

# 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
<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.

## 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 FY18, despite a decline in the fourth quarter of FY18 (FY18 Q4). IFC's major investment currencies remained relatively stable against IFC's reporting currency, the US\$, through much of FY18 until significant depreciation in a number of such currencies during FY18 Q4. Overall commodity prices rose during FY18, although there were mixed results across the various sectors.

The market volatility, together with project-specific developments, impacts the valuations of IFC's investments and overall financial results. IFC recorded higher income from equity investments and associated derivatives in FY18, compared to FY17, driven largely by lower impairments. IFC also recorded higher income from loans and guarantees due to the increase in interest rates and an increase in income from debt securities driven by higher average

balances. FY17 income from loans was positively impacted by a onetime recognition of interest income as a result of a full prepayment of a loan. However, IFC also recorded higher borrowing charges, consistent with the increase in interest rates, and lower income from liquid asset trading activities. Specific provisions for losses on loans declined substantially in FY18, led by project-specific developments, but was offset by an increase in general provisions on loans as FY17 included a one-time release of \$156m from the implementation of a new risk rating system.

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 interest of \$1,272 million in FY18, as compared to \$1,129 million in FY17. The \$143 million increase in FY18 when compared to FY17 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 FY18 vs FY17 (US\$ millions)

	<b>INCREASE (DECREASE) FY18 VS FY17</b>
Higher foreign currency transaction gains on non-trading activities	\$ 311
Lower other-than-temporary impairments on equity investments and debt securities	150
Higher income from loans and guarantees, realized gains and losses on loans and associated derivatives	79
Higher debt securities income	66
Higher unrealized gains on equity investments and associated derivatives, net	50
Higher other income	50
Lower pension expenses	49
Higher administrative expenses	(67)
Lower realized gains on equity investments and associated derivatives, net	(81)
Lower income from liquid asset trading activities	(146)
Higher charges on borrowings	(329)
Other, net	<b>11</b>
<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>\$ 143</b>

IFC's net income (loss) for each of the past five fiscal years ended June 30, 2018 is presented below (US\$ millions):

## IFC's net income (loss), fiscal years 2014–2018

Fiscal year ended June 30 (US\$ millions)

2014		1,483
2015		445
2016		(33)
2017		1,418
2018		1,280

Income Available for Designations (a non-GAAP measure)<sup>1</sup> was \$1,318 million, compared with \$1,233 million in FY17 and \$770 million in FY16.

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)

	FY18	FY17	FY16
<b>Net income (loss) attributable to IFC</b>	<b>\$1,280</b>	<b>\$1,418</b>	<b>\$ (33)</b>
Add: Net gains (losses) attributable to non-controlling interests	–	4	(1)
<b>Net income (loss)</b>	<b>\$1,280</b>	<b>\$1,422</b>	<b>\$ (34)</b>
Adjustments to reconcile Net Income to Income Available for Designations			
Unrealized losses and (gains) on borrowings	93	(74)	(62)
Grants to IDA	80	101	330
Advisory Services Expenses from prior year designations	60	64	57
Unrealized (gains) and losses on investments	(198)	(287)	470
Other	3	7	9
<b>Income Available for Designations</b>	<b>\$1,318</b>	<b>\$1,233</b>	<b>\$770</b>

Based on the new Board-approved distribution policy, the maximum amount available for designation was \$230 million. On August 9, 2018, the Board of Directors approved a designation of \$70 million of IFC's retained earnings for IFC's CMAW, \$45 million of IFC's retained earnings for Advisory services, and,

subject to the conditions, a designation of up to \$115 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 FY19.

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

AS OF AND FOR THE YEARS ENDED JUNE 30	2018	2017	2016	2015	2014
<b>Consolidated income highlights:</b>					
Income from loans and guarantees, including realized gains and losses on loans and associated derivatives	\$1,377	\$1,298	\$1,126	\$1,123	\$1,065
Provision for losses on loans, guarantees, accrued interest and other receivables	(90)	(86)	(359)	(171)	(88)
Income from equity investments and associated derivatives	853	707	518	427	1,289
Income from debt securities, including realized gains and losses on debt securities and associated derivatives	363	282	129	132	89
Income from liquid asset trading activities	771	917	504	467	599
Charges on borrowings	(1,041)	(712)	(409)	(258)	(196)
Other income	578	528	501	505	461
Other expenses	(1,662)	(1,617)	(1,464)	(1,423)	(1,418)
Foreign currency transaction gains and losses on non-trading activities	123	(188)	(46)	53	(19)
Income before net unrealized gains and losses on non-trading financial instruments accounted for at fair value and grants to IDA	1,272	1,129	500	855	1,782
Net unrealized gains and losses on non-trading financial instruments accounted for at fair value	88	394	(204)	(106)	(43)
Income before grants to IDA	1,360	1,523	296	749	1,739
Grants to IDA	(80)	(101)	(330)	(340)	(251)
<b>Net income (loss)</b>	<b>1,280</b>	<b>1,422</b>	<b>(34)</b>	<b>409</b>	<b>1,488</b>
Less: Net (gains) losses attributable to non-controlling interests	–	(4)	1	36	(5)
<b>Net income (loss) attributable to IFC</b>	<b>\$1,280</b>	<b>\$1,418</b>	<b>\$ (33)</b>	<b>\$ 445</b>	<b>\$1,483</b>
<b>AS OF AND FOR THE YEARS ENDED JUNE 30</b>					
<b>2018</b>					
<b>2017</b>					
<b>2016</b>					
<b>2015</b>					
<b>2014</b>					

### Consolidated balance sheet highlights:

Total assets	\$94,272	\$92,254	\$90,434	\$87,548	\$84,130
Liquid assets <sup>1</sup>	38,936	39,192	41,373	39,475	33,738
Investments	42,264	40,519	37,356	37,578	38,176
Borrowings outstanding, including fair value adjustments	53,095	54,103	55,142	51,265	49,481
<b>Total capital</b>	<b>\$26,136</b>	<b>\$25,053</b>	<b>\$22,766</b>	<b>\$24,426</b>	<b>\$23,990</b>
of which					
Undesignated retained earnings	\$23,116	\$21,901	\$20,475	\$20,457	\$20,002
Designated retained earnings	190	125	133	184	194
Capital stock	2,566	2,566	2,566	2,566	2,502
Accumulated other comprehensive income (loss) (AOCI)	264	458	(431)	1,197	1,239
Non-controlling interests	–	3	23	22	53

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

**KEY FINANCIAL RATIOS**
**2018**
**2017**
**2016**
**2015**
**2014**
**Financial ratios<sup>a</sup>:**

Return on average assets (GAAP basis) <sup>b</sup>	<b>1.4%</b>	1.6%	0.0%	0.5%	1.8%
Return on average assets (non-GAAP basis) <sup>c</sup>	<b>1.4%</b>	1.3%	0.5%	1.3%	1.8%
Return on average capital (GAAP basis) <sup>d</sup>	<b>5.0%</b>	5.9%	(0.1)%	1.8%	6.4%
Return on average capital (non-GAAP basis) <sup>e</sup>	<b>5.1%</b>	4.9%	1.8%	4.6%	6.5%
Overall liquidity ratio <sup>f</sup>	<b>100%</b>	82%	85%	81%	78%
External funding liquidity level <sup>g</sup>	<b>N/A</b>	N/A	504%	494%	359%
Debt to equity ratio <sup>h</sup>	<b>2.5:1</b>	2.7:1	2.8:1	2.6:1	2.7:1
Total reserves against losses on loans to total disbursed portfolio <sup>i</sup>	<b>5.1%</b>	6.1%	7.4%	7.5%	6.9%
Capital measures:					
Total Resources Required (\$ billions) <sup>j</sup>	<b>20.1</b>	19.4	19.2	19.2	18.0
Total Resources Available (\$ billions) <sup>k</sup>	<b>24.7</b>	23.6	22.5	22.6	21.6
Strategic Capital <sup>l</sup>	<b>4.6</b>	4.2	3.3	3.4	3.6
Deployable Strategic Capital <sup>m</sup>	<b>2.2</b>	1.8	1.0	1.1	1.4
Deployable Strategic Capital as a percentage of Total Resources Available	<b>9%</b>	8%	4%	5%	7%

- 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.
- 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 committed 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 FY18, the Long-Term Finance program was \$11,630 million, as compared to \$11,854 million in FY17 and Core Mobilization was \$11,671 million, as compared to \$7,462 million for FY17, a total increase of 21%.

In addition, the average outstanding balance for Short-Term Finance was \$3,435 million at June 30, 2018, as compared to \$3,185 million at June 30, 2017.

## 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.

### FY18 and FY17 long-term finance and core mobilization (US\$ millions)

	FY18	FY17
<b>Total Long-Term Finance and Core Mobilization</b>	<b>\$23,301</b>	<b>\$19,316</b>
Total Long-Term Finance	\$11,630	\$11,854
Total Core Mobilization	\$11,671	\$ 7,462

## Asset Management Company (AMC)

### Funds managed by AMC and their activities FY18 vs FY17 (US\$ millions unless otherwise indicated)

	THROUGH JUNE 30, 2018				FOR THE YEAR ENDED JUNE 30, 2018	
	TOTAL FUNDS RAISED SINCE INCEPTION			CUMULATIVE INVESTMENT COMMITMENTS**	INVESTMENT COMMITMENTS MADE BY FUND***	INVESTMENT DISBURSEMENTS MADE BY FUND
	TOTAL	FROM IFC	FROM OTHER INVESTORS			
<b>Investment Period</b>						
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
<b>Post Investment Period</b>						
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	1,275	775	500	1,226	-	-
IFC Capitalization (Subordinated Debt) Fund, L.P. (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	-	-
<b>Total</b>	<b>\$10,055</b>	<b>\$2,265</b>	<b>\$7,790</b>	<b>\$6,277</b>	<b>\$349</b>	<b>\$379</b>

\* 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, 2017				FOR THE YEAR ENDED JUNE 30, 2017	
	TOTAL FUNDS RAISED SINCE INCEPTION			CUMULATIVE INVESTMENT COMMITMENTS**	INVESTMENT COMMITMENTS MADE BY FUND***	INVESTMENT DISBURSEMENTS MADE BY FUND
	TOTAL	FROM IFC	FROM OTHER INVESTORS			
IFC Capitalization (Equity) Fund, L.P. (Equity Capitalization Fund)	\$1,275	\$ 775	\$ 500	\$1,226	\$ –	\$ –
IFC Capitalization (Subordinated Debt) Fund, L.P. (Sub-Debt Capitalization Fund)	1,725	225	1,500	1,619	–	–
IFC African, Latin American and Caribbean Fund, LP (ALAC Fund)	1,000	200	800	901	36	14
Africa Capitalization Fund, Ltd. (Africa Capitalization Fund)	182	–	182	130	–	–
IFC Russian Bank Capitalization Fund, LP (Russian Bank Cap Fund)****	550	250	300	82	–	–
IFC Catalyst Fund, LP, IFC Catalyst Fund (UK), LP and IFC Catalyst Fund (Japan), LP (collectively, Catalyst Funds)	418	75	343	306	49	48
IFC Global Infrastructure Fund, LP (Global Infrastructure Fund)*	1,430	200	1,230	868	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	207	99	44
IFC Middle East and North Africa Fund, LP (MENA Fund)	162	60	102	27	15	15
Women Entrepreneurs Debt Fund, LP (WED Fund)	110	30	80	70	40	45
IFC Emerging Asia Fund, LP (Asia Fund)	440	150	290	69	67	70
<b>Total</b>	<b>\$9,797</b>	<b>\$2,265</b>	<b>\$7,532</b>	<b>\$5,958</b>	<b>\$675</b>	<b>\$467</b>

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

\*\* Reported net of commitment cancellations in FY18. FY17 amounts have been updated for consistency with the FY18 methodology.

\*\*\* 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. 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, 2018, IFC expanded its sustainable development impact through private sector investments and advice.