

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. Beginning in FY19, IFC's net income includes all unrealized gains and losses on investments in equity securities, resulting from adopting ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities (ASU 2016-01), as discussed in more detail in Note A to the FY19 consolidated financial statements. This has resulted in, and will continue to cause, volatility in net income given the size of IFC's current equity portfolio, the

higher balances of equity investments recorded at fair value through net income, and the volatility inherent in security prices and resulting impact on investment valuations. The adoption of ASU 2016-01 also impacted the comparability of IFC's financial results between FY19 and the year ended June 30, 2018 (FY18), see MD&A Section VII. RESULTS OF OPERATIONS. 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 US dollar LIBOR resulting from changes over time in market pricing of credit risk. As credit spreads widen, unrealized gains are recorded and when credit spreads narrow, unrealized losses are recorded.
Unrecognized net actuarial gains and losses and unrecognized prior service costs on benefit plans	Returns on pension plan assets and the key assumptions that underlay projected benefit obligations, including financial market interest rates, staff expenses, past experience, and management's best estimate of future benefit cost changes and economic conditions.

The overall market environment has a significant influence on IFC's financial performance. Emerging equity markets were volatile during FY19 with a significant decline in the first half of the year and an improvement in the second half, primarily in FY19 Q3; commodity prices, including oil, declined for the year and IFC's major investment currencies depreciated against IFC's reporting currency, the US dollar.

IFC reported net income of \$93 million in FY19, \$1,187 million lower than FY18 (\$1,280 million) and \$1,329 million lower than the year ended June 30, 2017 (FY17) (\$1,422 million). The decline in net income in FY19 was primarily due to lower valuations on equity investments in the three months ended September 30, 2018 (FY19 Q1) and the three months ended December 31, 2018 (FY19 Q2) contributing to a net loss of \$446 million in FY19 Q1 and a net loss of \$401 million in FY19 Q2 with a significant improvement in the three months ended March 31, 2019 (FY19 Q3) (\$655 million net income) and the three months ended June 30, 2019 (FY19 Q4) (\$285 million net income). IFC's

net income was also impacted by lower realized gains on sales of equity investments and higher debt security impairment losses due to the significant depreciation of a currency that was deemed other than temporary in FY19 Q1. However, IFC also recorded higher foreign currency transaction gains on non-trading activities on foreign exchange hedges of the exposure in these investments, which substantially offset the impact of the debt security impairment losses. IFC also recorded higher income from liquid asset trading activities, higher loan and debt security net interest income, and higher net foreign currency gains on non-trading activities.

IFC reported income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA of \$311 million in FY19, as compared to income of \$1,272 million in FY18. The \$961 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 FY19 when compared to FY18 was principally a result of the following:

Change in net income FY19 vs FY18 (US\$ millions)

	INCREASE (DECREASE) FY19 VS FY18
Higher unrealized losses on equity investments and associated derivatives, net	(935)
Lower realized gains on equity investments and associated derivatives, net	(567)
Higher charges on borrowings	(534)
Higher other-than-temporary impairments on debt securities	(208)
Lower dividend income on equity investments	(44)
Higher income from loans and guarantees, realized gains and losses on loans and associated derivatives	397
Lower other-than-temporary impairments on equity investments	446
Higher income from liquid asset trading activities	520
Other, net	(36)
Change in income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	\$(961)

IFC's net income (loss) for each of the past five fiscal years ended June 30, 2019, is presented below (US\$ millions):

IFC's net income (loss), fiscal years 2015–2019

Fiscal year ended June 30 (US\$ millions)

2015	445
2016	(33)
2017	1,418
2018	1,280
2019	93

Management uses Income Available for Designations (a non-GAAP measure) as a basis for designations of retained earnings. Income Available for Designations 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. In FY19, Income Available

for Designations is calculated under accounting standards for equity investments in effect prior to July 1, 2018, which formed the basis of IFC's approach to designations and sliding scale formula approved by IFC's Board in FY17, and is consistent with the approach to calculating Income Available for Designations in FY18 and FY17.

Income Available for Designations was \$909 million in FY19, \$1,318 million in FY18 and \$1,233 million in FY17.

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

	FY19	FY18	FY17
Net income attributable to IFC	\$ 93	\$1,280	\$1,418
Add: Net gains attributable to non-controlling interests	–	–	4
Net income	\$ 93	\$1,280	\$1,422
Adjustments to reconcile Net Income to Income Available for Designations			
Unrealized losses (gains) on investments	1,121	(198)	(287)
Advisory Services Expenses from prior year designations	54	60	64
Unrealized losses (gains) on borrowings	15	93	(74)
Grants to IDA	–	80	101
Adjustments to conform to approach to designations approved by IFC's Board in FY17	(377)	–	–
Other	3	3	7
Income Available for Designations	\$ 909	\$1,318	\$1,233

Based on the Board-approved distribution policy, the maximum amount available for designation was \$122 million. On August 8, 2019, the Board of Directors approved a designation of \$24 million of IFC's retained earnings for Advisory Services, and,

subject to the conditions, a designation of \$98 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 FY20.

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

AS OF AND FOR THE YEARS ENDED JUNE 30	2019	2018	2017	2016	2015
Consolidated income highlights:					
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$ 1,774	\$ 1,377	\$ 1,298	\$ 1,126	\$ 1,123
Provision for losses on loans, guarantees, accrued interest and other receivables	(87)	(90)	(86)	(359)	(171)
(Loss) income from equity investments and associated derivatives	(253)	853	707	518	427
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	126	363	282	129	132
Income from liquid asset trading activities	1,291	771	917	504	467
Charges on borrowings	(1,575)	(1,041)	(712)	(409)	(258)
Other income	622	578	528	501	505
Other expenses	(1,746)	(1,662)	(1,617)	(1,464)	(1,423)
Foreign currency transaction gains (losses) on non-trading activities	159	123	(188)	(46)	53
Income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	311	1,272	1,129	500	855
Net unrealized (losses) gains on non-trading financial instruments accounted for at fair value	(218)	88	394	(204)	(106)
Income before grants to IDA	93	1,360	1,523	296	749
Grants to IDA	–	(80)	(101)	(330)	(340)
Net income (loss)	93	1,280	1,422	(34)	409
Less: Net (gains) losses attributable to non-controlling interests	–	–	(4)	1	36
Net income (loss) attributable to IFC	\$ 93	\$ 1,280	\$ 1,418	\$ (33)	\$ 445

AS OF AND FOR THE YEARS ENDED JUNE 30	2019	2018	2017	2016	2015
Consolidated balance sheet highlights:					
Total assets	\$99,257	\$94,272	\$92,254	\$90,434	\$87,548
Liquid assets ¹	39,713	38,936	39,192	41,373	39,475
Investments	43,462	42,264	40,519	37,356	37,578
Borrowings outstanding, including fair value adjustments	54,132	53,095	54,103	55,142	51,265
Total capital	\$27,606	\$26,136	\$25,053	\$22,766	\$24,426
of which					
Undesignated retained earnings	\$25,905	\$23,116	\$21,901	\$20,475	\$20,457
Designated retained earnings	366	190	125	133	184
Capital stock	2,567	2,566	2,566	2,566	2,566
Accumulated other comprehensive (loss) income (AOCI)	(1,232)	264	458	(431)	1,197
Non-controlling interests	–	–	3	23	22

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

KEY FINANCIAL RATIOS
2019
2018
2017
2016
2015
Financial ratios^a:

Return on average assets (GAAP basis) ^{*b}	0.1%	1.4%	1.6%	0.0%	0.5%
Return on average assets (non-GAAP basis) ^c	1.4%	1.4%	1.3%	0.5%	1.3%
Return on average capital (GAAP basis) ^{*d}	0.3%	5.0%	5.9%	(0.1)%	1.8%
Return on average capital (non-GAAP basis) ^e	4.9%	5.1%	4.9%	1.8%	4.6%
Overall liquidity ratio ^f	104%	100%	82%	85%	81%
Debt to equity ratio ^g	2.2:1	2.5:1	2.7:1	2.8:1	2.6:1
Total reserves against losses on loans to total disbursed portfolio ^h	4.7%	5.1%	6.1%	7.4%	7.5%
Capital measures:					
Total Resources Required (US\$ billions) ⁱ	21.8	20.1	19.4	19.2	19.2
Total Resources Available (US\$ billions) ^j	27.8	24.7	23.6	22.5	22.6
Strategic Capital ^k	6.0	4.6	4.2	3.3	3.4
Deployable Strategic Capital ^l	3.2	2.2	1.8	1.0	1.1
Deployable Strategic Capital as a percentage of Total Resources Available	11.6%	8.7%	7.8%	4.4%	5.4%

* 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

In FY19, the Long-Term Finance program was \$8,920 million, as compared to \$11,630 million in FY18, and Core Mobilization was \$10,206 million, as compared to \$11,671 million for FY18, a decrease in the total of Long-Term Finance and Core Mobilization of \$4,175 million or 18%. Program outcomes reflect a challenging year for IFC with its organizational realignment and workforce planning exercise and the introduction of an Accountability and Decision-Making Framework. Macroeconomic volatility in some of our key markets also impacted program delivery.

In addition, the average outstanding balance for Short-Term Finance was \$3,256 million at June 30, 2019, as compared to \$3,435 million at June 30, 2018.

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.

FY19 and FY18 long-term finance and core mobilization (US\$ millions)

	FY19	FY18
Total Long-Term Finance and Core Mobilization	\$19,126	\$23,301
Total Long-Term Finance	\$ 8,920	\$11,630
Total Core Mobilization	\$10,206	\$11,671

Asset Management Company (AMC)

Funds managed by AMC and their activities FY19 vs FY18 (US\$ millions unless otherwise indicated)

	THROUGH JUNE 30, 2019					
	TOTAL FUNDS RAISED SINCE INCEPTION				FOR THE YEAR ENDED JUNE 30, 2019	
	TOTAL	FROM IFC	FROM OTHER INVESTORS	CUMULATIVE INVESTMENT COMMITMENTS**	INVESTMENT COMMITMENTS MADE BY FUND***	INVESTMENT DISBURSEMENTS MADE BY FUND
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.

	THROUGH JUNE 30, 2018					
	TOTAL FUNDS RAISED SINCE INCEPTION				FOR THE YEAR ENDED JUNE 30, 2018	
	TOTAL	FROM IFC	FROM OTHER INVESTORS	CUMULATIVE INVESTMENT COMMITMENTS**	INVESTMENT COMMITMENTS MADE BY FUND***	INVESTMENT DISBURSEMENTS MADE BY FUND
Investment Period						
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	\$ 418	\$ 75	\$ 343	\$ 379	\$ 73	\$ 70
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)*	1,430	200	1,230	891	23	44
China-Mexico Fund, LP (China-Mexico Fund)	1,200	–	1,200	320	–	75
IFC Financial Institutions Growth Fund, LP (FIG Fund)	505	150	355	133	–	–
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	397	189	120
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	52	25	2
Women Entrepreneurs Debt Fund, LP (WED Fund)	115	30	85	87	19	32
IFC Emerging Asia Fund, LP (Asia Fund)	693	150	543	90	20	11

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	–	25
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	–	182	130	–	–
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)****	550	250	300	82	–	–
Total	\$10,055	\$2,265	\$7,790	\$6,277	\$349	\$379

* 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.