

Financial Performance Summary

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

ELEMENTS	SIGNIFICANT INFLUENCES
Net income:	
Yield on interest earning assets	Market conditions including spread levels and degree of competition. Nonaccruals and recoveries of interest on loans formerly in nonaccrual status and income from participation notes on individual loans are also included in income from loans.
Liquid asset income	Realized and unrealized gains and losses on the liquid asset portfolios, which are driven by external factors such as: the interest rate environment and liquidity of certain asset classes within the liquid asset portfolio.
Income from the equity investment portfolio	Global climate for emerging markets equities, fluctuations in currency and commodity markets and company-specific performance for equity investments. Performance of the equity portfolio (principally realized capital gains, dividends, equity impairments, gains on non-monetary exchanges and unrealized gains and losses on equity investments).
Provisions for losses on loans and guarantees	Risk assessment of borrowers and probability of default and loss given default.
Other income and expenses	Level of advisory services provided by IFC to its clients, the level of expense from the staff retirement and other benefits plans, and the approved and actual administrative expenses and other budgets.
Gains and losses on other non-trading financial instruments accounted for at fair value	Principally, differences between changes in fair values of borrowings, including IFC's credit spread, and associated derivative instruments and unrealized gains or losses associated with the investment portfolio including puts, warrants and stock options which in part are dependent on the global climate for emerging markets. These securities are valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
Grants to IDA	Level of the Board of Governors-approved grants to IDA.
Other comprehensive income (loss):	
Unrealized gains and losses on listed equity investments and debt securities accounted for as available-for-sale	Global climate for emerging markets equities, fluctuations in currency and commodity markets and company-specific performance. Such equity investments are valued using unadjusted quoted market prices and debt securities are valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
Unrecognized net actuarial gains and losses and unrecognized prior service costs on benefit plans	Returns on pension plan assets and the key assumptions that underlay projected benefit obligations, including financial market interest rates, staff expenses, past experience, and management's best estimate of future benefit cost changes and economic conditions.

Global equity markets in emerging economies have been volatile in recent years but there was an overall improved operating environment in FY17, particularly in the second half of the fiscal year. In FY16, such markets were generally lower with significant deterioration in the first three months of FY16 (FY16 Q1), followed by partial recovery by the end of FY16. FY17 saw IFC's major investment currencies remain relatively stable against IFC's reporting currency, the US\$, compared to the significant depreciation experienced throughout much of FY16. Commodity prices fluctuated during the fiscal year and fell during the second half of FY17, decoupling from the strength in emerging market assets overall.

The generally stronger market conditions in FY17 contributed to IFC recording robust realized gains on equity investments, although lower than FY16, and lower impairments on equity investments along with

lower provisions for loan losses. Income from liquid asset trading activities was also significantly higher in FY17, with the majority of the increase occurring in the first three months of FY17 (FY17 Q1), principally due to the narrowing of credit spreads across the portfolio. IFC experienced higher interest income on loans and debt securities and borrowing charges in FY17 driven by higher LIBOR rates.

IFC has 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 interests of \$1,129 million in FY17, \$629 million higher than FY16 (\$500 million) and \$274 million higher than FY15 (\$855 million). The \$629 million increase in FY17 when compared to FY16 was principally a result of the following:

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 FY17 vs FY16 (US\$ millions)

	INCREASE (DECREASE) FY17 VS FY16
Higher income from liquid asset trading activities	\$ 413
Lower provisions for losses on loans, guarantees and other receivables	273
Higher income from loans and guarantees, realized gains and losses on loans and associated derivatives	172
Lower unrealized losses on equity investments and associated derivatives, net	171
Higher debt securities income (excluding impairments)	162
Lower other-than-temporary impairments on equity investments and debt securities	154
Higher expenses from pension and other postretirement benefit plans	(108)
Higher foreign currency transaction losses on non-trading activities	(142)
Lower realized gains on equity investments and associated derivatives, net	(144)
Higher charges on borrowings	(303)
Other, net	(19)
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	\$ 629

IFC's net income (loss) for each of the past five fiscal years ended June 30, 2017 is presented below (US\$ millions):

IFC's net income (loss), fiscal years 2013–2017

Fiscal year ended June 30 (US\$ millions)

2013		1,018
2014		1,483
2015		445
2016		(33)
2017		1,418

Income Available for Designations (a non-GAAP measure)¹ was \$1,233 million, 60% higher than in FY16 (\$770 million) and 7% lower than in FY15 (\$1,327 million).

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

Reconciliation of reported net income to income available for designations (US\$ millions)

	FY17	FY16	FY15
Net income (loss) attributable to IFC	\$1,418	\$ (33)	\$ 445
Add: Net gains (losses) attributable to non-controlling interests	4	(1)	(36)
Net income (loss)	\$1,422	\$ (34)	\$ 409
Adjustments to reconcile Net Income to Income Available for Designations			
Grants to IDA	101	330	340
Advisory Services Expenses from prior year designations	64	57	59
Unrealized (gains) losses on borrowings	(74)	(62)	52
Unrealized (gains) losses on investments	(287)	470	456
Other	7	9	11
Income Available for Designations	\$1,233	\$770	\$1,327

Based on the new Board-approved distribution policy, the maximum amount available for designation was \$205 million. On August 3, 2017, the Board of Directors approved a designation of \$85 million of IFC's retained earnings for IFC's Creating Markets Advisory Window (CMAW), \$40 million of IFC's retained earnings for Advisory Services, a reallocation of \$49 million

of the unutilized balances of prior year designations related to Advisory Services to CMAW, and, subject to the conditions detailed above, a designation of up to \$80 million of IFC's retained earnings for grants to IDA. These designations are expected to be noted with approval by the Board of Governors, and, subject to the above conditions, concluded, in FY18.

Selected financial data as of and for the last five fiscal years (US\$ millions)

AS OF AND FOR THE YEARS ENDED JUNE 30	2017	2016	2015	2014	2013
Consolidated income highlights:					
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$1,298	\$1,126	\$1,123	\$1,065	\$ 996
Provision for losses on loans, guarantees and other receivables	(86)	(359)	(171)	(88)	(243)
Income from equity investments and associated derivatives	707	518	427	1,289	732
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	282	129	132	89	69
Income from liquid asset trading activities	917	504	467	599	500
Charges on borrowings	(712)	(409)	(258)	(196)	(220)
Other income	528	501	505	461	441
Other expenses	(1,617)	(1,464)	(1,423)	(1,418)	(1,401)
Foreign currency transaction gains and losses on non-trading activities	(188)	(46)	53	(19)	35
Income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	1,129	500	855	1,782	909
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	394	(204)	(106)	(43)	441
Income before grants to IDA	1,523	296	749	1,739	1,350
Grants to IDA	(101)	(330)	(340)	(251)	(340)
Net income (loss)	1,422	(34)	409	1,488	1,010
Less: Net (gains) losses attributable to non-controlling interests	(4)	1	36	(5)	8
Net income (loss) attributable to IFC	\$1,418	\$ (33)	\$ 445	\$1,483	\$1,018
AS OF AND FOR THE YEARS ENDED JUNE 30	2017	2016	2015	2014	2013

Consolidated balance sheet highlights:

Total assets	\$92,254	\$90,434	\$87,548	\$84,130	\$77,525
Liquid assets, net of associated derivatives	39,192	41,373	39,475	33,738	31,237
Investments	40,519	37,356	37,578	38,176	34,677
Borrowings outstanding, including fair value adjustments	54,103	55,142	51,265	49,481	44,869
Total capital	\$25,053	\$22,766	\$24,426	\$23,990	\$22,275
of which					
Undesignated retained earnings	\$21,901	\$20,475	\$20,457	\$20,002	\$18,435
Designated retained earnings	125	133	184	194	278
Capital stock	2,566	2,566	2,566	2,502	2,403
Accumulated other comprehensive income (loss) (AOCI)	458	(431)	1,197	1,239	1,121
Non-controlling interests	3	23	22	53	38

KEY FINANCIAL RATIOS
2017
2016
2015
2014
2013
Financial ratios^a:

Return on average assets (GAAP basis) ^b	1.6%	0.0%	0.5%	1.8%	1.3%
Return on average assets (non-GAAP basis) ^c	1.3%	0.5%	1.3%	1.8%	0.9%
Return on average capital (GAAP basis) ^d	5.9%	(0.1)%	1.8%	6.4%	4.8%
Return on average capital (non-GAAP basis) ^e	4.9%	1.8%	4.6%	6.5%	3.1%
Overall liquidity ratio ^f	82%	85%	81%	78%	77%
External funding liquidity level ^g	N/A	504%	494%	359%	309%
Debt to equity ratio ^h	2.7:1	2.8:1	2.6:1	2.7:1	2.6:1
Total reserves against losses on loans to total disbursed portfolio ⁱ	6.1%	7.4%	7.5%	6.9%	7.2%
Capital measures:					
Total Resources Required (\$ billions) ^j	19.4	19.2	19.2	18.0	16.8
Total Resources Available (\$ billions) ^k	23.6	22.5	22.6	21.6	20.5
Strategic Capital ^l	4.2	3.3	3.4	3.6	3.8
Deployable Strategic Capital ^m	1.8	1.0	1.1	1.4	1.7
Deployable Strategic Capital as a percentage of Total Resources Available	8%	4%	5%	7%	8%

- 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% of the next three years' estimated net cash requirements (target range of 65–95%).
- g. This ratio was discontinued at the end of FY17 since it was no longer considered a key ratio for IFC.
- h. 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).
- i. 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.
- j. 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.
- k. 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.
- l. Total resources available less total resources required.
- m. 90% of total resources available less total resources required.

COMMITMENTS

In FY17, the Long-Term Finance program was \$11,854 million, as compared to \$11,117 million in FY16 and Core Mobilization was \$7,462 million, as compared to \$7,739 million for FY16, a total increase of 2%.

In addition, the average outstanding balance for Short-Term Finance was \$3,185 million at June 30, 2017, as compared to \$2,807 million at June 30, 2016.

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%, of the cost of any project. All IFC-financed projects, therefore, require other financial partners.

FY17 and FY16 long-term finance and core mobilization (US\$ millions)

	FY17	FY16
Total Long-Term Finance and Core Mobilization	\$19,316	\$18,856
Total Long-Term Finance	\$11,854	\$11,117
Total Core Mobilization	\$ 7,462	\$ 7,739

Funds managed by AMC and their activities FY17 vs FY16 (US\$ millions unless otherwise indicated)

	AS OF JUNE 30, 2017				FOR THE YEAR ENDED JUNE 30, 2017	
	TOTAL FUNDS RAISED				INVESTMENT COMMITMENTS MADE BY FUND	INVESTMENT DISBURSEMENTS MADE BY FUND
	TOTAL	FROM IFC	FROM OTHER INVESTORS	TOTAL COMMITTED BALANCE		
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	\$1,275	\$ 775	\$ 500	\$ 885	\$ -	\$ -
IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,562	-	-
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	646	24	14
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	-	182	108	-	-
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)*	550	250	300	-	-	-
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	304	49	48
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)**	1,430	200	1,230	600	189	151
China-Mexico Fund, LP (China-Mexico Fund)	1,200	-	1,200	320	180	43
IFC Financial Institutions Growth Fund, LP (FIG Fund)	505	150	355	133	-	37
IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds)	800	150	650	202	99	44
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	15	15	15
Women Entrepreneurs Debt Fund, LP (WED Fund)	110	30	80	66	40	45
IFC Emerging Asia Fund, LP (Asia Fund)	440	150	290	70	70	70
Total	\$9,797	\$2,265	\$7,532	\$4,911	\$666	\$467

	AS OF JUNE 30, 2016				FOR THE YEAR ENDED JUNE 30, 2016	
	TOTAL FUNDS RAISED				INVESTMENT COMMITMENTS MADE BY FUND	INVESTMENT DISBURSEMENTS MADE BY FUND
	TOTAL	FROM IFC	FROM OTHER INVESTORS	TOTAL COMMITTED BALANCE		
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	\$1,275	\$ 775	\$ 500	\$1,013	\$ –	\$ –
IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,609	–	–
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	764	63	81
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	–	182	130	23	29
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)*	550	250	300	59	–	–
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	258	83	48
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)**	1,430	200	1,230	433	5	102
China-Mexico Fund, LP (China-Mexico Fund)	1,200	–	1,200	140	140	4
IFC Financial Institutions Growth Fund, LP (FIG Fund)	464	150	314	133	133	96
IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds)	406	81	325	108	108	25
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	12	12	12
Women Entrepreneurs Debt Fund, LP (WED Fund)	90	30	60	30	30	10
Total	\$8,902	\$2,046	\$6,856	\$4,689	\$597	\$407

* The Russian Bank Cap Fund has completed the exit from all its investments and has initiated the termination and dissolution of the Fund.

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

Letter to the Board of Governors

The Board of Directors of IFC has had this annual report prepared in accordance with the Corporation's bylaws. Jim Yong Kim, President of IFC and Chairman of the Board of Directors, has submitted this report with the audited financial statements to the Board of Governors. The Directors are pleased to report that, for the fiscal year ended June 30, 2017, IFC expanded its sustainable development impact through private sector investments and advice.