,943         |
| Europe, Middle East and North Africa  | 2,707            | 665                | 126             | 3,498            | 2,915            | 784                | 134             | 3,833            |
| Sub-Saharan Africa, Latin America and Caribbean   | 2,505            | 561                | 77              | 3,143            | 2,517            | 547                | 110             | 3,174            |
| Other   | 353              | 247                | -               | 600              | 171              | 227                | -               | 398              |
| <b>Total manufacturing, agribusiness and services</b>   | <b>7,062</b>     | <b>2,232</b>       | <b>491</b>      | <b>9,785</b>     | <b>7,536</b>     | <b>2,378</b>       | <b>434</b>      | <b>10,348</b>    |
| <b>Financial markets</b>  |                  |                    |                 |                  |                  |                    |                 |                  |
| Asia  | 1,700            | 1,281              | 807             | 3,788            | 2,153            | 1,097              | 491             | 3,741            |
| Europe, Middle East and North Africa  | 2,031            | 1,352              | 450             | 3,833            | 2,056            | 1,482              | 508             | 4,046            |
| Sub-Saharan Africa, Latin America and Caribbean   | 2,949            | 988                | 319             | 4,256            | 2,697            | 1,129              | 364             | 4,190            |
| Other   | 743              | 245                | 217             | 1,205            | 501              | 175                | 220             | 896              |
| <b>Total financial markets</b>  | <b>7,423</b>     | <b>3,866</b>       | <b>1,793</b>    | <b>13,082</b>    | <b>7,407</b>     | <b>3,883</b>       | <b>1,583</b>    | <b>12,873</b>    |
| <b>Infrastructure and natural resources</b>   |                  |                    |                 |                  |                  |                    |                 |                  |
| Asia  | 1,943            | 582                | 77              | 2,602            | 1,646            | 620                | 63              | 2,329            |
| Europe, Middle East and North Africa  | 2,144            | 733                | 99              | 2,976            | 1,810            | 507                | 126             | 2,443            |
| Sub-Saharan Africa, Latin America and Caribbean   | 3,916            | 661                | 116             | 4,693            | 3,643            | 700                | 136             | 4,479            |
| Other   | 200              | 5                  | -               | 205              | 156              | 11                 | -               | 167              |
| <b>Total infrastructure and natural resources</b>   | <b>8,203</b>     | <b>1,981</b>       | <b>292</b>      | <b>10,476</b>    | <b>7,255</b>     | <b>1,838</b>       | <b>325</b>      | <b>9,418</b>     |
| <b>Telecom, media &amp; technology, and venture investing</b>   |                  |                    |                 |                  |                  |                    |                 |                  |
| Asia  | 407              | 584                | 159             | 1,150            | 252              | 509                | 98              | 859              |
| Europe, Middle East and North Africa  | 152              | 542                | 31              | 725              | 197              | 455                | 35              | 687              |
| Sub-Saharan Africa, Latin America and Caribbean   | 360              | 960                | 57              | 1,377            | 292              | 895                | 64              | 1,251            |
| Other   | 303              | 628                | 28              | 959              | 313              | 623                | 29              | 965              |
| <b>Total Telecom, media &amp; technology, and venture investing</b>   | <b>1,222</b>     | <b>2,714</b>       | <b>275</b>      | <b>4,211</b>     | <b>1,054</b>     | <b>2,482</b>       | <b>226</b>      | <b>3,762</b>     |
| <b>Total disbursed investment portfolio</b>   | <b>\$ 23,910</b> | <b>\$ 10,793</b>   | <b>\$ 2,851</b> | <b>\$ 37,554</b> | <b>\$ 23,252</b> | <b>\$ 10,581</b>   | <b>\$ 2,568</b> | <b>\$ 36,401</b> |
| Reserve against losses on loans   | (1,775)          | -                  | -               | (1,775)          | (1,743)          | -                  | -               | (1,743)          |
| Unamortized deferred loan origination fees, net and other   | (125)            | -                  | -               | (125)            | (119)            | -                  | -               | (119)            |
| Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets | (11)             | (41)               | -               | (52)             | (36)             | (47)               | -               | (83)             |
| Adjustments to disbursed investment portfolio   | -                | 10                 | (22)            | (12)             | -                | 28                 | (5)             | 23               |
| Unrealized losses on equity investments held by consolidated VIEs   | -                | (8)                | -               | (8)              | -                | (7)                | -               | (7)              |
| Unrealized gains on investments accounted for at fair value as available-for-sale                                     | -                | 1,248              | 87              | 1,335            | -                | 2,052              | 162             | 2,214            |
| Unrealized gains (losses) on investments  | (131)            | 586                | (16)            | 439              | (18)             | 896                | 14              | 892              |
| <b>Carrying amount of investments</b>   | <b>\$ 21,868</b> | <b>\$ 12,588</b>   | <b>\$ 2,900</b> | <b>\$ 37,356</b> | <b>\$ 21,336</b> | <b>\$ 13,503</b>   | <b>\$ 2,739</b> | <b>\$ 37,578</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE E – LOANS AND GUARANTEES

## Loans

Income from Loans and guarantees, including realized gains and losses on loans and associated derivatives for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprise the following (US\$ millions):

|  | 2016            | 2015            | 2014            |
|--|-----------------|-----------------|-----------------|
| Interest income  | \$ 1,026        | \$ 957          | \$ 936          |
| Commitment fees  | 34              | 38              | 43              |
| Other financial fees   | 64              | 71              | 77              |
| Realized gains on loans, guarantees and associated derivatives   | 2               | 57              | 9               |
| <b>Income from loans and guarantees, including realized gains and losses on loans and associated derivatives</b> | <b>\$ 1,126</b> | <b>\$ 1,123</b> | <b>\$ 1,065</b> |

The currency composition and average contractual rate of the disbursed loan portfolio are summarized below:

|                                       | June 30, 2016             |                                    | June 30, 2015             |                                    |
|---------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|
|                                       | Amount<br>(US\$ millions) | Average<br>contractual<br>rate (%) | Amount<br>(US\$ millions) | Average<br>contractual<br>rate (%) |
| US dollar                             | \$ 18,565                 | 4.6                                | \$ 17,339                 | 4.2                                |
| Euro                                  | 2,708                     | 3.5                                | 2,636                     | 3.9                                |
| Brazilian real                        | 424                       | 16.7                               | 434                       | 15.2                               |
| Indian rupee                          | 397                       | 10.2                               | 438                       | 10.5                               |
| Chinese renminbi                      | 355                       | 5.9                                | 828                       | 5.6                                |
| South African rand                    | 196                       | 10.6                               | 165                       | 9.9                                |
| Philippine peso                       | 180                       | 6.7                                | 188                       | 6.7                                |
| Colombian peso                        | 157                       | 9.2                                | 81                        | 10.5                               |
| Mexican peso                          | 152                       | 7.0                                | 262                       | 7.1                                |
| Indonesian rupiah                     | 149                       | 10.9                               | 293                       | 8.9                                |
| Russian ruble                         | 140                       | 12.1                               | 190                       | 12.4                               |
| Peruvian soles nuevos                 | 97                        | 8.5                                | 95                        | 7.8                                |
| New Romanian Lei                      | 94                        | 4.1                                | 40                        | 6.4                                |
| Hong Kong dollars                     | 60                        | 2.0                                | -                         | -                                  |
| Dominican pesos                       | 57                        | 11.6                               | 12                        | 13.6                               |
| Other currencies                      |                           |                                    |                           |                                    |
| OECD currencies                       | 44                        | 10.5                               | 63                        | 9.9                                |
| Non-OECD currencies                   | 135                       | 12.3                               | 188                       | 9.7                                |
| <b>Total disbursed loan portfolio</b> | <b>\$ 23,910</b>          | <b>5.1</b>                         | <b>\$ 23,252</b>          | <b>4.9</b>                         |

After the effect of interest rate swaps and currency swaps, IFC's loans are principally denominated in variable rate US dollars.

Loans in all currencies are repayable during the years ending June 30, 2017 through June 30, 2021 and thereafter, as follows (US\$ millions):

|                                       | 2017            | 2018            | 2019            | 2020            | 2021            | Thereafter      | Total            |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Fixed rate loans                      | \$ 959          | \$ 689          | \$ 670          | \$ 863          | \$ 588          | \$ 983          | \$ 4,752         |
| Variable rate loans                   | 3,854           | 2,708           | 2,549           | 2,961           | 1,792           | 5,294           | 19,158           |
| <b>Total disbursed loan portfolio</b> | <b>\$ 4,813</b> | <b>\$ 3,397</b> | <b>\$ 3,219</b> | <b>\$ 3,824</b> | <b>\$ 2,380</b> | <b>\$ 6,277</b> | <b>\$ 23,910</b> |

At June 30, 2016, 20% of the disbursed loan portfolio consisted of fixed rate loans (22% - June 30, 2015), while the remainder was at variable rates. At June 30, 2016, the disbursed loan portfolio included \$122 million of loans serving as collateral under secured borrowing arrangements (\$223 million - June 30, 2015).

IFC's disbursed variable rate loans generally reprice within one year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE E – LOANS AND GUARANTEES (continued)

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

Changes in the reserve against losses on loans for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, 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):

|  | Year ended June 30, 2016 |                    |                 |
|--|--------------------------|--------------------|-----------------|
|  | Specific reserves        | Portfolio reserves | Total reserves  |
| Beginning balance  | \$ 962                   | \$ 781             | \$ 1,743        |
| Provision (release of provision) for losses on loans, net                        | 319                      | 36                 | 355             |
| Write-offs   | (310)                    | -                  | (310)           |
| Recoveries of previously written-off loans                                       | 18                       | -                  | 18              |
| Foreign currency transaction adjustments   | (18)                     | (7)                | (25)            |
| Other adjustments*   | (6)                      | -                  | (6)             |
| <b>Ending balance</b>  | <b>\$ 965</b>            | <b>\$ 810</b>      | <b>\$ 1,775</b> |
| Related recorded investment in loans at June 30, 2016 evaluated for impairment** | \$ 22,681                | \$ 20,929          | \$ 22,681       |
| Recorded investment in loans with specific reserves                              | \$ 1,752                 |                    |                 |
|  |                          |                    |                 |
|  | Year ended June 30, 2015 |                    |                 |
|  | Specific reserves        | Portfolio reserves | Total reserves  |
| Beginning balance  | \$ 838                   | \$ 848             | \$ 1,686        |
| Provision (release of provision) for losses on loans, net                        | 199                      | (30)               | 169             |
| Write-offs   | (34)                     | -                  | (34)            |
| Recoveries of previously written-off loans                                       | 4                        | -                  | 4               |
| Foreign currency transaction adjustments   | (43)                     | (37)               | (80)            |
| Other adjustments*   | (2)                      | -                  | (2)             |
| <b>Ending balance</b>  | <b>\$ 962</b>            | <b>\$ 781</b>      | <b>\$ 1,743</b> |
| Related recorded investment in loans at June 30, 2015 evaluated for impairment** | \$ 22,295                | \$ 20,573          | \$ 22,295       |
| Recorded investment in loans with specific reserves                              | \$ 1,722                 |                    |                 |
|  |                          |                    |                 |
|  | Year ended June 30, 2014 |                    |                 |
|  | Specific reserves        | Portfolio reserves | Total reserves  |
| Beginning balance  | \$ 741                   | \$ 887             | \$ 1,628        |
| Provision (release of provision) for losses on loans, net                        | 127                      | (44)               | 83              |
| Write-offs   | (44)                     | -                  | (44)            |
| Recoveries of previously written-off loans                                       | 1                        | -                  | 1               |
| Foreign currency transaction adjustments   | 1                        | 5                  | 6               |
| Other adjustments*   | 12                       | -                  | 12              |
| <b>Ending balance</b>  | <b>\$ 838</b>            | <b>\$ 848</b>      | <b>\$ 1,686</b> |
| Related recorded investment in loans at June 30, 2014 evaluated for impairment** | \$ 23,562                | \$ 21,837          | \$ 23,562       |
| Recorded investment in loans with specific reserves                              | \$ 1,725                 |                    |                 |

\*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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE E – LOANS AND GUARANTEES** (continued)**Reserve for losses on guarantees and other receivables and provision for losses on guarantees and other receivables**

Changes in the reserve against losses on guarantees for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, are summarized below (US\$ millions):

|   | 2016                | 2015                | 2014                |
|---|---------------------|---------------------|---------------------|
| Beginning balance   | \$ 20               | \$ 22               | \$ 17               |
| Provision (release of provision) for losses on guarantees | <u>3</u>            | <u>(2)</u>          | <u>5</u>            |
| <b>Ending balance</b>                                     | <b><u>\$ 23</u></b> | <b><u>\$ 20</u></b> | <b><u>\$ 22</u></b> |

Changes in the reserve against losses on other receivables for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, are summarized below (US\$ millions):

|  | 2016               | 2015               | 2014               |
|--|--------------------|--------------------|--------------------|
| Beginning balance  | \$ 7               | \$ 3               | \$ 3               |
| Provision (release of provision) for losses on other receivables | <u>1</u>           | <u>4</u>           | <u>-</u>           |
| <b>Ending balance</b>  | <b><u>\$ 8</u></b> | <b><u>\$ 7</u></b> | <b><u>\$ 3</u></b> |

**Impaired loans**

The average recorded investment and the recorded investment in loans at amortized cost that are impaired at June 30, 2016 and June 30, 2015 are as follows (US\$ millions):

|  | June 30, 2016 |       | June 30, 2015 |       |
|--|---------------|-------|---------------|-------|
| Average recorded investment in loans at amortized cost that are impaired | \$            | 1,835 | \$            | 1,771 |
| Recorded investment in loans at amortized cost that are impaired         |               | 1,752 |               | 1,722 |

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

|   | June 30, 2016          |                                |                                |                                   |                                  |
|---|------------------------|--------------------------------|--------------------------------|-----------------------------------|----------------------------------|
|   | Recorded<br>investment | Unpaid<br>principal<br>balance | Related<br>specific<br>reserve | Average<br>recorded<br>investment | Interest<br>income<br>recognized |
| <b>Manufacturing, agribusiness and services</b>                     |                        |                                |                                |                                   |                                  |
| Asia  | \$ 102                 | \$ 154                         | \$ 72                          | \$ 139                            | \$ 1                             |
| Europe, Middle East and North Africa                                | 672                    | 724                            | 391                            | 712                               | 11                               |
| Sub-Saharan Africa, Latin America and Caribbean                     | 183                    | 206                            | 108                            | 179                               | 2                                |
| Other   | 14                     | 14                             | 14                             | 14                                | -                                |
| <b>Total manufacturing, agribusiness and services</b>               | <b>971</b>             | <b>1,098</b>                   | <b>585</b>                     | <b>1,044</b>                      | <b>14</b>                        |
| <b>Financial markets</b>  |                        |                                |                                |                                   |                                  |
| Asia  | -                      | 2                              | -                              | -                                 | -                                |
| Europe, Middle East and North Africa                                | 10                     | 11                             | 8                              | 13                                | 1                                |
| Sub-Saharan Africa, Latin America and Caribbean                     | 32                     | 56                             | 9                              | 24                                | 1                                |
| Other   | 1                      | 1                              | 1                              | 1                                 | -                                |
| <b>Total financial markets</b>                                      | <b>43</b>              | <b>70</b>                      | <b>18</b>                      | <b>38</b>                         | <b>2</b>                         |
| <b>Infrastructure and natural resources</b>                         |                        |                                |                                |                                   |                                  |
| Asia  | 121                    | 121                            | 68                             | 121                               | (1)                              |
| Europe, Middle East and North Africa                                | 213                    | 221                            | 135                            | 216                               | 4                                |
| Sub-Saharan Africa, Latin America and Caribbean                     | 398                    | 410                            | 156                            | 410                               | 16                               |
| <b>Total infrastructure and natural resources</b>                   | <b>732</b>             | <b>752</b>                     | <b>359</b>                     | <b>747</b>                        | <b>19</b>                        |
| <b>Telecom, media &amp; technology, and venture investing</b>       |                        |                                |                                |                                   |                                  |
| Sub-Saharan Africa, Latin America and Caribbean                     | 6                      | 6                              | 3                              | 6                                 | 1                                |
| <b>Total Telecom, media &amp; technology, and venture investing</b> | <b>6</b>               | <b>6</b>                       | <b>3</b>                       | <b>6</b>                          | <b>1</b>                         |
| <b>Total</b>  | <b>\$ 1,752</b>        | <b>\$ 1,926</b>                | <b>\$ 965</b>                  | <b>\$ 1,835</b>                   | <b>\$ 36</b>                     |

All impaired loans at June 30, 2016 had specific reserves.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE E – LOANS AND GUARANTEES (continued)

|   | June 30, 2015       |                          |                          |                             |                            |
|---|---------------------|--------------------------|--------------------------|-----------------------------|----------------------------|
|   | Recorded investment | Unpaid principal balance | Related specific reserve | Average recorded investment | Interest income recognized |
| <b>Manufacturing, agribusiness and services</b>                     |                     |                          |                          |                             |                            |
| Asia  | \$ 126              | \$ 128                   | \$ 82                    | \$ 126                      | \$ 1                       |
| Europe, Middle East and North Africa                                | 673                 | 676                      | 408                      | 684                         | (10)                       |
| Sub-Saharan Africa, Latin America and Caribbean                     | 251                 | 299                      | 149                      | 278                         | 6                          |
| Other   | 15                  | 15                       | 14                       | 15                          | -                          |
| <b>Total manufacturing, agribusiness and services</b>               | <b>1,065</b>        | <b>1,118</b>             | <b>653</b>               | <b>1,103</b>                | <b>(3)</b>                 |
| <b>Financial markets</b>  |                     |                          |                          |                             |                            |
| Asia  | -                   | 2                        | -                        | -                           | -                          |
| Europe, Middle East and North Africa                                | 15                  | 15                       | 9                        | 16                          | 1                          |
| Sub-Saharan Africa, Latin America and Caribbean                     | 37                  | 63                       | 36                       | 42                          | 3                          |
| Other   | 1                   | 1                        | 1                        | 1                           | -                          |
| <b>Total financial markets</b>                                      | <b>53</b>           | <b>81</b>                | <b>46</b>                | <b>59</b>                   | <b>4</b>                   |
| <b>Infrastructure and natural resources</b>                         |                     |                          |                          |                             |                            |
| Asia  | 166                 | 166                      | 68                       | 171                         | 9                          |
| Europe, Middle East and North Africa                                | 160                 | 160                      | 93                       | 172                         | 3                          |
| Sub-Saharan Africa, Latin America and Caribbean                     | 137                 | 137                      | 79                       | 136                         | (1)                        |
| <b>Total infrastructure and natural resources</b>                   | <b>463</b>          | <b>463</b>               | <b>240</b>               | <b>479</b>                  | <b>11</b>                  |
| <b>Telecom, media &amp; technology, and venture investing</b>       |                     |                          |                          |                             |                            |
| Sub-Saharan Africa, Latin America and Caribbean                     | 29                  | 29                       | 7                        | 29                          | 2                          |
| Other   | 112                 | 112                      | 16                       | 101                         | 1                          |
| <b>Total Telecom, media &amp; technology, and venture investing</b> | <b>141</b>          | <b>141</b>               | <b>23</b>                | <b>130</b>                  | <b>3</b>                   |
| <b>Total</b>  | <b>\$ 1,722</b>     | <b>\$ 1,803</b>          | <b>\$ 962</b>            | <b>\$ 1,771</b>             | <b>\$ 15</b>               |

All impaired loans at June 30, 2015 had specific reserves.

**Nonaccruing loans**

Loans on which the accrual of interest has been discontinued amounted to \$1,646 million at June 30, 2016 (\$1,534 million – June 30, 2015). The interest income on such loans for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 is summarized as follows (US\$ millions):

|  | 2016 | 2015 | 2014 |
|--|------|------|------|
| Interest income not recognized on nonaccruing loans  | 157  | 139  | 104  |
| Interest income recognized on loans in nonaccrual status related to current and prior years, on a cash basis | 34   | 31   | 19   |

The recorded investment in nonaccruing loans at amortized cost at June 30, 2016 and June 30, 2015 is summarized by industry sector and geographic region as follow (US\$ millions):

|   | June 30, 2016                            |                   |                                      |  |  |
|---|--|-------------------|--------------------------------------|--|--|
|   | Manufacturing, agribusiness and services | Financial markets | Infrastructure and natural resources | Telecom, media & technology, and venture investing | Total recorded investment in nonaccruing loans |
| Asia  | \$ 87                                    | \$ -              | \$ 121                               | \$ -   | \$ 208   |
| Europe, Middle East and North Africa            | 610                                      | 10                | 195                                  | -  | 815  |
| Sub-Saharan Africa, Latin America and Caribbean | 233                                      | 1                 | 220                                  | 16   | 470  |
| Other   | 15                                       | 1                 | -                                    | -  | 16   |
| <b>Total disbursed loans at amortized cost</b>  | <b>\$ 945</b>                            | <b>\$ 12</b>      | <b>\$ 536</b>                        | <b>\$ 16</b>                                       | <b>\$ 1,509</b>                                |

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – LOANS AND GUARANTEES (continued)

June 30, 2015

|  | Manufacturing,<br>agribusiness<br>and services | Financial<br>markets | Infrastructure<br>and natural<br>resources | Telecom,<br>media &<br>technology,<br>and venture<br>investing | Total<br>recorded<br>investment in<br>nonaccruing<br>loans |
|--|--|----------------------|--|--|--|
| Asia   | \$ 125   | \$ -                 | \$ 122                                     | \$ -   | \$ 247   |
| Europe, Middle East and North Africa               | 597  | 12                   | 129  | -  | 738  |
| Sub-Saharan Africa, Latin America and<br>Caribbean | 250  | 30                   | 135  | 45   | 460  |
| Other  | 15   | -                    | -  | -  | 15   |
| <b>Total disbursed loans at amortized<br/>cost</b> | <b>\$ 987</b>                                  | <b>\$ 42</b>         | <b>\$ 386</b>                              | <b>\$ 45</b>   | <b>\$ 1,460</b>  |

Past due loans

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

June 30, 2016

|   | 30-59<br>days<br>past due | 60-89<br>days<br>past due | 90 days<br>or greater<br>past due | Total<br>past due | Current          | Total<br>loans   |
|---|---------------------------|---------------------------|-----------------------------------|-------------------|------------------|------------------|
| <b>Manufacturing, agribusiness and services</b>   |                           |                           |                                   |                   |                  |                  |
| Asia  | \$ 14                     | \$ -                      | \$ 74                             | \$ 88             | \$ 1,351         | \$ 1,439         |
| Europe, Middle East and North Africa  | -                         | 8                         | 564                               | 572               | 2,096            | 2,668            |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | 6                         | 15                        | 194                               | 215               | 2,211            | 2,426            |
| Other   | -                         | -                         | 15                                | 15                | 336              | 351              |
| <b>Total manufacturing, agribusiness and<br/>services</b>   | <b>20</b>                 | <b>23</b>                 | <b>847</b>                        | <b>890</b>        | <b>5,994</b>     | <b>6,884</b>     |
| <b>Financial markets</b>  |                           |                           |                                   |                   |                  |                  |
| Asia  | -                         | -                         | -                                 | -                 | 1,644            | 1,644            |
| Europe, Middle East and North Africa  | -                         | -                         | 7                                 | 7                 | 1,963            | 1,970            |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | -                         | -                         | 2                                 | 2                 | 2,856            | 2,858            |
| Other   | -                         | -                         | 1                                 | 1                 | 742              | 743              |
| <b>Total financial markets</b>  | <b>-</b>                  | <b>-</b>                  | <b>10</b>                         | <b>10</b>         | <b>7,205</b>     | <b>7,215</b>     |
| <b>Infrastructure and natural resources</b>   |                           |                           |                                   |                   |                  |                  |
| Asia  | -                         | -                         | 121                               | 121               | 1,793            | 1,914            |
| Europe, Middle East and North Africa  | -                         | 10                        | 124                               | 134               | 1,667            | 1,801            |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | -                         | -                         | 82                                | 82                | 3,768            | 3,850            |
| Other   | -                         | -                         | -                                 | -                 | 200              | 200              |
| <b>Total infrastructure and natural<br/>resources</b>   | <b>-</b>                  | <b>10</b>                 | <b>327</b>                        | <b>337</b>        | <b>7,428</b>     | <b>7,765</b>     |
| <b>Telecom, media &amp; technology, and venture<br/>investing</b>   |                           |                           |                                   |                   |                  |                  |
| Asia  | -                         | -                         | -                                 | -                 | 406              | 406              |
| Europe, Middle East and North Africa  | -                         | -                         | -                                 | -                 | 144              | 144              |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | 11                        | -                         | 16                                | 27                | 237              | 264              |
| Other   | -                         | -                         | -                                 | -                 | 139              | 139              |
| <b>Total Telecom, media &amp; technology,<br/>and venture investing</b>   | <b>11</b>                 | <b>-</b>                  | <b>16</b>                         | <b>27</b>         | <b>926</b>       | <b>953</b>       |
| <b>Total disbursed loans<br/>at amortized cost</b>  | <b>\$ 31</b>              | <b>\$ 33</b>              | <b>\$ 1,200</b>                   | <b>\$ 1,264</b>   | <b>\$ 21,553</b> | <b>\$ 22,817</b> |
| Unamortized deferred loan origination fees,<br>net and other  |                           |                           |                                   |                   |                  | (125)            |
| Disbursed amount allocated to a related<br>financial instrument reported separately<br>in other assets or derivative assets |                           |                           |                                   |                   |                  | (11)             |
| <b>Recorded investment in loans<br/>at amortized cost</b>   |                           |                           |                                   |                   |                  | <b>\$ 22,681</b> |

At June 30, 2016, loans 90 days or greater past due still accruing were insignificant.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – LOANS AND GUARANTEES (continued)

|   | June 30, 2015             |                           |                                   |                        |                         |                         |
|---|---------------------------|---------------------------|-----------------------------------|------------------------|-------------------------|-------------------------|
|   | 30-59<br>days<br>past due | 60-89<br>days<br>past due | 90 days<br>or greater<br>past due | Total<br>past due      | Current                 | Total<br>loans          |
| Manufacturing, agribusiness and services  |                           |                           |                                   |                        |                         |                         |
| Asia  | \$ -                      | \$ -                      | \$ 125                            | \$ 125                 | \$ 1,747                | \$ 1,872                |
| Europe, Middle East and North Africa  | 6                         | 16                        | 581                               | 603                    | 2,258                   | 2,861                   |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | -                         | 15                        | 211                               | 226                    | 2,209                   | 2,435                   |
| Other   | -                         | -                         | 15                                | 15                     | 156                     | 171                     |
| Total manufacturing, agribusiness and<br>services   | <u>6</u>                  | <u>31</u>                 | <u>932</u>                        | <u>969</u>             | <u>6,370</u>            | <u>7,339</u>            |
| Financial markets   |                           |                           |                                   |                        |                         |                         |
| Asia  | -                         | -                         | -                                 | -                      | 2,089                   | 2,089                   |
| Europe, Middle East and North Africa  | -                         | -                         | 5                                 | 5                      | 2,010                   | 2,015                   |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | -                         | -                         | 30                                | 30                     | 2,585                   | 2,615                   |
| Other   | -                         | -                         | -                                 | -                      | 501                     | 501                     |
| Total financial markets   | <u>-</u>                  | <u>-</u>                  | <u>35</u>                         | <u>35</u>              | <u>7,185</u>            | <u>7,220</u>            |
| Infrastructure and natural resources  |                           |                           |                                   |                        |                         |                         |
| Asia  | -                         | -                         | 122                               | 122                    | 1,502                   | 1,624                   |
| Europe, Middle East and North Africa  | -                         | -                         | 96                                | 96                     | 1,648                   | 1,744                   |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | -                         | -                         | 42                                | 42                     | 3,557                   | 3,599                   |
| Other   | -                         | -                         | -                                 | -                      | 156                     | 156                     |
| Total infrastructure and natural<br>resources   | <u>-</u>                  | <u>-</u>                  | <u>260</u>                        | <u>260</u>             | <u>6,863</u>            | <u>7,123</u>            |
| Telecom, media & technology, and venture<br>investing   |                           |                           |                                   |                        |                         |                         |
| Asia  | -                         | -                         | -                                 | -                      | 252                     | 252                     |
| Europe, Middle East and North Africa  | -                         | -                         | -                                 | -                      | 196                     | 196                     |
| Sub-Saharan Africa, Latin America and<br>Caribbean  | -                         | 16                        | 29                                | 45                     | 152                     | 197                     |
| Other   | -                         | -                         | -                                 | -                      | 123                     | 123                     |
| Total Telecom, media & technology,<br>and venture investing   | <u>-</u>                  | <u>16</u>                 | <u>29</u>                         | <u>45</u>              | <u>723</u>              | <u>768</u>              |
| <b>Total disbursed loans<br/>    at amortized cost</b>  | <b><u>\$ 6</u></b>        | <b><u>\$ 47</u></b>       | <b><u>\$ 1,256</u></b>            | <b><u>\$ 1,309</u></b> | <b><u>\$ 21,141</u></b> | <b><u>\$ 22,450</u></b> |
| Unamortized deferred loan origination fees,<br>net and other  |                           |                           |                                   |                        |                         | (119)                   |
| Disbursed amount allocated to a related<br>financial instrument reported separately<br>in other assets or derivative assets |                           |                           |                                   |                        |                         | (36)                    |
| <b>Recorded investment in loans<br/>at amortized cost</b>   |                           |                           |                                   |                        |                         | <b><u>\$ 22,295</u></b> |

At June 30, 2015, there are no loans 90 days or greater past due still accruing.

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

**NOTE E – LOANS AND GUARANTEES** (continued)**Loan Credit Quality Indicators**

IFC utilizes a rating system to classify loans according to credit worthiness and risk. Each loan is categorized as very good, good, average, watch, substandard, doubtful or loss.

A description of each category (credit quality indicator), in terms of the attributes of the borrower, the business environment in which the borrower operates or the loan itself, follows:

| Credit quality indicator | Description   |
|--------------------------|---|
| Very good                | Excellent debt service capacity; superior management; market leader; very favorable operating environment; may also have strong collateral and/or guarantee arrangements.   |
| Good                     | Strong debt service capacity; good liquidity; stable performance, very strong management, high market share; minimal probability of financial deterioration.  |
| Average                  | Satisfactory balance sheet ratios, average liquidity; good debt service capacity; good management; average size and market share.   |
| Watch                    | Tight liquidity; financial performance below expectations; higher than average leverage ratio; weak management in certain aspects; uncompetitive products and operations; unfavorable or unstable macroeconomic factors.  |
| Substandard              | Poor financial performance; difficulty servicing debt; inadequate net worth and debt service capacity; loan not fully secured: partial past due amounts of interest and/or principal; well-defined weaknesses may adversely impact collection but no loss of principal is expected. |
| Doubtful                 | Bad financial performance; serious liquidity and debt service capacity issues: large and increasing past due amounts: partial loss is very likely.  |
| Loss                     | Close to or already in bankruptcy; serious regional geopolitical issues/conflicts; default and total loss highly likely.  |

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A summary of IFC's loans at amortized cost by credit quality indicator effective June 30, 2016 and June 30, 2015 respectively, as well as by industry sector and geographic region follows (US\$ millions):

|   | June 30, 2016 |                 |                 |                 |                 |               |               |                  |
|---|---------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|------------------|
|   | Very good     | Good            | Average         | Watch           | Substandard     | Doubtful      | Loss          | Total            |
| <b>Manufacturing, agribusiness and services</b>   |               |                 |                 |                 |                 |               |               |                  |
| Asia  | \$ -          | \$ 429          | \$ 495          | \$ 399          | \$ 43           | \$ 8          | \$ 65         | \$ 1,439         |
| Europe, Middle East and North Africa  | -             | 457             | 659             | 642             | 209             | 244           | 457           | 2,668            |
| Sub-Saharan Africa, Latin America and Caribbean   | 100           | 248             | 589             | 1,083           | 253             | 40            | 113           | 2,426            |
| Other   | 75            | 54              | 157             | 50              | -               | 15            | -             | 351              |
| <b>Total manufacturing, agribusiness and services</b>   | <b>175</b>    | <b>1,188</b>    | <b>1,900</b>    | <b>2,174</b>    | <b>505</b>      | <b>307</b>    | <b>635</b>    | <b>6,884</b>     |
| <b>Financial markets</b>  |               |                 |                 |                 |                 |               |               |                  |
| Asia  | -             | 631             | 749             | 256             | 8               | -             | -             | 1,644            |
| Europe, Middle East and North Africa  | -             | 481             | 1,139           | 324             | 16              | -             | 10            | 1,970            |
| Sub-Saharan Africa, Latin America and Caribbean   | -             | 886             | 1,456           | 448             | 36              | 30            | 2             | 2,858            |
| Other   | -             | 250             | 492             | -               | -               | -             | 1             | 743              |
| <b>Total financial markets</b>  | <b>-</b>      | <b>2,248</b>    | <b>3,836</b>    | <b>1,028</b>    | <b>60</b>       | <b>30</b>     | <b>13</b>     | <b>7,215</b>     |
| <b>Infrastructure and natural resources</b>   |               |                 |                 |                 |                 |               |               |                  |
| Asia  | -             | 243             | 389             | 1,109           | 68              | 39            | 66            | 1,914            |
| Europe, Middle East and North Africa  | -             | 133             | 283             | 1,032           | 149             | 85            | 119           | 1,801            |
| Sub-Saharan Africa, Latin America and Caribbean   | 300           | 155             | 987             | 1,113           | 1,116           | 174           | 5             | 3,850            |
| Other   | -             | -               | 200             | -               | -               | -             | -             | 200              |
| <b>Total infrastructure and natural resources</b>   | <b>300</b>    | <b>531</b>      | <b>1,859</b>    | <b>3,254</b>    | <b>1,333</b>    | <b>298</b>    | <b>190</b>    | <b>7,765</b>     |
| <b>Telecom, media &amp; technology, and venture investing</b>   |               |                 |                 |                 |                 |               |               |                  |
| Asia  | -             | 338             | 68              | -               | -               | -             | -             | 406              |
| Europe, Middle East and North Africa  | -             | 45              | -               | 23              | 76              | -             | -             | 144              |
| Sub-Saharan Africa, Latin America and Caribbean   | -             | -               | 89              | 153             | 6               | 16            | -             | 264              |
| Other   | -             | -               | -               | 139             | -               | -             | -             | 139              |
| <b>Total telecom, media &amp; technology, and venture investing</b>   | <b>-</b>      | <b>383</b>      | <b>157</b>      | <b>315</b>      | <b>82</b>       | <b>16</b>     | <b>-</b>      | <b>953</b>       |
| <b>Total disbursed loans at amortized cost</b>  | <b>\$ 475</b> | <b>\$ 4,350</b> | <b>\$ 7,752</b> | <b>\$ 6,771</b> | <b>\$ 1,980</b> | <b>\$ 651</b> | <b>\$ 838</b> | <b>\$ 22,817</b> |
| <b>Unamortized deferred loan origination fees, net and other</b>  |               |                 |                 |                 |                 |               |               |                  |
| Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets |               |                 |                 |                 |                 |               |               | (125)            |
| <b>Recorded investment in loans at amortized cost</b>   |               |                 |                 |                 |                 |               |               | <b>(11)</b>      |
|   |               |                 |                 |                 |                 |               |               | <b>\$ 22,681</b> |



## INTERNATIONAL FINANCE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE E – LOANS AND GUARANTEES (continued)

June 30, 2015

|  | Very good     | Good            | Average         | Watch           | Substandard     | Doubtful      | Loss          | Total            |
|--|---------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|------------------|
| <b>Manufacturing, agribusiness and services</b>  |               |                 |                 |                 |                 |               |               |                  |
| Asia   | \$ -          | \$ 531          | \$ 601          | \$ 546          | \$ 69           | \$ 9          | \$ 116        | \$ 1,872         |
| Europe, Middle East and North Africa   | -             | 276             | 865             | 779             | 328             | 94            | 519           | 2,861            |
| Sub-Saharan Africa, Latin America and Caribbean  | 60            | 236             | 730             | 978             | 213             | 51            | 167           | 2,435            |
| Other  | -             | 57              | 49              | 50              | -               | 15            | -             | 171              |
| Total manufacturing, agribusiness and services   | 60            | 1,100           | 2,245           | 2,353           | 610             | 169           | 802           | 7,339            |
| <b>Financial markets</b>   |               |                 |                 |                 |                 |               |               |                  |
| Asia   | -             | 1,036           | 899             | 148             | 6               | -             | -             | 2,089            |
| Europe, Middle East and North Africa   | -             | 455             | 1,102           | 350             | 22              | 74            | 12            | 2,015            |
| Sub-Saharan Africa, Latin America and Caribbean  | -             | 596             | 1,613           | 334             | 35              | 7             | 30            | 2,615            |
| Other  | -             | 250             | -               | 250             | 1               | -             | -             | 501              |
| Total financial markets  | -             | 2,337           | 3,614           | 1,082           | 64              | 81            | 42            | 7,220            |
| <b>Infrastructure and natural resources</b>  |               |                 |                 |                 |                 |               |               |                  |
| Asia   | -             | 298             | 381             | 719             | 54              | 111           | 61            | 1,624            |
| Europe, Middle East and North Africa   | -             | 118             | 458             | 823             | 293             | 30            | 22            | 1,744            |
| Sub-Saharan Africa, Latin America and Caribbean  | 300           | 154             | 1,245           | 1,332           | 426             | 115           | 27            | 3,599            |
| Other  | -             | 6               | 150             | -               | -               | -             | -             | 156              |
| Total infrastructure and natural resources   | 300           | 576             | 2,234           | 2,874           | 773             | 256           | 110           | 7,123            |
| <b>Telecom, media &amp; technology, and venture investing</b>  |               |                 |                 |                 |                 |               |               |                  |
| Asia   | -             | 165             | 85              | 2               | -               | -             | -             | 252              |
| Europe, Middle East and North Africa   | -             | 71              | 38              | 87              | -               | -             | -             | 196              |
| Sub-Saharan Africa, Latin America and Caribbean  | -             | 5               | 73              | 70              | 4               | 45            | -             | 197              |
| Other  | -             | -               | -               | -               | 123             | -             | -             | 123              |
| Total telecom, media & technology, and venture investing   | -             | 241             | 196             | 159             | 127             | 45            | -             | 768              |
| <b>Total disbursed loans at amortized cost</b>   | <b>\$ 360</b> | <b>\$ 4,254</b> | <b>\$ 8,289</b> | <b>\$ 6,468</b> | <b>\$ 1,574</b> | <b>\$ 551</b> | <b>\$ 954</b> | <b>\$ 22,450</b> |
| <b>Unamortized deferred loan origination fees, net and other</b>   |               |                 |                 |                 |                 |               |               |                  |
|  |               |                 |                 |                 |                 |               |               | (119)            |
| <b>Disbursed amount allocated to a related financial instrument reported separately in other assets or derivative assets</b> |               |                 |                 |                 |                 |               |               |                  |
|  |               |                 |                 |                 |                 |               |               | (36)             |
| <b>Recorded investment in loans at amortized cost</b>  |               |                 |                 |                 |                 |               |               | <b>\$ 22,295</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Loan modifications, including past due amounts capitalized and written off, during the year ended June 30, 2016 considered troubled debt restructurings totaled \$232 million (\$167 million – year ended June 30, 2015). There were two loans that defaulted during the year ended June 30, 2016 that had been modified in a troubled debt restructuring within 12 months prior to the date of default with a combined outstanding balance of \$41 million. One of the loans with an outstanding balance of \$25 million was brought current prior to June 30, 2016. The remaining loan was evaluated and included as part of the specific reserve.

**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 June 30, 2016 totaled \$4,250 million (\$4,091 million – June 30, 2015). Guarantees of \$3,478 million that were outstanding (i.e., not called) at June 30, 2016 (\$3,168 million – June 30, 2015), were not included in loans on IFC's consolidated balance sheet. The outstanding amount represents the maximum amount of undiscounted future payments that IFC could be required to make under these guarantees.

**NOTE F – DEBT SECURITIES**

Income from debt securities, including realized gains and losses on debt securities and associated derivatives for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprise the following (US\$ millions):

|   | 2016          | 2015          | 2014         |
|---|---------------|---------------|--------------|
| Interest income   | \$ 125        | \$ 107        | \$ 62        |
| Dividends   | 10            | 12            | 11           |
| Realized gains on debt securities and associated derivatives  | 39            | 46            | 29           |
| Other-than-temporary impairments  | (45)          | (33)          | (13)         |
| <b>Total income from debt securities, including realized gains and losses on debt securities and associated derivatives</b> | <b>\$ 129</b> | <b>\$ 132</b> | <b>\$ 89</b> |

Debt securities accounted for as available-for-sale at June 30, 2016 and June 30, 2015 comprise (US\$ millions):

|                           | June 30, 2016   |                  |                   |                                     |                 |
|---------------------------|-----------------|------------------|-------------------|-------------------------------------|-----------------|
|                           | Amortized cost  | Unrealized gains | Unrealized losses | Foreign currency transaction losses | Fair value      |
| Corporate debt securities | \$ 1,943        | \$ 81            | \$ (40)           | \$ (150)                            | \$ 1,834        |
| Preferred shares          | 483             | 45               | (2)               | 2                                   | 528             |
| Asset-backed securities   | 127             | 3                | -                 | (18)                                | 112             |
| <b>Total</b>              | <b>\$ 2,553</b> | <b>\$ 129</b>    | <b>\$ (42)</b>    | <b>\$ (166)</b>                     | <b>\$ 2,474</b> |

|                           | June 30, 2015   |                  |                   |                                     |                 |
|---------------------------|-----------------|------------------|-------------------|-------------------------------------|-----------------|
|                           | Amortized cost  | Unrealized gains | Unrealized losses | Foreign currency transaction losses | Fair value      |
| Corporate debt securities | \$ 1,642        | \$ 125           | \$ (30)           | \$ (126)                            | \$ 1,611        |
| Preferred shares          | 543             | 64               | (2)               | (21)                                | 584             |
| Asset-backed securities   | 144             | 5                | -                 | (27)                                | 122             |
| <b>Total</b>              | <b>\$ 2,329</b> | <b>\$ 194</b>    | <b>\$ (32)</b>    | <b>\$ (174)</b>                     | <b>\$ 2,317</b> |

The following table shows the unrealized losses and fair value of debt securities at June 30, 2016 and June 30, 2015 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):

|                           | June 30, 2016       |                   |                      |                   |               |                   |
|---------------------------|---------------------|-------------------|----------------------|-------------------|---------------|-------------------|
|                           | Less than 12 months |                   | 12 months or greater |                   | Total         |                   |
|                           | Fair value          | Unrealized losses | Fair value           | Unrealized losses | Fair value    | Unrealized losses |
| Corporate debt securities | \$ 463              | \$ (15)           | \$ 104               | \$ (25)           | \$ 567        | \$ (40)           |
| Preferred shares          | 144                 | (2)               | -                    | -                 | 144           | (2)               |
| <b>Total</b>              | <b>\$ 607</b>       | <b>\$ (17)</b>    | <b>\$ 104</b>        | <b>\$ (25)</b>    | <b>\$ 711</b> | <b>\$ (42)</b>    |

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – DEBT SECURITIES (continued)

|                           | June 30, 2015       |                   |                      |                   |               |                   |
|---------------------------|---------------------|-------------------|----------------------|-------------------|---------------|-------------------|
|                           | Less than 12 months |                   | 12 months or greater |                   | Total         |                   |
|                           | Fair value          | Unrealized losses | Fair value           | Unrealized losses | Fair value    | Unrealized losses |
| Corporate debt securities | \$ 189              | \$ (23)           | \$ 152               | \$ (7)            | \$ 341        | \$ (30)           |
| Preferred shares          | 42                  | (1)               | 8                    | (1)               | 50            | (2)               |
| <b>Total</b>              | <b>\$ 231</b>       | <b>\$ (24)</b>    | <b>\$ 160</b>        | <b>\$ (8)</b>     | <b>\$ 391</b> | <b>\$ (32)</b>    |

Corporate debt securities comprise investments in bonds and notes. Unrealized losses associated with corporate debt securities are primarily attributable to movements in the credit default swap spread curve applicable to the issuer. 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.

Debt securities with contractual maturities that are accounted for as available-for-sale have contractual maturities during the years ending June 30, 2017 through June 30, 2021 and thereafter, as follows (US\$ millions):

|   | 2017          | 2018          | 2019          | 2020          | 2021          | Thereafter    | Total           |
|---|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Corporate debt securities   | \$ 76         | \$ 326        | \$ 197        | \$ 195        | \$ 386        | \$ 636        | \$ 1,816        |
| Preferred shares  | -             | -             | -             | 86            | -             | 56            | 142             |
| Asset-backed securities   | 39            | 3             | 34            | 23            | 10            | -             | 109             |
| <b>Total disbursed portfolio of debt securities with contractual maturities</b> | <b>\$ 115</b> | <b>\$ 329</b> | <b>\$ 231</b> | <b>\$ 304</b> | <b>\$ 396</b> | <b>\$ 692</b> | <b>\$ 2,067</b> |

The expected maturity of asset-backed securities may differ from the contractual maturity, as reported above, due to prepayment features. In addition, IFC has \$343 million of redeemable preferred shares and other debt securities with undefined maturities (\$347 million - June 30, 2015).

The currency composition and average contractual rate of debt securities with contractual maturities that are accounted for as available-for-sale are summarized below:

|   | June 30, 2016          |                              | June 30, 2015          |                              |
|---|------------------------|------------------------------|------------------------|------------------------------|
|   | Amount (US\$ millions) | Average contractual rate (%) | Amount (US\$ millions) | Average contractual rate (%) |
| US dollar   | \$ 1,025               | 4.4                          | \$ 904                 | 4.5                          |
| Indian rupee  | 624                    | 9.4                          | 381                    | 11.1                         |
| South African rand  | 105                    | 8.9                          | 114                    | 7.3                          |
| Euro  | 86                     | 2.2                          | 134                    | 2.4                          |
| New Romanian Lei  | 53                     | 5.9                          | 54                     | 5.9                          |
| Colombian peso  | 50                     | 9.1                          | 39                     | 11.2                         |
| Chinese renminbi  | 47                     | 5.1                          | -                      | -                            |
| Chilean peso  | 37                     | 7.7                          | 39                     | 7.7                          |
| Turkish lira  | 3                      | 8.1                          | 56                     | 7.9                          |
| Brazilian real  | 2                      | 15.4                         | 51                     | 12.5                         |
| Other currencies  | 35                     | 9.0                          | 40                     | 7.7                          |
| <b>Total disbursed portfolio of debt securities with contractual maturities</b> | <b>\$ 2,067</b>        | <b>6.4</b>                   | <b>\$ 1,812</b>        | <b>6.6</b>                   |

After the effect of interest rate swaps and currency swaps, IFC's debt securities with contractual maturities that are accounted for as available-for-sale are principally denominated in variable rate US dollars.

Nonaccruing debt securities

Debt securities on which the accrual of interest has been discontinued amounted to \$66 million at June 30, 2016 (\$44 million – June 30, 2015). The interest income on such loans for the year ended June 30, 2016, June 30, 2015 and June 30, 2014 is summarized as follows (US\$ millions):

|  | 2016 | 2015 | 2014 |
|--|------|------|------|
| Interest income not recognized on nonaccruing debt securities  | 4    | 3    | -    |
| Interest income recognized on debt securities in nonaccrual status related to current and prior years, on a cash basis | 2    | 1    | -    |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income from equity investments and associated derivatives for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprises the following (US\$ millions):

|  | 2016          | 2015          | 2014            |
|--|---------------|---------------|-----------------|
| Gains on equity investments and associated derivatives, net            | \$ 1,013      | \$ 886        | \$ 1,269        |
| Dividends  | 241           | 272           | 274             |
| Other-than-temporary impairments:                                      |               |               |                 |
| Equity investments at cost less impairment                             | (384)         | (351)         | (107)           |
| Equity investments available-for-sale                                  | (360)         | (381)         | (161)           |
| Total other-than-temporary impairments                                 | (744)         | (732)         | (268)           |
| Custody, fees and other  | 8             | 1             | 14              |
| <b>Total income from equity investments and associated derivatives</b> | <b>\$ 518</b> | <b>\$ 427</b> | <b>\$ 1,289</b> |

Gains on equity investments and associated derivatives includes realized gains and losses on equity investments and associated derivatives of \$1,217 million for the year ended June 30, 2016 (\$1,288 million – year ended June 30, 2015, \$1,013 million – year ended June 30, 2014).

Dividends include \$11 million for the year ended June 30, 2016 (\$23 million – year ended June 30, 2015, \$19 million – year ended June 30, 2014) of receipts, net of cash disbursements, related to investments accounted for under the cost recovery method, for which cost has been fully recovered.

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. 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. The fair values of these funds have been determined using the net asset value of IFC's ownership interest in partners' capital and totaled \$3,179 million as of June 30, 2016 (\$3,409 million – June 30, 2015).

**NOTE H – INVESTMENT TRANSACTIONS COMMITTED BUT NOT DISBURSED OR UTILIZED**

Loan, equity and debt security commitments signed but not yet disbursed, and guarantee and client risk management facilities signed but not yet utilized are summarized below (US\$ millions):

|  | June 30, 2016    | June 30, 2015    |
|--|------------------|------------------|
| <b>Investment transactions committed but not disbursed:</b>                  |                  |                  |
| Loans, equity investments and debt securities                                | \$ 9,828         | \$ 9,529         |
| Investment transactions committed but not utilized:                          |                  |                  |
| Guarantees   | 772              | 923              |
| Client risk management facilities  | 127              | 233              |
| <b>Total investment transactions committed but not disbursed or utilized</b> | <b>\$ 10,727</b> | <b>\$ 10,685</b> |

The disbursements of investment transactions committed but not disbursed or utilized are generally subject to fulfillment of conditions of disbursement.

**NOTE I – LOAN PARTICIPATIONS**

Loan participations signed as commitments for which disbursement has not yet been made and loan participations disbursed and outstanding which are serviced by IFC for participants are as follows (US\$ millions):

|   | June 30, 2016 | June 30, 2015 |
|---|---------------|---------------|
| Loan participations signed as commitments but not disbursed             | \$ 2,046      | \$ 2,062      |
| Loan participations disbursed and outstanding which are serviced by IFC | \$ 8,608      | \$ 6,747      |

**NOTE J – RECEIVABLES AND OTHER ASSETS**

Receivables and other assets are summarized below (US\$ millions):

|   | June 30, 2016   | June 30, 2015   |
|---|-----------------|-----------------|
| Receivables from unsettled security trades              | \$ 775          | \$ 505          |
| Accrued interest income on time deposits and securities | 168             | 171             |
| Accrued income on derivative instruments                | 399             | 371             |
| Accrued interest income on loans                        | 247             | 227             |
| Headquarters building:                                  |                 |                 |
| Land  | 89              | 89              |
| Building  | 247             | 244             |
| Less: Accumulated building depreciation                 | (173)           | (155)           |
| <b>Headquarters building, net</b>                       | <b>163</b>      | <b>178</b>      |
| Deferred charges and other assets                       | 1,419           | 1,446           |
| <b>Total receivables and other assets</b>               | <b>\$ 3,171</b> | <b>\$ 2,898</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE K – BORROWINGS

## Market borrowings and associated derivatives

IFC's borrowings outstanding from market sources and currency and interest rate swaps, net of unamortized issue premiums and discounts, are summarized below:

|   | June 30, 2016          |                           |                                     |                           |   |                           |                         |                           |
|---|------------------------|---------------------------|-------------------------------------|---------------------------|---|---------------------------|-------------------------|---------------------------|
|   | Market borrowings      |                           | Currency swaps payable (receivable) |                           | Interest rate swaps notional principal payable (receivable) |                           | Net currency obligation |                           |
|   | Amount (US\$ millions) | Weighted average rate (%) | Amount (US\$ millions)              | Weighted average rate (%) | Notional amount (US\$ millions)                             | Weighted average rate (%) | Amount (US\$ millions)  | Weighted average rate (%) |
| US dollar   | \$ 31,670              | 1.4                       | \$ 19,803                           | 0.8                       | \$ 33,781   | 0.9                       | \$ 51,290               | 0.8                       |
|   |                        |                           |                                     |                           | (33,964)  | (1.4)                     |                         |                           |
| Australian dollar                                   | 7,411                  | 3.9                       | (7,038)                             | 3.9                       | 298   | 2.3                       | 373                     | 2.3                       |
|   |                        |                           |                                     |                           | (298)   | (3.5)                     |                         |                           |
| Brazilian real                                      | 2,234                  | 7.7                       | (2,234)                             | (7.7)                     | -   | -                         | -                       | -                         |
| Japanese yen  | 2,220                  | 3.5                       | (2,220)                             | (3.5)                     | -   | -                         | -                       | -                         |
| New Zealand dollar                                  | 2,005                  | 3.8                       | (2,005)                             | (3.8)                     | -   | -                         | -                       | -                         |
| Indian rupee  | 1,708                  | 7.5                       | -                                   | -                         | -   | -                         | 1,708                   | 7.5                       |
| Chinese renminbi                                    | 1219                   | 1.8                       | (767)                               | (1.5)                     | -   | -                         | 452                     | 2.4                       |
| Turkish lira  | 1147                   | 8.6                       | (1,147)                             | (8.6)                     | -   | -                         | -                       | -                         |
| Russian ruble                                       | 481                    | 7.3                       | (468)                               | (7.4)                     | -   | -                         | 13                      | 2.9                       |
| South African rand                                  | 449                    | 5.6                       | (449)                               | (5.6)                     | -   | -                         | -                       | -                         |
| Euro  | 438                    | 3.7                       | (438)                               | (3.7)                     | -   | -                         | -                       | -                         |
| Hong Kong dollar                                    | 381                    | 2.4                       | (381)                               | (2.4)                     | -   | -                         | -                       | -                         |
| Mexican peso  | 339                    | 4.2                       | (339)                               | (4.2)                     | -   | -                         | -                       | -                         |
| Pound sterling                                      | 126                    | 5.4                       | (126)                               | (5.4)                     | -   | -                         | -                       | -                         |
| Costa Rican colon                                   | 67                     | 8.0                       | (67)                                | (8.0)                     | -   | -                         | -                       | -                         |
| Nigerian naira                                      | 50                     | 11.7                      | (35)                                | (12.4)                    | -   | -                         | 15                      | 10.2                      |
| Uruguayan peso                                      | 39                     | 10.1                      | (39)                                | (10.1)                    | -   | -                         | -                       | -                         |
| Peruvian soles nuevos                               | 36                     | 5.3                       | (36)                                | (5.3)                     | -   | -                         | -                       | -                         |
| Rwandan franc                                       | 25                     | 11.6                      | (5)                                 | (9.0)                     | -   | -                         | 20                      | 12.3                      |
| Chilean pesos                                       | 22                     | 4.2                       | (22)                                | (4.2)                     | -   | -                         | -                       | -                         |
| Zambian kwacha                                      | 15                     | 15.0                      | -                                   | -                         | -   | -                         | 15                      | 15.0                      |
| Georgian Lari                                       | 13                     | 6.9                       | (13)                                | (6.9)                     | -   | -                         | -                       | -                         |
| Namibia dollar                                      | 12                     | 9.8                       | -                                   | -                         | -   | -                         | 12                      | 9.8                       |
| Dominican peso                                      | 8                      | 10.5                      | -                                   | -                         | -   | -                         | 8                       | 10.5                      |
| Colombian pesos                                     | 8                      | 5.3                       | (8)                                 | 5.3                       | -   | -                         | -                       | -                         |
| Ghanaian cedi                                       | 6                      | 14.9                      | (6)                                 | 14.9                      | -   | -                         | -                       | -                         |
| Armenian dram                                       | 4                      | 9.7                       | (4)                                 | 9.8                       | -   | -                         | -                       | -                         |
| <b>Principal at face value</b>                      | <b>52,133</b>          |                           | <b>\$ 1,956</b>                     |                           | <b>\$ (183)</b>   |                           | <b>\$ 53,906</b>        | <b>1.1</b>                |
| Short-term borrowings from market and other sources | 1,873                  |                           |                                     |                           |   |                           |                         |                           |
|   | <b>54,006</b>          |                           |                                     |                           |   |                           |                         |                           |
| Unamortized discounts, net                          | (863)                  |                           |                                     |                           |   |                           |                         |                           |
| <b>Total market borrowings</b>                      | <b>53,143</b>          |                           |                                     |                           |   |                           |                         |                           |
| Fair value adjustments                              | 695                    |                           |                                     |                           |   |                           |                         |                           |
| <b>Carrying amount of market borrowings</b>         | <b>\$ 53,838</b>       |                           |                                     |                           |   |                           |                         |                           |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE K – BORROWINGS (continued)

|   | June 30, 2015          |                           |                                     |                           |   |                           |                         |                           |
|---|------------------------|---------------------------|-------------------------------------|---------------------------|---|---------------------------|-------------------------|---------------------------|
|   | Market borrowings      |                           | Currency swaps payable (receivable) |                           | Interest rate swaps notional principal payable (receivable) |                           | Net currency obligation |                           |
|   | Amount (US\$ millions) | Weighted average rate (%) | Amount (US\$ millions)              | Weighted average rate (%) | Notional amount (US\$ millions)                             | Weighted average rate (%) | Amount (US\$ millions)  | Weighted average rate (%) |
| US dollar   | \$ 29,376              | 1.4                       | \$ 19,573                           | 0.2                       | \$ 33,548   | 0.3                       | \$ 48,754               | 0.2                       |
|   |                        |                           |                                     |                           | (33,743)  | (1.3)                     |                         |                           |
| Australian dollar                                   | 6,393                  | 4.0                       | (6,010)                             | 4.0                       | 307   | 2.4                       | 383                     | 2.4                       |
|   |                        |                           |                                     |                           | (307)   | (3.5)                     |                         |                           |
| Brazilian real                                      | 1,988                  | 8.1                       | (1,988)                             | (8.1)                     | -   | -                         | -                       | -                         |
| New Zealand dollar                                  | 1,614                  | 4.1                       | (1,614)                             | (4.1)                     | -   | -                         | -                       | -                         |
| Indian rupee  | 1,606                  | 7.5                       | -                                   | -                         | -   | -                         | 1,606                   | 7.5                       |
| Japanese yen  | 1,454                  | 5.7                       | (1,454)                             | (5.7)                     | -   | -                         | -                       | -                         |
| Chinese renminbi                                    | 1,142                  | 2.3                       | (452)                               | (1.8)                     | -   | -                         | 690                     | 2.6                       |
| Pound sterling                                      | 933                    | 1.4                       | (775)                               | (1.5)                     | 157   | 0.9                       | 158                     | 0.9                       |
|   |                        |                           |                                     |                           | (157)   | (0.6)                     |                         |                           |
| Euro  | 880                    | 1.7                       | (880)                               | (1.7)                     | -   | -                         | -                       | -                         |
| Turkish lira  | 837                    | 6.3                       | (837)                               | (6.3)                     | -   | -                         | -                       | -                         |
| Russian ruble                                       | 490                    | 6.6                       | (436)                               | (7.0)                     | -   | -                         | 54                      | 3.0                       |
| Mexican peso  | 471                    | 4.6                       | (471)                               | (4.6)                     | -   | -                         | -                       | -                         |
| South African rand                                  | 396                    | 6.1                       | (396)                               | (6.1)                     | -   | -                         | -                       | -                         |
| Norwegian kroner                                    | 335                    | 4.0                       | (335)                               | (4.0)                     | -   | -                         | -                       | -                         |
| Hong Kong dollar                                    | 128                    | 5.1                       | (128)                               | (5.1)                     | -   | -                         | -                       | -                         |
| Canadian dollars                                    | 94                     | 3.3                       | (94)                                | (3.3)                     | -   | -                         | -                       | -                         |
| Costa Rican colon                                   | 65                     | 7.9                       | (56)                                | (7.9)                     | -   | -                         | 9                       | 7.9                       |
| Nigerian naira                                      | 62                     | 10.7                      | (41)                                | (10.9)                    | -   | -                         | 21                      | 10.2                      |
| Uruguayan peso                                      | 44                     | 10.1                      | (44)                                | (10.1)                    | -   | -                         | -                       | -                         |
| Peruvian soles nuevos                               | 37                     | 5.3                       | (37)                                | 5.3                       | -   | -                         | -                       | -                         |
| Rwandan franc                                       | 26                     | 11.6                      | -                                   | -                         | -   | -                         | 26                      | 11.6                      |
| Zambian kwacha                                      | 20                     | 15.0                      | -                                   | -                         | -   | -                         | 20                      | 15.0                      |
| Georgian Lari                                       | 13                     | 6.9                       | -                                   | -                         | -   | -                         | 13                      | 6.9                       |
| Dominican peso                                      | 9                      | 10.5                      | -                                   | -                         | -   | -                         | 9                       | 10.5                      |
| Ghanaian cedi                                       | 5                      | 14.9                      | (5)                                 | (14.9)                    | -   | -                         | -                       | -                         |
| Armenian dram                                       | 4                      | 9.7                       | -                                   | -                         | -   | -                         | 4                       | 9.7                       |
| <b>Principal at face value</b>                      | <b>48,422</b>          |                           | <b>\$ 3,520</b>                     |                           | <b>\$ (195)</b>   |                           | <b>\$ 51,747</b>        | <b>0.5</b>                |
| Short-term borrowings from market and other sources | 1,352                  |                           |                                     |                           |   |                           |                         |                           |
|   | <b>49,774</b>          |                           |                                     |                           |   |                           |                         |                           |
| Unamortized discounts, net                          | (356)                  |                           |                                     |                           |   |                           |                         |                           |
| <b>Total market borrowings</b>                      | <b>49,418</b>          |                           |                                     |                           |   |                           |                         |                           |
| Fair value adjustments                              | 498                    |                           |                                     |                           |   |                           |                         |                           |
| <b>Carrying amount of market borrowings</b>         | <b>\$ 49,916</b>       |                           |                                     |                           |   |                           |                         |                           |

The net currency obligations not fully hedged by borrowings related swaps have generally been invested and/or on-lent to clients in such currencies.

The weighted average remaining maturity of IFC's borrowings from market sources was 4.1 years at June 30, 2016 (3.3 years - June 30, 2015).

Charges on borrowings for the year ended June 30, 2016 include \$2 million of interest expense on secured borrowings (\$3 million - years ended June 30, 2015 and 2014) and is net of \$6 million of gains on buybacks of market borrowings (\$2 million - year ended June 30, 2015; \$3 million - year ended June 30, 2014).

The net nominal amount payable from currency swaps of \$1,956 million and the net notional amount receivable from interest rate swaps of \$183 million at June 30, 2016 (payable of \$3,520 million from currency swaps and receivable of \$195 million from interest rate swaps - June 30, 2015), shown in the above table, are represented by currency and interest rate swap assets at fair value of \$1,254 million and currency and interest rate swap liabilities at fair value of \$3,013 million (\$619 million and \$3,721 million - June 30, 2015), included in derivative assets and derivative liabilities, respectively, on the consolidated balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE K – BORROWINGS** (continued)**Short-term market borrowings**

IFC's short-term Discount Note Program has maturities ranging from overnight to one year. The amount outstanding under the program at June 30, 2016 is \$1,838 million (\$1,343 million - June 30, 2015). Charges on borrowings for the year ended June 30, 2016, include \$7 million in respect of this program (\$4 million - June 30, 2015 and 2014).

**Borrowings from IBRD**

Borrowings outstanding from IBRD and currency are summarized below:

|   | June 30, 2016                       |                           | June 30, 2015                       |                           |
|---|-------------------------------------|---------------------------|-------------------------------------|---------------------------|
|   | Principal amount<br>(US\$ millions) | Weighted average cost (%) | Principal amount<br>(US\$ millions) | Weighted average cost (%) |
| Saudi Arabian riyal                           | \$ 9                                | 4.0                       | \$ 17                               | 4.0                       |
| US dollar                                     | 196                                 | 0.7                       | 196                                 | 0.2                       |
| <b>Total borrowings outstanding from IBRD</b> | <b>\$ 205</b>                       |                           | <b>\$ 213</b>                       |                           |

The weighted average remaining maturity of borrowings from IBRD was 1.1 years at June 30, 2016 (2.0 years - June 30, 2015). Charges on borrowings for the year ended June 30, 2016, includes \$1 million (\$1 million - year ended June 30, 2015 and 2014) in respect of borrowings from IBRD.

**Borrowings from IDA**

Borrowings outstanding from IDA are summarized below:

|  | June 30, 2016   |     |  |                           |                                 |                           |
|--|-----------------|-----|--|---------------------------|---------------------------------|---------------------------|
|  | IDA Borrowings  |     | Interest rate swap notional principal payable (receivable) |                           | Net currency obligation         |                           |
|  |                 |     | Notional amount (US\$ millions)                            | Weighted average cost (%) | Notional amount (US\$ millions) | Weighted average cost (%) |
| US dollar                                | \$ 1,082        | 1.8 | \$ 1,082   | 0.9                       | \$ 1,082                        | 0.9                       |
|  |                 |     | (1,082)  | (1.8)                     |                                 |                           |
| <b>Total IDA borrowings outstanding</b>  | <b>1,082</b>    |     | <b>\$ -</b>  |                           | <b>\$ 1,082</b>                 | <b>0.9</b>                |
| Fair value adjustments                   | 17              |     |  |                           |                                 |                           |
| <b>Carrying amount of IDA borrowings</b> | <b>\$ 1,099</b> |     |  |                           |                                 |                           |

|  | June 30, 2015   |     |  |                           |                                 |                           |
|--|-----------------|-----|--|---------------------------|---------------------------------|---------------------------|
|  | IDA Borrowings  |     | Interest rate swap notional principal payable (receivable) |                           | Net currency obligation         |                           |
|  |                 |     | Notional amount (US\$ millions)                            | Weighted average cost (%) | Notional amount (US\$ millions) | Weighted average cost (%) |
| US dollar                                | \$ 1,154        | 1.8 | \$ 1,154   | 0.2                       | \$ 1,154                        | 0.2                       |
|  |                 |     | (1,154)  | (1.8)                     |                                 |                           |
| <b>Total IDA borrowings outstanding</b>  | <b>1,154</b>    |     | <b>\$ -</b>  |                           | <b>\$ 1,154</b>                 | <b>0.2</b>                |
| Fair value adjustments                   | (18)            |     |  |                           |                                 |                           |
| <b>Carrying amount of IDA borrowings</b> | <b>\$ 1,136</b> |     |  |                           |                                 |                           |

The weighted average remaining maturity of borrowings from IDA was 5.1 years at June 30, 2016 (5.7 years - June 30, 2015). Charges on borrowings for the year ended June 30, 2016, includes \$21 million (\$18 - year ended June 30, 2015; \$0 - year ended June 30, 2014) in respect of borrowings from IDA.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE K – BORROWINGS** (continued)**Maturity of borrowings**

The principal amounts repayable on borrowings outstanding in all currencies, gross of any premiums or discounts, during the years ending June 30, 2017, through June 30, 2021, and thereafter are summarized below (US\$ millions):

|   | 2017             | 2018             | 2019            | 2020            | 2021            | Thereafter      | Total            |
|---|------------------|------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Borrowings from market sources                      | \$ 12,556        | \$ 10,275        | \$ 9,403        | \$ 6,814        | \$ 6,734        | \$ 6,351        | \$ 52,133        |
| Short-term borrowings from market and other sources | 1,873            | -                | -               | -               | -               | -               | 1,873            |
| Borrowings from IBRD                                | 9                | 196              | -               | -               | -               | -               | 205              |
| Borrowings from IDA                                 | 113              | 126              | 122             | 124             | 125             | 472             | 1,082            |
| <b>Total borrowings, gross</b>                      | <b>\$ 14,551</b> | <b>\$ 10,597</b> | <b>\$ 9,525</b> | <b>\$ 6,938</b> | <b>\$ 6,859</b> | <b>\$ 6,823</b> | <b>\$ 55,293</b> |
| Unamortized discounts, net                          |                  |                  |                 |                 |                 |                 | (863)            |
| Fair value adjustments                              |                  |                  |                 |                 |                 |                 | 712              |
| <b>Carrying amount of borrowings</b>                |                  |                  |                 |                 |                 |                 | <b>\$ 55,142</b> |

After the effect of interest rate and currency swaps, IFC's borrowings generally reprice within one year.

**NOTE L – PAYABLES AND OTHER LIABILITIES**

Payables and other liabilities are summarized below (US\$ millions):

|  | June 30, 2016   | June 30, 2015   |
|--|-----------------|-----------------|
| Accrued charges on borrowings                            | \$ 340          | \$ 356          |
| Accrued charges on derivative instruments                | 254             | 173             |
| Payables for unsettled security trades                   | 1,099           | 350             |
| Secured borrowings & short sold securities               | 132             | 223             |
| Liabilities under retirement benefit plans               | 985             | 277             |
| Accounts payable, accrued expenses and other liabilities | 1,474           | 1,419           |
| Deferred income  | 147             | 139             |
| <b>Total payables and other liabilities</b>              | <b>\$ 4,431</b> | <b>\$ 2,937</b> |

**NOTE M – CAPITAL TRANSACTIONS**

During the year ended June 30, 2016, no shares were subscribed and paid by member countries (63,749 shares, at a par value of \$1,000 each - year ended June 30, 2015; 99,233 shares at a par value of \$1,000 each - year ended June 30, 2014).

Under IFC's Articles of Agreement, in the event a member withdraws from IFC, IFC and the member may negotiate on the repurchase of the member's capital stock on such terms as may be appropriate under the circumstances. Such agreement may provide, among other things, for a final settlement of all obligations of the member to IFC. If such an agreement is not made within six months after the member withdraws or such other time as IFC and the member may agree, the repurchase price of the member's capital stock shall be the value thereof shown by the books of IFC on the day when the member withdraws. The repurchase of capital stock is subject to certain conditions including payments in installments, at such times and in such available currency or currencies as IFC reasonably determines, taking into account the financial position of IFC. IFC's Articles of Agreement also provide for the withdrawing member to repay losses on loans and equity investments in excess of reserves provided on the date of withdrawal.

**NOTE N – OTHER INCOME**

Other income for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprise the following (US\$ millions):

|                                   | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|-----------------------------------|---------------|---------------|---------------|
| Income from consolidated entities | \$ 66         | \$ 59         | \$ 57         |
| Fees collected from clients       | 22            | 22            | 25            |
| Other reimbursable arrangements   | 19            | 19            | 8             |
| Others                            | 11            | 24            | 42            |
| <b>Total Other Income</b>         | <b>\$ 118</b> | <b>\$ 124</b> | <b>\$ 132</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE O – 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<br>IDA | Advisory<br>services | Performance-<br>based grants | SME<br>Ventures<br>for IDA<br>countries | Global<br>Infrastructure<br>Project<br>Development<br>Fund | Total<br>designated<br>retained<br>earnings |
|---|------------------|----------------------|------------------------------|---|--|---|
| <b>At June 30, 2013</b>                           | \$ -             | \$ 199               | \$ 31                        | \$ 28                                   | \$ 20  | \$ 278                                      |
| <b>Year ended June 30, 2014</b>                   |                  |                      |                              |   |  |   |
| Designations of retained earnings                 | 251              | -                    | -                            | -                                       | -  | 251   |
| Expenditures against designated retained earnings | (251)            | (68)                 | (10)                         | (3)                                     | (3)  | (335)                                       |
| <b>At June 30, 2014</b>                           | \$ -             | \$ 131               | \$ 21                        | \$ 25                                   | \$ 17  | \$ 194                                      |
| <b>Year ended June 30, 2015</b>                   |                  |                      |                              |   |  |   |
| Designations of retained earnings                 | 340              | 58                   | -                            | -                                       | -  | 398   |
| Expenditures against designated retained earnings | (340)            | (52)                 | (5)                          | (4)                                     | (7)  | (408)                                       |
| <b>At June 30, 2015</b>                           | \$ -             | \$ 137               | \$ 16                        | \$ 21                                   | \$ 10  | \$ 184                                      |
| <b>Year ended June 30, 2016</b>                   |                  |                      |                              |   |  |   |
| Designations of retained earnings                 | 330              | 14                   | -                            | -                                       | -  | 344   |
| Expenditures against designated retained earnings | (330)            | (53)                 | (4)                          | (1)                                     | (7)  | (395)                                       |
| <b>At June 30, 2016</b>                           | <u>\$ -</u>      | <u>\$ 98</u>         | <u>\$ 12</u>                 | <u>\$ 20</u>                            | <u>\$ 3</u>  | <u>\$ 133</u>                               |

On August 6, 2015, the Board of Directors approved a designation of \$330 million of IFC's retained earnings for grants to IDA and a designation of \$14 million of IFC's retained earnings for Advisory Services. On October 9, 2015, the Board of Governors noted with approval the designations approved by the Board of Directors. IFC recognizes designation of retained earnings for advisory services 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.

On January 15, 2016, IFC recognized grants to IDA of \$330 million on the signing of a grant agreement between IDA and IFC concerning the transfer to IDA and use of funds corresponding to the designation of retained earnings for grants to IDA approved by IFC's Board of Directors on August 6, 2015 and noted with approval by IFC's Board of Governors on October 9, 2015.

**Accumulated other comprehensive (loss) income**

The components of accumulated other comprehensive (loss) income at June 30, 2016 and June 30, 2015 are summarized as follows (US\$ millions):

|   | June 30, 2016   | June 30, 2015   |
|---|-----------------|-----------------|
| Net unrealized losses on available-for-sale debt securities                             | \$ (79)         | \$ (12)         |
| Net unrealized gains on available-for-sale equity investments                           | 1,255           | 2,052           |
| Unrecognized net actuarial losses and unrecognized prior service costs on benefit plans | (1,607)         | (843)           |
| <b>Total accumulated other comprehensive (loss) income</b>                              | <u>\$ (431)</u> | <u>\$ 1,197</u> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE P – 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 years ended June 30, 2016, June 30, 2015 and June 30, 2014 comprise (US\$ millions):

|   | 2016                   | 2015                   | 2014                  |
|---|------------------------|------------------------|-----------------------|
| <b>Unrealized gains and losses on loans, debt securities and associated derivatives:</b>                |                        |                        |                       |
| Unrealized (losses) gains on loans and associated derivatives   | \$ (229)               | \$ (51)                | \$ 31                 |
| Unrealized (losses) on debt securities and associated derivatives                                       | <u>(37)</u>            | <u>(3)</u>             | <u>-</u>              |
| <b>Total net unrealized (losses) gains on loans, debt securities and associated derivatives</b>         | <b><u>(266)</u></b>    | <b><u>(54)</u></b>     | <b><u>31</u></b>      |
| <b>Unrealized gains and losses on borrowings from market, IDA and associated derivatives:</b>           |                        |                        |                       |
| Unrealized gains (losses) on market borrowings accounted for at fair value:                             |                        |                        |                       |
| Credit spread component   | 239                    | 15                     | (64)                  |
| Interest rate, foreign exchange and other components  | <u>(436)</u>           | <u>(63)</u>            | <u>(208)</u>          |
| Total unrealized (losses) gains on market borrowings  | <u>(197)</u>           | <u>(48)</u>            | <u>(272)</u>          |
| Unrealized gains (losses) on derivatives associated with market borrowings                              | 295                    | (22)                   | 198                   |
| Unrealized (losses) gains on borrowings from IDA accounted for at fair value                            | <u>(36)</u>            | <u>18</u>              | <u>-</u>              |
| <b>Total net unrealized gains (losses) on borrowings from market, IDA and associated derivatives</b>    | <b><u>62</u></b>       | <b><u>(52)</u></b>     | <b><u>(74)</u></b>    |
| <b>Net unrealized gains and losses on non-trading financial instruments accounted for at fair value</b> | <b><u>\$ (204)</u></b> | <b><u>\$ (106)</u></b> | <b><u>\$ (43)</u></b> |

As discussed in Note A, "Summary of significant accounting and related policies", market borrowings economically hedged with financial instruments, including derivatives, accounted for at fair value with changes therein reported in earnings are 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 the different credit characteristics. The change in fair value reported in "Unrealized gains and losses on borrowings from market, IDA and associated derivatives" includes the impact of changes in IFC's own credit spread. As credit spreads widen, unrealized gains are recorded and when such 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 they do not alter the timing of the cash flows on the market borrowings.

**NOTE Q – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS**

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 June 30, 2016 and June 30, 2015 is summarized as follows (US\$ millions):

| Consolidated balance sheet location | June 30, 2016          | June 30, 2015          |
|-------------------------------------|------------------------|------------------------|
| <b>Derivative assets</b>            |                        |                        |
| Interest rate                       | \$ 646                 | \$ 426                 |
| Foreign exchange                    | 307                    | 221                    |
| Interest rate and currency          | 2,361                  | 2,319                  |
| Equity and other                    | <u>381</u>             | <u>289</u>             |
| <b>Total derivative assets</b>      | <b><u>\$ 3,695</u></b> | <b><u>\$ 3,255</u></b> |
| <b>Derivative liabilities</b>       |                        |                        |
| Interest rate                       | \$ 454                 | \$ 268                 |
| Foreign exchange                    | 96                     | 154                    |
| Interest rate and currency          | 3,396                  | 3,799                  |
| Equity and other                    | <u>6</u>               | <u>4</u>               |
| <b>Total derivative liabilities</b> | <b><u>\$ 3,952</u></b> | <b><u>\$ 4,225</u></b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE Q – DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS** (continued)

The effect of derivative instrument contracts on the consolidated statement of operations for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 is summarized as follows (US\$ millions):

| Derivative risk category   | Income statement location  | 2016  | 2015              | 2014          |
|--|--|---|-------------------|---------------|
| Interest rate  | Income from loans and guarantees, including realized gains and losses on loans and associated derivatives      | \$ (24)   | \$ (31)           | \$ (35)       |
|  | Income from debt securities, including realized gains and losses on debt securities and associated derivatives | (1)   | (3)               | (2)           |
|  | Income from liquid asset trading activities  | (241)   | (181)             | (157)         |
|  | Charges on borrowings  | 313   | 423               | 401           |
|  | Other income   | (1)   | 1                 | 1             |
|  | Net unrealized gains and losses on non-trading financial instruments accounted for at fair value               | 88  | (66)              | 5             |
|  | Foreign exchange   | Income from equity investments and associated derivatives | -                 | -             |
| Income from liquid asset trading activities  |  | (25)  | (188)             | (111)         |
| Foreign currency transaction gains and losses on non-trading activities                          |  | 8   | 177               | 111           |
| Net unrealized gains and losses on non-trading financial instruments accounted for at fair value |  | 1   | 2                 | -             |
| Interest rate and currency   | Income from loans and guarantees, including realized gains and losses on loans and associated derivatives      | (184)   | (189)             | (172)         |
|  | Income from debt securities, including realized gains and losses on debt securities and associated derivatives | (16)  | (21)              | (23)          |
|  | Income from liquid asset trading activities  | 103   | 57                | (71)          |
|  | Charges on borrowings  | 653   | 776               | 685           |
|  | Foreign currency transaction gains and losses on non-trading activities  | 200   | (1,906)           | 30            |
|  | Net unrealized gains and losses on non-trading financial instruments accounted for at fair value               | 87  | 58                | 189           |
| Equity   | Income (loss) from equity investments and associated derivatives   | 95  | (229)             | 48            |
|  | Income from loans and guarantees, including realized gains and losses on loans and associated derivatives      | -   | 3                 | -             |
|  | Net unrealized gains and losses on non-trading financial instruments accounted for at fair value               | (4)   | (33)              | 24            |
|  | Other derivative contracts   | -   | -                 | (1)           |
| <b>Total</b>   |  | <b>\$ 1,052</b>   | <b>\$ (1,350)</b> | <b>\$ 923</b> |

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

At June 30, 2016, the outstanding volume, measured by US\$ equivalent notional, of interest rate contracts was \$64,504 million (\$55,792 million at June 30, 2015), foreign exchange contracts was \$14,106 million (\$12,020 million at June 30, 2015) and interest rate and currency contracts was \$35,032 million (\$33,034 million at June 30, 2015). At June 30, 2016, there were 278 equity contracts related to IFC's loan and equity investment portfolio and 2 other derivative contracts recognized as derivatives assets or liabilities under ASC Topic 815 (290 equity risk and other contracts at June 30, 2015).

**NOTE R – 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 June 30, 2016 and June 30, 2015 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE R – FAIR VALUE MEASUREMENTS** (continued)

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 (CRC), 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). IFC's Portfolio Valuation Unit, in Corporate Risk & Sustainability, and Portfolio Review Unit, in Finance and Accounting, provide oversight over the fair valuation process by monitoring and reviewing the fair values of IFC's investment portfolio. Prior to October 1, 2014, IFC's Valuation Oversight Subcommittee (VOS), which was a subcommittee of CRC, reviewed significant valuation principles and the reasonableness of high exposure valuations quarterly. Pursuant to a simplification of IFC's organizational structure effective October 1, 2014, the committees of IFC's Management Team, including the VOS, are continuing to be reassessed.

IFC's borrowings are fair valued by the Quantitative Analysis and Modeling Group in IFC's Treasury department under the oversight of the Corporate Portfolio and Risk Management department.

The methodologies used and key assumptions made to estimate fair values as of June 30, 2016, and June 30, 2015, 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. For exchange traded futures and options, exchange quoted prices are obtained and these are classified as Level 1 in accordance with ASC 820. Liquid assets valued using quoted market prices are also classified as Level 1. Securities valued using vendor prices for which there is evidence of high market trade activity may also be classified as Level 1. US Treasuries are valued using index prices and also 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. All 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 valuation techniques and significant unobservable inputs for loans and debt securities classified as Level 3 as of June 30, 2016 and June 30, 2015 are presented below:

| June 30, 2016                         |                       |                                  |  |                           |                            |
|---------------------------------------|-----------------------|----------------------------------|--|---------------------------|----------------------------|
|                                       | Valuation technique   | Fair value<br>(US\$<br>millions) | Significant inputs                                     | Range<br>(%)              | Weighted<br>average<br>(%) |
| Debt securities – preferred shares    | Discounted cash flows | \$ 224                           | Discount rate<br>Valuation multiples*                  | 7.5 – 30.0                | 11.6                       |
|                                       | Relative valuations   | 82                               |  |                           |                            |
|                                       | Recent transactions   | 216                              |  |                           |                            |
|                                       | Other techniques      | 27                               |  |                           |                            |
| Total preferred shares                |                       | 549                              |  |                           |                            |
| Loans and other debt securities       | Discounted cash flows | 1,903                            | Credit default swap spreads<br>Expected recovery rates | 1.0 – 20.0<br>10.0 – 85.0 | 4.6<br>42.4                |
|                                       | Recent transactions   | 457                              |  |                           |                            |
|                                       | Other techniques      | 235                              |  |                           |                            |
| Total loans and other debt securities |                       | 2,595                            |  |                           |                            |
| <b>Total</b>                          |                       | <b>\$ 3,144</b>                  |  |                           |                            |

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

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R – FAIR VALUE MEASUREMENTS (continued)

| June 30, 2015                         |                       |                                  |                             |              |                            |
|---------------------------------------|-----------------------|----------------------------------|-----------------------------|--------------|----------------------------|
|                                       | Valuation technique   | Fair value<br>(US\$<br>millions) | Significant inputs          | Range<br>(%) | Weighted<br>average<br>(%) |
| Debt securities – preferred shares    | Discounted cash flows | \$ 274                           | Discount rate               | 6.9 – 30.0   | 10.4                       |
|                                       | Relative valuations   | 126                              | Valuation multiples*        |              |                            |
|                                       | Recent transactions   | 140                              |                             |              |                            |
|                                       | Other techniques      | 15                               |                             |              |                            |
| Total preferred shares                |                       | 555                              |                             |              |                            |
| Loans and other debt securities       | Discounted cash flows | 1,724                            | Credit default swap spreads | 1.2 – 20.0   | 3.0                        |
|                                       | Recent transactions   | 495                              | Expected recovery rates     | 10.0 – 85.0  | 41.6                       |
|                                       | Other techniques      | 60                               |                             |              |                            |
| Total loans and other debt securities |                       | 2,279                            |                             |              |                            |
| <b>Total</b>                          |                       | <b>\$ 2,834</b>                  |                             |              |                            |

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

**Borrowings** – Fair values derived by using quoted prices in active markets are classified as Level 1. 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. 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.  |

As of June 30, 2016, IFC had bond issuances with a total fair value of \$155 million classified as level 3 in Armenian dram, Costa Rican colones, Georgian Lari, Nigerian naira and Rwandan francs, where the significant unobservable inputs were yield curve data.

**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 June 30, 2016 and June 30, 2015 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. |

June 30, 2016

| Level 3 derivatives                            | Type                          | Fair value<br>(US\$ millions) | Significant inputs                        | Range<br>(%) | Weighted<br>average<br>(%) |
|--|-------------------------------|-------------------------------|---|--------------|----------------------------|
| Equity related derivatives                     | Fixed strike price options    | \$ 41                         | Volatilities<br>Contractual strike price* | 11.8 – 48.8  | 28.6                       |
|  | Variable strike price options | 333                           |   |              |                            |
|  | Other                         | 1                             |   |              |                            |
| Interest rate and<br>currency swap assets      | Vanilla swaps                 | 34                            | Yield curve points,<br>exchange rates     |              |                            |
| Interest rate and<br>currency swap liabilities | Vanilla swaps                 | (31)                          | Yield curve points,<br>exchange rates     |              |                            |
| <b>Total</b>                                   |                               | <b>\$ 378</b>                 |   |              |                            |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE R – FAIR VALUE MEASUREMENTS (continued)

June 30, 2015

| Level 3 derivatives                            | Type                          | Fair value<br>(US\$ millions) | Significant inputs                    | Range<br>(%) | Weighted<br>average<br>(%) |
|--|-------------------------------|-------------------------------|---------------------------------------|--------------|----------------------------|
| Equity related derivatives                     | Fixed strike price options    | \$ 34                         | Volatilities                          | 12.0 – 50.2  | 24.7                       |
|  | Variable strike price options | 249                           | Contractual strike price*             |              |                            |
|  | Other                         | 2                             |                                       |              |                            |
| Interest rate and<br>currency swap assets      | Vanilla swaps                 | 40                            | Yield curve points,<br>exchange rates |              |                            |
| Interest rate and<br>currency swap liabilities | Vanilla swaps                 | (30)                          | Yield curve points,<br>exchange rates |              |                            |
| <b>Total</b>                                   |                               | <b>\$ 295</b>                 |                                       |              |                            |

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

**Equity investments** – Equity investments valued using quoted prices in active markets are classified as Level 1. Equity investments classified as Level 2 were valued using quoted prices in inactive markets. The valuation techniques and significant unobservable inputs for equity investments classified as Level 3 as of June 30, 2016 and June 30, 2015 are presented below:

June 30, 2016

| Sector  | Valuation technique     | Fair value<br>(US\$ millions) | Significant inputs                      | Range          | Weighted<br>average |
|---|-------------------------|-------------------------------|---|----------------|---------------------|
| Banking and other financial<br>Institutions       | Discounted cash flows   | \$ 707                        | Cost of equity (%)                      | 10.3 – 22.3    | 14.5                |
|   |                         |                               | Asset growth rate (%)                   | (33.6) – 187.0 | 11.0                |
|   |                         |                               | Return on assets (%)                    | (9.7) – 5.0    | 1.9                 |
|   |                         |                               | Perpetual growth rate (%)               | 2.4 – 11.0     | 4.5                 |
|   | Relative valuations     | 41                            | Price to book value                     | 1.0 – 2.4      | 1.7                 |
|   | Listed price (adjusted) | 127                           | Discount for lock-up (%)                | 0.0 – 10.4     | 7.3                 |
|   | Recent transactions     | 193                           |   |                |                     |
|   | Other techniques        | 32                            |   |                |                     |
| Total banking and other financial<br>institutions |                         | 1,100                         |   |                |                     |
| Funds   | Recent transactions     | 98                            |   |                |                     |
| Total funds                                       |                         | 98                            |   |                |                     |
| Others  | Discounted cash flows   | 647                           | Weighted average<br>cost of capital (%) | 7.8 – 21.5     | 13.1                |
|   |                         |                               | Cost of equity (%)                      | 10.5 – 15.0    | 15.5                |
|   | Relative valuations     | 230                           | Valuation multiples*                    |                |                     |
|   | Listed price (adjusted) | 144                           | Discount for lock-up (%)                | 0.0 – 15.2     | 12.9                |
|   | Recent transactions     | 669                           |   |                |                     |
|   | Other techniques        | 43                            |   |                |                     |
| Total others                                      |                         | 1,733                         |   |                |                     |
| <b>Total</b>                                      |                         | <b>\$ 2,931</b>               |   |                |                     |

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



INTERNATIONAL FINANCE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE R – FAIR VALUE MEASUREMENTS** (continued)

|   |                       | June 30, 2015                 |   |                |                          |            |     |
|---|-----------------------|-------------------------------|---|----------------|--------------------------|------------|-----|
| Sector  | Valuation technique   | Fair value<br>(US\$ millions) | Significant inputs                      | Range          | Weighted<br>average      |            |     |
| Banking and other financial<br>Institutions       | Discounted cash flows | \$ 580                        | Cost of equity (%)                      | 10.2 – 22.6    | 15.1                     |            |     |
|   |                       |                               | Asset growth rate (%)                   | (18.2) – 392.0 | 11.6                     |            |     |
|   |                       |                               | Return on assets (%)                    | (8.9) – 6.8    | 1.8                      |            |     |
|   |                       |                               | Perpetual growth rate (%)               | 2.5 – 11.0     | 5.0                      |            |     |
|   |                       |                               | Relative valuations                     | 17             | Valuation multiples*     |            |     |
|   |                       |                               | Listed price (adjusted)                 | 36             | Discount for lock-up (%) | 0.0 – 10.2 | 6.0 |
|   | Recent transactions   | 216                           |   |                |                          |            |     |
|   | Other techniques      | 52                            |   |                |                          |            |     |
| Total banking and other financial<br>institutions |                       | <u>901</u>                    |   |                |                          |            |     |
| Funds   | Recent transactions   | <u>55</u>                     |   |                |                          |            |     |
| Total funds                                       |                       | <u>55</u>                     |   |                |                          |            |     |
| Others  | Discounted cash flows | 522                           | Weighted average<br>cost of capital (%) | 6.6 – 23.2     | 12.0                     |            |     |
|   |                       |                               | Cost of equity (%)                      | 12.3 – 15.0    | 14.6                     |            |     |
|   |                       |                               | Relative valuations                     | 338            | Valuation multiples*     |            |     |
|   |                       |                               | Listed price (adjusted)                 | 201            | Discount for lock-up (%) | 1.0 – 10.6 | 7.6 |
|   |                       |                               | Recent transactions                     | 517            |                          |            |     |
|   | Other techniques      | 94                            |   |                |                          |            |     |
| Total others                                      |                       | <u>1,672</u>                  |   |                |                          |            |     |
| <b>Total</b>                                      |                       | <b><u>\$ 2,628</u></b>        |   |                |                          |            |     |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE R – 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 June 30, 2016 and June 30, 2015 are summarized below (US\$ millions):

|  | June 30, 2016   |            | June 30, 2015   |            |
|--|-----------------|------------|-----------------|------------|
|  | Carrying amount | Fair value | Carrying amount | Fair value |
| <b>Financial assets</b>  |                 |            |                 |            |
| Cash and due from banks, time deposits, trading securities and securities purchased under resale agreements and receivable for cash collateral pledged | \$ 46,212       | \$ 46,212  | \$ 43,817       | \$ 43,817  |
| Investments:   |                 |            |                 |            |
| Loans at amortized cost, net of reserves against losses  | 20,906          | 20,281     | 20,552          | 21,758     |
| Loans accounted for at fair value under the Fair Value Option  | 962             | 962        | 784             | 784        |
| Total loans  | 21,868          | 21,243     | 21,336          | 22,542     |
| Equity investments at cost less impairment   | 3,145           | 4,221      | 3,250           | 4,581      |
| Equity investments accounted for at fair value as available-for-sale   | 3,526           | 3,526      | 4,557           | 4,557      |
| Equity investments accounted for at fair value   | 5,917           | 5,917      | 5,696           | 5,696      |
| Total equity investments   | 12,588          | 13,664     | 13,503          | 14,834     |
| Debt securities accounted for at fair value as available-for-sale  | 2,474           | 2,474      | 2,317           | 2,317      |
| Debt securities accounted for at fair value under the Fair Value Option  | 426             | 426        | 422             | 422        |
| Total debt securities  | 2,900           | 2,900      | 2,739           | 2,739      |
| Total investments  | 37,356          | 37,807     | 37,578          | 40,115     |
| Derivative assets:   |                 |            |                 |            |
| Borrowings-related   | 1,255           | 1,255      | 620             | 620        |
| Liquid asset portfolio-related and other   | 489             | 489        | 851             | 851        |
| Investment-related   | 1,680           | 1,680      | 1,615           | 1,615      |
| Client risk management-related   | 271             | 271        | 169             | 169        |
| Total derivative assets  | 3,695           | 3,695      | 3,255           | 3,255      |
| Other investment-related financial assets  | 1               | 96         | 1               | 75         |
| <b>Financial liabilities</b>   |                 |            |                 |            |
| Securities sold under repurchase agreements and payable for cash collateral received   | \$ 4,143        | \$ 4,143   | \$ 4,695        | \$ 4,695   |
| Market, IBRD, IDA and other borrowings outstanding   | 55,142          | 55,141     | 51,265          | 51,264     |
| Trading securities - short sold bonds  | 10              | 10         | -               | -          |
| Derivative liabilities:  |                 |            |                 |            |
| Borrowings-related   | 3,014           | 3,014      | 3,722           | 3,722      |
| Liquid asset portfolio-related and other   | 439             | 439        | 244             | 244        |
| Investment-related   | 183             | 183        | 82              | 82         |
| Client risk management-related   | 316             | 316        | 177             | 177        |
| Total derivative liabilities   | 3,952           | 3,952      | 4,225           | 4,225      |

Other investment-related financial assets comprise standalone options and warrants that do not meet the definition of a derivative.

The fair value of loan commitments amounted to \$33 million at June 30, 2016 (\$34 million - June 30, 2015). Fair values of loan commitments are based on present value of loan commitment fees.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R – FAIR VALUE MEASUREMENTS (continued)

Fair value hierarchy

The following tables provide information as of June 30, 2016 and June 30, 2015, 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):

|  | June 30, 2016    |                  |                 |                  |
|--|------------------|------------------|-----------------|------------------|
|  | Level 1          | Level 2          | Level 3         | Total            |
| <b>Trading securities:</b>   |                  |                  |                 |                  |
| Asset-backed securities  | \$ -             | \$ 11,860        | \$ -            | \$ 11,860        |
| Corporate securities   | 5,125            | 2,670            | 47              | 7,842            |
| Government and agency obligations                                  | 10,162           | 900              | 21              | 11,083           |
| Money market funds   | 427              | -                | -               | 427              |
| <b>Total trading securities</b>                                    | <b>15,714*</b>   | <b>15,430</b>    | <b>68</b>       | <b>31,212</b>    |
| Loans (outstanding principal balance \$1,093)                      | -                | -                | 962             | 962              |
| <b>Equity investments:</b>   |                  |                  |                 |                  |
| Banking and other financial institutions                           | 1,656            | 136              | 1,100           | 2,892            |
| Funds  | -                | -                | 98              | 98               |
| Others   | 1,515            | 26               | 1,733           | 3,274            |
| Equity investments measured at net asset value***                  | -                | -                | -               | 3,179            |
| <b>Total equity investments</b>                                    | <b>3,171</b>     | <b>162</b>       | <b>2,931</b>    | <b>9,443</b>     |
| <b>Debt securities:</b>  |                  |                  |                 |                  |
| Corporate debt securities  | 249              | 144              | 1,518           | 1,911            |
| Preferred shares   | -                | -                | 549             | 549              |
| Asset-backed securities  | -                | -                | 113             | 113              |
| Other debt securities  | -                | -                | 2               | 2                |
| Debt securities measured at net asset value***                     | -                | -                | -               | 325              |
| <b>Total debt securities</b>                                       | <b>249</b>       | <b>144</b>       | <b>2,182</b>    | <b>2,900</b>     |
| <b>Derivative assets:</b>  |                  |                  |                 |                  |
| Interest rate  | -                | 646              | -               | 646              |
| Foreign exchange   | -                | 307              | -               | 307              |
| Interest rate and currency   | -                | 2,327            | 34              | 2,361            |
| Equity and other   | -                | -                | 381             | 381              |
| <b>Total derivative assets</b>                                     | <b>-</b>         | <b>3,280</b>     | <b>415</b>      | <b>3,695</b>     |
| <b>Total assets at fair value</b>                                  | <b>\$ 19,134</b> | <b>\$ 19,016</b> | <b>\$ 6,558</b> | <b>\$ 48,212</b> |
| <b>Borrowings:</b>   |                  |                  |                 |                  |
| Structured bonds   | \$ -             | \$ 5,179         | \$ -            | \$ 5,179         |
| Unstructured bonds   | 42,213           | 5,328            | 155             | 47,696           |
| <b>Total borrowings (outstanding principal balance \$53,027**)</b> | <b>42,213</b>    | <b>10,507</b>    | <b>155</b>      | <b>52,875</b>    |
| Trading securities - short sold bonds                              | 10               | -                | -               | 10               |
| <b>Derivative liabilities:</b>                                     |                  |                  |                 |                  |
| Interest rate  | -                | 454              | -               | 454              |
| Foreign exchange   | -                | 96               | -               | 96               |
| Interest rate and currency   | -                | 3,365            | 31              | 3,396            |
| Equity and other   | -                | -                | 6               | 6                |
| <b>Total derivative liabilities</b>                                | <b>-</b>         | <b>3,915</b>     | <b>37</b>       | <b>3,952</b>     |
| <b>Total liabilities at fair value</b>                             | <b>\$ 42,223</b> | <b>\$ 14,422</b> | <b>\$ 192</b>   | <b>\$ 56,837</b> |

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

\*\* includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of \$2,299 million, with a fair value of \$1,390 million as of June 30, 2016.

\*\*\*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 consolidated balance sheet.

Note: For the year ended June 30, 2016: Trading securities with fair value of \$154 million transferred from level 1 to level 2 and \$824 million from level 2 to level 1 due to decrease/increase in market activities. Equity investments with fair value of \$9 million transferred from level 1 to level 2 and \$107 million from level 2 to level 1 due to decrease/increase in market activities. Bonds issued by IFC with a fair value \$716 million transferred from level 1 to level 2, while bonds with a fair value of \$360 million were transferred from level 2 to level 1 due to change in quality of market price information.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE R – FAIR VALUE MEASUREMENTS (continued)

|   | June 30, 2015    |                  |                 |                  |
|---|------------------|------------------|-----------------|------------------|
|   | Level 1          | Level 2          | Level 3         | Total            |
| Trading securities:   |                  |                  |                 |                  |
| Government and agency obligations                           | \$ 10,725        | \$ 4,342         | \$ 22           | \$ 15,089        |
| Asset-backed securities                                     | -                | 12,793           | -               | 12,793           |
| Corporate securities  | 3,613            | 2,080            | 64              | 5,757            |
| Money market funds  | 1,092            | -                | -               | 1,092            |
| Total trading securities                                    | 15,430*          | 19,215           | 86              | 34,731           |
| Loans (outstanding principal balance \$802)                 | -                | -                | 784             | 784              |
| Equity investments:   |                  |                  |                 |                  |
| Banking and other financial institutions                    | 2,387            | 176              | 901             | 3,464            |
| Funds   | -                | -                | 55              | 55               |
| Others  | 1,561            | 92               | 1,672           | 3,325            |
| Equity investments measured at net asset value***           | -                | -                | -               | 3,409            |
| Total equity investments                                    | 3,948            | 268              | 2,628           | 10,253           |
| Debt securities:  |                  |                  |                 |                  |
| Corporate debt securities                                   | 326              | -                | 1,371           | 1,697            |
| Preferred shares  | -                | -                | 555             | 555              |
| Asset-backed securities                                     | -                | -                | 122             | 122              |
| Other debt securities                                       | -                | -                | 2               | 2                |
| Debt securities measured at net asset value***              | -                | -                | -               | 363              |
| Total debt securities                                       | 326              | -                | 2,050           | 2,739            |
| Derivative assets:  |                  |                  |                 |                  |
| Interest rate   | -                | 426              | -               | 426              |
| Foreign exchange  | -                | 221              | -               | 221              |
| Interest rate and currency                                  | -                | 2,279            | 40              | 2,319            |
| Equity and other  | -                | -                | 289             | 289              |
| Total derivative assets                                     | -                | 2,926            | 329             | 3,255            |
| <b>Total assets at fair value</b>                           | <b>\$ 19,704</b> | <b>\$ 22,409</b> | <b>\$ 5,877</b> | <b>\$ 51,762</b> |
| Borrowings:   |                  |                  |                 |                  |
| Structured bonds  | \$ -             | \$ 4,732         | \$ -            | \$ 4,732         |
| Unstructured bonds  | 39,671           | 4,959            | 103             | 44,733           |
| Total borrowings (outstanding principal balance \$49,342**) | 39,671           | 9,691            | 103             | 49,465           |
| Derivative liabilities:                                     |                  |                  |                 |                  |
| Interest rate   | -                | 268              | -               | 268              |
| Foreign exchange  | -                | 154              | -               | 154              |
| Interest rate and currency                                  | -                | 3,769            | 30              | 3,799            |
| Equity and other  | -                | -                | 4               | 4                |
| Total derivative liabilities                                | -                | 4,191            | 34              | 4,225            |
| <b>Total liabilities at fair value</b>                      | <b>\$ 39,671</b> | <b>\$ 13,882</b> | <b>\$ 137</b>   | <b>\$ 53,690</b> |

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

\*\* includes discount notes (not under the short-term Discount Note Program), with original maturities greater than one year, with principal due at maturity of \$1,755 million, with a fair value of \$1,364 million as of June 30, 2015.

\*\*\*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 consolidated balance sheet.

Note: For the year ended June 30, 2015: Trading securities with fair value of \$1,447 million transferred from level 1 to level 2 and \$615 million from level 2 to level 1 due to decrease/increase in market activities. Equity investments with fair value of \$92 million transferred from level 1 to level 2 and \$8 million from level 2 to level 1 due to decrease/increase in market activities. Bonds issued by IFC with a fair value \$13 million transferred from level 1 to level 2, while bonds with a fair value of \$428 million were transferred from level 2 to level 1 due to change in quality of market price information.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE R – 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 years ended June 30, 2016 and 2015 (US\$ millions). IFC's policy is to recognize transfers in and transfers out at the beginning of the reporting period.

|  | Year ended June 30, 2016   |  |                            |   |                            |                               |                 | Balance as of June 30, 2016 | Net unrealized gains/losses included in net income related to assets / liabilities held at year end |
|--|----------------------------|--|----------------------------|---|----------------------------|-------------------------------|-----------------|-----------------------------|---|
|  | Balance as of July 1, 2015 | Net gains and losses (realized and unrealized) included in |                            | Purchases, issuances, sales, settlements and others | Transfers into Level 3 (*) | Transfers out of Level 3 (**) |                 |                             |   |
|  |                            | Net Income   | Other comprehensive income |   |                            |                               |                 |                             |   |
| <b>Trading securities:</b>               |                            |  |                            |   |                            |                               |                 |                             |   |
| Asset-backed securities                  | \$ -                       | \$ -   | \$ -                       | \$ -  | \$ -                       | \$ -                          | \$ -            | \$ -                        |   |
| Corporate securities                     | 64                         | (6)  | -                          | (11)  | -                          | -                             | 47              | -                           |   |
| Government and agency obligations        | 22                         | (1)  | -                          | -   | -                          | -                             | 21              | (1)                         |   |
| <b>Total trading securities</b>          | <b>86</b>                  | <b>(7)</b>   | <b>-</b>                   | <b>(11)</b>   | <b>-</b>                   | <b>-</b>                      | <b>68</b>       | <b>(1)</b>                  |   |
| <b>Loans</b>                             | <b>784</b>                 | <b>(114)</b>   | <b>-</b>                   | <b>292</b>  | <b>-</b>                   | <b>-</b>                      | <b>962</b>      | <b>(121)</b>                |   |
| <b>Equity investments:</b>               |                            |  |                            |   |                            |                               |                 |                             |   |
| Banking and other financial institutions | 901                        | 48   | 3                          | (16)  | 342                        | (178)                         | 1,100           | 3                           |   |
| Funds                                    | 55                         | 1  | -                          | 42  | -                          | -                             | 98              | 3                           |   |
| Others                                   | 1,672                      | 49   | (38)                       | 252   | 60                         | (262)                         | 1,733           | (13)                        |   |
| <b>Total equity investments</b>          | <b>2,628</b>               | <b>98</b>  | <b>(35)</b>                | <b>278</b>  | <b>402</b>                 | <b>(440)</b>                  | <b>2,931</b>    | <b>(7)</b>                  |   |
| <b>Debt securities:</b>                  |                            |  |                            |   |                            |                               |                 |                             |   |
| Corporate debt securities                | 1,371                      | (37)   | (68)                       | 365   | 83                         | (196)                         | 1,518           | (24)                        |   |
| Preferred shares                         | 555                        | (6)  | (22)                       | 22  | -                          | -                             | 549             | 2                           |   |
| Asset-backed securities                  | 122                        | (17)   | 8                          | -   | -                          | -                             | 113             | -                           |   |
| Other debt securities                    | 2                          | -  | -                          | -   | -                          | -                             | 2               | -                           |   |
| <b>Total debt securities</b>             | <b>2,050</b>               | <b>(60)</b>  | <b>(82)</b>                | <b>387</b>  | <b>83</b>                  | <b>(196)</b>                  | <b>2,182</b>    | <b>(22)</b>                 |   |
| <b>Derivative assets:</b>                |                            |  |                            |   |                            |                               |                 |                             |   |
| Interest rate and currency               | 40                         | 18   | -                          | 8   | -                          | (32)                          | 34              | 17                          |   |
| Equity and other                         | 289                        | 94   | -                          | (2)   | -                          | -                             | 381             | 102                         |   |
| <b>Total derivative assets</b>           | <b>329</b>                 | <b>112</b>   | <b>-</b>                   | <b>6</b>  | <b>-</b>                   | <b>(32)</b>                   | <b>415</b>      | <b>119</b>                  |   |
| <b>Total assets at fair value</b>        | <b>\$ 5,877</b>            | <b>\$ 29</b>   | <b>\$ (117)</b>            | <b>\$ 952</b>                                       | <b>\$ 485</b>              | <b>\$ (668)</b>               | <b>\$ 6,558</b> | <b>\$ (32)</b>              |   |
| <b>Borrowings:</b>                       |                            |  |                            |   |                            |                               |                 |                             |   |
| Structured bonds                         | \$ -                       | \$ -   | \$ -                       | \$ -  | \$ -                       | \$ -                          | \$ -            | \$ -                        |   |
| Unstructured bonds                       | (103)                      | (1)  | -                          | (10)  | (41)                       | -                             | (155)           | (1)                         |   |
| <b>Total borrowings</b>                  | <b>(103)</b>               | <b>(1)</b>   | <b>-</b>                   | <b>(10)</b>   | <b>(41)</b>                | <b>-</b>                      | <b>(155)</b>    | <b>(1)</b>                  |   |
| <b>Derivative liabilities:</b>           |                            |  |                            |   |                            |                               |                 |                             |   |
| Interest rate                            | -                          | -  | -                          | -   | -                          | -                             | -               | -                           |   |
| Interest rate and currency               | (30)                       | (31)   | -                          | -   | -                          | 30                            | (31)            | (12)                        |   |
| Equity and other                         | (4)                        | (3)  | -                          | 1   | -                          | -                             | (6)             | (3)                         |   |
| <b>Total derivative liabilities</b>      | <b>(34)</b>                | <b>(34)</b>  | <b>-</b>                   | <b>1</b>  | <b>-</b>                   | <b>30</b>                     | <b>(37)</b>     | <b>(15)</b>                 |   |
| <b>Total liabilities at fair value</b>   | <b>\$ (137)</b>            | <b>\$ (35)</b>   | <b>\$ -</b>                | <b>\$ (9)</b>                                       | <b>\$ (41)</b>             | <b>\$ 30</b>                  | <b>\$ (192)</b> | <b>\$ (16)</b>              |   |

(\*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2016.

(\*\*) 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, 2015 beginning balance as of June 30, 2016.

## INTERNATIONAL FINANCE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE R – FAIR VALUE MEASUREMENTS (continued)

|  | Year ended June 30, 2015   |  |                            |                |   |                            |                               |                             |
|--|----------------------------|--|----------------------------|----------------|---|----------------------------|-------------------------------|-----------------------------|
|  | Balance as of July 1, 2014 | Net gains and losses (realized and unrealized) included in |                            |                | Purchases, issuances, sales, settlements and others | Transfers into Level 3 (*) | Transfers out of Level 3 (**) | Balance as of June 30, 2015 |
|  |                            | Net Income   | Other comprehensive income |                |   |                            |                               |                             |
| <b>Trading securities:</b>               |                            |  |                            |                |   |                            |                               |                             |
| Asset-backed securities                  | \$ 20                      | \$ -   | \$ -                       | \$ (20)        | \$ -  | \$ -                       | \$ -                          | \$ -                        |
| Corporate securities                     | 146                        | (35)   | -                          | 34             | 11  | (92)                       | 64                            | (66)                        |
| Government and agency obligations        | 22                         | -  | -                          | -              | -   | -                          | 22                            | -                           |
| <b>Total trading securities</b>          | <b>188</b>                 | <b>(35)</b>  | <b>-</b>                   | <b>14</b>      | <b>11</b>   | <b>(92)</b>                | <b>86</b>                     | <b>(66)</b>                 |
| <b>Loans</b>                             | <b>683</b>                 | <b>(85)</b>  | <b>-</b>                   | <b>186</b>     | <b>-</b>  | <b>-</b>                   | <b>784</b>                    | <b>(80)</b>                 |
| <b>Equity investments:</b>               |                            |  |                            |                |   |                            |                               |                             |
| Banking and other financial institutions | 1,312                      | 110  | (57)                       | (273)          | 81  | (272)                      | 901                           | (106)                       |
| Funds                                    | 45                         | 1  | -                          | 9              | -   | -                          | 55                            | 2                           |
| Others                                   | 1,010                      | 62   | 76                         | 523            | 116   | (115)                      | 1,672                         | 38                          |
| <b>Total equity investments</b>          | <b>2,367</b>               | <b>173</b>   | <b>19</b>                  | <b>259</b>     | <b>197</b>  | <b>(387)</b>               | <b>2,628</b>                  | <b>(66)</b>                 |
| <b>Debt securities:</b>                  |                            |  |                            |                |   |                            |                               |                             |
| Corporate debt securities                | 1,410                      | 18   | (45)                       | 97             | -   | (109)                      | 1,371                         | 4                           |
| Preferred shares                         | 760                        | 16   | (12)                       | (209)          | -   | -                          | 555                           | (23)                        |
| Asset-backed securities                  | 144                        | -  | (16)                       | (6)            | -   | -                          | 122                           | -                           |
| Other debt securities                    | 1                          | 1  | -                          | -              | -   | -                          | 2                             | 1                           |
| <b>Total debt securities</b>             | <b>2,315</b>               | <b>35</b>  | <b>(73)</b>                | <b>(118)</b>   | <b>-</b>  | <b>(109)</b>               | <b>2,050</b>                  | <b>(18)</b>                 |
| <b>Derivative assets:</b>                |                            |  |                            |                |   |                            |                               |                             |
| Interest rate and currency               | 5                          | 40   | -                          | 12             | -   | (17)                       | 40                            | 19                          |
| Equity and other                         | 559                        | (271)  | -                          | 1              | -   | -                          | 289                           | 10                          |
| <b>Total derivative assets</b>           | <b>564</b>                 | <b>(231)</b>   | <b>-</b>                   | <b>13</b>      | <b>-</b>  | <b>(17)</b>                | <b>329</b>                    | <b>29</b>                   |
| <b>Total assets at fair value</b>        | <b>\$ 6,117</b>            | <b>\$ (143)</b>  | <b>\$ (54)</b>             | <b>\$ 354</b>  | <b>\$ 208</b>                                       | <b>\$ (605)</b>            | <b>\$ 5,877</b>               | <b>\$ (201)</b>             |
| <b>Borrowings:</b>                       |                            |  |                            |                |   |                            |                               |                             |
| Structured bonds                         | \$ (361)                   | \$ 189   | \$ -                       | \$ -           | \$ -  | \$ 172                     | \$ -                          | \$ -                        |
| Unstructured bonds                       | (70)                       | (14)   | -                          | (19)           | -   | -                          | (103)                         | (14)                        |
| <b>Total borrowings</b>                  | <b>(431)</b>               | <b>175</b>   | <b>-</b>                   | <b>(19)</b>    | <b>-</b>  | <b>172</b>                 | <b>(103)</b>                  | <b>(14)</b>                 |
| <b>Derivative liabilities:</b>           |                            |  |                            |                |   |                            |                               |                             |
| Interest rate                            | -                          | (7)  | -                          | (5)            | -   | 12                         | -                             | -                           |
| Interest rate and currency               | (63)                       | (167)  | -                          | (4)            | -   | 204                        | (30)                          | (32)                        |
| Equity and other                         | (18)                       | 11   | -                          | 3              | -   | -                          | (4)                           | 11                          |
| <b>Total derivative liabilities</b>      | <b>(81)</b>                | <b>(163)</b>   | <b>-</b>                   | <b>(6)</b>     | <b>-</b>  | <b>216</b>                 | <b>(34)</b>                   | <b>(21)</b>                 |
| <b>Total liabilities at fair value</b>   | <b>\$ (512)</b>            | <b>\$ 12</b>   | <b>\$ -</b>                | <b>\$ (25)</b> | <b>\$ -</b>   | <b>\$ 388</b>              | <b>\$ (137)</b>               | <b>\$ (35)</b>              |

(\*) Transfers into Level 3 are due to lack of observable market data resulting from a decrease in market activity for these securities as of June 30, 2015.

(\*\*) 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, 2014 beginning balance as of June 30, 2015.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE R – 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 years ended June 30, 2016 and 2015 (US\$ millions).

|  | Year ended June 30, 2016 |                 |                |                           |               |
|--|--------------------------|-----------------|----------------|---------------------------|---------------|
|  | Purchases                | Sales           | Issuances      | Settlements<br>and others | Net           |
| <b>Trading securities:</b>               |                          |                 |                |                           |               |
| Asset-backed securities                  | \$ -                     | \$ -            | \$ -           | \$ -                      | \$ -          |
| Corporate securities                     | -                        | (8)             | -              | (3)                       | (11)          |
| <b>Total trading securities</b>          | <b>-</b>                 | <b>(8)</b>      | <b>-</b>       | <b>(3)</b>                | <b>(11)</b>   |
| <b>Loans</b>                             | <b>-</b>                 | <b>-</b>        | <b>403</b>     | <b>(111)</b>              | <b>292</b>    |
| <b>Equity investments:</b>               |                          |                 |                |                           |               |
| Banking and other financial institutions | 75                       | (137)           | -              | 46                        | (16)          |
| Funds                                    | 116                      | (1)             | -              | (73)                      | 42            |
| Others                                   | 377                      | (167)           | -              | 42                        | 252           |
| <b>Total equity investments</b>          | <b>568</b>               | <b>(305)</b>    | <b>-</b>       | <b>15</b>                 | <b>278</b>    |
| <b>Debt securities:</b>                  |                          |                 |                |                           |               |
| Corporate debt securities                | 547                      | (29)            | -              | (153)                     | 365           |
| Preferred shares                         | 178                      | (88)            | -              | (68)                      | 22            |
| Asset-backed securities                  | 51                       | -               | -              | (51)                      | -             |
| <b>Total debt securities</b>             | <b>776</b>               | <b>(117)</b>    | <b>-</b>       | <b>(272)</b>              | <b>387</b>    |
| <b>Derivative assets:</b>                |                          |                 |                |                           |               |
| Interest rate and currency               | -                        | -               | 7              | 1                         | 8             |
| Equity and other                         | -                        | -               | -              | (2)                       | (2)           |
| <b>Total derivative assets</b>           | <b>-</b>                 | <b>-</b>        | <b>7</b>       | <b>(1)</b>                | <b>6</b>      |
| <b>Total assets at fair value</b>        | <b>\$ 1,344</b>          | <b>\$ (430)</b> | <b>\$ 410</b>  | <b>\$ (372)</b>           | <b>\$ 952</b> |
| <b>Borrowings:</b>                       |                          |                 |                |                           |               |
| Structured Bonds                         | -                        | -               | -              | -                         | -             |
| Unstructured Bonds                       | -                        | -               | (10)           | -                         | (10)          |
| <b>Total Borrowings</b>                  | <b>-</b>                 | <b>-</b>        | <b>(10)</b>    | <b>-</b>                  | <b>(10)</b>   |
| <b>Derivative liabilities:</b>           |                          |                 |                |                           |               |
| Interest rate                            | -                        | -               | -              | -                         | -             |
| Interest rate and currency               | -                        | -               | (1)            | 1                         | -             |
| Equity and other                         | -                        | -               | -              | 1                         | 1             |
| <b>Total derivative liabilities</b>      | <b>-</b>                 | <b>-</b>        | <b>(1)</b>     | <b>2</b>                  | <b>1</b>      |
| <b>Total liabilities at fair value</b>   | <b>\$ -</b>              | <b>\$ -</b>     | <b>\$ (11)</b> | <b>\$ 2</b>               | <b>\$ (9)</b> |

INTERNATIONAL FINANCE CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE R – FAIR VALUE MEASUREMENTS** (continued)

|  | Year ended June 30, 2015 |                 |                |                           |                |
|--|--------------------------|-----------------|----------------|---------------------------|----------------|
|  | Purchases                | Sales           | Issuances      | Settlements<br>and others | Net            |
| <b>Trading securities:</b>               |                          |                 |                |                           |                |
| Asset-backed securities                  | \$ -                     | \$ (15)         | \$ -           | \$ (5)                    | \$ (20)        |
| Corporate securities                     | 131                      | (89)            | -              | (8)                       | 34             |
| <b>Total trading securities</b>          | <b>131</b>               | <b>(104)</b>    | <b>-</b>       | <b>(13)</b>               | <b>14</b>      |
| <b>Loans</b>                             | <b>-</b>                 | <b>-</b>        | <b>248</b>     | <b>(62)</b>               | <b>186</b>     |
| <b>Equity investments:</b>               |                          |                 |                |                           |                |
| Banking and other financial institutions | 199                      | (467)           | -              | (5)                       | (273)          |
| Funds                                    | 97                       | -               | -              | (88)                      | 9              |
| Others                                   | 476                      | (63)            | -              | 110                       | 523            |
| <b>Total equity investments</b>          | <b>772</b>               | <b>(530)</b>    | <b>-</b>       | <b>17</b>                 | <b>259</b>     |
| <b>Debt securities:</b>                  |                          |                 |                |                           |                |
| Corporate debt securities                | 369                      | -               | -              | (272)                     | 97             |
| Preferred shares                         | 56                       | (110)           | -              | (155)                     | (209)          |
| Asset-backed securities                  | 2                        | -               | -              | (8)                       | (6)            |
| <b>Total debt securities</b>             | <b>427</b>               | <b>(110)</b>    | <b>-</b>       | <b>(435)</b>              | <b>(118)</b>   |
| <b>Derivative assets:</b>                |                          |                 |                |                           |                |
| Interest rate and currency               | -                        | -               | 12             | -                         | 12             |
| Equity and other                         | -                        | -               | 12             | (11)                      | 1              |
| <b>Total derivative assets</b>           | <b>-</b>                 | <b>-</b>        | <b>24</b>      | <b>(11)</b>               | <b>13</b>      |
| <b>Total assets at fair value</b>        | <b>\$ 1,330</b>          | <b>\$ (744)</b> | <b>\$ 272</b>  | <b>\$ (504)</b>           | <b>\$ 354</b>  |
| <b>Borrowings:</b>                       |                          |                 |                |                           |                |
| Structured Bonds                         | -                        | -               | -              | -                         | -              |
| Unstructured Bonds                       | -                        | -               | (19)           | -                         | (19)           |
| <b>Total Borrowings</b>                  | <b>-</b>                 | <b>-</b>        | <b>(19)</b>    | <b>-</b>                  | <b>(19)</b>    |
| <b>Derivative liabilities:</b>           |                          |                 |                |                           |                |
| Interest rate                            | -                        | -               | -              | (5)                       | (5)            |
| Interest rate and currency               | -                        | -               | (9)            | 5                         | (4)            |
| Equity and other                         | -                        | -               | -              | 3                         | 3              |
| <b>Total derivative liabilities</b>      | <b>-</b>                 | <b>-</b>        | <b>(9)</b>     | <b>3</b>                  | <b>(6)</b>     |
| <b>Total liabilities at fair value</b>   | <b>\$ -</b>              | <b>\$ -</b>     | <b>\$ (28)</b> | <b>\$ 3</b>               | <b>\$ (25)</b> |

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 consolidated income statement 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.

As of June 30, 2016, equity investments, accounted for at cost less impairment, with a carrying amount of \$1,828 million were written down to their fair value of \$1,444 million (\$1,401 million and \$1,050 million – June 30, 2015), resulting in a loss of \$384 million, which was included in income from equity investments and associated derivatives in the consolidated statements of operations during the year ended June 30, 2016 (loss of \$351 million – year ended June 30, 2015). The amount of the write-down was based on a Level 3 measure of fair value.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE S – 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 consolidated balance sheets and income statements 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 U). 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 methodology for allocating foreign currency transaction gains and losses on non-trading activities between the investment services segment and the treasury services segment was revised during FY16 Q1 to more closely align with management reporting. This change has been reflected in the segment results for the years ended June 30, 2016, 2015 and 2014.

An analysis of IFC's major components of income and expense by business segment for the years ended June 30, 2016, June 30, 2015 and June 30, 2014, is provided below (US\$ millions):

| June 30, 2016  | Investment services | Treasury services | Advisory services | Total          |
|--|---------------------|-------------------|-------------------|----------------|
| Income from loans and guarantees, including realized gains and losses on loans and associated derivatives                                      | \$ 1,126            | \$ -              | \$ -              | \$ 1,126       |
| Provision for losses on loans, guarantees and other receivables  | (359)               | -                 | -                 | (359)          |
| Income from equity investments and associated derivatives  | 518                 | -                 | -                 | 518            |
| Income from debt securities, including realized gains and losses on debt securities and associated derivatives                                 | 129                 | -                 | -                 | 129            |
| Income from liquid asset trading activities  | -                   | 504               | -                 | 504            |
| Charges on borrowings  | (115)               | (294)             | -                 | (409)          |
| Advisory services income   | -                   | -                 | 266               | 266            |
| Service fees and other income  | 235                 | -                 | -                 | 235            |
| Administrative expenses  | (850)               | (22)              | (61)              | (933)          |
| Advisory services expenses   | -                   | -                 | (308)             | (308)          |
| Expense from pension and other postretirement benefit plans  | (131)               | (8)               | (46)              | (185)          |
| Other expenses   | (38)                | -                 | -                 | (38)           |
| Foreign currency transaction gains and losses on non-trading activities  | (91)                | 45                | -                 | (46)           |
| <b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b> | <b>424</b>          | <b>225</b>        | <b>(149)</b>      | <b>500</b>     |
| Net unrealized gains and losses on non-trading financial instruments accounted for at fair value   | (266)               | 62                | -                 | (204)          |
| <b>Income (loss) before grants to IDA</b>  | <b>158</b>          | <b>287</b>        | <b>(149)</b>      | <b>296</b>     |
| Grants to IDA  | (330)               | -                 | -                 | (330)          |
| <b>Net (loss) income</b>   | <b>(172)</b>        | <b>287</b>        | <b>(149)</b>      | <b>(34)</b>    |
| Net losses attributable to non-controlling interests   | 1                   | -                 | -                 | 1              |
| <b>Net (loss) income attributable to IFC</b>   | <b>\$ (171)</b>     | <b>\$ 287</b>     | <b>\$ (149)</b>   | <b>\$ (33)</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5 – SEGMENT REPORTING (continued)

| June 30, 2015  | Investment services | Treasury services | Advisory services | Total           |
|--|---------------------|-------------------|-------------------|-----------------|
| Income from loans and guarantees, realized gains and losses on loans and associated derivatives  | \$ 1,123            | \$ -              | \$ -              | \$ 1,123        |
| Provision for losses on loans, guarantees and other receivables  | (171)               | -                 | -                 | (171)           |
| Income from equity investments and associated derivatives  | 427                 | -                 | -                 | 427             |
| Income from debt securities, including realized gains and losses on debt securities and associated derivatives                                 | 132                 | -                 | -                 | 132             |
| Income from liquid asset trading activities  | -                   | 467               | -                 | 467             |
| Charges on borrowings  | (62)                | (196)             | -                 | (258)           |
| Advisory services income   | -                   | -                 | 244               | 244             |
| Other income   | 261                 | -                 | -                 | 261             |
| Administrative expenses  | (821)               | (21)              | (59)              | (901)           |
| Advisory services expenses   | -                   | -                 | (285)             | (285)           |
| Expense from pension and other postretirement benefit plans  | (139)               | (8)               | (50)              | (197)           |
| Other expenses   | (40)                | -                 | -                 | (40)            |
| Foreign currency transaction gains and losses on non-trading activities  | (51)                | 104               | -                 | 53              |
| <b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b> | <b>659</b>          | <b>346</b>        | <b>(150)</b>      | <b>855</b>      |
| Net unrealized gains and losses on non-trading financial instruments accounted for at fair value   | (54)                | (52)              | -                 | (106)           |
| <b>Income (loss) before grants to IDA</b>  | <b>605</b>          | <b>294</b>        | <b>(150)</b>      | <b>749</b>      |
| Grants to IDA  | (340)               | -                 | -                 | (340)           |
| <b>Net income (loss)</b>   | <b>265</b>          | <b>294</b>        | <b>(150)</b>      | <b>409</b>      |
| Less: Net losses (gains) attributable to non-controlling interests   | 36                  | -                 | -                 | 36              |
| <b>Net income (loss) attributable to IFC</b>   | <b>\$ 301</b>       | <b>\$ 294</b>     | <b>\$ (150)</b>   | <b>\$ 445</b>   |
| June 30, 2014  | Investment services | Treasury services | Advisory services | Total           |
| Income from loans and guarantees, realized gains and losses on loans and associated derivatives  | \$ 1,065            | \$ -              | \$ -              | \$ 1,065        |
| Provision for losses on loans, guarantees and other receivables  | (88)                | -                 | -                 | (88)            |
| Income from equity investments and associated derivatives  | 1,289               | -                 | -                 | 1,289           |
| Income from debt securities, including realized gains and losses on debt securities and associated derivatives                                 | 89                  | -                 | -                 | 89              |
| Income from liquid asset trading activities  | -                   | 599               | -                 | 599             |
| Charges on borrowings  | (91)                | (105)             | -                 | (196)           |
| Advisory services income   | -                   | -                 | 254               | 254             |
| Service fees   | 75                  | -                 | -                 | 75              |
| Other income   | 132                 | -                 | -                 | 132             |
| Administrative expenses  | (801)               | (24)              | (63)              | (888)           |
| Advisory services expenses   | -                   | -                 | (324)             | (324)           |
| Expense from pension and other postretirement benefit plans  | (119)               | (6)               | (48)              | (173)           |
| Other expenses   | (33)                | -                 | -                 | (33)            |
| Foreign currency transaction gains and losses on non-trading activities  | 2                   | (21)              | -                 | (19)            |
| <b>Income (loss) before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA</b> | <b>1,520</b>        | <b>443</b>        | <b>(181)</b>      | <b>1,782</b>    |
| Net unrealized gains and losses on non-trading financial instruments accounted for at fair value   | 31                  | (74)              | -                 | (43)            |
| <b>Income (loss) before grants to IDA</b>  | <b>1,551</b>        | <b>369</b>        | <b>(181)</b>      | <b>1,739</b>    |
| Grants to IDA  | (251)               | -                 | -                 | (251)           |
| <b>Net income (loss)</b>   | <b>1,300</b>        | <b>369</b>        | <b>(181)</b>      | <b>1,488</b>    |
| Less: Net gains (losses) attributable to non-controlling interests   | (5)                 | -                 | -                 | (5)             |
| <b>Net income (loss) attributable to IFC</b>   | <b>\$ 1,295</b>     | <b>\$ 369</b>     | <b>\$ (181)</b>   | <b>\$ 1,483</b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE T – VARIABLE INTEREST ENTITIES

## Significant variable interests

IFC has identified investments in 219 VIEs (43 of which were identified as such due to the adoption of ASU 2015-02 on July 1, 2015) which are not consolidated by IFC but in which it is deemed to hold significant variable interests at June 30, 2016 (163 investments - June 30, 2015).

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 absorb the majority of funds' expected losses or expected residual returns 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 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 \$32,122 million at June 30, 2016 (\$26,173 million - June 30, 2015). 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 \$6,058 million at June 30, 2016 (\$4,096 million - June 30, 2015).

The industry sector and geographical regional analysis of IFC's maximum exposures as a result of its investment in these VIEs at June 30, 2016 and June 30, 2015 is as follows (US\$ millions):

|   | June 30, 2016   |                    |                 |             |                 | Total           |
|---|-----------------|--------------------|-----------------|-------------|-----------------|-----------------|
|   | Loans           | Equity investments | Debt securities | Guarantees  | Risk management |                 |
| <b>Manufacturing, agribusiness and services</b>                     |                 |                    |                 |             |                 |                 |
| Asia  | \$ 161          | \$ 21              | \$ 21           | \$ -        | \$ -            | \$ 203          |
| Europe, Middle East and North Africa                                | 367             | 64                 | -               | -           | -               | 431             |
| Sub-Saharan Africa, Latin America and Caribbean                     | 197             | 98                 | -               | -           | -               | 295             |
| Other   | -               | 30                 | -               | -           | -               | 30              |
| <b>Total manufacturing, agribusiness and services</b>               | <b>725</b>      | <b>213</b>         | <b>21</b>       | <b>-</b>    | <b>-</b>        | <b>959</b>      |
| <b>Financial markets</b>  |                 |                    |                 |             |                 |                 |
| Asia  | 147             | 10                 | -               | -           | 10              | 167             |
| Europe, Middle East and North Africa                                | 66              | -                  | 184             | -           | -               | 250             |
| Sub-Saharan Africa, Latin America and Caribbean                     | 38              | 26                 | 255             | -           | -               | 319             |
| Other   | 2               | 95                 | 225             | -           | 9               | 331             |
| <b>Total financial markets</b>                                      | <b>253</b>      | <b>131</b>         | <b>664</b>      | <b>-</b>    | <b>19</b>       | <b>1,067</b>    |
| <b>Infrastructure and natural resources</b>                         |                 |                    |                 |             |                 |                 |
| Asia  | 535             | 187                | 3               | -           | 3               | 728             |
| Europe, Middle East and North Africa                                | 570             | 308                | 3               | -           | 19              | 900             |
| Sub-Saharan Africa, Latin America and Caribbean                     | 1,121           | 204                | 15              | -           | 77              | 1,417           |
| Other   | 220             | -                  | -               | -           | -               | 220             |
| <b>Total infrastructure and natural resources</b>                   | <b>2,446</b>    | <b>699</b>         | <b>21</b>       | <b>-</b>    | <b>99</b>       | <b>3,265</b>    |
| <b>Telecom, media &amp; technology, and venture investing</b>       |                 |                    |                 |             |                 |                 |
| Asia  | -               | 223                | -               | -           | -               | 223             |
| Europe, Middle East and North Africa                                | -               | 124                | 5               | -           | -               | 129             |
| Sub-Saharan Africa, Latin America and Caribbean                     | 28              | 198                | 7               | -           | 1               | 234             |
| Other   | 143             | 38                 | -               | -           | -               | 181             |
| <b>Total telecom, media &amp; technology, and venture investing</b> | <b>171</b>      | <b>583</b>         | <b>12</b>       | <b>-</b>    | <b>1</b>        | <b>767</b>      |
| <b>Maximum exposure to VIEs</b>                                     | <b>\$ 3,595</b> | <b>\$ 1,626</b>    | <b>\$ 718</b>   | <b>\$ -</b> | <b>\$ 119</b>   | <b>\$ 6,058</b> |
| of which:   |                 |                    |                 |             |                 |                 |
| Carrying value  | 3,110           | 1,122              | 491             | -           | 78              | 4,801           |
| Committed but not disbursed   | 485             | 504                | 227             | -           | 41              | 1,257           |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE T – VARIABLE INTEREST ENTITIES (continued)

|  | June 30, 2015          |                      |                      |                    |                     |                        |
|--|------------------------|----------------------|----------------------|--------------------|---------------------|------------------------|
|  | Loans                  | Equity investments   | Debt securities      | Guarantees         | Risk management     | Total                  |
| Manufacturing, agribusiness and services                 |                        |                      |                      |                    |                     |                        |
| Asia   | \$ 164                 | \$ 13                | \$ -                 | \$ -               | \$ -                | \$ 177                 |
| Europe, Middle East and North Africa                     | 328                    | 37                   | -                    | -                  | -                   | 365                    |
| Sub-Saharan Africa, Latin America and Caribbean          | 181                    | 97                   | -                    | -                  | 1                   | 279                    |
| Total manufacturing, agribusiness and services           | <u>673</u>             | <u>147</u>           | <u>-</u>             | <u>-</u>           | <u>1</u>            | <u>821</u>             |
| Financial markets  |                        |                      |                      |                    |                     |                        |
| Asia   | 167                    | -                    | -                    | -                  | 10                  | 177                    |
| Europe, Middle East and North Africa                     | 23                     | 13                   | 118                  | 2                  | -                   | 156                    |
| Sub-Saharan Africa, Latin America and Caribbean          | 6                      | 1                    | 124                  | -                  | -                   | 131                    |
| Other  | 3                      | -                    | 218                  | -                  | 9                   | 230                    |
| Total financial markets                                  | <u>199</u>             | <u>14</u>            | <u>460</u>           | <u>2</u>           | <u>19</u>           | <u>694</u>             |
| Infrastructure and natural resources                     |                        |                      |                      |                    |                     |                        |
| Asia   | 450                    | 57                   | 2                    | -                  | -                   | 509                    |
| Europe, Middle East and North Africa                     | 439                    | 31                   | 51                   | -                  | 19                  | 540                    |
| Sub-Saharan Africa, Latin America and Caribbean          | 1,059                  | 25                   | 1                    | 4                  | 44                  | 1,133                  |
| Other  | -                      | 1                    | -                    | -                  | -                   | 1                      |
| Total infrastructure and natural resources               | <u>1,948</u>           | <u>114</u>           | <u>54</u>            | <u>4</u>           | <u>63</u>           | <u>2,183</u>           |
| Telecom, media & technology, and venture investing       |                        |                      |                      |                    |                     |                        |
| Asia   | 2                      | 71                   | 13                   | -                  | -                   | 86                     |
| Europe, Middle East and North Africa                     | -                      | 25                   | 17                   | -                  | -                   | 42                     |
| Sub-Saharan Africa, Latin America and Caribbean          | 44                     | 99                   | 9                    | -                  | 1                   | 153                    |
| Other  | -                      | 109                  | 8                    | -                  | -                   | 117                    |
| Total telecom, media & technology, and venture investing | <u>46</u>              | <u>304</u>           | <u>47</u>            | <u>-</u>           | <u>1</u>            | <u>398</u>             |
| <b>Maximum exposure to VIEs</b>                          | <b><u>\$ 2,866</u></b> | <b><u>\$ 579</u></b> | <b><u>\$ 561</u></b> | <b><u>\$ 6</u></b> | <b><u>\$ 84</u></b> | <b><u>\$ 4,096</u></b> |
| of which:  |                        |                      |                      |                    |                     |                        |
| Carrying value   | 2,553                  | 368                  | 507                  | 6                  | 54                  | 3,488                  |
| Committed but not disbursed                              | 313                    | 211                  | 54                   | -                  | 30                  | 608                    |

The carrying value of investments and maximum exposure to VIEs at June 30, 2016 and June 30, 2015 is as follows (US\$ millions):

| Investment category             | June 30, 2016                 |                                 |                        |
|---------------------------------|-------------------------------|---------------------------------|------------------------|
|                                 | Carrying value of investments | Committed but not yet disbursed | Maximum exposure       |
| Loans                           | \$ 3,110                      | \$ 485                          | \$ 3,595               |
| Equity investments              | 1,122                         | 504                             | 1,626                  |
| Debt securities                 | 491                           | 227                             | 718                    |
| Guarantees                      | -                             | -                               | -                      |
| Risk management                 | 78                            | 41                              | 119                    |
| <b>Maximum exposure to VIEs</b> | <b><u>\$ 4,801</u></b>        | <b><u>\$ 1,257</u></b>          | <b><u>\$ 6,058</u></b> |
| Investment category             | June 30, 2015                 |                                 |                        |
|                                 | Carrying value of investments | Committed but not yet disbursed | Maximum exposure       |
| Loans                           | \$ 2,553                      | \$ 313                          | \$ 2,866               |
| Equity investments              | 368                           | 211                             | 579                    |
| Debt securities                 | 507                           | 54                              | 561                    |
| Guarantees                      | 6                             | -                               | 6                      |
| Risk management                 | 54                            | 30                              | 84                     |
| <b>Maximum exposure to VIEs</b> | <b><u>\$ 3,488</u></b>        | <b><u>\$ 608</u></b>            | <b><u>\$ 4,096</u></b> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE U – ADVISORY SERVICES**

IFC provides advisory services to government and private sector clients. Since July 1, 2014, IFC advisory services to governments on investment climate and financial sector development have been delivered in partnership with IBRD through WBG Global Practices. IFC funds this business line by a combination of cash received from government and other donors and IFC's operations via retained earnings and operating budget allocations as well as fees received from the recipients of the services.

IFC administers donor funds through trust funds. Donor funds are restricted for purposes specified in agreements with the donors.

Donor funds under administration and IFC's funding can be comingled in accordance with administration agreements with donors. The comingled funds are held in a separate liquid asset investment portfolio managed by IBRD, which is not comingled with IFC's other liquid assets and is reported at fair value in other assets. Donor funds are refundable until expended for their designated purpose.

As of June 30, 2016, other assets include undisbursed donor funds of \$512 million (\$467 million - June 30, 2015) and IFC's advisory services funding of \$191 million (\$165 million - June 30, 2015). Included in other liabilities as of June 30, 2016 is \$512 million (\$467 million - June 30, 2015) of refundable undisbursed donor funds.

**NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS**

IBRD, IFC and MIGA participate in a defined benefit 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 expenses for the SRP, RSBP, and PEBP are included in expense from pension and other postretirement benefit plans.

The following table summarizes the benefit costs associated with the SRP, RSBP, and PEBP allocated to IFC for the years ended June 30, 2016, June 30, 2015 and June 30, 2014 (US\$ millions):

|   | SRP           |               |               | RSBP         |              |              | PEBP         |              |              |
|---|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | 2016          | 2015          | 2014          | 2016         | 2015         | 2014         | 2016         | 2015         | 2014         |
| <b>Benefit cost</b>                               |               |               |               |              |              |              |              |              |              |
| Service cost                                      | \$ 138        | \$ 139        | \$ 121        | \$ 33        | \$ 35        | \$ 26        | \$ 24        | \$ 21        | \$ 14        |
| Interest cost                                     | 136           | 131           | 121           | 23           | 23           | 21           | 15           | 13           | 9            |
| Expected return on plan assets                    | (188)         | (185)         | (155)         | (29)         | (27)         | (21)         | -            | -            | -            |
| Amortization of unrecognized prior service costs  | 1             | 1             | 1             | 3            | 3            | 3            | 2            | 2            | *            |
| Amortization of unrecognized net actuarial losses | 15            | 21            | 21            | -            | 6            | 6            | 12           | 14           | 6            |
| <b>Net periodic pension cost</b>                  | <b>\$ 102</b> | <b>\$ 107</b> | <b>\$ 109</b> | <b>\$ 30</b> | <b>\$ 40</b> | <b>\$ 35</b> | <b>\$ 53</b> | <b>\$ 50</b> | <b>\$ 29</b> |

\* Less than \$0.5 million

The expenses for the SRP, RSBP, and PEBP are included in expense from pension and other postretirement benefit plans. For the years ended June 30, 2016, June 30, 2015 and June 30, 2014, expenses for these plans of \$185 million, \$197 million and \$173 million, respectively, were allocated to IFC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

The following table summarizes the Projected Benefit Obligations (PBO), fair value of plan assets, and funded status associated with the SRP, RSBP and PEBP for IFC for the years ended June 30, 2016 and June 30, 2015 (US\$ millions). Since the assets for the PEBP are not held in an irrevocable trust separate from the assets of IBRD, they do not qualify for off-balance sheet accounting and are therefore included in IBRD's investment portfolio. IFC has recognized a receivable (prepaid asset) from IBRD and a payable (liability) to IBRD equal to the amount required to support the plan. The assets of the PEBP are mostly invested in fixed income, equity instruments and alternative investments.

|  | SRP             |                 | RSBP          |               | PEBP          |               |
|--|-----------------|-----------------|---------------|---------------|---------------|---------------|
|  | 2016            | 2015            | 2016          | 2015          | 2016          | 2015          |
| <b>Projected benefit obligations</b>   |                 |                 |               |               |               |               |
| Beginning of year                      | \$ 3,253        | \$ 3,188        | \$ 506        | \$ 531        | \$ 345        | \$ 326        |
| Service cost                           | 138             | 139             | 33            | 35            | 24            | 21            |
| Interest cost                          | 136             | 131             | 23            | 23            | 15            | 14            |
| Net entity transfers                   | (2)             | (32)            | 1             | (5)           | -             | -             |
| Participant contributions              | 44              | 41              | 3             | 2             | 4             | 9             |
| Federal subsidy received               | -               | -               | *             | *             | -             | -             |
| Plan amendments                        | -               | -               | 5             | -             | -             | -             |
| Benefits paid                          | (135)           | (124)           | (9)           | (8)           | (7)           | (6)           |
| Actuarial loss (gain)                  | 464             | (90)            | 74            | (72)          | 103           | (19)          |
| End of year                            | <u>3,898</u>    | <u>3,253</u>    | <u>636</u>    | <u>506</u>    | <u>484</u>    | <u>345</u>    |
| <b>Fair value of plan assets</b>       |                 |                 |               |               |               |               |
| Beginning of year                      | 3,027           | 2,939           | 455           | 412           | -             | -             |
| Net entity transfers                   | (2)             | (32)            | 1             | (5)           | -             | -             |
| Participant contributions              | 44              | 41              | 2             | 2             | -             | -             |
| Actual return on assets                | 58              | 126             | 9             | 21            | -             | -             |
| Employer contributions                 | 73              | 77              | 26            | 33            | -             | -             |
| Benefits paid                          | (135)           | (124)           | (9)           | (8)           | -             | -             |
| End of year                            | <u>3,065</u>    | <u>3,027</u>    | <u>484</u>    | <u>455</u>    | <u>-</u>      | <u>-</u>      |
| <b>Funded status**</b>                 | <u>(833)</u>    | <u>(226)</u>    | <u>(152)</u>  | <u>(51)</u>   | <u>(484)</u>  | <u>(345)</u>  |
| <b>Accumulated benefit obligations</b> | <u>\$ 3,343</u> | <u>\$ 2,786</u> | <u>\$ 636</u> | <u>\$ 506</u> | <u>\$ 369</u> | <u>\$ 258</u> |

\* Less than \$0.5 million

\*\* Negative funded status is included in Payables and other liabilities under liabilities under retirement benefits plans, in Note L.

During the fiscal year ended June 30, 2016, IFC amended the plan to reflect the increase of the mandatory retirement age from 62 to 67 for the life insurance benefits. The effect of this change was a \$5 million increase to the projected benefit obligation at June 30, 2016. During the fiscal year ended June 30, 2015, there were no amendments made to the retirement benefit plans.

During the fiscal year ended June 30, 2014, several amendments were made to the SRP. The primary amendments that resulted in an overall increase in SRP and PEBP PBO are as follows: (i) Improvements to the survivors' benefits, (ii) Increasing the Mandatory Retirement Age for all current and future participants from age 62 to age 67 for all staff on board on or after December 31, 2015, (iii) Increasing the Normal Retirement Age (NRA) to age 65 for all participants entering the SRP on or after December 31, 2015, the NRA remains at age 62 for all other participating in the SRP before that date, and (iv) Ceasing pension accrual for certain participants after the age of 62.

The following tables present the amounts included in Accumulated Other Comprehensive Income relating to Pension and Other Postretirement Benefits (US\$ millions):

## Amounts included in Accumulated other comprehensive loss in the year ended June 30, 2016:

|   | SRP             | RSBP          | PEBP          | Total           |
|---|-----------------|---------------|---------------|-----------------|
| Net actuarial loss  | \$ 1,139        | \$ 165        | \$ 255        | \$ 1,559        |
| Prior service cost  | 11              | 23            | 14            | 48              |
| Net amount recognized in accumulated other comprehensive loss | <u>\$ 1,150</u> | <u>\$ 188</u> | <u>\$ 269</u> | <u>\$ 1,607</u> |

## Amounts included in Accumulated other comprehensive loss in the year ended June 30, 2015:

|   | SRP           | RSBP         | PEBP          | Total         |
|---|---------------|--------------|---------------|---------------|
| Net actuarial loss  | \$ 560        | \$ 71        | \$ 165        | \$ 796        |
| Prior service cost  | 12            | 20           | 15            | 47            |
| Net amount recognized in accumulated other comprehensive loss | <u>\$ 572</u> | <u>\$ 91</u> | <u>\$ 180</u> | <u>\$ 843</u> |

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS** (continued)

The estimated amounts that will be amortized from Accumulated Other Comprehensive Income into net periodic benefit cost in the year ending June 30, 2017 are as follows (US\$ millions):

|   | SRP          | RSBP        | PEBP         | Total        |
|---|--------------|-------------|--------------|--------------|
| Net actuarial loss  | \$ 56        | \$ 5        | \$ 20        | \$ 81        |
| Prior service cost  | 1            | 3           | 2            | 6            |
| Net amount recognized in accumulated other comprehensive loss | <u>\$ 57</u> | <u>\$ 8</u> | <u>\$ 22</u> | <u>\$ 87</u> |

**Assumptions**

The actuarial assumptions used are based on financial market interest rates, inflation expectations, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations.

The expected long-term rate of return for the SRP assets is a weighted average of the expected long-term (10 years or more) returns for the various asset classes, weighted by the portfolio allocation. Asset class returns are developed using a forward-looking building block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of expected inflation, real bond yield, change in yields and risk premium/spread (as appropriate). Other asset class returns are derived from their relationship to equity and bond markets. The expected long-term rate of return for the RSBP is computed using procedures similar to those used for the SRP. The discount rate used in determining the benefit obligation is selected by reference to the year-end yield of AA corporate bonds.

Actuarial gains and losses occur when actual results are different from expected results. Amortization of these unrecognized gains and losses will be included in income if, at the beginning of the fiscal year, they exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If required, the unrecognized gains and losses are amortized over the expected average remaining service lives of the employee group.

The following tables present the weighted-average assumptions used in determining the projected benefit obligations and the net periodic pension costs for the years ended June 30, 2016, June 30, 2015, and June 30, 2014:

**Weighted average assumptions used to determine projected benefit obligation (%), except years**

|  | SRP  |      |      | RSBP |      |      | PEBP |      |      |
|--|------|------|------|------|------|------|------|------|------|
|  | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Discount rate                          | 3.40 | 4.30 | 4.20 | 3.60 | 4.50 | 4.40 | 3.50 | 4.40 | 4.30 |
| Rate of compensation increase          | 5.30 | 5.40 | 5.40 |      |      |      | 5.30 | 5.40 | 5.40 |
| Health care growth rates               |      |      |      |      |      |      |      |      |      |
| - at end of fiscal year                |      |      |      | 5.30 | 4.90 | 5.30 |      |      |      |
| Ultimate health care growth rate       |      |      |      | 4.00 | 4.10 | 4.10 |      |      |      |
| Year in which ultimate rate is reached |      |      |      | 2030 | 2030 | 2022 |      |      |      |

**Weighted average assumptions used to determine net periodic pension cost (%), except years**

|  | SRP  |      |      | RSBP |      |      | PEBP |      |      |
|--|------|------|------|------|------|------|------|------|------|
|  | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Discount rate                          | 4.30 | 4.20 | 4.60 | 4.50 | 4.40 | 4.80 | 4.40 | 4.30 | 4.50 |
| Expected return on plan assets         | 6.20 | 6.30 | 5.90 | 6.20 | 6.30 | 6.00 |      |      |      |
| Rate of compensation increase          | 5.40 | 5.40 | 5.70 |      |      |      | 5.40 | 5.40 | 5.70 |
| Health care growth rates               |      |      |      |      |      |      |      |      |      |
| - at end of fiscal year                |      |      |      | 4.90 | 5.30 | 5.90 |      |      |      |
| Ultimate health care growth rate       |      |      |      | 4.10 | 4.10 | 3.90 |      |      |      |
| Year in which ultimate rate is reached |      |      |      | 2030 | 2022 | 2022 |      |      |      |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS** (continued)

The medical cost trend rate can significantly affect the reported postretirement benefit income or costs and benefit obligations for the RSBP. The following table shows the effects of a one-percentage-point change in the assumed healthcare cost trend rate (US\$ millions):

|   | One-percentage-point increase |     | One-percentage-point decrease |       |
|---|-------------------------------|-----|-------------------------------|-------|
| Effect on total service and interest cost   | \$                            | 21  | \$                            | (14)  |
| Effect on postretirement benefit obligation | \$                            | 204 | \$                            | (142) |

**Investment Strategy**

The investment policies establish the framework for investment of the plan assets based on long-term investment objectives and the trade-offs inherent in seeking adequate investment returns within acceptable risk parameters. A key component of the investment policy is to establish a Strategic Asset Allocation (SAA) representing the policy portfolio (i.e., policy mix of assets) around which the plans are invested. The SAA for the plans is reviewed in detail and reset about every three to five years, with more frequent reviews and changes if and as needed based on market conditions.

The key long-term objective is to generate asset performance that is reasonable in relation to the growth rate of the underlying liabilities and the assumed sponsor contribution rates, without taking undue risks. Given the relatively long investment horizons of the SRP and RSBP, and the relatively modest liquidity needs over the short-term to pay benefits and meet other cash requirements, the focus of the investment strategy is on generating sustainable long-term investment returns through a globally diversified set of strategies including public and private equity and real estate.

The SAA is derived using a mix of quantitative analysis that incorporates expected returns and volatilities by asset class as well as correlations across the asset classes, and qualitative considerations such as the liquidity needs of the plans. The SAA is comprised of a diversified portfolio drawn from among fixed-income, equity, real assets and absolute return strategies.

The following table presents the policy asset allocation at June 30, 2016 and the actual asset allocation at June 30, 2016 and June 30, 2015 by asset category for the SRP and RSBP.

| Asset class         | SRP                           |                  |            | RSBP                          |                  |            |
|---------------------|-------------------------------|------------------|------------|-------------------------------|------------------|------------|
|                     | Policy Allocation<br>2016 (%) | % of Plan Assets |            | Policy Allocation<br>2016 (%) | % of Plan Assets |            |
|                     |                               | 2016             | 2015       |                               | 2016             | 2015       |
| Public equity       | 33                            | 34               | 35         | 33                            | 34               | 35         |
| Fixed income & cash | 26                            | 20               | 22         | 26                            | 22               | 24         |
| Private equity      | 20                            | 17               | 17         | 20                            | 19               | 18         |
| Hedge funds         | 8                             | 11               | 10         | 8                             | 10               | 9          |
| Real assets*        | 13                            | 14               | 13         | 13                            | 12               | 11         |
| Other**             | -                             | 4                | 3          | -                             | 3                | 3          |
| <b>Total</b>        | <b>100</b>                    | <b>100</b>       | <b>100</b> | <b>100</b>                    | <b>100</b>       | <b>100</b> |

\* Real assets include public and private real estate, infrastructure and timber.

\*\* Includes investments that are outside the policy allocations such as directional hedge funds and long-term private debt funds.

**Significant concentrations of risk in plan assets**

The assets of the SRP and RSBP are diversified across a variety of asset classes. Investments in these asset classes are further diversified across funds, managers, strategies, geographies and sectors, to limit the impact of any individual investment. In spite of such level of diversification, equity market risk remains the primary source of the overall return volatility of the Plans. As of June 30, 2016, the largest exposure to a single counterparty was 6% and 5% of the plan assets in SRP and RSBP, respectively.

**Risk management practices**

Managing investment risk is an integral part of managing the assets of the Plans. Asset diversification and consideration of the characteristics of the liabilities are central to the overall investment strategy and risk management approach for the SRP. Absolute risk indicators such as the overall return volatility and drawdown of the Plans are the primary measures used to define the risk tolerance level and establish the overall level of investment risk. In addition, the level of active risk (defined as the annualized standard deviation of portfolio returns relative to those of the policy portfolio) is closely monitored and managed on ongoing basis.

Market risk is regularly monitored at the absolute level, as well as at the relative levels with respect to the investment policy, manager benchmarks, and liabilities of the Plans. Stress tests are performed periodically using relevant market scenarios to assess the impact of extreme market events.

Monitoring of performance (at both manager and asset class levels) against benchmarks, and compliance with investment guidelines, is carried out on a regular basis as part of the risk monitoring process. Risk management for different asset classes is tailored to their specific characteristics and is an integral part of the external managers' due diligence and monitoring processes.



INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

Credit risk is monitored on a regular basis and assessed for possible credit event impacts. The liquidity position of the Plans is analyzed at regular intervals and periodically tested using various stress scenarios to ensure that the Plans have sufficient liquidity to meet all cash flow requirements. In addition, the long-term cash flow needs of the Plans are considered during the SAA exercise and are one of the main drivers in determining maximum allocation to the illiquid investment vehicles. The plans mitigate operational risk by maintaining a system of internal controls along with other checks and balances at various levels.

Fair value measurements and disclosures

All plan assets are measured at fair value on a recurring basis. The following table presents the fair value hierarchy of major categories of plan assets as of June 30, 2016 and June 30, 2015 (US\$ millions):

|   | June 30, 2016   |               |             |              |               |              |             |            |
|---|-----------------|---------------|-------------|--------------|---------------|--------------|-------------|------------|
|   | SRP             |               |             |              | RSBP          |              |             |            |
|   | Level 1         | Level 2       | Level 3     | Total        | Level 1       | Level 2      | Level 3     | Total      |
| Debt securities                                   |                 |               |             |              |               |              |             |            |
| Time deposits                                     | \$ 2            | \$ -          | \$ -        | 2            | \$ *          | \$ -         | \$ -        | *          |
| Securities purchased under resale agreements      | 44              | -             | -           | 44           | 8             | -            | -           | 8          |
| Government and agency securities                  | 361             | 95            | -           | 456          | 69            | 17           | -           | 86         |
| Corporate and convertible bonds                   | -               | 53            | -           | 53           | -             | 9            | -           | 9          |
| Asset-backed securities                           | -               | 24            | -           | 24           | -             | 4            | -           | 4          |
| Mortgage-backed securities                        | -               | 46            | -           | 46           | -             | 7            | -           | 7          |
| <b>Total debt securities</b>                      | <b>407</b>      | <b>218</b>    | <b>-</b>    | <b>625</b>   | <b>77</b>     | <b>37</b>    | <b>-</b>    | <b>114</b> |
| Equity securities                                 |                 |               |             |              |               |              |             |            |
| US common stocks                                  | 143             | -             | -           | 143          | 18            | -            | -           | 18         |
| Non-US common stocks                              | 501             | -             | -           | 501          | 73            | -            | -           | 73         |
| Mutual funds                                      | 48              | -             | -           | 48           | 8             | -            | -           | 8          |
| Real estate investment trusts                     | 85              | -             | -           | 85           | 11            | -            | -           | 11         |
| <b>Total equity securities</b>                    | <b>777</b>      | <b>-</b>      | <b>-</b>    | <b>777</b>   | <b>110</b>    | <b>-</b>     | <b>-</b>    | <b>110</b> |
| Other funds at NAV**                              |                 |               |             |              |               |              |             |            |
| Commingled funds                                  | -               | -             | -           | 337          | -             | -            | -           | 56         |
| Private equity                                    | -               | -             | -           | 599          | -             | -            | -           | 102        |
| Hedge funds                                       | -               | -             | -           | 365          | -             | -            | -           | 53         |
| Real estate (including infrastructure and timber) | -               | -             | -           | 361          | -             | -            | -           | 49         |
| <b>Total other funds</b>                          |                 |               |             | <b>1,662</b> |               |              |             | <b>260</b> |
| Derivative assets/ liabilities                    | *               | 1             | -           | 1            | *             | *            | -           | *          |
| Other assets/ liabilities***, net                 | -               | -             | -           | *            | -             | -            | -           | *          |
| <b>Total Assets</b>                               | <b>\$ 1,184</b> | <b>\$ 219</b> | <b>\$ -</b> | <b>3,065</b> | <b>\$ 187</b> | <b>\$ 37</b> | <b>\$ -</b> | <b>484</b> |

\* Less than \$0.5 million.

\*\* Investments measured at fair value using NAV, have not been classified under the fair value hierarchy.

\*\*\* Includes receivables and payables carried at amounts that approximate fair value.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS (continued)

June 30, 2015

|   | SRP             |               |             |              | RSBP          |              |             |            |
|---|-----------------|---------------|-------------|--------------|---------------|--------------|-------------|------------|
|   | Level 1         | Level 2       | Level 3     | Total        | Level 1       | Level 2      | Level 3     | Total      |
| Debt securities                                   |                 |               |             |              |               |              |             |            |
| Time deposits                                     | \$ 2            | \$ -          | \$ -        | 2            | \$ *          | \$ -         | \$ -        | *          |
| Securities purchased under resale agreements      | 31              | -             | -           | 31           | 9             | -            | -           | 9          |
| Government and agency securities                  | 476             | 114           | -           | 590          | 70            | 35           | -           | 105        |
| Corporate and convertible bonds                   | -               | 31            | -           | 31           | -             | 5            | -           | 5          |
| Asset-backed securities                           | -               | 18            | -           | 18           | -             | 3            | -           | 3          |
| Mortgage-backed securities                        | -               | 26            | -           | 26           | -             | 3            | -           | 3          |
| Total debt securities                             | 509             | 189           | -           | 698          | 79            | 46           | -           | 125        |
| Equity securities                                 |                 |               |             |              |               |              |             |            |
| US common stocks                                  | 100             | -             | -           | 100          | 11            | -            | -           | 11         |
| Non-US common stocks                              | 523             | -             | -           | 523          | 75            | -            | -           | 75         |
| Mutual funds                                      | 60              | -             | -           | 60           | 14            | -            | -           | 14         |
| Real estate investment trusts                     | 80              | -             | -           | 80           | 9             | -            | -           | 9          |
| Total equity securities                           | 763             | -             | -           | 763          | 109           | -            | -           | 109        |
| Other funds at NAV**                              |                 |               |             |              |               |              |             |            |
| Commingled funds                                  | -               | -             | -           | 340          | -             | -            | -           | 46         |
| Private equity                                    | -               | -             | -           | 543          | -             | -            | -           | 89         |
| Hedge funds                                       | -               | -             | -           | 356          | -             | -            | -           | 50         |
| Real estate (including infrastructure and timber) | -               | -             | -           | 319          | -             | -            | -           | 40         |
| Total other funds                                 |                 |               |             | 1,558        |               |              |             | 225        |
| Derivative assets/ liabilities                    | *               | 2             | -           | 2            | *             | *            | -           | *          |
| Other assets/ liabilities***, net                 | -               | -             | -           | 6            | -             | -            | -           | (4)        |
| <b>Total Assets</b>                               | <b>\$ 1,272</b> | <b>\$ 191</b> | <b>\$ -</b> | <b>3,027</b> | <b>\$ 188</b> | <b>\$ 46</b> | <b>\$ -</b> | <b>455</b> |

\* Less than \$0.5 million.

\*\* Investments measured at fair value using NAV, have not been classified under the fair value hierarchy.

\*\*\* Includes receivables and payables carried at amounts that approximate fair value.

Valuation methods and assumptions

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of Plan assets. It is important to note that the investment amounts in the asset categories shown in the table above may be different from the asset category allocation shown in the Investment Strategy section of the note. Asset classes in the table above are grouped by the characteristics of the investments held. The asset class break-down in the Investment Strategy section is based on management's view of the economic exposures after considering the impact of derivatives and certain trading strategies.

Debt securities

Debt securities include time deposits, U.S. treasuries and agencies, debt obligations of foreign governments and debt obligations in corporations of domestic and foreign issuers. Fixed income also includes investments in ABS such as collateralized mortgage obligations and mortgage backed securities. These securities are valued by independent pricing vendors at quoted market prices for the same or similar securities, where available. If quoted market prices are not available, fair values are based on discounted cash flow models using market-based parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves. Some debt securities are valued using techniques which require significant unobservable inputs. The selection of these inputs may involve some judgment. Management believes its estimates of fair value are reasonable given its processes for obtaining securities prices from multiple independent third-party vendors, ensuring that valuation models are reviewed and validated, and applying its approach consistently from period to period. Unless quoted prices are available, money market instruments and securities purchased under resale agreements are reported at face value which approximates fair value.

Equity securities

Equity securities (including REITs) are invested in companies in various industries and countries. Investments in public equity listed on securities exchanges are valued at the last reported sale price on the last business day of the fiscal year.

Commingled funds

Commingled funds are typically common or collective trusts reported at NAV as provided by the investment manager or sponsor of the fund based on valuation of underlying investments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE V – PENSION AND OTHER POSTRETIREMENT BENEFITS** (continued)**Private equity**

Private equity includes investments primarily in leveraged buyouts, distressed investments and venture capital funds across North America, Europe and Asia in a variety of sectors. A large number of these funds are in the investment phase of their life cycle. Private Equity investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, taking into consideration the latest audited financial statements of the funds. The underlying investments are valued using inputs such as cost, operating results, discounted future cash flows and trading multiples of comparable public securities.

**Real estate**

Real estate includes several funds which invest in core real estate as well as non-core type of real estate investments such as debt, value add, and opportunistic equity investments. Real estate investments do not have a readily determinable fair market value and are reported at NAV provided by the fund managers, taking into consideration the latest audited financial statements of the funds. The valuations of underlying investments are based on income and/or cost approaches or comparable sales approach, and taking into account discount and capitalization rates, financial conditions, local market conditions among others.

**Hedge fund investments**

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. Hedge Funds include investments in equity, event driven, fixed income, multi strategy and macro relative value strategies. These investments do not have a readily determinable fair market value and are reported at NAV provided by external managers or fund administrators (based on the valuations of underlying investments) on a monthly basis, taking into consideration the latest audited financial statements of the funds.

Investments in hedge funds and commingled funds can typically be redeemed at NAV within the near term while investments in private equity and most real estate are inherently long term and illiquid in nature with a quarter lag in reporting by the fund managers. Reporting of those asset classes with a reporting lag, management estimates are based on the latest available information taking into account underlying market fundamentals and significant events through the balance sheet date.

**Investment in derivatives**

Investment in derivatives such as equity or bond futures, TBA securities, swaps, options and currency forwards are used to achieve a variety of objectives that include hedging interest rates and currency risks, gaining desired market exposure of a security, an index or currency exposure and rebalancing the portfolio. Over-the-counter derivatives are reported using valuations based on discounted cash flow methods incorporating market observable inputs.

**Estimated future benefits payments**

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at June 30, 2016 (US\$ millions):

|                              | SRP |     | RSBP |    | PEBP |     |
|------------------------------|-----|-----|------|----|------|-----|
| July 1, 2016 - June 30, 2017 | \$  | 123 | \$   | 7  | \$   | 11  |
| July 1, 2017 - June 30, 2018 |     | 132 |      | 8  |      | 12  |
| July 1, 2018 - June 30, 2019 |     | 140 |      | 9  |      | 13  |
| July 1, 2019 - June 30, 2020 |     | 148 |      | 10 |      | 15  |
| July 1, 2020 - June 30, 2021 |     | 158 |      | 12 |      | 16  |
| July 1, 2021 - June 30, 2026 |     | 952 |      | 82 |      | 104 |

**Expected contributions**

IFC's contribution to the SRP and RSBP varies from year to year, as determined by the Pension Finance Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the SRP and RSBP. The best estimate of the amount of contributions expected to be paid to the SRP and RSBP for IFC during the year beginning July 1, 2016 is \$73 million and \$25 million, respectively.

INTERNATIONAL FINANCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE W – 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 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 that are subject to enforceable counterparty credit support and netting agreements described below (US\$ millions). Collateral amounts are included only to the extent of the related net derivative fair values or net resale, repurchase and securities lending agreements amounts.

| Assets              | June 30, 2016  |  | Gross amounts not offset in the consolidated balance sheet |                     | Net amount      |
|---------------------|--|--|--|---------------------|-----------------|
|                     | Gross amount of assets presented in the consolidated balance sheet |  | Financial instruments                                      | Collateral received |                 |
| Derivative assets   | \$ 4,094*  |  | \$ 2,467   | \$ 618***           | \$ 1,009        |
| Resale agreements   | -  |  | -  | -                   | -               |
| <b>Total assets</b> | <b>\$ 4,094</b>  |  | <b>\$ 2,467</b>  | <b>\$ 618</b>       | <b>\$ 1,009</b> |

| Liabilities                                  | June 30, 2016   |  | Gross amounts not offset in the consolidated balance sheet |                         | Net amount      |
|--|---|--|--|-------------------------|-----------------|
|  | Gross amount of liabilities presented in the consolidated balance sheet |  | Financial instruments                                      | Cash Collateral pledged |                 |
| Derivative liabilities                       | \$ 4,206**  |  | \$ 2,467   | \$ 473                  | \$ 1,266        |
| Repurchase and securities lending agreements | 3,842   |  | 3,842  | -                       | -               |
| <b>Total liabilities</b>                     | <b>\$ 8,048</b>   |  | <b>\$ 6,309</b>  | <b>\$ 473</b>           | <b>\$ 1,266</b> |

| Assets              | June 30, 2015  |  | Gross amounts not offset in the consolidated balance sheet |                     | Net amount    |
|---------------------|--|--|--|---------------------|---------------|
|                     | Gross amount of assets presented in the consolidated balance sheet |  | Financial instruments                                      | Collateral received |               |
| Derivative assets   | \$ 3,626*  |  | \$ 1,759   | \$ 966***           | \$ 901        |
| Resale agreements   | 68   |  | 67   | -                   | 1             |
| <b>Total assets</b> | <b>\$ 3,694</b>  |  | <b>\$ 1,826</b>  | <b>\$ 966</b>       | <b>\$ 902</b> |

| Liabilities                                  | June 30, 2015   |  | Gross amounts not offset in the consolidated balance sheet |                    | Net amount      |
|--|---|--|--|--------------------|-----------------|
|  | Gross amount of liabilities presented in the consolidated balance sheet |  | Financial instruments                                      | Collateral pledged |                 |
| Derivative liabilities                       | \$ 4,398**  |  | \$ 1,759   | \$ -               | \$ 2,639        |
| Repurchase and securities lending agreements | 4,458   |  | 4,418  | -                  | 40              |
| <b>Total liabilities</b>                     | <b>\$ 8,856</b>   |  | <b>\$ 6,177</b>  | <b>\$ -</b>        | <b>\$ 2,679</b> |

\* Includes accrued income of \$399 million and \$371 million as of June 30, 2016 and June 30, 2015 respectively.

\*\* Includes accrued charges of \$254 million and \$173 million as of June 30, 2016 and June 30, 2015 respectively.

\*\*\* Includes cash collateral of \$286 million and \$216 million as of June 30, 2016 and June 30, 2015 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 balance sheet. As of June 30, 2016, \$495 million of cash collateral was posted under CSAs (\$0 June 30, 2015). 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 June 30, 2016, IFC had \$303 million (\$237 million at June 30, 2015) of outstanding obligations to return cash collateral under CSAs. The estimated fair value of all securities received and held as collateral under CSAs of June 30, 2016, all of which may be rehypothecated was \$415 million (\$756 million - June 30, 2015). As of June 30, 2016, \$279 million of such collateral was rehypothecated under securities lending agreements (\$210 million - June 30, 2015).

Collateral posted by IFC in connection with repurchase agreements approximates the amounts classified as Securities sold under repurchase agreements. At June 30, 2016, trading securities with a carrying amount (fair value) of \$197 million (\$171 million - June 30, 2015) were pledged in connection with borrowings under a short-term discount note program, the carrying amount of which was \$1,838 million (\$1,343 million - June 30, 2015).

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 \$900 million at June 30, 2016 (\$1,862 million at June 30, 2015). At June 30, 2016, 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 \$456 million would be required to be posted against net liability positions with counterparties at June 30, 2016 (\$1,097 million at June 30, 2015).

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 June 30, 2016 was \$0 (\$68 million - June 30, 2015).

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 June 30, 2016 and June 30, 2015 (US\$ millions):

|  | Remaining Contractual Maturity of the Agreements - June 30, 2016 |                 |             |                      | Total           |
|--|--|-----------------|-------------|----------------------|-----------------|
|  | Overnight and Continuous   | Up to 30 days   | 30-90 days  | Greater than 90 days |                 |
| <b>Repurchase agreements</b>   |  |                 |             |                      |                 |
| U.S. Treasury securities   | \$ -   | \$ 3,564        | \$ -        | \$ -                 | \$ 3,564        |
| Agency securities  | -  | -               | -           | -                    | -               |
| Municipal securities and other   | -  | -               | -           | -                    | -               |
| <b>Total Repurchase agreements</b>                                     | <b>-</b>   | <b>3,564</b>    | <b>-</b>    | <b>-</b>             | <b>3,564</b>    |
| <b>Securities lending transactions</b>                                 |  |                 |             |                      |                 |
| U.S. Treasury securities   | \$ 278   | \$ -            | \$ -        | \$ -                 | \$ 278          |
| <b>Total Securities lending transactions</b>                           | <b>278</b>   | <b>-</b>        | <b>-</b>    | <b>-</b>             | <b>278</b>      |
| <b>Total Repurchase agreements and Securities lending transactions</b> | <b>\$ 278</b>  | <b>\$ 3,564</b> | <b>\$ -</b> | <b>\$ -</b>          | <b>\$ 3,842</b> |

As of June 30, 2016, IFC has no repurchase-to-maturity transactions outstanding.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Remaining Contractual Maturity of the Agreements - June 30 2015 |                 |               |                      | Total           |
|--|---|-----------------|---------------|----------------------|-----------------|
|  | Overnight and Continuous  | Up to 30 days   | 30-90 days    | Greater than 90 days |                 |
| <b>Repurchase agreements</b>   |   |                 |               |                      |                 |
| U.S. Treasury securities   | \$ 8  | \$ 3,409        | \$ 11         | \$ -                 | \$ 3,428        |
| Agency securities  | -   | 70              | 95            | 64                   | 229             |
| Municipal securities and other   | 18  | 394             | 141           | -                    | 553             |
| <b>Total Repurchase agreements</b>                                     | <u>26</u>   | <u>3,873</u>    | <u>247</u>    | <u>64</u>            | <u>4,210</u>    |
| <b>Securities lending transactions</b>                                 |   |                 |               |                      |                 |
| U.S. Treasury securities   | \$ 209  | \$ -            | \$ -          | \$ -                 | \$ 209          |
| <b>Total Securities lending transactions</b>                           | <u>209</u>  | <u>-</u>        | <u>-</u>      | <u>-</u>             | <u>209</u>      |
| <b>Total Repurchase agreements and Securities lending transactions</b> | <u>\$ 235</u>   | <u>\$ 3,873</u> | <u>\$ 247</u> | <u>\$ 64</u>         | <u>\$ 4,419</u> |

As of June 30, 2015, IFC has no repurchase-to-maturity transactions outstanding.

**NOTE X – SERVICE 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 year ended June 30, 2016, were \$113 million (\$118 million - year ended June 30, 2015; \$97 million - year ended June 30, 2014). Other chargebacks include \$18 million for the year ended June 30, 2016 (\$17 million - year ended June 30, 2015; \$20 million - year ended June 30, 2014).

**NOTE Y – RELATED PARTY TRANSACTIONS**

During FY16 Q2, IFC sold a portion of its building in Accra, Ghana to IBRD for \$13 million that generated a gain of \$3 million that is included in Other income.

During FY15 Q1, 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.

**NOTE Z – 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.



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

President and Board of Directors  
International Finance Corporation:

We have audited the accompanying consolidated financial statements of the International Finance Corporation (IFC), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in capital, and cash flows for each of the years in the three-year period ended June 30, 2016, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Finance Corporation as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.



**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated statement of capital stock and voting power as of June 30, 2016 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Control Over External Financial Reporting*, that IFC maintained effective internal control over financial reporting as of June 30, 2016, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 4, 2016 expressed an unqualified opinion on management's assertion.

KPMG LLP

August 4, 2016



# Investment Portfolio

| REGION                    | COUNTRY                                  | NUMBER OF ENTERPRISES | IFC          | LOAN & GUARANTEE PARTICIPATIONS | TOTAL         |
|---------------------------|--|-----------------------|--------------|---------------------------------|---------------|
| <b>SUB-SAHARAN AFRICA</b> |  |                       |              |                                 |               |
|                           | Angola                                   | 9                     | 439,287.49   | 0.00                            | 439,287.49    |
|                           | Benin                                    | 11                    | 265,694.53   | 0.00                            | 265,694.53    |
|                           | Botswana                                 | 6                     | 35,451.60    | 0.00                            | 35,451.60     |
|                           | Burkina Faso                             | 19                    | 356,346.17   | 0.00                            | 356,346.17    |
|                           | Burundi                                  | 10                    | 53,648.14    | 0.00                            | 53,648.14     |
|                           | Cameroon                                 | 41                    | 698,682.12   | 471,500.00                      | 1,170,182.12  |
|                           | Cape Verde                               | 6                     | 15,901.91    | 0.00                            | 15,901.91     |
|                           | Central African Republic                 | 1                     | 9,880.62     | 0.00                            | 9,880.62      |
|                           | Chad                                     | 10                    | 139,265.59   | 13,900.00                       | 153,165.59    |
|                           | Congo, Democratic Republic of            | 28                    | 509,432.37   | 94,000.00                       | 603,432.37    |
|                           | Congo, Republic of                       | 9                     | 154,232.40   | 25,000.00                       | 179,232.40    |
|                           | Cote D'Ivoire                            | 57                    | 877,538.74   | 70,963.80                       | 948,502.54    |
|                           | Djibouti                                 | 1                     | 4,000.00     | 0.00                            | 4,000.00      |
|                           | Eritrea                                  | 1                     | 949.22       | 0.00                            | 949.22        |
|                           | Ethiopia                                 | 15                    | 501,181.96   | 11,149.00                       | 512,330.96    |
|                           | Gabon                                    | 6                     | 249,620.01   | 110,000.00                      | 359,620.01    |
|                           | Gambia, The                              | 10                    | 42,618.44    | 0.00                            | 42,618.44     |
|                           | Ghana                                    | 79                    | 2,551,655.94 | 904,750.00                      | 3,456,405.94  |
|                           | Guinea                                   | 16                    | 340,327.82   | 11,000.00                       | 351,327.82    |
|                           | Guinea-Bissau                            | 4                     | 7,245.99     | 0.00                            | 7,245.99      |
|                           | Kenya                                    | 108                   | 2,102,540.36 | 115,662.05                      | 2,218,202.41  |
|                           | Lesotho                                  | 2                     | 454.00       | 0.00                            | 454.00        |
|                           | Liberia                                  | 12                    | 155,585.92   | 0.00                            | 155,585.92    |
|                           | Madagascar                               | 22                    | 270,158.58   | 21,000.00                       | 291,158.58    |
|                           | Malawi                                   | 22                    | 196,196.95   | 9,500.00                        | 205,696.95    |
|                           | Mali                                     | 27                    | 284,413.43   | 40,000.00                       | 324,413.43    |
|                           | Mauritania                               | 14                    | 275,266.04   | 9,502.61                        | 284,768.64    |
|                           | Mauritius                                | 20                    | 158,523.00   | 96.00                           | 158,619.00    |
|                           | Mozambique                               | 31                    | 425,987.79   | 0.00                            | 425,987.79    |
|                           | Namibia                                  | 9                     | 148,390.96   | 0.00                            | 148,390.96    |
|                           | Niger                                    | 3                     | 25,609.60    | 0.00                            | 25,609.60     |
|                           | Nigeria                                  | 116                   | 9,863,582.14 | 456,155.04                      | 10,319,737.17 |
|                           | Rwanda                                   | 22                    | 222,153.03   | 10,000.00                       | 232,153.03    |
|                           | Sao Tome and Principe                    | 2                     | 2,050.98     | 0.00                            | 2,050.98      |
|                           | Senegal                                  | 39                    | 458,674.73   | 79,330.49                       | 538,005.22    |
|                           | Seychelles                               | 7                     | 39,443.21    | 2,500.00                        | 41,943.21     |
|                           | Sierra Leone                             | 10                    | 99,601.63    | 25,000.00                       | 124,601.63    |
|                           | Somalia                                  | 2                     | 974.61       | 0.00                            | 974.61        |
|                           | South Africa                             | 92                    | 2,594,331.30 | 15,000.00                       | 2,609,331.30  |
|                           | South Sudan                              | 1                     | 5,000.00     | 0.00                            | 5,000.00      |
|                           | Sudan                                    | 6                     | 27,267.78    | 6,488.79                        | 33,756.57     |
|                           | Swaziland                                | 9                     | 47,779.49    | 0.00                            | 47,779.49     |
|                           | Tanzania                                 | 63                    | 497,431.02   | 15,540.51                       | 512,971.53    |
|                           | Togo                                     | 13                    | 253,212.28   | 0.00                            | 253,212.28    |
|                           | Uganda                                   | 53                    | 495,608.49   | 13,088.37                       | 508,696.86    |
|                           | Zambia                                   | 40                    | 279,271.34   | 20,285.82                       | 299,557.16    |
|                           | Zimbabwe                                 | 51                    | 284,261.86   | 99,000.00                       | 383,261.86    |
|                           | Regional Investments: Sub-Saharan Africa | 110                   | 3,124,942.47 | 70,898.47                       | 3,195,840.94  |

| REGION                           | COUNTRY   | NUMBER OF ENTERPRISES | IFC           | LOAN & GUARANTEE PARTICIPATIONS | TOTAL         |
|----------------------------------|---|-----------------------|---------------|---------------------------------|---------------|
| <b>EAST ASIA AND THE PACIFIC</b> |   |                       |               |                                 |               |
|                                  | Cambodia  | 14                    | 480,798.23    | 355,000.00                      | 835,798.23    |
|                                  | China   | 282                   | 9,019,404.34  | 2,111,109.29                    | 11,130,513.63 |
|                                  | Fiji  | 11                    | 57,493.22     | 2,500.00                        | 59,993.22     |
|                                  | Indonesia                                       | 130                   | 4,207,221.56  | 2,647,055.37                    | 6,854,276.92  |
|                                  | Kiribati  | 1                     | 1,798.00      | 0.00                            | 1,798.00      |
|                                  | Korea, Republic of                              | 51                    | 868,449.18    | 195,700.00                      | 1,064,149.18  |
|                                  | Lao People's Democratic Republic                | 13                    | 75,019.82     | 0.00                            | 75,019.82     |
|                                  | Malaysia  | 12                    | 154,868.40    | 5,389.13                        | 160,257.52    |
|                                  | Mongolia  | 20                    | 808,001.34    | 882,125.00                      | 1,690,126.34  |
|                                  | Myanmar   | 10                    | 348,089.09    | 0.00                            | 348,089.09    |
|                                  | Papua New Guinea                                | 12                    | 374,518.93    | 25,000.00                       | 399,518.93    |
|                                  | Philippines                                     | 106                   | 3,003,198.25  | 695,879.60                      | 3,699,077.85  |
|                                  | Samoa   | 7                     | 20,096.57     | 0.00                            | 20,096.57     |
|                                  | Solomon Islands                                 | 2                     | 45,000.00     | 0.00                            | 45,000.00     |
|                                  | Thailand  | 86                    | 2,195,564.90  | 1,748,419.34                    | 3,943,984.24  |
|                                  | Timor-Leste                                     | 2                     | 1,500.00      | 0.00                            | 1,500.00      |
|                                  | Tonga   | 1                     | 6,787.00      | 0.00                            | 6,787.00      |
|                                  | Vanuatu   | 4                     | 18,104.05     | 0.00                            | 18,104.05     |
|                                  | Vietnam   | 56                    | 5,655,115.96  | 253,135.00                      | 5,908,250.96  |
|                                  | Regional Investments: East Asia and the Pacific | 48                    | 1,636,139.03  | 0.00                            | 1,636,139.03  |
| <b>SOUTH ASIA</b>                |   |                       |               |                                 |               |
|                                  | Bangladesh                                      | 50                    | 3,333,636.26  | 92,745.40                       | 3,426,381.66  |
|                                  | Bhutan  | 5                     | 54,530.01     | 0.00                            | 54,530.01     |
|                                  | India   | 433                   | 12,586,686.57 | 1,743,639.77                    | 14,330,326.34 |
|                                  | Maldives  | 7                     | 168,250.00    | 8,500.00                        | 176,750.00    |
|                                  | Nepal   | 27                    | 222,444.23    | 39,000.00                       | 261,444.23    |
|                                  | Sri Lanka                                       | 45                    | 748,734.00    | 128,615.60                      | 877,349.60    |
|                                  | Regional Investments: South Asia                | 12                    | 250,988.18    | 0.00                            | 250,988.18    |
| <b>EUROPE AND CENTRAL ASIA</b>   |   |                       |               |                                 |               |
|                                  | Albania   | 21                    | 487,756.81    | 65,691.91                       | 553,448.72    |
|                                  | Armenia   | 17                    | 435,514.47    | 0.00                            | 435,514.47    |
|                                  | Azerbaijan                                      | 27                    | 586,543.25    | 197,930.00                      | 784,473.25    |
|                                  | Belarus   | 20                    | 644,201.12    | 6,000.00                        | 650,201.12    |
|                                  | Bosnia and Herzegovina                          | 33                    | 358,576.43    | 10,577.55                       | 369,153.98    |
|                                  | Bulgaria  | 28                    | 938,756.63    | 183,646.71                      | 1,122,403.34  |
|                                  | Croatia   | 22                    | 774,637.47    | 228,199.03                      | 1,002,836.50  |
|                                  | Czech Republic                                  | 19                    | 482,772.92    | 245,587.93                      | 728,360.84    |
|                                  | Estonia   | 11                    | 137,806.09    | 11,854.97                       | 149,661.07    |
|                                  | Georgia   | 25                    | 947,548.81    | 49,825.25                       | 997,374.06    |
|                                  | Greece  | 11                    | 212,810.34    | 40,131.25                       | 252,941.59    |
|                                  | Hungary   | 34                    | 437,985.38    | 70,334.83                       | 508,320.21    |
|                                  | Kazakhstan                                      | 35                    | 1,388,007.40  | 282,916.67                      | 1,670,924.07  |
|                                  | Kosovo  | 5                     | 37,448.88     | 0.00                            | 37,448.88     |
|                                  | Kyrgyz Republic                                 | 15                    | 123,526.17    | 0.00                            | 123,526.17    |
|                                  | Latvia  | 7                     | 80,966.79     | 35,000.00                       | 115,966.79    |
|                                  | Lithuania                                       | 11                    | 95,040.95     | 9,309.00                        | 104,349.95    |
|                                  | Macedonia, Former Yugoslav Republic of          | 16                    | 237,798.16    | 25,000.00                       | 262,798.16    |
|                                  | Moldova   | 18                    | 263,322.94    | 45,000.00                       | 308,322.94    |

| REGION                                 | COUNTRY   | NUMBER OF ENTERPRISES | IFC           | LOAN & GUARANTEE PARTICIPATIONS | TOTAL         |
|--|---|-----------------------|---------------|---------------------------------|---------------|
| <b>EUROPE AND CENTRAL ASIA</b>         |   |                       |               |                                 |               |
|  | Montenegro  | 6                     | 86,754.20     | 0.00                            | 86,754.20     |
|  | Poland  | 47                    | 529,925.93    | 115,316.83                      | 645,242.77    |
|  | Romania   | 51                    | 2,498,321.73  | 478,163.46                      | 2,976,485.19  |
|  | Russian Federation                                    | 194                   | 8,797,860.99  | 2,523,371.96                    | 11,321,232.95 |
|  | Serbia  | 39                    | 1,512,414.11  | 135,630.26                      | 1,648,044.37  |
|  | Slovak Republic                                       | 7                     | 115,543.69    | 0.00                            | 115,543.69    |
|  | Slovenia  | 12                    | 241,309.47    | 47,382.71                       | 288,692.18    |
|  | Tajikistan  | 20                    | 146,115.69    | 0.00                            | 146,115.69    |
|  | Turkey  | 200                   | 10,894,731.40 | 3,791,862.15                    | 14,686,593.55 |
|  | Turkmenistan  | 1                     | 35,000.00     | 0.00                            | 35,000.00     |
|  | Ukraine   | 52                    | 2,415,405.74  | 811,700.00                      | 3,227,105.74  |
|  | Uzbekistan  | 19                    | 160,513.67    | 12,900.00                       | 173,413.67    |
|  | Regional Investments: Europe and Central Asia         | 67                    | 3,199,737.81  | 200,880.02                      | 3,400,617.83  |
| <b>LATIN AMERICA AND THE CARIBBEAN</b> |   |                       |               |                                 |               |
|  | Antigua and Barbuda                                   | 1                     | 30,000.00     | 0.00                            | 30,000.00     |
|  | Argentina   | 199                   | 6,113,525.74  | 4,549,263.01                    | 10,662,788.75 |
|  | Barbados  | 6                     | 128,625.08    | 0.00                            | 128,625.08    |
|  | Belize  | 4                     | 33,066.33     | 11,000.00                       | 44,066.33     |
|  | Bolivia   | 32                    | 550,809.86    | 140,500.00                      | 691,309.86    |
|  | Brazil  | 272                   | 15,492,225.08 | 7,062,477.70                    | 22,554,702.78 |
|  | Chile   | 68                    | 2,507,283.82  | 1,317,104.66                    | 3,824,388.48  |
|  | Colombia  | 137                   | 3,387,409.11  | 1,292,631.03                    | 4,680,040.13  |
|  | Costa Rica  | 33                    | 889,359.32    | 99,708.82                       | 989,068.14    |
|  | Dominica  | 1                     | 700.00        | 0.00                            | 700.00        |
|  | Dominican Republic                                    | 36                    | 717,430.50    | 241,850.00                      | 959,280.50    |
|  | Ecuador   | 28                    | 726,436.48    | 82,240.06                       | 808,676.54    |
|  | El Salvador   | 19                    | 579,721.59    | 113,500.00                      | 693,221.59    |
|  | Grenada   | 2                     | 8,000.00      | 0.00                            | 8,000.00      |
|  | Guatemala   | 28                    | 1,513,288.25  | 210,000.00                      | 1,723,288.25  |
|  | Guyana  | 8                     | 76,416.96     | 0.00                            | 76,416.96     |
|  | Haiti   | 12                    | 127,803.80    | 25,250.00                       | 153,053.80    |
|  | Honduras  | 26                    | 1,468,018.74  | 142,900.75                      | 1,610,919.49  |
|  | Jamaica   | 24                    | 517,495.60    | 194,244.48                      | 711,740.09    |
|  | Mexico  | 210                   | 7,186,033.39  | 2,884,633.53                    | 10,070,666.92 |
|  | Nicaragua   | 24                    | 631,803.87    | 12,428.57                       | 644,232.45    |
|  | Panama  | 33                    | 2,045,042.15  | 153,300.00                      | 2,198,342.15  |
|  | Paraguay  | 18                    | 1,260,054.41  | 10,000.00                       | 1,270,054.41  |
|  | Peru  | 79                    | 2,310,576.53  | 963,099.31                      | 3,273,675.85  |
|  | St. Lucia   | 3                     | 45,421.91     | 0.00                            | 45,421.91     |
|  | Suriname  | 1                     | 4,065.88      | 0.00                            | 4,065.88      |
|  | Trinidad and Tobago                                   | 18                    | 358,653.74    | 235,000.00                      | 593,653.74    |
|  | Uruguay   | 19                    | 347,857.83    | 120,000.00                      | 467,857.83    |
|  | Venezuela, Republica Bolivariana de                   | 39                    | 897,229.54    | 703,791.42                      | 1,601,020.96  |
|  | Regional Investments: Latin America and the Caribbean | 80                    | 1,978,744.75  | 350,000.00                      | 2,328,744.75  |

| REGION                              | COUNTRY  | NUMBER OF ENTERPRISES | IFC          | LOAN & GUARANTEE PARTICIPATIONS | TOTAL        |
|-------------------------------------|--|-----------------------|--------------|---------------------------------|--------------|
| <b>MIDDLE EAST AND NORTH AFRICA</b> |  |                       |              |                                 |              |
|                                     | Afghanistan  | 8                     | 225,346.86   | 0.00                            | 225,346.86   |
|                                     | Algeria  | 14                    | 253,557.27   | 5,556.90                        | 259,114.17   |
|                                     | Bahrain  | 2                     | 340,271.16   | 0.00                            | 340,271.16   |
|                                     | Egypt, Arab Republic of                            | 102                   | 3,229,037.98 | 814,871.26                      | 4,043,909.23 |
|                                     | Iran, Islamic Republic of                          | 11                    | 63,342.91    | 8,199.46                        | 71,542.37    |
|                                     | Iraq   | 13                    | 738,951.18   | 150,000.00                      | 888,951.18   |
|                                     | Jordan   | 56                    | 1,441,377.29 | 625,088.31                      | 2,066,465.61 |
|                                     | Lebanon  | 39                    | 3,609,847.60 | 230,430.00                      | 3,840,277.60 |
|                                     | Morocco  | 45                    | 965,950.97   | 515,014.09                      | 1,480,965.06 |
|                                     | Oman   | 7                     | 319,853.40   | 57,000.00                       | 376,853.40   |
|                                     | Pakistan   | 138                   | 6,203,021.36 | 665,807.01                      | 6,868,828.37 |
|                                     | Saudi Arabia                                       | 11                    | 466,276.71   | 0.00                            | 466,276.71   |
|                                     | Syrian Arab Republic                               | 4                     | 24,731.60    | 0.00                            | 24,731.60    |
|                                     | Tunisia  | 31                    | 482,686.92   | 427,227.80                      | 909,914.72   |
|                                     | United Arab Emirates                               | 4                     | 69,000.00    | 0.00                            | 69,000.00    |
|                                     | Yemen, Republic of                                 | 14                    | 206,004.20   | 56,104.66                       | 262,108.86   |
|                                     | Regional Investments: Middle East and North Africa | 45                    | 1,557,581.28 | 33,000.00                       | 1,590,581.28 |
| <b>WORLDWIDE</b>                    |  |                       |              |                                 |              |
|                                     | Australia  | 2                     | 975.00       | 0.00                            | 975.00       |
|                                     | Cyprus   | 7                     | 32,181.47    | 645.25                          | 32,826.72    |
|                                     | Finland  | 4                     | 1,233.13     | 1,914.51                        | 3,147.64     |
|                                     | Israel   | 1                     | 10,500.00    | 0.00                            | 10,500.00    |
|                                     | Italy  | 1                     | 960.00       | 0.00                            | 960.00       |
|                                     | Portugal   | 7                     | 51,811.13    | 11,000.00                       | 62,811.13    |
|                                     | Spain  | 5                     | 19,042.51    | 1,685.00                        | 20,727.51    |
|                                     | Regional Investments: Worldwide                    | 150                   | 9,216,280.15 | 183,000.00                      | 9,399,280.15 |
|                                     | Other <sup>2</sup>                                 | 25                    | 393,181      | 11,400                          | 404,581      |
|                                     |  | 5,988                 | 197,094,870  | 47,992,205                      | 245,087,074  |

1. Commitments are composed of funds to be provided by IFC for its own account and funds to be provided by participants through the purchase of an interest in IFC's investment.

2. Of this amount, \$9.8 million (\$8.4m for IFC and \$1.4m for participant's account) represents investments made at a time when the authorities on Taiwan represented China in the International Finance Corporation. The balance represents investments in West Bank and Gaza, Taiwan, China and Hong Kong SAR, China.





Creating Opportunity  
Where It's Needed Most

---

2121 PENNSYLVANIA AVENUE, NW  
WASHINGTON, DC 20433 USA

---

202 473 3800  
[ifc.org](http://ifc.org)