

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. The overall market environment also has a significant influence on IFC's financial performance. Emerging equity markets were volatile during FY20. In the six months ended December 31, 2019, emerging markets were generally positive but deteriorated substantially in FY20 Q3 largely due to

COVID-19 before partially recovering in FY20 Q4. IFC's major investment currencies depreciated against IFC's reporting currency, the U.S. dollar, in FY20.

The main elements of IFC's net income and comprehensive income and influences on the level and variability of net income and comprehensive income from 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, in particular the portion of the liquid assets portfolio funded by net worth, which are driven by external factors such as the interest rate environment and liquidity of certain asset classes within the liquid asset portfolio.
Income from the equity investment portfolio	Global climate for emerging markets equities, fluctuations in currency and commodity markets, and company-specific performance for equity investments. Overall performance of the equity portfolio.
Provisions for losses on loans and guarantees	Risk assessment of borrowers, probability of default, loss given default and loss emergence period.
Other income and expenses	Level of advisory services provided by IFC to its clients, the level of expense from the staff retirement and other benefits plans, and the approved and actual administrative expenses and other budget resources.
Gains and losses on other non-trading financial instruments accounted for at fair value	Principally, differences between changes in fair values of borrowings, excluding IFC's credit spread (beginning in FY19, changes attributable to IFC's credit spread are reported in other comprehensive income, prior to FY19, such changes were reported in net income) and associated derivative instruments and unrealized gains or losses associated with the investment portfolio including puts, warrants, and stock options, which in part are dependent on the global climate for emerging markets. These securities may be valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.
Grants to IDA	Level of the Board of Governors-approved grants to IDA.

Other comprehensive income:

Unrealized gains and losses on debt securities accounted for as available-for-sale

Global climate for emerging markets, fluctuations in currency and commodity markets and company-specific performance and consideration of the extent to which unrealized losses are considered other than temporary. Debt securities may be valued using internally developed models or methodologies utilizing inputs that may be observable or non-observable.

Unrealized gains and losses attributable to instrument-specific credit risk on borrowings at fair value under the fair value option

Fluctuations in IFC's own credit spread measured against U.S. dollar LIBOR resulting from changes over time in market pricing of credit risk. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded.

Unrecognized net actuarial gains and losses and unrecognized prior service costs on benefit plans

Returns on pension plan assets and the key assumptions that underlay projected benefit obligations, including financial market interest rates, staff expenses, past experience, and management's best estimate of future benefit cost changes and economic conditions.

IFC reported a net loss of \$1,672 million in FY20, as compared to net income of \$93 million in the fiscal year ended June 30, 2019 (FY19) (net income of \$1,280 million for the year ended June 30, 2018, FY18). IFC's financial results were significantly volatile throughout FY20. IFC reported a net loss of \$168 million in the three months ended September 30, 2019 (FY20 Q1) and net income of \$447 million in the three months ended December 31, 2019 (FY20 Q2) before reporting a net loss of \$2,554 million in FY20 Q3. Financial results rebounded in FY20 Q4 when IFC reported net income of \$603 million.

The overall net loss in FY20 was primarily due to lower valuations on equity investments, principally in FY20 Q3, and higher provisions for losses.

IFC's equity investment portfolio returned negative \$1,067 million in FY20 (comprising dividends and realized gains on sales of \$536 million and unrealized losses of \$1,603 million).

IFC recorded provisions for losses of \$638 million in FY20, substantially higher than FY19 (\$87 million). Debt security impairments totaled \$130 million in FY20 largely due to project-specific developments; debt security impairments totaled \$247 million in FY19, largely due to the significant depreciation of a currency that was deemed other than temporary in FY19 Q1.

Unrealized losses from loans and debt securities were \$423 million in FY20, as compared to \$203 million in FY19, mainly due to increased credit risk spreads and lower interest rates on swaps used to economically hedge loans and debt securities.

IFC's liquid asset income, net of allocated charges on borrowings, was \$506 million in FY20, compared to \$454 million in FY19. FY20 results were largely due to the yield curve of U.S. Treasuries falling substantially in FY20 resulting in significant gains in income from the net worth funded portfolios.

IFC's administrative expenses were \$1,281 million in FY20, \$74 million lower than in FY19. Administrative expenses were lower principally due to lower staff costs and a decline in operational and other travel costs following COVID-19 related restrictions.

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

IFC reported a loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of \$1,031 million in FY20, as compared to income of \$311 million in FY19. The \$1,342 million decrease in income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA in FY20 when compared to FY19 was principally a result of the following:

Change in Net Income FY20 vs FY19 (US\$ millions)

	INCREASE (DECREASE) FY20 VS FY19
Higher unrealized losses on equity investments and associated derivatives, net	\$ (685)
Higher provisions for losses on loans, guarantees, accrued interest and other receivables	(551)
Lower income from loans, guarantees and associated derivatives, including realized gains and losses	(264)
Lower income from liquid asset trading activities	(252)
Lower dividend income on equity investments	(80)
Lower other income	(63)
Lower administrative expenses	74
Lower other-than-temporary impairments on debt securities	117
Lower charges on borrowings	394
Other, net	(32)
Change in loss before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	\$(1,342)

	FY20	FY19
(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	\$ (1,031)	\$ 311
Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value	(641)	(218)
Net (loss) income	\$ (1,672)	\$ 93

IFC's net income (loss) for each of the past five fiscal years ended June 30, 2020 is presented below (US\$ millions):

IFC's Net Income (Loss), Fiscal Years 2016–2020

Fiscal year ended June 30 (US\$ millions)

2016	(33)
2017	1,418
2018	1,280
2019	93
2020	(1,672)

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

IFC reviewed the calculation of Income Available for Designations in FY20 due to the adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01) in FY19, which resulted in all unrealized gains and losses on equity investments being reported in Net Income. Beginning in FY20, IFC uses "income excluding unrealized gains and losses on investments and borrowings and grants to IDA" as the metric for Income Available for Designations.

1. Effective January 31, 2020, IFC Asset Management Company, LLC (AMC) was merged into IFC. IFC, as the successor to AMC, has assumed all the assets, rights, liabilities, and obligations of AMC. The AMC business is now operated as a division within IFC. This change did not have a significant impact on IFC's financial position, results of operations, or cash flows.

Reconciliation of Reported Net Income or Loss to Income Available for Designations (US\$ millions)

	FY20	FY19	FY18
Net (loss) income	\$ (1,672)	\$ 93	\$1,280
Adjustments to reconcile Net (Loss) Income to Income Available for Designations			
Unrealized losses (gains) on investments	2,026	1,121	(198)
Unrealized losses on borrowings	218	15	93
Grants to IDA	–	–	80
Advisory Services Expenses from prior year designations	–	54	60
Adjustments to conform to approach to designations approved by IFC's Board in FY17	–	(377)	–
Other	–	3	3
Income available for designations	\$ 572	\$ 909	\$1,318

Income available for designations in FY20 (a non-GAAP measure) totaled \$572 million, calculated as net income excluding unrealized gains and losses on investments and borrowings and grants to IDA. Based on the new Board-approved distribution policy, the maximum amount available for designation was \$44 million. On August 7, 2020, the Board of Directors approved a designation of \$44 million of IFC's retained earnings for CMAW, subject to the conditions detailed above. There were no designations of IFC's retained earnings for Advisory Services. This designation is expected to be noted with approval by the Board of Governors, and subject to the above conditions, concluded in FY21.

Selected Financial Data as of and for the Last Five Fiscal Years (US\$ millions)

AS OF AND FOR THE YEARS ENDED JUNE 30	2020	2019	2018	2017	2016
Consolidated income highlights:					
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 1,510	\$ 1,774	\$ 1,377	\$ 1,298	\$ 1,126
Provision for losses on loans, guarantees, accrued interest and other receivables	(638)	(87)	(90)	(86)	(359)
(Loss) income from equity investments and associated derivatives	(1,067)	(253)	853	707	518
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	231	126	363	282	129
Income from liquid asset trading activities	1,039	1,291	771	917	504
Charges on borrowings	(1,181)	(1,575)	(1,041)	(712)	(409)
Other income	559	622	578	528	501
Other expenses	(1,628)	(1,746)	(1,662)	(1,617)	(1,464)
Foreign currency transaction gains (losses) on non-trading activities	144	159	123	(188)	(46)
(Loss) income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	(1,031)	311	1,272	1,129	500
Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value	(641)	(218)	88	394	(204)
(Loss) income before grants to IDA	(1,672)	93	1,360	1,523	296
Grants to IDA	–	–	(80)	(101)	(330)
Net (loss) income	(1,672)	93	1,280	1,422	(34)
Less: Net (gains) losses attributable to non-controlling interests	–	–	–	(4)	1
Net (loss) income attributable to IFC	\$(1,672)	\$ 93	\$ 1,280	\$ 1,418	\$ (33)
AS OF AND FOR THE YEARS ENDED JUNE 30	2020	2019	2018	2017	2016

Consolidated balance sheet highlights:

Total assets	\$95,800	\$99,257	\$94,272	\$92,254	\$90,434
Liquid assets*	40,791	39,713	38,936	39,192	41,373
Investments	41,138	43,462	42,264	40,519	37,356
Borrowings outstanding, including fair value adjustments	55,486	54,132	53,095	54,103	55,142
Total capital	\$25,182	\$27,606	\$26,136	\$25,053	\$22,766
of which					
Undesignated retained earnings	\$ 7,166	\$25,905	\$23,116	\$21,901	\$20,475
Designated retained earnings	433	366	190	125	133
Paid-in capital	19,567	2,567	2,566	2,566	2,566
Accumulated other comprehensive (loss) income (AOCI)	(1,984)	(1,232)	264	458	(431)
Non-controlling interests	–	–	–	3	23

*Net of securities sold under repurchase agreements, payable for cash collateral received and associated derivatives.

Key Financial Ratios

	2020	2019	2018	2017	2016
Financial ratios^a:					
Return on average assets (GAAP basis) ^{*b}	(1.7)%	0.1%	1.4%	1.6%	0.0%
Return on average assets (non-GAAP basis) ^c	0.6%	1.4%	1.4%	1.3%	0.5%
Return on average capital (GAAP basis) ^{*d}	(6.3)%	0.3%	5.0%	5.9%	(0.1)%
Return on average capital (non-GAAP basis) ^e	2.1%	4.9%	5.1%	4.9%	1.8%
Overall liquidity ratio ^f	96%	104%	100%	82%	85%
Debt to equity ratio ^g	2.2:1	2.2:1	2.5:1	2.7:1	2.8:1
Total reserves against losses on loans to total disbursed portfolio ^h	6.3%	4.7%	5.1%	6.1%	7.4%
Capital measures:					
Total Resources Required (US\$ billions) ⁱ	20.3	21.8	20.1	19.4	19.2
Total Resources Available (US\$ billions) ^j	28.2	27.8	24.7	23.6	22.5
Strategic Capital ^k	7.9	6.0	4.6	4.2	3.3
Deployable Strategic Capital ^l	5.0	3.2	2.2	1.8	1.0
Deployable Strategic Capital as a percentage of Total Resources Available	17.9%	11.6%	8.7%	7.8%	4.4%

* This ratio is not directly comparable due to the adoption of ASU 2016-01.

a. Certain financial ratios, as described below, are calculated excluding the effects of unrealized gains and losses on investments, other non-trading financial instruments, Accumulated Other Comprehensive Income (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.

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

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

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

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

k. Total resources available less total resources required.

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

COMMITMENTS

Total Long-Term Finance Commitments (Own Account and Core Mobilization) were \$21,961 million in FY20, an increase of \$2,835 million or 15% from FY19. IFC's FY20 Long-Term Finance Own Account Commitments were \$11,135 million, compared to \$8,920 million in FY19 and Core Mobilization was \$10,826 million, as compared to \$10,206 million for FY19, mainly due to increased mobilization in trade finance by \$1,307 million offset by a decrease in syndication by \$748 million.

FY20 Long-Term Finance Own Account Commitments included \$1,510 million of COVID-19 response, largely in the form of loans, and Core Mobilization included \$565 million of COVID-19 response.

In addition, Short-Term Finance Commitments were \$6,469 million at FY20, which included \$2.0 billion of COVID response, as compared to \$5,764 million at FY19.

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.

FY20 vs FY19 Long-Term Finance Commitments (Own Account and Core Mobilization) (US\$ millions)

	FY20	FY19
Total Long-Term Finance Commitments (Own Account and Core Mobilization)	\$21,961	\$19,126
Total Long-Term Finance Own Account Commitments	\$11,135	\$ 8,920
Total Core Mobilization	\$10,826	\$10,206

Asset Management Company (AMC)

Funds Managed by AMC and Their Activities FY20 vs FY19 (US\$ millions unless otherwise indicated)

	THROUGH JUNE 30, 2020				FOR THE YEAR ENDED JUNE 30, 2020	
	TOTAL FUNDS RAISED SINCE INCEPTION			CUMULATIVE INVESTMENT COMMITMENTS**	INVESTMENT COMMITMENTS MADE BY FUND***	INVESTMENT DISBURSEMENTS MADE BY FUND
	TOTAL	FROM IFC	FROM OTHER INVESTORS			
Investment Period						
IFC Financial Institutions Growth Fund, LP (FIG Fund)	\$ 505	\$ 150	\$ 355	\$ 178	\$20	\$ 7
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	66	—	6
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	171	26	13
Post Investment Period						
IFC Capitalization (Equity) Fund, LP (Equity Capitalization Fund)	1,275	775	500	1,226	—	—
IFC Capitalization (Subordinated Debt) Fund, LP (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,614	—	—
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	876	—	3
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	—	182	130	—	—
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	365	—	30
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)*	1,430	200	1,230	929	—	—
IFC Global Emerging Markets Fund of Funds, LP and IFC Global Emerging Markets Fund of Funds (Japan Parallel), LP (collectively, GEM Funds)	800	150	650	757	17	71
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	110	—	—
China-Mexico Fund, LP (China-Mexico Fund)	1,200	—	1,200	320	—	35
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)****	550	250	300	82	—	—
Total	\$10,055	\$2,265	\$7,790	\$6,824	\$63	\$165

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

** Net of commitment cancellations.

*** Excludes commitment cancellations from prior periods.

**** The Russian Bank Cap Fund has completed the exit from all its investments and was liquidated during FY18.

Asset Management Company (AMC)

Funds Managed by AMC and Their Activities FY20 vs FY19 (US\$ millions unless otherwise indicated)

	THROUGH JUNE 30, 2019				FOR THE YEAR ENDED JUNE 30, 2019	
	TOTAL FUNDS RAISED SINCE INCEPTION			CUMULATIVE INVESTMENT COMMITMENTS**	INVESTMENT COMMITMENTS MADE BY FUND***	INVESTMENT DISBURSEMENTS MADE BY FUND
	TOTAL	FROM IFC	FROM OTHER INVESTORS			
Investment Period						
China-Mexico Fund, LP (China-Mexico Fund)	\$ 1,200	\$ —	\$1,200	\$ 320	\$ —	\$ 50
IFC Financial Institutions Growth Fund, LP (FIG Fund)	505	150	355	158	25	6
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	66	14	12
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	145	55	45
Post Investment Period						
IFC Capitalization (Equity) Fund, LP (Equity Capitalization Fund)	1,275	775	500	1,226	—	—
IFC Capitalization (Subordinated Debt) Fund, LP (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,614	—	—
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	876	—	5
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	—	182	130	—	—
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	365	5	62
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)*	1,430	200	1,230	931	40	55
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	740	343	100
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	110	23	24
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)****	550	250	300	82	—	—
Total	\$10,055	\$2,265	\$7,790	\$6,763	\$505	\$359

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

** Net of commitment cancellations.

*** Excludes commitment cancellations from prior periods.

**** The Russian Bank Cap Fund has completed the exit from all its investments and was liquidated during FY18.

LETTER TO THE BOARD OF GOVERNORS



The Board of Directors of IFC has had this annual report prepared in accordance with the Corporation's by-laws. The President of IFC and Chairman of the Board of Directors has submitted this report with the audited financial statements to the Board of Governors.